



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

Region VII
601 East 12th Street
Room 0429
Kansas City, Missouri 64106

October 13, 2009

Report Number: A-07-09-00298

Mr. Brian Fitzpatrick
Director Internal Audit
Blue Cross Blue Shield of Montana
404 Fuller Avenue
Helena, Montana 59604

Dear Mr. Fitzpatrick:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Postretirement Benefit Costs Claimed for Medicare Reimbursement by Blue Cross Blue Shield of Montana for Fiscal Years 1987 Through 2007." We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, or contact Jenenne Tambke, Audit Manager, at (573) 893-8338, extension 21, or through email at Jenenne.Tambke@oig.hhs.gov. Please refer to report number A-07-09-00298 in all correspondence.

Sincerely,

/Patrick J. Cogley/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Deborah Taylor
Acting Director
Office of Financial Management
Centers for Medicare & Medicaid Services
Mail Stop C3-01-24
7500 Security Boulevard
Baltimore, Maryland 21244-1850

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF POSTRETIREMENT
BENEFIT COSTS CLAIMED FOR
MEDICARE REIMBURSEMENT BY
BLUE CROSS BLUE SHIELD OF
MONTANA FOR FISCAL YEARS
1987 THROUGH 2007**



Daniel R. Levinson
Inspector General

October 2009
A-07-09-00298

Office of Inspector General

<http://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

BACKGROUND

Blue Cross Blue Shield of Montana (Montana) administered Medicare Part A and Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated November 30, 2006.

Montana sponsors a postretirement benefit (PRB) plan providing a health benefit for its retirees and their dependents. Montana claimed PRB costs for Federal reimbursement on a pay-as-you-go basis.

CMS reimburses a portion of its contractors' PRB costs. In claiming PRB costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation (FAR) and applicable Cost Accounting Standards as required by the Medicare contracts.

Following the close of each fiscal year (FY), Montana submitted a Final Administrative Cost Proposal (FACP) to CMS reporting the administrative costs of performing Medicare functions during the year. The PRB cost is part of the administrative cost of performing Medicare functions and, as such, is claimed on each FY's FACP. In addition, Montana executed closing agreements with CMS for the purpose of establishing a final settlement of administrative costs claimed on the FACPs.

Montana did not always claim PRB costs. However, beginning in FY 2004, Montana claimed PRB costs on its FACPs. Additionally, on April 23, 2008, Montana submitted a separate voucher claim for additional pay-as-you-go PRB costs associated with FYs 1987 through 2007.

OBJECTIVE

Our objective was to determine the allowability of PRB costs that Montana claimed for Medicare reimbursement on a pay-as-you-go basis for FYs 1987 through 2007.

SUMMARY OF FINDING

Montana claimed some unallowable Medicare PRB costs for FYs 1987 through 2007. In total, Montana claimed \$502,150 of PRB costs for Medicare reimbursement; however, allowable Medicare PRB costs were \$388,126. Montana claimed \$114,024 of unallowable PRB costs for FYs 1987 through 2007 because its separate voucher claim incorrectly requested reimbursement for years for which executed closing agreements between CMS and Montana had already finalized PRB costs.

RECOMMENDATION

We recommend that Montana revise its separate voucher claim to reduce claimed pay-as-you-go PRB costs by \$114,024.

AUDITEE COMMENTS

In written comments on our draft report, Montana concurred with our recommendation. Montana's comments are included in their entirety in the Appendix.

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Glossary of Abbreviations and Acronyms

CAS	Cost Accounting Standards
CMS	Centers for Medicare & Medicaid Services
FACP	Final Administrative Cost Proposal
FAR	Federal Acquisition Regulation
FY	fiscal year
Montana	Blue Cross Blue Shield of Montana
PRB	postretirement benefit

INTRODUCTION

BACKGROUND

Montana and Medicare

Blue Cross Blue Shield of Montana (Montana) administered Medicare Part A and Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated November 30, 2006.

Montana sponsors a postretirement benefit (PRB) plan providing a health benefit for its retirees and their dependents. Montana claimed PRB costs for Federal reimbursement on a pay-as-you-go basis.

CMS reimburses a portion of its contractors' PRB costs. In claiming PRB costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation (FAR) and applicable Cost Accounting Standards as required by the Medicare contracts.

Following the close of each fiscal year (FY), Montana submitted a Final Administrative Cost Proposal (FACP) to CMS reporting the administrative costs of performing Medicare functions during the year. The PRB cost is part of the administrative cost of performing Medicare functions and, as such, is claimed on each FY's FACP. In addition, Montana executed closing agreements with CMS for the purpose of establishing a final settlement of administrative costs claimed on the FACPs.

Montana's Voucher Request To Claim Additional Postretirement Benefit Costs

On April 23, 2008, citing the fact that FACP closing agreements with CMS had not finalized the prior year's PRB costs, Montana submitted a separate voucher claim for additional PRB costs. This claim was associated with pay-as-you-go PRB costs for FYs 1987 through 2007.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine the allowability of PRB costs that Montana claimed for Medicare reimbursement on a pay-as-you-go basis for FYs 1987 through 2007.

Scope

We reviewed \$502,150 of PRB costs that Montana claimed for Medicare reimbursement on its FACPs and on the separate voucher claim for PRB costs associated with FYs 1987 through 2007 that Montana submitted on April 23, 2008.¹ Achieving our objective did not require that we

¹As a result of executed closing agreements between CMS and Montana for FYs 1987 through 1989 and 1998 through 2001, PRB costs for those FYs were finalized and are therefore not subject to further review or adjustment.

review Montana's overall internal control structure. However, we reviewed the internal controls related to the pay-as-you-go PRB costs claimed for Medicare reimbursement to ensure that the PRB costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

We performed fieldwork at Montana's office in Helena, Montana, in September 2008.

Methodology

We reviewed applicable Federal requirements. Additionally, we reviewed Montana's FACP's and separate voucher claim to identify the amount of PRB costs claimed for Medicare reimbursement for FYs 1987 through 2007. We also determined the extent to which Montana incurred PRB costs by paying premiums relating to PRB coverage. In performing our review, we used PRB information provided by Montana. We verified the data and used it to calculate the pay-as-you-go PRB costs that were allowable for Medicare reimbursement for FYs 1990 through 1997 and FYs 2002 through 2007.² We followed Montana's approach of considering PRB costs associated with Medicare segment retirees.

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 finding and conclusions based on our audit objective.

FINDING AND RECOMMENDATION

Montana claimed some unallowable Medicare PRB costs for FYs 1987 through 2007. In total, Montana claimed \$502,150 of PRB costs for Medicare reimbursement; however, allowable Medicare PRB costs were \$388,126. Montana claimed \$114,024 of unallowable PRB costs for FYs 1987 through 2007 because its separate voucher claim incorrectly requested reimbursement for years for which executed closing agreements between CMS and Montana had already finalized PRB costs.

FEDERAL REQUIREMENTS

CMS reimburses a portion of the pay-as-you-go PRB costs that contractors charge for their PRB plans. FAR 31.205-6(o)(2)(i) requires that, to be allowable for Medicare reimbursement, pay-as-you-go PRB costs be assigned to the period in which the benefits are actually provided, or when the costs are paid to an insurer, provider, or other recipient for current year benefits or premiums.

CLOSING AGREEMENTS

CMS and Medicare contractors enter into and execute closing agreements for the purpose of establishing a final settlement of administrative costs. Closing agreements can exclude certain costs that are not to be covered by the agreement. Costs excluded from the executed closing

²Through the November 30, 2006, contract termination date.

agreement are held open and are subject to further review and adjustment. However, pursuant to the language in the executed closing agreements, no further claims for administrative costs for the covered FY are allowable if the costs in question are not specifically excluded from the terms of the executed closing agreement.

The executed closing agreements for Montana’s FYs 1987 through 1989 and 1998 through 2001 did not specifically exclude PRB costs from the terms of the agreement. Therefore, these costs were finalized and were therefore not subject to further review or adjustment.

UNALLOWABLE POSTRETIREMENT BENEFIT COSTS CLAIMED

Montana claimed \$114,024 of unallowable Medicare PRB costs for FYs 1987 through 2007. During that period, Montana claimed pay-as-you-go PRB costs of \$502,150 for Medicare reimbursement. Following Montana’s methodology, we calculated the Medicare allowable PRB costs for the FYs for which PRB costs were open and subject to review. Based on the terms of the Medicare contracts, the allowable pay-as-you-go PRB costs for the open FYs during this period totaled \$388,126.

The following table compares allowable pay-as-you-go PRB costs with the PRB costs claimed on Montana’s FACPs and on its separate voucher claim.

Comparison of Allowable PRB Costs and Claimed PRB Costs

Fiscal Year	Medicare PRB Costs		Difference
	Allowable Per Audit	Claimed By Montana	
1990	\$6,990	\$0	\$6,990
1991	10,686	0	10,686
1992	9,654	0	9,654
1993	14,123	0	14,123
1994	25,242	0	25,242
1995	21,711	0	21,711
1996	19,166	0	19,166
1997	18,632	0	18,632
2002	33,775	0	33,775
2003	44,844	0	44,844
2004	54,196	14,221	39,975
2005	57,134	4,288	52,846
2006	61,500	8,562	52,938
2007	10,473	1,647	8,826
Voucher Claim	0	473,432	(473,432)
Total	\$388,126	\$502,150	(\$114,024)

Montana's separate voucher claim for pay-as-you-go PRB costs requested reimbursement for FYs (1987 through 1989 and 1998 through 2001) for which the executed closing agreements between CMS and Montana had already finalized PRB costs. Therefore, PRB costs for these FYs were not subject to further review or adjustment. As a result, Montana claimed \$114,024 of unallowable PRB costs.

RECOMMENDATION

We recommend that Montana revise its separate voucher claim to reduce claimed pay-as-you-go PRB costs by \$114,024.

AUDITEE COMMENTS

In written comments on our draft report, Montana concurred with our recommendation. Montana's comments are included in their entirety in the Appendix.

APPENDIX

APPENDIX: AUDITEE COMMENTS



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PO Box 4309
Helena, Montana 59604
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September 23, 2009

Patrick J. Cogley
Regional Inspector General for Audit Services
Office of Inspector General
Office of Audit Services, Region VII
601 E 12th St, Room 0429
Kansas City MO 64106

RE: Draft OIG Report Number: A-07-09-00298

Dear Mr. Cogley:

BlueCross BlueShield of Montana (BCBSMT) is in receipt of the draft copies of the OIG report entitled "Review of Postretirement Benefit Costs Claimed for Medicare Reimbursement by BCBSMT for Fiscal Years 1987 Through 2007."

In this report, the OIG recommends that BCBSMT revise its voucher claim for the years reviewed to decrease claimed Postretirement Benefit Plan (PRB) costs by \$114,024. This amount primarily represents a PRB costs that were claims in years when the signed closing agreements did not specifically leave PRB costs open for further review.

BCBSMT concurs with this recommendation. A revised voucher will be submitted to CMS for a total allowable amount of \$388,126 upon receipt of the final audit report.

Additionally, we would like to note that we claimed PRB costs for all years prior to 2004 because we were unclear as to CMS' intention in not identifying PRB costs as a closing agreement exclusion for all years. As the OIG noted in the audit report, PRB costs were excluded from the closing agreement for many of the years but in some years they were not. We accept the OIG's interpretation that PRB costs are not open for further review in those years in which they were not specifically excluded from the closing agreements.

We are thankful for the opportunity to respond to the draft report. We also appreciate the professionalism your staff exhibited throughout the audit. If you have any questions about our response, please contact Erin Frisbey, 406-444-8983.

Sincerely,

A handwritten signature in blue ink that reads "Brian Fitzpatrick".

Brian Fitzpatrick
BCBSMT Director Internal Audit