

**Section 100**  
**HSCRC Accounting Principles**

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## **Section 100**

# **HSCRC Accounting Principles**

### **PREFACE**

This Manual is intended to provide HSCRC's uniform accounting and reporting standards. When HSCRC standards are not prescribed GAAP principles and concepts should be utilized. Below are clarifying guidance concerning concepts and terms that are frequently inquired about.

### **RELATED ORGANIZATIONS**

Auxiliaries, guilds, fund raising groups and other related organizations frequently assist hospitals. If such organizations are independent and are characterized by their own charter, bylaws, tax-exempt status and governing board or a sufficient combination of these characteristics to demonstrate their independent existence from the hospital, the financial reporting of these organizations should be separate from reports of the hospital. If such organizations are under the control of (or common control with) hospitals and handle hospital resources, their financial reports must be combined with those of the hospital.

A hospital itself may be subsidiary to or under the control of a larger organization such as university, governmental entity or parent corporation. It is typical in such situations for hospitals to receive services from these related organizations. Examples of services received are administration, purchasing, general accounting and menu planning. In addition, related organizations lease property, plant and equipment to hospitals as well as paying for various other items such as insurance. The related organization then usually charges for the service either directly or through a management fee. The direct charges must be recorded in the appropriate cost centers as billed, and the management fee must be distributed to the functional cost centers in amounts relative to the services received for which the fee is paid. When this management fee is recorded in the related functional cost centers, the natural classification of expense account .76, Management and Contracted Services, must be used.

### **DIRECT RECORDING OF COSTS**

#### **Medical Supplies**

The invoice/inventory cost of all disposable medical and surgical supplies used in daily hospital service centers, ambulatory service centers and certain ancillary service centers (Labor and Delivery Services and Operating Room, Ambulatory Surgery, Speech- Language Pathology, Audiology, and Intervention Cardiovascular Physical Therapy, are to be accounted for as a cost of the Medical Supplies Sold cost center . The related revenue must be reflected in the Medical Supplies Sold revenue center.

The disposable medical and surgical supplies consist of billable supplies and non-billable supplies. The billable disposable supplies and the non-billable disposable supplies are accounted for separately.

The overhead associated with the issuing of all medical and surgical supplies must be accounted for in the Central Services and Supply cost center. The cost of reusable (Non-disposable) medical and surgical supplies used in daily hospital service centers, must be accounted for in the Central Services and Supply cost center.

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### Drugs

All pharmaceutical supplies and materials (including IV solutions, admixtures, etc.) used in daily hospital service centers, ambulatory service centers and ancillary service centers excluding Drugs Incident to Radiology are to be accounted for as a cost of the Drugs Sold cost center. The related revenue is to be reflected in the Drugs Sold revenue center.

Drugs Incident to Radiology, i.e., contrast media, etc. is to be accounted for as a cost of the using cost center.

The pharmaceutical supplies and materials consist of billable supplies and materials and non-billable supplies and materials. The billable pharmaceuticals and the non-billable pharmaceuticals are accounted separately.

The overhead associated with the issuing of pharmaceutical supplies and materials (including IV solutions, admixtures, etc.) must be accounted for in the pharmacy cost center.

### Plant Maintenance

All direct costs incurred in the maintenance, repair and service of buildings, grounds, parking facilities and equipment, (with the exception of that equipment used in the performance of the principal function in following capital intensive cost centers: medical/surgical intensive care, coronary care, pediatric intensive care, neo-natal intensive care, operating room, laboratory services, cardiac catheterization laboratory, radiology-diagnostic, CT scanner, radiology-therapeutic, nuclear medicine, renal dialysis and MRI scanner) are included in the Plant Operations and Maintenance cost center.

### Data Processing

All the direct costs incurred in operating an electronic data processing center shall be recorded in the Data Processing cost center (Account 8994) and transferred to the using cost center based on CPU (Central Processing Unit) time or some other basis.

### Central Patient Transportation

Central Patient Transportation costs of transporting patients to and from Ancillary Services are considered a part of the Ancillary Services function of the hospital. Therefore, all such costs, wherever they are incurred, must be transferred to the appropriate Ancillary Services Cost Centers for reporting purposes.

The expenses incurred in transporting patients to the Daily Hospital Services areas at the time of admission are to be assigned to the Inpatient Admitting Cost Center. The expenses incurred in transporting patients who have been discharged are to be assigned to the Daily Hospital services functional cost center from which the patient was discharged.

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### IN-SERVICE EDUCATION

#### Nursing

Nursing in-service education activities are defined as educational activities conducted by the hospital for hospital nursing personnel. The cost of time spent by nursing personnel as students in such classes and activities must remain in the cost center in which their normal salary and wage costs are charged (i.e., the cost center in which they work). However, the cost (defined as salary, wages, and payroll related fringe benefits) of time spent in such classes and activities by those instructing and administering the programs must be included in the Nursing Administration Cost Center. For those hospitals that want to account for these costs separately and In-service Education Nursing sub-account (.

If instructors do not work full-time in the in-service program, the cost (as defined above) of the portion of time they spend working in the in-service education program must be included in the Nursing Administration cost center. This may be accomplished by direct distribution of these costs (by natural classification of expense category) each payroll period based upon actual hours worked.

The costs of nursing in-service education supplies (such as cassettes, books, medical supplies, etc.) and outside lecturers must also be reflected in the Nursing Administration cost center. Nursing in-service education does not include orientation of new employees. Such orientation costs must be charged to the cost center in which the new employees are, or will be assigned.

#### Non-Nursing

All expenses associated with non-nursing in-service education activities must be included in the financial cost center to which the participating employees' salaries and wages are assigned, as such in-service educational activities will rarely apply to more than one functional activity.

### PHYSICIAN RENUMERATION

#### Work Arrangements for Physicians included as Part A Hospital Services/Costs

1. Activities that benefit patients as a group and normally are not identifiable to an individual patient. For purposes of reporting to the Commission, these services can be allocated to the following activities:
  - a. Research—Working on research projects (see Section 200).
  - b. Chief of the Medical Staff—this function includes the position of Chief of the Medical Staff. Compensation paid to other departmental chiefs should not be included under this function (see Section 200).
  - c. Medical Care Review and PSRO—this function includes peer review, quality assurance, and PSRO (see Section 200).
  - d. Other Administration and Supervision—this function includes supervision of departmental personnel, administration of the department, in-service education of departmental personnel and stand-by time. Generally, this function includes all provider component activities not

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included in a, b, and c above.

- e. The services do not include physician availability services, except for reasonable availability services furnished in emergency rooms
2. Education -is the time spent teaching. This function does not include in-service education and training of departmental personnel which is included as administration and supervision under Identified Physician Costs.

### UNCOMPENSATED CARE

Uncompensated care is defined by the Commission to include Charity Care and Bad Debts. Charity Care Services are those Commission regulated services rendered for which payment is not anticipated. Bad Debts Services are those Commission regulated services rendered for which payment is anticipated and credit is extended to the patient. (Bad Debt expense is estimated and recognized by providing an allowance for such amounts estimated to be written off.)

Charity Care: Hospitals should have a written charity care policy. Charity care patients should be identified at the time of admission or service date or as soon thereafter as possible. Charity care, as reported to the Commission, shall consist only of the difference between the hospital's approved rates and the amount, if any, received from such patients in payment.

Bad Debts: Bad Debts, as reported to the Commission, may include only the following:

- 1. Bad debt write-offs, made after following the provisions of the hospital's collection and write-off policy, less gross Bad Debt recoveries. (Outside collection agency, attorney expenses or any other expenses associated with the collection of patient accounts may not be written off as Bad Debts but must be reported as collection expenses in the Patient Accounting cost center.)

Hospital charges written-off for the following reasons are not bad debts and may not be included in uncompensated care reported to the Commission:

- a. Contractual allowances and adjustments associated with Commission approved differentials—i.e., prompt payment, SAAC, and the differential granted to Medicare and Medicaid.
- b. Administrative, Courtesy and Policy Discounts and Adjustments - These include, but are not limited to, reductions from established rates for courtesy discounts, employee discounts, administrative decision discounts, discounts to patients not meeting charity policy guidelines, undocumented charges and, payments for services denied by third party payers.
- c. Charges for medically unnecessary hospital services.
- d. Charges written off that are not the result of a patient's inability to pay or where the hospital has not expended a reasonable collection effort.