

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**MOST OF HEALTHNOW
NEW YORK, INC.'S
MEDICARE PART B
SEVERANCE AND
TERMINATION COSTS WERE
ALLOWABLE**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



**James P. Edert
Regional Inspector General**

**April 2013
A-02-11-01020**

Office of Inspector General

<https://oig.hhs.gov>

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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.

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 B carriers that process and pay Medicare claims. Contracts between CMS and the Medicare contractors define the functions to be performed and provide for the reimbursement of allowable costs incurred in the processing of Medicare claims and allowable termination costs if CMS terminated the contract. In claiming costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation (FAR) and the Medicare contract.

CMS contracted with HealthNow New York, Inc. (HealthNow) to serve as the Medicare Part B carrier for 45 counties in upstate New York. Pursuant to section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P.L. No. 108-173, CMS replaced Part B contractors with new contract entities called Medicare Administrative Contractors (MAC). CMS did not award HealthNow a MAC contract. As a result, CMS terminated its Part B carrier contract with HealthNow effective September 1, 2008.

After CMS terminated its contract with HealthNow, HealthNow submitted Medicare Part B termination cost vouchers to CMS for which it received reimbursement for severance and termination costs totaling \$5,357,391 for the period September 1, 2008, through June 30, 2009.

OBJECTIVE

Our objective was to determine whether the Medicare Part B severance and termination costs reimbursed to HealthNow were allowable in accordance with the FAR and the Medicare contract.

SUMMARY OF FINDING

Severance and termination costs reimbursed to HealthNow substantially complied with the FAR and the Medicare contract. However, HealthNow did not provide adequate documentation to support \$103,804 in fringe benefits costs; therefore, these costs are unallowable.

RECOMMENDATION

We recommend that HealthNow refund \$103,804 to the Federal Government.

HEALTHNOW COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, HealthNow did not indicate concurrence or nonconcurrence with our finding and recommendation. HealthNow stated that it strongly believes that the fringe benefits costs questioned in our report are allowable; however, it conceded that it did not have adequate documentation to support the costs. After reviewing HealthNow's comments, we maintain that our finding is valid and we continue to recommend that HealthNow refund \$103,804 to the Federal Government.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
Medicare Program.....	1
HealthNow New York, Inc., Medicare Contract	1
OBJECTIVE, SCOPE, AND METHODOLOGY	1
Objective	1
Scope.....	1
Methodology	2
FINDING AND RECOMMENDATION	3
UNSUPPORTED FRINGE BENEFITS COSTS	3
RECOMMENDATION	3
HEALTHNOW COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE	3
 APPENDIX	
HEALTHNOW COMMENTS	

INTRODUCTION

BACKGROUND

Medicare Program

Title XVIII of the Social Security Act established the Health Insurance for the Aged and Disabled (Medicare) program, which provides for a hospital insurance program (Part A) and a related supplementary medical insurance program (Part B). The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program through contractors, including Part B carriers that process and pay Medicare claims. Contracts between CMS and the Medicare contractors define the functions to be performed and provide for the reimbursement of allowable costs incurred in the processing of Medicare claims and allowable termination costs if CMS terminated the contract. In claiming costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation (FAR) and the Medicare contract.

HealthNow New York, Inc., Medicare Contract

CMS contracted with HealthNow New York, Inc. (HealthNow) to serve as the Medicare Part B carrier for 45 counties in upstate New York. Pursuant to section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P.L. No. 108-173, CMS replaced Part B contractors with new contract entities called Medicare Administrative Contractors (MAC). CMS did not award HealthNow a MAC contract. As a result, CMS terminated its Part B carrier contract with HealthNow effective September 1, 2008.

After CMS terminated its contract with HealthNow, HealthNow submitted Medicare Part B termination cost vouchers to CMS for which it received reimbursement for severance and termination costs totaling \$5,357,391 for the period September 1, 2008, through June 30, 2009.¹

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the Medicare Part B severance and termination costs reimbursed to HealthNow were allowable in accordance with the FAR and the Medicare contract.

Scope

Our review was limited to \$5,357,391 in Medicare Part B termination costs HealthNow received from CMS for costs claimed on termination cost vouchers from September 1, 2008, through June 30, 2009. These costs included the following: \$2,604,512 for building lease termination,

¹ HealthNow's vouchers included an additional \$4,356,413 in costs not reimbursed by CMS.

\$1,257,948 for severance and fringe benefits,² \$1,000,106 for loss on assets, \$248,364 for equipment lease terminations, \$105,140 for rent and lease extension, \$51,005 for electronic data processing costs, \$36,500 for costs of financial reporting, \$28,625 for subcontract costs, \$23,293 for miscellaneous costs, and \$1,898 in occupancy costs.

We limited our review of HealthNow's internal controls to those necessary to achieve our audit objective.

We conducted our fieldwork at HealthNow's offices in Buffalo, New York.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidelines;
- reviewed HealthNow's policies and procedures, including its termination and severance policies;
- interviewed HealthNow officials to obtain an understanding of how HealthNow claimed termination costs;
- reviewed reimbursed termination cost vouchers submitted by HealthNow to CMS for the period September 1, 2008, through June 30, 2009, to determine allowability, allocability, and reasonableness;
- reconciled Medicare Part B termination costs reimbursed to HealthNow's accounting records;
- judgmentally reviewed \$5,305,626 of HealthNow's costs for building lease termination, severance pay and fringe benefits, loss on assets, rent and lease extension, electronic data processing, financial reporting, subcontract costs, miscellaneous costs, and occupancy costs by tracing expense items to supporting documentation, including invoices, accounting reports, and depreciation schedules;
- reviewed \$1,257,948 of HealthNow's severance and fringe payments for allowability, allocability, and reasonableness by ensuring that HealthNow paid severance only to employees eligible under the contract and that HealthNow properly calculated severance pay; and
- recalculated severance pay in accordance with HealthNow's termination and severance pay policies.

² Specifically, these costs included \$871,913 in severance and \$386,035 in fringe benefits.

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.

FINDING AND RECOMMENDATION

Severance and termination costs reimbursed to HealthNow substantially complied with the FAR and the Medicare contract. However, HealthNow could not provide adequate documentation to support \$103,804 in fringe benefits costs; therefore, these costs are unallowable.

UNSUPPORTED FRINGE BENEFITS COSTS

FAR part 31.201-2(d) states that 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.”

CMS reimbursed HealthNow \$103,804 in severance and termination costs related to fringe benefits for which HealthNow did not provide documentation to support the expenditures.

RECOMMENDATION

We recommend that HealthNow refund \$103,804 to the Federal Government.

HEALTHNOW COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, HealthNow did not indicate concurrence or nonconcurrence with our finding and recommendation. HealthNow stated that it strongly believes that the fringe benefits costs questioned in our report are allowable; however, it conceded that it did not have adequate documentation to support the costs. After reviewing HealthNow’s comments, we maintain that our finding is valid and we continue to recommend that HealthNow refund \$103,804 to the Federal Government.

HealthNow’s comments are included in their entirety as the Appendix.

APPENDIX

APPENDIX: HEALTHNOW COMMENTS



PO Box 80 / Buffalo, New York 14240-0080

March 8, 2013

BY OVERNIGHT MAIL

Mr. James P. Edert
Office of Inspector General
Office of Audit Services
26 Federal Plaza – Room 3900
New York, New York 10278

Re: Reply to Draft Audit Report for HealthNow New York Inc. #A-02-11-01020

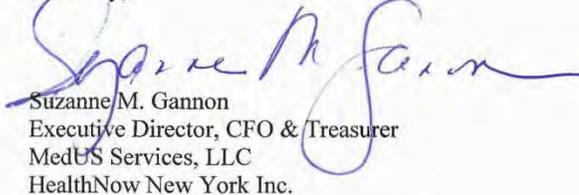
Dear Mr. Edert:

This letter is in response to the draft audit report dated February 13, 2013, for “*Most of HealthNow New York Inc’s (“HealthNow”) Medicare Part B Severance and Termination Cost were Allowable*”. The draft audit report requested our comments within 30 days of receipt.

HealthNow has reviewed the draft report. Although, HealthNow strongly believes that the fringe benefit costs are allowable, we concede to the fact that there is not adequate documentation to support the claim as the employees for the contract are no longer with the organization.

HealthNow would like to thank the audit team for their professionalism and recognition of the ongoing operation during the audit. If there are any questions, please contact me.

Sincerely,



Suzanne M. Gannon
Executive Director, CFO & Treasurer
MedUS Services, LLC
HealthNow New York Inc.

Cc: Catherine M. Campbell, HealthNow
Amy M. Arena, HealthNow
Carmen L. Snell, HealthNow
Richard Schlitt, OIG

