Accounting and Audit Updates

CRI CARR RIGGS & INGRAM
CPAs and Advisors

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CRI Firm Facts

CRI CARR RIGGS & INGRAM CPAs and Advisors

FOUNDED IN 1997 • **10 STATES** • **30+ MARKETS**

2,000+ PROFESSIONALS

350+ PARTNERS

TOP 25 CPA FIRM
(as ranked by Accounting Today)

100,000+ CLIENTS

25+ YEARS
OF CONSISTENT GROWTH SINCE FORMATION

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Business Support & Transactions
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IT Audits & Assurance

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Captive Insurance
Commercial Real Estate
Construction
Financial Institutions
Governments
Healthcare
Insurance
Manufacturing & Distribution
Nonprofit

CRI FAMILY OF COMPANIES

- Auditwerx
- CRI Advanced Analytics
- CRI Capital Advisors
- CRI TPA Services
- Level Four Advisory Services
- Paywerx
- Preferred Legacy Trust

CRI Healthcare Practice Overview

~ 2,000 healthcare provider clients

~ 400 skilled nursing facilities (nursing home)

~ 200 hospital clients

> 2,000 physician clients

Combined healthcare provider client revenues approximating **$50,000,000,000**

Auditing and Consulting Services

Agenda

Application of Accounting Standards

FASB UPDATES

CECL Update

Amendment to Leases

Business Combinations and Joint Venture Formation

Lagniappe! Provider Relief Funds Update and MAC Audit Activity

GASB UPDATES

Accrued Compensated Absences

Financial Reporting Model updates

Application of Accounting Standards

ASU 2016-13: Current Expected Credit Losses (CECL)

- What is CECL?
  - Current expected credit losses
  - Applicable to Financial Instruments
  - Most significant impact to Patient A/R in Healthcare
  - Forward looking allowance model
  - Most significant impact of CECL: Unpaid amounts related to self pay/private pay!!!
- When is it effective?
  - Fiscal years beginning after December 15, 2022

ASU 2016-13: CECL

- No longer allowance for doubtful accounts, now called allowance for credit losses; and bad debt expense is now called credit loss expense
- Significant changes from old allowance model:
  - Previous models considered historical and current experiences as the main drivers of estimate of future losses.
  - This model requires the analysis of historical and current data, along with a reasonable and supportable forecast of the future.
  - CECL requires an entity to estimate and recognize an allowance for credit losses for a financial instrument, even when the expected risk of credit loss is remote.

ASU 2016-13: CECL

- Distinction between an implicit price concession and a credit loss:
  - Under ASC 606, implicit price concessions, especially for self pay balances, are a significant piece of revenue recognition.
  - When subsequent adjustments are made, it is important to determine whether that subsequent adjustment is a result of a change in estimate of the implicit price concessions under 606 (change in the amount a provider is willing to accept for services provided) or if it is a credit loss (provider believed they were entitled to collection but were unable to collect due to a credit loss).

ASU 2016-13: CECL

- Jose's editorial (NOT AUTHORITATIVE):
  - Most (but certainly not all) **hospitals** will no longer have allowance for bad debts (or credit losses). Consider:
    - There is minimal, if any, true credit risk related to commercial payers, and virtually none with governmental payers
    - Hospitals typically do not assess creditworthiness of patients before time of service. Thus, accepting lower cash than standard rates would be considered an implicit or explicit price concession

ASU 2016-13: CECL

- Jose's editorial (NOT AUTHORITATIVE):
  - Some entities (like HCA) consider their up-front discounts to be contractual allowances, even for uninsured individuals.
  - The thought process is that they are entering into contracts with the uninsured individual

ASU 2016-13: CECL

- Post Implementation CECL adoption:
  - Bad debts no longer mentioned at all (don't use that terminology)
  - Allowances on A/R for hospitals is only contractuals and perhaps charity
  - "Old" reserve for bad debts is now considered implicit or explicit price concessions that reduce AR and Revenues at gross (i.e., not presented as a reserve and not distinctly presented on financials)

ASU 2016-13: CECL

- Post Implementation CECL adoption:
  - Most likely changes, after CECL, are:
    - Comprehensive new disclosures about the process and amounts will be needed. See publicly traded entities like Tenet and HCA for good examples
    - Clients will need to conduct more rigorous analysis of collections vs. charges, over time, and change their reserving models to reflect reality
    - The old, judgmental model of reserves MUST go away!

ASU 2016-13: CECL

- Post Implementation CECL adoption:
  - Some healthcare entities, perhaps skilled nursing, certain assisted living / long-term care facilities, O/P “elective” entities, DO routinely consider creditworthiness of patients before providing services
    - These entities are much more likely to have allowance for credit losses (B/S), or credit losses (P&L) to record and disclose

CECL Model Private Company Proposal

- In December 2024, FASB introduced and exposure draft on a practical expedient and accounting policy election for private companies.
  - Could allow private companies to use historical models; while assuming that the current economic conditions will continue.
    - Still need to evaluate all readily available information at the time of issuance of financials.

CECL Model Private Company Proposal

- Accounting Policy Election
  - If the practical expedient is elected, an accounting policy election would allow a private company to consider collection activity after the balance sheet date but before the financial statements are available to be issued to inform the credit loss allowance. An entity could record a zero-credit loss allowance if all outstanding receivables have been collected before the financial statements are issued. The proposal includes the following sequence to apply these accounting alternatives:
    (a) Step 1: Subsequent Collection Activity Election. An entity should first consider subsequent collection of current accounts receivables and contract assets outstanding at the balance sheet date. No credit loss allowance would be recorded for balances collected in full before the date the financial statements are available to be issued.
    (b) Step 2: Practical Expedient for Remaining Uncollected Balances. An entity would then evaluate any remaining uncollected balances as of the date the financial statement is available to be issued. Using the practical expedient, the company would assume current conditions as of the balance sheet date exist through the forecast period.

CECL Model Private Company Proposal

- ASU could be issued as early as 2nd quarter 2025 (this quarter.
  - Once issued, an entity may elect to early adopt for 2024, if financial statements have not been issued.
  - Need to disclose the election of the practical expedient and include the accounting policy disclosure.

ASU 2023-01 — Leases (Topic 842)

- The amendments are effective for fiscal years beginning after 15 December 2023
- **What you need to know:**
  - Allows eligible entities to elect to use the written terms and conditions of a common control leasing arrangement to determine whether such arrangement is or contains a lease. Not available to common control arrangements that do not have written terms and conditions.
  - Addresses the amortization of leasehold improvements associated with common control leasing arrangements.

- **Your next steps:**
  - Review existing leases within the company to identify any common control arrangements. Evaluate whether the amendments are applicable to those arrangements. Update lease accounting systems to incorporate the changes brought about by ASU 2023-01.
  - Train staff on how to apply the guidance going forward and any implications of the ASU 2023-01 specifically applicable to the company.

ASU 2023-05 — Business Combinations — Joint Venture Formations (Subtopic 805-60)

- Effective prospectively for all joint venture formations with a formation date on or after 1 January 2025. Additionally, a joint venture that was formed before January 1, 2025 may elect to apply the amendments retrospectively if it has sufficient information. Early adoption is permitted.
- **What you need to know:**
  - ASU 2023-05 enhances consistency and usefulness of information for investors, establishes a new basis of accounting for identifiable assets, liabilities, and noncontrolling interests in newly formed joint ventures (JVs).
  - This ASU requires entities that meet the definition of a joint venture to recognize its assets and liabilities under a new basis of accounting. Specific Adaptations for JV Formations per ASU 2023-05:
    - A joint venture is the formation of a new entity without an accounting acquirer.
    - A joint venture measures its identifiable net assets and goodwill, if any, at the formation date.
    - Initial measurement of a joint venture's total net assets is equal to the fair value of 100 percent of the joint venture's equity.
    - A joint venture provides relevant disclosures.
- **Your next steps:**
  - Evaluate joint ventures formed before January 1, 2025 to determine if they meet the criteria established in ASU 2023-05 for retrospective application. For joint ventures formed on or after January 1, 2025, ensure that the entities meet the scope criteria to apply the amendments in ASU 2023-05.
  - For entities within the scope of ASU 2023-05, prepare the disclosures in order to comply with the amendments in this update.
  - Train the staff on how to apply the guidance going forward and the impact that ASU 2023-05 may have on the company's financial reporting.

Provider Relief Funds Update

Provider Relief Funds – General Overview

- Purpose of funding:
  - To reimburse healthcare entities for direct and indirect expenses related to the preparation, prevention, and treatment of COVID patients. **Not already reimbursed or obligated to be reimbursed by other sources.**
  - If all of the amounts funded cannot be fully utilized by expenses, then the remaining amount can be used to fund a loss of revenues as a result of COVID.

Provider Relief Funds – General Overview

- Types of allowable expenses:
  - Supplies (PPE)
  - Personnel
    - Personnel who are substantially dedicated to mitigating or responding to COVID-19.
    - COVID specific differentials
    - Consider created and retained jobs!
    - Consider “hidden” expenditures related to COVID, namely staffing
    - Consider limits on executive compensation and salaries
  - Mortgage/lease payments
  - Certain capital expenditures

Provider Relief Funds – General Overview

- New FAQs issues in February 2024
  - **4 years after initial fund distribution!**

- Major updates related to the replacement of questioned costs with revenues
  - "Yes. Due to the cumulative nature of lost revenues, any lost revenues adjustments may be made in subsequent reporting periods. If an unallowable expense was "replaced" by unreimbursed lost revenues for use of funds purposes, the Reporting Entity should ensure that the lost revenues reported in subsequent reports are deducted to avoid "double dipping." Reporting Entities should maintain appropriate documentation to support the deduction from the report."

Provider Relief Funds – Audits

NEW DEVELOPMENTS

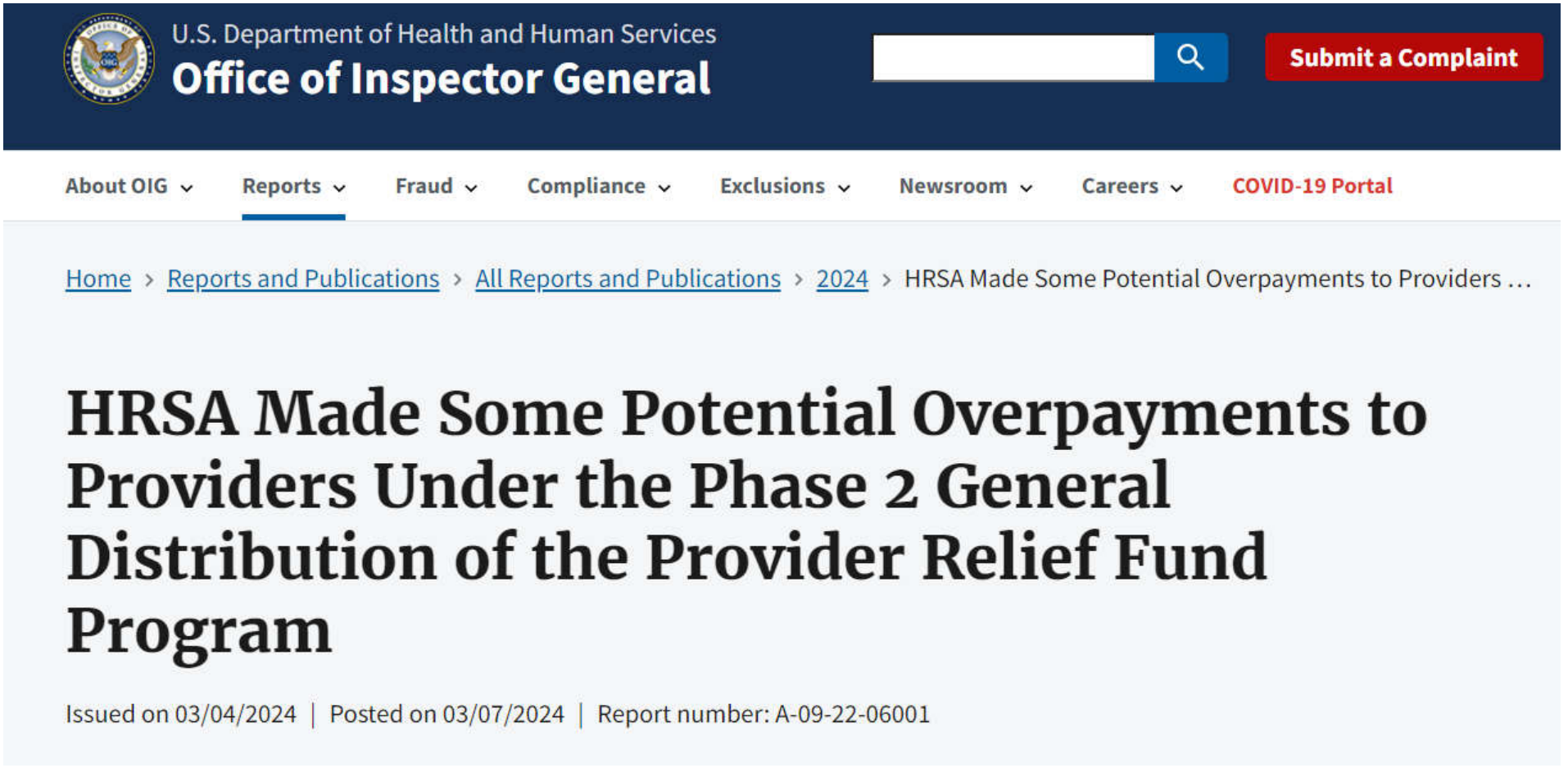
- Late March 2024 – HRSA appears to *finally* begin checking compliance of CARES, ARPA, and COVID-19 Testing / Insured recipients

- See correspondence from HRSA

Provider Relief Funds (and all COVID)

- Recent federal legislation intends to increase statute of limitations from 5 to 10 years for COVID unemployment related fraud
- Clear intent by the federal government (supported by both parties) to investigate COVID funding for years to come
- HRSA sent email in **March 2025** to all CARES recipients notifying them that records must be retained through **September 30, 2027**
  - **Ensure your workpapers and support are retained and prepare for future investigations (this isn't over yet…!)**

Provider Relief Funds Subject to Audit



U.S. Department of Health and Human Services
Office of Inspector General

Submit a Complaint

About OIG | Reports | Fraud | Compliance | Exclusions | Newsroom | Careers | COVID-19 Portal

Home > Reports and Publications > All Reports and Publications > 2024 > HRSA Made Some Potential Overpayments to Providers …

HRSA Made Some Potential Overpayments to Providers Under the Phase 2 General Distribution of the Provider Relief Fund Program

Issued on 03/04/2024 | Posted on 03/07/2024 | Report number: A-09-22-06001

Provider Relief Funds – Audits

Action Required: Audit Reporting Requirement Attestation - Delinquent Audit Notice

Attention: JACKSON COUNTY HOSPITAL DISTRICT

TIN (Last 3 digits): 321

Dear Valued Provider,

On behalf of the Health Resources and Services Administration (HRSA), this message is a notification that your organization, a recipient of Provider Relief Fund (PRF), American Rescue Plan (ARP) Rural Distribution, COVID-19 Coverage Assistance Fund (CAF), and/or Claims Reimbursement to Health Care Providers and Facilities for Testing, Treatment, and Vaccine Administration for the Uninsured (Uninsured Program or UIP) funding, has not submitted your Single Audit or Commercial Audit (see "Background" below for a summary of the requirements).

Promptly review and complete the following actions.

ACTION REQUIRED: No Later Than: **April 05, 2024:**

1. Click the Secure Platform Attestation Form button below.
2. Select the appropriate audit threshold category for the organization and complete all additional fields.
3. Follow the directions to self-report the audit status to HRSA by the "Action Required" deadline above.
4. If the reporting organization has a completed overdue audit, submit the overdue audit report via the appropriate reporting portal (See "More Information" below) by the "Action Required" deadline above.
5. If your organization is in the process of completing your Single Audit or Commercial Audit, please provide a copy of the signed audit engagement letter demonstrating that your organization has engaged an independent auditor to perform the required audit to PRFaudits@hrsa.gov by the "Action Required" deadline above.

Provider Relief Funds – Audits

Single Audit Requirements: Governments and NFPs

Any entity that expends greater than $750,000 in federal awards is subject to an audit in conformance with the requirements of 2 CFR 200. (Single Audit)

Provider Relief Funds – Audits

The Provider Relief Funds have been included in the compliance supplement beginning with the 2020 release.

93.498 Provider Relief Fund: new program

- Subject to audit: A, B, and L
- SEFA timing: See next slide (NOTE THAT AUDIT TIMING IS UNIQUE FOR THIS PROGRAM)
- Program is identified by HHS to be “higher risk”

Provider Relief Funds – Audits

	Payment Received Period (Payments Exceeding $10,000 in Aggregate Received)	Period of Availability	PRF Portal Reporting Time Period	Fiscal Year Ends (FYEs) to include each PRF Period on the Schedule of Expenditures for Federal Awards (SEFA) Reporting
Period 1	April 10, 2020 to June 30, 2020	January 1, 2020 to June 30, 2021	July 1, 2021 to September 30, 2021	Fiscal Year End (FYEs) of June 30, 2021 through June 29, 2022
Period 2	July 1, 2020 to December 31, 2020	January 1, 2020 to December 31, 2021	January 1, 2022 to March 31, 2022	FYEs of December 31, 2021 through FYEs December 30, 2022
Period 3	January 1, 2021 to June 30, 2021	January 1, 2020 to June 30, 2022	July 1, 2022 to September 30, 2022	FYEs of June 30, 2022 through June 29, 2023
Period 4	July 1, 2021 to December 31, 2021	January 1, 2020 to December 31, 2022	January 1, 2023 to March 31, 2023	FYEs of December 31, 2022 through FYEs December 30, 2023
Period 5	January 1, 2022 to June 30, 2022	January 1, 2020 to June 30, 2023	July 1, 2023 to September 30, 2023	FYEs of June 30, 2023 through June 29, 2024
Period 6	July 1, 2022 to December 31, 2022	January 1, 2020 to December 31, 2023	January 1, 2024 to March 31, 2024	FYEs of December 31, 2023 through FYEs June 29, 2024

Provider Relief Funds – Audits

HHS Audit Requirements: For-Profits

- Any entity that receives greater than $750,000 in HHS annual awards has two options available to meet the HHS audit requirements:

- Option 1- an audit in conformance with the requirements of 45 CFR 75 Subpart F. (Single Audit), which is HHS' implementation of 2 CFR 200 (or a program specific audit); or

- ***Option 2 - a financial related audit of the HHS award or awards conducted in accordance with Government Auditing Standards***

Provider Relief Funds – Audits

HHS Audit Requirements: For-Profits

Due dates: Mirror SEFA due date of non-profits and governments

Reporting for For-Profits will be submitted directly to HHS instead of through the Clearinghouse

HHS reporting periods: same as non-profits and governments

Provider Relief Funds – Audits

Single Audit

- Audit opinion on financial statements under GAAS and GAGAS
- Audit in-relation-to reporting on SEFA
- Audit opinion on compliance and reporting on internal controls over compliance under UG
- Auditor issues Schedule of Findings and Questions Costs defined in the UG

Financial Audit under GAGAS

- Audit opinion on Statement of HHS Costs (including lost revenue)
- Audit issues report under GAGAS on compliance and internal control over financial reporting
- If applicable, reporting/schedule of findings

Provider Relief Funds – Audits

	GAGAS Financial Audit (45 CFR Section 75.216)	Single Audit (2 CFR 200/45 CFR Section 75)
Criteria for Each Option	Entity has awards under only one or multiple HHS programs	Entity has awards under only one or multiple HHS programs
Audit of Entity's Financial Statements	Not required	**Required (performed under GAGAS)**
Presentation of HHS Schedule	Schedule of specific element of a financial statement	**Schedule of expenditures of federal awards (SEFA)**
Auditor Reporting on the Schedule	Opinion on the schedule under AU-C 805	**In addition to the opinion on the financial statements, an in-relation-to opinion on the SEFA under AU-C 725**
GAGAS Reporting on Internal Control over Financial Reporting and Compliance and Other Matters	Required (as it relates to the schedule under AU-C 805)	Required (as it relates to the financial statements as a whole)
Auditor Opinion on Compliance and Reporting on Internal Control Over Compliance	**Not required**	Required

Provider Relief Funds (and all COVID)

- Recent federal legislation intends to increase statute of limitations from 5 to 10 years for COVID unemployment related fraud
- Clear intent by the federal government (supported by both parties) to investigate COVID funding for years to come
- HRSA sent email in **March 2025** to all CARES recipients notifying them that records must be retained through **September 30, 2027**
  - **Ensure your audit binders are retained and prepare for future investigations (this isn't over yet…!)**

MAC Audits

- Recent scrutiny from the OIG stating that Medicare Administrative Contractors did not consistently meet Medicare cost report oversight requirements

- What does this mean?
  - Increased time and scrutiny on cost report audits and desk reviews from MACs
    - Increase in amount of questioned costs/questioned information reported on cost reports
      - IME/GME reimbursement
      - Allocation of charges to cost centers
      - Improper calculation and reimbursement for nursing and allied health programs
      - Bad debts
    - Increase in potential take backs from cost report settlements.
    - Increase in the time between filing of cost reports and finalization of settlement

MAC Audits

- What to do if a MAC audit notice is received?
  - Communicate with your cost reporting consultants prior to agreeing to any changes.
    - Agreeing to the changes closes the door to providing appropriate support and lessening or eliminating take-backs.
  - Consider the results of any changes to the population of open cost reports for potential allowances.

GASB Statement No. 101, *Compensated Absences*

- A liability should be recognized for leave that has not been used if
  - the leave is attributable to services already rendered,
  - the leave accumulates, and
  - the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means.

GASB Statement No. 101, *Compensated Absences*

- Leave is attributable to services already rendered when an employee has performed the services required to earn the leave.
- Major change is to unvested sick leave
  - Prior standard was not required to be recorded,
  - New standard, should be recognized based on how much sick leave is expected to be used prior to separation

GASB Statement No. 103, *Financial Reporting Model*

- Changes or further clarifications to what should be included in MD&A
- Changes to the Proprietary Funds (Business Type Activities) Statements of Revenues, Expenses, and Changes in Net Position

GASB Statement No. 103, *Financial Reporting Model*

MD&A

- Aimed to improve the usefulness of the MD&A, remove repetitive areas, and refocus on the reason for changes and not just the changes themselves.
- Clarifying information that should be included which were changed or addressed in previous standards
  - i.e. discussion of significant long term financing activity should include not just debt, but also leases and SBITAs
- *Statistical Section*

- For governments such as hospitals that are engaged in only business-type activities (or business-type and fiduciary activities), Statement 103 requires that their statistical section schedule of changes in net position should report the same categories of revenues and expenses that are required for the statement of revenues, expenses, and changes in fund net position

GASB Statement No. 103, *Financial Reporting Model*

MD&A

- *Statistical Section*

  - For governments such as hospitals that are engaged in only business-type activities (or business-type and fiduciary activities), Statement 103 requires that their statistical section schedule of changes in net position should report the same categories of revenues and expenses that are required for the statement of revenues, expenses, and changes in fund net position

GASB Statement No. 103, *Financial Reporting Model*

Proprietary Funds (Business Type Activities) Statements of Revenues, Expenses, and Changes in Net Position

- Subsidies
  - Resources received from another party that:
    - The proprietary fund does not provide goods or services to the other party, **and**
    - Directly or indirectly keep the current or future fees and charges of the proprietary fund lower than they would be otherwise

GASB Statement No. 103, *Financial Reporting Model*

Proprietary Funds (Business Type Activities) Statements of Revenues, Expenses, and Changes in Net Position

Operating revenues (detailed)
– Total operating revenue
Operating expenses (detailed)
Total operating expenses
Operating income (loss)
Noncapital subsidies (detailed)
Total noncapital subsidies
Operating income (loss) and noncapital subsidies
Other nonoperating revenues and expenses (detailed)
Total other nonoperating revenues and expenses
Income (loss) before unusual or infrequent items
Unusual or infrequent items (detailed)
Increase (decrease) in fund net position
Fund net position—beginning of period
Fund net position—end of period

GASB Statement No. 103, *Financial Reporting Model*

- Effective for fiscal years beginning after June 15, 2025

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