

OFFICE OF INSPECTOR GENERAL

Audit Report

**Audit of Controls Over Railroad Medicare
Contract Costs**

**Report No. 11-06
April 20, 2011**



RAILROAD RETIREMENT BOARD

EXECUTIVE SUMMARY

The Railroad Retirement Board (RRB), Office of Inspector General (OIG) conducted an audit to determine if adequate oversight procedures and controls over Railroad Medicare contract costs have been established. The audit focused on controls over Palmetto GBA, LLC's (Palmetto) direct labor timekeeping within the Optical Character Recognition (OCR), Medical Review, and Customer Service units. We also reviewed the effectiveness of the RRB's contract management and cost reimbursement processes during FYs 2008 and 2009.

The RRB-OIG conducted this audit at Palmetto's Railroad Medicare offices located in Augusta, Georgia and at the RRB's headquarters in Chicago, Illinois from June 2010 through February 2011.

Key Findings

The RRB-OIG identified the following weaknesses:

- Deleted customer service records, inaccessible medical review documentation, and inadequate OCR support for claims processed resulted in the RRB-OIG's questioning of Railroad Medicare costs totaling approximately \$7.1 million.
- Controls for ensuring that costs are applied to the proper accounting period in a timely manner were inadequate and the method of supporting direct labor cost adjustments was not sufficient.
- Railroad Medicare claims processing and cost data included significant inconsistencies which could impact the integrity of Railroad Medicare program costs.
- The OCR reporting system did not always track Railroad Medicare data correctly.
- Controls to ensure that timesheets are submitted by employees and approved by managers on a timely basis were not fully effective.
- The RRB has not established adequate oversight and controls over Railroad Medicare in accordance with its contract requirements.

Key Recommendations

To address the identified weaknesses, we recommended that RRB officials:

- work with Palmetto to establish a procedure for maintaining the Customer Service Unit's call volume records in accordance with contract archival requirements and require Palmetto to provide timely access to documentation supporting work performed by the Medical Review Unit;
- work with Palmetto to establish a reconciliation process between OCR total hours billed and total hours worked that will validate the integrity of costs reimbursed;
- review the questioned costs totaling \$7.1 million and determine if they are allowable;
- require Palmetto to establish an accounting procedure for detecting and validating costs charged to prior fiscal years beginning with the start of the new contract year;
- require Palmetto to establish controls and procedures that will identify significant differences impacting Railroad Medicare claims volume, hours charged, and costs billed;
- work with Palmetto to determine why claims were incorrectly reported on the OCR report;
- require that Palmetto communicate timekeeping procedural requirements to all managers and employees and periodically perform random timesheet checks to ensure Palmetto complies with procedures; and
- develop improved contract oversight procedures and controls.

Management's Response

The Director of Administration did not agree to review the questioned costs totaling \$3.1 million and \$3.7 million incurred by the units during FYs 2008 and 2009. However, they agreed to take corrective action on 11 of our 15 recommendations and will conduct further analysis to determine how to address the remaining recommendations. The full text of management's response is included in this report as Appendix III.

TABLE OF CONTENTS

EXECUTIVE SUMMARY

INTRODUCTION

Background	1
Audit Objectives	2
Scope	3
Methodology	3

RESULTS OF AUDIT

Underlying Support for Timekeeping Records Was Not Available for Review...5	
Documentation Was Not Maintained.....	5
Documentation Was Not Accessible	6
Recommendations	6
Management's Response	7
RRB-OIG's Comments on Management's Response	7
 Variances Were Identified Between Hours Billed and Employee Hours Recorded.....	7
Recommendations	8
Management's Response	9
RRB-OIG's Comments on Management's Response	9
 Procedures for Year End Adjustments Need to be Strengthened	9
Contract Costs Incurred Were Applied to the Incorrect Fiscal Year	9
Direct Labor Costs Were Allocated to Employees Without Adequate Documentation.....	10
Recommendations	10
Management's Response	11
RRB-OIG's Comments on Management's Response	11
 Significant Inconsistencies Exist When Comparing Claims Volume and Costs Billed	11
Railroad Medicare OCR Data	12
Railroad Medicare Paper Billing Data	12
Recommendations	13
Management's Response	13
RRB-OIG's Comments on Management's Response	13
 Conflicting Data Was Generated by the OCR Reporting System	14
Recommendation	14
Management's Response	14

Timesheet Submission and Approval Controls Need Strengthening	15
Recommendations	15
Management’s Response	15
RRB-OIG’s Comments on Management’s Response	16
Contract Oversight and Management Controls Need Improvement	16
Recommendation	17
Management’s Response	17

APPENDICES

Appendix I - Summary of Questioned Costs	18
Appendix II - Sampling Methodology and Results	19
Appendix III - Management’s Response.....	21

INTRODUCTION

This report presents the results of the Railroad Retirement Board (RRB), Office of Inspector General's (OIG) audit of the controls over Railroad Medicare contract costs.

Background

The RRB is an independent agency in the executive branch of the Federal government. The RRB administers the retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act and the Railroad Unemployment Insurance Act. These programs provide income protection during old age and in the event of disability, death or temporary unemployment and sickness.

Railroad Medicare

In May 1966, the Social Security Administration delegated authority to the RRB for administering certain provisions of the Medicare program for Qualified Railroad Retirement Beneficiaries (QRRBs). These provisions included enrollment, premium collection, and selection of a carrier to process Medicare Part B claims. The enactment of Public Law (P.L.) 92-603 in October 1972 amended the Social Security Act and granted the RRB jurisdiction over all QRRBs who were receiving both Railroad Retirement and Social Security benefits.

The Railroad Medicare program is funded by the Centers for Medicare & Medicaid Services (CMS). The RRB's Office of Administration has been delegated responsibility for the program's claims processing contract management and administration. In carrying out these responsibilities, the RRB's contracting officer has the ability to deny reimbursement if contract costs are inadequately supported.

Under the Inspector General Act of 1978, as amended, the RRB-OIG conducts audits and investigations of alleged fraud, waste, and abuse within the Railroad Medicare program.

Palmetto GBA, LLC

Since April 2000, the RRB has contracted with its nationwide contractor Palmetto GBA, LLC (Palmetto) to process the Medicare Part B claims for QRRBs. The RRB's contract with Palmetto states that, "[t]he contractor shall perform all carrier functions for individuals enrolled in Part B of the Railroad Medicare program throughout the United States."

During Fiscal Year (FY) 2010, Palmetto processed more than 10.2 million Railroad Medicare claims, which represented approximately \$870 million in payments for Part B

medical services. For these Part B services, Palmetto was reimbursed \$14.2 million during FY 2010. In addition, the RRB's Office of Programs has one Medicare Contract Operations Specialist working onsite at Palmetto's Augusta, Georgia office and one working at RRB headquarters.

The RRB's contract with Palmetto will be subject to competitive renegotiation during 2011.¹ When the process is completed, the Railroad Medicare contract will establish new performance and administration requirements under the title of Specialty Medicare Administrative Contractor (MAC).

During FY 2008, Palmetto began using a new timekeeping system to record and track direct labor costs. Palmetto employees log into the system daily to record their hours worked. The recorded labor hours are used to bill the RRB on a monthly basis. The costs billed can be adjusted during the three-month period after each quarter. Proper timekeeping controls are essential as Palmetto performs contract work other than Railroad Medicare.

Palmetto's Optical Character Recognition (OCR) Unit is responsible for proofing information scanned from Railroad Medicare claim forms submitted by providers. The Medical Review Unit conducts research and performs claims review to ensure that payments made for covered services are medically reasonable and necessary for treatment of the individual. The Customer Service Unit is responsible for responding to phone and written inquiries from Railroad Medicare providers and beneficiaries.

Contract Management

The Government Accountability Office (GAO) has identified Medicare contract management controls as a critical procurement concern. Direct labor represents a significant reimbursable cost charged for administration of the Railroad Medicare program. A critical responsibility for RRB management is to ensure that Palmetto's Railroad Medicare time for work performed is accurately recorded for reimbursement.

Audit Objectives

The objectives of our audit were to determine if adequate oversight procedures and controls over Railroad Medicare contract costs have been established to ensure the integrity of contract cost reimbursements and whether amounts billed were appropriately supported.

¹ The fiscal or contract year for Railroad Medicare is October 1st through September 30th.

Scope

The audit focused on controls over Palmetto's direct labor timekeeping within the OCR, Medical Review, and Customer Service units. We also reviewed the effectiveness of the RRB's contract management and cost reimbursement processes during FYs 2008 and 2009.

A limitation on the scope of our audit procedures prevented us from completing all audit steps required to fully respond to the audit objective. Access to supporting documentation for the work performed by the Medical Review Unit was denied until after the conclusion of fieldwork. Our audit could not determine whether the labor hours billed reconciled with the work performed by the unit.

Methodology

To accomplish our objectives, we:

- reviewed pertinent laws and regulations applicable to Palmetto's timekeeping and direct cost reimbursement processes for the Railroad Medicare contract;
- reviewed Palmetto's and CMS' policies and procedures, and select Palmetto accounting records;
- assessed the adequacy of controls applicable to the timekeeping, budget, and direct cost reimbursement processes;
- judgmentally sampled and reconciled business unit labor documentation supporting time charged with corresponding timekeeping records (refer to Appendix II);
- analyzed Palmetto's direct labor costs and evaluated Palmetto's explanations related to cost and workload variances; and
- interviewed RRB management and Palmetto officials responsible for Railroad Medicare contract administration, and Palmetto management and staff assigned to the work units.

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. Except for the scope limitation encountered, we believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted our audit fieldwork at Palmetto's Railroad Medicare offices located in Augusta, Georgia and at the RRB's headquarters in Chicago, Illinois from June 2010 through February 2011.

RESULTS OF AUDIT

Our audit found that both the RRB's and Palmetto's contract cost controls were not fully effective, Palmetto's records of work performed were insufficient to support amounts billed, and the RRB's oversight and contract management procedures are inadequate to fully ensure the integrity of Railroad Medicare cost reimbursements. We determined that:

- the Customer Service Unit did not maintain adequate supporting documentation to fully reconcile labor hours worked with hours billed;
- access was denied to supporting documentation for work performed by the Medical Review Unit during the audit;
- records were insufficient to fully support Railroad Medicare costs billed for the OCR Unit;
- controls for ensuring that costs are applied to the proper accounting period in a timely manner were inadequate and the method of supporting direct labor cost adjustments was not sufficient;
- Railroad Medicare claims processing and cost data included significant inconsistencies which could impact the integrity of Railroad Medicare program costs;
- the OCR reporting system did not always track Railroad Medicare data correctly;
- controls to ensure that timesheets are submitted by employees and approved by managers on a timely basis were not fully effective; and
- the RRB had not established adequate oversight and controls over Railroad Medicare in accordance with its contract requirements.

These reported weaknesses and the significance of the costs involved directly impact the transparency and accountability of the Railroad Medicare program. Questioned costs as defined under the Inspector General Act totaling approximately \$7.1 million, are being referred to the RRB's Office of Administration for additional review to determine if they are allowable (refer to Appendix I). The details of our findings and recommendations are discussed throughout the remainder of this report.

Underlying Support for Timekeeping Records Was Not Available for Review

Palmetto's Customer Service Unit did not maintain adequate support to fully reconcile labor hours worked with hours billed. In addition, access was denied to supporting documentation for work performed by the Medical Review Unit during the audit.

Documentation Was Not Maintained

The Customer Service Unit's call volume reports, which provide detail to support the work performed by the unit's employees, including time expended on provider and beneficiary telephone calls are deleted after four to six weeks. For FYs 2008 and 2009, the unit charged 66,051 and 78,188 labor hours, respectively. Because the detailed call volume reports have been deleted, the costs could not be substantiated.

The Federal Acquisition Regulations (FAR) 4.703 (a) states that, ". . . contractors shall make available records, which includes books, documents, accounting procedures and practices, and other data, regardless of type and regardless of whether such items are in written form, in the form of computer data, or in any other form, and other supporting evidence to satisfy contract negotiation, administration, and audit requirements of the contracting agencies and the Comptroller General for—

(1) 3 years after final payment or, for certain records"

In addition, FAR 4.703 (d) states that, ". . . If the information described in paragraph (a) of this section is maintained on a computer, contractors shall retain the computer data on a reliable medium for the time periods prescribed. Contractors may transfer computer data in machine readable form from one reliable computer medium to another. Contractors' computer data retention and transfer procedures shall maintain the integrity, reliability, and security of the original computer data. Contractors shall also retain an audit trail describing the data transfer. For the record retention time periods prescribed, contractors shall not destroy, discard, delete, or write over such computer data."

Palmetto officials do not maintain the Customer Service Unit's detailed call volume reports. They believe that maintaining employee timesheets approved by management ensures full compliance with Medicare program requirements. RRB management did not require Palmetto to maintain the reports and approved the reimbursements during each year without adequate support.

Timesheets alone are not an acceptable form of documentation unless the underlying work performed is adequately supported by records and maintained. If traceable support is not maintained, RRB management cannot verify that work was performed by Palmetto employees in support of the hours billed.

Documentation Was Not Accessible

Medical Review Unit documentation was not accessible to support the number of claims reviewed by each employee or the objectives and results of research projects performed. For FYs 2008 and 2009, the Medical Review Unit charged 5,732 and 6,092 hours, respectively.

Pursuant to the Inspector General Act of 1978, Title 5, Subsection 6 (a), “. . . each Inspector General, in carrying out the provisions of this Act, is authorized—

(1) to have access to all records, reports, audits, reviews, documents, papers, recommendations, or other material available to the applicable establishment which relate to programs and operations with respect to which that Inspector General has responsibilities under this Act”

Documentation supporting work performed by the Medical Review Unit was requested on multiple occasions but not accessible until after the close of fieldwork. Therefore, we could not determine whether the labor hours billed reconciled with the work performed by the unit.

Total questioned costs as a result of the call volume reports not being maintained for the Customer Service Unit and the lack of available supporting documentation for the Medical Review Unit were approximately \$3.1 million and \$3.7 million, which represented a significant percentage (20% and 23%, respectively) of reimbursed contract costs for FYs 2008 and 2009 (refer to Appendix I).²

Recommendations

We recommend that RRB officials:

1. review the total costs of \$3.1 million and \$3.7 million incurred by the Customer Service Unit and Medical Review Unit during FYs 2008 and 2009 and determine if they are allowable;
2. work with Palmetto to establish a procedure for maintaining the Customer Service Unit’s call volume records in accordance with contract archival requirements to demonstrate that all costs claimed have been incurred; and
3. require Palmetto to provide timely access to documentation supporting work performed by the Medical Review Unit.

² The percentages were determined by using the total Customer Service and Medical Review costs for FY 2008 and FY 2009 of \$15.3 million and \$16.1 million, respectively.

Management's Response

In response to recommendation 1, the Director of Administration stated that RRB will require Palmetto to demonstrate how their timekeeping and recordkeeping processes comply with CMS standards. The target date for this corrective action is September 30, 2011.

RRB-OIG's Comments on Management's Response

A demonstration of Palmetto's timekeeping and recordkeeping processes for compliance with CMS standards does not address the OIG's recommendation to review the questioned costs. We urge the RRB to review the questioned costs to determine their allowability and compliance with the applicable requirements of the FAR.

In response to recommendation 2, the Director of Administration agreed to review the recordkeeping requirements for call volume records and establish a definition of adequate accounting records for contract compliance that will meet CMS standards. The target date for this corrective action is December 31, 2011.

In response to recommendation 3, the Director of Administration stated that Palmetto had agreed to provide timely access to its records.

Variations Were Identified Between Hours Billed and Employee Hours Recorded

Palmetto's records of work performed are insufficient to fully support Railroad Medicare costs billed for the OCR Unit. The monthly Railroad Medicare direct labor hours billed by OCR Unit employees significantly varied from actual hours worked by OCR employees as captured by the OCR Unit. When data was compared by employee, hours billed exceeded hours worked by as much as 60%. The variances could not be accounted for with available records.

The FAR 31.201-2(d) states that, "a contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported."

The GAO recommends that documentation of transactions and other significant events be complete and accurate and facilitate the tracing of the transaction or event and related information from authorization and initiation, through its processing, to after it is completed.

When informed of the variances, Palmetto officials stated that the hours billed included workload activities unrelated to the hours captured for the OCR Unit; however, there is no underlying support for time spent working on these other activities. The total monthly hours billed to the Railroad Medicare program could not be substantiated for our period of review as follows:

OCR Unit Questioned Costs				
	OCR Direct Labor Hours Worked	OCR Direct Labor Hours Billed	OCR Direct Labor Hours Not Accounted For	OCR Costs Not Accounted For³
Jul 08	1,564	2,887	1,323 (46%)	\$49,996
Aug 08	1,592	2,397	805 (34%)	\$24,270
Sep 08	877	1,568	691 (44%)	\$27,829
Total	4,033	6,852	2,819 (41%)	\$102,095
Jul 09	860	1,206	346 (29%)	\$17,037
Aug 09	731	1,213	482 (40%)	\$22,301
Sep 09	461	1,145	684 (60%)	\$27,106
Total	2,052	3,564	1,512 (42%)	\$66,444
Total OCR Costs Not Accounted For:				\$168,539

Because the hours reported on the OCR Unit's timesheets are not fully supported by the underlying work performed, there is an increased risk that these unsubstantiated hours could have resulted in misstated reimbursements. The Inspector General Act defines questioned costs identified during an audit as those which are not supported by adequate documentation. Total questioned costs during our period of review for the OCR Unit were calculated as \$102,095 and \$66,444 for FY 2008 and 2009, respectively (refer to Appendix I).

Recommendations

We recommend that RRB officials:

4. review the OCR Unit's total questioned costs of \$168,539 and determine if they are allowable; and
5. work with Palmetto to establish a reconciliation process between OCR total hours billed and total hours worked that will validate the integrity of costs reimbursed.

³ Estimated total costs include overhead and employee benefits.

Management's Response

In response to recommendation 4, the Director of Administration agreed to contact Palmetto officials and conduct further review of the questioned costs. The Director of Administration stated that due to the current RRB Specialty MAC procurement, allowable costs determinations may not be completed before the end of the current Medicare contract. If not completed, the Director of Administration will notify CMS and request that special attention be given to whether these costs are allowable during the Final Administrative Cost Proposal (FACP) closeout functions and the audit performed by the Department of Health & Human Services (HHS) OIG. The target date for this corrective action is September 30, 2011.

RRB-OIG's Comments on Management's Response

The FACP process results will not be available for several years and it's not known whether the scope of the HHS OIG's next audit will specifically address our audit concerns. We urge the RRB to take responsibility for reviewing these costs and determining their allowability before the end of the current contract.

In response to recommendation 5, the Director of Administration agreed to contact Palmetto officials and initiate discussions to develop a reconciliation process. However, the Director of Administration stated that the reconciliation process may not be fully developed prior to the end of the current Medicare contract due to the RRB Specialty MAC procurement. The target date for this corrective action is September 30, 2011.

Procedures for Year End Adjustments Need to be Strengthened

Palmetto's controls for ensuring that costs are applied to the proper accounting period in a timely manner were inadequate and its method of supporting direct labor cost adjustments was not sufficient.

Contract Costs Incurred Were Applied to the Incorrect Fiscal Year

After Palmetto completed its migration to a new timekeeping system on October 1, 2007, 65 of 75 (87%) Railroad Medicare employees incorrectly recorded the majority of their hours worked during FY 2008 to the FY 2007 project code.⁴ This misclassification of hours worked continued for approximately 2.5 months without resolution and totaled 10,734 hours. After the error was discovered, adjusting entries totaling \$136,931 were required to correct the accounting records (refer to Appendix I). However, the adjusted timekeeping records detailing the actual hours worked for each employee could not be provided.

Palmetto officials explained that the errors occurred during its timekeeping system migration. During this period, Railroad Medicare employees found the new system to

⁴ Project code 11202: Manage Paper Bills/Claims.

be complex and did not fully understand how to record their time to the correct project contract year. The incorrect timesheets were approved by Palmetto's management and its established accounting procedure, designed to identify hours billed to the incorrect prior fiscal year, did not function effectively. If controls and supporting records are inadequate to ensure that costs are applied to the proper accounting period, the Railroad Medicare program may incur unsubstantiated costs.

Direct Labor Costs Were Allocated to Employees Without Adequate Documentation

During FY 2008, direct labor costs totaling \$8,805 and representing 1,331 hours were allocated to individual Railroad Medicare employees for FY 2007 work (refer to Appendix I). Palmetto officials did not maintain adjusted timekeeping records or traceable support which demonstrates that the costs were incurred by each employee.

The FAR 31.201-2(d) states that, "a contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported."

Palmetto officials could not explain why these costs were allocated to individual employees. If direct labor costs are not supported by adequate timekeeping records the corresponding reimbursement cannot be substantiated.

Recommendations

We recommend that RRB officials:

6. review the adjustment totaling \$136,931 and the allocation totaling \$8,805 and determine if the questioned costs are allowable, and if other adjustments require review;
7. require Palmetto to establish an accounting procedure for detecting and validating costs charged to prior fiscal years beginning with the start of the new contract year;
8. work with Palmetto to improve the controls over management's timesheet review process to ensure employees are billing the appropriate project code and year; and
9. require Palmetto to maintain readily available timekeeping support, which reconciles to the adjusting entries and prior year direct labor allocations, including, at a minimum, the appropriate timesheet revisions which document the days and hours impacted.

Management's Response

In response to recommendation 6, the Director of Administration agreed to request that Palmetto review the figures and validate the findings to determine if continued adjustments need to be made. The Director of Administration is awaiting completion of the HHS OIG's FY 2007 FACP audit for validation of the referenced adjustments and to determine whether the questioned costs are allowable. The RRB plans to confirm the dates of this CMS audit by September 30, 2011.

RRB-OIG's Comments on Management's Response

The Director of Administration is responsible for Railroad Medicare contract oversight and should not rely solely on the results of the HHS OIG's FACP audit as a means for determining whether the questioned costs are allowable. The RRB is responsible for ensuring the integrity of contract cost reimbursements and determining whether amounts billed were appropriately supported.

In response to recommendation 7, the Director of Administration agreed to request that Palmetto examine their current accounting system to determine if it captures and validates costs charged to prior fiscal years on an annual basis. The target date for this corrective action is December 31, 2011.

In response to recommendation 8, the Director of Administration agreed to re-examine Palmetto's controls over the review process and request improvement. The target date for this corrective action is September 30, 2011.

In response to recommendation 9, the Director of Administration agreed to conduct a review with Palmetto to ensure that their recordkeeping agrees with CMS standards. The target date for this corrective action is December 31, 2011.

Significant Inconsistencies Exist When Comparing Claims Volume and Costs Billed

Railroad Medicare claims processing and cost data included significant inconsistencies. The data which reported Railroad Medicare paper claims processed, hours charged and costs billed was inconsistent for the one project code⁵ reviewed. These inconsistencies were not identified during Palmetto's variance analysis or by the RRB during its internal reviews, and should be reviewed to ensure the integrity of the Railroad Medicare cost data.

⁵ Project code 11202: Manage Paper Bills/Claims.

Railroad Medicare OCR Data

The OCR Unit's Railroad Medicare paper claims volume increased while billed hours decreased. The number of Railroad Medicare claims processed by the OCR Unit increased by 70% from 208,907 to 355,552 between July and August 2008; however, the approximate hours billed by the OCR Unit decreased by 17% from 2,887 to 2,397 during the same time period.

The OCR Unit's Railroad Medicare claims volume exceeded the total number of respective paper claims processed during July-August 2008 and July-August 2009. Because multiple units process paper claims, total OCR claims processed is expected to be less than the total Railroad Medicare paper claims processed by all units. Palmetto officials stated that pending claims would account for the differences. However, data was not provided to substantiate the identified inconsistencies, as shown in the following table:

<i>Period</i>	<i>Total Railroad Medicare Paper Claims Processed</i>	<i>Railroad Claims Processed only by the OCR Unit</i>	<i>Difference between Total Railroad Claims Processed versus the OCR Unit</i>
Jul 08	206,852	208,907	(2,055)
Aug 08	232,235	355,552	(123,317)
Sept 08	247,767	186,539	61,228
Jul 09	148,842	170,404	(21,562)
Aug 09	145,712	147,793	(2,081)
Sept 09	135,784	94,743	41,041

Railroad Medicare Paper Billing Data

Cost per paper claim processed increased unexpectedly over the 21 months reviewed.⁶ Our trend analysis showed that total costs billed fluctuated within a consistent range over the 21 months reviewed, while paper claims processed continued to decrease during the same time period.⁷ A prominent example occurred in August 2008 and 2009, where total paper claims processed decreased by 37.3% from 232,235 to 145,712, while total costs billed for paper claims processed increased by 31.6% from \$172,019 to \$226,386. A correlation between total claims processed and total costs billed would be expected but did not occur.

⁶ The period of review was from January 2008 through September 2009.

⁷ The volume of Railroad Medicare paper claims processed is expected to decrease over time primarily due to electronic claims processing, generating lower total costs while maintaining per hour efficiencies.

The GAO's Standards for Internal Control in the Federal Government recommend the following control activities:

- Managers need to compare actual performance to planned or expected results throughout the organization and analyze significant differences.
- Activities need to be established to monitor performance measures and indicators. These controls could call for comparisons and assessments relating different sets of data to one another so that analyses of the relationships can be made and appropriate actions taken. Controls should also be aimed at validating the integrity of both organizational and individual performance measures and indicators.

Palmetto officials and RRB management have established a variance analysis procedure; however, the inconsistencies identified could not be sufficiently explained. The current process was not designed to identify and explain differences between the number of paper claims processed, the cost per paper claim processed and total labor costs billed. A lack of correlation between claims volume, hours charged, and costs billed may indicate a problem with the accuracy of Railroad Medicare contract cost reimbursements.

Recommendations

We recommend that RRB officials:

10. work with Palmetto to identify the cause of the inconsistencies and initiate corrective actions; and
11. require Palmetto to establish controls and procedures that will timely and effectively identify significant differences impacting Railroad Medicare contract performance and the integrity of claims volume, hours charged, and costs billed.

Management's Response

In response to recommendation 10, the Director of Administration will review the inconsistencies identified by the OIG with Palmetto. The Director of Administration believes that the inconsistencies can be explained by the normal carryover of monthly claims that have not been completed in the same month. The target date for this corrective action is September 30, 2011.

RRB-OIG's Comments on Management's Response

The OIG considered the impact of the carryover as a possible explanation for the inconsistencies. However, the explanation provided by the Director of Administration and Palmetto did not distinctly identify the cause of the inconsistencies or alleviate our concerns.

In response to recommendation 11, the Director of Administration agreed to require Palmetto to demonstrate that their controls and procedures are in compliance with CMS standards. The target date for this corrective action is December 31, 2011.

Conflicting Data Was Generated by the OCR Reporting System

Palmetto's OCR reporting system did not always track Railroad Medicare data correctly. In August 2008, the OCR report, which records hours worked, reported conflicting data between two fields for 6,685 paper claims reviewed. In this one instance, one field indicated that the claim was categorized as Railroad Medicare and the other field indicated that the claim belonged to another contract.

Section C.3.b of the RRB's Medicare contract with Palmetto states that, "the contractor shall separately identify claims processed under this contract for both CPE⁸ and reporting purposes from those processed under other Medicare Part B contracts."

Palmetto officials identified a system field inconsistency as the cause for the data discrepancy. Palmetto officials stated that the claims in question were processed in the proper contract environment; however, these officials did not provide confirmation that the reporting error had been corrected to ensure timekeeping accuracy.

If controls to segregate Railroad Medicare claims from other contract claims are not fully functional, the RRB may be inadvertently charged for the processing of non-Railroad claims.

Recommendation

We recommend that RRB officials:

12. work with Palmetto to determine why these claims were incorrectly reported on the OCR report and implement appropriate corrective action to ensure reported data is accurate.

Management's Response

In response to recommendation 12, the Director of Administration agreed to review the reporting process with Palmetto to determine whether the process is adequate. The target date for this corrective action is December 31, 2011.

⁸ Contractor Performance Evaluation

Timesheet Submission and Approval Controls Need Strengthening

Palmetto's controls to ensure that timesheets are submitted by employees and approved by managers on a timely basis were not fully effective. Our review of 42 timesheets selected for one project code⁹ found that:

- Six (14%) timesheets were signed by the employee up to five hours prior to the completion of their last shift for the pay period.
- One (2%) timesheet was not approved timely by the manager. The timesheet was approved by the manager prior to the completion of the employee's last shift for the pay period.

During the audit, Palmetto officials indicated that employees were instructed to sign-off on timesheets 15 minutes prior to the end of their shift; however, the requirement has not been documented. Palmetto's procedures require that timesheets be approved the Tuesday following the pay period ending date for full-time employees, and by Monday following the pay period ending date for part-time employees.

Palmetto's procedural requirements for timesheets have not been effectively communicated and enforced. If timesheets are not signed off and approved timely, hours may be incorrectly charged for work performed and inappropriately billed to Railroad Medicare.

Recommendations

We recommend that RRB officials:

13. require that Palmetto communicate timekeeping procedural requirements to all managers and employees to ensure timesheets are signed off and approved timely; and
14. periodically perform random timesheet checks to ensure Palmetto complies with procedures.

Management's Response

In response to recommendation 13, the Director of Administration agreed to require Palmetto to review their procedures and issue directives reemphasizing the proper timesheet approval process to management and employees, as appropriate. The target date for this corrective action is September 30, 2011.

In response to recommendation 14, the Director of Administration will query CMS to determine their review practices for attendance documentation. They will also investigate such a process with Palmetto to determine the resources needed to perform

⁹ Project code 11202: Manage Paper Bills/Claims.

increased levels of cost surveillance and evaluation. The Director of Administration will request that HHS focus special attention to this issue during its FACP audits. The target date for this corrective action is December 31, 2011.

RRB-OIG's Comments on Management's Response

In determining the resources needed to conduct random timesheet checks, the Director of Administration should consider the established FAR guidance and contract requirements.

Contract Oversight and Management Controls Need Improvement

The RRB's Office of Administration has not established adequate oversight and controls over Railroad Medicare in accordance with its contract requirements. The current contract management process focuses on cost overruns, and places limited emphasis on the underlying support for reimbursable costs.

The FAR, section 31.201-2 (a) states that "a cost is allowable only when the cost complies with all of the following requirements:

- (1) Reasonableness.
- (2) Allocability.
- (3) Standards promulgated by the CAS Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances.
- (4) Terms of the contract . . ."

The FAR 31.201-2(d) states that, ". . . the contracting officer may disallow all or part of a claimed cost which is inadequately supported."

The FAR, section 52.216-7 (g) states that, ". . . At any time or times before final payment, the Contracting Officer may have the Contractor's invoices or vouchers and statements of cost audited. Any payment may be— (1) Reduced by amounts found by the Contracting Officer not to constitute allowable costs; or (2) Adjusted for prior overpayments or underpayments."

The RRB has not established adequate procedures for ensuring that sufficient underlying support exists for Palmetto's billed labor hours and contract cost reimbursements. For example, to prove that costs are allowable, the records of work performed by each unit must be validated for adequacy and maintained in accordance with contract requirements. Without effective contract management controls, the Railroad Medicare program may be incurring expenditures for unsubstantiated or unwarranted labor costs.

Recommendation

We recommend that RRB officials and the contracting officer:

15. develop improved contract oversight procedures and controls that will ensure that Railroad Medicare billed labor hours are allowable and costs claimed for reimbursement are adequately supported and maintained in compliance with contract and FAR requirements.

Management's Response

In response to recommendation 15, the Director of Administration agreed and stated that a meeting in coordination with the solicitation of the Specialty Medicare Administrative Contract (SMAC) for Part B services has been scheduled with CMS to discuss multiple topics related to pre-award, post-award oversight, management requirements, and best practices for the anticipated SMAC contract. The target date for this corrective action is September 30, 2011.

APPENDICES

Summary of Questioned Costs

As defined by the Inspector General Act of 1978, Title 5, Subsection 5 (f) (1) “the term “questioned cost” means a cost that is questioned by the Office because of—

- (A) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agree-ment [sic] or document governing the expenditure of funds;
- (B) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or
- (C) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable”

Pursuant to Subsection 6 (a), “. . . each Inspector General, in carrying out the provisions of this Act, is authorized—

- (1) to have access to all records, reports, audits, reviews, documents, papers, recommendations, or other material available to the applicable establishment which relate to programs and operations with respect to which that Inspector General has responsibilities under this Act”

Inadequate OCR support for claims processed, inaccessible medical review documentation, and deleted customer service records encountered during the audit resulted in the Office of Inspector General’s questioning of Railroad Medicare costs totaling approximately \$7.1 million.

FY 2008 Direct Labor Hours and Questioned Costs			
Business Unit	Finding	Direct Hours	Questioned Costs
OCR	Inadequate Support	27,402	\$102,095
Medical Review	Denial of Access	5,732	\$302,712
Customer Service	Records Not Maintained	66,051	\$2,764,112
FY 2009 Direct Labor Hours and Questioned Costs			
OCR	Inadequate Support	14,256	\$66,444
Medical Review	Denial of Access	6,092	\$327,424
Customer Service	Records Not Maintained	78,188	\$3,398,754
Subtotal		197,721	\$6,961,541
FY 2008 Direct Labor Hour Adjustments and Questioned Costs			
Type	Finding	Direct Hours	Questioned Costs
Incorrect Fiscal Year	Inadequate Support	10,734	\$136,931
Prior Year Allocation	Inadequate Support	1,331	\$8,805
Subtotal		12,065	\$145,736
Total Direct Hours and Questioned Costs		209,786	\$7,107,277

SAMPLING METHODOLOGY AND RESULTS

Non-Statistical Sampling

We used non-statistical sampling to assess the effectiveness of OCR Unit documentation supporting time charged for work performed with corresponding timekeeping records. We also used non-statistical methods to determine whether timesheet submission and approval controls were effective.

Audit Objective

The objectives of our non-statistical sampling tests were to determine whether:

- the Railroad Medicare hours worked per the OCR system agreed to the costs billed by employee for the OCR unit; and
- the controls to ensure timesheets are submitted by employees and approved by managers timely are effective.

Scope

We selected our judgmental sample of Railroad Medicare employees who charged time to the OCR system using the last three months of fiscal years 2008 and 2009. We judgmentally selected 42 timesheets from 14 Railroad Medicare employees who charged time in fiscal years 2008 or 2009 to project code 11202.¹⁰

Review Methodology

We used judgmental sampling to reconcile Railroad Medicare OCR system reporting data and costs billed. We selected and reviewed Railroad Medicare employee timesheets for timeliness of input and management approval.

¹⁰ Project code 11202: Manage Paper Bills/Claims

Results of Review

Our judgmental sampling tests disclosed that:

- supporting records for Railroad Medicare OCR work performed did not agree with the costs billed for the OCR unit. The costs not accounted for were \$102,095 and \$66,444 for FY 2008 and 2009, respectively; and
- 6 of 42 timesheets were signed prior to the completion of employee's last shift and 1 of 42 timesheets was not approved timely by the manager.

Audit Conclusion

Our non-statistical sampling tests of OCR system reporting data disclosed that OCR work performed is insufficient to fully support Railroad Medicare costs billed for the OCR Unit.

Our non-statistical sampling tests of employee timesheets disclosed that controls to ensure that timesheets are submitted by employees and approved by managers on a timely basis were not fully effective.




UNITED STATES GOVERNMENT


MEMORANDUM

RAILROAD RETIREMENT BOARD

April 7, 2011

TO Diana Kruei
Assistant Inspector General for Audit

FROM : Paul T. Ahern 
Supervisory Contract Specialist

THROUGH: Henry M. Valiulis 
Director of Administration

SUBJECT: Response to Railroad Retirement Board Office of Inspector General Audit Report - Audit of Controls Over Railroad Medicare Contract Costs

The U.S. Railroad Retirement Board's contract 00RRB005 with Palmetto GBA, LLC for railroad Medicare Part B services was awarded in April 2000. For the past ten (10) years, RRB has monitored Palmetto's cost reimbursement submissions by evaluating their monthly Interim Expenditure Reports (IERs) on the Cost Administrative Financial Management (CAFM) system. RRB Medicare Program and Procurement staffs have evaluated cost expenditures using the CMS standard practices of reviewing and assessing: (1) program management unit cost (PMUC), which is the unit price per Medicare claim processed, and (2) the variances from annual budget cost targets by functional area of performance, for both Program Management (PM) and Medicare Integrity Program (MIP) functions. This cost and performance monitoring and evaluating process has resulted in Palmetto's return of administrative funds to CMS of approximately \$850,000 during FY 2010, \$750,000 during FY 2007 and \$180,000 (MIP Only) during FY 2006. Palmetto also came in under budget in FY 2008 and FY 2009 by \$206,598 and \$618,169 respectively. RRB has, as has CMS program and procurement staff, relied on HHS OIG audit staff, or their contracted audit staff, to perform post performance year audits of the contractor's Final Administrative Cost Proposals (FACP) and eventually the closeout settlement agreements for each contract year. These audits have finalized determinations of both allowability and allocability of costs.

The RRB currently employs 2.1 FTEs to both measure and ensure contract performance and to review and evaluate costs and expenditures on this contract. These FTEs are fully occupied in performing the current levels of quality and cost assurance reviews. Notably the current referenced contract with Palmetto is programmed to end during the 2nd quarter of FY2012 with the planned operational start date of the new Specialty Medicare Administrative Contractor's (SMAC's) base period performance of Railroad Medicare Part B services.

The RRB response to the OIG Audit findings is as follows:

A. RECOMMEND THAT RRB OFFICIALS:

Reference: Timekeeping and Billed Hours Records Were Not Fully Supported

1. review the total costs of \$3.1 million and 3.7 million incurred by the Customer Service unit and Medical Review Unit during FYs 2008 and 2009 and determine if they are allowable;

Response: RRB will require Palmetto, by September 30, 2011, to demonstrate how their timekeeping and recordkeeping processes comply with CMS standards.

2. work with Palmetto to establish a procedure for maintaining the Customer Service Unit's call volume records in accordance with Contract archival requirements to demonstrate that costs claimed have been incurred;

Response: Agreed. This office shall review recordkeeping requirements for call volume records and determine the definition of adequate accounting records for contract compliance purposes meeting CMS standards. The RRB plans to complete this review by December 31, 2011.

3. require Palmetto to provide timely access to documentation supporting work performed by the Medical Review unit.

Response: Palmetto has agreed, in their April 2, 2011 response to the subject audit report, to provide timely access to its records.

Reference: Variances were Identified between the Hours Billed and Employee Hours Recorded

4. review the OCR unit's total questioned costs of \$168,539 and determine if they are allowable;

Response: Agreed. This office will contact Palmetto officials and further review the OIG findings of questionable costs. However, due to the current RRB Specialty MAC procurement, allowability determinations may not be completed prior to the end of the current Medicare contract. If not, this office will notify CMS of the OIG findings and request that during the HHS OIG audit and FACP closeout functions, special attention be given to the allowability of these costs. Please note that the last CMS/RRB/Palmetto closeout settlement agreements for Palmetto's FY 2002 through FY 2006 FACP were finalized April 9, 2009 and the CMS closeout for Palmetto's FY 2000 and FY 2001 FACP was completed on or about early 2008.

5. work with Palmetto to establish a reconciliation process between OCR total hours billed and total hours worked that will validate the integrity of costs reimbursed.

Response: Agreed. This office will contact Palmetto officials and pursue discussions to develop such a process. However, due to the current RRB Specialty MAC procurement, the full development of a reconciliation process may not be completed prior to the end of the current Medicare contract.

Reference: Procedures for Year End Adjustments Need To Be Strengthened

6. review the adjustment totaling \$136,931 and the allocation totaling \$8,805 and determine if the questioned costs are allowable, and if other adjustments require review;

Response: Agreed. The RRB views this event as an isolated occurrence due to the transition to a new timekeeping system. This office will request Palmetto officials to review the figures and validate the findings in order to discover if continued adjustments need to be made. Also, this office is awaiting the completion of the HHS OIG's audit report of Palmetto's FY 2007 FACP for validation of these referenced adjustments and allowability of these costs. The RRB plans to confirm the planned dates of this CMS Audit by September 30, 2011.

7. require Palmetto to establish an accounting procedure for detecting and validating costs charged to prior fiscal years beginning with the start of the new contract year;

Response: Agreed. This office will request that Palmetto officials examine their current accounting system and determine if it can and does capture and validate such costs on an annual basis. The RRB plans to complete this review with Palmetto by December 31, 2011.

8. work with Palmetto improve the controls over management's timesheet review process to ensure employees are billing the appropriate project code and year; and

Response: Agreed. This office will re-examine Palmetto's controls over the review process and request improvement. The RRB plans to complete this review process and any applicable requests for revisions by September 30, 2011.

9. require Palmetto to maintain readily available timekeeping support, which reconciles to the adjusting entries and prior year direct labor allocations, including at a minimum the appropriate timesheet revisions which document the days and hours impacted.

Response: Agreed. This office will review with Palmetto officials to ensure that proper recordkeeping is in line with CMS standards. The RRB plans to complete this review prior to December 31, 2011.

Reference: Significant Inconsistencies Exist When Comparing Claims Volume and Costs Billed

10. work with Palmetto to identify the cause of the inconsistencies and initiate corrective actions; and

Response: This office will review with Palmetto officials the OIG identified inconsistencies to determine if an adequate explanation can be provided by Palmetto. It should be noted, however, that one cause of inconsistencies can be explained by examining the monthly claims input and the monthly claims completed. Not all claims inputted in a particular month are

necessarily completed that same month; there will be some carryover. RRB plans to complete this review by September 30, 2011.

11. require Palmetto to establish controls and procedures that will timely and effectively identify significant differences impacting Railroad Medicare contract performance and the integrity of claims volume, hours charged, and costs billed.

Response: Agreed. This office will require Palmetto to demonstrate that their controls and procedures comply with CMS standards. RRB plans to complete this by December 31, 2011.

Reference: Conflicting Data Was Generated By the OCR Reporting System

12. work with Palmetto to determine why these claims were incorrectly reported on the Peak report and implement appropriate corrective action to ensure reported data is accurate.

Response: Agreed. This office will review the Peak reporting process with Palmetto officials and determine the adequacy of the reporting process. RRB plans to complete this determination by December 31, 2011.

Reference: Timesheet Submission and Approval Controls Need Strengthening

13. require that Palmetto communicate timekeeping procedural requirements to all managers and employees to ensure timesheets are signed off and approved timely; and

Response: Agreed. This office shall require that Palmetto officials review their procedures and, as appropriate, issue directives to managers and employees re-emphasizing the proper timesheet approval process. The RRB plans to complete this request and confirmation of procedures by September 30, 2011.

14. periodically perform random timesheet checks to ensure Palmetto complies with procedures.

Response: This office will query CMS to determine the CMS practices on attendance documentation reviews. The RRB will investigate such a process with Palmetto officials and make a determination what kind of additional resources may be needed by RRB to perform increased levels of costs surveillance and evaluation. In addition this office will request that HHS OIG pay special attention to this issue in its FACP audits. The RRB plans to complete these tasks by December 31, 2011.

B. RECOMMEND THAT RRB OFFICIALS AND THE CONTRACTING OFFICER:**Reference: Contract Oversight and Management Controls Need Improvement**

15. develop improved contract oversight procedures and controls that will ensure that Railroad Medicare billed labor hours are allowable and costs claimed for reimbursement are adequately supported and maintained in compliance with contract and FAR requirements.

Response: Agreed. The RRB has issued solicitation RRB11R001 for Specialty Medicare Administrative Contract (SMAC) for Medicare Part B Services. RRB scheduled a meeting with CMS on multiple topics on both the pre-award and post-award oversight and management requirements and best practices for the anticipated SMAC contract. The RRB plans to conclude this work by September 30, 2011.

If you have any further questions regarding these responses, please do not hesitate to contact Mr. Paul Ahern, of my Procurement staff at 312-751-7130.