

**Fiscal Soundness Reporting Requirements**  
**Filing Instructions for Medicare Advantage Organizations, PACE**  
**Organizations, 1876 Cost Plans and Prescription Drug Plans**

Medicare Advantage Organizations (MAOs), PACE Organizations (PACE), 1876 Cost Plans (1876) and Prescription Drug Plans (PDPs) are to upload into the Health Plan Management System (HPMS) Fiscal Soundness Module a PDF file of their previous year's independently audited financial statements. Generally, these statements are to be prepared using statutory accounting principles (unless the Domestic State requires otherwise) and are due to CMS on or before April 30 of the current contract year. PACE organizations are to submit financial statements prepared on the accrual basis and in accordance with generally accepted accounting principles.

As part of filing the annual statements, the plan sponsor is to enter the specified data elements from the corresponding statements into HPMS. The Fiscal Soundness Module is found in HPMS under "Monitoring".

All financial statements that cover multiple MAOs or cover MAOs and Prescription Drug Plans (PDPs) must be submitted at the same time.

Example:

- 1) If contracts H0000 and H9999 are covered by the same financial statement, they must be entered into HPMS at the same time. The "Type" will be "Non-PDP" because neither plan is a PDP.
- 2) If contracts H0000 and S9999 (PDP) are covered by the same financial statement, they must be entered into HPMS at the same time. The "Type" will be "Both" because one is a PDP and one is not a PDP.

**New MAOs with Less than Six months of Operation:**

*If the new MAO has between four and six months of prior year operations and does not have independently audited financial statements for the previous period, it must upload into HPMS a PDF of its National Association of Insurance Commissioners (NAIC) **Annual** Health Blank as well as the financial data elements specified in the HPMS Fiscal Soundness Module.*

*If the new MAO has less than four months of prior year operations, it must upload into HPMS a PDF of its most recent **Quarterly** NAIC Health Blank as well as the specified financial data elements.*

*If the new MAO has no operations at all before January 1 of the current contract year, it is required to upload into HPMS a PDF of its NAIC **Quarterly** Health Blank for the period ending March 31st, of the current contract year. As a quarterly filing, this information is due to CMS no later than May 15th, of the current contract year (45 days after the end of the first quarter). Furthermore, a new MAO must submit the quarterly NAIC Health Blanks throughout the entire contract year. Each quarterly filing is due to CMS no later than 45 days after the quarter ends.*

**Additional guidance in the form of Frequently Asked Questions is available below.**

**Regulatory Authority:**

**42 CFR 422.516(a)(5) Reporting Requirements**

(a) *Required information.* Each MA organization must have an effective procedure to develop, compile, evaluate, and report to CMS, to its enrollees, and to the general public, at the times and in the manner that CMS requires, and while safeguarding the confidentiality of the doctor-patient relationship, statistics and other information with respect to the following:... (5) Information demonstrating that the MA organization has a fiscally sound operation.

**42 CFR 423.514 Reporting Requirements**

(a) *Required information.* Each Part D plan sponsor must have an effective procedure to develop, compile, evaluate, and report to CMS, to its enrollees, and to the general public, at the times and in the manner that CMS requires, statistics indicating the following—  
(1) The cost of its operations...  
(4) Information demonstrating that the Part D plan sponsor has a fiscally sound operation.

**42 CFR 460.200 Reporting Requirements**

(a) *General rule.* A PACE organization must collect data, maintain records, and submit reports as required by CMS and the State administering agency.

**460.208 Financial statements.**

(a) *General rule.* (1) Not later than 180 days after the organization’s fiscal year ends, a PACE organization must submit a certified financial statement that includes appropriate footnotes.

(2) The financial statement must be certified by an independent certified public accountant.

(b) *Contents.* At a minimum, the certified financial statement must consist of the following:

- (1) A certification statement.
- (2) A balance sheet.
- (3) A statement of revenues and expenses.
- (4) A source and use of funds statement.

(c) *Quarterly financial statement—*(1) *During trial period.* A PACE organization must submit a quarterly financial statement throughout the trial period within 45 days after the last day of each quarter of the PACE organization’s fiscal year.

(2) *After trial period.* If CMS or the State administering agency determines that an organization’s performance requires more frequent monitoring and oversight due to concerns about fiscal soundness, CMS or the State administering agency may require a PACE organization to submit monthly or quarterly financial statements, or both.

## **Frequently Asked Questions and Answers**

- Q1. What types of organizations must report under Fiscal Soundness Reporting Requirements?
- A1. All new or renewing organizations that have a contract with CMS and are currently enrolling Medicare Beneficiaries must report. These include: Medicare Advantage Organizations like CCPs, PFFS, MSAs, as well as all 1876 Cost Plans, PACE organizations and Prescription Drug Plans (PDP) organizations.
- Q2. When are the independently audited financial statements due to CMS?
- A2. All renewing organizations with either Medicare health plans (excluding PACE organizations) and or Prescription Drug plans must provide CMS with their independently audited financial statements for the prior year ending December 31, and specified financial data elements (taken from the audited statements) in the Fiscal Soundness Module of the Health Plan Management System (HPMS) no later than April 30th, of the current contract year.
- Q3. Does my organization need to submit an independently audited financial statement if it has not previously contracted with CMS?
- A3. Yes, new organizations with either Medicare health plans (excluding PACE organizations) and or Prescription Drug plans must provide through HPMS the following financial information no later than April 30th:
- If the new Organization has six months or more of operations (i.e., Commercial, Medicaid) in the prior year, it must upload into HPMS a PDF of its 12/31 independently audited financial statements for the prior year and the specified financial data elements.
  - If the new Organization has four to six months of operations and does not have independently audited financial statements for the prior year, the applicant must upload into HPMS a PDF of its National Association of Insurance Commissioners (NAIC) Annual Health Blank and the specified financial data elements.
  - If the new Organization has at least three months or fewer of operations, the applicant must upload into HPMS a PDF of its most recent Quarterly NAIC Health Blank and the specified financial data elements.
  - In addition to the above, if the organization is in financial distress at the time of the review, a financial plan may be requested of the applicant demonstrating how and when it will produce at least 2 successive quarters of net income.
- Q4. What are the financial data elements that CMS is requiring Organizations to submit?

- A4. Beginning with submissions in 2011, only four (4) financial data elements will need to be keyed into the HPMS Fiscal Soundness Module. The module will show only the elements required to be entered from the independently audited financial statements or the Quarterly NAIC Health Blank. All data comes directly out of the financial report that is uploaded by the organization.

FINANCIAL DATA ELEMENTS

1. Total Assets
2. Total Liabilities
3. Net Income (current year-to-date)
4. Cash Flow from Operations (current year-to-date)

- Q5. To whom do I send my independently audited financial statements?
- A5. All independently audited financial statements must be submitted in a PDF or zip file to the fiscal soundness module within HPMS.
- Q6. The figures used in our independently audited financial statements are rounded to the nearest thousand. Should I use this same rounding when I key in the financial data elements in HPMS?
- A6. When you transmit the audited figures that are rounded to the nearest thousand in the financial statements, please add three 000s to the end of the rounded figures when you enter the figure on the data entry screen. Use the exact numbers that appear in the uploaded report, plus the three 000s.
- Q7. How do I contact CMS if I have general questions or questions about my organization's filing?
- A7. You may contact CMS by email at: [FinancialReview@cms.hhs.gov](mailto:FinancialReview@cms.hhs.gov) or contact the financial management specialist assigned to your plan as specified on the Fiscal Soundness Start Page in HPMS.
- Q8. Can I send my independently audited financial statements to CMS in a PDF by email?
- A8. No. CMS requires independently audited financial statements be submitted electronically into the fiscal soundness module within HPMS. You must upload your independently audited financial statements in a PDF. Moreover, the PDF must include all pages including any associated letters, opinions, the signature page, etc.
- Q9. Does CMS require new or renewing organizations to submit paper copies of annual or quarterly financial statements?
- A9. No. CMS requires a PDF copy of any financial statements be uploaded to HPMS. CMS does not accept paper reporting.

- Q10. Will any of my organization's financial information be made publicly available by CMS?
- A10. As a rule, CMS does not publish or share proprietary information (except for financial data which is publicly available).
- Q11. Does each H number under a multi-contract entity require a separate reporting?
- A11. No. If a single financial report covers multiple H#s or H and S#s the financial report is to be submitted only once indicating all of the covered contract numbers at that time.
- Q12. Is it necessary to include my organization's "H", "R" or "S" number on the independently audited financial statements?
- A12. If possible, please include the appropriate contract numbers and the NAIC# on the cover page.
- Q13. What if I am unable to submit the independently audited financial statements to CMS by April 30<sup>th</sup>?
- A13. April 30 is a set deadline based on a 120-day reporting requirement that organizations with either Medicare health plans (excluding PACE organizations) and or Prescription Drug plans need to plan around. However, if your respective state has a different submittal date and you are able to officially demonstrate this, CMS will accept a later filing. However, you must submit an extension request using the Submission of Extension Requests function in the HPMS Fiscal Soundness Module. You will indicate the contract(s), requested extension date, reason for the extension and upload required support documentation. Extension requests for multiple contracts covering multiple NAIC numbers may be submitted together however all contracts under a single NAIC number must be included.
- Failure to submit on time without requesting an extension places your company in non-compliance status and could result in your company receiving a non-compliance letter with the requirement of a corrective action plan to resolve the deficiency.
- Q14. Is there an electronic financial reporting mailbox?
- A14. No. The filing of financial reports must be done through the fiscal soundness module within HPMS. However, all e-mail inquiries and correspondence should come to the CMS e-mail box at: [Financialreview@cms.hhs.gov](mailto:Financialreview@cms.hhs.gov) .
- Q15. What should I do if I have financial concerns or issues with my State regarding inadequate State reserves, a corrective action plan, or special monitoring by the State regulator?

- A15. You should immediately contact the financial management specialist assigned to your plan as specified on the Fiscal Soundness Start Page in HPMS.
- Q16. When will the fiscal soundness module in HPMS be released?
- A16. The fiscal soundness module in HPMS is scheduled to be released at the end of March of each contract year.
- Q17. If the Organization's State Department of Insurance allows independently audited financial statements to be submitted using GAAP or SAP format, which format should the Organization submit to CMS?
- A17. For organizations with either Medicare health plans (excluding PACE organizations) and or Prescription Drug plans, if the Organization's State Department of Insurance allows either format, CMS would prefer SAP. We will accept the format that the State accepts.
- Q18. If the Organization has a fiscal year end that does not correspond to the calendar year end, when should the Organization submit its independently audited financial statements?
- A18. Organizations with either Medicare health plans (excluding PACE organizations) and or Prescription Drug plans should submit the latest independently audited financial statements using their fiscal year end. For example, a renewing organization with a fiscal year end of 9/30/2011 would submit the audit report to CMS on or before January 31, 2012 (or 120 days after the end of your fiscal year).

## PACE Q & A

P Q1. As a PACE organization, must we file financial statements with CMS?

A1. Yes, all new and renewing PACE organizations that have a contract with CMS and are currently serving Medicare/Medicaid participants must file financial statements prepared on the accrual basis.

P Q2. What does CMS do with the submitted financial information?

A2. CMS will take the financial material provided and ascertain if it meets the definition of fiscal solvency as shown under CFR 460.80. An organization is considered fiscally sound if it has assets greater than liabilities (positive net worth), sufficient cash flow and adequate liquidity to meet obligations as they become due, and a net operating surplus.

P Q3. What type of financial recordkeeping must we maintain to support the financial statements sent to CMS?

A3. A PACE organization must provide CMS with accurate financial reports using the accrual basis of accounting and verifiable by qualified independent auditors. The accounting recordkeeping must accurately document all financial documents, provide an audit trail to source documents, and be able to generate financial statements.

P Q4. Are our financial records subject to audit or inspection by CMS?

A4. Yes, a PACE organization must permit CMS and the State administering agency to inspect any books and records of original entry that pertain to any aspect of services rendered. Onsite reviews of renewing organizations are conducted at least once every two years by CMS and state personnel. Organizations under the trial period have onsite reviews performed every year.

P Q5. As a renewing PACE organization, when is our audited financial report due to CMS?

A5. Federal regulations at 42 CFR 460.208 require that an organization must submit its independently audited financial statements (audit report) to CMS not later than 180 days after the fiscal year ends. The audit report must be certified by an independent certified public accountant and at a minimum consist of a certification statement, auditor notes, balance sheet, income statement, and a cash flow statement.

P Q6. Will a renewing PACE organization have to submit financial data after it has submitted its latest audited financial report to CMS?

A6. An organization may be asked to submit quarterly or monthly financial statements to CMS, if requested, due to fiscal solvency problems.

P Q7. What is the trial period and is our organization subject to it?

A7. The trial period is defined as the first three contract years a PACE organization operates under a program agreement with CMS. This includes any contract year during which the entity operated under a PACE demonstration waiver program.

P Q8. What are the financial reporting requirements while a company remains under the trial period?

A8. A PACE organization must submit quarterly financial statements to CMS throughout the trial period within 45 days after the last day of each quarter of their fiscal year. For example, if your company has a 9/30/10 fiscal year end, your first quarterly financial statements would be for the period of 10/01/10 to 12/31/10 and would be due to CMS no later than 02/15/11. The second quarter submission would be for the period of 10/01/10 to 03/31/11 and would contain six months of cumulative financial information and would be due May 15, 2011. The financial statements must include a balance sheet, income statement, and cash flow statement and have cumulative totals, not just totals for that particular quarter.

P Q9. If we are in the third year of the trial period, and have a fiscal year end other than 12/31, when would the trial period come to an end?

A9. The trial period stops at the end of the third calendar year following the signing of your contract with CMS. For example, if the effective date of your contract is 9/30/08 your company would continue to submit quarterly financial statements to CMS until 12/31/11. Thereafter, only annual audited financial reports would be filed with CMS.

P Q10. Our organization has an effective date of 04/01/10 and a fiscal year end of 6/30. If we did not have enrollment activity for several months, when should our initial quarterly financial statements be submitted to CMS?

A10. The initial quarterly financial statements should be submitted to CMS after you begin to enroll participants to your organization.

P Q11. It is our understanding that CMS no longer accepts hardcopy documentation. Is this correct?

A11. Yes, CMS no longer accepts hardcopy documentation. Instead, PACE organizations are required to upload a PDF or zip file of their quarterly financial statements and annual audit reports to the fiscal soundness module within the Health Plan Management System (HPMS).

P Q12. In addition to the quarterly and annual financial statements, is there other information we must upload to the fiscal soundness module?

A12. Yes, in addition to the financial statements PACE organizations must upload 4 financial data elements (taken from the audited and quarterly financial statements)

along with the financial statements. The fiscal soundness module will not accept the financial statements if the data elements are not uploaded at the same time.

P Q13. What are the financial data elements CMS requires PACE organizations to upload?

A13. CMS requires the following financial data elements to be uploaded:

FINANCIAL DATA ELEMENTS

1. Total Assets
2. Total Liabilities
3. Net Income (current year-to-date)
4. Cash Flow from Operations (current year-to-date)

Make sure you submit the correct information from the financial statements because the financial data elements will be verified by CMS. Discovered errors will result in an email from CMS requesting a resubmission of the incorrect financial information. A common error deals with Cash Flow. CMS only wants the total of Cash Flow from “Operations” and not any other Cash Flow total.

P Q14. What should we do if we cannot submit our financial information by the regulatory deadlines?

A14. If you cannot file the financial information by the regulatory deadlines shown under CFR 460.208 (a), you must contact CMS before the prescribed due date. Failure to submit on time without notifying CMS places your company in non-compliance status and could result in your company receiving a non-compliance letter with the requirement of a corrective action plan to resolve the deficiency.

P Q15. We are a new organization and do not have 12 months of financial information that would warrant the cost of an audit by an independent certified public accountant. How do we avoid violating fiscal soundness reporting requirements?

A15. If you do not have a parent company, and operate without the financial backing of a larger organization, you can wait until you have at least 12 months of accumulated financial operations. For example, if your organization had an effective date of 05/01/10 with a fiscal year ending date of 09/30, CMS would not expect you to have an audit performed that would contain, as a maximum, only four months of data. Instead, notify CMS to discuss your situation and the best approach to take to meet your fiscal reporting requirements. If your organization was operational before signing a PACE contract with CMS, and had an audit completed, that report would suffice the Fiscal Soundness Reporting Requirements.

P Q16. Our organization has its financial operations included as part of a consolidated audit of our parent company and its subsidiaries. Do we meet the fiscal solvency reporting requirements by submitting to CMS the consolidated audit report?

- A16. Yes, you would be in compliance for meeting reporting requirements. If you are not sure, contact CMS for guidance.
- P Q17. Besides uploading the financial statements within HPMS, are there other responsibilities we must adhere to with respect to the CMS data gathering system?
- A17. Yes, CMS relies upon each organization to keep up-to-date the names, telephone numbers, and email addresses of company personnel under the Contract Management section of HPMS. From a fiscal solvency perspective, the present Chief Financial Officer, Medicare Coordinator, and financial reporting contact must be indicated in the event CMS needs to contact organizational personnel.
- P Q18. When our company submitted its application package for a PACE contract, we were required to submit an insolvency plan which had to be approved by CMS and the State administering agency. Must we notify CMS and the State if the insolvency plan changes?
- A18. Yes, both the State and CMS will want to review any changes to the insolvency plan.
- P Q19. The fiscal soundness module asks for a NAIC number. What is this number and do PACE organizations have one?
- A19. NAIC is the acronym for the National Association of Insurance Commissioners. It is a five digit number used to identify Medicare Advantage organizations, PDPs and other Medicare health plans. PACE organizations do not have an NAIC number. Instead, the H contract number is used for PACE identification and should be included in all correspondence (written and verbal) with CMS.
- P Q20. Will any of my organization's financial information be made publicly available by CMS?
- A20. As a rule, CMS does not publish proprietary information (except for financial data which is publicly available).
- P Q21. Is there a primary CMS contact I can call or e-mail with questions on fiscal solvency?
- A21. Yes, please contact Frank Regulski at his email address: [franklin.regulski@cms.hhs.gov](mailto:franklin.regulski@cms.hhs.gov). Mr. Regulski can also be reached by dialing 410-786-6278.

3/9/2011