



July 27, 2011

Office of Audit Services  
Jacob Javits Federal Building  
26 Federal Plaza, Room 3900  
New York, NY 10278

Report Number: A-02-09-01027

Mr. Peter S. Moore  
Vice President, Medicare Division  
Group Health Incorporated  
25 Broadway, 12<sup>th</sup> Floor  
New York, NY 10004

Dear Mr. Moore:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of Medicare Part B Transition and Termination Costs Claimed by Group Health Incorporated*. We will forward a copy of this report to the HHS action official noted below.

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. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please direct them to the HHS action official. Please refer to report number A-02-09-01027 in all correspondence.

Sincerely,

/James P. Edert/  
Regional Inspector General  
for Audit Services

Enclosure

**HHS Action Official:**

Ms. Deborah Taylor  
Director & Chief Financial Officer  
Office of Financial Management  
Centers for Medicare & Medicaid Services  
Mail Stop C3-01-24  
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Baltimore, MD 21244-1850

Department of Health & Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF MEDICARE PART B  
TRANSITION AND TERMINATION COSTS  
CLAIMED BY GROUP HEALTH  
INCORPORATED**



Daniel R. Levinson  
Inspector General

July 2011  
A-02-09-01027

# *Office of Inspector General*

<http://oig.hhs.gov>

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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 & 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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# *Notices*

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**THIS REPORT IS AVAILABLE TO THE PUBLIC**  
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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

### BACKGROUND

Title XVIII of the Social Security Act established the Medicare program, which provides health insurance coverage to people aged 65 and over, people with disabilities, and people with end-stage renal disease. The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program through contractors that process and pay Medicare claims. 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. The contracts provide for reimbursement of allowable costs when contracts are terminated.

CMS contracted with Group Health Incorporated (GHI) to serve as the Medicare Part B carrier for Queens County in New York State. Pursuant to section 911 of the Medicare Prescription Drug, Improvement and Modernization Act of 2003, P.L. No. 108-173, CMS replaced Part B contractors with new contract entities called Medicare Administrative Contractors (MAC). CMS did not award GHI a MAC contract. As a result, CMS terminated its Part B carrier contract with GHI, effective July 18, 2008.

Appendix B of the contract between CMS and GHI sets forth principles of reimbursement for termination costs. The appendix cited the Federal Acquisition Regulation (FAR) as regulatory principles to be followed for application to the Medicare contract.

To provide for an orderly transition and termination of Part B functions, CMS entered into an advance agreement with GHI on June 2, 2008, which modified the contract to allow certain costs incurred by GHI in connection with the transition and termination of the contract.

GHI claimed Medicare contract transition and termination costs totaling \$4,213,738<sup>1</sup> in its fiscal year (FY) 2008 Final Administrative Cost Proposal (cost proposal).

### OBJECTIVE, SCOPE, AND METHODOLOGY

#### Objective

Our objective was to determine if GHI's claim for transition and termination costs were allowable, allocable, and reasonable in accordance with the FAR, Medicare contract, and advance agreement.

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<sup>1</sup> GHI's lease terminates in July 2012. In accordance with the advance agreement, the cost of the remaining lease term and general maintenance cost for the Part B space is allowable. If GHI is able to sublease the space, it would mitigate the cost. The remaining depreciation cost for leasehold improvements and furniture and fixtures is also allowable. The cost proposal included all lease and depreciation cost through September 30, 2009.

## Scope

Our review covered the period October 1, 2007, through September 30, 2009. For this period, GHI reported transition and termination costs totaling \$4,213,738 in its cost proposal (Supplement No. 3).<sup>2</sup> Included in these costs were \$1,095,066 of transition costs and \$3,118,672 of termination costs. The transition costs included \$1,167 of defined benefit pension costs that we excluded from our review because they will be the subject of a separate audit. Therefore, we limited our review to the remaining \$4,212,571 of reported costs. We reviewed only those internal controls necessary to achieve our audit objective.

We conducted fieldwork at GHI's offices in New York, New York, from September 2009 to August 2010.

## Methodology

To accomplish the objective, we:

- reviewed applicable Federal laws, regulations, and guidelines;
- reviewed GHI's contract with CMS;
- reviewed GHI's processes for accumulating and allocating termination and transition costs;
- reviewed GHI's independent auditor's reports and letters related to GHI's internal controls;
- reviewed the advance agreement between CMS and GHI;
- reconciled transition and termination expenses on the cost proposal to GHI's accounting records;
- reviewed invoices and related supporting documents, including payroll records and lease agreements;
- tested a judgmental sample of costs for reasonableness, allowability, and allocability; and
- verified that office space used for GHI's Part B operations was vacant.

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

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<sup>2</sup> We issued a separate report (A-02-09-01026) on GHI's Medicare Part B FY 2008 FACP that did not include these transition and termination costs.

based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

### **RESULTS OF REVIEW**

GHI reported transition and termination costs in its cost proposal that complied with the terms of the FAR, Medicare contract and the advance agreement. Based on our review, we determined that the reported transition and termination costs were allowable for Medicare reimbursement. As a result, this report contains no recommendations.

# **APPENDIX**



**APPENDIX: TRANSITION AND TERMINATION COSTS REPORTED ON FINAL ADMINISTRATIVE COST PROPOSAL BY COST CLASSIFICATION**

<b>Cost Category</b>	<b>Total Costs Claimed</b>
Medicare Administrative Contractor (MAC) Termination Severance	\$3,118,672
MAC Transition	689,633
Enterprise Data Center Transition <sup>1</sup>	404,266
<b>Total Costs Reviewed<sup>2</sup></b>	<b>\$4,212,571</b>
OIG Recommended Adjustments	0
<b>Total Adjusted Costs</b>	<b>\$4,212,571</b>

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<sup>1</sup> These costs do not include defined benefit pension costs totaling \$1,167 that we did not review.

<sup>2</sup> GHI claimed a total of \$4,213,738 in transition and termination costs.