

CASE MODEL 3

THE CEO AND IRS FORM 990

"We think financial transparency and Sarbanes-Oxley reporting is just fine for the nation's 2,900 private not-for-profit hospitals," said Sister Carol Keehan, Chairman of Saint Sebastian Catholic Hospital in Austin TX and head of the Catholic Health Association.

The Saint Sebastian's CEO, well settled in his career, had succeeded in tailoring the hospital's reporting systems to meet the new Sarbanes-Oxley requirements and was familiar enough with the Act that colleagues often asked him for advice regarding their own non-profit institutions. It seems many were feeling the heat of additional scrutiny and economic accountability from regulators like the Senate Finance Committee, Government Accounting Office and IRS.

Now, however, the CEO was feeling the same kind of uncertainty that had beset him when the Sarbanes-Oxley Act had first come in some years before. Would Form 990 – a proposed new IRS policy derivative – apply to Saint Sebastian?

Desiring to be proactive rather than retroactive in his leadership style, the CEO asked student intern Mackenzie to do some research about several pressing issues. First, was the hospital even obligated to complete IRS Form 990 for revenues and expenses? And, if so, why was Form 990's corresponding schedule, known as Schedule H, so dreaded in the industry?

KEY FINDINGS:

Mackenzie, a bright intern in healthcare administration from the CEO's alma mater, reported back with the following information, which the CEO disseminated at his next Board of Directors' meeting:

- 1) IRS Form 990 released on December 20, 2007, targets the non-profit healthcare sector by asking specific questions. It is to be used for the 2008 filing tax year; or returns filed in 2009. So, like most non-profit hospitals Saint Sebastian's will be required to complete the form.
- 2) Supplemental Schedule H is a schedule for hospitals. It sets a uniform standard for disclosing community benefits, and tallying revenues and expenses. The IRS used the Catholic Health Association's reporting model as a template for Schedule H, which includes sections on billing and collections; management and joint ventures; community need assessments and provisionally related organizations. Mackenzie assured the CEO that Saint Sebastian's would have no difficulty completing the Schedule because they were already gathering the information for other purposes. Thus, there would be no reason for "dread."