

Health Care Entities Expert Panel

Highlights of the February 4, 2015 Conference Call



The Health Care Entities 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 issues.

(Refer to past meeting highlights on the [Health Care Expert Panel](#) page of the [AICPA website](#) for background information.)

I. Panel Projects

- 2015 Healthcare Industry Conference. In advance of an expected meeting of the Healthcare Conference Committee in April, the Panel has been requested to recommend suggested conference themes as well as topics, speakers, and moderators for potential inclusion in the 2015 conference program. As a result of a recent initiative in the AICPA Conferences team to “co-locate” events in order to share resources and enable certain audiences to take advantage of multiple conference programs in the course of a few days, the AICPA Forensic and Valuation Services Executive Committee is welcoming the 2015 Healthcare Industry Conference to be co-located with the 2015 Forensic and Valuation Services Conference in Las Vegas, NV. The [Forensic and Valuation Services Conference](#) is scheduled to be held November 8–10, and the Healthcare Conference is scheduled to be held November 10–12.
- 2015/16 Edition of the Health Care Alert. The Panel was informed that the annual brainstorming session—conducted in order to determine relevant topics to potentially include in the annual AICPA Audit Risk Alert *Health Care Industry Developments (Audit Risk Alert)*—is expected to be held during the Panel’s regularly scheduled April call. In advance of the call, *the Panel has been requested to consider topics for potential inclusion*. The Audit Risk Alert is scheduled to become available in November.
- Revenue Recognition Project. The Panel was updated about a January call that Kim Kushmerick (AICPA staff leading the Revenue Recognition project) held with all AICPA members staffing the various Revenue Recognition task forces about a change in drafting approach in response to an overall refocus of the project in order to provide comparability

and consistency in the application of FASB *Accounting Standards Codification* 606, *Revenue from Contracts with Customers*, as well as a change in protocol with regard to submitting questions to the FASB Transition Resource Group. The Panel also received an updated status about the progress of the Healthcare Revenue Recognition Task Force as it continues to address the identified [implementation issues](#).

- [FASB's Financial Statements of Not-for-Profit Entities Project](#). The Panel continued its discussion of the FASB's NFP reporting model project and how it might impact the healthcare industry. An update was provided on the timeline of the project and the progress that FASB is making on the [financial performance reporting project](#). (The financial performance reporting project is currently in the research stage.) The AICPA's [Financial Reporting Executive Committee](#) expects to submit a comment letter to FASB about the proposed Accounting Standards Update after it is released. The comment letter is expected to be drafted by a comment letter task force that comprises members of the [Not-for-Profit Entities Expert Panel](#) and this Panel.

II. Updates

- [Accounting for Interest in Premier](#). The Panel held a follow-up discussion about Premier, one of the nation's largest group purchasing organizations, which conducted an initial public offering in September 2013. The discussion continued to focus on "year 2" accounting treatment. Panel members have indicated that members who use the equity method of accounting may need to request GAAP basis financial statements from Premier to properly record the equity investment. It is not clear whether there is a material difference in GAAP basis financial statements versus what members have been receiving on a quarterly basis.
- [Revised 2014 Mortality Tables](#). The Panel was informed about the development of a new Technical Question and Answer about the revised [2014 Mortality Tables](#) developed for use by pension plans. [Question and Answer \(Q&A\) section 3700.01 \(AICPA Technical Questions and Answers\)](#) was released in mid-February to provide nonauthoritative guidance about how and when nongovernmental employee benefit plans and nongovernmental sponsoring entities should consider, for financial reporting purposes, updated mortality tables if their financial statements have not yet been issued at the time the updated tables are published. The Q&A explains that the plans and sponsoring entities should consider the specific requirements of GAAP, which requires the use of a mortality assumption that reflects the best estimate of the plan's future experience for purposes of estimating the plan's obligation as of the current measurement date. The Q&A relates to both employer and plan pension obligations.
- [Auditor Association With Municipal Securities Offerings](#). The Panel was updated about the progress of a task force of the AICPA's [Auditing Standards Board](#) (ASB) [to develop an auditing standard similar to AU-C section 925, Filings With the U.S. Securities and Exchange Commission Under the Securities Act of 1933 \(AICPA, Professional Standards\)](#). [At its January meeting, the ASB suggested that the task force, which proposed to limit the project to municipal offerings, explore the possibility of broadening the scope of the project to potentially include other "securities" including, but not limited to, offerings exempt from the provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934. The task force is expected to consider this suggestion and report its findings to the ASB at a subsequent meeting.](#)
- [GASB Projects](#). The Panel was updated about the November 2014 release of preliminary views documents of the GASB on major issues related to [leases](#) and [financial reporting for fiduciary responsibilities](#). The [State and Local Governments Expert Panel](#) is drafting an AICPA comment letter on both documents, and has requested this Panel to submit any significant healthcare-specific concerns about either document for potential inclusion in the comment letters. The Panel was also informed that the AICPA [comment letter](#) on the exposure draft, [The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments](#), was submitted to GASB.

III. New Technical Issues Discussed

- [Coding Errors and Denied Health Claims](#). At a recent meeting of the [Employee Benefit Plans Expert Panel](#) (EBP EP), a representative from the Department of Labor outlined an issue with regard to the denial of claims submitted to insurance companies and that, in

many cases, the claims are incorrectly denied, leaving the patient disadvantaged. There were concerns expressed with regard to whether the claims are fraudulently denied and, if so, whether this might represent a fraud risk; and the auditor's responsibility, if any, to perform procedures related to denied claims. The Panel was updated about a subsequent call with health care provider representatives from this Panel, health insurer representatives from the [Insurance Expert Panel](#), and health plan representatives from the EBP EP. The objective of the call was to obtain feedback from the various industries about what is observed in practice. The key points discussed include:

- Insurance companies have a highly automated claims process.
- Self-insured claims result in no incentive for claims processors to deny legitimate claims.
- It appears that claims may mostly be denied due to incorrect coding by providers (not necessarily fraudulent but due to complexities with coding).
- Statement of Position (SOP) 00-1, *Auditing Health Care Third-Party Revenues and Related Receivables* (AICPA, [Professional Standards](#), AUD sec. 20), states that the auditor has no responsibility related to operational types of issues such as coding.
- While denied claims may result in understatement of liabilities by health insurers, in many cases, the patient pays out of their pocket and does not appeal the claim.

In its discussion, the Panel discussed a suggestion that perhaps SOP 00-1 might be in need of updating for this issue. (The SOP, issued in 2000 and contained in appendix D of the [AICPA Audit and Accounting Guide Health Care Entities](#), provides guidance to auditors regarding uncertainties inherent in health care third-party revenue recognition. It discusses auditing matters related to testing third-party revenues and related receivables, and provides guidance regarding the sufficiency and appropriateness of audit evidence and reporting on financial statements, prepared in accordance with GAAP, of health care entities exposed to material uncertainties.) The Panel mentioned that in light of the PCAOB's project on auditing management estimates, including fair value measurements and related disclosures, it might be prudent to first understand the outcome of that project before considering the potential need to update the SOP. The Panel agreed that the SOP continues to be a critical piece of auditing literature for auditing health care entities, particularly with hospitals but also with insurers due to the coding they use, and might further discuss the possibility of updating the SOP on a subsequent call.

IV. Other Items

- The Panel continued to discuss the possibility of holding an in-person meeting in the late Spring/early Summer and has been requested to provide input regarding potential dates and locations.
- Panel members were reminded of a request to begin submitting names of potential qualified candidates to fill the vacancies on the Panel that are expected to be created by the expiration of certain members' terms in October.

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