



Region IX
Office of Audit Services
50 United Nations Plaza, Room 171
San Francisco, CA 94102

April 25, 2003

Report Number: A-10-03-00001

Mr. James E. Verdick, Vice President
Medicare Northwest
P.O. Box 8110
Portland, Oregon 97207-8110

Dear Mr. Verdick:

Enclosed are two copies of the U.S. Department of Health and Human Services, Office of Inspector General, Office of Audit Services' report entitled "Review of Medicare Northwest Data Center Claims Processing Costs for Fiscal Year 2000."

In accordance with the principles of the Freedom of Information Act, 5 USC, 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services, reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.)

If you have any questions or comments concerning the matters presented in this report, please direct them to the HHS official named below. To facilitate identification, please refer to report number A-10-03-00001 in all correspondence relating to this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Lori A. Ahlstrand".

Lori A. Ahlstrand
Regional Inspector General
for Audit Services

Enclosures

Direct Reply to HHS Action Official:

Linda Ruiz, Regional Administrator
Centers for Medicare and Medicaid Services
U.S. Department of Health and Human Services
2201 Sixth Avenue, M/S RX-40
Seattle, Washington 98121

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF
MEDICARE NORTHWEST DATA
CENTER
CLAIMS PROCESSING COSTS
FOR FISCAL YEAR 2000**



JANET REHNQUIST
Inspector General

APRIL 2003
A-10-03-00001

Office of Inspector General

<http://oig.hhs.gov>

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OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.





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Mr. James E. Verdick, Vice President
Medicare Northwest
P.O. Box 8110
Portland, Oregon 97207-8110

Dear Mr. Verdick:

This report provides you with the results of our audit entitled, "Review of Medicare Northwest Data Center Claims Processing Costs for Fiscal Year 2000." The audit objective was to determine whether Medicare Northwest's data center costs represented reasonable and allowable costs in conformity with the reimbursement principles contained in the Federal Acquisition Regulation (FAR) and the conditions set forth in the Inter-Plan Operating Agreements (agreements) between Medicare Northwest and other Medicare contractors (users) who utilized the services of the data center.

Based on our review, we concluded that the \$4,306,787 of data center costs billed to other Medicare users for fiscal year (FY) 2000 was reasonable and allowable.

INTRODUCTION

BACKGROUND

Medicare Northwest is a division of Regence BlueCross BlueShield of Oregon. The Regence Group is an affiliation of BlueCross BlueShield health plans in Oregon, Washington, Idaho, and Utah (plans). The costs of The Regence Group are accumulated and allocated as home office expenses to each of its affiliated plans.

During FY 2000, Medicare Northwest operated a data center that processed Medicare Part A claims for nine users, including itself. The users entered into agreements with Medicare Northwest for processing Medicare claims. Under terms of the agreements, the data center billed each user a per-claim amount for claims processed on its behalf. The agreements further required that claims processing costs be based on actual costs. In FY 2000, Medicare Northwest charged its users \$4,306,787 for processing Medicare Part A claims.

Users' payments to the data center were included in their administrative cost proposals, which were submitted to the Centers for Medicare and Medicaid Services (CMS) for reimbursement. The CMS reimbursed the users for 100 percent of the cost of processing Medicare claims. There was no direct contractual relationship between CMS and Medicare Northwest's data center.

OBJECTIVE, SCOPE AND METHODOLOGY

Our audit was conducted in accordance with generally accepted government auditing standards. The objective of our audit was to determine whether the costs billed for the operations of Medicare Northwest's data center were reasonable and allowable in accordance with the contractual conditions set forth in the nine user agreements, and were in conformity with the reimbursement principles contained in the FAR.

In planning and performing our audit, we considered only those internal controls considered necessary to achieve our objectives. Our evaluation of internal controls was for the purpose of expressing an opinion on whether data center costs billed to users in FY 2000 were acceptable and not to provide assurance on the overall internal control structure or the accounting system.

In summary, our review consisted of:

- Interviewing The Regence Group officials for the purpose of understanding and evaluating the cost allocation processes and methodologies used to allocate costs to each of the plans and lines of business,
- Reviewing cost reports and cost allocation methodologies supporting costs charged to Medicare,
- Reviewing selected transactions to determine that the allocation methodologies were being appropriately followed and that the costs were reasonable and allowable in accordance with applicable contractual conditions and were in conformity with the reimbursement principles contained in the FAR, and
- Meeting with Medicare Northwest officials for the purpose of understanding and evaluating how costs are accumulated and billed to users.

Our fieldwork was conducted during the period November 2002 through April 2003 and included site visits to The Regence Group and Medicare Northwest's offices in Portland, Oregon.

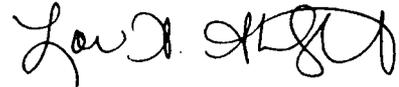
RESULTS OF AUDIT

We have concluded that the \$4,306,787 of data center costs billed to Medicare users for FY 2000 was reasonable and allowable in accordance with applicable contractual conditions and was in conformity with the reimbursement principles contained in the FAR. The results of our audit were discussed with Medicare Northwest officials.

Page 3 – Mr. James E. Verdick

As this report contains no recommendations, no response is necessary. However, if you have any questions or comments concerning the matters presented in this report, please direct them to the HHS official named below. To facilitate identification, please refer to report number A-10-03-00001 in all correspondence relating to this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Lori A. Ahlstrand". The signature is fluid and cursive, with the first name "Lori" being the most prominent.

Lori A. Ahlstrand
Regional Inspector General
for Audit Services

Enclosures

Direct Comments to HHS Action Official:

Linda Ruiz, Regional Administrator
Centers for Medicare and Medicaid Services
U.S. Department of Health and Human Services
2201 Sixth Avenue, M/S RX-40
Seattle, Washington 98121

ACKNOWLEDGMENTS

This report was prepared under the direction of Lori Ahlstrand (RIGA). Other principal Office of Audit Services staff who contributed include:

Jerry McGee, *Audit Manager*
Anthony Rocha, *Senior Auditor*
Jerry Bartlett, *Auditor*

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