



Tips to Prepare for a Healthcare Financial Statement Audit



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INTRODUCTION



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FIRM OVERVIEW

McKonly & Asbury is a team of CPAs and Business Advisors serving clients from our offices in Camp Hill, Lancaster, and Bloomsburg.

We provide **Advisory & Business Consulting, Audit & Assurance, Entrepreneurial Support & Client Accounting, Internal Audit, Professional Placement, Tax, and Technology** services to a variety of industries including:



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AGENDA

- Accounts receivable and revenue data and reporting that auditors will expect to see, assess and evaluate during the course of the audit.
- Key tips for planning and scheduling a successful audit.
- New accounting pronouncements impacting the 2024 audit.
- Common pitfalls and findings in a healthcare audit.





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ACCOUNTS RECEIVABLE AND REVENUE DATA AND REPORTING

ACCOUNTS RECEIVABLE AND REVENUE DATA AND REPORTING

■ Background:

- Revenue recognition and receivables valuation under U.S. GAAP are inherently complex.
- Impacts several financial statement line items:
 - Patient service revenue and accounts receivable
 - Contract assets and liabilities
 - 3rd party payor settlements and receivables
 - Grants, contributions, and refundable advances, if applicable
 - Various financial statement disclosures
- Pose the highest risk to the fair presentation of the financial statements.



ACCOUNTS RECEIVABLE AND REVENUE DATA AND REPORTING

- Key audit procedures performed by Auditors:
 - Review of Accounts Receivable Aging report and Revenue report
 - Sampling patient claims from the intake process through the entire process to tracing payments to the bank statement
 - Review of reserve allowance methodology
 - Reviewing client provided schedule
 - Reviewing subsequent cash receipts on current year and prior year accounts receivable
 - Perform various substantive analytics
 - Control testing over cash receipt cycle
 - Comparison of cash receipts from bank statements to the revenue recognized during the year (cash to revenue)



ACCOUNTS RECEIVABLE AND REVENUE DATA AND REPORTING

- What do auditors need from their clients:
 - Workpaper testing support:
 - Detailed accounts receivable and revenue reports that tie out to the year end trial balance and include date of service
 - Reserve methodology calculation report that ties out to the year end trial balance
 - Cash receipts reports that are detailed (patient ID, date of service, date of deposit, deposit amount)
 - Organized patient claim sample file documentation
 - Written cash receipt control policy



ACCOUNTS RECEIVABLE AND REVENUE DATA AND REPORTING

- What do auditors need from their clients (cont):
 - Disclosure testing support:
 - Accounts Receivable and revenue payor concentration report
 - If disclosing disaggregation of revenue other than by payor, report is needed
 - If applicable, charity care policy and the amount of charity care provided during the year ended





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KEY TIPS FOR PLANNING AND SCHEDULING A SUCCESSFUL AUDIT

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■ Be proactive

- Reach out to your auditors about unique accounting treatments, new accounting pronouncements, significant changes in operations, etc. throughout the year
- Ensure all prior year audit recommendations and findings are resolved
- Ensure all accounting policies and procedures are reviewed and being followed
- Ensure any adjustments from the prior year audit have been properly recorded



KEY TIPS FOR PLANNING AND SCHEDULING A SUCCESSFUL AUDIT

■ Be prepared

- Ensure all year end reconciliations are tied out to the trial balance as well as reviewed and approved.
- Review the audit request list during the year end closing process to ensure all documentation will be available.
- Ensure all reports are in detail level and ran for the proper dates or period ended.
- Document unique scenarios that occurred within the year that would be the cause for significant fluctuations between the current and prior year dollar amounts.



KEY TIPS FOR PLANNING AND SCHEDULING A SUCCESSFUL AUDIT

■ Be available

- Ensure agreed upon scheduled audit dates (preliminary and final fieldwork, board meeting) align with everyone's schedule and deadlines.
- Ensure all internal team members understand their roles and responsibilities for the audit as well as the timeline.
- Ensure during the scheduled preliminary and final fieldwork days the necessary individuals are available to have discussions on a daily basis as needed.





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NEW ACCOUNTING PRONOUNCEMENTS IMPACTING THE 2024 AUDIT

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- ASC 326, Financial Instruments – Credit Losses
 - Effective January 1, 2023
 - Recognition of estimated expected credit losses over the life of a financial instrument
 - Included in scope: Trade receivables, loan receivables, net investments in sales-type and direct financing leases



NEW ACCOUNTING PRONOUNCEMENTS IMPACTING THE 2024 AUDIT

■ ASC 326, Financial Instruments – Credit Losses

- Does anything change with net patient revenue?
 - Implicit Price Concessions versus Provision for Credit Losses (bad debts)
 - Implicit price concession- reduction in revenue and receivables
 - Provision for credit losses- period expense
 - ▷ Self Pay-
 - ▷ Treating patients without knowing the patient's ability to pay and has a history of accepting less than the full contractual amount = Implicit Price Concession
 - ▷ Treating patients with knowing the patient's ability to pay = Provision for credit losses



NEW ACCOUNTING PRONOUNCEMENTS IMPACTING THE 2024 AUDIT

■ Employee Retention Credit (ERC)

■ *For-Profit Entities:*

- FASB ASC 958-605, *Not-for-Profit Entities: Revenue Recognition*
- International Accounting Standard (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*
 - If already selected a policy to account for government grants, that policy must be used
- FASB ASC 450-30, *Contingencies: Gain Contingencies*

■ *Not-for-Profit Entities:*

- FASB ASC 958-605, *Not-for-Profit Entities: Revenue Recognition*



NEW ACCOUNTING PRONOUNCEMENTS IMPACTING THE 2024 AUDIT

Employee Retention Credit (ERC)

■ FASB ASC 958-605, *Not-for-Profit Entities: Revenue Recognition*

- Revenue is recognized when the conditions have been substantially met or explicitly waived by the donor.
 - Substantially met – Evidence that most or all performance standards are met.
 - or
 - Waived by donor - The statute of limitations expires, and the IRS can no longer require the grantee to return the funds
- Conservative approach: Not recording revenue until the statute of limitations on the IRS's ability to audit the eligibility for the ERC has expired.



NEW ACCOUNTING PRONOUNCEMENTS IMPACTING THE 2024 AUDIT

Employee Retention Credit (ERC)

- International Accounting Standard (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*
 - Revenue is recognized when there is reasonable assurance, the entity will comply with the conditions and receive the grant
 - Reasonable Assurance: 1. any conditions attached to the funding will be met and 2. the funding will be received.
 - Conservative approach: Not recording revenue until the statute of limitations on the IRS's ability to audit the eligibility for the ERC has expired.



NEW ACCOUNTING PRONOUNCEMENTS IMPACTING THE 2024 AUDIT

Employee Retention Credit (ERC)

■ FASB ASC 450-30, Contingencies: Gain Contingencies

- When all related contingencies have been met and the gain is realized or realizable
 - Gain Contingency is realized when cash (or other assets, such as claims to cash) has already been received without expectation of repayment or refund.
- Therefore, not recording revenue until the statute of limitations on the IRS's ability to audit the eligibility for the ERC has expired.





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COMMON PITFALLS AND FINDINGS IN A HEALTHCARE AUDIT.

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- Reserve on accounts receivable is not reasonably estimated
- Patient claim documentation is not kept on file according to internal policy
- Accounts Receivable balance is not reconciled timely to the accounts receivable aging report
- Cutoff issues with cash posted into patient's account subsequent of when it was received.



COMMON PITFALLS AND FINDINGS IN A HEALTHCARE AUDIT

- Subsequent cash receipts do not support the accounts receivable balance as reasonably stated.
- Lack of support and documentation for third party payor liabilities.
- Failed debt covenant requirements – management was not aware of the failure.
- Improper reconciliation of inter-entity, related party accounts or related party transactions.



COMMON PITFALLS AND FINDINGS IN A HEALTHCARE AUDIT

Nonprofit Findings

- Improper tracking of restrictions on net assets.
- Sliding fee scale issues and no income verification.
- Understanding and proper use of grant funds.
- Unrelated business income and the tax consequences.
- Timely filing of the Data Collection Form.



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UPCOMING EVENTS

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