Medicare-Medicaid Crossover Bad Debt Accounting Operational Overview

What changed?

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Medicare-Medicaid Crossover Bad Debt Accounting Classification

Providers claiming Medicare bad debt must meet 42 CFR 413.89 and all requirements from Chapter 3 of the Provider Reimbursement Manual. Correctly classify unpaid deductible and coinsurance amounts for Medicare-Medicaid crossover claims in your accounting records. For bad debt amounts:

- *Do not write off to a contractual allowance account*
- *Charge to an expense account for uncollectible accounts (bad debt)*

Effective for cost reporting periods beginning on or after October 1, 2019, providers must comply with these longstanding Medicare bad debt requirements.

Why is it important?

Recording unpaid dual eligible Medicare/Medicaid crossover balances to contractual allowance accounts has long been the standard practice for most providers. The recent clarification by CMS of their "longstanding guidance" to record Medicare/Medicaid crossover balances as bad debt expense is at variance with the manner that most providers have recorded these accounts since inception of Medicare bad debt guidance under 42 CFR 413.89 and Section 322 of the Provider Reimbursement Manual. Medicare Administrative Contractors have a longstanding track record of accepting Medicare/Medicaid crossover balances adjusted to a contractual adjustment code rather than a bad debt/uncollectible account code.

What providers should consider

Medicare crossover bad debts are associated with the unpaid portion of the Medicare coinsurance and/or deductible. Providers should evaluate how they're recording these amounts in the general ledger and ensure the write-off of these balances is being recorded in a separate bad debt expense account to comply with CMS policy.

This requirement may raise a question about classification of crossover bad debts for external financial reporting purposes. Non-governmental providers should consider the adoption of

Accounting Standards Codification ("ASC") Topic 606 Revenue from Contracts with Customers, which was issued by the Financial Accounting Standards Board ("FASB") in 2014 and is effective for nonpublic companies for annual reporting periods beginning after December 15, 2018 and public companies for periods beginning after December 15, 2017. Although ASC Topic 606 provides authoritative guidance regarding how and when organizations shall report revenue in external financial statements prepared in accordance with generally accepted accounting principles ("GAAP"), this new guidance does not impact how an organization classifies and tracks financial information in its general ledger and internal-use financial statements, or in non-GAAP filings with regulatory authorities.

While CMS requires crossover bad debts to be charged to a bad debt "expense" account, such patient-related bad debts and uncollectible accounts are generally considered **"implicit price concessions"** under Topic 606 and are thus reported as reductions of net patient revenue in external financial statements. Although this technical nomenclature is new, the classification of bad debts and uncollectible accounts as a component of net patient revenue is consistent with existing accounting guidance. Prior to Topic 606, substantially all acute-care providers were already required to present bad debts and uncollectible accounts as a direct reduction of net patient revenue rather than an operating expense in their external financial statements.

Governmental providers are exempt from the requirements of Topic 606 and other FASB guidance, and instead follow the accounting standards promulgated by the Governmental Accounting Standards Board ("GASB") in preparing external financial statements in accordance with GAAP. Similar to the non-governmental providers that follow Topic 606 for revenue recognition, governmental providers that follow GASB accounting rules are required to report all bad debts and uncollectible accounts as a direct reduction of net patient revenue, rather than as an operating expense item.

The required GAAP presentation of bad debts and uncollectible accounts for external financial reporting as a component of net patient revenue, rather than an operating expense, does not impact the economic nature or substance of what constitutes a bad debt and a contractual adjustment, and does not dictate how a provider shall code and classify such amounts in its general ledger, internal-use financial statements, and non-GAAP regulatory filings with CMS. The bottom line is that while CMS' recent guidance on this matter may appear inconsistent with GAAP external reporting requirements, providers should classify crossovers in their internal accounting records as Medicare Crossover Bad Debt to comply with CMS requirements while appropriately reporting such activity and balances for financial purposes according to GAAP.

Providers should be prepared to evidence the proper internal general ledger classification of crossover bad debts for CMS reimbursement purposes (i.e., as a bad debt/uncollectible account) and to reconcile such amounts to those presented as "implicit price concessions" in external financial statements prepared in accordance with GAAP. Crossover bad debt adjustments in the GL should be identifiable by name and description and structured as similarly as possible to traditional Medicare bad debt adjustments.

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While this recommendation represents our best interpretation of CMS guidance, we are unable to fully anticipate how Medicare Administrative Contractors (MACs) will perform the audit of this information. Additionally, there is still uncertainty regarding if and how CMS guidance could have any implications to traditional and charity care bad debts. We will provide additional clarifications as this continues to develop and encourage you to reach out to your auditor with any specific questions.

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