



DEPARTMENT OF HEALTH & HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL

OFFICE OF AUDIT SERVICES

150 S. INDEPENDENCE MALL WEST

SUITE 316

PHILADELPHIA, PENNSYLVANIA 19106-3499

FEB 10 2009

Report Number: A-03-06-00002

Mr. Bill Stack
Vice President & Controller
CareFirst of Maryland, Inc.
10455 Mill Run Circle
Owings Mills, Maryland 21117

Dear Mr. Stack:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of CareFirst Blue Cross/Blue Shield of Maryland Medicare Part A Final Administrative Cost Proposals for Fiscal Years 2003 - 2005." We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

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

Pursuant to the Freedom of Information Act, 5 U.S.C. § 552, OIG reports generally are made available to the public to the extent that information in the report is not subject to exemptions in the Act. Accordingly, this report will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Michael Walsh, Audit Manager, at (215) 861-4480 or through e-mail at Michael.Walsh@oig.hhs.gov. Please refer to report number A-03-06-00002 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen Virbitsky", with a long horizontal flourish extending to the right.

Stephen Virbitsky
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Nanette Foster Reilly, Consortium Administrator
Consortium for Financial Management & Fee for Service Operations
Centers for Medicare and Medicaid Services
601 East 12th Street, Room 235
Kansas City, Missouri 64106

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF CAREFIRST
BLUE CROSS/BLUE SHIELD OF
MARYLAND MEDICARE PART A
FINAL ADMINISTRATIVE
COST PROPOSALS FOR FISCAL
YEARS 2003 - 2005**



Daniel R. Levinson
Inspector General

February 2009
A-03-06-00002

Office of Inspector General

<http://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

BACKGROUND

Medicare Program

Pursuant to Title XVIII of the Social Security Act (the Act), the Medicare program provides health insurance for people 65 years of age and older, people under 65 with certain disabilities, and people of all ages with end-stage renal disease (permanent kidney failure requiring a kidney transplant or dialysis). Medicare Part A provides coverage for inpatient hospital care, post-hospital extended care, and post-hospital home health care. Medicare Part B is an optional medical insurance program that covers physician services, hospital outpatient services, home health care not related to a hospital stay, and other health services.

The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program. During our audit period, CMS contracted with intermediaries for Part A and carriers for Part B, usually large insurance companies, to assist in administering the programs. CMS pays intermediaries and carriers for all reasonable and allowable costs incurred in administering the programs.

CareFirst Blue Cross/Blue Shield of Maryland

CMS contracted with CareFirst Blue Cross & Blue Shield of Maryland (CareFirst) to serve as the Part A intermediary responsible for processing all Maryland Part A claims. CareFirst and CMS negotiated an annual budget for all allowable costs related to the administration of this program. The costs are claimed for reimbursement on the final administrative cost proposal (cost proposal). The cost proposals and supporting data serve as the basis for the final settlement of allowable administrative costs. For the period October 1, 2002, through September 30, 2005, CareFirst claimed administrative costs of \$31,320,164.

In July 2005, CareFirst exercised its contractual option to terminate participation as a Medicare contractor for Part A and notified CMS accordingly. Both CareFirst and CMS agreed this termination would be effective on September 30, 2005.

OBJECTIVE

Our objective was to determine whether the administrative costs that CareFirst claimed in its cost proposals complied with applicable Federal requirements and CMS contract provisions.

SUMMARY OF FINDINGS

From October 1, 2002, through September 30, 2005, CareFirst generally claimed costs in accordance with Federal requirements and CMS contract provisions. However, CareFirst's claims included costs totaling \$67,017 that were not allowable for Medicare reimbursement as follows:

- \$31,242 for salary and related expenses that were not fully supported by adequate documentation for fiscal years (FY) 2003 and 2004;
- \$21,878 for salaries that exceeded the executive compensation cap determined by Federal guidelines for FY 2005;
- \$13,749 in accounting adjustment errors for FYs 2003 through 2005; and
- \$148 in math errors on timesheets that caused overpayments during FY 2003.

CareFirst had controls in place but did not always follow them to properly identify and support costs claimed.

RECOMMENDATION

We recommend that CareFirst reduce the costs claimed on its cost proposals by a total of \$67,017 for overpayments identified for FYs 2003 through 2005 (see Appendix A).

CAREFIRST COMMENTS

In its comments to our draft report, CareFirst concurred with all of our findings totaling \$67,017. CareFirst's comments are included as Appendix C.

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INTRODUCTION

BACKGROUND

Medicare Program

Pursuant to Title XVIII of the Social Security Act (the Act), the Medicare program provides health insurance for people 65 years of age and older, people under 65 with certain disabilities, and people of all ages with end-stage renal disease (permanent kidney failure requiring a kidney transplant or dialysis). Medicare Part A provides coverage for inpatient hospital care, post-hospital extended care, and post-hospital home health care. Medicare Part B is an optional medical insurance program that covers physician services, hospital outpatient services, home health care, and other health services.

The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program. During our audit period, CMS contracted with intermediaries for Part A and carriers for Part B, usually large insurance companies, to assist in administering the programs.¹ CMS pays intermediaries and carriers for all reasonable and allowable costs incurred in administering the programs.

CareFirst Blue Cross & Blue Shield of Maryland Medicare Contract

CMS contracted with CareFirst Blue Cross & Blue Shield of Maryland (CareFirst) to serve as the Part A intermediary responsible for processing all Medicare Part A claims in Maryland. CareFirst's administrative costs were reimbursed under the terms of its contract with CMS. Specifically, Appendix B of the contract set forth principles of reimbursement for administrative costs and references Federal regulations, primarily Part 31 of the Federal Acquisition Regulation (FAR) that identify allowable administrative costs.

CareFirst and CMS negotiated an annual budget for all allowable costs, which are claimed for reimbursement on the final administrative cost proposal (cost proposal). The cost proposal and supporting data serve as the basis for the final settlement of allowable administrative costs at the end of each fiscal year (FY).

In July 2005, CareFirst exercised its contractual option to terminate participation as a Medicare contractor and notified CMS accordingly. Both CareFirst and CMS agreed that this termination would be effective on September 30, 2005. CMS agreed to reimburse costs related to the termination process under a separate agreement. We reviewed the allowability of the termination costs in a separate audit.²

¹Section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P.L. 108-173, transitioned the governance of Medicare administration contracts to section 1847A of the Act effective October 1, 2005.

²"Review of Severance and Termination Costs Claimed by CareFirst Blue Cross/Blue Shield of Maryland for the Period October 2005 Through December 2006," issued January 9, 2008 (report number A-03-07-00022).

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the administrative costs that CareFirst claimed in its cost proposals complied with applicable Federal requirements and CMS contract provisions.

Scope

Our review covered the period from October 1, 2002, through September 30, 2005. For this period, CareFirst reported to CMS administrative costs of \$31,320,164 on its cost proposals (see Appendix A). We performed a limited review of CareFirst's internal controls to obtain an understanding of accounting policies and procedures relevant to the audit objectives and not to provide assurances on the internal control structure.

We performed our fieldwork at the offices of CareFirst Blue Cross & Blue Shield of Maryland in Owings Mills, Maryland, and the data center in Columbia, Maryland, from November 2005 through October 2006.

Methodology

To accomplish our objective, we

- reviewed Federal requirements, including the Federal Acquisition Regulations, and Office of Management and Budget (OMB) guidance;
- reviewed CareFirst's policies and procedures;
- reviewed contracts between CareFirst and CMS;
- obtained an understanding of the accounting system regarding how costs reported on the cost proposal correlated to all costs;
- reconciled the cost proposal with the accounting records and reviewed direct charge, payroll documents, and the basis for allocating certain indirect costs;
- reviewed executive compensation calculations to verify that salaries claimed were under the cap as mandated by Federal guidelines;
- analyzed source documents for complementary insurance credits to ensure that CareFirst complied with related policies and credits due Medicare were properly included in the cost proposals;

- tested 394 judgmental selected costs items such as payroll, building, depreciation, subcontract, equipment, training, and travel; and
- communicated with regional CMS officials throughout the course of the audit.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

FINDINGS AND RECOMMENDATION

From October 1, 2002, through September 30, 2005, CareFirst generally claimed costs in accordance with Federal requirements and CMS contract provisions. However, CareFirst's cost proposals included costs totaling \$67,017 that were not allowable for Medicare reimbursement as follows:

- \$31,242 for salary and related expenses that were not fully supported by adequate documentation for FY 2003 and 2004;
- \$21,878 for salaries that exceeded the executive compensation cap determined by Federal guidelines for FY 2005;
- \$13,749 in accounting adjustment errors for FYs 2003 through 2005; and
- \$148 in math errors on timesheets that caused overpayments during FY 2003.

CareFirst had controls in place but did not always follow them to properly identify and support costs claimed.

FEDERAL REGULATIONS

FAR 31.201-2(d) states that:

[a] contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost which is inadequately supported.

SALARY AND RELATED EXPENSES

During FYs 2003 and 2004, CareFirst charged to Medicare \$29,862 in direct and \$1,380 in indirect salaries and related expenses, for a total of \$31,242 in salaries and related expenses for which it did not provide adequate documentation. Appendix B reflects the monetary effect of the unsupported costs for salary and related expenses considering the rates allocated to Medicare.

Fiscal Year 2003

Direct Costs for Salaries

CareFirst was unable to provide timesheets for a payroll sample of \$1,801.

Indirect Costs for Salaries and Related Expenses

CareFirst was unable to provide any support for a payroll expense of \$92,170. The amount charged to Medicare for this expense was \$1,078, or 1.17 percent.

CareFirst was unable to locate a timesheet that would have provided evidence of the time the employee worked and approval of that time to support the employee's salary of \$2,867 for that pay period. CareFirst charged to Medicare \$221, or 7.7 percent, of the employee's salary.

Fiscal Year 2004

Direct Salaries and Related Expenses

CareFirst was unable to provide timesheets to support a payroll expense of \$21,309. CareFirst was also unable to provide any support for a Federal Insurance Contributions Act (FICA) tax expense of \$5,161.

CareFirst was also unable to provide a timesheet that would have provided proof of the time an employee worked and evidence that the time worked was approved. The timesheet would have provided documentation to support the employee's salary of \$1,591 for that pay period.

Indirect Salaries and Related Expenses

CareFirst was unable to provide timesheets for a payroll sample of \$4,099. The amount charged to Medicare for this expense was \$81, or 1.97 percent.

EXECUTIVE COMPENSATION

Pursuant to section 39 of the Office of Federal Procurement Policy Act (41 U.S.C. § 435), as amended, OMB established \$473,318 as the maximum "benchmark" compensation amount

allowable under Government contracts for FY 2005.³ The benchmark compensation amount applies equally to both defense and civilian procurement agencies.

Our review of executive compensation disclosed that CareFirst underreported a credit due CMS, totaling \$21,878, on its 2005 cost proposals. CareFirst should have reported a credit of \$31,878 for salaries over the mandated salary cap of \$473,318 for the top five executives. Instead, CareFirst reported \$10,000. CareFirst calculated the credit correctly on its accounting worksheets but posted the incorrect amount on the cost proposal. Our follow-up conversation with accounting staff disclosed that the \$10,000 reported on the cost proposal was a preliminary estimated amount that should have been corrected to reflect the actual credit of \$31,878. As a result, CareFirst overstated expenses on the cost report by \$21,878.

ACCOUNTING ADJUSTMENT ERRORS

Our review of yearend manual accounting adjustments identified eight discrepancies on the cost proposals for FYs 2003, 2004, and 2005 that resulted in overpayments totaling \$13,749. The eight discrepancies involved both positive and negative amounts. There were four errors in FY 2003 amounting to (\$3,920); one error in FY 2004 for \$323; and three errors in FY 2005 amounting to \$17,346. For these discrepancies, CareFirst's Accounting Department made incorrect postings to the yearend manual worksheets.

For example, for one of the three errors CareFirst made a payment of \$13,181 in FY 2004 and recorded it in the FY 2004 yearend adjustments. CareFirst also included the payment in the FY 2005 expenses; however, there was no follow-up adjustment in FY 2005.

TIMESHEET MISCALCULATIONS

CareFirst miscalculated hours recorded on timesheets which resulted in an overpayment on the FY 2003 cost proposal. Based on a detailed review of timesheets for a sample of direct salary expenses, the hours paid sometimes exceeded the actual hours worked as calculated. We found seven overpayments totaling \$148.

The respective departments did not adequately ensure the weekly hourly postings were reflective of the actual times in and out as noted on the timesheets. The matter was discussed with officials of the payroll department.

RECOMMENDATION

We recommend that CareFirst reduce the costs claimed on its cost proposals by a total of \$67,017 for overpayments identified for FYs 2003 through 2005 (see Appendix A).

³70 Fed. Reg. 23888, 23889 (May 5, 2005).

CAREFIRST COMMENTS

In its comments to our draft report, CareFirst concurred with all of our findings totaling \$67,017 and stated that the disallowed costs will be included in the final resolution process.

APPENDIXES

**CAREFIRST OF MARYLAND, INC.
MEDICARE PART A**

**FINAL ADMINISTRATIVE COST PROPOSALS
AND OFFICE OF INSPECTOR GENERAL
RECOMMENDED AUDIT ADJUSTMENT**

Cost Category	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005	Total Costs Claimed
Salaries/Wages	\$5,912,959	\$5,798,554	\$5,978,227	\$17,689,740
Overtime & Temporary Help	180,641	264,835	395,292	\$840,768
Fringe Benefits	1,464,259	1,652,057	1,662,540	\$4,778,856
Facilities or Occupancy	587,522	576,722	645,715	\$1,809,959
EDP Equipment	276,433	317,777	357,134	\$951,344
Subcontractors	115,165	146,594	109,468	\$371,227
Outside Prof. Services	918,537	945,861	1,113,588	\$2,977,986
Telephone & Telegraph	170,363	130,562	132,611	\$433,536
Postage & Express	463,911	492,695	496,274	\$1,452,880
Furniture & Equipment	65,349	48,201	44,220	\$157,770
Materials & Supplies	130,845	124,566	122,508	\$377,919
Travel	141,553	135,822	100,495	\$377,870
Return on Investment	22,589	34,267	48,735	\$105,591
Miscellaneous	136,084	70,412	113,306	\$319,802
Comp. Credits	(475,140)	(550,209)	(641,731)	(\$1,667,080)
Consulting	34,191	19,507	286,481	\$340,179
Legal Fees	(7,321)	757	1,025	(\$5,539)
Forward Funding	0	7,353	0	\$7,353
Total Costs Reported on Final Administrative Cost Proposal	\$10,137,940	\$10,216,333	\$10,965,888	\$31,320,161¹
Office of Inspector General Recommended Disallowance	(\$672)	\$28,465	\$39,224	\$67,017
Office of Inspector General Recommended for Acceptance	\$10,138,612	\$10,187,868	\$10,926,664	\$31,253,144

¹Actual costs claimed on the Final Administrative Cost Proposals equaled \$31,320,164. Difference is due to rounding.

**UNSUPPORTED SALARIES AND RELATED EXPENSES FOR
FISCAL YEARS 2003 AND 2004**

Table 1: Unsupported Salary and Related Expenses

Sample Type	Year	Amount Not Supported	Percent Applicable to Medicare	Amount Not Allowed
Direct	2003	\$1,801	100	\$1,801
Indirect	2003	2,867	7.70	221
Indirect	2003	92,170	1.17	1,078
Direct	2004	5,161	100	5,161
Direct	2004	1,591	100	1,591
Direct	2004	21,309	100	21,309
Indirect	2004	4,099	1.97	81
Total		\$128,998		\$31,242

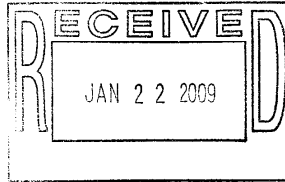
Table 2: Direct Only - By Year

Sample Type	Year	Amount Not Supported	Percent Applicable to Medicare	Amount Not Allowed	Total for Year
Direct	2004	\$5,161	100	\$5,161	
Direct	2004	1,591	100	1,591	
Direct	2004	21,309	100	21,309	\$28,061
Direct	2003	1,801	100	1,801	1,801
Total		\$29,862		\$29,862	\$29,862

Table 3: Indirect Only – By Year

Sample Type	Year	Amount Not Supported	Percent Applicable to Medicare	Amount Not Allowed	Total for Year
Indirect	2003	\$2,867	7.70	\$221	
Indirect	2003	92,170	1.17	1,078	\$1,299
Indirect	2004	4,099	1.97	81	81
Total		\$99,136		\$1,380	\$1,380

CareFirst BlueCross BlueShield
10455 Mill Run Circle
Owings Mills, MD 21117



January 15, 2009



Stephan Virbitsky
Regional Inspector General
for Audit Services
Office of Inspector General
1505 Independence Mall West, Suite 316
Philadelphia, PA 19106-3499

Dear Mr. Virbitsky:

CareFirst BlueCross BlueShield of Maryland (CFMI) is in receipt of Draft Report A-03-06-00002, entitled "Review of CareFirst BlueCross/BlueShield of Maryland Medicare Part A Final Administrative Cost Proposals for Fiscal Years 2003 - 2005." The report lists \$67,017 of costs that are not allowable for Medicare reimbursement. The report requests CFMI to provide a statement of concurrence or non-concurrence with each recommended disallowance.

- For each concurrence, include a statement describing the nature of the corrective action taken or planned
- For each non-concurrence, include specific reasons for the non-concurrence and a statement of any alternative corrective action taken or planned.

SUMMARY OF FINDINGS

- \$31,242 for salary and related expenses that were not fully supported by adequate documentation for fiscal years (FY) 2003 and 2004;

CFMI Response – CFMI concurs with this finding. No corrective action required due to termination of Medicare contract on September 30, 2005.

- \$21,878 for salaries that exceeded the executive compensation cap determined by Federal guidelines for FY 2005;

CFMI Response – CFMI concurs with this finding. No corrective action required due to termination of Medicare contract on September 30, 2005.

- \$13,749 in accounting adjustment errors for FY 2003 through 2005; and

CFMI Response – CFMI concurs with this finding. No corrective action required due to termination of Medicare contract on September 30, 2005.

- \$148 in math errors on timesheets that caused overpayments during FY2003.

CFMI Response – CFMI concurs with this finding. No corrective action required due to termination of Medicare contract on September 30, 2005.

OIG RECOMMENDATION

OIG recommends CareFirst of Maryland reduce the costs claimed on its cost proposals by a total of \$67,017 for overpayments identified for FYs 2003 through 2005.

CFMI Response – CFMI concurs with this recommendation. Please be advised that this \$67,017 of disallowed costs will be included in the final resolution process. See the attached summary (Attachment A) of audited costs, after considering this \$67,017 of disallowed costs, showing that CFMI is still owed \$363,540 of costs that have not been drawn.

Should you have any questions on this response, please feel free to contact me on 410-998-4839 or contact Charlie Reip on 410-998-7207.

Sincerely,



Jimmy W. Riggs
Assistant General Auditor

Enclosure:

cc: Charles Reip, Manager – Management Reporting
Michael Walsh, Audit Manager, OIG

**CareFirst of Maryland, Inc.
Medicare Part A Program Cost Analysis
For the Period October 1, 2002 through September 31, 2005**

FY	ORIGINAL FINAL FACP	ORIGINAL FINAL W/WEBMD FACP	DRAW	NOBA
2003:	# 02	# 02		# 19
PM	\$4,930,957	\$4,930,957	\$4,930,957	\$4,930,957
MIP	\$5,133,649	\$5,133,649	\$5,133,649	\$5,133,649
W/WEBMD	\$0	\$73,333	\$0	\$0
Rounding	\$0	\$1	\$0	\$0
TOTAL	\$10,064,606	\$10,137,940	\$10,064,606	\$10,064,606
2004:	# 01	# 01		# 12
PM	\$5,312,644	\$5,312,644	\$5,312,644	\$5,479,700
MIP	\$4,818,515	\$4,818,515	\$4,818,515	\$4,876,700
W/WEBMD	\$0	\$85,175	\$0	\$0
Rounding	\$0	-\$1	\$0	\$0
TOTAL	\$10,131,159	\$10,216,333	\$10,131,159	\$10,356,400
2005:	# 00	# 00		# 08
PM	\$5,507,302	\$5,507,302	\$5,344,828	\$5,543,943
MIP	\$4,989,923	\$4,989,923	\$4,915,804	\$4,986,577
Transition	\$390,755	\$390,755	\$200,000	\$200,000
MMA	\$0	\$0	\$0	\$30,000
W/WEBMD	\$0	\$77,908	\$0	\$0
Rounding	\$0	\$0	\$0	\$0
Additional Draw			\$233,207	
TOTAL	\$10,887,980	\$10,965,888	\$10,693,839	\$10,760,520
Fiscal Years 2003-2005	\$31,083,745	\$31,320,161	\$30,889,604	\$31,181,526
OIG Recommended Disallowance		\$ (67,017.00)		
Audited/Adjusted FACP Cost		\$ 31,253,144.00	\$30,889,604	\$31,181,526
Additional Amount Owed to CFMI not drawn to date		\$363,540		
Amount In Excess of Approved NOBA				\$71,618

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