



Office of Audit Services, Region IV
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Atlanta, GA 30303

October 19, 2011

Report Number: A-04-10-00071

Mr. Ralph Woodard
Federal Programs Chief Financial Officer
BlueCross BlueShield of Tennessee, Inc.
One Cameron Hill Circle
Chattanooga, TN 37402

Dear Mr. Woodard:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of Riverbend Government Benefits Administrator's Medicare Part A Termination Costs for the Period August 4, 2009, Through March 3, 2010*. We will forward a copy of this report to the HHS action official noted below.

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 direct them to the HHS action official. Please refer to report number A-04-10-00071 in all correspondence.

Sincerely,

/Lori S. Pilcher/
Regional Inspector General
for Audit Services

Enclosure

cc: Deborah Taylor
Director & Chief Financial Officer
Office of Financial Management
Centers for Medicare & Medicaid Services

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF RIVERBEND GOVERNMENT
BENEFITS ADMINISTRATOR'S MEDICARE
PART A TERMINATION COSTS FOR THE
PERIOD AUGUST 4, 2009, THROUGH
MARCH 3, 2010**



Daniel R. Levinson
Inspector General

October 2011
A-04-10-00071

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, 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 beneficiaries 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:

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Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

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.

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 basic protection against the costs of hospital, related post-hospital, home health services, and hospice care. The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program and contracts with private organizations to process and pay claims for services provided to eligible beneficiaries.

Riverbend Government Benefits Administrator Medicare Contract

During the period October 1, 2004, through August 3, 2009, CMS contracted with Blue Cross and Blue Shield of Tennessee (BCBST), doing business as Riverbend Government Benefits Administrator (Riverbend), to serve as the Medicare Part A fiscal intermediary responsible for Tennessee and New Jersey. Riverbend's Medicare Part A contract with CMS (the contract) provided for reimbursement of allowable administrative costs incurred and allowable termination costs if CMS terminated the contract. 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. CMS guidelines require contractors to file costs incurred prior to contract termination as administrative costs through submission to CMS of a Final Administrative Cost Proposal (FACP) and to file costs incurred subsequent to the termination in a separate termination cost voucher.

In accordance with CMS guidelines, Riverbend claimed reimbursement of administrative costs through submission to CMS of an annual FACP. For October 1, 2004, through August 3, 2009, Riverbend claimed approximately \$142 million in reimbursement for direct and indirect administrative costs related to the contract.¹

After CMS terminated the contract effective August 4, 2009, Riverbend submitted termination cost vouchers on which it claimed Part A termination costs totaling \$3,533,224 for the period August 4, 2009, through March 3, 2010.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the Medicare Part A termination costs that Riverbend claimed were reasonable, allocable, and allowable for Medicare reimbursement.

¹We reviewed these administrative costs incurred prior to contract termination under a separate report (A-04-10-00067).

Scope

Our review was limited to \$2,581,320 in Medicare Part A termination costs claimed on Riverbend's termination cost vouchers from August 4, 2009, through March 3, 2010. These termination costs included the following: \$1,135,958 for legal costs, \$847,902 for severance pay, \$190,426 for asset depreciation, \$331,994 for information technology activity costs, and \$75,040 for post-cutover costs. We did not review \$951,904 subject to review under separate audits.²

We limited our internal control review to controls related to the recording and reporting of costs claimed on Riverbend's termination cost vouchers. We accomplished our objectives through substantive testing.

We conducted our fieldwork at BCBST offices in Chattanooga, Tennessee.

Methodology

To accomplish our objective, we:

- reviewed applicable Medicare laws, regulations, and guidelines;
- reviewed Riverbend's policies and procedures;
- reviewed the contract;
- interviewed Riverbend officials to obtain an understanding of its claiming of termination costs;
- reviewed termination cost vouchers submitted by Riverbend to CMS for the period August 4, 2009, through March 3, 2010;
- reconciled Medicare Part A termination costs claimed to Riverbend's accounting records;
- reviewed Riverbend severance pay for allowability, allocability, and reasonableness by ensuring that Riverbend paid severance only to employees eligible under the contract and that Riverbend properly calculated severance pay;
- recalculated severance pay in accordance with BCBST policy for severance pay; and

² The \$951,904 included pension (\$444,026), Supplemental Executive Retirement Plan (\$365,285), and administrative (\$142,593) costs.

- reviewed direct costs for legal, asset depreciation, information technology activity and post-cutover expenditures by tracing expense items to supporting documentation, including invoices, accounting reports, and depreciation schedules.

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.

RESULTS OF REVIEW

The Medicare Part A termination costs that Riverbend claimed for the period August 4, 2009, through March 3, 2010, were reasonable, allocable, and allowable for Medicare reimbursement.