

on the basis of a ratio of total incurred and distributed costs per component to the total incurred and distributed costs for all components.

(iii) For the costs incurred under paragraphs (b)(1)(i) through (iv) of this section that include personnel costs, the organization must be able to identify the person hours expended for each administrative task and the rate of pay for those persons performing the tasks. Administrative tasks performed and rate of pay for the persons performing those tasks must match in terms of the skill level needed to accomplish those tasks. This information must be made available to CMS upon request.

(c) *Costs excluded from administrative costs.* In accordance with section 1861(v) of the Act, the following costs must be excluded from administrative costs:

- (1) Donations.
- (2) Fines and penalties.
- (3) Political and lobbying activities.
- (4) Charity or courtesy allowances.
- (5) Spousal education.
- (6) Entertainment.
- (7) Return on equity.

[60 FR 46231, Sept. 6, 1995, as amended at 75 FR 19803, Apr. 15, 2010]

**§ 417.566 Other methods of allocation and apportionment.**

(a) *Justification.* A method of apportionment or allocation of costs, other than the methods prescribed in this subpart may be used if it results in a more accurate and equitable apportionment of allowable costs and is justifiable from an administrative and cost standpoint.

(b) *Required approval.* (1) An HMO or CMP that desires to use an alternative method must submit a written request for CMS approval at least 90 days before the beginning of the period for which the different method is to be used.

(2) If CMS approves use of a different method, the HMO or CMP may not revert to another method without first obtaining CMS's approval.

[50 FR 1346, Jan. 10, 1985, as amended at 58 FR 38082, July 15, 1993]

**§ 417.568 Adequate financial records, statistical data, and cost finding.**

(a) *Maintenance of records.* (1) An HMO or CMP must maintain sufficient

financial records and statistical data for proper determination of costs payable by CMS for covered services the HMO or CMP furnished to its Medicare enrollees either directly or under arrangements with others. These include accurate and sufficient detail of incurred costs and enrollment data.

(2) Unless otherwise provided for in this subpart, the HMO or CMP must follow standardized definitions and accounting, statistics, and reporting practices that are widely accepted in the health care industry.

(b) *Provision of data.* (1) The HMO or CMP must provide adequate cost and statistical data, based on its financial and statistical records, that can be verified by qualified auditors.

(2) The cost data must be based on an approved method of cost finding and, except as provided in paragraph (b)(3) of this section, on the accrual method of accounting.

(3) For governmental institutions that use a cash basis of accounting, cost data developed on this basis is acceptable. However, only depreciation on capital assets, rather than the expenditure for the capital asset, is allowable.

(c) *Provider services furnished directly by the HMO or CMP.* If the HMO or CMP furnishes provider services directly, the provider is subject to the cost-finding and cost-reporting requirements set forth in parts 412 and 413 of this chapter. The provider must use an approved cost-finding method described in § 413.24 of this chapter to determine the actual cost of these covered services.

(d) *Supplier services furnished directly by the HMO or CMP.* If the HMO or CMP furnishes Part B physician and supplier services directly, it must furnish statistics that indicate the frequency and type of service provided, in the form and detail prescribed by CMS.

(e) *Part B physician and supplier services furnished through arrangement.* If the HMO or CMP furnishes Part B physician and supplier services under arrangements with others, it must furnish to CMS statistical, financial, and other information with respect to