APPENDIX E

BOOKKEEPING

I. Introduction

This section describes the basic elements of a bookkeeping and accounting information system. The objective of this section is to provide the long-term care facility with information needed to establish a bookkeeping system that will facilitate the collection, recording, and analysis of financial data and meet the uniform accounting and reporting requirements of this Manual.

Underlying any bookkeeping system are the internal controls established by management. A bookkeeping and accounting system should be based on internal control procedures established for each major functional area of accounting applicable to a long-term care facility. Once appropriate internal controls are established, the bookkeeping system can be designed to develop accurate and reliable accounting and financial data to meet the needs and responsibilities of management.

Appendix D contains an extended discussion of internal control considerations and check list for review of internal controls for long-term care facilities.

II. Flow of Bookkeeping Data

The bookkeeping system should be designed to provide maximum operational efficiency in the flow of data. Some items to consider are as follows:

A. Work Schedule - A work schedule should be established that will identify the major tasks to be completed on a weekly or monthly basis.

B. Books of Account - Appropriate journals and sub-ledgers should be used that will enable the bookkeeper to record transactions in the most efficient way. To increase efficiency, the use of pegboard or personal computer accounting software systems should be considered. Under these systems, the preparation of original documents and the posting of ledgers and other records is done simultaneously in one writing. For larger operations, a data processing service bureau might provide the most efficient means of processing large volumes of bookkeeping data.

Careful consideration in this area will lead to an efficient flow of data that facilitates timely summary for subsequent analysis and reporting.

C. Forms and files - Design of forms used in the bookkeeping system should be considered carefully. Forms that are designed to provide for essential information while not being overly complex will generally prove to be most beneficial in serving their intended purpose. Planning in this area will enable data to flow smoothly through the bookkeeping system and allow information to be summarized on a more timely basis.

Of equal importance is the development of a formal filing system to store documents created and used in the bookkeeping system. Ready access and orderly storage of original documentation is essential to preserve objective evidence and provide the details of transactions on which the output of the bookkeeping system is based.

III. Books of Account

Books of original entry

Books of original entry can range from a relatively simple general journal system to a complex combination of specialized journals and documents. The degree of specialization or complexity of journals is usually due to the following factors:

volume of transactions,

specialization in the form of ledgers designed to increase efficiency of bookkeeping, and

segregation of duties.

However, the purpose of all books of original entry, whether general or special in function, is to provide a chronological record, in writing, of business transactions.

Some examples of journals in common use in long-term care facilities include the following:

revenue, billings, or sales journal - used for recording revenue from services rendered, other sales and related accounts receivables;

cash receipts journal - a complete record of all cash received with appropriate record of account distribution (such as accounts receivable, deposits, etc.);

Purchase or Accounts Payable Journal - a record of recurring trade obligations. These obligations arise from ordinary business transactions;

payroll journal - a record of labor expense, amounts paid to employees and amounts withheld from employee salaries and wages for income taxes, social security, and other deductions. If the facility uses a payroll service, the facility should record a summary of the transactions made by the payroll service in the payroll journal;

cash disbursements journal - a complete record of all cash disbursements with appropriate account distribution;

general journal - every bookkeeping system will require some form of general journal to record transactions not recorded through specialized journals, including adjusting and closing entries.

The amount of detail information recorded in the various journals will generally depend upon the need for such detail. However, in order to provide a comprehensive chronological record of transactions, the following detail information should always be present:

date of transaction,

account numbers and titles, (see Chapter 2000 for requirements)

document identification, such as, check number and name, invoice number and name, or cash receipt, and name,

description, where necessary.

General and subsidiary ledgers

Journals provide a chronological record of the increase and decrease effects of transactions on the accounts. They do not, however, reflect account balances which are needed in order to prepare financial statements or other reports.

To determine account balances the summary totals in the various journals are transferred or "posted" to a ledger account maintained for each account in the chart of accounts. Together, all of the accounts are referred to as the general ledger. The procedure of posting from journals to the general ledger is usually done monthly after "closing" the various journals. Specialized journals are "closed" by summing the columns and posting the totals to the respective general ledger accounts. When a sub-ledger is used, as in the case of accounts receivable, it will be necessary to post the individual amounts in the accounts receivable column from the appropriate journal to the respective sub-ledger cards. The total of the accounts receivable column would be posted to the general ledger "control" account. If posting is done on a monthly basis, which is preferable, journals would be kept on a monthly basis so that at year-end there would be twelve separate sections in the journal and, accordingly, the summary totals from each section would have been posted to the general ledger.

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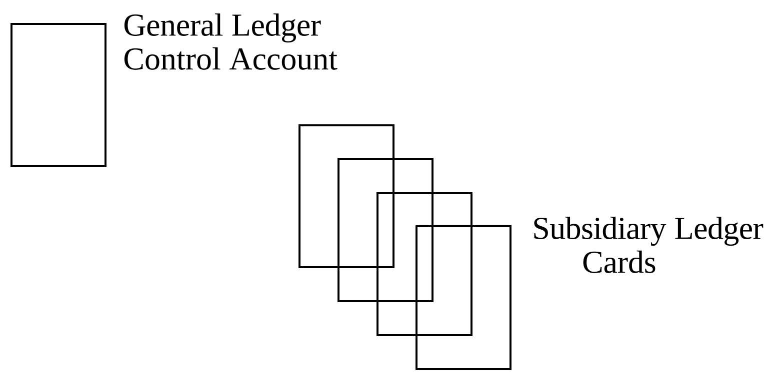
Knowledge of a general ledger account's composition is often necessary in order to properly control the account balance. An example of this would be the details (charges and payments) of patient accounts that make up the accounts receivable balance in the general ledger or the detail of vendors' invoice balances included in accounts payable. In the case of accounts receivable, a subsidiary ledger would consist of a separate ledger card for each patient which would show the detail of charges, payments and account balance at any point in time. The total of all patient balances per the subsidiary ledger should equal the balance in the accounts receivable general ledger account (called the control account).



No entry can be made in the general ledger accounts until an entry has been made in a journal for a completely manual bookkeeping system. Under automated systems, however, this may not be the case. Some automated accounting systems are established to record directly in the general ledger accounts. This practice should not, however, be followed for manual bookkeeping systems unless the number of transactions is inconsequential due to the difficulty in locating errors that may arise from the recording of transactions.

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IV. Working Papers

While journals and ledgers are the heart of a bookkeeping system, they do not provide information in its most useful form for all purposes. Working papers are created to arrange or analyze data and serve as an important source of detail information needed to test the accuracy of the books and records used to prepare reports. Working papers usually fall into one of the following broad categories:

Account Analyses

Reconciliations and Agings

Trial Balance

A discussion of each follows:

Account Analyses

Account analyses are sometimes necessary to determine the composition of an account balance. For example, if an analysis of the detail charges to a repairs and maintenance expense account were desired, a listing of all payments or other items charged to the account would be prepared. The total of this listing should be equal to the repairs and maintenance general ledger account balance.

Another type of account analysis could be, for example, additions to equipment which would list all equipment items purchased during the period. In this case the total of all items on the list may not equal the account balance. This will occur when the equipment account has a beginning balance and/or if there were disposals of equipment during the period. In this situation an analysis of the ending balance in the equipment account would take the following form:

	Beginning Balance
Add:	Additions
Less:	Disposals
	Ending Balance

The two forms of analyses described above are very useful when comparing data in similar form for both the current and one or more prior periods.

Reconciliations and Agings

Preparing reconciliations is an important part of a bookkeeper's duties. Reconciliations can take many forms and have a variety of uses but common to all reconciliations is an identification of the items contributing to the difference between two or more known amounts being compared. For example, a bank reconciliation seeks to identify the items of difference between the cash balance per the books (general ledger "cash" account) and the cash balance per the bank (usually per the bank statement). Usually the items of difference are deposits in transit, outstanding checks, and debit or credit memos. Once all of the "reconciling" items are identified the bookkeeper can determine if there is any need for adjustment to the cash amount. Other types of reconciliations that should be prepared on a regular basis include the following:

1. accounts receivable subsidiary ledger to the general ledger control account;

2. accounts payable detail to the general ledger control account;

3. depreciation expense to the increase in the balance sheet accounts of accumulated depreciation;

4. write-offs of prepaid accounts to the appropriate expense accounts where written-off;

5. billed patient days to census; and

6. billed ancillary charges to charge slips, service logs or vendor invoices.

The above listing is not intended to be all inclusive but is presented to illustrate the wide applicability of reconciliations in the bookkeeping system. Regularly prepared reconciliations will aid the bookkeeper in early identification of problems or errors and permit more timely correction.

Another useful tool of the bookkeeper is the aging analysis. This technique has limited applicability, however it can reveal significant information not otherwise obtainable. Agings are most useful in analyzing accounts receivable. The objective is to classify the outstanding or unpaid charges in a patient's account into predetermined aging categories; for example: current, 30 to 59 days, 60 to 89 days, and over 90 days. When this procedure has been performed for all patients with an accounts receivable balance, the resulting aging analysis will reveal which patients and what amounts fall into the various aging categories. This information can identify problem accounts and be of aid in estimating the Allowance for Uncollectible Receivables. As with reconciliations, agings should be prepare on a regular basis and maintained in a semi-permanent file so they are available for comparison with similarly prepared analyses. Such comparison is indispensable in analyzing payment trends. A similar aging analysis can be prepared on the accounts payable account.

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Trial Balances

A trial balance can be thought of as simply a listing of the balances in the general ledger (debits and credits) or a listing of all account balances in a subsidiary ledger. The principal purpose of a trial balance, however, is to determine the quantity of posted debits and credits. When a trial balance of the general ledger is prepared, total debits should equal total credits; if these two amounts are not equal to each other the general ledger is "out of balance" which indicates that an error has been made. At this point, the error must be located and corrected.

A trial balance of accounts in a subsidiary ledger when totalled should equal the total in the related general ledger control account. If the total per the trial balance does not equal the total of the related control account an error has been made that should be located and corrected.

A trial balance prepared from the balances in the general ledger accounts, once "balanced", may be used as a basic summary for preparation of financial statements and the Long-Term Care Facility Integrated Disclosure and Medi-Cal Cost Report. Frequently, however, financial statements cannot be prepared from a trial balance until the accounts in the trial balance have been summarized to obtain totals for presentation in the financial statements. Usually the general ledger contains more individual accounts than are necessary or required in financial statements. For example, the general ledger might have an accounts receivable account for various patient types, such as private, Medicare and Medi-Cal. The financial statements, however, might only have a single caption for accounts receivable.

In this situation the trial balance would serve as the summary of the individual accounts receivable general ledger accounts included in the financial statements. The procedure used to summarize the trial balance into financial statement format is called grouping.

A trial balance can be prepared at any time but is usually done after all journals have been closed and posted to the general ledger. Frequently, however, after the trial balance is prepared additional analyses are undertaken which may disclose that additional entries or adjustments are required to properly state the accounts. To avoid the additional work required to prepare another trial balance, the working papers should be prepared to accommodate posting adjustments to the trial balance, as well as the general ledger. From the adjusted trial balance the accounts can be grouped for financial statement presentation.

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V. Bookkeeping Systems

A. Revenue and Accounts Receivable

Proper accounting for revenue and related accounts receivable is a matter of considerable importance in the management of long-term care facilities. The revenue and accounts receivable bookkeeping system should be developed simultaneously with the policies and procedures of a billing system. This way the revenue and accounts receivable bookkeeping system can be designed to accommodate the output of the billing system. Management decisions on billing system procedures should give proper consideration to internal controls, especially as they relate to the bookkeeping function.

Generally, the most efficient systems of accounting for revenue and accounts receivable in a long-term care facility are those that are designed to minimize the number of time the same data must be written. For example, a system designed so that the revenue journal and accounts receivable sub-ledger card are prepared simultaneously effectively reduces the number of times the same information must be written. This kind of a system not only will provide for time efficiency but also is effective in reducing errors.

Patient Service Revenues

Revenues derived from services rendered to patients are called operating revenues. Accounting for this type of revenue is most useful when the bookkeeping system provides for adequate detail of revenue by reimbursement source or patient type (i.e., private, Medicare, etc.), and by to the various classifications of routine or ancillary services revenue as shown in the chart of accounts in Chapter 2000.

A convenient way to achieve the detail suggested above is to have separate revenue journals to account for routine and ancillary services by patient type (Medicare, Medi-Cal, private, etc.). Columns in the journals could then be set up to record the various routine and ancillary services revenue from each patient type. An alternative approach would be to set a single revenue journal to account for all routine and ancillary services revenue but post all transactions in groups according to patient type.

Subtotals for each patient type could then be easily calculated and entered directly in the journal thus allowing this information to be available for future reference and used without additional work.

Another approach would be to maintain a supplemental record of revenue by patient type, such as a Medicare log. A log could be designed to provide, on a patient-by-patient basis, routine nursing and ancillary services revenue information, in addition to census data, by patient type or reimbursement source. Since revenue and census information by patient type is necessary in filing Medicare cost reports, maintaining it on a continuing basis will make it easier to prepare a facility's Medicare cost report on a timely basis.

Regardless of the system that is used to account for patient service revenues, procedures should be established to also account for adjustments to revenue for retroactive changes in patient type. Such changes can occur, for instance, if Medicare coverage is denied. In this case any revenue recorded as "Medicare" patient type which is denied by Medicare would have to be eliminated and re-entered by the appropriate patient type. A similar adjustment of census records would also be necessary.

Deductions From Revenue

If a facility records revenue from providing patient care to persons under third-party contractual agreements at the net amount currently receivable under terms of the program, it will not normally be necessary to record contractual adjustments as revenue is recognized. However, if revenue under these programs is recognized at full established rates, provision in the revenue journal will have to be made to record the effects of differences between the revenue recognized and the net amount currently receivable. Appropriate columns in the revenue journal should be set aside for contractual adjustments and other deductions from revenue accounts as shown in the chart of accounts. Contractual Adjustments should be allocated between routine and ancillary services. For a further discussion of this topic, see Chapter 4000.

Under either approach, a contractual adjustment should be made to record the effects of any cost reports which must be filed at the end of the reporting period.

Accounts Receivable

The discussion above has centered around the elements of proper bookkeeping for revenues. However, any system set up to record revenues should also give proper consideration to recording the related accounts receivable.

For the most efficient control of accounts receivable, records should be kept so that the source of collection of amounts due is easily determined and summarized. Accounts Receivable subsidiary ledger cards will generally be most beneficial. At least once each month, a total of the balances shown by patients' ledger cards should be compared with the balance of the Accounts Receivable control account in the general ledger. Discrepancies should be investigated and errors corrected immediately.

To aid in identification of problem accounts an aging analysis should be prepared monthly. The aging will facilitate early detection of potential bad debts as well as provide management with information regarding the results of its collection efforts.

Deferred Revenue

Some long-term care facilities bill patients in advance for private routine nursing services. When this policy is followed it will be necessary to set up a deferred revenue account. Journals should provide a column for deferred revenue entries. Each month the deferred revenue account should be analyzed and reconciled to ensure that the account contains the proper balance and that all amounts are ultimately recorded as revenue when earned.

B. Cash Receipts

Cash is a necessity in business operations. A sufficient amount of cash must be available at the time needed to meet obligations to suppliers, employees and others. However, cash is the asset most susceptible to fraud. The bookkeeping system established to account for cash should be carefully planned with strong internal controls in order to minimize its susceptibility to misappropriation.

Cash is generally received through the mail and, to a lesser extent, over the counter. Cash receipts, to the degree possible, should be processed by someone not having authority to sign checks or access to accounting records other than the cash receipts journal (particularly patient ledgers) and without access to or custody of negotiable assets.

All cash receipts should be listed individually on a cash receipts record in sufficient detail to allow posting of cash receipts to patient ledgers. Summary totals from the cash receipts journal would then be posted to the general ledger on a monthly basis.

Cash receipts are generally in the form of checks. Checks should be restrictively endorsed immediately upon receipt. All cash and checks received should be deposited intact daily or at other frequent, regular intervals. Deposit slips should be made in duplicate, the duplicate should be returned by the bank and retained by the facility to document the bank's acknowledgement of the deposit. Someone other than the person initially processing the cash receipts for deposit can use the validated duplicate deposit slip in performing bank reconciliations and comparisons of duplicate deposit slips to the cash receipts record.

Cash and checks received over-the-counter should be acknowledged by a receipt form prepared in duplicate. The original should be given to the payor and a duplicate copy retained by the facility.

Cash receipts information should be reviewed on a regular basis by management, especially in cases where the segregation of duties emphasized above are not feasible. Management can review the timeliness of bank deposits to assure cash is directly deposited for the institution's use, test cash receipts postings to patients' accounts to assure proper application, and carefully review the timeliness and accuracy of bank reconciliations.

To simplify the cash receipts system, a pegboard system may be utilized whereby a receipt form is prepared and the patient ledger and cash receipts record are posted simultaneously. Automated systems can also simplify this function.

C. Cash Disbursements and Accounts Payable

Control over cash disbursements and accounts payable is in large part a function of the controls established over purchasing and receiving. If the internal controls for purchasing and receiving are properly established, the accounts payable and the cash disbursements system will have a solid base from which the bookkeeping system can be built.

In order to control cash disbursements on a routine basis, a system should be established for processing invoices and other requests for payment. As invoices are received, they should be matched with appropriate documents evidencing receipt of materials or services. Invoice accuracy should be verified and the appropriate account distribution (account to which it is to be charged) determined. Evidence that these procedures have been performed should be indicated on the invoice; many facilities accomplish this by use of a rubber stamp on the face of each invoice which provides spaces for essential information including account distribution, posting references (such as check number), initials of the person responsible for verifying invoice information, and management approval.

All invoices and other payment or check request documents, after being processed as indicated above, should be placed in an open file by date payment is due. As the appropriate dates for payment come up, the invoices or other payment request documents are withdrawn from the file. In some systems, approval for payment will be required at this point. Invoice packages (original invoice, receiving reports, and other required miscellaneous support documents) or check requests for payments not requiring an invoice (such as rent) are sent to the person authorized to approve payment. After this approval process, if required, the checks are drawn and entered in the cash disbursements journal in check number sequence.

The checks, along with the invoice package, should then be given to the person authorized to sign checks. Regardless of whether approval for payment is required before or after the check is written , the entire invoice package should be submitted with the check to be signed. After the checks are signed, they should be mailed to the appropriate vendors by someone without cash disbursements responsibility who would stamp each document in the invoice package as "paid". The canceled invoice packages

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should then be filed in folders maintained for each vendor.

The cash disbursements journal should have columns in which to record credits to cash and debits to the appropriate expense accounts on a departmental basis.

For example, in conformity with the Chart of Accounts required in the Manual, at least two columns would be set up for each department. One column would be for account codes (such as .40--Professional Fees, .50 and .60 (--Supplies, etc.) and the other column would be for dollar amounts.

Account 6110 Skilled Nursing Care	
Code	Amount

At the end of the month all amounts for each code would be summed and posted to the appropriate general ledger account. In addition to the departmental columns as shown above, a sundry column should be provided for entries to nondepartmental or other expense or asset accounts. When using a disbursements journal, other columns should be established for vendor name, check number, and dated paid.

At the end of the month all invoices received may not have been paid and some invoices for good or services received during the month may not have been submitted by vendors. Under these circumstances, it is appropriate and necessary to record an accrual for expenses allocable for the month goods or services are received even though payment is not made until a later period. Invoices should be accumulated and account distributions summarized. An entry is then recorded in the general journal to record debits to the appropriate expense accounts and a credit to accounts payable. This entry would then be reversed as the first entry in the following period. Items that were accrued into accounts payable would thus be eliminated from the accounts. They would then be processed normally in the subsequent period through the cash disbursements system described above.

D. Payroll

Salaries and wages are likely to represent a significant portion of a long-term care facility's operating expenses. For this reason, it is essential that adequate payroll procedures and personnel records be maintained. Also, such records are a requirement of governmental agencies and are needed to meet the accounting and reporting requirements of this Manual.

The method of timekeeping should be considered carefully so that an accurate record of hours worked (for hourly employees) and the departmental allocation of labor expense is adequately documented. In some long-term care facilities a time clock may be desirable while in others a completely manual system may be adequate. However, all timekeeping systems should have controls that require supervisory review and approval of time accounting inputs to the payroll system.

Bookkeeping systems for payroll are easily automated because of the generally large volume of similar transactions. Many services bureaus offer relatively inexpensive payroll processing services which have the benefits of increasing payroll accuracy while reducing the time necessary for processing. However, for some long-term care facilities manual payroll systems are adequate and economical. This is especially true when a pegboard system is used. Under this system, the payroll check, individual employee earnings record and payroll journal are prepared simultaneously.

To illustrate the procedure of payroll bookkeeping, a completely manual system will be assumed.

There are two phases to processing payroll. The first of these involves the procedures necessary to process employee payroll checks, maintain earnings records and record the appropriate amounts in the books. The second involves filing reports required by the various State and Federal governmental taxing agencies.

Processing employee payroll must begin with the timekeeping records. The bookkeeper obtains the time cards or other time reports and verifies the hours worked are computed correctly. Then gross pay is computed by multiplying hours by the appropriate pay rate. When gross pay is known the bookkeeper must complete the amounts that must be withheld from the employee's pay for Federal and State income taxes, FICA taxes, etc. Pamphlets can be obtained from the various taxing agencies which provide tables and other information to assist the bookkeeper in determining the amounts to be withheld from employee's earnings. Net pay is calculated by subtracting all deductions from gross pay and all amounts are recorded in the payroll journal, employee earnings record, and on the payroll check stub.

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Gross pay should be charged to the proper department or departments based on timekeeping records. Separate columns in the payroll journal for each labor expense account will simplify summarization of the payroll journal for posting to the general ledger.

Once the payroll journal amounts are posted to the general ledger it will be necessary for the bookkeeper to compute the amount of any employer taxes (such as the employer's portion of FICA) and record the appropriate amounts.

State and Federal taxing agencies have many requirements for filing reports and remittance policies for amounts withheld from employees' earnings. The pamphlets from the various taxing agencies mentioned above explain in detail employer requirements in submitting reports and making tax deposits. These pamphlets should be obtained and kept on file in the facility at all times.

Payroll expense must be recorded on the accrual basis. When pay periods do not coincide with financial reporting periods, a payroll accrual must be made to present total payroll expense for the reporting period. Under these circumstances there are two ways in which the payroll accrual is normally computed. The first is to compute the exact amount of payroll expense based on hours worked during the reporting period subsequent to the last complete pay period recorded. A simpler approach which yields a reasonably accurate estimate in most circumstances is to base the payroll accrual on a prorata portion of the last complete pay period recorded. In either case the entry would be reversed at the beginning of the next reporting period. Employer payroll taxes could be accrued in the same manner.

Payroll checks may be drawn on the facility's general cash account. A preferable approach, however, is to establish a separate cash account specifically for payroll. Under this system, after the payroll is computed, a check is drawn on the general account for the total net pay amount. This check is then deposited in the payroll cash account. After all payroll checks have cleared the bank the payroll account will have a zero balance. The advantages of this system are that it makes the general account much easier to reconcile and makes old, uncashed payroll checks easier to identify.