



Washington State Department of Health

Accounting And Reporting Manual for Hospitals
Chapter 7000

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The Cash Budget
Chapter 7000

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Preface

7001

The cash budget is a projection of the cash receipts and cash disbursements for the budget year, cash requirements at various points within the year, and cash on hand at the end of the budget period. This budget is extremely important for hospitals as adequate cash balances must be maintained if a hospital is to meet its responsibility to the community.

These two distinct parts to the cash budget--cash receipts and cash disbursements--require a different type of analysis. The basic objective for each must be to ensure that sufficient cash is available at the proper time to meet all operating and non-operating obligations of the hospital. In addition, the cash budget enables the hospital to accomplish a satisfactory job of "cash management."

The hospital is not required to submit a cash budget to the Department. However, the completion of the cash budget is a critical element in the financial planning process of the hospital.

Cash Planning

7010

Hospitals with a low minimum cash balance should be aware that they may encounter temporary cash deficiencies in the cash budget. It may necessitate negotiations for short-term working capital loans or postponements of capital expenditures.

Seasonal fluctuation in service volume and normal delays in collection of accounts receivable may adversely affect cash balances. Also, prudent, but substantial increases in inventories of consumable supplies will reduce cash balances without reducing capital. On the other hand, large balances of cash may be accumulated to provide for plant expansion or to meet maturing notes or mortgages.

Accurate forecasts of cash requirements may reflect the availability of sizeable sums of temporary cash that may be wisely invested in short-term securities, such as treasury bills, commercial paper, etc., to increase revenue.

Hospitals with a very low minimum cash balance may encounter a cash problem within the month even though the month-end balance is greater than the minimum. This is due to the timing of cash flows within the month. Usually, a large number of disbursements are made around the tenth of the month, yet receipts may

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be equally spaced during the month. If the hospital is in this situation, it may want to prepare a cash budget divided on a weekly basis.

Many times the cash budget, together with the operating budget, will be required by banks prior to opening a line of credit for short-term borrowing for working capital.

Traditionally, the cash budget has covered the same period as that of the operating budget. Thus, the cash budget is often thought of as a short-term financial plan as contrasted with long-range financial planning (5-20 years).

Once the cash budget for the budget year plus two additional years is completed, a long-range cash budget should be prepared. This cash budget preferably will cover the entire span of the institution's long-range plan. The long-range cash budget is the key document for the governing board's use in assessing the feasibility of the long-range plan and in safeguarding the institution's fiscal viability. Before entering into long-term indebtedness, it is vital that successful repayment plans be developed through the use of the long-range cash budget.

The completed cash budget must be reviewed by hospital management and approved by the governing board as representing an adequate cash or financial plan for the budget year.

Cash Receipts

7100

Initial attempts at cash budgeting may produce unrealistic estimates. However, once data has been collected for a few periods, the process can be refined to provide more accurate estimates. It is far better to underestimate than to overestimate immediate cash collections. Until experience has been gained in the process, very conservative estimates should be used.

Net Patient Revenue

7110

The largest single item of continuing cash receipts is patient billings. For purposes of the cash receipts budget, the first step is to anticipate the timing of the liquidation of the various classes of receivables. The dates of cash receipts can be fairly well determined for a large segment of receivables, including Blue Cross, Medicare, Medicaid and commercial insurance assigned for collection. The previous history of cash receipts is a major factor in estimating the timing of payment for these items.

For cash receipts purposes, it is necessary to analyze historical collection patterns, compute the historical accounts receivable turnover ratio and make some estimate of the due date of cash receipts during the budget period. The procedure is similar to an aging analysis of unpaid accounts receivable, with emphasis on the date payment was actually received in relation to when the service was billed. Ideally, the analysis should be by type of payer/self-pay patient or various categories of third-party agencies. However, reasonable estimates can be obtained by a collection analysis of all receivables.

In order to assure a dependable cash flow, uniform standards for collection procedures must be established.

Other Operating Revenue

7120

The net patient revenues are used to develop the cash receipts budget. Net patient revenues are revenues from which bad debts, charity care and contractual adjustments have been deducted. Cash flow from other operating revenues representing cost recoveries, transfers from restricted funds for operations and miscellaneous other non-patient operating revenues must also be reviewed and forecasted. Some of these other operating revenues, such as cafeteria receipts, are originally in the form of cash, whereas others must be converted from receivables. Transfers from restricted funds may be a flexible source of cash. Other operating revenue must be added to that generated from patient revenue.

Nonoperating Gains **7130**

Once the cash receipts from operations are forecasted, those generated from non-operating sources must be determined. These sources might include unrestricted gifts, subsidies, assessments (district hospitals), appropriations (government hospitals), net revenue from non-related operations, etc.

Uniform Standards For Collection Procedures **7200**

General Statement **7210**

Hospitals shall develop written policies and procedures identifying guidelines used to support their collection activities. These policies and procedures shall be available for inspection by the department, as needed when evaluating the hospital's efficiency in the area of accounts receivable management and bad debts. These policies and procedures must cover procedures for both inpatients and outpatients in the area of pre-admission, admission, discharge, billing, credit and collection and bad debt assignment. It should be noted that collection activities may take place in one or more separately defined hospital departments within the hospital's reporting structure. The hospital accounts receivable policy should be integrated and consistent between various departments or sections. The financial status of each patient should be determined so that an appropriate classification and distinction can be made between uncollectable amounts arising from a patient's unwillingness to pay (bad debts) and those arising from a patient's inability to pay (charity care).

All policies and procedures should be written to ensure compliance with Regulation Z, the Fair Credit Billing Act, UCCC and other federal or state regulations that deal with credit or collections as they pertain to hospitals.

Inpatient Admission Activities 7220

During the admitting process determination of financial viability should be made for each patient. This should be accomplished by pre-admission screening, insurance verification, pre-certification verification, private pay deposits for anticipated services and liaison for determining the need of public assistance or initiation of applications for charity care when appropriate. Each hospital should have the following:

- A registration and pre-registration information gathering system.
- A system for providing charge estimates.
- A system for implementing insurance verification.
- A system to collect deposits based on findings of charge estimates, insurance verification results, current unpaid patient balances and/or previous credit history with the hospital.
- The admission process will include financial counseling.

Outpatient Appointment/Registration 7230

A hospital outpatient appointment registration information- gathering system operating procedure should include a policy on collecting necessary charge estimates, demographics charge data, insurance verification, deposits, point of service billing and collection. Each hospital should have the following:

- A registration and pre-registration information gathering system.
- A system for providing charge estimates.
- A system for implementing insurance verification.
- A system to collect deposits based on findings of charge estimates, insurance verification results, current unpaid patient balances and/or previous credit history with the hospital.

It is desirable, when systems allow, to provide billing and collection at the time of service.

Financial Counseling 7240

Financial counseling is necessary to assist and counsel patients in managing and meeting their financial obligations to the hospital and also minimize the

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hospital's losses from bad debts and uncollectable accounts. Counseling should be available prior to admission, during the hospital stay and after discharge.

- Financial counseling should include the following:
- A process for applying for charity care.
- A process for applying for public assistance.
- Charge estimates by service.
- Assistance in obtaining funding sources.

Master Patient Index

7250

Hospitals should maintain a file of prior stay history relating to patient account activity. These files should be arranged in order to be easily accessible.

- The files should be maintained in an alphabetical and/or numerical order.
- Each episode of care should be identified by a patient control number.
- The file should reflect the status of each account at the time of transfer to the history file.
- The history file should show final bill balance, payments and any other activity posted against the account after final billing.

Charge Capture Systems

7260

Charge capture systems should include details of how the hospital accounts for the services rendered to the patient.

- Each patient should be identified separately.
- A method must be developed to accurately record each time a patient account receives a charge, an adjustment, a credit, or a payment.
- A charge capture system should be developed to allow for presentation of the final detail bill, as outlined by the hospital billing cycle.
- Adequate controls must be in place for order entry, batch posting, ledger posting, etc., to ensure proper and timely recording of patient charges.

The medical records should be documented to support the individual charges placed on a patient's bill.

Billing

7270

A hospital billing system should include a method for charge capture which enables the institution to generate an accurate, complete itemized and summary bill produced on proper billing forms. Each hospital should have the ability to accomplish the following:

- Audit account charges to see that they are appropriate.
- Send a copy of the billing to the patient and/or insurance company in a timely manner.
- Follow-up with the patient and/or insurance carrier.
- Re-bill as necessary.

Cash Management

7280

A cash payment policy should be established by each hospital.

Payment at the time of service is desirable but will depend upon the individual hospital's policies as established by the hospital's board of directors. Cash payment should be encouraged at the earliest possible encounter consistent with the hospital policy. Deposit policies and procedures should include handling of elective admissions, pre-payment programs, billing cycles, payment programs and cash postings.

- The hospital should maintain a record of deposit requirements by service or diagnosis or average length of stay or a combination of all three.
- Deposits should be required for elective procedures.
- Emergency patients should not be expected to make payments before diagnosis or treatment.
- Payment at the time of services being provided is desirable for cases where third party coverage is questionable or not available.
- Cash payments should be recorded and deposited daily.
- The hospital should establish payment programs following discharge. Adequate controls should be established for recording the cash payments and for maintaining the records of these transactions.

Collection Activities

7290

It should be the policy of the hospital to inform patients and/or guarantors of financial responsibilities to the hospital.

Hospitals should establish a collection system to inform patients or their guarantor of their obligation. Collection activities should begin at pre-admission and be systematically monitored until the patient account is paid or deemed uncollectable; at which time it should be assigned to an external collection agency or written off. Patients should be accorded regular notices and/or contracts to accurately inform them of the balance due.

A collection system should include:

- Pre-payment deposit requirements.
- A method to identify charity care.
- A statement of the account.
- Periodic statements showing account activity.
- Collection notices and/or phone contacts.
- Payment arrangements in accordance with the hospital credit policy.
- A procedure to identify uncollectable accounts and do the following:
 - Refer these accounts to an external collection agency.
 - Write off other accounts as appropriate, i.e., small balance, bankruptcy, administrative adjustments.
- If available, the use of external financial sources, (i.e., credit cards, bank contracts, credit union loans, etc.) should be used to help defray long term payments.
- Filing of creditors claims and/or tort-feasor liens.

Accounts Receivable Management

7300

Patient accounts receivable management should include pre- defined performance standards and procedures for working receivables for the purpose of minimizing receivables while maximizing cash flow.

Established goals and objectives, adequate reports, reporting mechanisms and standards should be integrated to monitor receivables starting at pre-admission until the account balance is resolved. Coordination with medical records and utilization review should be incorporated in this process.

Patient accounts receivable management should include the following:

- Procedures, standards, and adequate controls are necessary for timely entries that affect accounts receivable.
- Periodic reports should be made available to monitor progress in accordance with established goals and standards. Such internal reports may include the following:
 - Days outstanding (Total, IP, OP, Financial Class, etc.).
 - Credit balances.
 - Bad debts.
 - Charity care.
 - Contractual adjustments.
 - Cash comparisons.
 - Percentage in various aging categories.
- Hospitals should establish annual accounts receivable goals.
- There should be internal productivity standards to monitor accounts receivable activity.
- A procedure to refund overpayment in a timely manner.
- An open communication system between, and coordination of activities for, the production of claims with the following:
 - Admitting/Registration
 - Medical Records
 - Utilization Review

Statistical Reporting

7310

Current statistical information should be maintained regarding accounts receivable and collections. This information should include but is not limited to the following:

- Total and net accounts receivable
- Days Outstanding
 - Total and Net
 - By Payer
 - By Service Category (Inpatient and Outpatient)
- Ratio of Gross Bad Debt to Revenue
 - Total
 - By Service Category
- Ratio of Net Bad Debt to Revenue
- Ratio of Recoveries to Gross Bad Debt

Cash Disbursements

7400

The two major sections of the cash disbursements budget are **payroll** and **supplies and expenses**.

Salaries And Wages

7410

The payroll represents the major expenditure of the hospital. Much of the work already has been performed in preparing the operating budget for the salary costs. However, salaries of the operating budget are based on a worked time period, rather than on a strict adherence to the payroll time period. It is necessary now to translate monthly payroll accruals to cash disbursements on a payday basis.

Where a biweekly pay period exists, for example, the cash disbursements must be matched with the appropriate time periods selected in preparing the receipts section of the budget. If receipts of the hospital are projected on a monthly basis, disbursements should follow the same time pattern. This means that some months will have two paydays, while others will have three paydays. The exact timing will depend on the amount of accrual at the start of the fiscal year.

Employee Benefits

7420

Employee benefits were established in the operating budget as separate items, since they represent contributions in addition to those withheld from the employees' gross pay. Timing of these payments may not necessarily coincide with the payroll disbursements and should be budgeted separately in the cash disbursements budget. The amount of these withholdings will be combined with other payroll costs and scheduled for payment according to the rules established by the recipient.

Supplies And Expenses

7430

In discussing supplies and expenses for the operating budget, it was suggested that measurement should be based on the actual usage of the various supplies from the inventory. For cash disbursement purposes, it is necessary to consider inventory and purchasing policies in determining cash outflows. Assumptions will have to be made based on the hospital's procedures of paying accounts payable as to the timing of actual cash disbursements. If all expenses are paid during the subsequent month, as is frequently the case, the supplies and expense budget for one month will be the cash disbursement of the next month. Other cash disbursements which are not made in this manner or are not a part of the operating budget, have to be separately scheduled from these cash disbursements. These would include such items as lump-sum payment of operating expenses, loan repayments (including interest), capital expenditures and other similar types of items.