



DEPARTMENT OF HEALTH AND HUMAN SERVICES

Office of Inspector General

Office of Audit Services, Region V  
233 North Michigan Avenue  
Suite 1360  
Chicago, IL 60601

October 27, 2011

Report Number: A-05-10-00074

Ms. Sandy Miller  
President  
National Government Services  
8115 Knue Road  
Indianapolis, Indiana 46250

Dear Ms. Miller:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *Audit of Medicare Part A Administrative Costs for the Period October 1, 2006, Through September 30, 2007 at National Government Services—Medicare Contractor Number 00450*. We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Stephen Slamar, Audit Manager, at (312) 353-7905 or through email at [Stephen.Slamar@oig.hhs.gov](mailto:Stephen.Slamar@oig.hhs.gov). Please refer to report number A-05-10-00074 in all correspondence.

Sincerely,

/Sheri L. Fulcher/  
Regional Inspector General  
for Audit Services

Enclosure

**Direct Reply to HHS Action Official:**

Ms. Nanette Foster Reilly  
Consortium Administrator  
Consortium for Financial Management & Fee for Service Operations  
Centers for Medicare & Medicaid Services  
601 East 12<sup>th</sup> Street, Room 235  
Kansas City, Missouri 64106

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**AUDIT OF MEDICARE PART A  
ADMINISTRATIVE COSTS FOR  
THE PERIOD OCTOBER 1, 2006,  
THROUGH SEPTEMBER 30, 2007  
AT NATIONAL GOVERNMENT  
SERVICES—MEDICARE  
CONTRACTOR NUMBER 00450**



Daniel R. Levinson  
Inspector General

October 2011  
A-05-10-00074

# *Office of Inspector General*

<http://oig.hhs.gov>

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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:

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The Office of Audit Services (OAS) provides 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.

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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 for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

# *Notices*

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

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

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

## **EXECUTIVE SUMMARY**

### **BACKGROUND**

Title XVIII of the Social Security Act established the Medicare program. The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program through contractors, including Part A fiscal intermediaries (FIs) that process and pay Medicare claims submitted by health care providers. Contracts between CMS and the Medicare contractors define the functions to be performed and provide for the reimbursement of allowable administrative costs incurred in the processing of Medicare claims.

Following the close of each fiscal year (FY), contractors submit to CMS a Final Administrative Cost Proposal (FACP) reporting Medicare administrative costs incurred during the year. The FACP and supporting data provide the basis for the CMS contracting officer and contractor to negotiate a final settlement of allowable administrative costs. When claiming costs, Medicare contractors must follow cost reimbursement principles contained in Part 31 of the Federal Acquisition Regulation (FAR) and other applicable criteria.

Until December 2006, United Government Services was the Medicare contractor under CMS' Medicare contractor number 00450 and processed Medicare Part A claims for providers in four States. In January 2007, National Government Services assumed Medicare operations of the United Government Services. National Government Services reported Medicare administrative costs totaling \$83,450,918 in its FACP for October 1, 2006 through, September 30, 2007 (FY 2007).

The name "National Government Services" used in this report refers to the current Medicare contractor National Government Services and its predecessor United Government Services.

### **OBJECTIVE**

Our objective was to determine whether administrative costs National Government Services reported on its FACP for FY 2007 were reasonable, allowable, and allocable and in compliance with the FAR and other applicable criteria.

### **SUMMARY OF FINDINGS**

Administrative costs reported by National Government Services on its FY 2007 FACP were generally reasonable, allowable, and allocable and in compliance with the FAR and other applicable criteria. However, National Government Services reported costs totaling \$50,282 for fringe benefits, electronic data processing equipment, outside professional services, telephone and telegraph, postage and express, and other costs that are unallowable because they were not adequately supported. We attribute the unallowable costs to weaknesses in National Government Services' internal controls for assuring that costs reported on its FACP are fully supported with adequate documentation.

## **RECOMMENDATIONS**

We recommend that National Government Services:

- decrease its FY 2007 FACP by \$50,282 to reflect the unallowable costs and
- strengthen its internal controls to assure that all costs reported on its FACP are fully supported with adequate documentation.

## **NATIONAL GOVERNMENT SERVICES COMMENTS**

In written comments on our draft report, National Government Services concurred with our findings. National Government Services' comments appear in their entirety as Appendix C.

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## **INTRODUCTION**

### **BACKGROUND**

Title XVIII of the Social Security Act established the Medicare program. The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program through contractors, including Part A fiscal intermediaries (FIs) that process and pay Medicare claims submitted by health care providers.<sup>1</sup> Contracts between CMS and the Medicare contractors define the functions to be performed and provide for the reimbursement of allowable administrative costs incurred in the processing of Medicare claims.

Following the close of each fiscal year (FY), contractors submit to CMS a Final Administrative Cost Proposal (FACP) reporting Medicare administrative costs incurred during the year. The FACP and supporting data provide the basis for the CMS contracting officer and contractor to negotiate a final settlement of allowable administrative costs. When claiming costs, Medicare contractors must follow cost reimbursement principles contained in Part 31 of the Federal Acquisition Regulation (FAR) and other applicable criteria.

Until December 2006, United Government Services was the Medicare contractor under CMS' Medicare contractor number 00450 and processed Medicare Part A claims for providers in four States. In January 2007, National Government Services assumed Medicare operations of the United Government Services. National Government Services reported Medicare administrative costs totaling \$83,450,918 in its FACP for October 1, 2006, through September 30, 2007 (FY 2007).

The name "National Government Services" used in this report refers to the current Medicare contractor National Government Services and its predecessor United Government Services.

### **OBJECTIVE, SCOPE, AND METHODOLOGY**

#### **Objective**

Our objective was to determine whether administrative costs National Government Services reported on its FACP for FY 2007 were reasonable, allowable, and allocable and in compliance with the FAR and other applicable criteria.

#### **Scope**

Our review covered the period October 1, 2006, through September 30, 2007 (FY 2007). For this period, National Government Services reported Medicare Part A administrative costs totaling \$83,450,918. This total included pension costs of \$1,094,228 and post-retirement costs of \$102,425 that we did not review because pension and post-retirement costs will be the subject of a separate review.

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<sup>1</sup> Section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P.L. No. 108-173, required CMS to transfer the Medicare Part A and Part B workloads to Medicare administrative contractors between October 2005 and October 2011.

We reviewed National Government Services' internal controls related to the claiming of cost on the FACP. We limited our review of internal controls to those controls necessary to achieve our audit objective.

We conducted fieldwork at National Government Services' office in Louisville, Kentucky.

## **Methodology**

To accomplish the objective, we:

- reviewed applicable Federal laws, regulations, and guidelines;
- reviewed National Government Services' contract with CMS;
- reviewed National Government Services external audit reports for calendar years 2006 and 2007 and Office of Inspector General (OIG) audit report for FY 2006;
- interviewed National Government Services officials regarding the cost accumulation processes for its FACP and cost allocation systems;
- reconciled line item expenses on the FACP and cost classification report to National Government Services' accounting records;
- tested costs for reasonableness, allowability, and allocability by reviewing contracts and agreements and by judgmentally selecting journal entries, invoices, expense vouchers and reports, payroll journals, corporate bonus plans, and personnel records; and
- reviewed total compensation paid to the five highest paid executives.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **FINDINGS AND RECOMMENDATIONS**

Administrative costs reported by National Government Services on its FY 2007 FACP were generally reasonable, allowable, and allocable and in compliance with the FAR and other applicable criteria. However, National Government Services reported costs totaling \$50,282 for fringe benefits, electronic data processing equipment, outside professional services, telephone and telegraph, postage and express, and other costs that are unallowable because they were not adequately supported. We attribute the unallowable costs to weaknesses in National Government Services' internal controls for assuring that costs reported on its FACP are fully supported with adequate documentation.

## UNALLOWABLE COSTS

National Government Services could not provide adequate documentation to support fringe benefit pharmacy costs of \$31,421; electronic data processing equipment costs of \$178; telephone and telegraph costs of \$3,992; postage and express costs of \$1,991; and other costs (employee moving expenses) of \$5,186 that it reported on its FY 2007 FACP.

Pursuant to FAR 31.201–2 (d):

A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.

Also, National Government Services could not support outside professional services costs of \$7,514 on its FY 2007 FACP. Specifically, National Government Services was unable to provide contractual agreements (e.g., description of the services, estimate of time required, rate of compensation, and termination provisions) and invoices to support costs it allocated to Medicare.

Pursuant to FAR 31.205-33:

(f) Fees for services rendered are allowable only when supported by evidence of the nature and scope of services furnished . . . Evidence necessary to determine that work performed is proper and does not violate law or regulation shall include --

(1) Details of all agreements (*e.g.*, work requirements, rate of compensation, and nature and amount of other expenses, if any) with the individuals or organizations providing the services and details of actual services performed...

In the absence of adequate supporting documentation, these costs are unallowable. We attribute the unallowable costs to weaknesses in National Government Services' internal controls for assuring that costs reported on its FACP are fully supported with adequate documentation.

## RECOMMENDATIONS

We recommend that National Government Services:

- decrease its FY 2007 FACP by \$50,282 to reflect the unallowable costs and
- strengthen its internal controls to assure that all costs reported on its FACP are fully supported with adequate documentation.

## **NATIONAL GOVERNMENT SERVICES COMMENTS**

In written comments on our draft report, National Government Services concurred with our findings. National Government Services' comments appear in their entirety as Appendix C.

# **APPENDIXES**

**APPENDIX A: COSTS REPORTED ON FINAL ADMINISTRATIVE COST  
PROPOSAL BY COST CLASSIFICATION**

<b>Cost Category</b>	<b>Total Costs Claimed</b>
Salaries and Wages	\$45,708,279
Fringe Benefits	19,570,213
Facilities or Occupancy	5,092,482
Electronic Data Processing Equipment	1,675,300
Subcontractors	4,295,438
Outside Professional Services	1,630,590
Telephone & Telegraph	1,406,303
Postage & Express	4,494,479
Furniture & Equipment	766,159
Materials & Supplies	612,152
Travel	1,087,193
Return on Investment	226,510
Miscellaneous	1,471,622
Other	153,986
Other Adjustments (Credits)	(4,739,788)
<b>Total Costs</b>	<b>\$83,450,918</b>
Forward Funding <sup>1</sup>	0
<b>Total Costs Claimed on Final Administrative Cost Proposal</b>	<b>\$83,450,918</b>
<b>OIG Recommended Adjustments*</b>	<b>(50,282)</b>
<b>Total Costs after Adjustments</b>	<b>\$83,400,636</b>

OIG = Office of Inspector General

\*See Appendix B

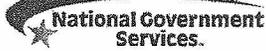
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<sup>1</sup> National Government Services did not report any Forward Funding costs.

**APPENDIX B: OFFICE OF INSPECTOR GENERAL  
RECOMMENDED COST ADJUSTMENTS**

<b>Cost Category</b>	<b>Total Part A Adjustments (FY 2007)</b>
Fringe Benefits	\$31,421
Electronic Data Processing Equipment	178
Outside Professional Services	7,514
Telephone and Telegraph	3,992
Postage and Express	1,991
Other	5,186
<b>Total OIG Recommended Adjustments</b>	<b>\$50,282</b>

## APPENDIX C: NATIONAL GOVERNMENT SERVICES COMMENT



A CMS Contracted Agent

National Government Services, Inc.  
www.NGSMedicare.com

# Medicare

August 22, 2011

Mr. James M. Barton  
Acting Regional Inspector General for Audit Services  
Office of Audit Services, Region V  
233 North Michigan Avenue, Suite 1360  
Chicago, IL 60601

Reference: Report Number A-05-10-00074 – Audit of Medicare Part A Administrative Costs for the Period October 1, 2006 Through September 30, 2007 at National Government Services – Medicare Contractor Number 00450

Dear Mr. Barton:

We have reviewed the draft audit report referenced above and concur with the findings identified in the report. Thank you for the opportunity to review and respond to the draft report. If you have any further questions, I can be reached at 414-459-5606 or via email at [todd.reiger@wellpoint.com](mailto:todd.reiger@wellpoint.com).

Sincerely,

A handwritten signature in black ink that reads "Todd W. Reiger".

Digitally signed by Todd W. Reiger  
DN: cn=Todd W. Reiger, o=National  
Government Services, Inc., ou=Finance,  
email=todd.reiger@wellpoint.com, ca=US  
Date: 2011.08.22 17:27:35 -05'00'

Todd W. Reiger, CPA  
Chief Financial Officer, Medicare Operations

CC: Sandy Miller  
Michael Kapp  
Jeff Hannah  
Wendy Perkins  
Jim Elmore  
Jason Brauer  
Kathy Bissell  
Martha Nelson  
Linda Lenzi-Radek – OIG  
Stephen Slamar – OIG

The logo for the Centers for Medicare &amp; Medicaid Services (CMS), featuring the letters "CMS" in a stylized font with a horizontal line through them, and the full name below.