CMS Manual System	**Department of Health & Human Services (DHHS)**
Pub 100-06 Medicare Financial Management	**Centers for Medicare & Medicaid Services (CMS)**
Transmittal 194	**Date: September 9, 2011**
	Change Request 7555

SUBJECT: Medicare Financial Management Manual, Chapter 7, Internal Control Requirements

I. SUMMARY OF CHANGES: This document updates and provides clarification for Office of Management and Budget (OMB) A-123 and Internal Control over Financial Reporting

EFFECTIVE DATE: October 11, 2011
IMPLEMENTATION DATE: October 11, 2011

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.*

	CHAPTER / SECTION / SUBSECTION / TITLE
R	7/Table of Contents
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	7/20.4/Testing Methods
R	7/20.5/Documentation and Working Papers
R	7/30.1/Certification Package for Internal Controls (CPIC) Requirements
R	7/30.1.1/OMB Circular A-123, Appendix A: Internal Controls Over Financial Reporting (ICOFR)
R	7/30.1.2/Identify and Document Key Controls at the Major Transaction Cycle, Sub-Cycle, or Account Level
R	7/30.2/Certification Statement
R	7/30.4/CPIC - Report of Material Weaknesses
R	7/30.5/CPIC - Report of Internal Control Deficiencies
R	7/30.6/Definitions of Control Deficiency, Significant Deficiency, and Material Weakness
R	7/30.8/Statement on Standards for Attestation Engagements (SSAE) Number 16 (SSAE 16), Reporting on Controls at Service Providers
R	7/40/Corrective Action Plans
R	7/40.1/Submission, Review, and Approval of Corrective Action Plans
R	7/40.2/Corrective Action Plan (CAP) Reports
R	7/40.3/CMS Finding Numbers
R	7/40.4/Initial CAP Report
R	7/40.6/Entering Data into the Initial or Quarterly CAP Report
R	7/50/List of CMS Contractor Control Objectives
R	7/60/CMS Contractor Cycle Memo
R	7/60.2/List of Appendices

III. FUNDING:
For Fiscal Intermediaries (FIs), Regional Home Health Intermediaries (RHHIs) and/or Carriers:
No additional funding will be provided by CMS; contractor activities are to be carried out within their operating budgets.

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: 194	Date: September 9, 2011	Change Request: 7555

SUBJECT: Medicare Financial Management Manual, Chapter 7 - Internal Control Requirements

Effective Date: **October 11, 2011**

Implementation Date: October 11, 2011

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 FMFIA, Medicare contractors shall demonstrate that they comply with FMFIA.

B. Policy: The CMS contract with its Medicare contractors includes an article titled FMFIA. In this article, the Medicare 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. Under various provisions of the Social Security Act and the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), Medicare contractors are to be evaluated by CMS on administrative service performance. The CMS evaluates Medicare contractors' performance by various internal and external audits and reviews.

II. BUSINESS REQUIREMENTS TABLE

Use"Shall" to denote a mandatory requirement

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	
7555.1	All contractors that have findings for an affiliated data center or system maintainer shall report the findings using the CMS FISMA Controls Tracking System (CFACTS). See Pub. 100-06, Chapter 7, section 40.4.	X	X	X	X	X					
7555.2	All contractors shall ensure that an entity-wide security program has been documented, approved and monitored by management in accordance with the Pub. 100-25, CMS Acceptable Risk Safeguards (ARS) and Pub. 100-17, CMS Business Partners Systems Security Manuals. See Pub. 100-06, Chapter 7, section 50, A.1.	X	X	X	X	X					RDS&M SPRC
7555.3	All MACs shall report workload volumes, and costs associated with MR activities in CMS ARTs, or as directed by the COTR. See Pub. 100-06, Chapter 7,	X	X								

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	
	section 50, F.2.										
7555.4	All MACs shall explain any significant fluctuations in workload or costs in the Monthly Report and SAR. See Pub. 100-06, Chapter 7, section 50, F.2.	X	X								
7555.5	All contractors shall appoint a compliance officer and have an employee business ethics and compliance training program. See Pub. 100-06, Chapter 7, section 50, H.1.	X	X	X	X	X					RDS&M SPRC
7555.6	All contractors shall ensure that the interest rate is updated/changed in accordance with the notice of the new interest rate for Medicare Overpayments and Underpayments notification. See Pub. 100-06, Chapter 7, section 50, L.3.	X	X	X	X	X					RDS&M SPRC
7555.7	All contractors not on HIGLAS shall continue to enter certain overpayments in POR and PSOR until they are transitioned to HIGLAS. See Pub. 100-06, Chapter 7, section 50, L.6.	X	X	X	X	X					RDS&M SPRC

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

Section A: For any recommendations and supporting information associated with listed requirements, use the box below: N/A
Use "Should" to denote a recommendation.

X-Ref Requirement Number	Recommendations or other supporting information:
	None

Section B: For all other recommendations and supporting information, use this space: N/A

V. CONTACTS

Pre-Implementation Contact(s): Ronald Dea, 410-786-1375
Eleanor Sheain, 410-786-8120

Post-Implementation Contact(s): Contact your Contracting Officer's Technical Representative (COTR) or Contractor Manager, as applicable.

VI. FUNDING

Section A: For *Fiscal Intermediaries (FIs), Regional Home Health Intermediaries (RHHIs),* and/or *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),* 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

Table of Contents
(Rev. 194, 09-09-11)

Transmittals for Chapter 7

20 - CMS Contractor Internal Control Review Process and Timeline

(Rev. 194, Issued: 09-09-11, Effective: 10-11-11, Implementation: 10-11-11)

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) Update for period July – September** • **Due: Within Five business days after September 30** • **Review updated IOM to evaluate changes required to your system of operations**
NOVEMBER	• **Update Standard Operating Procedures** • **Incorporate updated IOM changes**
DECEMBER	• **Conduct risk assessment, see Section 20.1** • **Prepare *SSAE 16* Statement of Work for the audit (MAC & DME MAC)**
JANUARY	• **Award *SSAE 16* contract (MAC & DME MAC)** • **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 *SSAE 16* 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** • **Due: 45 days after final A-123 and/or *SSAE 16* Reports**
SEPTEMBER	• **Determine if new material weaknesses were identified since the interim CPIC report in July**

20.1 - Risk Assessment

(Rev. 194, Issued: 09-09-11, Effective: 10-11-11, Implementation: 10-11-11)

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) , SSAE 16 audits*, 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 *and/or SSAE 16* 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 and DME MAC Statements 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 *SSAE 16 or SAS 70 audit,* or A-123 Appendix A review, you may rely on the *SSAE 16 or 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.gov/manuals/downloads/117_systems_security.pdf 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. 194, Issued: 09-09-11, Effective: 10-11-11, Implementation: 10-11-11)

***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	Areas where due dates are	Areas where workers are

HIGH RISK FACTORS (1)	MEDIUM RISK FACTORS (2)	LOW RISK FACTORS (3)
procedures regarding internal control over financial reporting are not well documented.	often not met or responses to correspondence are late.	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. Areas where there are no written policies and procedures.	Areas that undergo frequent financial audits/ reviews by external parties (e.g., CFO, SAS 70, *SSAE 16,* 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.	
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.

20.4 - Testing Methods

(Rev. 194, Issued: 09-09-11, Effective: 10-11-11, Implementation: 10-11-11)

Testing the policies and procedures involves ensuring that the documented policies and procedures are actually being used as designed and are effective to meet a control objective. Evaluating and testing the effectiveness of policies and procedures is important to determine if the major areas of risks have been properly mitigated and provide reasonable assurance that the control objective is met.

Testing and evaluating the policies and procedures consists of five steps:

Step 1: Select the policies or procedures to be tested

It is both impractical and unnecessary to test all policies and procedures. The policies and procedures to be tested are those that primarily contribute to the achievement of the control objectives. A policy or procedure may be eliminated from testing when it does not meet the control objective to be tested due to being poorly designed, unnecessary or duplicative, or not performed in a timely manner. However, if this justification is invoked, other policies and procedures should be tested to validate meeting the control objective. Another justification for testing elimination is due to the cost of testing the policy or procedure exceeds the value of the control objective to be tested. If a policy or procedure is eliminated from testing, the reasoning should be documented.

Step 2: Select test methods

Once the policies and procedures to be tested are determined, test methods shall be determined. A combination of tests can be used depending on risk or type of activity. The following would be considered acceptable tests:

1. Inquiry: Asking responsible personnel if certain controls are functioning as intended (e.g., "Do you reconcile your activity or do you review a certain report each month?").

2. Inspection: Analyzing evidence of a given control procedure (e.g., searching for signatures of a reviewing official or reviewing past reconciliations).

3. Observation: Observing actual controls in operation (e.g., observing a physical inventory or watching a reconciliation occur).

4. Re-performance: Conducting a given control procedure more than once (e.g., recalculating an estimate or re-performing a reconciliation).

Observation and inquiry are less persuasive forms of evidence than inspection and re-performance.

Step 3: Determine how much testing is needed

The next sub-step is to determine the extent of the testing efforts. In most cases, it is unrealistic to observe each policy and procedure or to review 100 percent of all records. Instead, policies and procedures are tested by observing a selected number of controls performed or by reviewing a portion of the existing records. This selection process is called sampling. A representative sample provides confidence that the findings are not by chance by taking into account the factors of breadth and size.

1. *Breadth: Breadth* of the sample assures that the testing covers all bases and is a representative cross section of the universe being tested. This will provide

confidence that the sample will lead to a conclusion about the situation as a whole.

2. *Size: Size* is the number of items sampled. The size should be large enough to allow a conclusion that the findings have not happened by chance and provide confidence in the conclusion. The size of the sample should not be so large that testing becomes too costly. When selecting the size of the sample consider:

   a. *Experience: Reducing* the size of the sample when controls have operated satisfactorily in the past and no major changes have occurred.

   b. *Margin of Error: Increase* the size of the sample when only a small margin of error is acceptable.

   c. *Importance: Increase* the size of the sample when an important resource is at stake.

   d. *Type: Increase* the size of the sample when the control to be tested requires judgment calls. Decrease the size of the sample when the control is routine.

Step 4: Plan data collection

The sampling plan gives an idea of the "who, where, what, when, why, and how" (see section 20.1) aspect of the tests to be conducted. A data collection plan can be used to determine how the test results will be recorded. The accurate recording of test results is an extremely important part of the test documentation. Planning data collection prior to beginning the testing can be very helpful to ensure the information collected will provide conclusive data from which to evaluate the controls.

Step 5: Conduct the tests

The final step of testing and evaluating controls consists of actually effectuating the testing protocol and documenting the results.

At the conclusion of the testing, the results are analyzed and evaluated. Evaluating involves reviewing the information collected and making an overall judgment on the adequacy of the internal control system as a whole. Deficient areas are to be categorized into Control Deficiencies, Significant Deficiencies, and Material Weaknesses and should be considered for inclusion in the CPIC submission (see section 30.6).

20.5 - Documentation and Working Papers

(Rev. 194, Issued: 09-09-11, Effective: 10-11-11, Implementation: 10-11-11)

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.

30.1 – Certification Package for Internal Controls (CPIC) Requirements

(Rev. 194, Issued: 09-09-11, Effective: 10-11-11, Implementation: 10-11-11)

The contractor self-certification process provides CMS with assurance that contractors are in compliance with the FMFIA, OMB Circular A-123, and CFO Act of 1990 by incorporating internal control standards into their operations. The contractor self-certification process supports the audit of CMS' financial statements by the Office of Inspector General (OIG) and the CMS Administrator's FMFIA assurance statement.

This compliance is achieved by an annual self-certification statement and has been known as a CPIC. Through these self-certification statements, CMS has required each contractor to provide assurances that internal controls are in place and to identify and correct any areas of weakness in its operations. Contractors are expected to evaluate the effectiveness of their operations against CMS' control objectives discussed *above. The* control objectives represent the minimum expectations for contractor performance in the area of internal controls.

Contractors shall have written policies and procedures regarding their overall CPIC process and the preparation of the annual CPIC submission. They shall also have written policies and procedures that discuss the handling of potential internal control deficiencies identified by employees and managers in the course of their daily *operations. This* should include the process for reporting issues upward through the appropriate levels of management, tracking them to completion of any necessary corrective actions, and considering them for inclusion in the CPIC submission.

The CPIC represents a summary of your internal control environment for the period October 1 through June 30 (the CPIC period), as certified by your organization. It shall include an explicit conclusion as to whether the internal controls over financial reporting are effective (see section 30.1.1). All material weaknesses that were identified during this period shall be included in the CPIC submission. You should consider the results of final reports issued from internal and external audits and reviews, such as GAO and OIG audits as well as CFO Act audits, consultant reviews, management control reviews, CPE reviews, SAS 70 audits, *SSAE 16 audits,* A-123 Appendix A reviews and other similar activities. These findings should be classified as control deficiencies, significant deficiencies, or material weaknesses based upon the definitions provided in section 30.6.

The contractor shall submit one CPIC report for each type of contract, i.e., Title XVIII (Legacy) workload, Medicare Administrative Contractor (MAC) workload, Durable Medical Equipment (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, MACs, and the 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.

Electronic CPIC reports shall be received by CMS within fifteen business days after June 30. The contractor is not required to submit a hard copy report if it has the capability to insert electronic signatures or if the CPIC is sent from the VP of Operations' email or the CFO's email. Where applicable, the CPIC hard copy report shall be post marked within fifteen business days after June 30, and mailed to the following address:

Centers for Medicare & Medicaid Services
Office of Financial Management
7500 Security Boulevard, Mailstop N3-11-17
Baltimore, MD 21244-1850
Attn: Internal Control Team

The CPIC shall include:

- A Certification Statement (including an assurance statement on the effectiveness of internal controls over financial reporting as of June 30, see Section 30.2);
- An Executive Summary;
- A description of your risk assessment process. This should include a matrix to illustrate the prioritization of risk and exposure factors and a narrative or flowchart that outlines the risk assessment process (see Section 20.1 for more details regarding the risk assessment), and
- A CPIC Report of Material Weaknesses.

Contractors shall submit an update for the period July 1 through September 30 to report subsequently identified material weaknesses. The update shall be no more than a one page summary of the material weakness(es) and the proposed corrective action. If no additional material weaknesses have been identified, submit the following: "No material weaknesses have been identified during the period July 1 through September 30; therefore no additional material weaknesses have been reported". The submission of the update should follow the same guidelines as the initial CPIC. The CPIC update is due within five business days after September 30. A CAP shall be completed in accordance to the guidelines shown at section 40.1.

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, and the RO A-123/CFO Coordinator,

- MACs and DME MACs shall send to the ARA for Financial Management and Fee for Service Operations, RO A-123/CFO Coordinator, and the Contract Officer Technical Representative (COTR) of the MAC or DME MAC.

- RDS and MSPRC shall send to the CMS COTR.

The file names for all electronic files submitted, as part of your CPIC package should begin with the three, four, or five letter abbreviation 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. 194, Issued: 09-09-11, Effective: 10-11-11, Implementation: 10-11-11)

CMS contractors, including Legacy, MACs, DME 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, *SSAE 16 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, *SSAE 16 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*/SSAE 16* 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 or *SSAE 16* 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 *or SSAE 16* 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*, SSAE 16 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 CMS* Internal *C*ontrols 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.gov/InfoTechGenInfo/07 Section508.asp*. *In* addition, the MAC and the DME MAC contractors shall provide updated cycle memos to the *SSAE 16* 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/*SSAE 16*
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 *SSAE 16*/*A-123* Appendix A Review	Not Required
3	Unqualified	No SAS 70/*A-123* Appendix A Review	No *SSAE 16*/*A-123* Appendix A Review	Not Required
4	Qualified	Unqualified	No *SSAE 16*/*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	Required
6	No SAS 70/*A-123* Appendix A Review	Qualified	No *SSAE 16*/*A-123* Appendix A Review and the Findings are Corrected and Validated by CMS (CAP Closure Letter Received)	Not Required
7	Unqualified	Qualified	No *SSAE 16*/*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 *SSAE 16*/*A-123* Appendix A Review	Not Required
9	Unqualified	Qualified	No *SSAE 16*/*A-123* Appendix A Review and the Findings are NOT Corrected or	Required

Scenario	Prior Fiscal Year 2	Prior Fiscal Year 1	Current Fiscal Year	Additional Testing Required or Not Required*
			Validated by CMS (No CAP Closure Letter)	
10	**No SAS 70/*A-123* Appendix A Review**	**Qualified**	**No *SSAE 16/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 *SSAE 16/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 70: No Findings in Section I
SSAE 16: No findings in Section I
A-123 Appendix A Internal Control Review: No material weaknesses were noted

<u>Qualified Report</u>
SAS 70: 1 or More Findings in Section I
SSAE 16: 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 70/*SSAE 16/*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.

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 (ICOFR) stating:

> "… (Contractor) has effective internal controls over financial reporting (ICOFR) 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 70 *and/or SSAE 16* audit (augmented by internal reviews, if necessary) did not result in any Section I findings or the contractor has not classified any findings as 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 *SSAE 16 or SAS 70* Section I finding(s) and/or 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 *SSAE 16 or* SAS 70 audit disclosed at least one Section I finding and/or internal reviews in the current year disclosed 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 Section I 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:

> "…(Contractor) 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

"…(Contractor) 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. 194, Issued: 09-09-11, Effective: 10-11-11, Implementation: 10-11-11)

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 *process* 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.

30.2 - Certification Statement

(Rev. 194, Issued: 09-09-11, Effective: 10-11-11, Implementation: 10-11-11)

Provide a certification statement to CMS pertaining to your internal controls. Listed below is a generic certification statement. This statement should be included as part of your CPIC. The statement is to be signed jointly by your Medicare CFO and Vice President (VP) for Medicare, RDS or MSPRC or the equivalent Senior Executive responsible for Medicare, RDS or MSPRC. The CPIC is due within fifteen business days after June 30 and shall cover the period from October 1 through June 30. An updated assurance statement for the period July 1 through September 30 is due to CMS within five business days after September 30. Your certification statement should follow this outline:

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

Dear Chief Financial Officer:

As the (Chief Financial Officer and Vice President of (contractor name), we are writing to provide certification of reasonable assurance for the period October 1 through June 30 that (contractor name) internal controls are in compliance with the Federal Managers' Financial Integrity Act (FMFIA) and Chief Financial Officers (CFO) Act by incorporating internal control standards into our operations. We are also providing an unqualified [or qualified] statement of assurance that (contractor name) has effective internal controls over financial reporting in compliance with revised OMB Circular A-123, Appendix A [except for the *SSAE 16 or* SAS 70 Section I finding(s) and/or material weakness(es) identified in the attached Report of Material Weaknesses].

We are cognizant of the importance of internal controls. We have taken the necessary actions to assure that an evaluation of the system of internal controls and the inherent risks have been conducted and documented in a conscientious and thorough manner. Accordingly, we have included an assessment and testing of the programmatic, administrative, and financial controls for the (type of program) operations.

In the enclosures to this letter, we have provided an executive summary that identifies a list of the minimum requirements. (See section 30.3 Executive Summary for the list of minimum requirements to be provided in your CPIC.)

If material weaknesses have been identified, use the following language: "Material weaknesses have been reported to you and the appropriate regional office, and/or COTR. The respective Corrective Action Plans have been forwarded to your office." If no material weaknesses were identified, use the following language: "No material weaknesses have been identified during our review; therefore no material weaknesses have been reported."

We have included a description of our risk assessment analysis and our CPIC Report of Material Weaknesses. This letter and attachments summarize the results of our review.

We also understand that officials from the Centers for Medicare & Medicaid Services, Office of Inspector General, Government Accountability Office, or any other appropriate Government agency have authority to request and review the working papers from our evaluation.

Sincerely,

(Chief Financial Officer Signature)

(Vice President for (type of program) Signature

30.4 - CPIC- Report of Material Weaknesses

(Rev. 194, Issued: 09-09-11, Effective: 10-11-11, Implementation: 10-11-11)

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.	02/03/20XX	02/27/20XX	03/15/20XX	03/15/20XX	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	03/01/20XX	03/10/20XX	6/30/20XX	To be determined	*SSAE 16* Audit

30.5 - CPIC- Report of Internal Control Deficiencies

(Rev. 194, Issued: 09-09-11, Effective: 10-11-11, Implementation: 10-11-11)

The CPIC Report of Internal Control Deficiencies is an internal report and it shall include control deficiencies, significant deficiencies, *SSAE 16 Section IV and/or* SAS 70 Section III findings. The CPIC report of Internal Control Deficiencies shall not be submitted as part of the annual CPIC submission. However, you are required to report in the Executive Summary the number of control deficiencies and significant deficiencies identified during the period covered by the CPIC. The CPIC Report of Internal Control Deficiencies should be prepared as a spreadsheet and include the following columns of information:

1. The original source of the finding.

2. The type of control deficiency (control deficiency or significant deficiency).

3. Whether it is a design deficiency or operating deficiency.

4. The control objective numbers impacted (from section 50).

5. The corrective action plan.

6. A summary of the control deficiency and significant deficiencies including when the condition was observed and if a corrective action plan was implemented (or the status if not corrected).

Each control deficiency and significant deficiency shall be listed, and the total number of control deficiencies and significant deficiencies shall be included in the report. The contractors are required to prepare and maintain this report internally and update this report as new control deficiencies are identified. It shall be available for review by CMS central and/or regional office staff. When CPIC control deficiencies are identified, evaluate internal corrective actions for each of the deficiencies and correct each problem. While you are required to document, track, and correct problems identified as control deficiencies, significant deficiencies and material weaknesses, CPIC CAPs are not required to be submitted to CMS for control deficiencies and significant deficiencies.

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

(Rev. 194, Issued: 09-09-11, Effective: 10-11-11, Implementation: 10-11-11)

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 operational 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 or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

MATERIAL WEAKNESS:

A deficiency or combination of deficiencies in internal control such that there is a remote possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

30.8 – Statement on Standards for Attestation Engagements (SSAE) Number 16, Reporting on Controls at Service Providers

(Rev. 194, Issued: 09-09-11, Effective: 10-11-11, Implementation: 10-11-11)

Note: This section would only be applicable to MACs and DME MACs.
In lieu of receiving an A-123 Appendix A review, MACs/DME MACs are required to undergo a *SSAE 16 Type* II audit. The MAC/DME MAC shall contract with an independent certified public accounting (CPA) firm to perform this audit in accordance with the requirements below. The MAC/DME MAC shall follow its respective internal procurement process for contracting with the independent CPA firm or contact CMS Office of Acquisition and Grants Management for assistance.

To maintain independence in the appointment, compensation, and oversight of the audit work of the CPA firm, the MAC/DME MAC shall utilize its internal audit function, a board of directors, an audit committee, or an area external to the CFO's responsibilities. This requirement is similar to the requirements under the Sarbanes Oxley Act of 2002, Title III - Corporate Responsibility, Public Law 107-204-July 30, 2002. The CPA firm

must have experience in *SSAE 16 and/or* SAS 70 Type II audits, Medicare operations and accounting and financial reporting. Key personnel shall have at least five years experience in Medicare operations with experience in American Institute of Certified Public Accountants (AICPA) consulting standards, and have a technical proficiency in internal controls and financial reporting.

The initial audit shall include all of the CMS Control Objective areas described in Section 50 of this IOM. In subsequent years, the control objectives for financial, MSP, non-MSP, information systems, debt referral, medical review, provider audit, and claims processing shall be audited. In addition, the contractor shall conduct a risk assessment regarding the remaining Control Objectives and have them audited if the risk assessment warrants such a conclusion. The scope of the audit begins October 1st of each fiscal year and ends no earlier than March 31 (6 months). The audit scope should begin after all workloads have fully transitioned and the MAC/DME MAC is considered fully operational. Furthermore, subcontractors to the Contractor shall be included in the audit if the services they provide directly impact the financial statements of the MAC/DME MAC.

The MAC/DME MAC shall keep CMS informed of the progress of the *SSAE 16* audit. This shall be performed as follows:

Entrance Conference - The CPA firm shall conduct an entrance conference with the Contractor before the start of each engagement to discuss the scope, timeframe (including estimated fieldwork start and finish dates), and any other issues relating to the *engagement. The* Contractor shall notify CMS of the date and time of the entrance conference at least five days prior to its occurrence. The CMS reserves the right to participate in the entrance conference on-site or by teleconference.

Status Meetings - The CPA firm shall conduct status meetings, at least bi-weekly, with the *Contractor. The* status meetings shall include discussion of the activities performed during the period prior to the status meeting, significant findings/potential issues identified thus far, and any concerns that may affect the completion of the *work. The* Contractor shall notify CMS of the dates and times of the status meetings at least five days prior to their occurrence. The Contractor shall provide CMS with a copy of the written status report outlining any significant findings/potential issues identified thus far, and any concerns that may affect the completion of the *work. The* CMS reserves the right to participate in the status meetings on-site or by teleconference.

Exit Conference – The CPA firm shall conduct an exit conference with the Contractor after the release of the draft *SSAE 16* report to provide a summary of the review areas and the estimated final report issuance date. The scheduling of the final exit conference shall provide adequate time for the Contractor to review the draft report. The Contractor shall notify CMS of the date and time of the entrance conference at least five days prior to its *occurrence. The* CMS reserves the right to participate in the exit conference on-site or by teleconference.

The CPA firm(s) shall deliver to the contractor a matrix in the form of a Microsoft Excel spreadsheet or Microsoft Word table to report all *SSAE 16* findings in Sections I and *IV* of the report. The matrix must include:

a. Finding Number (the CPA firm shall number the findings in accordance with Section 40.3)
b. Description of the Finding
c. Control Objective Number Impacted (limited to 5)

The CPA firm shall, if applicable, conduct Corrective Action Plan (CAP) Follow up Reviews for prior CAPs as part of the engagement. If or when the contractor has open prior year CAPs for the CPA firm to follow up on, the contractor may make recommendations to the CPA firm and/or check with CMS/OFM to verify what CAPs should be followed up on. *Prior year CAPs are defined as any CAPs reported to CMS for any reviews/audits listed in Section 40.* The CPA firm shall review the CAPs to ensure that corrective actions have been implemented and that the CAPs are operating effectively. The CPA firm shall make a recommendation to the Contractor whether or not to close the CAP or have it remain open. If testing is needed in addition to that performed for the required control objective areas, it shall be completed.

The CPA firm shall deliver a CAP Follow up Report to the Contractor. The report shall contain a Microsoft Excel spreadsheet or Microsoft Word table to report the status of all prior year CAPs. The matrix shall include:

a. Finding Number
b. Business Area
c. Description of the Finding
d. Corrective Action Plan
e. Verification/Testing Methodology
f. Correction Status
g. Recommendation

Copies of the draft *SSAE 16* and CAP Follow *Up* reports shall be issued and provided to CMS by June 15th. These documents shall be submitted electronically to the CMS Internal Control Team at internalcontrols@cms.hhs.gov. Copies of the final *SSAE 16* and CAP Follow *Up* reports shall be issued and provided to CMS by July 1st. These documents shall be submitted electronically to the e-mail address above as well as in hardcopy to:

Centers for Medicare *&* Medicaid Services
Office of Financial Management
7500 Security Boulevard, Mailstop N3-11-17
Baltimore, MD 21244-1850
Attn: Internal Control Team

Work papers and supporting documentation shall be made available upon request to any party designated by CMS. The CMS reserves the right to request and review work papers resulting from *SSAE 16* audits and CAP Follow *Up* Reviews.

40 - Corrective Action Plans

(Rev. 194, Issued: 09-09-11, Effective: 10-11-11, Implementation: 10-11-11)

The CMS conducts various financial management and electronic data processing (EDP) audits/reviews performed by the OIG, GAO, independent CPA firms, and the CMS central office (CO) and regional office (RO) staff to provide reasonable assurance that contractors have developed and implemented internal controls. The results of these audits/reviews indicate whether the contractors' internal controls are operating as designed. Correcting these deficiencies is essential to improving financial management and internal control. Therefore, audit resolution remains a top priority at CMS.

The CMS has established policies and procedures to ensure that the contractors have appropriate CAPs for addressing findings identified through the following:

1. CFO financial or electronic data processing (EDP) audits related to annual CFO Financial Statement audits, which may include network vulnerability assessment/security testing (NVA/ST);

2. *SSAE 16* audits;

3. CPICs;

4. Accounts receivable (AR) Agreed Upon Procedures (AUP) reviews;

5. Health & Human Services (HHS), OIG Information Technology (IT) Controls Assessments;

6. Financial reviews conducted by the GAO;

7. CMS' 1522 workgroup reviews;

8. CMS' CPIC reviews; and

9. OMB Circular A-123 Appendix A reviews.

Administrative cost audits, provider audits conducted by the OIG, the contractor initiated systems security annual compliance audits, and system penetration tests are excluded from these procedures. The word "finding" includes control deficiency, significant deficiency, and material weakness. For *SSAE 16* audits, CAPs to be submitted to CMS are required for findings noted in the opinion letter only (Section I), not those reported in Section *IV of the SSAE 16 report. Section IV* findings are not required to be included on the *Initial* and *Quarterly* CAP *Reports. Section IV* findings shall be tracked internally and corrected. Contractors are required to prepare and maintain documentation to support the status and corrective actions taken on Section *IV* findings. It shall be

available for review and submitted to CMS central and/or regional office, upon request. For A-123 Appendix A reviews, the contractor shall submit corrective action plans for all deficiencies: control deficiencies, significant deficiencies, and material weaknesses.

40.1 - Submission, Review, and Approval of Corrective Action Plans

(Rev. 194, Issued: 09-09-11, Effective: 10-11-11, Implementation: 10-11-11)

Upon completion of any of the audits/reviews noted in section 40, with the exception of the CPIC, the contractor will receive a final report from the auditors/reviewers noting all findings identified during their audit/review. Within 45 calendar days of the date of report issuance, the contractor is required to submit an *Initial CAP Report,* using the Initial CAP *Report* format from section 40. For *SSAE 16*, A-123 Appendix A reviews, and the AR AUP reports, initial CAPS are due within 45 calendar days of the electronic receipt date of the final report.

The *Initial CAP Report* shall address newly identified and reported findings that have been assigned a finding number either by the auditor/reviewer (e.g., *SSAE 16* audit or A-123 Appendix A review) or by the contractor (i.e., CPIC). The CAP shall summarize the procedures that have been or will be implemented to correct the finding. Upon receipt of the *Initial CAP Reports*, the Internal Control Team will send the reports to the appropriate CMS business owner for review of the CAP. Business owners may either approve the CAP as submitted, or may request additional information to be included in the CAP. All business owner comments shall be provided to the contractors before the due date of the next *Quarterly CAP Report.* Responses to the CMS business owner comments on the initial CAPs shall be included in the next Quarterly CAP Report due after the date of receipt of the comments.

After an initial CAP has been submitted, the CAP shall be merged onto the Quarterly CAP using the report format in section 40.5. This report will contain all findings and CAPs previously submitted to CMS and provide updates to the actions taken to resolve the findings. If there has been no change in a specific CAP since the submission of the previous CAP report, note the date along with a comment of “no change” in the Update/Status column of that CAP.

The quarterly updates will also be reviewed; however, CMS will not respond to the quarterly updates unless the CAP indicates that the contractor is not making adequate progress on implementing the CAP or has made significant changes to target completion dates.

The Quarterly CAP *Report* is due within 30 days following the end of each quarter. Therefore, all electronic and hardcopy CAP reports should be received by CMS on or before January 30, April 30, July 30, and October 30 annually. The Quarterly CAP *Report* shall address all open findings, as well as continue to report information on all findings reported as completed by the contractors until CMS sends the contractor a closeout letter indicating which findings are officially closed. After the contractor receives the closeout letter, the CAP shall be removed from the Quarterly CAP *Report.*

Submit Initial and Quarterly CAP *Reports* electronically to: CAPS@cms.hhs.gov. Contractors are required to furnish an electronic copy of the CAP reports to their CMS Associate Regional Administrator for Financial Management and Fee for Service Operations, and the designated Regional Office RO A-123/CFO coordinator. MACs and DME MACs shall submit initial and quarterly CAPs to the CAPS@cms.hhs.gov mail box, and the MAC COTR. RDS and MSPRC shall submit initial and quarterly CAPs to the CAPS@cms.hhs.gov, and the central office Project Officer.

NOTE: If the electronic copy of the Initial and Quarterly CAP *Reports* has the Vice President (VP) of Operations electronic signature or is sent from the VP of Medicare Operations email or the CFO's email, then a hardcopy is not required to be sent to CMS. Otherwise, a hardcopy is required.

Contractors shall maintain and have available for review backup documentation to support implementation of each CAP. This will facilitate the validation of CAPS by CMS or its agents.

40.2 - Corrective Action Plan (CAP) Reports

(Rev. 194, Issued: 09-09-11, Effective: 10-11-11, Implementation: 10-11-11)

The Initial or Quarterly CAP *Report* shall include the data explained below using the format provided in section 40.4 and section 40.5. Findings should be grouped by type of review (i.e. CFO, *SSAE 16*, A-123 Appendix A, AR AUP, CPIC, etc.). Definitions of CAP report data fields:

CMS finding number - The finding number assigned by the auditor/reviewer (or assigned by the contractor if it is a CPIC material weakness) and noted in final reports to identify and track contractor findings. See section 40.3, for the finding number methodology used by the auditors.

Repeat CMS Finding Numbers – If a finding is repeated or duplicated in subsequent years or reported in more than one type of review, provide all other CMS finding numbers for that issue. Repeat finding numbers listed for a particular finding shall be an identical issue, not a related or similar issue and have been identified as a repeat by the auditors in their audit report.

Findings with a repeat finding number shall only be listed once on the CAP report. The CMS finding number column will be populated with the primary finding number. The primary finding number is the finding number that was identified first. If in subsequent audit/reviews, the same finding is identified by the auditors, the auditors will assign a finding number applicable to the type of audit/review being conducted, and also note in the audit report that it is a repeat finding of a prior audit. The auditor should also note the repeat finding number so that the findings can be easily linked.

Control objective(s) impacted - Required only for *SSAE 16* findings, A-123 Appendix A findings, and CPIC material weaknesses. This represents the control objective number(s) impacted by an identified finding. More than one control objective may be impacted for

each finding but you need to prioritize and limit the control objectives impacted to no more than five.

Finding/material weakness - A detailed description of the finding as identified by the auditor/reviewer in their final report or the material weakness as reported in the CPIC.

Responsible individual name – The name of an individual that can provide information on the resolution of the CAP, and is responsible for ensuring that the finding is resolved.

Responsible individual email - The email address of an individual that can provide information on the resolution of the CAP, and is responsible for ensuring that the finding is resolved.

Responsible individual phone number, is the phone number of an individual that can provide information on the resolution of the CAP and is responsible for ensuring that the finding is resolved.

Corrective action procedure(s) - The detailed actions that the contractor will take or has taken to resolve the finding. If the procedures have more than one step, all steps shall be included in one cell. Additionally, if the steps have multiple target and actual completion dates, include these in the Update/status of CAP column.

Target completion date - The date the contractor expects the final step of the corrective action procedure to be fully implemented.

Actual completion date - The date all steps of the corrective action procedure are considered by the contractor to be complete and the contractor has resolved the finding.

Update/status of CAP - Subsequent actions taken by the contractor to implement the initial CAP. If there are more than five control objectives impacted, add them to this field. If there has been no change in a specific CAP since the previous report, simply list the current date along with a comment of "no change" in the Update/Status of CAP column.

40.3 - CMS Finding Numbers

(Rev. 194, Issued: 09-09-11, Effective: 10-11-11, Implementation: 10-11-11)

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
- C - CPIC (your annual self certification package);
- E - CFO EDP audit;
- F - CFO Financial audit;
- G - GAO review (financial reviews);
- I – A-123 Appendix A IT (EDP);
- 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 - *SSAE 16* audit;
- V - CFO related NVA/ST; and
- W – Regional Office Review

Table *2* - CONTRACTOR ABBREVIATIONS

Cahaba Government Benefit Administrators	CAH
Cahaba Government Benefit Administrators (J10 A/B MAC)	CAHJ
CGS Administrators, LLC	CIG
CGS Administrators, LLC (J15 A/B MAC)	*CIGJ*
CGS Administrators, LLC, Durable Medical Equipment (DME) MAC	CIGD
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
NHIC, Corp. (J14 A/B MAC)	NHICJ
NHIC, Corp. DME MAC	NHICD
Noridian Administrative Services	NOR
Noridian Administrative Services (J3 A/B MAC)	NORJ
Noridian Administrative Services, DME MAC	NORD
Noridian Administrative Services, Pricing, Data Analysis, and Coding (PDAC)	NORP
Palmetto Government Benefits Administrators	PGBA
Palmetto Government Benefits Administrators (J1 A/B MAC)	PGBAJ
Pinnacle Business Solutions, Inc.	PBSI
TrailBlazer Health Enterprises, LLC	THE
TrailBlazer Health Enterprisess, LLC (J4 A/B MAC)	THEJ
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
Retiree Drug Subsidy Contact Center (RDSCC)	RDSC

Table *3* - SHARED SYSTEM MAINTAINER ABBREVIATIONS

Common Working File	CWF
Fiscal Intermediary Shared (or Standard) System /Multi-Carrier System	FISS
Multi-Carrier System	MCS
Quality Software Single Testing Contract Services, Inc.	*QSSI*
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
HP Enterprise Services EDS –Plano, TX	MCSP
HP Enterprise Services EDS – Tulsa, OK (EDC)	EDS
IBM – Boulder Colorado (HIGLAS)	IBM
ViPS/GHI (New York, NY)	ViPS

40.4 - Initial CAP Report

(Rev. 194, Issued: 09-09-11, Effective: 10-11-11, Implementation: 10-11-11)

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 also be reported using the CMS *FISMA Controls Tracking System (CFACTS).* A separate CAP report shall be submitted for each contractor, as listed in Section 40.3.

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.

40.6 – Entering Data into the Initial or Quarterly CAP Report

(Rev. 194, Issued: 09-09-11, Effective: 10-11-11, Implementation: 10-11-11)

Overview

The CMS spreadsheet application form assists the contractors to enter data quickly and easily into the CAP report. The application features drop down lists, reducing the amount of manually entered data, and has the ability to detect errors as each data element of information is entered. It also provides specific help features to assist in correcting detected errors.

Launching the Spreadsheet Application

Locate the file and double click on it to start Microsoft Excel and load the spreadsheet application. Or manually open Excel and use the 'File' – Open menu command to select and open the file, which also loads the spreadsheet application.

When opening the file, a Dialogue Box pops up. You shall click on Enable Macros. This will allow the spreadsheet to function properly and provide assistance in entering data and check for errors.

Entering Data

The first ten rows of the Initial or Quarterly CAP *Report* are considered to be the header of the spreadsheet and contain eight data elements (rows 2 through 9). The data elements are Contractor Name, Contractor Number, Date of Submission, Contact Person Name, Contact Person Email, Contact Person Phone Number, and Vice President (VP) for Medicare Operations Name, and VP for Medicare Operations Signature.

Header data elements:

Contractor Name – Position your cursor in cell B2 of the spreadsheet. A dialogue box will appear. Click on the [arrow] on the right side of the CMS Contractor Name dialogue box to invoke the Pull Down Menu of contractor names. Select the appropriate name. After the name is selected, the cursor will automatically move to the next field: Contactor Number.

Contractor Number – Enter your contractor number(s). The number cannot exceed 5 digits and if less than 5 digits are entered, leading zeros will automatically be entered. If more than 1 contractor number is entered, separate the numbers with a comma (,). Maintainers and Data Centers are not required to enter a contractor number, thus this

field shall be left blank. A flyover help box is provided to ensure the proper format is followed.

Date of Submission – Enter the date in the format of mm/dd/yyyy that the CAP report will be submitted to CMS. A flyover help box is provided to ensure the proper format is followed.

Contact Person's Name – Enter the first and last name of the person that may be contacted regarding any questions on the submission of the CAP report.

Contact Person's Email– Enter the email address of the contact person. The email address shall be properly formatted with a '@' sign.

Contact Person's Phone # - Enter the contact person's phone number (i.e., 410-786-5555, ext.123456). The phone number may have an extension of up to 6 digits. A flyover help box is provided to ensure that the proper format is followed.

VP for Medicare Operations Name – Enter the first and last name of the Vice President of Medicare Operations.

VP for Medicare Operations Signature – Insert electronic signature if capable.

NOTE: If incomplete information is entered or is not entered in the proper format, an error message will be displayed after each data entry indicating that the information is invalid. The application will not allow you to continue until all errors in the header are corrected. Also, you may use the function 7 (F7) key to enable spell check.

Row 11 provides the name of each column in the Detail section of the spreadsheet. The cells in this row may not be changed.

Proceed to cell A12 to begin to enter data in the Detail section of the spreadsheet.

To enter data, click the Edit Data button in the header section.

A dialogue box containing the 'CMS CAP Data Input' form will appear to allow information to be entered in the appropriate data fields. See Figure 1. All edits shall be performed in this input form. Edits performed directly into a cell when not in this form cannot be saved.

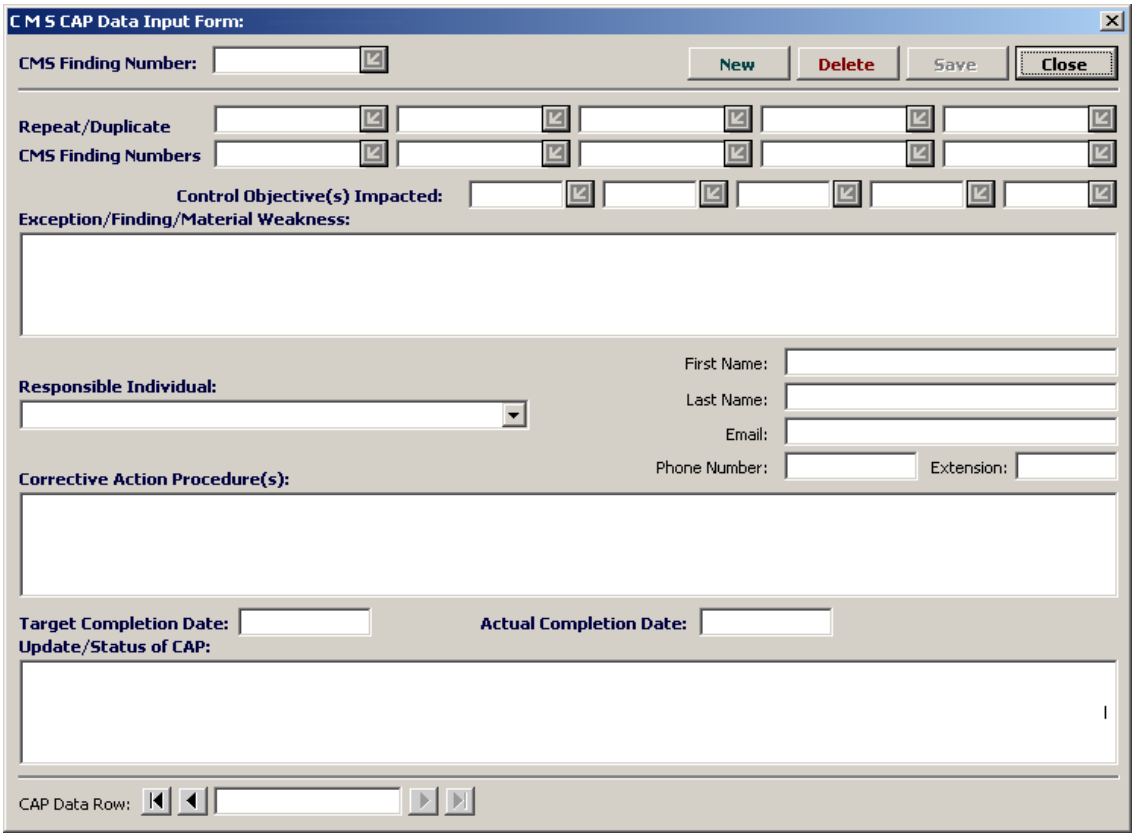

Table 5: CMS CAP Data Input Form

Figure 1—The CMS CAP data input form is a print screen of the initial CAP reporting template. There is a description for each data field such as provider number, contractor name, number and finding number, etc.

Click on the [arrow] to the right of the CMS finding number to open the next dialogue box containing the components of the CMS finding number. All components are required.

CMS Finding Number components:

Contractor abbreviation – The abbreviation will automatically be populated based on the Contractor Name entered in row 2 of the Header and as a result, will be grayed out. In order to change the abbreviation, the Contractor Name will have to be changed in the Header.

NOTE: Since the contractor abbreviation will always link to the contractor name, Initial and Quarterly CAP reports can no longer combine findings that originated at your contractor location, your data center and/or those applicable to your maintainer system in one report. Separate reports using the spreadsheet application form shall be completed for contractor, data center, and maintainer findings.

Year of Review – Enter the last 2 digits of the applicable fiscal year (FY) that the review was conducted.

Type of Review – Press on the [arrow] on the right side of the Type of Review dialogue box to invoke the Pull Down Menu of review types. Select the review applicable to the reported finding.

Sequential Numbering of Finding – Press on the up or down [arrows] to the right side of the Sequential Numbering of Finding dialogue box to enter the finding number as reported by the auditors in their final report.

When all components have been entered, click on the Save & Close button. Press the Clear button to delete entered data if corrections are necessary. After corrections are completed, click on the Save & Close button.

Use the tab key or the mouse pointer to move to the next box, which is the Repeat/Duplicate Finding Number. If appropriate, press on the first [arrow] on the right side of the Repeat/Duplicate Finding Number to open the next dialogue box containing the components of the first Repeat/Duplicate Finding Number. Press subsequent [arrows] to enter additional repeat findings. The application allows a total of ten repeat/duplicate finding numbers to be entered.

When all components of the Repeat/Duplicate Finding Number have been entered, click on the Save & Close button. Press the Clear button to delete entered data if corrections are necessary. After corrections are completed, click on the Save & Close button.

Use the tab key or the mouse pointer to move to the next cell, which is the Control Objective(s) Impacted. If the Type of Review entered in CMS Finding Number dialogue box was either C for CPIC submissions, N for Novation SAS 70 audits, S for *SSAE 16* audits, A or I for A-123 Appendix A findings, this field will be activated and control objectives need to be entered. All other Types of Reviews/audits will disable this field and as a result, will be grayed out.

Press on the [arrow] on the right side of the Control Objective(s) Impacted dialogue box to open the Control Objectives Impacted selection box. Based on the FY entered as part of the CMS Finding Number, the Control Objective Impacted selection screen will provide a Pull Down Menu of the control objectives effective in that FY. Select the appropriate control objective from the list.

After each control objective has been entered, click on the Save & Close button. Press the Clear button to delete entered data if corrections are necessary. After corrections are completed, click on the Save & Close button. Repeat outlined steps until all applicable control objectives have been entered. The application allows a maximum of five control objectives to be entered. If more than 5 control objectives are impacted for a given finding, add the additional control objectives impacted to the Update/Status of CAP portion of the spreadsheet.

NOTE: If more than one control objective has been entered and deletions are necessary, you shall click the Clear button and delete the objectives in the reverse order of entry. For example, the last control objective entered shall be the first control objective deleted. Use the tab key or the mouse pointer to move to the next cell, which is the Exception/Finding/Material Weakness box in the Data Input Form. Enter text exactly as it appears in the auditor's final report. Do not paraphrase. This field is limited to 1024 characters. Any additional information will be truncated. This is a required field.

Continue to use the tab key or the mouse pointer to move to the next few cells, which provide information on the Responsible Individual of the finding. Enter the first and last name of the Responsible Individual, their email address which shall be properly formatted with the '@' sign, and their phone number in the format of xxx-xxx-xxxx and shall not include parenthesis (i.e. 410-786-5555, ext.123456). The phone number may have an extension of up to 6 digits. Only one name, email address and phone number may be entered. These are required fields.

After the information is first entered into the individual fields, the information will be merged and displayed in a drop down list under the Responsible Individual title on the left of the screen. This information can then be used for subsequent CAPs without reentering the details.

The next box contains the Corrective Action Procedures. Enter the procedures that have or will be implemented to address the finding. This field is limited to 1024 characters. Any additional information will be truncated. This is a required field.

Press the tab key or the mouse pointer to the Target Completion Date entry area. Enter the date that the finding is expected to be resolved using the format mm/dd/yyyy. This is a required field that shall be completed for all findings and only allows one date with no text. If a finding is considered to be 'global', enter 02/22/2222. This date will act as an indicator to CMS that the finding is global and assist in easily identifying all findings.

Enter an Actual Completion Date using the format mm/dd/yyyy to indicate when the CAP was implemented. This field shall include only one date with no text. If the CAP has not been completed, leave this field blank.

The last field is the Update/Status field. Use this field to provide updates to corrective action procedures or to indicate that no changes have been made since the last reporting cycle. If a notation is made indicating that a CAP has been implemented, you shall ensure that an Actual Completion Date has been provided. This field is limited to 1024 characters. Any additional information will be truncated. This is a required field for the Quarterly CAP report. Contractors shall note in the comment section that you are requesting closure of the CAP. The CMS will validate that the finding has been corrected. The CMS central office shall provide a formal CAP closure letter to give notice that the CAP has been closed and may be removed from the Quarterly CAP Report.

Once you have filled in all the data fields, press the Save button on the top right hand corner. If you have failed to properly enter data in any of the fields, an error message should have already been displayed to indicate the fields where invalid data was entered. Therefore, all errors should have been corrected prior to saving the information.

Once the information is saved, which is indicated by the Save button being grayed out, you may either press the Close button or the New button. If you press the Close button, you will be returned to the spreadsheet application form. The data entered into the Data Input Form will now appear in the Excel spreadsheet. However, you may press the New button to remain in the Data Input Form and continue to enter additional findings.

NOTE: We recommend that entries be saved after completing the Data Input Form for each finding to prevent the loss of any data.

Editing Existing CAP Data

On the bottom left of the CMS CAP Data Input Form, there is a control bar (CAP Data Row) that lets you scroll through the completed rows while remaining in the Data Input Form. By clicking on the left or right arrows, you can scroll through the entries and make any changes that are needed. Remember, you shall press the Save button after any changes are made.

The application does not allow you to edit any data unless you are in the Data Input Form. If you try to manually enter or edit any information directly in the spreadsheet, the changes will not save because the data is protected. If changes are needed to existing data, position the cursor in any field in the row where the change is needed and click on the Edit Data button in the Data Input Form.

Saving Files

To save the completed spreadsheet application form, press the Save As button at the top of the form. This button automatically creates a file name that incorporates user and date information that allows for easy tracking of spreadsheets and their different versions.

The format for the *file includes: Contractor* Abbreviation, Report Name and Date (i.e. AHS Quarterly CAP Report 123101.xls). Please do not change the recommended file name that the application creates.

50 – List of CMS Contractor Control Objectives

(Rev. 194, Issued: 09-09-11, Effective: 10-11-11, Implementation: 10-11-11)

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 Acceptable Risk Safeguards (ARS) and* 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 contractor'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 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 which includes but is not limited to enhancing accuracy through a "Do Not Pay List".
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.
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 contractors 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. 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 contractors 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.

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)**

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. *MACs shall report workload volume, and costs associated with MR activities in CMS ARTs or as directed by the COTR. FIs and Carriers (Legacy contractors) shall continue to* 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 *shall explain any significant fluctuations in workload or costs in the Monthly Report and SAR.*

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 data*, and data from* specialty contractors (e.g., the Pricing, Data Analysis and Coding (PDAC contractor), Recovery Audit Contractors (RACs), Zone Program Integrity Contractors (ZPICs), 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 *and policies.* 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 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 *as* 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 *and external organizations.*

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 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*/ZPICs.*
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 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 *appoint a compliance officer, and* have an employee business ethics and compliance training program and an internal control system that – 1. Are suitable to the size of the company and extent of its involvement in Government contracting; 2. Facilitate timely discovery and disclosure of improper conduct in connection with Government contracts; and 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 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.
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.
I.18	HITECH incentive payments for Medicare hospitals are calculated properly, in accordance with CMS' general *instructions. Data* is properly entered into the FISS screens in order for the HITECH system to generate the incentive payments.
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: o Statement of Financial Position (CMS-H750A/B), o Status of Accounts Receivable (CMS-751A/B), o Status of Debt – Currently Not Collectible (CNC) (CMS –C751 A/B), o Status of Medicare Secondary Payer Accounts Receivable (CMS-M751A/B), o Status of Medicare Secondary Payer Debt-Currently Not Collectible (CMS-MC751A/B), o Reconcile the accounts receivable balance and activity to the Provider Overpayment Reporting (POR) System and the Physician Supplier Overpayment Reporting (PSOR) system, o HIGLAS-CMS Balance Sheets and Income Statements, o 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).
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 *and/or the HIGLAS Certification Statement.*
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. *Financial Reporting 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.
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**
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 *Schedules (ERSs)* shall be analyzed for approval or denial. A supervisor, in accordance with CMS instructions, reviews all *ERSs.* This includes monitoring all approved *ERSs,* the complete financial analysis of the provider's application, and the referral to CMS when necessary in accordance with CMS instructions at Pub 100-06, Chapters 3 and 4.
L.3	Interest is applied correctly and timely in accordance with CMS instructions. *The interest rate is updated/changed in accordance with*

the notice of the new interest rate for Medicare Overpayments and Underpayments notification. When necessary, interest adjustments are calculated correctly and processed and applied in a timely manner in accordance with CMS instructions at Pub 100-06, Chapters 3 and 4.

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 in accordance with CMS instructions at Pub 100-06, Chapters 3 and 4.

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 in accordance with CMS instructions at Pub 100-06, Chapters 3 and 4.

L.6 *Contractors not on HIGLAS shall continue to enter certain overpayments in POR and PSOR until they are transitioned over to HIGLAS. Overpayments that shall continue to be entered/updated are:* 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 in accordance with CMS instructions at Pub 100-06, Chapter 12.

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 in accordance with CMS instructions at Pub 100-06, Chapters 3 and 4.

L.9 For overpayments subject to the limitation on recoupment of section 935*(f)(2)* 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(f)(2) 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, *Chapters 10 and 15* 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. 194, Issued: 09-09-11, Effective: 10-11-11, Implementation: 10-11-11)

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.

60.2 List of Appendices

(Rev. 194, Issued: 09-09-11, Effective: 10-11-11, Implementation: 10-11-11)

Appendix 1 - Key Contacts

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

Appendix 2 – Flowcharts

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

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

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.