

# Criminal investigators probe managed-care giant, Columbia/HCA

by Paul Gallagher

When the history of this decade's economic collapse is written, the name of Columbia/HCA Healthcare Corp., which suddenly, as of 1997, owns 7% of all American hospitals, is likely to be a sinister footnote: Its "streamlining" of hospital care led to layoffs of professional staff, deaths of patients, and hospital-bill fraud on a large scale.

Columbia/HCA was launched in 1988, with \$54 million financing from Citibank to Texas financial operators Richard Scott and Richard Rainwater, to buy up hospitals in El Paso. Today, Columbia/HCA owns 17% of all hospitals in Texas; 30% of all hospitals in Florida; and, in total, nearly 800 hospitals, clinics, and health-service businesses nationwide.

The firm's offices in El Paso were raided in March, by 100 agents of the FBI, Internal Revenue Service, and the Department of Health and Human Services. As of April, Federal investigations were also reported to be under way in Florida and Kentucky, into practices involving Medicare fraud, "patient cream-skimming," and "patient dumping."

The company's stock, often the most actively traded on the New York Stock Exchange, has fallen from \$55 per share to \$35 per share, since last October, despite its \$1.5 billion profits on \$20 billion revenues last year. Columbia/HCA's latest acquisition, of the HMO Value Health, for \$1.1 billion, was long delayed because of the large decline in the value of Columbia's stocks.

This newly sprung-up giant, with its feet made of avarice and fraud, may be heading for a crash, like the markets it is helping to roil. This "Wal-Mart of medical care"—Columbia/HCA is now the ninth-largest employer in the United States—may soon become the medical-care version of bankrupt Orange County, California.

## To buy, perchance to close

The Federal investigations arise from Columbia/HCA's most characteristic activities, those most damaging to the general health and welfare of local communities. The company buys up a significant fraction of hospitals in a given region—both for-profit and, if possible, not-for-profit hospitals—and then abruptly and completely shuts down a few of them, forcing up the occupancy rate at the others, to make them more

profitable. The practice reduces medical professional employment, forces patients to travel farther to reach a hospital emergency room, and *reduces* overall hospital utilization in the region affected.

Overall, hospital admissions have fallen for two straight years in the United States, as ruthless health maintenance organizations (HMOs) make hospital stays much harder to pay for. But at Columbia/HCA's 350 hospitals across the country, utilization was up 3% in 1996; at "same-store" hospitals (the term is borrowed from Wal-Mart-style retail merchandizing) owned for more than one year by Columbia/HCA, utilization rose 5% from 1995 to 1996.

So, fewer hospitals and doctors, but a higher profit and utilization rate at those owned by Columbia/HCA. A particularly nasty enforcement mechanism: When the company buys a hospital, it also acquires that hospital's local "certificate of need." When it closes the hospital, it holds on to the certificate of need, thereby blocking anyone else from operating it, or another hospital, in the same locale. Some smaller Florida cities now have no hospital as a result; two such, in California, have had to get Federal judges to order Columbia/HCA to resell hospitals or clinics it had closed, to groups that would reopen them.

This immoral approach only came to involve potentially actionable illegalities and Federal crimes, through Columbia's policy of inducing local doctors to fill up its hospitals with *privately, well-insured* patients, by offering the doctors limited partnerships in the hospitals, up to 40% ownership. An exhaustive *New York Times* study of the results, published this past March, showed that in Texas, Florida, and Tennessee, these "doctor-partners" then preferentially referred their less-complicated, better-insured cases to the Columbia hospitals—and even more so, to "follow-up" clinics, rehabilitation centers, home-care services, etc., owned by Columbia/HCA. Federal law prohibits doctors from owning any share in such businesses for precisely this reason, to prevent what is called "cream-skimming" of their "best" patients (from a financial standpoint) at the expense of the others. An exception in that law permits doctors to own shares in *hospitals* only—but since Columbia buys hospitals and long-term care facilities

## Bankers and insurance moguls run Columbia/HCA

The advertising slogan of Columbia/HCA is that health care “has never worked like this before.” No lie! Columbia/HCA is no ordinary big company that just “went bad.”

The criminal investigations reported in the accompanying article arose because the practices *characteristic* of the mode of operating of Columbia/HCA—the flagship hospital company of the managed-care era—were deliberately devised by circles in international finance, mostly connected to London-centered banking and political interests, to provide themselves with gargantuan profits, by dismantling and scavenging off the hospital and medical staff base of the United States, and other nations, that was built up over decades in the public interest.

The rhetoric you hear about the benefits of privatization, about the role of for-profit hospital chains, and about “managed care” insurance plans, in supposedly lowering your costs of health care, is just propaganda to cover up the *looting* of communities and individuals: their medical care system, their livelihood, and, in more and more cases, their lives.

Look at the members of the Columbia/HCA board of directors in that light (board members as of 1996). They are experts in the process of how to loot through privatization and globalization:

**Donald S. MacNaughton**, former chairman and chief executive officer, the Prudential Insurance Company of America; and retired chairman and CEO, Hospital Corporation of America (HCA).

**T. Michael Long**, partner, Brown Brothers Harriman & Co., private banking.

**Carl E. Reichardt**, retired chairman of the board and CEO, Wells Fargo and Company.

**Rodman W. Moorhead III**, senior managing director, E.M. Warburg; Pincus & Co., Inc., financial services; Columbia/HCA director in 1994 and 1995.

### Prudential’s role

Prudential, interconnected with Morgan bank interests, has assumed a dominant position throughout all aspects of insurance and health care provision. For example, under its own name, and under others, such as Humana, it operates health maintenance organizations. One reflection of Prudential’s policy outlook, on the question of the deleterious effects of its corporate activities on health care, is shown in its leading role in the creation of the right-to-die movement in the United States over the past 30 years. Prudential has been a leading backer of the propaganda campaigns on how local and federal governments must adjust to restricting and denying medical treatment.

For example, in 1985, Prudential Life Insurance Company’s Foundation launched a program called “Bioethics in the Community: A Program of Local Decision Making.” This campaign was overseen by the Hastings Center, which was formed in 1969, initially as the Institute of Society, Ethics, and Life Sciences, with sponsorship from foundations including the Rockefeller, Ford, and New World groups, for the purpose of conducting projects on how to get around the legal and other obstacles involved in terminating treatment, allocating scarce economic and human resources for care for the aged and dying (i.e., restricting care), and for softening up public opinion to accept suicide and euthanasia.

Prudential, and other banking and finance interests, are now on a spree—through Columbia/HCA, and other entities, to position themselves for all the “income streams” of medical care payments that they can grab, by buying up, controlling, and cutting health care provision at target locations throughout the world.

According to the latest count, reported in the company’s April 25 press release, Columbia/HCA now owns, in the United States, “342 hospitals [344, as of April 25], 148 outpatient surgery centers, more than 570 homecare locations, and extensive ancillary services in 36 states, England, Switzerland, and Spain. . . . The company is building comprehensive networks of healthcare services, including home health, rehabilitation and skilled nursing units, in local markets around the country.”

—*Marcia Merry Baker*

in the same area, its “doctor-partners” go through that loophole into illegal ownership and conflict of interest. The Texas Medical Association called Columbia’s policies unethical for doctors, as early as 1992.

When Scott and Rainwater were borrowing from Citibank in 1988-90, they pitched Citibank on their loans precisely on the locked-in and selective “patient flows” guaranteed by

doctor partnerships. Citibank’s internal memos on these loans, obtained by the *New York Times*, stressed exactly this policy, whose results the Federal investigations may find criminal. The investigators in the El Paso raids also served search warrants upon the offices of a number of doctors and group practices in the city.

The doctors’ limited partnerships that were “sold” by Co-

lumbia/HCA since its startup (often “bought” with money subsequently kicked back to the doctors by various means), based their calculation of annual profits, in the Texas cases, precisely upon the “partners’ ” rate of privately insured patient referrals to Columbia’s facilities.

These partnerships have another effect on Columbia’s role as “streamliner” of hospital facilities. As reports by nurses’ associations and by the American Federation of State, County, and Municipal Employees (AFSCME) have pointed out, the partnerships pull doctors over to the “other side of the trenches,” when Columbia closes hospitals, and lays off nurses, orderlies, and interns.

## Medicare fraud

The Federal investigations’ second focus, Medicare fraud, was also subjected by the *New York Times* to computer analysis of millions of Columbia’s, and comparative hospitals’, records. When Columbia took over Miami’s Cedars Medical Center in early 1993, the percentage of respiratory cases reported to Medicare as “most severe,” leaped from 31% (1992) to 76% (1993), to 90% in 1995. The cost to Medicare is \$2,000-3,700 more per case. At Columbia’s Spring View Medical Center in Kentucky, 95% of respiratory cases in 1995 were reported to Medicare as in the most severe category; at four nearby non-Columbia hospitals, only 30% were. Columbia owns the five highest-billing hospitals in Florida; six of the seven highest-billing hospitals in Texas. A Federal official found the company’s billings in Kentucky to be “skewed toward the highest-paying cases.”

How costly is this to Medicare? It costs nearly \$50 million per year in Texas alone, where Columbia’s billions exceed other hospitals’ by 10%. In particular, the *Times* found, Medicare pays far more for care *after hospitalization* at Columbia’s facilities in Texas, than for those of Columbia’s rivals—that is where the “doctor-partners” come in.

Columbia’s response to this showing of fraud, has been that other hospital owners and operators should do the same thing! A spokesman, Dr. Frank M. Houser, president of Columbia Physician Services, said, in reference to the *New York Times* report, “We believe that physician integration is best achieved if we—Columbia and doctors—have a common vision of our future and share in governance, risk, reward, and ownership.”

Columbia/HCA has closed, in total, 25 American hospitals of the 350 it has purchased. Occupancy rates at its hospitals have reached about 45% nationally; this is at the expense of less well-insured patients, and of cities like Destin, Florida, which since 1995 has had no hospital. The company fights state and Federal regulations, which require that hospitals treat a certain percentage of poor and indigent patients and/or contribute to “indigent care trust funds” administered by states and counties. In Tennessee, where its national headquarters is located, Columbia’s “indigent care expenses” are

2-3%, compared to the state average of 8%; and it pulled all 19 of its hospitals out of the State Hospital Association when it failed to get Tennessee’s indigent care law abolished. In Florida, its state of greatest concentration, Columbia has gotten away with simply refusing to pay the state’s indigent care tax on for-profit hospitals.

Since 1994, Columbia has been merged with Hospital Corporation of America (HCA), owned by Tennessee’s Frist family and Sen. Bill Frist (R). Senator Frist, a surgeon, has his shares of Columbia/HCA in a blind trust, in deference to Congressional conflict-of-interest regulations. However, he is very active on legislation and publicity favorable to Columbia/HCA and privatization of the nation’s hospital base.

Senator Frist is vice-chairman of the board of directors of the Alliance for Health Reform, founded in 1991, which also includes on its board, leaders of the AFL-CIO, the American Association of Retired Persons, the Children’s Defense Fund, and other groups, giving the appearance of broad community-serving concern. However, look at how one such supposedly community-minded “reform,” publicized by the “non-partisan” Alliance, works, to the private benefit of Columbia/HCA: the practice of creating local “charitable” trusts.

When Columbia/HCA buys up previously non-profit public hospitals, charitable trusts are often set up, sometimes with the proceeds from the sale. But Columbia/HCA demands that these trusts then pay the indigent-care costs formerly covered by the hospital.

The company’s stated policy is to refuse to negotiate with unions, whether AFSCME or nurses’ unions, demanding a free hand to “rationalize” employment in its hospitals. It aggressively seeks partnerships and even mergers with health maintenance organizations, which themselves are pushing the “downskilling” of hospital employees, so as to pay less for hospital stays.

The results of these policies, predictably, are the earlier deaths of people among the indigent, uninsured, and poorly insured sections of the population; the elimination of hospital beds, which are already at ratios of numbers per population, well below Federal Hill-Burton law standards; and the reduction of employment of nurses and doctors.

Eighty-five percent of U.S. hospitals are still non-profit, charitable, public, or academic (Columbia/HCA owns half of the for-profit hospitals in the nation). Columbia’s moves to buy non-profit hospitals, making them for-profit, are meeting growing resistance by state legislatures and regulators; so is its attempt to buy Ohio Blue Cross-Blue Shield. The giant company’s profit growth slowed significantly in 1996, as its stock value fell. If the Federal searches seen in El Paso are soon replicated in Miami and other locations, Columbia/HCA’s gobbling up of U.S. health-care facilities could come to an abrupt end.