

CMS Manual System

Department of Health &
Human Services (DHHS)

Pub 100-06 Medicare Financial Management

Centers for Medicare &
Medicaid Services (CMS)

Transmittal 127

Date: JULY 13, 2007

Change Request 5661

SUBJECT: Instructions for Documenting Scoping Decision of Provider's Internal Controls; Revisions to Continuing Education and Training and Revision Regarding Time Frame for Settling Cost Reports

I. SUMMARY OF CHANGES: Contractors will be allowed to document in the scoping section of the audit report the decision to review or not review the provider's internal controls. Contractors will be able to report credit hours for continuing education and training in one-half hour increments. Time frame has been established for settling cost reports that allow contractors to delay settlement if a prior year's cost report is being audited.

NEW / REVISED MATERIAL

EFFECTIVE DATE: *October 1, 2007

IMPLEMENTATION DATE: October 1, 2007

Disclaimer for manual changes only: The revision date and transmittal number apply only to red italicized

material. Any other material was previously published and remains unchanged. However, if this revision contains a table of contents, you will receive the new/revised information only, and not the entire table of contents.

II. CHANGES IN MANUAL INSTRUCTIONS: (N/A if manual is not updated)

R=REVISED, N=NEW, D=DELETED-Only One Per Row.

R/N/D

Chapter / Section / Subsection / Title

R

8/60.3/Tests of Internal Control

R

8/80.1/Qualifications

R

8/90/Final Settlement of the Cost Report

III. FUNDING:

No additional funding will be provided by CMS; Contractor activities are to be carried out within their FY 2007 operating budgets.

IV. ATTACHMENTS:

Business Requirements

Manual Instruction

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

Attachment - Business Requirements

Pub. 100-06

Transmittal: 127

Date: July 13, 2007

Change Request: 5661

SUBJECT: Instructions for Documenting Scoping Decision of Provider's Internal Controls; Revisions to Continuing Education and Training and Revision Regarding Time Frame for Settling Cost Reports.

EFFECTIVE DATE: October 1, 2007

IMPLEMENTATION DATE: October 1, 2007

I. GENERAL INFORMATION

A. Background: Previously FIs were required to document in the desk review work papers if a

provider's internal controls were not reviewed. This change eliminates a desk review work paper

and requires the FIs to document their decision only in the scoping section of the audit report.

Previously credit hours for continuing education and training were given for whole hours only with a

minimum of 50 minutes constituting one CET hour. This change allows contractors to report one-half

hour of CETs after the first CET hour has been earned. Also total minutes not divisible by 50 minutes

should be rounded down to the nearest one-half hour. Previously all cost reports not scheduled for audit

were expected to be settled within 12 months of acceptance of a cost report.
This change provides a

contractor a six month extension from the date of the NPR if a prior year cost report is being audited.

B. Policy: Legal authority for the CMS audit instructions is found in Medicare regulations published at 42 CFR 413.24 and 42 CFR 421.100.

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

DMERC

RHHI

Shared-System

Maintainers

OTHER

FISS

MCS

VMS

CWF

5661.1

The contractor shall document in the scoping section of the audit report the decision to review or not review the provider's internal controls. The contractor shall no longer prepare a desk review work paper documenting the decision to review or not review.

X

X

X

5661.2

The contractor shall report credit hours for continuing education and training courses for each 50 minutes that qualify as one CET hour. After the first CET hour has been earned, one-half hour increments may also be reported.

X

X

X

5661.3

The contractor shall settle all cost reports that are not scheduled for audit within 12 months of acceptance

X

X

X

Number

Requirement

Responsibility (place an "X" in each applicable column)

A/
B

MAC

DME

MAC

FI

CARRIER

DMERC

RHHI

Shared-System
Maintainers

OTHER

FISS

MCS

VMS

CWF

of a cost report unless you have a documented reason why the cost report cannot be settled (for example prior year's cost report is being audited). If a settlement has been delayed because of a prior year's cost report is being audited, that settlement will be considered timely if completed within 6 months of the NPR date of the audited cost report.

III. PROVIDER EDUCATION TABLE

Number

Requirement

Responsibility (place an "X" in each applicable column)

A/

B

MAC

DME

MAC

FI

CARRIER

DMERC

RHHI

Shared-System
Maintainers

OTHER

FISS

MCS

VMS

CWF

None.

IV. SUPPORTING INFORMATION

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

Use "Should" to denote a recommendation.

X-Ref

Requirement

Number

Recommendations or other supporting information:

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

V. CONTACTS

Pre-Implementation Contact(s): Dorothy Grothe

Post-Implementation Contact(s): Dorothy Grothe

VI. FUNDING

A. For Fiscal Intermediaries and RHHI use only one of the following statements:

No additional funding will be provided by CMS; contractor activities are to be carried out within their FY 2007 operating budgets.

B. For Medicare Administrative Contractors (MAC), use the following statement:

The contractor is hereby advised that this constitutes technical direction as defined in your contract. CMS does not construe this as a change to the Statement of Work (SOW). 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.

60.3 - Tests of Internal Control

(Rev.127, Issued: 07-13-07, Effective: 10-01-07, Implementation: 10-01-07)

A. Provider's Internal Control Structure

A provider's internal control structure consists of the policies and procedures established to provide reasonable assurance that the provider's objectives are achieved. The internal control structure consists of three elements:

- **Control Environment:** The collective effect of various factors on establishing, enhancing, or mitigating the effectiveness of specific policies and procedures.
- **Accounting System:** The methods and records established to identify, assemble, analyze, classify, record, and report an entity's transactions and to maintain accountability for the related assets and liabilities.
- **Control Procedures:** The policies and procedures in addition to the control environment and accounting system that management has established to provide reasonable assurance that specific entity objectives will be achieved.

A provider generally has internal control structure policies and procedures that are not relevant to a particular audit and therefore need not be considered for that audit. For example, policies and procedures concerning the effectiveness, economy, and efficiency of certain management decision-making processes, while important to the provider, do not ordinarily relate to a Medicare audit.

B. Medicare's Policy Regarding Review of Internal Controls

In the Medicare audit environment, a review of and reporting on a provider's system of internal control is generally not warranted or cost effective. The auditor may conclude that it would be inefficient to evaluate the effectiveness of internal control policies and procedures and that the audit can be conducted more efficiently by expanding substantive tests.

You may wish to gain an understanding of the provider's internal control structure when, in your professional judgment, this understanding and assessment of the internal controls would significantly affect the scoping of the Medicare audit. This does not mean or require that the internal controls need to be reviewed in every instance. Your understanding can be obtained through sources such as the previous period's completed internal control questionnaire (see Exhibit IV in §170 of this chapter), current year's management letter prepared by the provider's financial auditors (e.g., CPA firm), previous Medicare audit history, and empirical knowledge of the provider.

It is not necessary to test the provider's system of internal control for audits of specifically selected areas such as intern/resident counts or wage index reviews, or for reopenings. Furthermore, where CMS directs you to perform a special audit, CMS may limit, or require no work, in the area of internal control.

If internal controls are not reviewed, the decision should be stated in the scope section of the audit report. In this situation, preparation of a report on internal controls (see §70.1 of this chapter) is not required.

C. Obtaining an Understanding of the Internal Control Structure

If you determine that it is necessary to review internal controls in a given situation (e.g., new providers, first audit by the contractor), complete the Internal Control Questionnaire (see Exhibit IV in §170 of this chapter). Since all the aspects of the provider's internal control structure are not relevant to a Medicare audit, this questionnaire is designed to allow you to obtain an understanding of the provider's internal control structure as it applies to Medicare audits. Medicare auditors are concerned with the allowability, reasonableness, classification, and accumulation of cost report data that must be reported in accordance with Medicare principles of payment. Therefore, the Medicare auditor should obtain an understanding of those aspects of the provider's internal control structure that affect the reliability of the cost report data that is being audited within the parameters of the Medicare audit in accordance with CMS' audit instructions. This understanding is ordinarily obtained by:

- Previous experience with the provider;
- Inquiries of appropriate personnel;
- Observation of the provider's activities and operations; and
- Inspection of the provider's documents and records.

Once the information required by the questionnaire has been obtained and in your professional judgment you need to test the internal control structure in subsequent years, you may review and update the questionnaire answers and documentation during subsequent audits. Obtain the provider's written concurrence to the answers and documentation as a whole or on a question-by-question basis, as appropriate.

Maintain the internal control questionnaire with all related documentation in a separate section of the permanent file and cross reference to supporting audit working papers, if necessary.

80.1 - Qualifications

(Rev.127, Issued: 07-13-07, Effective: 10-01-07, Implementation: 10-01-07)

The first general standard for government auditing is:

"The staff assigned to conduct the audit should collectively possess adequate professional proficiency for the tasks required."

Ensure that the Medicare audit is conducted by staff that collectively has the knowledge and skills necessary for the audit. These qualifications apply to the knowledge and skills

of the contractor's organization as a whole, and not necessarily to every individual auditor.

A - Continuing Education and Training (CET)

To meet this standard, the contractor shall establish a program to ensure that its staff maintains professional proficiency through CET.

The following represent the continuing education responsibilities of an audit organization and also reflect additional guidance from CMS to help the contractor.

B - Education Required

All persons responsible for planning, directing, conducting, reviewing, or reporting on government audits must receive at least 80 hours of continuing education and training (CET) every two years. For example, auditors who first start conducting audits on January 1, 2002, must complete the CET requirements as follows:

- The first 80 hours must be completed by December 31, 2003. Any excess over the 80-hour requirement does not carry forward to the next two-year cycle.
- After CET requirements for the first two-year period (i.e., January 1, 2002, to December 31, 2003) have been satisfied, a rolling count is permissible for measuring compliance with the requirements. Under a rolling count, compliance with the CET requirements is measured annually using the two most recent years.
- At least 20 hours must be completed in each year of the two-year cycle.
- At least 24 of the 80 hours must be in subjects directly related to government environment and to government auditing. Since the contractor is operating in a

specific or unique environment, i.e., Medicare, it shall schedule the 24 hours of training, noted above, in subjects related to the government environment and to the Medicare auditing process.

- Appropriate courses on Medicare and other health care related issues include, but are not limited to, GAS, Medicare policy development (how it affects audits), preparation and review of Medicare audit working papers, current Medicare audit and payment issues, and the AICPA Audit and Accounting Guide: Providers of Health Care Services.

For purposes of the 80-hour and the 24-hour requirements, CMS interprets the term "conducting" and the phrase "conducting substantial portions of the field work" as referring to those individuals who perform substantial portions of the tests and procedures necessary to accomplish the audit objectives. An individual is considered to be responsible for "conducting substantial portions of the field work," for purposes of the CET requirements, when the following conditions are met:

- On a given audit, the individual performs 20 percent or more of the total field work; or

- In a given year, the individual's chargeable time to government audits is 20 percent or more of the individual's total chargeable time.

Staffs who are only involved in performing audit work but not involved in planning, directing, or reporting on the audit or attestation engagement and who charges less than 20 percent of their time to the, desk review, audit and attestation engagement are required to take 24 hours of government related. CET in each 2 year period. However, they are not required to comply with the 80-hour CET requirement.

Auditors who have been employed by the audit organization for less than one year of a given two-year period are not required to complete a minimum number of CET hours.

However, entry-level auditors with less than one year with the audit organization must receive appropriate training during their first year with the audit organization. Auditors employed by the audit organization for one year, but less than two years, in a given two-year period, must complete a minimum of 20 hours of CET in the full calendar year. All auditors to whom the CET requirements for 80 hours and 24 hours apply have two years to meet the requirements.

Terminated employees must have been trained in accordance with the contractor's plan of training, at least until a formal notice of termination is received or issued.

Auditors who have not completed the required number of CET hours for any two-year period for a legitimate reason will have the two months immediately following the two-year period to make up the deficiency. Auditors must make up any deficiency in the 24-hour requirement first. The contractor shall not count any CET hours completed towards a deficiency toward either the 20-hour requirement in the year in which they are taken, or

the 80-hour and the 24-hour requirements for the two-year period in which they are taken.

C - Employees Covered Under the CET Requirement

Any auditor who is responsible for planning, directing, conducting, reviewing, or reporting on government audits is subject to the CET requirements. Also, anyone whose decisions affect the outcome of government audits is covered by CET requirements. Since the contractor may use various types of employees in the audit process, the following is CMS's interpretation of the applicability of CET requirements to certain types of employees:

- Junior Auditors - CET requirements extend to junior auditors who perform portions of the audit. "Conducting" is not limited to auditors in a supervisory or management role.
- Contract Auditors -When the contractor contracts with CPA firms for entire audits, or to provide audit staff to work under its supervision, they are subject to the same requirements as the contractor. The contractor shall require compliance with the CET requirements as a specific condition of the audit subcontract. It shall obtain written assurance that each person meets CET requirements prior to the start of each audit.

- Temporary Auditing Staff - A temporary auditor who is hired for a very limited timeframe, not to exceed one quarter at a time or in one year, under the contractor's direct supervision, is not subject to CET requirements.
- Crossover Staff - Staff members used in multiple functions must meet the CET requirements when their decisions could affect the outcome of an audit. For CET purposes employees who are transferred to the Medicare audit department are considered new hires, as are employees who are promoted to a professional staff level.
- External Consultants and Internal Consultants and Specialists - External consultants and internal consultants and specialists must be qualified and must maintain their professional proficiency in their area of expertise and specialization, but they are not required to meet CET requirements. For example, attorneys the contractor employs, who work in the provider appeals area, are not subject to the CET requirements, but they must maintain their professional proficiency.
- Clerical and Paraprofessional Staff - Clerical and paraprofessional staff, including student interns, are not subject to the CET requirements.

Review all position descriptions to ensure that they accurately reflect the employees' duties and responsibilities. If you have concerns or questions on certain position descriptions, submit your questions to your RO for a determination. These position descriptions will be reviewed by CMS and the Office of the Inspector General (OIG) to determine the need for compliance with the CET requirements.

D - Contractor Responsibility

Establish and implement a program to ensure that the auditors meet the CET requirements. You must:

.. Prepare a general plan for training. Review and revise the plan, as appropriate, and allocate resources to ensure that all staff subject to CET requirements receive training; and

.. Implement the CET program to ensure that for every two-year period the 80-hour and 24-hour requirements are met, and that at least 20 CET hours are completed in each year of the two-year period.

.. Retain course information for your employees receiving CET credit for contractor-sponsored courses. Maintain records for a five-year period from the completion of the two-year period. Maintain a record for each employee which reflects:

- Record of participation;
- Course agenda;
- Course date(s);
- Location at which the course was given;

- Name(s) of instructor(s) and related training, education, and experience;
- Number of CET credit hours; and
- Copy of course material presented.

.. Retain course information for employees receiving CET credit for outside courses.

Maintain records for a five-year period from the completion of the two-year period.

Obtain a letter of completion or certificate, and retain a record for each employee which reflects:

- Name of course;
- Course date(s);
- Location at which the course was given;
- Course sponsor; and
- Number of CET credit hours.

.. Submit, to the appropriate RO, an annual certification by January 31 following the close of any calendar year, stating that it is complying with the CET requirements.

E - General Guidelines for Training Courses

Continuing education and training may include such topics as current developments in audit methodology, accounting, assessment of internal controls, principles of management and supervision, financial management, statistical sampling, evaluation design, and data analysis. It also includes subjects related to the auditors' specific field of work. The contractor shall consider the following sources when developing a training program for auditors:

- Recognition for Courses Needed for CPA Licensing - In meeting the overall 80-hour requirement, courses approved or recognized by the AICPA or the respective

state licensing board that contribute to the auditors' professional proficiency are recognized for purposes of meeting the CET requirements.

- CMS-Sponsored Training - From time to time, CMS may contract with vendors to provide training courses and will notify you of their availability. In addition, CMS may offer training in settings such as a national audit conference.

- Contractor-Sponsored Training - The contractor should obtain sponsorship status for its training courses through its respective state CPA licensing board. This will help to ensure that the courses will meet the CET requirements. Also, the courses will be recognized for CPAs on your staff that is required to obtain continuing professional education credits for CPA licensure. In the development of in-house training, the contractor shall consider the AICPA's Statement of Standards for Formal Group and Formal Self-Study Programs. While in-house training is recognized as the most cost-efficient method of training, the contractor should not rely solely on this method.

- Credit Hours - A CET credit hour may be given for each 50 minutes of participation in programs and activities that qualify. One-half CET hour

increments (equal to 25 minutes) may also be given after the first CET hour has been earned in a given program or activity. For example, two 90-minute, two 50-minute, and three 40-minute presentations equal 400 minutes or 8 CET hours. When the total minutes of a presentation are more than 50, but not equally divisible by 50, the CET hours should be rounded down to the nearest one-half hour.

A conference in which individual segments may be less than 50 minutes is counted as one program, rather than several short programs. The total minutes of all segments will be divided by 50 minutes in order to determine the CET hours for the program.

For a college or university course, each unit of credit earned on a semester system will equal 15 CET hours. Each unit of credit earned on a quarterly system will equal 10 CET hours.

- Credit for Instructor Preparation Time - When an instructor or discussion leader serves at a program for which participants receive CET credit, and is at a level that increases professional competence, the contractor shall give CET credit for preparation and presentation time measured in terms of credit hours. For the first time a program is presented, CET hours will be received for actual preparation time, up to two times the class hours. For example, if a course is rated as eight CET hours, the instructor should receive up to 24 hours of CET credit (16 hours for preparation and eight hours for class time). For repeated presentations, the instructor should receive no credit unless the subject matter has changed sufficiently to require additional study or research. In addition, the maximum credit for preparation should not exceed 50 percent of the total CET credit an instructor or discussion leader accumulates in a two-year CET reporting period.

- Individual Study Programs - Individual study programs that may receive CET credit include correspondence courses and courses given through audiocassettes, tapes, videotapes, and computers. (See the AICPA's standards for more detailed requirements.)

F - Staff Qualifications

Qualifications for staff members conducting Medicare audits include:

- A knowledge of the methods and techniques applicable to Medicare auditing, and the education, skills, and experience to apply such knowledge to the audit being conducted;
- A knowledge of the Medicare program;
- Skills to communicate clearly and effectively, both orally and in writing; and
- Skills appropriate for the audit work being conducted.

90 - Final Settlement of the Cost Report

(Rev.127, Issued: 07-13-07, Effective: 10-01-07, Implementation: 10-01-07)

CMS expects that you settle (i.e., issue a Notice of Amount of Program Reimbursement (NPR)) all cost reports that are not scheduled for audit within 12 months of acceptance of a cost report unless you have a documented reason why the cost report cannot be settled (for example bankruptcy, OIG investigation, DOJ investigation). If a settlement has been delayed because a prior year cost report is being audited, that settlement will be considered timely if completed within 6 months of the NPR date of the cost report that was audited. If a provider files an amended cost report and that cost report is not going to be audited, CMS expects that you settle the cost report within the greater of 5 months from the acceptance of the amended cost report, or the time left of the 12 months from the acceptance of the "initial" filed cost report.

If you audit a cost report, issue the NPR to the provider within 60 days of the exit conference or within 60 days after the audit adjustments are finalized (using the timeframes described in §60.11 of this chapter) if an exit conference is waived.

As a general rule, if proper notification was given to the provider (see §§60.1 and 60.2 of this chapter) and adjustments were proposed due to the "lack of documentation" as described in 42 CFR 413.20 and 42 CFR 413.24, issue the NPR without considering documentation received from the provider after the established timeframes unless there are circumstances that you have previously approved.

If the provider used the PS&R settlement data to file the cost report or if you decide to use the PS&R data because the provider's reported settlement data is not documented

properly, settle the cost report using a PS&R with a paid through date no earlier than 120 days prior to the issuance of the final audit adjustment report. If you do not issue an audit adjustment report (e.g., there were no desk review exceptions resolution process adjustments or field audit adjustments), use a PS&R with a paid through date that is no earlier than 120 days prior to the NPR date. If you settle the cost report later than 18 months after the end of the provider's fiscal year, use a PS&R with a paid through date that is no earlier than 15 months after the end of the provider's fiscal year.

