



Office of Audit Services, Region IV
61 Forsyth Street, SW, Suite 3T41
Atlanta, GA 30303

August 16, 2011

Report Number: A-04-10-00068

Ms. Sandra Miller
Senior Vice President and President, Federal Government Solutions
National Government Services, Inc.
8115 Knue Road
Indianapolis, IN 46250

Dear Ms. Miller:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of Blue Cross and Blue Shield of Georgia, Inc.'s Medicare Final Administrative Cost Proposals for the Period October 1, 2006, Through May 4, 2009*. We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Eric Bowen, Audit Manager, at (404) 562-7789 or through email at Eric.Bowen@oig.hhs.gov. Please refer to report number A-04-10-00068 in all correspondence.

Sincerely,

/John T. Drake, Sr./
Acting Regional Inspector General
for Audit Services

Enclosure

cc:

Mr. Todd W. Reiger
Chief Financial Officer, Medicare Operations
National Government Services, Inc.
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Direct Reply to HHS Action Official:

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Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF BLUE CROSS AND BLUE
SHIELD OF GEORGIA, INC.'S MEDICARE
FINAL ADMINISTRATIVE COST
PROPOSALS FOR THE PERIOD
OCTOBER 1, 2006, THROUGH
MAY 4, 2009**



Daniel R. Levinson
Inspector General

August 2011
A-04-10-00068

Office of Inspector General

<http://oig.hhs.gov>

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Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

BACKGROUND

Medicare Program

Title XVIII of the Social Security Act established the Health Insurance for the Aged and Disabled (Medicare) program, which provides for a hospital insurance program (Part A) and a related supplementary medical insurance program (Part B). Medicare Part A provides coverage for inpatient hospital care, post-hospital extended care, and post-hospital home health care. The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program by contracting with private organizations to process and pay claims for services provided to eligible beneficiaries.

During the period October 1, 2006, through May 4, 2009, CMS contracted with Blue Cross and Blue Shield of Georgia, Inc. (BCBSGA) to serve as the Part A fiscal intermediary responsible for Georgia. BCBSGA's Part A contract with CMS provided for reimbursement of allowable administrative costs incurred. Such administrative costs include the direct costs of administering the contract as well as allocations of certain indirect costs of services or assets used by Medicare and other entities. For October 1, 2006, through May 4, 2009, BCBSGA claimed administrative costs totaling \$24,727,672 in reimbursement for direct and indirect costs related to its Part A contract.

OBJECTIVE

Our objective was to determine whether the administrative costs claimed on BCBSGA's Medicare Final Administrative Cost Proposals (FACP) for October 1, 2006, through May 4, 2009, were allowable for Medicare reimbursement.

SUMMARY OF FINDINGS

Most of the administrative costs claimed on BCBSGA's Medicare FACPs for October 1, 2006, through May 4, 2009, were allowable for Medicare reimbursement. Of the \$24,727,672 in administrative costs reviewed, \$24,325,053 was allowable for Medicare reimbursement under the Part A contract. However, the remaining \$402,619 was not. Of this amount, \$245,056 was unallowable for Medicare reimbursement because BCBSGA did not have adequate policies and procedures to ensure that these costs were adequately supported and allocated to the Medicare Part A contract in compliance with applicable Federal regulations and CMS guidance. We set aside the remaining \$157,563 for CMS adjudication because it consisted of termination costs, which, under CMS guidance, should have been claimed on BCBSGA's termination cost vouchers.

RECOMMENDATIONS

We recommend that BCBSGA:

- reduce direct costs claimed on its FACP by \$245,056,
- work with CMS to resolve \$157,563 in termination costs incorrectly included in its 2009 FACP, and
- strengthen its policies and procedures for maintaining documentation to support costs included on its FACPs.

BLUE CROSS AND BLUE SHIELD OF GEORGIA, INC. COMMENTS

In comments on our draft report, BCBSGA agreed with most of our findings, except for those related to the unapproved bonus payment and the understated reductions to fringe benefit costs. BCBSGA stated that the bonus payment was made in good faith to the individual who oversaw the Medicare operations at BCBSGA and that this individual was instrumental in sustaining performance during the Medicare administrative contractor's transition and winding up operations. With regard to the reductions to fringe benefit costs, BCBSGA stated that the proposed adjustment removes post retirement costs as determined through generally accepted accounting principles and that actual paid claims had been incurred, which have not been factored into the proposed adjustment. BCBSGA stated that it would pursue reimbursement for both findings with CMS.

BCBSGA's comments are included in their entirety as Appendix D.

OFFICE OF INSPECTOR GENERAL RESPONSE

We maintain that the basis of the unapproved bonus paid to one employee was not allowable under the Part A contract in accordance with 48 CFR § 31.205-6(f). Furthermore, we maintain that BCBSGA did not obtain CMS's prior written approval for this bonus payment, as required by Exhibit 3, section 1.2, entitled *Retention Bonuses of the Carrier/Intermediary Workload Closeout Handbook*.

With regard to the reductions to fringe benefit costs, BCBSGA did not provide with its comments on the draft report additional documentation supporting that it had paid post retirement costs. Therefore, we could not determine whether the post retirement costs in question had been incurred, and we maintain that these costs were not allocable to Medicare.

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CLAIMED FOR OCTOBER 1, 2006, THROUGH MAY 4, 2009

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INTRODUCTION

BACKGROUND

Medicare Program

Title XVIII of the Social Security Act established the Health Insurance for the Aged and Disabled (Medicare) program, which provides for a hospital insurance program (Part A) and a related supplementary medical insurance program (Part B). Medicare Part A provides coverage for inpatient hospital care, post-hospital extended care, and post-hospital home health care. The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program by contracting with private organizations to process and pay claims for services provided to eligible beneficiaries.

Blue Cross and Blue Shield of Georgia, Inc. Medicare Contract

During the period October 1, 2006, through May 4, 2009, CMS contracted with Blue Cross and Blue Shield of Georgia, Inc. (BCBSGA) to serve as the Part A fiscal intermediary responsible for Georgia. BCBSGA's Part A contract with CMS provided for reimbursement of allowable administrative costs incurred. Such administrative costs include the direct costs of administering the contract as well as allocations of certain indirect costs of services or assets used by Medicare and other entities. For October 1, 2006, through May 4, 2009, BCBSGA claimed administrative costs totaling \$24,727,672 in reimbursement for direct and indirect costs related to its Part A contract.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the administrative costs claimed on BCBSGA's Medicare Final Administrative Cost Proposals (FACP) for October 1, 2006, through May 4, 2009, were allowable for Medicare reimbursement.

Scope

Our review was limited to \$24,727,672 in direct and indirect administrative costs claimed by BCBSGA on its FACP submitted to CMS for the period covering October 1, 2006, through May 4, 2009.

We limited our internal control review to controls related to the recording and reporting of costs on the FACP. We accomplished our objective through substantive testing.

We conducted our fieldwork at BCBSGA offices in Atlanta, Georgia.

Methodology

To accomplish our objective, we:

- reviewed applicable Medicare laws, regulations, and guidelines;
- reviewed BCBSGA’s policies, as applicable;
- reviewed BCBSGA’s contract with CMS;
- reconciled FACPs from 2007 through 2009¹ to BCBSGA’s accounting records;
- interviewed BCBSGA officials about its cost accumulation processes for FACPs and gained an understanding of its cost allocation systems;
- tested direct salaries and wages by selecting a stratified random sample of 105 “employee pay periods” (Appendix A) and by:
 - tracing the payments to payroll journals and personnel records,
 - verifying the amount paid was consistent with the employee’s pay rate,
 - verifying hours paid against employee time records, and
 - verifying the salary and wages were charged to the proper cost center;²
- reviewed direct costs for subcontracts and outside professional services by tracing all expense items to supporting documents such as invoices and journal entries;³
- reviewed direct costs for temporary employees by judgmentally sampling 30 expense items and tracing them to supporting documents such as invoices and reports;⁴
- reviewed direct costs for postage by selecting the largest general ledger account and tracing all account expenses to supporting documents such as invoices and reports;⁵

¹ These FACPs cover the audit period October 1, 2006, through May 4, 2009.

² We found no disallowance associated with our sample.

³ We selected these direct costs based on the nature of these costs.

⁴ We selected these expenses based on materiality.

⁵ We selected these direct costs based on materiality.

- calculated the allowable monthly fringe benefit costs by multiplying the allowable monthly employee headcount by the allowable monthly fringe benefit rate;
- reviewed the accuracy of the credits made on the FACPs;
- reviewed the accuracy of the reductions to fringe benefit costs for Supplemental Executive Retirement Plan (SERP) and Post Retirement Life Benefits (PRB) costs;⁶
- reviewed BCBSGA's indirect cost allocation methodology; and
- tested indirect costs by judgmentally sampling the ten largest indirect cost centers for 2007 through 2009 and reviewing them for reasonableness and allocability to Medicare.⁷

See Appendix A for details on our sampling methodology, Appendix B for costs claimed, and Appendix C for results of review.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

FINDINGS AND RECOMMENDATIONS

Most of the administrative costs claimed on BCBSGA's Medicare FACPs for October 1, 2006, through May 4, 2009, were allowable for Medicare reimbursement. Of the \$24,727,672 in administrative costs reviewed, \$24,325,053 was allowable for Medicare reimbursement under the Part A contract. However, the remaining \$402,619 was not. Of this amount, \$245,056 was unallowable for Medicare reimbursement because BCBSGA did not have adequate policies and procedures to ensure that these costs were adequately supported and allocated to the Medicare Part A contract in compliance with applicable Federal regulations and CMS guidance. We set aside the remaining \$157,563 for CMS adjudication because it consisted of termination costs, which, under CMS guidance, should have been claimed on BCBSGA's termination cost vouchers.

PROGRAM REQUIREMENTS

Federal Regulations

The contract between CMS and BCBSGA set forth principles of reimbursement for administrative costs. The contract cited the Federal Acquisition Regulation (FAR), Title 48, and Chapter 1 of the CFR, as regulatory principles to be followed for application to the Medicare contract and provided additional guidelines for specific cost areas.

⁶ BCBSGA did not claim pension costs on the FACPs.

⁷ We selected these indirect cost centers based on materiality.

Pursuant to FAR 31.201-2(a) (48 CFR § 31.201-2(a)):

(a) A cost is allowable only when the cost complies with all of the following requirements:

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

Section 31.201-2(d) of the FAR (48 CFR § 31.201-2(d)) states that BCBSGA is responsible 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....”

Pursuant to FAR 31.201-4 (48 CFR § 31.201-4), which establishes guidelines for determining allocability of contract costs, a cost “is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship.”

FAR 31.204(a) (48 CFR § 31.204(a)) states that “[c]osts are allowable to the extent they are reasonable, allocable, and determined to be allowable....”

Section 31.205-6(f) of the FAR (48 CFR § 31.205-6(f)) states:

- (1) Bonuses and incentive compensation are allowable provided the—
 - (i) Awards are paid or accrued under an agreement entered into in good faith between the contractor and the employees before the services are rendered or pursuant to an established plan or policy followed by the contractor so consistently as to imply, in effect, an agreement to make such payment; and
 - (ii) Basis for the award is supported.

Centers for Medicare & Medicaid Services Guidance

Chapter 2 section 190.3 of the *Medicare Financial Management Manual* states that the contractor must maintain records “...in such detail as will properly reflect all net costs, direct and indirect ... for which reimbursement is claimed under the provisions of the agreement.”

Chapter 8, section 8-4 of the *Carrier/Intermediary Workload Closeout Handbook* states: “...Termination costs are not to be included in the FACP; only vouchers may be used to claim reimbursement of termination costs.... These vouchers ... must provide sufficient detail to demonstrate that the costs have been incurred and paid. CMS will review the vouchers and make payments as appropriate.”⁸

⁸ This report refers to vouchers used to claim reimbursement of termination costs as “termination cost vouchers.”

Furthermore, this handbook includes Exhibit 3, section 1.2 entitled *Retention Bonuses*, which states, “It is essential that contractors obtain CMS’s prior written approval of any and all potential commitments that could result in additional charges to the Medicare program. This emphatically applies to changes in compensation for personal services including the payment of retention bonuses.”

DIRECT COSTS NOT SUPPORTED AS REASONABLE, ALLOCABLE, OR ALLOWABLE

Of the \$24,727,672 in administrative costs reviewed, \$24,325,053 was allowable for Medicare reimbursement under the Part A contract. However, the remaining \$402,619 was not. Of this amount, \$245,056 was unallowable for Medicare reimbursement because BCBSGA did not have adequate policies and procedures to ensure that these costs were adequately supported and allocated to the Medicare Part A contract in compliance with applicable Federal regulations and CMS guidance. We set aside the remaining \$157,563 for CMS adjudication because it consisted of termination costs, which, under CMS guidance, should have been claimed on BCBSGA’s termination cost vouchers.

Unapproved Bonus Payment

Contrary to 48 CFR § 31.205-6(f), BCBSGA paid one employee a bonus of \$57,080, which did not comply with provisions of the Medicare contract or CMS guidance requiring prior approval. These costs were not allocable to the Medicare contract because they were not specifically incurred for the contract, did not benefit the contract, and were not necessary to the overall operation of the business.

Unsupported Salaries

BCBSGA provided sufficient documentation to support salaries for 2008. However, it did not provide sufficient documentation to support salaries of \$51,136, composed of \$18,059 for 2007 and \$33,077 for 2009. This lack of documentation is contrary to FAR part 31.201-2(d), which 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....”

Unallowable Impact Award Payment

Contrary to section 31.205-6(f) of the FAR (48 CFR § 31.205-6(f)) and BCBSGA’s policy, one employee received bonus payments for two Level 2 Impact Awards within the same month. This employee received one \$652 bonus payment for performance in the Medicare business unit and another \$652 bonus payment for performance in the Information Technology department. BCBSGA’s policy stated that an associate may receive no more than one Level 2 Impact Award per month. Furthermore, section 31.205-6(f) of the FAR (48 CFR § 31.205-6(f)) requires that awards adhere to a contractor’s established plan or policy. Accordingly, \$652 was unallowable for Federal reimbursement.

Unallowable Annual Incentive Program Reward Payments

Contrary to section 31.205-6(f) of the FAR (48 CFR § 31.205-6(f)) and BCBSGA's annual incentive program (AIP), BCBSGA paid a total of \$7,358 to five employees in excess of the AIP rewards limit based on erroneous and, therefore, unsupported allocations. BCBSGA charged the entire AIP costs awarded to the associates to their current cost center instead of determining the allocation for each business unit in which the associate was employed.

Understated Reductions to Fringe Benefit Costs

BCBSGA understated reductions to fringe benefit costs claimed on its FACPs by \$128,830, as follows:

- BCBSGA understated \$10,972 that was attributable to unallowable SERP costs. Our calculations showed that the SERP reductions in 2007, 2008, and 2009 were understated by \$2,085, \$669, and \$8,218, respectively. The understatements in 2007 and 2008 resulted from BCBSGA's minor calculation errors; however, BCBSGA did no calculation for 2009.
- BCBSGA understated \$117,858 that was attributable to unallowable PRB costs. Our calculations showed that the PRB reductions in 2007 and 2008 were understated by \$100,717 and \$21,942, respectively. For 2009 the reduction was overstated by \$4,801. The understatement in 2008 and overstatement in 2009 resulted from BCBSGA's minor calculation errors; however, BCBSGA did no calculation for 2007.

Termination Costs

We set aside for CMS adjudication \$157,563 incurred after May 4, 2009, that was incorrectly included in BCBSGA's 2009 FACP. These costs consisted of termination costs, which, under CMS guidance, should have been claimed on BCBSGA's termination cost vouchers. These costs did not comply with provisions of the Medicare contract limiting expenditures to approved budget authority or with CMS guidance requiring termination costs incurred for contract closeout to be submitted on termination cost vouchers. Therefore, they were not allocable to the Part A contract (48 CFR § 31.201-2(a)).

INADEQUATE POLICIES AND PROCEDURES

BCBSGA did not have adequate policies and procedures to ensure that these costs were supported and allocated to the Medicare Part A contract in compliance with applicable Federal regulations and CMS guidance.

RECOMMENDATIONS

We recommend that BCBSGA:

- reduce direct costs claimed on its FACP's by \$245,056,
- work with CMS to resolve \$157,563 in termination costs incorrectly included in its 2009 FACP, and
- strengthen its policies and procedures for maintaining documentation to support costs included on its FACP's.

BLUE CROSS AND BLUE SHIELD OF GEORGIA, INC. COMMENTS

In comments on our draft report, BCBSGA agreed with most of our findings, except for those related to the unapproved bonus payment and the understated reductions to fringe benefit costs. BCBSGA stated that the bonus payment was made in good faith to the individual who oversaw the Medicare operations at BCBSGA and that this individual was instrumental in sustaining performance during the Medicare administrative contractor's transition and winding up operations. With regard to the reductions to fringe benefit costs, BCBSGA stated that the proposed adjustment removes post retirement costs as determined through generally accepted accounting principles and that actual paid claims had been incurred, which have not been factored into the proposed adjustment. BCBSGA stated that it would pursue reimbursement for both findings with CMS.

BCBSGA's comments are included in their entirety as Appendix D.

OFFICE OF INSPECTOR GENERAL RESPONSE

We maintain that the basis of the unapproved bonus paid to one employee was not allowable under the Part A contract in accordance with 48 CFR § 31.205-6(f). Furthermore, we maintain that BCBSGA did not obtain CMS's prior written approval for this bonus payment as required by Exhibit 3, section 1.2, entitled *Retention Bonuses of the Carrier/Intermediary Workload Closeout Handbook*.

With regard to the reductions to fringe benefit costs, BCBSGA did not provide with its comments on the draft report additional documentation supporting that it had paid post retirement costs. Therefore, we could not determine whether the post retirement costs in question had been incurred, and we maintain that these costs were not allocable to Medicare.

APPENDIXES

APPENDIX A: SAMPLING METHODOLOGY

POPULATION

The population of interest is employees' Part A direct salaries and wages for a 2-week pay period claimed on the Medicare Final Administrative Cost Proposal (FACP) for 2007 through 2009.

SAMPLING FRAME

- A. For 2007 through 2009, we obtained 3 Microsoft Excel files containing the individual employees' pay period direct salary and wages that were charged to Medicare on the FACP. These worksheets included 11,576 rows with salary and wage related entries totaling \$13,597,824. The 11,576 rows included multiple salary and wage related entries per employee each pay period. Furthermore, the \$13,597,824 in salary and wages included miscellaneous accruals. Thus, the sampling frame required refinement to remove accruals, to consolidate the multiple entries per employee, and to determine the number of employee pay periods.
- B. To initially refine our sampling frame, we excluded 262 entries totaling \$331,678 related to miscellaneous Part A direct salary accruals from the previous fiscal year. For 2007 we excluded 134 entries totaling \$164,179. Also, for 2009 we excluded 128 entries totaling \$167,499.
- C. After excluding the miscellaneous accruals, the refined sampling frame for 2007 through 2009 included 11,314 salary-related entries totaling \$13,266,146.
- D. We further refined the sampling frame by consolidating multiple entries for an employee during one pay period into one employee pay period entry to determine the aggregate number of employee pay periods. We did so by collapsing rows that had the same associate name, associate ID, and check number for each pay period ending date to obtain the gross hours and amount into one row representing "an employee pay period." This resulted in a refined sampling frame of 6,359 "employee pay periods" totaling \$13,266,146 in salary and wages for 2007 through 2009.
- E. Our last refinement of the sampling frame was to include only Part A direct salaries that were allowable and material. Thus, we reduced the previously determined 6,359 employee pay periods totaling \$13,266,146 by 789 employee pay periods relating to miscellaneous entries totaling \$1,891,315 as follows:
 1. For 2007, we removed 61 employee pay periods relating to miscellaneous entries totaling \$183,346 as follows:
 - a. 19 employee pay periods from 2006 totaling \$3,326,
 - b. 15 employee pay periods less than \$700 totaling \$5,598 due to immateriality,
 - c. 1 "Impact Award" employee pay period totaling \$733, and

- d. 26 employee pay periods related to executive compensation totaling \$173,689.

We then created a new Excel worksheet for 2007 including 2,336 “employee pay periods” totaling \$4,486,579.

2. For 2008, we removed 107 employee pay periods relating to miscellaneous entries totaling \$226,333 as follows:
 - a. 42 “Impact Award” employee pay periods totaling \$19,720,
 - b. 39 employee pay periods less than \$700 totaling \$18,318 due to immateriality, and
 - c. 26 employee pay periods related to executive compensation totaling \$188,295.

We then created a new Excel worksheet for 2008 including 2,184 “employee pay periods” totaling \$4,351,754.

3. For 2009, we removed 621 employee pay periods relating to miscellaneous entries totaling \$1,481,636 as follows:
 - a. 1 employee pay period involving an employee’s accrued salary totaling \$33,896,
 - b. 529 unallowable employee pay periods totaling \$1,218,384 that was already claimed on the termination cost vouchers for reimbursement,
 - c. 45 “Impact Award” employee pay periods totaling \$24,359,
 - d. 25 employee pay periods less than \$700 totaling \$4,936 due to immateriality,
 - e. 1 adjusted entry employee pay period totaling \$1,712, and
 - f. 20 employee pay periods related to executive compensation totaling \$198,349.

We then created a new Excel worksheet for 2009 including 1,050 “employee pay periods” totaling \$2,536,498.

The remaining 5,570 “employee pay periods” totaling \$11,374,831 for 2007 through 2009 will be our sampling frame.

SAMPLE UNIT

The sample unit will be an “employee pay period.”

**APPENDIX B: BLUE CROSS AND BLUE SHIELD OF GEORGIA, INC.'S MEDICARE
PART A ADMINISTRATIVE COSTS CLAIMED FOR OCTOBER 1, 2006,
THROUGH MAY 4, 2009**

	2007	2008	2009	Total
Salaries & Wages	\$5,250,349	\$4,975,412	\$4,361,704	\$14,587,465
Fringe Benefits	1,480,083	1,323,275	801,190	3,604,548
EDP Equipment	85,593	57,673	37,513	180,779
Subcontracts	793,748	812,655	42,764	1,649,167
Facilities or Occupancy	459,567	448,065	337,004	1,244,636
Outside Professional Services	201,732	316,024	143,466	661,222
Telephone	86,962	98,587	88,693	274,242
Postage	726,836	726,087	647,638	2,100,561
Furniture & Equipment	13,165	12,514	7,199	32,878
Materials & Supplies	87,462	85,076	20,021	192,559
Travel	62,707	120,734	43,913	227,354
Miscellaneous	575,287	532,213	230,210	1,337,710
Credits	(540,188)	(486,190)	(339,071)	(1,365,449)
Total Direct Costs	\$9,283,303	\$9,022,125	\$6,422,244	\$24,727,672

**APPENDIX C: RESULTS OF REVIEW OF BLUE CROSS AND BLUE SHIELD OF
GEORGIA, INC.'S MEDICARE PART A ADMINISTRATIVE COSTS CLAIMED FOR
OCTOBER 1, 2006, THROUGH MAY 4, 2009**

Year	Total Claimed	Total Reviewed	Total Unallowable	Total Set Aside for CMS Adjudication	Total Allowable
2007	\$9,283,303	\$9,283,303	\$122,383	\$0	\$9,160,920
2008	9,022,125	9,022,125	28,447	0	8,993,678
2009	6,422,244	6,422,244	94,226	157,563	6,170,455
Total	\$24,727,672	\$24,727,672	\$245,056	\$157,563	\$24,325,053

APPENDIX D: BLUE CROSS AND BLUE SHIELD OF GEORGIA, INC. COMMENTS



A CMS Contracted Agent

National Government Services, Inc.
www.NGSMedicare.com

Medicare

July 21, 2011

Mr. John T. Drake, Sr.
Acting Regional Inspector General for Audit Services
Office of Inspector General, Office of Audit Services, Region IV
61 Forsyth Street, SW, Suite 3T41
Atlanta, Georgia 30303

Reference: Report Number A-04-10-00068 – Review of Blue Cross Blue Shield of Georgia's Medicare Final Administrative Cost Proposals for the Period October 1, 2006 Through May 4, 2009

Dear Mr. Drake:

We have received the aforementioned draft audit report referenced above and thank you for the opportunity to respond.

We concur with the findings and recommendations noted in the report with the following exceptions:

Unapproved Bonus Payment

We do not concur with the auditor's conclusion on unapproved bonus payments. The payment was made in good faith to the individual that oversaw Medicare operations at Blue Cross Blue Shield of Georgia. This individual was instrumental for sustaining performance during the MAC transition and ultimately winding up operations of the Plan. We will pursue reimbursement with CMS.

Understated Reductions to Fringe Benefit Costs

We do not concur with the auditor's conclusion on post retirement benefit costs. The proposed adjustment removes post retirement costs as determined through generally accepted accounting principles. Actual paid claims have been incurred which have not been factored into the proposed adjustment. We will pursue reimbursement with CMS.



July 21, 2011

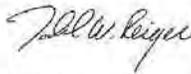
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Termination Costs

We concur with your comment for setting these costs aside for CMS adjudication. These costs were incurred for winding down operations of the Plan; and at CMS' direction were billed through the FACP process vs. termination vouchers. Aside from the invoicing instructions, these costs were allowable and allocable costs associated with the contract. We will pursue reimbursement with CMS.

We appreciate the opportunity to respond to this draft report. If you have any further questions, I can be reached at 414-459-5606 or via email at todd.reiger@wellpoint.com.

Sincerely,



Digitally signed by Todd W. Reiger
DN: cn=Todd W. Reiger, o=National
Government Services, Inc., ou=Finance,
email=todd.reiger@wellpoint.com, c=US
Date: 2011.07.21 12:28:59 -0500

Todd W. Reiger, CPA
Chief Financial Officer, Medicare Operations

CC: Sandy Miller
Michael Kapp
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Eric Bowen – OIG
Osvaldo Ordonez – OIG