



Office of Audit Services, Region IV
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Atlanta, GA 30303

November 22, 2011

Report Number: A-04-10-00075

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 Part A Termination Costs for the Period May 5, 2009, Through June 30, 2010*. 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-04-10-00075 in all correspondence.

Sincerely,

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

Enclosure

cc:

Mr. Todd W. Reiger
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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
PART A TERMINATION COSTS FOR THE
PERIOD MAY 5, 2009, THROUGH
JUNE 30, 2010**



Daniel R. Levinson
Inspector General

November 2011
A-04-10-00075

Office of Inspector General

<http://oig.hhs.gov>

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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

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.

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 Medicare Part A fiscal intermediary responsible for Georgia. BCBSGA'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 on a separate termination voucher.

In accordance with CMS guidelines, BCBSGA claimed reimbursement of administrative costs through submission to CMS of an annual FACP. For October 1, 2006, through May 4, 2009, BCBSGA claimed approximately \$25 million in reimbursement for direct and indirect administrative costs related to the contract. We reviewed these administrative costs incurred prior to the contract termination under a separate report (A-04-10-00068).

After CMS terminated the contract effective May 4, 2009, BCBSGA submitted termination cost vouchers in which it claimed Part A termination costs totaling \$1,689,100 for the period May 5, 2009, through June 30, 2010.

OBJECTIVE

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

SUMMARY OF FINDINGS

Most of the costs in BCBSGA's termination vouchers for the period May 5, 2009, through June 30, 2010, were reasonable, allocable, and allowable for Medicare reimbursement. Of the \$1,689,100 in Medicare Part A termination costs reviewed, \$1,505,086 was allowable for Medicare reimbursement under the contract. However, the remaining \$184,014 was not. Of this amount, \$164,471 was not allocable to the contract, \$16,053 was unsupported, and \$3,490 was unreasonable. BCBSGA claimed these unallowable termination costs because it did not have

adequate policies and procedures to ensure that these costs were in compliance with applicable Federal regulations and CMS guidance.

RECOMMENDATIONS

We recommend that BCBSGA:

- refund to CMS \$184,014 related to unallowable costs claimed in BCBSGA's termination cost vouchers and
- strengthen its policies and procedures to ensure compliance with applicable Federal regulations and CMS guidance for claiming termination costs.

BLUE CROSS AND BLUE SHIELD OF GEORGIA, INC., COMMENTS

In comments on our draft report, BCBSGA concurred with most of our findings and recommendations. However, BCBSGA did not concur with our finding related to severance pay. BCBSGA stated that it claimed severance pay costs in accordance with guidelines established by CMS and that the costs are consistent with past reimbursement practices that CMS established. BCBSGA stated that it would pursue reimbursement with CMS.

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

OFFICE OF INSPECTOR GENERAL RESPONSE

We maintain that the severance pay was not allocable to the contract under Federal Acquisition Regulation 31.201-4 (b) (48 CFR § 31.201-4(b)), which requires that costs be distributed to Medicare "in reasonable proportion to the benefits received...." Nothing in BCBSGA's comments caused us to change our findings or recommendations.

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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 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.

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 Medicare Part A fiscal intermediary responsible for Georgia. BCBSGA'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 included 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 required 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 contract termination on a separate termination cost voucher.

In accordance with CMS guidelines, BCBSGA claimed reimbursement of administrative costs through submission to CMS of an annual FACP. For October 1, 2006, through May 4, 2009, BCBSGA claimed approximately \$25 million in reimbursement for direct and indirect administrative costs related to the contract.¹

After CMS terminated the contract effective May 4, 2009, BCBSGA submitted termination cost vouchers in which it claimed Part A termination costs totaling \$1,689,100 for the period May 5, 2009, through June 30, 2010.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

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

¹ We reviewed these administrative costs incurred prior to contract termination under a separate report (A-04-10-00068).

Scope

Our review was limited to \$1,689,100 in Medicare Part A termination costs claimed in BCBSGA's termination cost vouchers from May 5, 2009, through June 30, 2010. These termination costs included the following: \$1,171,942 for severance pay, \$256,950 for salaries, \$130,208 for fringe benefit costs related to severance pay and salaries, \$101,324 for facilities and equipment, \$15,455 for electronic data processing (EDP) equipment, \$6,488 for telephone service, \$4,691 for travel, and \$2,042 for furniture and equipment.

We limited our internal control review to controls related to the recording and reporting of BCBSGA's termination costs claimed in BCBSGA's termination cost vouchers. We accomplished our objectives 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 and procedures;
- reviewed the contract;
- interviewed BCBSGA officials to obtain an understanding of its claiming of termination costs;
- reviewed termination cost vouchers submitted by BCBSGA to CMS for the period May 5, 2009, through June 30, 2010;
- tested direct salaries and wages 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;
- reviewed severance pay and fringe benefit costs for allowability, allocability, and reasonableness by ensuring that BCBSGA paid severance only to employees eligible

under the contract and that BCBSGA properly calculated severance pay and related benefits;

- recalculated severance pay costs in accordance with applicable Federal regulations and CMS guidance; and
- reviewed direct costs for electronic data processing equipment, facilities and occupancy, telephone, furniture, and travel expenditures by tracing all expense items to supporting documents including invoices, reports, depreciation schedules, and journal entries.

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 costs in BCBSGA's termination vouchers for the period May 5, 2009, through June 30, 2010, were reasonable, allocable, and allowable for Medicare reimbursement. Of the \$1,689,100 in Medicare Part A termination costs reviewed, \$1,505,086 was allowable for Medicare reimbursement under the contract. However, the remaining \$184,014 was not. Of this amount, \$164,471 was not allocable to the contract, \$16,053 was unsupported, and \$3,490 was unreasonable. BCBSGA claimed these unallowable termination costs because it did not have adequate policies and procedures to ensure that these costs were in compliance with applicable Federal regulations and CMS guidance.

PROGRAM REQUIREMENTS

Federal Regulations

BCBSGA's contract with CMS cited the Federal Acquisition Regulations (FAR) and Title 48, Chapter 1 of the CFR, as regulatory principles to be followed and provided additional guidelines for specific cost areas.

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 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...."

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. Subject to the foregoing, a cost is allocable to a Government contract if it ... (b) Benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received...."

Centers for Medicare & Medicaid Services Guidance

A November 15, 2000, CMS Memorandum states, "Severance pay shall only be paid to employees of cost centers whose function is directly servicing the Medicare contract at the time of the non-renewal or termination notice if such cost center is eliminated or its staffing level is decreased due to the non-renewal or termination." This guidance is reiterated in Section 5-2 of the *Carrier/Intermediary Workload Closeout Handbook* dated February 22, 2008.

Section 8-4 of the *Carrier/Intermediary Workload Closeout Handbook*, dated February 22, 2008, 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.²

TERMINATION COSTS NOT SUPPORTED AS REASONABLE, ALLOCABLE, OR ALLOWABLE

Most of the costs in BCBSGA's termination vouchers for the period May 5, 2009, through June 30, 2010, were reasonable, allocable, and allowable for Medicare reimbursement. Of the \$1,689,100 in Medicare Part A termination costs reviewed, \$1,505,086 was allowable for Medicare reimbursement under the contract. However, the remaining \$184,014 was not. Of this amount, \$164,471 was not allocable to the contract, \$16,053 was unsupported, and \$3,490 was unreasonable. BCBSGA claimed these unallowable termination costs because it did not have adequate policies and procedures to ensure that these costs were in compliance with applicable Federal regulations and CMS guidance.

² This report refers to vouchers used to claim reimbursement of termination cost as "termination cost vouchers."

Costs Not Allocable to the Contract

BCBSGA claimed \$164,471 in severance pay costs (\$161,166), EDP equipment costs (\$2,123), and telephone service (\$1,182) that was not allocable to the contract. In accordance with its severance pay plan, BCBSGA calculated severance for eligible employees by adding 4 to 8 weeks of base benefits plus 1½ weeks of severance pay at the base salary rate (excluding any overtime pay and bonuses) for each completed year of service. However, for 16 employees, BCBSGA’s severance pay calculation included years worked in a non-Medicare department. Additionally, BCBSGA claimed \$3,305 for EDP equipment (\$2,123) and telephone service (\$1,182) that did not benefit the contract.

Allocating these costs to the contract was contrary to FAR 31.201-4 (b) (48 CFR § 31.201-4(b)), which requires that costs be distributed to Medicare “in reasonable proportion to the benefits received....”

Unsupported Costs

BCBSGA did not provide adequate documentation to support the \$16,053 in EDP equipment (\$12,677), telephone service (\$506), travel (\$1,197), and furniture and equipment (\$1,673) claimed as termination costs. 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....”

Unreasonable Costs

BCBSGA claimed \$3,490 for six employees who received excess severance pay based on erroneous calculations. This excessive pay cost was contrary to FAR 31.204(a) (48 CFR § 31.204(a)), which states that “[c]osts are allowable to the extent they are reasonable....”

INADEQUATE POLICIES AND PROCEDURES

BCBSGA claimed these unallowable termination costs because it did not have adequate policies and procedures to ensure that these costs were in compliance with applicable Federal regulations and CMS guidance.

As a result, BCBSGA claimed \$184,014 in unallowable Medicare Part A termination costs.

RECOMMENDATIONS

We recommend that BCBSGA:

- refund to CMS \$184,014 related to unallowable costs claimed in BCBSGA’s termination cost vouchers and

- strengthen its policies and procedures to ensure compliance with applicable Federal regulations and CMS guidance for claiming termination costs.

BLUE CROSS AND BLUE SHIELD OF GEORGIA, INC., COMMENTS

In comments on our draft report, BCBSGA concurred with most of our findings and recommendations. However, BCBSGA did not concur with our finding related to severance pay. BCBSGA stated that it claimed severance pay costs in accordance with guidelines established by CMS and that the costs are consistent with past reimbursement practices that CMS established. BCBSGA stated that it would pursue reimbursement with CMS. BCBSGA's comments are included in their entirety as the Appendix.

OFFICE OF INSPECTOR GENERAL RESPONSE

We maintain that the severance pay was not allocable to the contract under FAR 31.201-4 (b) (48 CFR § 31.201-4(b)), which requires that costs be distributed to Medicare "in reasonable proportion to the benefits received..." Nothing in BCBSGA's comments caused us to change our findings or recommendations.

APPENDIX

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



A CMS Contracted Agent

National Government Services, Inc.
www.NGSMedicare.com

Medicare

November 1, 2011

Ms. Lori S. Pilcher
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-04-10-00075 – Review of Blue Cross and Blue Shield of Georgia Inc.'s Medicare Part A Termination Costs for the Period May 5, 2009, Through June 30, 2010

Dear Ms. Pilcher:

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 exception:

Severance Pay

We do not concur with the auditor's conclusion on severance pay. These costs were claimed appropriately in accordance with guidelines established by the Centers for Medicare & Medicaid Services and are consistent with past reimbursement practices established by the agency. 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,

A handwritten signature in black ink that reads "Todd W. Reiger".

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: 2011.11.01 09:12:39 -0500'

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

CC: Sandy Miller Jeff Hannah Eric Bowen – OIG
Michael Kapp Wendy Perkins Osvaldo Ordonez – OIG

