

**Memorandum**

MAY 31 2001

Date

From

Thomas D. Roslewicz
Thomas D. Roslewicz
Deputy Inspector General
for Audit Services

Subject

To

Audit of Administrative Costs Claimed Under Parts A and B of the Health Insurance for the Aged and Disabled Program--Blue Cross and Blue Shield of Minnesota (A-05-01-00037)

Neil Donovan
Director, Audit Liaison Staff
Health Care Financing Administration

This memorandum is to alert you to the issuance on Monday, June 4, 2001 of our final report. A copy is attached.

We suggest that you share this report with the Health Care Financing Administration (HCFA) components involved with monitoring the Medicare contractor financial operations, particularly the Office of Financial Management and the Center for Beneficiary Services.

The audit of Blue Cross and Blue Shield of Minnesota (BCBSM) covered Medicare administrative costs claimed during the period October 1, 1994 through July 31, 1999. The audit also included the contractor's termination costs claim submitted to HCFA in July 2000. The review was completed under a contract between the Department of Health and Human Services, Office of Inspector General (OIG) and Leon Snead & Company, P.C. The OIG exercised technical oversight and quality control of the examination. In our oversight, we found nothing to indicate that Leon Snead & Company, P.C.'s work was inappropriate or that the report cannot be relied upon.

During the audit period, BCBSM claimed \$44,629,598 on Final Administrative Cost Proposals (FACP) for administering Parts A and B of the Medicare program. The auditor recommended a financial adjustment of \$1,037,090 because (i) costs for employee retention exceeded the HCFA approved amount by \$932,052 and (ii) termination costs of \$105,038 were inappropriately included on the FACP instead of on a separate voucher. In its response to the draft report, BCBSM concurred with the recommendation.

In addition, the auditor set aside for HCFA adjudication \$173,853 of termination costs which consisted of severance payments to employees who retired rather than accept positions offered with the replacement contractor. The BCBSM did not concur with this recommendation.

Page 2 - Neil Donovan

The findings are discussed in detail in the audit report and the full text of BCBSM's response is shown as an attachment to the report.

For further information, contact:

Paul P. Swanson
Regional Inspector General
for Audit Services, Region V
(312) 353-2621

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF ADMINISTRATIVE COSTS
CLAIMED UNDER PARTS A AND B OF
THE HEALTH INSURANCE FOR THE
AGED AND DISABLED PROGRAM--
BLUE CROSS AND BLUE SHIELD OF
MINNESOTA**



**JUNE 2001
A-05-01-00037**



DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF AUDIT SERVICES
233 NORTH MICHIGAN AVENUE
CHICAGO, ILLINOIS 60601

REGION V
OFFICE OF
INSPECTOR GENERAL

CIN: A-05-01-00037

Dr. Mark Banks, President
Blue Cross Blue Shield of Minnesota
3535 Blue Cross Road
Eagan, Minnesota 55122

Dear Dr. Banks:

Enclosed are two copies of a report on the audit performed by Leon Snead & Company, P.C., under Contract No. HHS-100-98-0033. The OIG exercised technical oversight and quality control of the examination. In our oversight, we found nothing to indicate that the auditor's work was inappropriate or that the report cannot be relied upon. The audit covered Medicare administrative costs for the period October 1, 1994 through July 31, 1999 plus costs claimed applicable to the termination of the Medicare contract.

Final determinations, as to actions taken on all matters reported, will be made by the HHS action official named below. We request that you respond to the action official within 30 days from the date of this letter, presenting 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 reports are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise (See 45 CFR, Part 5).

To facilitate identification, please refer to Common Identification Number A-05-01-00037 in all correspondence relating to this report.

Sincerely,

Paul Swanson
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to:

Ms. Opal Nealy
Associate Regional Administrator, HCFA
233 N. Michigan
Chicago, Illinois 60601

**Audit of Administrative Costs
Medicare Part A & B**

**Blue Cross Blue Shield
of
Minnesota**

Submitted By

Leon Snead & Company, P.C.
Certified Public Accountants & Management Consultants

TABLE OF CONTENTS

BACKGROUND.....	2
SCOPE	3
RESULTS OF AUDIT	4
Administrative Costs.....	4
Termination Cost Claim.....	5
APPENDIX A – H	7
ATTACHMENT 1 – BCBSM COMMENTS	



**LEON SNEAD
& COMPANY, P.C.**

*Certified Public Accountants
& Management Consultants*

416 Hungerford Drive, Suite 400
Rockville, Maryland 20850
301-738-8190
fax: 301-738-8210
leonsnead.companypc@erols.com

Independent Auditor's Report

Dr. Mark Banks
President
Blue Cross Blue Shield of Minnesota
3535 Blue Cross Road
Eagan, Minnesota 55122

Dear Dr. Banks:

This report provides the results of our audit of administrative costs claimed by Blue Cross Blue Shield of Minnesota (BCBSM) for Medicare Part A during the period of October 1, 1994 through July 31, 1999 and for Medicare Part B for the period of October 1, 1994 through September 30, 1996. The objectives of our audit were to (1) ascertain whether BCBSM's Final Administrative Cost Proposals (FACPs) presented fairly the costs of program administration, (2) determine if the administrative and termination costs claimed by BCBSM are reasonable, allocable and allowable in accordance with Part 31 of the Federal Acquisition Regulation (FAR), the Intermediary and Carrier Manuals and the Medicare contract and, (3) determine if BCBSM had effective systems of internal control, accounting, and reporting for administrative costs incurred under the program. Our audit was performed under contract with the Department of Health and Human Services, Office of Inspector General.

Our audit was performed in accordance with generally accepted government auditing standards and the Audit Guide for the Review of Administrative Costs Incurred by Medicare Contractors Under Title XVIII of the Social Security Act developed by the Inspector General, Department of Health and Human Services.

During the audit period BCBSM submitted FACPs claiming costs of \$44,629,598. We are accepting as reasonable and allowable costs totaling \$43,592,508 and are questioning costs of \$1,037,090. Appendices A through G contain schedules of the costs claimed on the FACPs, costs accepted, and questioned costs for each of the 7 years audited.

BCBSM claimed expenses of \$341,579 for termination cost claim submitted in July 2000. Based on our evaluation of these costs, we are accepting \$167,726 as reasonable and allowable and setting aside \$173,853 for further review by the Health Care Financing Administration. Appendix H contains a schedule of termination costs claimed and the costs set aside.

In written comments to a draft of this report, BCBSM agreed with the recommendation to reduce administrative costs on the FY99 FACP by \$1,037,900. However, they took exception to the recommendation that HCFA review severance costs of \$173,853. BCBSM's comments are at Attachment 1.

BACKGROUND

Title XVIII of the Social Security Act established the Health Insurance for the Aged and Disabled Program (Medicare). Medicare provides a hospital and related medical insurance program for eligible persons age 65 and over. Coverage is available to disabled persons under age 65 who have been entitled to Social Security or Railroad Retirement disability benefits for at least 24 consecutive months and to individuals under age 65 with chronic kidney disease who are currently insured by or entitled to Social Security benefits. Medicare Part A, Hospital Insurance, provides protection against the costs of hospital inpatient care, post-hospital extended care, and post hospitalization home health care. Medicare Part B, Supplemental Medical Insurance, covers physician services, certain other medical equipment and services, and other outpatient services. The Department of Health and Human Services (DHHS) has overall responsibility for the administration of Medicare. The Health Care Financing Administration, a component of DHHS, has primary responsibility for Medicare.

Title XVIII provides that public or private organizations, known as intermediaries for Part A and carriers for Part B, may assist in the administration of the Medicare program. Intermediaries and carriers are organizations, primarily Blue Cross plans and commercial insurance companies, that have been nominated by provider groups or associations to process claims and make payments that are due under the Medicare program. The Secretary of the DHHS enters into agreements with the Blue Cross and Blue Shield Association and commercial insurance companies that participate as intermediaries or as carriers for Medicare. The Blue Cross Blue Shield Association, with the approval of the Secretary of DHHS, subcontracts with member Blue Cross plans to perform the intermediary and carrier function in designated areas.

The contracts define the functions to be performed and provide for the reimbursement of allowable administrative costs incurred while performing them. Medicare contractors submit prospective budgets of administrative costs to the Health Care Financing Administration for review and approval. Interim expenditure reports are submitted monthly, comparing accrued expenditures to approved budget amounts. Following the close of each fiscal year the contractor submits a Final Administrative Cost Proposal reporting the administrative costs of performing Medicare functions during the year.

The BCBSM had a subcontract agreement with the Blue Cross Blue Shield Association to serve as a Part A intermediary during the period October 1, 1994 - July 31, 1999 and as a Part B carrier during the period October 1, 1994 - September 30, 1996. During that period, BCBSM processed 14,689,902 claims valued at approximately \$7.9 billion submitted by health care providers consisting of hospitals, physicians, laboratories, home health agencies, skilled nursing facilities and other providers such as hospices and mental health facilities.

SCOPE

We audited the final administrative cost proposals submitted by BCBSM for Medicare Part A during the period beginning October 1, 1994 through July 31, 1999, Medicare Part B for the period beginning October 1, 1994 through September 30, 1996, and the Part A termination cost claim.

During our evaluation of BCBSM's system of internal controls we reviewed the procedures for approving and recording expenditures, the method used in allocating expenditures to the Medicare program and the procedure for assigning costs to applicable expense categories. Our test of individual expenses indicated that the control procedures were adequate and operating effectively.

We selected 7 cost categories for testing. The categories selected were facilities cost of investment, complementary insurance credits, travel, salaries, insurance, corporate board expenses, and professional services. These categories were selected because they are major expense items claimed on the Final Administrative Cost Proposals. We selected transactions from BCBSM's records and reviewed supporting documentation. We also reviewed these costs to determine if they were reasonable, allocated properly and allowable in accordance with the FAR, the Intermediary Manual and the Medicare contract. Our testing of transactions and records disclosed an instance of noncompliance with laws and regulations. The noncompliance is addressed in the Results of Audit section of this report. In addition, we reconciled the costs claimed on the final administrative cost proposals and the termination claim to the accounting system. The reconciliation did not disclose any significant discrepancies. The prior audit of Administrative Costs for the period October 1, 1987 through September 30, 1992 did not contain findings or recommendations. Our review did not address pension segmentation costs. The Department of Health and Human Services, Office of Inspector General will review BCBSM's pension costs as part of a nation wide review of Medicare pension costs.

During the period under review, the system used by Medicare contractors to report administrative costs was modified. The Contractor Administrative-Budget and Financial Management System (CAFM II) was implemented beginning with Fiscal Year (FY) 1998 administrative cost reporting. CAFM II portrays cost data differently than the system in use prior to FY98. As a result, it was not practical to make a comparison of costs reported in FY98 and to prior years since the comparison would be misleading. Appendices A through C, which cover administrative costs reported for FY 1995 through FY 1997, show the differences in the reporting format when compared with Appendix D and E which contains the reporting format for administrative costs during FY 1998 and FY1999.

Our onsite audit work was performed during November 1999 and July 2000 at BCBSM's offices in Eagan, Minnesota.

RESULTS OF AUDIT

Administrative Costs

The BCBSM claimed administrative costs totaling \$44,629,598 during the 5-year period included in our review. We are questioning costs of \$1,037,090. The questioned costs consist of \$932,052 that exceeded the budget ceiling established by HCFA for payment of an employee retention bonus and \$105,038 incurred for Medicare program closeout. The claim did not comply with provisions of the Medicare contract limiting expenditures to approved budget authority and the Principles of Reimbursement for Administrative Costs that requires costs incurred for contract closeout to be submitted in a closeout claim.

It became public knowledge on January 8, 1999 that BCBSM was leaving the Medicare program effective July 31, 1999. BCBSM management, concerned with the possible impact to Medicare recipients if employees left the program before closeout, developed guidelines for payment of a retention bonus. The guidelines offered employees a retention bonus of 30-50% of their annual salary, depending on position and job classification, if they remained with the Medicare program until the July 31, 1999 closeout.

In a supplemental budget request dated June 8, 1999 BCBSM management requested budget authority of \$1,314,700 for the retention bonus program as part of the transition budget. HCFA in a letter dated July 26, 1999 stated that the proposed payments were excessive and established a ceiling of \$411,535 on retention bonus payments. In a supplement to the Notice of Budget Authority, dated August 11, 1999, HCFA revised and approved budget authority of \$412,600 for retention bonus payments.

The FY99 FACP submitted by BCBSM claimed \$1,344,652 for retention bonus payments and other expense of \$105,038 for a total claim of \$1,449,690. The claim exceeded budget authority by \$1,037,090. The other expense of \$105,038 was incurred for closeout activities that should have been claimed on the termination claim.

Recommendation

We recommend that BCBSM reduce their claim for employee retention payment in the FY99 FACP from \$1,449,690 to the \$412,600 limit imposed by HCFA and include the closeout costs of \$105,038 on the termination cost claim.

BCBSM Comments

BCBMS concurred with the recommendation but stated their belief that the retention payments helped to foster a smooth transition of the Medicare contract, for both the Medicare beneficiaries and the incoming contractor. BCBSM's comments are at Attachment 1.

Termination Cost Claim

The BCBSM claimed costs totaling \$341,579 on a termination claim dated July 12, 2000. The termination costs claimed include the \$105,038 that were included on the FY99 FACP addressed above. We recommended that BCBSM reduce their claim on the FY99 FACP by \$105,038 and include the expenses on the termination cost claim.

Severance Expenses

BCBSM paid their Medicare employees total severance pay of \$513,756. On the termination claim, BCBSM claimed \$236,316 for severance payments to 23 employees. The severance pay amount claimed by BCBSM reflects only employee service with the Medicare program.

The BCBSM Severance Pay Plan (the Severance Plan), dated December 1996 with May 1, 1997 revisions, states that employees whose positions have been eliminated are eligible for a minimum of 4-12 weeks of severance pay, depending on position, or 1 week for each year of service, whichever is greater.

The Severance Plan does not address limitations of severance pay for employees who retire rather than take a position with the replacement contractor or another BCBSM program. In response to a request for information on employees who received severance pay and had retired we were provided with a listing of 10 employees who were eligible for retiree medical benefits and a retirement gift when their position was eliminated. The 10 employees received severance pay of \$173,853. We are setting these costs aside for review by HCFA.

The Federal Acquisition Regulation 31.205-6, indicates that severance expense claimed is only for those employees who did not take positions with the replacement contractor or other BCBSM activities. There is no specific reference to what should happen when the employee retires.

Closeout Expenses

BCBSM incurred closeout costs of \$154,779. The closeout expenses were adjusted down to reflect the price of Medicare furniture purchased by BCBSM resulting in a total claim of \$105,263. The closeout expenses include costs incurred by the Finance, Medicare Operations, Information Systems, and the Human Resources departments.

- Finance - Costs from 7 cost centers totaling \$12,489 for organizing, transporting, and storage of Medicare records.
- Medicare Operations - Costs from 4 cost centers totaling \$31,459 in salaries for work on Medicare Secondary Payer accounts receivable.

- Information Systems - Costs from 2 cost centers totaling \$24,196, primarily for systems engineers and programmers involved in the transfer of online data and documentation to the replacement contractor.
- Human Resources - Costs from 4 cost centers totaling \$86,635. The majority of the costs were for a consulting contract valued at \$81,480 discussed below.

The BCBSM Severance Plan states that employees whose jobs are eliminated are entitled to outplacement assistance. BCBSM contracted with a consulting firm to provide the outplacement services. The outplacement services consisted of resume development, interviewing skills, identifying and communicating job skills, access to a job bank, and individual counseling.

Section II, Part I of the Medicare contract requires that "*prior written approval be obtained for the utilization of the services of any consultant under this contract where such reimbursement exceeds or may exceed \$400.00 per day or \$100,000 per year, exclusive of travel charges.*"

BCBSM management stated they did not request prior written approval because the contract for the services did not meet or exceed cost thresholds.

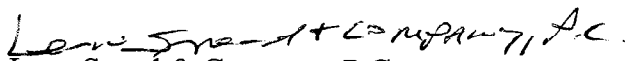
Closeout expenses were reduced by the BCBSM purchase of furniture. The furniture was fully depreciated. The furniture had an appraised value of 7% of the manufacturer list price with no provision for shipping and handling. The BCBSM purchase price was \$49,516 or 4% of list price. The transaction was reviewed and approved by HCFA officials.

Recommendation

We recommend that HCFA review the costs of \$173,853 claimed for payment of severance pay to employees who retired.

BCBSM Comments

BCBSM took exception to the recommendation that HCFA review costs of \$173,853 claimed for payment of severance pay to employees who had retired. BCBSM stated that their policy calls for payment of severance to employees whose positions are eliminated and believed they should be reimbursed for the costs incurred. BCBSM's comments are at Attachment 1.


Leon Snead & Company, P.C.
July 13, 2000

APPENDIX A

BLUE CROSS AND BLUE SHIELD OF MINNESOTA
Part A – Final Administrative Cost Proposal
October 1, 1994 through September 30, 1995

Operation	Costs Claimed	Costs Accepted
Bills Payment	\$ 2,468,250	\$ 2,468,250
Reconsiderations & Hearings	240,968	240,968
Medicare Secondary Player	575,703	575,703
Medical Review & Utility	611,730	611,730
Review	1,004,665	1,004,665
Provider Desk Reviews	1,173,152	1,173,152
Provider Field Audits	512,652	512,652
Provider Settlements	936,032	936,032
Provider Reimbursement	61,600	61,600
Productivity Investments	90,559	90,559
Benefit Integrity	213,200	213,200
Credits/Other	<u>(203,775)</u>	<u>(203,775)</u>
	<u>\$ 7,684,736</u>	<u>\$ 7,684,736</u>

APPENDIX B

BLUE CROSS AND BLUE SHIELD OF MINNESOTA

Part A – Final Administrative Cost Proposal
October 1, 1995 through September 30, 1996

Operation	Costs Claimed	Costs Accepted
Bills Payment	\$ 2,439,028	\$ 2,439,028
Reconsiderations & Hearings	303,214	303,214
Medicare Secondary Player	605,179	605,179
Medical Review & Utility	615,430	615,430
Review	1,026,084	1,026,084
Provider Desk Reviews	1,054,063	1,054,063
Provider Field Audits	455,788	455,788
Provider Settlements	733,606	733,606
Provider Reimbursement	63,200	63,200
Productivity Investments	107,188	107,188
Benefit Integrity	258,295	258,295
Credits/Other	(234,448)	(234,448)
	<u>\$ 7,426,627</u>	<u>\$ 7,426,627</u>

APPENDIX C

BLUE CROSS AND BLUE SHIELD OF MINNESOTA
Part A – Final Administrative Cost Proposal
October 1, 1996 through September 30, 1997

Operation	Costs Claimed	Costs Accepted
Bills Payment	\$ 2,434,224	\$ 2,434,224
Reconsiderations & Hearings	305,666	305,666
Medicare Secondary Player	575,387	575,387
Medical Review & Utility	551,097	551,097
Review	1,145,925	1,145,925
Provider Desk Reviews	880,347	880,347
Provider Field Audits	480,683	480,683
Provider Settlements	687,177	687,177
Provider Reimbursement	394,981	394,981
Productivity Investments	149,273	149,273
Benefit Integrity	0	0
Credits/Other	<u>(263,742)</u>	<u>(263,742)</u>
	<u>\$ 7,341,018</u>	<u>\$ 7,341,018</u>

APPENDIX D

BLUE CROSS AND BLUE SHIELD OF MINNESOTA

Part A – Final Administrative Cost Proposal
October 1, 1997 through September 30, 1998

Operation	Costs Claimed	Costs Accepted
Bills/Claims Payment	\$ 1,449,128	\$ 1,449,128
Appeals/Reviews	410,261	410,261
Inquiries	490,635	490,635
Provider Education and Training	70,313	70,313
Reimbursement	728,574	728,574
Productivity Investment	252,900	252,900
PM Special Projects	0	0
Medical Review	673,204	673,204
Medicare Secondary Payer	647,564	647,564
Benefits Integrity	186,823	186,823
Provider Education and Training	37,863	37,863
Audit	2,648,659	2,648,659
Credit/Other	(397,766)	(397,766)
	<u>\$ 7,198,158</u>	<u>\$ 7,198,158</u>

APPENDIX E

BLUE CROSS AND BLUE SHIELD OF MINNESOTA
Part A – Final Administrative Cost Proposal
October 1, 1998 through July 31, 1999

Operation	Costs Claimed	Costs Questioned	Costs Accepted
Bills/Claims Payment	\$ 1,088,335		\$ 1,088,335
Appeals/Reviews	300,617		300,617
Inquiries	648,326		648,326
Provider Education and Training	60,558		60,558
Reimbursement	620,190		620,190
Productivity Investment	1,449,690	\$ 1,037,090	412,600
Special Projects	0		0
Medical Review	460,662		460,662
Medicare Secondary Payer	584,652		584,652
Benefits Integrity	140,999		140,999
Provider Education and Training	24,632		24,632
Audit	2,074,655		2,074,655
Credit/Other	(429,760)		(429,760)
	<u>\$ 7,023,556</u>	<u>\$ 1,037,090</u> (1) (2)	<u>\$ 5,986,466</u>

NOTES

- (1) - \$932,052 of these costs exceeded the budget authority approved by HCFA for retention bonus.
- (2) - \$105,038 of these costs were claimed in error as program closeout costs.

APPENDIX F

BLUE CROSS AND BLUE SHIELD OF MINNESOTA
Part B – Final Administrative Cost Proposal
October 1, 1994 through September 30, 1995

Operation	Costs Claimed	Costs Accepted
Claims Payment	\$ 3,034,213	\$ 3,034,213
Review and Hearing	228,790	228,790
Beneficiary/Physician Inquiry	521,334	521,334
Provider Education and Training	185,500	185,500
Medical Review and Utility Review	574,800	574,800
Medicare Secondary Provider	343,700	343,700
Participating Physician	231,500	231,500
Productivity Investments	109,298	109,298
Other/Credits	(522,859)	(522,859)
Benefits Integrity	83,141	83,141
Other	<u>289,499</u>	<u>289,499</u>
	<u>\$ 5,078,916</u>	<u>\$ 5,078,916</u>

APPENDIX G

BLUE CROSS AND BLUE SHIELD OF MINNESOTA

Part B – Final Administrative Cost Proposal

October 1, 1995 through September 30, 1996

Operation	Costs Claimed	Costs Accepted
Claims Payment	\$1,395,469	\$1,395,469
Review and Hearing	118,390	118,390
Beneficiary/Physician Inquiry	266,939	266,939
Provider Education and Training	41,289	41,289
Medical Review and Utility Review	219,893	219,893
Medicare Secondary Provider	223,684	223,684
Participating Physician	89,320	89,320
Productivity Investments	597,791	597,791
Other/Credits	(169,356)	(169,356)
Benefits Integrity	17,794	17,794
Other	<u>75,374</u>	<u>75,374</u>
	<u>\$ 2,876,587</u>	<u>\$ 2,876,587</u>

APPENDIX H

BLUE CROSS AND BLUE SHIELD OF MINNESOTA
 Termination Expense Claim
 July 12, 2000

Termination Expenses		Costs Claimed	Costs Set Aside
Employee Severance Expenses		\$ 236,316	\$ 173,853
Closeout Expenses By Function:			
Finance	\$ 12,489		
Medicare Operations	31,459		
Human Resources	86,635		
Information System	<u>24,196</u>		
Sub Total	\$ 154,779		
LESS:			
Furniture Purchase	<u>(\$ 49,516)</u>	<u>\$ 105,263</u>	<u> </u>
Net Closeout Expenses		<u>\$ 341,579</u>	<u>\$ 173,853</u>

BlueCross BlueShield of Minnesota

ATTACHMENT 1

October 12, 2000



Mr. Leon Snead
President
Leon Snead & Company, P.C.
416 Hungerford Drive, Suite 400
Rockville, MD 20850

P.O. Box 64560

St. Paul, MN

55164 0560

651.662.8000

1.800.382.2000

www.bluecrossmn.com

Dear Mr. Snead:

Blue Cross Blue Shield of Minnesota (BCBSM) is in receipt of the Draft Report on the results of the administrative expense audit for the Medicare A & B contract. The report also addresses BCBSM's requested Medicare Part A termination costs. We would like to make a few comments regarding the recommendations from this report.

Administrative Costs Recommendation:

Leon Snead & Company: BCBSM reduce their claim for employee retention payment in the FY 99 FACP from \$1,449,690 to the \$412,600 limit imposed by HCFA and include the closeout costs of \$105,037 on the termination cost claim.

Comments:

BCBSM is in agreement with this recommendation. BCBSM reflected the additional employee retention costs to show that actual costs greatly exceeded HCFA's budgeted amount. BCBSM hoped to receive greater funding for the retention costs, believing that the retention policy helped to foster a smooth transition of the Medicare contract both for Medicare beneficiaries and for the incoming contractor. BCBSM feels that it is unfortunate that greater funding from HCFA was not possible.

Termination Cost Claim Recommendation:

Leon Snead & Company: Recommendation that HCFA review the costs of \$173,853 claimed for payment of severance pay to employees who retired.

Comments:

BCBSM is in agreement with the statement that the termination expense claim (\$341,579) presents fairly the cost of closeout of the BCBSM Medicare program. The total termination costs are made up of two parts. Close out expenses total \$105,263 and severance expenses total \$236,316.

BCBSM is seeking reimbursement totaling \$236,316 for severance pay. BCBSM will take exception to the note that HCFA should review the payment of severance

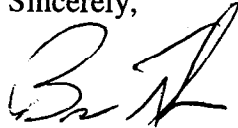
pay to employees who retire. The expense in question totals \$173,853. BCBSM's severance policy does not address limitations of severance pay for employees who retire rather than take a position with the replacement contractor or another BCBSM program. The policy states that an employee is eligible to severance benefits, if BCBSM in its sole discretion, determines that the employee's position is to be eliminated. If an employee chooses to retire because their position is eliminated, they are still eligible for severance. The individual employee should not be penalized because retirement is an option for them.

BCBSM believes that HCFA should reimburse the total of \$341,579 for Termination costs.

Finally, BCBSM would like to take this opportunity to commend Mr. Lloyd G. O'Daniel for his professionalism and conduct during the audit. An audit which covers such a long period of time can be more complex and time consuming. Mr. O'Daniel was a fine auditor to work with and showed respect for our staff. For this, BCBSM would like to say thank you.

BCBSM is hopeful that this audit can come to a conclusion soon. If there is any other information that is needed, please feel free to contact me at (651) 662-8046.

Sincerely,



Bruce Thoresen
Financial Analyst.

CC: Colleen Reitan, BCBSM
Deborah Madsen, BCBSM