

Department of Public Health

Findings on Reportable Conditions

Finding Number 5: GAAP Receivable System Needs Improvement

Department of Public Health (Department) Central Office is responsible for oversight of and guidance to its hospitals to ensure that the balances in the hospitals' GAAP reports are being recorded consistently between facilities and between years.

To enhance the consistency in recording receivables throughout the year as well as in the preparation of the GAAP report, the Department held a training workshop for the hospitals, which was conducted by the Office of the Comptroller. The workshop was to provide additional training for the unique GAAP accounts receivable issues at the hospitals. As a result of this workshop, the Office of the Comptroller agreed to assist the Department in developing and implementing a revised *DPH Accounts Receivable Policies and Procedures Manual* which would provide detailed procedures for recording GAAP receivables and uncollectibles.

Because the revisions had not been agreed upon and finalized by the Office of the Comptroller at the time of GAAP reporting was due, the four hospitals continued to report inconsistencies. During a site visit to one hospital and through conversations with finance personnel at the three other hospitals, it was noted that the balances that were being recorded as BARS receivables and the uncollectible allowance in the annual GAAP report remained inconsistent between the hospitals. One hospital recorded gross billings as the BARS amount and recorded an estimated reserve for contractual adjustment and bad debts in the uncollectible column of the GAAP report. Another hospital recorded gross billings as the BARS amount and estimated the uncollectible amount based on prior year collection percentages. A third hospital recorded BARS receivables as the gross billed amount less paid account factor (PAF) and estimated the uncollectible reserve based upon Office of Comptroller's policy. The fourth hospital recorded the BARS receivable net of uncollectible and PAF.

Although the *Accounts Receivable Policy and Procedure Manual* has been implemented since fiscal year 1998, inconsistencies between the hospitals regarding the calculation of the uncollectible balance remain. The Department manual requires each hospital to perform an aging analysis of the receivable balance in 30-day increments up to 180 days by developing an estimated collection percentage by payer and by aging bucket. One hospital calculates the uncollectible balance partially in accordance with the Office of the Comptrollers' policy as described in the State fiscal year 1999 GAAP Package. Two of the hospitals perform the analysis in accordance with the Departments *Accounts Receivable and Procedure Manual*. The remaining hospital uses two different analyses to determine its uncollectible balance. First, the hospital applies a set percentage to certain payer total accounts receivable balances. This percentage is developed from prior year's collection percentage. Second, for the remaining two payer groups, the hospital identifies those charges that would not be covered by the client's insurance. (*Fiscal Year 1998 Report Finding 6*)

Recommendation

We recommend that the Department continue to coordinate the GAAP receivables report and analysis of uncollectibles prior to submission to the Comptroller's Office to ensure that the hospitals are consistently reporting receivables and uncollectibles in the annual GAAP report. Also, the Department, hospitals and the Office of the Comptroller should continue to revise the Department *Accounts Receivable and Procedure Manual*, to provide detailed guidance on the proper reporting of receivables and uncollectibles.

Department Corrective Action Plan

The Department made every effort to comply with the CAP developed last year regarding the review and revision of the Department Accounts Receivable Manual. As you have indicated above, the Office of the State Comptroller agreed to be the responsible party for developing and implementing a revised Department Accounts Receivable Manual. Since there was a lack of consensus amongst Comptroller staff as to how various portions of this manual should be designed, the Department was unable to complete its revision on a timely basis. The Department is committed to creating a revised manual that will encompass all the required data necessary for GAAP reporting, BARS summary reporting and the reporting of statutory receivables. Based upon recommendations from Deloitte & Touche at our recent exit conference, the manual will include a spreadsheet or other similar vehicle that will capture all relevant data necessary to satisfy the Department's multiple reporting requirements. The revised manual will be implemented at each facility to eliminate reporting inconsistencies between facilities. The Department person responsible for implementation is Mary Hardiman, Director, Hospital Management Bureau. Expected implementation is no later than March 31, 2000.

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