

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**NATIONAL GOVERNMENT  
SERVICES PROPERLY CLAIMED  
ALLOWABLE ADMINISTRATIVE  
COSTS FOR THE LAST THREE  
QUARTERS OF FISCAL YEARS  
2011 AND 2012 UNDER  
MEDICARE CONTRACT 00630**

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# *Office of Inspector General*

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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.

## Report in Brief

Date: September 2017

Report No. A-05-15-00045

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES  
**OFFICE OF INSPECTOR GENERAL**



### Why OIG Did This Review

The Centers for Medicare & Medicaid Services (CMS) contracted with National Government Services (NGS) to process Part B claims under Medicare contract 00630. CMS requested that we perform an audit of NGS's Medicare Part B final administrative cost proposal (FACP) for the last three quarters of fiscal years (FYs) 2011 and 2012.

### How OIG Did This Review

We reviewed 310 samples from eight cost pools to determine whether the costs claimed were reasonable, allowable, and in compliance with Federal Acquisition Regulations and other applicable criteria. We limited our internal control review to those controls related to the recording and reporting of costs on the cost proposals.

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### National Government Services Properly Claimed Allowable Administrative Costs for the Last Three Quarters of Fiscal Years 2011 and 2012 Under Medicare Contract 00630

#### What OIG Found

The \$37,756,937 in costs covered by our review was allowable under the terms of the Medicare contract and applicable Federal regulations.

#### What OIG Recommends

This report contains no recommendations.

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## **INTRODUCTION**

### **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 cost proposal (FACP) for the last three quarters of fiscal years (FYs) 2011 and 2012.

### **OBJECTIVES**

Our objectives were to determine whether (1) the FACP fairly presented the costs of program administration and (2) the costs were reasonable, allowable, and allocable in accordance with the cost principles contained in part 31 of the Federal Acquisition Regulation (FAR) and the Medicare Part B contract.

### **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 an 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 FAR and other applicable criteria.

NGS processed Part B claims in Indiana and Kentucky from January 1, 2011, through September 30, 2012, under Medicare Part B contract 00630. During this period, NGS claimed administrative costs totaling \$38,248,379. Of this amount, we reviewed \$37,756,937 in administrative costs, but excluded \$491,442 in pension costs that will be the subject of a separate review.

### **HOW WE CONDUCTED THIS REVIEW**

We reviewed 310 samples from eight cost pools to determine whether the costs claimed were reasonable, allowable, and in compliance with FAR and other applicable criteria. We limited our internal control review to those controls related to the recording and reporting of costs on the FACPs.

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.

See Appendix A for details of our audit scope and methodology, and Appendix B for regulations on the cost proposals.

## **RESULTS OF REVIEW**

The \$37,756,937 in costs covered by our review was reasonable, allowable, and allocable under the terms of the Medicare contract and applicable Federal regulations. Accordingly, this report contains no recommendations.

## APPENDIX A: AUDIT SCOPE AND METHODOLOGY

### SCOPE

Our audit covered the period January 1, 2011, through September 31, 2012. For this period, National Government Services claimed administrative costs totaling \$38,248,379. This total included pension costs of \$491,442 that we did not review because they will be the subject of a separate review. We accomplished our objective through random sampling.

We did not review NGS's overall internal control structure. Rather, we reviewed only those controls related to the recording and reporting of costs on the cost proposals.

We conducted fieldwork at the NGS facility in Indianapolis, Indiana, from August 2015 through September 2016.

### 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 years 2011 and 2012 and an (Office of Inspector General (OIG) audit report for Federal FY 2010 and the first quarter of 2011;
- interviewed NGS officials regarding the cost accumulation processes for its FACP and cost allocation system;
- reconciled line item expenses on the FACP and cost classification report to NGS accounting records;
- selected 310 sample items from eight cost pools;
- tested samples for reasonableness, allowability, and allocability by reviewing contracts and agreements and selected 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: FEDERAL REGULATIONS FOR FINAL ADMINISTRATIVE COST PROPOSALS

The FAR requires contractors to be responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred and are allocable to the contract (§ 31.201-2(d)).

The FAR states that a cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of the relative benefits received or other equitable relationship. A cost is allocable to a Government contract if it (a) is incurred specifically for the contract; (b) benefits both the contract and other work and can be distributed to them in reasonable proportion to the benefits received; or (c) is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown (§ 31.201-4)

The FAR states that each contractor is required to plan its operation within the lower of the approved annual budget, the approved periodic budget distributions, and the certified funds available for the Program Management (PM) and Medicare Integrity Program (MIP) budgets separately, and without comingling. Contractors are responsible for performing a continuing analysis of the approved budget in light of experience and projected future needs. They should report any change in fiscal requirements to CMS (§ 120).

According to CMS' Medicare Financial Management Manual, chapter 2, section 10, monthly Interim Expenditure Reports (IERs) prepared for PM and MIP funding are required to assure CMS adequate financing of the programs and to enable CMS to control its overall expenditures. CMS requires a Final FACP after the expiration of the FY to form the basis for the audit and final determination of allowable costs. Contractors should prepare a narrative identification of unallowable costs for all cost reports in accordance with chapter 7, section 3, Accountability, and chapter 1, section 80.B of the manual.

According to CMS' Medicare Financial Management Manual, chapter 2, section 60, the IER provides cumulative costs for each activity, using the same multiple-use *Administrative Budget and Cost Report* format referenced in chapter 1, section 80. It adds the "Administrative Funds Drawn" section to the "Certification Schedule" as displayed in section 50. The contractor should report costs on an "allowable costs" basis in accordance with 48 CFR section 52.216-7(b) and on a fully accrued basis, including year-end and other adjustments.