DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

REGION IV
Room 3T41
61 Forsyth Street, S.W.
Atlanta, Georgia 30303-8909

Report Number: A-04-03-02024

APR 21 2003

Mr. Michael Cascone, Jr.
Chairman of the Board and Chief Executive Officer
Blue Cross Blue Shield of Florida
4800 Deerwood Campus Parkway
Jacksonville, Florida 32246-8273

Dear Mr. Cascone:

Enclosed are two copies of the U. S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services (OAS)' final report entitled *Follow Up Review of Administrative Costs Claimed by Blue Cross Blue Shield of Florida for Fiscal Years 1995 Through 1998.*

Final determination as to actions taken on all matters reported will be made by the HHS action official. We request that you respond to the HHS action 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.

In accordance with the principles of the Freedom of Information Act, 5 United States Code 552, as amended by the Public Law 104-231, Office of Inspector General, OAS reports issued to the department's grantees and contractors are made available to members of the press and the general public to the extent information contained therein is not subject to exemptions in the Act which the department chooses to exercise (see 45 Code of Federal Regulations Part 5). As such, within 10 business days after the final report is issued, it will be posted on the World Wide Web at http://oig.hhs.gov/

To facilitate identification, please refer to the report number A-04-03-02024 in all correspondence relating to this report. If you have any questions, please contact me or have your staff contact Peter Barbera at (404) 562-7758.

Sincerely,

Charles J. Curtis

Charles J. Curtis
Regional Inspector General
for Audit Services, Region IV

Enclosures – as stated

Direct Reply to HHS Action Official:

Mr. Dale Kendrick
Associate Regional Administrator
Centers for Medicare and Medicaid Services
Division of Medicare Operations, Region IV
61 Forsyth Street, S.W., Suite 4T20
Atlanta, Georgia 30303

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

FOLLOW UP REVIEW OF ADMINISTRATIVE COSTS CLAIMED BY BLUE CROSS BLUE SHIELD OF FLORIDA FOR FISCAL YEARS 1995 THROUGH 1998

JANET REHNQUIST
Inspector General

APRIL 2003
A-04-03-02024

Notices

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In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR Part 5.)

OAS FINDINGS AND OPINIONS

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

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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61 Forsyth Street, S.W., Suite 3T41
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April 21, 2003

Report Number: A-04-03-02024

Mr. Michael Cascone, Jr.
Chairman of the Board and Chief Executive Officer
Blue Cross Blue Shield of Florida
4800 Deerwood Campus Parkway
Jacksonville, Florida 32246-8273

Dear Mr. Cascone:

This final report provides you with the results of our follow-up review of $104.8 million of administrative costs set-aside in a prior audit of costs claimed by Blue Cross & Blue Shield of Florida (Contractor) during the period from fiscal years (FY) 1995 through 1998. The objective of this audit was to review the records and supporting documentation relating to these costs and to determine if the costs were reasonable, allocable and allowable for Medicare reimbursement.

EXECUTIVE SUMMARY

The Contractor was able to support the $104,836,580 in costs previously set-aside in our earlier audit (report number A-04-99-05561, issued in July 2002). We found the Contractor to be much more responsive to our audit requests for supporting documentation. The Contractor provided the requested information in a timely manner, the information was clear and concise, and the necessary documents were provided to support the costs set aside. We were able to follow costs through the Contractor's cost allocation system and determine whether the costs were allocable and allowable. The Contractor adequately supported the basis for allocating costs between Medicare and its other lines of business. For the most part, the FY 1998 costs we reviewed were adequately supported, their allocation to Medicare was reasonable, and the costs were considered allowable. We found certain Return on Investment (ROI) costs claimed to be unallowable for reimbursement ($1,277,247). However, we also concurred with the Contractor's revised claim for additional ROI reimbursement totaling $1,433,237.

Additionally, information presented by the Contractor about the method of cost allocation in the prior years (FY 1995-1997) provided assurance that we could apply our FY 1998 results to the prior years. Therefore we recommend that $104,992,570 be allowed for Medicare reimbursement purposes. This amount represents the original amount set-aside of $104,836,580 less $1,277,247 for non-allowable ROI costs plus $1,433,237 for additional allowable ROI costs.

During our review two other matters came to our attention that warrant the Contracting Officer's consideration. First, while the Contractor adequately supported the FY 1998 costs in our review, we observed that this was not easily attained. We believe the Contractor needs to improve its procedures for supporting administrative costs charged to Medicare so that all costs can be adequately supported at any given time, in the same manner as was accomplished during this review. Second, the Contractor's system contained a programming error that caused certain credits in the general ledger to be transferred into the Contractor's cost allocation system as debits, resulting in erroneous cost allocations to Medicare. We did not fully develop this issue because it was outside the scope of our review. However, the Contractor provided us with documentation indicating that the programming error began in January 1996 and was corrected in August of 1997. The Contractor informed us that during this period, approximately $96,000 was erroneously reported for Medicare reimbursement.

We suggest that the Contractor:

- improve its procedures for documenting and supporting all administrative costs charged to Medicare; and

- provide evidence to the Centers for Medicare and Medicaid Services (CMS) that it has corrected the programming error cited above and revise its claim for reimbursement as necessary.

In responding to our draft report, the Contractor disagreed with our recommended adjustment pertaining to ROI. The Contractor believes the $1.2 million, which the OIG considers unallowable, is appropriate under the contract. The Contractor responded positively to our two suggestions regarding procedural improvements and evidence for the correction of the programming error. The Contractor's complete response is included as an appendix.

BACKGROUND

Medicare provides insurance to people age 65 and over, those who have permanent kidney failure, and certain people with disabilities. Medicare coverage is split into Part A and Part B. Medicare Part A helps pay for care in hospitals, skilled nursing facilities, hospice, and some home health care. Medicare Part B helps pay for doctors, outpatient hospital care, and some other medical services that Part A does not cover, such as the services of physical and occupational therapists, and other health services.[1]

[1] For more information on Medicare, see the Medicare web page at **http://www.medicare.gov/basics/whatis.asp**

The CMS administers the Medicare program by contracting with private organizations, usually insurance companies, to process and pay claims for services provided to Medicare beneficiaries.[2] The contracts provide for reimbursement of allowable administrative costs incurred by contractors. Such administrative costs include the direct costs of administering the contract as well as allocations of certain indirect costs of services or assets used by Medicare and other entities. Contractors claim reimbursement of administrative costs through submission to CMS of a Final Administrative Cost Report (FACP).

The Contractor has contracted with CMS as a fiscal intermediary (FI) and carrier to process and pay Medicare Part A and Part B fee-for-service claims in the State of Florida, as well as performing related services such as provider education and the Medicare Integrity Program.[3] The Contractor also contracts with CMS as a Common Working File (CWF)[4] host site. For the period October 1, 1994 through September 30, 1998 (fiscal years (FY) 1995 through 1998), the Contractor claimed for reimbursement total administrative costs of $371,911,540 as follows:

FY	1995	1996	1997	1998	Total
Med A	$16,172,195	$16,733,337	$19,810,152	$19,753,235	$72,468,919
Med B	$75,885,960	$78,001,589	$71,653,898	$73,901,174	$299,442,621
Total	$92,058,155	$94,734,926	$91,464,050	$93,654,409	$371,911,540

Recap of Prior Audit Results

The Office of Inspector General (OIG) auditors performed an administrative cost audit at the Contractor for costs claimed for FYs 1995 through 1998 (CIN: A-04-99-05561). The findings of this report stated that the auditors were unable to obtain reasonable assurance that the Contractor's indirect cost allocations to Medicare, as well as some of the direct costs charged to Medicare for FY 1998 were allowable. As a result, the issued report identified $5,158,255 of unallowable charges to the Medicare program and set-aside $104,836,580 for CMS resolution.

Of the $104,836,580 in set-aside costs, $95,833,029 was set-aside because of a lack of supporting documentation, which negated our ability to gain reasonable assurance that costs were properly stated and allowable. These costs were as follows:

- $39,500,384 of non-chargeback indirect costs;
- $49,194,976 of chargeback costs; and
- $7,137,670 of ROI costs.

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[2] The CMS is an agency of the Department of Health and Human Services. For more information on CMS, see its web page at **http://CMSgov/medicare/incardir.htm.**

[3] The Contractor established First Coast Service Options (FCSO) as a wholly owned subsidiary to administer its Medicare fee-for-service contracts. The FCSO began operations on January 1, 1999. The Contractor has a pending request to CMS for notation of these contracts to FCSO.

[4] The CWF is a claims validation system that verifies Medicare eligibility at the time that the bill is submitted for payment. Eligibility must be determined prior to payment.

The remaining costs were set-aside for different reasons and represent the following:

- $7,646,165 of Section 208 Funding issues;
- $680,044 of an FACP adjustment; and
- $677,342 of executive compensation.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this audit was to review the records and supporting documentation gathered by the Contractor relating to the $104.8 million of costs set-aside in the prior audit and determine if the costs were reasonable, allocable and allowable for Medicare reimbursement.

Our audit covered the period of October 1, 1994 through September 30, 1998 and was conducted in accordance with generally accepted government auditing standards.

In performing this second audit, our approach (with concurrence from the Contractor and CMS officials) was consistent with the initial approach. We selected FY 1998 costs for review from costs which were set-aside in our original audit. If possible, we intended to apply the results of our FY 1998 review to the prior year's set-aside costs.

Set-aside costs in our review were classified as follows:

Classification of Costs	FY 1998	FYs 1995-1997	Total
Non-Chargeback Indirect	$ 7,567,934	$31,932,450	$39,500,384
Chargeback Indirect	11,305,037	37,889,939	49,194,976
Return on Investment (ROI)	1,228,398	5,909,272	7,137,670
Section 208 Funding	7,646,165	0	7,646,165
Other Direct (FACP Adjust.)	680,044	0	680,044
Executive Compensation	216,408	460,934	677,342
Total	$28,643,986	$76,192,595	$104,836,581

We provided assistance to CMS in defining an audit protocol for resolving the set-aside costs. We suggested costs for review, applicable time periods, and described the supporting documentation needed to assess the allowability of the set-aside costs. The CMS incorporated these requirements into a letter to the Contractor dated September 23, 2002. The CMS gave the Contractor a time period for gathering the requested documentation. On November 12, 2002, an OIG auditor visited the Contractor to assess the adequacy of the supporting documentation gathered by the Contractor. The Contractor had addressed the costs and had multiple binders of documentation ready for review. The binders contained detailed documentation of the costs and their process for distributing the costs through the accounting system, from the general ledger to the allocation system, and to the FACP. In addition to the hard copy of documentation, the Contractor:

- included invoices that totaled at least 10 percent of the costs for each department to further substantiate the costs;
- provided a review of the Management Science of America (MSA) Cost Allocation System, utilized prior to 1997;
- provided a review of the current allocation system ROSA/Cost For Pricing (CFP), 1997 to the present; and
- demonstrated the consistency between the two allocation systems.

Based on the preliminary assessment, OIG auditors began fieldwork in December 2002. The extent of our audit efforts relative to each category of set-aside costs is described below.

Non-Chargeback Indirect Costs - $39,500,384

Our review of non-chargeback indirect costs was based on a judgmental sample of approximately 10 percent of total costs in each of the following cost centers:

- 032 - Legal Professionals
- 436 - Recruitment/Relocation
- 916 - Safety and Security
- 986 - Outgoing Mail Broadway

During our review, the Contractor documented the allocation and flow of these costs through their accounting system using the following reports or records:

- General Ledger
- Unallocated Detail Expense Report - Budget Dollars
- Account Control Number (ACN) Report - Budget Dollars
- Cost Control Sheet by Department
- Residual Report
- PowerPlay Reports
- From To and To From Reports
- FACP/IER (Interim Expense Report)

These reports provided the necessary information for us to determine:

- the nature of costs, both actual and budget;
- how costs were grouped by financial codes and ACNs;
- the method of department cost allocation (ROSA);
- the transition from budgeted costs to actual (residual) costs being claimed; and
- the costs allocated in each layer of ROSA from ACN costs to Medicare Part A and Part B reimbursable costs claimed on the FACP.

Chargeback Indirect Costs - $49,194,976

Our review of chargeback indirect costs was based on a judgmental sample of approximately 10 percent of total costs in each of the following cost centers:

- 811 - Network Development
- 855 - PC Equipment
- 873 - Software Support
- 909 - Real Estate & Facilities

As a part of our review, we requested the necessary documentation to determine the allowability as well as the allocability of the chargeback costs. We reviewed processes as well as records. Our review included analysis of documentation that would:

- show that a particular cost center supported Medicare functions;
- tie the invoice and journal entries to the unallocated detail report amounts to provide supporting documentation for allocated costs;
- support how costs were allocated from the ACN (Pools for Account Grouping) to the recipient cost center;
- provide supporting details for all costs allocated to the recipient cost center, and
- validate the percentage utilized to calculate the cost allocation to a recipient and the data used for the calculation.

We also obtained invoices for two additional cost centers; cost center 806 - Computer Equipment and cost center 855 - PC Equipment, and tested costs booked in August and September 1998. We also reviewed the tax statements for cost center 909 - Real Estate & Facilities, to assess the support for tax expense within this account.

Return on Investment - $7,137,670

In order to ensure that ROI costs were reasonably stated and allocated to Medicare in a fair and equitable method, we:

- tested the types of assets reported and noted that land had been claimed;
- verified the undepreciated asset balances claimed;
- analyzed the percentages reducing the gross enterprise assets to Medicare's usage percentage;
- tested the return on investments computed;
- verified the calculations footings and cross-footings;
- verified the common stock asset balances and related income and expenses;
- verified the portfolio rates of return;
- reviewed two types of gains for reasonableness and proper reporting (capital distributions and gains on common stock); and

- received a legal opinion from the Office of Counsel for the Inspector General (OCIG) concerning the inclusion of land in the computation of ROI.

Section 208 Costs - $7,646,165

To determine that Section 208 funding costs were reasonably stated, were reported in accordance with CMS instructions, and were properly claimed for Medicare reimbursement, we:

- determined that the Contractor had seven Section 208 funding projects approved and in process during FY 1998. These projects were completed in subsequent FYs;
- reviewed letters to the Contractor from CMS dated October 10, 1998 and November 13, 1998, which provided instructions on how to report the costs involved with these projects;
- traced selected costs to original invoices ensuring that the costs were properly stated and within the budgeted amount for a specific project; and
- verified that costs incurred in FY 1999 and reported on the FY 1998 FACP were all properly removed from the FY 1999 FACP.

Other Direct Costs (FACP Adjustments) - $680,044

To validate the allowability and propriety of this cost we:

- reviewed documentation supporting that the cost was related to a Section 208 funding project;
- reviewed the letter dated November 13, 1998 from CMS to the Contractor that contained reporting instructions for these costs;
- reviewed the invoice to ensure that the cost was properly stated and within the budgeted amount for this project; and
- verified that this cost, which was incurred in FY 1999 and reported on the FY 1998 FACP, was properly removed from the FY 1999 FACP.

Executive Compensation - $677,342

In order to ensure that the executive compensation cap was not applicable to FY 1998 we:

- reviewed various documents including the original contract, Appendix B of the contract, and Part 31 of the Federal Acquisition Regulation;
- reviewed the Contractor's executive compensation position paper;
- consulted Public Law 104-201 Section 809, 62 Federal Register 269 dated January 2, 1997, Public Law 105-85 Section 808, 62 Federal Register 9066 dated February 23, 1998, the Court Case General Dynamics Corp. vs. United States No. 99-45C, 99-865C, 47 Fed. Cl. 514 (2000), 48 Code of Federal Regulations (CFR) Part 31 Section 205.6; and
- considered a legal determination made by the OCIG.

We conducted our review at the Contractor's offices in Jacksonville, Florida during December 2002. We held a meeting with Contractor and CMS officials to discuss our tentative results and to highlight the level of cooperation the audit team received from the Contractor during this review.

RESULTS

The Contractor was able to support the $104,836,580 in costs previously set-aside in our earlier audit. The Contractor responded positively to our requests for supporting documentation and provided knowledgeable support staff to assist us in our review. We were able to follow costs through the Contractor's cost allocation system and determine whether the costs were allocable and allowable. The Contractor adequately supported the basis for allocating costs between Medicare and its other lines of business. For the most part, the FY 1998 costs we reviewed were adequately supported, their allocation to Medicare was reasonable, and the costs were considered allowable.

We found certain ROI costs claimed to be unallowable for reimbursement ($1,277,247). However, we also concurred with the Contractor's revised claim for additional ROI reimbursement totaling $1,433,237 as discussed below.

Additionally, information presented by the Contractor about the method of cost allocation in the prior years (FY 1995-1997) provided assurance that we could apply our FY 1998 results to the prior years. Therefore, we consider $104,992,570 to be allowable for Medicare reimbursement purposes. This amount represents the original amount set-aside of $104,836,580 less $1,277,247 considered unallowable for ROI reimbursement, plus $1,433,237 in additional allowable ROI costs.

During our review two other matters came to our attention that warrant consideration by the CMS Contracting Officer. First, while the Contractor adequately supported the FY 1998 costs in our review, we observed that this was not easily attained. We believe the Contractor needs to improve its procedures for supporting administrative costs charged to Medicare so that all costs can be adequately supported at any given time. Second, the Contractor's system contained a programming error that caused certain credits in the general ledger to be transferred into its cost system as debits, resulting in erroneous cost allocations to Medicare. The net effect of this error, before it was detected and corrected by the Contractor was $96,000. The Contractor has stated that the system correction was made in August 1997.

The following sections provide more details on the results of our review.

RETURN ON INVESTMENT

The Contractor provided access to records and the necessary supporting documentation to adequately support the ROI costs. We were able to validate the costs previously set aside and approve additional costs for reimbursement. While we identified some unallowable costs claimed, overall the allowable ROI for the 4-year audit period should be $7,293,660 instead of the original amount claimed of $7,137,670.

In the original audit, auditors requested supporting workpapers from the Contractor to document the ROI computation, the undepreciated asset basis, the portfolio rate of return, and the costs claimed for the periods in question. The Contractor did not provide the information. Consequently, the ROI costs were set aside for a final determination by CMS.

In this current review, the Contractor supplied all requested documentation in a timely manner and provided experienced personnel to answer all questions. Moreover, the Contractor provided us with a revised ROI computation, which included some material changes compared to the original amount claimed on the 1998 FACP.

In the current ROI computation, the Contractor revised the undepreciated asset basis to include a Deerwood building (DCC) that was erroneously excluded from the asset basis. During FY 1998 the building was on the records as construction in progress (CIP), a classification that is excluded from the asset basis. However, the building was later found to be a booked asset being depreciated during FY 1998. The Contractor provided evidence to support that the building was placed in service before the 1998 FACP reporting period.

The Contractor also revised its portfolio rate of return used in the original calculation for several months in order to properly match the rate to supporting documentation. The revisions reflected transactions made by the Contractor, such as investment payouts or stock disposals.

The Contractor included the basis for land in its computations. The Contractor cited Appendix B Section X of their intermediary/carrier contract with CMS and 48 CFR 9904.414 as the basis for including land in its computation. The Contractor believes that reimbursement of their cost of money (ROI) should include land because it was purchased as part of the on-going operation of their business, the same as any other asset, and should therefore be treated the same for Medicare ROI reimbursement purposes.

By including the asset basis of land in the computation of reimbursable ROI the Contractor was effectively claiming annual depreciation/amortization costs on land. We take exception with the Contractor's rationale and claim for reimbursement of land. The basis for our exception lies in 57 Federal Register 43906-01 (September 23, 1992) which provides that:

> *"The Medicare program has never allowed depreciated expense on land. This is consistent with Generally Accepted Accounting Principles that recognize land as a permanent asset, not subject to physical wear and tear…Medicare does recognize certain capital costs related to land. Medicare recognizes land rental (or lease) costs, interest expense on the purchase of land…There is nothing in the Congressional language of Section 1861(v)(1) or 1902(a)(13) of the act to suggest that Medicare should recognize the depreciation or amortization of land costs."*

Moreover, we believe the language cited by the Contractor in its contract with CMS is consistent with the above regulations and supports our position rather than the Contractor's. The contract terms cited by the Contractor address the *rental cost* of land and does not refer to land owned by the Contractor.

Since the land in question is owned and does not generate rental or lease costs, we can find no basis to allow the cost of land in the claim for ROI. Therefore, we are excluding the cost of land from the ROI computations. Our adjustments to the ROI computations create the following financial impact on the amount originally claimed:

Fiscal Year	**Claimed ROI**	**Deduct Land**	**Add DCC & Rate Changes, Net Effect**	**Revised ROI**
1998	$1,228,398	($219,481)	$1,433,237	$2,442,154
1997	1,736,832	(310,895)	0	1,425,937
1996	2,277,165	(407,615)	0	1,869,550
1995	1,895,275	(339,256)	0	1,556,019
	$7,137,670	($1,277,247)	$1,433,237	$7,293,660

In summary, we have reduced the ROI claimed by $1,277,247 for land value and increased ROI by $1,433,237 for asset additions and rate changes, resulting in a net increase of $155,990. The total ROI considered allowable is $7,293,660.

Contractor Comments

The Contractor believes the $1,277,247 is an appropriate claim under the contract. As such, the Contractor will continue its discussions on this issue with CMS.

OAS Response

Our position remains unchanged. As stated above, we interpret the contract to be addressing rental costs of land rather than land owned by the Contractor.

OTHER MATTERS

During our review two additional matters came to our attention. We did not fully develop these issues because they were outside the scope of our review. We are disclosing them for consideration by the CMS Contracting Officer and to assure correction by the Contractor.

Contractor's Record Keeping Procedures

We observed that the Contractor has the ability to produce reports, provide invoices to substantiate the origin of costs, and provide the evidence for the allocation methods used to charge costs to Medicare. However, we also observed that, to do so, the Contractor needed extensive time and resources to document the allowability and the allocability of costs claimed. Moreover, our review focused on a very limited time period, two months for the most part. Had our review been expanded to cover a broader period, likewise, the timeframe required by the Contractor to support the costs claimed would have increased causing additional expense to the Contractor as well as the OIG in time, effort and resources. In our opinion the Contractor needs to improve its record keeping procedures so that all administrative costs claimed for Medicare reimbursement will be adequately supported at any given point in time.

The Contractor's current cost allocation system is referred to as CFP/ROSA, or ROSA. The ROSA allocates costs through a sequential multi-tiered allocation process. This system was developed to identify indirect costs associated with the Contractor's government and private contracts, and to allocate those costs in an equitable manner. This allocation system is more sophisticated than its predecessor, referred to as MSA cost allocation system. The MSA was a software package that the Contractor adapted to accommodate its reporting needs. The MSA was a one step allocation process from the general ledger to the receiving cost center.

We obtained an understanding of the cost allocation systems utilized by the Contractor to allocate costs to Medicare during the period from FY 1995 through FY 1998 and found no reasons why we could not extrapolate the results of our FY 1998 cost review to the prior years. The system is not without its flaws. However, this overview provides us with added assurance that we can apply the results of our FY 1998 review to the prior periods.

Prior to this review, the Contractor had not been able to adequately document the flow of costs through its allocation systems. The auditors had no assurance that the costs charged to Medicare were allocable or otherwise allowable. While the Contractor adequately supported the costs selected for this follow-up review, we believe the Contractor's procedures for supporting administrative costs allocated to Medicare can be strengthened.

Programming Error

During our review we were informed of a programming error that caused certain credits in the general ledger to transfer into the MSA cost system as debits. The Contractor discovered this problem while in the process of responding to our audit documentation requests. The problem was noted in their review of December1996 EDP Chargeback costs.

The Contractor provided work papers indicating that the problem began in January 1996 and continued until August 1997 at which time a system change was made to correct the problem. Based on the Contractor's review, the net effect of this programming error was a $96,000 overcharge to the Medicare program. We advised the Contractor to settle this issue with CMS contracting officials since the costs in question did not directly relate to our review.

In summary, we have not conducted a system wide audit of the Contractor's cost allocation process. However, the Contractor has demonstrated how the system operates and how costs can be supported. Through this review we have obtained some assurance that the Contractor's cost allocation system has the ability to reasonably allocation costs. This observation lends credence to our audit approach, which is to apply the results of our FY 1998 review to the prior years in our audit period.

We suggest that the Contractor:

- improve its procedures for documenting and supporting all administrative costs charges to Medicare; and
- provide evidence to CMS that it has corrected the programming error cited above and revise its claim for reimbursement as necessary.

Contractor Comments

The Contractor recognizes the importance of maintaining information to document and support costs claimed. They stated that, "it is our goal to make continuous improvements to existing procedures and, where necessary, add new procedures consistent with the recommendation." Regarding the programming error, the Contractor has provided documentation to CMS to demonstrate that the error was corrected. The Contractor will reduce its claim for reimbursement by $96,000 when settling the FACPs with CMS.

CONCLUSION AND RECOMMENDATIONS

The Contractor was able to support the $104,836,580 in costs previously set-aside in our first audit. The majority of the set-aside costs, $88,695,359, were related to the Contractor's indirect costs, representing chargebacks or costs processed under the ROSA allocation system. Our tests of these costs claimed in FY 1998 found only minor discrepancies. The Contractor was able to demonstrate the origin of these costs and support the basis for their allocation to Medicare. For the most part, we also found the remainder of the set-aside costs to be adequately supported and allowable for reimbursement. Only the ROI costs claimed included some costs that we considered to be unallowable for reimbursement ($1,277,247). We also concurred with the Contractor's revised claim for additional ROI reimbursement totaling $1,433,237. Additionally, information presented by the Contractor about the method of cost allocation in the prior years provided assurance that we could apply the results of our FY 1998 review to the prior years. Overall, we consider $104,992,570 to be allowable for Medicare reimbursement ($104,836,580 - $1,277,247 + $1,433,237).

Sincerely,

Charles J. Curtis
Regional Inspector General
for Audit Services, Region IV

FIRST COAST
SERVICE OPTIONS, INC.

CMS
CENTERS for MEDICARE & MEDICAID SERVICES

A CMS CONTRACTED INTERMEDIARY & CARRIER

MEDICARE

Patricia A. Williams
President and Chief Operating Officer
Patricia.Williams@fcso.com

14 April 2003

Mr. Charles J. Curtis
Regional Inspector General for
Audit Services, Region IV
Office of Inspector General
Office of Audit Services
Room 3T41
61 Forsyth Street, S.W.
Atlanta, GA 30303-8909

Dear Mr. Curtis:

On behalf of Blue Cross Blue Shield of Florida, Inc. (BCBSF) and First Coast Service Options, Inc. (FCSO), I wish to thank you for your help in making the follow-up review of our administrative costs successful. We certainly appreciate the level of effort and commitment demonstrated by you and your staff in helping us to resolve the set aside issues identified in the initial FACP report.

The following are the BCBSF/FCSO responses and comments relative to the recommendations outlined in the draft report:

1. Improve procedures for documenting and supporting all administrative costs charged to Medicare.

   BCBSF/FCSO recognizes the importance of maintaining information to document and support costs claimed. As you noted during your follow-up review, we have already made improvements in this area. Further, it is our goal to make continuous improvements to existing procedures and, where necessary, add new procedures consistent with your recommendation.

2. Provide evidence to CMS that [BCBSF/FCSO] has corrected the programming error [. . .] and revise its claim for reimbursement as necessary.

> *We have provided documentation to CMS to demonstrate that the programming error was corrected. As we indicated when we identified the programming error that caused the $96,000 overcharge to Medicare, we will reduce our final claim for reimbursement by this amount when we settle the FACPs for FYs 1996 and 1997 with CMS.*

Regarding OIG's review and recommendation on the calculation and supplementary materials pertaining to ROI and land, we continue to assert that the $1.2M, which OIG considers unallowable, is appropriate under the contract. As such, we will continue our discussions on this issue with CMS.

I would close by expressing to you how very much we appreciated the willingness of Mr. Barbera and his audit team to work with us in resolving this audit promptly. Also, it is our commitment to continue to demonstrate the same cooperation and provide the same access to data and staff as you observed during this engagement for all future engagements.

Please call Mike Davis, 904-791-8795, or me if you have any questions or comments concerning our response.

Sincerely,

Patricia A. Williams

cc: Michael Cascone, Jr.
Curtis W. Lord
Maria Montilla
Dale Kendrick
Kathy Markman

ACKNOWLEDGMENTS

This report was prepared under the direction of Charles J. Curtis, Regional Inspector General for Audit Services, Region IV. Other principal Office of Audit Services staff who contributed include:

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