

Revenue Recognition for Mid-Market Healthcare Entities

Mitigating the Risk of Material Misstatements

Healthcare organizations look to FTI Consulting’s experts to power critical revenue recognition practices. Our experienced professionals evaluate, build, implement and improve revenue recognition tools and processes. We help clients avoid forecasting surprises and enables them to make quick decisions using accurate and transparent information.

What FTI Consulting Offers

Sophisticated Analytics

FTI Consulting’s approach harnesses client data and turns it into actionable information allowing clients to optimize their business.

Customization

Our models are quickly adaptable to reporting by entity, region, business line, payor or any other meaningful aggregation useful to the client.

Defined Processes

No analytics tool is enough on its own. FTI Consulting transfers knowledge through training and easy-to-follow instructions. These methods “hardwire” processes and structures needed to leverage tools, interpret and act on output.

Defensible Output

Working closely with Big Four audit firms to validate FTI Consulting’s revenue recognition methodology has helped to ensure successful compliance audits for our clients.

Efficient Improvements

Our tools are 80% pre-built and allow us to focus our time on quickly tailoring models to clients’ specific data inputs and analytical needs.

Access to Experts

Clients have access to a “one-stop shop” of industry experts and entrepreneurs to support operational implementation, clinical documentation, coding compliance, and, when necessary, interim management. FTI Consulting’s experts are experienced in almost any challenge faced by a Healthcare CFO and their Finance and Accounting team.

Rates Summary

The screenshot shows a detailed financial table with columns for various metrics and rows for different categories. The data is presented in a structured, multi-column format typical of a financial reporting tool.

Visual Summary



Waterfall Summary

The waterfall chart displays a complex breakdown of revenue recognition components over time, with each bar representing a different category and its contribution to the total revenue for that period.



CASE STUDY

SITUATION

FTI Consulting's client was a nationwide leader in the home medical equipment and supplies market with 2 billion in annual revenue and operations spanning 47 states. The company had grown through significant, rapid acquisition. However, its revenue recognition reporting tools and processes no longer provided adequate visibility into how well the company was recognizing revenue in its various regions and product lines.

OUR ROLE

FTI Consulting was engaged to review the company's existing revenue recognition tools and processes as well to build and implement new tools and processes that provided accurate, timely, customizable and scalable insights into cash collection performance.

OUR IMPACT

FTI Consulting implemented a sophisticated, best-practice model that leveraged data from the company's 30+ legacy revenue databases. The model tracks cash collections with precision, predicts future cash collections on remaining accounts receivable and informs decisions that impact bad debt expense provisions.

We collaborated with the client to use the model in driving timely financial decisions during the month-end close process and in support of quarterly reporting.

Finally, we ensured that new tools and processes were easily adaptable to future acquisitions and product lines.



CASE STUDY

SITUATION

Our client was a network of eye-care and ophthalmology practices with 20+ affiliates nationwide and more than 300 million in annual revenue. The Company was owned by a private equity sponsor and the Price/Earnings sponsor desired to divest them, but the effort failed due to issues revealed in the Buyer's quality-of-earnings analysis.

OUR ROLE

FTI Consulting was engaged to perform a current state review of the finance organization. This review included a detailed review of existing:

- Core processes such as month-end close and existing reporting
- Policies and procedures
- Organizational design
- Revenue recognition.
- FTI Consulting provided observations and recommendations to improve the timeliness

- and accuracy of financial reporting and to eliminate control deficiencies.
- FTI Consulting was tasked also with developing a new tool and process for recognizing revenue and valuing accounts receivable.

OUR IMPACT

FTI Consulting provided multiple recommendations that will accelerate the timing of Accounting's month-end close process and prevent future audit or quality-of-earnings adjustments.

We delivered an excel-based tool that will estimate contractual revenue, produce journal entries for month-end close and test accounts receivable value using best-practice industry analyses.

We provided a roadmap towards a future state in which all practice management data will be available within a single database, enabling increased automation and reporting capabilities.

About the Model

Modeling the Income Statement

Our tools measure gross and net revenue against actual and expected cash collections over time.

- Driven by detailed and adaptable cash collection “waterfall” analyses that conveys timing trends in collections performance
- Subsequent cash receipts projected according to historical performance
- Intuitive insight into contractual allowance and bad debt expense provisions booked against revenue
- Information captured at customizable levels of detail and on a consolidated basis
- Tracking of net effect of payments, refunds, credits, and other adjustments
- Analysis that covers, as available, monthly, quarterly, and multi-year periods

Modeling the Balance Sheet

Our tools assess the accounts receivable (A/R) reserve based on collections history.

- Driven by detailed cash collection “waterfall” analyses conveying timing trends in collections performance
- Measurement of actual collections against historical A/R balances on a periodic basis to inform potential changes in the valuation of balance sheet A/R
- Leveraging of collection waterfalls to estimate A/R reserve percentages using payer, age, service line or other groupings that contain similar reimbursement and collectability characteristics
- Validation of overall health and collectability of A/R under various dimensions and scenarios

Key Features of the Model

- According to industry standard methodologies, the Model views revenue recognition performance through the lenses of the income statement and balance sheet.
- The model aligns cash collection analysis by healthcare industry best practice of payer classification, bringing the model in line with ASC 606 requirements and generating insights into payer mix dynamics and performance.
- ASC 606 is the new revenue recognition standard that affects all businesses that enter into contracts with customers to transfer goods or services—public, private and nonprofit entities. Both public and privately held companies should be ASC 606-compliant now according to the 2017 and 2018 deadlines.
- FTI Consulting’s model is always accompanied by detailed process and functionality documentation outlining the key personnel, processes and steps involved in generating and interpreting insights.
- FTI Consulting’s is systematic, replicable, and scalable, with minimal input touchpoints.



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