



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

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

April 21, 2011

Report Number: A-05-10-00076

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 Proposal for Fiscal Year 2009*. We will forward a copy of this report to the HHS action official noted on the next 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-05-10-00076 in all correspondence.

Sincerely,

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

Enclosure

**HHS Action Official:**

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

Department of Health & Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF BLUE CROSS  
BLUE SHIELD ASSOCIATION'S  
FINAL ADMINISTRATIVE COST  
PROPOSAL FOR FISCAL  
YEAR 2009**



Daniel R. Levinson  
Inspector General

April 2011  
A-05-10-00076

# *Office of Inspector General*

<http://oig.hhs.gov>

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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 & 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*

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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 2009, CMS contracted with Blue Cross Blue Shield Association (BCBSA) to serve as a Medicare contractor. BCBSA reported Medicare administrative costs totaling \$4,338,335 on its FACP for FY 2009.

### **OBJECTIVE, SCOPE, AND METHODOLOGY**

#### **Objective**

Our objective was to determine whether the administrative costs that BCBSA claimed on its FACP for FY 2009 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, 2008, through September 30, 2009 (FY 2009). For this period, BCBSA reported administrative costs totaled \$4,338,335. This total included postretirement benefits of \$58,575 that are the subject of a separate review and, therefore, were excluded from this audit. We reviewed \$4,279,760 of administrative costs.

We did not review the overall internal control structure of BCBSA. We limited our review to gaining an understanding of BCBSA's internal controls used for allocating costs in accordance with the cost objectives specified in the FAR and the Medicare contract.

We conducted fieldwork at BCBSA's office in Chicago, Illinois, from July 2010 through February 2011.

## **Methodology**

To accomplish our objective, we:

- reviewed applicable Medicare laws, regulations, and guidelines; the applicable sections of the FAR; and BCBSA's contract with CMS;
- reviewed the independent auditor's report for 2009;
- reviewed BCBSA's internal audit report for 2009;
- reconciled the FACP to BCBSA's accounting records;
- judgmentally selected costs totaling \$642,078, and reviewed supporting documentation;
- interviewed BCBSA officials regarding its cost accumulation processes for cost proposals and gained an understanding of BCBSA's 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 the 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 the conclusion based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objective.

## **RESULTS OF REVIEW**

Of the \$4,338,335 administrative costs that BCBSA claimed on its FACP for FY 2009, \$4,279,760 was allowable, allocable, and reasonable in accordance with the FAR and the Medicare contract. The remaining \$58,575 represents postretirement costs 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 BCBSA officials.

# **APPENDIX**

**APPENDIX: FINAL ADMINISTRATIVE COST PROPOSAL RECOMMENDED AND  
ACCEPTED AMOUNTS FOR FISCAL YEAR 2009**

The table below details the costs that BCBSA claimed on its cost proposal for FY 2009:

<u>Element of Cost</u>	<u>FY 2009</u>
<b>Costs Proposed and Accepted:</b>	
Salaries and Wages	\$2,692,726
Fringe Benefits	577,002
Facilities or Occupancy	403,852
EDP Equipment	200,258
Subcontracts	0
Outside Prof. Service	147,643
Telephone & Telegraph	22,894
Postage and Express	21,317
Furniture and Equipment	37,495
Materials and Supplies	11,089
Travel	67,021
Return on Investment	3,612
Miscellaneous	<u>94,851</u>
Subtotal	\$4,279,760
<b>Costs Not Audited:</b>	
Post-Retirement Benefit	<u>58,575</u>
<b>TOTAL</b>	<b><u>\$4,338,335</u></b>