Program Memorandum Intermediaries

Department of Health and Human Services (DHHS)
HEALTH CARE FINANCING ADMINISTRATION (HCFA)

Transmittal A-01-53 **Date: APRIL 18, 2001**

CHANGE REQUEST 1645

SUBJECT: Discontinuing the Recognition and Financial Reporting of Accounts Receivables Due to Unfiled Cost Reports

Through analysis of Federal financial accounting standards and regulations, HCFA believes that recognition of a receivable prior to the filing of a cost report significantly overstates net assets and ultimately net position. Furthermore, HCFA believes that current accounting procedures for recognizing accounts receivables due to a provider's failure to file a cost report timely does not adhere to the accounting principles articulated in Statement of Federal Financial Accounting Standards Number (SFFAS No.) 1 - Accounting for Selected Assets and Liabilities, SFFAS No. 5 - Accounting for Liabilities of the Federal Government, and SFFAS No. 7 - Nonexchange Revenue (Measurement & Recognition), as well as Generally Accepted Accounting Principles (GAAP) of conservatism and matching. Based on this analysis, the failure to file a cost report does not complete the earnings process, and accordingly, no accounting event has occurred. As such, the recognition of a receivable prior to the completion of the earnings process (receipt or filing of a cost report) is poor matching. In addition, SFFAS Nos. 5 and 7 states that liabilities and nonexchange revenue should only be recognized when a past event or exchange transaction has occurred, use of resources (inflow or outflow) are probable and can be reasonably estimated or measured. Without the actual submission of the cost report, HCFA cannot reasonably estimate the amount of the receivable, as required by SFFAS No. 1.

Therefore, unfiled cost report receivables will no longer be reported on the Form HCFA-750 Contractor Financial Report and the Form HCFA-751, Status of Accounts Receivable Report. HCFA's current financial reporting instructions require Medicare fiscal intermediaries to place providers who have not filed a timely cost report on 100 percent penalty withhold, and recognize and demand a receivable based on the value of all interim payments made to the provider in, and subsequent to, the cost reporting period, without considering the value of actual services performed during that period. Federal debt collection regulations allow HCFA to demand repayment of the full amount paid to a provider during a cost reporting period if a provider fails to comply with the requirements to file a cost report in a timely manner. However, for financial reporting purposes, HCFA recognizes that the entire amount being demanded does not truly represent funds owed to HCFA. Since the provider has performed services, the true economic value of the receivable demanded is overstated. In fact, HCFA may have a liability upon settlement. Cost report receivables should not be accrued until related cost reports are received, and HCFA can support the existence of a receivable through provider agreement, such as filing a cost report, filing a cost report without sufficient payment, or a court ruling in favor of HCFA.

As a result, for financial reporting purposes, HCFA is revising its policy for reporting unfiled cost reports as an accounts receivable, unless the fiscal intermediary is aware of a unique situation where recording an accounts receivable would be appropriate. Fiscal intermediaries will continue to reflect an overpayment on the Provider Overpayment Reporting (POR) system based on the value of all payments made to the provider in, and subsequent to, the cost reporting period. However, **effective for the March 31, 2001 reporting period, accounts receivable for unfiled cost reports will no longer be reported on the Form HCFA-750 and Form HCFA-751.** HCFA will continue to monitor and manage the status of unfiled cost reports through the POR system, without overstating accounts receivable on the financial statements. All other processes related to unfiled cost reports remain unchanged. Fiscal intermediaries must continue to: (1) place the providers on 100 percent penalty withhold, (2) demand the submission of delinquent cost reports from providers based on current debt collection regulations and (3) refer the debt in accordance with the requirements of the Debt Collection Improvement Act of 1996.

Fiscal intermediaries must ensure that Line 7, Ending Balance, of the Form HCFA-751 does not include any receivables due to unfiled cost reports. If accounts receivables due to unfiled cost reports were included in the December 31, 2000 Form HCFA-751, these receivables must be zeroed out by recording a downward adjustment for these amounts on Line 5a, Reclassified/Adjustments, on the Form HCFA-751 and provide a specific footnote in the remarks section of the report identifying the nature and amount of the adjustment.

The *effective date* for this Program Memorandum (PM) is March 31, 2001.

The *implementation date* for this PM is April 18, 2001. Standard systems changes are not to be made at this time, but Medicare fiscal intermediaries must make manual adjustments to remove these debts from their ending accounts receivable balance reported on the Forms HCFA-750/751 reports.

These instructions should be implemented within your current operating budget.

This PM may be discarded after March 31, 2002.

If you have any questions, contact Marvin Washington on (410) 786-7576.