



DEPARTMENT OF HEALTH AND HUMAN SERVICES

Office of Inspector General
Office of Audit Services

OCT 25 2006

REGION IV
61 Forsyth Street, S.W., Suite 3T41
Atlanta, Georgia 30303

Report Number: A-04-05-04012

Ms. Lynda Northcutt
President and Chief Operating Officer
Cahaba Government Benefit Administrators, LLC
450 Riverchase Parkway East
Birmingham, Alabama 35244

Dear Ms. Northcutt:

Enclosed are two copies of the U.S. Department of Health and Human Services, Office of Inspector General (OIG) final report entitled "Cahaba Government Benefit Administrators Final Administrative Cost Proposals for Fiscal Years 2002 Through 2004." We will forward a copy of this report to the HHS action official noted below for review.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. § 552, as amended by Public Law 104-231), OIG reports issued to the Department's grantees and contractors are made available to the public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise. (See 45 CFR part 5.)

Since this report contains no recommendations, no response is necessary. However, if you have any questions or comments about this report, please call me at (404) 562-7750, or have your staff contact Andrew Funtal, Audit Manager at (404) 562-7762. Please refer to report number A-04-05-04012 in all correspondence.

Sincerely,

A handwritten signature in blue ink that reads "Peter J. Barbera".

Peter J. Barbera
Regional Inspector General
for Audit Services, Region IV

Enclosure

Direct Reply to HHS Action Official
Roger Perez, Acting Regional Administrator
Centers for Medicare and Medicaid Services
U.S. Department of Health and Human Services
Atlanta Regional Office
61 Forsyth Street, S.W., Suite 4T20
Atlanta, Georgia 30303-8909

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**CAHABA GOVERNMENT BENEFIT
ADMINISTRATORS FINAL
ADMINISTRATIVE COST
PROPOSALS FOR FISCAL YEARS
2002 THROUGH 2004**



Daniel R. Levinson
Inspector General

October 2006
A-04-05-04012

Office of Inspector General

<http://oig.hhs.gov>

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The 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. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. Specifically, these evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness in departmental programs. To promote impact, the reports also present practical recommendations for improving program operations.

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Notices

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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 the information 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 HHS divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program through contractors that include Part A fiscal intermediaries (FI), Part B carriers (Carriers), regional home health intermediaries (RHHI), and durable medical equipment regional carriers. Contracts between CMS and contractors define the functions to be performed and provide for reimbursement of allowable administrative costs incurred.

Cahaba Government Benefit Administrators, LLC (Cahaba GBA) has contracted with CMS as an FI for Alabama, Iowa, and South Dakota; as a Carrier for Alabama, Georgia, and Mississippi; and as an RHHI for 16 States and the District of Columbia.

Following the close of each fiscal year, Cahaba GBA submits a final administrative cost proposal (FACP) to CMS reporting the administrative costs incurred during the year. The FACP and supporting data provide the basis for the final settlement of administrative costs for a given year.

OBJECTIVES

Our objectives were to determine: (1) whether Cahaba GBA had established effective controls over accounting for and reporting administrative costs incurred under the Medicare program and (2) whether costs claimed in the FACPs were reasonable, allowable, and allocable in accordance with part 31 of the Federal Acquisition Regulation and Appendix B of the Medicare contract.

RESULTS OF AUDIT

Except for amounts claimed as pension costs and depreciation, with respect to which we drew no conclusions in this audit, we found that Cahaba had an effective system of controls over accounting for and reporting administrative costs. In addition, the amounts claimed as Medicare reimbursements on the FACPs for the period October 1, 2001, through September 30, 2004, satisfied contract terms and applicable regulations. Consequently, our report contains no recommendations.

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INTRODUCTION

BACKGROUND

The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program through contractors that include Part A fiscal intermediaries, Part B carriers (Carriers), regional home health intermediaries (RHHI), and durable medical equipment regional carriers. Contracts between CMS and contractors contain performance requirements and provide for the reimbursement of allowable administrative costs incurred.

Cahaba Government Benefit Administrators, LLC (Cahaba GBA) has contracted with CMS to process and pay Medicare claims.

Cahaba GBA is the Medicare contractor that processes claims for the following:

- As the Medicare Part B carrier for Alabama, Georgia, and Mississippi, Cahaba GBA processes claims for physician services, outpatient therapies, podiatry services, chiropractic services, optometry services, ambulance services, and other health services and supplies not covered by Medicare Part A.
- As a Medicare Part A fiscal intermediary for Alabama, Iowa, and South Dakota; Cahaba GBA processes claims for services provided by hospitals, critical access hospitals, skilled nursing facilities, rural health clinics, renal dialysis facilities, federally qualified health centers, community mental health centers, comprehensive outpatient rehabilitation facilities, and outpatient physical therapy providers.
- As a Medicare RHHI, Cahaba GBA processes claims for services provided by home health and hospice providers for 16 States: Iowa, Nebraska, Kansas, Missouri, South Dakota, North Dakota, Montana, Wyoming, Colorado, Utah, Delaware, Maryland, Pennsylvania, Virginia, West Virginia, and the District of Columbia.

Cahaba GBA offices are in Birmingham, Alabama; Savannah, Georgia; Sioux City and Des Moines, Iowa; and Jackson, Mississippi.

Following the close of each fiscal year, Cahaba GBA submits a final administrative cost proposal (FACP) to CMS reporting the Medicare administrative costs incurred during the year. The FACP and supporting data provide the basis for the final settlement of allowable administrative costs.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our objectives were to determine: (1) whether Cahaba GBA had established effective controls over accounting for and reporting administrative costs incurred under the Medicare program and (2) whether costs claimed in the FACPs were reasonable, allowable, and allocable in accordance with part 31 of the Federal Acquisition Regulation and Appendix B of the Medicare contract.

Scope

Cahaba GBA claimed approximately \$333.5 million for Medicare activities on the FACPs for our 3-year audit period ending September 30, 2004. The amounts claimed for each FACP are shown in the Appendix to this report.

We obtained a general understanding of Cahaba's internal controls over accounting for and reporting administrative costs. We performed the major portion of the accounting system and internal control reviews concurrently as we accomplished the various related portions of the audit.

Because of an ongoing Department of Justice (DOJ) review of depreciation, we excluded the depreciation portion of the FACP costs, totaling \$13,920,526 during our audit period, from this audit and will separately report that portion.

Additionally, the Department of Health and Human Services, Office of Inspector General (OIG) Region VII Office will perform a separate audit of Cahaba GBA's pension plan costs, totaling \$16,185,710 during our audit period, at a later date.

Methodology

During our review:

- We used applicable Medicare contract provisions and instructions and applicable Federal regulations to determine whether the amounts claimed met reimbursement requirements.
- We used OIG's RATS (Regional Advance Technique Staff) STATS software sampling methodology to extract a valid statistical sample for the analysis of salaries and wages. Throughout this analysis, we followed the "OAS Audit Policies and Procedures Manual, Chapter 20-02, Sampling and Estimation Techniques in Auditing."
- We obtained supporting expense reports, payroll journals, and personnel records to perform audit tests of various cost categories.

- We met with Cahaba GBA officials during the course of our fieldwork to obtain information and discuss audit results.
- We held meetings with CMS officials in CMS's regional office in Atlanta, Georgia.

We performed our fieldwork at Cahaba GBA's headquarters in Birmingham, Alabama during the period May 2005 through April 2006.

Our review was conducted in accordance with generally accepted government auditing standards.

RESULTS OF AUDIT

Except for amounts claimed as pension costs and depreciation, with respect to which we drew no conclusions in this audit, we found that Cahaba had an effective system of controls over accounting for and reporting administrative costs. In addition, the amounts claimed as Medicare reimbursements on the FACPs for the period October 1, 2001, through September 30, 2004, satisfied contract terms and applicable regulations.

Because our report contains no recommendations, no response is necessary. However, if you have any questions or comments about this report, please call me at (404) 562 7750, or have your staff contact Andy Funtal, Audit Manager at (404) 562-7762. Please refer to report number A-04-05-04012 in all correspondence.

APPENDIX

