

Hospitals: Cost Reimbursement by Third Party Sponsors

UC Accounting Manual

IX. Current Funds Accounting

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HOSPITALS: COST REIMBURSEMENT BY THIRD PARTY SPONSORS

I. INTRODUCTION

Certain major third party sponsors have established annual cost reimbursement formulas to be used as the basis for determining final settlement of amounts to be paid to health care providers for covered services rendered to their patients. During the year, these sponsors usually pay individual patient bills as rendered at the hospitals' established rates of charge unless the services are subject to rates stipulated by the sponsor. At the end of the year, the hospitals must file cost reports with each of these sponsors showing the fully allocated costs of the covered services that are subject to settlement by cost reimbursement, and the amounts billed for those services. Depending on the provisions of the sponsor's program and the ration of costs to charges, the completion of the cost report may result in the determination of an additional reimbursement due from the sponsor, a reimbursement payable to the sponsor, or no adjustment.

II. ACCOUNTING PROCEDURES

A. REIMBURSEMENT OF HOSPITAL FUNDED EXPENDITURES

Cost reimbursements of hospital funded expenditures, whether due from the sponsor or payable to the sponsor, are to be accrued and recorded as contractual allowances in a hospital revenue deduction (adjustment) account in the year in which they arise, with an offsetting entry to a separate general ledger control account. By using special fund numbers to identify amounts according to sponsor and year, one general ledger account can be used for both reimbursements payable to sponsors and reimbursements receivable from sponsors. Subsequent adjustments to the amount of reimbursement receivable or payable will be recorded as current items in the year in which the adjustments are recognized. Whenever possible, anticipated reimbursements should be accrued throughout the year so as not to distort revenue in the last month of the year.

Under certain circumstances, it may be determined by the hospital and the sponsor that payment of certain amounts originally billed on individual patient accounts may be including a cost reimbursement payment rather than being settled on an individual basis. Those amounts will be transferred from the general ledger control account for patient accounts receivable to the general ledger control account for cost reimbursements, and the individual accounts will be cleared in the hospital billing system.

B. REIMBURSEMENT OF GENERAL FUN EXPENDITURES

When a hospital cost reimbursement report includes expenditures funded by General Funds (19900), rather than hospital funds (63000), the reimbursement that can be attributed to those expenditures is to be transferred to a special University-wide reserve account to be used for purposes established by the President.

1. Campus Entries

Cost reimbursement of General Fund expenditures are to be accrued and recorded in the year in which they arise. The general ledger account established

for reimbursements of hospital funded expenditures is to be debited, and account X-115894, Intrafund Payable--Hospital Cost Reimbursement, is to be credited, for the amount of reimbursement due. There is no entry to hospital operations for this reimbursement. As hospital cost reports are settled with cash, the amounts applicable to these reimbursements are to be transferred to University-wide by debiting account X-115-894, and crediting the campus financial control account, X-1195X0.

2. University-wide Entries

Financial journals to record the University-wide entries will be prepared by the campus at the same time the campus entries are recorded. Account J-112894, Intrafund Receivable--Hospital Cost Reimbursement, is to be debited, and account J-119700-75013 (transaction code 0199), Reserve--Hospital Cost Recovery, is to be credited, for the amount of reimbursement due. The University-wide financial control account, J-1195X0, is to be debited, and account J-112894 is to be credited, for cash settlements transferred to University-wide. All copies of these journals will be forwarded to the Chief Accountant's Office for review and processing. Journals transferring cash settlements will be supported by detail showing the years and programs to which the cash applies.

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