DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL
OFFICE OF AUDIT SERVICES
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PHILADELPHIA, PENNSYLVANIA 19106-3499

JAN 9 2008

Report Number: A-03-07-00022

Mr. Joseph Rampone
Senior Vice President of Operations
CareFirst of Maryland, Inc.
10455 Mill Run Circle
Owings Mills, Maryland 21117

Dear Mr. Rampone:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Severance and Termination Costs Claimed by CareFirst Blue Cross/Blue Shield of Maryland for the Period October 2005 Through December 2006." 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.

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If you have any questions or comments about this report, please do not hesitate to call me, or contact Mr. Eugene Berti, Audit Manager, at (215) 861-4474 or through e-mail at Gene.berti@oig.hhs.gov. Please refer to report number A-03-07-00022 in all correspondence.

Sincerely,

Stephen Virbitsky
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Mr. Tom Lenz, 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 SEVERANCE AND TERMINATION COSTS CLAIMED BY CAREFIRST BLUE CROSS/BLUE SHIELD OF MARYLAND FOR THE PERIOD OCTOBER 2005 THROUGH DECEMBER 2006

Daniel R. Levinson
Inspector General

January 2008
A-03-07-00022

Office of Inspector General

http://oig.hhs.gov

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Pursuant to the principles of the Freedom of Information Act 5 U.S.C § 552, as amended by Public Law 104-231), Office of Inspector General 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).

OAS FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

BACKGROUND

Medicare Program

Title XVIII of the Social Security Act (the Act) established Medicare as a broad national health insurance program that covers people 65 years of age and older, certain people under 65 with disabilities, and people with end-stage renal disease. Medicare Part A provides coverage of 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) administer 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. Sections 1816 and 1842 of the Act provided for reimbursing intermediaries and carriers for all reasonable and allowable costs incurred in administering the programs.

CareFirst Blue Cross/Blue Shield of Maryland Medicare Contracts

CMS contracted with CareFirst Blue Cross/Blue Shield of Maryland (CareFirst) to serve as the Medicare Part A intermediary and Part B carrier responsible for processing all Part A and Part B claims in Maryland. 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 the termination would be effective on September 30, 2005. Under the contract, CMS agreed to reimburse CareFirst for allowable, reasonable, and allocable severance and termination costs that it incurred in transferring its responsibilities to other contractors. CareFirst was to claim these costs in accordance with Federal Acquisition Regulations (FAR 31.2), the provisions of the Medicare contract, and the company's established severance benefits policies.

As of August 15, 2007, CareFirst had submitted three vouchers to CMS for severance and termination costs. CareFirst reserved the right to submit further vouchers for any additional costs as the remaining Medicare operations are closed down; however, these additional costs should be negligible.

OBJECTIVE

Our objective was to determine whether CareFirst's claims for severance and termination costs were allowable, reasonable, and allocable, in accordance with the FAR, the Medicare contract provisions, and CareFirst severance policies.

SUMMARY OF FINDINGS

CareFirst claimed $1,394,977 in severance and termination costs for the period October 2005 through December 2006. We did not question $1,362,526 of this amount. However, CareFirst claimed $32,451 in unallowable costs for:

- seven fixed assets with a Net Book Value of $18,900 for which CareFirst did not properly document the date and method of disposal;
- professional fees totaling $12,024 for which CareFirst provided no documentation to support that it had entered into a consulting contract for the professional services;
- 401(K) matching contributions of $690 for a non-participating employee;
- contractor costs totaling $500 that were claimed twice due to clerical error; and
- unsupported employee wages totaling $337 charged to the contract.

RECOMMENDATION

We recommend that CareFirst reduce its claim for Medicare severance and termination costs by $32,451.

CAREFIRST BLUE CROSS/BLUE SHIELD OF MARYLAND COMMENTS

In its comments on our draft report, CareFirst concurred with all but one of our findings. CareFirst provided additional documentation (letter, invoice, and schedule of hours/wages) from AON Consulting to support the professional fees totaling $12,024 for services claimed for November 2005. CareFirst's comments are included as Appendix B.

OFFICE OF INSPECTOR GENERAL RESPONSE

CareFirst did not document the adequacy of the contractual agreement with AON Consulting pursuant to Section 31.205-33(d)(8) of the FAR (48 CFR § 31.205-33(d)(8)). Section 31.205-33(f) of the FAR (48 CFR § 31.205-33(f)) specifies that contractors must support claims for professional fees with the details of all agreements as well as with evidence of work performed. Although CareFirst provided additional information about the work performed, it did not document the details of the agreements. Therefore, we continue to support our recommendation.

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INTRODUCTION

BACKGROUND

Medicare Program

Title XVIII of the Social Security Act (the Act) established Medicare as a broad national health insurance program that covers people 65 years of age and older, certain people under 65 with disabilities, and people with end-stage renal disease. Medicare Part A provides coverage of 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) administer 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. Sections 1816 and 1842 of the Act provided for reimbursing intermediaries and carriers for all reasonable and allowable costs incurred in administering the programs.[1]

CareFirst Blue Cross/Blue Shield of Maryland Medicare Contracts

CMS contracted with CareFirst Blue Cross/Blue Shield of Maryland (CareFirst) to serve as the Medicare Part A intermediary and Part B carrier responsible for processing all Part A and Part B claims in Maryland. 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 the termination would be effective September 30, 2005. Under the contract, CMS agreed to reimburse CareFirst for allowable, reasonable, and allocable severance and termination costs that it incurred in transferring its responsibilities to other contractors. CareFirst was to claim these costs in accordance with Federal Acquisition Regulations (FAR 31.2), the provisions of the Medicare contract, and the company's established severance policies.

As of August 15, 2007, CareFirst had submitted three vouchers to CMS for severance and termination costs. CareFirst reserved the right to submit claims for any additional costs as the remaining Medicare operations are closed down; however, these additional costs should be negligible.

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

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether CareFirst's claims for severance and termination costs were allowable, reasonable, and allocable, in accordance with the FAR, the Medicare contract provisions, and CareFirst severance policies.

Scope

Our review covered three vouchers for severance and termination costs totaling $1,394,977 that CareFirst claimed from October 2005 through December 2006. We judgmentally sampled $699,311 or 50 percent of the costs claimed. The Appendix A shows the severance and termination costs claimed and the costs we questioned for each voucher.

We performed a limited review of CareFirst's internal controls to obtain an understanding of accounting policies and procedures relevant to our objective. We conducted this audit in conjunction with our audit of CareFirst Medicare Final Administrative Cost Proposals for the period October 1, 2002, through September 30, 2005 (A-03-06-00002). Certain information obtained and reviewed during that audit was also used in performing this audit.

We performed our fieldwork at CareFirst's Maryland office in Owings Mills, Maryland during June 2007.

Methodology

To accomplish our objective we:

- reviewed applicable Federal regulations, the Medicare contract provisions and CareFirst policies and procedures;
- interviewed CareFirst officials to obtain an understanding of how they claimed severance and termination costs;
- reconciled the cost claimed on the three vouchers to CareFirst's accounting records;
- judgmentally sampled 52 transactions totaling $699,311 because they represented the largest dollar amounts claimed and accordingly did not extrapolate our results to the total amount claimed;
    - examined source documents, including payroll records, lease agreements, invoices, contracts and personnel files;
    - reviewed the basis for allocating costs to the termination contract; and

- discussed with CMS officials any concerns they had regarding costs included on the three vouchers and the results of our audit.

We conducted our review in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATION

CareFirst claimed $1,394,977 in severance and termination costs for the period October 2005 through December 2006. We did not question $1,362,526 of this amount. However, CareFirst claimed $32,451 in unallowable costs for:

- seven fixed assets with a Net Book Value of $18,900 for which CareFirst did not properly document the date and method of disposal;

- professional fees totaling $12,024 for which CareFirst provided no documentation to support that it had entered into a consulting contract for the professional services;

- 401(K) matching contributions of $690 for a non-participating employee;

- contractor costs totaling $500 that were claimed twice due to clerical error; and

- unsupported employee wages totaling $337 charged to the contract.

FEDERAL ACQUISITION REGULATIONS

Section 31.201-2(d) of the FAR (48 CFR § 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.

Section 31.205-33(f) (1)-(2) of the FAR (48 CFR § 31.205-33(f)(1-2)) states that:

> [f]ees for services rendered are allowable only when supported by the evidence of the nature and scope of the services furnished . . . Evidence necessary to determine that worked performed is proper and does not violate law or regulation shall include (1) details of all agreements (e.g., work requirements, rate of compensation, and nature and amounts of other expenses, if any) with the individuals or organizations providing the services and details of actual services performed and (2) invoices and billings submitted by consultants, including sufficient detail as to the time expended and nature of the actual services provided.

DISPOSAL OF ASSETS NOT DOCUMENTED

CareFirst disposed of seven fixed assets that had a net book value of $18,900. CareFirst could not provide documentation to support either the date or method of disposal of the fixed assets. These fixed assets included laptop computers, printers and monitors. CareFirst officials claimed the loss on the disposal of fixed assets because the assets could not be transferred to another carrier.

PROFESSIONAL SERVICES NOT CONTRACTED

CareFirst claimed $12,024 in professional fees, but did not have a consulting contract for those services. A valid contract would describe the nature, scope, and compensation rate of the consultant's services. Additionally, the consultant's invoice did not include the nature of the actual services provided. CareFirst stated that it did not see the need for a contract.

CONTRIBUTIONS CLAIMED FOR A NON-PARTICIPATING EMPLOYEE

CareFirst claimed 401(K) plan matching contributions of $690 for a non-participating employee. These contributions included $587 on voucher 1 and $103 on voucher 3. CareFirst incorrectly assumed that all employees would be 401(K) plan participants.

CONTRACTOR COSTS CLAIMED TWICE

CareFirst claimed a $500 contractor invoice twice. CareFirst submitted a duplicate claim for the invoice in error when it reclassified the cost from Medicare direct costs to professional fees.

EMPLOYEE HOURS OVERCLAIMED

CareFirst overclaimed $525 for 10.5 hours of an employee's time on voucher 1 and under claimed $188 for 3.75 hours of the same employee's time on voucher 3 for a net overclaim of 6.75 hours or $337. This net overclaim was because CareFirst miscalculated the number of hours charged to the contract.

RECOMMENDATION

We recommend that CareFirst reduce its claim for Medicare severance and termination costs by $32,451.

CAREFIRST'S COMMENTS

In its comments on our draft report, CareFirst concurred with all but one of our findings. CareFirst provided documentation (letter, invoice, and schedule of hours/wages) from AON Consulting to support the professional fees totaling $12, 024 for services claimed for November 2005. CareFirst stated that it uses AON Consulting to provide actuarial valuation and consulting services for its pension and post-retirement benefit plans for all of its lines of business, including Medicare.

CareFirst's comments are included as Appendix B.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

CareFirst did not document the adequacy of the contractual agreement with AON Consulting pursuant to Section 31.205-33(d)(8) of the FAR (48 CFR § 31.205-33(d)(8)). Section 31.205-33(f) of the FAR (48 CFR § 31.205-33(f)) specifies that contractors must support claims for professional fees with the details of all agreements as well as with evidence of work performed. Although CareFirst provided additional information about the work performed, it did not document the details of the agreements. Therefore, we continue to support our recommendation.

APPENDIXES

APPENDIX A

CAREFIRST BLUE CROSS/BLUE SHIELD OF MARYLAND
SEVERANCE AND TERMINATION COSTS
CLAIMED AND QUESTIONED

Cost Category	Voucher 1 October 2005 – January 2006		
	Costs Claimed	**Costs Allowed**	**Costs Questioned**
Medicare Direct Costs	$271,602	$271,102	$500[1]
Professional Fees	166,836	154,812	12,024[2]
Corporate Costs	36,266	35,154	1,112[3]
Severance Costs	476,800	476,800	0
Indirect Costs	57,219	57,219	0
Total Costs	**$1,008,723**	**$995,087**	**$13,636**

Cost Category	Voucher 2 February 2005 – April 2006		
	Costs Claimed	**Costs Allowed**	**Costs Questioned**
Medicare Direct Costs	$12,268	$12,268	$0
Professional Fees	73,063	73,063	0
Corporate Costs	0	0	0
Severance Costs	117,190	117,190	0
Indirect Costs	0	0	0
Total Costs	**$202,521**	**$202,521**	**$0**

Cost Category	Voucher 3 May 2006 – December 2006		
	Costs Claimed	**Costs Allowed**	**Costs Questioned**
Medicare Direct Costs	$135,646	$116,746	$18,900[4]
Professional Fees	12,603	12,603	0
Corporate Costs	6,094	6,179	(85)[5]
Severance Costs	29,390	29,390	0
Indirect Costs	0	0	0
Total Costs	**$183,733**	**$164,918**	**$18,815**

[1]Contractor invoice was claimed twice.
[2]Invalid professional fees due to lack of contract and appropriate invoice.
[3]401(K) matching contribution for non-contributing employee of $587 plus $525 for overstated employee time charged to the contract.
[4]The Net Book Value of seven Fixed Assets.
[5]Understated employee time charged to the contract ($188) and a matching 401(K) contribution of $103 for a non-contributing employee. The result is a credit of $85.

CareFirst BlueCross BlueShield
10455 Mill Run Circle
Owings Mills, MD 21117-5559

CareFirst BlueCross BlueShield

November 26, 2007

Stephen Virbitsky
Regional Inspector General
For Audit Services
Department of Health & Human Services
Office of Inspector General
Office of Audit Services
150 S. Independence Mall West
Suite 316
Philadelphia, PA 19106-3499

Reference: Review of Severance and Termination Costs Claimed by CareFirst of Maryland, Inc. for Period October 2005 to December 2006.
Report Number A-03-07-00022

Dear Mr. Virbitsky:

Attached are the responses to the audit recommendations from the Severance and Termination Costs Review Draft Audit Report.

Disposal of Fixed Assets - $18,900

These assets were disposed of by CareFirst. However, documentation supporting the date and method of disposal is not available. Therefore, CareFirst concurs with this finding.

Professional Fees- $12,024

CareFirst does not concur with this finding. CareFirst uses AON Consulting to provide actuarial valuation and consulting services for its pension and post-retirement benefit plans for all of its lines of business including Medicare. AON Consulting performed these services to support the Medicare A termination. AON Consulting has provided an updated detailed invoice (Attachment A) including the nature of the questioned services provided and charged to the termination. As the invoice indicates, AON Consulting prepared benefit calculations for the CareFirst Medicare A associates impacted by the contract termination. In addition, CAS and FAS analysis was performed in order to determine final Medicare pension amounts. We believe this supplemental documentation meets the requirements outlined in FAR 31.205-33 and FAR 31.205-42, including rate of compensation, nature of actual services provided, and time expended.

401 K Matching Contributions-$690

CareFirst concurs with this finding.

Contractor costs - $500

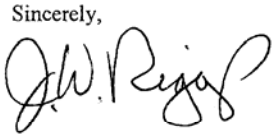
CareFirst concurs with this finding.

Employee Wages - $337

CareFirst concurs with this finding.

If you have any questions please feel free to contact me at 410-998-4839 or Angela Britton at 410-998-4346.

Sincerely,



Jimmy Riggs
Assistant General Auditor

cc: Charles Reip
Joseph Rampone
Stephan Simms