Office of the Inspector General
Corporation for National and Community Service

Audit of Corporation for National and Community Service Contract No. 95-743-1005 with Outsourced Administrative Systems, Inc.

OIG Audit Report Number 00-21
August 13, 1999

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This report was issued to Corporation management on January 6, 2000. Under the laws and regulations governing audit follow up, the Corporation must make final management decisions on the report's findings and recommendations no later than July 5, 2000, and complete its corrective actions by January 6, 2001. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

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PricewaterhouseCoopers, LLP, under contract to the Office of Inspector General, audited $20,232,535 in claimed costs for heath care benefits paid on behalf of the Corporation for National Service and for administrative costs incurred during the period from October 1, 1994 through September 30, 1998, by Outsourced Administrative Systems, Inc. under CNS Contract No. 95-743-1005. The audit included tests to determine whether costs reported to the Corporation were documented and allowable in accordance with the terms and conditions of the contract. CNS OIG has reviewed the report and work papers supporting its conclusions and agrees with the findings and recommendations presented.

Health Care Claims Audit Results

PricewaterhouseCoopers' statistical sampling and other tests revealed, among other things, that OASYS:

- did not perform coordination of benefits investigations as required by the contract;
- did not perform third party liability investigations as required by the contract;
- inconsistently and inaccurately applied pre-certification penalties;
- paid for medical procedures related to pre-existing conditions that should not have been paid;
- paid claims for ineligible members; and
- did not have adequate inventory controls for claims documentation.

PwC identified $3,820,799 of extrapolated overpayment monetary errors and $1,349,612 of extrapolated underpayment monetary errors resulting from these deficiencies.

Administrative Costs Audit Results

The firm also audited the administrative invoices submitted and paid under the contract and questioned $2,209,436 of administrative costs billed, primarily because OASYS lacked adequate records to support administrative costs claimed. As a result of this work, PwC identified several internal control deficiencies including:

- OASYS did not have formal policies and procedures related to its cost accounting practices or controls in place to ensure the proper recording of labor to cost objectives;
- OASYS did not adjust submissions for final overhead rates that differ from the billed overhead rate; and
- OASYS did not have accounting staff trained in the Federal Acquisition Regulation or Federal Cost Accounting Standards requirements.

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OASYS Computer Systems Review Results and Other Internal Control Matters

PwC's audit procedures included review of the three main systems for processing and recording data related to the contract. As a result of this work, PwC identified additional internal control deficiencies, including:

- OASYS did not have adequate procedures in place to ensure the security of its data center; and

- OASYS did not have adequate segregation of duties within both OASYS's core claims processing systems and its accounting system.

We provided a draft report to OASYS and the Corporation for review and comment. OASYS, through its attorneys, responded to the draft and disagreed with a majority of the findings and questioned costs. OASYS' response, and PwC's evaluation thereof, are included as Appendix B. In its response (Appendix C), the Corporation stated that it had reviewed the draft but did not have specific comments.

PRICEWATERHOUSECOOPERS

August 13, 1999

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Corporation for National Service
Office of the Inspector General

Enclosed please find our report prepared in connection with the Audit of Health Benefits Plan Contractor Performance. The scope of our work was as follows --

- Review of health care claims paid by Outsourced Administrative Systems, Inc. (OASYS) on behalf of the Corporation under the terms of contract No. 95-743-1005.
- Review of administrative costs incurred by OASYS and billed to the Corporation under the terms of the contract.
- Evaluation of internal controls, and compliance with the terms of the contract, and applicable laws and regulations.
- Evaluation of claims processing and accounting computer systems in place at OASYS.

Using a statistically valid sample, we tested $17,641,855 of health care claims paid by OASYS during the contract period. We identified $3,818,399 of extrapolated overpayment monetary errors and $1,349,612 of extrapolated underpayment monetary errors. These errors resulted primarily from inconsistent performance of coordination of benefits investigations, lack of third party liability investigations and unsupported claims.

We questioned $2,209,436 of administrative costs billed to the Corporation under the contract because OASYS was not able to adequately support these costs. We also noted several internal control weaknesses and instances of non-compliance with the terms of the contract and applicable laws and regulations.

PricewaterhouseCoopers LLP

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Background

On January 5, 1995, Adminastar Solutions, Inc. (subsequently known as Acordia Healthcare Solutions, Inc., and Outsourced Administrative Systems, Inc., hereinafter known as OASYS) entered into an agreement to serve as a health care benefits program administrator for the Corporation for National and Community Service (hereinafter known as the Corporation). This contract (#95-743-1005), retroactively effective as of October 1, 1994 had an original term of one year, but was extended for three additional one-year options. Upon expiration of the original agreement, a new agreement was entered with OASYS, effective October 1, 1998. When OASYS signed the October 1994 contract with the Corporation, they agreed to provide the following:

- Quality administrative services;
- Subscriber utilization review service, to be accessed via an 800 number; and
- Assistance in managing the cost of this program on a day-to-day and long-term basis.

Under the contract, OASYS processed on behalf of the Corporation all health benefits for VISTA Volunteers, National Civilian Community Corps (NCCC) Members, AmeriCorps Leaders, and National Service Fellows, (hereinafter known collectively as members) under a self-insured program.

As of October 1, 1994, OASYS was servicing, on behalf of the Corporation, approximately 4,900 members enrolled in the health care benefits program. By October 1, 1998, this number had increased to approximately 8,015 members. During this four-year period, total annual costs associated with the health care benefits program were between $5 to $6 million.

Objectives, Scope, and Methodology

We were engaged by the Corporation's Office of the Inspector General (OIG) to audit and report on:

- The health care claims paid by OASYS on behalf of the Corporation under the terms of the contract.
- Administrative costs incurred by OASYS and billed to the Corporation.
- Internal controls, and compliance with the terms of the contract, laws and regulations.
- The claims processing and accounting computer systems in place at OASYS.

We performed the audit in accordance with *Government Auditing Standards* issued by the Controller General of the United States. Our fieldwork was conducted at OASYS' Indianapolis, Indiana offices from July 12, 1999 through August 6, 1999.

Our health care claims audit consisted of a re-adjudication of a statistically valid sample[1] of 800 claims paid for services provided between October 1, 1994 and September 30, 1998 and an operations review. Our administrative costs audit was comprised of a review of all administrative invoices associated with the contract, as well as a review of the related accounting controls. Finally, we reviewed the general controls for the accounting and claims processing systems

[1] We used a stratified monetary sample that resulted in a ninety-five percent confidence level, three percent precision and a five percent error rate. See Appendix A for further details.

utilized in performance of the contract. Appendix A provides a detailed description of the work performed.

OASYS, through its legal counsel in a letter dated November 15, 1999, provided a response to a draft of this report. OASYS disagreed with a majority of findings. The response and our evaluation are included as Appendix B.

Summary of Findings

Health Care Claims Review

1. We noted $3,818,399 of extrapolated overpayment monetary errors and $1,349,612 of extrapolated underpayment monetary errors. (See page 7.)

2. OASYS' financial error rate is significantly greater than industry standards. (See page 8.)

3. OASYS is not performing coordination of benefits (COB) investigations as required by the contract. (See page 9.)

4. OASYS is not performing third party liability (TPL) investigations as required by the contract. (See page 9.)

5. OASYS inconsistently and inaccurately applied pre-certification penalties. (See page 10.)

6. OASYS paid for medical procedures related to pre-existing conditions that should not have been paid. (See page 10.)

7. OASYS paid claims for ineligible members. (See page 11.)

8. The benefits as outlined in the contract were misinterpreted in the Health Benefits Brochure provided to the members. (See page 11.)

9. Benefit overrides occurred without documented approval from the Corporation's management. (See page 12.)

10. OASYS did not comply with the processing time requirements in the contract. (See page 13.)

11. OASYS does not have adequate inventory controls for claims documentation. (See page 13.)

12. OASYS' Health Care Claims Processing System (HCPS) has limited capabilities to accurately capture data elements as they appear on the submitted claims. (See page 14.)

13. Provider information in HCPS does not appear to be accurate. (See page 15.)

14. OASYS' processing error rate is significantly higher than industry best practice standards for self-insured programs. (See page 15.)

15. OASYS has outdated policies and procedures related to claims processing. (See page 16.)

16. OASYS holds claims payment checks in a desk drawer due to insufficient funds in its Corporation for National and Community Service claims payment account. (See page 16.)

17. The customer service unit does not meet the minimum performance standards that OASYS has set for average telephone answering time and the corresponding standard abandonment rate. (See page 17.)

<u>Administrative Costs Review</u>

18. We questioned $2,209,436 (85 percent) of invoiced administrative costs primarily because OASYS could not provide adequate support for the charges. (See page 19.)

19. OASYS is not in compliance with Federal Acquisition Regulation (FAR) subpart 42.7 and contract clause FAR 52.216-7(d) – Indirect Cost Rates. (See page 25.)

20. OASYS is not in compliance with Cost Accounting Standard (CAS) 401 – Consistency in Estimating, Accumulating, and Reporting Costs. (See page 26.)

21. OASYS is not in compliance with CAS 405 – Accounting for Unallowable Costs. (See page 26.)

22. OASYS is not in compliance with CAS 418 – Allocation of Direct and Indirect Costs. (See page 26.)

23. OASYS did not have records to support administrative costs claimed. (See page 26.)

24. OASYS has no formal policies and procedures related to its cost accounting practices. (See page 27.)

25. OASYS does not have controls in place to ensure the proper recording of labor to cost objectives. (See page 27.)

26. OASYS does not adjust submissions for final overhead rates that differ from the billed overhead rates. (See page 28.)

27. OASYS' accounting staff has no training in FAR or CAS requirements. (See page 28.)

<u>Computer Systems Review</u>

28. OASYS does not have a complete set of policies and procedures governing systems security administration and monitoring. (See page 30.)

29. OASYS does not have an up-to-date business continuity plan in place. (See page 31.)

30. OASYS does not have adequate procedures in place to ensure the security of its data center. (See page 31.)

31. Certain Local Area Network (LAN) environment logical security settings are not adequately or consistently applied. (See page 32.)

32. Several claims processors have excessive dollar authorization limits. (See page 33.)

33. Inadequate segregation of duties exists within both OASYS' core claims processing systems and it accounting system. (See page 33.)

Adjudicate: process a claim for payment or denial.

Autocoder: a database of standard medical codes and corresponding descriptions that resides on the claims processing system.

CPT 4 code: (Physician's) Current Procedural Terminology – 4th Edition: a list of medical services and procedures performed by physicians and other providers. Each service and/or procedure is identified by its own unique five-digit code. CPT has become the health care industry's standard for reporting of physician procedures and services on claims.

DME: Durable Medical Equipment

Fee Schedule: a comprehensive listing of fee maximums used to reimburse a physician and/or other provider on a fee-for-service basis.

Health Care Financing Administration (HCFA) 1500: a universal billing form developed by HCFA, usually for ambulatory claims submitted by physicians and other providers.

HCPCS: HCFA Common Procedural Coding System

HCPS: Health Care Claims Processing System

ICD 9: International Classification of Diseases – 9th Edition: a listing of diagnoses and identifying codes for reporting diagnosed diseases. The coding and terminology provide a uniform language that designates primary and secondary diagnoses and provides for consistent coding of claims.

Julian Date: a five-digit date format used by the HCPS to track receiving dates for claims.

LAN: Local Area Network

MACESS: a software application that allows scanning of claims and documentation tracking.

Non-Participating Provider: a provider that has not contracted with the carrier or health plan.

Participating Provider: a provider that has contracted with the carrier or health plan.

Pre-Certification (Pre-Authorization): approval for an inpatient stay with the approved number of days for the stay.

Preferred Provider Organization (PPO): an arrangement between a panel of providers that agree to a specified fee schedule in return for preferred status.

Subrogation: the assumption by a third party of another's legal right to collect a debt or damages.

Suspended Claim: a claim that cannot be fully adjudicated upon data entry because missing information is required, research is necessary, or other parties (Utilization Management) may need to participate in the claim review.

Third Party Administrator: an independent entity that administers group benefits and claims processing for a self-insured company/group.

Turn-around Time: the time measured from the date a claim is received until it is paid or denied.

UB 92 (Uniform Billing Code of 1992): a claim form developed for use by hospitals, skilled nursing facilities and home health care agencies.

U&C (Usual and customary): generally accepted payment amount for medical services provided.

Utilization Review/Management (UR/UM): a set of procedures used by purchasers of health benefits to contain health care costs through assessment of the appropriateness of care.

Summary of Work Performed

Health Care Claims Re-Adjudication

OASYS provided us with a download of claims data for the period of contract performance (October 1, 1994 through September 30, 1998). The total value of the claims submitted by members during this period was $17,641,855. From this population, we selected a sample of 200 claims from each contract year. The 800 claims selected had an aggregate value of $2,844,188. We used a stratified monetary sampling methodology in order to select claims representative of the Corporation's dollar expenditures rather than merely of OASYS' total transactions.

Our purpose for using statistical sampling of claims paid during the contract period was to determine an overall estimate of the monetary error in the population. While the resulting estimate is statistically valid, the actual error may vary.

Our re-adjudication of the claims revealed three classes of errors: monetary errors, potential monetary errors, and non-monetary errors. Monetary errors are processing errors with a definable financial impact. Examples of monetary errors include data entry errors, payments for ineligible members, and payments for disallowed procedures. Potential monetary errors are processing errors with indeterminable dollar values. One example of a potential monetary error is payment for potential pre-existing conditions. In these cases, we were unable to determine whether a condition was actually pre-existing without further medical documentation. Non-monetary errors are processing errors that represent a departure from defined procedures, but that do not have a financial impact. These errors normally occurred when claim information in the HCPS did not mirror information on the actual claim. Examples include Julian dates that do not match receipt dates, and procedure codes with missing modifiers.

The results of our sample testing are summarized in the following table. These results, including the extrapolations for the monetary errors, are expanded upon in finding no.1 on page 7.

Sample Errors (Unextrapolated)

Fiscal Year	Monetary			Potential Monetary Errors	Non-Monetary Errors	Total Errors
	No. of Errors	Over-payments	Under-payments			
1995	82	$257,270	$ 9,134	8	33	**123**
1996	70	198,302	13,570	5	30	**105**
1997	61	378,427	2,677	5	54	**120**
1998	70	45,127	7,564	2	35	**107**
Total	**283**	**$879,126**	**$32,945**	**20**	**152**	**455**

Operations Review of Health Care Claims Processing

The on-site review of claims operations provided us with an understanding of the environment in which the Corporation's health care claims are processed. It also enabled us to associate claims processing errors with weaknesses in control procedures and to identify potential weaknesses.

Our operations review included:

- Interviews with OASYS' Director of Information Technology (IT), Director of Marketing, Claims Manager, Claims Supervisor, and Mailroom staff;
- A walkthrough of processing procedures and workflow; and
- A review of an administrative questionnaire completed by OASYS.

Claims are received at OASYS on a daily basis from ForMost, the preferred provider organization (PPO) network used by OASYS. Claims received directly from providers are forwarded to ForMost, which determines the participatory status of the providers and, if necessary, attaches a re-pricing sheet to the claim. Once returned to OASYS, the claims are taken off-site to be scanned into the MACESS system. The claims are then returned to OASYS and entered by the processors. Incomplete claims are suspended, put in queue, and worked by processors with expertise in the specific suspense category. Clean claims are uploaded to HCPS and adjudicated for payment. Check runs are done twice a week and the checks are sent to the finance department for validation of check numbers and amounts.

Findings and Recommendations

Questioned Costs

During our claims re-adjudication, we identified the following monetary errors.

1. We noted $3,818,399 of extrapolated overpayment errors and $1,349,612 of extrapolated underpayment errors.

   Of the 800 health care claims re-adjudicated, we noted that 283 claims (35.4 percent) had monetary errors. The total monetary error associated with these claims was $912,071 (overpayments of $879,126 and underpayments of $32,945). Because OASYS was not able to provide supporting claim documents for 49 sample items, the number of sample claims actually re-adjudicated was only 751. When extrapolated over the entire population, the result was a total monetary error of $5,168,011. The following tables present the extrapolated results of our re-adjudication in detail.

Extrapolated Overpayment Errors

	FY 1995	FY 1996	FY 1997	FY 1998	Total	(See finding)
Co-ordination of Benefits	$ 414,418	$ 262,188	$ 386,493	$ 163,382	$ 1,226,481	3
Third Party Liability	92,138	0	278,424	0	370,562	4
Pre-certification	16,553	24,108	1,295	9,625	51,581	5
Pre-Existing Conditions	27,929	22,179	13,707	85,358	149,173	6
Not Eligible	38,887	374,227	0	0	413,114	7
Missing Claims	587,137	280,701	211,268	32,541	1,111,647	11
Data Entry	0	0	0	0	0	12
PPO Issues	0	984	19,300	45,150	65,434	13
Other Overpayment Issues[2]	19,142	66,987	81,456	262,822	430,407	
Total	**$ 1,196,204**	**$ 1,031,374**	**$ 991,943**	**$ 598,878**	**$ 3,818,399**	

Extrapolated Underpayment Errors

	FY 1995	FY 1996	FY 1997	FY 1998	Total	(See finding)
Co-ordination of Benefits	$ 0	$ 0	$ 66,768	$ 0	$ 66,768	3
Third Party Liability	0	0	0	0	0	4
Pre-certification	10,303	14,261	10,509	2,460	37,533	5
Pre-Existing Conditions	0	0	0	0	0	6
Not Eligible	0	0	0	0	0	7
Missing Claims	0	0	0	0	0	11
Data Entry	257,223	0	0	2,449	259,672	12
PPO Issues	14,884	98,638	28,052	98,665	240,239	13
Other Underpayment Issues[2]	11,164	177,580	319,828	236,828	745,400	
Total	**$ 293,574**	**$ 290,479**	**$ 425,157**	**$ 340,402**	**$1,349,612**	

2. <u>OASYS' financial error rate is significantly greater than industry standards.</u>

The financial error rates for OASYS were significantly higher than the industry best practice standard for self-insured plans (less than 1 percent). Limited Coordination of Benefits (COB) (finding no. 3) and Third Party Liability (TPL) investigations (finding no. 4), missing claims, incorrect application of pre-certification penalties (finding no. 5), duplicate payments, ineligibility on the date of service (finding no. 7), and incorrect application of office visit co-pays (finding no. 8) were issues that impacted the financial error rate.

[2] Other Over/Underpayments Issues represent several types of monetary errors, such as incorrectly requiring a co-payment, duplicate payments, and incorrect charges for a specific procedure code.

The financial error rate for each year of the sample claims is listed in the following table:

Fiscal Year	Best Practice	Financial Error Rate
1995	Less than 1%	26.51%
1996	Less than 1%	28.29%
1997	Less than 1%	23.83%
1998	Less than 1%	21.63%

Compliance Issues

As health benefits administrator, OASYS serves as an agent for the Corporation. As such, OASYS has a fiduciary responsibility to serve in the Corporation's best interest. To meet this responsibility, OASYS must administer the Corporation's health care benefits plan exactly as stated in the contract. However, during our fieldwork we determined that OASYS has not administered the Corporation's health benefits plan in accordance with the terms of the contract. Specifically we noted the following:

3. OASYS is not performing coordination of benefits (COB) investigations as required by the contract.

   According to the terms of the contract, if a member is eligible for Medicare or has other private group health insurance, coverage by the Corporation is secondary. OASYS is required to obtain this COB information from members through the use of an annual COB questionnaire. However, we did not see any evidence that this information has been entered into the Health Care Claims Processing System (HCPS). Without COB information, the claims processors cannot make accurate payment decisions on behalf of the Corporation. We determined that 53 claims were incorrectly adjudicated and paid with the Corporation as the primary payer when the member had other insurance that should have covered those claims. The extrapolated monetary errors related to the lack of COB investigations are overpayments of $1,226,481 and underpayments of $66,768.

   In our discussions with OASYS management, we determined that they did not have a complete understanding of their responsibility for performing COB investigations under the terms of this contract. Information relating to COB in the benefits brochure published by OASYS was in conflict with of the terms of contract.

   We recommend that the Corporation instruct OASYS to enter all members' COB information into the HCPS and immediately begin performing COB investigations as required by the contract.

4. OASYS is not performing third party liability (TPL) investigations as required by the contract.

   The contract states that "services eligible for coverage under a personal injury protection (PIP) contract or no-fault auto insurance" are excluded. We identified 12 claims that were paid for injuries resulting from motor vehicle accidents (MVA), but found no documentation indicating that a TPL investigation had been completed. We were able to easily identify the MVA claims by information submitted on the claims. The claims indicated that the member had motor vehicle insurance or ICD9 diagnosis "E" codes were listed. "E" codes further define the nature and cause of an injury or an illness. For example an "E" code could identify an injury as a spinal injury occurring as a result of a MVA.

The total amount paid for these 12 claims was $222,655, which extrapolated to overpayments of $370,562.

Additionally, section J of the contract item D entitled "Contractor Reports" requires OASYS to submit quarterly COB and subrogation report. This report is to include information relating to charges, payment amounts recovered, percentage of savings, and savings resulting from Medicare payments. We found that these reports are not prepared by OASYS. Moreover, OASYS management disputes that they are contractually obligated to perform subrogation functions and are presently putting together a proposal to the Corporation to perform this function.

We recommend that the Corporation instruct OASYS to perform TPL investigations, as required by the contract, whenever a claim is submitted indicating injuries sustained in an accident.

5. OASYS inconsistently and inaccurately applied pre-certification penalties.

Inconsistent and inaccurate application of the pre-certification penalties resulted in monetary errors. The contract requires pre-certification for all inpatient stays, and outpatient procedures greater than $500. A penalty of $100 should be applied for outpatient services and $300 should be applied for inpatient services that were not pre-certified as required. In our sample, we noted that the pre-certification penalties were not being consistently applied, resulting in overpayments of $5,719 and underpayments of $6,185 in our sample. These errors extrapolated to overpayments of $51,581 and underpayments of $37,533. Further, pre-certification penalties have a direct financial impact on the Corporation's members.

We recommend that the Corporation instruct OASYS to ensure that pre-certification is consistently obtained, and that penalties are applied when required by the contract.

6. OASYS paid for medical procedures related to pre-existing conditions that should not have been paid.

The contract clearly excludes payment for medical procedures related to pre-existing conditions. However, we noted several instances where claims for pre-existing conditions were paid. These cases represented a total extrapolated monetary overpayment error of $149,173. In addition, we identified seven potential monetary errors totaling $39,372 relating to pre-existing conditions. In these seven cases, OASYS was not able to produce supporting documentation for investigation of pre-existing conditions by medical review. Thus, we could not validate whether the claims were correctly paid.

Claims for pre-existing conditions may have been paid because OASYS uses an "Always Pay" diagnoses list. This list contains potential pre-existing conditions such as Chronic Sinusitis, Polycythemia Vera, and Metabolic Disorders.

We recommend that the Corporation instruct OASYS to carefully review all diagnosis codes and provider claims support at the time of claim adjudication to ensure that no pre-existing conditions are paid with the Corporation funds. The Corporation should also instruct OASYS to stop using an "Always Pay" list in the adjudication of the Corporation's claims.

7. <u>OASYS paid claims for ineligible members.</u>

OASYS receives biweekly updates of eligibility information from the Corporation. We identified several instances where the information provided by the Corporation was inaccurate or missing effective, birth, and termination dates. As a result, we noted claims paid for members who were not eligible on the date that the health care service was provided. In one sample claim, eligibility and termination dates in HCPS were inaccurate, resulting in the member's claims being paid for almost two years after the actual termination date. Though the termination date was retroactively updated, we were not able to determine if the funds incorrectly paid for these claims were recovered and returned to the Corporation.

The Corporation's Health Benefit Plan is a twelve-month contract, becoming effective at the time the member enrolls. The plan is effective as long as the member remains in service or twelve months at most. We identified termination dates in the system listed as "00/00/00". OASYS stated that the termination date is received from the Corporation on the eligibility update tape and is only changed when the member terminates. The Corporation's representative stated that they entered the termination date into the VISTA Management System (VMS) as "00/00/00" so that the system would only have to be updated when the member terminates service to the Corporation. However, without a termination date in the system, the processor is forced to adjudicate the claim under the assumption that the member is eligible. Because of the significant inaccuracies noted in the eligibility information, we were not able to determine whether the members were eligible on the date of service. Monetary overpayment errors related to the payment of ineligible claims extrapolated to $413,114.

We recommend that the Corporation enter the expected termination date in VMS for all members. This date should then be updated annually if the member continues in service or at the time of termination, whichever is sooner.

8. <u>The benefits as outlined in the contract were misinterpreted in the Health Benefits Brochure provided to the members.</u>

The benefit brochure produced by OASYS (as required by the contract) does not contain accurate descriptions of plan benefits or member responsibilities as outlined in the contract. A "Schedule of Benefits" was developed from this brochure and is used by claims processors in adjudicating the Corporation's claims.

One example of this misinterpretation related to COB. The contract states that for "services for which a volunteer/corps member/leader is eligible for reimbursement under Medicare, or any or group health insurance, that plan shall be the primary payer." However, the brochure states: "(1) If a participant has any other group insurance, that insurance pays first, (2) if the participant is covered as a member under [the Corporation's] group contract and as a dependent under another plan, we will pay first, and (3) if a participant becomes disabled prior to age 65 or is otherwise entitled to Medicare benefits, the benefits received from us will be reduced by the amounts paid by Medicare."

Also, the brochure states that a $5 co-pay is required for **outpatient** visits. However, the contract requires a $5 co-pay for **doctor office** visits. The co-pay was applied inconsistently to the sample claims. Co-pay errors (for other than visits to a doctor's office, i.e. physical therapy) have been designated as monetary errors. These inconsistencies had a direct financial impact on the Corporation's members.

Furthermore, we received inconsistent responses from OASYS regarding the effective application date of the co-pay. OASYS provided us with two different dates when co-pay became effective. These dates were October 1, 1997 and October 1, 1998. However, contract modification M035, which includes the co-pay requirements, has an effective date of May 18, 1998.

We recommend that the Corporation instruct OASYS to revise the brochure and all internal documents used in adjudicating claims to accurately reflect benefits as defined in the contract.

9. <u>Benefit overrides occurred without documented approval from the Corporation's management.</u>

We identified sample claims that were paid for benefit overrides. The identified benefit overrides occurred for more than one member and were for inpatient stays exceeding contract limitations, outpatient services exceeding contract limitations and non-covered services. According to OASYS, the Contracting Officer's Technical Representative (COTR) verbally approved the payment of theses claims. There was no documentation in the system supporting that Corporation management had approved these overrides. The contract, *Appeal Process,* states the following:

"To resolve claim disputes, ... participant shall write or call the VISTA/NCCC/AmeriCorps Leaders dedicated service unit. Once the [service representative] receives the call or written inquiry, he or she shall research the question or concern, retrieve copies of the claim in question, and/or other pertinent information. Coding, benefit appropriateness, pricing, and patient historical data shall be verified depending on the specific situation. Once a complete evaluation is made, the [representative] shall notify the patient of the outcome. If medical review is necessary, a nurse reviewer is assigned to the case. If a higher level review is required, a physician consultant specializing in the services performed is assigned. The average time to respond to a request for an appeal shall be ten (10) calendar days."

We recommend that the Corporation instruct OASYS to follow the appeals process as established in the contract. If, for policy purposes, the Corporation wants to establish a second level of appeal, the Corporation needs to take the steps necessary to ensure that all members are aware of it, including contract modification and revision to the health plan brochure.

10. OASYS did not comply with the processing time requirements in the contract.

The contract requires that 90 percent of clean claims be processed within 14 days, which is also the industry best practice standard. However, we noted that only 38 percent of sample claims met this performance standard. The contract also requires that 98 percent of COB claims be processed within 28 days. Because of the COB issues identified in our re-adjudication, we could not determine the percentage of sample claims that were processed within this standard.

Also, the contract requires that 85 percent of ineligible claims be denied within 14 days. We could not determine the percent of claims in the sample that met this performance standard because the sample did not contain enough denied claims to calculate a statistically valid result. Compounded by the issue of payments for ineligible claims (issue identified related to eligibility data in finding 4, above) we do not believe a projection would be accurate.

A possible reason for OASYS not meeting these contract requirements may be the large backlog of unprocessed claims. As of August 4, 1999, OASYS had a backlog of more than 1,800 claims waiting to be processed for the Corporation's contract.

The sample claims that were processed within industry best practice standards are illustrated in the following table.

Fiscal Year	Number Processed within Standard of 14 Days	Percent of Total Claims
1995	67	34%
1996	92	46%
1997	100	50%
1998	44	22%
Total	**303**	**38%**

Our calculated average turn around time for the sample claims is 52.4 days. This was higher than even the 28 days required by the contract for COB claims. Only 38 percent (303) of the sample claims were processed within 14 days. The calculated turn around time for 16.4 percent of the sample claims was greater than 100 days; one claim had a turn around time that was greater than 500 days. The slow turn around times highlight the need for the Corporation to more closely monitor OASYS' performance. Further, OASYS should identify and rectify the underlying causes for these delays.

Control Weaknesses

11. OASYS does not have adequate inventory controls for claims documentation.

OASYS staff had difficulty locating the selected claims for our review. Ultimately, OASYS was unable to provide documentation for 49 of the 800 sample claims. The extrapolated total monetary overpayment error of these missing claims was $1,111,647.

Not maintaining logs to track when claims are received or when claims are sent offsite for imaging may have contributed to OASYS' inability to locate claims. According to the Director of Information Technology, the turn around time for claims sent offsite for imaging is 24 hours. However, because no log is kept, we were unable to validate this statement. Nor could we validate that the number of claims returned to OASYS was identical to the number sent out for imaging.

Claim documents contain very sensitive data, including a member's name, date of birth, social security number, and medical information. Industry best practices would suggest that strong inventory controls be in place to reduce the risk of misuse or loss of such sensitive information.

We recommend that the Corporation instruct OASYS to establish a claims inventory log to track when claims are received, are sent offsite for imaging, are returned from imaging, and adjudicated and closed.

12. <u>The HCPS has limited capabilities to accurately capture data elements as they appear on the submitted claims.</u>

We noted several conditions that may lead to inaccurate data in the HCPS. Specifically, a submitted claim should be entered into the processing system exactly as it is received, but the HCPS system has limitations that preclude this from occurring. We identified that separate but identical revenue codes and procedure codes in the same claim were "rolled up" into one line. The HCPS has a limitation such that if there is more than one line item with the same revenue code, it will duplicate the first charge for all similar codes that follow. For example, if there were two line items in a claim with revenue code 300 (laboratory work) the first line item being a $6 urinalysis, the second being a $40 blood test, HCPS would replace the $40 charge with $6. To circumvent this system limitation, OASYS aggregates similar revenue codes and enters them as one total. This causes the individual line item to lose its identity and prevents OASYS from determining whether subsequent claims duplicate parts of previously paid claims.

Also, re-pricing sheets received from the PPO administrators do not re-price each claim by line item. OASYS receives a re-pricing sheet that only displays total discounted and saving amounts. Therefore, OASYS does not have the ability to enter discounted claims as they were initially submitted. Instead, they roll all codes to one line item for the discounted rate and enter the claim into the system. By rolling multiple codes into one line, it is more difficult for OASYS to ensure that duplicate payment of claim line items does not occur.

HCPS only allows two ICD9 codes to be identified for each claim. Sample claims were cited as non-monetary errors when the ICD9 codes were not entered in the system as they appeared on the claim.

UB-92 (the standard industry form used by hospitals for claims submission) revenue codes are not entered into the claims processing system as they appear on the claim. For purposes of claims processing, the revenue codes on hospital claims are rolled up to one line item, without any detail about the type of hospital admission or the surgical/diagnostic procedures provided. Non-covered services cannot be identified in this aggregate form to ensure that these services were denied prior to the calculation of "percent of charge" reimbursements.

The claims processing system does not accept industry standard HCPC codes or ICD9 procedure codes. Also, the system assigns entirely new claim numbers to claim adjustments, restricting the reviewers ability to easily identify and correlate the adjustments.

We recommend that the Corporation instruct OASYS to upgrade their system's capabilities to accept all ICD9 diagnoses codes, HCPC codes, revenue codes and ICD9 procedure codes. The upgrade should also include a system of identifying claims adjustments to all related claims.

13. Provider information in HCPS does not appear to be accurate.

We determined that approximately 90 percent of the providers who submitted claims under this benefit plan are listed in HCPS as non-participating with OASYS' PPO network. We believe that because OASYS must manually enter provider updates, the provider network status in HCPS is not accurate. As a result, providers identified as non-participating may actually be participating with the network.

OASYS pays billed or usual and customary prices when the system identifies the provider as non-participating. Therefore, if the provider data is inaccurate, OASYS may not be taking advantage of discounts to which it is entitled. The additional and unnecessary costs would then be passed on to the Corporation. However, we were unable to determine whether a discount should have been taken. As result, our calculated monetary error rate may be understated. We calculated that 66.9 percent of the sample claims were paid as invoiced.

We recommend that the Corporation instruct OASYS to vigorously pursue obtaining provider updates in electronic form from its PPO administrator.

14. OASYS' processing error rate is significantly higher than industry best practice standards for self-insured programs.

The overall processing error rate of the sample claims for each year is illustrated in the table below. The industry best practice for processing error for self-insured plans is between three and five percent. In each year, OASYS significantly exceeded the industry best practice.

Fiscal Year	Standard	Processing Error Rate
1995	3-5%	35.00%
1996	3-5%	27.76%
1997	3-5%	27.12%
1998	3-5%	43.34%

The processing error (the percentage of claims paid incorrectly) is comprised of both monetary and non-monetary errors. We identified 152 of the 800 sample claims had non-monetary errors. The non-monetary errors were related to incorrect entry errors of ICD9 (International Classification of Diseases – Version 9) diagnosis and Physicians' Current Procedural Terminology-4th Version (CPT4) procedure codes, and inaccurate provider and eligibility information in the system. Incomplete data entry of revenue codes, ICD9 procedure codes and HCFA Common Procedure Coding System (HCPC) codes were not included in the above processing error rate because OASYS' proprietary claims system limits the entry of these data elements.

The system limitations as discussed in finding no. 12, the misinterpretation of the health care benefits as discussed in finding no. 8, and the inadequate inventory control as discussed in finding no.11 contribute to the high processing error rates. If OASYS adopts our recommendations for corrective actions for each of the related findings, the processing error rate should fall within industry norms.

15. OASYS has outdated policies and procedures related to claims processing.

As previously discussed in the background information, OASYS has undergone numerous entity changes during the four year term of this contract. It has changed from being a subsidiary of a large health benefits administrator to its current form as a separate corporation. The policies and procedures currently in place are dated 1990. This date is five years prior to the contract start and eight years prior to OASYS becoming a separate corporation. These policies and procedures are outdated and obsolete.

We recommend that the Corporation instruct OASYS to write new policies and procedures that reflect good internal controls. OASYS should review the new policies and procedures annually and update them when appropriate.

16. OASYS holds claims payment checks in a desk drawer due to insufficient funds in its Corporation for National and Community Service claims payment account.

During our operational walkthrough, we noted that OASYS regularly holds a large number of health care claim checks in a locked drawer before mailing to the providers. At the time of our review, checks had been held for more than eight days. According to OASYS, checks are routinely accumulated while OASYS waits for the Corporation to deposit sufficient funds in the claims payment account. An OASYS representative told us that checks have been held for periods up to 90 days. This delay prevents OASYS from paying health care providers on a timely basis. Further, we believe that leaving checks in a desk drawer in an open area that OASYS shares with a tenant does not adequately safeguard the Corporation's assets.

We recommend that OASYS work with the Corporation to ensure that adequate deposits are made into the claims payment account on a timely basis. We also recommend that OASYS work with its financial institution to establish a sufficient line of credit. This action will allow OASYS some flexibility in the event that occasional delays occur with the Corporation's deposits. Conversely, we recommend that the Corporation require that OASYS provide regular status reports of pending checks to compare with the Corporation's deposits. Once these changes have been implemented, we recommend that OASYS ensure that checks are mailed immediately after receiving signature. Until these changes are implemented, the Corporation should instruct OASYS to keep all checks locked in a safe in an area with limited access.

17. The customer service unit does not meet the minimum performance standard that OASYS has set for average telephone answering time, and the corresponding standard abandonment rate.

    OASYS has performance standards for average speed to answer (30 seconds) and abandonment rate (less than 5 percent). We reviewed a report for the time period from March 22 through April 16, 1999 and identified that OASYS is not meeting these performance standards. The report indicated that the average speed to answer was 2 minutes and 17 seconds, and that 17.2 percent of the calls tracked through the Automated Call Distributor (ACD) were abandoned.

    We recommend that OASYS adhere to its performance standards. If the volume of calls is too great for the existing customer service unit to handle, we suggest that OASYS adjust its staffing appropriately.

Summary of Work Performed

While on site at OASYS we also performed an audit of all administrative invoices associated with the contract, as well as a review of the related accounting controls. Our work permitted us to determine the allowability of administrative costs billed to the Corporation. In addition, our work allowed us to determine if OASYS was compliant with the contract and applicable laws and regulations, such as FAR and CAS. See Appendix A for additional details on our scope and methodology.

Our findings with regard to the administrative costs claimed by OASYS are based on evidence gathered by inspection and performing tests of the amounts billed to the Corporation by OASYS, discussions with OASYS accounting and human resource staff and reviewing documentation related to administrative costs claimed.

Findings and Recommendations

Questioned Costs

18. We questioned $2,209,436 (85 percent) of invoiced administrative costs primarily because OASYS could not provide adequate support for the charges.

    Questioned costs are summarized in the Schedule of Contract Costs below and discussed in detail in the notes to this schedule.

Schedule of Contract Costs

	Claimed	Questioned	Accepted	Notes
Direct Labor Costs				
Salaries and Benefits	$ 651,582	$ 651,582	$ -	a
Total Direct Labor Costs	**$ 651,582**	**$ 651,582**	**$ -**	
Non-Payroll Costs				
Consulting	$ 417,321	$ 183,211	$ 234,110	b
Supplies	13,272	12,220	1,052	c
Contract/Temporary Labor	82,226	34,898	47,328	d
Facilities/Rent	44,073	44,073	-	e
Depreciation	4,908	4,908	-	f
Telephone/Communication	121,948	30,378	91,570	g
Other Non-Payroll	17,973	10,789	7,184	h
1994 Non-Payroll	19,191	19,191	-	i
Other Unsupported Non-Payroll	727,911	727,911	-	j
Total Non-Payroll Costs	**$1,448,823**	**$ 1,067,579**	**$ 381,244**	
Overhead Costs	**$ 328,962**	**$ 328,962**	**-**	k
Claims Processing Charges				
Fee	$ 25,496	$ 25,496		l
Overhead	3,824	3,824	-	l
Indiana Taxes	386	386	-	l
Total Claims Processing Costs	**$ 29,706**	**$ 29,706**	**-**	
Unsupported Other Invoices	**$ 126,596**	**$ 126,596**	**-**	m
Overbilled Amount	**5,011**	**5,011**	**-**	m
Total	**$2,590,680**	**$ 2,209,436**	**$ 381,244**	
Percent of Total		85%	15%	

Notes to the Schedule of Contract Costs

a) We questioned the entire $651,582 claimed for salaries and related fringe benefits costs. OASYS was not able to support with time keeping records the labor costs billed to the Corporation. FAR 52.2152(f) states that "a contractor shall make available at its office, at all reasonable times, the records, materials and other evidence for examination, audit or reproduction, until 3 years after final payment under the contract." As an alternative to verifying labor costs to time records, we requested OASYS to provide a reconciliation of its payroll records to the labor recorded in the general ledger. OASYS was not able to perform this reconciliation.

In addition, OASYS was also not able to support the fringe benefit costs related to the claimed direct labor costs. While they were able to provide spreadsheets showing the allocation method used, they could not provide source documents for the individual elements in the fringe pool. In addition, the amounts on the fringe allocation spreadsheets for the cost center related to the contract did not agree with the associated fringe expenses recorded in the general ledger. We questioned these costs as unsupported and therefore unallowable in accordance with FAR 31.201-2.

Direct Labor and Related Fringe Costs

Fiscal Year	Salaries and Benefits
1995	$140,505
1996	154,587
1997	162,659
1998	193,831
Total	**$651,582**

b) We questioned $183,211 of the claimed consulting costs. Claimed consulting costs consist of the cost of the Preferred Provider Network[3] and consulting services as defined in FAR 31.205-33 as those services rendered by persons who are members of a particular profession or possess a special skill and who are not officers or employees of the contractor. We questioned all costs for which OASYS was unable to provide consulting agreements or other adequate support.

Consulting Costs

Error Type	Questioned
Different from invoice	$ 1,572
Insufficient Support	82,822
Unsupported	98,817
Totals	**$183,211**

c) We questioned $12,220 of supplies costs. These costs included paper steno pads, pens/pencils, staple removers and in one case a personal leather daytimer with leather conditioner. The allowance of costs under government contracts is subject to the tests of allocation and reasonableness. FAR 31.201-4 states that "a cost is allocable if it is assignable or chargeable to one or more cost objectives on the relative benefits received or other equitable relationship. A cost is allocable to a government contract if it (1) is incurred specifically for the contract (*direct cost)*; (2) benefits both the contract and other work, and

[3] A substantial portion of the consulting costs claimed by OASYS was for PPO network access fees. It should be noted that the claims audit indicated that while the Corporation is charged monthly for PPO network access fees, the majority of its members do not participate in the PPO network.

can be distributed to them in reasonable portion to the benefits received *(indirect)*; or (3) is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown *(indirect).*" FAR 31.201-3 also states that "a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of business. A contractor shall attach no presumption of reasonableness to the incurrence of such costs. The burden of proof shall be upon the contractor to establish that such costs are reasonable. What is reasonable depends on a variety of considerations and circumstances, including: (1) whether it is the type of cost generally recognized as ordinary and necessary for the conduct of the contractor's business or the contract performance; (2) generally accepted sound business practices, arm's-length bargaining; and (3) the contractor's responsibilities to the government, other customers, the owners of the business, employees, and the public at large." Therefore, we questioned all unsupported supplies costs and costs claimed as direct that appeared to be necessary for the overall operation of the business. Such costs should be treated as indirect costs.

Supplies Costs

Error Type	Questioned
No support/Insufficient support	$ 8,868
Indirect Costs not applicable to contract	740
Direct Cost to another Cost Center	2,612
Totals	**$12,220**

d) We questioned $34,898 of contract/temporary labor costs for which OASYS could not provide adequate support. FAR 31.201 (d) states that contractors are responsible for maintaining records to support claimed costs. FAR 52.215-2, which is incorporated into the contract by reference, states that "for cost reimbursement contracts, the Contracting Officer, or an authorized representative of the Contracting Officer, shall have the right to examine and audit all records and other evidence sufficient to reflect properly all costs claimed to have been incurred or anticipated to be incurred directly or indirectly in performance of the contract." In addition, we questioned all overtime premium claimed for those costs in accordance with the terms of the contract, which state that overtime premium is not allowed.

Contract/Temporary Labor Costs

Error Type	Questioned
Unsupported	$19,567
No timesheet	14,522
Overtime premium	809
Total	**$34,898**

e) We questioned the entire $44,073 of costs claimed for facilities/rent. According to OASYS, these costs consisted of building lease payments, utilities, building maintenance and repairs expenses, leasehold improvement amortization, janitorial supplies, security service and other facilities expenses which OASYS allocated directly to the contract based on employee headcount. OASYS was unable to provide support for the costs accumulated in its facilities cost pool. FAR 52.215-2(f) states that "a contractor shall make available at its office at all reasonable times the records, materials and other evidence for examination, audit or reproduction, until 3 years after final payment." We also noted that OASYS did not consistently allocate facilities costs to all cost centers. FAR 31.203(c) states that "once an appropriate base for distributing indirect costs has been accepted it should not be fragmented by removing individual elements." As a result of OASYS fragmenting the facilities allocation base, the Corporation could have been allocated more than its equitable allocation of allowable facilities costs.

f) We questioned the entire $4,908 of depreciation expense directly charged to the contract. FAR 31.205-11 states that normal depreciation is generally considered an allowable indirect cost if the costs are reasonable and allocable. OASYS allocated total depreciation expense on employee headcount. We were unable to verify the cost of the assets being depreciated to supporting documents such as purchase orders, vendor invoices and cancelled checks. Our physical observation of furniture and equipment revealed that these assets were not used exclusively for the Corporation's contract. OASYS could not confirm that these assets were purchased and used exclusively for the Corporation's contract. Therefore, depreciation expense should be an element of OASYS general overhead financial statement category.

g) OASYS claimed telephone/communication costs consisting of telephone charges for an "800" customer service number, telephone service cost, telephone repairs, printing, and mailing costs. We questioned $30,378 of these costs because OASYS could not provide adequate support or a reasonable determination for charging these costs directly to the contract. The allowance of costs under government contracts is subject to the tests of allocation and reasonableness. FAR 31.201-4 states that "a cost is allocable if it is assignable or chargeable to one or more cost objectives on the relative benefits received or other equitable relationship. A cost is allocable to a government contract if it (1) is incurred specifically for the contract *(direct cost)*; (2) benefits both the contract and other work, and can be distributed to them in reasonable portion to the benefits received *(indirect)*; or (3) is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown *(indirect)."* FAR 31.201-3 states that "a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of business. A contractor shall attach no presumption of reasonableness to the incurrence of such costs. The burden of proof shall be upon the contractor to establish that such costs are reasonable. What is reasonable depends upon a variety of considerations and circumstances, including (1) whether it is the type of cost generally recognized as ordinary and necessary for the conduct of the contractor's business or the contract performance; (2) generally accepted sound business practices, arm's-length bargaining; and (3) the contractor's responsibilities to the government, other customers, the owners of the business, employees, and the public at large." We questioned all unsupported telephone/communication costs and those costs claimed that were allocated directly to the contract but appeared to be for the necessary overall operation of the business. Such costs should be treated as indirect costs.

Telephone/Communication Costs

Error Type	Questioned
Unsupported	$26,260
Indirect Costs not applicable to contract	2,438
Direct Costs to another Cost Center	1,263
Unallowable Allocation	417
Total	**$30,378**

h) We questioned $10,789 of other non-payroll costs. Other non-payroll costs included travel, training, coffee/donuts/candy, books/manuals, microfiche and storage costs. OASYS could not provide adequate support or a reasonable determination for allocating these costs directly to the contract. In all instances, the allowance of costs under government contracts is subject to the tests of allocation and reasonableness. FAR 31.201-4 states that "a cost is allocable if it is assignable or chargeable to one or more cost objectives on the relative benefits received or other equitable relationship. A cost is allocable to a government contract if it (1) is incurred specifically for the contract *(direct cost)*; (2) benefits both the contract and other work, and can be distributed to them in reasonable portion to the benefits received *(indirect)*; or (3) is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown (*indirect).*" FAR 31.201-3 states that "a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of business. A contractor shall attach no presumption of reasonableness to the incurrence of such costs. The burden of proof shall be upon the contractor to establish that such costs are reasonable. What is reasonable depends upon a variety of considerations and circumstances, including- (1) whether it is the type of cost generally recognized as ordinary and necessary for the conduct of the contractor's business or the contract performance; (2) generally accepted sound business practices, arm's-length bargaining; and (3) the contractor's responsibilities to the government, other customers, the owners of the business, employees, and the public at large."

Other Non-Payroll Costs

Error Type	Questioned
Costs with Insufficient Documentation or Missing Support	$ 9,175
Indirect Costs not applicable to contract	135
Direct Costs to another Cost Center	1,177
Indirect Costs-Unallowable	302
Total	**$10,789**

i) We questioned all $19,191 of the 1994 non-payroll costs billed to the Corporation. FAR 52.215-2(f) states that "a contractor shall make available at its office at all reasonable times the records, materials and other evidence for examination, audit or reproduction, until 3 years after final payment under the contract." OASYS was unable to provide any supporting records for the 1994 non-payroll costs.

j) We questioned $727,911 of other unsupported non-payroll costs. These costs are related to 24 invoices for which OASYS was unable to provide sufficient, competent, and relevant evidence in a manner that was auditable. FAR 31.201 (d) states that contractors are responsible for accounting for costs appropriately and maintaining records to support claimed costs. FAR 52.215-2, which is incorporated into the contract by reference, states that "for cost reimbursement contracts, the Contracting Officer, or an authorized representative of the Contracting Officer, shall have the right to examine and audit all records and other evidence sufficient to reflect properly all costs claimed to have been incurred or anticipated to be incurred directly or indirectly in performance of the contract."

k) We questioned the entire $328,962 of claimed overhead costs. We noted that overhead was being applied at a flat rate of either 15 percent or 16.5 percent. We believe that OASYS uses an estimated rate to apply overhead because it is unable to determine its actual rate. First, OASYS accounting personnel have no training in and a very limited understanding of FAR or CAS. Consequently, OASYS is not fully aware of its responsibilities to the Corporation under the contract. Second, OASYS has no established written guidance concerning the accumulation and allocation of overhead costs. OASYS also does not have any written policies and procedures in place for identifying direct, indirect, and unallowable costs. As a result, OASYS increased the risk that overhead will not be allocated in a consistent and accurate manner. Finally, OASYS does not make proper use of cost centers. Many of OASYS cost centers are designed to track costs by either employee or functional area instead of final cost objective (i.e., a contract or an internal service center). As a result, there are numerous cost centers not associated with a final cost objective, causing confusion as to the true make-up of total overhead costs. FAR 31.203(b) states that "indirect costs shall be accumulated by logical cost groupings with due consideration of the reasons for incurring such costs. Each grouping should be determined so as to permit distribution of the grouping on the basis of the benefits accruing to the several cost objectives. Commonly, manufacturing overhead, selling expenses, and general and administrative (G&A) expenses are separately grouped. Similarly, the particular case may require subdivision of these groupings; *e.g.*, building occupancy costs might be separable from those of personnel administration within the manufacturing overhead group. This necessitates selecting a distribution base common to all cost objectives to which the grouping is to be allocated. The base should be selected so as to permit allocation of the grouping on the basis of the benefits accruing to the several cost objectives. When substantially the same results can be achieved through less precise methods, the number and composition of cost groupings should be governed by practical considerations and should not unduly complicate the allocation." Without the ability to group its overhead costs into logical cost groupings and to reasonably allocate its overhead costs in accordance with FAR, OASYS is unable to comply with the terms of the contract. As a result, the Corporation cannot be assured that is receiving an equitable allocation of overhead costs.

Overhead Costs

FY 1995	FY 1996	FY 1997	FY 1998	Total
$74,229	$77,958	$75,437	$101,338	$328,962

l) We questioned all costs claimed for claims processing. OASYS charged the Corporation $0.35 per claim as a processing charge. OASYS could not provide any documentation for this $0.35 per claim charge. FAR 52.216-7(b)(i) states that "for the purpose of reimbursing allowable costs, the term 'costs' includes only (1) those recorded costs that, at the time of the request for reimbursement, the Contractor has paid by cash, check, or other form of actual payment for items or services purchased directly for the contract; (2) when the Contractor is not delinquent in paying costs of contract performance in the ordinary course of business, costs incurred but not necessarily paid, for materials, direct labor, direct travel, other direct costs, properly allocable and allowable indirect costs, as shown in the records maintained by the Contractor for purposes of obtaining reimbursement under government contracts; and (3) the amount of progress and other payments that have been made by check, cash, or other form of payment to Contractor's subcontractors under similar costs standards."

Claims Processing Charges

Fiscal Year	Fee	Overhead	Taxes	Total
1995	$ -	$ -	$ -	$ -
1996	2,163	324	33	2,520
1997	11,382	1,707	173	13,262
1998	11,951	1,793	180	13,924
Totals	**$25,496**	**$3,824**	**$386**	**$29,706**

m) We questioned $126,596 of costs claimed on four invoices for which OASYS could provide no support. OASYS representatives were unable to explain why the invoices were generated. In addition, we questioned $5,011 that was overbilled. FAR 31.201 (d) states that contractors are responsible for maintaining records to support claimed costs. FAR 52.215-2, which is incorporated into the contract by reference, states that "for cost reimbursement contracts, the Contracting Officer, or an authorized representative of the Contracting Officer, shall have the right to examine and audit all records and other evidence sufficient to reflect properly all costs claimed to have been incurred or anticipated to be incurred directly or indirectly in performance of the contract."

Compliance Issues

During our review of the administrative invoices, we noted the following non-compliances with FAR, CAS and the contract terms.

19. OASYS is not in compliance with FAR subpart 42.7 and contract clause 52.216-7(d) – Indirect Cost Rates.

    FAR subpart 42.7 prescribes policies and procedures for establishing billing and final indirect cost rates. The contract also contained FAR clause 52.216-7, which required OASYS to submit an adequate final indirect proposal to the contracting officer within the six-month period following the expiration of each of its fiscal years. OASYS did not submit final indirect cost rates for any of its fiscal years.

    We recommend that the Corporation require OASYS to comply with these regulations by submitting certified final indirect cost rates for each of its fiscal years.

20. OASYS is not in compliance with CAS 401-Consistency in Estimating, Accumulating and Reporting Costs.

    CAS 401 requires that practices used in estimating costs in pricing a proposal be consistent with cost accounting practices used in accumulating and reporting costs. OASYS' proposal identified utilization review costs, conversion policy fee costs, and PPO access costs as pass-through costs for which overhead would not be charged. However, these costs were claimed as other direct costs for which overhead was applied.

    Throughout the term of the contract, OASYS submitted claimed costs in aggregate. OASYS proposed costs to perform this contract by element, i.e. labor, communication, depreciation, and overhead. On its standard form 1411, Contract Pricing Proposal Cover Sheet, OASYS stated that they were a CAS covered contractor. Therefore, as per CAS 401, claims should have been submitted to the Corporation consistent with their proposal method. Furthermore, the COTR should not have accepted for payment claims that were submitted not in compliance with CAS 401.

21. OASYS is not in compliance with CAS 405 - Accounting for Unallowable Costs.

    CAS 405 "facilitates the negotiation, audit, administration and settlement of contracts by establishing guidelines covering identification of costs specifically described as unallowable, at the time such costs first become defined or authoritatively designated as unallowable. Costs expressly unallowable or mutually agreed to be unallowable, including costs mutually agreed to be unallowable directly associated costs, shall be identified and excluded from any billing, claim or proposal applicable to a Government contract." OASYS does not segregate or in any way identify unallowable costs in its underlying accounting records. As a result, unallowable costs were included in its claims to the Corporation, which is not in compliance with CAS 405.

22. OASYS is not in compliance with CAS 418 - Allocation of Direct and Indirect Costs.

    CAS 418 requires that a business unit have a written statement of accounting policies and practices for classifying costs as direct or indirect which shall be consistently applied. Indirect costs should be accumulated in indirect costs pools that are homogeneous, and pooled costs should be allocated to cost objectives in reasonable proportion to the beneficial or causal relationship of the pooled costs to cost objectives. OASYS does not have written policies in place regarding the classification of direct and indirect costs. OASYS' established practices did not accumulate indirect costs in homogeneous pools, nor were these pooled costs allocated to cost objectives in a method that showed a beneficial or causal relationship of indirect costs to cost objectives. Therefore, OASYS is not in compliance with CAS 418.

23. OASYS did not have records to support administrative costs claimed.

    OASYS does not retain accounting records for audit purposes as required by FAR 4.702 and 52.215-2(f). OASYS was unable to provide supporting records for any costs incurred in 1994 and did not have timesheets to support any of the direct labor charges from contract inception through September 30, 1998. OASYS also did not have records to support its allocation of fringe benefits, allocation of depreciation costs, allocation of telephone expenses, adequate support for consulting expenses and other miscellaneous non-payroll expenses. Records were not available to support costs incurred for four invoices selected for testing. Furthermore OASYS was unable to provide sufficient, competent, and relevant evidence for 24 invoices in a manner that was auditable. FAR 52.215-2(f) states that "a contractor shall make available at its office at all reasonable times the records, materials and other evidence for examination, audit or reproduction, until 3 years after final payment under the contract."

We recommend that OASYS implement policies and procedures that address retention of records for government contracts. These policies and procedures should include guidance on the retention of both hard and soft copy records.

Control Weaknesses

We also noted the following management control weaknesses.

24. OASYS has no formal policies and procedures related to its cost accounting practices.

We requested that OASYS provide us with its policies and procedures related to accounting for government contracting. According to OASYS' accounting manager, no policies and procedures exist that describe its cost accounting practices. The lack of comprehensive policies and procedures could result in inconsistent identification and exclusion of unallowable costs, and inconsistent identification of direct costs versus indirect costs. Furthermore, turnover in accounting personnel could cause inconsistent application of undocumented policies and procedures. The lack of written policies and procedures led to unallowable and unsupported costs being billed to the Corporation.

Best practices suggest that organizations maintain formal written policies and procedures providing guidance on every major work function. Written policies and procedures ensure those delegated duties and responsibilities are formally documented and communicated to personnel.

We recommend that the Corporation require OASYS to establish and maintain written government accounting policies and procedures in accordance with FAR. These procedures should address, at a minimum, charging, directly or indirectly allowable costs in billings, claims or proposals to government contracts in accordance with FAR 31.2 and CAS. They should also address the classification of costs as allowable or unallowable in accordance with FAR and contract terms, and the proper allocation of indirect and other direct costs to final cost objectives in accordance with FAR and CAS.

25. OASYS does not have controls in place to ensure the proper recording of labor to cost objectives.

Labor costs accounted for approximately 25 percent of the administrative costs billed to the Corporation. Unlike other cost items, labor is not supported by third party documentation such as receipts and invoices. A contractor's personnel have complete control over all supporting documentation relating to labor costs. Therefore, the risk associated with the accurate recording, distribution, and payment of labor costs is significant.

Because of this risk, a contractor's labor system should have: (1) an effective method to monitor the overall effectiveness and integrity of its timekeeping/labor system; (2) effective authorization procedures to facilitate the accumulation and recording of labor costs (including overtime) to cost objectives; and (3) effective timekeeping procedures and labor cost accounting procedures. As noted above, OASYS has no formal policies and procedures related to its cost accounting practices. Furthermore, OASYS' company handbook does not provide any written instructions to its employees on the correct recording of time by project numbers, contract number or name, or other identifiers for a particular cost objective. As a result, OASYS was not able to support any of its labor costs with supporting timekeeping documentation. Further, OASYS billed the Corporation for contractually unallowable overtime premium.

We recommend that the Corporation require that OASYS adopt adequate policies and procedures relating to labor charging, including: (1) monitoring the overall effectiveness and integrity of its timekeeping/labor system; (2) authorization procedures to facilitate the accumulation and recording of labor costs to cost objectives; and (3) timekeeping procedures and labor cost accounting procedures. OASYS should also implement a formal training program to instruct its employees in the proper use of timesheets and assure that all employees are aware of the importance of time charging.

26. <u>OASYS does not adjust submissions for final overhead rates that differ from the billed overhead rates.</u>

OASYS billed the Corporation for overhead costs using an estimated rate that was based on the cost proposal submitted to the Corporation in 1994. OASYS did not submit adjustment vouchers after each contract year-end for differences between actual and billed indirect rates nor did they maintain records to support its overhead rates. Therefore, we were unable to determine if OASYS' actual overhead rate for each contract year was different from its estimated rate or if the Corporation paid for unallowable costs included in OASYS' overhead cost pool.

We recommend that the Corporation require that OASYS put into place policies and procedures that provide for the segregation of cost by year so that rate adjustments can be easily made and the rates used can be identified. These procedures should also require that claimed indirect costs be reconciled with actual costs as recorded in its books and records. Further, the policies should require the retention of sufficient documentation so that auditors will be able to assess the reasonableness of OASYS' interpretations of allowability.

27. <u>OASYS accounting staff has no training in FAR or CAS requirements.</u>

We reviewed the job descriptions for the accounting personnel and noted that knowledge of government contract accounting was not required. We also noted that OASYS does not provide such training to its employees. A well-trained staff leads to accurate submissions to the government. The lack of knowledge and understanding of FAR and CAS requirements by OASYS accounting staff led to unallowable and unsupported direct and indirect costs being billed to the Corporation.

We recommend that the Corporation require that OASYS establish an employee-training program. This program should inform employees of the special requirements that apply when a business contracts with the government. The training should at a minimum instruct personnel in the certification requirements and potential penalties associated with submissions. Special training should be provided in preparation and submission of billings, claims and proposals.

Summary of Work Performed

OASYS maintains three main systems for processing and recording data related to the contract with the Corporation. These system include: (1) Health Care Claims Processing System (HCPS), the claims processing system; (2) the financial accounting application; and (3) MACESS, the imaging and workflow application. Our review of these systems provided us with an opportunity to understand and evaluate the control environment surrounding the processing of data related to the Corporation. See Appendix A for additional details on our scope and methodology.

Findings and Recommendations

Control Weaknesses

During our systems review, we identified the following control weaknesses.

28. OASYS does not have a complete set of policies and procedures governing systems security administration and monitoring.

    Upon beginning our fieldwork at OASYS, we requested written security administration and monitoring policies and procedures to assist in gaining an understanding of the systems control environment. However, according to the Director of Information Technology, written policies and procedures only exist for: (1) access granting and removal procedures for the core HCPS claims processing system; and (2) backup procedures for the core HCPS claims processing system. No other written policies and procedures were provided.

    Best practices suggest that organizations maintain formal written policies and procedures for all critical business activities. Comprehensive security policies and procedures are the foundation of an entity's security control structure and assist in ensuring senior management's commitment to addressing security risks. Security policies define high-level overall goals of security administration and monitoring and should be set by senior management. Security procedures provide the details necessary to implement the stated policies and may be designed by members of the information systems group.

    The lack of comprehensive security administration and monitoring policies and procedures could result in inconsistent and possible unauthorized use of the claims processing systems without detection by OASYS personnel. Furthermore, turnover in information systems personnel could cause inconsistent application of any undocumented policies and procedures.

    We recommend that OASYS develop comprehensive security administration and monitoring policies and procedures to cover all claims processing systems and environments. At a minimum, the policies and procedures should define:

- Responsibilities of platform and application security personnel.
- Physical security standards.
- Events and conditions to be monitored, both for applications and platforms.
- Maintenance of temporary user accounts.
- Who is allowed to use network resources.
- Who is authorized to grant access.
- Who may have system administration privileges.
- What are the users' rights and responsibilities.

- What should be done with sensitive information.
- Acceptable user account, password, and system parameter settings.
- Backup and recovery for all platforms.
- Criteria for deciding if a user or event should be audited.
- Security monitoring and auditing, including the frequency of monitoring.
- A method for controlling the granting and revoking of access to all applications and systems.

We also recommend that the information technology group monitor and periodically reassess security administration and monitoring to ensure that policies and procedures continue to be appropriate and address current security risks.

29. OASYS does not have an up-to-date business continuity plan in place.

We noted that OASYS does not have a current, tested, or applicable business continuity plan. According to the Director of Information Technology, the current plan predates OASYS' separation from Acordia. It has not been revised to reflect the current systems environment and therefore is no longer entirely applicable.

Best practices suggest that organizations maintain and periodically test a business continuity plan. These plans are designed to ensure that the organization is able to recover from computer processing and business interruptions, and continue to meet contractual obligations in case of an interruption.

We recommend that OASYS update the business continuity plan to reflect the processing environment in place since its separation from Acordia. Additionally, we recommend that OASYS augment certain aspects of the plan to incorporate more details. For example, the plan should include topics such as computer system installation and network configuration requirements. Such enhancements would help to ensure the completeness of OASYS' business continuity plan. We also recommend that OASYS define a schedule for periodically testing and updating the system to ensure that it remains up-to-date with the current processing environment.

30. OASYS does not have adequate procedures in place to ensure the security of its data center.

During our inspection of data center access, environmental and operational controls we noted the following:

- The keypad lock does not adequately control physical access to the OASYS' shared data center. Employees of OASYS' tenant[4] openly share the access pin number aloud in an open office environment.
- OASYS does not adequately monitor its tenant's access to the data center. No procedures are in place to ensure that an authorized person escorts a tenant employee while in the data center.
- There was no evidence that the fire suppression system in the data center had been inspected. Thus, we could not verify that the system was fully operational.

[4] OASYS sublets space within its facility to a tenant. The tenant space is not separate from OASYS. There are no internal walls except within the management suite and conference rooms. The rest of the space, including that used by the tenant, is divided using shoulder high moveable partitions.

- The local area network (LAN) backup tapes that include backups for the general ledger and MACESS claims imaging application are not rotated off site. Rotation of backup tapes to an off-site location is critical to ensure that in the event of a disaster to the data center, OASYS can restore and retrieve key accounting and claims information.

Weak physical access controls increase the risk that the Corporation's data could be inappropriately accessed or manipulated. Additionally, inadequate maintenance of fire suppression systems, and the lack of off-site rotation for LAN backup tapes increase the risk of data loss.

We recommend that OASYS strengthen its controls surrounding physical access to the data. This could involve making the keypad pin number available only to appropriate employees and tenant employees. In addition, OASYS should require all tenant employees to be escorted while inside the data center. We also recommend that OASYS hire a maintenance company to periodically inspect the fire suppression system per manufacturer requirements. This should occur 2 to 4 times per year. Finally, we recommend that OASYS operations personnel rotate the LAN backup tapes off-site on a daily basis.

31. <u>Certain LAN environment logical security settings are not adequately or consistently applied.</u>

We performed a review of the LAN environment using the KANE Security Analyst software tool, and a review of the DEC Alpha – VMS system by analyzing system report listings. We noted the following:

Novell

- 27 user accounts may have more that one connection at a time. While concurrent connections are sometimes necessary for system administrators, only five such people exist on the Novell platform.
- 11 accounts had easily guessed passwords.
- One user had no password.
- 31 users are not required to change their password every 30 days.

VMS

- Eight users are not required to change their passwords every 30 days.
- All user accounts allow dial-in access.
- Users are only locked out of the system for five minutes after five invalid login attempts in five minutes.

The absence of consistently applied and adequate security controls increases the risk of inappropriate access to the OASYS processing environment, thereby increasing the risk of inappropriate access to data related to the Corporation.

We recommend that OASYS bring non-conforming user accounts back in line with its standard system settings. These settings require passwords of a six character minimum that must be changed every 30 days and allow users only one concurrent connection. Additionally, we recommend that OASYS: (1) educate users to select proper passwords; (2) remove unnecessary dial-in availability from user accounts; and (3) cause user accounts to be locked out for at least one day following five invalid login attempts.

32. Several claims processors have excessive dollar amount authorization limits within OASYS' core claims processing system.

During our review, we noted that multiple users within the HCPS system could approve high dollar claims. The dollar amount authorization limits for all users (supervisors and claims processors) and corresponding number of individuals assigned to those limits, which varies by type of claim, is as follows:

Type of Claim	$500	$2000	$4000	$5000	$7000	$10,000	$20,000	$25,0000	$50,000	>=$100,000
Inpatient	0	0	0	38	0	11	1	3	0	3
Outpatient	1	0	0	38	0	11	0	2	1	3
Physician	0	0	0	38	1	11	1	2	0	3
Other Provider	0	0	1	38	0	11	1	2	0	3
Dental	0	1	0	37	0	10	1	0	0	2
Vision	1	0	0	0	0	3	1	0	0	2
Pharmacy	0	0	0	0	0	3	1	0	0	2

We find the dollar amount authorization limits within OASYS claims processing system to be excessive. This condition increases both the potential magnitude of processing errors and the risk of fraud. In our experience with other health care administrators, we have found that non-supervisory claims processors normally have dollar amount authorization limits of $1,000. Additionally, a member of senior management must normally approve claims over $10,000.

During our four-week on-site review, we noted that OASYS operations management was usually off-site and, therefore unavailable to answer questions and provide explanations for identified concerns. As a result, the culture present at OASYS seemed to us to be one of "employee empowerment". By virtue of being given unusually high authorization levels, staff level employees are trusted with significant decision-making power. However, the great number of errors that we identified lead us to believe that the staff lacks the expertise necessary to warrant such autonomy.

We recommend that OASYS reevaluate its current claims authorization hierarchy and reduce its authorization limits to conform to industry norms.

33. Inadequate segregation of duties exists within both OASYS' core claims processing systems and its accounting system.

During our review of the HCPS claims processing system and the accounting system we noted the following conditions:

- One case where a HCPS user was capable of creating and modifying member data, and approving claims up to $100,000.
- The accounts payable clerk has change access within the accounting system to the accounts payable, accounts receivable, and other financial areas of the system. Change access means that the user can change the underlying data in the accounting records.

We find these access combinations to be inappropriate as they allow a single user to commit and conceal acts of fraud.

No single employee should have access to an entire transactional cycle. Thus, we recommend that OASYS reduce the access capabilities of the above mentioned users to include only what is necessary to perform the duties associated with their positions.

Objectives

The purpose of our audit of OASYS was to:

- Evaluate OASYS' performance in processing claims against standards for accuracy, timeliness, quality of operation and service, compliance with contractual performance standards, and recommend improvements.
- Determine if administrative costs claimed are contractually allowable or were incurred specifically for the contract effort with adequate support and charges in accordance with OASYS' cost accounting system, contract terms, applicable laws and regulations including FAR, and applicable cost accounting standards.
- Determine if OASYS complied with contract terms, and if OASYS' management system of internal controls relating to administrative costs were adequate.
- Assess the controls surrounding OASYS' computer systems and determine whether a reliable and secure environment is in place for the processing of data related to the Corporation's contract.

Methodology

I. Health Care Claims Review

Sampling Methodology

We requested and received from OASYS a data download of claims for services provided during the period of October 1, 1994 to September 30, 1998. The download that was provided to us consisted of claims processed from October 1, 1994 to December 31, 1998. We attempted to tie the download to the invoices OASYS had submitted for claims paid during that time frame. We found a 0.02 percent difference and accepted the download as being statistically viable. We selected a sample from this download of 200 claims per year using PwC's proprietary software system.

We utilized a stratified monetary sampling technique. This technique allowed us to select claims that were representative of the Corporation's dollar expenditures rather than OASYS' total transactions. In this way, the sample is representative of the Corporation's actual claims paid.

The procedures performed were:

- Define the sample parameters.
- Process the download through our automated statistical sampling systems in order to stratify claims paid by the amount of payment.

Determining the Sample

The sampling method utilized was optimum allocation, which maximizes the accuracy and economy of sampling. Unlike simple binomial random sampling, this sampling method is based on stratifying the dollar values of the paid claims in the total claims populations. The numbers of sample claims drawn from each stratum depends upon the variance (a measure of homogeneity) of the dollar amounts in that stratum of total claims, i.e., fewer sample claims are needed from homogenous strata and more from heterogeneous strata.

We selected a sample of 800 claims (200 from each year) to re-adjudicate. The value of the sample claims was $2,844,188. This sample was selected from a data download, provided by OASYS, of claims processed and paid for under the contract. The total value of the download was $17,641,855.

Evaluation of a Stratified Random Sample of Claims

We evaluated the reasonableness of the sample selected before it was utilized in testing. In selecting our sample, we used proprietary software to first stratify the population of claim payments by the dollar value of the claims. We then sampled from each stratum. The stratified random sample is preferred over a straight random sample. Through stratified sample, we ensure that we audit an adequate number of claims in each stratum, and thereby have an appropriate representation of larger claims. These larger claims are fewer in number, but account for a significant portion of total claims expense.

Projecting the Audit Results to the Total Claims Population

After the re-adjudication, we prepared calculations separately for claims with financial and administrative errors.

A list of the claims with either overpayments or underpayments was compiled from the audit sheets. For each claim, the proportion of the claim that has been paid incorrectly was recorded. The column of proportions was totaled and divided by the number of claims in the sample to give the average proportion of error found in the sample. This proportion was then multiplied by the total dollar value of all paid claims to produce an estimate of dollar error. The sample size resulted in a 95 percent confidence level, with a three percent precision and a five percent error rate. We then calculated the upper error limit at the 95 percent level of confidence from statistical tables prepared for the purpose. Averages were weighted for stratum size and for error types.

Health Care Claims Re-adjudication

While on-site, we used OASYS' claims processing system to re-adjudicate the 800 sample claims. The purpose of the re-adjudication was to determine whether:

- The claimant was eligible for benefits on the date(s) of service.
- The claim was coded with correct diagnosis and procedure codes before processing.
- An appropriate investigation for COB was completed before the claim was paid.
- Duplicate claims were not paid.
- The benefits paid were covered by the plan, and conversely, the benefits denied were not covered by the plan.
- The required pre-certification was obtained by the member and the number of days approved was consistent with the number of days billed and paid.
- The applicable penalties were applied for lack of pre-certifying all inpatient stays, and outpatient procedures greater than $500 dollars.
- Claim forms were completed and signed by appropriate parties.
- The documentation was sufficient to support the payment of the claim.
- The paid amount agreed with the "claim payment register" and was correctly charged to the Corporation.

- The services received were medically necessary and the provider billing was appropriate for the medical condition.

Operations Review of Health Care Claims Processing

In addition to a claims re-adjudication, we performed an operational review to gain an understanding of the controls surrounding the claims processing environment. Procedures performed during the operations review included:

- Interviewing key management and claims personnel involved in processing and paying medical claims for the Corporation.
- Reviewing policies and procedures and the work flow through OASYS' claim office.
- Reviewing internal audit report findings.
- Reviewing personnel policies, staffing ratios, claims processing standards, performance evaluation procedures, orientation programs for new hires, and ongoing training programs.
- Reviewing COB procedures, including sources of COB information and methods of coordination.
- Reviewing the use and transmission of pre-certification information.

II. Administrative Costs Review

In addition to a health care claims review, we reviewed the administrative costs billed to the Corporation during the contract period. The purpose of this review was to test the allowability of administrative costs claimed by OASYS under the contract and its compliance with applicable laws and regulations. We performed the following procedures:

- Obtained a detail breakdown of billed costs from OASYS.
- Matched the labor charges from the invoice to the general ledger.
- Matched non-payroll costs billed to general ledgers to determine if the charges were supported by adequate documentation such as invoices, canceled checks, and purchase orders.
- Verified if these costs were allowable in accordance with contract terms and FAR.
- Reviewed methodology for allocating indirect costs.

Although the scope of our work covered the historical period of October 1, 1994 through September 30, 1998, our review considered only the management and system controls in place at OASYS during the period of our fieldwork. In order to gain an understanding of the management controls currently in place at OASYS, we:

- Conducted interviews with key accounting personnel involved in recording administrative costs.
- Reviewed any written policies and procedures.
- Physically observed present internal controls.
- Reviewed other internal/external audit reports.

III. Computer Systems Review

While on-site, we also conducted interviews and performed tests of the systems controls to determine:

- Physical site protection mechanisms in place to prevent unauthorized access and harmful conditions.
- The restriction and monitoring of logical access to system files, data files, program files, and transactions.
- Control of access to claims transactions, databases, and processing functions by OASYS personnel.
- The systems development methodology used by OASYS to provide a structured approach to development and implementation activities.
- Controls surrounding modifications to existing systems and application software.
- Operating procedures and techniques used to assure that the computer facility provides a reliable processing environment.
- The backup and recovery procedures available to both preserve the integrity of programs and data files, and to ensure that information processing capabilities can be resumed after an unanticipated interruption.

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November 15, 1999

<u>VIA FASCIMILE AND UPS</u>

Ms. Jo-Ann Swift
PriceWaterhouseCoopers, LLP.
1616 N. Fort Myer Drive
Arlington, VA 22209-3195

Re: First Preliminary Comments on Draft Audit Report on OASYS Contract No. 95-743-1005

Dear Ms. Swift:

We are counsel to Outsourced Administrative Systems, Inc. ("OASYS"). Starting on October 15, 1999, and for several days thereafter, OASYS received installments of a draft audit report relating to its contract to provide administrative services for the Corporation for National and Community Service ("Corporation") health care benefits program. The Corporation provides health care benefits to certain members on a self-insured basis. OASYS performs administrative services, subscriber utilization review services, and program management assistance. The audit was conducted by your firm, PriceWaterhouseCoopers ("PWC" or "the auditors"), over the course of the summer, including fieldwork at OASYS's offices during three weeks starting in mid-July 1999. The audit covers health care claims, administrative costs, and the computer systems review.

Your office has sought comments on the draft audit by November 15, 1999. On the evening of October 27, 1999, we were retained by OASYS to assist in responding to the draft audit report. By letter dated October 29, 1999 to the Office of the Inspector General ("OIG"), we requested an extension of time to submit our comments. We noted that the Office of Personnel Management ("OPM"), which otherwise monopolizes government contract health care administration audits, gives contractors at least three months to respond to draft findings. By letter received on November 5, 1999, OIG rejected any extension. By letter dated November 9, 1999, however, OIG forwarded to counsel for OASYS some key back-up documentation on roughly 16 of the 40 invoices that were submitted and paid under the contract. With this information on the administrative costs, OASYS was able for the first time to intelligently investigate the draft audit report findings. Neither OIG nor the Contracting Officer have pre-authorized any overtime costs or administrative, consulting or legal expenses to prepare the response, although obviously the work is allowable, reasonable and necessary.

As we noted in our October 29, 1999 letter to OIG, it is simply not possible to prepare an adequate response in the time period that has been allotted, especially given the withholding of pertinent information until November 9, 1999. This information had been sought as long ago as the exit telephone conference. OASYS would have a tough job even if PWC had done a complete review during the course of its audit. Since PWC failed to perform even a basic audit analysis of a large part of the available cost records, the burden on OASYS is exponentially more difficult. The PWC audit is simply fragmentary and at certain points contains highly inaccurate conclusions. And it took three PWC auditors three full-time weeks (nine "man weeks" of effort) to do the initial audit fieldwork. It stands to reason it would take time to respond to that level of effort. We respectfully appeal to PWC and OIG to allow OASYS sufficient time to perform the necessary work to finish the project.

With these caveats in mind, OASYS shall share with you its preliminary concerns regarding the draft audit report. To facilitate your reviews, we have organized these comments in the same order as presented in the draft audit report in the summary of findings.

1. <u>PWC claims there are $3,818,399 of extrapolated overpayment monetary errors and $1,349,652 of extrapolated underpayment monetary errors.</u>

PwC disagrees. See page 68.

OASYS is still reviewing the questioned subset of the 800 health care claims that were "re-adjudicated" for the period October 1, 1994 through September 30, 1998. As you know, OASYS is the successor-in-interest to AdminaStar Solutions and Acordia Healthcare Solutions, Inc. (both affiliates of Anthem) and must coordinate its review with those entities. The review of re-adjudicated claims also requires OASYS to check out PWC's own errors, to verify data with providers, and run down documentation. It is simply not possible to complete these tasks in the unreasonably short period of time that has been allotted as well as perform the day-to-day contractual duties.

As an example of OASYS's efforts, OASYS is analyzing the 49 "missing" sample items. OASYS has determined that 15 of these claim items occurred during the transition of contractual duties from Blue Cross and Blue Shield of the National Capital Area to AdminaStar Solutions and eventually OASYS. At that time the Corporation undertook the responsibility to pay certain claims directly. <u>See</u> Attachment 1. OASYS may have reviewed the claims (which would explain why there is a computer record) but the hard copies may be in the Corporation's hands. The check number on the claim certainly is not an OASYS number. The record suggests that the Corporation issued these checks directly to the members. In short, apparently they are not missing OASYS claims, nor do they represent errors.

In addition, OASYS has found 23 of the heretofore "missing" claims. See Attachment 2 at p.11. Copies of these claim documents are being forwarded from OASYS by separate cover for your review. This reduces the number of missing claims to 11 after adjusting for the transition claims and found documents. This, of course, also changes the extrapolation.

OASYS has prepared spreadsheet charts analyzing each of the alleged categories of claim errors. See generally Attachment 2. These attachments are "draft" versions of the charts. They are about 90% complete. The final charts will be supplied to you when they are complete. We will then supplement this response to give you our analysis of the data. OASYS also will respond to the significant alleged overpayment and underpayment errors in the course of analyzing the audit findings for items 3 through 9 infra. As to the substantive response to PWC's extrapolation, please be advised that OASYS submits that it is in complete compliance with all material contractual obligations.

For the purpose of this finding, it suffices to note that, if the underlying analysis was in error and the data available was erroneously interpreted, then the extrapolated errors will be inaccurate.

2. PWC Claims OASYS' Financial Error Rate Is Significantly Greater Than Industry Standards.

PwC disagrees. See page 69.

PWC claims that the financial error rates for OASYS were significantly higher than the industry best practice standard for self-insured plans. PWC claims this industry standard error rate is less than one percent, but PWC supplies no citation or contractual or industry standard to support this ipse dixit conclusion.

First of all, OASYS submits that PWC has erroneously calculated the financial error rate. The calculation is based on the same sample of claims and the erroneous conclusions discussed in Findings 3 through 9 infra. In this sense, this finding is not a separate conclusion, but represents a cumulative judgment based on a half dozen or more erroneous assumptions. For example, the financial error rate includes extrapolated data from Finding 7 which even PWC appears to concede is the responsibility of the Corporation and is not within OASYS's control.

Secondly, there was a proposed standard for such financial errors in AdminaStar Solutions/OASYS's proposal submitted in response to the RFP. In that proposal, AdminaStar Solutions "recommends a 2% financial error rate tolerance." Proposal at p. 58. It also appears that PWC may be ill informed as to the standards of practice in the industry. OASYS could never reduce the error rate to zero percent. And it would take an army of auditors, lawyers, claims workers to achieve any thing below one percent for the expansive definition of financial errors being measured by PWC. The PWC analysis also confuses clerical/technical issues with financial errors in such items as data entry, missing claims and coordination of benefits.

In addition, any discussion of error rates here should be balanced against the special problems that are inherent in administrating claims under the Corporation's plan. First, the VISTA and other volunteers are a very unstable membership population. Members come and go with more than the normal turnover rate -- usually just one year of service. Thus, the average member is with the plan for only a short period. This means extra enrollment problems and errors. It also means increased medical record survey delays. The members themselves are also not your average group plan membership demographically — for example they are predominately female. In short, it does not make much sense to over-interpret the data comparing such a special plan to commercial groups. The comparison can be highly misleading.

There is a cost/benefit analysis that goes hand in hand with such an effort and it is up to the Corporation whether it wants to spend more than a dollar of administrative costs chasing a single dollar of alleged savings. The cost of such a grandiose scheme of administration would surely destroy the economic feasibility of the underlying health plan by making it impossible to provide competitive health benefits. Cf., Federal Food Services, Inc., v. Donovan, 658 F.2d 830 (D.C. Cir. 1981). ("Certainly, contractors could hire an army of bookkeepers, accountants, and supervisors...and perhaps most needful of all, lawyers at each location. Such a practice, however, would elevate the cost of operation to a level to endanger the future of appellants' type of business as a source of employment."). The point is that perfection has its price, and this being a cost reimbursement contract, that price would be borne by the Corporation.

When the dust settles here, OASYS is confident that its real error rate satisfies industry and contractual standards.

3. PWC Claims OASYS Is Not Performing Coordination Of Benefits ("COB") Investigations Required By The Contract. PwC disagrees. See page 70.

PWC contends that 53 claims were incorrectly adjudicated and paid by the Corporation as the primary payer when the members had other insurance. PWC also notes that information relating to coordination of benefits ("COB") in the plan benefits brochure is allegedly in conflict with the terms of the contract. This issue constitutes the single largest dollar amount of extrapolated overpayment errors allegedly made by OASYS.

Since PWC has not identified which of the claims numbers are identified with which errors, it is difficult to replicate the PWC analysis and respond to specific matters. A preliminary chart analyzing the 53 claims is set forth at Attachment 2 at p.3. OASYS has determined that 38 of the claims were processed correctly. Indeed, most of the claims were correctly processed.

Our preliminary review of the 53 COB claims indicates they fall basically into two categories – dependent insurance and Medicare. The first situation occurs where the spouse of a member has insurance. The spouse's insurance generally is secondary if there is any direct insurance for a member. PWC interprets the contract to mean the Corporation's plan should be secondary in this situation. This is contrary to usual insurance law rules that say if a worker has his or her own insurance and is also covered as a dependent on another policy, the worker's own insurance is primary. See also discussion as to Finding 11.

As for the Medicare problem, there may have been some OASYS errors picking up birthdates or documenting the investigation of coverage. Other errors resulted from data entry problems. Some of the population, of course, is not eligible for Medicare and OASYS' treatment may a correct but undocumented handling of the claim. Moreover, we doubt the monetary scope of the $58,555.06 of possible errors is as much as PWC reports. Medicare reimbursement is just a fraction of usual and customary rates. Thus, OASYS would still have secondary liability. Some significant portion of $58,555.06 would still be the Corporation's responsibility. Thus, it is misleading to question the full amounts.

OASYS is still engaged in the full review of the 53 claims that are questioned and will need to supplement this response. OASYS, however, submits that PWC's conclusion is defective as a matter of law. OASYS does perform COB investigations as required under its contract. The procedures for COB were presented to the Corporation per the terms of the contract. The Corporation signed off and approved the scope of COB work. In turn, these procedures were memorialized every year in the Plan brochure and communicated to the members. Thus, OASYS has complied with both the contract and the terms of its coverage as communicated to the workers.

PWC has misinterpreted the contractual provisions with respect to COB obligations. The RFP under which offerors submitted their proposals stated as follows:

> Volunteers are required to complete a Coordination of Benefits Form (1992) [.] The VISTA plan is secondary payor if Volunteer is covered by Medicare or if the Volunteer is a named policy holder on a private health insurance policy.

RFP, Part I, Section C (emphasis supplied). The highlighted language on the "named policy holder" makes it clear that the Corporation's plan is primary if the Volunteer is just a dependent to a named policy holder on another plan. Thus, the benefits brochure is consistent with the contractual undertaking, and PWC's finding is misdirected.

The crux of PWC's claimed deficiency on dependent coverage is that the auditors wish to alter the contract and brochure terms. If this could even be done retroactively, OASYS would have to be paid for any effort expended on the cost reimbursement contract to recover monies. OASYS is willing to undertake such COB activities retroactively if requested. Certainly, the Corporation may provide for a different COB procedure in the future. And, of course, the Corporation will have to pay the extra administrative costs and fees to provide for such enhanced procedures to the extent they represent a change in the terms of contract performance. Until then, the only COB procedures OASYS may follow are the ones in place in the Plan brochure, as approved by the Corporation and communicated annually to the members.

Nonetheless, there are two changes that OASYS has implemented to make COB more effective. OASYS has created a computer screen to manage the COB data which is used by the claims processors. OASYS also has put specific COB procedures in place (on-line by its intranet) instructing workers on how to coordinate benefits. This should increase the efficacy of the COB effort henceforth.

4. <u>PWC Claims OASYS Is Not Performing Third Party Liability ("TPL") Investigations As Required By The Contract</u>

PwC disagrees. See page 71.

PWC identified 12 claims that were paid for injuries it believes were related to motor vehicle accidents. The 12 claims are found in only two of the four audited years. The 12 claims total $222,655, which is extrapolated to overpayments of $370,562.

First, there is no general contractual requirement for TPL in the Corporation's contract with OASYS. OASYS has done some free TPL services for the Corporation as a trial test so the Corporation can decide whether to add it to the contract scope of work. OASYS has made a written proposal to add more TPL duties to the contract. To date, the Corporation has chosen not to add TPL responsibilities to the contract. The TPL issue, thus, is at most limited to personal injury protection ("PIP") and no-fault insurance matters identified by PWC. And this is not a true TPL issue, since the Corporation is primarily liable here, and this is really a collections matter since the Corporation initially must pay the claims for health care. In other words, this is a pay first and decide to seek money back later situation.

Secondly, we are not sure how the PWC extrapolation was done and would need the auditors' work papers to verify the assumptions. It is obvious that PWC did some kind of adjustment for the fact that subrogation for personal injury protection ("PIP") or no-fault auto insurance involves limited financial maximums which vary by State law. In other words, PIP and/or no-fault insurance is unlikely to pay 100% of these claims unless small in nature. OASYS is in the process of investigating the 12 claims and the relevant State laws and can supplement this response when its investigation is complete.

As a third observation, it appears that only 10 states have mandatory PIP insurance. They are Colorado, Florida, Hawaii, Kansas, Massachusetts, Michigan, Minnesota, New York, North Dakota and Utah. Nine of the 12 claims were from non-mandatory states. Of these nine, three claims payments were directed by Mr. Steve Elias of the Corporation. Of the three mandatory PIP state claims, all three also had a verification from Mr. Elias to pay the claim. Accordingly, OASYS submits that it correctly processed all 12 of the TPL claims in question. OASYS's analysis of the PIP claims is set forth at Attachment 2 at p.1.

In completing the audit, PWC and OIG must be mindful of the liability conundrum that drives the collection of third-party indemnity claims, third-party liability and coordination of benefits with other plans. As a self-insured entity, and to the extent there is no sovereign immunity, the Corporation is liable in tort for the denial of health care claims in bad faith or certain other circumstances. Such claims can involve punitive damages and large jury verdicts. A recent example of that is the more than $100 million jury verdict against Aetna U.S. Healthcare in California for alleged wrongful denial of care. Given this sword of Damocles that hangs over the Corporation, it would not be prudent for the Corporation to be overly aggressive in denying every possible claim that might lead to subrogation, indemnity or contribution from another entity or fund. Even if the Corporation is not liable, OASYS does not necessarily have a shield of sovereign immunity as the Corporation's agent.

In addition, given the demographic and social characteristic of the Corporation's health care members, such a strict policy may be counter productive both financially and socially. First of all, the Corporation will likely find it impossible, short of litigation, to collect these small sums of PIP monies back from members, and the costs of litigation will more than completely consume any servings. Moreover, from a social perspective, the Corporation would be chasing the volunteer members for money and driving them out of the program. Accordingly, if PWC's aggressive collection tactics are contemplated, they must be implemented with an understanding of the consequences.

Notwithstanding the above, the short answer -- to PWC's recommendation to do more TPL on PIP and no-fault claims -- is that OASYS is willing to be of service. To the extent that PWC is recommending such aggressive collection and coordination efforts, OASYS is willing to retroactively implement the tasks on a cost-reimbursable basis for the years 1994 through 1998, if that is what the Corporation wishes to be done.

5. <u>PWC Claims That OASYS Inconsistently And Inaccurately Applied Pre-certification Penalties</u> PwC disagrees. See page 72.

PWC claims pre-certification penalties have been inconsistently applied, resulting in overpayments of $5,719 and underpayments of $6,185 in the sample group. This translates by an unknown method into extrapolated overpayments of $51,581 and underpayments of $37,533.

OASYS is still in the process of reviewing the claims related to this issue. Enclosed as part of Attachment 2 at page 20 is a draft chart analyzing each claim. At least 13 of the claims are not errors. OASYS submits that those 13 were processed correctly. It appears that the auditors have sometimes erred in their review of the claims, although some of the claims do represent mistakes by OASYS. The sums collected in certain cases were not related to pre-certification penalties. Instead they are charges for non-covered services like a private hospital room that are not covered under the plan. If you give OASYS time, the Company will sort out the auditor's errors from OASYS's own errors and will produce a final chart and further analysis for your use.

As it stands, this problem is a common one for health plans and can never be reduced to zero without excessive administrative expenses. OASYS just went through an extensive industry accreditation process for utilization review. The Utilization Review Accreditation Committee approved OASYS's medical management policies, procedures and practices. Thus, OASYS is confident it is performing within the industry standards. We also note that the financial impact of the pre-certification penalties to the Corporation is largely a "wash."

6. PWC Claims That OASYS Paid For Medical Procedures Related To Pre-existing Conditions That Should Not Have Been Paid

PwC disagrees. See page 72.

The PWC auditors cite "several instances" where claims for pre-existing conditions were paid. The actual amount of monies involved is not reported. An extrapolated overpayment error of $149,173 is claimed with most of the cost found in fiscal year 1998. In addition, PWC identifies seven unspecified "potential" monetary errors totaling $39,372 where OASYS was not asked to produce supporting documentation. PWC asserts that the root of the problem rests with OASYS's use of an "always pay" diagnosis list.

OASYS reviewed the seven claims with "potential" errors and finds them all to be processed correctly. See Attachment 2 at p.24. OASYS also reviewed the other pre-existing claims and submits that at least four of them were processed correctly. Id.

From a financial perspective, issues concerning conditions of this magnitude are probably well below industry norm. OASYS is investigating this matter further and will provide you a final chart analyzing each claim. As you know, the Corporation's Plan has an onerous and unusual pre-existing conditions provision. It adds to the administrative expenses because it requires substantial medical record investigation and questioning of members. At the end of the day, there is a practical judgment to be made about how far to go in expending administrative resources.

As for the use of an "always pay" diagnostic list, this is done to prevent wrongful denial/tort claims and to protect the Corporation (and OASYS) from liability. At the minimum, OASYS would have potential tort liabilities here even if the Corporation itself has sovereign immunity. It is difficult to deny payment in certain circumstances. Such diseases tend to resolve themselves and then recur making it difficult to prove they are pre-existing conditions. Overly aggressive action by the health plan will only be an invitation to tort litigation. OASYS's policy, in this regard, is in the Corporation's best interest.

With respect to the three medical conditions identified by PWC, two of them have subsequently been removed from the "always pay" list. There are Polycythemia Vera and Metabolic Disorders. Thus, these items will now be investigated and checked for pre-existing conditions. Chronic sinusitis is still on the "always pay" list since the problem can recur but not be deemed pre-existing.

PwC disagrees.
See page 72.

7. PWC Claims OASYS Paid Claims For Ineligible Members

PWC has calculated $413,114 in claims paid to ineligible members. Interestingly, the problem is confined to 1995 and 1996 and there is no PWC finding relating to 1997 and 1998. This obviously is not a continuing problem.

OASYS has reviewed the 33 claims that it identified which related to eligibility. A spreadsheet chart analyzing those claims is enclosed. See Attachment 2 at p.9, It appears that most of the eligibility problems are caused by the data that was provided to OASYS by the Corporation.

Moreover, even the PWC auditors acknowledge that OASYS is not the authoring source of enrollment data. That is, OASYS accepts enrollment data from the Corporation and as such relies on the data integrity with respect to termination dates, effective dates, birth dates, sex, age, etc. More specifically, OASYS' claim processing system will not allow a claim to be paid for a member who is not effective. The system performs this check by comparing the service dates of the claim against the effective and term date of the enrollment record. This business logic is applied as the claim is adjudicated (processed date). If a member is retroactively terminated, OASYS receives the updated enrollment information (from the Corporation) and updates its records accordingly. Since this problem is of the Corporation's making, it is patently ridiculous to lay the blame on OASYS as PWC tries to do by including these dollars in Findings 1 and 2 of its draft report. This is unacceptable and defamatory. These items should be removed from Findings 1 and 2 and addressed separately by the Corporation to the extent they have any continuing relevance.

If the Corporation wishes OASYS to make an effort to collect such old monies, OASYS will make such a recoupment effort on a cost-reimbursable basis.

8. PWC Contends The Benefits Outlined In The Contract Were Misinterpreted In The Health Benefits Brochure Provided To The Members PwC disagrees. See page 72.

PWC maintains that OASYS's benefits brochure is inaccurate per the contract requirements. One example is alleged to be COB of dependents where the brochure makes the Plan primary. Another example is alleged overcollection of co-pays for outpatient visits rather than just doctor office visits. PWC states further that it is confused as to the effective date the co-pay became applicable.

OASYS submits that the contract language resolves the COB responsibilities for Plan members that are dependents under other coverage. The RFP clearly provides that VISTA is secondary if the volunteer is a "named policy holder or a private health insurance policy." RFP, Part I, Section c. Moreover, the custom in the insurance industry is to interpret contract clauses regarding primary or secondary coverage by looking at the contractual relationship of the plan enrollee. If the enrollee is not the primary member on the policy and, instead, is but a dependent, then if that dependent has his or her own direct policy, it is deemed to be primary as a matter of law. Finally, and most importantly, the benefit brochure used by OASYS was approved by the Corporation. If the Corporation wants to change the language, it surely may do so, as PWC as recommended. However, this is an executive judgment for the Corporation to make and should not reflect adversely on OASYS for following standard insurance industry practices and legal precedents, after approval of the brochure by the Corporation.

PWC's observation about the co-pay for doctor office visits verses outpatient visits strikes us as a distinction without much meaning. The original contract said nothing about co-pays. At the Corporation's directive, OASYS was told to revise the benefits brochure in 1996 to add co-pays. Amendment M035 confirmed this change and added "[a] $5 copayment for all doctor's office visit[s.]" effective May 18, 1998. The May 1998 brochure contains a co-pay of $5 for "outpatient services." The co-pay is coded in the automated claims computer system to collect the co-pays for office visit codes. For example, a co-pay is not normally collected for physical therapy if it is properly coded. Moreover, if the Corporation does not wish that a co-pay be collected for all out-patient office services, it may direct OASYS accordingly. Otherwise, OASYS is obligated to administer the Plan in accordance with the brochure approved by the Corporation. Finally, we note that this issue has only a positive impact on the Plan finances, albeit at the theoretical expense of the members.

We are still reviewing the claims to analyze co-payment errors. OASYS submits that at least 38 of the ostensible "errors" identified by PWC were actually correctly processed according to the benefits brochure. Another 11 have been determined to be true "errors." See Attachment 2 at p.3. Based on a July 1, 1996 effective date for co-pays, 17 of the questioned claims were paid correctly. See Attachment 2 at p.7. An additional six claims were also examined by OASYS and found to have been processed correctly. Id.

9. PWC Claims That Benefit Overrides Occurred Without Documented Approval from the Corporation's Management

PwC disagrees. See page 73.

PWC claims that OASYS paid for benefits for "more than one member" for inpatient stays exceeding contract limitations, outpatient services exceeding contract limitation and non-covered services. OASYS advised PWC that the COTR verbally approved these payments. See Attachment 2 at p.6. PWC presents no evidence this is not the case.

OASYS's system is fully compliant with the appeals process set forth in the contract. The ability of the Corporation to resolve claims outside of the process is a discretionary act of the Corporation. If the Corporation wishes to exercise that discretion, it may do so. OASYS would agree with PWC, however, that in the future it might be better if the Corporation does so by written directive.

OASYS's current practice is to send an e-mail confirming the COTR's direction and/or enter into the computer database a note on the authorization to pay. OASYS has made a large investment in workflow and imaging technology which enhances the Company's ability to document the "overrides" in the future.

10. PWC claims that OASYS did not comply with the processing time requirements in the contract.

PwC disagrees. See page 73.

PWC maintains that only 38% or 303 claims out of 800 are processed within 14 days. PWC claims that the industry standard for such processing is 90%. PWC contends that it could not determine COB processing time because of the previously identified issues. PWC noted that it did not gather a statistically valid number of denied claims and could not make conclusions as to the processing time of those items.

Initially, we note that PWC's analysis is severely flawed if not grossly negligent. The very first sentence of this finding notes that the "contract requires that 90% of clean claims be processed in 14 days...." (Emphasis added). Then PWC goes on to assume that all the 800 claims it collected are "clean." This is patently absurd and a misrepresentation of the data. PWC knows that a significant number of the 800 claims are "dirty" – maybe even half of them. The major causes include the pre-existing condition requirement, re-opened claims files, and incomplete documentation. To lump together clean and dirty claims, and then pretend that the analysis thereof relates to a contract requirement for clean claims only, is simply unfair.

PWC also provides no citations to the origin of its so-called "best practices" processing times. In addition, PWC ignores the special terms of the Corporation's contract that disqualifies any pre-existing condition. The contract contains very onerous requirements with respect to pre-existing conditions that are at marked variance for the usual commercial insurance agreement. This alone significantly impacts on processing time as medical records must be gathered and analyzed before claims are paid. Processing time here should not be casually compared to industry practices.

Finally, as PWC knows, OASYS has periodically provided its own data on the processing of claims to the Corporation. This data is generated off the computer database and eliminates the "dirty" claim problem. The documentation is voluminous, but if you wish a copy please contact us. That timeliness processing data indicates as follows:

Year	15 Days	30 Days
1996	95.49%	99.67%
1997	84.37%	99.80%
1998	73.92%	98.09%

OASYS has given the Corporation monthly reports on its timeliness for a long time and those reports show that there is no current problem processing claims. See, e.g., Attachment 3. OASYS is of the opinion that the conclusions to the contrary in the draft PWC report represent a fundamental misunderstanding by PWC of how to read the dates on the claims screen.

OASYS own analysis of its processing time indicates that there was a fall off in 1998 during a period of corporate uncertainty, when the contract was novated, staff turnover increased and the operations were moved to a new building. This is hardly surprising and OASYS has worked hard to fixed that special one-time situation. In 1999, OASYS is currently processing claims in a very timely fashion and has only a five-day backlog of new work at the present moment. OASYS respectfully requests that PWS revise its defamatory and erroneous conclusions.

11. <u>PWC claims that OASYS does not have adequate inventory controls for claims documentation.</u> PwC disagrees. See page 74.

PWC maintains that OASYS had difficulty locating the 800 selected claims for the audit. PWC extrapolates the value of the missing claims to $1,111,647. PWC also seeks to impose a requirement for an inventory log when claims are sent offsite for imaging.

OASYS submits that both these findings are in error. First, OAYSY provided 751 of the 800 claims PWC sought in a timely manner. OASYS has determined after subsequent investigation that 15 additional missing claims appear to relate to events early on in contract performance during the transition from the predecessor contractor, Blue Cross Blue Shield of the National Capital Area. At that time, the Corporation was paying some member claims directly and the OASYS/AdminaStar Solutions team was simply providing claims services. Since the Corporation cut the checks for these claims, as best we can determine, it is probable that either the Corporation or the previous carrier have the claims documentation. An analysis of these claims can be found at Attachment 2 at p.11.

OASYS has also found another 22 claims and these files will be supplied to PWC under separate cover. Several of these claims have financial errors and OASYS has noted that on the spreadsheet chart summarizing the alleged "Lost Claims." See Attachment 2 at p.11. This leaves just 11 missing "hard" claims documents involving a small amount of money.

OASYS is also making an effort to retrieve documentation relating to the other missing claims, including the one other missing claim for a high dollar amount. The basic problem here relates to the microfilm system used by OASYS prior to April 1997. It was not perfect and errors in microfilming, filing, storing and retrieving documents were always possible prior to the purchase of the MACESS photo imaging system.

The point is, however, that those problems were not very significant and are in the past. As PWC and the Corporation know, OASYS invested in a very sophisticated computerized imaging system known as MACESS. This system has eliminated the type of errors and document retrieval problems associated with the prior microfilm methodology. Thus, the errors identified by PWC are moot.

In addition, there is no need for the recommendation to establish a claims inventory log to track offsite imaging of documents. Simply put, there is no such offsite imaging done anymore. All imaging is done onsite at OASYS due to the new technology purchased in part for use on this contract.

12. PWC claims that OASYS's Health Care Claims Processing System ("HCPS") has limited capabilities to accurately capture data elements as they appear on the submitted claims.

PwC disagrees. See page 74.

PWC contends that defects in OASYS's HCPS claims system may lead to inaccurate data. PWC focuses on perceived limits in the HCPS coding and the "roll-up" of costs into a consolidated revenue code. PWC also claims that PPO re-pricing efforts are hampered. PWC would like to see more than two ICD9 codes identified on claims along with upgraded HCPC codes, revenue codes and ICD9 capabilities.

OASYS does not believe that such a change to the contract requirements is warranted. HCPS, for example, does allow for more than two codes. Room for two more codes exists at the bottom of the screen page. While OASYS does roll-up charges, it does not duplicate out or delete the underlying charges. The data is all there. The claims are being paid correctly, all relevant codes are collected, and the level of code detail sought by PWC is simply unnecessary. Since the claims processor can pull up the original claim on the screen, there is no need for the UB-92 revenue code to avoid paying duplicate claims. Nor did PWC report any evidence of such a problem. The claims are just a mouse "click" away. The current system flags duplicates and allows the claims processor to systematically review the images.

OASYS's core processing system allows up to 9 ICD9 Diagnosis codes and up to 3 ICD9 procedure codes. Also, OASYS's system utilizes industry standard CPT procedure, ICD9 diagnosis, ICD9 procedure, revenue and dental codes. Moreover, OASYS purchases these codes from the industry leader in this market – Ingenix/Medicode. This is an inaccurate finding.

Regarding the adjustment logic within the system, OASYS's core processing system does allow a processor to adjust a previously paid claim and utilize the same claim number. However, if the adjustment requires a different pay (to a different provider) the system requires that a new claim number is created. The policy and procedures for creating this new number are to change the first two digits of the claim number to 55. More importantly, this has no impact to OASYS's processing quality since its duplicate logic is not based on claim number.

PWC also observed that OASYS's system at one time supplied entirely new claim numbers to claim adjustments. This, however, is no longer the case. When a claim is adjusted now, a new claim number is not created other than as set forth above. For at least one year, the practice has been to add an EOB to the existing claim. Thus, no further corrective action is required.

13. <u>PWC claims that provider information in HCPS does not appear to be accurate.</u>

PwC disagrees. See page 74.

PWC contends that possible inaccuracies in the list of participating providers in the Preferred Provider Network ("PPO") may result in the loss of PPO discounts. At one time when OASYS had 25 different state-based PPOs under contract, this criticism might have some basis. It was impossible for OASYS to maintain up-to-date information on PPO networks and if OASYS processed the claim rather than it being submitted first to the right PPO, then it is possible that discounts would be overlooked.

OASYS has analyzed the alleged provider errors cited by PWC. Most of the alleged "errors" were, in fact, correctly processed. A spreadsheet chart setting forth OASYS's analysis is provided as Attachment 2 at p.26.

Today, however, this problem cannot recur. OASYS has just a single nation-wide PPO network through a company called Foremost. Every claim goes first to Foremost, where it is re-priced by individual line items based on the procedures and provider. Foremost stamps each claim to identify if it is a PPO discount item. Only then is the claim processed for payment. Thus, there is no need for further action here and the recommendation made by PWC, that OASYS vigorously pursue electronic updates, has no relevance.

14. PWC claims that OASYS's processing error rate is significantly higher than industry best practice standards for self-insured programs. PwC disagrees. See page 75.

PWC contends that OASYS's error processing rate ranges from 27% to 43% and that this greatly exceeds industry best practices. PWC provides a chart showing error rates of 3% to 5% are standard in the industry. PWC notes that the error rate would fall to within industry norms if its recommendations were adopted.

As a starting point, OASYS agrees that a 5% technical/clerical error rate is the commercial industry norm. Whether that 5% rate is appropriate for the Corporation's contract is another issue. A 3% rate is not appropriate. In its proposal to the Corporation in response to the RFP, AdminaStar Solutions recommended "a 5% technical/clerical error rate tolerance." Proposal at p. 58. OASYS is still engaged in the process of reviewing the 152 cited PWS sample of technical/clerical errors to determine whether it is meeting this goal. When OASYS has finished its analysis, we will supplement this submission.

OASYS is confident, however, that the technical error rate is being greatly exaggerated by the PWC presentation. The auditors apparently misread or misunderstood the screen data that they were reviewing. They also included as errors, items that were, in fact, correct. In other cases, the cause of the error was faulty or incomplete data supplied by the Corporation. Lastly, many alleged mistakes are just not properly classified as errors and, in fact, are correct actions. However, whatever the case or fault for the error, we agree with PWC that this does not reflect any major uncorrectable problem

15. PWC claims that OASYS has outdated policies and procedures related to claims processing. PwC disagrees. See page 75.

PWC recommends that OASYS update its policies and procedures for claims processing given the corporate entity changes that have occurred. While not very significant in nature, OASYS agrees with this finding and has taken it to heart. OASYS has new policies and procedures that have been placed on the corporate intranet. They specifically relate to claims processing policies and procedures. Thus, this finding is also moot.

16. PWC claims that OASYS holds claims payment checks in a desk drawer due to insufficient funds in its Corporation for National and Community Service claims payment account.

PwC disagrees. See page 75.

PWC contends that OASYS holds checks in a desk drawer and thereby inadequately safeguards the Corporation's assets. PWC notes that the problem arose from inadequate funding of the checking account by the Corporation. PWC's recommendation is that OASYS obtain a line of credit to finance the Corporation's delays.

OASYS unequivocally rejects this erroneous finding. First of all, the checks held in a drawer were unsigned. Only when the payment was funded was a signature plate endorsement placed on them, and at that moment they were immediately mailed. Thus, there were no inadequate safeguards and this finding is without foundation.

Moreover, under a new system being put into place by OASYS, no checks will even be created until the time for payment has arrived. Checks will be done on the computer on a real-time basis and there will be no partially preprinted and completed check media to even store away. Thus, there is no need for the safe or any other corrective action.

As for the recommendation for OASYS to get a line of credit and finance the Corporation, it suffices to say that would be a substantial change to the contract.

17. PWC claims that the customer service unit does not meet the minimum performance standards that OASYS has set for average telephone answering time and the corresponding standard abandonment rate.

PwC disagrees. See page 75.

PWC suggests that OASYS is not meeting a performance standard for average telephone answering time and abandonment rates. There are no such explicit standards in the contract, however. Nor does PWS quote or cite any portion of the contract to support its conclusion. While OASYS has reported its practices to the Corporation, it remains fully compliant with all terms of its contract.

In addition, OASYS believes that it is meeting or exceeding industry standard call center performance criteria. Customer/member service is the number one objective. Between October 1997 and June 1998 OASYS tracked telephone call volumes. The date shows that calls ranged between about 2,300 and 3,200 a month and that abandoned calls were relatively steady around 150 or less calls a month. OASYS submits that it has the proper staffing to handle the customer service work and that any additional staffing requirement would constitute a change under the contract.

Administrative Costs Review

18. PWC questioned $2,209,436 (85 percent) of invoiced administrative costs primarily because OASYS allegedly could not provide adequate support for the charges.

PwC disagrees. See page 75.

The auditors question a total of $2,209,436 of administrative costs. They maintain that OASYS could not provide adequate support for the charges. The draft audit report itself contains insufficient detail for OASYS to determine which specific costs are being questioned. On November 10, 1999, OASYS received a hard copy of the detailed back-up to the auditors' work (which we will refer to as "the allowability matrix"). The allowability matrix provided sufficient detail to permit OASYS to begin to conduct an in-depth review of a portion of these charges.

We question why the allowability matrix was not provided initially, as was the detailed breakdown of claims issues, given that no meaningful analysis of the cost issues could take place without it. This is particularly puzzling since OASYS had requested detailed information in the exit conference. Obviously, OASYS has not had sufficient time to evaluate the auditors' challenges thoroughly. Nonetheless, OASYS is able to provide the following illustrations of the errors and shortcomings in the auditors' approach and conclusions. The costs discussed in this initial response represent $1,444,395, which is approximately two-thirds of the total costs questioned. As OASYS completes its analysis, we will submit comments on the remainder of the questioned costs that are not addressed below.

a. Salaries and Fringe Benefits

PwC disagrees. See page 76.

The auditors question $651,582 in salaries and fringe benefits, the entire amount claimed under the contract. Clearly, this is the most shocking conclusion of the draft audit report.

Despite the auditors' assertions to the contrary, OASYS was able to support fully the labor costs billed to the contract with timekeeping records.[1] OASYS provided the

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[1] For the first three years of the contract, OASYS employees did not complete timecards. Employees were assigned to and generally dedicated to a particular contract and their labor costs were charged to that cost center. Employees charged as indirect costs, such as administrative and data processing personnel, filled out timesheets showing hours worked on cost-reimbursement contracts. This approach was found acceptable in a pre-award audit conducted by the Defense Contract Audit Agency in early 1994. See Draft of DCAA Audit Report No. 1621-95R17700002, Accounting System Review of Administar Solutions, Inc. enclosed herein as Attachment 4. The scope of the DCAA audit included consideration whether "timekeeping and labor distribution systems are adequate," Audit Report, at p.1, and the auditors opined that "Administar Solutions, Inc.'s accounting system is adequate for the accumulation and reporting of costs under government contracts," Audit Report, at p.2. In an attached "Preaward Survey of Prospective Contractor Accounting System," the auditors found the accounting system acceptable for award and described the contractor's system in some detail. See Audit Report, at p.7. Their only concern was that the labor costs of the administrative personnel that were direct charged be removed from the indirect cost pool.

auditors with a detailed payroll report of every employee on the payroll system for the first three contract years. The records showed, among other things, the cost center to which the employee was to be charged, the annual salary of the employee, and the amount paid to the employee by two-week pay period. Further, all payroll costs were broken out between regular wages and payroll taxes. At the audit manager's request, this report was explained in detail to one of the three auditors. This auditor subsequently left OASYS's office in the middle of the engagement.

Also in contrast to the auditors' conclusions, OASYS had no difficulty performing a reconciliation of the payroll feeder records to the labor recorded in the general ledger, when the auditors made that request.[2] The reconciliation showed the total three-year variance to be only $444 out of a total of $366,816. See Attachment 5, Analysis of Payroll Feeder Entries on the General Ledger.

To demonstrate that this reconciliation could be performed, we have attached documentation related to payroll costs for the month of July 1996. The total billed in the July 1996 invoice is $58,444. The reconciliation shows that this total includes $19,210 in salaries, benefits and taxes billed to the VISTA cost center "4247," plus $285 in additional salary cost for Jim Elmore. See Attachment 6, pp.3-4, Reconciliation. This number is backed up by an operating expense report, which is in turn backed up by the earnings history report and journal entries. See Attachment 7, Operating Expense Report, and Attachment 8, Earnings History Report. Attachment 9 is a reconciliation prepared by OASYS that shows the supporting evidence for each charge in the operating expense report, which has been coded to tie back into the entry in the supporting documentation that supports the charge. To document the payroll expenses in the operating expense report, one must aggregate the following charges to "4247" in the earnings history report for this time period, including regular pay, overtime, "other" (i.e. sick leave), and a combination of FICA and Medicare tax. In addition, the costs billed include those in the "medical/dental chargeback" account (a monthly per employee charge) and other employee benefits (a percentage of pay). Other items in the operating expense report are supported by journal entries related to cost center "4247." See Attachment 10, Journal Entries. Finally, the "additional salary cost" is supported by a timesheet in which Mr. Elmore, a non-dedicated employee, recorded the time he spent on the VISTA contract. Attachment 11.

OASYS has voluminous records to support its payroll expenses. Its payroll feeder sheets alone, just one component of the analysis, would fill at least three records

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[2] Perhaps the auditors were unable to duplicate the process, as reflected by their comment at the time of the request that performing the reconciliation would be a "challenge" to them, but the records are not the source of the difficulty. The auditors' inability to perform the simple reconciliation is evidence of their lack of basic payroll knowledge. As another example, the supervisor of the administrative costs audit team questioned three OASYS management employees on separate occasions about its FICA tax charges, apparently unaware that FICA has both an employee and an employer component.

storage boxes. Nonetheless, OASYS will be happy to copy and deliver such records or to make them available again on site, to prove the error of the auditors' findings. In addition, should it prove necessary, OASYS requests the opportunity to explain its system once again to clarify any remaining questions or doubts the auditors have.

During the fourth year of the contract, an intranet-based time reporting system was installed in which employees make time entries daily into the computer and payroll charges are booked to a direct cost center. This system was both demonstrated and explained in detail to the auditors. The reports showing total payroll charges and the recording of direct labor were provided to the auditors. See Attachment 12, 1998 Payroll Data.

Again, it is shocking for the auditors to question 100 percent of OASYS' payroll costs. It defies credulity that 100 percent of the direct labor of dedicated employees could be unallowable. Yet, the auditors failed to segregate out the questioned costs, as Federal Acquisition Regulation ("FAR") § 31.201-2(c) requires.

b. Consulting costs

PwC disagrees.
See page 77.

The auditors questioned $183,211 of consulting costs. Again, OASYS is prepared to address a few issues at this time to demonstrate the inaccuracy of the auditors' findings and the allowability of OASYS's costs. Other issues will be addressed in later submittals.

Dr. Wilson Dalton

The auditors question $7,800 for the services of Dr. Wilson Dalton, $7,200 of which appears in the "missing consulting agreement" total and $600 of which is located in the "missing subcontract agreement" subsection. Dr. Dalton serves as the Medical Director for OASYS and its Utilization Management Department, a position required by law. He is paid a fixed monthly fee by OASYS, $300 of which is allocated to this contract. Although OASYS showed the auditors an affidavit from Dr. Dalton describing his compensation and the services he provides, see Attachment 13, the auditors disallowed these costs because of the lack of a consulting agreement, without informing OASYS that this was a fatal defect.

Indiana law prohibits the corporate practice of medicine so Dr. Dalton is not an employee of OASYS; Dr. Dalton is by necessity a consultant. Dr. Dalton's original consulting agreement is attached as Attachment 14 (Associated State Government Contracts, Inc., the other party to the contract, is an entity that became part of Administar Solutions, Inc.). Clearly, these costs are reasonable given that Dr. Dalton's customary consulting fee is currently $100 per hour and he spends an average of five to six hours per month working on the VISTA contract. See Attachment 15, Affidavit of Dr. Wilson Dalton. In fact, the moderate amount of the medical fee suggests that the Corporation is receiving a true bargain here. These costs should be allowed in full.

Moreover, all similar costs encompassed by the invoices discussed below in subparagraph j should also be allowed.

Celtic Life Insurance

The auditors question $57,102 in fees paid to Celtic Life Insurance, $31,251 of which was on the basis of the "missing subcontract agreement" and $25,851 of which allegedly had "no support" (apparently because the charges were supported only by a general ledger entry and not by a check.). These costs represent the fees paid on a monthly basis for the conversion health care policy at the completion of a volunteer's term. Curiously, the auditors allowed $46,503 of other Celtic Life charges, indicating in their matrix that the subcontract was present and correct. For example, the auditors allowed charges for January and April of 1996 but questioned charges for March 1996. Thus, there appears to be no rhyme or reason to the auditors' approach to these costs.

A copy of the subcontract is attached hereto as Attachment 16. Since this was a recurring charge paid on a regular monthly basis and a significant portion of the ledger entries are supported by checks, we believe the absence of checks for a limited number of these charges should not be fatal. If necessary, OASYS will retrieve banking records to support all charges, provided that the Corporation authorizes in writing the incurrence of the cost reimbursable expenses of taking this action. All of these costs should be allowed. In addition, all similar costs encompassed by the invoices discussed below in subparagraph j should also be allowed.

j. Other Non-payroll Costs

PwC disagrees.
See page 78.

The auditors questioned $727,911 of non-payroll costs included in 24 invoices (having challenged separately all payroll costs related to these invoices). Our analysis indicates that this category includes all of the costs in 21 invoices and portions of the costs in three others.

The auditors' claim that OASYS was unable to provide "sufficient, competent, and relevant evidence in a manner that was auditable" is patently false. OASYS provided the same types of information to the auditors to support the invoices included in this category as its supporting documentation for the invoices the auditors analyzed in detail. These invoices also span the length of the contract, rather than being limited to a particular timeframe. It is not credible that the auditors could audit April and July 1996 but not May and June. See Attachment 17, Breakdown of Invoices. If the auditors could audit some of the invoices, they could audit all of them. We can only conclude that the auditors were unable to complete the task to which they had been assigned in the time allotted. But the fact that these invoices were not audited does not mean they were not auditable.

In fact, it does not appear that the auditors engaged in any meaningful analysis of the costs included in this category. The allowability matrix provided to OASYS just days ago does not include a breakdown of the costs from these invoices; it is limited to the costs included in the other invoices. The completion of this matrix was the auditors' technique of memorializing their analysis of costs; thus, the absence of these costs in the matrix is prima facie evidence that these costs were never analyzed. Nor did the auditors have sufficient time to audit all of OASYS' records in a thorough and responsible manner. Toward the end of their fieldwork to audit 16 selected invoices, the auditors decided to expand the scope of their review to include all 40 invoices submitted and paid under the contract. OASYS personnel were given a few days to pull all documentation to support these 24 additional invoices selected for testing. See Attachment 18, Letter from Jennifer Ponski to Sandera D. Oliver dated July 30, 1999 (without attachments). Despite the short timeframe, OASYS personnel provided such documentation and organized the information in a manner that facilitated the auditors' review. The method of organization was explained to the auditors, who raised no objection. In fact, the auditors never indicated that OASYS's accounting methods, records or support for the 24 invoices was inadequate.

The additional records were requested on Friday, July 23, 1999. OASYS provided them on July 30, 1999, the fourth business day after the request. The auditors completed their fieldwork on August 6, 1999, four business days later. Given that the auditors had expended two and a half weeks working on the review of 16 invoices, it strains credibility to expect that they would complete the analysis of the remaining invoices in a total of five working days. The 24 invoices include 10 from the original request and 11 complete and three partial invoices from the expansion.

To demonstrate the auditability (and allowability) of these costs, OASYS selected the month of May 1998 and assembled all available supporting documentation for the expenses invoiced therein. See Attachment 19. Of the total $128,268 invoiced in May, OASYS was able to provide support for $128,107.93, which represents all but three items. All three of these items are recurring monthly expenses: $2456.90 for IPL (the electric company); $407.79 for Tropics (a plant maintenance service) and $132.90 for Citizens Gas, $160.07 of the total of which was allocated to the VISTA cost center. These items are certainly ordinary and necessary; the amounts are generally consistent with the charges for these utilities and services in other months; and the recurring nature of these expenses and the back-up available for other months provides sufficient assurance that these expenses were actually incurred. Thus, all of these costs should be allowed, notwithstanding the minor deficiencies in the supporting documentation for three items. If additional supporting documents are necessary, copies of the invoices could be requested from the public utilities and Tropics.

The auditors' challenge to these costs is insupportable. Their inability to complete their audit duties does not make these costs unallowable. Nor should OASYS be forced to justify every cost in invoices that were never truly subjected to audit. We submit that all of the costs questioned in this category should be deemed allowable costs or, at a minimum, the costs included in the 21 complete invoices should be removed from the scope of this audit.

In compliance with FAR § 52.215-2, OASYS afforded the auditors full rights to examine and audit its records. OASYS gave the auditors access to all accounting records, including general ledgers, journal entries, invoices and other supporting documentation. In addition, OASYS personnel were available to answer all auditor questions. OASYS personnel even provided significant assistance to the auditors in pulling accounting information requested.

Contrary to the auditors' gratuitous assertion of noncompliance, OASYS complied with FAR § 31.201(d) by accounting for its costs appropriately and maintaining supporting records.

In contrast, the auditors violated FAR § 31.201-2(c) by disallowing all costs relating to the 21 full and three partial invoices based on OASYS' alleged noncompliance with the Federal cost principles. FAR § 31.201-2(c) provides that those costs "in excess of the amount that would have resulted" from using the FAR cost principles should be disallowed. The Draft Audit Report obviously oversteps these bounds, never suggesting what portion of the costs is allowable. Moreover, here all of the costs are clearly reasonable, allocable and allowable.

<u>Finding Nos. 19 through 27</u>

PwC disagrees. See page 79.

OASYS has not been given the time to complete its analysis of these items. OASYS will respond to these findings at a later date. Initially, OASYS must complete the analysis of the remaining questioned costs (Finding 18) and review the support for these charges. Since OIG just provided the data to analyze these costs, and OASYS received its hard copy on November 11, 1999, we submit that it is entirely reasonable to take the time to evaluate that data and respond to it in a helpful and intelligent manner.

As it stands, we note that PWC's conclusions are in sharp contrast to the conclusions of the Defense Contract Audit Agency which conducted a pre-award audit of the accounting system of Administar Solutions, Inc. DCAA approved many of the accounting practices that PWC finds deficient. OASYS submits that it is compliant with its obligations under the FAR and Cost Accounting Standards.

<u>Computer Systems Review</u>

28. <u>PWC claims that OASYS does not have a complete set of policies and procedures governing systems security administration and monitoring.</u>

PwC disagrees. See page 79.

PWC is confused here. OASYS does have complete policies and procedures governing systems administration and monitoring. What OASYS lacked was a single, unified, comprehensive policy manual.

PWC was advised that OASYS did not currently have one comprehensive document that contained all system policies and procedures. More specifically, the OASYS Information Technology Department has evolved from multiple information technology functions and OASYS recently centralized all departmental functions. However, OASYS maintains and did make available to PWC documentation related to 1) access/removal of security and 2) backup procedures for HCPS. Specifically, OASYS provided the auditing team with:

- Human Resource Handbooks which contains acceptable use policy
- Change Control Policy and Procedures
- Technical Security Audit conducted by OASYS internal Staff (3/18/99)
- Organizational Charts which depict areas of responsibility
- Access to System Audit Trails (logs)
- Offsite Storage/backup contracts and agreements

In light of the documentation that was available and the current practices being deployed by staff, OASYS submits that it is inaccurate to depict the management team as approaching this important function with a lackluster attitude. Nonetheless, OASYS does agree that a comprehensive document of policy and procedures is a better tool for evaluating and monitoring control objectives than the several separately created documents OASYS has maintained. To that end, OASYS has created a new comprehensive set of system policies and procedures. See Attachment 20. Also included as an attachment are: Internal Security Audit conducted on 3/18/99 (see Attachment 21) and WAR Dialing System Analysis (see Attachment 22).

29. PWC claims that OASYS does not have an up-to-date business continuity plan in place.

PwC disagrees. See page 79.

OASYS has taken reasonable steps to insure business continuity in the event of an unforeseen catastrophic event. It should be noted that OASYS maintains a contract with COMDISCO as its disaster recovery site. This hot site provides the following coverage:

- 1 DEC 2100A (DEC alphaServer 2100a 5/300 (wd21aux)
- 2 Alpha Processors (300mhz)
- 1 Gigabyte Main Memory
- 1 Console Color Graphics Monitor
- 1 CD ROM
- 1 Ethernet Port
- 15 2.1 Gigabyte Drives (RZ28)
- 2 Tape Drives (TZ88)
- 1 HP Laser Jet 5si Printer(Ethernet Connected)
- 3 Dot Matrix Printers
- 1 Impact Printer (1200 LPM)

Although OASYS's current Disaster Recovery plan was originally developed prior to the creation/spin out of the Company, the basic methodology and necessary components (hardware, software and system backups) are in place. More specifically, OASYS's core processing system (HCPS) is the only mission critical application in the event of an unplanned interruption. In other words, the absence of hardware components for OASYS's workflow and imaging and other application servers reflect the fact that OASYS could revert to paper based processing in the event of a disaster. Prior to April 1997, OASYS did use a paper-based system and it would be possible to revert to such a system again in an emergency.

As a point of clarification, OASYS notes that it is their policy to perform daily system backups for all application used by the organization. These include the following servers:

- Email Server
- Internet & Intranet Server
- WorkFlow & Imaging Servers
- Data Warehouse Server
- Core Processing Server (HCPS)
- Billing & Receivables Server (Great Plains)
- Novell File and Print Servers
- Automated Mailing Server

However, from a contract standpoint, OASYS's core processing system (HCPS) is the only application which is required to carry out the contract duties.

Nonetheless, OASYS continues to evaluate its business continuation and disaster recovery processes. To that end, OASYS has acquired an industry standard disaster recovery model. This database driven tool uses a question and answer format to help organizations ensure they have the proper plan and controls in place. In general it covers:

- Company Information - Scope of the disaster recovery plan. Assumptions made. Business Impact Analysis. Criticality Level for Applications. Escalation Plan
- Team Structure, Contacts and Call List- Describes the recovery team, key personnel. Information on the Hot Site Vendor and other requirements
- Backup Procedures - Documentation of the backup procedures. Information on inventories of hardware and software. Special configurations of off site data
- Recovery Procedures
- Implementation Plan - Required tasks for the execution of the disaster recovery

- Test Plan - Information on various ways to test the plan
- Recovery Plan Maintenance - Maintenance requirements
- Relocation/Migration Plan- How to relocate from the HOT site back to a cold site or permanent site

Thus, OASYS is prepared today and is always working to make itself even better.

30. PWC claims that OASYS does not have adequate procedures in place to ensure the security of its data.

PwC disagrees. See page 79.

The OASYS building located at 4550 Victory Lane, Indianapolis, Indiana is a secured building. Three outside doors are opened by access card only. The receptionist admits visitors to the building. After identification through an intercom system,the door lock is released.

There are several levels of card access (1 through 8). Each level is keyed to days of the week, holidays, computer room access and a specific time range.

Each full-time employee is issued an access card at orientation. Standard access level is AL2 unless modified by the hiring manager. Temporary employees are not issued access cards.

Security software controls activation of the access cards. A monitoring log records card swipe date, time, name assigned to card and door accessed. The software also allows for inactivation, searches by card number or name.

At the time of termination, Human Resources retrieves the access card and returns it to the Facility Administrator. If the card is not returned, Human Resources notifies the Facility Administrator and the card is immediately disabled.

The data center at OASYS is within the secured building. It was originally protected by a keypad entry system. This system required the entry of a series of four numbers plus the asterisk key. OASYS submits that this system provided effective physical security for the computing center. Furthermore, the access code was only distributed to key system personnel.

As communicated during the audit, OASYS was planning an installation of a card-based system. OASYS has now successfully installed this new system. Now only swipe cards will give access to the data center. Thus, the issue with the keypad entry system is entirely moot.

Pressurization of OASYS's sprinkler system is checked with a back blow pressure check. This is a system wide check not specific to the data center. However, it does include the data center area. As you can see in the enclosures, OASYS's system passed the inspection. See Attachment 23. Also, OASYS has had its fire extinguishers inspected and retagged as well as maintenance on our HALON. See Attachment 24.

The only tenant employees that have access to OASYS's data center are their key Information Technology Specialists. These individuals have a legitimate business need to access their application servers. Additionally, the data center is physically located next to the OASYS System Administrator who keeps tabs on personnel entering and exiting the data center. All access to OASYS data files is controlled by individual passcodes.

OASYS now uses CD ROM technology to store claim images. A copy of every CD has always been stored off site. As indicated to the auditors, OASYS was planning to begin off site storage for our other platforms- NT Servers (Great Plain/GL, Workflow and Imaging, Automated Mailing, Email and Internet). This went into effect on August 1, 1999.

31. PWC claims that certain Local Area Network ("LAN") environment logical <u>security settings are not adequately or consistently applied.</u>

PwC disagrees. See page 80.

OASYS has many types of platforms: NT, VMS, HCPS, etc. They require more than one concurrent connection to provide support to our users. There are 14 administration class users. Four of these accounts are used by applications with limited access to specific programs and directories. Three of these accounts are related to OASYS's nightly MACESS photo imaging production that runs on several PC's over night. Two of the users have two PC's they use to perform their jobs. The remaining four worker accounts now have been restricted per PWC's recommendation.

Regarding the easily guessed passwords, this number was taken from a snap shot report of the system as of July 28, 1999. At that time there were 11 users. With passwords expiring every 30 days and the system set up to force users to change their passwords to a unique password, this is a misleading statistic. Moreover, OASYS executes the same report once a quarter and notifies the users if their password can be easily guessed.

One user had no password. This account was a limited access account used with a backup application that is no longer used and has been disabled.

Thirty-one users are not required to change their passwords every 30 days. Thirteen of these accounts are training accounts that have limited access. Ten of these accounts are system support accounts that are used for scanning, nightly production, network monitoring, etc. Four are short-term temporary accounts that are locked during times these accounts are not in use. OASYS agrees that the remaining three users should be restricted and this has been addressed.

With respect to VMS, the eight users with profiles that were not set up to require 30 day password changes have been modified to the 30 day policy.

Regarding VMS dial in connections, OASYS utilizes secure id technology. This credit card like device is issued to staff who need to access VMS remotely. This card displays a new number every 60 seconds. The remote user is required to enter and the appropriate match is performed.

OASYS submits that this constitutes complete remedial action.

32. <u>PWC claims that several claims processors have excessive dollar authorization limits.</u> PwC disagrees. See page 80.

The OASYS policy for dollar amount authorization is:

- Claim Processors up to $10,000.
- Claim Processor Leads, Business System Specialists and Auditors up to $25,000.
- Claim Manager up to $100,000 limit.

OASYS disagrees that industry standard is $1,000 dollar for claim processors. This limit would make it cost prohibitive to meet claim timeliness. A limit at this level would require too many claims to be handled by multiple personnel. It would also constitute a change in the terms of the contract.

PWC also is confusing payment limits with claim limits. OASYS bases authority on the amounts charged, not the amounts paid, the latter of which are always less. Enclosed is a document reporting the current dollar limits. <u>See</u> Attachment 25.

OASYS takes special exception to the suggestion that operations management was "usually off-site and, therefore unavailable to answer questions and provide explanations for identified concerns." This is false. The audit took place over the last two weeks of July and early August. This is the peek summer vacation season. Nonetheless, OASYS kept management in place to facilitate the audit. Kate Hensley, the head of operations, went on a one-week vacation after getting married. Other management personnel were available. This does not warrant the negative implications of the draft audit report.

33. <u>PWC claims that inadequate segregation of duties exists within both OASYS's core claims processing systems and its accounting systems.</u> PwC disagrees. See page 80.

PWC contends two employees had crossover duties or access that presented some control concerns. One Business System Specialist had a dollar limit of $100,000. This was due to her involvement in a special adjustment. She has since been modified to be in compliance with OASYS's standard of $25,000. The accounts payable clerk's security situation has been modified to remove her accounts receivable access.

OASYS submits that these actions eliminate even the appearance that a potential problem exists.

CONCLUSION

PwC disagrees. See page 80.

We hope these preliminary comments will assure you that OASYS is working diligently to address the draft audit report. Rather than rush to an ill-conceived final audit report, we respectfully request that you wait for OASYS to complete its work. This will make PWC's job easier and its final audit report will be far more useful.

Particularly, as it stands now, with respect to the administrative cost review, the PWC draft audit report is worst than useless. It is defamatory and damaging. It is imperative that OASYS be given sufficient time to address the broad and erroneous claims made therein. This involves considerable effort and resources. A rush to judgment by PWC will not be in the interest of the Corporation, PWC or OASYS. Again, we appeal for patience while OASYS systematically documents and/or investigates the remaining items.

We will endeavor to provide our supplemental response piecemeal, if that is desired, or at one time, if that is preferred. Please let us know. **<u>We would also like to arrange a meeting at your office</u>** to go over the direct labor cost issue and explain once again OASYS's method of accounting for direct labor. OASYS could walk you through the payroll and billing documentation again and hopefully we can put that critical issue to rest. At that time we would also like to discuss the concerns we have regarding your report. We expect much of the invective and misinformation to disappear from the final report. We recognize that time pressures may have resulted in the draft work product, but we wish to assure that it does not carry forward into the final audit report.

We look forward to working cooperatively to resolve the audit issues.

Respectfully submitted,

Daniel Abrahams

Daniel B. Abrahams
Constance A. Wilkinson

Counsel to Outsourced Administrative Services, Inc.

Enclosure

cc: Mr. Wood Parker
Ms. Jennifer Ponski
Ms. Luise S. Jordan

DC:86971.1

PwC's Evaluation of OASYS' Response

On the afternoon of Friday October 15, 1999, the OIG instructed PwC to release the draft report to OASYS for their comment. We immediately faxed a copy of the draft report to OASYS and sent the original via overnight delivery to OASYS' Chief Executive Officer. PwC vehemently disagrees with OASYS' statement made through its legal counsel that OASYS received the draft audit report in "installments." The **entire** report was faxed to OASYS and the **entire** report was sent via overnight delivery on October 15.

OASYS asserts that pertinent information was withheld from them until November 9, 1999. PwC does not agree with this statement. During the telephone exit conference held on October 6, 1999, PwC went over each finding in the draft report in detail with OASYS' Chief Financial Officer, Director of Information Technology and Director of Operations. OASYS was provided with the opportunity to ask questions, and we answered all the questions OASYS posed during this telephone exit conference. We also provided OASYS with the opportunity to request further support or clarification. During the exit conference, OASYS asked for the error tables from the claims re-adjudication. Those were provided by facsimile on October 15 with the draft report (as was agreed in the exit conference) and were followed-up with hard copy by overnight delivery. At no time did any representative from OASYS ask for any other information.

Health Care Claims Review

PwC performed the health care claims review at OASYS to determine if the claims were processed and paid in accordance with the health benefits plan outlined in the Corporation's contract. For the majority of the claim errors, PwC provided OASYS' representatives with all our questions and concerns about each claim error in writing. OASYS representatives were provided the opportunity to respond in writing. Errors were agreed to and signed off by the OASYS representatives. Set forth below are responses to OASYS' objections and related assertions in OASYS' response to the draft audit report.

1. <u>PwC claims there are $3,818,399 of extrapolated overpayment monetary errors and $1,349,652 of extrapolated underpayment monetary errors.</u>

   OASYS was not able to produce documentation for 49 claims at the time of our on-site fieldwork, including the 15 claims that OASYS states were paid directly by the Corporation. Therefore, we were not able to review these claims. OASYS should provide any new information from its ongoing research to the Corporation for consideration in the audit resolution process.

   With regard to the "spreadsheet charts" recently mailed to PwC by OASYS' legal counsel, PwC provided OASYS' representatives with all questions in writing during our on-site work. OASYS representatives responded in writing. Errors were agreed to and signed off by the OASYS representatives. The charts were not available for our review during the on-site fieldwork. As directed by the Corporation, OASYS should provide this information and any new information from its ongoing efforts to the Corporation for consideration in the audit resolution process.

2. <u>PwC claims OASYS' financial error rate is significantly greater than industry standards.</u>

The financial error standard is based on "industry best practices" established by large, national fully insured and self-insured plans. On a periodic basis, PwC reconsiders the established benchmarks to remain current regarding the industry standards.

PwC has not erroneously calculated the financial error rate. The conclusions we reached in findings 3 through 9 were not erroneous. We will discuss separately each finding in detail in the relevant section.

PwC does not agree with OASYS' statement made through its legal counsel that eligibility data is the sole responsibility of the Corporation. It is OASYS' contractual responsibility to validate and ensure that members were eligible on the date of service before processing and paying the claim. According to the contract, Section J, Attachment I, Statement of Work, page 22, item number 3; OASYS was to submit a monthly Enrollment/Eligibility Report for **internal control and verification of eligibility updates.** Claims were paid with open-ended termination dates even though OASYS is aware that the Corporation health benefits plan is valid for a twelve-month period only. If the member re-enrolled for the next year, a new effective and termination date should be entered into the system to alert the processor that the member is (is not) eligible on the date of service. Determining eligibility is one of OASYS' contractual requirements. Therefore, the claims paid for members not eligible on the date of service are financial errors.

PwC has **not** suggested that OASYS reduce its financial error rate to **zero**. Organizations in the industry are achieving and maintaining financial error rates of less than 1 percent. In addition, PwC has no knowledge of the financial error rate (2 percent) **proposed** by OASYS in its RFP to the Corporation. As we reported, our sample revealed error rates ranging from 21.6 to 28.2 percent.

The PwC analysis did not confuse clerical/technical issues, such as data entry, with financial errors as OASYS asserts. Each error was carefully considered and analyzed by both the auditor and the on-site health care claims expert before they were categorized as monetary, non-monetary or potential errors. All errors that had an impact on the dollar value of the claims paid were considered monetary errors, including some data entry errors. Errors that had no impact on the dollar value of the claims paid were considered non-monetary errors, including some data entry errors.

PwC recognizes that the Corporation's health plan beneficiaries have a one-year benefit program and that there is a high turnover rate. PwC acknowledges OASYS' comment, through its legal counsel, that "... the members are also not your average group plan membership demographically – for example they are predominately female." Nonetheless, with adequate internal controls, claims administration for this group should be no different than for any other self-insured or fully insured group.

3. PwC claims OASYS is not performing Coordination of Benefits (COB) investigations required by the contract.

   OASYS through its legal counsel asserts that PwC did not identify which of the claim numbers are identified with which errors. PwC does not agree with this statement. PwC provided OASYS with the claims error tables, which list each error by sample number and provides a description of the error. PwC also provided OASYS with the list of the 800 sample claims, which includes the claim number. Therefore, OASYS had all the information necessary to identify the 53 claims identified as errors. For example, the error table for FY 1995 identifies sample claim 139 as an error because of COB. Sample 139 is identified as claim number 9514205170 in the sample list. Further, PwC provided OASYS with the written claims review form for all questioned claims. Nothing precluded OASYS from making copies of those forms for their records, and in fact most auditees do that.

   We agree with OASYS' statement that the errors fall into two categories – dependent insurance and Medicare. According to the Corporation's contract, Section J, Attachment I, Statement of Work, page 19 states:

   > "Exclusions – The following services and supplies are not covered under the CNCS Health Benefits Program unless the contractor is directed in writing by the CNCS Contracting Officer to provide payment for these services --Services for which a Volunteer/Corps member/leader is eligible for reimbursement under Medicare or any private group health insurance plan."

   While it may be standard in the insurance industry for worker's insurance to be primary, the Corporation health benefit plan does not cover employees. But this argument is irrelevant since the contract speaks specifically on this topic.

   OASYS did not investigate COB for Medicare based on the volunteer's age. For the errors identified, it was clearly documented on the UB 92 claim forms that the volunteer had Medicare. Secondly, the amount paid was charged as a monetary error for each identified error. OASYS had the opportunity to determine what the correct payment should have been and inform PwC when we were on-site and providing OASYS with the results of our analysis on a daily basis.

   At no time did PwC state that OASYS was not performing any COB investigations. We found that COB investigations were performed inconsistently. Further, we did not see any evidence that OASYS was obtaining COB information as required by the contract. Section J, Attachment I, Statement of Work, page 23, Item 2b states:

   > "The contractor shall furnish CNCS with questionnaires to be completed by Volunteers/Corps members/Leaders for other coverage information. The information from the completed questionnaire shall be entered into the claims processing system after initial enrollment of the Volunteers has been processed.
   >
   > COB information shall be updated according to statements indicated by the Volunteers/Corps members/Leaders on his/her claim forms. This information may be verified annually through the use of automatically generated other insurance questionnaire. If a questionnaire is not answered within 30 days, a follow up

questionnaire shall be sent. If the second questionnaire is not answered within 30 days, claims may be denied until the questionnaire has been returned.

The claims processing system shall maintain all necessary information to automatically process claims involving coordination of benefits. The system shall refer to the Volunteer's information stored on a single file. The file shall be referenced to determine if the benefit payments need to be coordinated with another carrier, including Medicare. To achieve savings, other carrier payments shall be used to reduce CNCS's benefit liabilities."

PwC does not wish to alter the contract terms as asserted by OASYS through its legal counsel. PwC does recommend, however, that the Benefits Brochure be revised to accurately reflect the terms of the Health Benefits Plan as described in the contract. Regardless, PwC recommends that OASYS use the terms of the contract, rather than the Benefits Brochure, to administer the Corporation's health benefits plan.

4. <u>PwC claims OASYS is not performing Third Party Liability ("TPL") Investigations as required by the Contract.</u>

Section J, Attachment I, Statement of Work, page 21 of the contract states:

"Exclusions – The following services and supplies are not covered under the CNCS Health Benefits Program unless the contractor is directed in writing by the CNCS Contracting Officer to provide payment for these services --Services eligible for coverage under a personal protection (PIP) contract or no fault auto insurance."

In addition, Section J, Attachment I, Statement of Work, page 22, Contractor Reports, Number 7 requires OASYS to submit a Quarterly Coordination of Benefits (COB) and Subrogation. The report is to include charges, payment amount recovered, percent savings, and savings resulting from Medicare payments. PwC does not agree with OASYS' assessment that the Corporation is liable and primary payer for these identified issues. It is OASYS' decision to either pay and pursue or suspend and pursue. Further, the Corporation by virtue of the contract expressly relies on OASYS to perform the agreed-upon services on the Corporation's behalf.

Again, there was no supporting documentation provided to validate that OASYS was indeed performing TPL. Errors identified had Explanation of Benefits (EOB) attached to claims that documented the payments made by primary payers. Also, the staff at OASYS did not document that the accidents occurred in States with no PIP and/or no fault insurance. PwC agrees that the full amount should not have been paid by OASYS, but this is exactly what occurred in the identified errors.

OASYS through its legal counsel implies that PwC is somehow recommending that the Corporation deny care to its members. At **no** time has PwC recommended that the Corporation **deny** care. OASYS is contractually responsible to administer the benefit plan as defined by the contract and pay for all medically necessary, approved care. Any member may obtain care, but the benefit plan and its administrative requirements determine what the Corporation will pay for. Holding a member or another primary payer financially responsible for obtained care is certainly not denying care and it is outrageous that OASYS would contend that PwC would imply this.

5. PwC claims that OASYS inconsistently and inaccurately applied pre-certification penalties.

   The determination of identified errors for the application of pre-certification penalties was based on documentation provided by OASYS representatives, who in turn agreed that the errors had occurred during processing. If OASYS has new information that was not available to us during the review, they should provide it to the Corporation during the audit resolution process.

6. PwC claims that OASYS paid for medical procedures related to pre-existing conditions that should not have been paid.

   OASYS asserts that it was not asked to produce supporting documentation for seven potential monetary errors relating to pre-existing conditions. PwC does not agree with that statement. PwC provided OASYS' representatives with all our questions and concerns about each claim error, including potential errors, in writing. OASYS representatives were provided the opportunity to respond in writing. Errors were agreed to and signed off by the OASYS representatives.

   Once again OASYS implies that PwC has recommended that the Corporation deny care. PwC **at no time suggested that the Corporation deny** care. Any member may obtain care, but the benefit plan requirements determine what the Corporation will pay for. Holding a member or another primary payer financially responsible for obtained care is certainly not denying care.

7. PwC claims OASYS paid claims for ineligible members.

   PwC does not agree with OASYS' statement made through its legal counsel that eligibility data is the sole responsibility of the Corporation. It is OASYS' contractual responsibility to validate and ensure that members were eligible on the date of service before processing and paying the claim. According to the contract, Section J, Attachment I, Statement of Work, page 22, item number 3; OASYS was to submit a monthly Enrollment/Eligibility Report for **internal control and verification of eligibility updates.** Claims were paid with open-ended termination dates even though OASYS is aware that the Corporation health benefits plan is valid for a twelve-month period only. If the member re-enrolled for the next year, a new effective and termination date should be entered into the system to alert the processor that the member is (is not) eligible on the date of service. Determining eligibility is one of OASYS' contractual requirements. Therefore, the claims paid for members not eligible on the date of service are financial errors.

8. PwC contends the benefits outlined in the contract were misinterpreted in the health benefits brochure provided to the members.

   The issue of COB has been previously addressed in our evaluation of response number 3. Amendment MO35 adds a $5 copayment for all doctors' office visits. There is a significant difference between a doctor office visit and outpatient service. Outpatient services include, but are certainly not limited to, doctor's office visits. Other health care services, such as physical therapy, laboratory fees and x-rays, are also outpatient services. In addition, when asked what services were included, responses by OASYS staff were inconsistent. Claims should be processed according to the benefit plan outlined in the contract, not the Benefits Brochure. We agree with OASYS that it is the plan members who are harmed by the incorrect interpretation of this requirement.

9. <u>PwC claims that benefit overrides occurred without documented approval from the Corporation's management.</u>

   PwC identified payments for benefits that exceeded contract limitations and non-covered services. According to the contract, Section G, B4, the Contracting Officer's Technical Representative (COTR) does not have the authority to and may not issue any technical direction which change any of the expressed terms, conditions or specifications of the contract. Section G: C states that all technical direction shall be given to the Contractor in writing by the COTR. Furthermore, Section G: D states that if, in the opinion of the Contractor, any instruction or direction by the COTR is within one of the categories defined in B 1-5, the Contractor shall not proceed but shall notify the Contracting Officer in writing to modify the contract accordingly. OASYS did not fulfill its obligation to notify the Contracting Officer when benefits exceeded the contract limitations.

   Also, in Section J, Attachment I, Statement of Work, page 19, the contract states:

   > "Exclusions – The following services and supplies are not covered under the CNCS Health Benefits Program unless the contractor is directed in writing by the CNCS Contracting Officer to provide payment for these services."

   It is clear that the contract required OASYS to obtain **written** authorization from the Corporation's Contracting Officer for benefit overrides.

10. <u>PwC claims that OASYS did not comply with the processing time requirements in the contract.</u>

    PwC measured the turnaround time as the period of time from the date of receipt of the claim submission until the date the transaction is completely processed and the appropriate check and EOB is issued.

    OASYS contends, through its legal counsel, that PwC claims that the industry standard for processing claims within 14 days is 90 percent. PwC does not agree with that statement. PwC does not use as a benchmark nor did it determine that the industry standard is 90 percent. The contract, in Section J, Attachment I, Statement of Work on page 23 states that 90 percent of clean claims shall be processed within 14 days. In addition, OASYS responded in the Claim Audit Questionnaire, that its own standard is 90 percent in 14 days. OASYS calculates its turnaround time from the date the claim is received to the date it is paid and includes weekends and holidays. There was no way for PwC to determine "clean" from "unclean" claims based on OASYS' response. However, it is our understanding that dirty claims are suspended, and all claims measured for turnaround time were processed and paid. Delay of claim determinations for pre-existing condition review should not have posed a problem for OASYS, since they claim to make medical review determinations in five working days.

OASYS, through its legal counsel, states that PwC's analysis is "severely flawed if not grossly negligent." We take that allegation very seriously, have considered it thoroughly, and strongly disagree, finding the statement to have no merit whatsoever.
OASYS also contends that our conclusions represent a fundamental misunderstanding by PwC of how to read the dates on the claim screen. PwC regularly performs turnaround time reviews in connection with projects of this type and is confident that dates were read correctly in this instance. Note that to proactively address any potential OASYS-specific variances or differences in systems, the PwC claims audit team was provided training by OASYS representatives on how to read data on the OASYS claim screens.

OASYS contends that it has reports to show its internally determined turn-around times. These were not provided to us during on-site fieldwork and therefore we did not review them.

11. <u>PwC claims that OASYS does not have adequate inventory controls for claims documentation.</u>

PwC requested to see the log used to track claims received and sent for imaging based on the response provided by OASYS in the Claim Audit Questionnaire (Section 8.0: 8.2.), "We log receipts. Claim is not actually entered until it is scanned."

PwC recognizes that OASYS has a sophisticated computerized imaging system, MACESS. The functions of the system would indeed reduce errors and document retrieval time. However, the Optical Character Reader function of the system was not operational at the time of the on-site work and processors were required to data enter the claim fields thus increasing the potential for data entry errors that would normally occur when hard copies are used to enter claims.

12. <u>PwC claims that OASYS' Health Care Claims Processing System ("HCPS") has limited capabilities to accurately capture data elements as they appear on the submitted claims.</u>

PwC contends that in order to support the Corporation's efforts to maintain costs, the codes designated on the claims need to be entered into the system to perform cost-benefit analyses to identify where the benefit dollars are spent. PwC acknowledges the write-up describing OASYS' HCPS capabilities, however, quite simply, the codes were not entered into the system.

13. <u>PwC claims that provider information in the HCPS does not appear to be accurate.</u>

The provider information found in the system was inaccurate as PwC identified claims that were paid as billed for participating providers and discounts were applied when the provider was listed in the system as non-participating. During a discussion with the Provider Relations manager, PwC was informed that OASYS was actively working with ForMost to update and maintain current information on provider status. Until the electronic downloads could be created, Provider Relations was trying to update files manually. PwC agreed with OASYS that it would be a more cost-effective avenue to pursue electronic updates given the magnitude of the discrepancies in the system.

14. <u>PwC claims that OASYS' processing error rate is significantly higher than industry best practice standards for self-insured programs.</u>

    PwC contends that OASYS needs to correct identified problems to reach the industry standard of no more than 5 percent processing error rate.

15. <u>PwC claims that OASYS has outdated policies and procedures related to claims processing.</u>

    PwC reviews an administrator's policies and procedures to determine if the policies are followed, provide an internal tool for processors and to learn the processes used to pay or deny claims. PwC disagrees with OASYS' view that this is a moot point.

16. <u>PwC claims that OASYS holds claims payment checks in a desk drawer due to insufficient funds in its Corporation for National and Community Service claims payment account.</u>

    OASYS unequivocally rejects this finding; yet, the fact remains that checks were in a desk drawer and were shown to PwC by OASYS personnel and its Director of Information Systems. PwC was told that the checks were being held for money to accumulate in the Corporation account so the checks could be released for payment. In addition, PwC was shown the computer statement that indicated the account balance. PwC did not state in its draft report that the checks were signed.

17. <u>PwC claims that the customer service unit does not meet the minimum performance standards that OASYS has set for average telephone answering time and the corresponding abandonment rate.</u>

    PwC based its findings on the information documented in the Claim Audit Questionnaire completed by OASYS. OASYS was measured by its own standards and does not meet those standards of 30 seconds average speed to answer and an abandonment rate of 5 percent.

Administrative Costs Review

18. <u>PwC questioned $2,209,436 (85 percent) of invoiced administrative costs primarily because OASYS allegedly could not provide adequate support for the charges.</u>

    OASYS through its legal counsel questions why "the allowability matrix"(OASYS' title for PwC's testing worksheets) was not provided initially as was the detailed breakdown of claims issues. During the telephone exit conference held on October 6, 1999, PwC went over each finding in the draft report in detail. OASYS was provided with the opportunity to ask questions, which we answered. We also provided OASYS with the opportunity to request further support or clarification. During the exit conference, OASYS asked for the error tables from the claims re-adjudication. Those were provided by facsimile on October 15, 1999 with the draft report (as was agreed in the exit conference) and were followed-up with hard copy by overnight delivery. At no time did any representative from OASYS ask PwC to see "the allowability matrix". If it had been requested, we would have provided it as we did the claims error tables. The only request for this documentation came through the OIG on November 8, 1999 and the requested tables were provided the same day.

a. **Salaries and Fringe Benefits**

OASYS, through its legal counsel, contends that the questioned $651,582 in salaries and fringe benefits is the "most shocking conclusion in the audit report". They state that OASYS was able to fully support the labor costs billed to the contract with timekeeping records. Yet, they further state, "For the first three years of the contract, OASYS employees did not complete timecards. Employees were assigned to and **generally** (emphasis added) dedicated to a particular contract and their labor costs were charged to that cost center." Without timecards or an alternative method of recording actual time worked by charge code (i.e. timekeeping records), PwC was unable to determine what portion of the payroll for employees' "generally dedicated" to the Corporation's contract is for efforts expended on behalf of the Corporation as opposed to other contracts, vacation, sick leave, holidays, or training. Further, OASYS' general ledger does not break out salary expense by direct and indirect salary (including vacation, sickness, holiday or training).

OASYS, through its legal counsel, states that it provided detailed payroll reports for the first three contract years. PwC does not agree with this statement. OASYS was not able to provide **any** support for costs that were incurred in calendar year 1994. OASYS further states that this report was explained in detail to one of the three auditors, who left the site in the middle of the on-site fieldwork. PwC does not agree with this statement. OASYS explained this report to the audit senior and both staff auditors, including the auditor who left the site earlier than the others.

OASYS states that it had no difficulty performing a reconciliation of its payroll records to the general ledger. Further, OASYS through their counsel states, "Perhaps the auditors were unable to duplicate the process, as reflected by their comment at the time of the request that performing the reconciliation would be a 'challenge' to them, but the records are not the source of difficulty. The auditors' inability to perform the simple reconciliation is evidence of their lack of basic payroll knowledge. As another example, the supervisor of the administrative costs audit team, questioned three OASYS management employees on separate occasions about its FICA tax charges, apparently unaware that FICA has both an employee and an employer component."

OASYS was requested to perform the reconciliation because it is their contractual responsibility to adequately support all costs incurred for and billed to a contract and not because PwC would have found it "challenging" as OASYS contends. Further, we find the statements made by OASYS through its legal counsel to be highly inflammatory and not based in fact. Prior to joining PwC, the senior auditor (who OASYS refers to as the supervisor of the administrative costs audit team) served two years as a senior tax auditor for a major Federal agency. In this role she supervised seven other accountants and was responsible for managing, reviewing and coordinating all tax activities, including payroll taxes. She also served for more than three years in the payroll department of that agency, including two years as payroll supervisor. Although hardly necessary to mention, she is well aware, as are all PwC auditors, that FICA has both an employee and an employer component.

As for the reconciliation performed by OASYS management, OASYS did not prepare a reconciliation for Calendar Years 1994 or 1995. Further, for each month that a reconciliation was attempted, there is an unreconciled balance. This perhaps explains OASYS' "lack of difficulty" as described by its legal counsel. However, an exercise referred to as a reconciliation generally does not yield an "unreconciled balance". Clearly, OASYS **was not** able to reconcile its payroll records to its general ledger.

OASYS states through its legal counsel that in the final contract year, an intranet based time reporting system was installed in which employees make time entries daily into the computer and payroll charges are booked to a direct cost center. OASYS provided PwC with internal e-mail messages in support of this time recording system, including the following:

> To the account representative in charge of the Corporation's contract, dated August 20, 1998 – "There were no hours reported in the time reporting system by several members of your staff for the month of July. I need an approx. percent of spent on each contract for payroll allocation. If could let me know by Fri. noon, I would greatly appreciate. Thanks!"
>
> In response to an identical request made to another party, dated August 20, 1998 – "I am not familiar with the time reporting system. Am I supposed to be inputting my time and tracking my employees' time? ... If I am to use this system, can you tell me who I contact to train me?"

It is apparent from these statements that OASYS' employees were not using the system as intended and that some employees were not even aware that the system existed.

It is clear that OASYS could not provide adequate support to show that the direct labor costs incurred and billed to the Corporation were actually incurred in support of the Corporation's contract. FAR 31.201 (d) states, "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 which is inadequately supported." We have not disallowed or categorized any of these invoices as unallowable. It is PwC's responsibility to question these costs as unsupported (and therefore potentially unallowable) and refer the matter to the Contracting Officer during the audit resolution process. We have stated that OASYS was unable to support its labor costs. Therefore, we were unable to make **any** determination as to the allowability of these costs.

b. **Consulting Costs**

During the course of the on-site fieldwork, PwC provided OASYS with the names of all consultants for whom consulting agreements were not made available, including Dr. Dalton. In its response made through legal counsel, OASYS asserts that the consulting agreement is now available. However, we were not able to review this information and therefore OASYS should provide this information to the Corporation for consideration in the audit resolution process.

OASYS, through their legal counsel, states that they find no "rhyme nor reason" to our approach to determining if the costs billed to the Corporation for Celtic Life Insurance were adequately supported. Throughout the course of the on-site review, we provided a listing of acceptable supporting cost documentation to their accounting staff. This included being able to support transactions with purchase orders, subcontracts or consulting agreements, invoices and copies of cancelled checks. OASYS asserts that the missing subcontract is now available. However, we were not able to review this documentation. Therefore, OASYS should provide this information to the Corporation for consideration in the audit resolution process.

j. **Other Non-payroll Costs**

OASYS, through its legal counsel, states that we expanded the scope of our review to include all 40 invoices submitted and paid under the Corporation's contract. This statement is false and misleading. The scope of the audit, as clearly explained to OASYS, and as directed by the Corporation's OIG, was the entire period of performance for this contract, October 1, 1994 through September 30, 1998. This included **all** costs incurred and billed to the Corporation on **all** invoices. We initially planned to review a sample of 16 invoices to see if the costs incurred were adequately supported. Unfortunately, OASYS was not able to provide adequate support for the majority of the costs incurred and billed on the sample invoices. We also noted significant control weaknesses (see finding numbers 23 – 27). Therefore, in response to this unexpected turn of events and after discussions with the OIG, we decided to expand the sample to 100 percent of the invoices.

OASYS did not provide the support for the additional invoices in a manner that "facilitated the auditors' review" as OASYS states through its legal counsel. OASYS placed a significant number of boxes of records in a room and stated that the support for the invoices was in the boxes. It is the auditee's responsibility to organize their records in a manner that facilitates the audit process.

OASYS through its legal counsel states that OASYS personnel were available to answer all auditor questions. We do not agree with this statement. Despite assuring us that the timeframe for the audit was acceptable to the accounting department, OASYS' accounting manager and senior financial analyst (our two appointed audit liaisons) were on vacation for one of the three weeks we were on site. Also, throughout the audit process, OASYS personnel were very slow to respond our inquiries.

OASYS, in its response provided through its legal counsel, states that they have organized the support for one month, May 1998, to demonstrate the audibility of the costs. Because we were not provided with the information to support the 24 invoices in this manner, we were not able to audit the information. Therefore, OASYS should provide this information organized in this manner to the Corporation for consideration in the audit resolution process.

OASYS states that we have violated FAR 31.201-2(c) by disallowing all costs relating to these invoices. We disagree with this statement. We have not disallowed or categorized any of these invoices as unallowable. We have stated that OASYS was unable to support these costs. Therefore, we were unable to make **any** determination as to the allowability of these costs.

Findings Nos. 19 through 27

OASYS through its legal counsel states that our conclusions reached in this report are in sharp contrast to the conclusions of the Defense Contract Audit Agency (DCAA) which conducted a pre-award audit of the accounting system of Administar Solutions, Inc. The referenced pre-award audit has no relevance in this report.

"DCAA's role in a preaward survey is normally limited to assessing a contractor's capability to perform a prospective contract and/or the adequacy of a contractor's accounting system to accumulate cost information required by a contract" according the DCAA Contract Audit Manual (CAM) Section 5-202. Section 6-102 of the CAM states that the primary objective of an incurred costs audit (the type of audit performed by PwC) is to examine the contractor's cost representations and to conclude as to whether the incurred costs are reasonable, applicable to the contract and determined under generally accepted accounting principles and applicable cost accounting standards and not prohibited by the contract, statute or regulation or by previous agreement or decision of the contracting officer. Further, DCAA conducted its audit in February of 1994; eight months prior to the contract start date. OASYS' reliance on DCAA audit findings is thus wholly inapposite to the audit at issue.

Computer Systems Review

28. PwC claims that OASYS does not have a complete set of policies and procedures governing systems security administration and monitoring.

    OASYS **did not** provide us with a complete set of policies and procedures governing systems security administration and monitoring. The response provided through its legal counsel appears to represent an attempt to discredit PwC with unsupported allegations. OASYS states that they have developed a new set of system policies and procedures. OASYS should provide this information to the Corporation for consideration in the audit resolution process.

29. PwC claims that OASYS does not have an up-to-date business continuity plan in place.

    OASYS was unable to provide us with an up-to-date continuity plan.

30. PwC claims that OASYS does not have adequate procedures in place to ensure the security of its data.

    In its response made through legal counsel, OASYS asserts that evidence of the inspection of the fire suppression systems is now available. However, we were not able to audit this information and therefore OASYS should provide this information to the Corporation for consideration in the audit resolution process.

    OASYS states that since PwC's on-site fieldwork, they have installed a card based entrance system for access to the data center. Again, OASYS should provide this information to the Corporation for consideration in the audit resolution process.

31. <u>PwC claims that certain Local Area Network ("LAN") environmental logical security settings are not adequately or consistently applied.</u>

    OASYS claims to have taken corrective actions and submits that this constitutes complete remedial action. PwC was not provided with any of this information during our review and therefore was not able to audit it. OASYS should provide this information to the Corporation for consideration in the audit resolution process.

32. <u>PwC claims that several claims processors have excessive dollar authorization limits</u>.

    OASYS states that it disagrees that $1,000 is the industry standard for claims processors. PwC never stated that this was an industry standard. We stated that "in our experience with other health claim administrators, we have found that non-supervisory claims processors normally have dollar amount authorization limits of $1,000. Additionally, a member of senior management must normally approve claims over $10,000."

    OASYS further states that PwC is confusing payment limits with claim limits. PwC is very clear that it is talking about claims processing throughout that finding in the report.

    OASYS took special exception to the suggestions that management was off-site during our on-site fieldwork and therefore unavailable to answer our questions. PwC contacted OASYS management three weeks before our planned site visit. We asked OASYS if this time frame (July 12 through August 6, 1999) would pose a problem for them. If it did, we would reschedule the visit. OASYS said that the planned timeframe posed no problem for them.

    Nevertheless, the Accounting Manager, the Senior Financial Analyst, the Director of Information Systems and the Director of Operations were not available for significant portions of this on-site fieldwork.

33. <u>PwC claims that inadequate segregation of duties exist within both OASYS' core claims processing system and its accounting systems.</u>

    In its response made through legal counsel, OASYS concurred with our finding and states that measures have been taken to rectify the problem. However, we did not have an opportunity to review these measures. Therefore, OASYS should provide this information to the Corporation for consideration in the audit resolution process.

<u>**Conclusion**</u>

OASYS states in the conclusion of its response made through its legal counsel:

> "We hope these preliminary comments will assure that OASYS is working diligently to address the draft audit report. Rather than rush to an ill-conceived final audit report, we respectfully request that you wait for OASYS to complete its work. This will make PwC's job easier and its final report will be far more useful.
>
> Particularly, as it stands now, with respect to the administrative cost review, the PwC draft report is worst (sic) than useless. It is defamatory and damaging. ... A rush to judgement by PwC will not be in the interest of the Corporation, PwC or OASYS."

We do not agree that this report is ill conceived. It is not PwC's responsibility nor do we have the authority to review information that OASYS has accumulated since the end of our fieldwork. We believe that this report is extremely useful to the Corporation.

We do not agree that the administrative cost review was "worst (sic) than useless" or "defamatory and damaging." PwC is not "judging" OASYS. We were tasked, as described in the objectives section of this report, with determining if administrative costs claimed are contractually allowable or were incurred specifically for the contract effort with adequate support and charges in accordance with OASYS' cost accounting system, contract terms, applicable laws and regulations including FAR, and applicable cost accounting standards. We concluded that the majority of administrative costs incurred were not supported with sufficient adequate documentation that would permit us to make a determination of allowability in accordance with the cost principles in FAR Part 31 and the terms of the contract.

CORPORATION
FOR NATIONAL
SERVICE

MEMORANDUM

DATE: 11/15/99

TO: Luise Jordan, OIG

FROM: Simon G. Woodard Simon G. Woodard
Director, Procurement Services

CC: Wendy Zenker, COO
Wilsie Minor, Assistant General Counsel

RE: OIG Report 00-21, Draft Audit of Contract No. 95-743-1005 with Outsourced Administrative Systems, Inc. (OASYS)

The subject draft report cites conditions and deficiencies pertaining to the performance of Outsourced Administrative Systems, Inc. under Contract No. 95-743-1005. We have reviewed the draft report and do not have specific comments at this time. We will address the findings and recommendations in the final management decision.

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