Memorandum

Date: SEP 22 1992
From: Bryan B. Mitchell
Principal Deputy Inspector General

Subject: Audit of Medicare Part B Administrative Costs Claimed By Empire Blue Cross Blue Shield (A-02-92-01028)

To: William Toby, Jr.
Acting Administrator
Health Care Financing Administration

This memorandum is to alert you to the issuance on September 24, 1992, of our final audit report. A copy is attached.

Empire Blue Cross Blue Shield (Empire) contracts with the Health Care Financing Administration to serve as a Medicare Part B carrier in New York State (NYS). Under its cost reimbursement contract, Empire services 16 downstate counties. During the period covered by this audit, October 1, 1984 through September 30, 1989, Empire processed approximately 94 million claims, paid about $7 billion in Part B benefits, and claimed around $216 million in administrative costs.

The purpose of our review was to ensure that costs claimed on Empire's Final Administrative Cost Proposals for Fiscal Years 1985 through 1989 were allowable, allocable, and reasonable. We determined that $2,533,711 of the $216,562,200 administrative costs claimed by Empire are unallowable. Most of the unallowable costs ($1,784,611) were NYS assessments on insurance premiums, which were specifically unallowable under Empire's Medicare contract. The balance of unallowable costs consisted of unsupported cost center allocations and other costs not allocable to Medicare. We are recommending a downward financial adjustment totaling $2,533,711.

On August 17, 1992, Empire responded to a draft of this audit report. Empire concurred with our recommended adjustment of $1,784,611 relating to the NYS assessment on insurance premiums. However, they did not concur with the balance of the recommended financial adjustments included in our draft report.
In that regard, we reviewed additional documents provided by Empire after the issuance of our draft report and adjusted our recommendations where appropriate.

For further information, contact:

John B. Tournour
Regional Inspector General
for Audit Services, Region II
(212) 264-4620

Attachment
AUDIT OF MEDICARE PART B
ADMINISTRATIVE COSTS CLAIMED BY
EMPIRE BLUE CROSS BLUE SHIELD

SEPTEMBER 1992   A-02-92-01028
Common Identification Number A-02-92-01028

Ms. Maroa Velez
Corporate Vice-President
Auditing
Empire Blue Cross Blue Shield
622 Third Avenue
New York, New York 10017

Dear Ms. Velez:

This final report provides you with the results of our AUDIT OF MEDICARE PART B ADMINISTRATIVE COSTS CLAIMED BY EMPIRE BLUE CROSS BLUE SHIELD. The purpose of our review was to ensure that costs claimed on Empire Blue Cross Blue Shield's (Empire) Final Administrative Cost Proposals (FACP) for the Fiscal Years (FY) 1985 through 1989 were allowable, allocable, and reasonable.

We determined that $2,533,711 (Exhibit I) of the $216,562,200 (Exhibit II) administrative costs claimed by Empire are unallowable as follows:

- New York State (NYS) assessments of $1,784,611 on insurance premiums related solely to Empire's private lines of business. Even though State assessments on insurance premiums are specifically unallowable under Empire's Medicare contract, Empire included the costs on its FY 1985, 1986, and 1987 FACPs.

- Medicare charges of $469,909 from its Corporate Vice President and General Counsel cost center (0060). Empire was unable to locate any of the documentation supporting its allocation of this cost center to Medicare.

- Medicare charges of $209,142 from its Methods and Procedures II and I cost centers (638 and 640). Empire was unable to locate any of the documentation supporting its allocation of these cost centers to Medicare.

- Charges of $70,049 to non-Medicare related activities.

We are recommending a downward financial adjustment totaling $2,533,711.

On August 17, 1992, Empire responded to a draft of this audit report. Empire concurred with our recommended adjustment of $1,784,611 relating to the NYS assessment on insurance premiums. However, they did not concur with the balance of the recommended financial adjustments included in our draft report. In that regard, we
reviewed additional documents provided by Empire after the issuance of our draft report and adjusted our recommendations where appropriate. Empire’s comments to our draft report, where applicable, have been summarized after the recommendation section of each finding and have been included in their entirety as an Appendix to this report.

**INTRODUCTION**

**Background**

Empire contracts with the Health Care Financing Administration to serve as a Medicare Part B carrier in NYS. Under its cost reimbursement contract, Empire services 16 downstate counties. During the period which this audit covers, October 1, 1984 through September 30, 1989, Empire processed approximately 94 million claims, paid about $7 billion in Part B benefits, and claimed around $216 million in administrative costs.

**Scope of Audit**

Our examination was made in accordance with generally accepted government auditing standards. The objective of the review, which covered the period October 1, 1984 through September 30, 1989, was to determine whether the costs claimed on the FACPs submitted by Empire were allocable in accordance with the Principles of Reimbursement for Administrative Costs and the provisions of part 31 of the Federal Acquisition Regulation.

Since our review was limited in scope, it did not include an evaluation of all internal control systems. However, our review did include an examination of Empire’s system of internal accounting controls and documentation supporting significant expense account charges to Medicare to determine whether the amounts charged to the Medicare program were accurate, allocable, and allowable. We evaluated Empire’s methods of accumulating and allocating costs to Medicare related cost centers. Lastly, in certain indirect cost centers, we evaluated the methods of allocation used to distribute costs to the Medicare line of business.
Other than the issues discussed in the Results of Audit section of this report, we found no instances of noncompliance with applicable laws and regulations. With respect to those items not tested, nothing came to our attention to cause us to believe that the untested items were not in compliance with applicable laws and regulations.

Our field work was performed at the business office of Empire in New York City during the period September 1990 through April 1991 and June 1992 through July 1992.

RESULTS OF AUDIT

State Assessment on Insurance Premiums

During the period October 1, 1984 through September 30, 1987, Empire allocated to Medicare $1,784,611 of assessments paid under the requirements of the NYS insurance law. These assessments, which are based solely on premiums received by Empire from its commercial subscription contracts, are specifically unallowable for reimbursement under Appendix B, section XIA of Empire's Medicare contract.

Recommendation

We recommend a downward financial adjustment of $1,784,611 to the Medicare Part B FACPs as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>$695,982</td>
</tr>
<tr>
<td>1986</td>
<td>$504,082</td>
</tr>
<tr>
<td>1987</td>
<td>$584,547</td>
</tr>
</tbody>
</table>

Total $1,784,611

Empire's Comment

Empire concurred that assessments paid to the NYS insurance department were not allocable to Medicare. However, they contended that related letter of credit drawdowns were not processed. In addition, they stated "...that at no time during this period were Medicare administrative funds drawdown to pay for any portion of the assessment."

Law Department Charges

Our review of cost center 0060, (Corporate Vice President and General Counsel) disclosed that the cost center's employees did not retain any documentation to support the unit's Medicare Part B charges. As a result, we are recommending a downward financial adjustment of $469,909 of costs allowed for FYs 1985 through 1989.
We requested Empire to provide us with documentation supporting the costs charged to Medicare from the law department (cost center 0060). We selected this cost center for examination because of the substantial increases in Medicare charges which were evident during the later years of our audit period.

The charges were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>$30,762</td>
</tr>
<tr>
<td>1986</td>
<td>$42,608</td>
</tr>
<tr>
<td>1987</td>
<td>$89,423</td>
</tr>
<tr>
<td>1988</td>
<td>$113,756</td>
</tr>
<tr>
<td>1989</td>
<td>$193,360</td>
</tr>
</tbody>
</table>

Since the greatest increases in the cost center's charges spanned from FYs 1987 to 1989, we requested time records for those years. In response, we received a copy of a memorandum dated November 6, 1990 from Empire's law department to its internal audit section which stated that periodic surveys documenting allocations of costs to Medicare from FYs 1987 to 1989 were unavailable. Furthermore, timesheets supporting FYs 1985 and 1986 costs had been discarded.

Article XX of Empire's Medicare contract required Empire to retain its documentation supporting its Medicare costs for 3 years after the issuance of a closing agreement and final payment. Since Empire could not provide us documentation of FYs 1985 and 1986 law department charges and could not locate the periodic surveys used to compute FYs 1987 through 1989 costs, we are recommending a downward financial adjustment totaling $469,909, the entire amount included on the FACPs for this cost center.

Recommendation

We recommend a downward financial adjustment of $469,909 to the Medicare Part B FACPs as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>$30,762</td>
</tr>
<tr>
<td>1986</td>
<td>42,608</td>
</tr>
<tr>
<td>1987</td>
<td>89,423</td>
</tr>
<tr>
<td>1988</td>
<td>113,756</td>
</tr>
<tr>
<td>1989</td>
<td>193,360</td>
</tr>
</tbody>
</table>

Total  $469,909

Empire's Comment

Empire concurred that "documentation to support allocations to Medicare of costs incurred in cost center 0060 (Corporate Vice President and General Counsel) was not
available during the audit." However, they contended that the law department performed duties which benefit Medicare, such as reviewing leases, conforming to Equal Employment Opportunity/Affirmative Action requirements and other work. Also, they indicated that after the issuance of our draft report, they provided us with documentation purportedly relating to payments made to their outside counsel, which they contended were included in the costs we recommended for disallowance.

OIG Response

Our review of Empire's law department files, which were provided to us after the issuance of our draft report, indicated that some legal work relating to leases and other matters was performed. However, Empire continued to be unable to provide us with the timesheets. Accordingly, we were unable to determine whether Empire’s allocation of its law department costs was reasonable.

Regarding outside legal fees, although Empire provided certain invoices, we could not determine from the documentation provided whether the amounts indicated on the invoices were paid, or allocated by Empire to the Medicare program. Furthermore, based on the nature of the services rendered, which included legal costs pertaining to a lawsuit involving a Federal agency and legal costs which may pertain to other lines of business, it appears that some of the legal services rendered are not reimbursable under Empire’s Part B contract.

Methods and Procedures (Cost Centers 638 and 640)

Our review of cost centers 638 and 640 (respectively Methods and Procedures II and I) showed that Empire had discarded the documentation supporting its allocation of cost center costs to Medicare. As a result, we are recommending that the $209,142 charged to Medicare Part B from FYs 1985 to 1989 be disallowed.

During our review, we requested Empire to supply us with documentation supporting the costs allocated to Medicare from Methods and Procedures Cost Centers (cost centers 638 and 640). However, Empire only provided us with a memorandum stating, "The Methods and Procedures Departments were disbanded in early 1991. At that time most files and records were destroyed. We have been unable to discover any details to support the SNAP cost allocations to Medicare that you requested."

Article XX of Empire’s Medicare contract states that the carrier must retain its documentation supporting its Medicare costs for three years after the issuance of a closing agreement and final payment. Since Empire could not supply us with support for the Medicare charges from Methods and Procedures, we are recommending that the entire $209,142 charged to Medicare from these cost centers from FYs 1985 to 1989 be disallowed.
Recommendation

We recommend a downward financial adjustment of $209,142 to the Medicare Part B FACPs as follows:

<table>
<thead>
<tr>
<th></th>
<th>Methods and Procedures II</th>
<th>Methods and Procedures I</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cost Center 638</td>
<td>Cost Center 640</td>
<td></td>
</tr>
<tr>
<td>FY 1985</td>
<td>$35,122</td>
<td>$20,842</td>
<td>$55,964</td>
</tr>
<tr>
<td>FY 1986</td>
<td>28,049</td>
<td>10,721</td>
<td>38,770</td>
</tr>
<tr>
<td>FY 1987</td>
<td>22,913</td>
<td>1,497</td>
<td>24,410</td>
</tr>
<tr>
<td>FY 1988</td>
<td>45,168</td>
<td>17,118</td>
<td>62,286</td>
</tr>
<tr>
<td>FY 1989</td>
<td>1,031</td>
<td>26,681</td>
<td>27,712</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$132,283</strong></td>
<td><strong>$76,859</strong></td>
<td><strong>$209,142</strong></td>
</tr>
</tbody>
</table>

Empire's Comment

Empire acknowledged that timesheets supporting their allocations were not available during our audit. However, they indicated that after the issuance of our draft report, they provided us alternative documentation.

OIG Response

We found that the alternative documents provided by Empire subsequent to the issuance of our draft report, were inadequate to provide reasonable assurance of the accuracy of Empire's allocations. The documents provided by Empire consisted of monthly cost center allocation reports which purportedly summarized time allocation reports included on employee timesheets.

Our last two audit reports of Empire's administrative costs (CIN: 02-86-62016) and (ACN: 02-22009) included findings related to Empire's allocation of costs incurred by the Methods and Procedures Cost Center and recommended related downward adjustments of $39,461 and $57,734 respectively. In both reports, those findings involved cost allocation errors resulting from inaccurate timesheets. Therefore, since the timesheets have historically been inaccurate, we have no assurance that summaries of timesheet data during the current period reflect an accurate allocation of time. Accordingly, our recommendation remains the same.

Unallowable Medicare Charges

We noted that Empire included on its Medicare cost reports various expenses related to its non-Medicare business. As a result, we are recommending a downward financial adjustment of $70,049 for FYs 1985 through 1989.
Our examination showed that a total of $53,840 of costs included on the FACPs were incurred by units which performed non-Medicare work such as providing community support, and developing proposals. Costs related to non-Medicare business are unallowable in accordance with Appendix B, section XVA of the Medicare contract which deems unallowable "all...costs which relate to the contractor's non-Medicare business and do not contribute to the Medicare agreement/contract."

We also noted other unallowable charges to Medicare, which included:

- costs applicable of $10,474 to selling and related activities which are unallowable according to Appendix B section XVA.1 of the Medicare contract.
- expenses applicable of $5,276 to subscriber related activities which are deemed unallowable according to Appendix B, section XVA.2 of the Medicare contract.
- contributions of $459 which are unallowable per Appendix B, section XVB of the Medicare contract.

Apparently, these costs were charged to Medicare through oversight, and should not have been included on the FACPs.

Recommendation

We recommend downward financial adjustments totaling $70,049 to the Medicare Part B FACPs submitted for the FYs 1985 through 1989 as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 1985</td>
<td>$0</td>
</tr>
<tr>
<td>FY 1986</td>
<td>15,115</td>
</tr>
<tr>
<td>FY 1987</td>
<td>4,825</td>
</tr>
<tr>
<td>FY 1988</td>
<td>3,738</td>
</tr>
<tr>
<td>FY 1989</td>
<td>46,371</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$70,049</strong></td>
</tr>
</tbody>
</table>

Empire's Comment

Empire contended that some of the cost centers for which we recommended downward adjustments had changed functions over the years and that Medicare related activities had been performed in those cost centers during a portion of our audit period. Additionally, Empire contended that certain other expenses which we recommended for disallowance had actually been manually adjusted out of the costs prior to the preparation of the FACPs.
OIG Response

Although Empire contended that certain cost centers changed functions during our audit period, they did not provide us with adequate documentation supporting that assertion. Likewise, Empire's contention that manual adjustments may have been made prior to completion of the FACPs to delete unallowable charges was also not documented by Empire. Accordingly, we do not believe a change in our recommendation is warranted.

Final determination as to actions to be taken on all matters reported will be made by the Department of Health and Human Services (HHS) official named below. We request that you respond to the recommendations in this report within 30 days from the date of this letter to the HHS official named below, presenting any comments or additional information that you believe may have a bearing on his final decision.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), Office of Inspector General, Office of Audit Services 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 above common identification number in all correspondence relating to this report.

Sincerely yours,

John Toumour
Regional Inspector General
for Audit Services

Direct reply to:

Associate Regional Administrator
Division of Medicare
Department of Health and Human Services
26 Federal Plaza - Room 3800
New York, New York 10278
EXHIBITS
EMPIRE BLUE CROSS BLUE SHIELD
SCHEDULE OF RECOMMENDED FINANCIAL ADJUSTMENTS
FOR THE PERIOD
OCTOBER 1, 1984 THROUGH SEPTEMBER 30, 1989

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>State Assessment on Insurance Premiums</td>
<td>$695,982</td>
<td>$504,082</td>
<td>$584,547</td>
<td></td>
<td></td>
<td>$1,784,611</td>
<td>3</td>
</tr>
<tr>
<td>Law Department Charges</td>
<td>30,762</td>
<td>42,608</td>
<td>89,423</td>
<td>$113,756</td>
<td>$193,360</td>
<td>469,909</td>
<td>3</td>
</tr>
<tr>
<td>Methods &amp; Procedures (Cost Centers 638/640)</td>
<td>55,964</td>
<td>38,770</td>
<td>24,410</td>
<td>62,286</td>
<td>27,712</td>
<td>209,142</td>
<td>5</td>
</tr>
<tr>
<td>Unallowable Medicare Charges</td>
<td>-0-</td>
<td>15,115</td>
<td>4,825</td>
<td>3,738</td>
<td>46,371</td>
<td>70,049</td>
<td>6</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$782,708</td>
<td>$600,575</td>
<td>$703,205</td>
<td>$179,780</td>
<td>$267,443</td>
<td>$2,533,711</td>
<td></td>
</tr>
</tbody>
</table>
**EXHIBIT II**

**EMPIRE BLUE CROSS BLUE SHIELD**

**STATEMENT OF ADMINISTRATIVE COSTS CLAIMED**

**FOR THE PERIOD**

**OCTOBER 1, 1984 THROUGH SEPTEMBER 30, 1989**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims Payment</td>
<td>$21,636,078</td>
<td>$22,198,260</td>
<td>$22,584,508</td>
<td>$23,277,966</td>
<td>$28,722,817</td>
<td>$121,419,629</td>
</tr>
<tr>
<td>Reviews &amp; Hearings</td>
<td>5,149,522</td>
<td>5,363,375</td>
<td>4,724,005</td>
<td>6,316,948</td>
<td>4,985,179</td>
<td>26,539,029</td>
</tr>
<tr>
<td>Beneficiary/Phys. Inquir</td>
<td>4,466,648</td>
<td>4,053,899</td>
<td>4,263,472</td>
<td>5,266,818</td>
<td>5,862,835</td>
<td>23,913,672</td>
</tr>
<tr>
<td>Printing Claims Forms</td>
<td>153,487</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>153,487</td>
</tr>
<tr>
<td>Professional Relations</td>
<td>-0-</td>
<td>-0-</td>
<td>-0-</td>
<td>-0-</td>
<td>-0-</td>
<td>389,012</td>
</tr>
<tr>
<td>Medicare Secondary Payer</td>
<td>795,855</td>
<td>1,149,142</td>
<td>1,598,817</td>
<td>2,522,510</td>
<td>2,025,814</td>
<td>8,692,138</td>
</tr>
<tr>
<td>Participating Physician</td>
<td>-0-</td>
<td>-0-</td>
<td>-0-</td>
<td>-0-</td>
<td>-0-</td>
<td>1,238,600</td>
</tr>
<tr>
<td>Physician Fee Freeze</td>
<td>757,975</td>
<td>201,023</td>
<td>505,767</td>
<td>1,274,883</td>
<td>-0-</td>
<td>2,739,648</td>
</tr>
<tr>
<td>Productivity Investments</td>
<td>63,735</td>
<td>130,649</td>
<td>554,565</td>
<td>607,049</td>
<td>1,581,720</td>
<td>2,937,718</td>
</tr>
<tr>
<td>Other</td>
<td>$ 695,982</td>
<td>$ 918,779</td>
<td>$ 960,327</td>
<td>$ 287,800</td>
<td>$ 232,800</td>
<td>$ 3,095,688</td>
</tr>
<tr>
<td>Total Costs Claimed</td>
<td>$37,398,475</td>
<td>$38,126,537</td>
<td>$42,551,595</td>
<td>$45,291,101</td>
<td>$53,094,492</td>
<td>$216,562,200</td>
</tr>
<tr>
<td>Less: Recomm. Adjust.</td>
<td>782,708</td>
<td>600,575</td>
<td>703,205</td>
<td>179,780</td>
<td>267,443</td>
<td>2,333,711</td>
</tr>
<tr>
<td>(Exhibit I)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance</td>
<td>$36,615,767</td>
<td>$37,525,962</td>
<td>$41,848,390</td>
<td>$45,211,321</td>
<td>$52,827,049</td>
<td>$214,028,489</td>
</tr>
</tbody>
</table>
APPENDIX
August 17, 1992

Mr. John Tournour  
Regional Inspector General for Audit Services  
Office of Inspector General  
Department of Health and Human Services  
26 Federal Plaza  
New York, New York 10278

Re: Common Identification Number A-02-92-01028

Dear Mr. Tournour:

This is in response to the draft report of your review of Medicare Part B Administrative Costs Claimed by Empire Blue Cross and Blue Shield for fiscal years 1986 through 1989.

State Assessment on Insurance Premiums

We acknowledge that a portion of assessments we have paid to the New York State Insurance Department pursuant to New York State Insurance Law may not be allocated to Medicare.

It should be noted, however, that at no time during this period were Medicare administrative funds drawn to pay for any portion of the assessment. Accordingly, while you have recommended a downward adjustment of $1,784,611 to the Medicare Part B final administrative cost proposals, this will not result in a balance due to the Secretary.
Law Department Charges

Documentation to support allocations to Medicare of costs incurred in cost center 0060 (Corporate Vice President and General Counsel) was not available during the audit. For this reason, the report recommends a downward adjustment of $469,909 for fiscal years 1985 through 1989.

There was clearly a benefit to the Medicare Part B program from the activities of this department. These activities include the review of contracts and real estate leases, legal work relating to Equal Employment Opportunity/Affirmative Action requirements, and work performed in connection with the referral of potential fraud cases to your office, as well as general corporate legal requirements.

Documentation consisting of staff time and billings from outside counsel was recently provided to the Office of Audit Services. Based on your staff's review of this documentation, we anticipate a favorable adjustment to this finding.

Methods and Procedures

Documentation to support allocations to Medicare of costs incurred in cost centers 0638 and 0640 (Methods and Procedures) was not available during the audit. For this reason, the report recommends a downward adjustment of $209,142 for fiscal years 1985 through 1989.

Documentation in the form of monthly cost allocation reports signed by area management and submitted to the Cost Accounting Department on a regular monthly basis was recently provided to the Office of Audit Services. These reports represent summaries of individual employee time
sheets showing projects they were working on. While we acknowledge that these supporting documents are no longer available, we anticipate a favorable adjustment to this finding based on your staff's review of the documentation provided.

Unallowable Medicare Charges

The audit report recommends a downward adjustment of $154,896 for fiscal years 1985 through 1989 for costs incurred in cost centers or natural accounts which the Office of Audit Services determined were unallowable. The specific cost centers and natural accounts in question were listed in a hand-written schedule which was provided to us on August 4, 1992.

(Empire's comments were deleted because the related finding does not appear in the final report.)

Most of the remainder of the expenses cited in this section of the draft report, totaling $101,023, fall into one of the following categories:

1. A number of the cost centers listed on this schedule were valid Medicare-allocable cost centers during portions of the period covered by the audit, and, in our judgment, are allowable costs. These cost center numbers were subsequently reused for non-Medicare activities, and we believe no allocations to

Mr. John Tournour
August 17, 1992
Page 3
Medicare were made after the time the new activities were established. The costs incurred during the periods prior to the points of reassignment should be reconsidered for allowability.

2. A number of other cost centers represented costs listed on the internal computer reports used by our cost accounting system to accumulate costs by line of business but which we believe were deducted in manual workpapers prepared prior to the filing of the final administrative cost proposal reports.

3. (Empire's comments were deleted because the related finding does not appear in the final report.)

We have requested that these cost centers be reviewed again before a final report is issued.

Revised FACF for Fiscal Year 1987

The draft audit report reflected the originally filed final administrative cost proposal report for fiscal year 1987, totaling $42,435,014. A revised final administrative cost proposal report was filed on July 20, 1988, which reflected an increase of $116,581, for a revised total of $42,551,595. A copy of this report was
provided to the Office of Audit Services. We request that the final audit report be modified to reflect this revised report.

Please call me at 212-476-2332 should you need additional information.

Sincerely,

Marca G. Velez
Corporate Vice President