

Preparing For 1915(c) Waiver Program Fiscal Audits And Reviews

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Training Objectives

- Provide an overview of financial review and audit requirements for 1915(c) waiver programs.
- Highlight common pre-payment controls used to validate claims, prepare for fiscal reviews, and prevent fraud, waste, and abuse.
- Discuss the key elements of post-payment review activities including the scope, frequency, and methods used to verify paid claims, and recoupment processes.
- Review state considerations when preparing for fiscal audits and reviews.

1915(c) Financial Integrity and Accountability Requirements

Financial Integrity and Accountability

- States employ a combination of audit and payment review activities to assure the integrity of Medicaid waiver service payments.
- State review and audit activities are used to ensure the integrity of the program by validating payment claims; preventing fraud, waste, and abuse; and providing a check to verify participants experience the waiver program in alignment with their person-centered plans.
- States also may require providers to secure financial statement audits as a state oversight measure, to comply with federal requirements, and for stakeholder transparency purposes.
- When preparing for financial integrity and accountability reviews, states must evaluate the goals of the review, review processes, outreach and communication, and the intended results of the review including recoupment or penalties for inappropriate payments.

Financial Integrity and Accountability Requirements

- States are required to describe the following audit and review activities and details as part of Appendix I-1 of the 1915(c) waiver application approval process:
 - Requirements concerning the independent financial statement audits of provider agencies.
 - A post-payment review program that the state conducts to ensure the integrity of provider billings for Medicaid payment of waiver services, including the methods, scope, and frequency of reviews.
- States also implement pre-payment controls to verify Medicaid eligibility, that services are provided in accordance with the service plan, and that billed services were rendered.

Auditor/Reviewer Requirements

- States must describe the agency (or agencies) responsible for conducting the state's post-payment review activities in **Appendix I-1** of the 1915(c) waiver application.
 - If post-payment reviews are conducted by contractors, states must specify the state agency responsible for overseeing contractor performance.
 - If multiple agencies and/or contractors are performing post-payment reviews, then the state must describe each agency's method, scope, and frequency of the post-payment reviews and ways to prevent any duplicative, unnecessary efforts during the review process.

Single Audit Act and Other Audit Requirements

- States must describe the state agency (or agencies) responsible for conducting the state's independent financial audit in accordance with the Single Audit Act in **Appendix I-1** of the waiver application.
 - Home and Community-Based Services (HCBS) waivers (like other Medicaid services) are subject to requirements of the Single Audit Act (31 U.S.C. 7501-7507) as amended by the Single Audit Act Amendments of 1996 (P.L. 104-146). If the financial audit program is conducted by contractors, states must specify the state agency responsible for overseeing contractor performance.
- States must also describe additional applicable state laws, regulations, and financial accountability policies and must make all documents and regulations cited available upon request by CMS.

Pre-Payment Reviews

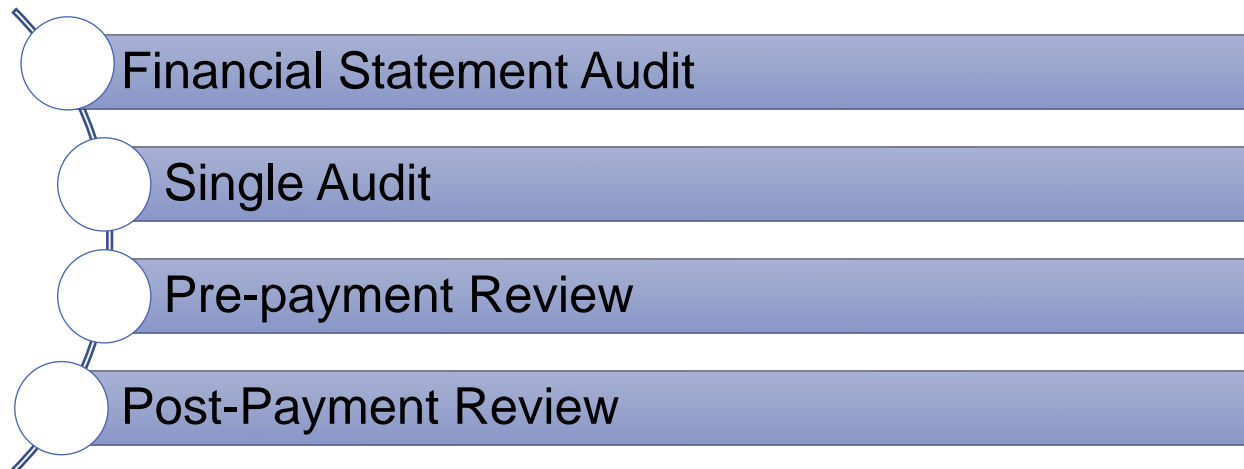
- States must describe a pre-payment or validation control(s) in **Appendix I-2-d** of the waiver application that certifies controls meet three essential verification tests:
 - The individual was eligible for Medicaid waiver payment on the date of service;
 - The service was included in the participant’s approved service plan; and
 - The services were provided.

1915(c) Fiscal Audits and Reviews

Fiscal Audits and Reviews

- As part of the 1915(c) waiver approval process, CMS requests that states detail additional information relating to **financial statement audits, post-payment reviews, and pre-payment reviews.**
- States are not limited to CMS 1915(c) waiver evaluation criteria and may employ as many additional reviews and audits as necessary to achieve program goals.

1915(c) Fiscal Audits and Reviews



Financial Statement Audit

- A financial statement audit is an objective examination and evaluation of an organization's financial statements to verify that financial records fairly and accurately depict the organization and its reported transactions.
- Financial statement audits must be conducted by an independent auditor or an individual that is not affiliated with the organization under review.
- States may require financial statement audits to aid in oversight efforts and broader program integrity goals.
- Financial statement audit requirements may vary based on business organization (e.g., service providers that are publicly traded corporations must receive an evaluation of internal controls).

Single Audit

- **Single Audit**, previously known as the OMB Circular A-133 audit, is codified in the Code of Federal Regulations (CFR) at 2 CFR Part 200, Subpart F and implements the Single Audit Act.
- Single Audit is an organization-wide financial statement and federal awards' audit of a non-federal entity that expends \$750,000 or more in federal funds in one year.
- Single Audits are intended to provide assurance to the federal government that a non-federal entity has adequate internal controls in place and is generally in compliance with program requirements. Non-federal entities typically include states, local governments, Indian tribes, universities, and non-profit organizations.
- Single Audits are required to be conducted by an independent auditor.
- The [Uniform Guidance](#) provides direction from the Office of Management and Budget (OMB) on uniform cost principles and audit requirements for federal awards for non-federal entities and administrative requirements for all federal grants and cooperative agreements.

Pre-Payment Review

- State pre-payment review steps operate as internal controls to assist states and providers with submitting and processing more accurate claims.
- State billing validation efforts often involve a Medicaid Management Information System (MMIS) which assists states with processing claims, validating participant eligibility, and ensuring alignment with person-centered planning.
- States use pre-payment controls and/or billing validation methods to ensure provider billings for waiver services are valid and as a step to help prevent inappropriate or fraudulent billings.

Pre-Payment Review Methods

- State pre-payment billing validations options also include:
 - **Predictive modeling:** States may use projections and/or performance metrics to identify or flag unexpected or potentially inappropriate claim submissions.
 - **Electronic visit verification (EVV) systems:** States may use EVV point-of-service data and EVV verification as a pre-payment check.
 - **Third-party liability processes:** Medicaid is the payer of last resort and in such cases of participant third-party liability, the process of review may serve as a participant eligibility check for other insurers such as Medicare.
 - **Case management systems:** States may use case management systems that interface eligibility, service plan, and claims data to serve as pre-payment checks.

Post-Payment Review

- Post-payment reviews are critical for assessing the effectiveness of pre-payment controls and ensuring program integrity, and can help prevent fraud, waste, and abuse (FWA).
 - Post-payment reviews serve as a check for pre-payment controls as post-payment review results may reveal system vulnerabilities and provide opportunities to routinely review payment controls.
 - Post-payment reviews are integral to state program integrity efforts and allow for a formal process to recoup inappropriate or fraudulent billings.
 - Post-payment reviews can be used as a discovery tool for FWA and are commonly used as an investigative tool to follow-up on suspected instances of FWA and to support state health and welfare efforts.

Post-Payment Review Methods

- State post-payment review methods can take multiple forms, including:
 - **On-site reviews:** Reviews can be conducted at the provider site to offer more insight into provider operations, as a follow-up to a desk review, or for FWA prevention and detection purposes.
 - **Participant feedback surveys and interviews:** Participant feedback is particularly useful when evaluating whether participants receive care as outlined in a participant-centered service plan.
 - **Documentation review:** Supporting documentation is compared to claims data to validate payment.

Preparing for Provider Financial Statement Audits and the Single Audit

Financial Statement Audit Overview

- States determine financial statement audit requirements for 1915(c) waiver service providers.
 - CMS requires that states certify in the 1915(c) waiver application whether the state requires providers to secure an independent financial statement audit.
 - Financial statement audit requirements for 1915(c) waiver service providers are left to the discretion of the state and policies vary nationally.
- Financial statement audits can be used as a tool to improve state oversight processes or as a response mechanism for investigative or other purposes.
 - For example, a state conducts an internal performance audit of multiple provider groups to include a financial statement audit to assess provider operations and compliance with statutory obligations.

Audit Independence

- States must specify the independence requirements for financial statement audits.
- An independent financial statement audit is commonly conducted by a certified public accountant without a financial or business relationship to the audited entity.
 - States may conduct internal audits or reviews of provider groups but should note this as a separate audit process when describing audit and review procedures.

Financial Statement Audit Scope

- States must determine which providers are subject to financial statement audit requirements.
 - Financial statement audits may be cost prohibitive or unnecessary for smaller or individual direct service providers.
 - States should evaluate program goals when determining whether financial statement audits are an appropriate tool for protecting the financial integrity of the waiver program.
- States must also specify the criteria by which financial statements will be measured, as rules and requirements will vary based on provider structure and organization.
 - For example, publicly traded corporations are subject to different accounting standards than a local government provider and audit standards should be established based on the state's provider pool targeted for audit.

Financial Statement Audit Scope (Cont.)

- States must determine compliance thresholds and metrics that comprise a successful audit and be prepared to follow-up with next steps as needed to remediate issues identified from the audit.
 - For example, if a state is evaluating the financial health of the provider pool, the state should establish baseline metrics to objectively evaluate providers.
- States should look for opportunities to streamline existing audit processes and share audit findings to bolster state program integrity efforts and safeguard against FWA.
 - For example, states can share findings from financial statement audits with appropriate stakeholders or oversight entities to assist with better understanding provider operations to design preventive measures to safeguard FWA and to develop more robust post-payment review programs.

Single Audit Requirements

- In general, Medicaid reimbursements for waiver services are not considered federal awards under the Uniform Guidance and thus are not subject to the \$750,000 federal award audit threshold and Single Audit.
 - Under 2 CFR 200.502(i) of the Uniform Guidance, Medicaid payments to a subrecipient for providing patient care services to Medicaid-eligible individuals are not considered federal awards, unless a state requires the funds to be treated as federal awards expended because reimbursement is made on a cost-reimbursement basis.
- The state must still specify, as part of the 1915(c) waiver application, the agency responsible for conducting the Single Audit review on behalf of the Medicaid program.

Other Audit Activities

- States may authorize as many audit activities as needed to achieve state objectives and secure the waiver program.
- Examples of other audits include but are not limited to:
 - **Quality Improvement Strategy reviews:** States may have separate audit and review procedures for collecting and analyzing QIS data, such review activities are described in the QIS appendices of the 1915(c) waiver application.
 - **Internal Performance Audits:** Internal audits are commonly authorized by legislative decree and/or in response to stakeholder feedback or program changes.
 - **Cost Settlement:** States using a cost reconciliation rate methodology may require providers to submit audited financial statements or submit cost surveys or reviews to support costs.

Preparing for Post-Payment Reviews

Post-Payment Review Overview

- Post-payment reviews are the state's primary mechanism to ensure the financial integrity of the program.
 - Post-payment reviews are critical for capturing the true federal financial participation (FFP) amount as inappropriate billings are subtracted from the FFP calculation.
- States can also use post-payment reviews to develop performance metrics and predictive analytics to evaluate program efficiency and alignment with program requirements and goals.
 - For example, a state reviews a sample of claims following the post-payment review criteria to determine error rates and set benchmarks.
 - States must evaluate program goals, intended outcomes of review, program requirements, and the provider pool when designing and authorizing reviews to maximize effectiveness and minimize administration burden.

Post-Payment Review Scope

- States are required to describe the scope of reviews or define the population subject to post-payment review requirements.
 - States must define which provider groups are subject to review and the record retention requirements and expectations for participating providers.
- An effective post-payment review should be representative of the waiver participants and waiver service provider pool.
 - States should consider provider size, claims volume, service mix, and other factors when determining the scope of reviews.
- Selecting an adequate or sufficient scope is necessary for states to determine the full scope of vulnerabilities and threats to the program and develop remediation steps to accommodate a wide range of provider types and problems that may vary based on identified provider characteristics.

Post-Payment Review Frequency

- States must determine the frequency of post-payment review activities.
 - States must detail in the 1915(c) waiver application the frequency of post-payments reviews.
- States should base frequency requirements on the needs and goals of the program.
 - For example, a state varies its in-person review frequency requirements based on program size and previous audit findings.
 - States should determine a reasonable post-payment review frequency that does not disrupt provider operations or participant experience.

Post-Payment Review Methods Requirements

- States must design and develop post-payment review methods that align with the regulations, requirements, and settings outlined for the waiver program.
 - States will need to vary review methods based on waiver service, service documentation, and/or other variation to adequately capture whether billed services were actually rendered.
 - States may augment review processes with EVV and pre-payment controls to support post-payment review methods. For example, states can use EVV outputs as documentation used to support waiver service delivery.
- Post-payment review methods should clearly identify the guidance (i.e., state guidance or legislation) in which provider documentation is measured against and with which claims will be identified as non-compliant.

Post-Payment Review Recoupment

- Post-payment review methods should clearly identify inappropriate billings, the recoupment process for recovering inappropriate payments, and the process for removing inappropriate billings from the FFP calculation or reimbursing CMS for FFP already collected.
- States may also have an appeals process for providers appealing recoupment decisions.
 - States must allow a reasonable timeline for providers to respond to audit and recoupment findings.

Additional Audit and Review Considerations

Audit and Review Considerations

- States are required to detail post-payment review processes and single audit and financial statement audit requirements as part of the 1915(c) waiver application process. However, there are additional fiscal audit and review considerations including:
 - Evaluating audit methods and requirements.
 - Reviewing audit/review results and determining next steps.
 - Assessing alignment with pre-payment controls.
 - Developing performance metrics.
 - Integrating review findings or procedures with quality improvement strategy.

Evaluate Audit Methods and Requirements

- States should continuously monitor and update post-payment review methods and audit requirements to align with program goals and adjust to program changes.
- States should solicit feedback from providers to assess which requirements were difficult to comply with due to confusion, unfamiliarity with requirements, or other unintended factors adversely impacting compliance.
- States should update review methods to align with changes in services.
 - For example, many states permitted services to be rendered remotely as an alternative to in-person services during the COVID-19 public health emergency (PHE) requiring states to adapt existing services which consequently required an update to oversight and review processes.

Evaluate Audit Methods and Requirements (Cont.)

- States may also need to assess on-site and desk review frequency and applicability based on review results and program goals.
 - On-site reviews are critical for detecting FWA and observing day-to-day provider operations.
 - As a result of the COVID-19 PHE, many states transitioned to performing more oversight duties remotely. As conditions change, states should continuously evaluate policies for conducting in-person reviews.

Audit Results and Next Steps

- States should evaluate audit and review results holistically to determine next steps to improve compliance, offer training opportunities, and identify program vulnerabilities.
 - For example, a state finds multiple instances of ineligible participants receiving Medicaid waiver services due to intake-related errors allowing the state to tailor guidance to entry point administrators and providers.
 - States can use review findings to offer training and outreach materials to providers such as assisting with completing required service documentation.
- States must allow for an appeals process for providers to respond to audit findings and potentially remediate identified issues.

Assessing Alignment with Pre-Payment Controls

- States can review audit results to assess which findings should have been prevented by MMIS or other pre-payment controls.
 - For example, a state identifies a malfunctioning pre-payment control that resulted in billing errors for services not included in participant service plans.
- States should evaluate existing pre-payment controls and the three essential tests (identified on slide 8) to evaluate effectiveness and identify opportunities for improvement.
- State pre-payment controls can be an effective tool to combat inappropriate billings and require consistent tuning to ensure optimal operation.

Developing Performance Metrics

- States can use post-payment review results to develop performance metrics to monitor improvement.
- States can implement error rates for pre-payment controls based on post-payment review payment findings.
- States can stratify review results by provider type or waiver service to identify trends and opportunities for improvement.
 - For example, a state notes that service documentation was more likely to be neglected for routine daily services than more sporadic alternatives such as respite services. The state can tailor training to align with review results to improve daily service documentation.

Review Findings and Quality Improvement Strategies

- As part of Quality Improvement Strategy (QIS) requirements for 1915(c) waivers, states must design and implement an adequate system for ensuring the financial accountability of the waiver.
- States must demonstrate that claims are coded and paid for in accordance with the reimbursement methodology specified in the waiver and that rates will remain consistent with the approved rate methodology throughout the five-year waiver cycle.
 - States can use post-payment review results, pre-payment controls, and/or performance metrics to demonstrate compliance with rate setting methodologies outlined in the waiver.

QIS I: Financial Accountability Performance Measures

- Below are two examples of states using post-payment reviews to aid in performance measure development for Financial Accountability (Appendix I) sub-assurances.

Financial Accountability Sub-Assurance	Example Performance Measure
<p>The state provides evidence that claims are coded and paid for in accordance with the reimbursement methodology specified in the approved waiver and only for services rendered.</p>	<p>Number and percent of claims that are supported by documentation that services were delivered.</p>
<p>The state provides evidence that rates remain consistent with the approved rate methodology throughout the five-year waiver cycle.</p>	<p>Number and percent of claims audited for waiver costs according to the cost settlement process. This process also determines if the rates remain consistent for the waiver year.</p>

Summary

Training Summary

- States are required to provide details on financial statement audit and Single Audit requirements in addition to pre-payment and post-payment review procedures as part of the 1915(c) waiver application review process.
- State pre-payment or billing validation controls must meet the three essential tests and require constant tuning to align with program changes.
- States must design post-payment review activities in alignment with pre-payment controls and state policies and statutory requirements to demonstrate that the state has processes to ensure program payments and integrity.
- States must detail the scope, frequency, and methods for post-payment review activities to include methods for recoupment and calculating FFP.
- States can use fiscal audits and reviews to facilitate continuous improvement in QIS, audit performance metrics, and other financial metrics.

References

1. 1915(c) Home and Community-Based Waiver Instructions, *Technical Guide and Review Criteria (January 2019)*, Available online: [Instructions Technical Guide and Review Criteria \(cms.gov\)](#)
2. Single Audit, Health and Human Services, Available online: [Single Audit | HHS.gov](#)
3. Home & Community Based Service Training Series, Available online: [Home & Community Based Services Training Series | Medicaid](#)

For Further Information

**For further information, contact:
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