



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services, Region V
233 North Michigan Avenue
Suite 1360
Chicago, IL 60601

June 15, 2010

Report Number: A-05-09-00097

Michael W. Harty
Managing Director
Strategic Government Initiatives
Blue Cross and Blue Shield Association
225 N. Michigan Avenue
Chicago, IL 60601

Dear Mr. Harty:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of Blue Cross Blue Shield Association's Final Administrative Cost Proposals for Fiscal Year 2008*. We will forward a copy of this report to the HHS action official noted on the following page.

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-05-09-00097 in all correspondence.

Sincerely,

/James C. Cox/
Regional Inspector General
for Audit Services

Enclosure

HHS Action Official:

Deborah Taylor
Acting Director & Chief Financial Officer
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Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF BLUE CROSS
BLUE SHIELD ASSOCIATION'S
FINAL ADMINISTRATIVE COST
PROPOSAL FOR FISCAL
YEAR 2008**



Daniel R. Levinson
Inspector General

June 2010
A-05-09-00097

Office of Inspector General

<http://oig.hhs.gov>

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Notices

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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.

INTRODUCTION

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 (contractors).

CMS contracts provide for the reimbursement of allowable administrative costs. In claiming costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation (FAR) and the Medicare contracts. After the close of each fiscal year (FY), contractors submit to CMS a Final Administrative Cost Proposal (FACP) reporting Medicare costs. Once CMS accepts an FACP, the contractor and CMS negotiate a final settlement of allowable administrative costs.

For FY 2008, CMS contracted with Blue Cross Blue Shield Association (BCBSA) to serve as a Medicare contractor. BCBSA reported Medicare administrative costs totaling \$4,386,073 on its FACP for FY 2008.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

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

Scope

Our review covered the period October 1, 2007, through September 30, 2008 (FY 2008). For this period, BCBSA reported administrative costs totaling \$4,386,073. This total included postretirement benefits of \$120,400 that are the subject of a separate review and, therefore, were excluded from this audit. We reviewed \$4,265,673 of administrative costs.

We reviewed BCBSA's internal controls for allocating costs in accordance with the cost objectives specified in the FAR and the Medicare contract. We conducted this analysis to accomplish our objective and not to provide assurance on the internal control structure.

We conducted fieldwork at BCBSA's office in Chicago, Illinois, from August 2008 through February 2009.

Methodology

To accomplish our objective, we:

- reviewed applicable Medicare laws, regulations, and guidelines; the applicable section of the FAR; and BCBSA's contract with CMS;
- reviewed the independent auditor's report for FY 2008;
- reviewed BCBSA internal audit reports for FY 2008;
- reconciled line-item expenses on the cost proposal and cost classification report to the contractor's record of expenses;
- judgmentally selected costs totaling \$837,336, and reviewed supporting documentation;
- interviewed BCBSA officials regarding the cost accumulation processes for cost proposal and cost allocation systems;
- reviewed established personnel and accounting policies and procedures to determine BCBSA's practices for allocating compensation costs to Medicare;
- reviewed payroll journals, corporate bonus plans, and personnel records; and
- compared top five executives' compensation to benchmark compensation amounts published in the Federal Register, and tested for excessive executive compensation claimed.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

RESULTS OF REVIEW

Of the \$4,386,073 administrative costs that BCBSA claimed on its FACP for FY 2008, \$4,265,673 was allowable, allocable, and reasonable in accordance with the FAR and the Medicare contract. The remaining \$120,400 represents postretirement benefits that we did not review and that are the subject of a separate review. Consequently, this report contains no recommendations. We discussed the results of our review with the BCBSA officials.

APPENDIX

**APPENDIX: FINAL ADMINISTRATIVE COST PROPOSAL RECOMMENDED AND
ACCEPTED AMOUNTS FOR FISCAL YEAR 2008**

The table below details the costs that BCBSA claimed in its cost proposal for FY 2008:

<u>Element of Cost</u>	<u>FY 2008</u>
Costs Proposed and Accepted:	
Salaries and Wages	\$2,591,336
Fringe Benefits	550,473
Facilities or Occupancy	340,015
EDP Equipment	225,485
Subcontracts	0
Outside Prof Service	191,171
Telephone & Telegraph	39,216
Postage and Express	35,696
Furniture and Equipment	27,049
Materials and Supplies	19,286
Travel	109,400
Return on Investment	7,740
Miscellaneous	<u>128,806</u>
Subtotal	\$4,265,673
Costs Not Reviewed:	
Post-Retirement Benefit	<u>120,400</u>
TOTAL	<u>\$4,386,073</u>