



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

AUG 22 2007

TO: Herb Kuhn
Acting Deputy Administrator
Centers for Medicare & Medicaid Services

FROM: Daniel R. Levinson *Daniel R. Levinson*
Inspector General

SUBJECT: Review of Quality Improvement Organization in Rhode Island (A-01-06-00507)

Attached is an advance copy of our final report on the review of the Quality Improvement Organization (QIO) in Rhode Island. In each State, the Centers for Medicare & Medicaid Services contracts with QIOs, which were established to promote the effective, efficient, and economical delivery of Medicare health care services and the quality of those services. The Senate Finance Committee requested that the Office of Inspector General (OIG) assess the fiscal integrity of the QIOs with respect to six specified subject areas. This report is one of a series of nine audits of QIOs, which responded to that request. In Rhode Island, the Rhode Island Quality Partners (RIQP) was the QIO for the period November 1, 2002, through October 31, 2005. For this 3-year period, known as the seventh scope of work, RIQP received \$11.2 million in Federal reimbursement for the QIO contract. We will issue this report to RIQP within 5 business days.

Our objective was to review the six fiscal integrity areas requested by the Senate Finance Committee. Specifically, the costs we reviewed related to board member and executive staff compensation; board member and executive staff travel; costs relating to legal fees, including administrative charges; equipment and administrative charges; business relationships and conflicts of interest; and contract modifications.

We found that of the \$3.7 million of costs reviewed related to the six fiscal integrity areas requested by the Senate Finance Committee, RIQP provided adequate documentation to support the costs claimed. Accordingly, this report contains no recommendations.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact George M. Reeb, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or through e-mail at George.Reeb@oig.hhs.gov or Michael J. Armstrong, Regional Inspector General for Audit Services, Region I, at (617) 565-2689 or through e-mail at Michael.Armstrong@oig.hhs.gov. Please refer to report number A-01-06-00507 in all correspondence.

Attachment



AUG 23 2007

Office of Audit Services
Region I
John F. Kennedy Federal
Building
Room 2425
Boston, MA 02203

Report Number A-01-06-00507

Mr. John Keimig
Chief Executive Officer
Rhode Island Quality Partners
235 Promenade Street
Providence, Rhode Island 02908

Dear Mr. Keimig:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled the "Review of Quality Improvement Organization in Rhode Island." We will forward a copy of this report to the HHS action official noted below.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, within 10 business days after this report is issued, it will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please direct them to the HHS action official. Please refer to report number A-01-06-00507 in all correspondence.

Sincerely,

A handwritten signature in black ink that reads "Michael J. Armstrong".

Michael J. Armstrong
Regional Inspector General
for Audit Services

Enclosure

HHS Action Official:

James Randolph Farris, M.D.
Regional Administrator
Centers for Medicare & Medicaid Services, Region VI
1301 Young Street, Suite 714
Dallas, Texas 75202

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF QUALITY
IMPROVEMENT
ORGANIZATION IN
RHODE ISLAND**



Daniel R. Levinson
Inspector General

August 2007
A-01-06-00507

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. Specifically, these evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness in departmental programs. To promote impact, the reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within HHS. OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops compliance program guidances, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR part 5.)

OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.



EXECUTIVE SUMMARY

BACKGROUND

In the Medicare program, the Centers for Medicare & Medicaid Services (CMS) contracts with Quality Improvement Organizations (QIO) in each State. According to section 1862(g) of the Social Security Act, QIOs were established to promote the effective, efficient, and economical delivery of Medicare health care services and the quality of those services.

QIOs submit vouchers for Federal reimbursement to CMS on a monthly basis. The vouchers and reimbursements include amounts for both direct and indirect costs. The QIOs determine the amount of indirect costs to claim by multiplying an indirect cost rate against their direct costs. During the contract period, CMS usually is unable to calculate an exact indirect cost rate. Therefore, the QIOs use provisional rates to determine indirect costs. After the close of each QIO's fiscal year, the Defense Contract Audit Agency reviews the organization's actual direct and indirect costs. The CMS contracting officer considers the Defense Contract Audit Agency's recommendations in establishing the final rate and performing the final cost settlement.

Rhode Island Quality Partners (RIQP) was the Rhode Island QIO for the period November 1, 2002, through October 31, 2005. For this 3-year period, known as the seventh scope of work, RIQP received \$11.2 million in Federal reimbursement for the QIO contract. During this same period, RIQP incurred total costs of approximately \$14.6 million to support all lines of business, including the QIO contract. As of April 1, 2007, CMS had not performed the final cost settlement for the seventh scope of work.

The Senate Finance Committee requested that the Office of Inspector General assess the fiscal integrity of the QIOs. The Senate Finance Committee requested that we review, at a minimum, the following areas:

1. board member and executive staff compensation;
2. board member and executive staff travel;
3. costs relating to legal fees, including administrative charges;
4. equipment and administrative charges;
5. business relationships and conflicts of interest; and
6. contract modifications.

OBJECTIVE

Our objective was to review the six fiscal integrity areas requested by the Senate Finance Committee.

RESULTS OF REVIEW

For the \$3.7 million of costs reviewed related to the six fiscal integrity areas requested by the Senate Finance Committee, RIQP provided adequate documentation to support costs claimed.

This report contains no recommendations.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
Quality Improvement Organization Program	1
Claims for Federal Reimbursement	1
Rhode Island Quality Partners	2
Senate Finance Committee Request.....	2
OBJECTIVE, SCOPE, AND METHODOLOGY	2
Objective	2
Scope.....	3
Methodology	3
RESULTS OF REVIEW	4

INTRODUCTION

BACKGROUND

Quality Improvement Organization Program

Part B of Title XI of the Social Security Act, as amended by the Peer Review Improvement Act of 1982, established the Utilization and Quality Control Peer Review Organization Program, now known as the Quality Improvement Organization (QIO) Program. Pursuant to section 1862(g) of the Social Security Act, QIOs were established to promote the effective, efficient, and economical delivery of Medicare health care services and the quality of those services.

Pursuant to 42 CFR § 475.101, “to be eligible for a QIO contract an organization must – (a) Be either a physician-sponsored organization . . . or a physician-access organization . . . and, (b) Demonstrate its ability to perform review”

The Centers for Medicare & Medicaid Services (CMS) awards the contracts for 41 QIOs, which administer 53 QIO contracts (all 50 States plus the District of Columbia, Puerto Rico, and the U.S. Virgin Islands), every 3 years. Each contract requires a specific scope of work (SOW). Seven SOWs have been completed. The SOW for each contract may be modified to make adjustments to the contract tasks. Certain modifications, referred to as special studies, generally receive the majority of funding increases. Federal funding for QIOs was budgeted at approximately \$1.3 billion for the seventh SOW.

The Office of Management and Budget (OMB) Circular A-122, “Cost Principles for Non-Profit Organizations,” as revised June 1, 1998, establishes the principles for determining allowable costs with respect to contracts with nonprofit organizations.

Claims for Federal Reimbursement

Pursuant to its contract with CMS, each QIO submits vouchers to CMS monthly. The vouchers include claims for both direct and indirect costs. Pursuant to OMB Circular A-122, Attachment A, direct costs are amounts “that can be identified specifically with a particular final cost objective” (section B.1), and indirect costs are amounts “that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective” (section C.1). An indirect cost rate is established for each contract and is generally calculated by dividing allowable indirect costs by all direct costs. The QIOs determine the amount of indirect costs to claim by multiplying an indirect cost rate against their direct costs.¹

During the contract period, CMS usually is unable to calculate an exact indirect cost rate. Therefore, the QIOs use provisional rates to determine indirect costs. Pursuant to OMB Circular A-122, section E.1(e), a provisional rate means a temporary rate “applicable to a specified period which is used for funding, interim reimbursement, and reporting indirect costs on awards pending the establishment of a final rate for the period.” After the close of a QIO’s fiscal year (FY), CMS contracts with the Defense Contract Audit Agency (DCAA) to review the indirect

¹Some of the direct costs, including passthrough costs, do not receive an allocation of indirect costs. Section G.3 of the QIO contract requires QIOs to exclude their passthrough costs in the calculation of indirect costs.

cost rate proposals, which contain the actual direct and indirect costs, and to make recommendations as to the final rates for that FY. The CMS contracting officer considers DCAA's recommendations in establishing the final rate for each QIO.

Rhode Island Quality Partners

Rhode Island Quality Partners (RIQP), headquartered in Providence, Rhode Island, serves as the Rhode Island QIO. RIQP is a nonprofit organization that was incorporated in 1995. The RIQP contract with the Federal Government is on a cost-plus-fee basis.

For the 3-year period known as the seventh SOW (November 1, 2002, through October 31, 2005), RIQP received \$11.2 million in Federal reimbursement for the QIO contract. During the same period, RIQP incurred total costs of approximately \$14.6 million to support all lines of business, including the QIO contract.

For FYs 2003 and 2004, which covered part, but not all, of the seventh SOW, DCAA has reviewed the indirect cost rates and made recommendations as to the final rates. As of November 1, 2006, DCAA had reviewed the indirect cost rates for FY 2005. The CMS contracting officer will consider DCAA's recommendations in establishing the final rates and in settling the cost differences that occurred between the provisional and final rates for the seventh SOW.

Senate Finance Committee Request

The Senate Finance Committee requested that the Office of Inspector General review the fiscal integrity of the QIOs. The Senate Finance Committee requested that we review, at a minimum, the following areas:

1. board member and executive staff compensation;
2. board member and executive staff travel;
3. costs relating to legal fees, including administrative charges;
4. equipment and administrative charges;
5. business relationships and conflicts of interest; and
6. contract modifications.

The Senate Finance Committee also expressed concern about the extent to which QIOs addressed beneficiaries' quality of care concerns and the beneficiary complaint resolution process. We have examined that issue in another review.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to review the six fiscal integrity areas requested by the Senate Finance Committee.

Scope

We reviewed a judgmental sample of approximately \$3.7 million of the \$14.6 million of costs that RIQP incurred (in all lines of business) from November 1, 2002, through October 31, 2005. In total, RIQP received \$11.2 million in Federal reimbursement for the QIO contract.

The \$3.7 million consisted of the six areas that the Senate Finance Committee requested we review. We reviewed these costs to determine whether they were (1) reasonable, allowable, and allocable under the terms of the contract and (2) supported by accounting records and other reliable documentation.

We limited our internal control review to RIQP systems and procedures for claiming costs to the extent necessary to accomplish our objective.

Our audit was intended to supplement information contained in DCAA audits.

We performed fieldwork at RIQP's offices in Middletown, Connecticut, from May through June 2006.

Methodology

We took the following actions to accomplish our objectives:

- We reviewed applicable Federal regulations and guidelines.
- We interviewed RIQP officials and reviewed RIQP policies and procedures to obtain an understanding of how it claimed costs for Federal reimbursement.
- We interviewed the CMS project officer at the CMS regional office to obtain an understanding of his role in the contracting process.
- We reconciled the Federal reimbursement for the QIO contract to RIQP's general ledger accounts to determine the costs RIQP incurred and charged to the contract.
- We examined, on a test basis, evidence supporting the \$3.7 million of costs included in our review and claimed by RIQP. For each of the six areas reviewed, we identified the general ledger accounts that contained the expenses that RIQP incurred during the seventh SOW.
 - For executive staff compensation, we compared compensation² for RIQP's five executive positions to the amounts included in RIQP's proposal to CMS and the amounts approved by CMS. CMS eliminated salary ceilings for QIO executives after the fifth SOW and no longer prescribes specific salary limitations. Accordingly, the general standards for reasonableness in executive salaries, as established by OMB

²There were no expenses to analyze for RIQP's 15-member Board of Directors because the directorships were voluntary and no member of the Board of Directors was an employee of RIQP or collected a salary from RIQP. Members of the Board of Directors attended conferences on their own time and at their own expense.

Circular A-122, are applicable. To apply this standard, we relied on DCAA's reports that analyzed the salary levels incurred by RIQP for FYs 2003 and 2004 in addition to our analysis of the salary levels in the proposal.

- For executive staff travel, we analyzed documentation to determine whether transportation costs were reasonable and judgmentally selected overnight trips to determine whether RIQP claimed transportation, hotel, and meal costs pursuant to Federal guidelines.
- For costs relating to legal fees, including administrative charges, we reviewed all associated accounts, including the legal consultants account, to ensure costs were reasonable, allowable, and allocable.
- For equipment and administrative charges, we analyzed documentation to determine whether the incurred costs were allowable for Federal reimbursement.
- For business relationships and conflicts of interest, we reviewed selected subcontracts, meetings, and conferences and analyzed documentation to determine if incurred costs were allowable for Federal reimbursement.
- For contract modifications, we reviewed all modifications to calculate the total amount of the approved QIO contract and determine if each modification increased funding, added a special study, or was technical in nature. For modifications that added special studies, we reviewed the objectives of the studies to determine consistency with CMS's overall objectives for the seventh SOW.
- We assessed RIQP's accounting policies and procedures related to the capitalizing, expensing, and safeguarding of fixed-asset purchases.
- We reviewed DCAA audits of direct and indirect costs for FYs 2003 and 2004.

We conducted our audit in accordance with generally accepted government auditing standards.

RESULTS OF REVIEW

For the \$3.7 million of costs reviewed related to the six fiscal integrity areas requested by the Senate Finance Committee, the costs claimed were reasonable, allowable, and allocable, and RIQP provided adequate documentation to support the costs claimed.

This report contains no recommendations.