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# CMS Medicare Manual System

## Pub. 100-6 Financial Management

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Department of Health &  
Human Services (DHHS)  
Centers for Medicare &  
Medicaid Services (CMS)

Transmittal 14

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### CHANGE REQUEST 2514

| CHAPTERS | REVISED SECTIONS | NEW SECTIONS | DELETED SECTIONS |
|----------|------------------|--------------|------------------|
| 5        | 200              |              |                  |

*Red italicized font identifies new material.*

***NEW/REVISED MATERIAL EFFECTIVE DATE: July 1, 2003***

***IMPLEMENTATION DATE: July 1, 2003***

**Medicare contractors only: these instructions should be implemented within your current operating budget.**

**Section 200 – General**, establishes the capability of the shared systems to generate any information/reports necessary for the Medicare contractors to prepare financial statements at the end of any month upon CMS' request.

**200 – General – (Rev. 14, 02-03-03)**  
**A1-1900, B1-4900**

The Contractor Financial Reports provide a method of reporting financial activities for benefit payments by Medicare contractors according to the Chief Financial Officers (CFOs) Act of 1990. The contractor is required to maintain accounting records according to government accounting principles and applicable government laws and regulations. This requirement complies with the Office of Management and Budget (OMB) Bulletins about Financial Statements. These policies and procedures are developed by the Federal Accounting Standards Advisory Board (FASAB).

The accounting principles and the auditing standards required are not substantially different from Generally Accepted Accounting Principles (GAAP) and Generally Accepted Auditing Standards (GAAS) as formulated by the accounting profession. Government accounting principles which are developed by FASAB, however, require maintaining records not only for preparing financial statements, but also to enforce applicable laws and regulations. Accounts are maintained to provide control over operations as well as to provide financial information.

Medicare contractors are required to use double entry bookkeeping and accrual basis accounting. For example, if an accounts receivable is established, accounts receivable should be debited and, most likely, operating/program expense should be credited. If an accounts payable is established, accounts payable should be credited and, most likely, operating/program expense should be debited. In addition, the information reported must be supported by the contractor's books and records as of the end of the period requested and adequate audit trails must be maintained. To ensure accurate reporting, proper cutoff procedures must also be established in order to limit reporting to activities attributable to the reporting period. Where actual data is not available, reasonable estimates are acceptable. See Exhibits 12 through 15 for protocols for estimating relevant accounts. When end of period entries are made to accrue account balances, the contractor shall reverse the entries in the following quarter to allow normal processing of accounting transactions.

In order to maintain consistent and accurate financial reporting, Medicare contractors must have an internal control structure that integrates the accounting and claims processing systems. The internal control structure must provide for the following control procedures:

1. Independent review of proper valuation of recorded amounts and performance;
2. Segregation of duties (separate authorization, record-keeping, and custody);
3. Safeguards over access to assets and records;
4. Authorization of transactions and activities;

5. Documents and records that are adequate to ensure proper recording; and
6. Quarterly reconciliation of internal systems to the Provider Overpayment Report (POR) system for intermediaries and the Physician Supplier Overpayment Report (PSOR) system for carriers.

Supporting documentation must be maintained and available for review and audit. This must include lead schedules for all amounts used for report preparation and detailed documentation, such as demand letters for accounts receivable. A very good procedure that CMS recommends to ensure the accuracy of reported amounts, is trending and comparative analysis. This analysis involves comparing reported amounts to prior amounts to identify material errors.

Hardcopy books and records used to prepare the annual financial reports should be retained for 6 years unless microfilmed. Then, the hardcopy needs to be retained for 3 years and the microfilm retained for the balance of the 6-year period.

The Office of the Inspector General (OIG) will conduct audits of contractors according to government auditing standards. This requirement complies with OMB Bulletin No. 98-08, Audit Requirements for Federal Financial Statements. Applicable government laws and regulations also supplement the government auditing standards. These standards are similar to those contained in the **Comptroller General of the United States Standards for Audit of Governmental Organizations, Programs, Activities, and Functions** (The Yellow Book).

*The OMB Bulletin No. 01-09, Form and Content of Agency Financial Statements requires the preparation of Federal Agency interim financial statements, in addition to accelerating the due date of the submission of year-end audited financial statements to OMB and Congress. Because of OMB's new requirements, CMS and its Medicare contractors must be able to prepare financial statements at the end of any month at the request of CMS.*

*To meet this obligation, all shared systems must be able to produce any system reports required by Medicare contractors utilizing those systems to prepare all the Forms CMS-750 A/B and the Forms CMS-751 A/B on a month-end basis. These reports must be cumulative in order to provide Medicare contractors' financial position and status of accounts receivable activity from the beginning of the fiscal year through the month requested.*

*Medicare contractors must be able to support all summary amounts reported on any of these reports with transaction level detail, and must be able to produce this support upon request by CMS or internal/external auditors.*