



DEPARTMENT OF HEALTH & HUMAN SERVICES

Centers for Medicare & Medicaid Services
Center for Beneficiary Choices
Medicare Advantage Group
7500 Security Boulevard
Baltimore, Maryland 21244

TO: All Medicare Advantage Organizations Renewing Contracts for 2008

FROM: David A. Lewis, Director, Medicare Advantage Group

RE: Medicare Advantage Organizations' 2006 Fiscal Soundness Reporting Requirements

DATE: March 20, 2007

This is the second of several e-mails you will receive to help prepare your organization for meeting its annual Fiscal Soundness Reporting Requirements (FSRR) due to CMS April 30, 2007. Accordingly, we want to make you aware of several important filing changes to your 2006 FSRR as well as reiterate some key points from previous instructions. Foremost, CMS has automated the submission of the 2006 annual financial statements. Specifically, the 2006 audited financial statements must be uploaded to the Health Plan Management System (HPMS). Additionally, you must directly enter several data elements for 2005 and 2006 from the corresponding audited financial statements. What follows are the updated FSRR as well as further information about the new HPMS electronic submission process.

Background

42 CFR 422.516(a) (5) requires that each Medicare Advantage Organization (MAO) must demonstrate that it has a fiscally sound operation. The Medicare Advantage Group (MAG) is responsible for financial oversight of the renewing MAOs. CMS uses the annual audited financial statements to ensure the organization is fiscally sound. To date, these audited financial statements were submitted to CMS through email or paper copy. However, as stated above, the current paper submission system is replaced with the electronic submission of the FSRR in the upcoming review cycle.

2006 Fiscal Soundness Reporting Requirements Updates

Beginning with the 2006 fiscal soundness review, CMS is requiring all MAOs who renewed their contracts for contract year 2007 to complete the Fiscal Soundness Module in HPMS. Entities that have a contract effective date of 12/31/2005 or earlier must submit the financial data elements for both 2005 and 2006 as well as upload their 2006 annual audited financial statements. Entities that have a contract effective date in CY2006 (i.e., 1/1/2006 – 12/31/2006) must submit the financial data elements for 2006 and upload their 2006 annual audited financial statements. Electronic submission of these data elements will enable review and analyses by CMS of key indicators for fiscal soundness.

- MAO quarterly financial reports have been dropped as part of the FSRR. However, during the course of a fiscal soundness review your organization may be required to submit quarterly reports or other relevant financial information.
- Your annual audited financial statements must be presented using Statutory Accounting Practices (SAP).
- CMS no longer accepts a hard-copy of your FSRR. Your MAO must upload these statements to HPMS. Your MAO must file their 2006 annual audited financial statements with CMS no later than April 30, 2007. If you cannot provide the financial statements by April 30, 2007, you **MUST** inform the financial management specialist assigned to your organization (see attachment 2) prior to April 30th. The filing date deadline for the data entry portion is the same as the annual audited financial statement in PDF format, April 30, 2007.
- MAO electronically attests to the accuracy of the entered financial data elements. Specifically, you are attesting that the entered data elements are from the corresponding audited statements uploaded to the HPMS.
- Your MAO's contract number ("H" or "R" number) must be included on the front sheet of the audit report and any correspondence transmitted to CMS (including subject headings in e-mail correspondence) must include your MAO's contract number. **Your information is not complete without a contract number.** If the audit report represents a consolidation of several contracts, please indicate on the cover of the report the various H and R numbers included within the report. CMS cannot process financial reports that do not have an H or an R number associated with them.
- We will further require that if the names of your organization's CFO and/or Medicare Compliance Officer change, the HPMS must be updated to reflect the new names, addresses and telephone numbers. CMS' financial review specialists will need to contact these individuals should questions arise or additional documentation is required during the financial review process.
- The Fiscal Soundness and Analysis Financial Module in HPMS will be ready for submissions by March 30, 2007. More detailed instructions regarding the electronic submission of the annual audited financial statements and entering the financial data elements will be contained within HPMS when you logon to the module. You must have a user ID provided by CMS to enter the information in HPMS. You can download the *Application for Access to CMS Computer Systems* form from: <http://www.cms.hhs.gov/InformationSecurity/Downloads/EUAaccessform.pdf>.
- Ensure that the accounting division of your organization is aware of the content of this memorandum and is familiar with the FSRR standards. If you have questions, you can go to the FSRR on the web at: http://www.cms.hhs.gov/HealthPlansGenInfo/50_FSRR.asp#TopOfPage. Or you can contact the financial management specialist assigned to your region (See attachment 2). You may also write to our e-mail box at FinancialReview@cms.hhs.gov. If you need to communicate with us by mail, please use the following updated address:

Centers for Medicare and Medicaid Services
 Medicare Advantage Group/Division of Benefits
 7500 Security Boulevard
Mail Stop: C4-22-04
 Baltimore, Maryland 21244-1850

Attachment 1

FSRR Data Elements and Definitions

FISCAL SOUNDNESS FINANCIAL DATA ELEMENTS		
	2005	2006
1. Net Worth		
2. Total Assets		
3. Cash & ST Investments		
4. LT Liquid Investments (Bonds)		
5. Total Liabilities		
6. Health Claims Payable		
7. Total Revenue		
8. Total Expenses		
9. Total Medical and Hospital		
10. Total Administrative Expenses		
11. Net Income		
12. Cash Flow from Operations		
13. Total Member Months		

1. **Net Worth** = Total Assets – Total Liabilities

2. **Total Assets** = This figure is self explanatory and is found in your audited financial statements on the Balance Sheet

3. **Cash & ST Investments** = This figure is the portion of your Total Assets that represents the Total of Cash and Investment Instruments whose maturity is within 1 year. This information is obtained from your Balance Sheet.

4. **LT Liquid Investments (Bonds)** = This figure represents the portion of the Total Assets whose maturity is longer than 1 year. This figure is found on your Balance Sheet (Bonds are the most common investment found in this category).

5. **Total Liabilities** = this figure is self explanatory and is found in your audited financial statements on the Balance Sheet

6. **Health Claims Payable** = This is the value of the portion of the Total Liabilities that are dedicated to paying claims related to the deliver

7. **Total Revenue** = This figure is self explanatory and found on the Revenue and Expense Statement in (also referred to as the Income Statement) Audited Financial Statements

8. **Total Expenses** = This figure is self explanatory and found on the Revenue and Expense Statement in (also referred to as the Income Statement) Audited Financial Statements

9. **Total Medical and Hospital Expenses** = This represents the portion of Total Expenses dedicated to paying for direct medical expenses (such as doctors visits) as well as expenses

associated with hospital stays. This figure is found on your audited Revenue and Expense Statement.

10. **Total Administrative Expenses** = This is the portion of the total expenses dedicated to paying for all the general and administrative expenses associated with running the plan. This figure is found on the audited Revenue and Expense Statement

11. **Net Income** = This is the portion of revenue remaining after all the expenses and taxes have been taken out. This figure is found as a line item on the Revenue and Expense Statement. This figure can also be a negative number. In that case, it's called a Net Loss.

12. **Cash Flow from Operations** = This figure is found on the Cash Flow Statement. It is the first sub-totaled figure before accounting for cash flow from investing and financing activities.

13. **Total Member Months** = This figure is found at the top of the Revenue and Expense Statement in the Annual Health Blank.

Attachment 2

CMS/CBC
Medicare Advantage Group
Division of Benefits

Financial Review Team Responsibilities by CMS Region and State or Territory

Financial Reviewer:	CMS Region:	States and Territories:
Franklin.Regulski@cms.hhs.gov or at 410-786-6278	I. Boston II. New York (except Puerto Rico) III. Philadelphia VII. Kansas City	CT,DE,MA,MD,ME,NH,NJ, NY,PA,RI,VA,VT,WV,IA,KS MO,NE, DC
Joseph.Esposito@cms.hhs.gov or at 410-786-1129	IV. Atlanta V. Chicago VI. Dallas	AL,AR,FL,GA, IL,IN,KY,LA,MI, MS,MN,NC,NM,OH,OK,SC, TN,TX,WI
Yasmin.Galvez@cms.hhs.gov or at 410-786-0434	II. Puerto Rico VIII. Denver IX. San Francisco X. Seattle	AK,AZ,CA,CO,HI,ID,MT, ND,NV,OR,SD,UT,WA,WY ALSO, Puerto Rico