



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

JUN - 7 2007

**TO:** Leslie V. Norwalk, Esq.  
Acting Administrator  
Centers for Medicare & Medicaid Services

**FROM:**   
Joseph E. Vengrin  
Deputy Inspector General for Audit Services

**SUBJECT:** Review of Quality Improvement Organization in Missouri (A-07-06-01036)

Attached is an advance copy of our final report on the Quality Improvement Organization (QIO) program in Missouri. In each State, the Centers for Medicare & Medicaid Services contracts with QIOs, which were established to promote the effective, efficient, and economical delivery of Medicare health care services and the quality of those services. The Senate Finance Committee requested that the Office of Inspector General assess the fiscal integrity of the QIOs with respect to six specified subject areas; this report represents part of our response to that request. In Missouri, Primaris was the QIO for the period February 1, 2003, through January 31, 2006. For this 3-year period, known as the seventh scope of work, Primaris received \$18.2 million in Federal reimbursement for the QIO contract. We will issue this report to Primaris within 5 business days.

Our objective was to review the six fiscal integrity areas requested by the Senate Finance Committee.

Specifically, the costs we reviewed related to board member and executive staff compensation; board member and executive staff travel; costs relating to legal fees, including administrative charges; equipment and administrative charges; business relationships and conflicts of interest; and contract modifications.

We found that of the \$4.5 million of costs reviewed related to the six fiscal integrity areas requested by the Senate Finance Committee, Primaris provided adequate documentation to support the costs claimed. Accordingly, this report contains no recommendations.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact George M. Reeb, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or by e-mail at [George.Reeb@oig.hhs.gov](mailto:George.Reeb@oig.hhs.gov) or Patrick J. Cogley, Regional Inspector General for Audit Services, Region VII, at

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(816) 426-3591 or by e-mail at [Patrick.Cogley@oig.hhs.gov](mailto:Patrick.Cogley@oig.hhs.gov). Please refer to report number A-07-06-01036 in all correspondence.

Attachment



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General  
Office of Audit Services

JUN 11 2007

Region VII  
601 East 12th Street  
Room 284A  
Kansas City, Missouri 64106

Report Number A-07-06-01036

Mr. Richard A. Royer  
Chief Executive Officer  
Primaris  
200 North Keene Street  
Columbia, Missouri 65201

Dear Mr. Royer:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of Quality Improvement Organization in Missouri." A copy of this report will be forwarded to the HHS action official on the next page for his 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 are made available publicly to the extent the information is not subject to exemptions of the Act that the Department chooses to exercise (see 45 CFR part 5).

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591 or by email at [Patrick.Cogley@oig.hhs.gov](mailto:Patrick.Cogley@oig.hhs.gov), or your staff may contact Chris Bresette, Audit Manager, at (816) 426-3201 or by email at [Chris.Bresette@oig.hhs.gov](mailto:Chris.Bresette@oig.hhs.gov). Please refer to report number A-07-06-01036 in all correspondence.

Sincerely,

A handwritten signature in black ink that reads "Patrick J. Cogley".

Patrick J. Cogley  
Regional Inspector General  
for Audit Services

Enclosures

**Direct Reply to HHS Action Official:**

James Randolph Farris, MD  
Regional Administrator  
Centers for Medicare & Medicaid Services, Region VI  
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Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF  
QUALITY IMPROVEMENT  
ORGANIZATION IN MISSOURI**



Daniel R. Levinson  
Inspector General

June 2007  
A-07-06-01036

# ***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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**THIS REPORT IS AVAILABLE TO THE PUBLIC**  
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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**

In the Medicare program, the Centers for Medicare & Medicaid Services (CMS) contracts with Quality Improvement Organizations (QIO) in each State. According to section 1862(g) of the Social Security Act, QIOs were established for “promoting the effective, efficient, and economical delivery of health care services, and of promoting the quality of services. . . .”

QIOs submit vouchers for Federal reimbursement to CMS monthly. The vouchers and reimbursements include amounts for both direct and indirect costs. The QIOs determine the amount of indirect costs to claim by multiplying an indirect cost rate against their direct costs. During the contract period, CMS usually is unable to calculate an indirect cost rate. Therefore, the QIOs use provisional rates to determine indirect costs. After the close of each QIO’s fiscal year, the Defense Contract Audit Agency reviews the organization’s actual direct and indirect costs. The CMS contracting officer considers the Defense Contract Audit Agency’s recommendations in establishing the final rate and performing the final cost settlement.

Primaris was the Missouri QIO for the period February 1, 2003, through January 31, 2006. For this 3-year period, known as the seventh scope of work, Primaris received \$18.2 million in Federal reimbursement for the QIO contract. During this same period, Primaris incurred total costs of approximately \$23 million to support all lines of business, including the QIO contract. As of April 1, 2007, CMS had not performed the final cost settlement for the seventh scope of work.

The Senate Finance Committee requested that the Office of Inspector General assess the fiscal integrity of the QIOs. The Senate Finance Committee requested that we review, at a minimum, the following areas:

1. board member and executive staff compensation;
2. board member and executive staff travel;
3. costs relating to legal fees, including administrative charges;
4. equipment and administrative charges;
5. business relationships and conflicts of interest; and
6. contract modifications.

### **OBJECTIVE**

Our objective was to review the six fiscal integrity areas requested by the Senate Finance Committee.

### **RESULTS OF REVIEW**

For the \$4.5 million of costs reviewed related to the six fiscal integrity areas requested by the Senate Finance Committee, Primaris provided adequate documentation to support costs claimed.

This report contains no recommendations.

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# INTRODUCTION

## BACKGROUND

### Quality Improvement Organization Program

Part B of Title XI of the Social Security Act, as amended by the Peer Review Improvement Act of 1982, established the Utilization and Quality Control Peer Review Organization Program, now known as the Quality Improvement Organization (QIO) Program. According to section 1862(g) of the Social Security Act, QIOs were established to promote the effective, efficient, and economical delivery of Medicare health care services and the quality of those services.

Pursuant to 42 CFR § 475.101, “to be eligible for a QIO contract an organization must – (a) Be either a physician-sponsored organization . . . or a physician-access organization . . . and, (b) Demonstrate its ability to perform review.”

The Centers for Medicare & Medicaid Services (CMS) awards the contracts for 41 QIOs, which administer 53 QIO contracts (all 50 States plus the District of Columbia, Puerto Rico, and the U.S. Virgin Islands), every 3 years. Each contract requires a specific scope of work (SOW). Seven SOWs have been completed. The SOW for each contract may be modified to make adjustments to the contract tasks. Certain modifications, referred to as special studies, generally receive the majority of funding increases. Federal funding for QIOs was budgeted at about \$1.3 billion for the seventh SOW.

The Office of Management and Budget (OMB) Circular A-122, “Cost Principles for Non-Profit Organizations,” as revised May 10, 2004, establishes the principles for determining allowable costs with respect to contracts with nonprofit organizations.

### Claims for Federal Reimbursement

Pursuant to its contract with CMS, each QIO submits vouchers to CMS monthly. The vouchers include claims for both direct and indirect costs. According to OMB Circular A-122, Attachment A, direct costs are amounts “that can be identified specifically with a particular final cost objective” (section B.1), and indirect costs are amounts “that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective” (section C.1). An indirect cost rate is generally calculated by dividing allowable indirect costs by all direct costs. The QIOs determine the amount of indirect costs to claim by multiplying an indirect cost rate against their direct costs.<sup>1</sup>

During the contract period, CMS usually is unable to calculate an exact indirect cost rate. Therefore, the QIOs use provisional rates to determine indirect costs. According to OMB Circular A-122, section E.1, a provisional rate means a temporary rate “applicable to a specified period which is used for funding, interim reimbursement, and reporting indirect costs on awards

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<sup>1</sup>Some of the direct costs, including pass-through costs, do not receive an allocation of indirect costs. Section G.3 of the QIO contract requires QIOs to exclude their pass-through costs in the calculation of indirect costs.

pending the establishment of a final rate for the period.” CMS contracts with the Defense Contract Audit Agency (DCAA) to review, after the close of a QIO’s fiscal year (FY), the indirect cost rate proposals, which contain the actual direct and indirect costs, and to make recommendations as to the final rates for that FY. The CMS contracting officer considers DCAA’s recommendations in establishing the final rate for each QIO.

### **Missouri Quality Improvement Organization**

Primaris, headquartered in Columbia, Missouri, serves as the Missouri QIO. Primaris is a nonprofit organization that was incorporated in January 1993. Primaris’s contract with the Federal Government is on a cost-plus-fixed-fee basis.

For the 3-year period known as the seventh SOW (February 1, 2003, through January 31, 2006), Primaris received \$18.2 million in Federal reimbursement for the QIO contract. During the same period, Primaris incurred total costs of approximately \$23 million to support all lines of business, including the QIO contract.

For FYs 2003 and 2004, which covered part, but not all, of the seventh SOW, DCAA has reviewed the indirect cost rates and made recommendations as to the final rates. As of April 1, 2007, DCAA had not reviewed the indirect cost rates for FY 2005. The CMS contracting officer will consider both DCAA’s and our recommendations in establishing the final rates and in settling the cost differences that occurred between the provisional and final rates for the seventh SOW.

### **Senate Finance Committee Request**

The Senate Finance Committee requested that the Office of Inspector General review the fiscal integrity of the QIOs. The Senate Finance Committee requested that we review, at a minimum, the following areas:

1. board member and executive staff compensation;
2. board member and executive staff travel;
3. costs relating to legal fees, including administrative charges;
4. equipment and administrative charges;
5. business relationships and conflicts of interest; and
6. contract modifications.

The Senate Finance Committee also expressed concern about the extent to which QIOs addressed beneficiaries’ quality of care concerns and the beneficiary complaint resolution process. We are examining that issue in another review.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

Our objective was to review the six fiscal integrity areas requested by the Senate Finance Committee.

### **Scope**

We reviewed a judgmental sample of approximately \$4.5 million of the \$23 million of costs that Primaris incurred (in all lines of business) from February 1, 2003, through January 31, 2006. In total, Primaris received \$18.2 million in Federal reimbursement for the QIO contract.

The \$4.5 million consisted of the six areas that the Senate Finance Committee requested we review. We reviewed these costs to determine whether they were (1) reasonable, allowable, and allocable under the terms of the contract and (2) supported by accounting records and other reliable documentation.

We limited our internal control review to Primaris systems and procedures for claiming costs to the extent necessary to accomplish our objective.

Our audit was intended to supplement information contained in DCAA audits.

We performed fieldwork at Primaris's office in Columbia, Missouri.

### **Methodology**

We took the following actions to accomplish our objectives:

- We reviewed applicable Federal regulations and guidelines.
- We interviewed Primaris officials and reviewed Primaris policies and procedures to obtain an understanding of how it claimed costs for Federal reimbursement.
- We interviewed the CMS contracting officer, project officer, and program staff at the CMS regional office and headquarters office to obtain an understanding of their roles in the contracting process.
- We reconciled the Federal reimbursement, in total (as indicated on the vouchers that Primaris submitted to CMS), to Primaris's general ledger to determine the costs Primaris incurred and charged to the contract.
- We examined, on a test basis, evidence supporting the \$4.5 million of costs included in our review and claimed by Primaris. For each of the six areas reviewed, we identified the general ledger accounts that contained the expenses that Primaris incurred during the seventh SOW.

- For board member and executive staff compensation, we examined how frequently meetings were held, the rate used to pay the board members, and the number of board members who attended the meetings. We compared compensation, for both the board members and seven high-ranking executives, to the amounts included in Primaris's proposal to CMS. Because CMS eliminated salary ceilings for QIO executives after the fifth SOW, CMS no longer prescribes specific salary limitations. Accordingly, the general standards for reasonableness in executive salaries, as established by OMB Circular A-122, are applicable. To apply this standard, we relied on DCAA's reports that analyzed the salary levels incurred by Primaris for FYs 2003 and 2004 in addition to our analysis of the salary levels in the proposal.
- For board member and executive staff travel, we analyzed documentation to determine whether transportation costs of the board members and seven high-ranking executives were reasonable. Because board members often drove to and from the board meetings, we verified the mileage rate and the round trip miles used to determine the reimbursement. For executives, we reviewed judgmentally selected overnight trips to determine whether Primaris claimed transportation, hotel, and meal costs pursuant to Federal guidelines.
- For costs relating to legal fees, including administrative charges, we reviewed the legal fees and settlement charges incurred for one lawsuit against Primaris to determine whether the costs were reasonable and allowable for Federal reimbursement.
- For equipment and administrative charges, we analyzed documentation to determine whether the incurred costs were allowable for Federal reimbursement.
- For business relationships and conflicts of interest, we reviewed selected subcontracts as well as registration fees at conferences. Then we analyzed documentation to determine whether the incurred costs were allowable for Federal reimbursement. For the new office building that Primaris rented and eventually bought, we reviewed the steps Primaris took, and the procedures it followed, to purchase the building to determine whether Primaris acquired the building and claimed rental and depreciation expenses pursuant to Federal regulations.
- For contract modifications, we reviewed the modifications to determine whether they increased the funding for the seventh SOW, added a special study, or were technical in nature. For modifications that added special studies, we reviewed the objectives of the studies to determine whether they were consistent with CMS's overall objectives for the seventh SOW.
- We assessed Primaris's accounting policies and procedures related to the capitalization, expensing, and safeguarding of fixed asset purchases.
- We reviewed DCAA audits of direct and indirect costs for FYs 2003 and 2004.

We conducted our audit in accordance with generally accepted government auditing standards.

### **RESULTS OF REVIEW**

For the \$4.5 million of costs reviewed related to the six fiscal integrity areas requested by the Senate Finance Committee, Primaris provided adequate documentation to support costs claimed.

This report contains no recommendations.