BDO's national team of professionals offers the hands-on experience and technical skill to address the distinctive business needs of our healthcare clients. We supplement our technical approach by analyzing and advising our clients on the many elements of running a successful healthcare organization.

**THE WALL STREET JOURNAL**

**INTERNATIONAL Cyberattack Affects Some Corners of U.S. Health Care, Including Medical Devices**

By Melanie Evans

The international cyberattack that swept the globe has had some impact on the U.S. health-care system, as hospital systems scramble to prevent its further spread.

On a conference call with health-care organizations Monday, U.S. federal officials said several medical devices had been infected with the ransomware that proliferated across dozens of countries, but declined to identify the devices, according to a person on the call. The Department of Health and Human Services, which organized the call, referred questions to Homeland Security, which didn't immediately respond to a request for comment.

Cybersecurity experts across U.S. health care remained on alert through the weekend, racing to patch vulnerable computer networks and scanning for evidence of new variants of the malware known as WannaCry, which worms into computers through a vulnerability in Microsoft Corp. software. The malware encrypts files and demands ransom to release them...

U.S. hospitals are considered highly vulnerable targets for cyberattacks because of the sector's growing dependence on computer health records and networked medical devices. A hospital has a "very open, very porous, very expansive network with thousands of endpoints that are very hard to control and secure," said John Riggi, managing director of cybersecurity and financial crimes for consultants BDO USA LLP, which in December launched an effort with the American Hospital Association to improve hospital cybersecurity.

**MCKNIGHT'S**

**A SOLID INVESTMENT**

By John Andrews

After several years of consistent, pragmatic investment in senior living care properties, new market variables have some financiers concerned about volatility and its impact on current development, industry specialists say. A return to the meltdowns of 1999 and 2008 are unlikely, they say, but some factors warrant closer inspection...
Influencers, such as rising interest rates, potentially could have a cooling effect on investment...

New investors wanting to put money in long-term care doesn’t surprise David Friend, M.D., chief transformation officer and managing director in the BDO Center for Healthcare Excellence & Innovation.

“The demographics are overwhelming — especially for memory care,” he says. “Half of the people age 85 have some sort of dementia and with the aging of the population, that number will only continue to grow. Over the next 10 years, we will double the number of people with dementia who need an institutional bed. That is a powerful incentive to continue to build and renovate buildings for seniors.”

Friend believes that demand currently outstrips supply, so the market can absorb the projects in progress now and into the near future. If there is one exception, he says it is for upscale senior living communities. “If the market is frothy, it is in the high end, where there aren’t enough wealthy people to support it,” he points out...

The Trump factor

A new administration sometimes can have an impact on the industry, so how could President Trump influence the long-term care market? Views are fuzzy because it is so early in the Trump presidency, but overall the outlook appears positive... Friend predicts that “mandates, regulations and subsidies will be replaced by choice, competition and actuarial soundness.”

BLOOMBERG BNA

MEDICARE’S HOSPITAL INPATIENT PAYMENT PROPOSAL GETS MIXED REVIEWS
By Mike Stankiewicz
Hospital industry groups expressed both praise for and concern about Medicare’s proposal that would update payments and policies for when patients are admitted to hospitals.

The proposed rule (RIN:0938-AS98) released April 14 by the Centers for Medicare & Medicaid Services includes alterations to the hospital readmissions reduction program and changes to how Medicare payments for uncompensated care are calculated. Industry groups praised the readmission reduction policy, but criticized the data used in determining the costs of treating uninsured patients...

The proposal would make changes to the hospital readmissions reduction program, under which pay is cut to account for excess readmissions associated with certain conditions.

The agency proposed a method for calculating the proportion of patients eligible for both Medicare and Medicaid, a method to assign hospitals to peer groups, and a payment adjustment calculation method. The changes are in accordance with the 21st Century Cures Act, enacted in December.

Bill Bithoney, [senior fellow in The BDO Center for Healthcare Excellence & Innovation], a health-care practice of BDO, a consulting firm in New York, said the new calculations are a good starting point for adding socioeconomic adjustments to the program.

“Some hospitals are having trouble reaching these readmission goals because their patient is poor and more likely to be readmitted,” he told Bloomberg BNA June 14. “Comparing their performance to how well they do against similar hospitals will help level the playing field.”...

The AHA praised the CMS for proposing to implement socioeconomic adjustments in the program but recommended that the agency “take steps to improve the transparency of the proposed approach by making more data available on how it determines peer groupings.”

HFMA

TACKLING THE CHALLENGE OF STRANDED ASSETS IN THE ACUTE CARE HOSPITAL SECTOR
By Lauryl Campbell
As the healthcare industry transforms into a value-based system that seeks to align risk and reward with the goal of transforming health care for the public good, this transformation is likely to pose significant challenges for industry subsectors that will require focused attention and activity. The hospital sector, in particular, is being left with a vast physical infrastructure of strategic assets (i.e., long-lived fixed assets critical to maintaining future business sustainability) that can be now be categorized as uneconomic—or stranded...

The natural response, as in other industries that have experienced transformation and deregulation, has been an accelerating pace of consolidation, closures, and creative partnership models. However, the overlay of debt and difficulty in repurposing strategic assets continues to impede
the recovery of stranded assets, ultimately translating to stranded community benefits.

Examining this phenomenon broadly at a high level for the acute care hospital sector can yield valuable insights. To this end, this discussion focuses on findings of an analysis of the impact of stranded strategic assets on a sample of 2,948 acute care hospitals in the continental United States with 25 or more licensed beds. This subset of hospitals appears to have substantial dollars tied up in stranded assets, which by our estimate now make up about $160 billion, or 40 percent of the hospitals’ fixed asset base...

The total value of the stranded strategic assets in the sample set of hospitals—again, about $160 billion—is well over 50 percent of the approximately $250 billion hospital bond market... The study findings suggest almost half of U.S. hospitals are likely to have stranded assets. The data for the sample group shown in the following exhibit support this assertion. In this sample set, more than 70 percent of the roughly 600 independent hospitals more than 50 percent of academic medical centers (AMCs) have stranded assets.

From a geographic perspective, all states have hospitals with stranded assets. Yet, as the exhibit below shows, there is wide variation of net strategic asset strandedness (stranded plus surplus assets per staffed bed) among states. Maine and Massachusetts have the highest net strandedness at −$557,525 and −$382,872 per total beds, respectively, while Utah and Alaska have surpluses amounting to $1,400,065 and $1,424,218 per total beds, respectively. This variation indicates the vast regional differences in factors such as demographics, prevalence of chronic conditions and care delivery models, as well as the effects of federal and state-specific policies that have evolved over time...

Hospitals that have a large portfolio of stranded strategic assets can remedy the situation by undertaking the following tactics aimed at creating strategic value. Improving competitiveness... Decommissioning capacity... Rethinking capital partners—strategic versus nonstrategic capital... Divesting assets...

Not all of hospitals’ stranded assets will be recovered. However, to the extent an organization can recover some stranded assets, there is no better time to start than now. Organizations should begin mobilizing concerted efforts to critically evaluate their portfolio of assets and implement strategies to recover and redeploy assets into strategic initiatives that improve long-term competitiveness, sustainability, and quality within the evolving model of health care.

**MODERN HEALTHCARE**

**FREQUENT EMPLOYEE TRAINING HELPS STAVE OFF RANSOMWARE**

By Rachel Arndt

Children’s Health receives nearly 28 million emails a month. While about 90% of malicious messages are caught by a sophisticated firewall, some still manage to sneak through.

The Dallas-based health system isn’t alone. Getting hit by ransomware seems almost inevitable lately, with thousands of new attacks daily and little hope for relief anytime soon. These attacks are easy and cheap for hackers to deploy, and they can wreak havoc on computer systems, sometimes taking them down completely and holding patients’ records hostage. What seems to be a purely technological problem actually isn’t, and it’s all too easy to lose sight of one very, very important—and analog—factor: people...

Training takes a concerted effort that cuts across the entire hospital. From the board to the C-suite to frontline staff, everyone needs to understand how vulnerable their organization is to an attack and the dangers of unleashing a virus or malware. Training must teach employees how important it is to be unceasingly careful. And then, after all that, it takes perseverance and the understanding that guarding against all kinds of malware, including ransomware, is more than a one-time class—it’s an entire mindset necessary not only for protecting the organization’s reputation, but for protecting patients.

"Cybersecurity is not just an IT issue," said John Riggi, an FBI veteran who heads BDO’s cybersecurity and financial crimes unit. "It’s a patient safety issue, first and foremost."...

And people get duped: About 30% of the time, people click on phishing email links or downloads, Riggi said...

Measures like two-factor authentication might seem like a nuisance to an employee working from home, for instance—unless the employee understands exactly why that step is necessary. For this strategy to work, all employees must be invested, Riggi said. "The CEO and the board have to believe in it. Regulatory pressure alone does not create a culture of cybersecurity awareness."

**FACILITY EXECUTIVE**

**MANAGING HEALTHCARE FACILITIES AMID UNCERTAINTY**

By Michael Pappas

As the U.S. Congress and Senate work on establishing an Obamacare Replacement 2.0, the entire healthcare industry faces a climate of uncertainty—one that makes
it difficult to project long-term revenue stream potential and directly impacts real estate and healthcare facilities operations. But managing those same real estate and facilities operations can provide hospitals a point of certainty if they play their cards right. One way to do this is to implement and adhere to basic real estate and facilities management principles.

Proactively managing healthcare assets is independent from what may or may not occur in changes to the Affordable Care Act (ACA). The goal of optimizing the performance of the portfolio as defined by the individual healthcare organization remains. With that, healthcare facility executives should focus on known variables they can control, and these include the following aspects.

- Average unit costs
- Balance sheet composition
- Cost of operations
- Location, location, location

These will remain constant regardless of changes in healthcare coverage. Most likely, facility cost ratios will increase as the task of doing more with less becomes the norm.

The question then becomes: What does it mean to go back to basic real estate and facilities management principles, and how does a healthcare facilities department protect itself from the unknown outcomes of an ACA repeal? The answer: start from the beginning, with the following steps:

1. Ensure real estate/facility management goals are aligned with the overall objectives of the healthcare network
2. Establish a clear understanding of the current state of the network’s portfolio performance
3. Develop an appropriate operating model and strategy for world-class service delivery
4. Establish processes, procedures, and governance
5. Enable an increased investment in technology, and work toward a cloud computing workforce, which has higher levels of productivity and employee satisfaction and is a key factor in attracting and retaining top talent

Implementing fundamental real estate and facility leading practices is critical to mitigating potential risks of an unknown healthcare environment. This may require new ways of thinking, and a restructuring of internal capabilities and priorities. Without following these fundamental portfolio optimization recommendations, though, healthcare networks leave themselves exposed to poor performing asset management results.

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