

Identifying Issues in Facility and Provider Mergers and Acquisitions (2012 update)

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Editor's note: This practice brief supplants the November 1996 brief "[Managing Health Information in Facility Mergers and Acquisitions](#)."

Healthcare's rapidly changing environment has prompted an increase in mergers and acquisitions as facilities and providers strive to streamline their operations and improve their competitive positions. However, a 2007 study conducted by Robert F. Bruner of the University of Virginia found that approximately two-thirds of mergers and acquisitions fail to achieve their expected outcomes.¹ Failures are often the result of bad strategic decisions or lack of due diligence on the part of both parties.

These dismal results highlight the risks of mergers and acquisitions. Accordingly, healthcare organizations must consider many critical issues before agreeing to a merger or acquisition.

Some issues to consider include:

- Identifying key motivators such as growing the organization's business, people, or assets
- Integrating electronic health record systems
- Combining financial systems
- Managing health information

This practice brief reviews the types of mergers and acquisitions in healthcare and identifies the key motivators and drivers for mergers and acquisitions and the different issues organizations should be aware of during the merger and acquisition process.

Types of Mergers and Acquisitions

There are different types of mergers and acquisitions. Organizations should review what each entails to determine which form of regulation will be used.

A *consolidation* occurs when two separate entities come together to form a new entity, which is the surviving entity. A merger is when one entity is absorbed into a second corporation, which is the surviving entity.

In an *asset acquisition* one entity acquires part or all of the assets of the other. In a stock acquisition one entity acquires part or all of the stock of another corporation.

Once the type of partnership has been determined, organizations should identify key motivators for the merger or acquisition, including business drivers and characteristics. Identifying the key motivators will further help each entity determine if the acquisition is in its best interest.

Key questions to ask prior to entering into a transaction include:

1. What is the primary reason for the transaction (e.g., acquiring talent, increasing cash flow)?
2. Will the transaction further the strategic plan?
3. Will the organization or provider gain a new technology or product?
4. Will the organization or provider expand its current market share?
5. Will the organization or provider be able to use the transaction to enhance operations?
6. Will the transaction result in cost efficiencies?
7. What are the deal breakers?
8. How will employees of both entities be affected? Will the surviving entity consolidate positions? Will it require an expanded workforce or lay-offs? How will this affect morale, recruitment, and retention?

Once the decision to move forward with a transaction has been made, organizations should conduct due diligence research of the licensure, regulatory, and accreditation requirements before addressing operational issues.

Licensure

Organizations must determine whether operations will be conducted under a single license or multiple licenses. Each entity must ensure compliance with each set of applicable licensure standards.

Reimbursement issues, including prospective payment system (PPS) rates, may favor facilities maintaining separate licenses to maximize payments. In addition, if there is a significant difference in case-mix indices between the two facilities or if one facility is PPS-exempt, it may be advantageous to maintain separate licenses.

Regulatory and Accreditation Issues

Some states have statutory or regulatory guidelines regarding the management of health information in mergers and acquisitions. Most require the surviving entity combine the acquired entity's active records with its own records and prepare a retention schedule that meets the needs of patients and other legitimate users and complies with legal, regulatory, and accreditation requirements.

Health and business records should be maintained as required by law, regulation, or necessity and should be destroyed in accordance with state requirements for record retention. The transaction agreement should include a provision defining the responsible party for the records. Providers should check with the state licensing authority to determine whether the provisions are satisfactory.

Medicare Conditions of Participation and Interpretive Guidelines require a health record be maintained for each inpatient and outpatient. Health records must be filed promptly and be accessible. Inpatient and outpatient records may be combined into a single unit record, or two different systems may be used if they are appropriately cross-referenced. Records must be retained for at least five years, unless a longer period is required by state or local law.

If a change in ownership occurs when a facility is scheduled for an accreditation survey such as the Joint Commission, the facility must notify the agency immediately. Changes that must be reported to an accrediting body include a change in ownership, a significant increase or decrease in the volume of services, the addition of a new type of health service, or the deletion of an existing service.

Operational Issues

Once the licensure, regulatory, and accreditation requirements have been evaluated, the new entity will need to explore specific operational issues, including:

1. Whether operations will be conducted at a single location or multiple locations
2. How information systems will be integrated, if at all
3. Whether the HIM function will be consolidated into a single department, a central department with satellite locations, or two or more independent departments
4. How current incomplete records will be addressed prior to the merger or acquisition (e.g., completion of missing signatures or reports)
5. How information management responsibilities will be assigned
6. What plans, including retraining and outplacement, will be made for displaced employees
7. How current accounts payable will be handled
8. How outstanding accounts on the discharged not final billed (DFNB) report will be handled
9. How paper records that have not met the retention time period and cannot be destroyed will be maintained
10. How the master patient indexes will be merged
11. How release of information will be handled
12. Whether historical and new entity records will be handled in the same manner

Integration of Information Systems

Existing information systems and technology must be inventoried for all mergers and acquisitions so plans can be made to integrate and consolidate systems. Significant savings may be realized by consolidating software licenses and maintenance contracts, but careful advance planning with legal counsel is needed to ensure compliance with the terms of the licensure agreements.

If active use of one or more systems will be discontinued, organizations must ensure that all final data, including diagnostic and procedure codes and billing information, have been entered and that all work has been completed, such as transcribing dictated reports. To ensure ongoing access, data should be saved and reformatted for compatibility with the new system (if it is within the appropriate retention period). Any such data transfer should include appropriate audit trails and be conducted with advice from legal counsel. Legal advice should also be sought regarding the need to archive the data in their original form or to retain hard copies or images.

With any system change, it is essential to determine the need to retain and access existing databases (especially abstract databases). If it will be difficult or impossible to access data, it may be desirable to retain various reports in hard copy, microfilm, or other media for future use. Maintaining an entire legacy system for historical data that are no longer clinically relevant should be a last option.

Mergers and Acquisitions Resulting in a Single Location

If the new entity will operate from a single location under one license, the entity must meet the requirements for a single facility. The entity should employ one HIM department with a single patient numbering system, a unit record, and a single master patient index (MPI).

Along with plans to consolidate the facilities' registration systems and integrate patient records, a plan must be developed to address existing and future MPIs and patient identifiers. If a patient has been seen at more than one of the premerger facilities, his or her identifier must be the same or must be linked in the new MPI. Organizations may also decide to integrate the identifier only if and when the patient returns for care to the merged facility.

The new entity must also determine whether to retain all existing MPI entries, only entries from the past few years, or only new entries or create an enterprise-wide MPI to overlay the original (premerged) individual MPIs. An industry best practice is to create an enterprise-wide MPI.

A software algorithm program can help determine whether existing MPI entries represent the same patient and therefore should be merged or linked. If some or all entries from one MPI are added to the other MPI, it may be desirable to mark those entries as originating with the other facility for easier record retrieval.

If one or more facilities will close as a result of the merger or acquisition, arrangements must be made to handle health information from the closed location. The surviving entity must ensure that the integrity and confidentiality of patient health information will be maintained and that the information is accessible to patients and other legitimate users throughout the required retention period.

Health information from the closed location will be entered into the new system only upon patient return, therefore access to the MPI and the health information must be preserved.

Patient identifiers from one of the previous facilities may be used, or an entirely new set of identifiers may be implemented as of a certain date, such as the date of the merger. If an entity decides to implement new identifiers, it must decide whether to renumber all existing records, renumber the past few years' records, or simply link them in the MPI. The cost of renumbering all existing records may outweigh the benefit.

All components of the health record must be available for continuity of care purposes during and after the transition. Unit records must be maintained if required by state licensure. The new entity should discuss the requirements for unit records with state licensing authorities. After that discussion, it may want to develop a plan to unite all existing records or only the past few years' records or establish a new unit record system as of a certain date, such as the effective date of the merger, for returning patients.

It may be cost prohibitive to unite all existing records. Organizations should consider destroying all records beyond the mandatory retention period prior to the merger or acquisition.

Mergers and Acquisitions Resulting in Two or More Locations with a Single License

A merger or acquisition resulting in two or more locations and a single license may require consolidating records into a unit record and creating a single MPI with a single patient numbering system, depending on the types of care offered at each site and state licensing requirements. Patient health information must be available at all sites. This will necessitate the transportation of paper records and access to all electronic systems.

If all sites provide acute care, health information must be available at any site when the patient presents. If one or more of the locations provides only skilled nursing, long-term care, rehabilitation, or subacute care, it may not be necessary to establish a unit record.

In order to promote patient safety and facilitation of a longitudinal health record, combining health records from a variety of settings is recommended.

If information systems will be consolidated, it may be efficient to consolidate HIM functions into a single department as well. If all HIM functions will be consolidated into a single department, appropriate plans must be made for displaced staff members. If there will be more than one HIM department, it must be determined which functions will be located at each site.

Mergers and Acquisitions Resulting in Two or More Locations with Separate Licenses

If the new entity will operate from more than one location under separate licenses, the facilities must determine whether the HIM function will be consolidated into a single department, a central department with one or more satellite locations, or two or more independent departments. Planning should address compliance with all regulatory and licensure requirements for each licensed facility.

Recommendations

When two or more facilities are involved in a merger or acquisition, all HIM requirements should be reviewed to ensure compliance with state licensure and regulatory requirements, accrediting standards, and Medicare Conditions of Participation (if applicable).

[Appendix A](#) in this online version of the practice brief, provides a checklist of information management activities; [appendix B](#) provides a checklist when setting up a new clinic.

To ensure availability of health information to all authorized users, health records must be consolidated or linked in the MPI. A minimum of five years of MPI data should be maintained.

A record retention policy that includes logs, indexes, and registers must be developed and implemented to meet the needs of patients and other legitimate users and ensure compliance with legal, regulatory, and accreditation requirements. If health information from closed facilities will be stored for a period of time, its integrity and confidentiality must be preserved, and it must be readily accessible for patient care.

The compatibility and functionality of existing information systems should be assessed, and a plan should be formulated for the integration of systems to the extent possible. Such integration may be essential for the organization to successfully meet the demands of integrated delivery systems. Existing databases should be maintained in an accessible form to meet anticipated future needs.

With their expertise in health information systems and understanding of user needs, HIM professionals can make significant contributions to the evaluation and integration of these systems.

Note

1. Sassano, Paul. "From the M&A Front: Address Tax Considerations Early in the Process." December 2009. www.jeffersonwells.de/FinanceandAccounting/Articles/FromtheMandAFront.pdf.

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Appendixes

Two appendixes are available in the online version of this practice brief in the AHIMA "Body of Knowledge" at www.ahima.org:

- [Appendix A: "Information Management Checklist for Mergers and Acquisitions"](#)
- [Appendix B: "HIM Worklist: Setting Up a New Clinic"](#)

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