



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

February 23, 2012

Report Number: A-04-11-04013

Mr. Bruce W. Hughes
President & COO
Palmetto GBA
2300 Springdale Drive, Building One
Mail code: AG-A03
Camden, SC 29020-1728

Dear Mr. Hughes:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *Audit of Palmetto GBA's Medicare Part B Final Administrative Cost Proposals for Fiscal Years 2007 Through 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 Mark Wimple, Audit Manager, at (919) 790-2765, extension 24, or through email at Mark.Wimple@oig.hhs.gov. Please refer to report number A-04-11-04013 in all correspondence.

Sincerely,

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

Enclosure

Direct Reply to HHS Action Official:

Nanette Foster Reilly
Consortium Administrator
Consortium for Financial Management & Fee for Service Operations
Centers for Medicare & Medicaid Services
601 East 12th Street, Room 235
Kansas City, MO 64106

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF PALMETTO GBA'S
MEDICARE PART B FINAL
ADMINISTRATIVE COST
PROPOSALS FOR FISCAL YEARS
2007 THROUGH 2009**



Daniel R. Levinson
Inspector General

February 2012
A-04-11-04013

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

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). The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program through contracts with private organizations that process and pay Medicare claims.

The contracts with CMS provide for the reimbursement of allowable administrative costs incurred in processing Medicare claims. After the close of each fiscal year (FY), contractors submit a Final Administrative Cost Proposal (cost proposal) reporting Medicare costs. Once CMS accepts a cost proposal, the contractor and CMS negotiate a final settlement of allowable administrative costs.

Palmetto GBA Contract

Palmetto GBA (Palmetto) is a single-member, limited liability company owned by BlueCross BlueShield of South Carolina (BlueCross). During our audit period (FYs 2007 through 2009), CMS contracted with Palmetto to serve as a Medicare contractor. Palmetto processed Part B claims for South Carolina, Ohio, and West Virginia.

The Medicare contract between Palmetto and CMS set forth principles of reimbursement for administrative costs. The contract cited the Federal Acquisition Regulation (FAR) (48 CFR chapter 1) as the guiding regulatory principles for the Medicare contract, and provided additional guidelines for specific cost areas.

OBJECTIVE

Our objective was to determine whether the administrative costs that Palmetto claimed on its cost proposals were allowable, allocable, and reasonable in accordance with part 31 of the FAR and the Medicare contract.

SUMMARY OF FINDINGS

Palmetto claimed administrative costs that substantially complied with the FAR and the Medicare contract. Of the \$110,857,845 in costs that we reviewed, \$110,517,919 was allowable, allocable, and reasonable in accordance with part 31 of the FAR and the Medicare contract. However, Palmetto claimed \$339,926 in its cost proposals that was not allowable including:

- \$279,521 of unallowable costs (\$261,242 from an indirect cost pool and \$18,279 from two unallowable accounts),
- \$46,656 of home office costs that exceeded the allocable amount, and
- \$13,749 of costs that exceeded its general ledger costs.

Palmetto claimed these unallowable costs because it lacked sufficient internal controls to ensure that it did not claim expenses identified as unallowable and to ensure that it included all allowable general ledger accounts in its cost proposals. In addition, Palmetto claimed unallowable costs because BlueCross allocated home office costs to Palmetto that exceeded the amount allocable to Palmetto's Medicare Part B contract.

RECOMMENDATIONS

We recommend that Palmetto:

- reduce the costs claimed on its cost proposals by \$339,926;
- improve its internal controls to ensure that it does not claim expenses it has identified as unallowable;
- have BlueCross allocate the various pools of home office costs periodically (e.g., monthly or quarterly) in the aggregate rather than by account by cost center; and
- improve its internal controls to ensure that it includes all allowable general ledger accounts, including those with negative balances, when compiling its costs for cost proposals.

PALMETTO GBA COMMENTS

In written comments on our draft report, Palmetto concurred with all but one of our findings and recommendations. Palmetto disagreed with our finding that home office indirect costs allocated to the Part B contract exceeded the allocable amount by \$46,656 and with the corresponding recommendation that BlueCross allocate costs in the aggregate rather than by account by cost center. Palmetto stated that BlueCross's allocation methodology is necessary to preserve transaction level information and that resulting rounding differences are immaterial. However, to eliminate similar findings in the future, BlueCross said that it would initiate a year-end true-up process to correct the inherent rounding differences.

Additionally, although Palmetto agreed that it incorrectly claimed \$261,242 in unallowable costs relating to an indirect cost pool, it requested that we reduce our recommended disallowance by \$100,436, representing the net amount of understated allowable costs from that same indirect cost pool relating to other Medicare programs' previously settled cost proposals for the same time period. Palmetto's comments are included in their entirety as Appendix B.

OFFICE OF INSPECTOR GENERAL RESPONSE

We continue to maintain that Palmetto should reduce the cost claimed on its cost proposals by \$339,926. With regard to home office indirect costs, we are pleased that BlueCross plans to initiate a year-end true-up process for the 2011 year and we accept this as an alternative to allocating the various pools of home office costs periodically in the aggregate. Had this process

been implemented during our audit period, home office indirect costs allocated to the Part B contract would have been reduced by \$46,656.

Additionally, we acknowledge that, although Palmetto incorrectly claimed \$261,242 in unallowable costs relating to an indirect cost pool on its FY 2007 Part B cost proposal, it similarly understated previously settled cost proposals by a net of \$100,436 in costs from that same indirect cost pool. Palmetto understated its FY 2007 Part A cost proposal by \$141,126 and overstated its FY 2007 Durable Medical Equipment Regional Carrier cost proposal by \$40,690. However, because our audit scope was limited to Part B cost proposals, we are unable to reduce our recommended disallowance by the net \$100,436 in understated costs related to other programs' previously settled cost proposals. Palmetto should work with CMS to resolve the net understatement of costs related to the other programs.

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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). The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program through contracts with private organizations that process and pay Medicare claims.

The contracts with CMS provide for the reimbursement of allowable administrative costs incurred in processing Medicare claims. After the close of each fiscal year (FY), contractors submit a Final Administrative Cost Proposal (cost proposal) reporting Medicare costs. Once CMS accepts a cost proposal, the contractor and CMS negotiate a final settlement of allowable administrative costs.

Palmetto GBA Contract

Palmetto GBA (Palmetto) is a single-member, limited liability company owned by BlueCross BlueShield of South Carolina (BlueCross). During our audit period (FYs 2007 through 2009), CMS contracted with Palmetto to serve as a Medicare contractor. Palmetto processed Part B claims for South Carolina, Ohio, and West Virginia.

The Medicare contract between Palmetto and CMS set forth principles of reimbursement for administrative costs. The contract cited the Federal Acquisition Regulation (FAR) (48 CFR chapter 1) as the guiding regulatory principles for the Medicare contract, and provided additional guidelines for specific cost areas.

The costs that Palmetto claimed for reimbursement included direct costs of administering the contract, as well as home office¹ costs that BlueCross allocated to Palmetto.²

¹ A “home office” is an office responsible for directing or managing two or more, but not necessarily all, segments of an organization. It typically establishes policy for, and provides guidance to, the segments in their operations (48 CFR § 9904.403-30(a)(2)).

² BlueCross accumulated the home office costs in different pools and allocated them to its lines of business or to other pools based on a variety of methods. The number of lines of business or other pools to which a cost pool was allocated varied depending on the allocation methodology.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the administrative costs that Palmetto claimed on its cost proposals were allowable, allocable, and reasonable in accordance with part 31 of the FAR and the Medicare contract.

Scope

Our audit covered the period October 1, 2006, through September 30, 2009 (FYs 2007 through 2009). For this period, Palmetto claimed administrative costs to CMS totaling \$114,683,551. This total included pension costs of \$3,825,706 that will be the subject of a separate audit, so we excluded them from this audit. We therefore reviewed \$110,857,845 of administrative costs.

We limited our internal control review to those controls related to the recording and reporting of costs on the cost proposals. We accomplished our objectives through substantive testing.

We conducted fieldwork at Palmetto's office in Columbia, South Carolina, from January through August 2011.

Methodology

To accomplish our objective, we:

- reviewed applicable Medicare laws, regulations, and guidelines, including the FAR § 31.201-2(d), the *Medicare Financial Management Manual*, chapter 2, section 190.3, and Palmetto's contract with CMS;
- interviewed officials at Palmetto and BlueCross about their cost accumulation processes for cost proposals and gained an understanding of its cost allocation systems;
- reconciled the cost proposals from FYs 2007 through 2009 to Palmetto's accounting records;
- created a sampling frame of 35,508 employee pay periods totaling \$52,560,949 that included cost centers with total costs of \$100,000 or more and salaries of \$10,000 or more for FYs 2007 through 2009;
- selected a judgmental sample of 90 employee pay periods (30 from each FY);
- verified that the amount paid was in accordance with the employee's pay rate, the salary was charged to the correct cost center, and the number of hours paid agreed with the time sheets for the 90 employee pay periods;

- reviewed payroll journals, corporate bonus plans, and personnel records;
- compared top executives' compensation to benchmark compensation amounts published in the Federal Register, and tested for excessive compensation claimed;
- created a sampling frame totaling \$89,216,596 that consisted of the supporting general ledger account totals for the cost proposals' cost classification lines, other than salaries/wages and fringe benefits, that exceeded \$1 million for FYs 2007 through 2009;
- selected a judgmental sample of 90 nonsalary transactions (30 from each FY);
- tested the selected nonsalary transactions for allowability, allocability, and reasonableness;
- reviewed the allocation methodology for the home office indirect cost pools³ that allocated more than \$3 million per year to Palmetto; and
- recalculated the home office cost allocations for the cost pools reviewed using the allocation statistical bases provided by BlueCross and determined the excess allocated to Palmetto and, more specifically, the portion that was allocated to the Part B contract.

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

Palmetto claimed administrative costs that substantially complied with the FAR and the Medicare contract. Of the \$110,857,845 in costs that we reviewed, \$110,517,919 was allowable, allocable, and reasonable in accordance with part 31 of the FAR and the Medicare contract. However, Palmetto claimed \$339,926 in its cost proposals that was not allowable including:

- \$279,521 of unallowable costs,
- \$46,656 of home office costs that exceeded the allocable amount, and
- \$13,749 of costs that exceeded its general ledger costs.

Palmetto claimed these unallowable costs because it lacked sufficient internal controls to ensure that it did not claim expenses identified as unallowable and to ensure that it included all

³ Indirect cost pool means a grouping of incurred costs identified with two or more objectives but not identified specifically with any final cost objective (48 CFR § 9904.401-30(a)(4)).

allowable general ledger accounts in its cost proposals. In addition, Palmetto claimed unallowable costs because BlueCross allocated home office costs to Palmetto that exceeded the amount allocable to Palmetto's Medicare Part B contract.

UNALLOWABLE COSTS CLAIMED

Pursuant to FAR § 31.204(a), costs are allowable to the extent they are reasonable [and] allocable.... Additionally, FAR § 31.205 provides a compilation of costs that are unallowable and places limits on the amounts of certain other costs that are otherwise allowable. Palmetto's Medicare contract further restricts the types and amounts of costs that are allowable.

Palmetto properly identified costs in an indirect cost pool as unallowable according to FAR § 31.205 and its Medicare contract. However, Palmetto incorrectly allocated to the Medicare Part B contract a portion of these costs that it had identified as unallowable and claimed these costs on its FY 2007 cost proposal. The total unallowable costs claimed from the indirect cost pool on the FY 2007 cost proposal was \$261,242.

Additionally, Palmetto properly identified two accounts allocated to the Part B contract totaling \$18,279 as unallowable pursuant to FAR § 31.205-14 but incorrectly claimed the costs in these accounts on its cost proposal. These costs are separate from the unallowable costs allocated from the indirect cost pool.

In total, Palmetto claimed \$279,521 in unallowable costs on its FY 2007 cost proposal. Palmetto incorrectly claimed these costs because it did not have adequate internal controls in place to prevent it from including costs in its cost proposal that it had identified as unallowable.

EXCESSIVE HOME OFFICE COSTS CLAIMED

Pursuant to FAR § 31.201-2(d), Palmetto 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...." Furthermore, FAR § 31-203(d) states that "once an appropriate basis for allocating indirect costs has been accepted, the contractor shall not fragment the base by removing individual elements."⁴

The total home office indirect costs that BlueCross allocated to Palmetto exceeded the allocable amount by \$247,196 for our audit period. Of the \$247,196, \$46,656 was allocated to Palmetto's Part B contract and claimed by Palmetto on the cost proposal. However, contrary to FAR § 31.201-2(d), Palmetto could not support that these expenses were allocable to the Part B contract.

Palmetto claimed excessive home office indirect costs because BlueCross allocated indirect costs to Palmetto in excess of the allocable amount. BlueCross did not adhere to FAR § 31.203(d)

⁴ In BlueCross' case, the elements included the lines of business or other cost pools.

when, at various points in the allocation process, it dropped allocations to certain elements because it allocated by account, by cost center, rather than in the aggregate.

COSTS IN EXCESS OF GENERAL LEDGER COSTS

Pursuant to FAR § 31.201-2(d), Palmetto 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....”

On its FY 2008 cost proposal, Palmetto claimed costs that exceeded its general ledger costs by \$13,749. Palmetto did not include all allowable general ledger accounts on its cost proposal. Because the excluded general ledger accounts together had a negative balance, Palmetto overstated its costs by \$13,749.

This overstatement occurred because Palmetto implemented a new accounting system in 2008 for which it did not have sufficient internal controls to ensure that it included all allowable general ledger accounts, including those with negative balances, when compiling its costs for cost proposals.

RECOMMENDATIONS

We recommend that Palmetto:

- reduce the costs claimed on its cost proposals by \$339,926;
- improve its internal controls to ensure that it does not claim expenses it has identified as unallowable;
- have BlueCross allocate the various pools of home office costs periodically (e.g., monthly or quarterly) in the aggregate rather than by account by cost center; and
- improve its internal controls to ensure that it includes all allowable general ledger accounts, including those with negative balances, when compiling its costs for cost proposals.

PALMETTO GBA COMMENTS

In written comments on our draft report, Palmetto concurred with all but one of our findings and recommendations. Palmetto disagreed with our finding that home office indirect costs allocated to the Part B contract exceeded the allocable amount by \$46,656 and with the corresponding recommendation that BlueCross allocate costs in the aggregate rather than by account by cost center. Palmetto stated that BlueCross’s allocation methodology is necessary to preserve transaction level information and that resulting rounding differences are immaterial. However,

to eliminate similar findings in the future, BlueCross said that it would initiate a year-end true-up process to correct the inherent rounding differences.

Additionally, although Palmetto agreed that it incorrectly claimed \$261,242 in unallowable costs relating to an indirect cost pool, it requested that we reduce our recommended disallowance by \$100,436, representing the net amount of understated allowable costs from that same indirect cost pool relating to other Medicare programs' previously settled cost proposals for the same time period. Palmetto's comments are included in their entirety as Appendix B.

OFFICE OF INSPECTOR GENERAL RESPONSE

We continue to maintain that Palmetto should reduce the cost claimed on its cost proposals by \$339,926. With regard to home office indirect costs, we are pleased that BlueCross plans to initiate a year-end true-up process for the 2011 year and we accept this as an alternative to allocating the various pools of home office costs periodically in the aggregate. Had this process been implemented during our audit period, home office indirect costs allocated to the Part B contract would have been reduced by \$46,656.

Additionally, we acknowledge that, although Palmetto incorrectly claimed \$261,242 in unallowable costs relating to an indirect cost pool on its FY 2007 Part B cost proposal, it similarly understated previously settled cost proposals by a net of \$100,436 in costs from that same indirect cost pool. Palmetto understated its FY 2007 Part A cost proposal by \$141,126 and overstated its FY 2007 Durable Medical Equipment Regional Carrier cost proposal by \$40,690. However, because our audit scope was limited to Part B cost proposals, we are unable to reduce our recommended disallowance by the net \$100,436 in understated costs related to other programs' previously settled cost proposals. Palmetto should work with CMS to resolve the net understatement of costs related to the other programs.

APPENDIXES

**APPENDIX A: FINAL ADMINISTRATIVE COST PROPOSALS
WITH RECOMMENDED COSTS FOR ACCEPTANCE
AND RECOMMENDED COSTS FOR DISALLOWANCE
FOR FISCAL YEARS 2007, 2008, AND 2009**

<u>Cost Category</u>	<u>Fiscal Year 2007</u>	<u>Fiscal Year 2008</u>	<u>Fiscal Year 2009</u>	<u>Total</u>
Salaries and Wages	\$23,713,443	\$10,469,967	\$8,929,019	\$43,112,429
Fringe Benefits	12,147,848	3,132,325	3,222,461	18,502,634
Facilities or Occupancy	3,729,697	0	0	3,729,697
EDP Equipment	2,864,437	1,681	18,362	2,884,480
Subcontracts	3,387,482	3,702,255	2,732,019	9,821,756
Outside Professional Services	25,131	330,381	108,860	464,372
Telephone and Telegraph	833,257	660	2,296	836,213
Postage and Express	5,203,691	3,607,281	4,437,817	13,248,789
Furniture and Equipment	428,446	0	0	428,446
Materials and Supplies	1,080,399	60,695	115,670	1,256,764
Travel	436,935	89,973	80,392	607,300
Return on Investment	158,809	101,841	120,964	381,614
Miscellaneous	1,283,175	0	29,205,549	30,488,724
Other	0	29,776,752	0	29,776,752
Credits	(13,989,443)	(13,551,520)	(13,315,456)	(40,856,419)
Forward Funding	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Costs Claimed	\$41,303,307	\$37,722,291	\$35,657,953	\$114,683,551
Less Pension Costs Not Reviewed	<u>1,716,964</u>	<u>968,057</u>	<u>1,140,685</u>	<u>3,825,706</u>
Total Costs Reviewed	<u>\$39,586,343</u>	<u>\$36,754,234</u>	<u>\$34,517,268</u>	<u>\$110,857,845</u>
Less: Recommended Disallowances				
Unallowable Costs From Indirect Cost Pool	\$261,242	\$0	\$0	\$261,242
Other Unallowable Costs	18,279	0	0	18,279
Overstated Home Office Costs	39,308	2,102	5,246	46,656
Costs in Excess of the General Ledger	<u>0</u>	<u>13,749</u>	<u>0</u>	<u>13,749</u>
Total Recommended Disallowances	<u>\$318,829</u>	<u>\$15,851</u>	<u>\$5,246</u>	<u>\$339,926</u>
Recommended for Acceptance	<u><u>\$39,267,514</u></u>	<u><u>\$36,738,383</u></u>	<u><u>\$34,512,022</u></u>	<u><u>\$110,517,919</u></u>

APPENDIX B: PALMETTO GBA COMMENTS



Bruce W. Hughes
Vice President and Chief Operating Officer

December 28, 2011

Lori S. Pilcher
Regional Inspector General for Audit Services
Region IV
61 Forsyth Street, SW, Suite 3T41
Atlanta, Georgia 30303

Dear Ms. Pilcher:

RE: Audit Report Number A-04-11-04013

We are responding to your draft audit report dated November 28, 2011 entitled "Audit of Palmetto GBA's Medicare Part B Final Administrative Cost Proposals for Fiscal Years 2007 through 2009."

The draft report contained the following recommendations. Our responses to the recommendations are provided below.

We recommend that Palmetto GBA:

- Reduce the cost claimed on its cost proposals by \$339,926;
- Improve its internal controls to ensure that it does not claim expenses it has identified as unallowable;
- Have BlueCross allocate the various pools of home office cost periodically (e.g., monthly or quarterly) in the aggregate rather than by account by cost center; and
- Improve its internal controls to ensure that it includes all allowable general ledger accounts, including those with negative balances, when compiling its cost for cost proposals.

Contractor Response:

- Palmetto GBA agrees with the computation of unallowable cost included on the 2007 cost proposal in the amount of \$261,242. In an effort to reduce the size and complexity of the true up journal entry, Palmetto GBA rolled all natural accounts into one account (6GA3) and in the process, inadvertently included unallowable accounts. This account roll up was an isolated occurrence and the process was immediately revised to maintain original account numbers and descriptions, making unallowable cost evident. Palmetto GBA believes this cost should be netted against the previously settled 2007 Part A and DMERC cost proposals. With this adjustment, Palmetto GBA agrees to a cost reduction on the FY 2007 Part B cost proposal of \$160,806.

Lori S. Pilcher
 December 28, 2011
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- Palmetto GBA agrees with a reduction in proposed cost of \$18,279 related to unallowable cost on the FY 2007 cost proposal. An attempt was made to exclude the unallowable accounts when the report was created from Palmetto GBA's costing system, however, two unallowable accounts were overlooked while setting up the report and included in the output. This error resulted in overstated cost. This process has been revised with Palmetto GBA's conversion to Deltek Costpoint software in October 2007. Palmetto GBA established a unique account range for unallowable cost, where in the past, unallowable accounts were embedded throughout the entire administrative expense account range. Palmetto GBA has created static reports within Costpoint, allowing for the entire unallowable account range to be excluded in the aggregate.
- Palmetto GBA disagrees with the disallowance of the Home Office cost in the amount of \$46,656. We believe this cost to be allowable, allocable and reasonable. We further disagree with recommendation that BCBSSC allocate the Home Office cost in the aggregate (see narrative below). Our Home Office allocates hundreds of millions of dollars and it is impractical to expect refinement of allocations to the level suggested by this audit report.
 - *BCBSSC's Home Office allocation process was designed with many considerations, one of which being the ability to take allocated costing data and link back to the transaction which documents the original entry to the costing system. This link is critical to enable BCBSSC to satisfy audit requirements such as the ones that arose for this Medicare Part B audit. Therefore, the statement in the audit report concerning "allocating in the aggregate versus by account by cost center" runs contrary to the need for researching Home Office pool expenses or fulfilling audit requests. If BCBSSC Home office costs are allocated in the aggregate, the link which ties allocated costing results back to original source of the expense would be lost, resulting in the inability to fulfill audit requests for the source documentation.*
 - *This detail allocation process used by the BCBSSC Home Office involves a significant amount of costing transactions and data records. Thus, some rounding is inherent. The amounts are deemed to be immaterial to any one particular business segment. However, as a result of this finding and to eliminate the possibility of similar findings in the future, BCBSSC will initiate a year-end true-up process for the 2011 year to settle the variances between the allocated costing detail and the results which would occur from an aggregating methodology. The entry will be made in the first quarter of 2012 and all subsidiaries will be notified so that any necessary filings can be updated.*
- Palmetto GBA agrees with a reduction in cost related to its 2008 cost proposal in the amount of \$13,749. This allowable cost, which had credit balances, was included in the three prior cost proposals, but was inadvertently excluded from the final, causing an overstatement of allowable cost. The inclusion of this cost relied on a manual process, which has been eliminated with the addition of several new pools which automated the cost allocation process.

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December 28, 2011
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- Palmetto GBA agrees with the recommendation to improve our policies and procedures for maintaining documentation to support that costs included on our cost proposals were incurred, allocable to the contract, and compliant with applicable cost principles. Palmetto GBA has implemented multiple automated processes to replace those that were manual functions. Palmetto GBA will take any other steps deemed necessary to implement this recommendation.

If you have any questions, please feel free to contact me at 803-763-7130.

Sincerely,

/s/

CC: Joe Wright, Palmetto GBA
Mark Wimple, OIG