

**Memorandum**

Date DEC 8 1992

From Bryan B. Mitchell *Bryan Mitchell*
Principal Deputy Inspector General

Subject Administrative Costs Incurred Under Part A and Part B of
the Health Insurance for the Aged and Disabled Program -
Health Care Service Corporation, Chicago, Illinois

To (A-05-92-00108)

William Toby, Jr.
Acting Administrator
Health Care Financing Administration

This memorandum is to alert you to the issuance on December 9, 1992 of our final report. A copy is attached.

The firm of Doshi and Associates, P.C., under contract with the Office of Inspector General, conducted an audit of Medicare administrative costs incurred by Health Care Service Corporation (HCSC). The audit covered the costs claimed on HCSC's final administrative cost proposals (FACP) for the Fiscal Years (FY) 1987 through 1990. Costs audited totaled \$64,018,746 for Part A and \$49,562,321 (FY 1989 and 1990 only) for Part B.

Of the total claimed, auditors questioned \$1,121,889.

Specifically, HCSC:

- o claimed unallowable interest and made an inappropriate calculation resulting in overstated pension costs of \$467,447.
- o made several errors totaling \$191,690 when making FACP adjustments.
- o overcharged Medicare for \$90,838 due to using a complementary credit rate insufficient to cover the full costs of claims processing and transfer functions.
- o used outdated statistics to allocate costs resulting in a Medicare overclaim of \$262,594.
- o charged miscellaneous unallowable costs of \$55,758 to Medicare.

Page 2 - William Toby, Jr.

- o claimed \$29,180 for unallowable interest costs applicable to deferred compensation.
- o charged Medicare \$24,382 for unallowable interest expenses included in capital leases on computer equipment.

The HCSC fully concurred with our findings and recommendations on outdated statistics, miscellaneous unallowable costs, and interest expenses applicable to deferred compensation and capital leases. Subsequent to issuance of the draft report, we made some changes in the report and HCSC now concurs with the finding on complementary credits.

The HCSC only partially concurred with findings on pension and FACP adjustments. The full text of HCSC's comments is appended to our report.

The Health Care Financing Administration regional office generally concurred with our findings and recommendations but withheld final comment pending review of the HCSC's response.

For further information, contact:

Martin D. Stanton
Regional Inspector General
for Audit Services, Region V
(312) 353-2618

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF ADMINISTRATIVE COSTS
INCURRED UNDER PART A AND PART B
OF THE HEALTH INSURANCE FOR THE
AGED AND DISABLED PROGRAM**

**HEALTH CARE SERVICE CORPORATION
CHICAGO, ILLINOIS**



DECEMBER 1992 A-05-92-00108



DEPARTMENT OF HEALTH AND HUMAN SERVICES

REGION V
105 W. ADAMS ST.
CHICAGO, ILLINOIS 60603-6201

OFFICE OF
INSPECTOR GENERAL

Our Reference: Common Identification No. A-05-92-00108

Mr. Richard Giba
Internal Audit Department
Health Care Service Corporation
233 N. Michigan Avenue
Chicago, Illinois 60601-5655

Dear Mr. Giba:

Enclosed for your information and use are two copies of an Office of Inspector General report titled "Audit of Administrative Costs Incurred Under Part A and Part B of the Health Insurance for the Aged and Disabled Program". The audit was performed by Doshi and Associates, P.C. under a contract with the OIG. It covered fiscal years ended September 30, 1987 through 1990. Your attention is invited to the findings and recommendations in the report.

Final determinations as to actions to be taken on all matters reported will be made by the HHS official named below. The HHS action official will contact you to resolve the issues in this audit report. Any additional comments or information that you believe may have a bearing on the resolution of this audit may be presented at that time.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), Office of Inspector General audit reports issued to the Department's grantees and contractors are made available if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act, which the Department chooses to exercise (See 45 CFR Part 5).

To facilitate identification, please refer to the referenced common identification number in all correspondence relating to this report.

Sincerely,

for

Martin D. Stanton
Regional Inspector General
for Audit Services

Enclosures

Direct reply to:
Judith D. Stec
Associate Regional Administrator
Division of Medicare

SUMMARY

Health Care Service Corporation (HCSC) claimed administrative costs for Medicare, Part A and Part B, as follows:

<u>Fiscal Year</u>	<u>Part A</u>	<u>Part B</u>	<u>Total</u>
1990	\$16,779,001	\$33,272,510	\$50,051,511
1989	16,922,449	16,289,811 *	33,212,260
1988	15,859,481	-	15,859,481
1987	<u>14,457,815</u>	<u>-</u>	<u>14,457,815</u>
Total	<u>\$64,018,746</u>	<u>\$49,562,321</u>	<u>\$113,581,067</u>

* Part B Contract started on April 1, 1989. Previously this contract was a fixed price award.

Of the \$113,581,067 in administrative costs claimed by HCSC during the four fiscal periods, we are recommending a financial adjustment of \$1,121,889. In addition, we reduced the amounts claimed by \$2,132,955 for applicable credits (see Exhibits A through G). The remaining \$110,326,223 is recommended for acceptance.

Our findings and recommendations are summarized in the paragraphs that follow.

PENSION During the four fiscal years audited, the HCSC overstated claimed pension costs by \$467,447. The overstatement resulted from the use of an inappropriate calculation and the inclusion of unallowable interest costs related to late payments.

INAPPROPRIATE FACP ADJUSTMENTS Several manual adjustments were made by HCSC to the Medicare Final Administrative Cost Proposal (FACP) that resulted in overclaimed costs totaling \$191,690. Primary causes of the overclaim were: (1) changes in accounting methods, (2) erroneous adjustment entries, and (3) overaccruals.

COMPLEMENTARY CREDITS The HCSC did not charge a complementary credit rate that was sufficient to cover the full costs of claims processing and transfer functions. As a result, during the four fiscal years covered by audit, the HCSC overcharged Medicare a total of \$90,838.

OUTDATED STATISTICS A prior audit report disclosed that HCSC had not updated its statistical information for allocating certain costs to Medicare. In early 1988, HCSC updated its statistics for the period prior to fiscal year 1987 and for January 1988. They retroactively adjusted for the prior audit period. However, adjustments were not made to costs claimed during the first 15 month period covered by this audit. We used the January 1988 statistics to adjust costs for the period October 1, 1986 through December 31, 1987. Based on our adjustments, we have questioned \$262,594.

MISCELLANEOUS UNALLOWABLE COSTS The HCSC charged \$55,758 in miscellaneous costs that were unallowable under the Federal Acquisition Regulation (FAR). Such costs included entertainment, liquor, contributions and advertising.

DEFERRED COMPENSATION Unallowable interest costs totaling \$29,180 were claimed on board of directors and management deferred compensation. Essentially, HCSC was paying interest to individuals for use of the deferred compensation. Such interest costs are unallowable.

INTEREST EXPENSE ON CAPITAL LEASES The HCSC claimed interest expenses of \$24,382 on certain computer equipment capital leases in FY 89 and FY 87. A similar finding was disclosed in the prior audit report. Such costs were manually eliminated by HCSC from the FY 90 and FY 88 Medicare FACP's. Interest costs of this nature are unallowable.

In addition, we are providing information in the "Other Matters" section relating to complementary credit for the five month period May 16, 1986 through September 30, 1986. This information is provided in response to HCFA's closing agreement with HCSC on the prior audit finding.

Based on a review of our draft report, HCSC:

- fully concurred with the finding and recommended financial adjustments related to Outdated Statistics, Miscellaneous Unallowable Costs, Deferred Compensation and Interest Expense on Capital Leases.
- partially agreed with the finding and recommended financial adjustments related to Pension, Inappropriate FACP adjustments and Complementary Credits.

Regarding the latter findings HCSC presented additional information to support their position.

Based on a review of the additional information provided, we revised the final report for those areas of agreement. As a result of our revisions, there remains two findings, Pension and Inappropriate FACP Adjustments where HCSC still partially disagrees with the recommended financial adjustments. HCSC's initial comments dated August 7, 1992 and supplemental comments dated September 3, 1992 are provided as Appendix 1 and 2, respectively.

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HCSC'S COMMENTS

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INDEPENDENT AUDITOR'S REPORT

OPINION

We have audited the "Final Administrative Cost Proposals" (FACPs) of Health Care Service Corporation (HCSC) for the fiscal years ended September 30, 1990, 1989, 1988 and 1987. These financial statements are the responsibility of HCSC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted government auditing standards, "Government Auditing Standards," and the "Audit Guide For The Review Of Administrative Costs Incurred By Medicare Intermediaries and Carriers under Title XVIII Of The Social Security Act" (Audit Instruction E-1), dated February 25, 1991. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We have identified a total of \$1,121,889 in costs recommended for financial adjustment. The final determination as to whether such costs are allowable will be made by the United States Department of Health and Human Services.

Excluded from our audit was a review of pension segmentation. This exclusion was in accordance with the OIG audit guide. We were told that OIG is planning a separate audit of the Medicare intermediaries and carriers' pension plans for compliance with the segmentation provisions of the Federal Acquisition Regulations (FAR).

In our opinion, with the exception of the ultimate resolution of the costs recommended for financial adjustment, the FACPs referred to above present fairly, in all material respects, the administrative costs applicable to Part A and Part B Health Insurance for the Aged and Disabled Program, claimed by HCSC for the fiscal years ended September 30, 1990, 1989, 1988 and 1987 in accordance with the reimbursement principles of Part 31 of the

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FAR as contained in 48 Code of Federal Regulations (CFR) Chapter (CH) 1, interpreted and modified by the Medicare Agreements.

This report is intended solely for the use of management within HCSC and the Department of Health and Human Services and should not be used for any other purpose.

Doshi & Associates, P.C.

Kansas City, Missouri
February 14, 1992

INTRODUCTION

BACKGROUND

Title XVIII of the Social Security Act established the Health Insurance for the Aged and Disabled Program (Medicare). Part A of the program provides insurance protection against the costs of hospital and related care. The Medical Insurance Program, Part B - Supplementary Medical Insurance Benefits for the Aged and Disabled - is a voluntary program that provides protection against the cost of physicians' services and other health services not covered under Part A. The Medicare program is administered at the Federal level by the Health Care Financing Administration (HCFA), an agency of the Department of Health and Human Services.

Title XVIII provides that public or private organizations, known as Intermediaries for Part A and Carriers for Part B, may assist in the administration of the Medicare program. Part A Intermediaries are nominated by provider groups. Nominations are submitted to HCFA, and agreements are entered into with approved Intermediaries. The Intermediaries receive funds to pay providers for the cost of service to eligible individuals and for the Intermediaries' administrative costs in operating the program. Carriers are reimbursed for all reasonable and allowable costs incurred in administering the Part B program.

HCSC serves as a Part A-Intermediary and Part B-Carrier. Benefit payments were made in the following amounts:

<u>Fiscal Year</u>	<u>Part A</u>	<u>Part B</u>
1990	\$3,288,302,172	\$1,205,212,376
1989	2,804,027,172	558,310,366
1988	2,507,888,779	
1987	2,531,641,931	

SCOPE OF AUDIT

Our examination was performed in accordance with generally accepted government auditing standards (Government Auditing Standards) and the "Audit Guide For Review of Administrative Costs Incurred By Medicare Intermediaries and Carriers under Title XVIII Of The Social Security Act" (Audit instruction E-1), dated February 25, 1991. We examined the administrative costs claimed by HCSC for the period October 1, 1986 through September 30, 1990 to the extent that we considered necessary to determine if amounts claimed were in accordance with applicable Federal requirements, policies, and program instructions.

Our examination included audit procedures which were designed to achieve the following objectives:

Determine whether HCSC has established effective systems of internal control, accounting and reporting for administrative costs incurred under the program.

Ascertain whether the FACPs present fairly the costs of program administration allowable in accordance with Part 31 of the FAR as interpreted and modified by the Medicare Agreements.

Ascertain whether HCSC has complied with contractual and administrative requirements governing specific items of costs.

Identify the underlying causes of significant errors or problems noted and make recommendations for improvements or adjustment of costs claimed as appropriate.

Our audit procedures included examination of pertinent accounting records and supporting documentations.

Our audit excluded a review of pension segmentation. This area was excluded in accordance with the OIG audit guide. We were told that OIG is planning an audit of the Medicare intermediaries and carriers' pension plans for compliance with the segmentation provisions of FAR.

The audit fieldwork was performed at HCSC's offices in Chicago, Illinois during the period November 1991 through February 1992.

FINDINGS AND RECOMMENDATIONS

PENSION

The HCSC overclaimed pension expenses on Medicare Part A and Part B by a total of \$467,446. The overclaimed amount resulted from: (1) inappropriate calculation of Medicare pension costs, and (2) unallowable interest costs related to late payments. We are recommending a financial adjustment of \$467,446.

The HCSC received an annual actuarial report covering its non-contributory retirement plan for employees. This report provided the HCSC with the amount of funding necessary to meet Federal regulations. Overall funding was computed based on the provisions of the Employee Retirement Income Security Act (ERISA). The Medicare segmentation requirements were calculated in accordance with the Cost Accounting Standards (CAS).

During the period covered by audit, HCSC claimed the following pension costs:

<u>FY</u>	<u>Part A</u>	<u>Part B</u>	<u>Total</u>
1990	\$320,708	\$215,773	\$536,481
1989	358,762	138,824*	497,586
1988	593,695	-	593,695
1987	564,110	-	564,110
Total	<u>\$1,837,275</u>	<u>\$354,597</u>	<u>\$2,191,872</u>

* Part B pension expenses covered the period April 1, 1989 through September 30, 1989.

Regarding the allocation of pension costs to the various lines of business, including Medicare, the Budget Department determined the annual and monthly amounts. Pension costs were distributed to cost centers based on a salary dollar ratio. This procedure identified pension costs applicable to Medicare direct salaries and "Other." The "Other" salaries represented corporate indirect and general and administrative salaries allocated to Medicare.

We reviewed HCSC's allocation procedures and noted the following conditions:

- o The HCSC's actual contributions to the pension plan were less than the amounts stated in the annual actuarial reports. Required funding and contributions were:

	<u>Actuarial Report</u>	<u>HCSC Contribution</u>	<u>Difference</u>
1990	\$3,817,270	\$3,771,737	\$45,503
1989	3,004,620	2,956,245	48,375
1988	6,826,171	6,781,427	44,744

The HCSC used the actuarial amounts for allocating pension costs rather than the actual contributions resulting in overstated pension costs. The HCSC is limited to actual contributions or amounts determined in accordance with CAS, whichever is lesser.

- o The actuarial report provided the Medicare segmentation information as required in the contract. However, the HCSC did not use this information to determine amounts allocable to Medicare. The HCSC's procedures resulted in allocating about twice the amounts to Medicare as were identified in the segmentation schedules. The HCSC allocated an inordinate amount of pension costs related to the "Other" salary category.

- o The Medicare Part B contract changed from a fixed price to a cost type contract on April 1, 1989. The HCSC had identified a \$131,369 pension cost credit in 1989 applicable to Medicare Part B. However, none of the credit was allocated to Medicare for the period April to September 30, 1989. According to 48 CFR 31.205-5, Medicare should receive its share of the credit.

- o The HCSC did not fund the pension plan on a quarterly basis as required by 48 CFR 31.205-6(j)(3)(iii). Also there were instances of late funding after year end. The additional interest costs are unallowable.

Considering the above conditions, we calculated pension costs related to Medicare Part A and Part B. Our calculations were presented to HCSC in the draft report. In response to the draft report, HCSC provided a recalculation of pension costs in comments dated August 7, 1992 (See Appendix 1). HCSC's recalculation did not consider the \$131,369 credit for FY 89, Part B. However, HCSC submitted an additional response dated September 3, 1992 (See Appendix 2). In this response HCSC recalculated the segmentation for both Part A and Part B in 1989 and 1990, respectively. This recalculation considered the credit adjustment for FY 89 Part B.

Regarding HCSC's comments of September 3, 1992, we did not evaluate the recalculation. As indicated in the Scope of Audit, our audit excluded pension segmentation based on instruction provided in the OIG audit guide. We did note that, the current recalculation resulted in a significant increase in the segmented amount for Part B in FY 90.

RECOMMENDATION:

We recommend that HCSC:

Adjust the applicable FACP by the following amounts:

	<u>Cost Questioned</u>
<u>FY 90</u>	
Part A	\$116,815
Part B	64,021
<u>FY 89</u>	
Part A	9,888
Part B	242,624
<u>FY 88</u>	
Part A	32,428
<u>FY 87</u>	
Part A	<u>1,671</u>
 Total Adjustments	 <u>\$467,447</u>

2. Provide HCFA with the detailed support for the September 3, 1992 reclaculation of segmentation. With this information HCFA can evaluate the accuracy and equity of the recalculated segmentation amounts.

HCSC Comment

The HCSC did not fully concur with our finding and recommended financial adjustments. They provided a recalculation of pension costs in comments dated August 7, 1992 that indicate an agreement with \$336,077 in overcharges for the four fiscal years. They did not adjust for the FY 89, Part B credit.

Additional comments were provided September 3, 1992 that showed a recalculation of segmentation amounts considering the FY 89 Part B credit.

Auditor Response

The finding and recommended financial adjustment, as presented above, has been revised to show those areas where we agree with HCSC's recalculation of August 7, 1992. HCSC's comments of September 3, 1992 are provided as Appendix 2. We did not evaluate this calculation since it involved the revision of segmentation amounts.

INAPPROPRIATE FACP ADJUSTMENTS

Our review of accounting entries supporting FACP adjustments showed that HCSC had overclaimed Medicare costs by a total of \$191,690. The overclaimed costs resulted from: (1) changes in accounting methods, (2) erroneous adjusting entries, and (3) overaccruals. We are recommending a financial adjustment for the \$191,690.

We reviewed the manual adjustments and supporting accounting entries made to both the Part A and Part B FACPs. This review showed the following:

Unemployment Taxes

The HCSC had overcharged Medicare \$44,025 for Federal and State unemployment taxes during periods prior to FY 87. These overcharges were identified by the HCSC in FY 88 but accounting entries were not made to reduce Medicare costs claimed. Since HCFA had finalized Medicare costs for the prior fiscal years, the adjustment for \$108,000 should have been made to the FY 88 FACP.

In October 1987, HCSC paid additional State Unemployment Taxes for the period 1978 through 1985. An accrual had been previously established for the payments. The accrued amount was greater than the actual payment and the difference was credited to natural account 6022 (Unemployment Insurance). However, HCSC prepared a FACP adjustment for \$77,743 to reverse the portion of the credit applicable to Medicare Part A. The reversing entry was overstated and resulted in an overcharge of \$13,768.

Also, HCSC received a refund for an overpayment of 1982 Federal Unemployment Taxes in FY 88. Again, HCSC reversed the Medicare portions of this credit on the FY 88 FACP because the refund was applicable to a prior year, it should not be offset against current year costs. We do not agree with the HCSC's position and have questioned \$30,257 relating to Part A in FY 88.

Capitalized Equipment

The HCSC expensed several items of computer equipment in FY 86 that should have been capitalized. In FY 87, HCSC made an adjustment to the FACP to reverse the \$40,156 expensed and to

capitalize the items. An analysis of the adjustment showed that HCSC had not subtracted the amount expensed but, erroneously, doubled the amount. As a result, Medicare Part A was overcharged \$80,312 in FY 87.

Vacation

The HCSC overclaimed vacation expenses in FY 90 by \$27,807. This overclaimed resulted from a revision in the methodology used to calculate vacation expense accrual.

During the three fiscal years ended September 30, 1989, HCSC used the same method to compute vacation expense accrual. The HCSC would determine the vacation expense for the fiscal period 10/1 to 9/30 and compare to accruals for the same period. Any differences were adjusted on the FACP.

In FY 90, HCSC revised its methodology to compute the vacation accrual expense. The new method was to determine the difference between the 12/31/89 and 12/31/90 corporate vacation amounts. This difference was then multiplied by 9/12 to determine the total for 9 months. This total amount was multiplied by the Medicare percentage to arrive at the FACP adjustment. We do not agree with this method. The HCSC's calculation was for only 9 months and was not representative of full fiscal year.

We recalculated the FY 90 vacation expense based on HCSC's prior methodology as used in FY 89. Based on this calculation, we determined that HCSC overstated costs claimed for Medicare Part A by \$27,807 in FY 90.

Temporary Employees

The HCSC accrued \$15,833 of temporary employee services expense in FY 89. However, they did not reverse the accrual entry in FY 90, thus overstating Part A costs by \$15,833 for that year. We reviewed the HCSC's IER adjustment worksheets to determine if the reversing entry had been made. No entry was found. We are questioning the overstatement.

Early Out Retirement

The HCSC overclaimed the expense related to Early Out Retirement in the amount of \$14,850. This overclaimed resulted from erroneous accounting entries for interest and retirement expense.

The HCSC established an early out provision to its employment retirement plan in January 1988. This plan covered a two-year period and HCSC set up a liability for the present value of the future payments to be deferred over the life of the plan. The deferment and current expense were netted into an account. Costs recorded in this account were not allocated to Medicare through the computerized system.

As some of the early-out recipients were Medicare employees, the HCSC initiated a manual adjustment to the FACP. This adjustment represented the actual payment amount in accordance with 48 CFR 31.205-6(j)(6). The actual payment to the Medicare employees included imputed interest. For the period October 1, 1989 through December 31, 1989, the HCSC made another adjustment to Medicare Part A. This latter adjustment resulted in a duplication of imputed interest costs. The duplication totalled \$7,004, thus overstating costs on the FY 90 FACP for Medicare Part A.

In addition, HCSC's early-out retirement plan provided that employees would receive a portion of their salary over a two-year period. This plan became effective January 1, 1989. The expense related to the salaries was coded in a non-Medicare cost center. A manual adjustment was made to the FACP based on actual payments made to retirees.

Our review showed that the HCSC had charged 10 months of these expenses in FY 89 (December 1988 through September 1989). Since the plan was effective 1/89 there was an overcharge of 1 month as follows:

	<u>Medicare - FY 90</u>	
	<u>A</u>	<u>B</u>
Total Expense Claimed 1/89-12/90	\$84,834	\$103,463
Actual Payments 1/89-9/89	<u>9/24</u>	<u>9/24</u>
	\$31,813	\$ 38,799
HCSC	<u>35,348</u>	<u>43,110</u>
Questioned Costs	<u>\$ 3,535</u>	<u>\$ 4,311</u>

The HCSC had noted the overcharge on a supporting adjustment document. They acknowledged the misallocation but indicated it was immaterial and no adjustment would be made.

Provider Audit and Reimbursement

Each year HCSC made an FACP adjustment to Provider Audit and Reimbursement Cost Centers for various expenses. In FY 89, HCSC made an adjustment for \$56,572. Our review of the supporting documentation showed that the actual cost was \$47,709. We have questioned the overcharge of \$8,863 (\$56,572-\$47,709) on the FY 89 FACP for Part A.

RECOMMENDATION

We recommend the HCSC adjust its FACPs by \$191,690, summarized as follows:

<u>Item</u>	<u>FY 90</u>		<u>FY 89</u>	<u>FY 87</u>	<u>Total</u>
	<u>Part A</u>	<u>Part B</u>	<u>Part A</u>	<u>Part A</u>	
Unemployment Taxes	\$44,025	\$ -	\$ -	\$ -	\$ 44,025
Capitalized Equipment	-	-	-	80,312	80,312
Vacation	27,807	-	-	-	27,807
Temporary Employees	15,833	-	-	-	15,833
Early-Out Retirement	10,539	4,311	-	-	14,850
Provider Audit	-	-	8,863	-	8,863
Total	<u>\$98,204</u>	<u>\$4,311</u>	<u>\$8,863</u>	<u>\$80,312</u>	<u>\$191,690</u>

HCSC Comment

Generally, HCSC agreed with our findings and recommendation except for amounts we questioned related to State and Federal Unemployment Taxes and Vacation. Additional information was provided to support HCSC's position.

Auditor Response

We reviewed the additional information provided by HCSC and concur with their adjustment for State Unemployment Taxes and Vacation. These adjustments were made in our revised recommendation. Regarding the \$30,257 in Federal Unemployment taxes we still contend this entire amount should be cost questioned.

According to HCSC the original debit reversal of \$22,299 was offset by a credit entry of \$30,257. The latter entry resulted in a \$7,958 overstatement of Medicare costs. A further review of FACP adjustments for FY 87 and FY 88 showed:

Medicare A
FACP Adjustment

<u>Entry Number</u>	<u>Explanation</u>	<u>Amount</u>
FY 87 - 29	Overaccrual FUI	\$ <22,299 >
FY 88 - B	Add back since FUI adj. was for FY 87 period and included on FACP (FY 87)	\$ 25,141
FY 88 - N	Debit 7/88 IER to eliminate '82 credit	\$ 30,256

In our opinion, the FY 87 debit reversal of \$22,299 was reversed by the FY 88 credit of \$25,141. The additional credit adjustment of \$30,256 resulted in an overcharge to Medicare.

Considering the revisions, we made for areas of agreement, the total amount of cost questioned is \$191,690.

COMPLEMENTARY CREDITS

Except for Part B credit in fiscal year 1989, the HCSC charged a complementary credit rate for Part A and Part B that was insufficient to cover the full expense of claims processing and transfer functions. During the four fiscal years covered by audit, the total net undercredit was \$90,838. We are questioning this amount and recommending that the HCSC update certain data in its calculation of complementary credits.

In the prior audit report, OIG recommended that the HCSC furnish HCFA with details concerning the calculation of its complementary credit rates and amounts. The HCSC's methodology for computing complementary rates for both Part A and Part B was provided to HCFA in a letter dated July 20, 1990. Rates were calculated by HCSC for fiscal years 1986 through 1989. Further, HCSC indicated the methodology would be applied to future periods.

The HCSC had developed the following complementary rates for claims information furnished to itself (other business lines) and outside organizations:

<u>FY</u>	<u>Part A</u>	<u>Part B *</u>
1990	.297	.407
1989	.297	.407
1988	.372	
1987	.255	

* The HCSC furnished complementary claims information for Part B to four outside organizations. Rates applied to these claims were included in the same computation as provided in the July 20, 1990 letter to HCFA.

According to both the Intermediary and Carrier manuals, the complementary credit rate must be sufficient to cover the full cost of processing and transfer functions. We determined that the rates charged by the HCSC were insufficient to cover costs of processing and transfer on both part A and Part B.

The HCSC's methodology for calculating complementary rates and amounts was similar for both Part A and Part B. Further, this methodology did not change for the periods reviewed.

Specifically, the HCSC identified and allocated costs from the following cost centers:

Part A - Incoming Mail, Data Entry, Data Collection (EMC) and Medicare A System

Part B - Incoming Mail, Data Entry, EMC, Claim Adjudication and IDPA

These costs were distributed to the complementary credit cost pool for both type claims (part A and Part B) based on a two-step allocation methodology:

- o The first step was to compute a percentage by dividing the total complementary claims by the total Part A or Part B claims. This step identified the total amount of costs related to a Medicare claim with complementary coverage.
- o The second step was to compute a percentage by dividing the total number of key fields extracted for complementary information by the total number of key field on a Part A or Part B claim. This percentage was applied to amounts identified in step 1 to arrive at the cost of processing complementary claims information.

We reviewed the HCSC's FY 89 rate calculation for Part A. The results are detailed on Exhibit G and supporting schedule. Our review showed that the HCSC's methodology was not entirely equitable and not all processing costs were included in the rate calculation. Similar problems were noted in the HCSC's calculation of the Part B complementary rates. We performed this review for other FYs, but the calculations are not shown in the Exhibit because the adjustments are similar and lengthy.

Based on our review, we recalculated the following complementary rates and credit amounts for Part A and Part B for the fiscal years audited.

<u>Part A</u>	<u>HCSC</u>		<u>Auditor</u>		<u>Amount of</u>
<u>FY</u>	<u>Rate</u>	<u>Credit Amount</u>	<u>Rate</u>	<u>Credit Amount</u>	<u>Undercredit</u>
1990	\$.297	\$ 92,108	\$.50	\$154,769	\$ 62,661
1989	.297	69,273	.49	115,372	46,099
1988	.372	74,645	.46	92,997	18,352
1987	.255	<u>34,503</u>	.50	<u>67,574</u>	<u>33,071</u>
Total		<u>\$270,529</u>		<u>\$430,712</u>	<u>\$160,183</u>
<u>Part B</u>					
1990	\$.4255	1,922,186	\$.42	1,925,996	\$ 3,810
1989*	.4065	<u>417,333</u>	.34	<u>344,178</u>	<u><73,155></u>
Total		<u>\$2,339,519</u>		<u>\$2,270,174</u>	<u>\$<69,345></u>

* Represents the period 4/1/89 to 9/30/89. Our calculation showed the HCSC had provided an overcredit for that period. In fiscal years 1988 and 1987, the HCSC had a fixed price contract for processing Part B claims.

The net undercredit for the four years audited was \$90,838. This amount is questioned.

RECOMMENDATION

We recommend that HCSC adjust the FACPs for the undercredit as follows:

<u>FY</u>	<u>Part A Amount</u>	<u>Part B Amount</u>	<u>Net Total</u>
1990	\$ 62,661	\$ 3,810	\$ 66,471
1989	46,099	< 73,155>	<27,056>
1988	18,352	-	18,352
1987	<u>33,071</u>	<u>-</u>	<u>33,071</u>
Total	<u>\$160,183</u>	<u><\$69,345></u>	<u>\$ 90,838</u>

Also HCSC should update its complementary credit calculation annually. The updated information should be provided to HCFA.

HCSC Comment

HCSC concurred with the finding but noted certain errors in our computations of complementary credit amounts for Part A (FY 90) and Part B (FY 89) . In total, they agree that Medicare was undercredited \$90,838. Also, HCSC agreed to provide HCFA with an annual calculation of its complementary rates.

Auditor Response

We agree with the errors noted by HCSC and the finding and recommendation has been revised.

OUTDATED STATISTICS

In the prior audit report covering the two fiscal years ended September 30, 1986, the auditor questioned costs related to outdated allocation statistics. To resolve this finding HCSC recalculated the FY 85 and FY 86 costs based on a methodology approved by HCFA. Our review showed the HCSC updated the statistical data again in January 1988. However, for the 15-month period October 1, 1986 through December 31, 1987, the HCSC used outdated statistics or an erroneous methodology to allocate costs to Medicare. We requested HCSC to recalculate the costs for the 15-month period using the methodology applied in resolving the prior audit finding. Based on HCSC's

recalculation, we are recommending a financial adjustment to Part A totaling \$262,594.

The five cost centers noted in the prior audit report where outdated statistics were used follow:

Cost Center

- 170 Legal Expenses
- 480 Director Financial Actuarial Systems
- 484 Director-Administrative
- 630 Records Management
- 533 I.S. Chargeback - Financial Actuarial

We noted that the HCSC had not used the HCFA approved methodology for allocating costs to Medicare during the 15-month period October 1986 through December 1987. Instead they used the outdated methods questioned in the prior audit.

We reviewed the methodology approved by HCFA for allocating FY 85 and FY 86 costs. Except for the methodology used for cost center 533, we agreed with the allocation procedures applied to the other four cost centers. We requested the HCSC to recalculate the amounts for the four cost centers resulting in the following:

<u>Cost Center</u>	<u>Part A</u>		
	<u>10/1/86 to 9/30/87</u>		
	<u>Costs</u>		
	<u>Claimed</u>	<u>Recalculated</u>	<u>Questioned</u>
170	\$113,497	\$43,320	\$ 70,177
480	28,830	-	28,830
480	26,761	-	26,761
630	90,008	37,300	52,708
Total	<u>\$259,096</u>	<u>\$80,620</u>	<u>\$178,476</u>

<u>Cost Center</u>	<u>Part A</u>		
	<u>10/1/87 to 12/31/87</u>		
	<u>Costs</u>		
	<u>Claimed</u>	<u>Recalculated</u>	<u>Questioned</u>
170	\$29,758	\$12,110	\$17,648
480	10,000	-	10,000
480	9,829	-	9,829
630	19,216	8,595	10,621
Total	<u>\$68,803</u>	<u>\$20,705</u>	<u>\$48,098</u>

Regarding the methodology related to cost center 533, we compared HCSC's percentages developed for fiscal year 1987 to the January 1988 revised and updated calculation. There was a significant difference.

CC-533	Allocation
<u>Part A</u>	<u>Percentage</u>
FY 87	8.65%
FY 88	<u>.95%</u>
Difference	<u>7.70%</u>

The HCSC's FY 87 percentage was based on 1987 allocation statistics calculated in accordance with the methodology recommended in the prior audit. An adjustment was made to eliminate cost center 533 costs applicable to Part B from the Part A amount claimed. However, the HCSC had included some unallowable costs in the calculation of the FY 87 percentage.

The HCSC recognized that unallowable costs were in the FY 87 percentage and eliminated these costs in calculating the January 1988 percentage. We concluded the FY 88 percentages should be applied to the prior period. Application of this percentage to cost center 533 costs for the 15-month period resulted in the following:

	<u>FY 87</u>	<u>FY 88</u>
	<u>10/1/86 to 9/30/87</u>	<u>10/1/87 to 12/31/87</u>
Costs	\$2,865,838	\$417,002
1/88 Percent	<u>.0095</u>	<u>.0095</u>
Part A Amount	\$ 27,225	\$ 3,962
Amount Claimed	<u>60,166</u>	<u>7,041</u>
Questioned Costs	<u>\$ 32,941</u>	<u>\$ 3,079</u>

RECOMMENDATION

We recommend the HCSC make the appropriate financial adjustment to Part A as follows:

<u>Cost Center</u>	<u>FY 88</u>	<u>FY 87</u>	<u>Total</u> <u>Costs Questioned</u>
170	\$17,648	\$ 70,177	\$ 87,825
480	10,000	28,830	38,830
484	9,829	26,761	36,590
630	10,621	52,708	63,329
533	<u>3,079</u>	<u>32,941</u>	<u>36,020</u>
	<u>\$51,177</u>	<u>\$211,417</u>	<u>\$262,594</u>

HCSC Comment

HCSC concurs with the recommended financial adjustment. Further, they indicate that internal control procedure have been strengthen to assure that allocation statistics are updated on a timely basis.

MISCELLANEOUS UNALLOWABLE COSTS

The HCSC had allocated a total of \$55,758 in miscellaneous unallowable costs to Medicare. Included in the unallowable costs were entertainment, liquor, contributions and advertising. Each of these costs are specifically unallowable according to FAR.

Entertainment and Liquor

Once a year HCSC held a two-day conference for managers and certain executives which was referred to as "MOMs". Generally, these meetings were held at prominent hotels in the Chicago area. Also, HCSC held a number of luncheons and conferences in Chicago and other locations. Costs related to these activities were charged to certain corporate cost centers and allocated to all lines of business including Medicare.

We reviewed the invoices related to the annual meetings, selected conferences and luncheons. Included in the amounts allocated to Medicare were entertainment, liquor, gift certificates, etc. Entertainment and liquor costs are unallocable in accordance with 48 CFR 31.205-14 and 48 CFR 31.205-51, respectively.

The unallowable amounts noted for the period audited were as follows:

	<u>FY 90</u>	<u>FY 89</u>	<u>FY 87</u>	<u>Total Costs Questioned</u>
Part A	\$4,840	\$3,175	\$577	\$ 8,592
Part B	<u>6,837</u>	<u>-</u>	<u>-</u>	<u>6,837</u>
Total	<u>\$11,677</u>	<u>\$3,175</u>	<u>\$577</u>	<u>\$15,429</u>

Contributions and Advertising

The HCSC had allocated unallowable contributions and advertising costs to Medicare during each of the fiscal years audited. This same finding was reported in the prior audit covering FY 86 and FY 85. According to HCSC officials, an adjustment was made in FY 90 to eliminate unallowable costs from the FACP. Our review showed that the HCSC's adjustments did not eliminate all of the unallowable amounts. Also there were like costs claimed in the other fiscal years.

According to 48 CFR 31.205-8, contributions and donations are unallowable. The HCSC had allocated the following amounts to Medicare.

	<u>FY 90</u>	<u>FY 89</u>	<u>FY 88</u>	<u>Total</u>
Part A	\$ 7,326	\$3,480	18	\$10,824
Part B	<u>10,201</u>	<u>3,786</u>	<u>-</u>	<u>13,987</u>
Total	<u>\$17,527</u>	<u>\$7,266</u>	<u>\$18</u>	<u>\$24,811</u>

Regarding advertising, we found that the HCSC identified such costs in three separate accounts - Recruitment, Corporate and Public Relations. Based on the provisions of 48 CFR 31.205-1, we concluded that the recruitment costs were acceptable. Amounts claimed for Corporate and Public Relations are considered unallowable. These amounts are as follows:

	<u>FY 90</u>	<u>FY 89</u>	<u>FY 88</u>	<u>FY 87</u>	<u>Total</u>
Part A	\$7,842	\$4,166	\$251	\$219	\$12,478
Part B	2,155	885	-	-	3,040
Total	<u>\$9,997</u>	<u>\$5,051</u>	<u>\$251</u>	<u>\$219</u>	<u>\$15,518</u>

HCSC representative agreed that the costs we identified were unallowable.

RECOMMENDATION

We recommend that the HCSC make the appropriate financial adjustments, as follows:

	<u>Entertainment</u>	<u>Contributions</u>	<u>Advertising</u>	<u>Total Costs</u>
FY 90				
Part A	\$ 4,840	\$ 7,326	\$ 7,842	\$20,008
Part B	6,837	10,201	2,155	\$19,193
FY 89				
Part A	\$ 3,175	\$ 3,480	\$ 4,166	\$10,821
Part B	-	3,786	885	4,671
FY 88				
Part A	\$ -	\$ 18	\$ 251	\$ 269
FY 87				
Part A	\$ 577	\$ -	\$ 219	\$ 796
Total Costs Questioned	<u>\$15,429</u>	<u>\$24,811</u>	<u>\$15,518</u>	<u>\$55,758</u>

HCSC Comment

HCSC concurs with the recommended financial adjustment. Also, they indicate that internal control procedure are currently in place to identify and eliminate unallowable costs from allocation to Medicare.

DEFERRED COMPENSATION

A total of \$29,180 in unallowable interest costs was claimed during the period of audit. The amount represented interest on board of directors and corporate officials deferred compensation. We have recommended a financial adjustment for the unallowable costs.

Two of HCSC's deferred compensation plans were for the Board of Directors and for Officers and Managers. These were voluntary plans and the corporation made no contributions. However, the corporation did pay interest on the deferred amounts when the board member or corporate official elected to withdraw their compensation.

Specifics relating to these plans are:

- o Board members received a quarterly retainer and a fee for each meeting. Each member can elect to defer the compensation or receive quarterly payments. If they elect to defer compensation, the corporation will pay interest on amounts deferred when the board member retires/leaves.
- o Officers and Managers can elect to defer a portion of their salaries until they retire or leave the corporation. The corporation will pay interest on the deferred amounts.

Regarding interest costs related to the deferred compensation plans, such amounts are unallowable. Basically these plans are agreements to defer compensation earned by individuals until they retire. At that time, the corporation agrees to pay the individual his/her deferred amounts plus interest. In our opinion, this arrangement is a loan by the individual to the corporation. In turn, the corporation is paying a stated interest rate for use of the funds. Interest costs of this nature are unallowable per 48 CFR 31.205.20:

...Interest on borrowings (however represented), bond discounts, cost of financing and refinancing capital ... are unallowable

We have questioned a total of \$29,180 in interest costs related to deferred compensation. Included in this amount was interest costs of \$27,435 and \$1,745 for the Board of Directors and Officers and Managers, respectively.

RECOMMENDATION

We recommend the HCSC make the appropriate adjustments, as follows:

	<u>Deferred Compensation</u>
<u>FY 90</u>	
Part A	\$ 6,778
Part B	9,915
<u>FY 89</u>	
Part A	\$ 3,975
Part B	3,451
<u>FY 88</u>	
Part A	\$ 2,433
<u>FY 87</u>	
Part A	\$ <u>2,628</u>
Total Questioned Costs	<u>\$29,180</u>

HCSC Comment

HCSC concurs with the recommended financial adjustment. Also, they indicate that internal control procedures are currently in place to identify and eliminate interest charges from Medicare.

INTEREST EXPENSE ON CAPITAL LEASES

The HCSC charged Medicare a total of \$24,382 in interest expense on capital leases in FY 89 and FY 87. According to 48 CFR 31.205.20, interest expense of this nature is an unallowable cost for Federal reimbursement. It should be noted that a similar finding was reported in the prior audit report. We are questioning the \$24,382.

Interest costs related to leased/owned property were accumulated in Natural Account 6708. These costs were allocated to Medicare in FY 89 and FY 87. However, the HCSC manually eliminated such costs from Medicare in FY 90 and FY 88.

The interest expenses charged to Medicare included the following:

<u>Item</u>	<u>FY 89</u>		<u>FY 87</u>	<u>Total</u>
	<u>Part A</u>	<u>Part B</u>	<u>Part A</u>	
CC-449 Computer Mainframes	\$ -	\$ -	\$17,376	\$17,376
CC-446 Tape Drive Equipment	69	6	261	336
CC-445 Disk Equipment	<u>874</u>	<u>84</u>	<u>5,712</u>	<u>6,670</u>
Total	<u>\$943</u>	<u>\$90</u>	<u>\$23,349</u>	<u>\$24,382</u>

RECOMMENDATION

We recommend that HCSC make the appropriate financial adjustments as follows:

<u>Item</u>	<u>FY 89</u>		<u>FY 87</u>	<u>Total</u>
	<u>Part A</u>	<u>Part B</u>	<u>Part A</u>	
Interest Expense	<u>\$943</u>	<u>\$90</u>	<u>\$23,349</u>	<u>\$24,382</u>

HCSC Comment

HCSC concurs with the recommended financial adjustment. Also, they indicate that internal control procedures are currently in place to identify and eliminate interest charges from Medicare.

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COMMENTS ON EVALUATION OF INTERNAL CONTROL STRUCTURE

We have audited the Medicare Part A and Part B Statement of Administrative Costs of HCSC for the fiscal years ended September 30, 1990, 1989, 1988 and 1987 and have issued our report thereon dated February 22, 1992.

We conducted our audit in accordance with generally accepted governmental auditing standards. In planning and performing our audit of HCSC, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

For the purpose of this report, we have classified the significant internal control structure, policies and procedures in the following categories:

- Property and Equipment
- Cash Receipts
- Cash Disbursements
- Purchasing and Receiving
- Accounts Payable and Accrued Expenses
- Payroll

For all of the control categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation. We also assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of a specific internal control structure element does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

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The management of HCSC is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

This report is intended solely for the use of management of HCSC and the Department of Health and Human Services in regard to their agreement to administer the Medicare program and should not be used for any other purpose.

Kansas City, Missouri
February 14, 1992

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COMMENTS ON COMPLIANCE WITH PERTINENT REGULATORY REQUIREMENTS

We have audited the "Final Administrative Cost Proposals" (FACPs) of HCSC for the fiscal years ended September 30, 1990, 1989, 1988 and 1987, and have issued our report thereon dated February 14, 1992.

We conducted our audit in accordance with generally accepted governmental auditing standards (Government Auditing Standards) and the "Audit Guide for the Review of Administrative Costs incurred by Medicare Intermediaries and Carriers Under Title XVIII of the Social Security Act" (Audit Instruction E-1), dated February 25, 1991. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, grants, and binding policies and procedures applicable to HCSC is the responsibility of HCSC's management. As part of our audit, we performed tests of HCSC's compliance with certain provisions of laws, regulations, contracts, grants, and binding policies and procedures. However, it should be noted that we performed those test of compliance as part of obtaining reasonable assurance about whether the financial statements are free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

Our testing of transactions and records selected from Federal programs disclosed instances of noncompliance with those laws and regulations. All instances of noncompliance that we found and the programs to which they relate are identified in the Findings and Recommendations Section of this report.

Except as described above, the results of our tests indicate that with respect to items tested, HCSC complied, in all material respects, with the provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that HCSC had not complied, in all material respects, with those provisions.

This report is intended solely for the use of management of HCSC and the Department of Health and Human Services in regard to their agreement to administer the Medicare program and should not be used for any other purpose.

Doshi & Associates, P.C.

Kansas City Missouri
February 14, 1992

Members

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OTHER MATTERS

Complementary Credits for Prior Periods

HCFA indicated in their closing argument on the prior audit finding that the current audit would cover the HCSC's proposed complementary credit for May 1986 through September 30, 1986. Our audit of the proposed complementary credits for the five-month period disclosed an undercredit of \$14,036. This undercredit was computed in the same manner as we used to recalculate the complementary credit for the current period. (See the Complementary credit finding.)

We are providing this information to HCFA for final resolution.

Interim Expenditure Reports

The audit guide issued by the Department of Health and Human Services requested that comments be included in the audit report concerning the accuracy of the HCSC's interim expenditure reports (IERS).

In order to determine the accuracy of these reports, we performed various tests for clerical accuracy and reliability of allocation methods and examined supporting cost reports which verified actual costs as reported on the IERS chosen for test work.

Based on the results of the work performed, it appears that the IERS are materially accurate.

Exhibit A

**HEALTH CARE SERVICE CORPORATION
FINAL ADMINISTRATIVE COST PROPOSAL
AND THE AUDITORS RECOMMENDATIONS - PART A
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1990**

<u>Operation</u>	<u>Administrative Costs</u>
Bills Payment	\$ 6,763,298
Recons & Hearings	274,544
Medicare Secondary Payer	1,621,191
Medical Rev. & Util. Review	1,897,096
Provider Desk Review	2,039,868
Provider Field Audits	1,814,716
Provider Settlements	879,751
Provider Reimbursements	1,400,607
Productivity Investments	87,930
Other	<u>0</u>
 Total FACP Costs Claimed	 16,779,001
 Recommended Adjustments:	
Pension Expense	\$ 116,815
Inappropriate FACP Adjustments	98,204
Complementary Credit	62,661
Miscellaneous Unallowable Costs	20,008
Deferred Compensation	<u>6,778</u>
Total Costs Questioned	\$ <u>304,466</u>
Total Costs Recommended For Acceptance	<u>\$16,474,535</u>

Note: Explanation of each adjustment is provided in the "Findings and Recommendations" section of this report.

**HEALTH CARE SERVICE CORPORATION
FINAL ADMINISTRATIVE COST PROPOSAL
AND THE AUDITOR'S RECOMMENDATIONS - PART B
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1990**

<u>Operation</u>	<u>Administrative Costs</u>
Claims Payment	\$17,425,324
Reviews and Hearings	2,911,288
Beneficiary/Physician Inquiry	2,882,254
Professional Relations	312,323
Medical Review & Utilization Review	4,832,046
Medicare Secondary Payer	732,442
Participating Physician	799,842
Productivity Investments	3,221,391
Other	0
Other	155,600
Other	<u>0</u>
Total FACP Costs Claimed	33,272,510
Common Working File - Host *	<u>< 1,204,137 ></u>
Adjusted FACP Costs Claimed	\$32,068,373

Recommended Adjustments:

Pension Expense	\$ 64,021
Inappropriate FACP Adjustments	4,311
Complementary Credit	3,810
Miscellaneous Unallowable Costs	19,193
Deferred Compensation	<u>9,915</u>
Total Costs Questioned	\$ <u>101,250</u>
Total Costs Recommended for Acceptance	<u>\$31,967,123</u>

*The HCSC incurred costs in FY 90 to install the CWF-Host system. They anticipated expending approximately \$3,000,000 and asked HCFA to reimburse \$1,711,600. HCFA directed the HCSC to report the entire cost of the project as Productivity Investments. Further, HCFA indicated the overage of \$1,204,137 would be excluded prior to the CPEP review. The HCSC did not withdraw the \$1,204,137 from the Letter of Credit. We are reducing the FACP-Costs claimed by this amount.

Note: Explanation of each adjustment is provided in the "Findings and Recommendation" section of this report.

HEALTH CARE SERVICE CORPORATION
FINAL ADMINISTRATIVE COST PROPOSAL
AND THE AUDITOR'S RECOMMENDATIONS - PART A
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1989

<u>Operation</u>	<u>Administrative Costs</u>
Bills Payment	\$ 5,720,032
Recons & Hearings	499,145
Medicare Secondary Payer	1,525,295
Medical Rev. & Util. Review	3,078,370
Provider Desk Review	942,785
Provider Field Audits	2,909,114
Provider Settlements	628,306
Provider Reimbursements	1,445,440
Productivity Investments	173,962
Other	<u>0</u>
Total FACP Costs Claimed	16,922,449
Complementary Credit *	< <u>69,273</u> >
Adjusted FACP Costs Claimed	16,853,176
 Recommended Adjustments:	
Pension Expense	\$ 9,888
Inappropriate FACP Adjustments	8,863
Complementary Credit	46,099
Miscellaneous Unallowable Costs	10,821
Deferred Compensation	3,975
Interest Expense Capital Leases	<u>943</u>
Total Costs Questioned	<u>80,589</u>
Total Costs Recommended For Acceptance	<u>\$16,772,587</u>

* The HCSC did not finalize their complementary credit proposal until 1990. At that time they submitted a check to HCFA to cover the amount owed. The FACP had not been adjusted by the HCSC to reflect the payment. We have reduced the FACP costs claimed.

Note: Explanation of each adjustment is provided in the "Findings and Recommendation" section of the report.

HEALTH CARE SERVICE CORPORATION
FINAL ADMINISTRATIVE COST PROPOSAL
AND THE AUDITOR'S RECOMMENDATIONS - PART B
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1989

<u>Operation</u>	<u>Administrative Costs</u>
Claims Payment	\$ 8,351,826
Reviews and Hearings	1,635,166
Beneficiary/Physician Inquiry	1,456,791
Professional Relations	407,024
Medical Review & Utilization Review	2,409,209
Medicare Secondary Payer	372,480
Participating Physician	353,007
Productivity Investments	503,399
Other	653,909
Other	147,000
Other	<u>0</u>
FACP Costs Claimed	16,289,811
Complementary Credit	< <u>750,397</u> >
Adjusted FACP Cost Claimed	15,539,414

Recommended Adjustments:

Pension Expense	\$ 242,624
Complementary Credit	< 73,155 >
Miscellaneous Unallowable	4,671
Deferred Compensation	3,451
Interest Expense Capital Leases	<u>90</u>
Total Costs Questioned	<u>177,681</u>
Total Costs Recommended For Acceptance	<u>\$15,361,733</u>

* The HCSC did not finalize their complementary credit proposal until 1990. At that time they submitted a check to HCFA to cover the amount owed. The FACP had not been adjusted by the HCSC to reflect the payment. We have reduced the FACP costs claimed.

Note: Explanation of each adjustment is provided in the "Findings and Recommendation" section of the report.

**HEALTH CARE SERVICE CORPORATION
FINAL ADMINISTRATIVE COST PROPOSAL
AND THE AUDITOR'S RECOMMENDATIONS - PART A
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1988**

<u>Operation</u>	<u>Administrative Costs</u>
Bills Payment	\$ 5,512,441
Recons & Hearings	584,089
Medicare Secondary Payer	1,344,156
Medical Rev. & Util. Review	2,483,719
Provider Desk Review	1,077,579
Provider Field Audits	1,969,113
Provider Settlements	992,087
Provider Reimbursements	1,499,162
Productivity Investments	313,769
Other	<u>83,366</u>
Total FACP Costs Claimed	15,859,481
Complementary Credit	< <u>74,645</u> >
Adjusted FACP Costs Claimed	15,784,836
 Recommended Adjustments:	
Pension Expense	\$ 32,428
Inappropriate FACP Adjustments	80,312
Complementary Credit	18,352
Outdated Statistics	51,177
Miscellaneous Unallowable Costs	269
Deferred Compensation	<u>2,433</u>
Total Costs Questioned	<u>184,971</u>
Total Cost Recommended For Acceptance	<u>\$15,599,865</u>

* The HCSC did not finalize their complementary credit proposal until 1990. At that time they submitted a check to HCFA to cover the amount owed. The FACP had not been adjusted by the HCSC to reflect the payment. We have reduced the FACP costs claimed.

Note: Explanation of each adjustment is provided in the "Findings and Recommendation" section of the report.

HEALTH CARE SERVICE CORPORATION
FINAL ADMINISTRATIVE COST PROPOSAL
AND THE AUDITOR'S RECOMMENDATIONS - PART A
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1987

<u>Operation</u>	<u>Administrative Costs</u>
Bills Payment	\$ 5,144,955
Recons & Hearings	286,126
Medicare Secondary Payer	1,092,054
Medical Rev. & Util. Review	1,685,692
Provider Desk Review	1,053,345
Provider Field Audits	2,138,382
Provider Settlements	654,156
Provider Reimbursements	1,479,419
Productivity Investments	735,065
Other	72,886
Other	<u>115,735</u>
Total FACP Costs Claimed	14,457,815
Complementary Credit	< <u>34,503</u> >
Adjusted FACP Cost Claimed	14,423,312
 Recommended Adjustments:	
Pension Expense	\$ 1,671
Complementary Credit	33,071
Outdated Statistics	211,417
Miscellaneous Unallowable Costs	796
Deferred Compensation	2,628
Interest Expense Capital Leases	<u>23,349</u>
Total Costs Questioned	\$ <u>272,932</u>
Total Costs Recommended For Acceptance	<u>\$14,150,380</u>

* The HCSC did not finalize their complementary credit proposal until 1990. At that time they submitted a check to HCFA to cover the amount owed. The FACP had not been adjusted by the HCSC to reflect the payment. We have reduced the FACP costs claimed.

Note: Explanation of each adjustment is provided in the "Findings and Recommendation" section of the report.

Exhibit G

**HEALTH CARE SERVICE CORPORATION
 MEDICARE PART A COMPLEMENTARY CREDIT CALCULATION
 AND AUDITOR'S RECOMMENDED ADJUSTMENTS
FISCAL YEAR 1989**

<u>Cost Center</u>	<u>HCSC Costs</u>	<u>Auditor Adjustments</u>	<u>Schedule Difference</u>	<u>Reference</u>
Incoming Mail	\$ 511	\$ 3,231	\$ 2,720	G-1
Data Entry	9,349	14,342	4,993	G-2
Data Collection (EMC)	1,285	15,883	14,598	G-3
Medicare A Systems	58,128	-	<58,128>	G-3
Professional Relations	-	10,167	10,167	G-4
Line I Operations (CC287)	-	48,761	48,761	G-4
Line I Operations (CC285)	-	<u>22,988</u>	<u>22,988</u>	G-4
Complementary Credit	<u>\$69,273</u>	<u>\$115,372</u>	<u>\$46,099</u>	
Claim Count	<u>233,241</u>	<u>233,241</u>		
Total Complementary Claims Rate	<u>.297</u>	<u>.49</u>		

HEALTH CARE SERVICE CORPORATION
MEDICARE PART A COMPLEMENTARY CREDIT CALCULATION
AND AUDITOR'S RECOMMENDED ADJUSTMENTS
FISCAL YEAR 1989

<u>Cost Center - 621</u>	<u>Incoming Mail</u>	<u>HCSC's Costs</u>	<u>Auditor Adjust.</u>	<u>Difference</u>	<u>Ref. Note</u>
December 1988, YTD	\$3,474,350 <u>x(1)92/366</u>				
		\$ 873,334			
December 1989, YTD	\$2,870,436 <u>x(2)273/365</u>				
		<u>2,146,929</u>			
		\$3,020,263			(1)
Less: Postage		<u>\$1,314,611</u>			(1)
		\$1,705,652			
Incoming Med A Mail Allocation %		<u>x .0045</u>			(2)
Med A Incoming Mail Allocation		\$(1) 7,675	\$7,675		(3)
Crossover % Incoming Mail		<u>.0666</u>	<u>.4211</u>		(3)
Crossover Cost		<u>\$ 511</u>	<u>\$3,231</u>	<u>\$2,720</u>	Ex. G

Note:

- (1) We verified these amounts and supporting computations. No exceptions were noted.
- (2) We concur with the computation of the .0045 allocation percentage. This rate represents the percent of Part A complementary claims received in the incoming mail room to the total claims received for all lines of business. Application of the .0045 to total mail room costs provides the amount applicable to Medicare A crossover claims. We concur with this calculation.
- (3) We do not concur with the application of the .0666 crossover percent. This action results in a duplication of the calculation in Note (2). In Note (2) the HCSC identified costs related to Medicare A crossover claims. the next step should be to identify the costs related to extracting complementary coverage information. We used the HCSC's developed key field percentage .4211 to identify the specific costs for extracting the complementary claim information.

**HEALTH CARE SERVICE CORPORATION
 MEDICARE PART A COMPLEMENTARY CREDIT CALCULATION
 AND AUDITOR'S RECOMMENDED ADJUSTMENTS
FISCAL YEAR 1989**

<u>Cost Center</u>	<u>Data Entry</u>	<u>HCSC's Costs</u>	<u>Auditor Adjust.</u>	<u>Difference</u>	<u>Ref. Note</u>
303	\$215,866	\$	\$ -		
304 (Part A Only) (1)	<u>117,482</u>	333,348	511,394		(1)
Crossover %		<u>.0666</u>	<u>.0666</u>		(2)
		\$ 22,201	\$ 34,059		
		<u>.4211</u>	<u>.4211</u>		(2)
		<u>\$ 9,349</u>	<u>\$ 14,342</u>	<u>\$4,993</u>	Ex. G
<u>Cost Center</u>					
303 (Part A Only)	\$120,393				
Less: Temporary Agency	<u>\$ 2,911</u>				
	<u>\$117,482</u>				

Note:

(1) The HCSC did not include all data entry costs in their calculation. Only data entry costs from the Marion/Mattoon facilities were included. The data entry costs were excluded from the Chicago facility. We recalculated the data entry costs by including all facilities. The amount we identified was taken from the HCSC's FY 89 Medicare A IER report after adjustments.

IER Adjusted Amount	\$648,155
Line 1 EDP %	<u>78.9</u>
Data Entry Costs	<u>\$511,394</u>

(2) The crossover claims and Key Field percentages are accepted.

HEALTH CARE SERVICE CORPORATION
MEDICARE PART A COMPLEMENTARY CREDIT CALCULATION
AND AUDITOR'S RECOMMENDED ADJUSTMENTS
FISCAL YEAR 1989

Electronic Mail Claims (EMC) and Systems Costs

<u>EMC</u>	<u>HCSC's</u> <u>Costs</u>	<u>Auditor's</u> <u>Adjustments</u>	<u>Difference</u>	<u>Reference</u> <u>Note</u>
Computer Usage (1)	\$938,997	\$566,330		(1)
Data Collection %	<u>.0488</u>	<u>-</u>		
	\$ 45,823	\$566,330		
Crossover %	<u>.0666</u>	<u>.0666</u>		
	\$ 3,052	\$ 37,718		
Key Field %	<u>.4211</u>	<u>.4211</u>		
EMC Crossover Costs	\$ <u><u>1,285</u></u>	\$ <u><u>15,883</u></u>	\$14,598	Exhibit G

SYSTEMS

Computer Usage (2)	\$938,997	-		
Med A System %	<u>.9295</u>	<u>-</u>		
	\$872,798	-		
Crossover %	<u>.0666</u>	<u>-</u>		
Med A Systems				
Crossover Costs	\$ <u><u>58,128</u></u>	<u>-</u>	<\$58,128>	

Note:

- (1) The HCSC used only computer usage costs and did not include system and programmers costs.
- (2) The HCSC used costs before adjustments for non-claim processing projects. To arrive at processing costs, the HCSC developed the data collection percent and the Medicare A system percent from computer usage reports. We recalculated the computer usage costs by using the HCSC FY 89 Medicare A IER report after adjustments less printer costs. We used the same report for system and programmers costs.

	<u>Computer</u> <u>Usage</u>	<u>System/</u> <u>Programming</u>	
IER Adjusted Amount	\$ 252,865	\$613,545	
Printing Costs	<148,628>	<u>-</u>	
	104,237	613,545	
Line 1 EDP %	<u>x 78.9%</u>	<u>78.9</u>	
	\$ <u><u>82,243</u></u>	\$484,087	\$ <u><u>566,330</u></u>

HEALTH CARE SERVICE CORPORATION
MEDICARE PART A COMPLEMENTARY CREDIT CALCULATION
AND AUDITOR'S RECOMMENDED ADJUSTMENTS
FISCAL YEAR 1989

<u>Cost Center</u>	<u>HCSC's</u> <u>Costs</u>	<u>Auditor</u> <u>Adjustments</u>	<u>Reference</u> <u>Note</u>
Professional Relations	0	\$10,167	(1)
Line I CC287	0	48,761	(2)
Line I CC285	0	<u>22,988</u>	(2)
Total		<u>\$81,916</u>	Exhibit G

Note:

- (1) The HCSC did not include Professional Relations costs relating to on-site visits for EMC transmission software training and technical assistance in transmitting claims. We believe these costs are necessary in the processing of EMC claims. We recalculated the Professional Relations costs as follows:

Line I IER Amount	\$362,510
Crossover Rates	<u>.0666</u>
Part A - Crossover Amount	24,143
Key Field %	<u>.4211</u>
Professional Relations Crossover	<u>\$10,167</u>

- (2) The HCSC did not include costs related to the Bill Review costs centers (287 & 285). According to the HCSC, the efforts of Bill Review staff were primarily focused on SNF, HHA, Hospice and inquiry activities. We recalculated costs, excluding SNF, HHA, Hospice claims from the claims ratio share and the inquiry costs.

HCSC's Comments



233 North Michigan Avenue
Chicago, Illinois 60601-5655
312/938-6000

August 7, 1992

Mr. William J. Anderson
Doshi and Associates P.C.
4520 Madison - Suite 105
Kansas City, Missouri 64111

Dear Mr. Anderson:

Health Care Service Corporation's response to your firm's draft report for the audit of Administrative Costs for the fiscal years ended September 30, 1990, 1989, 1988 and 1987 is enclosed.

In situations where we do not agree with your findings, we have attached the appropriate supporting workpapers.

If there are any questions or if additional information is required, please advise.

Very truly yours,

A handwritten signature in cursive script that reads "Richard J. Giba".

Richard J. Giba
Internal Audit/Controls Consultant

Enclosure

cc: Mr. Frank Polasek
Ms. Judith Stec

**Medicare A and B
Audit of Administrative Costs
HCSC Response
August 7, 1992**

We have reviewed the Medicare Part A and Part B draft audit report dated June 8, 1992 for administrative costs incurred for the period October 1, 1986 through September 30, 1990. Our response and comments are provided below for your consideration.

PENSION

- o HCSC did use the actuarial amounts for allocating pension rather than the actual contributions. Medicare's fiscal year end is 9/30. The actual pension contribution is not known until after the calendar year end. In preparing the FACP's for Medicare, we use the best information available at that time. The differences are immaterial especially when only a piece of this is allocated to Medicare.
- o The Medicare segmentation information included in the Actuarial report only identified the direct allocations. HCSC needed to determine a total allocation which would include direct, indirect and overheads.
- o HCSC's actuarial report did identify a \$131,369 credit for Medicare B in FY'89. In determining the contribution, the actuarial report used zero. Zero is the appropriate value. The Medicare B allowable contribution was limited by the OBRA full funding limitation. A full funding limitation cannot, by definition, be less than zero. We allowed it to be negative for Medicare B in the report because otherwise the plan total would not have equalled the sum of the companies. The negative value does not represent a return of contributions to HCSC, it merely indicates how long the new funding limit was expected to delay contributions. However, the actuarial report did adjust the calculation of the indirect contribution for 1989. The total indirect contribution was overstated in the report because of the negative value shown for Medicare B.

If we followed the recommendation in the draft report and applied the credit for FY'89, the Medicare B segment assets would have been lower in FY'90. Thus, the pension costs for FY'90-92 would be higher than indicated in the annual actuarial report. In order to attain the calculated asset value in the following years, additional Medicare B funding would be necessary.

We still contend that the contribution for FY'89 is zero.

HCSC also notes that the audit report references 48 CFR 31.205-5. This reference deals with civil defense. The correct reference is 48 CFR 31.201-5.

**Medicare A and B
Audit of Administrative Costs
HCSC Response
August 7, 1992**

- o HCSC did make some quarterly pension contributions and some of the quarterly contributions are allocated to Medicare units automatically through the actuarial calculation procedures. In theory the Medicare pension calculations could be re-done using a higher level of detail assigning each quarterly payment first to satisfy Medicare requirements. From a practical point of view, however, there are reasons why this is not done. The marginal increase in accuracy from making adjustments of this type would not outweigh the additional cost for performing the actuarial valuation. Using the same line of reasoning, Medicare contributions are calculated as if they are made at the end of each quarter instead of 30 days after the end of each quarter (which would yield slightly higher Medicare allowable pension costs).

- o We recalculated the pension costs related to Medicare Part A and Part B. The calculations differ from the draft report in a few respects.

First, a slightly different method to adjust the indirect contributions to quarterly payment was used. Basically, they were adjusted based on the factor for a one year annuity paid in four installments at the end of each quarter. This had a small effect on the allowable interest portion of the contributions.

Second, the allocations of indirect expense using consistent salary information was completed. The draft report used the earnings information available in the actuarial reports and in HCSC's statements to HCFA. The earnings shown in the actuarial report are based on the prior year's actual salary and the January 1 pay rate. The amounts shown in HCSC's statements are actual salaries for the period. Since these are not consistent measures for a year's salaries, using both in an allocation procedure distorts the results. We used the actual salary information to adjust the indirect cost allocations.

Third, the 1987 direct and indirect contributions were recalculated based on information that was not available at the time of the draft report. Our practice at that time, as permitted by the contract, was to allocate pension expense in proportion to salaries, so we determined a 1987 direct expense equal to the total plan contribution (adjusted to quarterly payments) times the Medicare A salaries divided by total HCSC salaries. We then calculated the indirect 1987 expense in the same manner as was used for later years.

**Medicare A and B
Audit of Administrative Costs
HCSC Response
August 7, 1992**

Finally, we used zero as the 1989 Medicare B contribution rather than the \$(131,369) that appeared in the actuarial report and that the auditor used. In total the calculations indicate that HCSC overcharged HCFA by \$336,077 rather than \$641,782. We have attached the calculation to support this. See Exhibits A and B.

INAPPROPRIATE FACP ADJUSTMENTS

Unemployment Taxes

HCSC disputes the FY'88 Medicare A State Unemployment Tax finding of \$77,743 and the FY'88 Federal Unemployment Tax finding of \$30,257. It should be noted that in both instances, HCSC acted in accordance with 48 CFR 31.201-5.

HCSC accrued a liability for State Unemployment Taxes for the period 1978 through 1985. In FY'87, a FACP adjustment was made to reverse the over accrued amount. This adjustment reduced the charge to Medicare by \$63,975. The reversal of the credit in FY'88 is proper, since the corresponding debit was reversed. However, the amount of the reversal was overstated. As such, Medicare should receive a credit of \$13,768; the difference between the original debit reversal of \$63,975 and the subsequent credit reversal of \$77,743. See Exhibits C, E and F for supporting documentation.

The same logic holds for treatment of Federal Unemployment Taxes. Again, HCSC reversed the Medicare portion of an accrual in FY'87 in the amount of \$22,299. As such, Medicare should receive a credit of \$7,958, the difference between the original debit reversal of \$22,299 and the subsequent credit reversal of \$30,257. See Exhibits D, E and F for supporting documentation.

Due to time constraints, these findings were not discussed in detail with the auditor prior to the on-site exit conference.

The Summary of Recommendations for this section lists the finding under FY'90. It should be noted that the finding is really a FY'88 item. In addition, HCSC notes a discrepancy on the FAR reference in the draft audit report. The audit report references 48 CFR 31.205-5. The correct reference is 48 CFR 31.201-5, as noted above.

Capitalized Equipment

HCSC does not dispute this finding. It should be noted that HCSC continues to strengthen its internal controls to assure that accurate, equitable and appropriate FACP adjustments are made.

**Medicare A and B
Audit of Administrative Costs
HCSC Response
August 7, 1992**

Vacation

HCSC concurs that a FY'90 Medicare A Vacation finding is appropriate. However, we disagree with both the amount and its source. HCSC did not revise the methodology used to compute the vacation expense accrual. The FACP adjustment results from a calculation error, not a change in allocation methodology.

HCSC reviewed the FACP adjustment #N (vacation accrual) for Medicare A fiscal year ending September 30, 1990. This adjustment was made in order to reduce the amount of accrued vacation expense allocated to Medicare A through the Cost Reporting System (CRS) for FY'90. HCSC reviews and refines major accounting estimates, such as the vacation accrual, prior to the close of each calendar year. Since the Medicare fiscal year-end precedes the corporate year-end, any adjustment which materially affects the fiscal year period is reflected as a FACP adjustment.

When HCSC calculated the FACP adjustment for Medicare A accrued vacation expense for FY'90, we included nine months in the calculation. HCSC recalculated the adjustment based on the auditor's recommendation for the full fiscal year and is proposing a credit to Medicare A expenses of \$27,807. (See Exhibit G.) The auditors proposed an adjustment of \$33,398. HCSC is unable to resolve the discrepancy in the calculations because we have not received copies of the auditors' workpapers.

Temporary Employees

HCSC does not dispute this finding. It should be noted that HCSC continues to strengthen its internal controls to assure that accurate, equitable and appropriate FACP adjustments are made.

Early Out Retirement

HCSC does not dispute this finding. It should be noted that HCSC continues to strengthen its internal controls to assure that accurate, equitable and appropriate FACP adjustments are made.

Provider Audit and Reimbursement

HCSC does not dispute this finding. It should be noted that HCSC continues to strengthen its internal controls to assure that accurate, equitable and appropriate FACP adjustments are made.

**Medicare A and B
Audit of Administrative Costs
HCSC Response
August 7, 1992**

SUMMARY - INAPPROPRIATE FACP ADJUSTMENTS

The auditors recommend that adjustments of \$261,256 be made to the FACP's.

HCSC recommends the following revisions, totalling \$91,865, to those adjustments.

<u>Item</u>	<u>Auditor's Adjustment</u>	<u>HCSC Revisions</u>	<u>Net FACP Adjustment</u>
Unemployment Taxes	\$108,000	< 86,274 >	21,726
Capitalized Equipment	80,312	-0-	80,312
Vacation	33,398	< 5,591 >	27,807
Temporary Employees	15,833	-0-	15,833
Early-Out Retirement	14,850	-0-	14,850
Provider Audit	<u>8,863</u>	<u>-0-</u>	<u>8,863</u>
TOTAL	\$261,256 =====	< 91,865 > =====	\$169,391 =====

COMPLEMENTARY CREDITS

Part A

HCSC disagrees with the auditor's FY'90 Medicare A undercredit finding of \$70,692. The Incoming Mail cost computation prepared by the auditor fails to properly match Postage costs with the correct Days Ratio. The nine month ratio (273/365) was applied to October, 1989 - December 1989 costs while the three month ratio (92/365) was applied to the January, 1990 - September, 1990 costs. In addition, an incorrect mail percentage of 1.52 was used. The correct percentage is .64.

These corrections in the workpapers result in the reduction of the FY'90 Part A Incoming Mail calculation from \$14,382 to \$6,351. This, in turn, reduces the FY'90 Part A undercredit from \$70,692 to \$62,661. (See Exhibit H.)

HCSC does not dispute the FY'87, 88 and 89 findings.

**Medicare A and B
Audit of Administrative Costs
HCSC Response
August 7, 1992**

Part B

HCSC disputes the FY'89 Medicare B overcredit finding of \$47,117. Subsequent to the on-site visit, HCSC informed the auditors of a \$1,500,000 EDP computational error in their audit workpapers for FY'89. Correcting for this error in the auditors' workpapers results in a \$73,155 overcredit. The auditors have not provided us with documentation to support the \$47,117 overcredit finding. (See Exhibit I.)

We do not dispute the FY'90 findings.

SUMMARY - COMPLEMENTARY CREDITS

The auditors recommend that adjustments be made to the FACP's for a net undercredit of \$124,907.

HCSC recommends the following revisions to those adjustments.

<u>FY</u>	<u>Auditors Adjustment</u>	<u>HCSC Revisions</u>	<u>Net FACP Adjustment</u>
1990 Med A	\$ 70,692	<\$ 8,031>	\$ 62,661
Med B	3,810	-0-	3,810
1989 Med A	46,099	-0-	46,099
Med B	< 47,117>	< 26,038>	< 73,155>
1988 Med A	18,352	-0-	18,352
1987 Med A	<u>33,071</u>	<u>-0-</u>	<u>33,071</u>
	<u>\$124,907</u>	<u><\$34,069></u>	<u>\$ 90,838</u>

Since the submission to HCFA on July 20, 1990, of our methodology for computing complementary rates and amounts for both Part A and B for FY's 1986 - 1989, HCSC has updated its complementary credit calculations annually and provided them to HCFA for review. The fiscal year 1992 calculation was based on the auditor's recommended approach.

**Medicare A and B
Audit of Administrative Costs
HCSC Response
August 7, 1992**

OUTDATED STATISTICS

HCSC does not dispute the adjustments. However, the audit report states that the findings result from "outdated statistics or an erroneous methodology". As a result of the OIG audit report dated February 9, 1990, HCSC sought and HCFA approved alternate allocation methods to replace those based on outdated or unsupportable (lost) statistics. HCSC still believes that the original allocation methodologies used for these cost centers were not erroneous and are supportable with the appropriate statistics. Any erroneous methodology was used at the recommendation of the prior auditor and corrected by HCSC when recognized.

Since 1988, HCSC has significantly strengthened its internal control procedures to assure that allocation statistics are updated on a timely basis. HCSC performs cost studies on an annual basis to ensure that allocation methodologies are appropriate. In addition, depending on the nature of the cost center incurring the expenses, cost center statistics are updated either monthly, quarterly, semi-annually or annually. It should be further noted that the Outdated Statistics finding applies to costs incurred prior to January, 1988 (FY'87 and the first 3 months of FY'88). Statistics after December, 1987 are being properly stated and regularly updated.

MISCELLANEOUS UNALLOWABLE COSTS

Entertainment and Liquor

HCSC has internal control procedures in place to identify costs which are not allowable to Medicare and to manually adjust Medicare's expenses to eliminate these costs. HCSC continues to strengthen and enhance these internal control procedures to assure that unallowable costs are not charged to Medicare. Recent actions have included, but are not limited to, segregating potential unallowable costs in dedicated cost centers and dedicated accounts for review of allowability.

Contributions and Advertising

HCSC has internal control procedures in place to identify costs which are not allowable to Medicare and to manually adjust Medicare's expenses to eliminate these costs. HCSC continues to strengthen and enhance these internal control procedures to assure that unallowable costs are not charged to Medicare. Recent actions have included, but are not limited to, segregating potential unallowable costs in dedicated cost centers and dedicated accounts for review of allowability.

In addition, HCSC believes that the FAR reference in the audit report for Advertising should be 48 CFR 31.205-1. The reference included in the report, 48 CFR 31.305-1, does not exist.

**Medicare A and B
Audit of Administrative Costs
HCSC Response
August 7, 1992**

DEFERRED COMPENSATION

HCSC does not dispute these findings.

HCSC has continued to strengthen its internal control procedures to further assure that unallowable costs are not charged to Medicare. HCSC has instituted procedures to identify interest charges, from any source, to ensure that they are not inappropriately charged to Medicare.

INTEREST EXPENSE ON CAPITAL LEASES

HCSC does not dispute these findings.

HCSC has continued to strengthen its internal control procedures to further assure that unallowable costs are not charged to Medicare. HCSC has instituted procedures to identify interest charges, from any source, to ensure that they are not inappropriately charged to Medicare.

COMMENTS ON EVALUATION OF INTERNAL CONTROL STRUCTURE

HCSC is committed to continually improving the internal control procedures and to the accurate and full reporting of costs to administer the Medicare program. HCSC's internal control procedures will continue to safeguard the assets of the Medicare Program.

COMMENTS ON COMPLIANCE WITH PERTINENT REGULATORY REQUIREMENTS

HCSC has always complied and will continue to comply with all pertinent regulatory requirements. The isolated instances of non-compliance noted in the auditor's report have all been corrected.

OTHER MATTERS

Complementary Credits for Prior Periods

HCSC does not dispute the undercredit adjustment for the period May 16, 1986 through September 30, 1986.

Medicare A and B
Audit of Administrative Costs
HCSC Response
August 7, 1992

OTHER COMMENTS

HCSC finds some of the wording in the draft audit report to be redundant or inappropriate. Redundancies exist throughout the report by using terms such as unallowable, overclaimed and overcharged in successive sentences to describe the same items. An example of this is in the first paragraph of the Inappropriate FACP Adjustments finding. Another type of redundancy is in the Deferred Compensation paragraph in the Summary section which states twice in three sentences that interest costs are unallowable.

An example of the use of inappropriate terms coupled with redundancy is in the first sentence of the Miscellaneous Unallowable Costs finding. The auditor identifies these costs as specifically unallowable. HCSC believes that all unallowable costs are specifically unallowable and the use of the word specifically is misleading. Another example is the use of the word prominent in describing a hotel where meetings were held. HCSC believes the use of wording of this type reflects editorial comments which should have no bearing on the findings in this report.

AUDITPAR.TAB

**Health Care Service Corporation
Pension Expense Allocation
Medicare Contracts**

03/06/90

Fiscal Year	Quarter Ending	Direct Allowable (1)	Indirect Allowable (2)	Total Allowable	Actual Charge	Difference
Medicare A						
1987	12/31/86	NA	NA	134,420 (3)		
	03/31/87	118,571 (4)	24,102	142,673		
	06/30/87	118,571 (4)	24,102	142,673		
	09/30/87	118,571 (4)	24,102	142,673		
	Total		355,713	72,306	562,439	564,110
1988	12/31/87	118,571 (4)	24,102	142,673		
	03/31/88	105,218	34,314	139,532		
	06/30/88	105,218	34,314	139,532		
	09/30/88	105,218	34,314	139,532		
	Total		434,225	127,043	561,268	593,695
1989	12/31/88	105,218	34,314	139,532		
	03/31/89	58,753	11,028	69,781		
	06/30/89	58,753	11,028	69,781		
	09/30/89	58,753	11,028	69,781		
	Total		281,477	67,397	348,874	358,762
1990	12/31/89	58,753	11,028	69,781		
	03/31/90	26,407	18,297	44,704		
	06/30/90	26,407	18,297	44,704		
	09/30/90	26,407	18,297	44,704		
	Total		137,974	65,919	203,893	320,708
Total		1,209,389	332,664	1,676,473	1,837,275	(160,802)
Medicare B						
1989	12/31/88	0	0	0		
	03/31/89	0	0	0		
	06/30/89	0	13,785	13,785		
	09/30/89	0	13,785	13,785		
	Total		0	27,570	27,570	138,824
1990	12/31/89	0	13,785	13,785		
	03/31/90	23,259	22,730	45,989		
	06/30/90	23,259	22,730	45,989		
	09/30/90	23,259	22,730	45,989		
	Total		69,777	81,976	151,753	215,773
Total		69,777	109,545	179,322	354,597	(175,275)
Medicare A plus B		1,279,166	442,209	1,855,795	2,191,872	(336,077)

NOTES:

- (1) 25% of annual amounts in actuarial reports, unless noted. These amounts do not include interest beyond the beginning of the plan year.
- (2) 25% of annual amounts from attached table
- (3) From HCFA auditor's workpapers
- (4) 25% of expense allocated in proportion to direct Medicare A salaries, as follows:
- | | |
|--|------------|
| a. Total 1987 HCSC contribution, adjusted to quarterly payment | 6,775,463 |
| b. Medicare A total direct salaries (from HCSC) | 6,751,463 |
| c. Total HCSC salaries (from HCSC) | 96,453,000 |
| d. Medicare A percentage | 7.00% R |
| e. Medicare A contribution | 474,282 |

**Health Care Service Corporation
Pension Expense Allocation
Medicare Contracts**

03/06/92

	1987	1988	1989	1990
A. HCSC Indirect Contribution				
1. HCSC total contribution, end of year payment	6,993,898	6,495,506	2,840,333	3,695,057
2. Less: adjustment for interest beyond quarterly payment dates (1)	<u>(216,435)</u>	<u>(191,812)</u>	<u>(83,875)</u>	<u>(109,115)</u>
3. HCSC total contribution, adjusted to quarterly payment	6,776,463	6,303,694	2,756,458	3,585,942
4. Less:				
a. Medicare A direct contribution	(474,282)	(420,870)	(235,013)	(105,626)
b. Medicare B direct contribution	(272,367)	(471,685)	0	(93,037)
c. FEP direct contribution	<u>(114,195) (2)</u>	<u>(111,749)</u>	<u>(15,121)</u>	<u>(163,120)</u>
6. HCSC indirect contribution, adjusted for interest	5,914,619	5,299,390	2,506,324	3,224,159
B. HCSC Indirect Salaries (3)				
1. Total HCSC salaries	96,453,000	93,371,000	97,851,000	105,321,000
2. Less:				
a. Medicare A direct salaries	(6,751,463)	(7,229,394)	(8,117,024)	(7,656,284)
b. Medicare B direct salaries	(6,374,873) (4)	(10,653,985) (4)	(9,423,474)	(10,420,103)
c. FEP valuation earnings (4)	NA	<u>(1,834,591)</u>	<u>(1,744,356)</u>	<u>(2,377,331)</u>
3. HCSC indirect salaries	81,326,664	73,653,030	78,566,146	84,867,282
C. Medicare A Indirect Contribution				
1. Medicare A indirect salaries				
a. Medicare A total salaries	8,077,908 (1)	9,134,018	9,503,534	9,584,813
b. Medicare A direct salaries	<u>(6,751,463) (2)</u>	<u>(7,229,394)</u>	<u>(8,117,024)</u>	<u>(7,656,284)</u>
c. Medicare A indirect salaries	1,326,445	1,904,624	1,386,510	1,928,529
2. Medicare A indirect percentage (5)	1.63%	2.59%	1.76%	2.27%
3. Medicare A indirect expense	96,408	137,254	44,111	73,188
D. Medicare B Indirect Contribution				
1. Medicare B indirect salaries				
a. Medicare B total salaries			11,154,245	12,816,912
b. Medicare B direct salaries			<u>(9,423,474)</u>	<u>(10,420,103)</u>
c. Medicare B indirect salaries			1,730,771	2,396,809
2. Medicare B indirect percentage (4)			2.20%	2.82%
3. Medicare B indirect expense			55,139	90,921

NOTES:

- (1) End of year contribution times $[1 \text{ minus } 1/((\frac{4}{7}))]$
(2) Estimated based on 1988 Medicare salaries as percentage of total HCSC salaries
(3) All salaries are total salaries, including overtime, provided by HCSC or from the Cost Classification Reports unless indicated otherwise
(4) Valuation earnings from Towers Perrin valuation data files. Actual total salaries may be higher or lower.
(5) Medicare indirect salaries as a percentage of HCSC indirect salaries

MISC FACP ADJUSTMENTS
 NON QUALIFIED PENSION NOT ALLOWED
 SUI CR NOT APPLICABLE TO FY87

	MED A	MED A	(reverse)	FACP ADJ
	\$	\$		
SUI CR NOT FY87	(750,000) _{p.12}	0.0853 ⁴⁰ _{p.14}	(63,975)	(63,975) ^{OK}
NON QUALIFIED PENSION	260,000 _{p.10}	0.1018 _{p.15}	26,468	(26,468) ^{P2}
				<i>cc 343 syc</i>

NET AFFECT service operation (90,443)
 ===== F

note: sui med a adj oper % is 11-86
 non qualified pension adj use med a oper % is 9-87

SUI :
 cc 343 in nov 86 included \$750,000 debit which represented sui tax for years prior to 86. Since this amount is included in the fy87 costs but is applicable to prior years, this adjustment backs out the charge at the november med a rate.

NON QUALIFIED PENSION: *will paid*
 may not charge to medicare a contract, therefore this adj reverses exp

HEALTH CARE SERVICE CORPORATION
ALLOCATION DETAIL REPORT CRR272
11 86 TRANSACTIONS

COST CENTER PERSONAL DOLLARS	COST CENTER NON-PERSONAL DOLLARS	COST CENTER TOTAL DOLLARS	FUNC PCT	PROD PCT	CROSS PCT	PROD/FUNC PERSONAL DOLLARS	PROD/FUNC NON-PERSONAL DOLLARS	PROD/FUNC TOTAL DOLLARS						
									001	002	003	009	010	012
710,234.98	125,831.46	836,066.44	1.0000	001	.0853	60,565.86	10,730.38	71,296.24						
				002	.0274	19,473.40	3,450.08	22,923.48						
				003	.0806	450.51	79.82	530.32						
				009	.0850	3,571.47	632.75	4,204.23						
				010	.0732	51,992.47	9,211.44	61,203.91						
				012	.0674	47,862.87	8,479.81	56,342.67						
				013	.0843	3,040.73	5,990.74	9,031.47						
				014	.0476	33,813.77	5,990.74	39,804.52						
				017	.0764	54,274.12	9,615.68	63,889.80						
				019	.0291	20,702.69	3,667.87	24,370.56						
				021	.0513	36,416.65	6,451.89	42,868.54						
				022	.0460	32,666.05	5,787.40	38,453.45						
				023	.0840	2,845.06	504.06	3,349.12						
				024	.0105	7,492.22	1,327.39	8,819.61						
				028	.4718	335,067.10	59,363.43	394,430.52						
AL 343		836,066.44	1.0000			710,234.98	125,831.46	836,066.44						
	.00	17,877.61	1.0000	001	.0944	.00	1,687.65	1,687.65						
				002	.0289	.00	516.66	516.66						
				009	.0852	.00	92.96	92.96						
				010	.0698	.00	1,247.86	1,247.86						
				012	.0576	.00	1,029.75	1,029.75						
				013	.0845	.00	80.45	80.45						
				014	.0439	.00	784.83	784.83						
				017	.0635	.00	1,135.23	1,135.23						
				019	.0273	.00	488.06	488.06						
				021	.0763	.00	1,364.06	1,364.06						
				022	.0450	.00	804.49	804.49						
				023	.0823	.00	41.12	41.12						
				024	.0343	.00	613.20	613.20						
				028	.4470	.00	7,991.29	7,991.29						
TOTAL 344	.00	9,770.99	1.0000			17,877.61	17,877.61	17,877.61						
	.00	9,770.99	1.0000	001	.0979	.00	956.83	956.83						
				002	.0302	.00	294.99	294.99						
				003	.0804	.00	3.51	3.51						
				009	.0856	.00	55.05	55.05						
				010	.0773	.00	755.68	755.68						
				012	.0693	.00	677.23	677.23						
				014	.0488	.00	477.07	477.07						
				017	.0793	.00	774.72	774.72						
				021	.0653	.00	637.91	637.91						

	1	2	3	4
	NAH	PS	OTHER	TOTAL
ADJ SUMMARY:				
ADD SIC - PS		77,743		77,743
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 10/87 764,439. -X
 Fred A allow 0.1017 =
 CRS 77,743.4463-W

Purpose: To net sui adj for prior years to -0-

MEDICARE A COST CENTERS
 FOR FISCAL YEAR-TO-DATE
 PREPARED ON 08/17/08 AT 12.20.31
 REPORT MEDSUM1 FOR MEDA
 PREPARED ON 08/17/08 AT 12.20.31

COST CENTER DESCRIPTION	MONTH DESCRIPTION	CBS PRODUCT PERCENT	OPERATION DESCRIPTION	OPERATION PERCENT	MEDA DOLLARS
INTERNAL COMMUNICATIONS	NOVEMBER	.1098	SERVICE DEPARTMENT	1.0000	1,106.18
	DECEMBER	.1061	SERVICE DEPARTMENT	1.0000	1,103.73
	JANUARY	.1006	SERVICE DEPARTMENT	1.0000	1,023.07
	FEBRUARY	.0920	SERVICE DEPARTMENT	1.0000	1,457.36
	MARCH	.0869	SERVICE DEPARTMENT	1.0000	1,021.00
	APRIL	.0879	SERVICE DEPARTMENT	1.0000	944.04
	MAY	.0852	SERVICE DEPARTMENT	1.0000	921.13
	JUNE	.0883	SERVICE DEPARTMENT	1.0000	1,309.79
	JULY	.0945	SERVICE DEPARTMENT	1.0000	972.98
					11,215.09

L MEDA DOLLARS FOR COST CENTER 342 :

COST CENTER DESCRIPTION	MONTH DESCRIPTION	CBS PRODUCT PERCENT	OPERATION DESCRIPTION	OPERATION PERCENT	MEDA DOLLARS
FRINGE BENEFITS POOL	OCTOBER	.1017	SERVICE DEPARTMENT	1.0000	-100,304.61
	NOVEMBER	.1031	SERVICE DEPARTMENT	1.0000	-196,040.99
	DECEMBER	.1014	SERVICE DEPARTMENT	1.0000	-527,396.30
	JANUARY	.1110	SERVICE DEPARTMENT	1.0000	-2,476.19
	FEBRUARY	.0987	SERVICE DEPARTMENT	1.0000	10,916.45
	MARCH	.0945	SERVICE DEPARTMENT	1.0000	-7,415.24
	APRIL	.0977	SERVICE DEPARTMENT	1.0000	-27,741.99
	MAY	.0940	SERVICE DEPARTMENT	1.0000	-25,426.33
	JUNE	.1004	SERVICE DEPARTMENT	1.0000	12,339.51
	JULY	.1046	SERVICE DEPARTMENT	1.0000	-92,333.22
					-956,750.90

L MEDA DOLLARS FOR COST CENTER 343 :

COST CENTER DESCRIPTION	MONTH DESCRIPTION	CBS PRODUCT PERCENT	OPERATION DESCRIPTION	OPERATION PERCENT	MEDA DOLLARS
CAFETERIA - 233 MICHIGAN	OCTOBER	.0944	SERVICE DEPARTMENT	1.0000	1,660.31
	NOVEMBER	.0944	SERVICE DEPARTMENT	1.0000	1,574.44
	DECEMBER	.0944	SERVICE DEPARTMENT	1.0000	1,311.11
	JANUARY	.1129	SERVICE DEPARTMENT	1.0000	5,807.33
	FEBRUARY	.1165	SERVICE DEPARTMENT	1.0000	1,610.17
	MARCH	.1090	SERVICE DEPARTMENT	1.0000	1,804.08
	APRIL	.1099	SERVICE DEPARTMENT	1.0000	1,740.12
	MAY	.1042	SERVICE DEPARTMENT	1.0000	2,499.15
	JUNE	.1114	SERVICE DEPARTMENT	1.0000	1,070.13
	JULY	.1273	SERVICE DEPARTMENT	1.0000	2,420.30
					20,321.16

L MEDA DOLLARS FOR COST CENTER 344 :

COST CENTER DESCRIPTION	MONTH DESCRIPTION	CBS PRODUCT PERCENT	OPERATION DESCRIPTION	OPERATION PERCENT	MEDA DOLLARS
EMPLOYEE ACTIVITIES	OCTOBER	.1140	SERVICE DEPARTMENT	1.0000	1,315.43

MED A IER
 FY 1987
 full overaccrual

WP #: 29
 09-Dec-87

EXHIBIT 3

	NPH	PS	OTHER	TOTAL
deduct service		(22,299) ✓		(22,299) ✓

cc 343

total reduce p → 236,968 ✓

per month 26,330 P
 (by 9 mos)

alloc % p. 405

jan	0.0842 ✓	2,217 P		
feb	0.0820 ✓	2,159 P		
mar	0.0857 ✓	2,256 P		
apr	0.0875 ✓	2,304 P		
may	0.0856 ✓	2,254 P		
jun	0.0909 ✓	2,393 P		
jul	0.0998 ✓	2,628 P		
aug	0.0998 ✓	2,628 P		
sep	0.1018 ✓	2,680 P		
		<u>21,519 P</u>		
		=====		

cc 297

p → 33,176 ✓

3,686 P

	0.0291 ✓	107 P
	0.0270 ✓	100 P
	0.0320 ✓	118 P
	0.0289 ✓	107 P
	0.0304 ✓	112 P
	0.0321 ✓	118 P
	0.0320 ✓	118 P
		<u>780 P</u>
		=====

total overaccrual applicable to medicare a:

cc 343	21,519.29
cc 297	779.64
	<u>22,298.93 P</u>
	=====

MEDICARE A COST CENTERS
FOR FISCAL YEAR-TO-DATE
REPORT MEDSUMI FOR MEDA
PREPARED ON 10/15/87 AT 20.20.50

COST CENTER DESCRIPTION	MONTH DESCRIPTION	CRS PRODUCT PERCENT	OPERATION DESCRIPTION	OPERATION PERCENT	MEDA DOLLARS
TOTAL MEDA DOLLARS FOR COST CENTER 342 :					
343 FRINGE BENEFITS POOL	OCTOBER	.0859	SERVICE DEPARTMENT	1.0000	-134,817.30
	NOVEMBER	.0831	SERVICE DEPARTMENT	1.0000	71,296.24
	DECEMBER	.0842	SERVICE DEPARTMENT	1.0000	-31,693.80
	JANUARY	.0826	SERVICE DEPARTMENT	1.0000	21,889.30
	FEBRUARY	.0826	SERVICE DEPARTMENT	1.0000	20,984.36
	MARCH	.0827	SERVICE DEPARTMENT	1.0000	32,708.41
	APRIL	.0825	SERVICE DEPARTMENT	1.0000	18,974.77
	MAY	.0854	SERVICE DEPARTMENT	1.0000	-1,528.40
	JUNE	.0869	SERVICE DEPARTMENT	1.0000	-1,528.40
	JULY	.0998	SERVICE DEPARTMENT	1.0000	-17,342.20
	AUGUST	.0998	SERVICE DEPARTMENT	1.0000	-7,342.82
	SEPTEMBER	.1018	SERVICE DEPARTMENT	1.0000	-34,898.34
					-31,081.46
TOTAL MEDA DOLLARS FOR COST CENTER 343 :					
344 CAFETERIA - 233 MICHIGAN	OCTOBER	.0944	SERVICE DEPARTMENT	1.0000	1,946.31
	NOVEMBER	.0944	SERVICE DEPARTMENT	1.0000	1,687.45
	DECEMBER	.0944	SERVICE DEPARTMENT	1.0000	1,309.62
	JANUARY	.0944	SERVICE DEPARTMENT	1.0000	2,355.51
	FEBRUARY	.0944	SERVICE DEPARTMENT	1.0000	1,333.31
	MARCH	.0944	SERVICE DEPARTMENT	1.0000	1,755.96
	APRIL	.0944	SERVICE DEPARTMENT	1.0000	1,898.93
	MAY	.0944	SERVICE DEPARTMENT	1.0000	1,315.90
	JUNE	.0944	SERVICE DEPARTMENT	1.0000	1,478.91
	JULY	.0944	SERVICE DEPARTMENT	1.0000	1,259.51
	AUGUST	.0944	SERVICE DEPARTMENT	1.0000	1,699.38
	SEPTEMBER	.0944	SERVICE DEPARTMENT	1.0000	1,647.97
					19,873.95
TOTAL MEDA DOLLARS FOR COST CENTER 344 :					
346 EMPLOYEE ACTIVITIES	OCTOBER	.0944	SERVICE DEPARTMENT	1.0000	-112.69
	NOVEMBER	.0944	SERVICE DEPARTMENT	1.0000	958.83
	DECEMBER	.0944	SERVICE DEPARTMENT	1.0000	516.55
	JANUARY	.0951	SERVICE DEPARTMENT	1.0000	59.83
	FEBRUARY	.0960	SERVICE DEPARTMENT	1.0000	1,323.65
	MARCH	.0984	SERVICE DEPARTMENT	1.0000	5,292.87
	APRIL	.1000	SERVICE DEPARTMENT	1.0000	

PAGE 12

MEDICARE A COST CENTERS
FOR FISCAL YEAR-10-DATE
REPORT MEMSUM1 FOR MEDA
PREPARED ON 10/15/87 AT 20.20.50

COST CENTER DESCRIPTION	MONTH DESCRIPTION	CRS PRODUCT PERCENT	OPERATION DESCRIPTION	OPERATION PERCENT	MEDA DOLLARS
290 DIRECTOR MEDICARE B	AUGUST	.0321	GENR'L AND ADMIN	1.0000	209.09
	SEPTEMBER	.0320	GENR'L AND ADMIN	1.0000	-41,267.01
TOTAL MEDA DOLLARS FOR COST CENTER 290 :					
297 MEDICARE B PERSONNEL	MARCH	.0291	SERVICE DEPARTMENT	1.0000	245.46
	APRIL	.0270	SERVICE DEPARTMENT	1.0000	-240.50
	MAY	.0320	SERVICE DEPARTMENT	1.0000	-516.37
	JUNE	.0289	SERVICE DEPARTMENT	1.0000	-48.06
	JULY	.0304	SERVICE DEPARTMENT	1.0000	-819.39
	AUGUST	.0321	SERVICE DEPARTMENT	1.0000	-454.41
	SEPTEMBER	.0320	SERVICE DEPARTMENT	1.0000	-1,001.22
TOTAL MEDA DOLLARS FOR COST CENTER 297 :					
304 PATTON MEDICARE B	OCTOBER	.0050	DATA ENTRY	1.0000	10,481.29
	NOVEMBER	.0050	DATA ENTRY	1.0000	10,634.76
	DECEMBER	.0050	DATA ENTRY	1.0000	10,902.01
	JANUARY	.0050	DATA ENTRY	1.0000	14,440.45
	FEBRUARY	.1130	DATA ENTRY	1.0000	21,331.77
	MARCH	.1310	DATA ENTRY	1.0000	26,206.54
	APRIL	.1310	DATA ENTRY	1.0000	23,877.59
	MAY	.1690	DATA ENTRY	1.0000	27,306.54
	JUNE	.1690	DATA ENTRY	1.0000	25,273.00
	JULY	.1760	DATA ENTRY	1.0000	26,399.50
	AUGUST	.1760	DATA ENTRY	1.0000	24,496.04
	SEPTEMBER	.1760	DATA ENTRY	1.0000	32,061.02
TOTAL MEDA DOLLARS FOR COST CENTER 304 :					
330 SUP PERSONNEL & ADMIN SVCS	OCTOBER	.0046	GENR'L AND ADMIN	1.0000	151.97
	NOVEMBER	.0546	GENR'L AND ADMIN	1.0000	152.16
	DECEMBER	.0846	GENR'L AND ADMIN	1.0000	140.30
TOTAL MEDA DOLLARS FOR COST CENTER 330 :					
339 COMP & BENEFITS ADMIN	OCTOBER	.0004	SERVICE DEPARTMENT	1.0000	492.11
	NOVEMBER	.0004	SERVICE DEPARTMENT	1.0000	2,996.59
	DECEMBER	.0004	SERVICE DEPARTMENT	1.0000	2,602.40
TOTAL MEDA DOLLARS FOR COST CENTER 339 :					

Medicare A

EXHIBIT G

Audit Finding - FACP Adjustments - Vacation Accrual
 FYE 9-30-90

Prepared By	Initials	Date
Approved By		

C WILSON JONES COMPANY 67267 GREEN 7367 BUFF

Purpose: To recalculate the Medicare Vacation accrual consistent with the methodology used in FY89 per auditor recommendation.

Period	CYE Corp Accrual	% of time	FY TOTAL	Med A Allocation %	Med A Accrual	Med A Expense FY 90
10/89-12/89	6728000	25%	1682000	9.48%	159454	
1/90-9/90	7363238	75%	5522429	9.01%	497571	
FY 90 Medicare A Accrued Liability					657025	657025
10/88-12/88	5674000	25%	1418500	9.81%	139155	
1/89-9/89	6728000	75%	5046000	9.54%	481388	
FY 89 Medicare A Accrued Liability					620543	620543
Medicare A Change in Liability (FY 90 expense)						36489
CRS Allocated Vacation accrual expense FY90 (c/c 190)					100320	
Previous FACP Adjustment (Adj # N)					< 36034 >	
Amount Claimed on FY 90 Med A FACP					64296	64296
Additional Adjustment required						< 67807 >

Sources: See Attached G/L + CRS reports

Conclusion: The accrued vacation expense allocated to Medicare A in FY90 requires and additional adjustment. The original calculation erroneously considered only 9 months of FY 1990.

ACCOUNTING IV
GENERAL LEDGER UPDATE
DEC 1988

***** A C T U A L *****
OPENING ENDING
CURRENT

HEALTH CARE SERVICE CORP.

-----ACCOUNT NUMBER-----
CO PRI SU CC PRO

A/
% DESCRIPTION J/V # SOURCE

01-2210-02-	ADT VAC ACC-1989	12/31/88	12M102		183,075.00	
	DETAIL SUB				183,075.00	
	TOTAL			ACCRUED PAYROLL-VACATION	5,674,000.00CR	5,510,000.00
01-2212-01-	DEF COMP LIAB-BD OF DIR				490,477.93CR	383,400.00
	OPERATING EXP ADJ	12/30/88	11K006		165,558.85	
	OPERATING EXP ADJ	12/31/88	12K006		166,090.48CR ←	
	DEF COMP ADJ	12/31/88	12Y112		23,384.76	
	DETAIL SUB				22,853.13	
	TOTAL			DEF COMP LIAB-BD OF DIR	467,624.80CR ←	383,400.00

01-2212-02-	DEF COMP LIAB-OFFIC & MGR				405,462.85CR	815,799.00
	4TH QTR EST DF INT	12/30/88	11Y007		7,000.00	
	R EHARD	12/31/88	12Y002		1,672.59	
	DEF COMP	12/31/88	12Y002		33,876.93CR	
	12/88 EST INT DEF	12/31/88	12Y007		10,000.00CR	
	R EHARD ES INT 4TH	12/31/88	12Y007		500.00CR	
	R EHARD 4TH QTR INT	12/31/88	12Y106		500.25CR	
	R EHARD 4TH QTR INT	12/31/88	12Y106		500.00	
	DETAIL SUB				35,704.59CR	
	TOTAL			DEF COMP LIAB-OFFIC & MGR	441,167.44CR	815,799.00

01-2214-	PAYROLL-MONTHLY CLEARING				0.00	2.00CR
	12/88 SHAP ACCR AJ	12/31/88	ADJYR		3,095.381.46CR	
	11/88 PAYROLL ACCRS	12/31/88	11Y003		452,852.06CR	
	PAYROLL EXP ACCR	12/31/88	12SACC		11,264,541.41CR	
	ACTUAL PAYROLL EXP	12/31/88	12SADH		3,095,381.46	
	PAYROLL ACC REV	12/31/88	12SREV		11,264,541.41	
	PAYROLL 12/88	12/31/88	12Y002		81,122.57	
	12/88 PAYROLL ACCRS	12/31/88	12Y003		81,141.26	
	PAYROLL 12/88	12/31/88	12Y102		81,122.57CR	
	12/88 PAYROLL ACCRS	12/31/88	12Y109			
	12/88 SHAP ADJ	12/31/88	12Y110			
	12/88 SHAP ACCR ADJ	12/31/88	12Y113		81,141.26CR	
	DETAIL SUB				0.00	
	TOTAL			PAYROLL-MONTHLY CLEARING	0.00	2.00

01-2215-	US SAVINGS BONDS				10,793.75CR	10,812.00
	WIRE TRANSFERS	12/31/88	12I002		10,650.00	
	BONDS	12/31/88	12Y002		10,116.75CR	
	DETAIL SUB				10,531.25	
	TOTAL			US SAVINGS BONDS	10,262.50CR	10,812.00

EXHIBIT
9-1

10,812.00

ACCOUNT NUMBER	DESCRIPTION	J/V #	SOURCE	ACTUAL OPENING	ACTUAL ENDING	BUDGET OPENING	BUDGET ENDING
1-2210-02-	ACCRUED PAYROLL-VACATION			6,297,080.00CR		5,674,000.00	
	12/31/89 12W001			52,920.00CR			
	SPEL ACCRUAL			378,000.00CR			
	12/31/89 12W102			430,920.00CR			
	DETAILED SUB						
TOTAL				6,728,000.00CR		5,674,000.00	
1-2212-01-	DEF COMP LIAB-BD OF DIR			691,022.72CR		467,624.00	
	DEF COMP W/INT			211,886.51			
	12/30/89 11W103			209,795.22CR			
	12/31/89 12W104			2,091.29			
	DETAILED SUB						
TOTAL				688,931.43CR		467,624.00	
1-2212-02-	DEF COMP LIAB-BD OF DIR			1,225,885.20CR		441,167.00	
	DEF COMP W/INT			9,000.00			
	12/30/89 11Y007			9,000.00			
	3RD QTR EST INT DEF			300,000.00CR			
	12/30/89 11Y007			1,834.31			
	INCR BEN RESTOLIA			40,780.80CR			
	12/31/89 12Y002			9,000.00CR			
	R EWARD			37,722CR			
	DEF COMP			9,000.00CR			
	12/31/89 12Y002			9,499.15CR			
	4TH QTR EST DEF IN			9,000.00			
	12/31/89 12Y007			9,499.15CR			
	4TH QTR EMALD INT			9,000.00			
	12/31/89 12Y007			9,000.00			
	3RD QTR EST DEF INT			339,483.36CR			
	12/31/89 12Y103						
	DEF CMP 3RD QT INT						
	12/31/89 12Y103						
	3RD QTR ESTDEF CMP						
	12/31/89 12Y103						
	DETAILED SUB						
TOTAL				1,565,368.56CR		441,167.00	
1-2214-	DEF COMP LIAB-OFFIC & MGR			0.00			
	PAYROLL-MONTHLY CLEARING			505.14CR			
	12/31/89 ADJPYR			39,646.35			
	12/89 SNAP ADJ			3,737,847.73CR			
	12/89 SNAP ADJ			485,868.98CR			
	11/89 PAYROLL ACCRS			12,014,087.02CR			
	PAYROLL EXP ACCR			3,737,847.73			
	ACTUAL PAYROLL EXP			11,990,305.73			
	12/31/89 12SADM			485,868.98			
	PAYROLL ACC REV			24,737.48			
	12/31/89 12SREV			1,879.27CR			
	PAYROLL 12/89			259.00			
	12/31/89 12Y002			1,223.65			
	CR MERCY PRIZES			505.50			
	12/31/89 12Y101			863.43CR			
	PAYROLL 12/89			562.50			
	12/31/89 12Y104						
	12/89 PAYROLL ACCRS						
	12/31/89 12Y107						
	12/89 SNAP ADJ						
	12/31/89 12Y108						
	12/89 SNAP ADJ						
	12/31/89 12Y108						
	12/89 SNAP ADJ						
	12/31/89 12Y108						
	12/89 SNAP ADJ						
	12/31/89 12Y108						
TOTAL				1,565,368.56CR			

MEDICARE A COST CENTERS
FOR FISCAL YEAR-TO-DATE
PREPARED ON 10/12/90 AT 20.01.57

REPORT MEDISUMI FOR MEDA
PREPARED ON 10/12/90 AT 20.01.57

COST CENTER	COST CENTER DESCRIPTION	MONTH DESCRIPTION	CRS PRODUCT PERCENT	OPERATION DESCRIPTION	OPERATION PERCENT	MEDA DOLLARS
182	MANAGERS COUNCIL	FEBRUARY	.0881	GENR'L AND ADMIN	1.0000	24.43
		MARCH	.0870	GENR'L AND ADMIN	1.0000	1,037.87
		APRIL	.0854	GENR'L AND ADMIN	1.0000	319.28
		MAY	.0861	GENR'L AND ADMIN	1.0000	1,756.34
		JUNE	.0889	GENR'L AND ADMIN	1.0000	406.40
		JULY	.0883	GENR'L AND ADMIN	1.0000	9,392.39
		AUGUST	.0945	GENR'L AND ADMIN	1.0000	1,216.93
		SEPTEMBER	.0901	GENR'L AND ADMIN	1.0000	40.64
						14,864.13

TOTAL MEDA DOLLARS FOR COST CENTER 182 :

COST CENTER	COST CENTER DESCRIPTION	MONTH DESCRIPTION	CRS PRODUCT PERCENT	OPERATION DESCRIPTION	OPERATION PERCENT	MEDA DOLLARS
190	VACATION ACCRUALS	OCTOBER	.0955	SERVICE DEPARTMENT	1.0000	5,052.06
		NOVEMBER	.0927	SERVICE DEPARTMENT	1.0000	8,699.52
		DECEMBER	.0948	SERVICE DEPARTMENT	1.0000	40,842.73
		JANUARY	.0867	SERVICE DEPARTMENT	1.0000	4,985.23
		FEBRUARY	.0881	SERVICE DEPARTMENT	1.0000	5,067.46
		MARCH	.0870	SERVICE DEPARTMENT	1.0000	5,805.36
		APRIL	.0854	SERVICE DEPARTMENT	1.0000	4,910.71
		MAY	.0861	SERVICE DEPARTMENT	1.0000	4,950.98
		JUNE	.0889	SERVICE DEPARTMENT	1.0000	5,113.18
		JULY	.0883	SERVICE DEPARTMENT	1.0000	5,078.27
		AUGUST	.0945	SERVICE DEPARTMENT	1.0000	5,435.39
		SEPTEMBER	.0901	SERVICE DEPARTMENT	1.0000	5,179.11
						100,328.81

TOTAL MEDA DOLLARS FOR COST CENTER 190 :

COST CENTER	COST CENTER DESCRIPTION	MONTH DESCRIPTION	CRS PRODUCT PERCENT	OPERATION DESCRIPTION	OPERATION PERCENT	MEDA DOLLARS
00	SVP HLTH CARE AFFRS	OCTOBER	.0450	GENR'L AND ADMIN	1.0000	1,177.54
		NOVEMBER	.0471	GENR'L AND ADMIN	1.0000	1,449.21
		DECEMBER	.0430	GENR'L AND ADMIN	1.0000	1,089.01
		JANUARY	.0489	GENR'L AND ADMIN	1.0000	1,070.60
		FEBRUARY	.0393	GENR'L AND ADMIN	1.0000	853.97
		MARCH	.0442	GENR'L AND ADMIN	1.0000	1,088.05
		APRIL	.0503	GENR'L AND ADMIN	1.0000	1,397.18
		MAY	.0417	GENR'L AND ADMIN	1.0000	1,155.53
		JUNE	.0367	GENR'L AND ADMIN	1.0000	913.96
		JULY	.0352	GENR'L AND ADMIN	1.0000	1,062.92
		AUGUST	.0357	GENR'L AND ADMIN	1.0000	995.00
		SEPTEMBER	.0331	GENR'L AND ADMIN	1.0000	866.31

MEMBERS & CORP CENTERS
 FOR FISCAL YEAR-TO-DATE
 PREPARED ON 10/17/89 AT 06.20.44

REPORT MEMBERSHIP FOR MEDA
 PREPARED ON 10/17/89 AT 06.20.44

COST CENTER DESCRIPTION	COST CENTER	MONTH DESCRIPTION	CBS PRODUCT PERCENT	OPERATION DESCRIPTION	OPERATION PERCENT	MEDA DOLLARS
100 PRESIDENT & CEO		OCTOBER	.1023	GENR'L AND ADMIN	1.0000	7,273.52
		NOVEMBER	.0962	GENR'L AND ADMIN	1.0000	6,014.39
		DECEMBER	.0970	GENR'L AND ADMIN	1.0000	8,004.93
		JANUARY	.0962	GENR'L AND ADMIN	1.0000	10,512.10
		FEBRUARY	.0943	GENR'L AND ADMIN	1.0000	19,723.34
		MARCH	.0911	GENR'L AND ADMIN	1.0000	8,415.27
		APRIL	.0940	GENR'L AND ADMIN	1.0000	5,302.37
		MAY	.0935	GENR'L AND ADMIN	1.0000	5,258.56
		JUNE	.1031	GENR'L AND ADMIN	1.0000	11,575.09
		JULY	.0966	GENR'L AND ADMIN	1.0000	6,828.15
		AUGUST	.0965	GENR'L AND ADMIN	1.0000	9,424.54
		SEPTEMBER	.0954	GENR'L AND ADMIN	1.0000	8,144.30
TOTAL MEDA DOLLARS FOR COST CENTER 100 :						107,276.55

105 CORP BOARD & MEMBER ASSEMBLY		OCTOBER	.0773	GENR'L AND ADMIN	1.0000	7,195.89
		NOVEMBER	.0726	GENR'L AND ADMIN	1.0000	283.21
		DECEMBER	.0660	GENR'L AND ADMIN	1.0000	543.51
		JANUARY	.0703	GENR'L AND ADMIN	1.0000	9,854.84
		FEBRUARY	.0673	GENR'L AND ADMIN	1.0000	1,152.74
		MARCH	.0657	GENR'L AND ADMIN	1.0000	292.46
		APRIL	.0679	GENR'L AND ADMIN	1.0000	5,878.73
		MAY	.0660	GENR'L AND ADMIN	1.0000	3,909.30
		JUNE	.0780	GENR'L AND ADMIN	1.0000	1,225.60
		JULY	.0723	GENR'L AND ADMIN	1.0000	10,263.85
		AUGUST	.0706	GENR'L AND ADMIN	1.0000	1,812.27
		SEPTEMBER	.0742	GENR'L AND ADMIN	1.0000	372.04
TOTAL MEDA DOLLARS FOR COST CENTER 105 :						41,977.32

165 SVP LAW & CORP AFFAIRS		OCTOBER	.0510	GENR'L AND ADMIN	1.0000	1,843.21
		NOVEMBER	.0510	GENR'L AND ADMIN	1.0000	3,075.69
		DECEMBER	.0524	GENR'L AND ADMIN	1.0000	2,446.35
		JANUARY	.0535	GENR'L AND ADMIN	1.0000	2,510.69
		FEBRUARY	.0550	GENR'L AND ADMIN	1.0000	2,825.04
		MARCH	.0537	GENR'L AND ADMIN	1.0000	2,123.60
		APRIL	.0572	GENR'L AND ADMIN	1.0000	2,873.06
		MAY	.0553	GENR'L AND ADMIN	1.0000	3,505.50
		JUNE	.0579	GENR'L AND ADMIN	1.0000	2,920.85
		JULY	.0554	GENR'L AND ADMIN	1.0000	3,586.19

HHS Medicare

HCSC - Part A

Recalculation of Cross Over Costs

10/1/86 - 9/30/90

Date 1/24/92	Approved By <i>[Signature]</i>	Work Paper No.
	Reviewed By	

Source: CRS & Med A IER (Adj)
Scope: FY 90 FACE

1	10/1/89 - 9/30/90		
3	Incoming Mail 800-2-717	14382	\$/b 1251
4	Data Entry 3/77	20901	-
5	EMC & System 4/77	2013	-
6	Sup & Prog Support 5/17	20940	-
7	Professional Relations 6/17	9132	-
8	CC 287 & 285 6/77	95442	-
9	Total Crossover Costs	1165800	S/B 154769
10	Crossover Claims 800-2-717	312732	
12	Rate per Claim	52	/Claim .50

17	Recalculated Crossover Costs	1165800	154769
18	Unlabeled Crossover 800-2-117	92108	800-2-10/17
19	Questioned Costs	20492	12661

Purpose: to determine the crossover amount for HCSC using other methodology and adding other processing costs

Conclusion: the audit did not include all costs that are associated with getting the claims into the system and processed accurately.

- EMC costs
- System maintenance costs
- Professional Relations
- Bill Review

Also the methodology was not applied to all costs the same way

38	300-5-110	24925	10,692	300-5-110	5810
39	300-5-110	89	14,000	300-5-110	18,982
40	300-5-110	87	18,357	300-5-110	22,792
	300-5-110	87	32,172		
	300-5-110	87	1,000		
	300-5-110	87	1,000		

HHS-Medicare
HCSC - Part A & B
Calculation of Income Tax
10/1/86 - 9/30/98

Date 2/3/92	Prepared By [Signature]	Work Paper No.
	Reviewed By	

2

Cost Center 621 800-7-26/41

December 89 YTD → 2870436
92/365 723507

800-2-15/17

December 1990 YTD → 3825473
273/365 2861244

Postage 800-2-16/17 6301 8491304
± 171-6303 < 7323710 > 1990

1172594 8770310

Days Later x 213/365 92/365 < 295538 >

6301 1393445 7198951224

Days Later x 99/365 273/365 < 1043321 >

2246972 - 56 2356491

Auditors Mailroom Med A 7. 800-2-12/17 0152 .0064

34154 15082

Key Field ?
Crossed Income Mail Cost

4211
14382 800-2-1/17

6851

SEE PURPOSE SOURCE,
SCOPE, CONCLUSION
ON W/P 800-2-1/17

800-2-7/17

HCSC
Part B - Crossover Credit
FY. 89

EXHIBIT I

JB

Purpose: To Compare Auditors Computation With That of HCSC

	Per Exhibit I-1	Per Auditor Per HCSC	Variance
Incoming Mail	51350	51350	-0-
Data Entry	215537	123400	92137
Computer Usage			
Systems & Programming			
Claims Renewal Prof Relations	<u>169428</u>	<u>169428</u>	-0-
Total Recomputed Crossover Costs	432815	34479	92137
Total FACP Crossover Costs	<u>417333</u>	<u>417333</u>	-0-
Questioned Costs	<u>18982</u>	<18155>	<u>92137</u>
Amended Overcredit Finding Per Auditor (Audit Rpt)		<47117>	
Remaining Overcredit		<u><21038></u>	

EDP Costs

Line 1 Costs	3668942	2168942	1500000
Less: Printing	<157955>	<157955>	-0-
Total EDP Processing Costs	3508987	2008987	1500000
Crossover Ratio	.1267	.1267	—
Keyfield %	44589	254538	190051
Crossover EDP Amount	4848	4818	—
	<u>215537</u>	<u>123400</u>	<u>92137</u>

✓
Per Exhibit I-P.

HHS - Medicare

HOSC - Part 915

Recalculation of Cross-over Costs

10/1/86 - 9/30/90

2/3/92

Source: OSE Med B IER ADJ.			
Scope: FY89 FACE			
1			
2	Income Mail 800-7-31/91	51350	
3	Data Entry		
4	Computer Sale 800-10-2/87	21500	
5	System Programming	152300	
6			
7	Client Billing 800-10-2/87	11500	
8	Professional Relations		
9			
10	Total Cross-over Costs	434350	S/B 844170
11			
12	Total Cross-over Claims	1026480	800-7-31/91
13			
14	Part B Cross-over Claim	143 / claim	.34
15			
16			
17			
18		844170	
19	Recalculated Cross-over Costs	434350	
20	And this	417333	800-7-31/91
21	Questioned Costs	17017	800-2-1/87
22			
23		S/B 70185	
24			
25			
26			
27			
28			
29			
30			
31			
32	SEE PURPOSE SOURCE		
33	SCOPE, CONCLUSION		
34	ON W/P 800-2-1/87		
35			
36			
37			
38			
39			
40			

HHS - Medicine

HCSC - Part B

Recalculated EOP Crosswalk Costs

2/7/89
[Stamp]

10/1/86 - 9/30/89

Source: U.S. Med. B. TER Worksheets

Scope: FY89 9/1/89-9/30/89

1									
2	EOP Line Item Costs								
3	before Crosswalk								
4	10/1 - 9/30/89								
5	Personal Services	800-10-10/12	163052						
6	Other Contract		325195						
7	Other Contract		111371						
8	10/1 - 3/31/89 Personal	800-10-11/12	74172						
9	Other Contract		151173						
10	Other		553316						

163,032
3,257,400
740,221
74,171
1,570,210
355,346
0006

11									
12									
13	Less Printing Costs								
14	10/1 - 9/30	447	229193						
15	10/1 - 9/30	448	192819						
16	10/1 - 9/30	447	124824						
17	10/1 - 9/30	448	16182						
18			231406						
19	800-10-10/12		682						

21	Total EOP Processing Cost Excl.		358887						
22	Crosswalk Rates		1267						
23	Med + Personal EOP		444989						
24	- Key Field 7		1467						
25	Crosswalk EOP amount		215377						

SEE: PURPOSE SOURCE
SCOPE, CONCLUSION
ON 10/1/89

the crosswalk as this is what the Medicare and Medicaid
EOP costs should be. The data is from the Medicare
Operations & Programming Manual. The data is from the Medicare
crosswalk computer. The data is from the Medicare and Medicaid
these are costs for the EOP. The data is from the Medicare
Chicago Medicare employees. The data is from the Medicare
majority of costs are for Part B. The data is from the Medicare
Maintenance.
Medicare operations after crosswalk as a separate unit. The data is
PE and other items. The data is from the Medicare and Medicaid
All costs incurred in the Medicare and Medicaid program are
maintained in the Medicare and Medicaid program.

800-10-2/12



233 North Michigan Avenue
Chicago, Illinois 60601-5655
312/938-8000

September 3, 1992

Mr. William Anderson
Doshi & Associates, P. C.
4520 Madison
Suite 105
Kansas City, Missouri 64111

Dear Mr. Anderson:

RE: Medicare Audit FY 87 - 90 - Pension Calculation

We have consulted with our outside Actuarial consultant regarding the treatment of the \$131,369 credit for Medicare B in FY 89. Although we do not necessarily agree with your proposed treatment for handling the credit, we had our consultant recalculate the pension amounts based on your proposal. The revised calculation indicates that HCSC owes \$306,537. We are willing to settle on this amount.

I have summarized the pension adjustments by fiscal year on the attachment. In addition, I have provided copies of the actuarial calculation (changes are indicated with the bold print).

Sincerely,

Denise A. Bujak
Vice President
Finance

DAB:st

Attachment

Health Care Service Corporation
Revised Pension Response to Audit Draft

	<u>Revised Calculation</u>	<u>Actual Charge</u>	<u>Amount Due HCFA</u>
Medicare A FY 87	\$ 562,439	\$ 564,110	\$ 1,671
Medicare A FY 88	561,269	593,695	32,426
Medicare A FY 89	350,609	358,762	8,153
Medicare A FY 90	<u>201,516</u>	<u>320,708</u>	<u>119,192</u>
 Medicare A Sub-Total	 <u>\$1,675,833</u>	 <u>\$1,837,275</u>	 <u>\$161,442</u>
Medicare B FY 89	\$< 36,670>	\$ 138,824	\$175,494
Medicare B FY 90	<u>246,172</u>	<u>215,773</u>	<u><30,399></u>
 Medicare B Sub-Total	 <u>\$ 209,502</u>	 <u>\$ 354,597</u>	 <u>\$145,095</u>
Total Medicare A & B	<u>\$1,885,335</u> =====	<u>\$2,191,872</u> =====	<u>\$306,537</u> =====

**Health Care Service Corporation
Pension Expense Allocation
Medicare Contracts
(Revised)***

Fiscal Year	Quarter Ending	Direct Allowable (1)	Indirect Allowable (2)	Total Allowable
Medicare A				
1987	12/31/86	NA	NA	134,420 (3)
	03/31/87	118,571 (4)	24,102	142,673
	06/30/87	118,571 (4)	24,102	142,673
	09/30/87	<u>118,571 (4)</u>	<u>24,102</u>	<u>142,673</u>
	Total	355,713	72,306	562,439
1988	12/31/87	118,571 (4)	24,102	142,673
	03/31/88	105,218	34,314	139,532
	06/30/88	105,218	34,314	139,532
	09/30/88	<u>105,218</u>	<u>34,314</u>	<u>139,532</u>
	Total	434,225	127,044	561,269
1989	12/31/88	105,218	34,314	139,532
	03/31/89	58,753	11,606	70,359
	06/30/89	58,753	11,606	70,359
	09/30/89	<u>58,753</u>	<u>11,606</u>	<u>70,359</u>
	Total	281,477	69,132	350,609
1990	12/31/89	58,753	11,606	70,359
	03/31/90	26,407	17,312	43,719
	06/30/90	26,407	17,312	43,719
	09/30/90	<u>26,407</u>	<u>17,312</u>	<u>43,719</u>
	Total	137,974	63,542	201,516
Total		1,209,389	332,024	1,675,833
Medicare B				
1989	12/31/88	0	0	0
	03/31/89	0	0	0
	06/30/89	(32,842)	14,507	(18,335)
	09/30/89	<u>(32,842)</u>	<u>14,507</u>	<u>(18,335)</u>
	Total	(65,684)	29,014	(36,670)
1990	12/31/89	(32,842)	14,507	(18,335)
	03/31/90	66,663	21,506	88,169
	06/30/90	66,663	21,506	88,169
	09/30/90	<u>66,663</u>	<u>21,506</u>	<u>88,169</u>
	Total	167,147	79,025	246,172
Total		101,463	108,039	209,502
Medicare A plus B		1,310,852	440,063	1,865,335

NOTES:

- (1) 25% of annual amounts in actuarial reports, unless noted. These amounts do not include interest beyond the beginning of the plan year.
- (2) 25% of annual amounts from attached table
- (3) From HCFA auditor's workpapers
- (4) 25% of expense allocated in proportion to direct Medicare A salaries, as follows:

a. Total 1987 HCSC contribution, adjusted to quarterly payment	6,775,463
b. Medicare A total direct salaries (from HCSC)	6,751,463
c. Total HCSC salaries (from HCSC)	96,453,000
d. Medicare A Percentage	7.00%
e. Medicare A contribution	474,282

* Revised numbers appear in bold face.

August 27, 1992

**Pension Expense Allocation
Medicare Contracts
(Revised)***

	1987	1988	1989	1990
A. HCSC Indirect Contribution				
1. HCSC total contribution, and of year payment	6,993,898	6,495,506	2,940,333	3,695,057
2. Less: adjustment for interest beyond quarterly payment dates(1)	<u>(218,435)</u>	<u>(191,812)</u>	<u>(83,975)</u>	<u>(109,115)</u>
3. HCSC total contribution, adjusted to quarterly payment	6,775,463	6,303,694	2,756,358	3,585,942
4. Less:				
a. Medicare A direct contribution	(474,282)	(420,870)	(235,013)	(105,828)
b. Medicare B direct contribution	(272,367)	(471,685)	131,369	(268,680)
c. FEP direct contribution	<u>(114,195)(2)</u>	<u>(111,749)</u>	<u>(15,121)</u>	<u>(163,120)</u>
5. HCSC indirect contribution, adjusted for interest	5,914,819	5,299,390	2,637,693	3,050,546
B. HCSC Indirect Salaries (3)				
1. Total HCSC salaries	96,453,000	93,371,000	97,951,000	105,321,000
2. Less:				
a. Medicare A direct salaries	(6,751,463)	(7,229,394)	(8,117,024)	(7,655,284)
b. Medicare B direct salaries	(6,374,873)(4)	(10,653,985)(4)	(9,423,474)	(10,420,103)
c. FEP valuation earnings (4)	<u>NA</u>	<u>(1,834,591)</u>	<u>(1,744,358)</u>	<u>(2,377,331)</u>
3. HCSC indirect salaries	81,326,664	73,653,030	78,556,148	84,867,282
C. Medicare A Indirect Contribution				
1. Medicare A indirect salaries				
a. Medicare A total salaries	8,077,908 (1)	9,134,018	9,503,534	9,584,813
b. Medicare A direct salaries	(6,374,873)(2)	(7,229,394)	(8,117,024)	(7,655,284)
c. Medicare A indirect salaries	1,328,445	1,904,624	1,386,510	1,928,529
2. Medicare A indirect percentage (5)	1.63%	2.59%	1.76%	2.27%
3. Medicare A indirect expense	98,408	137,254	48,423	69,247
D. Medicare B Indirect Contribution				
1. Medicare B indirect salaries				
a. Medicare B total salaries			11,184,245	12,916,912
b. Medicare B direct salaries			(9,423,474)	(10,420,103)
c. Medicare B indirect salaries			1,730,771	2,396,809
2. Medicare B indirect percentage (4)			2.20%	2.82%
3. Medicare B indirect expense			55,029	55,029

NOTES:

- (1) End of year contribution times [1 minus 1/]
- (2) Estimated based on 1988 Medicare salaries as percentage of total HCSC salaries
- (3) All salaries are total salaries, including overtime, provided by HCSC or from the Cost Classification Reports unless indicated otherwise
- (4) Valuation earnings from Towers Perrin valuation data files. Actual total salaries may be higher or lower.
- (5) Medicare indirect salaries as a percentage of HCSC Indirect salaries

* Revised numbers appear in bold face.

August 27, 1992