

# Financial Considerations



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# **PACE Fiscal Soundness**

# Agenda

- Overview
- Fiscal Soundness Requirements
- Fiscal Soundness Module
- Guidance & Contacts

# Overview

- The Division of Finance and Benefits (DFB) is responsible for reviewing and monitoring the fiscal soundness of PACE organizations.
- Fiscal soundness describes the financial condition of an organization.
- CMS utilizes the Fiscal Soundness Module (FSM) of the Health Plan Management System (HPMS).
  - FSM tracks, monitors, and serves as a data repository for current and historical financial information.
  - The FSM is updated and released annually at the end of March.

# Fiscal Soundness Requirements

- A PACE organization is required by CFR 460.80 to have a fiscally sound operation as demonstrated by the following:
  - Total assets greater than total unsubordinated liabilities;
  - Sufficient cash flow and adequate liquidity to meet obligations as they come due; and
  - Net operating surplus or financial plan for maintaining solvency that is satisfactory to CMS and the State administering agency.
- Organizations are required to satisfy all applicable state licensure, state, and CMS financial requirements, and submit their audited annual and quarterly financial statements to CMS based on published deadlines.

# Current Situation

- PACE program currently includes 120 organizations with nearly 36,000 enrollees.
- 85 organizations are no longer in the trial period for purposes of fiscal soundness review.
- 71 organizations are satisfying our requirements.
- 14 organizations are not satisfying CMS fiscal soundness requirements:
  - Three organizations are experiencing a net loss greater than one-half of their total net worth.
  - 11 organizations have a negative net worth.

# Legal Entity vs. Parent Organization

- CMS contracts with the PACE legal entity and all fiscal soundness requirements must be met by the individual PACE legal entity level.
- If the PACE organization is a line of business of the parent organization and audited annual financial statements are not available at the PACE legal entity level, audited annual financial statements may be provided for the parent organization.

**Important Note:** The PACE organization must report the required financial data elements and provide supporting annual/quarterly financial statements for the corresponding period at the PACE legal entity level.

# Financial Statement Filing Requirements


- Audited Annual Filing:
  - Applies to all organizations
  - Due 180 days after the organization's fiscal year ends
- Quarterly Filings:
  - Trial period (first 3 years) -- Submit quarterlies at least until CMS has reviewed audited annual financial statements covering three, full 12-month financial reporting periods under contract with CMS
  - Required when not meeting fiscal soundness requirements after the trial period or at CMS' discretion due to other concerns
  - Due 45 days after the organization's quarter-end (all 4 quarters)



# Fiscal Soundness Module

- Must have access to HPMS
- Fiscal Soundness Module (FSM) is located in HPMS
- Select “Fiscal Soundness” from “Monitoring” section of main menu toolbar

# Fiscal Soundness Module (cont.)


**HPMS**  
Health Plan Management System BDCTEST

HPMS TEST USER | User Resources | Log Out | A A A  
Last logged in at 11:11 AM on June 7, 2016

Contract Management | Plan Bids | Plan Formularies | Monitoring | Quality and Performance | Risk Adjustment | Data Extract Facility

Home » Fiscal Soundness

## Fiscal Soundness Start Page



The Fiscal Soundness module supports the electronic submission and review of financial information from Medicare Advantage, Part D, PACE, Cost, and Medicare-Medicaid plan organizations.

### Fiscal Soundness

- Financials**
  - Submission of Financial Information
  - View Financial Data
- Extensions**
  - Submission of Extension Requests
- Reports and Extracts**
  - Reports
- Documentation**
  - Documents and Forms

CV: 1.23.0.0

# Financial Data Elements

- Five (5) financial data elements from the audited annual or quarterly financial statements are entered into the FSM by PACE organizations:
  - Total Assets
  - Total Liabilities (including subordinated debt), if applicable
  - Subordinated Debt, if applicable
  - Net Income (current year-to-date)
  - Cash Flow from Operations (current year-to-date)

# Subordinated Debt

- Subordinated Debt: Defined as an unsecured debt whose repayment to its parent company ranks after all other debts have been paid when the subsidiary files for bankruptcy.
- Organizations that report subordinated debt with a parent organization must complete a subordinated debt arrangement attestation form and upload a signed version into FSM with all annual and quarterly financial statements submissions.

# Subordinated Debt Attestation Form

### PACE Organization Attestation of Subordinated Debt Arrangement

**Subordinated Debt Definition:** Subordinated debt is defined as an unsecured debt whose repayment to its parent company ranks after all other debts have been paid when the subsidiary files for bankruptcy.

Contract Number: H\_\_\_\_\_

I attest that \_\_\_\_\_ has a subordinated debt arrangement with the Parent  
(Name of PACER Legal Entity)  
 organization (identified below) that meets the above definition.

Description of Subordinated Debt Arrangement with the Parent organization:  
(If not enough space, please describe on a separate sheet of paper.)

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Arrangement with: \_\_\_\_\_  
(Please fill Parent organization)

Amount: \_\_\_\_\_

Financial Reporting Period: mm/dd/yyyy to mm/dd/yyyy

Printed Name of PACE Organization Official

Signature of PACE Organization Official

---

**Contact/E-Mail**

mm/dd/yyyy

Date \_\_\_\_\_

Printed Name of Parent Organization Official

Signature of Parent Organization Official

Contact/E-Mail

mm/dd/yyyy

Date \_\_\_\_\_

**Instructions:**

Complete this form and print a copy.

Have the printed copy signed by authorized Company Officials.

Scan the signed copy and submit it in Fiscal Soundness module in HPMS along with the uploaded Financial Statements.

(Rev. 11/18/2015)

# Things to Remember

- Fiscal Soundness Reporting Requirements (FSRR):
  - Summarizes overall reporting requirements
  - Provides a detailed table defining due dates for organizations based on fiscal year-end
- Maintain organizational contact information under Contract Management section of HPMS (i.e., Chief Financial Officer, Medicare Compliance Officer, and Financial Reporting contact)
- Avoid the following issues when entering quarterly financial data elements in the Fiscal Soundness Module:
  - Enter Total Assets (NOT Current Assets)
  - Enter Total Liabilities (NOT Current Liabilities)
  - Enter Year-to-Date Net Income and Cash Flow from Operations
  - Enter Cash Flow from Operations (NOT Net Change in Cash)
  - If entering subordinated debt, make sure the amount matches in both the financial data field and the form.

# Things to Remember (cont.)

- When uploading information into the Fiscal Soundness Module:
  - Include the Balance Sheet, Income Statement, Statement of Cash Flows, and Subordinated Debt Attestation Form (if applicable).
  - If a previously uploaded file needs to be replaced or deleted, please upload a completely new file.

# Regulatory References

- 42 CFR §460.80(a) Fiscal soundness
- 42 CFR §460.200 (a) Maintenance of records and reporting of data
- 42 CFR §460.208 Financial statements



# Resources

- Fiscal Soundness Reporting Requirements (FSRR)
  - HPMS > Monitoring > Fiscal Soundness > Documents and Forms; or
  - [www.cms.gov/Medicare/Health-Plans/HealthPlansGenInfo/FSRR.html](http://www.cms.gov/Medicare/Health-Plans/HealthPlansGenInfo/FSRR.html)
- “Clarification of Fiscal Soundness Requirements” HPMS memorandum issued on November 17, 2015
  - HPMS > Monitoring > Fiscal Soundness > Documents and Forms; or
  - [www.cms.gov/Medicare/Health-Plans/HealthPlansGenInfo/FSRR.html](http://www.cms.gov/Medicare/Health-Plans/HealthPlansGenInfo/FSRR.html)
- “Annual Verification of Parent Organization and Legal Entity Name” HPMS memorandum issued on February 19, 2016
- “PACE Subordinated Debt Attestation Form”
  - HPMS > Monitoring > Fiscal Soundness > Documents and Forms
- “Plan User Guide”
  - HPMS > Monitoring > Fiscal Soundness > Documents and Forms

# CMS Points of Contact

- For questions related to Fiscal Soundness, send questions to [FinancialReview@cms.hhs.gov](mailto:FinancialReview@cms.hhs.gov)
- For HPMS access or connectivity questions, send questions to [HPMS\\_Access@cms.hhs.gov](mailto:HPMS_Access@cms.hhs.gov)
- For technical assistance, send questions to [HPMS@cms.hhs.gov](mailto:HPMS@cms.hhs.gov) or 1-800-220-2028

# Financial Considerations



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# **CMS One-Third Financial Audits**

# Objectives

1. Obtain an understanding of the 1/3 financial audit process
2. Gather useful information for a successful audit process from start to finish
3. Learn different types of audit findings

# Audit Background

Why does CMS conduct these audits?

- CMS is required to annually audit at least 1/3 of Part D sponsors that offer Part D drug plans (42 CFR§ 423.504)
- PACE plans included in 1/3 audits beginning in 2015 for contract year 2013 (waiver ended)
- Important internal control feature over Medicare Part C and Part D

# **Audit Objectives (Management's Assertions)**

1. Determine the accuracy of prescription drug events (PDEs) and direct and indirect remuneration (DIR) data included in the Part D payment reconciliation
2. Determine the accuracy of base year experience (drug and administrative costs) reported on the Part D bid
3. Determine whether there are sufficient internal controls over Medicare payments for drug benefits
4. Determine whether the Plan has met solvency requirements

# Types of Audit Results/Opinions

1. **Unqualified** – “Clean Audit” (no findings) – management’s assertions are accurate. Maybe some less significant issues identified (observations)
2. **Qualified** – Management’s assertions are accurate except for the findings identified
3. **Adverse** – Management’s assertions are not accurate
4. **Scope Disclaimer** – Auditors cannot issue an opinion on management’s assertions



# Historic Audit Results

Type of opinion	CY 2006	CY 2007	CY 2008	CY 2009	CY 2010	CY 2011	CY 2012
Unqualified	33%	29%	32%	34%	53%	49%	57.6%
Qualified	43%	55%	63%	65%	45%	51%	42%
Disclaimer	16%	11%	2%	1%	0%	0%	0%
Adverse	8%	5%	3%	0%	2%	0%	0.4%

# Audit Process

How are plans selected for audit and notified?

- CMS selects at least 1/3 of Part D entities based on certain risk factors
- Prior to the audit, plans are notified via a HPMS email of the audit (Health Plan Management System)
- Plans receive 2<sup>nd</sup> HPMS email prior to the audit stating which CPA firm is conducting the audit, and a CMS point of contact is provided
- CPA firms contact plans to coordinate the audit

# Audit Process (cont.)

- Plans receive initial document request list and test samples
  - Extremely important for Plan or its' Pharmacy Benefit Manager (PBM) to provide documentation in a timely manner
    - Copies of policies, procedures, other audits, PBM info, screenshots, duplicate claim explanations, proof of Rx pickup/receipt, claims systems, board minutes, drug rebate contracts, supporting documentation for bids, general ledger to bid x-walk, pending litigation, organizational chart, related parties, contracts with providers, enrollment forms, efforts taken to coordinate benefits, etc.
- More documentation provided in advance – efficient audit process

# Audit Process (cont.)

- Plans requested to sign an assertion letter
- Auditors conduct a site visit and a formal entrance conference
- Approximately 60 days after entrance conference, an exit conference is held to discuss any issues to date and open items
- Approximately 30 days after exit conference, a draft report is issued to CMS

# Audit Process (cont.)

- Plans are asked to agree/disagree with findings
- Plans are required to sign a management representation letter
- Plans are notified via HPMS email that the final audit report is available for viewing/download and of any required follow up actions

# Audit Closeout and Corrective Action Plans (CAPS)

## Unqualified Audits

- ❖ Audits are considered closed
- ❖ Any observations are expected to be corrected internally (including resubmission of PDEs and DIR)

## Qualified Audits

- ❖ Corrective Action Plan (CAP) is required to address the findings
- ❖ Part D errors should be corrected and data resubmitted to CMS (e.g., PDE resubmission, updated DIR report)
- ❖ Observations should be corrected internally

## Adverse or Scope Disclaimer

- ❖ CMS compliance unit will contact the plan regarding corrective action – a follow-up audit may be required
- ❖ Part D errors should be corrected and data resubmitted to CMS (e.g., PDE resubmission, updated DIR report)

# Polling Question

Are National PACE Association Dues allowable costs on the Medicare Part D bid?

1. Yes
2. No
3. Some

# Audit Findings – Examples

- PDE Errors
  - Duplicates
  - Part B drugs
  - Pharmacy dispensing fees
- Unallowable non-benefit expenses on bid
  - Lobbying
  - Administrative expenses for other lines of business
- True Out of Pocket Costs (TrOOP)
  - Track TrOOP and/or gross drug cost
- Coordination of Benefits
  - Annual COB file



# Points of Contact

1. [MAPDAudits@cms.hhs.gov](mailto:MAPDAudits@cms.hhs.gov)
  - All general questions regarding 1/3 financial audits
2. Division of Capitated Plan Audits (DCPA contacts)
  - [Amando.Virata@cms.hhs.gov](mailto:Amando.Virata@cms.hhs.gov) Auditor
  - [Julia.Gorner@cms.hhs.gov](mailto:Julia.Gorner@cms.hhs.gov) Director
  - [Frank.Chartier@cms.hhs.gov](mailto:Frank.Chartier@cms.hhs.gov) Deputy Director