

## HEALTH CARE SERVICES: PROFESSIONAL FEES

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## HEALTH CARE SERVICES: PROFESSIONAL FEES

I. INTRODUCTION

The University, as an institution, extends health care services to the public in order to fulfill fundamental requirements of its Health Sciences education and research programs. The physicians, dentists, veterinarians, and other health care specialists responsible for readministering these institutional services often perform personal professional health care services in connection with their institutional responsibilities, and also, in many cases, independently of those responsibilities. Depending on the compensation plan in which the individual participates, the professional fee charged for such professional health care services may become University income. The fiduciary responsibility for professional fee income rests with management and ultimately with the Board of Regents. This chapter describes the conditions under which professional fees become University income and the accounting policies pertaining to those fees.

II. BACKGROUND

## A. PHYSICIANS' RELATIONSHIPS WITH THE UNIVERSITY

Any physician or other health care specialist who administers health care services to the public in connection with the University's education and research programs in the Health Sciences has an employee relationship with the University. The relationship may be either an academic or a staff appointment, and may be either salaried or nonsalaried.

In order to attract and retain highly qualified individuals to full-time Health Sciences faculty positions, the University has developed a variety of compensation arrangements. (See chapter H-214-75, Health Sciences Compensation Plans, for further information about these plans.) Most of these arrangements provide the appointee with additional compensation over and above a basic salary rate. As a condition of employment, the individuals employed under the plans providing additional compensation agree to turnover to the University either the rights to or the actual receipts of all or a specified part of their professional fees (see Appendix for exceptions).

In addition, many community physicians and other health care specialists, who meet the University's academic standards and are engaged principally in private practice but are willing to donate some of their time to train University students, accept nonsalaried positions. Except as provided in the Appendix, the professional fees relating to services rendered to patients seen by these appointees in the course of their private practice accrue to the physicians.

II. BACKGROUND (Cont.)

B. PROFESSIONAL HEALTH CARE SERVICES IN THE UNIVERSITY

1. Physicians' Services

The University provides institutional and professional health care services through its teaching hospitals and clinics. Professional health care services are also rendered at affiliated hospitals and clinics and in the offices of faculty and hospital staff members. The professional fees for most of these health care services are charged to the patient or third-party sponsor(s) on a bill that is completely separate from the Hospital or clinic bill covering institutional services. The fees for other professional fee income (unless the physicians is paid directly by the hospital, in which case the fee is hospital income). Both types of fees are the subject of this chapter.

2. Other Services

Services provided in University dental clinics are generally performed by students who are not allowed to charge professional fees. Professional dental services performed by licensed dentist in their private practice while associated with the University may be billed to patients either as part of an institutional bill for services or as a separate charge.

Institutional and professional veterinary services are provided primarily at the University Veterinary Medical Clinical Teaching Facility. Fees for professional animal care services by faculty clinicians are currently billed separately, or are included in the veterinary medicine. hospital bill as a professional fee component.

Services rendered at Student Health Service facilities do not come under the provisions of this chapter except to the extent what a Student Health Service uses the facilities of a University teaching hospital or clinic.

Services rendered by nonphysicians with patient-care responsibilities are handled in the manner described for physicians' services.

C. UNIVERSITY USE OF PROFESSIONAL FEES

The professional fees that become University income are accumulated in special fund accounts related to the various compensation plans. In most instances, these funds are used in accordance with the following priorities:

- (1) To fund the expense incurred by the University for all billing and collection of income from professional services, for use of University-owned and/or -leased practice facilities, and for related professional operating expenses;
- (2) To fund additional compensation under negotiated and combination arrangements;
- (3) To fund supplemental benefits;
- (4) To fund a reserve for contingencies in an amount recommended by the dean; and
- (5) Any surplus shall be used as follows:
  - (a) At least one-half shall be used for academic purposes in the department or division of origin (including but not limited to salaries for support personnel) as recommended by the chair person and approved by the dean.
  - (b) The remainder of any surplus may be used for other purposes in the school or campus as recommended by the dean and approved by the chancellor.

#### D. DEFINITIONS

The following terms are defined in terms of physicians' services but apply equally to other health care services:

University Hospital and Clinics: Any hospital and/or outpatient clinic facility operated by the University in support of its medical education program.

Affiliated Hospital and Clinics: Any non-University facility which, under any agreement with the University, permits University students, interns, residents, and faculty to participate in patient care services as part of the University's medical education program.

Patient Not Eligible for Clinical Teaching Support (CTS): A patient determined through financial evaluation to be able to pay from personal resources all anticipated hospital or clinic charges that are not covered by a third-party sponsor or are not precluded from the patient's personal liability by the terms of a sponsor's coverage when not paid in full by the sponsor.

Patient Eligible for CTS: A patient determined through financial evaluation to be unable to pay the full amount of his/her bill or his/her personal liability on that bill, or any personal liability beyond what any private or public third-party sponsor will pay.

II. BACKGROUND (Cont.)

D. DEFINITIONS (Cont.)

Third-Party Sponsor: Any agency or insurance carrier which arranges with an individual to pay directly to a provider of health care services all or a specified portion of the charges for covered services provided to that individual.

III. IDENTIFICATION OF UNIVERSITY INCOME

Whether a professional fee becomes University income depends upon the patients' classification and the physician's compensation arrangement.

A. PATIENTS ELIGIBLE FOR CTS

All fees for professional health care services rendered by a University employee, including nonsalaried faculty, to any patient eligible for clinical teaching support are University income. Billing and collection of these fees are the responsibility of the University. Professional fees not covered by third-party sponsors can not be billed to these patients except on a case-by-case basis when it can be determined that the patient has available personal resources after provided for the entire personal liability for institutional services. Professional fees may not be directly charged to clinical teaching support funds or to grant funds supporting research patients where patient care is specifically included in the work to be done under grant-funded salaries.

B. PATIENTS NOT ELIGIBLE FOR CTS

Except as indicated in the Appendix, professional fees for professional health care services rendered to patients not eligible for clinical teaching support become University income. Professional fees accruing to the University as income are billed to the patient at the discretion of the physician. (As indicated in section IV.B., below, fees not billed must be accounted for.) Once the fee has been approved for billing, it becomes University income. Billing and collection of these fees (except as indicated in the Appendix) are the responsibility of the University.

IV. ACCOUNTING POLICIES

A. RESPONSIBILITIES

As indicated in section III., above, the University is generally responsible for billing and collecting professional fees that are University income or that will become University income. This responsibility may be assigned to an established University billing group in a University hospital, academic department, or other campus unit; to an outside agency under a duly approved University contract; or to individual faculty members.

In order to assure that professional fees which are University income are fully and accurately accounted for, each campus should have policy directives which will assure that the policies set forth below are carried out. The chancellor is responsible for seeing that the following policies (and the related provisions of various Health Sciences compensation plans) are followed:

1. Initial recording of a description of the professional services rendered;
2. Billing for services rendered;
3. Recording as income the gross amount charged for the professional services;
4. Recording the amounts receivable and any discount which may have been decided upon by the physician performing the service;
5. Collection follow-up on billings; and
6. Recording payments received and non-cash reduction of receivables, such as authorized bad debt write offs.

When responsibility for billing has been vested in individual faculty members or outside agencies, the campus must establish procedures to ensure that professional fees for other than personal patients not eligible for clinical teaching support are turned over to the University, and that the latter patients are not billed personally for professional fees.

The procedures at each campus to record University income for professional fees, as identified in section II., above, shall be governed by these policies. Any departure from these policies must have the written authorization of the Vice President--Financial and Business Management.

#### B. INDIVIDUAL BILLINGS

University professional fee income and the related accounts receivable are to be recorded in the general ledger on a current basis. Only those fees that are actually billed need be recorded as receivables. However, income records showing the gross value of all professional services rendered and the amount not billed are to be maintained. The full amounts billed are to be recorded in a specific professional fees receivable account. A reasonable portion of the billing is to be credited to an allowance for uncollectibles, and the balance is to be recorded as deferred income. As billings are paid, the amounts received are to be transferred from deferred income to income. The receivables should be managed in accordance with the guidelines.

IV. ACCOUNTING POLICIES (Con.t)

B. INDIVIDUAL BILLINGS (Cont.)

applicable to the management of hospital receivables (see chapter H-576-60, Hospitals: Patient Accounts Receivable), and uncollectible accounts should be recognized and written off to the allowance account regularly.

Professional fees receivable are not deferred income in the strict sense of the term, but do represent funds that are not available for use until collected. Therefore, during the fiscal year-end closing process a financial entry will be made on a reversing journal transferring the ending balance in the deferred income account to a special income account/fund to be used for this purpose only. When this entry is reversed at the beginning of the new fiscal year, the net receivables will again be completely offset by deferred income and the special income account will show a debit financial balance. This debit balance will be covered by a corresponding budgetary appropriation made from the unexpended balances account for this special fund. The appropriation made from the unexpended balances account will remain in the final ledger. The fiscal year-end financial entry will generate a new financial balance for the fund. This fund balance, which will be reflected on the closing worksheet, is the amount to be appropriated in the next fiscal year. The closing worksheet can be annotated to reappropriate this balance. The net effect of these entries will be to restrict the availability of unexpended balances carried forward to the amount of accumulated cash receipts.

C. FEES BILLED ON HOSPITAL BILLS

Professional fee components billed on hospital bills, whether income of the physician (e.g., agency agreements) or the University, are recorded in the general ledger at the same time the hospital income is recorded. These professional fee receivables are usually recorded, along with hospital charges, in the hospital receivables general ledger control account. If the professional fees are University income and cash receipts are specifically identified to outstanding receivables, the accounting procedures described in section IV. B., above, are to be followed. If the professional fees are University income and receivables are settled on the basis of formula participation in hospital cash receipts rather than specific identification, the procedures described in section IV.B., above, apply except that the fiscal year-end balance in deferred income is to be cleared to a hospital income or expenditure account following the procedures described in section IV.F., below. If the professional fees are University income and the Hospital makes a monthly negotiated cash settlement with the professional fee fund, there is no deferred income and all the billings become hospital revenue. Procedures for recording income being collected for the account of the physician are described in section IV.F., below.

## D . EXPENDITURE BUDGETARY CONTROL

Professional fee income can be budgeted for expenditure only on the basis of accumulated cash balances from prior years and estimated cash collections for the budget year. Before being allocated for other purposes, budgeted expenditures of professional fee income must provide for:

1. The estimated expenses to be incurred by the University for billing and collection fees, for private practice facilities, and for direct administrative and operating costs of the compensation plans;
2. The additional compensation and the related employee benefits authorized by the various compensation plans; and
3. Augmentation of various education and research programs in the Health Sciences.

Expenditure budgets should be adjusted whenever there is a significant variance between estimated and actual cash flows as reflected in the current income account. Expenditures funded by professional fees may not exceed actual cash collections, and each campus must have an alternative source of funds available to cover any cash deficits.

## E. CONTRACTUAL SERVICES

In those instances where affiliation agreements call for flat payments to the University, the amounts due under these agreements are to be recorded in a separate contractual service receivable account rather than in a professional fee receivable account.

## F. AGENCY AGREEMENTS WITH CERTAIN PHYSICIANS

When professional fee components on hospital bills are billed by the University as part of an agency contractual arrangement with a physician, the fees should be credited to an agency fund (fund blocking 00001-00299), expenditure account (account blocking 804000-808999). The expenditure account is to be charged for billing and collection costs, bad debts, and contractually unbillable amounts. The remittance due the physician or his designee is to be charged to the agency fund account and credited to a current fund hospital liability account from which it is paid. If the contractual arrangement calls for settlement on the basis of formula participation in hospital cash receipts rather than specifically identified receipts, the physician has no interest in the outstanding hospital receivables. Consequently, any fiscal year-end balance in the agency fund expenditure account accrues to the University is to be cleared to a hospital income or expenditure account.



IV. ACCOUNTING POLICIES (Cont.)

F. AGENCY AGREEMENTS WITH CERTAIN PHYSICIANS (Cont.)

At the end of each calendar year, the campus accounting office must file an information return with the Internal Revenue Service for each physician ( or partnership of physicians acting as a group) participating in an agency agreement. The amount to be reported is the gross amount of collections credited to the account of the physician during the periods of time covered by the remittances to the physician during the year. Amounts deducted from the gross collections in deriving the amount to be remitted to the physician are deductible business expenses of the physician and should be clearly indicated on the remittance advice.

V. TAX STATUS OF PROFESSION FEE INCOME

All professional fees billed and collected by the University become University income directly and are not to be included in any individual's tax return except as noted below.

When permitted to be retained (see Appendix), professional fee or patient care income billed and collected by a faculty member for his/her own account and any other earnings from non-University sources must be included in the member's personal income tax return. Any portion of that income that is turned over to the University is to be reflected on the individual's tax return as a business expense deduction.

Disbursements for professional fee income billed and collected by a University hospital on an agency basis for and remitted to certain physicians as vendors are not subject to withholding but are subject to reporting by the University (see section IV.F., above). These payments must be included in the individual physician's tax returns as income from private practice.

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APPENDIX

PRIVATE PRACTICE INCOME (FROM PERSONAL PATIENTS NOT ELIGIBLE FOR CTS) WHICH  
MAY BE RETAINED BY UNIVERSITY PHYSICIANS AND HEALTH CARE SPECIALISTS

Compensation Arrangement	Portion of Income That May be Retained
Fiscal-Year Scales—Regular Professorial	All
Strict Full-Time Plans	None
Dental School Compensation Plan	None
Pharmacy School Compensation Plan	None
Compensation Plan for Medical School Faculty without Patient-Care Responsibilities	None
Staff Physicians and Dentists Employed by University Hospitals or Compensation Plan Funds	None
Nonsalaried (Courtesy) Faculty Members with Admitting Privileges	All
Nonsalaried (Courtesy) Faculty Members without Admitting Privileges	None