



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office Of Inspector General  
Office Of Audit Services

Region II  
Jacob K. Javits Federal Building  
26 Federal Plaza  
New York, NY 10278

February 7, 2002

Our Reference: Common Identification Number A-02-00-01038

Mr. William Foley  
Vice President, Medicare Operations  
Empire Medicare Services  
2651 Strang Boulevard  
Yorktown Heights, NY 10598-2996

Dear Mr. Foley:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) final audit report entitled **"REPORT OF EXAMINATION OF THE ADMINISTRATIVE COSTS INCURRED UNDER THE HEALTH INSURANCE FOR THE AGED AND DISABLED (MEDICARE), EMPIRE MEDICARE SERVICES, FOR THE PERIODS, PART A - OCTOBER 1, 1995 THROUGH SEPTEMBER 30, 1999, AND PART B - OCTOBER 1, 1996 THROUGH SEPTEMBER 30, 1999."** A copy of this report will be forwarded to the action official noted below for review and any action deemed necessary.

The audit was performed by the Certified Public Accounting firm of Conrad & Associates, L.L.P. under a contract with the OIG. The OIG exercised technical oversight and quality control of the examination. In our oversight, we found nothing to indicate that Conrad & Associates L.L.P.'s work was inappropriate or that the report cannot be relied upon.

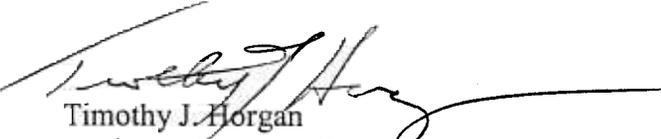
Final determination as to actions taken on all matters reported will be made by the CMS action official named below. We request that you respond to the action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may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

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available, if requested 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 Common Identification Number A-02-00-01038 on all correspondence relating to this report.

Sincerely yours,



Timothy J. Horgan  
Regional Inspector General  
for Audit Services

Enclosures

Direct Reply to CMS Action Official:

Peter Reisman  
Associate Regional Administrator for Medicare  
Centers for Medicare and Medicaid Services, Region II  
Jacob K. Javits Federal Building  
26 Federal Plaza, Room 38-130  
New York, NY 10278

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REPORT OF EXAMINATION OF THE  
ADMINISTRATIVE COSTS INCURRED  
UNDER THE HEALTH INSURANCE FOR  
THE AGED AND DISABLED  
(MEDICARE),  
EMPIRE MEDICARE SERVICES  
FOR THE PERIODS  
PART A – OCTOBER 1, 1995 THROUGH  
SEPTEMBER 30, 1999,  
AND  
PART B – OCTOBER 1, 1996 THROUGH  
SEPTEMBER 30, 1999**



**JANET REHNQUIST  
INSPECTOR GENERAL**

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# ***Office of Inspector General***

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**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REPORT OF EXAMINATION OF THE  
ADMINISTRATIVE COSTS INCURRED  
UNDER THE HEALTH INSURANCE FOR  
THE AGED AND DISABLED**

**(MEDICARE),**

**EMPIRE MEDICARE SERVICES**

**FOR THE PERIODS**

**PART A – OCTOBER 1, 1995 THROUGH  
SEPTEMBER 30, 1999,**

**AND**

**PART B – OCTOBER 1, 1996 THROUGH  
SEPTEMBER 30, 1999**



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## **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. Final determination on these matters will be made by authorized officials of the HHS divisions.



EMPIRE MEDICARE SERVICES

Audit of Medicare Final  
Administrative Cost Proposals

For the Periods

Part A Audit Period-October 1, 1995 through September 30, 1999

Part B Audit Period-October 1, 1996 through September 30, 1999

CONRAD AND ASSOCIATES, L.L.P.  
1100 Main Street, Suite C  
Irvine, California 92614

# EMPIRE MEDICARE SERVICES

## Audit of Medicare Final Administrative Cost Proposals

For the Period  
October 1, 1995 through September 30, 1999

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EMPIRE MEDICARE SERVICES

Audit of Medicare Final  
Administrative Cost Proposals

For the Period  
October 1, 1995 through September 30, 1999

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**EXECUTIVE SUMMARY**

# EMPIRE MEDICARE SERVICES

## Audit of Medicare Final Administrative Cost Proposals

For the Period  
October 1, 1995 through September 30, 1999

### Executive Summary

Conrad and Associates, L.L.P., Certified Public Accountants, under contract with the U.S. Department of Health and Human Services (DHHS), performed a financial and compliance audit of expenditures claimed by Empire Medicare Services (EMS) related to administration of the Medicare Part A and Part B programs. The audit covered Final Administrative Cost Proposals (FACP's) for the Medicare program submitted by EMS for the Part A audit periods of October 1, 1995 through September 30, 1999 and Part B audit periods October 1, 1996 through September 30, 1999.

Our audit included such tests necessary to assure that costs charged to Medicare were allowable and allocable and were provided in an economic and efficient manner. Our audit efforts tested the allowability of those administrative costs as well as their allocability to the Medicare program using the Medicare agreements, the Federal Acquisition Regulation (FAR), and appropriate cost accounting standards and generally accepted accounting standards as guiding criteria.

### Results of Audit

For the period under audit, EMS reported Medicare Part A program administrative costs of \$115,453,837 and Medicare Part B program administrative costs of \$157,889,554. We have questioned reported costs of \$600 for Part A and \$2,650 for Part B. The following is a summarization of our findings.

### UNSUPPORTED COSTS

EMS was unable to provide supporting documentation for various transactions selected for testing. As a result, expenditures totaling \$2,629 were not adequately supported to demonstrate that the costs were related to or properly allocable to Medicare. A detail of the unsupported costs is included at Appendix B.

The failure to provide adequate documentation to support costs charged to Medicare resulted in overstatements of costs to the FACP's as follows:

	<u>Part A</u>	<u>Part B</u>	<u>Total</u>
Insufficiently documented	<u>\$600</u>	<u>2,029</u>	<u>2,629</u>

## 2. RETURN ON INVESTMENT EXPENSE

In fiscal year 1998, EMS imputed \$94,677 and \$133,932 for Parts A and B, respectively, as expenses on the FACP's for return on investment. The contractor used facilities capital, EDP equipment and furniture and equipment employed as its base (excluding depreciation) in applying the cost of money rate in calculating the expense. Documentation to support \$621 out of the \$133,932 of ROI costs charged to Part B was not provided for our review.

# EMPIRE MEDICARE SERVICES

## Audit of Medicare Final Administrative Cost Proposals

For the Period  
October 1, 1995 through September 30, 1999

### Executive Summary, (Continued)

FAR Section 31.205-10(a)(3) states in part: "The facilities capital cost of money need not be entered on the contractor's books of account. However, the contractor ... (ii) Maintain, in a manner that permits audit and verification, all relevant schedules, cost data, and other data necessary to support the entry fully."

The failure to maintain schedules that do not support the entire amount of ROI costs charged to Medicare resulted in overstatements of ROI costs to the 1998 Part A and B FACPs.

The excess amount charged to Medicare is considered unsupported and is questioned as follows:

	<u>Part B</u>
Return on investment expense	<u>\$621</u>

A summary of the questioned costs for Medicare Parts A and B by finding is as follows:

<u>Finding No.</u>	<u>Part A</u>	<u>Part B</u>	<u>Total</u>
1	\$600	2,029	2,629
2	—	<u>621</u>	<u>621</u>
Total	<u>\$600</u>	<u>2,650</u>	<u>3,250</u>

For a complete discussion of these findings, refer to the Findings and Recommendations section of this report.

We evaluated EMS's system of significant internal accounting and administrative controls, and compliance with laws and regulations that can materially affect EMS's financial statements. Based on our evaluation, except for the questioned costs noted above, we believe control procedures were adequate for the Department of Health and Human Services' (HHS) purposes, and that EMS complied with the terms and provisions of laws and regulations for the transactions tested. In addition, we believe that EMS had established effective systems of internal control, accounting, and reporting for administrative costs claimed for reimbursement under the Medicare program.

### Auditee's Response

A draft copy of the report was provided to EMS. Their responses, where appropriate, have been included in the body of the report, and included in its entirety as Appendix A.

EMS in their response provided adequate documentation to support various costs questioned in the draft as unsupported. Based on review of the documentation provided, unsupported costs questioned were reduced from \$556,689 and \$12,349 to \$600 and \$2,029 for Parts A and B, respectively. Furthermore, EMS also provided adequate documentation to support the Return on Investment (ROI) calculation used to claim ROI on the FACPs in accordance with the documentation requirements set forth in FAR Section 31.205-10(a)(3). As a result, unsupported ROI costs were reduced from \$18,657 and \$19,027 to \$0 and \$621 for Parts A and B, respectively.

EMPIRE MEDICARE SERVICES

Audit of Medicare Final  
Administrative Cost Proposals

For the Period  
October 1, 1995 through September 30, 1999

Executive Summary, (Continued)

CONTRACT DISCLOSURE STATEMENT

This report is made pursuant to Contract HHS-100-95-0023 with Conrad and Associates, L.L.P., Certified Public Accountants, 1100 Main Street, Suite C, Irvine, California 92614. Certain information contained herein is subject to disclosure under the Freedom of Information Act, 5 U.S.C. 522(b)(4). The task Coordinator was Mr. Richard Warczynski, U.S. Department of Health and Human Services, Office of the Inspector General, Office of Audit Services, 7500 Security Boulevard, Baltimore, Maryland 21244.

EMPIRE MEDICARE SERVICES

Audit of Medicare Final  
Administrative Cost Proposals

For the Period  
October 1, 1995 through September 30, 1999

Acronyms

EMS	Empire Medicare Services
DHHS	U.S. Department of Health and Human Services
FACP	Final Administrative Cost Proposal
	Federal Acquisition Regulation
FY	Fiscal Year
NOBA	Notice of Budget Authorization
	Office of Inspector General, U.S. Department of Health and Human Services
CMS	Centers for Medicare and Medicaid Services

**INTRODUCTION AND BACKGROUND**

# EMPIRE MEDICARE SERVICES

## Audit of Medicare Final Administrative Cost Proposals

For the Period

October 1, 1995 through September 30, 1999

### Introduction and Background

Health Insurance for the Aged and Disabled (Medicare), Title XVIII of the Social Security Act, provides for a hospital insurance program (Part A) and a related supplementary medical insurance program (Part B).

The Centers for Medicare and Medicaid Services (CMS), within the U.S. Department of Health and Human Services (DHHS), administers the Medicare program. Title XVIII provides, however, that public or private organizations (known as "intermediaries" for Medicare Part A and "carriers" for Medicare Part B) may assist in the program's administration.

Agreements with the intermediaries and carriers define the functions to be performed and provide for the reimbursement of allowable administrative costs incurred in their performance. Each participating intermediary and carrier (contractor) submits a prospective budget of administrative costs to be incurred during the Government fiscal year to the CMS Regional Office for review and approval. Following the close of each fiscal year, a final administrative cost proposal (FACP) is submitted, reporting the costs of performing Medicare functions incurred during the year. This cost proposal and supporting data serve as the basis for final settlement of allowable administrative costs.

After audit of the cost proposals, the contractor and CMS negotiate a final settlement.

EMS was paid its costs for administration of the Medicare contracts under the principle of neither profit nor loss. Appendix B of the contracts and referenced federal regulations identified allowable administrative costs that could be reimbursed. Included in the administrative costs claimed for reimbursement are costs for general and administrative expenses attributable to the general management, supervision, and conduct of a contractor's business as a whole.

The Medicare Agreement states "...costs allowable and allocable under this agreement shall be determined in accordance with the provisions of Part 31 of the Federal Acquisition Regulation (FAR), as interpreted and modified by Appendix B of the agreement."

Section 31.201 of the FAR defines the total cost of a contract as the sum of the allowable direct and indirect costs allocable to a contract, incurred or to be incurred, less any applicable credits. The regulations also state that items of cost are allowable charges if they meet tests of reasonableness and allocability and if generally accepted accounting principles are followed.

A reasonable cost is defined as one that would be incurred by an ordinary prudent person in the conduct of a competitive business. Further, a cost is allocable if it is assignable or chargeable to a particular cost objective in reasonable proportion to the benefits received.

This report details the results of our audit of the FACP's submitted by EMS to CMS for the Part A audit period October 1, 1995 through September 30, 1999 and the Part B audit period October 1, 1996 through September 30, 1999.

**OBJECTIVES AND SCOPE OF AUDIT**

# EMPIRE MEDICARE SERVICES

## Audit of Medicare Final Administrative Cost Proposals

For the Period

October 1, 1995 through September 30, 1999

### Objectives and Scope of Audit

Our audit of the FACP's submitted by EMS for Part A for the fiscal years (FY) ended September 30, 1999, 1998, 1997 and 1996, and Part B for the fiscal years ended 1999, 1998, and 1997 were made in accordance with generally accepted auditing standards and the standards for financial audits contained in the *Government Auditing Standards* as revised in 1996 and issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the FACP's are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the FACP's. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the FACP's. We believe that our audit provides a reasonable basis for our opinion.

The U.S. Department of Health and Human Services' (DHHS) Audit Guide for the Review of Administrative Costs Incurred by Medicare Intermediaries and Carriers under Title XVIII of the Social Security Act (February 1991 revision) and other appropriate guidelines and instructions were used as guides in the audit.

Our audit included such tests necessary to assure that costs charged to Medicare were allowable and allocable and were provided in an economic and efficient manner. Our audit efforts tested the allowability of those administrative costs as well as their allocability to the Medicare program using the Medicare agreements, the Federal Acquisition Regulation (FAR), and appropriate cost accounting standards and generally accepted accounting standards as guiding criteria.

The audit was performed to provide CMS with sufficient data to close out the FACP's and determine if controls were adequate for administration of the Medicare program. The scope of the audit included costs for the year 2000 remediation, which were included in the total costs incurred.

An entrance conference was held on March 26, 2001 with EMS in Syracuse, New York. Fieldwork was performed during the period of March 26, 2001 through July 31, 2001. An exit conference was held with EMS, CMS and OIG representatives telephonically on August 17, 2001 to discuss tentative findings related to the audit.

Administrative costs claimed under audit were as follows:

	<u>Part A</u>	<u>Part B</u>
Fiscal year ended September 30, 1999	\$ 30,776,559	68,789,089
Fiscal year ended September 30, 1998	28,986,020	46,342,156
Fiscal year ended September 30, 1997	27,112,710	42,758,309
Fiscal year ended September 30, 1996	<u>28,578,548</u>	<u>(1)</u>
Total	<u>\$ 115,453,837</u>	<u>157,889,554</u>

(1) Part B for FYE 1996 not included in scope of audit.

# EMPIRE MEDICARE SERVICES

## Audit of Medicare Final Administrative Cost Proposals

For the Period  
October 1, 1995 through September 30, 1999

### Objectives and Scope of Audit, (Continued)

The specific objectives of our audit were to:

1. Determine whether EMS had established an effective system of internal control, accounting, and reporting for administrative costs incurred under the program.
2. Ascertain whether the FACP's present fairly the cost of program administration allowable in accordance with FAR, Title 48, Chapter 1, Part 31 as interpreted and modified by the Medicare agreements.
3. Ascertain whether EMS has complied with contractual and administrative requirements governing specific items of cost.
4. Identify the underlying causes of significant errors or problems noted and make recommendations for improvement or adjustment of costs claimed as appropriate.

As prescribed by the OIG audit guide used for this review, pension costs claimed by EMS and included in the FACP's were excluded from the scope of our audit. The U.S. Department of Health and Human Services, Office of the Inspector General will perform a separate audit to determine the allowability of the pension costs claimed in accordance with the FAR, Title 48, Chapter 1, Part 21.205-6(j) and Cost Accounting Standards 412 and 413. Pension costs claimed by EMS during the period under audit were as follows:

	<u>Part A</u>	<u>Part B</u>	<u>Total</u>
Fiscal year ended September 30, 1999	\$ 286,200	469,693	755,893
Fiscal year ended September 30, 1998	234,639	267,768	502,407
Fiscal year ended September 30, 1997	592,419	795,578	1,387,997
Fiscal year ended September 30, 1996	<u>581,476</u>	<u>(1)</u>	<u>581,476</u>
Total	<u>\$1,694,734</u>	<u>1,533,039</u>	<u>3,227,773</u>

(1) Part B for FYE 1996 not included in scope of audit.

To meet the above stated objectives, our audit included a study of those internal control procedures of EMS to the extent we considered necessary to evaluate the system and determine specific compliance therewith. In addition, we performed test of specific costs to determine that EMS complied with contractual and administrative requirements. All significant items noted during our audit are discussed in the Findings and Recommendations section of this report. Our Independent Auditors' Report on Medicare Final Administrative Cost Proposals and our Report on Compliance and On Internal Control Over Financial Reporting Based on an Audit of Final Administrative Cost Proposals Performed in Accordance with Government Auditing Standards are included in the Auditors' Reports section of this report.

EMPIRE MEDICARE SERVICES

Audit of Medicare Final Administrative Cost Proposals

For the Period

October 1, 1995 through September 30, 1999

Objectives and Scope of Audit, (Continued)

During our audit we used judgmental sampling techniques for the purpose of determining the audit sample sizes. Our samples were designed to be representative and adequate for the purpose of expressing an opinion on the FACP's and included tests of wages, non-personnel costs, cost allocation policies and procedures, as well as specific tests for unallowable costs. Findings included in this report have been based solely upon our sample results.

**AUDITORS' REPORTS**

U.S. Department of Health and Human Services  
Centers for Medicare and Medicaid Services

1100 MAIN STREET, SUITE C  
IRVINE, CALIFORNIA 92614  
(949) 474-2020  
Fax (949) 263-5520

**INDEPENDENT AUDITORS' REPORT ON  
MEDICARE FINAL ADMINISTRATIVE COST PROPOSALS**

We have audited the Final Administrative Cost Proposals (FACP's) of Empire Medicare Services (EMS) (Schedule A) for the fiscal years ended September 30, 1999, 1998, 1997 and 1996 for Part A of the Medicare program and the fiscal years ended 1999, 1998 and 1997 for Part B of the Medicare program. The amounts reported in the FACP's are the responsibility of EMS's management. Our responsibility is to express an opinion on the FACP's based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the FACP's are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts claimed on the FACP's. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the FACP's. We believe that our audit provides a reasonable basis for our opinion.

The accompanying schedules were prepared in accordance with the instructions of the U.S. Department of Health and Human Services and reflect only administrative costs reported for operating the Medicare Part A and Part B programs. Accordingly, the accompanying schedules are not intended to present financial position or results of operations in conformity with accounting principles generally accepted in the United States of America.

In our opinion, subject to the ultimate resolution of the \$3,250 of questioned costs identified in this report and the results of a U.S. Department of Health and Human Services, Office of the Inspector General audit regarding the allowability of \$3,227,773 of pension costs claimed and included in the FACP's submitted by EMS, the FACP's present fairly the costs of allowable program administration for the fiscal years ended September 30, 1999, 1998, 1997 and 1996 for Part A of the Medicare program and the fiscal years ended 1999, 1998 and 1997 for Part B of the Medicare program, in accordance with the Federal Acquisition Regulation, Title 48, Chapter 1, Part 31, as interpreted and modified by the Medicare agreements.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2001 on our consideration of the EMS's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contract provisions. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of EMS, the U.S. Department of Health and Human Services, Office of Inspector General, and the Centers for Medicare and Medicaid Services and is not intended to be and should not be used by anyone other than these specified parties.

*Conrad And Associates, L.L.P.*

July 31, 2001

U.S Department of Health and Human Services  
Centers for Medicare and Medicaid Services

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINAL ADMINISTRATIVE  
COST PROPOSALS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

We have audited the Final Administrative Cost Proposals (FACP's) of Empire Medicare Services (EMS) (Schedule A) for the fiscal years ended September 30, 1999, 1998, 1997 and 1996 for Part A of the Medicare program and the fiscal years ended 1999, 1998 and 1997 for Part B of the Medicare program and have issued our report thereon dated July 31, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Compliance

As part of obtaining reasonable assurance about whether EMS's Final Administrative Cost Proposals are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of FACP amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Recommendations.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered EMS's internal controls over reporting of FACP's in order to determine our auditing procedures for the purpose of expressing our opinion on the FACP's and not to provide assurance on the internal control over FACP reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect EMS's ability to record, process, summarize, and report financial data consistent with the assertions of management in the FACP. Reportable conditions noted and the resultant questioned costs are described in the accompanying Schedule of Findings and Recommendations.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by the employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described in the Schedule of Findings Recommendations are material weaknesses.

U.S. Department of Health and Human Services  
Health Care Financing Administration  
Page Two

This report is intended solely for the information and use of EMS, the U.S. Department of Health and Human Services, Office of Inspector General, and the Centers for Medicare and Medicaid Services and is not intended to be and should not be used by anyone other than these specified parties.

*Conrad And Associates, L.L.P.*

July 31, 2001

**FINDINGS AND RECOMMENDATIONS**

EMPIRE MEDICARE SERVICES

Audit of Medicare Final Administrative Cost Proposals

For the Period  
October 1, 1995 through September 30, 1999

Findings and Recommendations

1. UNSUPPORTED COSTS

EMS was unable to provide supporting documentation for various transactions selected for testing. As a result, expenditures totaling \$569,038 were not adequately supported to demonstrate that the costs were related to or properly allocable to Medicare.

FAR Section 31.201-2 (d) states in part; "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...The contracting officer may disallow all or part of a claimed cost which is inadequately supported."

The failure to provide adequate documentation to support costs charged to Medicare resulted in overstatements of costs to the FACPs as follows:

	<u>Part A</u>	<u>Part B</u>	<u>Total</u>
Insufficiently documented	<u>\$556,689</u>	<u>12,349</u>	<u>569,038</u>

Recommendations

We recommend that the FACPs be adjusted to exclude the unsupported costs summarized above.

Auditee Response

EMS submitted various forms of supporting documentation for unsupported costs identified in the draft.

Auditor Comment

Based upon our review of the additional supporting documentation provided by EMS, questioned costs were reduced to \$2,629 as follows:

	<u>Part A</u>	<u>Part B</u>	<u>Total</u>
Insufficiently documented	<u>\$ 600</u>	<u>2,029</u>	<u>2,629</u>

The details of the questioned costs that remain outstanding are included as an attachment to this report in Appendix B.

## 2. RETURN ON INVESTMENT EXPENSE

In fiscal year 1998, EMS imputed \$94,677 and \$133,932 for Parts A and B respectively, as expenses on the FACPs for return on investment. EMS used facilities capital, EDP equipment and furniture and equipment employed as its base (excluding depreciation) in applying the cost of money rate in calculating the expense. However, documentation to support \$18,657 and \$19,027 out of the \$94,677 and \$133,932, respectively, of ROI costs charged to Parts A and B respectively, were not provided for our review.

FAR Section 31.205-10(a)(3) states in part; "The facilities capital cost of money need not be entered on the contractor's books of account. However, the contractor shall... (ii) Maintain, in a manner that permits audit and verification, all relevant schedules, cost data, and other data necessary to support the entry fully."

The failure to maintain schedules which do not support the entire amount of ROI costs charged to Medicare resulted in overstatements of costs to the 1998 Part A and B FACPs of \$18,657 and \$19,027, respectively.

### Recommendation

We recommend that the 1998 FACP's be adjusted to exclude \$18,657 and \$19,027 of unsupported ROI costs for Parts A and B, respectively.

### Auditee Response

EMS submitted various forms of supporting documentation for the unsupported ROI costs identified in the draft.

### Auditor Comment

Based on review of the additional documentation provided by EMS, net unsupported costs were reduced to \$621 as noted below:

	<u>Part B</u>
ROI cost reported per 1998 FACP	\$133,932
ROI support provided	<u>133,311</u>
Total unsupported ROI costs	<u>\$ 621</u>

**OTHER MATTERS**

# EMPIRE MEDICARE SERVICES

## Audit of Medicare Final Administrative Cost Proposals

For the Period  
October 1, 1995 through September 30, 1999

### Other Matters

#### 1. Resolution of Prior Audit Findings

A prior examination of EMS was performed by Gardiner, Kanya & Associates, P.C., Management Consultants and Certified Public Accountants, covering the period October 1, 1992 through September 30, 1995. Their report (No. 100-95-0035) identified questioned costs of \$652,492 and \$1,296,098 for Part A and Part B, respectively, of which \$182,088 and \$508,443 were sustained for Part A and Part B, respectively.

#### 2. Interim Expenditure Reports

As part of our audit, we performed a limited review to ascertain the accuracy of EMS's Interim Expenditure Reports. Our review was limited to a review of methods and procedures followed by EMS in developing expenditures reports.

Our tests disclosed that the methods and procedures used to report Medicare administrative costs on the Interim Expenditure Reports were adequate.

#### 3. Data Processing Costs

Other than for year 2000 (Y2K) remediation, EMS did not incur any significant costs for planning, development or modification of the Medicare claims processing system during the audit period.

#### 4. Complementary Insurance Credits

As part of our audit, we performed tests on the reported complementary insurance credits and ascertained that adequate procedures were being followed to ensure compliance with the Medicare contract. Our tests disclosed that the methods and procedures used to track and record complimentary insurance credits recorded to the FACP were adequate and that the proper amounts were credited.

#### 5. Year 2000 (Y2K) Remediation Costs

The Department of Health and Human Services Office of Inspector General (OIG) performed an audit of EMS's Y2K costs through the period ended January 31, 1999. The report identified costs totaling \$195,208 as being disallowed Y2K costs. The OIG also identified \$527,154 of allowable Y2K costs that were not included in the January 31, IER. The report No. A-02-99-01015 was dated November 1999.

Our review noted that all disallowed Y2K costs have been removed from the costs reported on the final September 30, 1999 FACP. We further noted that the allowable Y2K costs that were omitted from the January 31, 1999 IER were properly included in the final September 30, 1999 FACP.

# EMPIRE MEDICARE SERVICES

## Audit of Medicare Final Administrative Cost Proposals

For the Period  
October 1, 1995 through September 30, 1999

### Other Matters, (Continued)

#### 6. Possible Unallowed Costs Activated in System Generated Cost Table

Upon gaining an understanding of the EMS' cost allocation methodology, we noted that a screen print of the Cost Table (generated by the Oracle system on 3/29/01) which is programmed to prohibit/inactivate certain unallowable natural expense descriptions (actual and budget costs) from being charged to the Medicare program were "Activated" to permit the inclusion of the following actual and budget costs which may contain unallowable advertising costs in fiscal year ending September 31, 2001 (which was outside the scope of our audit):

<u>Unallowable Cost Description</u>	<u>Actual Cost</u>	<u>Budgeted Cost</u>
Television advertising	Inactivated	<b>Activated</b>
Radio advertising	Inactivated	<b>Activated</b>
Publication advertising	Inactivated	<b>Activated</b>
Outdoor advertising	<b>Activated</b>	<b>Activated</b>
Directory advertising	<b>Activated</b>	<b>Activated</b>

FAR Section 31.205-1(f)(5) states in part "Costs of promotional material, motion pictures, videotapes, brochures, handouts, magazines, and other media that are designed to call favorable attention to the contractor and its activities [are unallowable]".

**SCHEDULES**

## EMPIRE MEDICARE SERVICES

Schedule of Final Administrative Cost Proposals by  
Cost Classification - Part A and B

For the Period October 1, 1995 through September 30, 1999

Operation	1996		1997		1998		1999		Total
	Part A Administrative Costs Claimed	Part B Administrative Costs Claimed							
Salaries and wages	13,502,299	13,572,348	19,163,142	14,635,078	22,218,109	16,074,773	31,588,524	130,754,273	
Fringe benefits	4,226,438	4,200,658	6,602,198	4,177,347	6,265,887	4,064,235	8,969,439	38,506,202	
Facilities or occupancy	2,584,671	2,293,612	4,574,289	2,342,616	4,779,203	2,788,281	6,115,699	25,478,371	
Electronic data Processing	2,327,458	1,898,187	3,146,843	2,467,888	5,439,952	2,849,529	5,441,557	23,571,414	
Subcontractors	2,410,921	1,912,827	1,808,577	2,577,554	2,296,334	1,154,996	11,774,191	23,935,400	
Outside professional Service	415,379	438,703	948,120	511,378	1,046,354	1,048,003	2,521,856	6,929,793	
Telephone and Telegraph	264,656	310,109	968,792	315,193	890,925	374,739	1,283,189	4,407,603	
Postage and express	1,677,447	1,560,859	4,639,582	1,325,582	3,660,998	1,402,516	3,645,793	17,912,777	
Furniture and equipment	255,591	280,618	871,839	479,921	1,165,553	714,485	1,649,493	5,417,500	
Materials and supplies	485,695	303,852	1,240,172	432,614	1,302,911	631,039	1,553,874	5,950,157	
Travel	569,393	537,815	386,162	436,005	187,141	510,289	516,975	3,143,780	
Return on Investment	155,928	188,813	209,375	94,677	133,932	101,391	213,988	1,098,104	
Miscellaneous	630,928	626,203	1,963,578	236,567	1,118,522	127,335	1,675,968	6,379,101	
Other	-	-	-	-	-	-	-	-	
Credits	(928,256)	(1,011,894)	(3,764,360)	(1,046,400)	(4,163,665)	(1,065,052)	(8,161,457)	(20,141,084)	
Totals	28,578,548	27,112,710	42,758,309	28,986,020	46,342,156	30,776,559	68,789,089	273,343,391	
Recommended Adjustments:									
Costs not adequately supported	\$ (600)		(1,549)				(480)	(2,629)	
Unsupported return on investment					(621)			(621)	
Total recommended adjustments	(600)		(1,549)	-	(621)		(480)	(3,250)	
Total adjusted costs	\$ 28,577,948	27,112,710	42,756,760	28,986,020	46,341,535	30,776,559	68,788,609	273,340,141	

## EMPIRE MEDICARE SERVICES

## Final Administrative Cost Proposal - Budget to Actual - Part A

For the Period October 1, 1998 through September 30, 1999

<u>Operation</u>	<u>Budget Authorization</u>	<u>Administrative Costs Claimed</u>	<u>Variance- Favorable (Unfavorable)</u>
Bills Payment	\$ 7,573,700	\$ 7,692,982	(119,282)
Appeals/Reviews	1,084,900	1,024,590	60,310
Inquiries	3,357,800	3,530,687	(172,887)
Prov Education and Training	568,200	576,045	(7,845)
Reimbursement	1,138,300	860,558	277,742
Productivity Investments	2,262,500	2,181,536	80,964
PM Special Projects	-	-	-
Credits	<u>(1,034,100)</u>	<u>(1,065,052)</u>	<u>30,952</u>
Subtotal	<u>14,951,300</u>	<u>14,801,346</u>	<u>149,954</u>
Medical Review	2,669,700	2,655,059	14,641
Medicare Secondary Payer	2,721,100	2,696,312	24,788
Benefits Integrity	563,200	554,195	9,005
Prov Education and Training	167,900	167,149	751
Audit	9,829,200	9,816,766	12,434
Productivity Investments	<u>135,000</u>	<u>85,732</u>	<u>49,268</u>
Subtotal	<u>16,086,100</u>	<u>15,975,213</u>	<u>110,887</u>
Totals	<u>\$ 31,037,400</u>	<u>\$ 30,776,559</u>	<u>\$ 260,841</u>

## EMPIRE MEDICARE SERVICES

## Final Administrative Cost Proposal - Budget to Actual - Part B

For the Period October 1, 1998 through September 30, 1999

<u>Operation</u>	<u>Budget Authorization</u>	<u>Administrative Costs Claimed</u>	<u>Variance- Favorable (Unfavorable)</u>
Bills Payment	\$ 36,559,700	\$ 36,627,523	(67,823)
Appeals/Reviews	8,977,500	8,643,890	333,610
Inquiries	10,634,600	11,554,066	(919,466)
Prov Education and Training	1,193,700	1,108,001	85,699
Participating Physician	543,900	279,891	264,009
Productivity Investments	6,064,682	5,789,828	274,854
PM Special Projects	169,000	138,907	30,093
Credits	<u>(7,720,700)</u>	<u>(8,161,457)</u>	<u>440,757</u>
Subtotal	<u>56,422,382</u>	<u>55,980,649</u>	<u>441,733</u>
Medical Review	6,294,700	6,166,433	128,267
Medicare Secondary Payer	3,909,600	3,852,148	57,452
Benefits Integrity	2,438,800	2,510,700	(71,900)
Prov Education and Training	258,200	245,289	12,911
Productivity Investments	5,000	-	5,000
MIP Special Projects	<u>36,700</u>	<u>33,870</u>	<u>2,830</u>
Subtotal	<u>12,943,000</u>	<u>12,808,440</u>	<u>134,560</u>
Totals	<u>\$ 69,365,382</u>	<u>\$ 68,789,089</u>	<u>\$ 576,293</u>

## EMPIRE MEDICARE SERVICES

## Final Administrative Cost Proposal - Budget to Actual - Part A

For the Period October 1, 1997 through September 30, 1998

<u>Operation</u>	<u>Budget Authorization</u>	<u>Administrative Costs Claimed</u>	<u>Variance- Favorable (Unfavorable)</u>
Bills Payment	\$ 7,335,013	\$ 7,335,013	
Appeals/Reviews	922,612	922,612	
Inquiries	3,048,258	3,048,258	
Prov Education and Training	582,107	582,107	
Reimbursement	1,017,757	1,017,757	
Productivity Investments	2,052,913	2,052,913	
PM Special Projects	(378,024)	(378,024)	
Credits	<u>(1,046,400)</u>	<u>(1,046,400)</u>	
Subtotal	<u>13,534,236</u>	<u>13,534,236</u>	
Medical Review	2,015,720	2,015,720	
Medicare Secondary Payer	2,660,485	2,660,485	
Benefits Integrity	726,338	726,338	
Prov Education and Training	145,820	145,820	
Audit	9,774,353	9,774,353	
Productivity Investments	<u>129,068</u>	<u>129,068</u>	
Subtotal	<u>15,451,784</u>	<u>15,451,784</u>	
Totals	<u>\$ 28,986,020</u>	<u>\$ 28,986,020</u>	<u>\$ _____</u>

## EMPIRE MEDICARE SERVICES

## Final Administrative Cost Proposal - Budget to Actual - Part B

For the Period October 1, 1997 through September 30, 1998

<u>Operation</u>	<u>Budget Authorization</u>	<u>Administrative Costs Claimed</u>	<u>Variance- Favorable (Unfavorable)</u>
Bills Payment	\$ 22,554,096	\$ 22,554,096	
Appeals/Reviews	4,823,849	4,823,849	
Inquiries	7,907,472	7,907,472	
Prov Education and Training	992,665	992,665	
Participating Physician	680,554	680,554	
Productivity Investments	5,294,711	5,294,711	
PM Special Projects	(423,167)	(423,167)	
Credits	<u>(4,163,665)</u>	<u>(4,163,665)</u>	
Subtotal	<u>37,666,515</u>	<u>37,666,515</u>	
Medical Review	3,722,426	3,722,426	
Medicare Secondary Payer	2,239,146	2,239,146	
Benefits Integrity	1,995,105	1,995,105	
Prov Education and Training	258,385	258,385	
Productivity Investments	396,341	396,341	
MIP Special Projects	<u>64,238</u>	<u>64,238</u>	
Subtotal	<u>8,675,641</u>	<u>8,675,641</u>	
Totals	<u>\$ 46,342,156</u>	<u>\$ 46,342,156</u>	<u>\$</u>

## EMPIRE MEDICARE SERVICES

Final Administrative Cost Proposal - Budget to Actual - Part A

For the Period October 1, 1996 through September 30, 1997

<u>Operation</u>	<u>Budget Authorization</u>	<u>Administrative Costs Claimed</u>	<u>Variance- Favorable (Unfavorable)</u>
Bills Payment	\$ 11,719,393	11,719,393	
Recons and Hearings	<u>991,397</u>	<u>991,397</u>	
Subtotal	<u>12,710,790</u>	<u>12,710,790</u>	
Medicare Secondary Payer	2,901,716	2,901,716	
Medical Rev & Util. Rev	1,294,153	1,294,153	
Provider Desk Reviews	1,485,181	1,485,181	
Provider Field Audits	5,392,493	5,392,493	
Provider Settlements	<u>2,127,947</u>	<u>2,127,947</u>	
Subtotal	<u>13,201,490</u>	<u>13,201,490</u>	
Provider Reimbursement	1,105,215	1,105,215	
Productivity Investments	169,754	169,754	
Benefit Integrity	772,597	772,597	
Other	14,850	14,850	
Credits	<u>(861,986)</u>	<u>(861,986)</u>	
Subtotal	<u>1,200,430</u>	<u>1,200,430</u>	
Totals	<u>\$ 27,112,710</u>	<u>\$ 27,112,710</u>	<u>\$ _____</u>

## EMPIRE MEDICARE SERVICES

## Final Administrative Cost Proposal - Budget to Actual - Part B

For the Period October 1, 1996 through September 30, 1997

<u>Operation</u>	<u>Budget Authorization</u>	<u>Administrative Costs Claimed</u>	<u>Variance- Favorable (Unfavorable)</u>
Bills Payment	\$ 22,949,993	22,949,993	
Reviews And Hearings	4,759,487	4,759,487	
Beneficiary/Phys. Inquiry	<u>8,142,750</u>	<u>8,142,750</u>	
Subtotal	<u>35,852,230</u>	<u>35,852,230</u>	
Provider Ed and Training	956,316	956,316	
Medical Rev & Util. Rev	3,091,033	3,091,033	
Medicare Secondary Payer	2,344,331	2,344,331	
Participating Physician	759,414	759,414	
Productivity Investments	250,591	250,591	
Credits/Other	(2,872,964)	(2,872,964)	
Benefit Integrity	1,945,132	1,945,132	
MIP Other	<u>432,226</u>	<u>432,226</u>	
Subtotal	<u>6,906,079</u>	<u>6,906,079</u>	
Totals	<u>\$ 42,758,309</u>	<u>\$ 42,758,309</u>	<u>\$</u>

## EMPIRE MEDICARE SERVICES

Final Administrative Cost Proposal - Budget to Actual - Part A

For the Period October 1, 1995 through September 30, 1996

<u>Operation</u>	<u>Budget Authorization</u>	<u>Administrative Costs Claimed</u>	<u>Variance- Favorable (Unfavorable)</u>
Bills Payment	\$ 12,185,516	12,185,516	
Recons and Hearings	<u>931,287</u>	<u>931,287</u>	
Subtotal	<u>13,116,803</u>	<u>13,116,803</u>	
Medicare Secondary Payer	3,660,978	3,660,978	
Medical Rev & Util. Rev	1,280,343	1,280,343	
Provider Desk Reviews	1,758,945	1,758,945	
Provider Field Audits	5,279,974	5,279,974	
Provider Settlements	<u>2,156,960</u>	<u>2,156,960</u>	
Subtotal	<u>14,137,200</u>	<u>14,137,200</u>	
Provider Reimbursement	1,397,140	1,397,140	
Productivity Investments	278,462	278,462	
Benefit Integrity	579,790	579,790	
Other	(2,591)	(2,591)	
Credits	<u>(928,256)</u>	<u>(928,256)</u>	
Subtotal	<u>1,324,545</u>	<u>1,324,545</u>	
Totals	<u>\$ 28,578,548</u>	<u>\$ 28,578,548</u>	<u>\$</u>

**APPENDIX A**  
**AUDITEE'S RESPONSE**

EMPIRE MEDICARE SERVICES  
FY 1996 – 1999 ADMINISTRATIVE COST AUDIT  
MEDICARE PART A AND B  
RESPONSE TO DRAFT FINDINGS

1. **Unsupported Costs**

The draft report listed \$569,038 in costs from transaction testing which was identified as being insufficiently documented. We felt that most of the original documentation provided adequately supported the costs claimed. However, with the exception of two specific items of \$1,529 and \$480, additional documentation has been provided to support these costs. This additional documentation consisted of support for specific invoices, schedules and allocations, as well as further explanations for procedures related to the accounting for Productivity Investments.

2. **Return On Investment Expense**

The initial supporting documentation provided inadvertently consisted of a preliminary ROI schedule and was not the final one used in calculating the FACP ROI. The final schedule used for the FACP was identified and submitted.

**APPENDIX B**  
**SCHEDULE OF UNSUPPORTED COSTS**

Date	Cost Description	Total Cost	Medicare Part A Questioned Cost	Medicare Part B Questioned Cost	Total Medicare Questioned Cost	Comments
Sep-96	Lodging re: Non-DP Productivity Investment project	\$1,073.28	\$ 600.00	-	\$ 600.00	Unreasonable lodging of \$357.76 / night. x 3 nights. Auditor reduced by \$200 / night x 3 nights.
Aug-99	Telephone costs re: Production Scheduling	\$ 480.00	\$ -	\$ 480.00	\$ 480.00	No documentation submitted for review.
May-97	EDP Equipment re: Serv Pro	\$1,549.00		\$ 1,549.00	\$ 1,549.00	No documentation submitted for review.
	Total questioned costs		\$ 600.00	\$ 2,029.00	\$ 2,629.00	