

**ENTITY** 2019 Audit Programs

June 30, 2019

**HOSPITAL – PATIENT AND OTHER RECEIVABLES**

| <b>PROCEDURE</b>  | <b>OBJ.</b> | <b>DONE<br/>BY</b> | <b>W/P<br/>REF</b> | <b>N/A</b> | <b>REMARKS</b> |
|---|-------------|--------------------|--------------------|------------|----------------|
| <b>Audit Objectives and Related Assertions:</b>   |             |                    |                    |            |                |
| <b>A. Patient and other receivables are valid and have been billed in the proper amounts for services rendered. (1,2,4)</b>   |             |                    |                    |            |                |
| <b>B. Patient and other receivables include all amounts still owed for activities through the end of the period. (3)</b>  |             |                    |                    |            |                |
| <b>C. An adequate allowance for uncollectible accounts has been established and revenue, patient and other receivables and related disclosures are adequate and properly presented in the financial statements. (4,10,11,12,13)</b> |             |                    |                    |            |                |
| <b>Audit Procedures:</b>  |             |                    |                    |            |                |
| <b>A. Patient and Other Receivables</b>   |             |                    |                    |            |                |
| 1. Review activity in the general ledger control accounts for patient accounts receivable for the period under audit and:   | A           |                    |                    |            |                |
| a. Note and investigate any significant entries which appear unusual in amount or source.   |             |                    |                    |            |                |
| b. Compare the opening balance for the period with the final closing balances per the working papers and reports for the preceding period.  |             |                    |                    |            |                |
| 2. Analyze the relationship of receivables and charges (# of day's charges in accounts receivable) and compare with relationships for the preceding period(s).  | C           |                    |                    |            |                |
| 3. Determine anticipated adjustments on accounts included in accounts receivable.   | A           |                    |                    |            |                |
| 4. Perform the following regarding third-party supplemental adjustments:  | A,B,C       |                    |                    |            |                |
| a. Review settlements for previous year.  |             |                    |                    |            |                |
| b. Obtain data needed to compute current year settlement.   |             |                    |                    |            |                |
| c. Test computations made to estimate the amount of retroactive adjustments provided for in the accounts.   |             |                    |                    |            |                |
| d. Review applicable rate-setting and reimbursement methods to determine if revenue has been properly recorded.   |             |                    |                    |            |                |

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|--|-------------|--------------------|--------------------|------------|----------------|
| <ul style="list-style-type: none"> <li>e. Test cost reimbursement reports and other reports used to establish third-party payment rates to determine that they are prepared based on the appropriate principles of reimbursement.</li> <li>f. Review the status of unsettled cost reimbursement reports for prior periods to determine the adjustments, if any, required for the current year financial statements.</li> <li>g. If material settlements and adjustments have been made by third-party payors, review third-party payor audit reports and adjustments for prior cost reports to consider: <ul style="list-style-type: none"> <li>1) Whether similar adjustments are applicable and have been considered in the current year.</li> <li>2) The propriety of appropriate administrative review board and judicial appeals.</li> </ul> </li> <li>h. If material, determine amounts and disclosures related to pending claims or appeals for additional reimbursement are properly reflected in the financial statements.</li> <li>i. If material, determine the effects of timing differences under third-party payor reimbursement methods have been properly recorded.</li> <li>j. If material, determine the effect of Medicare payment denials because of PRO reviews for medical necessity, appropriateness or quality of care is properly recorded.</li> </ul> <p>5. Obtain or prepare a trial balance or aged trial balance of patient receivables and perform the following:</p> <ul style="list-style-type: none"> <li>a. Crossfoot the totals and refoot the total column and (selected or all) analysis columns.</li> <li>b. Trace total to the general ledger control account, and, if as of year end to the lead schedule or working trial balance.</li> </ul> | A,B         |                    |                    |            |                |

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| <ul style="list-style-type: none"> <li>c. If patient accounts are not maintained on computer, on a test basis, trace entries for individual patient(s) on the aging analysis (totals and aging detail) to the individual accounts in the accounts receivable subsidiary ledger.</li> <li>d. Select individual accounts from the subsidiary ledger and trace totals and aging detail to the aged trial balance.</li> <li>e. Test footings of individual customer accounts in the subsidiary ledger.</li> </ul> <p>6. Unless alternate verification procedures are used, select individual patient(s) accounts for confirmation procedures from the aged trial balance (or trial balance) and arrange for the preparation of confirmation requests to be mailed under the auditor's control and tested as follows:</p> <ul style="list-style-type: none"> <li>a. Trace individual confirmation requests as to balances and addresses to the subsidiary accounts receivable records. Send confirmations and prepare confirmation statistics. (It is normally not practical to obtain confirmation of receivables from patients who are not discharged since such patients usually do not know their indebtedness until they are discharged.)</li> <li>b. If Hospital requests any accounts be excluded from the confirmation process, obtain explanations. Consider appropriate alternative procedures with respect to the amounts, especially for third-party payors.</li> <li>c. Trace confirmation replies to the trial balance and investigate replies with differences.</li> <li>d. Obtain new addresses for all confirmations returned by the post office and remail.</li> <li>e. Send second requests for all unanswered positive confirmation requests. Consider sending third requests by registered or certified mail and performing alternative auditing procedures.</li> <li>f. Perform alternative auditing procedures for unanswered positive confirmation requests.</li> <li>g. Summarize the results of the confirmation procedures.</li> </ul> | A,B,C       |                    |                    |            |                |

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| <p>h. Subsequent to the confirmation date, consider reviewing the patients' ledger and remittance advices for cash receipts.</p> <p>7. For positive confirmation requests to which no reply was received, accounts which declined to provide confirmation information and accounts which the Hospital requested not be confirmed, test items subsequently paid to remittance advices which identify the specific invoices paid.</p> <p>8. If accounts receivable were confirmed as of a date other than year end obtain an analysis of transactions between the confirmation and balance sheet dates, trace amounts to books of original entry, and review the analysis and books for significant unusual entries.</p> <p>9. If material in amount, obtain or prepare an analysis of trade notes receivable.</p> <p>a. Include the following information:</p> <ol style="list-style-type: none"> <li>1) Maker.</li> <li>2) Date made/date due.</li> <li>3) Original terms of repayment.</li> <li>4) Collateral, if any.</li> <li>5) Interest rate.</li> <li>6) Balance at the end of last period.</li> <li>7) Principal additions and payments.</li> <li>8) Interest income - at the end of the preceding period, earned during the current period, received during the current period and accrued at the end of the current period.</li> </ol> <p>b. Foot schedule and trace totals to applicable general ledger accounts.</p> <p>c. Physically inspect all notes in possession of the Hospital.</p> <p>d. Request positive confirmation of the terms and balances of notes with makers (as of the balance sheet date or other date). Investigate any differences.</p> <p>e. Confirm notes out for collection with collection agents.</p> | A,B,C       |                    |                    |            |                |

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|--|-------------|--------------------|--------------------|------------|----------------|
| <ul style="list-style-type: none"> <li>f. Inspect collateral for notes, if any, making sure the items were not included in corresponding asset accounts of the Hospital.</li> <li>g. Recompute interest income, accrued interest and unearned discount. Trace interest collections, if any, to the cash receipts journal.</li> </ul>   |             |                    |                    |            |                |
| 10. Ascertain whether any material accounts or notes have been assigned, pledged or discounted by reference to minutes, review of agreements, confirmation with banks, etc.  | C           |                    |                    |            |                |
| 11. Ascertain whether any accounts or notes receivable material in amount are owed by employees or related parties, such as officers, trustees and affiliates, and:  | A,B,C       |                    |                    |            |                |
| <ul style="list-style-type: none"> <li>a. Obtain an understanding of the business purpose for the transactions which resulted in the balances.</li> <li>b. Ascertain the transactions were properly authorized.</li> <li>c. Obtain positive confirmations of the balances (as of the balance sheet date or some other date) except for intercompany accounts with affiliated companies which we are concurrently auditing.</li> <li>d. Determine if any notes repaid prior to the balance sheet date have since been renewed.</li> </ul> |             |                    |                    |            |                |
| 12. Obtain or prepare an analysis of the allowance for doubtful accounts for the period and:   | C           |                    |                    |            |                |
| <ul style="list-style-type: none"> <li>a. Review accounts written off during the period and determine significant write-offs have been properly authorized. Examine supporting documentation, including correspondence with the patient. (Such correspondence may indicate a broader problem.)</li> </ul>  |             |                    |                    |            |                |

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| <ul style="list-style-type: none"> <li>b. Review the aged trial balance as of the balance sheet date with the Hospital's credit manager or other responsible individual to identify accounts of a doubtful nature and allowances required. Review correspondence files and other relevant data in support of the Hospital's representation. Items reviewed should include past due amounts and significant amounts, whether or not past due.</li> <li>c. Review confirmation exceptions for indication of amounts in dispute.</li> <li>d. Analyze and review trends for the following relationships: <ul style="list-style-type: none"> <li>1) Allowance for doubtful accounts to accounts receivable (in total and in relation to past due categories per aging analysis).</li> <li>2) Charges to contractual allowances.</li> <li>3) Expense provisions for doubtful accounts to net credit charges.</li> <li>4). Expense provisions for doubtful accounts to write-offs.</li> </ul> </li> <li>e. Test the method used to determine adequate provision has been made for differences between interim billing rates and full established rates.</li> <li>f. Analyze collection activity for accounts previously written off to ascertain collections on those accounts have been properly recorded.</li> <li>g. If material in amount, review pledges and other receivables to determine payments are being received in accordance with the terms of the pledge or receivable, as well as testing the method used to determine the allowance for estimated uncollectibles.</li> </ul> <p>B. Determine if the risk of material misstatement due to fraud or error has changed based on results of substantive tests performed. If so, perform appropriate procedures.</p> <p>C. Determine whether patient and other receivables are properly classified and disclosures are adequate.</p> |             |                    |                    |            |                |
|   | C           |                    |                    |            |                |

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