| CMS Manual System | **Department of Health & Human Services (DHHS)** |
|---|---|
| Pub 100-06 Medicare Financial Management | **Centers for Medicare & Medicaid Services (CMS)** |
| **Transmittal 164** | **Date: January 15, 2010** |
| | **Change Request 6659** |

***NOTE: Transmittal 161, dated October 23, 2009, is being rescinded and replaced with Transmittal 164, dated January 15, 2010. The exhibits at section 60.3 should have been deleted and were inadvertently left in the manual. Therefore, section 60.3-List of Exhibits; Exhibit 1 – Timeline for Preparation and Audit of CMS Financial Statements, Exhibit 2- Financial Statement Crosswalk Excerpts, and Exhibit 3- Cost Allocation Percentages Excerpts are deleted. All other information remains the same.***

**SUBJECT: Chapter 7, Internal Control Requirements Update**

**I. SUMMARY OF CHANGES:** This document updates the CMS Control Objectives and provides guidelines for the Office of Management and Budget (OMB) A-123 and A-123 Appendix A, Internal Controls over Financial Reporting.

**NEW / REVISED MATERIAL**
**EFFECTIVE DATE: *November 23, 2009**
**IMPLEMENTATION DATE: November 23, 2009**

*Disclaimer for manual changes only: The revision date and transmittal number apply only to red italicized material. Any other material was previously published and remains unchanged. However, if this revision contains a table of contents, you will receive the new/revised information only, and not the entire table of contents.*

**II. CHANGES IN MANUAL INSTRUCTIONS:** (N/A if manual is not updated)
R=REVISED, N=NEW, D=DELETED-*Only One Per Row.*

| R/N/D | Chapter / Section / Subsection / Title |
|---|---|
| R | 7/Table of Contents |
| R | 7/10.1.4/OMB Circular A-123 |
| R | 7/20/CMS Contractor Internal Control Review Process and Timeline |
| R | 7/20.1/Risk Assessment |
| R | 7/20.1.1/Risk Analysis Chart |
| R | 7/20.5/Documentation and Working Papers |
| R | 7/30/Certification Package for Internal Controls (CPIC) |
| R | 7/30.1.1/OMB Circular A-123Appendix A; Internal Control Over Financial Reporting (ICOFR) |
| N | 7/30.1.2/Identify and Document Key Controls at the Major Transaction Cycle, |

| | |
|---|---|
| | Sub-Cycle, or Account Level |
| R | 7/30.4/CPIP Report of Material Weaknesses |
| R | 7/30.6/Definitions of Control Deficiency, Significant Deficiency, and Material Weakness |
| R | 7/30.7/Material Weaknesses Identified During the Reporting Period |
| R | 7/40.3/CMS Finding Numbers |
| R | 7/40.4/Initial CAP Report |
| R | 7/40.5/Quarterly CAP Report |
| R | 7/50/List of CMS Contractor Control Objectives |
| R | 7/60/CMS Contractor Cycle Memo |
| R | 7/60.1/CMS Contractor Cycle Memo Outline |
| R | 7/60.2/List of Appendices |
| D | 7/60.3/List of Exhibits |
| D | 7/60.3/Exhibit 1 – Timeline for Preparation and Audit of CMS Financial Statements |
| D | 7/60.3/Exhibit 2 – Financial Statement Crosswalk Excerpts |
| D | 7/60.3/Exhibit 3 – Cost Allocation Percentages Excerpts |

**III. FUNDING:**
SECTION A: For Fiscal Intermediaries and Carriers:
No additional funding will be provided by CMS; Contractor activities are to be carried out within their operating budgets.

SECTION B: For Medicare Administrative Contractors (MACs):
The Medicare Administrative Contractor is hereby advised that this constitutes technical direction as defined in your contract. CMS does not construe this as a change to the MAC Statement of Work. The contractor is not obligated to incur costs in excess of the amounts allotted in your contract unless and until specifically authorized by the Contracting Officer. If the contractor considers anything provided, as described above, to be outside the current scope of work, the contractor shall withhold performance on the part(s) in question and immediately notify the Contracting Officer, in writing or by e-mail, and request formal directions regarding continued performance requirements.

**IV. ATTACHMENTS:**

**Business Requirements**

**Manual Instruction**

**Unless otherwise specified, the effective date is the date of service.*

# Attachment - Business Requirements

| Pub. 100-06 | Transmittal: 164 | Date: January 15, 2010 | Change Request: 6659 |
|---|---|---|---|

***NOTE: Transmittal 161, dated October 23, 2009, is being rescinded and replaced with Transmittal 164, dated January 15, 2010. The exhibits at section 60.3 should have been deleted and were inadvertently left in the manual. Therefore, section 60.3-List of Exhibits; Exhibit 1 – Timeline for Preparation and Audit of CMS Financial Statements, Exhibit 2- Financial Statement Crosswalk Excerpts, and Exhibit 3- Cost Allocation Percentages Excerpts are deleted. All other information remains the same.***

**SUBJECT: Chapter 7, Internal Control Requirements Update**

**EFFECTIVE DATE:** November 23, 2009

**IMPLEMENTATION DATE:** November 23, 2009

## I. GENERAL INFORMATION

**A.** Background: The Federal Managers' Financial Integrity Act of 1982 (FMFIA) established internal control requirements that shall be met by Federal agencies. For CMS to meet the requirements of the FMFIA, CMS contractors shall demonstrate that they comply with the FMFIA.

**B.** Policy: The CMS contract with its Medicare Title XVIII contractors includes an article titled FMFIA. In this article, the contractor agrees to cooperate with CMS in the development of procedures permitting CMS to comply with FMFIA and other related standards prescribed by the Comptroller General of the United States. The Medicare Administrative Contractor (MAC) Statement of Work states that, "the contractor shall establish and maintain efficient and effective internal controls to perform the requirements of the contract in accordance with IOM Pub. 100.06, Chapter 7." Under various provisions of the Social Security Act, and the Medicare Prescription Drug, Improvement Modernization Act of 2003 (MMA), contractors will be evaluated by CMS on administrative service performance. The CMS evaluates contractor's performance by various internal and external reviews.

## II. BUSINESS REQUIREMENTS TABLE

| Number | Requirement | Responsibility (place an "X" in each applicable column) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | A/B MAC | DME MAC | FI | CARRIER | RHHI | Shared-System Maintainers | | | | OTHER* |
| | | | | | | | FISS | MCS | VMS | CWF | |
| 6659.1 | The CMS contractors shall verify that the system's security features meet CMS' Minimum Security requirements as defined by the Business Partners Systems Security Manual (BPSSM). The only change to this requirement is the word, "minimum." See section 20.1. | X | X | X | X | X | X | X | X | X | RDS & MSPRC |

| Number | Requirement | Responsibility (place an "X" in each applicable column) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | A/B MAC | DME MAC | FI | CARRIER | RHHI | Shared-System Maintainers | | | | OTHER* |
| | | | | | | | FISS | MCS | VMS | CWF | |
| 6659.2 | The CMS provided guidelines to CMS contractors on how to submit the Certification Package for Internal Controls (CPIC). The CMS contractors shall follow these procedures to submit the CPIC in FY 2010. See section 30. | X | X | X | X | X | | | | | RDS & MSPRC |
| 6659.3 | The CMS contractor shall use the terms Significant Deficiency, and Material Weakness for FMFIA operational findings, or issues. See section 30.6. | X | X | X | X | X | | | | | RDS & MSPRC |
| 6659.4 | The CMS contractor shall submit a final Quarterly CAP Report when it terminates from the Medicare program, or transition to a Medicare Administrative Contractor (MAC). See section 40.5. | X | X | X | X | X | | | | | RDS & MSPRC |
| 6659.5 | The CMS contractor shall use the letter "D" to create finding numbers for DME MACs, and the letter "J" when creating finding numbers for A/B MACs. See section 40.3 | X | X | X | X | X | | | | | |
| 6659.6 | Shared Systems and Data Centers shall use the guidelines in section 40.3 to create CMS Finding Numbers for the OMB Circular A-123 CAPs. | | | | | | | | | | Shared Systems & CMS Data Centers |
| 6659.7 | The CMS contractor shall implement all changes to the CMS control objectives. See section 50. Changes to the control objectives are:<br><br>C-Appeals -- Appeal Control Objectives added a new control `<br>objective;<br><br>F - Medical Review; Medical Review renumbered the control objectives to be more consistent with the flow of the operation.<br><br>K – Debt Referral (MSP and Non-MSP) added a new control objective.<br><br>E, G, and L had minor clarification changes. | X | X | X | X | X | | | | | |
| 6659.8 | The CMS contractor shall follow the CMS contractor guidelines to write its cycle memorandums when updating the cycle memorandums. See section 60. | X | X | X | X | X | | | | | RDS & MSPRC |

| Number | Requirement | Responsibility (place an "X" in each applicable column) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | A/B MAC | DME MAC | FI | CARRIER | RHHI | Shared-System Maintainers | | | | OTHER* |
| | | | | | | | FISS | MCS | VMS | CWF | |
| 6659.9 | The CMS contractor shall submit updated cycle memos within fifteen business days after December 31. The cycle memos shall be submitted to the "CMS Internalcontrols" mailbox. The cycle memos shall be 508 compliant when released to the Internal controls mailbox. | X | X | X | X | X | | | | | RDS & MSPRC |

***Acronym Key: RDS = Retiree Drug Subsidy; MSPRC = Medicare Secondary Payer Recovery Contractor**

## III. PROVIDER EDUCATION TABLE

| Number | Requirement | Responsibility (place an "X" in each applicable column) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | A/B MAC | DME MAC | FI | CARRIER | RHHI | Shared-System Maintainers | | | | OTHER |
| | | | | | | | FISS | MCS | VMS | CWF | |
| | **None** | | | | | | | | | | |

## IV. SUPPORTING INFORMATION

**The CMS provided an explanation for the word, "observation." See section 30.1.1, item 4 (Identify and Correct Deficiencies).**

The term observation is sometimes used when the audit/review team identifies an opportunity to suggest that changes be made to a procedure or a control for the sake of enhancing or improving efficiency. Constructive observations can encourage improvement in the conduct of government programs and contractor operations. Contractors are not required to submit CAPs to CMS for observations, but CMS recommends that observations be tracked and corrected internally.

**Section A: For any recommendations and supporting information associated with listed requirements, use the box below:**

.

| X-Ref Requirement Number | Recommendations or other supporting information: |
|---|---|
| 6659. 10 | CMS contractors may use the CMS Timeline for the Certification Package of Internal Control |

| X-Ref Requirement Number | Recommendations or other supporting information: |
|---|---|
| | (CPIC). See section 20. |
| 6659.11 | The CMS provided clarification to the CMS contractors on how to identify key controls in the contractor cycle memorandums. These are recommended guidelines. See section 30.1. |

**Section B: For all other recommendations and supporting information, use this space:**

## V. CONTACTS

**Pre-Implementation Contact(s):** Ellen L. McNeill, 410-786-7911
Lataysheia Lance, 410-786-0574

**Post-Implementation Contact(s):** Same

## VI. FUNDING

**Section A: For *Fiscal Intermediaries (FIs), Regional Home Health Intermediaries (RHHIs),* and/or *Carriers,* use only one of the following statements:**

No additional funding will be provided by CMS; contractor activities are to be carried out within their operating budgets.

**Section B: *For Medicare Administrative Contractors (MACs),* include the following statement:**

The Medicare Administrative Contractor is hereby advised that this constitutes technical direction as defined in your contract. CMS does not construe this as a change to the MAC Statement of Work. The contractor is not obligated to incur costs in excess of the amounts allotted in your contract unless and until specifically authorized by the Contracting Officer. If the contractor considers anything provided, as described above, to be outside the current scope of work, the contractor shall withhold performance on the part(s) in question and immediately notify the Contracting Officer, in writing or by e-mail, and request formal directions regarding continued performance requirements.

# Medicare Financial Management Manual
# Chapter 7 - Internal Control Requirements

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***(Rev. 164, 01-15-10)***

## 10.1.4 - OMB Circular A-123

***(Rev. 164, Issued: 01-15-10, Effective: 11-23-09, Implementation: 11-23-09)***

OMB Circular A-123, Management's Responsibility for Internal Control, December 21, 2004, provides specific requirements for assessing and reporting on internal controls. The Circular requires Federal agencies to prepare a separate assurance statement on the effectiveness of internal control over financial reporting. The Circular is issued under the authority of FMFIA and provides additional guidance. The Circular emphasizes that internal control should benefit rather than encumber management, and should make sense for each agency's operating structure and environment.

*Appendix A of the revised Circular A-123 requires the heads of certain federal agencies to annually document and assess internal controls over financial reporting and report the results in a management assurance statement similar to that of publicly-traded companies by the Sarbanes-Oxley Act of 2002. Appendix A provides a framework for management's use to document, assess, and report on conclusions reached in evaluating an agency's internal controls over financial reporting.*

## 20 - CMS Contractor Internal Control Review Process *and Timeline*

***(Rev. 164, Issued: 01-15-10, Effective: 11-23-09, Implementation: 11-23-09)***

*NOTE: The CMS timeline is provided as a guide and is not considered absolute. Contractors may use the guideline as a reference.*

*Fiscal Year Calendar of Events and Activities*

| *MONTH* | *ACTIVITY* |
|---|---|
| ***OCTOBER*** | ▪ ***Release Certification Package for Internal Controls (CPIC) for period July – September***<br><br>***Due: Within Five business days after September 30***<br><br>▪ ***Review updated IOM to evaluate changes required to your system of operations*** |
| ***NOVEMBER*** | ▪ ***Update Standard Operating Procedures***<br><br>▪ ***Incorporate updated IOM changes*** |
| ***DECEMBER*** | ▪ ***Conduct risk assessment, see Section 20.1***<br><br>▪ ***Prepare SAS No. 70 Statement of Work for the audit (A/B MAC & DME MAC)*** |
| ***JANUARY*** | ▪ ***Award SAS No. 70 contract (A/B MAC & DME MAC)*** |

| *MONTH* | *ACTIVITY* |
|---|---|
| | ▪ ***Update and submit A-123 cycle memos to CMS central office fifteen business days after December 31. See section 30.1.1.*** |
| ***FEBRUARY*** | ▪ ***Conduct A-123 Risk Assessment, Section 30.1.1*** |
| ***MARCH*** | ▪ ***Prepare for A-123 review or SAS No. 70 audit onsite reviews*** |
| ***APRIL*** | ▪ ***Update CPIC Report of Internal Control Deficiencies, Section 30.5*** |
| ***MAY*** | ▪ ***Begin preparing CPIC for all geographical locations, Section 30.3*** |
| ***JUNE*** | ▪ ***Draft Assurance Statement; Prepare to submit CAP, Sections 30.2 & 40*** |
| ***JULY*** | ▪ ***Submit CPIC for period October - June*** |
| ***AUGUST*** | ▪ ***Submit Corrective Action Plans CAPs, Section 40.1***<br><br>***Due: 45 days after final A-123 and/or SAS No. 70 Reports*** |
| ***SEPTEMBER*** | ▪ ***Determine if new material weaknesses were identified since the interim CPIC report in July*** |

## 20.1 - Risk Assessment

***(Rev. 164, Issued: 01-15-10, Effective: 11-23-09, Implementation: 11-23-09)***

Risk assessment identifies areas that should be reviewed to determine which components of an organization's operation present the highest probability of waste, loss, or misappropriation. The risk assessment process is the identification, measurement, prioritization, and mitigation of risks. This process is intended to provide the contractors with:

- Direction for what areas should get priority attention from management due to the nature, sensitivity, and importance of the area's operations;
- A preliminary judgment from managers about the adequacy of existing internal control policies and procedures to minimize or detect problems; and
- An early indication of where potential internal control weaknesses exist that should be corrected.

The CMS requires contractors to perform an annual risk assessment, to identify the most critical areas and areas of greatest risk to be subjected to a review. Operational managers with knowledge and experience in their particular business area shall perform risk assessments. Outside sources can assist with this process, but should not be solely relied

upon (e.g., Internal Audit departments, Statement on Auditing Standards Number 70 (SAS 70) audit, OMB Circular A-123 Appendix A reviews, etc.).

When performing your yearly risk assessment, you are to consider all results from final reports issued during the fiscal year from internal and external reviews including GAO, OIG, CFO audit, Contractor Performance Evaluation (CPE), CPIC, 1522 reviews, A-123 Appendix A reviews and results of your own or CMS-sponsored SAS 70 audits. Any of these findings could impact your risk assessment and preparation of your certification statement. Your risk assessment process shall provide sufficient documentation to fully explain the reasoning behind and the planned testing methodology for each selected area.

The contractor shall submit a description of the risk assessment process to CMS as an attachment with the annual CPIC and maintain sufficient documentation to support the risk assessment process. Examples of sufficient documentation are meeting agendas, meeting notes or minutes, and emails. The documentation should be readily available for CMS review.

Below are the elements to include in the description or methodology of your risk assessment process:

- Who - List who is involved and state their roles and responsibilities.

- Where - List the geographical location(s) for which the certification applies. For multi-site contractors, review and explain the roles for all sites, i.e., do they do their own risk assessment and control objective testing. Describe the certification process for geographical locations.

- What – Describe the risk factors and the risk assessment process.

- When - List when the risk assessment process was completed.

- Why – Prioritize control objectives based upon their level of risk while ensuring high risk areas are reviewed in accordance with the scoring criteria guidelines in section 20.1.

  **NOTE:** The MAC Statement of Work may also include requirements regarding review of CMS control objectives.

- How – Describe the scoring methodology and provide a description and definition for each risk and exposure factor. Include specific value ranges used in your scoring methodology.

The contractor is encouraged to exceed the risk assessment approach provided below based on its unique operations. The risk assessment process shall at a minimum include the following and shall be submitted as part of the CPIC package:

Step 1 - Segment Operations

Segment the contractor's operation into common operational areas of activity that can be evaluated. List the primary components of the unit with consideration to the business purpose, objectives, or goals of the auditable unit. Limit the list to the primary activities designed to achieve the goals and objectives of the auditable unit. Include the CMS control objectives applicable to each auditable unit.

Step 2 - Prioritize Risk and Exposure Factors

Identify the primary risks and exposure factors that could jeopardize the achievement of the goals and objectives of the unit as well as the organization's ability to achieve the objectives of reliable financial reporting, safeguarding of assets, and compliance with budget, laws, regulations and instructions. Risk and exposure factors can arise due to both internal and external circumstances. Document the definitions and methodology of the risk and exposure factors used in the risk assessment process.

Step 3 – Create a Matrix to Illustrate the Prioritization of Risk and Exposure Factors

Create a matrix listing on the left axis by operational areas of activity (see step 1 above). The top axis should list all the risk and exposure factors of concern and determine the weight each column should have. Some columns may weigh more than other columns. Develop a scoring methodology and provide a description and definitions of this methodology used for each risk or exposure factor. This methodology can use an absolute ranking or relative risk identification. Absolute ranking would assign predefined quantifiable measures such as dollars, volume, or some other factor in ranges that would equate to a ranking score such as high, medium or low. Relative risk ranking involves identifying the risk and exposure factors into natural clusters by definition and assigning values to these clusters. Include a legend with the score ranges representing high-risk, medium-risk, and low-risk on the risk matrix.

Assign a score to each cell based on the methodology predetermined. Retain notes to support scoring of key risk factors such as "prior audits" and factors that are scored very high or very low. This will assist CMS in evaluating the reasonableness of your risk assessment results. Total the scores for each line item (control objective). The higher scores for each line item will prioritize the risk areas for consideration to be reviewed to support the CPIC. If a high risk control objective is included in a current year Type II SAS 70 audit or A-123 Appendix A review, you may rely on the SAS 70 audit or A-123 Appendix A review testing and document this as the rationale for excluding it from testing.

The CMS considers system security to be a *high* risk area. Therefore, contractors shall include control objective A.1 in *their* CPIC each year. All contractors are required to certify their system security compliance. Contractors shall verify that a system's security plan meet CMS' Minimum Security Requirements as defined by the Business Partners Systems Security Manual (BPSSM). Contractors should write a few paragraphs to self-

certify that their organization has successfully completed all required security activities including the security self-assessment of their Medicare IT systems and associated software in accordance with the terms of their Contract. See section 3.3 of the BPSSM, which can be found at www.cms.hhs.gov/it/security for more details. Also, include the results of the testing of A.1 in the Executive Summary. See section 30.3.

## 20.1.1- Risk Analysis Chart

***(Rev. 164, Issued: 01-15-10, Effective: 11-23-09, Implementation: 11-23-09)***

***Table 1* -- This chart is provided to assist contractors in selecting the high-risk activities within their organization. There are 3 columns that gives directions on how to rank operational areas for potential risk.**

| HIGH RISK FACTORS (1) | MEDIUM RISK FACTORS (2) | LOW RISK FACTORS (3) |
|---|---|---|
| Recent review or audit findings showing material weaknesses related to internal control processes. | Potential program weaknesses related to violation of privacy issues. | Areas where CAPs have already been implemented. |
| Areas affected by significant changes in laws, regulations, special requirements or instructions. | Areas with high visibility. | Areas with low visibility; routine program operations. |
| Areas where policies and procedures regarding internal control over financial reporting are not well documented. | Areas where due dates are often not met or responses to correspondence are late. | Areas where workers are meeting routine program operations and performance targets and attitudes and staff motivations are high. |
| Areas of significant financial vulnerabilities (e. g., new accounting or regulatory guidelines). | Areas with consistent complaints or inquiry.<br><br>Areas where there are no written policies and procedures. | Areas that undergo frequent financial audits/ reviews by external parties (e.g., CFO, SAS 70, A-123 Appendix A, CPIC, etc.). |
| Areas where guidelines have varied interpretations and/or areas being restructured. | Areas where recent policy changes were implemented. | Areas that managers perform periodic reviews to ensure that work assignments are performed consistently, and accurately. |
| Areas with new contract activities. | Areas with reorganization activities. | |

| HIGH RISK FACTORS (1) | MEDIUM RISK FACTORS (2) | LOW RISK FACTORS (3) |
|---|---|---|
| Areas where objectives of the corporate mission could be in jeopardy if not properly implemented. | Areas where there is a breakdown in communication with corporate, regional, state or satellite offices, etc. | Work activities are being phased out. |
| Areas lacking performance measures or monitoring. | Areas with new or problematic performance measures. | Areas with established and validated performance measures. |

**Scoring Criteria Guidelines:**

**High:** If an activity has two or more high risk rating factors, review annually.

**Medium:** If an activity has two or more medium risk factors, review biannually.

**Low**: Low activities can be reviewed within a 5-year timeframe or at manager's discretion that should be balanced with costs and resources.

## 20.5 - Documentation and Working Papers

***(Rev. 164, Issued: 01-15-10, Effective: 11-23-09, Implementation: 11-23-09)***

The contractor shall document through its working papers, the process it employed to support its internal control certification. This documentation shall include working papers so that a CMS reviewer can conclude that the Risk Assessment process as described in section 20.1 follows or exceeds these guidelines, and that the Control Activities (section 10.2.3.3) identified to support the high risk control objectives selected for review are current and clearly stated. Finally, the CPIC documentation shall demonstrate how the Testing Methods employed comply with the general parameters as described in section 20.4 for the purpose of Control Activity validation.

Working papers contain evidence accumulated throughout the review to support the work performed, the results of the review, including findings made, the judgment and/or conclusion of the reviewers. They are the records kept by the reviewer of the procedures applied, the tests performed, the information obtained, and the pertinent judgment and/or conclusions reached in the review process. Examples of working papers are review programs, analyses, memoranda, letters of confirmation and representation, abstracts of documents, and schedules or commentaries prepared or obtained by the reviewer. Working papers may be in the form of data stored on tapes, film, or other media.

General Content of Working Papers - Working papers should ordinarily include documentation showing that:

- The work has been adequately planned and supervised.
- The review evidence obtained, the reviewing procedures applied, and the testing performed has provided sufficient, competent evidential matter to support the reviewer's judgments and/or conclusions.

Format of Working Papers - Working paper requirements should ensure that the working papers follow certain standards. As a whole, a good set of working papers should contain the following:

- The objectives, scope, methodology, and the results of the review.
- Proper support for findings, judgments and/or conclusions, and to document the nature and scope of the work conducted.
- Sufficient information so that supplementary oral explanations are not required.
- Adequate indexing and cross-referencing, and summaries and lead schedules, as appropriate.

- Date and signature by the preparer and reviewer.
- Evidence of supervisory review of the work.
- Proper heading should be given to the basic content of the working papers.

## 30 - Certification Package for Internal Controls (CPIC)

***(Rev. 164, Issued: 01-15-10, Effective: 11-23-09, Implementation: 11-23-09)***

The contractor shall submit one CPIC report for each type of contract, i.e., Title XVIII workload, MAC workload, DME MAC workload, Retiree Drug Subsidy (RDS), and Medicare Secondary Payer Recovery (MSPRC) workloads. *The contractor shall follow these guidelines when submitting the CPIC for Legacy Contractors, Medicare Administrative Contractors (MACs), and the Durable Medical Equipment Medicare Administrative Contractors (DME MACs):*

- *Contractors who continue to have Legacy workloads shall continue to submit a CPIC for the Legacy work including all sites for Parts A & B.*
- *Contractors that transition to a MAC prior to June 30, and still have a portion of Legacy work shall complete a **Hybrid** CPIC. It shall complete the certification for the period that it received the Legacy work and the MAC work. The contractor shall clarify in the report the transitions dates.*
- *Contractors with multiple MACS shall submit a CPIC for each MAC.*
- *DME MACS shall submit a CPIC for each DME MAC.*
- *Contractors that transitioned out of the program prior to June 30, and are not assuming additional workloads are not required to submit a CPIC.*

Chief Financial Officer
Office of Financial Management
Attn: Accounting Management Group, N3-11-17
Centers for Medicare & Medicaid Services
7500 Security Boulevard
Baltimore, MD 21244-1850

An electronic version of all documents (including updates) submitted as part of your CPIC submission shall be sent to CMS at internalcontrols@cms.hhs.gov as Microsoft Excel or Word files. Electronic copies shall also be sent as follows:

- Title XVIII contractors shall send to the Associate Regional Administrator (ARA) for Financial Management and Fee for Service Operations, CFO/SAS 70 Coordinator, and the Consortium Contractor Management Officer (CCMO)
- MACs shall send to the ARA for Financial Management and Fee for Service Operations, CFO/SAS 70 Coordinator, CCMO, and the Project Officer of the MAC.

- RDS and MSPRC shall send to the CMS Project Officer

The file names for all electronic files submitted, as part of your CPIC package should begin with the three, four, *or five* letter abbreviations assigned to each contractor in section 40.3. Additionally, in the subject line of your email submission, you shall include the corporate name of the entity submitting the CPIC.

Maintain the appropriate and necessary documents to support any assertions and conclusions made during the self-assessment process. In your working papers, you are required to document the respective policies and procedures for each control objective reviewed. These policies and procedures should be in writing, be updated to reflect any changes in operations, and be operating effectively and efficiently within your organization.

The supporting documentation and rationale for your certification statement, whether prepared internally or by an external organization, shall be available for review and copying by CMS and its authorized representatives.

## 30.1.1 - OMB Circular A-123, Appendix A: Internal Controls Over Financial Reporting *(ICOFR)*

***(Rev. 164, Issued: 01-15-10, Effective: 11-23-09, Implementation: 11-23-09)***

CMS contractors, including MACs, MSPRC and RDS, shall use the five steps below to assess the effectiveness of its internal control over financial reporting. Documentation shall occur within each of the basic steps, whether documenting the assessment methodology during the planning phase or documenting key processes and test results during the evaluation and testing steps.

### 1) Plan and Scope the Evaluation

During this phase, the CMS contractor shall leverage existing internal and external audits/reviews being performed (SAS 70 audits, A-123 Appendix A Internal Control Reviews, CPIC, 912 Evaluations, Federal Information Security Management (FISMA), Contractor Performance Evaluations (CPE), etc.) when conducting its assessment of internal control over financial reporting. Management shall consider the results of these audits/reviews in order to identify gaps between current control activities and the documentation of them. The control objectives of A, B, F, G, I, J, K, and L shall be considered, if applicable.

If a CMS contractor had a SAS 70 audit or an A-123 Appendix A Internal Control Review in the current or past two fiscal years, it shall be used as a basis for the statement of assurance combined with other audits and reviews as appropriate. The contractor shall conduct additional testing for Circular A-123 as deemed necessary (see A-123 Appendix A Internal Control Review/SAS 70 Reliance Examples chart). For example, if the A-123

Appendix A assurance statement was unqualified, then the contractor is not required to conduct additional testing. Similarly, if the SAS 70 audit report was unqualified (no findings in Section I (Opinion Letter)), then the contractor is not required to conduct additional testing. However, if the previous year's A-123 Appendix A assurance statement is qualified, then the contractor shall conduct additional testing on the control deficiencies identified. Similarly, if Section I of the prior year's SAS 70 audit report is qualified (one or more findings that have not been corrected and validated), then the contractor shall conduct additional testing on the findings identified in Section I and the exceptions identified in Section III (See A-123 Appendix A Internal Control Review/SAS 70 Reliance Examples chart). If other audits and reviews contradict the SAS 70 audit or A-123 Appendix A Internal Control Review, then that contradiction shall be addressed via testing if the issue has not already been corrected and validated.

**2) Document Controls and Evaluate Design of Controls**

This step begins with the documentation and evaluation of entity-level controls. Consideration must be given to the five standards of internal control (control environment, risk assessment, control activities, information and communication, and monitoring) (see section 10.2.3 – Standards for Internal Control) that can have a pervasive effect on the risk of error or fraud, and will aid in determining the nature and extent of internal control testing that may be required at the transaction or process level. The GAO issued an internal control evaluation tool (www.gao.gov/new.items/d011008g.pdf) to assess the effectiveness of internal control and identify important aspects of control in need of improvement. This tool shall be used in conducting your assessment.

Contractors shall prepare cycle memos for financial reporting, accounts receivable, accounts payable, and claims expense (Note: *C*ontractors may combine related cycles (e.g., accounts payable and claims expense). These major transaction cycles relate to significant line items on the financial reports. Cycle memos should identify the key control activities that are relied upon to assure the relevant financial statement assertions are met:

- **Existence and Occurrence:** All reported transactions actually occurred during the reporting period and all assets and liabilities exist as of the reporting date. Recorded transactions represent economic events that actually occurred during a stated period of time.

- **Rights and Obligations:** The entity legally owns all its assets collectively and all liabilities are legal obligations of the entity. Assets and liabilities reported on the Balance Sheet are bona fide rights and obligations of the entity as of that point in time.

- **Completeness:** All assets, liabilities, and transactions that should be reported have been included, and no unauthorized transactions or balances are included.

All transactions during a specific period should have been recorded in that period. No unrecorded assets, liabilities, transactions or omitted disclosures.

- **Valuation or Allocation:** Assets, liabilities, revenue, and expenses have been included in the financial statements at appropriate amounts. Where applicable, all costs have been properly allocated. Assets and liabilities are recorded at appropriate amounts in accordance with relevant accounting principles *and policies*.

- **Presentation and Disclosure:** The financial report is presented in the proper form and any required disclosures are present. Financial statement items are properly described, classified and fairly presented.

Not all assertions will be significant to all accounts. A single key control will often not cover all assertions; which may necessitate several key controls to support the selected assertions for each line item. However, each assertion is applicable to every major transaction cycle and all associated assertions must be covered to avoid any control gaps.

Documenting transaction flows accurately is one of the most important steps in the assessment process, as it provides a foundation for the A-123 assessment. Thorough, well-written documents and flowcharts can facilitate the review of key controls. The documentation should reflect an understanding, from beginning to end, of the underlying processes and document flows involved in each major transaction cycle. This would include the procedures for initiating, authorizing, recording, processing, and reporting accounts and transactions that affect the financial reports. The cycle memo shall include Information Technology (IT) key control activities pertinent to the transaction cycle.

The documentation should start with the collection and review of documentation that already exists. The following are examples of existing documentation that could be used:

- Existing policy and procedure manuals;
- Existing forms and documents;
- Documentation from independent auditors and the OIG;
- Risk assessments;
- Accounting manuals;
- Memoranda;
- Flowcharts;
- Job descriptions;
- Decision tables;
- Procedural write-ups; and/or
- Self-assessment reports.

Interviews should be conducted with personnel who have knowledge of the relevant operations to validate that manuals, policies, forms, and documents are accurate and being applied.

A major transaction cycle narrative is a written summary of the transaction process. For each major transaction cycle, the narrative describes:

- The initiation point;
- The processing type (e.g., automated versus manual, preventative versus detective);
- The completion point;
- Other data characteristics, such as source; receipt; processing; and transmission;
- Key activities/class of transactions within the process;
- Controls in place to mitigate the risk of financial statement errors;
- Supervisor/manager review; process and calculations performed in preparation of financial reporting; and process outputs;
- Use of computer application controls and controls over spreadsheets used in the preparation of financial reporting;
- Identification of errors; types of errors found; reporting errors; and resolving errors; and
- Ability of personnel to override the process or controls.

Within the cycle memo, the key controls should be clearly identified by highlighting, bolding, or underlining. Contractors are responsible for reviewing and updating cycle memos to keep them current.

Control activities are the specific policies, procedures, and activities that are established to manage or mitigate risks. Key controls are those controls designed to meet the control objectives and support management's financial statement assertions. In other words, they are the controls that management relies upon to prevent and detect material errors and misstatements. For each key control activity, state: (a) the frequency of performance; (b) the specific steps performed; (c) how exceptions are resolved; and (d) how the performance of the control activity and related results/disposition are documented.

Examples of control activities that may be identified include:

- Top-level reviews of actual performance;
    - Compare major achievements to plans, goals, and objectives
- Reviews by management at the functional or actual level;
    - Compare actual performance to planned or expected results
- Management of human capital;
    - Match skills to organizational goals

    - Manage staff to ensure internal control objectives are achieved
- Controls over information processing;
    - Edit checks of data
    - Control totals on data files
    - Access controls
    - Review of audit logs
    - Change controls
    - Disaster recovery
- Physical controls over vulnerable assets;
    - Access controls to equipment or other assets
    - Periodic inventory of assets and reconciliation to control records
- Establishment and review of performance measures and indicators;
    - Relationship monitoring of data
- Segregation of duties;
- Proper execution of transactions and events
    - Communicating names of authorizing officials
    - Proper signatures and authorizations
- Accurate and timely recording of transactions and events
    - Interfaces to record transactions
    - Regular review of financial reports
- Access restrictions to and accountability for resources and records; and
    - Periodic reviews of resources and job functions
- Appropriate documentation of transactions and internal control.
    - Clear documentation
    - Readily available for examination
    - Documentation should be included in management directives, policies, or operating manuals

To document management's understanding of major transaction cycles, management should use a combination of the following:

- Narratives;
- Flowcharts; and
- Control matrices.

To illustrate this process, we have provided cycle memo guidelines in Section 60. *Updated cycle memos shall be submitted to the Internalcontrols mailbox within fifteen business days after December 31. Note: The cycle memos must be 508 compliant when released to the Internalcontrols mailbox. For information on 508 compliance, please visit the website at: http://www.cms.hhs.gov/InfoTechGenInfo/03_Section508.asp. In*

*addition, the MAC contractors shall provide updated cycle memos to the SAS No.70 auditors.*

**3) Test Operating Effectiveness**

Testing of the operation of key controls shall be performed and documented (refer to "Plan and Scope the Evaluation" (above) as well as the chart below with regard to testing applicability), to determine whether the control is operating effectively, partially effectively, or not effectively. Testing shall address both manual and automated controls. Ideally, testing should be performed throughout the year. The results of testing completed prior to June 30th will form the basis of the June 30th assurance statement. As testing continues into the fourth quarter, the results of that testing, along with any items corrected since the June 30th assurance statement will be considered in the September 30th assurance statement update. The chart below is provided to assist contractors in determining when to conduct testing.

# A-123 Appendix A Internal Control Review/SAS 70 Reliance Examples

| Scenario | Prior Fiscal Year 2 | Prior Fiscal Year 1 | Current Fiscal Year | Additional Testing Required or Not Required* |
|---|---|---|---|---|
| 1 | No SAS 70/*A-123 Appendix A Review* | No SAS 70/*A-123 Appendix A Review* | Unqualified | Not Required |
| 2 | No SAS 70/*A-123 Appendix A Review* | Unqualified | No SAS 70/*A-123 Appendix A Review* | Not Required |
| 3 | Unqualified | No SAS 70/*A-123 Appendix A Review* | No SAS 70/*A-123 Appendix A Review* | Not Required |
| 4 | Qualified | Unqualified | No SAS 70/*A-123 Appendix A Review* | Not Required |
| 5 | No SAS 70/*A-123 Appendix A Review* | No SAS 70/*A-123 Appendix A Review* | Qualified | Not Required |
| 6 | No SAS 70/*A-123 Appendix A Review* | Qualified | No SAS 70/*A-123 Appendix A Review* and the Findings are Corrected and Validated by CMS (CAP Closure Letter Received) | Not Required |
| 7 | Unqualified | Qualified | No SAS 70/*A-123 Appendix A Review* and the Findings are Corrected and Validated by CMS (CAP Closure Letter Received) | Not Required |
| 8 | Qualified | No SAS 70/*A-123 Appendix A Review* and the Findings are Corrected and Validated by CMS (CAP Closure Letter Received) | No SAS 70/*A-123 Appendix A Review* | Not Required |
| 9 | Unqualified | Qualified | No SAS 70/*A-123 Appendix A Review* and the Findings are NOT Corrected or Validated by CMS (No CAP Closure Letter) | Required |

| Scenario | Prior Fiscal Year 2 | Prior Fiscal Year 1 | Current Fiscal Year | Additional Testing Required or Not Required* |
|---|---|---|---|---|
| **10** | **No SAS 70/*A-123 Appendix A Review*** | **Qualified** | **No SAS 70/*A-123 Appendix A Review* and the Findings are NOT Corrected or Validated by CMS (No CAP Closure Letter)** | **Required** |
| **11** | **Qualified** | **No SAS 70/*A-123 Appendix A Review* and the Findings are NOT Corrected or Validated by CMS (No CAP Closure Letter)** | **No SAS 70/*A-123 Appendix A Review* and the Findings are NOT Corrected or Validated by CMS (No CAP Closure Letter)** | **Required** |

**<u>Unqualified Report</u>**
**SAS No. 70: No Findings in Section I**
**A-123 Appendix A Internal Control Review: No material weaknesses were noted**

**<u>Qualified Report</u>**
**SAS No. 70: 1 or More Findings in Section I**
**A-123 Appendix A Internal Control Review: Material weaknesses were noted, but were not pervasive**

***Note:**
**Assumes other subsequent audits and reviews do not contradict the SAS No. 70/A-123 Appendix A Review or contradictions have been corrected and validated.**

**4) Identify and Correct Deficiencies**

If design or operating deficiencies are noted, the potential impact of control gaps or deficiencies on financial reporting shall be discussed with management. The magnitude or significance of the deficiency will determine if it should be categorized as a control deficiency, a significant deficiency, or a material weakness (see section 30.6).

Corrective action plans (CAPs) shall be created and implemented to remediate identified deficiencies (see section 40). The contractor shall submit corrective action plans for all deficiencies (control deficiencies, significant deficiencies, and material weaknesses) identified as a result of A-123 Appendix A reviews.

*The term observation is sometimes used when the audit/review team identifies an opportunity to suggest that changes be made to a procedure or a control for the sake of enhancing or improving efficiency. Constructive observations can encourage improvement in the conduct of government programs and contractor operations. Contractors are not required to submit CAPs to CMS for observations, but CMS recommends that observations be tracked and corrected internally.*

**5) Report on Internal Controls**

The culmination of the contractor's assessment will be the assurance statement regarding its internal control over financial reporting. The statement will be one of three types:

1) Unqualified Statement of Assurance

Each contractor shall submit, as part of the CPIC report, an assurance statement for internal controls over financial reporting stating:

> "… (*C*ontractor) has effective internal controls over financial reporting in compliance with OMB Circular A-123, Appendix A."

Note: The contractor's statement of assurance should be unqualified if this is consistent with the A-123 Appendix A Internal Control Review statement per the CPA firm report (augmented by internal reviews, if necessary). Similarly, if the SAS No. 70 audit (augmented by internal reviews, if necessary) did not result in any findings or material weaknesses, then an unqualified statement of assurance would be applicable.

2) Qualified Statement of Assurance

Each contractor shall submit, as part of the CPIC report, an assurance statement for internal controls over financial reporting stating:

"…(*C*ontractor) has effective internal controls over financial reporting in compliance with OMB Circular A-123, Appendix A, except for the material weakness(es) identified in the attached Report of Material Weaknesses."

Note: The contractor's statement of assurance should be qualified if this is consistent with the A-123 Appendix A Internal Control Review statement per the CPA firm report (augmented by internal reviews, if necessary). Similarly, if a SAS No.70 audit and internal reviews in the current year disclosed either findings or a material weakness, then a qualified statement of assurance (see above) or a statement of no assurance (see below) would be issued, depending on the pervasiveness of the findings or material weakness. The results of work performed in other control-related activities may also be used to support your assertion as to the effectiveness of internal controls.

3) Statement of No Assurance

Each contractor shall submit, as part of the CPIC report, an assurance statement for internal controls over financial reporting stating:

"…(*C*ontractor) is unable to provide assurance that its internal control over financial reporting was operating effectively due to the material weakness(es) identified in the attached Report of Material Weaknesses."

or

"…(*C*ontractor) did not fully implement the requirements included in OMB Circular A-123, Appendix A and therefore cannot provide assurance that its internal control over financial reporting was operating effectively."

## *30.1.2 – Identify and Document Key Controls at the Major Transaction Cycle, Sub- Cycle, or Account Level*

***(Rev. 164, Issued: 01-15-10, Effective: 11-23-09, Implementation: 11-23-09)***

*Within the cycle memo, the key controls should be clearly identified by highlighting or underlining the key control. The key control should be clearly numbered with the control activity numbering structure so controls may be cross referenced to all other documentation, including the Control Deficiencies, and CAPs (Refer to section 40.3 for an example of a numbering system). The same cycle memo prepared to support the A-123, Appendix A, assessments should also be used to support the financial statement audit process. Contractors are responsible for reviewing and updating cycle memos and ensuring key controls are clearly marked and numbered. These cycle memos shall represent the end-to-end documentation. The contractor shall use the cycle memos to identify key controls for A-123 testing.*

*Control activities are the specific policies, procedures, and activities that are established to manage or mitigate risk identified in the risk assessment process. Key controls are*

*those controls designed to meet the control objectives and cover management's financial statement assertions. In other words, they are the controls that management relies upon to prevent and detect material errors and misstatements. Examples of control activities that may be identified include:*

- *Top-level reviews of actual performance;*
- *Reviews by management at the functional or actual level;*
- *Management of human capital;*
- *Controls over information processing;*
- *Physical controls over vulnerable assets;*
- *Establishment and review of performance measures and indicators;*
- *Segregation of duties;*
- *Proper execution of transactions and events;*
- *Accurate restrictions to and accountability for resources and records; and*
- *Appropriate documentation of transactions and internal control.*

*As part of the control identification process, management may identify redundant controls or controls that are ineffective and eliminate them. When identifying controls, the contractor should consider the presence of multiple controls within the same transaction cycle. Typically, a single control within a major transaction cycles, would not be considered sufficient. Conversely, there may be transaction cycles that have more than one control to detect the same problem. To identify key controls, management may consider the following examples:*

> *Using Bank Reconciliation as an example, start with analyst review, then the Supervisor review, and the final review is the CFO.* ***The key control is the CFO review****. The CFO review will be regarded as the key control because it can detect and correct errors from the Supervisor review.*
>
> *Using Cash Reconciliation as an example, there is a daily reconciliation proces and a monthly reconciliation process.* ***The key control is the monthly process.*** *The monthly reconciliation will be regarded as the key control because it can detect and correct errors from the daily reconciliation process.*

## 30.4 - CPIC- Report of Material Weaknesses

***(Rev. 164, Issued: 01-15-10, Effective: 11-23-09, Implementation: 11-23-09)***

The CPIC Report of Material Weaknesses (MW) shall include all initial MW identified during the CPIC period and not yet corrected and approved by a CAP closing letter. This report shall be updated as new findings are identified. It shall be prepared as a spreadsheet and include the following columns of information:

1. CMS Finding Number. The contractor shall use the CMS finding number assigned in the final audit report for all external findings. Assign a CMS finding number (see section 40.3) to all internally-identified MWs. This shall be done as soon as the

determination is made that the finding is a MW. Note: Information related to each MW should be on only one row of the spreadsheet; the "wrap text" function in Excel should be used.

2. Control Objective Impacted (see section 50). Each MW shall have at least one control objective associated with it. However, a MW could have more than one control objective associated with it. If more than one control objective is impacted by the MW, the finding shall be listed only once with multiple control objectives listed with it. Prioritize the control objectives impacted by each finding and limit them to no more than five.

3. Summary of the material weakness.

4. Corrective action plan (CAP).

5. Date the MW was first identified at the contractor level.

6. Date initial CAP submitted to CMS.

7. CAP target completion date.

8. Actual completion date.

9. Original source of the finding. If the original source is a Contractor Performance Evaluation review, you shall include the report date and site location of the review. If the original source *is* an internal control review to support your CPIC certification, identify the MW either FMFIA or financial reporting (FR).

# EXAMPLE REPORT OF MATERIAL WEAKNESSES
# CMS Contractor XYZ
# CPIC Report of Material Weaknesses
# Reporting Period FY XXXX

| (1) CMS Finding Number | (2) Control Objective (s) Impacted | (3) Summary of the MW | (4) Corrective Action Plan (CAP) | (5) Date MW Identified at the contractor level | (6) Date Initial CAP Submitted to CMS | (7) CAP Target Completion Date | (8) Actual Completion Date | (9) Original Source of Finding |
|---|---|---|---|---|---|---|---|---|
| XYZ-*XX*-C-001 | J.4 | One individual opens Medicare checks and records them in the cash receipts log. This indicates inadequate separation of duties for this process. | Duties of opening mail and logging in cash receipts are being assigned to separate individuals. | 02/03/20*XX* | 02/27/20*XX* | 03/15/20*XX* | 03/15/20*XX* | Internal Review |
| XYZ-*XX*-C-002 | J.3 | There is no integrated general ledger accounting system to adequately track all Medicare financial data | The services of a consulting firm have been obtained to develop an integrated general ledger system for reporting Medicare financial data. | 02/20/20XX | 02/27/20XX | 04/30/20XX | To be determined | Internal Review |
| XYZ-*XX*-S-001 | A.1 | No Entity Wide Security Plan | Create an entity Wide Security Plan | 03/01/20*XX* | 03/10/20*XX* | 6/30/20XX | To be determined | SAS 70 Audit |

## 30.6 - Definitions of Control Deficiency, Significant Deficiency, and Material Weakness

***(Rev. 164, Issued: 01-15-10, Effective: 11-23-09, Implementation: 11-23-09)***

The terms below are definitions and reporting classifications for FMFIA and A-123 Internal Controls over Financial Reporting:

CONTROL DEFICIENCY:

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A design deficiency exists when a control necessary to meet the control objective is missing or an existing control is not properly designed, so that even if the control operates as designed the control objective is not always met. An operation*al* deficiency exists when a properly designed control does not operate as designed or when the person performing the control is not qualified or properly skilled to perform the control effectively. *Controls that are not properly designed shall be documented as a control deficiency in the control deficiency log. A deficiency in operations of a control exists if a properly designed control is not working as intended.*

SIGNIFICANT DEFICIENCY:

A deficiency in internal control or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is "more than remote" (i.e., at least reasonably possible) likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. (Formerly Reportable Condition)

MATERIAL WEAKNESS:

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in a "more than remote" (i.e., at least reasonably possible) likelihood that a material misstatement of the financial statements, or other significant financial reports, will not be prevented or detected.

*NOTE: The terms Significant Deficiency and Material Weaknesses may also apply to FMFIA operational findings or issues.*

The term "remote" is defined in the Statements of Federal Financial Standards No. 5, Accounting for Liabilities of the Federal Government, as the chance of the future event or events occurring is slight. Therefore, the likelihood of an event is "more than remote" when it is at least reasonably possible.

## 30.7 - Material Weaknesses Identified *D*uring the Reporting Period

***(Rev. 164, Issued: 01-15-10, Effective: 11-23-09, Implementation: 11-23-09)***

The evaluation of your internal control environment should be an ongoing process throughout the fiscal year. It should not be a once-a-year event, which occurs prior to submission of your annual CPIC. The identification and reporting of material weaknesses should not wait until the end of the CPIC reporting period. During the reporting period, if material weaknesses are identified, send an electronic Initial CAP report within 45 days of identifying the problem, via E-mail, to CAPS@cms.hhs.gov and internalcontrols@cms.hhs.gov. (See section 40.4). Within that same time frame you are required to provide written notification, to your Associate Regional Administrator for Financial Management and Fee for Service Operations, *and the Project Officer of the MAC.*

## 40.3 - CMS Finding Numbers

***(Rev., Effective: 11-23-09, Implementation: 11-23-09)***

Finding Numbers should be assigned using the following instructions. Each section of digits should be separated by a dash.

*A.* The first three, four, or five digits are letters, which identify the name of the contractor. Each contractor is assigned a unique set of letters listed below. *Finding numbers ending with D & J are defined as follows:*

- *End letter "D" represents a DME MAC*
- *End letter "J" represents a A/B MAC*

B. The second two digits are the last two numbers of the year of the review.

C. The next one digit is a letter to identify the review/*audit type*.

D. The last three digits are three numbers assigned sequentially to each finding type beginning with 001.

**Review/Audit Type**

Findings resulting from the following types of audits or reviews should be reported using the Initial and Quarterly CAP Reports. Choose one from the following list:

- A - *A*-123 Appendix A non-IT self-assessment
- C - CPIC (your annual self certification package);
- E - CFO EDP audit;

- F - CFO Financial audit;
- G - GAO review (financial reviews);
- I – A-123 IT (EDP) Self Assessment
- M - CMS’ CPIC reviews;
- N - SAS 70 Novation;
- O - OIG review HHS/OIG/IT controls assessment;
- P - CMS’ 1522 reviews;
- R - AR AUP review;
- S - SAS 70 audit; and
- V - CFO related NVA/ST
- W – Regional Office Review

## Table 2 - CONTRACTOR ABBREVIATIONS

| | |
|---|---|
| Cahaba Government Benefit Administrators | CAH |
| *Cahaba Government Benefit Administrators (J10 A/B MAC)* | *CAHJ* |
| CIGNA Health Care | CIG |
| CIGNA Health Care, Durable Medical Equipment (DME) MAC | CIGD |
| First Coast Service Options, Inc. | FCSO |
| First Coast Service Options, Inc. *(J9 A/B MAC)* | FCSOJ |
| Highmark Medicare Services *(J12 A/B MAC)* | HMSJ |
| National Government Services, Inc. | NGS |
| *National Government Services*, Inc. *(J13 A/B MAC)* | NGSJ |
| National Government Services, Inc. DME MAC | NGSD |
| National Heritage Insurance Company *(J14 A/B MAC)* | NHIC*J* |
| National Heritage Insurance Company, DME MAC | NHICD |
| Noridian Mutual Insurance Company | NOR |
| Noridian Mutual Insurance Company *(J3 A/B MAC)* | NORJ |
| Noridian Mutual Insurance Company, DME MAC | NORD |
| Palmetto Government Benefits Administrators | PGBA |
| Palmetto Government Benefits Administrators *(J1 A/B MAC)* | PGBAJ |
| Pinnacle Business Solutions, Inc. | PBSI |
| Riverbend Government Benefits Administrator (d.b.a. Blue Cross and Blue Shield of Tennessee) | RGBA |
| TrailBlazer Health Enterprises, LLC | THE |
| TrailBlazer Health Enterprisess, LLC *(J4 A/B MAC)* | THEJ |
| TriSpan Health Services (d.b.a. as BCBS Mississippi) | TRI |
| Wisconsin Physicians Service Insurance Corporation | WPS |
| Wisconsin Physicians Service Insurance Corporation *(J5 A/B MAC)* | WPSJ |
| Chickasaw Nation Industries *Administration Services, LLC* (MSPRC) | CNI |
| Retiree Drug Subsidy (ViPS) (Part D Contractor) | RDSV |

### *Table 3 - SHARED SYSTEM MAINTAINER ABBREVIATIONS*

| | |
|---|---|
| Common Working File | CWF |
| Fiscal Intermediary Shared (or Standard) System /Multi-Carrier System | FISS |
| Multi-Carrier System | MCS |
| Viable Information Processing Systems (ViPS) | VMS |

## Table 4 – DATA CENTER ABBREVIATIONS

| | |
|---|---|
| *CNI/MARTI & SMART* | *CNIMS* |
| *Companion Data Services (CDS) (EDC)* | *CDS* |
| *CMS Central Office (EDC, Baltimore Data Center)* | *BDC* |
| *DCCA (MBES)* | *MBES* |
| *EDS –Plano, TX* | *MCSP* |
| *EDS – Tulsa, OK (EDC)* | *EDS* |
| *IBM – Boulder Colorado (HIGLAS)* | *IBM* |
| *ViPS/GHI (New York, NY)* | *ViPS* |

## 40.4 - Initial CAP Report

***(Rev., Effective: 11-23-09, Implementation: 11-23-09)***

All initial CAPs shall be reported on the Initial CAP Report. After this initial submission, CAPs shall be merged onto the Quarterly CAP report. All CAPs, for the reviews noted in section 40, shall be consolidated onto one Quarterly CAP Report. However, if you have findings for an affiliated data center or system maintainer *shown above*, these findings shall be reported *using the CMS Integrated Security Suite (CISS) tool and the instructions in IOM 100-17 at: (http://www.cms.hhs.gov/manuals/downloads/117_systems_security.pdf).* Specifically, if the three*, four or five* letter abbreviation listed in section 40.3 is not the same for all findings; a separate CAP report is required for each set of findings associated with that abbreviation code.

The contractor shall use the Initial CAP Report, as an Excel spreadsheet and add their data following the steps below. The format of the spreadsheet should not be altered. Additionally, this electronic file should be labeled Initial CAP Report, should be identified using the contractor abbreviations found in section 40.3, and should include the submission date. For example, Wisconsin Physicians Service Insurance Corporation (WPS) would name this file "WPS Initial CAP Report 10/30/XX.xls".

The initial CAP Report format will be distributed by and can be obtained from: CAPS@cms.hhs.gov.

## 40.5 - Quarterly CAP Report

***(Rev. 164, Issued: 01-15-10, Effective: 11-23-09, Implementation: 11-23-09)***

The contractor shall use the Quarterly CAP Report, as an Excel spreadsheet and add their data accordingly, without making changes to the format. Additionally, this electronic file shall be labeled Quarterly CAP Report, should be identified using the contractor abbreviations found in section 40.3, and shall include the submission date. For example, Wisconsin Physicians Service Insurance Corporation (WPS) would name this file "WPS Quarterly CAP Report 10/30/XX.xls".

The Quarterly CAP Report format will be distributed by and can be obtained from: CAPS@cms.hhs.gov.

*NOTE: CMS contractors leaving the program shall complete a final Quarterly CAP Report when it terminates from the Medicare program, or when it transitions to a MAC.*

*If a Title XVIII contractor had a CAP, and is awarded a MAC contract (even if they were previously the legacy contractor on a portion of the new MAC jurisdiction) the newly awarded contractor is not accountable for findings that occurred before they were awarded the MAC. While CMS can be aware of the finding and cognizant that it had been an issue before the award, CMS is not requiring the MAC to submit a CAP for a legacy finding. However, CMS contractors leaving the program shall complete a final Quarterly CAP Report when it terminates from the Medicare program, or it transition to a MAC. NOTE: The IT CAPs are evaluated on an individual basis.*

## 50 – List of CMS Contractor Control Objectives

***(Rev. 164, Issued: 01-15-10, Effective: 11-23-09, Implementation: 11-23-09)***

| Control Number | Control Objectives |
|---|---|
| **A - Control Number** | **Control Objective - Information Systems** |
| A.1 | An entity-wide security program has been documented, approved |

and monitored by management in accordance with the CMS Business Partners Systems Security Manual (BPSSM) and includes requirements to assess security risks periodically, establish a security management structure and clearly assign security responsibilities, implement effective security-related personnel policies, monitor the security program's effectiveness and ensure security officer training and employee security awareness.

A.2 Security related personnel policies are implemented that include performance of background investigations and contacting references, include confidentiality agreements with employees (regular, contractual and temporary) and include termination and transfer procedures that require exit interviews, return of property, such as keys and ID cards, notification to security management of terminations, removal of access to systems and escorting of terminated employees out of the facility.

A.3 Information resources are classified (risk-ranked) according to their criticality/sensitivity and are periodically formally reviewed.

A.4 Access to significant computerized applications (such as claims processing), accounting systems, systems software, and Medicare data are appropriately authorized, documented and monitored and includes approval by resource owners, procedures to control emergency and temporary access and procedures to share and properly dispose of data.

A.5 Security policies and procedures include controls to ensure the security of platform configurations and to ensure proper patch management of operating systems.

A.6 Physical access by all employees, including visitors, to Medicare facilities, data centers and systems is appropriately authorized, documented, and access violations are monitored and investigated.

A.7 Medicare application and related systems software development and maintenance activities are authorized, documented, tested, and approved. Application level controls must ensure completeness, accuracy, and authorization.

A.8 A System Development Life Cycle methodology is documented and in use and includes planning for and costs for security requirements in systems.

A.9 Change management policies and procedures exist that include documented testing and approval of changes for regular and

emergency changes and restrictions on the use of public domain and personal software.

A.10 Access to program libraries is properly restricted and movement of programs among libraries is controlled.

A.11 Adequate segregation of duties exists between various functions within Medicare operations and is supported by appropriately authorized and documented policies.

A.12 Activities of employees should be controlled via formal operating procedures that include monitoring of employee activities by management with documentation maintained to provide evidence of management's monitoring and review process.

A.13 A regular risk assessment of the criticality and sensitivity of computer operations, including all network components, IT platforms and critical applications has been established and updated annually. The assessment includes identification of threats, known system vulnerabilities, system flaws, or weaknesses that could be exploited by threat sources.

A.14 A centralized risk management focal point for IT risk assessment has been established that includes promotion awareness programs, processes and procedures to mitigate risks and monitoring processes to assess the effectiveness of risk mitigation programs.

A.15 A risk assessment and systems security plan has been documented, approved, and monitored by management in accordance with the CMS Risk Assessment and Systems Security Plan Methodologies.

A.16 Regularly scheduled processes required to support the *CMS c*ontractor's continuity of operations (data, facilities or equipment) are performed.

A.17 A corrective action management process is in place that includes planning, implementing, evaluating, and fully documenting remedial action addressing findings noted from all security audits and reviews of IT systems, components and operations.

A.18 Management has processes to monitor systems and the network for unusual activity, and/or intrusion attempts.

A.19 Management procedures are in place to ensure proper action in response to unusual activity, intrusion attempts and actual

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| | intrusions. |
| A.20 | Management processes and procedures include reporting of intrusions attempts and intrusions in accordance with the Federal Information Security Management Act (FISMA). |

| B – Control Number | Control Objective - Claims Processing |
|---|---|
| B.1 | The Medicare claims processing system tracks each claim from receipt to final resolution. |
| B.2 | The system checks each claim, adjustment, and any other transaction for validity and, in accordance with CMS instructions, rejects such claims, adjustment, or other transaction failing such validity check. (Maintainer Only) |
| B.3 | The system generates an audit trail with respect to each claim, adjustment, or other related transaction. Such audit trail shall include the results of each applicable claim edit. (Maintainer Only) |
| B.4 | Each claim is adjudicated in accordance with CMS instructions. |
| B.5 | Claims are reopened in accordance with CMS guidelines and readjudicated in accordance with CMS instructions. |
| B.6 | Claim payment amounts are calculated in accordance with CMS instruction. Fee schedules are properly received, logged, and changed in the system and monitored, and applied in accordance with CMS instructions. Reasonable costs and reasonable charges are received, logged, and changed in the system, monitored, and applied in accordance with CMS instructions. |
| B.7 | The system shall identify and deny duplicate claims in accordance with CMS instructions. (Maintainer Only) |
| B.8 | Claims are properly aged from the actual receipt date to the actual date of payment in compliance with CMS instructions. |
| B.9 | The system shall detect apparent fraudulent or abusive practices in accordance with CMS instructions. Personnel are trained to detect fraudulent and abusive practices and, in accordance with CMS instructions, to deter such practices. Any such apparent fraudulent or abusive practices as are identified are documented and reported in accordance with CMS instructions. (Maintainer Only) |

| C – Control Number | Control Objective - Appeals |
|---|---|
| C.1 | Medicare Part A and Part B redeterminations *processed by Fiscal Intermediaries and MACs* are processed based on CMS instructions, appropriately logged and completed within legislatively mandated time frames and tracked to meet CMS guidelines. *(Does not pertain to MSPRC. Refer to C.3 for MSPRC control objective.)* |
| C.2 | Medicare Part B redeterminations processed *by carriers and MACs* are processed based on CMS instructions, appropriately logged and completed within legislatively mandated time frames and tracked to meet CMS guidelines. *(Does not pertain to MSPRC. Refer to C.3 for MSPRC control objective.)* |
| *C.3* | *Redeterminations processed by the MSPRC are processed based on CMS instructions, appropriately logged and completed within legislatively mandated time frames and tracked to meet CMS guidelines.* |
| *C.4* | Qualified Independent Contractor (QIC) request for case files are handled in compliance with CMS time frames. |
| *C.5* | Effectuations are processed as directed by CMS guidelines. |
| *C.6* | Contractor communications are clear and in compliance with CMS' instructions to include specific communications such as acknowledgement letters, decision letters, and information on additional appeal rights, etc. |

| D - Control Number | Control Objective - Beneficiary/Provider Services |
|---|---|
| D.1 | Personally identifiable health information, which is used and disclosed in accordance with the Privacy Act, is handled properly. (Internet Only Manual (IOM) Chapter 2-20.1.8-Beneficiary Customer Service; IOM Pub. 100-9, Chapter 6-Provider Customer Service Program). |
| D.2 | Beneficiary and Provider written inquiries are retained and handled accurately, appropriately, and in a timely manner. (IOM Chapter 2-20.2 – Written Inquiries; IOM Pub. 100-9, Chapter 6-Provider Customer Service Program). |
| D.3 | Telephone inquiries are answered timely, accurately, and appropriately. (IOM Chapter 2-20.1 Telephone Inquiries; IOM |

Pub. 100-9, Chapter 6-Provider Customer Service Program).

| **E – Control Number** | **Control Objective - Complementary Credits** |
|---|---|
| E.1 | *Legacy c*ontractors shall report complementary credits received from the Coordination of Benefits Contractor (COBC) for Coordination of Benefits Agreement (COBA) crossover claims in the proper fiscal year on their Interim Expenditure Reports (IERs). The credit is applied properly on the IER report when it is reported in the fiscal year in which the claims being reimbursed were originally crossed to the COBC.<br><br>*MACs shall report cash received from the COBC for COBA crossover claims in the proper fiscal year in the CMS Analytical, Reporting, & Tracking system (CMS ART).* |
| **E.2** | Legacy *c*ontractors shall properly report their COBC accrual amounts on their monthly IER reports. These accruals shall be reported in the proper fiscal year (based on when the claims were crossed to the COBC), and shall be adjusted downward based upon (1) the details of the COBC Detailed Error Report; and (2) the information contained on the contractor's remittance advice that accompanies each reimbursement for crossover claims.<br><br>MACs will not be using the accrual accounting method for this line item based on a future change request. |

| **F – Control Number** | **Control Objective - Medical Review (MR) -- If MR work has been transitioned to the Program Safeguard Contractors (PSCs) and you are no longer responsible for this function; do not include it in your CPIC submission.** |
|---|---|
| *F.1* | *Contractor shall use the PIM guidelines, data analysis (prior year and most current) and MR results including Strategy Analysis Report (SAR), and Comprehensive Error Rate Testing (CERT) results to develop and update the Medical Review Strategy (MRS). The problem-focused outcome-based MRS report shall address both provider and site-specific problems, and a prioritization of problems, funding, and workload. The MRS shall focus its' medical review activities toward the goal of reducing the paid claims and provider compliance error rate. All work performed by the MR unit shall be identified in the MRS and* |

*targeted based on the contractor's prioritized problem list*.

F.2 *Contractor shall budget and perform the MR workloads throughout the year as established in the MR Strategy. FIs and Carriers shall report workload volume and associated costs, calculated in accordance with the approved cost allocation plan, accurately and timely in the monthly MR Interim Expenditure Reports (IERs). For FIs and carriers, variances between budgeted and actual workload volume (10 percent or greater) and costs (5 percent or greater) shall be adequately addressed by ensuring appropriate strategy revisions and budget adjustments are made and submitted to the RO in accordance with PIM instructions. Please note that a variance analysis may not be required if variance amount is <$5,000. MACs should report this information in their monthly status report.*

F.3 *Contractor shall perform data analysis continuously to identify potential problems such as aberrant billing practices, potential of over-utilization areas, and changes in patterns of care to target medical review activities. Data from a variety of sources must be used for data analysis. [Examples of data sources could include: CMS and other national sources, contractor's internal databases, specialty data analysis contractors (e.g., the Pricing, Data Analysis and Coding (PDAC contractor), Recovery Audit Contractors (RACs), Program Safeguard Contractors (PSCs) or Zone Program Integrity Contractors (ZPICs). CMS contractors with similar geographic or size qualities, Office of Inspector General (OIG) reports, Government Accountability Office (GAO) reports, enrollment data, fraud alerts, and other available sources.]*

F.4 *Contractor shall ensure that effective MR edits are developed and implemented as a result of data analysis findings. The effectiveness of each MR edit shall be analyzed and measured by tracking the denial rate, appeals reversal rate, basis of the appeals reversal, and the dollar return on the cost of operationalizing the edit, and success of edit towards billing behavior correction. MR edits shall be modified, deleted, or deactivated when they are determined to no longer be effective.*

F.5 *Contractor shall utilize the Progressive Corrective Action (PCA) process, in accordance with the Program Integrity Manual (PIM) and CMS instructions, to drive medical review (MR) activity (i.e., data analysis, claims review, medical review education local policy development).*

F.6 *Contractor shall be capable of identifying the status of each*

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| | *individual claim subjected to medical review at any time (and all claims must be processed timely for closure in accordance with PIM instructions.)* |
| F.7 | *Contractors shall develop, revise, and maintain local policies based on data analysis findings and outlined in their MRS to enhance provider/supplier decision-making to accurately bill claims. Local policies must be in the appropriate format in accordance with PIM guidelines.* |
| F.8 | *The MR unit shall effectively collaborate with Provider Outreach and Education (POE) by referring educational needs that will address existing program vulnerabilities and emerging problems identified during the MR process conducted throughout the fiscal year.* |
| F.9 | *Contractor shall implement and utilize a Provider Tracking System (PTS) to track all informational provider contacts made by medical review and all educational referrals submitted to POE.* |
| F.10 | *Contractor shall ensure that there is adequate internal networking and sharing of information, and appropriate collaborative actions are taken as a result, between Medical Review and other business functions such as Appeals, Audits, POE, and inquiries and external organizations such as the PSC, ZPIC, RACs and Quality Improvement Organizations (QIOs).* |
| F.11 | *Contractor shall apply quality assurance processes to all elements of the MR Strategy and to all aspects of program management, data analysis, edit effectiveness, problem identification, and claim adjudication.* |
| F.12 | *Contractor shall effectively comply with all of the MR requirements of the Joint Operating Agreement (JOA) with the PSCs.* |

| **G – Control Number** | **Control Objective - Medicare Secondary Payer (MSP)** |
|---|---|
| G.1 | Internal quality controls are established and maintained that ensure timely and accurate processing of secondary claims submitted, including paper MSP claims, with a primary payer's explanation of benefits (EOB) or remittance advice (RA). This includes utilization of the MSPPAY module, resolving all MSP edits (including 6800 codes*), creation of "I"** records and |

resolving suspended claims. Contractor internal systems used to process MSP claims are updated via the Common Working File (CWF) automatic notice in an automated fashion.

*6800 edit codes can be located at: http://www.cms.hhs.gov/manuals/downloads/msp105c06.pdf at Publication # 100-05 (Medicare Secondary Payer Manual) in Chapter 6 (Medicare Secondary Payer CWF Processes).
** "I" records are located at: http://www.cms.hhs.gov/manuals/downloads/msp105c05.pdf

This control objective does not pertain to the MSPRC contractor.

G.2 Audit trails for MSP recoveries (receivables) are maintained. This should also include the contractor's ability to create a complete audit trail if cases are housed or maintained electronically. An audit trail should contain detail to support all accounting transactions as a result of establishing, reconciling and resolving a receivable. For example, an audit trail should establish the identification and creation of the debt through to its resolution including the source of the receivable, reason(s) for adjustment(s), referral to Treasury, and collection of the debt.

All correspondence specific to a case should be accessible and in date order.

G.3 Contractors have processes and procedures in place to ensure compliance with all CMS instructions and directives relating to Phase III (MSP Investigations) of the Coordination of Benefits Contracts. This includes transmitting appropriate, timely and complete Electronic Correspondence Referral System (ECRS)*, CWF Assistance Requests and ECRS MSP inquiries as a result of the receipt of a phone call, correspondence, claim or unsolicited check/voluntary refund. All references must be maintained in an area accessible to MSP staff and must be available for CMS review.

*The ECRS user guide is located at: http://*www.cms.hhs.gov/manuals/downloads/msp105c05_att1.pdf* at Publication #100-05 Medicare Secondary Payer Manual in Chapter 5 Contractor Prepayment Processing Requirements.

G.4 Contractors have processes in place to identify and track all incoming correspondence to ensure Budget and Performance Requirements (Title XVIII contractors)/Statement of Work (Medicare Administrative Contractors) task priority compliance and timely response and acknowledgement. These tracking

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| | mechanisms should include the ability to track ECRS submissions when awaiting a particular response/status from COBC, or if your ECRS submission may warrant further actions after COBC development/investigation (e.g., claims adjustments). |
| G.5 | Contractors shall have quality assurance measures in place to ensure the accuracy of the implementation of any CMS directive. Contractors shall also provide evidence that the results from quality assurance checks are documented to identify errors and that training venues are implemented to prevent the reoccurrence of these errors. |

| **H – Control Number** | **Control Objective - Administrative** |
|---|---|
| H.1 | Contractors shall have a written code of business ethics and conduct. To promote compliance with such code of business ethics and conduct and to ensure that all employees comply with applicable laws and regulations, contractors shall have an employee business ethics and compliance training program and an internal control system that –<br><br>1. Are suitable to the size of the company and extent of its involvement in Government contracting;<br><br>2. Facilitate timely discovery and disclosure of improper conduct in connection with Government contracts; and<br><br>3. Ensure corrective measures are promptly instituted and carried out. |
| H.2 | Procurements are awarded and administered in accordance with the Medicare Agreement/Contract, CMS regulations, CMS general instructions and the Federal Acquisition Regulation. |
| H.3 | Incoming and outgoing mail shall be properly handled in accordance with published time frames, security guidelines, and in the most cost effective and efficient manner. |
| H.4 | Medicare management structure provides for efficient contract performance and is consistent with business practices. |
| H.5 | Records shall be retained according to guidelines established by CMS and other Federal agencies. |
| H.6 | Internal controls provide reasonable assurance that certain regularly scheduled processes required to support the CMS contractor's continuity of operations in the event of a catastrophic |

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| | loss of relevant, distinguishable Medicare business unit facilities are performed as scheduled. |
| **I – Control Number** | **Control Objective - Provider Audit** |
| I.1 | Interim, tentative and PIP payments to Medicare providers are established, monitored and adjusted, if necessary, in a timely and accurate manner in accordance with CMS general instructions and provider payment files are updated in a timely and accurate manner. Adjustments to interim payments shall be made to ensure that payments approximate final program liability within established ranges. Payment records are adequately protected. |
| I.2 | Information received by the contractor from CMS or obtained from other sources regarding new providers, change of ownership for an existing provider, termination of a provider, or a change of intermediary are identified, recorded, and processed in System Tracking for Audit and Reimbursement (STAR) in a timely and accurate manner and reflected in subsequent audit activities. |
| 1.3 | Provider Cost Reports are properly submitted and accepted in accordance with CMS' general instructions. Appropriate program policies and instructions are followed in situations where the provider did not file a cost report. Cost report submission information is timely and properly forwarded to the proper CMS Systems. |
| I.4 | Desk review procedures and work performed are documented and are sufficient to obtain an accurate review of the submitted cost report. Documentation is established and maintained to identify situations requiring a limited desk review or a full desk review. |
| I.5 | Notices of Program Reimbursement (NPR) are issued accurately and timely to providers and include all related documentation (e.g. an audit adjustment report, copy of the final settled cost report). |
| I.6 | Inputs to mandated systems regarding provider audit, settlement, and reimbursement performance (STAR) are complete, accurate and in compliance with program instructions. Documentation supporting reports and inputs shall be maintained. |
| I.7 | The contractor’s cost report reopening process is conducted in accordance with CMS regulations and program policy. |

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| I.8 | Provider appeals (including both the Provider Reimbursement Review Board (PRRB) and Intermediary Appeals) are handled appropriately. Jurisdictional questions are addressed and PRRB timeframes for submission are observed. |
| I.9 | The contractor's Provider Statistical and Reimbursement Report (PSRR) system is operated in accordance with CMS manuals and instructions. Related reports are distributed to providers in accordance with CMS manuals and instructions. |
| I.10 | An internal quality control process has been established and is functioning in accordance with CMS instructions to ensure that audit work performed on providers' cost reports is accurate, meets CMS quality standards, and results in program payments to providers which are in accordance with Medicare law, regulations and program instructions. |
| I.11 | Cost reports are scoped and selected for audit or settled without audit based on audit plans that adhere to CMS guidelines and instructions. |
| I.12 | The contractor's audit process is conducted in accordance with CMS manual instructions and timelines, i.e., timeframes for issuance of the engagement letter, documentation requests, pre-exit and exit conferences, and settlement of the audited cost report. |
| I.13 | Communications of audit programs, desk review programs, CMS audit and reimbursement policies, and other audit related instructions are timely and accurately communicated to all appropriate audit staff. |
| I.14 | The contractor's audit staff maintains its necessary knowledge and skills by completing continuing education and training (CET) required by CMS instructions, and documentation is maintained to support compliance by each staff member. |
| I.15 | Supervisory reviews of the audit and settlement process are conducted and the policies and procedures for these reviews are communicated to all supervisors in accordance with CMS program instructions. |
| I.16 | All cost reports where fraud is suspected shall be referred to the Payment Safeguard Contractor (PSC) Benefit Integrity Unit in accordance with CMS and contractor instructions. |
| I.17 | The contractor has processes and procedures in place to document |

that supervisory reviews by provider audit department management were completed on all provider audit CAPs from the establishment of the CAPs to the implementation and validation of the CAPs.

## J – Control Number

## Control Objective - Financial

Transactions for Medicare accounts receivable, payables, expenses shall be recorded and reported timely and accurately, and financial reporting shall be completed in accordance with CMS standards, Federal Acquisition Regulation (FAR), Financial Accounting Standards Advisory Board, Cost Accounting Standards, and Generally Accepted Accounting Principles (GAAP). For the following control objectives, the review shall focus on the following areas:

- Cost Report Settlement Process;
- Contractor Financial Reports:
    - Statement of Financial Position (CMS-H750A/B),
    - Status of Accounts Receivable (CMS-751A/B),
    - Status of Debt – Currently Not Collectible (CNC) (CMS –C751 A/B),
    - Status of Medicare Secondary Payer Accounts Receivable (CMS-M751A/B),
    - Status of Medicare Secondary Payer Debt-Currently Not Collectible (CMS-MC751A/B),
    - Reconcile the accounts receivable balance and activity to the Provider Overpayment Reporting (POR) System and the Physician Supplier Overpayment Reporting (PSOR) system,
    - HIGLAS-CMS Balance Sheets and Income Statements,
    - HIGLAS-CMS Treasury Report on Receivables (TROR),
    - HIGLAS-CMS CNC Eligibility,
    - HIGLAS-CMS MSP Recovery GHP/Non-GHP

Receivables,

- Reconcile the HIGLAS accounts receivable balance and activity to the following reports/registers:

  CMS Beginning Balance Report,

  CMS Transaction Register,

  CMS Applied Collection Register,

  CMS Adjustment Register,

  CMS AR Overpayments Report,

  CMS Interest and Late Charges,

  CMS AR Balance Detail,

  CMS Written-Off/CNC,

- Monthly Contractor Financial Report (CMS 1522) and Contractor Draws on Letter of Credit (CMS 1521),
- Reconciliation of Cash Balances and Cash Receipts.
- HIGLAS-CMS Trial Balance and General Ledger,
- HIGLAS-CMS Cash Management Reports,
- HIGLAS-CMS Accounts Payable Reports.
- HIGLAS-Contractor's Monthly Bank Reconciliation Worksheet

J.1 Financial statements and reports should include all authorized transactions that occurred for the period reported.

J.2 Financial transactions are valid and approved by authorized personnel in accordance with management and CMS' policies.

J.3 Recorded and processed transactions are correctly classified, maintained, summarized and reconciled. In addition, transactions shall be properly supported.

J.4 Segregation of duties exists within the areas of disbursement and collection (i.e., there shall be separate authorization, record

keeping, and custody).

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| J.5 | All assets, including cash and accounts receivable should exist and be properly valued and demanded accounts receivable should be properly aged. Accounts receivable should be correctly recorded in the books/records of the contractor. |
| J.6 | All liabilities, including accounts payables should exist and be properly valued. Accounts payable should be correctly recorded in the books/records of the contractor. |
| J.7 | Contractor Financial Reports are accurate, signed/certified by authorized individuals and presented timely to CMS in accordance with Publication (Pub) 100-06 of the Medicare Financial Management Manual, Chapter 5, Financial Reporting, section 230. |
| J.8 | Banking information relevant to Medicare processing is accurately stated and conforms to the tripartite agreement. |

| **K – Control Number** | **Control Objective - Debt Referral (MSP and Non-MSP)** |
|---|---|
| K.1 | Procedures are documented and followed to identify a debt eligible for referral to Treasury for cross servicing and Treasury Offset Program (TOP) prior to the debt becoming 180 days delinquent. These procedures are written and available for review. Debts eligible for referral and debts ineligible for referral are properly reported on the appropriate CMS Forms 751, Contractor Financial Reports, Status of Accounts Receivable, or the Treasury Report on Receivables and Debt Collection Activities Report. For MSP debt, see Internet Only Manual (IOM), Pub 100-05, MSP Manual, Chapter 7, Section 60. For Non-MSP debt, see IOM, Pub 100-06, Chapter 4, Section 70. For MSP and Non-MSP debt, see also Pub 100-06, Chapter 5. |
| K.2 | Intent to Refer letters (IRLs) for eligible debt are sent in a timely manner in accordance with CMS instructions. Use the MSP and Non-MSP references in K.1 to provide the timeframes for each type of debt. |
| K.3 | Responses to the IRL letter are handled timely according to CMS instructions.- Appropriate systems are updated to reflect any changes to the eligibility status of the debt and these statuses are properly reported on the financial reporting forms outlined in K.1. Procedures are in place to handle undeliverable letters. Use the |

references in K.1.

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| K.4 | Eligible delinquent debt is input to the Debt Collection System (DCS) timely and accurately, *including debt type,* in accordance with CMS instructions. Use references in K.1. |
| K.5 | Contractor initiated recalls, collections, and adjustments are entered *timely and accurately* to DCS as appropriate, when there is a change to a debt that has been referred for cross servicing, in accordance with CMS instructions. Procedures to update these debts in DCS are in place and are being followed. Use the references in K.1. |
| K.6 | Contractor has procedures in place to ensure that the Collection/Refund Spreadsheets are completed in accordance with CMS instructions. Use the references in K.1. *Internal systems and DCS are updated with refund/adjustment information as appropriate and Comments Screen in DCS is annotated, as appropriate.* |
| K.7 | Treasury Cross-Servicing Dispute Resolution forms are researched, resolved, and responded to Treasury timely in accordance with CMS instructions. See references in K.1. Procedures are in place and are being followed to respond to these disputes/inquiries, update the DCS, *including the Status Code and Comments Screen,* and properly report the status and balance of the debt in the financial reporting forms outlined in K.l |
| K.8 | *Contractor has procedures in place to ensure Returned to Agency (RTA) Spreadsheets are completed in accordance with CMS instructions and debts listed on the spreadsheet are properly reported on the financial reporting forms and the DCS in accordance with CMS instructions. Use references in K.1.* |

## L – Control Number — Control Objective - Non-MSP Debt Collection

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| L.1 | Demand letters initiate the collection of a provider debt as well as inform the provider of the existence of the debt, their appeal rights with respect to the debt, and the ramifications if the debt is not paid or an agreement is not reached within a specified time period. In addition to the content of the demand letter, the demand letter shall be issued, printed and mailed timely, *in accordance with CMS instructions at Pub 100.06, chapters 3 and 4.* |
| L.2 | Extended Repayment Plans (ERPs) shall be analyzed for approval |

or denial. A supervisor, in accordance with CMS instructions, reviews all ERPs. This includes monitoring all approved ERPs, the complete financial analysis of the provider's application, and the referral to CMS when necessary.

L.3 Interest is applied correctly and timely in accordance with CMS instructions. When necessary, interest adjustments are calculated correctly and processed and applied in a timely manner.

L.4 Bankruptcy cases are handled in accordance with CMS instructions and instructions given by the Office of General Counsel (OGC). An audit trail of the overpayment shall exist before and after the bankruptcy filing to ensure that Medicare's best interest can be represented by OGC.

L.5 Provider debt is collected timely, completely, and accurately with an appropriate audit trail of all collection activity and attempts of collection activity. This audit trail supports the amount of the provider debt.

L.6 All appropriate entries to CMS' POR/PSOR *contractors are no longer required to enter and update certain overpayments into the PORS/PSOR. With the exception of 1) overpayments arising from an unfiled cost report, 2) those for which an approved Extended Repayment Schedule (ERS) has been issued, 3) those arising from the issuance of an accelerated or advanced payment, or 4) overpayments that have been appealed for which recovery must stop under Section of 935 of the MMA, no other overpayments and their associated interest need to be into the POR/PSOR*. HIGLAS and contractor internal systems are made timely and accurately and reconciled among the relevant CMS systems. Discrepancies are corrected and an audit trail is maintained.

L.7 Timely review and processing of all 838 Credit Balance Reports. Ensure that all reported credit balances are collected and properly processed in accordance with CMS instructions.

*L.8* All overpayments, which meet the thresholds established in the Financial Management Manual, regardless of where they are determined, (Claims Processing, PSC/BI, Overpayments, Audit and Reimbursement…) are demanded and collection efforts are pursued.

L.9 For overpayments subject to the limitation on recoupment of section 935 of the Medicare Modernization Act (MMA), *recoupment is stopped when, a timely and valid first level appeal*

*request (redetermination), or a second level (reconsideration) request is received from a provider or supplier on an overpayment subject to these limitations.*

*During the appeal process, the contractor cannot recoup or demand the debt; however, the debt continues to age. Once both levels of appeal are completed and CMS prevails, collection activities, including demand letters and internal recoupment may resume within the timeframes set forth. Contractors will calculate the 935 interest if the provider prevails (wholly (full) or partially favorable decision) at the ALJ or subsequent levels. This does not apply to Part A cost report overpayments. Interest continues to accrue: Refer to Publication 100.06 Chapter 3, section 200*.

| M – Control Number | Control Objective - Provider Enrollment |
|---|---|
| M.1 | *Review the Medicare enrollment applications (paper CMS-855 or Internet-based Provider Enrollment Chain and Ownership System enrollment application) and take appropriate action in accordance with CMS guidelines in the Publication 100-8, Chapter 10 of the Program Integrity Manual (PIM).* |
| M.2 | Reassignments of benefits are made in accordance with section 30.2 of the Medicare Claims Processing Manual and section 7, Chapter 10 of the PIM. |
| M.3 | Billing arrangements are in accordance with section 30.2 of Medicare Claims Processing Manual. |

## 60 – CMS *Contractor* Cycle Memo

***(Rev. 164, Issued: 01-15-10, Effective: 11-23-09, Implementation: 11-23-09)***

*This outline is provided to give the CMS contractor some guidelines on writing a cycle memo. The CMS contractor cycle memo narrative is a written summary for the transaction process. The narrative describes the initial point, the processing type, completion point, key activities, and supervisory or management review. Within the cycle memo, the key controls should be clearly identified by highlighting or underlining and should be clearly numbered with the control activity numbering structure so controls may be cross referenced to other documentation such as the control deficiency log and/or corrective action plans. The key controls are identified for A-123 testing. The key controls are those controls designed to meet the control objectives and cover management's financial statement assertions. They are the controls that management relies upon to prevent and detect material errors and misstatements.*

## 60.1 – *CMS Contractor* Cycle Memo *Outline*

***(Rev. 164, Issued: 01-15-10, Effective: 11-23-09, Implementation: 11-23-09)***

The financial reporting cycle memo shall include the following sections in the, "Table of Contents":

### Section I. Objective

*The objective of the cycle memo is to describe the preparation and reporting of financial processes performed by the CMS contractor.*

### Section II. Introduction

*The purpose of the introduction is to provide sufficient background on the process. An example of an introduction would be: The CMS utilizes contractors to manage and administer the Medicare program. Medicare contractor financial reports provide a method of reporting financial activities by the contractors as required by the Chief Financial Officers (CFO) Act of 1990. The CMS contractors are required to maintain accounting records in accordance with government accounting principles and applicable government laws and regulations.*

### Section III. Interface with Other Cycles

*The contractor shall show what cycle memos interfaces or relate to other cycle memos such as the accounts receivable, accounts payable, claims expense or other. Contractors may combine related cycles such as the accounts payable and claims expense.*

### Section IV. Current Environment

*The purpose of the current environment is to describe the processes in place and to identify the controls within those processes. The Medicare contractor financial reporting environment should show that it has established and maintained an effective commitment to internal controls over financial reporting. Internal controls shall be established and assessments shall be designed to provide reasonable assurance and confidence those obligations and costs are in compliance with applicable laws and regulations. Funds and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation. Revenues and expenditures applicable to the operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over assets.*

## 60.2-List of Appendices

***(Rev. 164, Issued: 01-15-10, Effective: 11-23-09, Implementation: 11-23-09)***

## Appendix 1 - Key Contacts

***(Rev. 164, Issued: 01-15-10, Effective: 11-23-09, Implementation: 11-23-09)***

**Add key contacts for respective cycle memo contacts,** *especially for the key controls.*

## Appendix 2 – Flowcharts

***(Rev. 164, Issued: 01-15-10, Effective: 11-23-09, Implementation: 11-23-09)***

*Documenting transaction flows accurately is one of the most important steps in the assessment process, as it provides the foundation for all subsequent work. Thorough, well written documents and flowcharts can facilitate the review of key controls. Add flow charts for respective areas to reflect an understanding from beginning to end of the underlying processes. These would be the processes for initiating, authorizing, recording, processing, and reporting accounts and transactions that affect the operations for financial reports. The documentation should start with the collection and review of documentation that already exists. Some examples of existing documentation are:*

- *Policy and procedure manuals;*
- *Accounting manuals;*
- *Cycle memos;*
- *Memoranda;*
- *Flowcharts;*
- *Job descriptions, and*
- *Other.*

## Appendix 3 - Applicable Laws and Regulations

***(Rev. 164, Issued: 01-15-10, Effective: 11-23-09, Implementation: 11-23-09)***

*The first step in documenting internal controls is to identify significant provisions of laws and regulations that could have a direct and material effect on the processes described in the cycle memo. The following laws and regulations affect the Financial Reporting cycle. They are provided as examples. The CMS contractor can add or delete as necessary:*

1. **OMB Circular A-123, *Appendix A* Management's Responsibility for Internal Control**

   OMB Circular No. A-123, Appendix A defines management's responsibility for internal control in Federal agencies. Circular A-123 and the statute it implements,

the Federal Managers' Financial Integrity Act of 1982, are at the center of the existing Federal requirements to improve internal controls.

2. **Chief Financial Officers Act of 1990 (CFO Act)**
   Requires Federal agencies to prepare and have audited financial statements for many agency components and operations.

3. **Federal Managers' Financial Integrity Act (FMFIA)**

   Requires entities to provide assurance as to agency management control and agency compliance with Federal management system requirements by December 31 of each year.

4. **Federal Financial Management Improvement Act of 1996 (FFMIA)**

   Requires agencies to implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

## Appendix 4 - Key Information Technology Systems and Repositories

***(Rev. 164, Issued: 01-15-10, Effective: 11-23-09, Implementation: 11-23-09)***

*For each cycle memo, the contractor should oversee the identification and documentation of application systems and systems processing environments. The structure should include processes such as computer operations and change management. It is critical that technology-based (automated) controls are assessed and key controls in the IT system design are identified. The CMS contractor relies on IT systems to process financial transactions and report the associated financial information. To support the assessment of ICOFR, the contractor should ensure that applicable IT system components, such as automated calculations, accumulations, interfaces, and reports are operating effectively. The CMS contractor shall show applicable key information technology systems as they relate to its respective operation.*