Top Audit Issues

- Significant estimates
  - Patient receivable allowance
  - Medicaid cost settlements
- Accounts receivable cut-off
- Compliance
- Your thoughts? Questions?

1. Patient Receivables Allowance Calculation
**Steps to calculate allowance**

- Obtain annual charge summary by payor
  - Should include beginning a/r, current year charges, current year adjustments/write-offs, current year collections and ending a/r by payor
- Obtain year end accounts receivable aging schedule by payor
- Depending on the billing system and available reports we may have to use IDEA or Excel to consolidate reports and classify by payor

**Steps to calculate allowance**

- Calculate total claims settled in the current year by payor (CY collections + adjustments)
- Calculate Write Off % by payor (adjustments/claims settled)
- Apply W/O % to the ending A/R balances by payor to calculate allowance
- Using aging report by payor, breakdown receivables > 365 days old

**Steps to calculate allowance**

- Calculate allowance using 100% of > 365 day A/R balance and W/O% of < 365 day A/R balance
- Calculate additional 5% cushion by payor
- Finally calculate most conservative allowance using 100% of >365 day A/R balance and 5% cushion % of < 365 day A/R balance
Steps to calculate allowance

- An allowance is an estimate, this calculation gives you a range for that estimate

- Additionally, you want to compare the CY W/O% by payor to the PY W/O% to make sure they are consistent

- Why do we calculate allowance by payor?
  - Flat % doesn’t work
  - Payor mix changes at each client
  - W/O % by payor is usually consistent by client

Steps to calculate allowance

- Final step – Retrospective Review of Allowance Calculation
  - Compare PY net receivable to actual collections in CY for PY Date of Service
  - Again you may need to use IDEA or excel to sort CY collections by DOS in order to isolate PY DOS
  - Depending on how close the retrospective review works out, it will give you a basis for how to estimate the current year allowance within the calculated range

2. Cost settlements
Steps to estimate settlement

- Calculate CY Medicaid settlement based on encounters, payments and approved rate
- Compare filed settlements to final settlements for the past few years
- Breakdown differences in encounters and payments (calculate % disallowed)
- Apply disallowed %'s for encounters and payments to the CY settlement

Steps to estimate settlement

- Generally, we see 75–85% of current year calculated settlement recorded as receivable on the general ledger

3. Accounts Receivable Cut-off
A/R Cut-off

- Accrual based accounting should be based on Date of Service
- Be consistent in your cut-off
  - Date of service
  - Date of entry
  - 7th day of the month
  - Monday after month-end
- Determine difference between your cut-off and accrual accounting
- Compare current year difference to the prior year difference

4. Compliance

Compliance

- Tracking of federal purchased fixed assets
  - $5000 federal limit
  - Reversionary Interest Disclosure
- Board member compliance
  - Majority are users (51%+)
- 340B Prescription Drug Program
  - HRSA on-site reviews of the program
5. Your Thoughts?

Burning Questions?

Thank You!

Brian Dixon, CPA
Yeo & Yeo, P.C.
(989) 793–9830
bридix@yeoandyeo.com