



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

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

November 30, 2007

Report Number: A-07-07-02717

Ms. Martha Rust
Vice President and Chief Financial Officer
Noridian Administrative Services LLC
901 40th Street South
Fargo, North Dakota 58103

Dear Ms. Rust:

Enclosed is the US Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Noridian's Medicare Final Administrative Cost Proposals for Fiscal Years 2004 through 2006." We will forward a copy of this report to the HHS action official noted below.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, within 10 business days after this report is issued, it will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions about this report, please direct them to the HHS action official. Please refer to report number A-07-07-02717 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Patrick J. Gogley", is written over a large, stylized circular flourish.

Patrick J. Gogley
Regional Inspector General
for Audit Services

Enclosure

HHS Action Official:

Mr. Thomas Lenz
Consortium Administrator
Centers for Medicare & Medicaid Services
601 East 12th Street, Suite 235
Kansas City, Missouri 64106

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**NORIDIAN'S MEDICARE FINAL
ADMINISTRATIVE COST
PROPOSALS FOR FISCAL YEARS
2004 THROUGH 2006**



Daniel R. Levinson
Inspector General

November 2007
A-07-07-02717

Office of Inspector General

<http://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:

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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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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

Title XVIII of the Social Security Act established the Health Insurance for the Aged and Disabled (Medicare) program, which provides for a hospital insurance program (Part A) and a related supplementary medical insurance program (Part B). The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program through contracts with private organizations that process and pay Medicare claims. The contracts provide for reimbursement of allowable administrative costs incurred in processing Medicare claims.

During the audit period, which covered fiscal years (FY) 2004 through 2006, CMS contracted with the Noridian Administrative Services (NAS) to serve as a Medicare contractor. NAS processed Hospital Insurance (Part A) claims for 11 states and (Part B) claims for 13 states and 2 territories. NAS reported Medicare costs totaling \$255,826,979 in its Final Administrative Cost Proposals (cost proposals) for FYs 2004 through 2006.

OBJECTIVE

Our objective was to determine whether the administrative costs that NAS reported in its costs proposals were reasonable, allowable, and allocable in accordance with part 31 of the Federal Acquisition Regulation (FAR) and the Medicare contract.

SUMMARY OF FINDINGS

NAS reported expenditures that were reasonable, allowable, and allocable in accordance with the FAR and the Medicare contract provisions.

Consequently, this report contains no recommendations.

INTRODUCTION

BACKGROUND

Title XVIII of the Social Security Act established the Health Insurance for the Aged and Disabled (Medicare) program, which provides for a hospital insurance program (Part A) and a related supplementary medical Insurance program (Part B). The Centers for Medicare & Medicaid Services (CMS) administers the program through contracts with private organizations that process and pay Medicare claims.

CMS's contracts provide for the reimbursement of allowable administrative costs incurred in processing Medicare claims. After the close of each fiscal year (FY), contractors submit a Final Administrative Cost Proposal (cost proposal) reporting Medicare costs. Once CMS accepts a cost proposal, the contractor and CMS negotiate a final settlement of allowable administrative costs.

During our audit period (FYs 2004 through 2006), CMS contracted with the Noridian Administrative Services (NAS) to serve as a Medicare contractor. NAS processed Hospital Insurance (Part A) claims for 11 states and (Part B) claims for 13 states and 2 territories. NAS reported Medicare costs totaling \$255,826,979 in its cost proposals for FYs 2004 through 2006.

NAS is the Medicare contractor that processes claims for the following:

- Medicare Part A for 11 states: Alaska, Arizona, Idaho, Minnesota, Montana, North Dakota, Oregon, South Dakota, Utah, Washington, and Wyoming.
- Medicare Part B for 13 states and 2 territories: Alaska, Arizona, Colorado, Hawaii, Iowa, Montana, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming, American Samoa and Guam.

NAS's offices are at two Fargo, North Dakota locations, and at locations in Phoenix, Arizona; Lakewood, Colorado; Honolulu, Hawaii; Boise, Idaho; Des Moines, Iowa; Eagan, Minnesota; Great Falls, Montana; Grand Forks and Jamestown, North Dakota; Portland, Oregon; Salt Lake City, Utah; Kent, Washington; and Cheyenne, Wyoming.

Prior to January 1, 2006, NAS used a CMS-approved activity-based accounting system to accumulate, report and bill for its Title XVIII (Medicare) contracts. In conjunction with NAS's proposals for Durable Medical Equipment, Medicare Administrative Contractor (MAC), and Jurisdiction 3 (J3) MAC awards, NAS implemented Cost Accounting Standards (CAS) requirements. As such, the accounting systems for the existing Title XVIII contracts were in compliance with CAS.

NAS submits a prospective budget of administrative costs to be incurred during the Government fiscal year to the CMS Regional Office for review and approval. Following the close of each fiscal year, a cost proposal is submitted, reporting costs of performing

Medicare functions incurred during the year. The cost proposal and supporting data serve as the basis for final settlement of allowable administrative costs. After the audit of the cost proposal, NAS and CMS will negotiate a final settlement.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the administrative costs that NAS reported in its costs proposals were reasonable, allowable, and allocable in accordance with part 31 of the Federal Acquisition Regulation (FAR) and the Medicare contract.

Scope

Our review covered the period October 1, 2003 through September 30, 2006 (FYs 2004 through 2006). For this period, NAS reported Medicare costs totaling \$255,826,979. This total included pension costs of \$11,934,459 that we excluded from this review because pension costs will be the subject of a separate audit. In planning and performing our audit, we reviewed the internal controls that NAS had in place to allocate costs to cost objectives in accordance with the FAR and the Medicare contract. This analysis was for the purpose of accomplishing our objective and not to provide assurance on the internal control structure.

We conducted fieldwork at NAS's office in Fargo, North Dakota from December 2006 through April 2007.

METHODOLOGY

To accomplish the objectives, we:

- reviewed applicable Medicare laws, regulations, and guidelines; the applicable sections of the FAR; relevant Department of Health and Human Services Departmental Appeals Board (DAB) decisions; as well as NAS's contract with CMS;
- reviewed, for calendar years 2004 and 2005, both the independent auditor's reports and the independent auditor's letters related to internal controls, to identify any possible weaknesses in NAS's internal control structure that could affect the allowability of administrative costs;
- reconciled the cost proposals to NAS's accounting records and to the independently audited financial statements for FYs 2004 and 2005 (we were unable to do so for FY 2006 because the audited financial statements had not yet been prepared);
- performed analytical tests of NAS's trial balances;

- judgmentally selected and reviewed invoices, expense vouchers and reports, and journal entries;
- interviewed NAS officials about their cost accumulation processes for cost proposals and gained an understanding of their cost allocation systems;
- reviewed payroll journals, corporate bonus plans, and personnel records; and
- tested costs for allocability, reasonableness, and allowability.

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

RESULTS OF AUDIT

NAS reported expenditures that were reasonable, allowable, and allocable in accordance with the FAR and the Medicare contract provisions.

Consequently, this report contains no recommendations.