CLIENT STORY

Face the Future with Confidence

Private equity-owned healthcare company takes on revenue recognition to strengthen its IPO foundation

Complex revenue arrangements, multiple services and a plethora of payment options create a tangled web for healthcare companies — a web they must untangle to properly account for revenue, especially if they are part of a portfolio or considering a public offering on their own. Adding pressure to complexity, today's regulatory environment continues to place greater compliance requirements — including sweeping reform from ASC 606 that imposes additional revenue recognition rules and disclosures for public companies.

Public companies must recognize revenue accurately to avoid the financial and regulatory consequences and meet shareholder expectations.

To bolster its public company readiness — and achieve an accurate and transparent revenue recognition process as part of that endeavor — a large healthcare provider owned by a private equity (PE) firm took a hard look at its books. They found an inadequate revenue recognition process that led to significant year-end revenue and bad-debt adjustments. To address the problem, the portfolio company asked Protiviti to assist with building a revenue recognition infrastructure that could enable it to:

- Capture contractual pricing into a contract management system
- Automate the month-end revenue recognition process and accurately recognize revenue at contractual rates
- Develop automated tools to analyze month-end revenue reserves

Identifying root causes

Disparate data systems and flawed processes inhibited the company from properly recording and collecting revenue. Accounting staff relied on Excel spreadsheets and manual entries for revenue and bad-debt calculations — and integrating such manual processes into a sustainable and efficient revenue recognition process required a gargantuan effort and many employee hours. The company's financial, planning and

"Sound and effective revenue controls and systems build investor trust and optimize liquidity to support future growth and investments."

— Bryon Neaman, Managing Director, Protiviti

analytics (FP&A) team performed high-level analytics and tried using a model to drive accounting for revenue but the efficacy of their planning and forecasting was undermined by the lack of a revenue recognition infrastructure — the kind expected of companies positioning for public offering. As a result, at year-end the company had material unexpected write-offs reducing annual revenue that the finance team could not insightfully quantify.

Rectifying processes to bring sound revenue recognition

The company and Protiviti collaborated on a cross-solution approach leveraging accounting, business process and technology experts to create custom-coded reports and optimize and automate processes to manage the revenue cycle more sustainably. The team built embedded controls in processes, which enabled a documentation trail proving the accuracy of revenue. Custom report creation allowed management to assess bad debt and overall receivables at the most granular levels, providing insight into potential bad-debt adjustments or write-offs in real time.

• • • Achieving client objectives: Key steps

- Documenting the current state of revenue recognition and performing a gap analysis to assess and identify the root causes of material adjustments
- Designing future-state processes in revenue cycle management, month-end reporting and contract management
- Supporting management in standing-up their contract management system by identifying the contract attributes critical to overall management and revenue recognition
- Reviewing nearly 800 contracts and performing quality assurance checks on the new system to ensure data integrity
- Identifying root causes of significant adjustments and building a month-end revenue recognition tool using Alteryx and SSIS to calculate and post month-end revenue entries
- Developing a month-end model in SQL Server Integration Services (SSIS) to assess the quality of accounts receivable and calculate the required period-end reserve amount
- Supporting the company in determining annual revenue impact and restating monthly revenue for the prior fiscal year

"Protiviti was able to support the build out of a revenue recognition and reserves model with data components that required collaboration among multiple business units. The developed tools have been critical in improving initial revenue recognition as well as providing data points to target areas of cash collection opportunities."

— Director, Controller of Revenue & Operational Accounting

Building and integrating a contract management system into revenue recognition

The team also reviewed contracts to gain an understanding of what part of the company's revenue should be based on contractual rates with payers and populated that information into a contract management system. The contract management system was then integrated into an automated model that accurately calculates the revenue imported into the company's general ledger.

Collaboration for a strong public company foundation

The collaboration between Protiviti and internal stakeholders helped this healthcare client identify the root causes of material excess write-offs and opened the doors to recalculating and restating the previous two years' revenue. The company eliminated unexpected bad-debt write-offs and improved the accuracy of revenue recognition by developing an accounts receivable (AR) model that enabled AR monitoring and receivables risk on a real-time basis. The real-time view gave confidence in the sustainability of the model and the automated processes for revenue recognition.

The company reduced its risk of financial restatement by increasing accuracy and can now quickly produce financial statements that can withstand the scrutiny of an audit. Upgrading revenue recognition processes brought expedited financial reporting and reduced the time of the financial close from 15 to five days, providing more time to analyze results and outputs. This increased the PE firm's confidence in the portfolio company's reporting, contributing to the value creation goals of the PE firm.

In sum, effective revenue cycle management, contract management and month-end financial reporting brought automation, accuracy and sustainability to the company and contributed to its value. With one major improvement accomplished, the company continues to collaborate with Protiviti on building its public readiness infrastructure. This includes Sarbanes-Oxley (SOX) compliance initiatives, improving internal process documentation and supporting month-end optimization — all toward building a strong public company foundation.