

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**TRAILBLAZER HEALTH ENTERPRISES,
LLC, CLAIMED UNALLOWABLE
MEDICARE PART B TERMINATION COSTS**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



Gloria L. Jarmon
Deputy Inspector General
for Audit Services

October 2014
A-06-13-00017

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

Section 8M of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

TrailBlazer claimed \$137,927 in Medicare Part B termination costs that did not comply with Federal regulations and applicable guidelines and claimed \$1,158,538 in potentially unallowable termination costs for severance pay.

WHY WE DID THIS REVIEW

The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program through contracts with private organizations that process and pay Medicare claims. These contracts with CMS provide for the reimbursement of allowable contract termination costs. CMS terminated its Medicare Part B contract with TrailBlazer Health Enterprises, LLC (TrailBlazer). CMS requested that we audit the Medicare Part B termination costs that TrailBlazer claimed for reimbursement.

The objective of this review was to determine whether TrailBlazer's claims for Medicare Part B termination costs were reasonable, allocable, and otherwise allowable in accordance with part 31 of the Federal Acquisition Regulation (FAR) and its Medicare Part B contract.

BACKGROUND

Title XVIII of the Social Security Act established the Medicare program, which provides health insurance coverage to people aged 65 and over, people with disabilities, and people with end-stage renal disease. CMS administers the Medicare program through contractors, including Part B carriers that process and pay Medicare claims. Contracts between CMS and the Medicare contractors define the functions to be performed and provide for the reimbursement of allowable administrative costs incurred in the processing of Medicare claims and allowable termination costs when CMS terminates a contract. In claiming costs, contractors must comply with the Medicare contract and follow cost reimbursement principles contained in the FAR.

CMS contracted with TrailBlazer to serve as the Medicare Part B carrier responsible for processing claims for Virginia, Maryland, Delaware, and the District of Columbia. Beginning June 2006, CMS started replacing Medicare Part B carriers with entities called Medicare Administrative Contractors (MACs). CMS did not award TrailBlazer a MAC contract and terminated TrailBlazer's Medicare Part B contract for Maryland, Delaware, and the District of Columbia effective July 15, 2008, and for Virginia effective March 21, 2011.

TrailBlazer, formerly headquartered in Dallas, Texas, was a wholly owned subsidiary of BlueCross BlueShield of South Carolina (BlueCross). BlueCross provided certain management and other operational support services for TrailBlazer, including accounting, human resources, legal, and general corporate administration. Because TrailBlazer is no longer in business, we are addressing the report findings and recommendations to BlueCross.

WHAT WE FOUND

Of the \$3,962,920 in Medicare Part B termination costs that we reviewed, \$2,666,455 was reasonable, allocable, and otherwise allowable in accordance with part 31 of the FAR and the Medicare contract. The remaining \$1,296,465 consisted of \$137,927 in unsupported costs and travel costs in excess of the allowable per diem rates and \$1,158,538 in potentially unallowable termination costs for severance pay.

TrailBlazer claimed these unsupported costs and travel costs in excess of allowable per diem rates because it did not have adequate internal control procedures to ensure that it claimed costs in accordance with the regulations set forth in the FAR and the Medicare contract.

WHAT WE RECOMMEND

We recommend that BlueCross:

- refund to the Federal Government \$137,927 for unsupported costs and travel costs and
- work with CMS to determine the allowability of \$1,158,538 in termination costs for severance pay that we set aside and refund to the Federal Government any amount determined to be unallowable.

BLUECROSS BLUESHIELD OF SOUTH CAROLINA COMMENTS

In its comments on our draft report, BlueCross concurred with our recommendations.

TABLE OF CONTENTS

INTRODUCTION	1
Why We Did This Review	1
Objective	1
Background	1
How We Conducted This Review	2
FINDINGS	2
TrailBlazer Claimed Unallowable Costs	2
TrailBlazer Claimed Unsupported Costs	2
TrailBlazer Claimed Travel Costs That Exceeded Allowable Per Diem Rates	3
Lack of Adequate Internal Controls	3
TrailBlazer Claimed Potentially Unallowable Severance Costs	3
RECOMMENDATIONS	4
BLUECROSS BLUESHIELD OF SOUTH CAROLINA COMMENTS	4
APPENDIXES	
A: Audit Scope and Methodology	5
B: BlueCross BlueShield of South Carolina Comments	6

INTRODUCTION

WHY WE DID THIS REVIEW

The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program through contracts with private organizations that process and pay Medicare claims. These contracts with CMS provide for the reimbursement of allowable contract termination costs. CMS terminated its Medicare Part B contract with TrailBlazer Health Enterprises, LLC (TrailBlazer). CMS requested that we audit the Medicare Part B termination costs that TrailBlazer claimed for reimbursement.

OBJECTIVE

Our objective was to determine whether TrailBlazer's claims for Medicare Part B termination costs were reasonable, allocable, and otherwise allowable in accordance with part 31 of the Federal Acquisition Regulation (FAR)¹ and its Medicare Part B contract.

BACKGROUND

Title XVIII of the Social Security Act established the Medicare program, which provides health insurance coverage to people aged 65 and over, people with disabilities, and people with end-stage renal disease. CMS administers the Medicare program through contractors, including Part B carriers that process and pay Medicare claims. Contracts between CMS and the Medicare contractors define the functions to be performed and provide for the reimbursement of allowable administrative costs incurred in the processing of Medicare claims and allowable termination costs when CMS terminates a contract. In claiming costs, contractors must comply with the Medicare contract and follow cost reimbursement principles contained in the FAR.

CMS contracted with TrailBlazer to serve as the Medicare Part B carrier responsible for processing claims for Virginia, Maryland, Delaware, and the District of Columbia. Beginning June 2006, CMS started replacing Medicare Part B carriers with new contract entities called Medicare Administrative Contractors (MACs).² CMS did not award TrailBlazer a MAC contract and terminated TrailBlazer's Medicare Part B contract for Maryland, Delaware, and the District of Columbia effective July 15, 2008, and for Virginia effective March 21, 2011.³

TrailBlazer, formerly headquartered in Dallas, Texas, was a wholly owned subsidiary of BlueCross BlueShield of South Carolina (BlueCross). BlueCross provided certain management and other operational support services for TrailBlazer, including accounting, human resources,

¹ 48 CFR, part 31, Contract Cost Principles and Procedures.

² Section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P.L. No. 108-173.

³ TrailBlazer also processed claims for Texas. CMS terminated TrailBlazer's Medicare Part B carrier contract for Texas effective June 13, 2008, and requested that we audit termination costs that TrailBlazer claimed for its Part B carrier contract for Virginia, Maryland, Delaware, and the District of Columbia, but not Texas.

legal, and general corporate administration. Because TrailBlazer is no longer in business, we are addressing the report findings and recommendations to BlueCross.

HOW WE CONDUCTED THIS REVIEW

Our review covered \$3,962,920 in Medicare Part B termination costs that TrailBlazer claimed from July 2008 through March 2012. TrailBlazer claimed costs for building lease termination, asset disposal, severance pay, personnel, termination of service and maintenance contracts, and other miscellaneous costs. We determined the allowability of the termination costs that TrailBlazer claimed by tracing claimed cost items to supporting documentation and reviewed TrailBlazer's severance costs to ensure that TrailBlazer claimed severance only for employees eligible under the contract.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

See Appendix A for the details of our audit scope and methodology.

FINDINGS

Of the \$3,962,920 in Medicare Part B termination costs that we reviewed, \$2,666,455 was reasonable, allocable, and otherwise allowable in accordance with part 31 of the FAR and the Medicare contract. The remaining \$1,296,465 consisted of \$137,927 in unsupported costs and travel costs in excess of the allowable per diem rates and \$1,158,538 in potentially unallowable termination costs for severance pay.

TrailBlazer claimed the unsupported costs and travel costs in excess of allowable per diem rates because it did not have adequate internal control procedures to ensure that it claimed costs in accordance with the regulations set forth in the FAR and with the terms of the Medicare contract.

TRAILBLAZER CLAIMED UNALLOWABLE COSTS

TrailBlazer Claimed Unsupported Costs

A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in the FAR 31.2 and in agency supplements (FAR 31.201-2(d)). The contracting officer may disallow all or part of a claimed cost that is inadequately supported.

In addition, the contract between TrailBlazer and CMS required the contractor to maintain records and provide such access to them as the Secretary of Health and Human Services finds

necessary to assure the correctness and verification of the information necessary for the administration of the contract.⁴

TrailBlazer could not provide documentation to support \$137,820 in costs claimed for asset disposal, moving and rearranging, termination of service and maintenance contracts, personnel, and other miscellaneous items.

TrailBlazer Claimed Travel Costs That Exceeded Allowable Per Diem Rates

Costs incurred by contractor personnel on official company business are allowable, subject to certain limitations. Costs incurred for lodging, meals, and incidental expenses are considered to be reasonable and allowable only to the extent that they do not exceed the maximum per diem rates in effect at the time of travel, as set forth in the Federal Travel Regulations for travel in the contiguous United States (FAR 31.205-46(a)(2)(i)).

TrailBlazer claimed \$107 in travel costs that exceeded the allowable per diem rates.⁵ The individual traveled to Baltimore, Maryland, for four nights and stayed in a hotel with a nightly rate that exceeded the allowable per diem rate. In addition, the individual's meals and incidental expenses exceeded the allowable per diem amount for the trip.

Lack of Adequate Internal Controls

TrailBlazer claimed the unsupported costs and travel costs in excess of allowable per diem rates because it did not have adequate internal control procedures to ensure that it claimed costs in accordance with the regulations for determining the allowability of contract costs set forth in the FAR and the Medicare contract.

TRAILBLAZER CLAIMED POTENTIALLY UNALLOWABLE SEVERANCE COSTS

A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to the Government contract if it is incurred specifically for the contract or benefits both the contract and other work but can be distributed to them in reasonable proportion to the benefits received, or is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown (FAR 31.201-4).

For "abnormal" or "mass" severance pay, as opposed to "normal turnover" severance payments, the FAR provides that the Government will participate "to the extent of its fair share" (FAR 31.205-6(g)(5)).

Moreover, a contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in

⁴ Section I, Article II, Functions to be Performed by the Carrier, paragraph H.

⁵ TrailBlazer stated that it was their intent to comply with the per diem rates.

FAR 31.2 and in agency supplements (FAR 31.201-2(d)). The contracting officer may disallow all or part of a claimed cost that is inadequately supported.

Finally, TrailBlazer's contract states that "[a]ll direct and indirect costs which relate to the contractor's non-Medicare business and do not contribute to the Medicare agreement/contract" are unallowable (Appendix B, § XV, paragraph A).

TrailBlazer claimed \$1,158,538 in reimbursement for employee severance costs. TrailBlazer based its claim for severance reimbursement for all employees on the total years of their service with TrailBlazer. However, some of these employees worked for TrailBlazer's private lines of business as well as Medicare. This method provided an inequitable allocation of costs to Medicare.

TrailBlazer should have based the severance costs charged to Medicare only on those years that the employees worked on TrailBlazer's Medicare line of business. The remainder of the employees' severance costs should have been charged to TrailBlazer's private lines of business, as appropriate. However, TrailBlazer's accounting system was unable to calculate the years of service an employee worked on TrailBlazer's private lines of business. As a result, we are setting aside \$1,158,538 for CMS to determine whether it was allowable.

RECOMMENDATIONS

We recommend that BlueCross:

- refund to the Federal Government \$137,927 for unsupported costs and travel costs and
- work with CMS to determine the allowability of \$1,158,538 in termination costs for severance pay that we set aside and refund to the Federal Government any amount determined to be unallowable.

BLUECROSS BLUESHIELD OF SOUTH CAROLINA COMMENTS

In its comments on our draft report, BlueCross concurred with our recommendations. BlueCross's comments are included in their entirety as Appendix B.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our review covered \$3,962,920 in Medicare Part B termination costs that TrailBlazer claimed from July 2008 through March 2012. TrailBlazer claimed costs for building lease termination, asset disposal, severance pay, personnel, termination of service and maintenance contracts, and other miscellaneous costs.

Our objective did not require us to review TrailBlazer's overall internal control structure. We limited our review to obtaining an understanding of TrailBlazer's procedures for identifying and reporting cost claims to CMS.

We conducted our audit work from May 2013 through February 2014.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Medicare laws, regulations, and guidelines, including part 31 of the FAR and the Medicare contract provisions;
- reviewed TrailBlazer's policies and procedures, including its severance policy;
- interviewed TrailBlazer officials to obtain an understanding of how TrailBlazer claimed termination costs;
- determined the allowability of the termination costs that TrailBlazer claimed for the building lease termination, asset disposal, personnel, termination of service and maintenance contracts, and other miscellaneous costs by tracing claimed cost items to supporting documentation, including invoices, accounting reports, and payroll records;
- reviewed TrailBlazer's severance costs to ensure that TrailBlazer claimed severance only for employees eligible under the contract; and
- discussed the results of our audit with BlueCross officials.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX B: BLUECROSS BLUESHIELD OF SOUTH CAROLINA COMMENTS



PO BOX 100134 | COLUMBIA, SC 29202-3134 | PALMETTOGBA.COM | ISO 9001

JOE WRIGHT
Vice President and CFO

August 20, 2014

Ms. Patricia Wheeler
Regional Inspector General
For Audit Services
Centers for Medicare and Medicaid Services
1100 Commerce Street, Room 632
Dallas, Texas 75242

RE: Audit Report Number: A-06-13-00017

Dear Ms. Wheeler:

We are responding to the draft report dated July 22, 2014 entitled "TrailBlazer Health Enterprises, LLC, Claimed Unallowable Medicare Part B Termination Costs" for the FY July 2008 thru March 2012.

The audit contained the following recommendations with which we concur on behalf of TrailBlazer Enterprises, LLC:

- Refund to the Federal Government \$137,927 of unsupported costs and travel costs and
- Work with CMS to determine the allowability of \$1,158,538 in termination costs for severance pay that was set aside and refund to the Federal Government any amount determined to be unallowable.

If you have any questions, please feel free to contact me at 803-763-5544.

Sincerely,

/s/

cc: Bruce Hughes, BCBSSC
Louis McElveen, BCBSSC
Mark Wimple, OIG