



# **Annual HMO Financial Audit Guide**

**Version Number: 1.0 June 26, 2018**

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Version	Date	Change Log
1.0	6/26/2018	Initial Guide

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## Background

This guide is intended for State Medicaid Health Maintenance Organizations (HMO) and their independent auditors to comply with the annual audit requirement implemented by the Centers for Medicare and Medicaid Services (CMS) as of July 1, 2017. Specific to State Medicaid Managed Care contracts, the HMO is now obligated to provide an annual audited financial report of Medicaid services to the State Medicaid agency. This requirement will ensure the integrity of the financial information that each HMO annually submits to the Wisconsin Department of Health Services (DHS) in its rate-setting process for Wisconsin Medicaid programs.

Per federal regulation [42 CFR Part 438.3\(m\)](#) - Standard Contract Requirements, CMS requires the submission of an audited financial report to DHS:

*“The State Medicaid Managed Care contract must require Managed Care Organizations (MCOs), Prepaid Inpatient Health Plans (PIHPs), and Prepaid Ambulatory Health Plans (PAHPs) to submit audited financial reports specific to the Medicaid contract on an annual basis. The audit must be conducted in accordance with generally accepted accounting principles (GAAP) and generally accepted auditing standards (GAAS).”*

## HMO Supplemental Schedule Requirement

To meet this CMS requirement, DHS is requesting each HMO to include a Medicaid supplemental schedule along with the annual audited financial report currently prepared on behalf of the HMO. The Medicaid supplemental schedule will specifically segregate the financial results for the BadgerCare Plus and Medicaid SSI contract from other lines of business for the required audit period and be reported on a GAAP basis.

If the supplemental schedule can't be included with an existing annual audited financial report, the HMO must contract separately for the schedule. The supplemental schedule must ultimately provide assurance that the Financial Template information submitted to DHS by the HMO is verifiable, complete, and ties to the other audited financial statements.

The audited Medicaid supplement schedule will be provided to the department in the form of a “Statement of Revenue and Expenses – GAAP Basis” exclusive to the agency's BadgerCare Plus and Medicaid SSI contract. The statement must separately identify revenue and expenses covered by this Medicaid contract, other Medicaid contracts, and other non-Medicaid lines of business as applicable for the financial report. The minimum requirements of the statement are outlined below in the “Example: Statement of Revenue and Expenses – GAAP Basis”.

In order to ensure accuracy and completeness of the Financial Template, all of the major categories within the template (e.g. revenue, expense, administration, etc.) must be identifiable in the supplemental schedule and be covered by the independent auditor's opinion.

## Example: Statement of Revenue and Expenses – GAAP Basis

The following example is the minimum requirement for the “Statement of Revenue and Expenses – GAAP Basis”. The HMO may provide an expanded statement with additional account categories at its discretion.

	HMO Agency			
	Statement of Revenue and Expenses - GAAP Basis			
	For the Year Ended December 31, 20xx			
	BCP/SSI	All Other	Other	Total
	Medicaid Contract	Medicaid Contracts	Non-Medicaid	
REVENUE				
Premium revenue				
Other revenue				
Total revenue				
EXPENSES				
Medical expenses				
Claims adjustment expenses				
General administrative expenses				
Total Expenses				
NET INCOME/(LOSS)				

The BadgerCare Plus and Medicaid SSI column should only include financial information specific to the programs covered by the contract for the audited period. This information should agree with the financial data reported to the Bureau of Financial Management (BFM) per the Financial Template, Exhibit 7. If differences exist between the “Statement of Revenue and Expenses – GAAP Basis” and Exhibit 7 of the Financial Template, then use Exhibit 10 in the Financial Template to reconcile the differences.

## Independent CPA Requirements

The independent CPA that performs the annual audited financial report supplemental schedule must comply with [Wisconsin Administrative Code, Chapter Insurance 50.08 – Qualifications of Independent Certified Public Accountants](#). The independent CPA must also possess the necessary expertise to perform audits of Wisconsin insurance entities, including HMOs and MCOs.

## Effective Date

The first supplemental schedule is required with the audited financial report on June 1, 2019 for the 2018 audit period. The supplemental schedule requirement will continue forward on June 1, of each contract year for the prior years’ audit period (e.g. the 2020 contract will cover audit period 2019).

## **Submission Process**

The annual audited financial report including the supplemental schedule is due to DHS on June 1, each year for the immediately preceding calendar year. The audit report must be submitted by email to [DHSDMSBFM@dhs.wisconsin.gov](mailto:DHSDMSBFM@dhs.wisconsin.gov) and [DHSAuditors@dhs.wisconsin.gov](mailto:DHSAuditors@dhs.wisconsin.gov) in a PDF format that is unencrypted, unlocked, and text-searchable.

The Financial Template is due to DHS on June 1, each year. The Financial Template must be submitted in an Excel format by email to [DHSDMSBFM@dhs.wisconsin.gov](mailto:DHSDMSBFM@dhs.wisconsin.gov) and [DHSAuditors@dhs.wisconsin.gov](mailto:DHSAuditors@dhs.wisconsin.gov).

If the HMO is unable to submit the audited financial report, the supplemental schedule, or the Financial Template to DHS by their due date, the HMO must request an extension within five business days by emailing [DHSDMSBFM@dhs.wisconsin.gov](mailto:DHSDMSBFM@dhs.wisconsin.gov). The HMO must provide an alternative submission date with this request.

## **Cost of the Supplemental Schedule**

The cost of creating the supplemental schedule should be reported in the “Administrative Expenses, Indirect Expenses, Accounting and Finance”, line item of the Financial Template for the year in which the expense was incurred. Only the cost of the supplemental schedule should be reported and not the entire cost of the annual audited financial report, unless appropriate.

## **Access to Work Papers**

Upon request, the HMO and its independent auditor must provide DHS or its representative access to all work papers related to the financial report supplemental schedule for BadgerCare Plus and Medicaid SSI programs under contract for HMO provided services.

## **Contract for BadgerCare Plus and/or Medicaid SSI HMO Services: Annual HMO Financial Audit**

The BadgerCare Plus and Medicaid SSI contract language for the annual HMO financial audit can be found in Article XII, Section J - Financial Report.

## **ForwardHealth Portal – Reference Material Location**

The Annual HMO Financial Audit Guide, the Financial Template, and the Financial Template Synopsis can be found on the [Forward Health](#) portal.

## Questions on the Annual HMO Financial Audit Guide

Questions concerning the Annual HMO Financial Audit Guide should be directed to the BFM email box at: [DHSDMSBFM@dhs.wisconsin.gov](mailto:DHSDMSBFM@dhs.wisconsin.gov).

## Non-Disclosure of Trade Secrets and Confidential Competitive Information

All financial information provided to DHS under this guide is covered under Article XII, Section N, Non-Disclosure of Trade Secrets and Confidential Competitive Information.

1. To the extent that encounter records, medical-loss ratio reports, or other submissions/reports include or have the capacity to reveal amount(s) paid by the HMO to provider(s), the HMO and the Department agree that those records, reports or submissions constitute trade secrets under the Wisconsin Uniform Trade Secrets Act, Wis. Stats., s. 134.90(1)(c), and must remain confidential to protect the competitive market position of the HMO. The Department agrees such records, reports or submissions are thus exempt from disclosure under s. 19.36(5), Wis. Stats. regardless of whether said information is specifically, separately designated as such by the HMO at the time of submission or reporting to the Department.

2. If the Department receives an open records request, subpoena, or similar request involving the information described in Paragraph 1, the Department shall notify the HMO of the request without unreasonable delay. Upon such request, the Department shall take all reasonable steps to prevent the disclosure of such information. In the event that disclosure of information is compelled pursuant to a writ of mandamus or other court order, the Department agrees to redact any otherwise proprietary, confidential, or trade secret information prior to said disclosure, subject to the terms of the order.

3. In the event the designation of the confidentiality of this information is challenged, the HMO agrees to provide legal counsel or other necessary assistance to defend the designation of records, reports, or submissions as a trade secret. The Department shall, without charge to the HMO, reasonably cooperate with such defense, to include providing legal counsel, testimony, and attestations regarding the protection of confidential and proprietary information that qualifies as a trade secret. Notwithstanding the foregoing, the HMO shall have the sole right and discretion to direct the defense to settle, compromise, or otherwise resolve such defense. Should any order or judgment be issued against the Department, the HMO will hold the Department harmless and indemnify the Department for costs and damages assessed against the Department as a result of designating records, reports, or submissions as trade secret(s).