OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

MAY 02 2008

MEMORANDUM FOR SURGEON GENERAL OF THE ARMY
SURGEON GENERAL OF THE NAVY
SURGEON GENERAL OF THE AIR FORCE

SUBJECT: Defense Health Program Accounts Receivable Policy

The purpose of this memorandum is to establish policy for the recognition, collection and reporting of accounts receivable to improve the accuracy of financial statements and prepare the Defense Health Program (DHP) -funded activities for audit readiness. Each Financial Statement Reporting Entity (FSRE), including Service Medical Activity (SMA)–Army, SMA–Navy, and SMA–Air Force, shall be in full compliance with this policy by September 30, 2008. Activities that do not bill for healthcare services shall follow the guidance outlined in the Financial Management Regulation (FMR). For healthcare billing activities this policy does not modify the ability of the Services to use monies collected from medical accounts receivable in the fiscal year in which those funds are collected, per Title 10 United States Code, Section 1095.

All DHP Funded Activities. In accordance with the Statement of Federal Financial Accounting Standards (SFFAS) Number 1, Accounting for Selected Assets and Liabilities, Paragraph 41, "Accounts Receivable, Recognition of Receivables," and FMR Volume 4, Chapter 3, "Receivables," all DHP-funded activities will recognize and record a receivable when it establishes a claim based on goods or services provided. If payment is not received when the activity recognizes a right to payment, all accounts receivable will be aged per FMR Volume 4, Chapter 3. This policy applies to all goods and services billed, and all funds received.

Health Care Billing Activities. In order to prepare for and manage this initiative, for those activities using the Composite Health Care System (CHCS) and Third Party Outpatient Collection System (TPOCS), TRICARE Management Activity (TMA) will retrieve data from the host DHP-funded activities' CHCS and TPOCS servers for the appropriate Medical Service Account and Third Party Collection data. For those activities not using CHCS and TPOCS (e.g., Armed Forces Institute of Pathology), or using only one of the systems, the Executive Agent will provide the required data in the TMA defined format at the TMA defined intervals. For aggregate reporting, the Surgeons General will provide detailed data for activities that contract out billing services. These data are to be reported by the fifth calendar day following the month

previous ending. This will be a monthly requirement starting with the period ending June 30, 2008 with confirmation due by July 8, 2008.

All DHP-funded activities should work to address nonfederal medical accounts receivable that were created prior to 1 October 2007, the majority of which should have been closed out and turned over to Defense Finance and Accounting Service (DFAS) or Department of Treasury for collections action by the time centralized medical accounts receivable reporting begins in May 2008. Any nonfederal medical accounts receivable not transferred to DFAS or the Department of Treasury will need to be included in the monthly accounts receivable reports being submitted.

TMA will coordinate and work with representatives of all DHP-funded activities for the implementation of this policy (attached) to ensure compliance with federal laws and regulations governing accounts receivable. At a minimum, each DHP-funded activity should test for proper recording and aging of accounts receivable.

My point of contact is Mr. Anthony Chavez at (703) 681-6864 or email at anthony.chavez@tma.osd.mil.

Allen W. Middleton
Director, Health Budgets & Financial Policy Integration

Attachment:
As stated

DEFENSE HEALTH PROGRAM (DHP) ACCOUNTS RECEIVABLE POLICY

PURPOSE – All DHP-funded Activities

The purpose of this document is to issue policy for the Defense Health Program (DHP) for the recognition, collection and reporting of federal (hereafter referred to as intragovernmental) and public (hereafter referred to as nonfederal) accounts receivable. The DHP is a Department of Defense (DoD) appropriation that provides funding to the TRICARE Management Activity (TMA) and the Service Medical Activity (SMA) Financial Statement Reporting Entities (FSRE). The TMA is composed of three FSREs: (1) TMA–Financial Operations Division (FOD), (2) TMA–Contract Resource Management (CRM), and TMA–Uniformed Services University of the Health Sciences (USUHS). The SMA is composed of three FSREs: (1) SMA–Army, executed by the Army Medical Command (MEDCOM); (2) SMA–Navy, executed by the Navy Bureau of Medicine and Surgery (BUMED); and (3) SMA–Air Force, executed by the Air Force Medical Service (AFMS). The SMA FSREs include Military Treatment Facilities (MTFs) and other agencies, such as Armed Forces Institute of Pathology (AFIP).

RESPONSIBILITIES – All DHP-funded Activities

Activity heads, chief financial officers, resource managers and chief accountants of DHP reporting activities are responsible for ensuring that accounts receivable are classified and recorded in accordance with this policy.

REVENUE RECOGNITION – All DHP-funded Activities

All accounts receivable shall be recorded when recognized or earned by September 30, 2008. The Statement of Federal Financial Accounting Standards (SFFAS) Number 1, Accounting for Selected Assets and Liabilities, Paragraph 41, "Accounts Receivable, Recognition of Receivables," requires that receivables be recognized when an intragovernmental entity establishes a claim to cash or other assets against other entities either based on legal provisions, such as a legislative requirement, a payment due date, or goods or services provided. Further, SFFAS 1 requires that receivables from intragovernmental entities be reported separately from receivables from nonfederal entities. Intragovernmental and nonfederal receivables are treated differently because of the different legal and administrative requirements and concepts that apply to them.

Receivables representing amounts due from others are recorded as assets in a designated accounts receivable general ledger account from the time the goods or services rendered giving rise to such claims are completed until the time they are collected or determined to be uncollectable in whole or in part. A receivable must be recorded in the accounting records in the period in which said claim is established. Receivables for exchange

transactions should be recorded at the full value of goods or services provided or as mandated by legislation or regulation. To the extent that collection of the full amount (gross value) of the receivable is not probable, an allowance for bad debt or contractual adjustment should be established and recorded in the same month the receivable is recorded.

UNIFORM BUSINESS OFFICE – Health Care Billing Activities

The Uniform Business Office (UBO) issued and updated the MTF UBO Manual under the authority of DoD Instruction 6015.23, "Delivery of Healthcare at MTF." The Manual provides guidelines for the operation of the MTF business office as stated in the DoD 6010.15-M, November 9, 2006. It prescribes uniform procedures and accounting systems for the management and follow-up of accounts, including recovery, depositing, posting and reconciliation. It also incorporates procedures for third party collection activities, such as identification of beneficiaries who have other health insurance, coordination of benefits, and recovery of claims.

MEDICAL RECEIVABLES – Health Care Billing Activities

Receivables to DHP for medical services include Third Party Collections (TPC), MSA, Medical Affirmative Claim (MAC) and Intragovernmental Accounts Receivables (i.e., Coast Guard, National Oceanic and Atmospheric Administration). Billing is a product of proper coding of medical records in accordance with national coding standards. Billing for various medical receivables will be performed in compliance with established UBO billing procedures.

REIMBURSABLE RECEIVABLES – All DHP-funded Activities

Reimbursable receivables are identified as claims for payment for goods or services furnished, or to be furnished, and, which by law, may be credited directly to appropriations. These claims for payment result from contracts or agreements made with intragovernmental or nonfederal entities to which goods or services are to be provided.

UNBILLED RECEIVABLE – All DHP-funded Activities

Identified unbilled claims will be established and recorded as an accrued receivable in the financial records at the end of each accounting month. Unbilled receivables are defined as claims established for goods or services provided during the accounting month, but not billed to the patient/customer as of the close of the period. TMA management is currently developing an automated process in the existing billing systems to estimate unbilled accounts receivable. Accruals will be reversed at the first day of the subsequent month. An unbilled accounts receivable subsidiary ledger will be reconciled monthly

with the general ledger balances. Any unbilled accounts receivable greater than 30 days must be reviewed and acted on by the MTF UBO manager.

ALLOWANCE FOR UNCOLLECTED – All DHP-funded Activities

Monthly reviews will be made to determine the portion of accounts receivable (outstanding and unbilled) that may not be able to be collected. The amount posted to the allowance account should be based on an analysis of past collection activity for each military department. The Service components will coordinate with TMA to prepare the allowance calculation. The monthly change in the allowance amount must be recorded at the end of the accounting period, with an offsetting debit or credit to a valuation reserve or allowance account. Each Military Department will be responsible for developing its own methodology for determining the appropriate allowances for its medical accounts receivable. The methodology will be applied monthly to the accounts receivable reported by Service MTFs.

RECONCILIATIONS – All DHP-funded Activities

Accounts receivable general ledger balances will be reconciled monthly with the subsidiary ledgers. Prompt action must be taken on delinquent accounts, which includes referral or termination (i.e., write-off) of the receivable. Detailed aging schedules as required by this policy are considered an integral part of the reconciliation process.

RECEIVABLE FOR CANCELLED APPROPRIATIONS – All DHP-funded Activities

Any receivable in an expired appropriation that will be cancelled must be reviewed to determine if collectible. If all collection action has been taken, the receivable will be reviewed for write-off in accordance with the guidelines contained herein.

DEBT COLLECTION – All DHP-funded Activities

In accordance with the Debt Collection Improvement Act (DCIA) of 1996, all nonfederal receivables over 180 days old shall be transferred to Defense Finance and Accounting Service (DFAS) or the Department of Treasury for further collection action. Military Departments should work to address nonfederal medical accounts receivable that were created prior to 1 October 2007, the majority of which should have been closed out and turned over to DFAS or the Department of Treasury for collections action by the time centralized medical accounts receivable reporting begins in June 2008. Any nonfederal medical accounts receivable not transferred to DFAS or the Department of Treasury will need to be included in the monthly accounts receivable reports being submitted by MTFs.

AGING OF ACCOUNTS RECEIVABLE – All DHP-funded Activities

The receivables will be aged beginning with the first day after the due date on the invoice (due date is 30 calendar days after date of invoice). The aging schedule will be reported in greater than 30, 60, 90, 120, 180+ day and 1, 2, 6, 10+ year categories, reflecting the detail of the invoices and summary of the overdue receivables. A summary aging schedule will be provided in the notes of the financial statements and reconciled to the general ledger. For example, the aging of receivable schedule will be reconciled with the designated accounts receivable general ledger account. Specific guidance on aging accounts receivable is found in FMR Volume 6B, Chapter 10, "Notes to the Financial Statements." The aging schedule from the FMR is provided below.

AGED ACCOUNTS RECEIVABLE GROUPS		
CATEGORY	Intragovernmental	Nonfederal
Nondelinquent		
Current		
Noncurrent		
Delinquent		
1 to 30 days		
31 to 60 days		
61 to 90 days		
91 to 180 days		
181 days to 1 year		
Greater than 1 year and less than or equal to 2 years		
Greater than 2 years and less than or equal to 6 years		
Greater than 6 years and less than or equal to 10 years		
Greater than 10 years		
Total		
Note: The total of the columns should equal the gross amounts reported in the Accounts Receivable schedule in Note 5. This will require that the receivables due internally within each Component be eliminated from this schedule.		

CONTINGENCIES – Medical Affirmative CLAIMS – Health Care Billing Activities

Contingencies that might result in gains usually are not reflected in accounts receivable since doing so might be recognizing revenue prior to its realization. Adequate disclosure shall be made of contingencies that might result in gains. Conservatism shall be

exercised to avoid misleading implications as to the likelihood of realization. In most cases, realization occurs when the activity receives notification of the adjudication amount from the entity pursuing the claim (e.g., Staff Judge Advocate) and the date such funds will be available. For example, a possible MAC claim should be recorded when notification of the final settlement amount is made and the date is determined when the funds will be released for payment.

RECEIVABLE RECOGNITION AND RECORDING REQUIREMENTS – Health Care Billing Activities

Ambulatory Care Claims, for both intragovernmental and nonfederal, will be aged as accounts receivable based on the first day of accounts receivable being the 15th calendar day after the termination of the encounter.

Ambulatory care claims are defined as all outpatient service encounters, ancillary and pharmaceuticals, outpatient ambulatory procedure encounters captured via the TPOCS or MSA.

Inpatient Care Claims, for both intragovernmental and nonfederal, will be aged as accounts receivable based on the first day of accounts receivable being the 31st calendar day after the termination of the encounter.

Inpatient care claims are defined as all inpatient institutional charges captured within the MSA, both in the Inpatient submodule and in the MSA module.

MAC accounts receivable will be aged as accounts receivable based on the first day of accounts receivable being the date of the determination letter from the appropriate legal office. If the determination letter is not dated, the MAC office will contact the appropriate legal office to determine an approximate date of signature. Documentation of the conversation to include the date of the conversation and individuals contacted will be maintained for audit purposes. MAC should be recorded in a subsidiary ledger (if the accounting systems can not generate memorandum subsidiary ledgers, the creation of an excel file to track the status is appropriate).

U.S. GOVERNMENT STANDARD GENERAL LEDGER ACCOUNT NUMBERS IDENTIFIED FOR RECORDING MEDICAL ACCOUNTS RECEIVABLE TRANSACTIONS – All DHP-funded Activities

Accounts Receivable	1310
Allowance for Doubtful Accounts	1319
Unexpended Appropriations	3107
Allotments	4610
Delivered Orders-Paid	4902
Revenue from Services Provided	5200
Expended Appropriations	5700
Bad Debt Expense	6730

REFERENCES		WEB-LINK
a)	OMB Circular A-11, "Preparation and Submission of Budget Estimates"	http://www.whitehouse.gov/omb/circulars/a11/current_year/a11_toc.html
b)	Federal Accounting Standards Advisory Board (FASAB), Accounting for Selected Assets and Liabilities, Number 1, March 30, 1993	http://www.fasab.gov/pdffiles/sffas-1.pdf
c)	DoD 6015.23, "Delivery of Healthcare at Military Treatment Facilities (MTFs): Foreign Service Care; Third-Party Collection; Beneficiary Counseling and Assistance Coordinators (BCACs)", October 30 2002	http://www.dtic.mil/whs/directives/corres/pdf/601523p.pdf
d)	DoD 6010.15-M, "Military Treatment Facility Uniform Business Office (UBO) Manual," November 9, 2006	http://www.dtic.mil/whs/directives/corres/pdf/601015m.pdf
e)	DoD 5010.40, "Management Control (MC) Program Procedures," January 4, 2006	http://www.dtic.mil/whs/directives/corres/pdf/501040p.pdf
f)	DOD 6040.40 "Military Health System Data Quality Management Control Procedures," November 26, 2002	http://www.dtic.mil/whs/directives/corres/pdf/604040p.pdf
g)	United States Codes, Title 10, 1095, "Memorandum of Agreement for Third Party Collection Program"	http://frwebgate1.access.gpo.gov/cgi-bin/waisgate.cgi?WAISdocID=006046413452+0+0+0&WAISaction=retrieve
h)	United States Code, Title 31, Chapter 37, "Claims," current edition	http://www.access.gpo.gov/uscode/title31/subtitleiii_chapter37_.html
i)	United States Code, Title 42, Chapter 32, "Third Party Liability For Hospital And Medical Care," current edition	http://www.access.gpo.gov/uscode/title42/chapter32_.html
j)	Health Insurance Portability and Accountability Act of 1996 (HIPAA)	http://www.hhs.gov/ocr/hipaa/
k)	CFR, Title 28, Part 43, Code of Federal Regulations, "Recovery of Costs of Hospital and Medical Care and Treatment Furnished by the United States," current edition	http://www.access.gpo.gov/nara/cfr/waisidx_01/28cfr43_01.html
l)	Department of Defense FY 2008 Reimbursable Rates	http://www.defenselink.mil/comptroller/rates/fy2008.html