Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF MEDICARE PART A ADMINISTRATIVE COSTS

FISCAL YEARS 1997 – 1999

TRIGON BLUE CROSS BLUE SHIELD

SEPTEMBER 2001
A-03-00-00002

DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL
OFFICE OF AUDIT SERVICES
150 S. INDEPENDENCE MALL WEST
SUITE 316
PHILADELPHIA, PENNSYLVANIA 19106-3499

September 7, 2001

Our Reference: Common Identification Number A-03-00-00002

Mr. Paul Keyser
Vice President, Government Business Group
Trigon Blue Cross Blue Shield
602 South Jefferson Street
Roanoke, Virginia 24011

Dear Mr.Keyser:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services (OAS) final audit report entitled "**REVIEW OF MEDICARE PART A ADMINISTRATIVE COSTS CLAIMED BY TRIGON BLUE CROSS BLUE SHIELD FOR FISCAL YEARS 1997 THROUGH 1999."** A copy of this report will be forwarded to the action official noted below for her review and any action deemed necessary.

Final determination as to actions to be taken on all matters reported will be made by the HHS action official named below. 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 (Public Law 90-23), OIG/OAS reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to the exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5)

To facilitate identification, please refer to Common Identification Number A-03-00-00002 in all correspondence pertaining to this report.

Sincerely yours,

David M. Long

David M. Long
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Patricia Harris, Acting Regional Administrator
Centers for Medicare and Medicaid Services, Region III
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150 S. Independence Mall West
Philadelphia, PA 19106-3499

EXECUTIVE SUMMARY

BACKGROUND

This report presents the results of an Office of Inspector General (OIG) review of administrative costs claimed by Trigon Blue Cross Blue Shield (Trigon) for the administration of the Medicare Part A program for Fiscal Years (FYs) 1997 through 1999 (October 1, 1996 - September 30, 1999). We also reviewed transition and termination costs claimed through April 30, 2000 and Y2K costs claimed subsequent to October 1999. During the period under review, Trigon claimed $48,775,729 in Medicare administrative costs including on-going operations, transition, termination and Y2K costs.

The core business on-going operations, transition and Y2K costs were included in Final Administrative Cost Proposals (FACPs) submitted to the Centers for Medicare and Medicaid Services (CMS), formerly known as the Health Care Financing Administration (HCFA), while the core business termination and data center termination costs were claimed through the termination voucher process. The data center transition costs were claimed through United Government Services (UGS), the succeeding Medicare Part A contractor.

OBJECTIVE

The primary objectives of our review were to determine whether:

- Costs claimed on FACPs for FYs 1997 through 1999 presented fairly, the allowable costs of administration of the Part A program in accordance with (i) Federal Acquisition Regulation (FAR) part 31, (ii) the intermediary manual, and (iii) the Medicare guidelines.

- Termination costs claimed on vouchers and data center transition costs claimed through UGS were allowable, reasonable, allocable, and fully supported under the provisions of applicable Federal regulations, the Medicare contract and subcontract agreement, and other CMS instructions.

SUMMARY OF FINDINGS

We reviewed $39,446,396 of $48,775,729 in administrative costs claimed by Trigon. The OIG reviewed $9,329,333 in Y2K costs claimed by Trigon prior to November 1999 in an earlier report (A-03-99-00039). Of the amount subject to our review, we are recommending a financial adjustment of $3,464,705 because certain costs were unallowable, unreasonable, unallocable or unapproved by CMS. The questioned costs are summarized as follow:

On-going Operations Costs - $70,499

On-going operations costs were those costs Trigon incurred to administer Medicare core business activities such as processing Medicare claims. We questioned costs because Trigon claimed:

- $50,283 in 401K Plan matching contributions on retention bonuses that were either unreasonable or unapproved by CMS.

- $20,216 for inappropriately charged overhead costs that did not benefit the Medicare program.

Core Business Transition Costs - $1,921,778

Core business transition costs were costs Trigon incurred to transfer the Medicare workload to UGS. We questioned costs because Trigon claimed:

- $1,701,678 in retention bonuses that were unallowable for Medicare reimbursement because they were either previously rejected by CMS or were based on incorrect salary bases that made them excessive.

- $16,866 in salaries that were either claimed twice or did not otherwise benefit the Medicare program.

- $128,227 in fringe benefits (primarily social security FICA) on retention bonuses previously rejected by CMS as unreasonable and unnecessary or which were claimed twice or overstated.

- $12,736 for accounting and consulting costs that exceeded the amount approved by HCFA.

- $352 in duplicate travel, telephone and occupancy costs that were claimed both under on-going operations and core business transition activities.

- $61,919 for corporate overhead costs which did not meet Medicare guidelines and were not approved by CMS.

Core Business Termination Costs - $640,610

Core business termination costs were those costs Trigon incurred to close down operations. We questioned costs because Trigon claimed:

- $318,562 for unapproved and unfunded core business termination costs including salaries and wages, fringe benefits, legal and idle capacity costs. Trigon did not submit a budget request to CMS for these costs.

- $31,520 for salaries that were inadequately documented to justify the benefit to Medicare or for which Medicare derived no benefit.

- $8,424 in fringe benefits associated with unapproved retention bonuses, unallocable salaries or costs claimed twice.

- $174,455 for accounting and consulting fees that provided little or no value to the termination of the Medicare contract.

- $102,822 for corporate overhead costs which did not meet Medicare guidelines.

- $4,827 in sales taxes for a transfer of office furniture and equipment to UGS that did not benefit the Medicare program.

Data Center Transition Costs - $428,557

Data center transition costs were costs Trigon incurred in relinquishing its role as the central data center for five contractors. We questioned costs because Trigon claimed:

- $158,536 in duplicated, triplicated or otherwise excessive salaries.

- $84,818 in data center retention bonuses that exceeded the amount approved by CMS.

- $28,241 in fringe benefits associated with questioned salary and wage costs that we determined to be unreasonable, unallocable, duplicated or unapproved by CMS.

- $17,697 for computer consulting costs incurred during a period outside of the data center transition period.

- $139,265 for corporate overhead costs which did not meet Medicare guidelines.

Data Center Termination Costs - $357,301

Data center termination costs were those costs Trigon incurred to cease operations as the central data center for five contractors. We questioned costs because Trigon claimed:

- $254,392 for unapproved and unfunded data center termination costs including salaries and wages, fringe benefits, information systems, and computer consulting costs. Trigon did not submit a budget requesting approval for these costs.
- $20,435 in retention bonuses that were claimed as much as three times or were otherwise excessive.
- $2,305 for fringe benefits associated with improperly claimed retention bonuses.
- $41,637 in electronic data processing equipment costs that were claimed both under data center transition and data center termination activities.
- $38,532 for corporate overhead costs that did not meet Medicare guidelines.

Y2K Costs - $45,960

Y2K costs were those costs Trigon incurred to comply with the century date change. We reviewed Y2K costs claimed subsequent to October 1999 and questioned costs because Trigon claimed:

- $45,960 in excess of the Y2K budget approved by CMS.

On July 13, 2001, Trigon responded to a draft of this report. In its response Trigon agreed that certain costs were inadvertently included that should not have been charged to Medicare. Trigon also agreed that certain costs were duplicate charges. However, Trigon believes that there was no adverse effect on the Medicare program since the duplicate charges were offset by corresponding undercharges. Trigon disagreed with the OIG's position related to various other charges to Medicare and stated that certain decisions made by the Contracting Officer are being appealed by Trigon to the Armed Services Board of Contract Appeals.

We performed additional review based on information provided by Trigon in its response and have revised our final report where appropriate. However, the findings and recommendations are essentially unchanged from those presented in the draft report. The Trigon response has been summarized and incorporated in this report after each finding area and has been included (without attachment) as an Appendix to this report.

RECOMMENDATIONS

We are not making recommendations in this report for procedural improvements since Trigon voluntarily opted to discontinue the Medicare Part A program as of August 31, 1999. However, we are recommending that Trigon:

C Coordinate with CMS to reduce the costs claimed by $3,464,705. The questioned costs include:

    < $70,499 for ongoing operations;

    < $1,921,778 for core business transition;

    < $640,610 for core business termination;

    < $428,557 for data center transition;

    < $357,301 for data center termination;

    < $45,960 for Y2K activities after October 1999.

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INTRODUCTION

BACKGROUND

Health Insurance for the Aged and Disabled (Medicare) was established by Title XVIII of the Social Security Act. Hospital Insurance (Part A) provides protection against the cost of hospital and related care. Supplemental Medical Insurance (Part B) is a voluntary program that covers physician services, hospital outpatient services and certain other health services. The Centers for Medicare and Medicaid Services (CMS), formerly known as the Health Care Financing Administration (HCFA), administer the Medicare program with the assistance of public or private organizations known as Intermediaries or Carriers. Under an agreement with CMS, the Blue Cross and Blue Shield Association (BCBSA) participates as a Medicare intermediary to assist in program administration.

Under a subcontract with BCBSA, Trigon Blue Cross Blue Shield (Trigon) received, reviewed, audited and paid Medicare Part A claims in the states of Virginia and West Virginia. Trigon also maintained a data center that processed claims for six Medicare intermediaries including its own Part A operations. Trigon opted to terminate the Medicare contract as of August 31, 1999 and discontinued processing claims for other contractors as of November 8, 1999.

Trigon is entitled to reimbursement for reasonable administrative costs incurred subject to limitations specified in the agreement. From October 1, 1996 through April 30, 2000, Trigon claimed $48,775,729 for administrative costs including on-going, transition, termination and Y2K costs.

Trigon claimed on-going operations, core business transition and Y2K costs on Final Administrative Cost Proposals (FACPs). Core business termination and data center termination costs were claimed through the termination voucher process, and data center transition costs were claimed through United Government Services (UGS), the succeeding Medicare Part A contractor.

OBJECTIVE, SCOPE AND METHODOLOGY

Our audit was conducted in accordance with generally accepted government auditing standards. The objective of our review was to determine whether:

- Costs claimed on FACPs for FYs 1997 through 1999 presented fairly, the allowable costs of administration of the Part A program in accordance with (i) Federal Acquisition Regulation (FAR) part 31; (ii) the intermediary manual; and (iii) the Medicare guidelines.

- Termination costs claimed on vouchers and data center transition costs claimed through UGS were allowable, reasonable, allocable, and fully supported under the provisions of applicable Federal regulations, the Medicare contract and subcontract agreement, and other CMS instructions.

Our review covered the period October 1, 1996 through April 30, 2000 and included audit procedures designed to achieve our objective, including a review of accounting records, cost allocation methods and supporting documentation.

Our review primarily focused on $39,446,396 in on-going operations costs, core business transition and termination costs, data center transition and termination costs, and Y2K costs (claimed after October 1999). For on-going operations and Y2K costs, we selected various cost centers and accounts on a sample basis and used judgmental sampling techniques to determine if the costs claimed were adequately supported, reasonable and allowable in accordance with applicable Federal regulations and guidelines. We performed a 100 percent review of the transition and termination costs claimed.

Our review excluded an examination of pension segmentation. A separate audit of Trigon's pension plan for compliance with segmentation requirements is currently underway. Also, $9,329,333 inY2K costs incurred prior to November 1999 were covered separately in Office of Inspector General (OIG) audit report A-03-99-00039. The questioned costs are summarized below.

Schedule of Claimed and Questioned Costs

Cost Categories	Claimed	Questioned
On-Going Operations	$34,389,237	$70,499
Core Business Transition	2,639,521	1,921,778
Core Business Termination	640,610	640,610
Data Center Transition	1,151,900	428,557
Data Termination	357,301	357,301
Y2K 1	9,597,160	45,960
Total	$48,775,729	$3,464,705

1 – Trigon claimed $267,827 in Y2K costs that were subject to this review. The questioned amount of $45,960 is related to this amount.

RESULTS OF AUDIT

During the period October 1, 1996 through April 30, 2000, Trigon claimed administrative costs totaling $48,775,729. Our review disclosed $3,464,705 in questioned costs including $70,499 in on-going operations, $1,921,778 in core business transition, $640,610 in core business termination, $428,557 in data center transition, $357,301 in data center termination and $45,960 in Y2K costs claimed after October 1999. The questioned costs are summarized below.

ON-GOING OPERATIONS COSTS

Trigon incurred on-going operations costs to administer Medicare core business operations (including the data center prior to the transition period). During our audit period, Trigon claimed $34,389,237 in on-going operations costs. We questioned $70,499 including $50,283 in 401K

Plan matching contributions on retention bonuses that were either unreasonable or unapproved by CMS and $20,216 for inappropriately charged overhead costs that did not benefit the Medicare program.

401K Plan Matching Contributions - $50,283

Trigon claimed $50,283 in 401K Plan matching contributions on retention bonuses for 115 employees. Trigon provided 50 cents as the matching contribution for every employee dollar contributed up to 6 percent of total compensation including bonus payments. The matching contribution was based on total payments for each employee including the excess retention bonuses that CMS previously denied. We questioned the matching contribution on retention bonuses for the following reasons.

- Trigon did not request funding for 401K Plan matching contributions on retention bonuses; therefore, no funding was approved or provided by CMS.

- The matching contribution was partially based on excess retention bonuses that CMS previously rejected as unreasonable and excessive.

- It was unreasonable to charge Medicare matching contributions on retention bonuses since Medicare had already paid matching contributions on regular salaries for the employees. The FAR Section 31.201-3 states that a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business.

Trigon Response

Trigon officials did not agree with OIG's position and stated that the 401K matching contributions are reasonable in nature and amount as evidenced by the fact that they meet IRS limitations. Trigon also stated that the fact that matching contributions were made on regular salaries should not affect contributions on retention bonuses.

OIG Comment

The matching contributions were partially based on excess retention bonuses that CMS previously rejected as unreasonable and excessive. In addition, Trigon did not request funding for matching contributions on retention bonuses and CMS provided no funding. The fact that the matching contributions meet IRS limitations is irrelevant.

Inappropriate Overhead Allocation - $20,216

Trigon inappropriately allocated $20,216 in overhead cost to the Medicare program for items unrelated to Medicare.

Trigon charged Medicare $7,754 for computer network tracking costs that did not benefit Medicare. Through conversations with Trigon personnel, we determined that these charges were improperly coded and should not have been billed to Medicare. The FAR Section 31.201-4 states that a cost is allocable to a Government contract if it benefits the contract and can be distributed to the contract in a reasonable proportion based on benefits received.

Trigon also inappropriately allocated $12,462 in software costs to Medicare that did not benefit the program. The costs were incurred for a software upgrade for a computer system that processed Health Maintenance Organization claims.

Trigon Response

Trigon officials agreed with OIG's position and stated that it inadvertently charged these costs, which should not have been charged to Medicare.

CORE BUSINESS TRANSITION COSTS

Trigon incurred transition costs to transfer the workload to the incoming contractor during the transition period. Of the $2,639,521 in transition costs claimed, we questioned $1,921,778. The questioned costs consist of:

Retention Bonuses	$1,701,678
Regular Salaries and Bonus	$16,866
Fringe Benefits	$128,227
Accounting and Consulting Fees	$12,736
Other Direct Costs	$352
Core Business Transition Overhead Costs	$61,919

Retention Bonuses - $1,701,678

Trigon claimed $2,148,586 in core business retention bonuses paid to 135 employees. The bonuses were paid under a retention plan that CMS had rejected as excessive and unreasonable. We questioned $1,701,678 in core business retention bonus payments which includes $1,689,775 in bonus payments not approved by CMS and $11,903 in bonus payments in excess of the CMS approved amount for certain employees. Under Trigon=s retention bonus plan, employees received their regular weekly salaries and a 30 to 50 percent bonus on their base annual salaries. The bonus was contingent upon the employee working the entire designated transition period. Trigon made bonus payments on August 31, 1999, the end of the core business transition period.

We questioned the core business retention bonuses for the following reasons:

C The CMS reviewed the retention plan and expressed specific concerns to Trigon in a letter dated August 5, 1999. The letter stated:

ATrigon announced its bonus retention plan to its employees on May 7, 1999. Since UGS assumes Trigon=s workload as of September 1, 1999, the transition period is 16 weeks and coincides with the time period available for the employees to earn the retention bonus. Converting Trigon=s proposed bonuses into the transition period (when the bonuses are earned) results in one-half of the employees receiving bonuses of 162.5 percent of salary and the other half receiving bonuses of 97.5 percent of salary.@

ASection 31.205-6 of the FAR requires that compensation must be reasonable in relation to the work performed. Based on the above, the retention bonuses of 162.5 percent and 97.5 percent of salary for the 16-week transition period do not appear reasonable and Trigon has not presented convincing information to the contrary. The employees duties and responsibilities will not change substantially during the transition. Moreover, UGS has offered jobs to all of the employees at substantially the same conditions of employment including location, compensation, and benefits.@

C Trigon did not notify or obtain CMS approval of its retention bonus plan prior to announcing the plan to its employees. In our opinion, a prudent business would not consider incurring costs of this magnitude or announcing provisions of the plan to employees without first obtaining approval from the funding source.

C We found that 131 of the 135 employees who received the core business retention bonuses accepted similar positions with UGS. In addition to their regular salaries, these employees also received retention bonuses, accrued vacation pay, and 401K matching contributions for both regular salaries and retention bonuses. The total employee compensation package for the 4-month transition period totaled $6 million. We believe that the amount CMS approved was adequate and reasonable given the fact that the employees had an option to take similar positions at UGS without losing compensation and benefits.

C Trigon submitted incorrect salary information that CMS relied on to approve the bonus funding. As a result, for seven employees, CMS approved $11,903 that would not have been approved if correct salary data had been provided.

Trigon Response

Trigon officials did not agree with OIG's position questioning retention bonuses of $1,701,678. Trigon stated that it has filed an appeal of the Contracting Officer's final decision with the Armed Services Board of Contract Appeals (ASBCA).

OIG Comment

The OIG position on retention bonuses remains unchanged since Trigon has not provided any additional information on this issue.

Regular Salaries and Bonus - $16,866

Trigon claimed $16,866 including $14,366 ($6,096 for the Medicare Operations Manager and $8,270 for the Medicare Director) in duplicate salaries and $2,500 for an unallocable bonus payment. The duplicate cost was claimed both under the core business transition and termination activities.

The duplicated cost reflected the October 1999 regular salaries, holiday pay and paid-time off for the former Medicare Operations Manager and the Medicare Director. October 1999 compensation for the Medicare Director was also triplicated in the corporate overhead cost pool. As a result, Trigon claimed the Medicare Operations Manager's compensation twice and the Medicare Director's compensation three times. We have made adjustments as appropriate.

Trigon claimed $2,500 for a bonus payment for a non-Medicare employee who received the payment on September 30, 1999. This individual became a UGS employee effective August 1, 1999. At the time of payment, the individual was no longer employed by Trigon and provided no service to the Medicare program. Trigon was unable to explain why Medicare was charged.

Trigon Response

- Trigon stated that the actual duplication issue involved October 1999 salaries in the amount of $14,366 and agreed that the same cost was inadvertently included under core business transition and termination expenses. However, Trigon believed that the FACP was understated by an amount equal to the duplication. The $14,366 was removed twice from on-going operations cost and reclassified, once to core business transition cost and once to core termination.

- Trigon officials agreed with OIG's position questioning the $2,500 bonus payment.

OIG Comment

- We had initially questioned $13,281 in duplicate salaries for the month of November 1999. Trigon provided additional documentation showing that the actual duplication was on October salaries in the amount of $14,366. We agreed with Trigon and changed the report to reflect the revised amount of $14,366.

- We agree that although Trigon claimed duplicate costs under core business transition and termination activities, the Medicare program as a whole was not necessarily overcharged because the FACP was undercharged. Trigon captured all cost related to the Medicare program, including on-going operations, termination and transition expenses, as one line of business in the general ledger. All transition and termination costs except core business transition activities were claimed via the voucher system outside the FACP. To determine the FACP amount, Trigon adjusted the total Medicare expenses by removing costs related to transition and termination activities. The amount claimed under core business termination was offset by reduction of the FACP. As a result, the core business termination costs were overstated while the FACP was understated by the same amount. However, the costs claimed by voucher are presently overstated because of the duplication. The FACP costs, while understated are at the NOBA threshold and are not allowable for payment unless specifically approved by CMS. With respect to Trigon's request to re-file its FACPs, it is CMS' decision to grant the opportunity.

Fringe Benefits - $128,227

Trigon claimed $164,125 in fringe benefits primarily for FICA taxes. Of the amount claimed, we questioned $128,227. The questioned cost includes:

FICA on Retention Bonuses	$125,135
FICA Calculation Error	$911
Duplicate Fringe Benefits	$1,087
Accrued Pensions	$1,094

The $125,135 and $911 respectively represent FICA taxes on questioned retention bonuses.

The $1,087 represents duplicate fringe benefits consisting of $208 FICA tax on salaries, $448 in health insurance, and $431 in 401K Plan matching contributions. These amounts were claimed both under core business transition and termination activities and reflect the fringe benefits for the Medicare Operations Manager and Medicare Director in October 1999.

The $1,094 in accrued pension cost was also claimed for the Medicare Operations Manager and the Medicare Director during the same time period. Trigon generally reversed accrued pension costs before submitting vouchers and FACPs but overlooked this amount. We questioned this cost because Trigon did not make necessary adjustments to reverse the accrued pension costs.

Trigon Response

- Trigon officials did not agree with OIG's position questioning FICA taxes of $126,046. As stated previously, Trigon filed an appeal of the Contracting Officer's final decision concerning retention bonuses and related FICA with the ASBCA. Trigon requested that the FICA costs be adjusted downward by $4,133 ($129,268 less $125,135). The $125,135 was calculated by taking the difference between the claimed FICA of $160,234 and approved FICA of $35,099.

- Trigon agreed with OIG's position questioning FICA taxes of $911 related to a calculation error.

- Trigon officials did not agree with OIG's position questioning $1,087 in duplicated fringe benefits related to the $14,366 salary issue previously described.

- Trigon agreed that it inadvertently failed to remove $1,094 in pension accrual from Medicare core business transition costs.

OIG Comment

- We initially questioned $130,179 in FICA taxes related to questioned retention bonuses. We agreed with Trigon that the questioned FICA related to retention bonuses should be adjusted downward by $4,133 and therefore reduced the questioned FICA to $126,046 (including the $911 calculation error).

- We continue to question the duplicated fringe benefits of $1,087 for the same reasons stated in the Regular Salaries and Bonus caption on pages 6 and 7 of the report.

Accounting and Consulting Fees - $12,736

Trigon claimed $216,795 in accounting and consulting fees paid to Arthur Andersen LLP. Our review showed that Trigon claimed $12,736 in excess over the CMS approved amount of $204,059. We questioned $12,736 for lack of approval.

Trigon engaged Arthur Andersen LLP to provide consulting and accounting services for the transition of the Medicare contract to UGS. The services included the overall project management of Trigon=s transition effort such as budget preparation, development of a work plan, attendance at meetings and conference calls, researching retention bonus issues, and assisting with the preparation of FACPs and CMS correspondence.

Trigon Response

Trigon officials disagreed with OIG's position questioning consulting fees of $12,736. Trigon requested that the consulting fees be approved because they believe the expenses were legitimate and otherwise allowable expenses.

OIG Comment

We questioned this cost for lack of approval. Although the expenses were legitimate and otherwise allowable, it is CMS' decision to authorize additional funding. The costs are otherwise not allocable to Medicare.

Other Direct Costs - $352

Trigon allocated $352 in telephone, parking and occupancy charges for a non-Medicare employee whose services did not benefit the Medicare program. We questioned this amount because Medicare received no benefit from these charges.

Trigon Response

Trigon officials agreed that they inadvertently billed Medicare $352 instead of billing UGS. However, Trigon disagreed that Medicare did not receive a benefit from the charge. The expenses charged were $41 for parking, $221 in occupancy costs, and $90 in telephone expenses. These expenses were legitimate Medicare expenses that were incorrectly billed to core business instead of UGS.

OIG Comment

Trigon did not provide documentation to support that Medicare received a benefit from this charge. Accordingly, we continue to question this charge because there was no evidence indicating this amount was allocable to Medicare.

Core Business Transition Overhead Costs - $61,919

Trigon claimed $61,919 in corporate overhead costs under core business transition activities that did not meet Medicare guidelines and were not approved by CMS. We questioned the entire amount claimed for the following reasons:

- Trigon did not meet CMS guidelines for incremental overhead costs. Section 1215 of the CMS Intermediary Manual states that the Government will only pay for identifiable incremental overhead costs incurred as a result of the project (in this case - core business transition activities). The specific overhead costs as they relate to the project must be identified. For Special Project costs, the overhead cost pool is irrelevant because the Government will only pay for identifiable incremental cost, not allocated indirect cost.

- Trigon requested $8,920 in funding for incremental costs for time spent on transition activities by Systems and Human Resources corporate employees. The CMS approved funding for the incremental overhead amount requested. However, Trigon claimed $8,635 in salaries as a direct cost for corporate employees who spent time on transition activities. Those employees worked in the Corporate Compensation, Training and Development, and Benefit Administration cost centers. These cost centers are generally considered overhead cost centers. Since Trigon claimed incremental costs associated with transition activities as a direct cost we questioned the corporate overhead costs.

Trigon Response

Trigon officials took exception with OIG's position questioning overhead costs of $61,919. Trigon stated that Section 1215 of the CMS Intermediary Manual supports the allowability of the overhead costs allocated to the transition activities. Trigon concluded that transition and termination costs should not be considered as a Productivity Investment (PI). According to Trigon's interpretation of Section 1215, none of the transition or termination vouchers meet the definition of a PI.

OIG Comment

We disagree with Trigon's interpretation of CMS Intermediary Manual Section 1215 and Trigon's conclusion that it should be reimbursed for overhead costs. According to the CMS Intermediary Manual, the Government will only pay for identifiable incremental overhead costs incurred directly as a result of the project (in this case, non-renewal activities). The specific overhead costs as they relate to the project must be identified. For Special Projects costs, the overhead pool is irrelevant because the Government will only pay for identifiable incremental costs, not allocated overhead cost.

Our position is consistent with CMS' memorandum dated November 15, 2000 sent to all Fiscal Intermediaries and Carriers to clarify CMS's policies and procedures regarding the transition and termination costs incurred when exiting the program. According to this memorandum, transition costs are non-recurring in nature and are funded as a PI. Only incremental costs are chargeable to the transition PI and all non-incremental costs continue to be charged to the ongoing operations.

CORE BUSINESS TERMINATION COSTS

Trigon claimed $640,610 in core business termination costs from September through April 2000 to close down operations. We questioned all of the claimed core business termination costs for lack of CMS funding approval ($318,562), and for various other reasons in addition to the lack of CMS approval ($322,048).

Unapproved Costs - $318,562

The CMS requested a core business termination budget in an August 9, 1999 letter to Trigon. However, Trigon did not submit a budget and never received CMS' approval to incur the costs. As a result, we questioned $318,562 in termination costs solely for lack of funding approval. These costs would have been otherwise allowable.

In addition to questioning costs for lack of CMS approval, we questioned $322,048 in termination costs for additional reasons. The questioned costs consist of:

Salaries	$31,520
Fringe Benefits	8,424
Accounting and Consulting Fees	174,455
Core Business Termination Overhead Costs	102,822
Sales Tax	4,827

Trigon Response

Trigon officials confirmed that there was no approved funding for core business termination activities and stated that to the best of Trigon's knowledge, there was no requirement to submit a budget. Trigon requested reimbursement for $318,562 in otherwise allowable charges that OIG questioned solely for lack of approval.

OIG Comment

Trigon has not presented any support to cause OIG to change its position concerning these costs. Trigon failed to provide CMS with the requested budget information and the costs were subsequently never approved for payment.

Salaries - $31,520

Trigon claimed $31,520 in salaries for the Medicare Director and the Medicare Operations Manager during the period December 1999 through April 2000.

Of the $31,520 questioned, $26,829 represents the Medicare Directors' salary from December 1999 through April 2000. Trigon claimed 100 percent of the Director=s salary in December and January, 60 percent in February, 40 percent in March and 24.4 percent in April. We questioned $26,829 because the cost was not adequately supported. We requested a description of Medicare tasks performed, and the date and approximate number of hours the Medicare Director spent on each task. Trigon provided a description of tasks performed without specific dates and times for those activities. Based on this documentation, we do not believe that the work effort attributed and charged to Medicare for the Medicare Director was justifiable, given the fact there was no Medicare project at the time.

Medicare core business and data center operations were terminated on August 31 and November 8, 1999 respectively. We questioned $4,691, which represented the December 1999 salary for the Medicare Operations Manager because it was incurred during a period when no Medicare contract was in effect.

Trigon Response

- Trigon officials took exception to the OIG's questioning of the Medicare Director's $26,829 salary. Trigon stated that the Director remained a full employee throughout the period and the expenses over and above the amounts charged to Medicare were absorbed by Trigon. The Director was the only person that could address and answer issues pertaining to the three previous fiscal years, which were still being audited during the time in question. The Director worked closely in all shutdown efforts including subcontractors, OIG audits, data center shutdown, and Trigon's Medicare retention bonus.

- Trigon officials agreed with OIG's position questioning the Medicare Operations Manager's $4,691 salary.

OIG Comment

- Our conclusions are based on what is reasonable given the fact that there was no Medicare project when these costs were incurred. Medicare core business and data center operations ended August 31, and November 8, 1999 respectively. We considered the Medicare Director's full salary and benefits allowable for three months (September through November 1999) even though there was no core business activity. Furthermore, based on our review of documentation provided to support the cost, we do not believe that the work effort attributed and charged to Medicare for the Medicare Director was adequately supported and justifiable.

Fringe Benefits - $8,424

Trigon claimed $9,180 in fringe benefits under core business termination activities. Of the $9,180 claimed, we questioned $8,424. The amount questioned includes:

Duplicate FICA on Retention Bonuses	$3,276
Fringe Benefits for Medicare Officials	$4,384
401K Plan Matching Contribution	

The $3,276 represented duplicate FICA on retention bonuses for two employees. The same FICA amount was claimed under core business termination and data center transition activities. We accepted this amount under data center transition charges.

The $4,384 represented fringe benefits for the Medicare Director, and the Medicare Operations Manager's salary payments questioned above.

The $764 represented the 401K Plan matching contribution on a retention bonus payment for one employee. We questioned this amount for the reasons stated earlier in the CORE BUSINESS TRANSITION COSTS Section of this report.

Trigon Response

- Trigon officials did not agree with OIG's position questioning duplicate FICA taxes of $3,276. Although Trigon agreed that the cost was duplicated under core business termination and data center transition activities, they stated that the Medicare program was not overcharged. As stated previously, ongoing operations were understated by the same amount of $3,276. Trigon requested the opportunity to re-file its FACP.

- Trigon officials concurred with OIG's position questioning $572 in fringe benefits for the Medicare Operations Manager but did not agree with our questioning fringe benefits of $3,812 for the Medicare Director whose salary we previously questioned. Trigon cited the same reasons stated earlier when it contested OIG's position questioning the Medicare Director's salary on pages 11 and 12 of this report.

- Trigon officials did not agree with OIG's position questioning $764 for a 401K matching contribution on a retention bonus payment. Trigon cited the same reasons stated earlier in their response on page 3 of this report under the 401K Plan Matching Contributions Section.

OIG Comment

- We agree that although Trigon claimed duplicate costs under core business transition and termination activities, the Medicare program as a whole was not necessarily overcharged because the FACP was undercharged. However, as we cited earlier in this report, the costs claimed by voucher are presently overstated because of the duplication. The FACP costs, while understated are at the NOBA threshold and are not allowable for payment unless specifically approved by CMS. With respect to Trigon's request to re-file its FACPs, it is CMS' decision to grant the opportunity.

- The $3,812 relates to the Medicare Director's salary that was previously discussed under the Salary caption on pages 11 and 12 of this report. We continue to question this cost for the same reasons stated earlier.

- The matching contributions were partially based on excess retention bonuses that CMS had previously rejected as unreasonable and excessive. In addition, Trigon did not request funding for matching contributions on retention bonuses and CMS provided no funding.

Accounting and Consulting Fees - $174,455

Trigon claimed $174,455 for accounting and consulting fees paid to Arthur Andersen LLP during the period September 1999 through April 2000. We questioned the entire amount claimed because, in our opinion, the fees were excessive and provided little or no value toward the termination of the Medicare contract.

We reviewed the Arthur Andersen invoices and work status summary sheets to determine the nature of the services performed. We reviewed the entire amount claimed and considered the following factors:

- The nature and scope of the service agreement, and whether the services could be performed more economically through internal resources rather than through a contractor.

- The reasonableness of professional fees in relation to the services provided and required skills.

- Whether the services provided added significant value to Trigon's termination effort.

Our review has demonstrated that a significant number of errors occurred in the preparation and submission of the termination vouchers and FACPs. This resulted in duplicate claims for the same costs. The apparent unfamiliarity with Medicare billing contributed to these duplications. We believe that many of the errors could have been avoided if Trigon had used its internal resources. Furthermore, it would have been cost effective to use internal resources given the nature of the task and the skills required.

Arthur Andersen billed approximately 680 hours (an hourly billing rate ranging from $135 to $425) for core business termination activities. The hours billed were mainly for the preparation and submission of termination vouchers. After reviewing Arthur Andersen's work product, we believe that Trigon had adequate internal resources to prepare the vouchers.

Trigon Response

Trigon officials did not agree with OIG's position questioning the $174,455 consulting fee. Trigon stated that Arthur Andersen provided significant value in assisting Trigon in the development of a methodology for submission of the termination vouchers. Since the termination of Trigon's Medicare contract was a unique event, the development of the Medicare termination vouchers was different from the budgetary process for the ongoing Medicare contract. Accounting and consulting fees are allowable costs if they are reasonable in nature and amount. Trigon also believed that Arthur Andersen provided significant value to the termination effort and its fees were fair and reasonable given the scope of the contract being exited by Trigon.

OIG Comment

We disagree with Trigon's conclusion that CMS should allow the reimbursement of the consultant costs. Consultant costs are allowable provided the cost is reasonable and prior written approval is obtained. Arthur Andersen continued to submit invoices through April 2000 even though the Medicare core business operation was terminated on August 31, 1999 and data center activities were terminated on November 8, 1999. Trigon did not closely monitor the consultant's services and work products to avoid incurring unnecessary costs. Furthermore, Trigon did not seek prior written approval as required. Section II, Part I, paragraph B of the Medicare contract states:

> *...The prior written approval of the Contracting Officer shall be required…for the utilization of the services of any consultant under this agreement where such reimbursement exceeds or may exceed $400 per day or $100,000 per year, exclusive of travel costs…*

Although the cost claimed exceeded the threshold amount, Trigon did not seek or receive the required prior written approval.

Core Business Termination Overhead Cost - $102,822

Trigon claimed $102,822 in corporate overhead costs under core business termination activities. The cost represents corporate overhead incurred from September 1999 through April 2000. We questioned the entire amount of $102,822, including $13,171 in duplicate costs for the Medicare Director's cost center. The overhead costs were questioned for the following reasons:

- Trigon did not meet CMS guidelines for incremental overhead costs. Section 1215 of the CMS Intermediary Manual states that the Government will only pay for identifiable incremental overhead costs incurred as a result of the project. The specific overhead costs as they relate to the project must be identified. For Special Project costs, the overhead cost pool is irrelevant because the Government will only pay for identifiable incremental cost, not allocated indirect cost.

- Trigon allocated overhead costs to the Medicare lines of business after the contract was effectively terminated. The Medicare core business contract was terminated effective August 31, 1999 and Trigon did not have a data center contract with CMS. The claimed overhead cost was related to a period (September 1999 through April 2000) when there was no Medicare contract in effect. Therefore, there was no contract to which the cost could be allocated.

- Trigon claimed $13,171 in duplicated overhead costs. The Medicare Director's cost center expenses from September through December 1999 were claimed under core business termination activities and overhead cost allocation pool.

Trigon Response

- Trigon officials did not agree with OIG's position questioning overhead costs of $89,651. Trigon stated that Section 1215 of the CMS Intermediary Manual supports the allowability of the overhead costs allocated to the transition activities. Trigon concluded that transition and termination costs should be not considered as a PI. According to Trigon's interpretation of Section 1215, none of the transition or termination vouchers meet the definition of a PI.

- Trigon officials agreed that the expenses in the Medicare Director's cost center were duplicate overhead costs but that the Medicare program was not overcharged because the FACP was understated. Trigon requested the opportunity to re-file the FACP.

OIG Comment

- We disagree with Trigon's interpretation of CMS Intermediary Manual Section 1215 and Trigon's conclusion that it should be reimbursed for overhead costs. According to the CMS Intermediary Manual, the Government will only pay for identifiable incremental overhead costs incurred directly as a result of the project (in this case non-renewal activities). The specific overhead costs as they relate to the project must be identified. For Special Projects costs, the overhead pool is irrelevant because the Government will only pay for identifiable incremental costs, not allocated overhead cost.

  Our position is consistent with CMS' memorandum dated November 15, 2000 that was sent to all Fiscal Intermediaries and Carriers to clarify CMS' policies and procedures regarding the transition and termination costs incurred when exiting the program. According to this memorandum, transition costs are non-recurring in nature and are funded as a PI. Only incremental costs are chargeable to the transition PI and all non-incremental costs continue to be charged to the ongoing operations.

- We agree that although Trigon claimed duplicate costs, the Medicare program as a whole was not necessarily overcharged because the FACP was undercharged. However, as we cited earlier in this report, the costs claimed by voucher are presently overstated because of the duplication. The FACP costs, while understated are at the NOBA threshold and are not allowable for payment unless specifically approved by CMS. With respect to Trigon's request to re-file its FACPs, it is CMS' decision to grant the opportunity.

Sales Tax - $4,827

Trigon claimed $4,827 in sales tax on a transfer of office furniture and equipment to UGS. We questioned this amount because Medicare received no benefit. The FAR 31.201-4 states that a cost is allocable to a Government contract if it benefits the contract and can be distributed to the contract in a reasonable proportion based on benefits received.

Trigon Response

Trigon officials agreed with OIG's position questioning $4,827 in sales tax costs.

DATA CENTER TRANSITION COSTS

Trigon maintained a data center that processed claims for six Medicare users including its own Part A fiscal intermediary operations. On November 8, 1999, Trigon announced its intention to discontinue serving as a data center.

Trigon submitted a budget to CMS requesting $1,749,095 in data center transition costs. The CMS approved total funding of $1,151,900 that was funded through UGS because CMS did not have a direct contractual relationship with the Trigon Data Center. On February 15, 2000, Trigon received a check for $1,151,900 from UGS without submitting any invoices.

Trigon booked $1,180,174 in data center transition costs. Of the $1,180,174 booked, we questioned $428,557. The questioned costs consist of:

Salaries and Wages	$158,536
Retention Bonuses	$84,818
Fringe Benefits	$28,241
Computer Consulting Costs	$17,697
Data Center Transition Overhead Costs	$139,265

Salaries and Wages - $158,536

Trigon claimed $180,089 in salaries and wages for data center transition. We questioned $158,536 of this amount because the costs were either duplicated, triplicated or exceeded the amount approved by the CMS. The questioned cost includes $36,661 in salaries and wages, $11,787 in excess over the CMS approved cost, and $110,088 in retention bonuses claimed as salaries.

Trigon duplicated the September and October 1999 salaries totaling $36,661 for five data center employees. The amount was included in Cost Center YR (Data Center Transition) as a direct cost and the Cost Center YF (Data Center On-Going Operations) allocation pools. A portion of the YF cost allocation was allocated to YR, which created a duplicate cost. We questioned $36,661 in salaries claimed under the salary line item and considered allowable the amount claimed under the YF cost allocation pool.

The $11,787 represented a charge in excess of a CMS approved retention bonus. Trigon claimed $18,503 for a retention bonus payment under the YF cost allocation pool for a Medicare employee. The CMS approved a $3,416 retention bonus for the employee and denied $15,087 in excess cost. The YF cost pool is allocated approximately 78.13 percent to data center transition activities and 21.87 percent to data center termination activities. We therefore questioned 78.13 percent ($11,787) of the excess $15,087 under data center transition activities. We questioned the remaining 21.87 percent of the excess amount under data center termination costs.

Trigon duplicated and in some cases triplicated retention bonus costs totaling $110,088. The cost was included under the salary line, retention bonus line items and under the YF cost allocation pool. The duplicate and triplicate costs consist of:

Duplicate Retention Bonus	$18,503
Triplicate Retention Bonuses	$30,371
Duplicate Retention Bonuses ($47,978 @ 78.13%)	$37,485
Triplicate Retention Bonuses ($30,371 @ 78.13%)	$23,729

The $18,503 represented a duplicated retention bonus for a data center employee. The amount was claimed under the salary line item as a direct charge and again claimed under the YF cost allocation pool. We questioned the $18,503 charged directly under the salary line item.

The $30,371 represented triplicated retention bonuses for two data center employees. The bonuses were claimed under the retention bonus line item, under the salary line item as a direct charge and under the YF cost allocation pool. We questioned the $30,371 in triplicate bonuses under the salary line item and the YF cost allocation pool.

The $37,485 represented 78.13 percent of the $47,978 in duplicated bonuses for two data center employees. The bonuses were claimed under the retention bonus line item and under the YF cost allocation pool. We questioned the bonuses under the YF cost allocation pool. In addition, we questioned the remaining 21.87 percent of the bonuses ($10,493) under the DATA CENTER TERMINATION COSTS Section of this report.

The $23,729 represented 78.13 percent of the $30,371 in triplicated bonuses. The bonuses were claimed under the salary line item, the retention bonus line item and the YF cost allocation pool. We questioned the bonuses under the salary line item and under the YF cost allocation pool. In addition, we questioned the remaining 21.87 percent of the bonuses ($6,642) under the DATA CENTER TERMINATION COSTS Section of this report.

Trigon Response

- Trigon officials did not agree with OIG's position questioning duplicated salaries of $36,661. Trigon captured all costs related to Medicare, including on-going operations and termination and transition expenses, as one line of business. In order to meet Medicare reporting requirements, which required separate expense vouchers for termination and transition expenses, Trigon reclassified (i.e. removed) the costs related to transition and termination from the total Medicare line of business to the individual transition and terminations vouchers on a line item basis. In this situation, Trigon charged the salaries to data center transition, but made the appropriate offsetting reduction to on-going operations expenses. The OIG did not recognize the offsetting credit that was made to on-going operations.

- Trigon officials did not agree with OIG's position questioning excess retention bonuses of $11,787. Trigon stated that it filed an appeal of the Contracting Officer's final decision with ASBCA.

- Trigon officials did not agree with OIG's position questioning duplicated charges for retention bonuses of $18,503. Trigon stated that this amount was only claimed once and was included in the salaries and wages of data center transition. Trigon also made the appropriate offsetting reductions to on-going operations expenses. The OIG did not recognize the offsetting credit that was made to on-going operations.

- Trigon officials did not agree with OIG's position questioning duplicate and triplicate charges for retention bonuses of $91,585. Trigon believes that on-going operations expenses were understated by this same amount and requested the opportunity to re-file its FACP for on-going operations to adjust the understatement.

OIG Comment

- We agree that although Trigon claimed duplicate costs under core business transition and termination activities, the Medicare program as a whole was not necessarily overcharged because the FACP was undercharged. However, the costs claimed by voucher are presently overstated because of the duplication. The FACP costs, while understated are at the NOBA threshold and are not allowable for payment unless specifically approved by CMS. With respect to Trigon's request to re-file its FACPs, it is CMS' decision to grant the opportunity.

- The OIG position on retention bonuses remains unchanged since Trigon has not provided any additional information on this issue.

- We do not agree with Trigon's conclusion concerning the duplicate retention bonus amount of $18,503. This amount was claimed under data center transition twice. The amount was claimed under the salary line item as a direct charge and again claimed under YF cost allocation pool. The net effect is that the data center transition cost was overstated while the FACP was understated by the same amount.

- Trigon included $91,585 in salaries twice under data center transition activities. The net effect is that the data center transition cost was overstated while the FACP was understated by the same amount.

Retention Bonuses - $84,818

Trigon claimed $121,167 in data center retention bonuses paid to six employees. The bonuses were paid under a retention plan that CMS had rejected as excessive and unreasonable. We questioned $84,818, which represented the excess over the approved retention bonuses. We questioned this cost for the same reasons previously stated under Retention Bonuses in the CORE BUSINESS TRANSITION COSTS Section of this report.

Trigon Response

Trigon officials did not agree with OIG's position questioning retention bonuses of $84,818. Trigon has filed an appeal of the Contracting Officer's final decision with ASBCA.

OIG Comment

The OIG position on retention bonuses remains unchanged since Trigon has not provided any additional information on this issue.

Fringe Benefits - $28,241

Trigon claimed $35,676 in fringe benefits primarily for FICA taxes. The fringe benefits claimed include both direct and allocated YF costs. Of the amount claimed, we questioned $28,241. The questioned cost includes:

FICA on Excess Retention Bonuses	$6,489
FICA on Duplicate Retention Bonuses	$3,239
FICA on Duplicate Salaries	$3,077
Duplicate Health Insurance	$2,564
Duplicate 401 K Matching Contributions	$1,490
Accrued Pensions	$2,925
Other Miscellaneous Fringe Benefits	$224
YF Cost Allocation Pool ($10,538 @ 78.13%)	$8,233

The $6,489 represented the 7.65 percent FICA tax on excess retention bonuses previously questioned as unreasonable and excessive for eight employees.

The $3,239 represented duplicated FICA on retention bonuses for three employees. The amount was claimed under core business transition and data center transition activities. We questioned the $3,239 amount because the cost was duplicated.

The $3,077 represented duplicated FICA on regular salaries. The $1,811 of this amount was claimed under on-going operations and under data center transition activities. The remaining

$1,266 was claimed under data center transition activities twice. This amount was included in the fringe benefit line item and the YF cost allocation pool.

The $2,564 represented duplicate health insurance costs. The $1,668 of this amount was claimed under on-going operations and data center transition activities. The remaining $896 was claimed twice under data center transition activities.

The $1,490 represented duplicate 401K Plan matching contributions. The $995 portion of this amount was claimed under on-going operations and under data center transition activities. The remaining $495 was claimed twice under data center transition activities.

The $2,925 represented duplicate accrued pension costs. The $1,486 of this amount was claimed twice under data center transition activities. This amount was included in the fringe benefit line item and YF cost allocation pool. The remaining $1,439 was claimed under data center transition activities. Trigon generally reverses accrued pension costs before submitting vouchers and FACPs but overlooked this amount.

The $224 represented duplicate fringe benefits including $45 in life insurance, $107 in disability insurance and $72 in long-term care. Trigon claimed these costs under core business transition and data center transition activities.

The $8,233 represented 78.13 percent of the $10,538 fringe benefits questioned under the YF cost allocation pool for duplication, reasonableness and unadjusted accrual.

Trigon Response

- Trigon officials did not agree with OIG’s position questioning FICA taxes of $6,489 related to retention bonuses. Trigon stated that this issue will be dealt with in the ASBCA appeal.

- Trigon officials did not agree with OIG’s position questioning duplicate FICA on retention bonuses of $3,239, a 401K matching contribution of $1,490 on a retention bonus payment, accrued pension cost of $2,925, and FICA taxes of $6,818 related to the YF cost allocation pool. Although Trigon agreed that the cost was duplicated under core business transition and data center transition, they disagreed that the Medicare program as a whole was overcharged since the FACP was understated by the same amount ($1,415 in FICA taxes on a duplicated retention bonus of $18,503 was only claimed once and was included in the salaries and wages of data center transition. Trigon believes that the OIG did not recognize the offsetting credit that was to on- going operations).

- Trigon officials did not agree with OIG’s position questioning $3,077 in duplicate FICA taxes, $2,564 in duplicate insurance costs and $224 in miscellaneous fringe benefits. Trigon stated that the OIG did not recognize the offsetting credit that was made to on-going operations.

OIG Comment

- The OIG position on retention bonuses remains unchanged since Trigon has not provided any additional information on this issue.

- We agree that although Trigon claimed duplicate costs under core business transition and termination activities, the Medicare program as a whole was not necessarily overcharged because the FACP was undercharged. However, the costs claimed by voucher are presently overstated because of the duplication. The FACP costs, while understated are at the NOBA threshold and are not allowable for payment unless specifically approved by CMS. With respect to Trigon's request to re-file its FACP, it is CMS' decision to grant the opportunity.

Computer Consulting Costs - $17,697

Trigon engaged Deyo, a consulting firm based in Florida, to provide computer consulting services in connection with data center transition activities. Deyo consultants wrote programs to retrieve and test data needed by each of the receiving data centers. Trigon requested $389,600 for these consulting services, and CMS provided funding for this amount.

Trigon claimed $297,218 in consulting costs for the period September through December 1999. Of the $297,218 claimed, we questioned $17,697 that was actually a termination cost rather than a transition cost. Data center transition activities ended November 8, 1999. This cost was incurred during the period November 15 through December 31,1999.

Trigon Response

- Trigon officials agreed that $17,697 was claimed under data center transition costs rather than data center termination. Trigon requested the opportunity to resubmit its data center voucher to claim an additional $17,697 of computer consulting costs.

OIG Comment

We continue to question this cost because it was claimed under data center transition rather than data center termination activities. This cost is legitimate and otherwise allowable. It is CMS' decision whether to allow Trigon the opportunity to resubmit data center termination voucher.

Data Center Transition Overhead Costs - $139,265

Trigon requested $288,399 in overhead costs for data center transition activities. The CMS reviewed the data center overhead budget and provided its specific concerns to Trigon in a letter dated November 15, 1999, that stated:

AOverhead of $64,173 was approved, consisting of an overhead percentage of 21.65 percent on a total of $296,413 ($192,460 Information System (Richmond) and Medicare Employee Cost of $103,953). The additional request of $224,226 was not approved on subcontract; purchases of tapes, tape drives, and tape racks; paid time off; retention bonus and data center conference because incremental overhead would not be incurred in conjunction with these costs.@

Trigon claimed $155,144 in corporate overhead costs under data center transition activities. This represented the corporate overhead costs incurred from September 1999 through April 2000. We considered $15,879 in overhead costs associated with the Medicare and Corporate Information Systems personnel costs to be allowable, and questioned $139,265. The questioned costs include $19,569 in duplicate costs. We questioned these costs for the same reasons discussed earlier under the Core Business Transition Overhead Costs caption.

Trigon did not meet CMS guidelines for incremental overhead costs. Section 1215 of the CMS Intermediary Manual states that the Government will only pay for identifiable incremental overhead costs incurred as a result of the project (in this case core business transition activities). The specific overhead costs as they relate to the project must be identified.

Trigon Response

- Trigon officials did not agree with OIG's position questioning overhead costs of $119,696. Trigon stated that Section 1215 of the CMS Intermediary Manual supports the allowability of the overhead costs allocated to the transition activities. This section indicates that overhead is not allocable to a PI. None of the transition or termination vouchers meet the definition of a PI.

- Although Trigon agreed that $19,569 of overhead cost was claimed twice they disagreed that the Medicare program as a whole was overcharged. Trigon stated that the data center transition cost was overstated while the FACP was understated by the same amount.

OIG Comment

- We disagree with Trigon's interpretation of CMS Intermediary Manual Section 1215 and Trigon's conclusion it should be reimbursed for overhead costs. According to the CMS Intermediary Manual, the Government will only pay for identifiable incremental overhead costs incurred directly as a result of the project (in this case non-renewal activities). The specific overhead costs as they relate to the project must be identified. For Special Projects costs, the overhead pool is irrelevant because the Government will only pay for identifiable incremental costs, not allocated overhead cost.

  Our position is consistent with CMS' memorandum dated November 15, 2000 that was sent to all Fiscal Intermediaries and Carriers to clarify CMS' policies and procedures regarding the transition and termination costs incurred when exiting the program. According to this memorandum, transition costs are non-recurring in nature and are funded as a PI. Only incremental costs are chargeable to the transition PI and all non-incremental costs continue to be charged to the ongoing operations.

- We agree that although Trigon claimed duplicate costs under core business transition and termination activities, the Medicare program as a whole was not necessarily overcharged because the FACP was undercharged. However, the costs claimed by voucher are presently overstated because of the duplication. The FACP costs, while understated are at the NOBA threshold and are not allowable for payment unless specifically approved by CMS. With respect to Trigon's request to re-file its FACPs, it is CMS' decision to grant the opportunity.

DATA CENTER TERMINATION COSTS

Trigon claimed $357,301 in data center termination costs incurred from September 1999 through April 2000 to cease operations as the central data center for five contractors. We questioned the entire $357,301 claimed for lack of CMS funding approval. We questioned $296,029 solely for lack of funding approval, and $61,272 for various additional reasons noted below.

Trigon did not submit a data center termination budget; therefore no funding was approved. As a result, we questioned $296,029 for lack of funding approval. These costs would have been otherwise allowable.

We also questioned $61,272 for various reasons in addition to lack of funding approval. The questioned costs consist of:

Retention Bonuses	$20,435
Fringe Benefits	$2,305
Data Center Termination Overhead Costs	$38,532

Trigon Response

Trigon officials agreed that there was no approved funding for core business termination activities. However, Trigon stated there was no requirement to submit a budget. Trigon takes the position that since these costs were otherwise legitimate and allowable, the costs should be reimbursed.

OIG Comment

We continue to question $296,029 in termination costs solely for lack of funding approval. These costs would have been otherwise allowable. However, it is CMS' determination as to whether payment should be made since they were never submitted for prior approval.

Retention Bonuses - $20,435

Trigon claimed $20,435 in retention bonuses for data center employees that were charged in duplicate or triplicate or were otherwise excessive in their allocation.

Trigon Response

- Of the $20,435 questioned, $3,300 relates to excess over the approved retention bonuses. As noted earlier, Trigon has filed an appeal with ASBCA for retention bonus finding.

- Trigon agreed that the remaining $17,135 was claimed twice but disagreed that the Medicare program as a whole was overcharged. The data center termination expenses were overstated while the FACP's core business operations expenses were understated by the same amount.

OIG Comment

- The OIG position on retention bonuses remains unchanged since Trigon has not provided any additional information on this issue.

- We agree that although Trigon claimed duplicate costs under core business transition and termination activities, the Medicare program as a whole was not necessarily overcharged because the FACP was undercharged. However, the costs claimed by voucher are presently overstated because of the duplication. The FACP costs, while understated are at the NOBA threshold and are not allowable for payment unless specifically approved by CMS. With respect to Trigon's request to re-file its FACPs, it is CMS' decision to grant the opportunity.

Fringe Benefits - $2,305

We questioned $2,305 in fringe benefits associated with the questioned retention bonuses.

Trigon Response

- Trigon officials did not agree with OIG's position questioning FICA taxes of $2,305 related to YF cost allocation. Of this amount, $252 relates to FICA on the retention bonus of $3,300 being disallowed on the basis that they exceeded the amount CMS approved. As noted earlier, Trigon has filed an appeal over the retention bonus issue.

- The remaining $2,053 relates to fringe benefits associated with the retention bonuses that were inadvertently claimed twice. However, as with the salaries, core business operations expenses were understated by the same amount.

OIG Comment

We continue to question the duplicate YF cost allocation of $2,305 because the cost was claimed twice or in some cases three times. The data center transition costs were overstated while the FACP's core business operations expenses were understated by the same amount.

Data Center Termination Overhead Costs - $38,532

Trigon claimed $38,532 in corporate overhead costs under data center termination activities. The cost represented corporate overhead incurred from September 1999 through April 2000. We questioned $38,532, which includes $4,892 duplicated in the Medicare Director's Cost Center (X9). We questioned the entire amount claimed because of the reasons stated under the CORE BUSINESS TRANSITION COSTS Section earlier in this report.

Trigon Response

- Trigon officials did not agree with OIG's position questioning $33,640 in overhead costs. Trigon stated that Section 1215 of the CMS Intermediary Manual supports the allowability of the overhead costs allocated to the transition activities. This section indicates that overhead is not allocable to a PI. None of the transition or termination vouchers meet the definition of a PI.

- Although Trigon agreed that $4,892 of overhead cost was claimed twice, they disagreed that the Medicare program as a whole was overcharged. Trigon stated that the data center transition cost was overstated while the FACP was understated by the same amount.

OIG Comment

- We disagree with Trigon's interpretation of CMS Intermediary Manual Section 1215 and Trigon's conclusion that it should be reimbursed for overhead costs. According to the CMS Intermediary Manual, the Government will only pay for identifiable incremental overhead costs incurred directly as a result of the project (in this case non-renewal activities). The specific overhead costs as they relate to the project must be identified. For Special Projects costs, the overhead pool is irrelevant because the Government will only pay for identifiable incremental costs, not allocated overhead cost.

  Our position is consistent with CMS's memorandum dated November 15, 2000 regarding the transition and termination issues. According to this memorandum, transition costs are non-recurring in nature and are funded as a PI. Only incremental costs are chargeable to the transition PI and all non-incremental costs continue to be charged to the ongoing operations.

- We agree that although Trigon claimed duplicate costs under core business transition and termination activities, the Medicare program as a whole was not necessarily overcharged because the FACP was undercharged. However, the costs claimed by voucher are presently overstated because of the duplication. The FACP costs, while understated are at the NOBA threshold and are not allowable for payment unless specifically approved by CMS. With respect to Trigon's request to re-file its FACPs, it is CMS' decision to grant the opportunity.

Y2K COSTS

This report covers $267,827 in Y2K costs claimed from November 1999 to April 2000. The OIG performed a review of Y2K costs incurred prior to November 1999 ($9,329,333) and issued an audit report (CIN: A-03-99-00039) on March 21, 2000 covering the period October 1, 1997 through October 31, 1999.

Trigon incurred Y2K costs to comply with various requirements related to the century date change. The CMS approved Trigon's Y2K budget for FY1999 totaling $6,180,200. Trigon, however, claimed $6,226,160 resulting in an excess claimed amount of $45,960. We questioned this cost because the amount claimed exceeded the amount approved. The Y2K costs claimed since November 1999 are otherwise fully supported and allowable.

The Medicare agreement, Article VI "Cost of Administration", paragraph H, stipulates that if at any time it appears that the approved budget will not be sufficient to cover administrative costs for the fiscal year, the intermediary shall notify the Secretary. In no event should the notification be less than 60 calendar days prior to the date in which it is estimated that the budget amount will be exhausted, unless the intermediary can demonstrate that such notice could not have been given within that time frame. The notification should also contain the intermediary's proposal as to how costs expected to be incurred may be reduced. The excess cost occurred because Trigon did not adhere with the budget limitations and restrictions.

Trigon Response

Trigon officials agreed that its actual costs exceeded CMS's budget by $45,960. Trigon believes that the expenses are otherwise supportable and allowable.

OIG Comment

We continue to question the costs for lack of funding.

CONCLUSIONS AND RECOMMENDATIONS

We are not making recommendations in this report for procedural improvements since Trigon voluntarily opted to discontinue the Medicare Part A program as of August 31, 1999. However, we are recommending that Trigon:

C Coordinate with CMS to reduce the costs claimed by \$3,464,705. The questioned costs include:

  < \$70,499 for on-going operations;

  < \$1,921,778 for core business transition;

  < \$640,610 for core business termination;

  < \$428,557 for data center transition;

  < \$357,301 for data center termination;

  < \$45,960 for Y2K activities claimed after October 1999.

TRIGON

July 13, 2001

Mr. David M. Long
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Inspector General
Office of Audit Services
150 S. Independence Mall West
Suite 316
Philadelphia, PA 19106-3499

Reference: Common Identification Number A-03-00-00002

Dear Mr. Long:

Thank you for the opportunity to respond to the OIG draft audit report entitled "REVIEW OF MEDICARE PART A ADMINISTRATIVE COSTS CLAIMED BY TRIGON BLUE CROSS BLUE SHIELD FOR FISCAL YEARS 1997 THROUGH 1999."

We would like to express our thanks to your staff in their diligence, cooperation and professionalism in their efforts to work through the issues contained within the aforementioned audit with Trigon staff.

Trigon made every effort to complete all cost reports and vouchers for expense reimbursements in an accurate manner and in accordance with its Medicare contract with HCFA.

We have attached our formal response and request that a copy of our response be included in the body of your final report as an exhibit.

A significant portion of the costs questioned within the audit relates to Trigon's retention bonuses paid to Medicare employees as incentive to retain their services until Trigon had completed its exit of the Medicare program. In our response to the audit, we have noted that Trigon has filed an appeal of the Contracting Officer's final decision to the Armed Services Board of Contract Appeals.

Again, we appreciate the opportunity to reply and if you have any questions you may call me at 540-853-3069, or you may contact Trigon's Controller Blair Lauver at 804-354-3489, regarding specific details related to our response.

Sincerely,

Paul S. Keyser

Paul S. Keyser
Vice President & General Manager Government Business

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RESPONSE TO OIG DRAFT AUDIT REPORT ENTITLED REVIEW OF MEDICARE PART A ADMINISTRATIVE COSTS FISCAL YEARS 1997 – 1999 TRIGON BLUE CROSS BLUE SHIELD

ON-GOING OPERATIONS COSTS

Section 401K Plan Matching Contributions - $50,283
Trigon claimed $50,283 in 401K Plan matching contributions related to retention plan bonuses. Trigon disagrees that the 401K matching contribution is not fair and reasonable. The audit asserts that there was no funding for the 401K matching contribution on retention bonuses and that 401K matching contributions were unreasonable because matching contributions were already paid on regular salaries. The fact that matching contributions were made on regular salaries should not affect contributions on retention bonuses. These 401K matching contributions are reasonable in nature and amount as evidenced by the fact that they meet I.R.S. limitations. Thus, they are allowable.

Inappropriate Overhead Allocation - $20,216

Trigon agrees that it inadvertently charged $7,754 for computer network tracking costs that should not have been charged to Medicare.

Trigon agrees that it inadvertently charged $12,462 in software cost that should not have been charged to Medicare.

CORE BUSINESS TRANSITION COSTS

Retention Bonuses - $1,701,678

The OIG has questioned a total of $1,701,678 of retention bonuses related to core transition.

Trigon disagrees with the OIG's conclusion and filed an appeal of the Contracting Officer's final decision to the Armed Services Board of Contract Appeals (ASBCA).

Regular Salaries and Bonus - $15,781

- The OIG has questioned $13,281 for duplicate salaries. This $13,281 represents salary cost for the Medicare Director and Medicare Operations Manager for the month of November 1999. The actual duplication issue involved the October salaries in the amount of $14,366.

Trigon captured all costs related to the Medicare program, including on-going operations, termination and transition expenses, as one line of business. To meet Medicare reporting requirements, which required separate expense vouchers for termination and transition expenses, Trigon would reclassify (i.e.- remove) the costs related to transition and termination from the total Medicare line of business to the individual transition and termination vouchers on a line item basis. The end results provided the mechanism to report and charge Medicare termination and transition expenses separately from on-going operations expenses. In the situation described, the \$14,366 was removed twice from on-going operations cost and reclassified, once to core business transition cost and once to core termination. Trigon has therefore undercharged Medicare as it relates to on-going operations expenses.

While we agree that there was an inadvertent duplication of expenses charged between core business transition expenses and core termination expenses, the on-going operations Final Administrative Cost Proposal (FACP) was undercharged by an amount equal to the duplication, thus negating any overcharge to Medicare.

In addition, to ensure that Medicare was not charged in duplicate for any items, Trigon performed a reconciliation of the total Medicare expenses captured to the total of all program expense vouchers. This analysis illustrates that Medicare was not overcharged in total for expenses allocated to Medicare. A copy of this reconciliation is included with this response as Attachment A. Trigon respectfully requests that it be granted the opportunity to re-file its FACP for on-going operations, so that it may adjust those on-going operations expenses for this understatement.

- Trigon is in agreement that the \$2,500 retention bonus claimed for an employee should not have been charged to Medicare since the individual did not remain an employee of Trigon until August 31, 1999, but rather left Trigon to work for UGS.

Fringe Benefits - \$ 132,360

- The OIG questioned \$129,268 of FICA taxes related to the retention bonuses. As noted earlier in this response, Trigon has appealed the Final Decision of the Contracting Officer to disallow a portion of the amount of retention bonus and related FICA taxes.

  Trigon received initial approval of \$36,937 for FICA related to the retention. Trigon agrees that after allowing for reductions in the FICA for employees that did not receive a bonus and for an inadvertent calculation error by Trigon, the approved FICA for retention is \$35,099. Trigon claimed \$160,234 of FICA related to the retention bonus, which is \$125,135 higher than the approved amount. Therefore, the amount of FICA taxes at issue should be \$125,135 and not \$129,268. Trigon accordingly, requests that the questioned costs be adjusted downward by \$4,133.

- Trigon agrees with \$911 of FICA being questioned related to the calculation error noted above.

- ➢ The $1,087 in questioned duplicate fringe benefits relates to the $13,281 salary issue referenced above in regular salaries and bonus. As with the salary issue described above, the actual fringe benefit duplication was for October and was in the amount of $1,437. Based upon the same rationale as the salary explanation, Trigon agrees that there was a duplicate charge to core business transition and core business termination, however, on-going operations received a duplicate expense reduction resulting in an undercharge to on-going operations in the amount of $1,437. Trigon respectfully requests that it be granted the opportunity to re-file its FACP for on-going operations, so that it may adjust those on-going operations expenses for this understatement.

- ➢ Trigon agrees that it inadvertently failed to remove the $1,094 pension accrual from Medicare core business transition costs.

Accounting and Consulting Fees - $12,736

The OIG has questioned $12,736 of consulting fees paid to Arthur Andersen because the amount billed to Medicare was greater than the amount approved by HCFA. As the audit indicates, Trigon claimed $216,709 in accounting and consulting fees paid to Arthur Andersen and received approval for $204,059. Trigon requests that an additional $12,736 in consulting fees be approved because the expenses were legitimate and otherwise allowable expenses.

The expenses were for a wide range of services, which included:

- Develop transition workplans for the Medicare Part A contract
- Develop cutover plans for the Medicare Part A contract
- Monitor progress against the transition and cutover plans
- Report areas requiring management attention based upon progress against the plans
- Update the transition workplans and the cutover plans
- Develop the transition budgets for the Medicare Part A contract
- Assist management in the overall transition effort (e.g., track the identification and resolution of major issues which can impede the transition effort)

Trigon respectfully requests approval and reimbursement of the additional expenses questioned in the amount of $12,736.

Other Direct Costs - $9,123

- ➢ Trigon does not agree that it simultaneously claimed $8,771 in travel cost under on-going operations and core business transition activities.

  Upon a detailed review with the OIG, both parties agreed that these costs were not charged in duplicate.

  Trigon respectfully requests that this issue be removed from the audit report.

- Trigon allocated $352 to core business transition for expenses related to a former Trigon employee who was hired by Trigon's Medicare successor UGS. Because UGS did not have space to accommodate any of the former Trigon employees that it hired, Trigon agreed to continue to perform and bill UGS for Medicare related services until October 1999. As a part of the process to transition the business to UGS, a procedure was set-up whereby Trigon would continue to perform certain Medicare related services and UGS would reimburse Trigon. UGS would in turn bill Medicare for reimbursement. Trigon inadvertently failed to include $352 of expenses in billings to UGS and billed Medicare as a core transition expense instead.

  Trigon does not agree that Medicare did not benefit from the $352 charge for telephone and occupancy charges. The expenses charged was $41 parking, $221 occupancy, and $90 of telephone expenses. These expenses were legitimate Medicare expenses that were incorrectly billed to core business instead of UGS.

  Since the expenses were legitimate Medicare expenses Trigon requests that this item be removed from the report in the interest of overall efficiency and Trigon be reimbursed for these expenses.

Core Business Transition Overhead Costs - $61,919

Trigon takes exception to the OIG questioning of $61,919 for overhead charges that the OIG claims did not meet Medicare guidelines.

Trigon accumulated all costs related to all Medicare activities into one line of business and then distributed the costs in order to meet the reporting requirements of HCFA. As such, the overhead charged to the various termination and transition vouchers would have been a routine overhead charge in the normal course of business, and was calculated in accordance with Section 1212.10 of the HCFA Intermediary Manual.

The audit report cites section 4215 of the HCFA Intermediary Manual as guidance to disallow overhead. Based upon further discussion with the OIG it was determined that the reference was to Section 4215 of the Carrier Manual and should have been to the Intermediary Manual Section 1215.

Section 1215 of the HCFA Intermediary Manual indicates that overhead is allocable to fiscal activities i.e. budget and cost reporting (Section 1215.A.2). This section indicates that overhead is not allocable to Productivity Investments. None of the termination or transition vouchers meet the definition of a Productivity Investment. The category Productivity Investment is self-defining as evidenced by the list of activities i.e. --administrative enhancements, legislative mandates, software installation etc--, that are defined as Productivity Investments in the HCFA Intermediary Manual (6/1/98).

The $61,919 of overhead costs assigned to data center transition meets the requirements of Section 1215 of the HCFA Intermediary Manual and should not be excluded as

Productivity Investments. Trigon respectfully requests that this audit finding be removed from the audit report.

CORE BUSINESS TERMINATION COSTS

Unapproved costs - $318,522

Trigon claimed a total of $640,570 for core business termination costs. The OIG acknowledged that $318,522 of the amount claimed were allowable expenses incurred by Trigon in terminating the business. The OIG questioned the $318,522 of expenses because a core business termination budget was not submitted to HCFA.

To the best of Trigon's knowledge, there was no requirement to submit a budget.

Since the OIG acknowledged that $318,522 is legitimate allowable expenses incurred in connection with the termination, Trigon respectfully requests reimbursement for these expenses and that this issue be removed from the audit report.

Salaries and Wages - $31,520

- Trigon takes exception to the OIG's questioning of $26,829 in salary expenses for the Medicare Director from December 1999 through April 2000. This amount represents all of the Directors salary charged to Medicare during that period. As stated in the audit report, Trigon charged 100 percent of the Directors salary in December 1999 and January 2000, 60 percent in February, 40 percent in March, and 24.4 percent in April.

  The OIG requested very specific detailed support for the Medicare Director's time subsequent to the time the work was actually performed. Trigon used sound and reasonable judgement based upon the ongoing work efforts of the Director in charging Medicare. As Medicare efforts did begin winding down, Trigon made reductions in the portion of the Directors' salary charged to Medicare. The Medicare Director remained a full time employee at Trigon throughout the period and the expenses over and above the amounts charged to Medicare were absorbed by Trigon.

  By December 1999, the Medicare Director represented the only Trigon Medicare employee retained during this period and was the primary source of information especially to Trigon's Finance Division and to Arthur Andersen. The Medicare Director was the only person that could address and answer issues pertaining to the three previous fiscal years, which were still being audited during the time in question. The Director worked closely in all shutdown efforts including subcontractors, OIG audits, data center shutdown, and Trigon's Medicare retention bonus.

  Trigon respectfully requests that this audit finding be removed from the report and reimbursement to Trigon be approved.

➢ Trigon has reviewed the circumstances surrounding the $4,691 charge to Medicare for the Operations Manager's salary for December 1999, and has determined that this amount should not have been charged to Medicare.

Fringe Benefits - $8,424

➢ The OIG questioned $3,276 of FICA inadvertently charged to core business termination and data center transition activities. As explained earlier in our response under the Core Business Transition Costs section of the report, on-going operations expenses were understated by this same amount. Trigon respectfully requests that it be granted the opportunity to re-file its FACP for on-going operations, so that it may adjust those on-going operations expenses for this understatement.

➢ The OIG questioned $4,384 of fringe benefits for the Medicare Operations Manager and the Medicare Director. Trigon agrees that $572 of fringe benefits related to the Operations Manager's salary for December 1999 should not have been charged to Medicare. Trigon does not, however, agree with the $3,812 of fringe benefits related to the Medicare Directors' salary from December 1999 through April 2000 for the same reasons as stated above under salaries and wages.

➢ Trigon takes exception to the questioning of $764 in 401K matching contributions on a retention bonus payment. Trigon does not agree for the same reasons stated earlier in our response in the On-going Operations section of the audit report.

Accounting and Consulting Fees - $174,455

The OIG has questioned $174,455 of fees paid to Arthur Andersen during the period September 1999 through April 2000.

Arthur Andersen provided substantial support and guidance to the company during this termination period including:

- Transition services provided to Trigon during the months of September to December.
- Development of the service agreement vouchers to UGS as part of the transition agreements between Trigon and UGS.
- Assisting Trigon in developing supporting data to be presented to HCFA with respect to the retention bonus paid.
- Development of termination methodology
- Assistance in development of termination vouchers.

Arthur Andersen provided significant value in assisting Trigon in the development of a methodology for submission of the termination vouchers. Since the termination of Trigon's Medicare contract was a unique event, the development of the Medicare termination vouchers was different from the budgetary process for the ongoing Medicare contracts. Consequently, Trigon used Arthur Andersen to develop a methodology for the termination vouchers for the core terminations and the data center termination. The methodology used was provided to HCFA in the methodology and cost determinations narrative section of these vouchers. Arthur Andersen worked with Trigon employees to develop a methodology that would meet the requirements of the termination activities. Arthur Andersen then worked with the individual Medicare cost center managers and the Trigon's finance staff to obtain the necessary data to complete the termination vouchers.

The OIG asserts that the services performed by Arthur Andersen could have been performed internally. It is not appropriate for the OIG to second guess the business judgement of Trigon management. Accounting and Consulting fees are allowable costs if they are reasonable in nature and amount. Trigon management determined that internal staff within Trigon could not have performed all of the services provided by Arthur Andersen. Arthur Andersen provided significant value to the termination effort and its fees were fair and reasonable given the scope and size of the contract being exited by Trigon. Moreover, retention of consultants in this circumstance is not unusual.

This work performed by Arthur Andersen was a continuation of the work performed during the period April through August of 1999. The expenses billed related to the April - August work (Core Business Transition Costs) was $216,795, of which HCFA had already approved $204,059. The efforts related to those expense i.e. transition expenses were unrelated to the $174,755.

Trigon respectfully requests that this issue is removed from the audit report and Trigon is reimbursed for these expenses accordingly.

Core Business Termination Overhead Costs - $102,822

The OIG questioned $89,651 of the overhead costs on the basis that they did not meet Medicare guidelines and $13,171 in duplicate overhead costs related to the Medicare Directors' costs.

As noted previously in our response, Trigon accumulated all costs related to all Medicare activities into one line of business and then distributed the costs in order to meet the reporting requirements of HCFA. As such, the overhead charged to the various termination and transition vouchers would have been a routine overhead charge in the normal course of business, and was calculated in accordance with Section 1212.10 of the HCFA Intermediary Manual.

Section 1215 of the HCFA Intermediary Manual indicates that overhead is allocable to fiscal activities i.e. budget and cost reporting (Section 1215.A.2). This section indicates that overhead is not allocable to Productivity Investments. Trigon does not agree that any of the termination or transition vouchers meet the definition of a Productivity Investment. The category Productivity Investment is self-defining as evidenced by the list of activities i.e. administrative enhancements, legislative mandates, software installation etc, that are defined as Productivity Investments in the HCFA Intermediary Manual (6/1/98).

Trigon does not agree with the OIG and asserts that $89,651 of the overhead costs assigned to core business termination meets the requirements of Section 1215 of the Intermediary Manual and should not be excluded as Productivity Investments.

Trigon respectfully requests that this audit finding be modified to question only the duplicate charge of $13,171 related to the Medicare Director's overhead charge. As explained earlier in our response under the Core Business Transition Costs section of the report, on-going operations expenses were understated by this same amount. Trigon respectfully requests that it be granted the opportunity to re-file it's FACP for on-going operations, so that it may adjust those on-going operations expenses for this understatement.

Sales Tax - $4,827

Trigon agrees that the $4,827 sales tax on sale of furniture and equipment should not have been charged to Medicare.

DATA CENTER TRANSITION COSTS

Salaries and Wages - $158,536

- The OIG has questioned $36,661 of salaries for five data center employees that were charged to data center transition. Trigon does not agree that a duplication of salaries occurred in this instance.

  As explained earlier in our response, Trigon captured all costs related to the Medicare program, including on-going operations, termination and transition expenses, as one line of business. In order to meet Medicare reporting requirements, which required separate expense vouchers for termination and transition expenses, Trigon reclassified (i.e.- removed) the costs related to transition and termination from the total Medicare line of business to the individual transition and termination vouchers on a line item basis. The end results provided the mechanism to report and charge Medicare termination and transition expenses separately from on-going operations expenses.

  In this situation Trigon charged the salaries to data center transition, but made the appropriate offsetting reductions to on-going operations expenses. The OIG did not recognize the offsetting credit that was made to on-going operations.

  Trigon respectfully requests that this issue be removed from the audit report.

- The OIG has questioned a total of $11,787 of retention bonuses, charged to the salaries and wages line item, on the basis that they exceeded the amount of the HCFA's approval. As noted earlier in this response Trigon has appealed the Contracting Officer's final decision on these costs.

- The OIG has questioned $110,088 of retention bonus charges that were inadvertently duplicate charged to data center transition. Trigon does not agree that $18,503 of retention was duplicated as a part of the $110,088. The $18,503 bonus was only claimed one time and was included in the salaries and wages of data center transition. As mentioned above Trigon made the appropriate offsetting reductions to on-going operations expenses. The OIG did not recognize the offsetting credit that was made to on-going operations.

- The remaining $91,585 ($110,088 - $18,503) is being questioned as a duplicate retention bonus charge. As explained earlier in our response under the Core Business Transition Costs section of the report, on-going operations expenses were understated by this same amount. Trigon respectfully requests that it be granted the opportunity to re-file its FACP for on-going operations, so that it may adjust those on-going operations expenses for this understatement.

Retention Bonuses - $84,818

- The OIG has questioned a total of $84,818 of retention bonuses on the basis that they exceeded the amount of the HCFA's approval. As noted earlier in this response Trigon has filed a formal complaint on June 27, 2001 appealing the final decision made by the Contracting Officer disallowing a portion of the retention bonus and related FICA taxes.

Fringe Benefits - $28,241

- The OIG questioned $6,489 of FICA taxes related to the retention bonuses. This issue will be dealt with in the ASBCA appeal.

- Trigon is in agreement that the following items were claimed in more than one place, as noted.

- FICA on duplicate retention bonuses	$1,824 ($3,239 - $1,415)
- Duplicate 401K matching contributions	$1,490
- Accrued pensions	$2,925
- YF allocation pool	$6,818

  As explained earlier in our response under the Core Business Transition Costs section of the report, on-going operations expenses were understated by these same amounts. Trigon respectfully requests that it be granted the opportunity to re-file its FACP for on-going operations, so that it may adjust those on-going operations expenses for these understatements.

- Trigon does not agree that FICA, amounting to $3,077, health insurance amounting to $2,564, and miscellaneous fringes of $224, on salaries of $36,661 were duplicate charges for the same reasons as mentioned in the response to salaries above.

- Trigon does not agree that FICA, amounting to $1,415, on a retention bonus of $18,503 was a duplicate charge for the same reasons as mentioned in that section above.

Computer Consulting Costs - $17,697

Trigon agrees with the OIG that it incorrectly claimed $17,697 of computer consulting costs as a transition cost as opposed to a termination cost. The costs were legitimate and otherwise allowable however, as a result of a classification error, the costs were inadvertently charged to transition as opposed to termination.

Trigon requests that it have the opportunity to refile it's Data Center Termination voucher to claim an additional $17,697 of computer consulting costs.

Data Center Transition Overhead Costs - $139,265

Trigon claimed $155,144 in overhead costs for data center transition and not $288,399, as indicated in the first sentence of the audit finding. The OIG accepted $15,879 of the overhead charged to data center transition.

Trigon charged a total of $296,498 of overhead to data center transition, data center termination and core termination. The overhead was split among the three aforementioned categories, of which $155,144 went to data center transition. As previously mentioned in this response, Trigon accumulated all costs related to all Medicare activities into one line of business and then distributed the costs in order to meet the reporting requirements of HCFA. As such the overhead charged to the various termination and transition vouchers would have been a routine overhead charge in the normal course of business, and was calculated in accordance with Section 1212.10 of the HCFA Intermediary Manual.

As the OIG audit report indicates, Trigon received approval from HCFA on November 15, 1999, for $64,173 in data center transition overhead cost, out of a total approval of $1,150,900, for data center transition.

Section 1215 of the HCFA Intermediary Manual indicates that overhead is allocable to fiscal activities i.e. budget and cost reporting (Section 1215.A.2). This section indicates that overhead is not allocable to Productivity Investments. Trigon does not agree that any of the termination or transition vouchers meet the definition of a Productivity Investment. The category Productivity Investment is self-defining as evidenced by the list of activities i.e. administrative enhancements, legislative mandates, software installation etc, that are defined as Productivity Investments in the HCFA Intermediary Manual (6/1/98).

Trigon believes that an additional $119,696 of overhead charged to data center termination should be accepted. This is based upon the fact that the HCFA approved $64,173 in its 11/15/1999 letter, as well as the fact that Section 1215 of the HCFA Intermediary manual allows overhead to be charged to non-productivity investment operations

Trigon is in agreement that it inadvertently duplicate charged for the Medicare Director by $19,569 in the overhead category. As explained earlier in our response under the Core

Business Transition Costs section of the report, on-going operations expenses were understated by this same amount. Trigon respectfully requests that it be granted the opportunity to re-file it's FACP for on-going operations, so that it may adjust those on-going operations expenses for this understatement.

DATA CENTER TERMINATION COSTS

Unapproved costs

Trigon claimed a total of $357,301 for data center termination costs. The OIG agreed that $254,392 of the amount claimed was legitimate allowable expenses incurred by Trigon in terminating the data center. The OIG questioned this amount, however, because a budget was not submitted to HCFA for funding.

To the best of Trigon's knowledge, there was no requirement to submit a budget.

Trigon respectfully requests reimbursement for these expenses and that the issue is removed from the audit report, since these amounts were legitimate, allowable data center termination expenses.

Retention Bonuses - $20,435

The OIG has disallowed $20,435 of retention bonuses charged in data center transition. Of this amount the OIG has questioned $3,300 of retention bonuses on the basis that they exceeded the amount of the HCFA's approval. As noted earlier Trigon has appealed this issue to the ASBCA. The remaining $17,135 is being questioned as a duplicate charge.

As explained earlier in our response under the "Core Business Transition Costs" section of the report, on-going operations expenses were understated by the same amount ($17,135). Trigon respectfully requests that it be granted the opportunity to re-file it's FACP for on-going operations, so that it may adjust those on-going operations expenses for this understatement.

Fringe Benefits - $2,305

The OIG questioned $2,305 in fringe benefits associated with the retention bonuses. Of this amount $252 is FICA on the retention bonus of $3,300 being disallowed on the basis that they exceeded the amount of the HCFA's approval, which as noted earlier Trigon has appealed.

Of the remaining $2,053 Trigon agrees that the fringe benefits associated with the retention bonuses were inadvertently duplicate charged. However, as with the salaries, on-going operations fringe benefits were understated by the same amount.

As explained earlier in our response under the Core Business Transition Costs section of the report, on-going operations expenses were understated by the same amount. Trigon respectfully requests that it be granted the opportunity to re-file it's FACP for on-going operations, so that it may adjust those expenses for the inadvertent reduction as it relates to the duplicative credits.

EDP Equipment - $41,637

Trigon is not in agreement that Medicare was charged twice for the same tape drive equipment. The duplicate charge item represented an accrual made in December charged in December, but then reversed in January with the reversal also being reflected in the Medicare vouchers.

During the OIG exit conference, OIG staff agreed with Trigon's position.

Trigon respectfully requests that this issue be removed from the audit report.

Data Center Termination Overhead Costs - $38,532

The OIG questioned $33,640 of the overhead costs that the OIG claims did not meet Medicare guidelines and $4,892 in duplicate overhead costs related to the Medicare Directors' costs.

As noted earlier, Trigon accumulated all costs related to all Medicare activities into one line of business and then distributed the costs in order to meet the reporting requirements of HCFA. As such, the overhead charged to the various termination and transition vouchers would have been a routine overhead charge in the normal course of business, and was calculated in accordance with Section 1212.10 of the Medicare Part A manual.

Section 1215 of the HCFA Intermediary Manual indicates that overhead is allocable to fiscal activities i.e. budget and cost reporting (Section 1215.A.2). This section indicates that overhead is not allocable to Productivity Investments. Trigon does not agree that any of the termination or transition vouchers meet the definition of a Productivity Investment. The category Productivity Investment is self-defining as evidenced by the list of activities i.e. administrative enhancements, legislative mandates, software installation etc, that are defined as Productivity Investments in the HCFA Intermediary Manual (6/1/98).

Trigon does not agree with the OIG and asserts that an additional $33,640 of the overhead costs assigned to data center transition meets the requirements of Section 1215 of the Intermediary Manual and should not be excluded as Productivity Investments.

Trigon respectfully requests that this audit finding be modified to question only the duplicate charge of $4,892 related to the Medicare Director's overhead charge. As explained earlier in our response under the Core Business Transition Costs section of the report, on-going operations expenses were understated by this same amount. Trigon respectfully requests that it be granted the opportunity to re-file it's FACP for on-going operations, so that it may adjust those on-going operations expenses for this understatement.

Y2K COSTS

Trigon is in agreement that its actual costs exceeded HCFA's budget by $45,960.

As the OIG noted, the expenses are otherwise fully supportable and allowable.

Trigon, respectfully requests that HCFA approve the additional $45,960 of Y2K expenses.