

Health Care Entities Expert Panel

Highlights of the October 1, 2014, Conference Call



The Health Care Expert Panel serves the needs of AICPA members on financial and business reporting and audit and attest matters. The expert panel protects the public interest by bringing together knowledgeable parties in the health care industry to deliberate and come to agreement on key health care issues.

I. Administration

On behalf of the entire Panel, Andy Mrakovcic—Staff Liaison to the Panel, thanked Chris Pritchard (Moss Adams LLP), outgoing Panel member, for his service and contributions, and welcomed Farlen Halikman (Moore Stephens Lovelace, P.A.) as a new Panel member. Mr. Mrakovcic also thanked outgoing Panel Chair but continuing Panel member, Martha Garner, for her service and contributions, and welcomed Kimberly McKay (BKD LLP), as incoming Chair.

II. Panel Projects

- 2014 Edition of the Health Care Guide. The Panel was informed that the [2014 edition of the AICPA Audit and Accounting Guide Health Care Entities](#) (Health Care Guide) is scheduled to become available in eBook, online subscription, and paperback formats later this month.
- 2014/15 Edition of the Health Care Alert. The Panel was informed that the [2014/15 edition of the annual AICPA Audit Risk Alert Health Care Industry Developments](#) (Health Care Alert) is scheduled to become available in eBook, online subscription, and paperback formats later this month.
- 2014 Healthcare Industry Conference. The Panel was updated about the status of the upcoming conference and informed that the presenters of the two-part Healthcare Accounting & Auditing Update sessions are expected to hold a call later this month to discuss potential relevant topics for discussion during the sessions. The Panel was also requested to suggest any additional topics in advance of the call and reminded of a previous request to indicate whether members intend to attend the conference, which is scheduled to be held November 6–7 in Las Vegas, NV.
- Revenue Recognition Project. The Panel received an update about the progress of the AICPA's Healthcare Revenue Recognition Task Force (RRTF) as it continues to work through the [list of potential implementation issues](#) and develop the healthcare chapter of a

new AICPA Revenue Recognition guide. The RRTF is updating estimated timelines by which it expects to begin submitting draft implementation issues for comment to the AICPA Revenue Recognition Working Group and the AICPA's Financial Reporting Executive Committee.

III. New Technical Issues Discussed

- Revised 2014 Mortality Tables. The Panel discussed the expected release of the Retirement Plans Experience Committee (RPEC) of the Society of Actuaries' 2014 Mortality Tables by the end of October. The Panel noted that [the proposed revised tables](#) are expected to increase an entity's pension obligation liability. The Panel also noted that the proposed revised tables are expected to impact not only the healthcare industry but other industries in which entities have pension obligations. The Panel requested AICPA staff to inquire whether the [Employee Benefit Plans Expert Panel](#) is aware of the proposed revised tables and planning to develop awareness communications to AICPA members.
- Business Associate Agreements. The Panel discussed this topic as a result of various recent inquiries that the AICPA and Panel members have received, and agreed that the Health Care Guide adequately addresses this topic in chapter 2, "General Auditing Considerations":

Business Associates Agreements

2.14 The Privacy Standards of the Health Insurance Portability and Accountability Act of 1996 (HIPAA), as amended by the Health Information Technology for Economic and Clinical Health (HITECH) Act, require a covered entity to have written agreements with business associates in place. Many health care entities, including health care providers and payors and certain not-for-profit (NFP) and governmental entities, are considered covered entities under HIPAA. A *business associate* is a person or an entity who performs or assists in the performance of a function or an activity on behalf of a covered entity that involves access to, or use or disclosure of, protected health information (PHI). Independent auditors and advisory and tax professionals may be considered business associates. The HITECH Act also requires business associates to comply with the HIPAA Security Rule's administrative, technical, and physical safeguard requirements and to implement security policies and procedures in the same manner as a covered entity. This will require a business associate to implement written policies and procedures that address each Security Rule standard; implement a security awareness and training program for workforce members; designate a security official; and conduct an accurate and thorough security risk analysis, along with a security management process. Business associates are subject to potentially significant civil and criminal penalties for violation of data privacy and security rules governing the protection of PHI. Business associates' agreements generally are an addendum to, or incorporated into, the audit engagement letter. Auditors may need to work with management to tailor the form of the business associates' agreement, so that it is consistent with the requirements of the privacy regulations of HIPAA and the HITECH Act while recognizing the various rules and regulations applicable to CPAs.

The Panel, however, might consider raising awareness about this topic at the upcoming conference in November and in a future edition of the Health Care Alert. The Panel might also consider evaluating and enhancing the existing guidance in a future edition of the Health Care Guide.

- PCAOB Standards for Auditing Accounting Estimates and Fair Value Measurements. The Panel was briefed about the PCAOB's recent issuance, for comment, of a [Staff Consultation Paper](#) on standard-setting considerations for auditing accounting estimates and fair value measurements of public companies. According to the [PCAOB website](#), the staff paper is "part of an outreach effort by the Office of the Chief Auditor to seek public input into whether PCAOB standards need to be updated. PCAOB inspections, and inspections by other audit regulators around the world, continue to find significant audit deficiencies across various types of estimates." The Panel noted that the PCAOB's project could potentially impact how estimates, fair value measurements, and revenue are audited in audit engagements of public companies, as well as the auditor's ability to apply the guidance in AICPA Statement of Position (SOP) 00-1, *Auditing Health Care Third-Party Revenues and Related Receivables*, when determining the amount of work necessary to perform when auditing revenue in such engagements. (SOP 00-1 provides guidance regarding auditing financial

statement assertions about third-party revenues and related receivables of health care entities.) The Panel agreed to monitor developments of the PCAOB's project.

- **GASB Projects.** The Panel was briefed about GASB projects in process that are likely to result in exposure drafts that might have implications for governmental healthcare entities. Some of those projects include [GAAP hierarchy](#); [blending requirements for certain business-type activities](#); and [fair value measurement and application](#). In addition, the Panel was also briefed about recently completed GASB projects that have resulted in GASB Statements whose implementation might also have implications for governmental healthcare entities. Some of those projects include government combinations ([GASB Statement No. 69, Government Combinations and Disposals of Government Operations](#)); and postemployment benefit accounting and financial reporting ([GASB Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date](#)).

IV. FASB's Financial Statements of Not-for-Profit Entities Project

- The Panel was briefed about the September meeting of the FASB's Not-for-Profit Advisory Committee (NAC), at which the FASB staff provided an overview of the tentative Board decisions made to address the primary project objectives of improving information provided in financial statements and notes about net asset classifications, liquidity, financial performance, and cash flows. The discussion focused on the overall benefits, costs, and complexities with regard to potential changes to (1) the statement of activities and (2) the statement of financial position, the statement of cash flows, information to assess liquidity, and other note disclosures. The NAC also discussed their most significant areas of feedback with the Board. The Panel agreed that it might be beneficial to discuss industry-specific issues more thoroughly in the next several weeks, in advance of an expected proposed Accounting Standards Update that is expected to be released for comment later this year.

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