

## Agency Wide Policy and Procedure

**SECTION: Financial**  
**SUBJECT: Bad Debt Allowance**  
**POLICY NUMBER: 5.56**

**ATTACHMENTS:**  
**APPROVAL DATE:**  
**REVISION DATE: 2/2024, 7/25**

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### **Policy:**

Bad debt expense represents uncollectible, billed revenue. To comply with generally accepted accounting principles, our procedures are designed to properly match this expense with the associated revenues.

Bad debt expense generally relates to first party (self-pay) billings.

Uncollected billings associated with insurance programs such as Medicaid or other third-party insurance generally represent either contractual allowances or inappropriately billed charges. This procedure does not address these issues.

Recording bad debts occurs on both an interim and year-end basis.

### **Procedure:**

#### Interim Procedures:

Interim procedures are designed to ensure that monthly and year to date earnings, net of bad debt expense, do not exceed reasonable amounts, generally cash received.

1. Obtain the trial balance for the current month.
2. Compare the net revenue amount to the year-to-date cash receipts for first party earnings.
3. Adjust either revenue or bad debt expense to ensure that the revenues minus the bad debt expense are no greater than the actual cash received for the year-to-date period.

#### Year End Procedures:

Year-end procedures are designed to ensure that earnings do not exceed reasonable revenues for the year and that appropriate allowances are established to produce a net collectible self-pay receivable that is fairly stated in conformity with generally accepted accounting principles.

1. Obtain a report from patient accounting of cash received for two months subsequent to year-end for services delivered prior to year-end.
2. Obtain a report from patient accounting of cash received by reporting unit for the entire fiscal year.
3. Reconcile the report to total revenues reported displayed on the unaudited trial

balance.

4. Reconcile the report to total cash receipts coded to first party.

Compare revenue and bad debt expense amounts retrieved from the Electronic Health Records patient account billing application to the trial balance.

Adjust the trial balance to equal the amounts produced from the Electronic Health Records patient account billing application.

Compare the net amount of revenues and bad debt expense and adjust the net amount to equal the net cash received and accrual either through revenue or bad debt expense using your judgment.