

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**CMS HAS NOT PERFORMED  
REQUIRED CLOSEOUTS OF  
CONTRACTS WORTH  
BILLIONS**



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Inspector General

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OEI-03-12-00680

# **EXECUTIVE SUMMARY: CMS HAS NOT PERFORMED REQUIRED CLOSEOUTS OF CONTRACTS WORTH BILLIONS**

## **OEI-03-12-00680**

### **WHY WE DID THIS STUDY**

The Centers for Medicare & Medicaid (CMS) relies extensively on contractors to carry out its basic mission and spends billions of dollars each year in contracts for a variety of goods and services. A contract is closed once the contractor has completed contract requirements and the Government has completed all required administrative actions. Because improper payments may be identified and recovered during the closeout process, it is imperative that contracts are closed within Federal Acquisition Regulation (FAR) timeframes. The closeout process, generally, is the last chance for improper contract payments to be detected and recovered, and delayed closeout poses a financial risk to agency funds.

A report by the Government Accountability Office (GAO) in 2009 found a large backlog of unclosed contracts at CMS. OIG designed this study to review the state of unclosed contracts as of February 2014, to gauge CMS's progress, and to support continuing improvements in contract management. Recommendations will help CMS improve its contract management and better protect Federal funds.

### **HOW WE DID THIS STUDY**

This study focused on CMS's FAR contracts that were active as of February 2014, and its FAR contracts pending closeout as of February 2014. We analyzed contract data to determine (1) the number of active contracts and the amounts obligated to those contracts and (2) the number and total cost of contracts pending and overdue for closeout. We also interviewed CMS staff and reviewed policies and procedures related to contract closeout.

### **WHAT WE FOUND**

CMS obligated \$15 billion to 1,229 contracts that were active as of February 2014. These contracts were held by 500 separate contractors, with 7 contractors having obligated amounts over \$500 million. As of February 2014, CMS contractors completed work for 6,126 contracts that CMS had not closed out as required under the FAR. These contracts totaled \$25 billion. CMS continues to have thousands of contracts overdue for closeout, with 15 percent of contracts that completed before fiscal year (FY) 2011 at least 10 years overdue. Furthermore, the closeout status of a number of contracts could not be determined because of inconsistent and conflicting data. Because the closeout process is usually the last chance for improper payments to be detected and recovered, delays in the closeout process pose a financial risk to CMS. While CMS has not consistently met FAR timeframes for closing out contracts, it has been improving the timeliness of contract closeouts over the past several years. CMS reported a number of barriers, including resource constraints, which CMS believes prevent the timely closeout of contracts. Finally, key pieces of information, such as project description and contract payments, that CMS could use to manage and oversee contracts are not easily accessible through its contract management system.

### **WHAT WE RECOMMEND**

We recommended that CMS (1) implement additional strategies to meet required FAR timeframes for closeout, (2) determine the status of contracts for which closeout status could not be determined, (3) improve reports from CMS's contract management system to allow for easier access to contract data that would assist in closeout and funds management, and (4) improve coordination and collaboration across departmental staff with contract closeout responsibilities. CMS concurred with all four recommendations.

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## OBJECTIVES

1. To determine the number of contracts active as of February 2014 that are administered under the Federal Acquisition Regulation (FAR) by the Centers for Medicare & Medicaid Services (CMS) and the amounts CMS had obligated for these contracts;
2. To determine the number and total cost of FAR contracts that CMS has not closed out as required under FAR; and
3. To identify CMS's barriers to closing FAR contracts.

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## BACKGROUND

CMS relies extensively on contracts to carry out its basic mission. In fiscal year (FY) 2014, CMS spent \$7 billion on contracts needed to administer its programs.

### FAR Closeout Requirements

The FAR governs how Federal agencies can contract for goods and services. The FAR requires agencies to begin the closeout process once a contract is physically completed. A contract is physically completed when a contractor finishes providing the goods or services under the contract (hereafter referred to as completed).<sup>1</sup>

#### DEFINITION OF SELECT CONTRACT TERMS

##### USED IN REPORT

**OBLIGATED AMOUNT** a definite commitment that creates a legal liability of the Government for the payment of goods and services ordered or received. An obligation is incurred, for example, when a contract is signed or an order is placed for goods and/or services.

**CONTRACT COST** the total cost of the contract at closeout, or at completion date if pending closeout.

#### CONTRACT TYPES

**FIXED-PRICE** is a type of contract that provides maximum incentive for the contractor to control costs and perform effectively, and the contractor assumes the risk for cost overruns. Firm fixed price is one type of fixed price contract. The FAR requires these contracts to be closed within 6 months of completion.

**COST-REIMBURSEMENT** is a type of contract that provides for payment of allowable costs to the extent prescribed in the contract, and the Federal Government assumes the risk for cost overruns. The FAR requires these contracts to be closed within 36 months of completion.

The timeframes specified in the FAR for completing closeouts vary depending on the type of contract. Firm-fixed-price contracts must be closed within 6 months after the date on which the contracting officer receives evidence of completion.<sup>2</sup> Contracts requiring settlement of indirect cost rates, for example, certain cost-reimbursement contracts, should be closed within 36 months of the date on which the contracting officer receives evidence

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<sup>1</sup> FAR 4.804-4(a) and 5(a).

<sup>2</sup> FAR 4.804-1(a)(2). This applies to firm-fixed-price contracts other than those using simplified acquisition procedures.

of completion.<sup>3</sup> All other types of contracts should be closed within 20 months of the date on which the contracting officer receives evidence of completion.<sup>4</sup>

### **Contract Closeout Process**

The closeout process is an important step in the management of contracts, as it generally is the last chance for the Government to detect and recover improper contract payments. Therefore, delays in the closeout process pose a significant risk to Government funds.

The procedures for closing out cost-reimbursement contracts include settling all costs and finalizing indirect cost rates, where applicable. They also can include completing a contract audit, if necessary. As part of this process, CMS contractors must submit their indirect cost proposals to the cognizant agency responsible for establishing indirect cost rates, which is usually the National Institutes of Health (NIH) for for-profit entities and the Program Support Center (PSC) for not-for-profit entities.<sup>5</sup> Once the indirect cost rates have been finalized, CMS contracting officers and specialists can perform the necessary actions to administratively close the contract.

### **Contract Management at CMS**

CMS's Office of Acquisition and Grants Management (OAGM) plans, organizes, coordinates, and manages the activities required to maintain an agencywide acquisition program. OAGM uses a CMS intranet-based Windows software tool called the Comprehensive Acquisition Management System (CAMS), which automates the full Federal procurement life-cycle from advanced procurement planning through acquisition closeout. CAMS includes contract management capabilities to support FAR contracts, and tracks and reports on CMS procurement activity.

Within OAGM, the Division of Financial Services (DFS) is responsible for ensuring that all required contract closeouts are executed. DFS tracks all contracts to be closed and issues notifications and reminders to OAGM contracting staff when a contract should be ready to be closed.

### **Vulnerabilities Identified Within CMS's Contracting Environment**

In 2007, the Government Accountability Office (GAO) found that CMS's operating environment created vulnerabilities in the contracting process and increased the risk of waste and improper payments.<sup>6</sup> Specifically, GAO found that CMS did not adequately fulfill critical contractor oversight and that it frequently used cost-reimbursement contracts, which increased risks to CMS. GAO also found that CMS did not perform its contract closeout procedures in accordance with FAR timeframes; moreover, it had a backlog of about 1,300 contracts at the time of the study, putting CMS at increased risk

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<sup>3</sup> FAR 4.804-1(a)(3).

<sup>4</sup> FAR 4.804-1(a)(4).

<sup>5</sup> The cognizant agency is the Federal agency that is responsible for establishing final indirect cost rates on behalf of all Federal agencies. For for-profit contractors, this is normally the Federal agency with the largest dollar amount of negotiated contracts.

<sup>6</sup> GAO, *Centers for Medicare and Medicaid Services: Internal Control Deficiencies Resulted in Millions of Dollars of Questionable Contract Payments*, GAO-08-54, November 2007.

of improper payments or waste. GAO made nine recommendations to CMS to improve internal control and accountability in the contracting process and related payments to contractors.

A 2009 GAO report indicated that CMS had not substantially addressed seven of the nine recommendations made in the 2007 report to improve internal control over contracting and payments to contractors.<sup>7</sup> In addition, CMS continued to have a backlog of contracts that were overdue for closeout.

To address GAO's recommendation to reduce the backlog of contracts awaiting closeout, OAGM created a contract closeout policy that established unique internal OAGM procedures for the closeout of contract files. In addition, a special team was created within DFS in July 2011 to focus on reducing the large number of contracts that were completed before FY 2011, but were overdue for closeout (hereafter referred to as the backlog).

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## METHODOLOGY

### Scope

This study focused on CMS's FAR contracts that were active as of February 2014 and its contracts pending closeout as of February 2014.

### Data Collection and Analysis

*Active contracts.* From CMS, we requested and analyzed data for all FAR contracts that were active, i.e., not completed, as of February 2014.

*Contract closeouts.* We also requested and analyzed data regarding contracts that were completed after September 30, 2010. For FYs 2011 through 2013, we asked CMS to identify the contracts that were (1) closed as of the end of each FY, (2) pending but not overdue for closeout as of the end of each FY, and (3) pending and overdue for closeout based on FAR regulations as of the end of each FY.

In addition, we requested and analyzed information for the contracts in the backlog (completed before FY 2011) that were not closed as of February 2014.

*Document review.* We collected and reviewed CMS policies and procedures related to contract management and contract closeouts.

*Structured interview and survey questions.* We conducted a structured interview with CMS staff in OAGM to determine their procedures for closing out contracts. We also asked CMS to provide information about the reasons why contracts are not completed on time and the chief barriers to closing out contracts in a timely manner.

In the interview with CMS staff, it was reported that NIH's procedures impacted CMS's closeout process. Therefore, we also requested information from NIH's Division of Financial Advisory Services, Office of Acquisition Management and Policy, to

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<sup>7</sup> GAO, *Centers for Medicare and Medicaid Services: Deficiencies in Contract Management Internal Control Are Pervasive*, GAO-10-60, October 2009.

determine their role in the contract closeout process. Our questions focused on NIH's procedures for establishing contractors' final indirect cost rates.

### **Limitations**

FAR 4.804-1(c) states that contracts shall not be closed if they are in litigation, under appeal, or have been terminated and all termination actions have not been completed. CMS staff reported that they do not track whether contracts fall into any of these categories. Therefore, we had no method to establish whether any of the contracts that we determined were overdue would be exempt from the standard closeout procedures and timeframes. However, CMS staff stated that exempted contracts are rare occurrences.

OIG did not review individual contract file documents to verify the data provided by CMS.

### **Standards**

This study was conducted in accordance with the *Quality Standards for Inspection and Evaluation* issued by the Council of the Inspectors General on Integrity and Efficiency.

## FINDINGS

### **CMS obligated \$15 billion to 1,229 contracts that were active as of February 2014**

CMS obligated \$15 billion to a total of 1,229 active contracts as of February 2014.<sup>8</sup> Most of these contracts are not firm-fixed-price contracts. The 1,229 active contracts are held by a total of 500 separate contractors. The number of contracts per contractor range from 1 to 32, and obligated amounts ranged from under \$1,000 to \$947 million. As shown in Table 1, 7 contractors had obligated amounts over \$500 million.

**Table 1: CMS Contractors With Over \$500 Million in Total Obligations on Active Contracts as of February 2014**

<b>Contractor Name</b>	<b>Number of Contracts</b>	<b>Total Obligated</b>
General Dynamics Information Technology, Inc.	12	\$946,513,287
Lockheed Martin Services, Inc.	7	\$934,136,928
GHI Medicare	2	\$710,477,163
HP Enterprise Services, LLC	12	\$663,411,748
CGI Federal, Inc.	13	\$565,428,728
Buccaneer Computer Systems	14	\$509,277,243
Safeguard Services, LLC	11	\$507,518,007

Source: OIG analysis of FAR contract data provided by CMS from CAMS for active contracts, 2014.

### **As of February 2014, CMS had not performed required closeouts for contracts totaling \$25 billion as required by regulation**

As of February 2014, CMS had 6,126 contracts that were overdue for closeout, i.e., they were completed, but not closed out as required by the FAR. As shown in Table 2, these 6,126 contracts totaled \$25 billion. The majority of overdue contracts (5,420) were completed before FY 2011, i.e., in the backlog. These backlog contracts totaled \$24 billion and were overdue an average of 2,512 days—almost 7 years.

In addition to the large backlog of contracts that completed before FY 2011 and remain overdue, 706 contracts that completed between FY 2011 and FY 2013 remain overdue. These 706 contracts totaled an additional \$1.5 billion. On average, these contracts were 412 days past their closeout due dates as of February 2014, with 49 percent overdue more than 1 year.

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<sup>8</sup> This amount was aggregated from the obligated amount reported in CAMS for contracts that were active as of February 2014.

**Table 2: Closeout Status of CMS Contracts Reviewed**

Closeout Status	Number of Contracts <sup>1</sup>	Percent of Contracts	Total Contract Cost
Overdue	6,126	86	\$25,448,848,937
<i>Completed before FY 2011</i>	5,420	88	\$23,928,485,437
<i>Completed between FYs 2011 and 2013</i>	706	12	\$1,520,363,500
Closed <sup>2</sup>	402	6	\$49,104,963
<i>Closed within FAR timeframe</i>	13	3	\$19,567,099
<i>Not closed within FAR timeframe</i>	389	97	\$29,537,864
Pending closeout but not overdue <sup>2</sup>	635	9	\$10,519,020,794
<b>Total</b>	<b>7,163</b>	<b>100<sup>3</sup></b>	<b>\$36,016,974,694</b>

Source: OIG analysis of FAR contract data provided by CMS, 2014.

<sup>1</sup> This includes CMS contracts that (1) were completed but not closed out as of February 2014 or (2) were completed in FYs 2011 through 2013 and closed as of February 2014.

<sup>2</sup> Only includes contracts that completed between FYs 2011 and 2013.

<sup>3</sup> The percentages do not sum to 100 percent because of rounding.

## The large backlog of unclosed contracts poses a significant financial risk to CMS

Having a large number of contracts that are awaiting closeout after the deadlines required by the FAR poses a financial risk to CMS. Generally, the appropriations used to fund a contract cannot be used to make payments to contractors more than 5 years after the end of the fiscal year in which they were appropriated.<sup>9</sup> After 5 years, CMS cannot use the original appropriated funds to make payments owed to the contractor at closeout because the appropriation account is closed. Instead, CMS must use available current year funds to pay any obligations that were incurred during the contract performance period.<sup>10</sup> Similarly, any money owed to CMS by contractors may not be payable directly to CMS. Contractor repayments can be credited back to the agency if the appropriation account has not been closed.<sup>11</sup> However, once the appropriation account has been closed, any repayments must be returned to the U.S. Department of Treasury.

Of the 5,420 contracts that completed before FY 2011 and were overdue for closeout as of February 2014, 69 percent were overdue 5 or more years—with the most delayed closeout due in 1995. These contracts totaled \$5 billion. If at closeout CMS determines that any of this \$5 billion was misspent or not allowable, it would not be able to directly recover these dollars.

<sup>9</sup> This does not apply to no-year appropriations, which are available for obligation indefinitely.

<sup>10</sup> CMS is limited to using 1 percent of current year funds to satisfy valid, prior obligations. 31 U.S.C. § 1553(b)(2).

<sup>11</sup> If the period of availability for obligation of those funds has passed, the repayment may only be used to adjust existing obligations, not to make new ones.

We could not determine the extent of CMS's financial risk because CMS could not provide us with information regarding the amount of money owed to or from contractors for the most recently closed out contracts. In fact, CMS could provide information regarding closeout payments due to or from the contractor for only 49 contracts that had been in the backlog but were closed out as of February 2014. At closeout, CMS determined that contractors owed the Government \$10,069,407 for these 49 contracts.

### **While CMS has taken steps to improve its closeout and contract management processes, barriers remain that hinder timely closeout**

In addition to developing a team to focus solely on closing out contracts in the backlog, CMS has taken other steps to improve the contract closeout process and contract management.<sup>12</sup> CMS has developed and implemented policies and procedures for managing and closing out contracts, which includes implementing performance metrics to improve the timeliness of closeouts. CMS also developed a four-year strategic plan that outlines its goals and objectives to constantly monitor and improve the effectiveness of contract management internal controls. However, despite these improvements, there continue to be some significant barriers in completing contract closeouts.

#### ***CMS has made improvements in meeting the FAR timeframes in recent years, but FAR timeframes continue to be missed***

The percentage of closed contracts that met FAR timeframes increased slightly between FYs 2011 and 2013. Of the FY 2013 contracts that CMS closed, 9 percent were closed within the FAR timeframes, whereas, of the FYs 2011 and 2012 contracts that closed, only 4 percent and 0 percent (respectively) closed within the FAR timeframes. However, of all the 402 contracts that completed between FYs 2011 and 2013 and were closed by February 2014, only 3 percent were closed within FAR timeframes. This means that 97 percent of contracts that were closed did not meet the FAR requirements for timely closeout.

#### ***Sixty-five percent of contracts have not been closed out because the indirect cost rates have not been finalized***

Out of the 6,761 contracts that are pending or overdue for closeout, 65 percent require settlement of indirect cost rates before they can be officially closed out. These contracts totaled over \$34 billion. According to CMS staff, one of the major barriers to timely closeout is the challenge of finalizing indirect cost rates.

A number of factors have contributed to delays in finalizing indirect cost rates. Both CMS staff and NIH staff reported that some contractors fail to timely and adequately submit their indirect cost proposals to their cognizant agency (NIH or PSC), which causes delays in the finalization of indirect cost rates. Furthermore, while CMS has developed a system to track contractors' outstanding cost proposals, NIH and PSC do not have access to this system. CMS staff stated that the lack of a tracking system at

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<sup>12</sup> This team is comprised of one DFS staff member and five contractor personnel.

NIH and PSC, as well as NIH's lack of access to CMS's tracking system, prohibit effective collaboration, especially between NIH and CMS, and contributes to significant delays in finalizing indirect cost rates.<sup>13</sup>

***CMS and NIH staffs reported that the lack of resources and staff hinder timely closeouts***

Both CMS and NIH staffs reported that the lack of adequate resources and insufficient staff levels continue to be a major challenge for completing contract closeouts in a timely manner. CMS staff reported that CMS was understaffed for the task of closing out billions of dollars in contracts. NIH staff reported that a lack of resources, the loss of several senior staff, and a large backlog of indirect cost proposals from many years are the primary barriers to timely completion of the review of indirect cost rates.

***CMS's contract management system contains conflicting data and cannot readily provide key pieces of information***

We found instances in which CAMS data were inconsistent and conflicting. Using the data provided by CMS from CAMS, we could not determine the closeout status for 675 contracts. This was because of inconsistent data identified in CAMS. The data showed the following: (1) the contract was closed, but the closeout date was missing or (2) the contract was pending, but a closeout date was given. These contracts totaled \$2.7 billion.

In addition, CMS was unable to provide the product service code, project description, total dollars withheld, and issuing office for the contracts that completed between FYs 2011 and 2013. According to CMS staff, obtaining these data from CAMS would require a significant edit to the existing data reports, a task for which CMS has inadequate resources. Additionally, the total disbursements (payment amounts) made to contractors are not available in CAMS. While CMS has plans to incorporate these data into CAMS in the future, CMS staff cannot determine how much money was paid to contractors without manually reviewing contract files and contacting CMS's Office of Financial Management, which is responsible for the disbursements. Furthermore, the total amount owed by or to the Government or contractor as determined during closeout is not available in CAMS. According to CMS staff, these data also must be captured manually if a modification was necessary to reconcile amounts owed either by the contractor or by the Government at the time of closeout. Therefore, key pieces of information that CMS could use to manage and oversee contracts are not easily accessible through the existing contract management system.

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<sup>13</sup> This issue has not been as significant with regard to not-for-profit contracts under PSC's authority because CMS works with PSC to determine billing and final rates.

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## CONCLUSION AND RECOMMENDATIONS

In their strategic plan, CMS outlines goals to fulfill its mission “as an effective steward of public funds.” Part of being an effective steward of public funds involves protecting contract funds from risk by providing effective and rigorous oversight of the contracting environment. With tens of billions in contract dollars, CMS has a responsibility to ensure that contracts are being appropriately and effectively managed.

The closeout process is an important step in the management of contracts, as it generally is the last opportunity for improper contract payments to be detected and recovered. Timely closeouts are imperative for protecting contract funds and reducing CMS’s financial risk. In cases where original appropriations cannot be used to make payments, CMS would need to use current year funds to pay any money owed to contractors at closeout. Therefore, closing contracts within FAR timeframes ensures that (1) CMS’s current year funds are not being used to pay past year obligations, (2) CMS is able to recover any contract funds owed, and (3) Government funds are used according to the contract requirements.

While improvements have been made in meeting the FAR timeframes when closing contracts in recent years, CMS continues to have a large percentage of contracts that are overdue for closeout, including a large backlog of contracts completed before FY 2011. The contracts overdue for closeout totaled \$25 billion.

Though CMS has made significant strides in improving the contracting environment in recent years, it continues to face barriers that prevent timely contract closeouts, which poses a significant risk to public funds.

Therefore, we recommend that CMS:

### **Implement additional strategies to meet required FAR timeframes for closeout**

Contracts should be closed out within FAR timeframes. While CMS has made improvements between FYs 2011 and 2013 in reducing the average number of days to close contracts, CMS should review their policies and procedures to ensure that all necessary steps are being taken to ensure closeouts are meeting FAR timeframes. CMS also could reevaluate how it is prioritizing closeouts to determine if efficiency could be increased. For example, CMS could determine if the most effective closeout strategy is to prioritize contracts that do not require finalization of indirect cost rates and/or those approaching the 5-year expiration of their appropriated funds.

### **Determine the status of contracts for which closeout status could not be determined**

CMS was unable to provide the closeout status of 675 contracts. CMS needs to determine the closeout status of these contracts and update this information in CAMS. Because these contracts are worth nearly \$3 billion, it is important that CMS knows whether these contracts have been properly closed out and to have this information readily accessible in CAMS.

**Add additional data to its contract management system, and improve reports to allow for easier access to contract data that would assist in contract closeout and funds management**

CMS should add to CAMS the ability to enter data regarding the total amount owed by or to the Government or contractor at the end of contract closeout. CAMS should contain information regarding payments made by the Government to the contractors. CMS also should create a standard data report that would enable CAMS users to generate basic contract information, such as product service code, project description, total dollars withheld, and issuing office. Having these data in CAMS, along with an improved CAMS report, would enable CMS to readily access more complete information regarding the contract as part of its contract oversight.

**Improve coordination and collaboration with NIH**

CMS should consider finalizing a Memorandum of Understanding with NIH to clearly define each agency's roles and responsibilities in the closeout process, especially with regard to cost-reimbursement contracts. This would enable increased collaboration between CMS and NIH, and enable CMS to better track the incurred cost audits that need to be completed.

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## AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

CMS concurred with all four of the report recommendations. In its comments, CMS described several initiatives it has implemented to facilitate the improved management of its contracts; initiatives focus on clear lines of authority, prioritization of requirements and deliverables, and metric-driven quality reviews.

CMS reported progress related to our recommendations, including:

- closing 2,077 contracts with an obligated value of \$1.3 billion and de-obligating \$29.95 million since February 2014;
- upgrading its contract management system and improving its contract tracking system and reporting capabilities;
- working to integrate its contract management system with the CMS Health Care Integrated Ledger Accounting System to track expenditures;
- working to implement the Department of Treasury's Invoice Processing Platform to automate the invoicing process; and
- working to determine more effective and efficient opportunities for closing out contracts.

We look forward to receiving updates from CMS on its progress toward these recommendations through the initiatives it described. We did not make any changes to the report based on CMS's comments. The full text of CMS's comments is provided in Appendix A.

# APPENDIX A

## Agency Comments



DEPARTMENT OF HEALTH & HUMAN SERVICES

Centers for Medicare & Medicaid Services

SEP 30 2015

200 Independence Avenue SW  
Washington, DC 20201

**To:** Daniel R. Levinson  
Inspector General  
Office of the Inspector General

**From:** Andrew M. Slavitt */S/*  
Acting Administrator  
Centers for Medicare & Medicaid Services

**Subject:** Billions in Contract Dollars Have Not Been Closed by CMS as Required (OEI-03-12-00680)

The Centers for Medicare & Medicaid Services (CMS) appreciates the opportunity to review and comment on the Office of the Inspector General's (OIG) draft report. CMS is committed to providing effective management and oversight of contracts, thereby acting as a good steward of tax payer dollars.

CMS spends over 7 billion a year in contracts and to facilitate the improved management of these contracts we have implemented several initiatives which focus on clear lines of authority, prioritization of requirements and deliverables, and metric-driven quality reviews. These include implementing a strong management structure, which focuses priorities and provides clear direction. In addition, CMS has issued formal guidance that lays out the roles and responsibilities for each member of the acquisition workforce community, and has established a standardized Contracting Officer's Representative (COR) Appointment Memorandum on each contract that will provide CORs, and their managers, with better guidance about their respective acquisition team roles and responsibilities.

CMS takes its responsibility to protect taxpayer dollars seriously and had already prioritized closing out contracts prior to the OIG's draft report. We have been accelerating the close out of overdue contracts but at the same time making sure we are spending sufficient time conducting close out audits so we can appropriately track recovery of any additional funds. This additional time, while delaying the closing of contracts, is time well spent. Since February 1, 2014, the date this OIG draft report data was based upon, OAGM closed 2,077 contracts with an obligated value of \$1.3 billion and also de-obligated \$29.95 million. In October 2014, CMS implemented a goal of closing out approximately 20 percent or 2,250 of overdue contracts per year. To assist in close-outs, CMS put in place a cross-divisional task force that meets on a regular basis with executive oversight to ensure accountability, the speed of progress and share best practices.

Additionally, CMS has begun implementing the Department of Treasury's recommended Invoice Processing Platform (IPP) to automate the invoicing process. The IPP is a secure, Web-based centralized service that more efficiently manages government invoicing from contract award

through final payment notification. CMS expects to better be able to monitor contractor payments thru the implementation of the IPP, which will also make closeout much more efficient.

**OIG Recommendation**

Implement additional strategies to meet required FAR timeframes for closeout.

**CMS Response**

CMS concurs with this recommendation. CMS has prioritized contracts for closeout by contract type, starting with Firm Fixed Price (FFP) contracts. Since February 2014, CMS has closed 2,077 contracts with an obligated value of \$1.3 billion and de-obligated \$29.95 million. In October 2014, CMS also set a goal to close-out approximately 2,250 contracts, of all types, per year.

**OIG Recommendation**

Determine the status of contracts for which closeout status could not be determined.

**CMS Response**

CMS concurs with this recommendation. Since 2014, CMS has significantly improved its reporting capabilities. CMS can report the total number of contract awards by type and kind, including those that are "closed." Additionally, CMS has updated its tracking system to make sure closeout status is accurate and tracked on a regular basis.

**OIG Recommendation**

Add additional data to its contract management system and improve reports to allow for easier access to contract data that would assist in contract closeout and funds management.

**CMS Response**

CMS concurs with this recommendation. CMS has upgraded its contract management system which now allows CMS to capture contract type, obligation amount, and the minimum and maximum periods of performance. Additionally, CMS is in the process of integrating its contract management system with the CMS Health Care Integrated Ledger Accounting System (HIGLAS). This will allow CMS to track expenditures with real time balances.

**OIG Recommendation**

Improve coordination and collaboration with NIH.

**CMS Response**

CMS concurs with this recommendation. CMS is working to determine more effective and efficient opportunities for closing out contracts.

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## ACKNOWLEDGMENTS

This report was prepared under the direction of Linda Ragone, Regional Inspector General for Evaluation and Inspections, in the Philadelphia regional office.

Maria Schepise Johnson served as the team leader for this study. Other Office of Evaluation and Inspections staff from the Philadelphia regional office who conducted the study include Robert A. Vito and Russell Tisinger. Central office staff who provided support include Althea Hosein, Scott Manley, and Lucia Fort.

# Office of Inspector General

<http://oig.hhs.gov>

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The mission of the Office of Inspector General (OIG), as mandated by Public Law 95452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of individuals served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

## **Office of Audit Services**

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

## **Office of Evaluation and Inspections**

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

## **Office of Investigations**

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and individuals. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

## **Office of Counsel to the Inspector General**

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.