

Report in Brief

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Report No. A-02-15-02008

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



Why OIG Did This Review

The Patient Protection and Affordable Care Act provided establishment grants to States for establishing health insurance exchanges (commonly referred to as “marketplaces”) to allow individuals and small businesses to shop for health insurance.

New York contracted with Maximus, Inc., to operate its marketplace customer service center from June 2012 through March 2015. Maximus was contracted to provide assistance to New Yorkers seeking to enroll in a qualified health plan. New York allocated and claimed marketplace customer service center costs to its establishment grants.

This review is related to a prior review of establishment grants awarded to New York.

Our objective was to determine whether New York followed Federal requirements in allocating and claiming Maximus contract costs to its establishment grants.

How OIG Did This Review

We reviewed \$39.8 million in contract costs for the period October 2014 through March 2015 that New York allocated to the establishment grants. We also reviewed \$17.6 million in profit fees and general and administrative costs for the period June 2012 through April 2014 that New York claimed to the establishment grants.

New York Did Not Comply With Federal Grant Requirements for Allocating and Claiming Marketplace Contract Costs

What OIG Found

New York did not always follow Federal requirements for allocating and claiming contract costs to its grants for establishing New York’s marketplace customer service center. Specifically, New York may have misallocated costs totaling nearly \$19.6 million and claimed unallowable profit fees and other costs totaling nearly \$3.8 million.

This occurred because New York did not have written policies that explained how to properly allocate costs when it developed its original cost allocation plan. Further, New York did not establish a basis for the profit fee rate with Maximus at the beginning of the contract, did not require Maximus to always use its final cost rate for general and administrative costs, and did not require Maximus to retroactively adjust the calculation of its profit fee and general and administrative costs by removing project costs that should not have been subject to these charges.

What OIG Recommends and New York’s Comments

We recommend that New York (1) refund to CMS \$19.6 million that may have been misallocated to the establishment grants or work with CMS to determine the appropriate allocation to the grants, (2) refund to CMS \$797,096 in unallowable profit fees or work with CMS to determine the appropriate amount that should have been claimed to the grants, (3) refund to CMS \$32,083 in unallowable general and administrative costs and related profit fees, and (4) work with CMS to ensure that Maximus contract costs claimed after our audit period are properly allocated.

In written comments on our draft report, New York generally disagreed with our recommendations. Specifically, New York stated that its method for allocating costs to the establishment grants was consistent with CMS-approved methodology and Federal guidance. New York also stated that the fact that different contract terms were negotiated for a subsequent period did not result in unallowable profit fees and general and administrative costs in prior periods.

After reviewing the State agency’s comments, we maintain that our findings and recommendations are valid. The State agency’s allocation formula included certain population groups (such as those enrolled in Medicare) that should not have been expected to use the New York marketplace’s health insurance plan. Also, profit fees and other costs claimed were not allowable.