

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 2011 UNDER  
MEDICARE CONTRACT 00450**

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# *Office of Inspector General*

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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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# *Notices*

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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 \$63,290,022 for Fiscal Year 2010 and the First Quarter of 2011 Under Medicare Part A Contract 00450.*

### WHY WE DID THIS REVIEW

The Centers for Medicare & Medicaid Services (CMS) contracted with National Government Services (NGS) to process Part A claims under Medicare Contract 00450. CMS requested that we perform an audit of 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 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 Acquisitions 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 an 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 four states from October 1, 2009, through December 31, 2010 under its Medicare Part A contract 00450. During this period, NGS claimed administrative costs totaling \$64,416,703. Of this amount, we reviewed \$63,290,022 in administrative costs, but excluded \$1,126,681 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 eight cost categories<sup>1</sup> along with 30 judgmentally selected salary and related fringe charges to determine if the costs claimed were reasonable, allowable 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 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 \$63,290,022 in costs covered by our review was allowable under the terms of the Medicare contract and applicable Federal Regulations. Accordingly, this report contains no recommendations.

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<sup>1</sup> Cost categories included facilities, mail, medical operations, appeals, provider outreach and education, business support operations, electronic data interchange and overpayment recovery.

## **APPENDIX A: SCOPE AND METHODOLOGY**

### **SCOPE**

Our audit covered the period from October 1, 2009, through December 31, 2010. For this period, National Government Services claimed administrative costs to CMS totaling \$64,416,703. This total included pension costs of \$1,126,681 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 financial operations office in Indianapolis, IN from August 2014 through September 2014.

### **METHODOLOGY**

To accomplish our objective, we:

- review applicable Medicare laws, regulations and guidelines;
- reviewed NGS's contracts with CMS;
- reviewed National Government Services external audit reports for calendar year 2010 and an Office of Inspector General audit report for Federal FY 2008 and 2009;
- interviewed NGS officials regarding the cost accumulation processes for its FACP and cost allocation system;
- reconciled line item expenses on the cost proposal and cost classification report to NGS 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**

<b>Cost Category</b>	<b>FY 2010</b>	<b>1st Quarter FY 2011</b>	<b>Total</b>
Bills/Claims Payment	\$13,912,734		
Appeals/Reviews	4,522,179		
Beneficiary Inquiries	138,071		
Reimbursement	4,028,838		
Productivity Investment	1,139,153		
Provider Enrollment	1,472,676		
Provider Telephone Inquiries	3,152,518		
Provider Outreach & Education	10,584		
Credits	(2,992,204)		
Medical Review	6,831,831		
MSP Prepayment	462,965		
Benefits Integrity	117,202		
Audit	15,846,343		
MSP Post Payment	13,900		
MIP Provider Outreach & Education	1,664,506		
Non Renewal (Severance)	661,407	-	
<b>Total Costs Claimed</b>	<b>\$50,982,703</b>	<b>13,434,000</b>	<b>64,416,703</b>
<b>Less Pension Costs Not Reviewed</b>	<b>\$953,364</b>	<b>173,317</b>	<b>1,126,681</b>
<b>Total Costs Reviewed</b>	<b>\$50,029,339</b>	<b>13,260,683</b>	<b>63,290,022</b>
<b>Recommended For Acceptance</b>	<b>\$50,029,339</b>	<b>13,260,683</b>	<b>63,290,022</b>