

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**NATIONAL GOVERNMENT SERVICES
CLAIMED ALLOWABLE ADMINISTRATIVE
COSTS FOR FISCAL YEAR 2010 AND THE
FIRST QUARTER OF FISCAL YEAR 2011
UNDER MEDICARE CONTRACT 00130.**

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Office of Inspector General

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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.

INTRODUCTION

National Government Services Claimed Allowable Administrative Costs of \$51,352,235 for Fiscal Year 2010 and The First quarter of 2011 Under Medicare Part A Contract 00130.

WHY WE DID THIS REVIEW

The Centers for Medicare & Medicaid Services (CMS) contracted with National Government Services (NGS) to process Part A claims as a carrier under Medicare Contract 00130. CMS requested that we audit NGS's Medicare Part A final administrative costs proposal (FACP) for fiscal year (FY) 2010 and the first quarter of FY 2011.

OBJECTIVE

The objective of this review was to determine whether the administrative costs NGS reported on its cost proposals for FY 2010 and the first quarter of FY 2011 were reasonable, allowable, allocable, and in compliance with part 31 of the Federal Acquisition Regulations (FAR) and the Medicare contract.

BACKGROUND

Title XVIII of the Social Security Act established the Medicare program. CMS administers the Medicare program through contractors, including Part A fiscal intermediaries 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 Federal FY, contractors submit to CMS a 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 FAR and other applicable criteria.

NGS processed Part A claims in Indiana and Kentucky from October 1, 2009, through December 31, 2010 under its Medicare Part A contract 00130. During this period, NGS claimed administrative costs totaling \$52,686,786. Of this amount, we reviewed \$51,352,235 in administrative costs, but excluded \$1,334,551 in pension costs that will be the subject of a separate review.

HOW WE CONDUCTED THIS REVIEW

We reviewed a random sample of 240 items from 8 cost categories¹ along with 30 judgmentally selected salary and related fringe charges to determine if the costs claimed were reasonable, allowable, allocable, and in compliance with the FAR and other applicable criteria. We limited our internal control review to those controls related to the recording and reporting of costs on the cost proposals.

We conducted fieldwork at the NGS facility in Indianapolis, Indiana from August 2014 through September 2014.

See Appendix A for details of our audit scope and methodology. Appendix B contains details of the cost proposals.

RESULTS OF REVIEW

The \$51,352,235 in costs covered by our review were allowable under the terms of the Medicare contract and applicable Federal regulations. Accordingly, this report contains no recommendations.

¹ Cost categories included facilities, information technology overhead, scanning, claims, medical review, audit, audit T18 and business support operations.

APPENDIX A: SCOPE AND METHODOLOGY

SCOPE

NGS claimed Part A administrative costs to CMS totaling \$52,686,786 during our audit period from October 1, 2009 through December 31, 2010. This total included pension costs of \$1,334,551 that we did not review because they will be the subject of a separate review. We limited our internal control review to those controls related to the recording and reporting of costs on the cost proposals. We accomplished our objective through random testing.

We conducted fieldwork at the contractor's office in Indianapolis, Indiana from August 2014 through September 2014.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Medicare laws, regulations, and guidelines;
- reviewed NGS's contracts with CMS;
- reviewed NGS's external audit reports for calendar year 2010 and an Office of Inspector General audit report for Federal FYs 2008 and 2009;
- interviewed NGS officials regarding the cost accumulation processes for its cost proposal and cost allocation system;
- reconciled line item expenses on the cost proposal and cost classification report to NGS's accounting records;
- tested costs for reasonableness, allowability, and allocability by reviewing contracts and agreements and by randomly 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.

**APPENDIX B: FINAL ADMINISTRATIVE COST PROPOSALS WITH
RECOMMENDED COSTS FOR ACCEPTANCE**

Cost Category	Federal Fiscal Year 2010	1st Quarter 2011	Total
Bills/Claims Payments	\$13,291,301	\$3,056,288	\$16,347,589
Appeals/Reviews	2,611,134	1,091,060	3,702,194
Beneficiary Inquires	158,492	40,934	199,426
Reimbursement	3,637,590	636,011	4,273,601
Productivity Investment	42,293	0	42,293
Provider Enrollment	886,326	271,729	1,158,055
Provider Telephone Inquires	2,342,447	575,914	2,918,361
Provider Outreach & Education	23,444	5,970	29,414
Medical Review	3,246,465	776,870	4,023,335
MSP Prepayment	355,360	74,565	429,925
Benefits Integrity	126,446	15,786	142,232
Audit	16,342,873	3,467,712	19,810,585
MSP Post Payment	142,851	31,235	174,086
MIP Provider Outreach & Ed	1,741,343	274,452	2,015,795
Credits	(2,889,646)	(246,011)	(3,135,657)
Non-Renewal (Severance)	555,552	0	555,552
Total Costs Claimed	\$42,614,271	\$10,072,515	\$52,686,786
Less Pension Costs Not Reviewed	1,334,551	0	1,334,551
Total Costs Reviewed	\$41,279,720	\$10,072,515	\$51,352,235
Recommended for Acceptance	\$41,279,720	\$10,072,515	\$51,352,235