

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**TRAILBLAZER CLAIMED MEDICARE
PART B ADMINISTRATIVE COSTS IN
ACCORDANCE WITH FEDERAL
REQUIREMENTS**

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Office of Inspector General

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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.

INTRODUCTION

TrailBlazer claimed administrative costs on its final cost proposals in accordance with Federal regulations and applicable guidelines.

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. The contracts with CMS provide for the reimbursement of allowable administrative costs incurred in processing Medicare claims. After the close of each fiscal year (FY), contractors submit a Final Administrative Cost Proposal (cost proposal) reporting Medicare costs. Once CMS accepts the cost proposal, the contractor and CMS negotiate a final settlement of allowable administrative costs.

From October 1, 2008, through March 21, 2011, CMS contracted with TrailBlazer to process Medicare Part B (Part B) claims for Texas, Oklahoma, Colorado, New Mexico, and the Indian Health Service. CMS requested that we perform an audit of the Part B cost proposals that TrailBlazer submitted for this period.

OBJECTIVE

Our objective was to determine whether the administrative costs that TrailBlazer claimed on its cost proposals were reasonable, allowable, and allocable in accordance with part 31 of the Federal Acquisition Regulation (FAR)¹ and the Medicare contract.

BACKGROUND

Title XVIII of the Social Security Act established the Medicare program. 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 performed by the contractors and provide for the reimbursement of allowable administrative costs incurred in the processing of Medicare claims.

Following the close of each FY, contractors submit to CMS a cost proposal which reports the Medicare administrative costs incurred during the year. The cost proposal and supporting data provide the basis for the CMS contracting officer and contractor to negotiate a final settlement of allowable administrative costs. When claiming costs, Medicare contractors must follow cost reimbursement principles contained in part 31 of the FAR and other applicable criteria.

During the audit period, which covered October 1, 2008, through March 21, 2011, CMS contracted with TrailBlazer to serve as a Part B Carrier. TrailBlazer reported Medicare administrative costs totaling \$24,425,018.

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

TrailBlazer, headquartered in Dallas, Texas, is a wholly owned subsidiary of BlueCross BlueShield of South Carolina (BlueCross). BlueCross provided certain management and other operational support services for TrailBlazer, including accounting, financial, human resources, legal, and general corporate administration.

HOW WE CONDUCTED THIS REVIEW

Our audit covered the period October 1, 2008, through March 21, 2011. For this period, TrailBlazer reported final administrative costs to CMS totaling \$24,425,018.

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 the Appendix for the details of our scope and methodology.

RESULTS OF AUDIT

TrailBlazer claimed program administrative costs that were reasonable, allowable, and allocable in accordance with part 31 of the FAR and the Medicare contract.

APPENDIX: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit covered the period October 1, 2008, through March 21, 2011. For this period, TrailBlazer reported final administrative costs to CMS totaling \$24,425,018.

In planning and performing this audit, we reviewed TrailBlazer's internal controls for allocating costs to cost objectives in accordance with the FAR and the Medicare contract. 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 used the latest FACP that we were given for each year as the basis for the final settlement amount of allowable administrative costs.

We conducted our audit work from January through November 2013.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Medicare laws, regulations, and guidelines, including part 31 of the FAR, the *Medicare Financial Management Manual*, chapters 1, 2, and 7, and TrailBlazer's contract with CMS;
- reconciled the cost proposal from October 1, 2008, through March 21, 2011, with TrailBlazer's accounting records;
- performed analytical tests of TrailBlazer's general ledger;
- selected and reviewed a judgmental sample of invoices, expense vouchers and reports, and journal entries;
- interviewed TrailBlazer officials about their cost accumulation processes for cost proposals and gained an understanding of their cost allocation systems;
- reviewed payroll journals, corporate bonus plans, and personnel records; and
- tested costs for allowability, allocability, and reasonableness.

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.