CMS Manual System	**Department of Health & Human Services (DHHS)**
Pub 100-06 Medicare Financial Management	**Centers for Medicare & Medicaid Services (CMS)**
Transmittal 278	**Date: December 16, 2016**
	Change Request 9819

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

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

EFFECTIVE DATE: October 1, 2016
**Unless otherwise specified, the effective date is the date of service.*
IMPLEMENTATION DATE: January 19, 2017

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

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

R/N/D	CHAPTER / SECTION / SUBSECTION / TITLE
R	7/Table of Contents
R	7/10.1.4/OMB Circular A-123
R	7/10.1.5/GAO Standards for Internal Controls in the Federal Government
R	7/10.2.1/Definition and Objectives
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	7/30.1/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	7/30.2/Certification Statement
R	7/30.4/CPIC- Report of Material Weaknesses
R	7/30.5/CPIC- Report of Internal Control Deficiencies
R	7/30.8/Statement on Standards for Attestation Engagements (SSAE) Number 18 (SSAE 18), 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	7/40.5/Quarterly CAP Report
N	7/40.6/CMS CAP Report Template
R	7/50/List of CMS Contractor Control Objectives
D	7/60.2/Appendix 5/CMS CAP Report Template
D	7/60.3/List of Exhibits

III. FUNDING:

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

Attachment - Business Requirements

Pub. 100-06	Transmittal: 278	Date: December 16, 2016	Change Request: 9819

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

EFFECTIVE DATE: October 1, 2016
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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 the Centers for Medicare and Medicaid Services (CMS) to meet requirements of FMFIA, Medicare contractors shall demonstrate that they comply with FMFIA.

B. Policy: The CMS contract with 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. CMS evaluates Medicare contractor's performance by various internal and external audits and reviews.

II. BUSINESS REQUIREMENTS TABLE

"Shall" denotes a mandatory requirement, and "should" denotes an optional requirement.

Number	Requirement	Responsibility								
		A/B MAC			DME MAC	Shared-System Maintainers				Other
		A	B	HHH		FISS	MCS	VMS	CWF	
9819.1	Contractors shall be aware that the CMS CAP Report Template located formerly in Appendix 5 from Section 60.2 has been moved to Section 40.6. See Pub. 100-06, Chapter 7, Table of Contents.	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC
9819.2	All contractors shall be aware that OMB's Circular A-123 was revised in July 2016 to update and define federal management's responsibilities for establishing, maintaining, and assessing enterprise risk management and internal control effectiveness. See Pub. 100-06, Chapter 7, Section 10.1.4.	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC

Number	Requirement	Responsibility								
		A/B MAC			DME MAC	Shared-System Maintainers				Other
		A	B	HHH		FISS	MCS	VMS	CWF	
9819.3	All contractors shall be aware that the American Institute of Certified Public Accountants' (AICPA) Statement on Standards for Attestation Engagements (SSAE) 16 has been updated and superseded by SSAE 18 with respect to Reporting on Controls at Service Providers. Additionally, a mandatory bridge letter submission is required from all MACs during the remaining fiscal year covering April 1 to September 30, 2016. See Pub. 100-06, Chapter 7, Section 30.8	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC
9819.4	All contractors shall use the updated codes and abbreviations in the following tables as defined in Section 40.3: Table 1 - Review/Audit Type Table 2 - Contractor Abbreviations Table 3 – Shared System Maintainer Abbreviations Table 4 – Data Center Abbreviations See Pub. 100-06, Chapter 7, Section 40.3.	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC
9819.5	All contractors shall provide an Initial and Quarterly CAP Report using the excel template relocated to Section 40.6, in addition to a Field Legend providing field completion instructions. See Pub. 100-06, Chapter 7, Section 40.6.	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC
9819.6	All contractors shall follow Control Number F.1: Contractor shall use Pub. 100-08 Program Integrity Manual 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 Improper Payment Reduction Strategy (IPRS). The problem-focused outcome-based IPRS report shall address both provider and service-specific problems, and a prioritization of problems. The IPRS shall focus its medical review activities toward the goal of reducing the claims improper payment rate. All work	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC

Number	Requirement	Responsibility								
		A/B MAC			DME MAC	Shared-System Maintainers				Other
		A	B	HHH		FISS	MCS	VMS	CWF	
	performed by the MR unit shall be identified in the IPRS and targeted based on the contractor's prioritized problem list or as directed by CMS. See Pub. 100-06, Chapter 7, Section 50.									
9819.7	All contractors shall follow Control Number F.2: Contractor shall budget and perform the MR workloads throughout the year as established in the IPRS. MACs shall report workload volume, and costs associated with MR activities in CMS ARTs or as directed by the COR. MACs shall explain any significant fluctuations in workload or costs in the Monthly Status Report and SAR. See Pub. 100-06, Chapter 7, Section 50.	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC
9819.8	All contractors shall follow Control Number F.5: Contractor shall utilize the Progressive Corrective Action (PCA**)** process, in accordance with the Pub. 100-08 and CMS instructions, to drive MR activity (i.e., data analysis, claims review, medical review education). See Pub. 100-06, Chapter 7, Section 50.	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC
9819.9	All contractors shall follow Control Number F.7: 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. See Pub. 100-06, Chapter 7, Section 50.	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC
9819.10	All contractors shall follow Control Number F.8: 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.	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC

Number	Requirement	Responsibility								
		A/B MAC			DME MAC	Shared-System Maintainers				Other
		A	B	HHH		FISS	MCS	VMS	CWF	
	See Pub. 100-06, Chapter 7, Section 50.									
9819.11	All contractors shall follow Control Number F.9: Contractor shall ensure that there is adequate internal networking and sharing of information, and appropriate collaborative actions are taken as a result, between MR and other business functions such as Appeals, Audits, POE, and inquiries and external organizations such as the ZPIC, Recovery Auditors, and Quality Improvement Organizations (QIOs). See Pub. 100-06, Chapter 7, Section 50.	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC
9819.12	All contractors shall follow Control Number F.10: 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. See Pub. 100-06, Chapter 7, Section 50.	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC
9819.13	All contractors shall follow Control Number F.11: Contractor shall effectively comply with all of the MR requirements of the Joint Operating Agreement (JOA) with the PSCs/ZPICs and Recovery Auditors, and other entities as directed by CMS. See Pub. 100-06, Chapter 7, Section 50.	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC
9819.14	All contractors shall follow Control Number F.12: Contractor shall institute a corrective action reporting process for claims-specific errors and vulnerabilities in accordance with PIM 3.7.5. For each issue, MACs shall report interim actions, final actions, and action dates. See Pub. 100-06, Chapter 7, Section 50.	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC
9819.15	All contractors shall follow Control Number G.5: Contractors shall have quality assurance measures in place to ensure the accuracy of the implementation of	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC

Number	Requirement	Responsibility								
		A/B MAC			DME MAC	Shared-System Maintainers				Other
		A	B	HHH		FISS	MCS	VMS	CWF	
	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 (for example, (but not limited to) A-123, CFO, SSAE 18, QASP, etc.). See Pub. 100-06, Chapter 7, Section 50.									
9819.16	All contractors shall follow Control Number H.1: For contracts expected to exceed $5.5Million, Contractors shall have a written Contractor Code of Business Ethics and Conduct as required by the Federal Acquisition Regulation (FAR) 3.1004 and FAR 52.203-13. 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 assign oversight responsibility to a member at a sufficiently high level. See Pub. 100-06, Chapter 7, Section 50.	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC
9819.17	All contractors shall follow Control Number H.2: Procurements are awarded and administered in accordance with CMS regulations, CMS general instructions and the Federal Acquisition Regulation. See Pub. 100-06, Chapter 7, Section 50.	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC
9819.18	All contractors shall follow Control Number H.3: CMS management structure provides for efficient contract performance. See Pub. 100-06, Chapter 7, Section 50.	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC
9819.19	All contractors shall follow Control Number H.4: Records shall be maintained/retained according to the National Archives and Records Administration (NARA) guidelines, CMS implementing guidelines and other requirements, FAR guidelines and other federal requirements, as may be identified. See Pub. 100-06, Chapter 7, Section 50.	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC

Number	Requirement	Responsibility								
		A/B MAC			DME MAC	Shared-System Maintainers				Other
		A	B	HHH		FISS	MCS	VMS	CWF	
9819.20	All contractors shall follow Control Number H.5: 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. See Pub. 100-06, Chapter 7, Section 50.	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC
9819.21	All contractors shall follow Control Number I.9: 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. See Pub. 100-06, Chapter 7, Section 50.	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC
9819.22	All contractors shall follow Control Number I.10: Cost reports are scoped and selected for audit or settled without audit based on audit plans that adhere to CMS guidelines and instructions. See Pub. 100-06, Chapter 7, Section 50.	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC
9819.23	All contractors shall follow Control Number I.11: 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. See Pub. 100-06, Chapter 7, Section 50.	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC
9819.24	All contractors shall follow Control Number I.12: Communications of audit programs, desk review programs, CMS audit and reimbursement policies, and	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC

Number	Requirement	Responsibility								
		A/B MAC			DME MAC	Shared-System Maintainers				Other
		A	B	HHH		FISS	MCS	VMS	CWF	
	other audit related instructions are timely and accurately communicated to all appropriate audit staff. See Pub. 100-06, Chapter 7, Section 50.									
9819.25	All contractors shall follow Control Number I.13: 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. See Pub. 100-06, Chapter 7, Section 50.	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC
9819.26	All contractors shall follow Control Number I.14: 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. See Pub. 100-06, Chapter 7, Section 50.	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC
9819.27	All contractors shall follow Control Number I.15: 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. See Pub. 100-06, Chapter 7, Section 50.	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC
9819.28	All contractors shall follow Control Number I.16: 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. See Pub. 100-06, Chapter 7, Section 50.	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC
9819.29	All contractors shall follow Control Number I.17:	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC

Number	Requirement	Responsibility								
		A/B MAC			DME MAC	Shared-System Maintainers				Other
		A	B	HHH		FISS	MCS	VMS	CWF	
	HITECH incentive payments for Medicare subsection (d) and critical access hospitals are calculated properly, in accordance with CMS' regulations, policies, and instructions. Data is properly entered into the FISS screens in order for the HITECH system to generate the incentive payments. See Pub. 100-06, Chapter 7, Section 50.									
9819.30	All contractors shall follow Control Number I.18: Notices of Cap Determination Letter are issued accurately and timely to Hospices and include all related documentation. See Pub. 100-06, Chapter 7, Section 50.	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC
9819.31	All contractors shall follow Control Number L.8: 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 redetermination or reconsideration appeal process, the contractor cannot recoup the debt; however, the debt continues to age. Once both levels of appeal are completed and CMS prevails, collection activities, including revised demand letters and internal recoupment may resume within the timeframes set forth. Contractors will calculate the 935(f)(2) interest on the principal amount paid 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. See Pub. 100-06, Chapter 7, Section 50.	X	X		X					BCRC, CDS, CRC, RRB-SMAC, STC

III. PROVIDER EDUCATION TABLE

Number	Requirement	Responsibility				
		A/B MAC			DME MAC	CEDI
		A	B	HHH		
	None					

IV. SUPPORTING INFORMATION

Section A: Recommendations and supporting information associated with listed requirements: N/A

"Should" denotes a recommendation.

X-Ref Requirement Number	Recommendations or other supporting information:

Section B: All other recommendations and supporting information: N/A

V. CONTACTS

Pre-Implementation Contact(s): Eleanor Sheain, 410-786-8120 or Eleanor.Sheain@cms.hhs.gov , Gernard Gray, 410-786-2285 or Gernard.Gray@cms.hhs.gov , Agbeko Kumordzie, 410-786-2100 or Agbeko.Kumordzie@cms.hhs.gov , Floyd Epps, 410-786-1952 or Floyd.Epps@cms.hhs.gov

Post-Implementation Contact(s): Contact your Contracting Officer's Representative (COR).

VI. FUNDING

Section A: 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.

ATTACHMENTS: 0

Medicare Financial Management Manual

Chapter 7 - Internal Control Requirements

Table of Contents
(Rev. 278, 12-16-16)

Transmittals for Chapter 7

10.1.4 - OMB Circular A-123
(Rev. 278, Issued: 12-16-16, Effective: 10 -01-16, Implementation: 01-19-17)

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

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

OMB Circular A-123 was revised in July 2016, and the title was changed to Management's Responsibility for Enterprise Risk Management and Internal Control. This Circular defines management's responsibilities for enterprise risk management (ERM) and internal control. The Circular provides updated implementation guidance to Federal managers to improve accountability and effectiveness of Federal programs as well as mission-support operations through implementation of ERM practices and by establishing, maintaining, and assessing internal control effectiveness. The Circular emphasizes the need to integrate and coordinate risk management and strong and effective internal control into existing business activities and as an integral part of managing an Agency.

10.1.5 - GAO Standards for Internal Controls in the Federal Government
(Rev. 278, Issued: 12-16-16, Effective: 10 -01-16, Implementation: 01-19-17)

The FMFIA requires the Government Accountability Office (GAO) to *prescribe* standards for internal control in government*, more commonly known as the Green Book*. GAO's "Standards for Internal Controls in the Federal Government" were updated in September 2014. The*se* standards provide the *internal control* framework *and criteria* for *designing, implementing, and operating an effective system of* internal control. *The Green Book defines internal control as a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity are achieved.* These are the internal control standards that CMS and its contractors must follow.

10.2.1 - Definition and Objectives
(Rev. 278, Issued: 12-16-16, Effective: 10 -01-16, Implementation: 01-19-17)

Internal controls are the checks and balances that ensure that operational objectives are carried out as planned in the most effective and efficient manner possible. We should not look upon these controls as separate specialized systems, but as integral parts of each system that management uses to accomplish the objectives of the Medicare program. In this regard internal controls are not just financial tools that safeguard assets, but are tools that are of vital importance to day-to-day programmatic and administrative operations as well. Internal control should be the first thought in CMS' oversight process. That is, can we be sure that there are adequate internal controls in place and operating effectively for the process we are evaluating?

Internal controls are an integral part of an organization's management to provide reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations;
- Reliability of reporting; and
- Compliance with applicable laws and regulations

Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. In short, internal control, which is synonymous with management control, helps program managers achieve desired results through effective stewardship of resources.

20 - CMS Contractor Internal Control Review Process and Timeline

(Rev. 278, Issued: 12-16-16, Effective: 10 -01-16, Implementation: 01-19-17)

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 Statement on Standards for Attestation Engagements (SSAE) Number 18 (SSAE 18) Statement of Work for the audit (MAC & DME MAC)
JANUARY	• Award SSAE 18 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 18 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 *18* Reports
SEPTEMBER	• Determine if new material weaknesses were identified since the interim CPIC report in July

20.1 - Risk Assessment

(Rev. 278, Issued: 12-16-16, Effective: 10 -01-16, Implementation: 01-19-17)

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, SSAE *18* 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, Contractor's Monthly Bank Reconciliation Worksheet (CMBRW) and 1522 reviews, A-123 Appendix A reviews and results of your own or CMS-sponsored SSAE *18* 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 *18* audit, or A-123 Appendix A review, you may rely on the SSAE *18* 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 *The CMS Business Partners Systems Security Manual* 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. 278, Issued: 12-16-16, Effective: 10 -01-16, Implementation: 01-19-17)

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. • Areas affected by significant changes in laws, regulations, special requirements or instructions. • Areas where policies and procedures regarding internal control over financial reporting are not well documented. • Areas of significant financial vulnerabilities (e. g., new accounting or regulatory guidelines). • Areas where guidelines have varied interpretations and/or areas being restructured. • Areas with new contract activities. • Areas where objectives of the corporate mission could be in jeopardy if not properly implemented. • Areas lacking performance measures or monitoring.	• Potential program weaknesses related to violation of privacy issues. • Areas with high visibility. • Areas where due dates are often not met or responses to correspondence are late. • Areas with consistent complaints or inquiry. • Areas where there are no written policies and procedures. • Areas where recent policy changes were implemented. • Areas with reorganization activities. • Areas where there is a breakdown in communication with corporate, regional, state or satellite offices, etc. • Areas with new or problematic performance measures.	• Areas where CAPs have already been implemented. • Areas with low visibility; routine program operations. • Areas where workers are meeting routine program operations and performance targets and attitudes and staff motivations are high. • Areas that undergo frequent financial audits/ reviews by external parties (e.g., CFO, SSAE *18*, A-123 Appendix A, CPIC, etc.). • Areas that managers perform periodic reviews to ensure that work assignments are performed consistently, and accurately. • Work activities are being phased out. • 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.

30.1 – Certification Package for Internal Controls (CPIC) Requirements

(Rev. 278, Issued: 12-16-16, Effective: 10 -01-16, Implementation: 01-19-17)

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, SSAE *18* 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., 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 MACs and the DME MACs:

- 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:

- MACs and DME MACs shall send to the ARA for Division of Financial Management and Fee for Service Operations, RO CFO Coordinator, and the Contracting Officer's Representative (COR) of the MAC or DME MAC.

- RDS and MSPRC shall send to the CMS COR.

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. 278, Issued: 12-16-16, Effective: 10 -01-16, Implementation: 01-19-17)

CMS contractors, including 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 performed SSAE 16*/18* 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 an SSAE 16*/18* 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/SSAE 16*/18* 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 SSAE 16*/18* 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 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 Reliance Examples chart). If other audits and reviews contradict the SSAE 16*/18* 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 (*The GAO Internal Control Management and Evaluation Tool*) 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: Contractors 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 Controls 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: *The US Department of Health and Human Services (HHS) Section 508 Compliance Information*. In addition, the MAC and the DME MAC contractors shall provide updated cycle memos to the SSAE *18* 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/SSAE 16/*18* Reliance Examples

Scenario	Prior Fiscal Year 2	Prior Fiscal Year 1	Current Fiscal Year	Additional Testing Required or Not Required*
1	No SSAE 16/A-123 Appendix A Review	No SSAE 16/A-123 Appendix A Review	Unqualified	Not Required
2	No SSAE 16/A-123 Appendix A Review	Unqualified	No SSAE *18*/A-123 Appendix A Review	Not Required
3	Unqualified	No SSAE 16/A-123 Appendix A Review	No SSAE *18*/A-123 Appendix A Review	Not Required
4	Qualified	Unqualified	No SSAE *18*/A-123 Appendix A Review	Not Required
5	No SSAE 16/A-123 Appendix A Review	No SSAE 16/A-123 Appendix A Review	Qualified	Required
6	No SSAE 16/A-123 Appendix A Review	Qualified	No SSAE *18*/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 *18*/A-123 Appendix A Review and the Findings are Corrected and Validated by CMS (CAP Closure Letter Received)	Not Required
8	Qualified	No SSAE 16/A-123 Appendix A Review and the Findings are Corrected and Validated by CMS (CAP Closure Letter Received)	No SSAE *18*/A-123 Appendix A Review	Not Required
9	Unqualified	Qualified	No SSAE *18*/A-123 Appendix A Review and the Findings are NOT Corrected or Validated by CMS (No CAP Closure Letter)	Required

Scenario	Prior Fiscal Year 2	Prior Fiscal Year 1	Current Fiscal Year	Additional Testing Required or Not Required*
10	No SSAE 16/A-123 Appendix A Review	Qualified	No SSAE *18*/A-123 Appendix A Review and the Findings are NOT Corrected or Validated by CMS (No CAP Closure Letter)	Required
11	Qualified	No SSAE 16/A-123 Appendix A Review and the Findings are NOT Corrected or Validated by CMS (No CAP Closure Letter)	No SSAE *18*/A-123 Appendix A Review and the Findings are NOT Corrected or Validated by CMS (No CAP Closure Letter)	Required

Unqualified Report
SSAE 16/*18*: No findings in Section I
A-123 Appendix A Internal Control Review: No material weaknesses were noted

Qualified Report
SSAE 16/*18*: 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 SSAE *18*/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 and SSAE 16*/18* Section I findings.

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 SSAE 16*/18* 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:

> "…(Contractor) has effective internal controls over financial reporting in compliance with OMB Circular A-123, Appendix A, except for the SSAE *18* 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 *18* 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."

30.2 - Certification Statement

(Rev. 278, Issued: 12-16-16, Effective: 10 -01-16, Implementation: 01-19-17)

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 *18* 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 COR. 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. 278, Issued: 12-16-16, Effective: 10 -01-16, Implementation: 01-19-17)

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

(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 *18* Audit

Reporting Period FY XXXX

30.5 - CPIC- Report of Internal Control Deficiencies

(Rev. 278, Issued: 12-16-16, Effective: 10 -01-16, Implementation: 01-19-17)

The CPIC Report of Internal Control Deficiencies is an internal report and it shall include control deficiencies, significant deficiencies, and SSAE *18* Section III/IV 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.

30.8 - Statement on Standards for Attestation Engagements (SSAE) Number *18 (SSAE 18)*, Reporting on Controls at Service Providers

(Rev. 278, Issued: 12-16-16, Effective: 10 -01-16, Implementation: 01-19-17)

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 *18* 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*/18* 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. MACs shall ensure that SSAE 16*/18* Type II audits are in compliance with the AICPA standards and state licensing regulations.

To ensure that the SSAE *18* Type II audit is complete and in compliance with AICPA Standards, MACs shall perform due diligence to obtain assurance and representations from the CPA firm that applicable state licensing regulations are followed and that relevant disclosures are provided. In addition, MACs shall complete the SSAE Checklist, which identifies the AICPA requirements of a SSAE *18* Type II audit report, including AICPA - SSAE *18*, Reporting on Controls at a Service Organization, effective *May 1, 2017*, paragraph 7 - Complementary User Entity Controls. MACs shall submit the SSAE *18* Checklist along with the draft SSAE and Corrective Action Plan (CAP) Follow Up reports to the CMS Internal Control Team at Internalcontrols@cms.hhs.gov by June 15.

SSAE *18* Type II Audit Report Checklist

AB/DME MAC:

The objective of this checklist is to evaluate whether the SSAE *18* Type II Audit is in compliance with AICPA Standards, state licensing regulations and in accordance with Internet Only Manual, Publication 100-06, Medicare Financial Management Manual, Chapter 7, Internal Control Requirements. The MAC shall review the SSAE *18* Type II Audit Report and check "yes" or "no" for each requirement. If the requirement is not met, the MAC shall follow-up with the CPA firm and indicate in the comment section the action(s) for meeting the requirement. The MAC shall ensure these requirements are reflected in the final report. If the MAC has any questions or comments, please contact your COR and copy the CMS Internal Control Team at internalcontrols@cms.hhs.gov.

Type II Audit Requirements	Yes	No	Comments and Follow-up Action (s) as Required
I. SSAE *18* Type II Audit Report			
1. Does the title of the SSAE Report indicate it is for the period October 1, *YYYY* through March 31, *YYYY*?			
2. Is the Independent Service Auditor's Report (Section I) signed and dated by the CPA firm and include the City/State of the issuing office?			
3. Are there any deficiencies identified in the SSAE *18* Report Auditors Opinion Section (Section I)?			
4. Did the CPA firm include a spreadsheet or table in Section I of the Report and include Finding Number, Description of the Finding, and Control Objective Number impacted?			
5. Were the appropriate control objectives tested? The initial audit for new MACs/DME MACs (which includes cases where outgoing MACs transition to a new MAC) must review all 12 or 13 applicable control objectives. Existing MACs/DME MACs must have the core 8 control objectives tested (see IOM Chapter 7, Section 30.8)			
6. Does the report include the following components? 1) Opinion, 2) Management's Assertion (placement may vary), 3) Description of System and Controls, 4) Control Objectives, Activities, Testing, and Results (including disclosure of sample sizes when exceptions are identified).			
7. Did the service auditor report on 3 elements of the system for the entire period covered by the report? 1) Fairness of presentation, 2) Suitability of design, and 3) Effectiveness of operation.			
II. Corrective Action Plan Report			
1. Is the Corrective Action Plan Report signed and dated by the CPA firm and include the City/State of the issuing office?			
2. Did the CPA firm include the specific procedures and testing performed to validate closure of each CAP reviewed?			
3. For each open CAP, did the CPA firm make a recommendation to close or to keep the CAP open?			
III. AICPA Standards			
1. Is the CPA firm in compliance with AICPA standards and state licensing regulations?			
2. Did the service auditor include *Complementary User Entity Controls* or *CUECs* in the final report? *CUECs* are controls that reside at the user organization (CMS). These controls are usually delineated in the SSAE *18* reports within their own report subsection and/or next to the control objectives they relate.			

IV. Overall Comments/Observations

V. Supervisory Review and Approval

This section is for Supervisory review, comment and approval.

Review Performed By: _____ **Date :** _____

CFO Signature: **Date :**

The initial audit (for new MACs, which include cases where outgoing MACs transition to a new MAC) 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). 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 *18* audit. This shall be performed as follows:

Entrance Conference - The CPA firm shall conduct an entrance conference with the MAC/DME MAC 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 MAC/DME MAC shall notify the individual Business Function Leads (BFLs), COR, and Technical Monitors (TMs) via email, as well as, the A-123 Technical Team (ATT) at internalcontrols@cms.hhs.gov of the date and time of the entrance conference at least five days prior to its occurrence. The BFLs, COR, TMs and ATT reserve 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 MAC/DME MAC. The status meetings shall include discussion of the activities performed during the period prior to the status meeting (including CAP Follow Up Review activities, if applicable), significant findings/potential issues identified thus far, and any concerns that may affect the completion of the work. The MAC/DME MAC shall notify the BFLs, COR, TMs and ATT of the dates and times of the status meetings at least five days prior to their occurrence. The MAC/DME MAC shall provide a copy of the written status report outlining activities performed during the period prior to the status meeting (including CAP Follow Up activities, if applicable), any significant findings/potential issues identified thus far, and any concerns that may affect the completion of the work. The BFLs, COR, TMs, and ATT reserve 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 MAC/DME MAC after the release of the draft SSAE *18* 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 MAC/DME MAC to review the draft report. The MAC/DME MAC shall notify the BFLs, COR, TMs and ATT of the date and time of the exit conference at least five days prior to its occurrence. The BFLs, COR, TMs and ATT reserve 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 *18* findings in Sections I and III/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 *18* 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, as well as to the BFLs, COR, and TMs. The target date for CMS comments back to the contractor is one week subsequent to issuance of the draft reports. Copies of the final SSAE *18* 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 and noted parties 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 *18* audits and CAP Follow Up Reviews.

In addition to the SSAE 18 audit, MACs are required to submit a bridge letter attesting to the internal controls environment for the remaining fiscal year period (April 1 to September 30). This bridge letter is critically important to the maintenance and demonstration of a strong internal control environment that supports the CMS internal control objectives: effective and efficient operations, reliable reporting, and compliance with applicable laws and regulations. The bridge letter is due within five business days after September 30 and should be submitted via email to InternalControls@cms.hhs.gov. The bridge letter shall be signed by the Chief Financial Officer (or designee).

MACs may use the attached sample language as the basis for their bridge letter or they may submit original language. At a minimum, the bridge letter shall have these key points addressed:

- *Name of CPA firm who prepared the latest SSAE 18 report;*
- *Date the SSAE 18 report was issued;*
- *Audit period covered by the most recent SSAE 18 report;*

- *The date the service organization is providing this assertion (through the date of the bridge letter or the as of date provided in the request for the bridge letter);*
- *Any material changes to the internal control environment (if applicable);*
- *Statement that the service organization is not aware of any material changes to the control environment;*
- *Statement that user entities are responsible for adhering to complementary user entity control from SSAE 18 report;*
- *Disclaimer that the bridge letter is not a substitute for the actual SSAE 18 report.*

The bridge letter will be reviewed by the CMS A-123 Technical Team (ATT) for compliance. If there are any questions regarding the letter, the ATT will contact the MAC point of contact, if necessary.

[This letter should go on the MAC's or DME MAC's letter head]

Sample Bridge Letter - No Material Changes:

[Current Date]
Bridge Letter

Centers for Medicare & Medicaid Services
Office of Financial Management
7500 Security Boulevard, Mailstop C3-13-08
Baltimore, MD 21244-1850
Attn: Internal Control Team

Dear CMS Internal Controls Team:

We have received your request for information regarding material changes in internal control related to the [list services here (A/B MAC or DME MAC]. [CPA firm name] prepared the latest Type II SSAE 18 for these services and the report is dated [report date]. This report includes tests of operating effectiveness for the period ending [period end date].

[Name of MAC or DME MAC] recognizes the need to maintain an appropriate internal control environment and report upon the effectiveness, as well as material changes to its internal controls. As of [current date], I am not aware of any material changes in our control environment that would adversely affect the Auditor's Opinion reached in the [report end date (not the same as the report date)] report for the above named SSAE 18.

You should also be aware that [MAC or DME MAC name], as a normal part of its operations, continually updates its services and technology as appropriate. In addition, the controls for all of [MAC or DME MAC name] services were designed with certain responsibilities required of the system users (See Complimentary User Entity Control in the SSAE 18 report). [MAC or DME MAC name] controls must always be evaluated in conjunction with an assessment of the strength of these user controls.

Finally, in order to conclude upon the design and effectiveness of internal controls for [MAC or DME MAC name], you must read the current SSAE 18 report. This letter is not intended to be a substitute for the SSAE 18 report.

Sincerely,
[Name of Member of Management[1]]
[Title]

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[1] *Should be a signature from one of the same persons that signed the letter of representations.*

[This letter should go on MAC's or DME MAC's letter head]

Sample Bridge Letter – Material Changes:

[Current Date]
Bridge Letter

Centers for Medicare & Medicaid Services
Office of Financial Management
7500 Security Boulevard, Mailstop C3-13-08
Baltimore, MD 21244-1850
Attn: Internal Control Team

Dear CMS Internal Controls Team:

We have received your request for information regarding material changes in internal control related to the [list services here (MAC or DME MAC)]. [CPA firm name] prepared the latest Type II SSAE 18 for these services and the report is dated [report date]. This report includes tests of operating effectiveness for the period ending [period end date].

[MAC or DME MAC name] recognizes the need to maintain an appropriate internal control environment and report upon the effectiveness, as well as material changes to its internal controls. On [date or approximate date material change happened], [describe the control add/change/removal that was made. Two sentences is sufficient]. As of [current date], I am not aware of any other material changes in our control environment that would adversely affect the Auditor's Opinion reached in the [report end date (not the same as the report date)] report for the above named SSAE 18.

You should also be aware that [MAC or DME MAC name], as a normal part of its operations, continually updates its services and technology as appropriate. In addition, the controls for all of [MAC or DME MAC name] services were designed with certain responsibilities required of the system users (See Complimentary User Entity Control in the SSAE 18 report). [MAC or DME MAC name] controls must always be evaluated in conjunction with an assessment of the strength of these user controls.

Finally, in order to conclude upon the design and effectiveness of internal controls for [MAC or DME MAC name], you must read the current SSAE 18 report. This letter is not intended to be a substitute for the SSAE 18 report.

Sincerely,
[Name of Member of Management[2]]
[Title]

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[2] *Should be a signature from one of the same person(s) that signed the letter of representations.*

40 - Corrective Action Plans

(Rev. 278, Issued: 12-16-16, Effective: 10 -01-16, Implementation: 01-19-17)

The CMS conducts various financial management and information technology (IT) 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 information technology (IT) audits related to annual CFO Financial Statement audits, which may include network vulnerability assessment/security testing (NVA/ST);

2. SSAE *18* audits;

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

4. Financial reviews conducted by the GAO;

5. CMS' 1522 and CMBRW workgroup reviews;

6. CMS' CPIC reviews; and

7. 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 *18* audits, CAPs to be submitted to CMS are required for findings noted in the opinion letter only (Section I), not those reported in Section III/IV of the SSAE *18* report. Section III/IV findings are not required to be included on the Initial and Quarterly CAP Reports. Section III/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 III/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. 278, Issued: 12-16-16, Effective: 10 -01-16, Implementation: 01-19-17)

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 electronic receipt of the final report, the contractor is required to submit an Initial CAP Report, using the excel Initial CAP Report. The Internal Control Team developed an excel format that is found in section *40.6.* The excel Initial CAP Report can be obtained from CAPS@cms.hhs.gov. For SSAE *18*, CFO, and A-123 Appendix A reviews, initial CAPS are due within 45 calendar days of the electronic receipt date of the final report. When submitting the Initial CAP Report, the email subject line shall denote the following information: Initial CAP Report, IOM entity abbreviated name (see section 40.3, Table I), jurisdiction code, and reporting due date.

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 *18* audit or A-123 Appendix A review) or by the contractor (i.e., CPIC). All entities shall submit an Initial CAP Report even if the entity has no new findings. If there are no findings, this should be annotated on the Initial CAP Report. 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 report. This report will contain all findings and CAPs that have not been closed through an official CMS CAP closure letter and provide updates to the actions taken to resolve the findings. All entities shall submit a Quarterly CAP Report even if the entity has no CAPs. If there are no open CAPs, this must be annotated on the Quarterly CAP Report. Only one Quarterly CAP Report shall be submitted for each jurisdiction that shall include all FYs and review types, i.e., SSAE *18* audits, A-123 reviews, CFO audits, etc.

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. When submitting the Quarterly CAP report, the email subject line shall denote the following information: Quarterly CAP Report, IOM entity abbreviated name (see section 40.3, Table I),

jurisdiction code, and reporting due date. The Quarterly CAP Report shall address all open findings, as well as continue to report information on all findings reported as closed 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 CFO coordinator. MACs and DME MACs shall submit initial and quarterly CAPs to the CAPS@cms.hhs.gov mail box, and the MAC COR. RDS and MSPRC shall submit initial and quarterly CAPs to the CAPS@cms.hhs.gov, and the central office COR.

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. 278, Issued: 12-16-16, Effective: 10 -01-16, Implementation: 01-19-17)

The Initial or Quarterly CAP Report shall include the data explained below using the excel template located in Section *40.6*; in addition to a Field Legend providing field completion instructions. Findings should be grouped by type of review (i.e. CFO, SSAE *18*, A-123 Appendix A, CPIC, etc.). Definitions of CAP report data fields:

A. Contractor - The abbreviated name assigned to the Medicare Administrative Contractor (MAC), Shared System Maintainer (SSM), Data Center, RDS or MSPRC see tables 2, 3, and 4 in section 40.3.

B. Fiscal Year (XX) – The last two digits of the fiscal year reviewed/audited (e.g., FY 2016 would be entered as 16).

C. Review/Audit Type – Refer to Section 40.3 Table 1 to identify the code for the review or audit type performed.

D. CAP No. – Sequential three digit number (starting with 001) issued by the auditor/reviewer (or assigned by the contractor if it is a CPIC material weakness) for each finding type.

E. Jurisdiction Identifier – Applicable to MACs only-refer to Section 40.3 Table 2 for jurisdiction code.

F. Repeat CAP – Indicate if original CAP has any repeat CAPs ("Yes"/"No").

G. CAP Repeat Number – For Quarterly CAP reporting, if a finding is repeated or duplicated in subsequent years or reported in more than one type of review, provide all other CAP ID Nos. 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. Repeat finding numbers shall only be reported in the "CAP ID Number" column in the Initial CAP Report for new repeat findings identified. For the Quarterly CAP Report, the "CAP ID Number" column will be populated with the primary (original) finding number only. The primary finding number is the finding number that was identified first. If in subsequent audit/review, 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 primary (original) finding number so that the findings can be easily linked.

H. Control objective(s) impacted - Required only for SSAE *18* 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. Note the CMSR number should not be reported in this field.

I. Deficiency Description - 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.

J. Deficiency Classification – This column is reserved for use by the CMS internal control team.

1. CAP ID No. - This field represents the unique identification number assigned to each deficiency requiring a CAP (formula driven).

2. CAP Description – A description of the planned remediation strategy to eliminate or mitigate the deficiency identified. The CAP should address the root cause of the deficiency.

3. Progress Milestones – Sequentially numbered specific action-oriented steps that facilitates the CAP progress for each deficiency being remediated. Progress milestones shall not change once established. Any revision to an original progress milestone shall be documented in the "2. CAP Description" column and considered an amendment to the original progress milestone. Any changes to the original CAP shall be submitted to CMS for approval by the Business Owner. All steps (milestones) shall be included in one cell.

4. Original Target Completion Date – A target completion date must be assigned to every CAP and progress milestone within the CAP to include (MM/DD/YYYY). The target date shall not change once it is recorded.

5. Revised Target Completion Date – If the original target completion date is revised; the revised date should be included in this column and the reason for the revision should be documented in column "2. CAP Description" (MM/DD/YYYY). Note all changes in the original target completion date shall be submitted to CMS for approval by the Business owner.

6. Actual Completion Date – An actual completion date shall be recorded for every CAP and progress milestone within the CAP to include (MM/DD/YYYY) the remediation of the deficiency was validated as effective.

7. CAP Status – A status reflecting the disposition of the CAP must be assigned and updated as necessary for each deficiency being remediated. Status options for deficiencies assessment include:

    i. **Open** – Remediation efforts are in progress and the target completion date has not passed;

    ii. **Delayed** – Remediation efforts are in progress after the original target completion date has passed. Explanations/justifications for delayed status must be documented in the CAP;

    iii. **Closed – Pending –** Verification and validation efforts have been completed and the CAP is awaiting closure by the issuing party (e.g., SSAE *18* Auditor, A-123 Assessor).

    iv. **Closed** – Validation and verification procedures demonstrate remediation efforts were adequately addressed, proven effective, and remediation efforts have been closed by issuing party; and

    v. **Cancelled** – Remediation efforts have ceased because the remediation was recorded inadvertently or erroneously, or it can be demonstrated that the remediation effort is no longer relevant. Explanations/justifications for cancelled statuses must be document in the CAP and approved by the Business Owner.

8. CAP Lead 1 - Individual responsible for managing corrective action efforts must be assigned and documented for each deficiency being remediated.

9. CAP Lead 2 – Not applicable to Medicare Contractors.

10. CAP Lead 3 – Not applicable to Medicare Contractors.

11. Executive Sponsor 1 – The senior executive official accountable for the deficiency and the associated CAP must be documented for each deficiency requiring a CAP.

12. Executive Sponsor 2 – Not applicable to Medicare Contractors.

13. Executive Sponsor 3 – Not applicable to Medicare Contractors.

14. Testing Document Reference – Not applicable to Medicare Contractors.

15. Sport/Prosight Identifier – Not applicable to Medicare Contractors.

16. Root Cause Analysis (RCA) Methodology – RCA is the examination process used to determine the underlying events(s) that cause the deficiency; the approach technique used to uncover causes of problems. Also, RCA can be seen as the process utilized to help identify what, how, and why an event occurred so that steps can be taken to prevent future occurrences. RCA documentation should be available upon request from the CAP Lead and include the decision process used to determine the RCA approach, and all supporting documentation (e.g. walk through documentation, meeting minutes, various dates analysis, emails, etc.).

17. Not for use by contractor

18. Progress Milestone Status – Each progress milestone must have an assigned status reflecting its disposition. Status options for deficiencies include:

    i. **Open** – Remediation efforts are in progress and the target completion date has not passed;

    ii. **Delayed** – Remediation efforts are in progress and after the original target completion date has passed. Explanations/justifications for delayed status must be documented in the CAP;

    iii. **Closed** – **Pending** – Verification and validation efforts have been completed and the CAP is awaiting closure by the issuing party (e.g., SSAE *18* Auditor, A-123 Assessor).

    iv. **Closed** – Validation and verification procedures demonstrate remediation efforts were adequately addressed, proven effective, and remediation efforts have been closed by issuing party; and

v. **Cancelled** – Remediation efforts have ceased because the remediation was recorded inadvertently or erroneously, or it can be demonstrated that the remediation effort is no longer relevant. Explanations/justifications for cancelled statuses must be document in the CAP and approved by the Business Owner.

40.3 - CMS Finding Numbers

(Rev. 278, Issued: 12-16-16, Effective: 10 -01-16, Implementation: 01-19-17)

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.

Table 1 - 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; M - CMS' CPIC reviews;
- O - OIG review HHS/OIG/IT controls assessment;
- P - CMS' 1522 and CMBRW reviews;
- S - SSAE *18* audit;

- V - CFO related NVA/ST; and
- W – Regional Office Review

Table 2 - CONTRACTOR ABBREVIATIONS

Novitas Solutions, Inc. (Affordable Care Act Marketplace Oversight)	*ACAMP*
Cahaba Government Benefit Administrators, LLC (JJ A/B MAC)	CAHJ
CGI Federal, Inc. (CGI) Commercial Repayment Center (CRC) (MSPRC)	CGI
CGS Administrators, LLC (J15 A/B MAC)	CGSJ
CGS Administrators, LLC, Durable Medical Equipment (DME) MAC *JB and* JC	CGSD
First Coast Service Options, Inc. (JN A/B MAC)	FCSOJ
Group Health Inc. (GHI) Benefits Coordination and Recovery Center (BCRC) (MSPRC)	GHI
National Government Services, Inc. (J6 and JK A/B MAC)	NGSJ
Noridian Healthcare Solutions (JE and JF A/B MAC)	NORJ
Noridian Healthcare Solutions, DME MAC *JA and* JD	NORD
Noridian Healthcare Solutions, Pricing, Data Analysis, and Coding (PDAC)	NORP
Novitas Solutions, Inc. (JH and JL A/B MAC)	NOVJ
Palmetto Government Benefits Administrators (JM A/B MAC)	PGBAJ
Railroad Retirement Board Specialty MAC (SMAC)	RRBS
Wisconsin Physicians Service Insurance Corporation (J5 and J8 A/B MAC)	WPSJ
Retiree Drug Subsidy (GDIT) (Part D Contractor)	RDSV
Retiree Drug Subsidy Contact Center (RDSCC)	RDSC

Table 3 - SHARED SYSTEM MAINTAINER ABBREVIATIONS

*Maximus (*Common Working File*)*	CWF
Data Computer Corporation of America *(STC)*	DCCA
*HP Enterprise Services Plano (*Multi-Carrier System*)*	MCS
HP Enterprise Services Plano (Fiscal Intermediary Standard System)	FISS
General Dynamics Information Technology	*VMS*

Table 4 – DATA CENTER ABBREVIATIONS

Companion Data Services (CDS) (VDC)	CDS
Data Computer Corporation of America (MBES)	MBES
HP Enterprise Services EDS – Tulsa, OK (*VDC*)	EDS
IBM – Boulder Colorado (HIGLAS)	IBM
General Dynamics Information Technology /GHI (New York, NY)	GDIT

40.4 - Initial CAP Report

(Rev. 278, Issued: 12-16-16, Effective: 10 -01-16, Implementation: 01-19-17)

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; however, the column width and row height may be adjusted to accommodate data entry. 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 template can be found in *Section 40.6.*

40.5 - Quarterly CAP Report

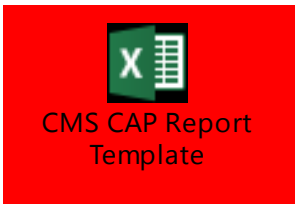
(Rev. 278, Issued: 12-16-16, Effective: 10 -01-16, Implementation: 01-19-17)

The contractor shall use the Quarterly CAP Report, as an Excel spreadsheet and add their data accordingly, changes are only allowed to be made to the column width and row height to accommodate data entry. Additionally, this electronic file shall be labeled Quarterly CAP Report, should be identified using the contractor abbreviations found in section 40.3, and shall include the submission date. For example, Wisconsin Physicians Service Insurance Corporation (WPS) would name this file "WPS Quarterly CAP Report 10/30/XX.xls".

40.6 - CMS CAP Report Template

(Rev. 278, Issued: 12-16-16, Effective: 10 -01-16, Implementation: 01-19-17)

The contractor shall use this template for CAP reporting. This template supersedes all prior templates issued.



50 – List of CMS Contractor Control Objectives

(Rev. 278, Issued: 12-16-16, Effective: 10 -01-16, Implementation: 01-19-17)

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 the classifications 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 system hardware 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.

Control Number	Control Objectives
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 system 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)

Control Number	Control Objectives
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 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 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.

Control Number	Control Objectives
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. 100-09, 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. 100-09, Chapter 6-Provider Customer Service Program).
E – Control Number	**Control Objective - Complementary Credits**
E.1	Contractors shall report cash received from the BCRC for COBA crossover claims as the cash is received in the CMS Analytical, Reporting, & Tracking system (CMS ART).
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F – Control Number	**Control Objective - Medical Review (MR)**
F.1	Contractor shall use the Program Integrity Manual 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 *Improper Payment Reduction* Strategy *(IPRS).* The problem-focused outcome-based *IPRS* report shall address both provider and service-specific problems, and a prioritization of problems. The *IPRS* shall focus its medical review activities toward the goal of reducing the claims improper payment rate. All work performed by the MR unit shall be identified in the *IPRS* and targeted based on the contractor's prioritized problem list or as directed by CMS.
F.2	Contractor shall budget and perform the MR workloads throughout the year as established in the *IPRS*. MACs shall report workload volume, and costs associated with MR activities in CMS ARTs or as directed by the COR. MACs shall explain any significant fluctuations in workload or costs in the Monthly *Status* 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 to reduce the claims improper payment rate. Data from a variety of sources must be used for data analysis. At a minimum, sources include: contractor internal data; CMS program vulnerability alerts

Control Number	Control Objectives
	such as Quarterly Vulnerability Technical Direction Letters that require corrective action reporting, FATHOM/PEPPER and other comparative billing reports; results from medical review studies performed by specialty MR or Program Integrity contractors; and other national or regional sources such as Office of Inspector General (OIG) reports, Government Accountability Office (GAO) reports, enrollment data, and fraud alerts.
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 (savings), 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 Pub. 100-08 and CMS instructions, to drive MR activity (i.e., data analysis, claims review, medical review education*).*
F.6	Contractor shall be capable of identifying the status of each claim subjected to medical review at any time (and all claims must be processed timely for closure in accordance with Pub. 100-08 instructions).
F.*7*	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.*8*	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.*9*	Contractor shall ensure that there is adequate internal networking and sharing of information, and appropriate collaborative actions are taken as a result, between MR and other business functions such as Appeals, Audits, POE, and inquiries and external organizations such as the ZPIC, Recovery Auditors, and Quality Improvement Organizations (QIOs).
F.*10*	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.*11*	Contractor shall effectively comply with all of the MR requirements of the Joint Operating Agreement (JOA) with the PSCs/ZPICs and Recovery Auditors*, and other entities as directed by CMS*.
F.*12*	Contractor shall institute a corrective action reporting process for claims-specific errors and vulnerabilities in accordance with *PIM 3.7.5. For each issue, MACs shall report interim actions, final actions, and action dates*.
G – Control Number	**Control Objective - Medicare Secondary Payer (MSP)**

Control Number	Control Objectives
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: *Publication # 100-05 Medicare Secondary Payer (MSP) Manual Chapter 6 - Medicare Secondary Payer (MSP) CWF Process*. ** "I" records are located at: *Publication # 100-05 Medicare Secondary Payer (MSP) Manual Chapter 5 - Contractor Prepayment Processing Requirements* This control objective does not pertain to BCRC or the CRC 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 an outstanding debt. 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 MSP Investigations by the Benefit Coordination & Recovery Center (BCRC). 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: *Publication # 100-05 The Electronic Correspondence Referral System on the Web (ECRS Web) User Guide*.
G.4	Contractors have processes in place to identify and track all incoming correspondence to ensure Statement of Work (Medicare Administrative Contractors and other Medicare 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 BCRC, or if your ECRS submission may warrant further actions after BCRC 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 (for example, (but not limited to) A-123, CFO, SSAE *18*, QASP, *etc.*).

Control Number	Control Objectives
H – Control Number	**Control Objective - Administrative**
H.1	*For contracts expected to exceed $5.5Million, Contractors shall have a written Contractor Code of Business Ethics and Conduct as required by the Federal Acquisition Regulation (FAR) 3.1004 and FAR 52.203-13. 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 assign oversight responsibility to a member at a sufficiently high level.*
H.2	Procurements are awarded and administered in accordance with CMS regulations, CMS general instructions and the Federal Acquisition Regulation.
H.*3*	CMS management structure provides for efficient contract performance.
H.*4*	Records shall be maintained/retained according to *the National Archives and Records Administration (NARA)* guidelines, CMS *implementing guidelines and other requirements, FAR guidelines and other Federal requirements, as may be identified.*
H.*5*	*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' regulations, policies, and 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).

Control Number	Control Objectives
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*	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.*10*	Cost reports are scoped and selected for audit or settled without audit based on audit plans that adhere to CMS guidelines and instructions.
I.*11*	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.*12*	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.*13*	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.*14*	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.*15*	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.*16*	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.*17*	HITECH incentive payments for Medicare subsection (d) and critical access hospitals are calculated properly, in accordance with CMS' regulations, policies, and instructions. Data is properly entered into the FISS screens in order for the HITECH system to generate the incentive payments.

Control Number	Control Objectives
I.18	*Notices of CAP Determination Letter are issued accurately and timely to Hospices and include all related documentation.*

J – Control Number **Control Objective - Financial**

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

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

        CMS Beginning Balance Report,

        CMS Transaction Register,

        CMS Applied Collection Register,

        CMS Adjustment Register,

        CMS AR Overpayments Report,

        CMS Interest and Late Charges,

Control Number	Control Objectives
	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: o A/P Detail Schedule of Entitlement Payables Due & Payable-Refunds Payable (216006), o A/P Detail Schedule of Entitlement Payables Due & Payable-Top Offsets (216097), o A/P Detail Schedule of Entitlement Payables Due & Payable-Settlement Matching (216098), o A/P Detail Schedule of Entitlement Payables Due & Payable-Third Party Payer (216099), • 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.

Control Number	Control Objectives
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 120 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; and previously issued CMS guidance via technical direction letter regarding MSP Duplicate Primary Payment (DPP) ARs following non-MSP financial activities and reporting on TROR. For DME MACs, see recently issued CMS Change Request regarding Data Act Treasury Referral Timeframe and Reporting.
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,

Control Number	Control Objectives
	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	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.7	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.

Control Number	Control Objectives
L.8	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 *redetermination or reconsideration* appeal process, the contractor cannot recoup the debt; however, the debt continues to age. Once both levels of appeal are completed and CMS prevails, collection activities, including *revised* demand letters and internal recoupment may resume within the timeframes set forth. Contractors will calculate the 935(f)(2) interest *on the principal amount paid* 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 100-08, Chapters 15 of the Program Integrity Manual (PIM).
M.2	Reassignments of benefits are made in accordance with Publication 100-04, section 30.2 of the Medicare Claims Processing Manual and Publication 100-08, Chapter 15, section 15.5.20, of the PIM.
M.3	Billing arrangements are in accordance with Publication 100-04, Chapter 1, section 30.2 of the Medicare Claims Processing Manual.