



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

October 17, 2011

Report Number: A-05-10-00075

Ms. Sandy Miller
President
National Government Services
8115 Knue Road
Indianapolis, IN 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 and Part B Administrative Costs for the Period October 1, 2006, Through September 30, 2007 at National Government Services—Medicare Contractor Numbers 00130 and 00630*. 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. Please refer to report number A-05-10-00075 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 12th Street, Room 235
Kansas City, Missouri 64106

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF MEDICARE PART A AND
PART B ADMINISTRATIVE COSTS FOR
THE PERIOD OCTOBER 1, 2006,
THROUGH SEPTEMBER 30, 2007 AT
NATIONAL GOVERNMENT SERVICES**



Daniel R. Levinson
Inspector General

October 2011
A-05-10-00075

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 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. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/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 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

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 and Part B carriers 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 the 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, AdminaStar Federal was the Medicare contractor under CMS' Medicare contractor number 00130 and 00630 and processed Medicare Part A claims for providers in four states and Part B claims for providers in two states. In January 2007, National Government Services (NGS) assumed Medicare operations of AdminaStar Federal. NGS reported Medicare administrative costs totaling \$46,451,583 for Part A, under contract 00130, and \$29,500,185 for Part B, under contract 00630, in its FACP's 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 AdminaStar Federal.

OBJECTIVE

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

SUMMARY OF FINDINGS

Administrative costs claimed by NGS on its FY 2007 FACP's were generally reasonable, allowable, allocable, and in compliance with the FAR and other applicable criteria. However, NGS reported unallowable costs totaling \$15,897 for contract 00130 because it overstated costs for outside professional services, facility or occupancy, telephone, travel and fringe benefits and \$4,750 for contract 00630 for overstated miscellaneous and travel costs. We attribute the unallowable costs to weaknesses in NGS's internal controls for assuring that costs reported on its FACP's are fully supported with adequate documentation.

RECOMMENDATIONS

We recommend that NGS:

- decrease its FY 2007 FACP by \$15,897 for contract 00130 and \$4,750 for contract 00630 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.

NGS COMMENTS

In its comments on the draft report, NGS agreed with our recommendations. NGS' comments appear in their entirety as Appendix C.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
OBJECTIVE, SCOPE, AND METHODOLOGY	1
Objective.....	1
Scope.....	1
Methodology	2
FINDINGS AND RECOMMENDATIONS	2
UNALLOWABLE COSTS	3
NGS Contract 00130.....	3
NGS Contract 00630.....	3
RECOMMENDATIONS	4
NGS COMMENTS	4
OFFICE OF INSPECTOR GENERAL RESPONSE	4
APPENDIXES	
A: COSTS REPORTED ON FINAL ADMINISTRATIVE COST PROPOSAL BY COST CLASSIFICATION	
B: OFFICE OF INSPECTOR GENERAL RECOMMENDED COST ADJUSTMENTS	
C: NGS COMMENTS	

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 and Part B carriers that process and pay Medicare claims submitted by health care providers.¹ 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) that reports the 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, AdminaStar Federal was the Medicare contractor under CMS's Medicare contractor numbers 00130 and 00630 and processed Medicare Part A claims for providers in four states and Part B claims for providers in two states. In January 2007, National Government Services (NGS) assumed Medicare operations of AdminaStar Federal. NGS reported Medicare administrative costs totaling \$46,451,583 for Part A, under contract 00130, and \$29,500,185 for Part B, under contract 00630, in its FACPs 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 AdminaStar Federal.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether administrative costs NGS reported on its FACPs for FY 2007 were reasonable, allowable, 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, NGS reported Medicare administrative costs totaling \$46,451,583 for contract 00130 and \$29,500,185 for contract 00630. This total included pension costs of \$162,354 for contract

¹ 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.

00130 and \$108,236 for contract 00630 that we did not review because pension costs will be the subject of a separate review.

We reviewed NGS's internal controls related to the claiming of costs on the FACPs. We conducted this analysis to accomplish our objective and not to provide assurance of the internal control structure.

We conducted fieldwork at NGS's office in Louisville, Kentucky.

Methodology

To accomplish the objective, we:

- reviewed applicable Medicare laws, regulations, and guidelines;
- reviewed NGS's contracts with CMS;
- reviewed National Government Services external audit reports for calendar years 2006 and 2007 and an Office of Inspector General audit report for FY 2006;
- interviewed NGS officials regarding the cost accumulation processes for its FACP and cost allocation systems;
- reconciled line item expenses on the FACPs and cost classification report to NGS's 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 objective.

FINDINGS AND RECOMMENDATIONS

Administrative costs claimed by NGS on its FY 2007 FACPs were generally reasonable, allowable, allocable, and in compliance with the FAR and other applicable criteria. However, NGS reported unallowable costs totaling \$15,897 for contract 00130 because it overstated costs for outside professional services, facility or occupancy, telephone, travel and fringe benefits, and \$4,750 for contract 00630 due to overstated miscellaneous and travel costs. We attribute the

unallowable costs to weaknesses in NGS's internal controls for ensuring that costs reported on its FACPs are fully supported with adequate documentation.

UNALLOWABLE COSTS

NGS Contract 00130

Requirements

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.

NGS could not provide adequate documentation to support outside professional services costs of \$9,068, facility or occupancy costs of \$2,862, telephone costs of \$2,286, and travel costs of \$1,192 that it reported on its FY 2007 FACP.

Pursuant to FAR 31.205-22(a)(1):

Costs associated with the following activities are unallowable: (1) Attempts to influence the outcomes of any Federal, State, or local election, referendum, initiative, or similar procedure, through in kind or cash contributions, endorsements, publicity, or similar activities

NGS allocated unallowable fringe benefits costs totaling \$489 for membership fees associated with lobbying costs.

NGS Contract 00630

Requirements

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.

NGS could not provide adequate documentation to support miscellaneous costs of \$4,664 and travel costs of \$86 that it reported on its FY 2007 FACP.

RECOMMENDATIONS

We recommend that NGS:

- decrease its FY 2007 FACPs by \$15,897 for contract 00130 and \$4,750 for contract 00630 to reflect the unallowable costs and
- strengthen its internal controls to assure that all costs reported on its FACPs are fully supported with adequate documentation.

NGS COMMENTS

In its comments on the draft report, NGS agreed with our recommendations. NGS' comments appear in their entirety as Appendix C.

APPENDIXES

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

NGS Contract 00130

Cost Category	Total Costs Claimed
Salaries/Wages	\$14,345,976
Fringe Benefits	9,693,616
Facility or Occupancy	135,596
EDP Equipment	1,916,347
Subcontracts	-
Outside Professional Services	146,829
Telephone	29,428
Postage	2,269,656
Furniture & Equipment	699
Material & Supplies	754,875
Travel	149,416
Return on Investment	67,188
Miscellaneous	19,894,678
Other	-
Subtotal	49,404,304
Other Adjustments (Credits)	(2,952,721)
Total Costs Claimed on Final Administrative Cost Proposal	46,451,583
OIG Recommended Adjustments*	15,897
Total Costs after Adjustments	\$46,435,686

OIG = Office of Inspector General

* See Appendix B

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

NGS Contract 00630

Cost Category	Total Costs Claimed
Salaries/Wages	\$9,435,244
Fringe Benefits	6,263,697
Facility or Occupancy	128,034
EDP Equipment	1,403,746
Subcontracts	-
Outside Professional Services	68,641
Telephone	11,001
Postage	1,865,875
Furniture & Equipment	233
Material & Supplies	633,796
Travel	121,343
Return on Investment	62,477
Miscellaneous	17,701,466
Other	-
Subtotal	37,695,553
Other Adjustments (Credits)	(8,195,368)
Total Costs Claimed on Final Administrative Cost Proposal	29,500,185
OIG Recommended Adjustments*	4,750
Total Costs after Adjustments	\$29,495,435

* See Appendix B

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

NGS Contract 00130

Cost Category	Total Part A Adjustments (FY 2007)
Fringe Benefits	\$489
Facility or Occupancy	2,862
Outside Professional Services	9,068
Telephone	2,286
Travel	1,192
Total OIG Recommended Adjustments	\$15,897

NGS Contract 00630

Cost Category	Total Part B Adjustments (FY 2007)
Travel	\$86
Miscellaneous	4,664
Total OIG Recommended Adjustments	\$4,750



A CMS Contracted Agent

National Government Services, Inc.
www.NGSMedicare.com

Medicare

September 19, 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-05-10-00075 – Audit of Medicare Part A and Part B Administrative Costs for the Period October 1, 2006 Through September 30, 2007 at National Government Services – Medicare Contractor Numbers 00130 and 00630.

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.

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, c=US
Date: 2011.09.19 13:59:49 -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