

•Focus on Finance•

Answers to your Accounting and Tax Questions

Minimizing Bad Debt for a Healthier Balance Sheet

Q. **Our healthcare facility is seeing a spike in non-payment of patient treatment with no success of collection. What can be done to minimize the impact of bad debt?**

A. In light of a struggling economy, it comes as no surprise that occurrence of non-payment of patient treatment is on the rise, particularly within the hospital sector providing charity care on a regular basis. However, there is a surprising number of “bad debt” accounts that, if handled differently, may result in successful collection. You may find that making a few simple adjustments within your patient registration process will help streamline the process, increase efficiencies and improve collection rates.

Properly Categorize Patient Accounts

Many times, an account that should have been managed as qualifying for a government aid program, like Medicaid, was not screened properly at registration and could have been classified as charity care. If manpower is an issue at your facility (and where is it not an issue?), then it may be wise to implement an automated information system that screens patients for charity/uninsured discounts. These systems can also check for eligibility for Medicaid and other government programs, saving your administrative professionals many hours of effort and decreasing bad debt situations.

Verifying Patient’s Identity and Address

In the March/April issue of Garden State Focus, the topic of medical identity theft was featured, offering a preventative suggestion of requiring patients to provide three types of identification during any phase of their relationship with the hospital or facility, in order to confirm valid identity. The additional benefit of this is the confirmation of a proper mailing address. Surprisingly, returned mail for billing is a persistent problem, with industry statistics reaching 25%, thus reducing the efforts of successful collections.

Regardless if you are a healthcare system or a small group practice, it is worth noting that these types of identification should include: 1. a medical card with full name and account information; 2. a New Jersey drivers license with photo (or if no photo on the license, a second form of I.D. with a photo), and 3. a third piece of identification, preferably a social security card, but often times a credit card is acceptable, too. Don’t overlook asking for a piece of mail to verify the patients

address; we have found that many women typically carry a piece of correspondence or two in their pocketbooks.

Again, implementing automated information systems that verify patient demographics will also ensure accuracy of account information. These systems verify that a patient’s name, address, date of birth and Social Security number all match throughout the billing system, and can also find updated information when the U.S. Postal Service returns invoices or statements, due to incorrect address information.



Lewis Bivona, Jr.

Q. **How can we reduce Medicare denials of bad debt on the lost report?**

A. To avoid Medicare bad debt denials, hospitals and health care organizations should take the time to regularly review their bad debt policies to ensure they are adhering to the regulations outlined by the Centers for Medicare and Medicaid Services (CMS) in the Medicare Provider Reimbursement Manual (PRM). The following list of criteria for allowable bad debt can be found in PRM § 308:

A debt must meet these criteria to be an allowable bad debt:

1. The debt must be related to covered services and derived from deductible and coinsurance amounts.
2. The provider must be able to establish that reasonable collection efforts were made.
3. The debt was actually uncollectible when claimed as worthless.
4. Sound business judgment established that there was no likelihood of recovery at any time in the future.

Furthermore, an intermediary cannot require a hospital to change its bad debt collection policy if it has been following the same said policy since August 1, 1987.

Use of an Outside Collection Agency

According to PRM § 310.2, which refers to the Presumption of Noncollectibility, “if after reasonable and customary attempts to collect a bill, the debt remains unpaid more than 120 days from the date the first bill is mailed to the

beneficiary, the debt may be deemed uncollectible.” Thus, it can be entered in the cost report.

When a patient account goes into default, a typical procedural option is to send the information to an outside collection agency (OCA), which will take the time to make regular attempts of contact with the patient, encouraging payment of the bill. It must be noted that the PRM states that if you send non-Medicare accounts to an OCA for collection, then you must treat the Medicare accounts the exact same way, having those accounts managed by an OCA.

Some presume that if a Medicare account is now in the hands of an OCA, that it should not be considered “worthless,” thus not qualified to be entered as bad debt on the cost sheet. PRM §316 indicates that when a provider, in a later reporting period, recovers amounts previously claimed as allowable bad debts, the provider’s reimbursable costs in the

period of recovery are reduced by the amounts recovered. Thus, even though you have officially written off the bad debt, it is okay to further pursue collections through an OCA. However, if payment is ultimately received, one must claim this amount... no double dipping allowed!

About the Authors

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If you have a question related to accounting or tax that you would like answered in the next issue of Garden State Focus, please e-mail it to elitten@foxrothschild.com. Your questions are greatly encouraged!

The 2008 NJ HFMA Scholarship Recipients

by Laura A. Hess, FHFMA

The New Jersey Chapter of the Healthcare Financial Management Association awards at least one scholarship each May. Eligibility for the scholarship is based on the following criteria:

- Member, in good standing, of the New Jersey Chapter for the last two years.
- Spouse or dependent of a member, in good standing, of the New Jersey, for the last two years.
- Enrolled in an accredited college, university, nursing school or other allied health professional school.

Preference is given to applicants pursuing degrees in finance, accounting, healthcare administration or a healthcare related field of study. Tuition not paid by an employee or other scholarship qualifies for the HFMA scholarship.

Our selection is based on merit, academic achievement, civic and professional activities, course of study and content of the application and essay.

At our June 11, 2008 Quarterly meeting, Cheryl Cohen was happy to announce that our chapter would be awarding three \$3,000 scholarships this year. The 2008 recipients are:

Sarah Alban is the daughter of member Greg Alban. Greg Alban is the Director of Financial Clearance with the Saint Barnabas Healthcare System. Sarah has been accepted to Rutgers University, and will begin her freshman year this fall as a Pre-Medicine major. At the time of application, Sarah achieved a GPA of 4.129 and maintains membership in both the National Honor Society and the Spanish National Honor Society. In addition to her academic achievements, Sarah volunteered her time at the Saint Barnabas Medical Center Renal

& Pancreas Transplant Department, and as a peer buddy in the Nutley FUN FOR ALL Integrated Recreation Program, where she is an active and dedicated volunteer for special needs participants.

Christopher Shanahan is the son of member and past NJ Chapter President, Tom Shanahan, Senior Vice President and CFO of Raritan Bay Medical Center. Chris is pursuing a degree in Business Management at Johnson & Wales University. He completed his first semester of college with a GPA of 3.64. In addition, Chris has developed strong leadership skills through his participation in his high school ROTC program. He has also held various part-time positions including those of a Summer Camp Counselor, Sales Associate, and restaurant server.

Kelly White is the daughter of Mary Lou White, Manager Cost and Financial Analysis for Atlantic Health Systems. She is pursuing a BSN degree in nursing at Ramapo College of NJ. Kelly graduated from her high school with distinguished honors and a GPA of 3.95, and her first semester at Ramapo earned her a place on the Dean’s List and membership in the Alpha Lambda Delta Honor Society. Kelly has also been very active – participating in school activities, working at a local childcare center and at Morristown Memorial Hospital, providing volunteer service to the Hospital and also babysitting for friends on weekends. She continues to work at least one day a week at the hospital, and babysits on weekends.

Congratulations and good luck to Sarah, Chris and Kelly, as well as our additional eleven 2008 applicants, as they continue their education and pursuit of their goals.