



DEC 29 2003

Office of Audit Services
Region I
John F. Kennedy Federal Building, Rm 2425
Boston, MA 02203
(617) 565-2684

Report Number: A-01-03-00521

Ms. Sandy Coston
President
United Government Services, LLC
401 West Michigan Street
Milwaukee, Wisconsin 53203-2804

Dear Ms. Coston:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services' (OAS) report entitled "Inspector General's Reconciliation Testing of the March 2003 Monthly Contractor Financial Reports submitted by United Government Services." A copy of this report will be forwarded to the action official noted below for her review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action 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.

In accordance with the principles of the Freedom of Information Act (Public Law 104-231), OIG, OAS reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the department chooses to exercise. (See 45 CFR Part 5.)

To facilitate identification, please refer to Report Number A-01-03-00521 in all correspondence relating to this report.

Sincerely yours,


Michael J. Armstrong
Regional Inspector General
for Audit Services, Region I

Enclosures - as stated

Direct Reply to HHS Action Official:
Ms. Jacqueline Garner, Regional Administrator
Centers for Medicare & Medicaid Services, Region V
U.S. Department of Health and Human Services
233 North Michigan Avenue, Suite 600
Chicago, Illinois 60601-5519

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**INSPECTOR GENERAL'S
RECONCILIATION TESTING OF THE
MARCH 2003 MONTHLY
CONTRACTOR FINANCIAL REPORTS
SUBMITTED BY UNITED
GOVERNMENT SERVICES**



DECEMBER 2003

A-01-03-00521

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 OIG's 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 in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the Department.

Office of Evaluation and Inspections

The OIG's Office of Evaluation and Inspections (OEI) conducts short-term management and program evaluations (called inspections) that focus on issues of concern to the Department, the Congress, and the public. The findings and recommendations contained in the inspections reports generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs.

Office of Investigations

The OIG's 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. The OI also oversees State Medicaid fraud control units, which investigate and prosecute fraud and patient abuse in the Medicaid program.

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. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the Department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops model compliance plans, 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 information contained therein 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 awarding agency will make final determination on these matters.





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Report Number: A-01-03-00521

Ms. Sandy Coston
President
United Government Services, LLC
401 West Michigan Street
Milwaukee, Wisconsin 53203-2804

Dear Ms. Coston:

The purpose of this letter is to report the results of our review of United Government Services' (UGS) funds drawn and funds expended reported to the Centers for Medicare & Medicaid Services (CMS). The objective of our audit was to determine if the Medicare Part A funds drawn and funds expended reported to the CMS on the March 2003 CMS-1521 and CMS-1522 forms reconciled to UGS' financial records and paid claims tapes.

UGS reported \$2.29 billion in funds drawn, and \$2.34 billion in funds expended, on its March 2003 CMS-1521 and CMS-1522 forms in accordance to CMS instructions for preparing the CMS forms and the guidelines set forth by with CMS Program Memorandum AB-02-008. Accordingly, we were able to reconcile funds drawn and funds expended to UGS's financial records and paid claims tapes. However, we found that UGS misclassified certain reported amounts and did not always deposit cash receipts timely due to isolated internal control weaknesses. These weaknesses, however, did not impact funds drawn and funds expended.

We recommend that UGS:

- continue to strengthen its reconciliation procedures for reporting funds drawn and funds expended to ensure accurate financial reporting to CMS; and
- implement procedures to ensure that cash collections are deposited within 24 hours as required by CMS guidelines.

BACKGROUND

The Office of Management and Budget (OMB) Bulletin 01-02 (dated October 19, 2000) requires the Office of Inspector General (OIG) of the Department of Health and Human Services (DHHS) to audit the DHHS department-wide statement of financial position as of September 30, 2003, and the related combined statement of operations and changes in net position for the fiscal year (FY) ended September 30, 2003. These financial statements are consolidated from the individual financial statements prepared by each of the various agencies within DHHS. CMS accounts for approximately 80 percent of the assets, liabilities and expenditures presented on the DHHS consolidated statements.

For FY 2003, CMS contracted an Independent Public Accountant (IPA) to audit its financial statements. Major portions of the assets, liabilities and expenditures, reported by CMS for the Medicare trust funds, are attributable to the operations of Fiscal Intermediaries (FIs) and Carriers, who act under contracts on behalf of CMS, to receive, review, and pay the claims of providers for services rendered to Medicare beneficiaries. The IPA judgmentally selected nine contractors, including UGS, at which they performed validity, valuation, completeness, and presentation tests of the funds expended reported to CMS.

UGS operates as a FI under contract with CMS. Medicare contractors are required to report monthly funds drawn on the CMS-1521 form and monthly funds expended on the CMS-1522 form. CMS has issued to all the contractors specific instructions for preparing the forms. Further, CMS Program Memorandum AB-02-008 requires that the contractors reconcile the expenditures reported on their monthly CMS-1522 to their financial records. At UGS, the IPA reviewed the Medicare Part A funds expended and funds drawn as reported on the February 2003 CMS-1521 and CMS-1522 forms.

UGS is one of four contractors that the OIG subsequently selected for review, from the nine audited by the IPA, to gain additional assurance on the work performed by the IPA. Since the CMS assets, liabilities and expenditures account for over 80 percent of the DHHS consolidated statements our audit tests at the four contractors will provide the independent audit evidence necessary, under generally accepted government auditing standards, for the OIG to render an opinion on the DHHS consolidated statements.

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of our review was to determine if the Medicare Part A funds drawn and funds expended reported on the March 2003 CMS-1521 and CMS-1522 forms submitted to CMS reconciled to UGS's financial records and paid claims tapes. To achieve our objective, we reconciled:

- paid claims and non-claims activity to the total funds expended as reported on the CMS-1522;
- bank activity to the beginning and ending cash balances as reported on the CMS-1522;
- disbursements made to providers per the financial records to the outstanding check balance as reported on the CMS-1522; and
- payment vouchers drawn as reported on the CMS-1521 to the payment vouchers drawn as reported on the CMS-1522 and the bank statements.

Our audit was conducted in accordance with generally accepted government auditing standards. We conducted our fieldwork for this review at UGS in Milwaukee, Wisconsin and the OIG office in Boston, Massachusetts during September and October 2003. On November 20, 2003, we provided UGS with a copy of our draft report. The FI's written comments are included as an appendix to this report.

FINDINGS AND RECOMMENDATIONS

UGS reported \$2.29 billion in funds drawn, and \$2.34 billion in funds expended, on its March 2003 CMS-1521 and CMS-1522 forms in accordance with CMS instructions for preparing the CMS forms and the guidelines set forth by CMS Program Memorandum AB-02-008.

Accordingly, we were able to reconcile funds drawn and funds expended to UGS's financial records and paid claims tapes. However, we found that UGS misclassified certain reported amounts and did not always deposit cash receipts timely due to isolated internal control weaknesses. Although these weaknesses did not impact funds drawn and funds expended, we believe the following issues underscore the need for UGS to continue to improve its control procedures:

Misclassified Amounts - The benefit payment category on the CMS-1522 was overstated by \$14,426,723 and the retroactive adjustment category was understated by the same amount, primarily due to the misclassification of transitional corridor payments. The transitional corridor payments, which are settlement amounts paid to hospitals, should be appropriately classified as retroactive adjustments.

Deposit of Cash Receipts - In three UGS field offices, cash receipts were not always deposited within 24 hours in compliance with CMS guidelines. In some cases, field offices took up to five days to deposit the cash receipts.

RECOMMENDATIONS

We recommend that UGS:

- continue to strengthen its reconciliation procedures for reporting funds drawn and funds expended to ensure accurate financial reporting to CMS; and
- implement procedures to ensure that cash collections are deposited within 24 hours as required by CMS guidelines.

UGS RESPONSE TO DRAFT REPORT

UGS agreed with our findings and recommendations. UGS has recently initiated corrective actions to strengthen its financial reporting controls, including controls over cash receipts by implementing a lockbox account.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Michael J. Armstrong". The signature is fluid and cursive, with a long, sweeping tail that extends to the right.

Michael J. Armstrong
Regional Inspector General
for Audit Services, Region I

Appendix



SANDY COSTON, CPA
CHAIRMAN AND PRESIDENT

December 10, 2003

Report Number: A-01-03-00521

Mr. Michael J. Armstrong
Regional Inspector General for Audit Services
Office of Audit Services, Region I
John F. Kennedy Federal Building, Rm. 2425
Boston, MA 02203

Dear Mr. Armstrong:

We are in receipt of the draft report entitled "Inspector General's Reconciliation Testing of the March 2003 Monthly Contractor Financial Reports submitted by United Government Services (UGS)."

We have the following comments regarding the findings and recommendations related to UGS in that report:

1. *Misclassified Amounts* - UGS agrees with the finding and agrees in principal with the recommendation. The Medicare Reporting area at UGS believed its reporting of transitional corridor payments in the benefit payment category was the proper treatment based on our interpretation of the regulation. As such, these amounts were consistently included in that category. UGS strives to report accurate data to CMS and has an internal control structure in place to meet this goal. UGS is open to and will evaluate any suggestions made to help strengthen its reporting and/or control processes.

In relation to this finding, all templates have been changed to accommodate the classification changes noted during the review. The new templates went into full usage at the beginning of November, and the upcoming November monthly reports will reflect the changes suggested by the OIG review team.

2. *Deposit of Cash Receipts* - UGS agrees with this finding and recommendation. With live checks arriving at various offices across the country, UGS must meet the challenge of depositing all these checks at its bank in Milwaukee. A misrouted mail committee was formed internally to discuss the proper routing of checks, and its importance in relation to meeting CMS's deposit expectations. UGS is also working with the bank and its field offices to determine the best way to ensure faster deposits which are being mailed in via FedEx.

Mr. Michael Armstrong
December 10, 2003
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Recognizing all of these challenges, UGS implemented a lockbox system for receipt of its non-MSP checks effective 8/21/03 and for its MSP checks effective 10/1/03. All UGS business partners who may send us trust fund money have been instructed to utilize the new UGS lockbox addresses. This lockbox, along with the steps noted above, will allow UGS to strengthen its ability to meet the 24-hour deposit requirements of the Medicare program. In conjunction with the controls it has already implemented, UGS will continue to monitor its efforts in this area and, as necessary, make adjustments to ensure compliance.

If you have any questions regarding the above information, please feel free to contact me at 414-226-5588 or Cheryl Leissring at 414-226-5884.

Sincerely,



SLC/maf

Copy: Todd Reiger - UGS
Cheryl Leissring - UGS
Ann Martel - UGS
Dave Strzyzewski - UGS