Region IX
Office of Audit Services
90 – 7th Street, Suite 3-650
San Francisco, CA 94103

Report Number: A-09-08-00030

Ms. Karen Abraham
Vice President Finance
Blue Cross Blue Shield of Arizona
8220 N. 23rd Avenue
Phoenix, Arizona 85021-4872

JUN 04 2008

Dear Ms. Abraham:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Audit of Termination Costs Claimed by Blue Cross Blue Shield of Arizona for the Period October 1, 2006, Through November 30, 2007." We will forward a copy of this report to the HHS action official noted below.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, the final report will be posted on the Internet at http://oig.hhs.gov.

If you have any questions or comments about this report, please direct them to the HHS action official. Please refer to report number A-09-08-00030 in all correspondence.

Sincerely,

Lori A. Ahlstrand
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Director, Division of Financial Management, OCFM
Bureau of Program Operations
Centers for Medicare & Medicaid Services
U.S. Department of Health and Human Services
S2-01-23
7500 Security Boulevard
Baltimore, Maryland 21244-1850

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

AUDIT OF TERMINATION COSTS CLAIMED BY BLUE CROSS BLUE SHIELD OF ARIZONA FOR THE PERIOD OCTOBER 1, 2006, THROUGH NOVEMBER 30, 2007

Daniel R. Levinson
Inspector General

June 2008
A-09-08-00030

Office of Inspector General

http://oig.hhs.gov

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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Department of Health and Human Services

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Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at 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

Title XVIII of the Social Security Act established the Health Insurance for the Aged and Disabled (Medicare) program, which provides for a hospital insurance program (Part A) and a related supplemental medical insurance program (Part B). The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program through contracts with private organizations that process and pay Medicare claims. The contracts provide for reimbursement of allowable costs when intermediary contracts are terminated.

CMS contracted with Blue Cross Blue Shield of Arizona (Blue Cross) to serve as a Medicare intermediary and process Part A claims for the State of Arizona. Blue Cross terminated its Part A contract effective October 1, 2006. Appendix B of the contract set forth principles of reimbursement for termination costs. This appendix cited the Federal Acquisition Regulation (FAR) as regulatory principles to be followed for application to the Medicare contract.

Blue Cross reported costs to CMS totaling $302,726 in its termination cost voucher dated January 30, 2008, for the period October 1, 2006, through November 30, 2007.

OBJECTIVE

Our objective was to determine whether termination costs claimed by Blue Cross were allowable, allocable, and reasonable in accordance with part 31 of the FAR and the Medicare contract.

SUMMARY OF RESULTS

The $302,726 of termination costs claimed by Blue Cross were allowable, allocable, and reasonable in accordance with part 31 of the FAR and the Medicare contract. Consequently, this report contains no recommendations. We discussed the results of our audit with Blue Cross officials.

INTRODUCTION

BACKGROUND

Medicare Intermediary Contracts

Title XVIII of the Social Security Act established the Health Insurance for the Aged and Disabled (Medicare) program, which provides for a hospital insurance program (Part A) and a related supplemental medical insurance program (Part B). The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program through contracts with private organizations that process and pay Medicare claims. The contracts provide for reimbursement of allowable costs when intermediary contracts are terminated.

Blue Cross Blue Shield of Arizona Contract

Before October 1, 2006, CMS contracted with Blue Cross Blue Shield of Arizona (Blue Cross) to serve as a Medicare intermediary to process Part A claims for the State of Arizona. Pursuant to section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, CMS replaced its claims payment contractors with new contract entities called Medicare Administrative Contractors. As a result, effective October 1, 2006, the contract between CMS and Blue Cross was terminated.

Appendix B of the contract between Blue Cross and CMS set forth principles of reimbursement for termination costs. This appendix cited the Federal Acquisition Regulation (FAR), Title 48 of the CFR, Chapter 1, as regulatory principles to be followed for application to the Medicare contract.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether termination costs claimed by Blue Cross were allowable, allocable, and reasonable in accordance with part 31 of the FAR and the Medicare contract.

Scope

We reviewed the voucher dated January 30, 2008, which reported termination costs totaling $302,726 that Blue Cross claimed for the period October 1, 2006, through November 30, 2007.

In planning and performing our audit, we considered the internal control structure to determine our auditing procedures. This evaluation was for the purpose of accomplishing our objective and not to provide assurance on the internal control structure.

We performed our audit from February through April 2008 and conducted fieldwork at Blue Cross's office in Phoenix, Arizona.

Methodology

To accomplish our objective, we:

- reviewed applicable sections of the FAR and Blue Cross's contract with CMS;
- reviewed the independent auditor's report related to internal controls to identify possible weaknesses that could affect the allowability of termination costs;
- reviewed our audit of Blue Cross's Medicare Final Administrative Cost Proposals for the period October 1, 2004, through September 30, 2006 (A-09-07-00072);
- obtained an understanding of the cost allocation system;
- reviewed personnel records;
- reviewed invoices and cancelled checks for sale of equipment; and
- tested costs for allowability, allocability, and reasonableness.

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

RESULTS OF AUDIT

The $302,726 of termination costs claimed by Blue Cross were allowable, allocable, and reasonable in accordance with part 31 of the FAR and the Medicare contract. Consequently, this report contains no recommendations. We discussed the results of our audit with Blue Cross officials.

Department of Health and Human Services

Office of Inspector General - - AUDIT

"Audit of Termination Costs Claimed by Blue Cross Blue Shield of Arizona for the Period October 1, 2006, Through November 30, 2007 (A-09-08-00030)"

EXECUTIVE SUMMARY:

The $302,726 of termination costs claimed by Blue Cross Blue Shield of Arizona for the period October 1, 2006, through November 30, 2007, were allowable, allocable, and reasonable in accordance with part 31 of the Federal Acquisition Regulation and the Medicare contract. Contracts with intermediaries provide for reimbursement of allowable costs when the contracts are terminated.

Because the costs claimed were allowable, allocable, and reasonable, this report contains no recommendations.