

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**NATIONAL GOVERNMENT SERVICES
CLAIMED ALLOWABLE ADMINISTRATIVE
COSTS FOR FISCAL YEARS 2010 AND THE
FIRST QUARTER OF FISCAL YEAR 2011.**

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



**Sheri L. Fulcher
Regional Inspector General
for Audit Services**

**May 2015
A-05-14-00032**

Office of Inspector General

<https://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 Office of Audit Services (OAS) provides 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.

Office of Evaluation and Inspections

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. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

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 for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC

at <https://oig.hhs.gov>

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

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 \$28,259,738 for FY 2010 and the first quarter of FY 2011 under Medicare Part B contract 00630.

WHY WE DID THIS REVIEW

The Centers for Medicare & Medicaid Services (CMS) contracted with National Government Services (NGS) to process Part B claims as a carrier under Medicare Contract 00630. CMS requested that we perform an audit of NGS's Medicare Part B final administrative costs proposal (FACP) for FY 2010 and the first quarter of FY 2011.

OBJECTIVE

The objective of this review was to determine whether the administrative costs NGS claimed on its FACPs for FY 2010 and the first quarter of FY 2011 were allowable under the Medicare contract and applicable Federal regulations.

BACKGROUND

Title XVIII of the Social Security Act established the Medicare program. CMS administers the Medicare program through contractors, including Part B carriers 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 a 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 Federal Acquisition Regulations (FAR) and other applicable criteria.

NGS processed Part B claims in Indiana and Kentucky from October 1, 2009, through December 31, 2010 under its Medicare Part B contract 00630. During this period, NGS claimed administrative costs totaling \$29,125,224. Of this amount, we reviewed \$28,259,738 in administrative costs, but excluded \$865,486 in pension costs that will be the subject of a separate review.

HOW WE CONDUCTED THIS REVIEW

We reviewed 240 random sample items to determine if the costs claimed were reasonable, allowable and in compliance with the FAR and other applicable criteria. The 240 sample items were selected randomly from a population of eight cost categories. We limited our internal control review to those controls related to the recording and reporting of costs on the cost proposals.

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.

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 and Appendix C contains details of the statistical sampling methodology.

RESULTS OF REVIEW

The \$28,259,738 in costs covered by our review were allowable under the terms of the Medicare contract and applicable Federal regulations. Accordingly, this report contains no recommendations.

APPENDIX A: SCOPE AND METHODOLOGY

SCOPE

Our audit covered the period October 1, 2009, through December 31, 2010. For this period, NGS claimed administrative costs totaling \$29,125,224. This total included pension costs of \$865,486 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 office in Indianapolis, Indiana from August 2014 through September 2014.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Medicare laws, regulations and guidelines;
- reviewed NGS's contracts with CMS;
- reviewed NGS's 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 cost proposal 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**

Cost Category	Federal Fiscal Year 2010	1st Quarter 2011	Total
Bills/Claims Payments	\$14,928,031	\$3,557,644	\$18,485,675
Appeals/Reviews	2,717,104	650,014	3,367,118
Beneficiary Inquires	137,241	50,246	187,487
Participating Physicians	11,126	10,101	21,227
Productivity Investment	54,640	0	54,640
PM Special Projects	115,173	24,999	140,172
Provider Enrollment	3,475,859	1,246,316	4,722,175
Provider Telephone Inquires	2,594,002	654,818	3,248,820
Provider Outreach & Education	48,043	18,366	66,409
Medical Review	2,847,056	575,763	3,422,819
MSP Prepayment	886,961	149,021	1,035,982
Benefits Integrity	57,551	6,405	63,956
MSP Post Payment	1,257,658	191,865	1,449,523
MIP Provider Outreach & Ed	1,789,867	387,183	2,177,050
Credits	(7,710,696)	(2,028,148)	(9,738,844)
Non-Renewal (Severance)	421,015	0	421,015
Total Costs Claimed	\$23,630,631	\$5,494,593	\$29,125,224
Less Pension Costs Not Reviewed	722,524	142,962	865,486
Total Costs Reviewed	\$22,908,107	\$5,351,631	\$28,259,738
Recommended for Acceptance	\$22,908,107	\$5,351,631	\$28,259,738

***We did not review NGS's 1st quarter of FY 2011 Severance costs claimed. Those costs will be review in the 2011-2012 NGS Final Administration Cost Proposal review.*

APPENDIX C: STATISTICAL SAMPLING METHODOLOGY

POPULATION

The population consisted of costs charged to Medicare contract 00630 that were allocated to the administrative cost reports from October 1, 2009, through December 31, 2010 by National Governmental Services (NGS).

SAMPLING FRAME

The sampling frame is an Excel spreadsheet containing 22,280 line items from 16 of the 18 cost pools totaling \$61,751,241 as reported on NGS' October 1, 2009 through December 31, 2010 FACPs.

Fringe benefits and labor costs pools were removed from the sampling frame and will be reviewed separately in a non-statistical manner.

SAMPLE UNIT

The primary sample unit was a cost pool.

The secondary sample unit was a line item from one of the 16 cost pools.

SAMPLE DESIGN

We used a two-stage unrestricted sample design. The first stage consisted of a random selection of eight cost pools from the sampling frame. The second stage was a random selection of 30 line items from each of the selected cost pools.

SAMPLE SIZE

We selected eight cost pools as the primary units. We then selected 30 line items as the secondary units. The total number of secondary units was 240 line items.

SOURCE OF RANDOM NUMBERS

The random numbers were generated by a Region V Statistical Specialists using the OIG/OAS statistical sampling software RAT-STATS 2010, version 4.

METHOD FOR SELECTING SAMPLE ITEMS

We consecutively numbered the primary units from 1 through 16. After generating the eight random numbers for the primary sample, we selected the corresponding frame items. We created a list of the eight primary units using Excel.

We then consecutively numbered the secondary sample units for each of the eight primary units. After generating 30 random numbers for each of the eight primary units, we selected the corresponding frame items. Finally, we created a list of the 240 sampled items.

ESTIMATION METHODOLOGY

A Region V Statistical Specialist used RAT-STATS variable appraisal program for a two-stage unrestricted sample to determine the amount of unallowable Federal reimbursement.