

## ORGANIZATION POLICY

POLICY TITLE: COST REPORT – RESERVES

POLICY NUMBER: 1216

### PURPOSE:

To assure that reserves, both receivables and liabilities, included in the audited financial statements are in accordance with applicable statutes, rules, regulations and program requirements.

### POLICY:

External auditors will generally complete audited financial statements for each fiscal year prior to the completion of Medicare or Medicaid reports. The audited financial statements will include reserves, prepared by management, for possible amounts due to and/or from Medicare and Medicaid that relate to adjustments by payors for estimates that are subject to review by the payor, for excess expense accruals that are discovered after the cost report audit, for reduced patient volumes (i.e. Medicaid inpatients), etc. These settlement reserves will accurately reflect management's estimates of anticipated settlement and will not include non-allowable costs, but costs or statistics that are subject to review and acceptance by the payor. The reserve accruals and adjusted amounts on the financial records in the year the specific cost report is finalized with the specific payor. Reserves will be tested and reviewed by financial statement auditors as appropriate. Accounting for such reserves will be performed by management in accordance with applicable guidance provided by Generally Accepted Accounting Principles (GAAP); specifically utilizing AICPA SOP 00-1 will serve as the primary guidance for settlement reserve accounting.

All items claimed contrary to clearly expressed Medicare policy or previous audit adjustments are reflected on the "Protest Line" of the "Filed" Cost Report and should not be part of the reserves included in the audit report.

### PROCEDURE/GUIDELINES:

Among other potential reserve issues, the following list represents, in general terms, issues that may be established as a reserve:

- Estimates of cost included in field cost report because current information is not available (e.g. estimate of related party costs)
- Changes in prior period cost reporting where the hospital believes that the change, while it may not have been approved by the Intermediary, is a more accurate method of cost reporting.

- Items included in the cost report where the Medicare principles for reporting such issues are ambiguous and the intermediary's interpretation of those issues may differ from the hospital's interpretation.
- Complex transactions, where the Medicare principles for reporting such issues are ambiguous.
- A general reserve to reflect those differences in settlements due to unanticipated audit adjustments.

The person preparing (or coordinating the preparation of) the Cost Report will present the prepared Cost Report to the Director and the CFO for review and discuss any recommendations for reserves prior to the certification and filing of the Medicare Cost Report. This presentation should also include recommendations for disclosures to be made in the transmittal letter, to the extent that the Cost Report takes positions that may be disputed by the fiscal intermediary.

EFFECTIVE DATE: July 2004

REVIEW DATE: \_\_\_\_\_

REVISION DATE: October 2008

APPROVED BY: \_\_\_\_\_

  
Ed Piper, Ph.D.  
President and Chief Executive Officer

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