



February 26, 2004

Report Number: A-04-03-03027

Mr. Bruce W. Hughes
Executive Vice President and Chief Operating Officer
Palmetto Government Benefits Administrators
2300 Springdale Drive, BLDG. 1
Mail Code – AG-A03
Camden, South Carolina 29020

Dear Mr. Hughes:

Enclosed are two copies of the United States Department of Health and Human Services, Office of Inspector General (OIG) final report entitled, *Assist Audit of the Centers for Medicare & Medicaid Services' Fiscal Year 2003 Financial Statements at Palmetto Government Benefits Administrators – January 2003*. We will forward a copy of this report to the action official noted below for her review and any action deemed necessary.

Our objective was to assess whether Palmetto Government Benefits Administrators (Palmetto) complied with Centers for Medicare & Medicaid Services (CMS) Program Memorandum, Transmittal AB-02-008, Form CMS-1522, Monthly Contractor Financial Report for recording and reconciling Total Funds Expended on the Form CMS-1522.

Our review showed that Palmetto's: (1) accounting controls for generating a paid claims electronic file were generally adequate, and (2) monthly financial reconciliations were substantially accurate, supportable, and complete. However, we noted that the Multi-Carrier System is unable to generate a paid claims electronic file and this resulted in our being unable to reconcile total funds expended for Part B Ohio and West Virginia and Railroad Retirement Board. We recommend that Palmetto continue to resolve the out-of-balance condition by working with the programs to resolve the errors of \$.6 million for Part B Ohio and West Virginia, and \$1.1 million for the Railroad Retirement Board. We also recommend Palmetto generate a corrected paid claims electronic file and notify us when this action has been completed.

In a written response to our draft report, Palmetto agreed that the out-of-balance conditions existed. However, Palmetto believes that existing controls in the system are sufficient to ensure proper payment of all claims. We have included the entire contents of Palmetto's comments as an appendix to our report.

Final determination as to the actions taken on all matters reported will be made by the HHS

Final determination as to the actions 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, 5 U.S.C. 522, as amended by Public Law 104-231, OIG 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 exemptions in the Act which the Department chooses to exercise (see 45 CFR Part 5).

Thank you for the assistance provided to us by you and your staff during the audit.

To facilitate identification, please refer to report number A-04-03-03027 in all correspondence related to this letter.

Sincerely,



Charles J. Curtis
Regional Inspector General
for Audit Services, Region IV

Enclosures – as stated

Direct Reply to HHS Action Official:

Rose Crum-Johnson, Regional Administrator
Centers for Medicare & Medicaid Services
61 Forsyth Street, S.W., Suite 4T20
Atlanta, Georgia 30303-8909

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**ASSIST AUDIT OF THE
CENTERS FOR MEDICARE &
MEDICAID SERVICES' FISCAL YEAR
2003 FINANCIAL STATEMENTS AT
PALMETTO GOVERNMENT BENEFITS
ADMINISTRATORS – JANUARY 2003**



**FEBRUARY 2004
A-04-03-03027**

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:

Office of Audit Services

The OIG's Office of Audit Services (OAS) provides all 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 in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the department.

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The OIG's Office of Evaluation and Inspections (OEI) conducts short-term management and program evaluations (called inspections) that focus on issues of concern to the department, the Congress, and the public. The findings and recommendations contained in the inspections reports generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs.

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The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops model compliance plans, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 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 HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.





February 26, 2004

Report Number: A-04-03-03027

Mr. Bruce W. Hughes
Executive Vice President and Chief Operating Officer
Palmetto Government Benefits Administrators, L.L.C.
2300 Springdale Drive, Building 1
Mail Code – AG-A03
Camden, South Carolina 29020

Dear Mr. Hughes:

This report provides you with the results of our audit entitled, “*Assist Audit of the Centers for Medicare & Medicaid Services’ Fiscal Year 2003 Financial Statements at Palmetto Government Benefits Administrators – January 2003.*”

Our objective was to assess whether Palmetto Government Benefits Administrators (Palmetto) complied with Centers for Medicare & Medicaid Services (CMS) Program Memorandum, Transmittal AB-02-008, Form CMS-1522, Monthly Contractor Financial Report for recording and reconciling Total Funds Expended on the Form CMS-1522.

Our review showed that Palmetto’s: (1) accounting controls for generating a paid claims electronic file were generally adequate, and (2) monthly financial reconciliations were substantially accurate, supportable, and complete. However, we noted that the Multi-Carrier System is unable to generate a paid claims electronic file and this resulted in our being unable to reconcile total funds expended for Part B Ohio and West Virginia and Railroad Retirement Board.

We recommend that Palmetto continue to resolve the out-of-balance condition by working with the programs to resolve the errors of \$.6 million for Part B Ohio and West Virginia, and \$1.1 million for the Railroad Retirement Board. We also recommend Palmetto generate a corrected paid claims electronic file and notify us when this action has been completed.

Palmetto agreed that the out-of-balance conditions existed. However, it believes that existing controls in the system are sufficient to ensure proper payment of all claims.

CMS carries out most Medicare operational activities through contractors that include fiscal intermediaries, regional home health and hospice intermediaries, carriers, and durable medical equipment regional carriers.

Blue Cross and Blue Shield of South Carolina, doing business as Palmetto Government Benefits Administrators, was the fiscal intermediary for South Carolina and for North Carolina, the carrier for South Carolina, Ohio and West Virginia, the nationwide carrier for the Railroad Retirement Board as well as the Regional Home Health Intermediary¹ and Durable Medical Equipment Regional Carrier² for several States during our audit period. Palmetto is responsible for processing and paying Medicare claims for these programs.

In addition to our work, independent public accountants were engaged by the Office of Inspector General (OIG) to perform one audit at Palmetto that related to the audit of CMS's fiscal year (FY) 2003 financial statements. The independent public accountants will report these results separately.

INTRODUCTION

The focus of our audit at Palmetto was to reconcile the CMS Form 1522 to the Palmetto paid claims electronic file and system reports. For the one-month period ended January 31, 2003, we also reconciled the OIG paid claims electronic file to the CMS Form 1522. The reconciliation formed a part of our agency's overall audit of CMS's FY 2003 financial statements.

BACKGROUND

The Chief Financial Officers Act (CFO) of 1990 requires Federal agencies to improve systems of financial management, accounting, and internal controls to ensure that they issue reliable financial information. The CFO Act also requires the OIG, for each agency having an OIG, to audit the financial statements in accordance with applicable generally accepted government auditing standards. The OIG has the option to participate in the audit directly or select a public accounting firm to participate in the audit.

One of the elements that is part of the CMS Financial Statements is the CMS Form 1522, "Monthly Contractor Financial Report". In order to reconcile funds drawn from the U. S. Treasury to funds expended for Medicare benefits and funds remaining in the contractor bank account, Medicare contractors report monthly financial activity to CMS on Form 1521, "Contractor Draws on Letter of Credit," and CMS Form 1522, Monthly Contractor Financial Report." The CMS Form 1522 is a cash based document.

CMS Form 1521 summarizes the daily transfers of Medicare funds from the U. S. Treasury to Palmetto's bank account. Those transfers were reported as "Funds Drawn this Month" on Forms 1521 and 1522. Form 1522 reported "Total Funds Expended" that included paid claim transactions, non-claim transactions, and other financial adjustment transactions, including voided checks and overpayment recoveries.

¹ Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Kentucky, Louisiana, Mississippi, New Mexico, North Carolina, Ohio, Oklahoma, South Carolina, Tennessee, and Texas

² Alabama, Arkansas, Colorado, Florida, Georgia, Kentucky, Louisiana, Mississippi, New Mexico, North Carolina, Oklahoma, Puerto Rico, South Carolina, Tennessee, Texas, and the Virgin Islands

OBJECTIVE, SCOPE AND METHODOLOGY

Objective

The objective of our review was to determine whether Palmetto correctly reported total funds expended on the CMS 1522 in accordance with CMS Program Memorandum, Transmittal AB-02-008.

Scope and Methodology

In conducting our audit, we applied criteria contained in:

- ◆ Government Auditing Standards issued by the Comptroller General of the U.S.; and
- ◆ Bulletin 01-02, “Audit Requirements of Federal Financial Statements” issued by the Office of Management and Budget.

These criteria require that we plan and perform our audit to obtain reasonable assurance that CMS’s financial statements are free of material misstatement and that CMS, as well as Medicare contractors such as Palmetto, have complied with applicable laws and regulations.

Our audit was limited to performing a reconciliation of the January 2003 Medicare Funds reported on the Forms 1521 and 1522. To perform the reconciliation, we reviewed the CMS Program Memorandum, Transmittal AB-02-008; CMS Form 1522, Monthly Contractor Financial Report; obtained documentation from Palmetto to support all reported dollars; requested Palmetto re-create the paid claims electronic file; and, requested our Advanced Audit Techniques Staff to provide us with adjudicated claim information from the Palmetto paid claims electronic file.

This audit was performed from September through October 2003 at Palmetto in Columbia, South Carolina; Office of Audit Services Atlanta Regional Office; and the Columbia field office. We performed our audit in accordance with generally accepted government auditing standards.

In addition to our work, the independent public accounting firms of PricewaterhouseCoopers, LLP and Clifton Gunderson, LLC, under contract with the OIG, planned to review the Medicare benefit payment process and other relevant areas. We understand the review of the independent accountants was to include tests of accounts receivable balances included on the CMS Form 750/751 Statement of Financial Condition, tests of non-claims disbursements and withholdings transactions included on the Medicare contractors’ 1522 report of expenditures, cash and cash receipts, and a review of the internal control environment surrounding claims processing activities.

FINDINGS AND RECOMMENDATIONS

We did not identify any reportable weaknesses in Palmetto's compliance with CMS Program Memorandum, Transmittal AB-02-008, CMS Form 1522, Monthly Contractor Financial Report. In a similar manor, the independent public accountants identified no reportable weaknesses in the work they performed. Our review focused on reconciling the CMS Form 1522 for January 2003. The public accountants focused on reconciling the CMS Form 1522 for December 2002 and in reviewing other financial areas including the CMS 750/751.

The number of claims Palmetto processed and the amount of Medicare funds expended was substantial. For the quarter covering January 1, 2003 through March 31, 2003, Palmetto drew \$5.3 billion from the U.S. Treasury and expended \$5.2 billion. During the month of January 2003, which we reconciled, Palmetto drew Medicare funds totaling \$1.9 billion which was 35.9 percent of the total funds drawn for the calendar quarter ended March 31, 2003. Palmetto expended funds of \$1.7 billion in January 2003, which was 32.7 percent of the total funds expended for the quarter ended March 31, 2003. During January 2003, Palmetto also processed approximately 9.7 million claims.

For additional details on funds drawn and expended during January 2003, refer to Appendices A through D that contain schedules of the financial reconciliation prepared by Palmetto, our reconciled amounts, and the identified differences. Also, see Appendix E for details regarding the number of claims adjudicated for January 2003, funds drawn and funds expended for the period January 1, 2003 through March 31, 2003.

Palmetto did not use a paid claims electronic file for Part A South Carolina, Part B Ohio and West Virginia, and the Railroad Retirement Board. We were unable to reconcile the OIG paid claims tape to the Total Funds Expended on the CMS Form 1522 for Part B Ohio and West Virginia and Railroad Retirement Board. We do not consider these items to be a reportable weakness because several CMS guidelines have been issued which will require electronic processing systems to generate a paid claims electronic file beginning January 2004. We are recommending that Palmetto continue their work to resolve errors of \$.6 million for Part B Ohio and West Virginia, and \$1.1 million for the Railroad Retirement Board for the out-of-balance conditions. We are also recommending that Palmetto generate a corrected paid claims electronic file.

Palmetto agreed that for three of the processing systems, it did not have a paid claims tape that had been generated or that could be reconciled. Palmetto believes that the various controls and edits in the system are sufficient to ensure proper payment of all claims. Palmetto further stated it has fully reconciled payments using standard system reports as instructed by CMS. CMS will need to be the final authority as to whether those practices in place are sufficient to preclude further work by Palmetto to resolve the \$1.7 million out-of-balance condition we identified.

RESULTS OF WORK PERFORMED BY OIG

The accounting controls over generating a paid claims electronic file and reconciling the paid claims electronic file established by Palmetto were generally adequate and the monthly financial reconciliations were substantially accurate, supportable, and complete.

Contractors such as Palmetto are required to follow CMS program guidelines in performing the monthly reconciliation and accounting for Medicare funds. We determined that generally, Palmetto did meet these guidelines or has definitive plans underway to comply shortly.

According to CMS Program Memorandum, Transmittal AB-02-008, CMS Form 1522, Monthly Contractor Financial Report, the contractor is required:

- To establish documented standard processes to generate and retain the paid claims electronic file including corresponding monthly system reports, and supporting documentation for the preparation and reconciliation of the monthly reports.
- To generate a monthly paid claims electronic file. If the claims processing system cannot produce the paid claims electronic file, Medicare contractors may reconcile to summary information until system changes are accomplished.
- To reconcile the CMS Form 1522 each month to the adjudicated claims (paid claims electronic file) processed and other adjustments. It is a reconciliation of the monthly paid claims electronic file for claim activity that is reported to CMS on the CMS Form 1522.

Therefore, CMS places a high degree of responsibility on its contractors to ensure that there is a proper accounting of Medicare funds.

Documented Standard Processes

Palmetto established and documented standard processes to generate and retain the paid claims data, including the corresponding monthly system reports and supporting documentation, for the preparation and reconciliation of the monthly reports for all Medicare Programs.

In reviewing the reconciliation, we found that Palmetto's procedures comply with CMS guidelines. Palmetto follows their written policy and procedures for generating a paid claims electronic file, where applicable, and the reconciliation of the CMS Form 1522.

Paid Claims Electronic File

Palmetto generated a monthly paid claims electronic file for each of the Part A North Carolina, Part B South Carolina and Durable Medical Equipment Medicare claims processing systems. However, at the time of our review, Palmetto had not generated a January 2003 paid claims electronic file for three Medicare claims processing systems:

- Part A - South Carolina
- Part B - Ohio and West Virginia
- Railroad Retirement Board

The reasons why Palmetto was unable to produce the paid claims electronic file varies within each of these programs and is discussed in detail below.

Part A South Carolina used the Fiscal Intermediary Shared System and this system was unable to produce a paid claims electronic file. Palmetto intends to correct this shortcoming in January 2004 when Change Request 2794 becomes effective. The change request will require the Fiscal Intermediary Shared System to generate an electronic file for each contractor's payment cycle. This file will include all detail claim records that support the totals found on the Create Claim Control Report #7859R01, which contains total reimbursement dollars for claims.

Part B Ohio and West Virginia used the Multi-Carrier System. At the time of our review, the Multi-Carrier System was unable to produce a report of paid claims. It is our understanding that the CMS Program Memorandum B-03-058, which is effective January 1, 2004 will require the Multi-Carrier System to generate an electronic file for each payment cycle. This file is to include all detail claim records that support the totals found on Multi-Carrier System Summary Report #2002.

The **Railroad Retirement Board** used the Healthcare Part B Shared System for January 2003. The Railroad Retirement Board transitioned to the Multi-Carrier System in July 2003. Palmetto was unable to obtain a paid claims electronic file from the Healthcare Part B Shared System. The Multi-Carrier System was accessed for the January 2003 paid claims electronic file and the system was unable to produce a report of paid claims. We understand that beginning January 1, 2004 CMS Program Memorandum B-03-058, will require the Multi-Carrier System to generate an electronic file for each payment cycle. This file is to include all detail claim records that support the totals found on Multi-Carrier System Summary Report #2002.

For Part B Ohio and West Virginia and Railroad Retirement Board, we were unable to reconcile our paid claims electronic file to the system reports because the Multi-Carrier System paid date is the date that the claim was approved to pay. This is not necessarily, but is sometimes, the date the check was produced for that claim.

In addition to the claim paid date issue, the Railroad Retirement Board also had an additional problem with its systems. The Railroad Retirement Board changed systems when it transitioned from the Healthcare Part B Shared System to the Multi-Carrier System in July 2003. Due to the incompatibility of the two systems, the data trail left by the Healthcare Part B Shared System was insufficient to be completely recognized by the Multi-Carrier System. Therefore, key data was not brought forward by Palmetto from which a more accurate reconciliation could be performed.

Total Funds Expended Reconciliations

The total funds expended during January 2003 for Part A South Carolina, Part A North Carolina, Part B South Carolina, and Durable Medical Equipment was about \$1.7 billion. In our reconciliation of the OIG Paid Claims Tape, we were able to trace all the adjustments to the supporting documentation for the reconciliation of total funds expended.

Of the four Medicare programs, we were able to reconcile Medicare Part A and Durable Medical Equipment in their entirety and partially reconcile Medicare Part B; however, we were unable to reconcile Railroad Retirement Board.

Medicare Part A

Part A – South Carolina used the Fiscal Intermediary Shared System. Although Palmetto was unable to generate a paid claims electronic file, we were able to reconcile CMS Form 1522 for Part A to the OIG paid claims electronic file. We were also able to determine that Palmetto made all adjustments to the records in a timely manner, and that those adjustments were appropriate and were supported. Of the funds expended for Part A, South Carolina totaling about \$769 million, we were able to reconcile all but \$13,000 which is an immaterial amount.

Part A – North Carolina used the Arkansas Part A Shared System. Palmetto generated a paid claims electronic file from this system. We were able to reconcile CMS Form 1522 for Part A to our paid claims electronic file. Likewise, we were also able to determine that Palmetto made all adjustments to the records in a timely manner, and that those adjustments were appropriate and were supported. In addition, we reconciled the OIG paid claims electronic file to the system report that Palmetto used in place of a paid claims electronic file.

Medicare Part B

Part B – South Carolina used the Viable Medicare System. Palmetto generated a paid claims electronic file from this system. We were able to reconcile CMS Form 1522 to our paid claims electronic file. Likewise, we were also able to determine that Palmetto made all adjustments to the records in a timely manner, and that those adjustments were appropriate and were supported. In addition, we reconciled the OIG paid claims electronic file to the Palmetto paid claims electronic file.

Part B - Ohio and West Virginia used the Multi-Carrier System. Palmetto was unable to generate a paid claims electronic file. We were unable to reconcile CMS Form 1522 to our paid claims electronic file. Of the funds expended totaling \$190 million, we were able to reconcile all but \$.6 million. We were also unable to reconcile our paid claims electronic file to the system report Palmetto used in place of the paid claims electronic file. However, we were able to determine that Palmetto made all adjustments to the records in a timely manner, and that those adjustments were appropriate and were supported.

Durable Medical Equipment

Durable Medical Equipment used the Viable Medicare System. Palmetto generated a paid claims electronic file from this system. We were able to reconcile CMS Form 1522 to our paid claims electronic file. Likewise, we were also able to determine that Palmetto made all adjustments to the records in a timely manner, and that those adjustments were appropriate and were supported. In addition, we reconciled the OIG paid claims electronic file to the Palmetto paid claims electronic file.

Railroad Retirement Board

Railroad Retirement Board used the Healthcare Part B Shared System. Palmetto was unable to generate a paid claims electronic file. We were unable to reconcile CMS Form 1522 to our paid claims electronic file. Of the funds expended totaling \$60.2 million, we were unable to reconcile approximately \$1.1 million. We were also unable to reconcile our paid claims electronic file to the system report Palmetto used in place of the paid claims electronic file. However, we were able to determine that Palmetto made all adjustments to the records in a timely manner, and that those adjustments were appropriate and were supported.

As the result of our review, Palmetto is currently working with the Multi-Carrier System to correct the out-of-balance condition for Part B Ohio and West Virginia and the Railroad Retirement Board programs. Palmetto has reviewed one day of adjudicated claims and identified the issue as the paid date on the claim, which is the date the claim was approved to pay, but not necessarily the date the check was prepared. At the time of our review, personnel familiar with the Multi Carrier-System were working on the programming to produce a correct paid claims electronic file. However, Palmetto was unsure of when the programming would be corrected to produce a correct paid claims electronic file.

Recommendations

We recommend that Palmetto continue their work to resolve the out-of-balance conditions by working with:

- the Part B Ohio and West Virginia program to reconcile the \$.6 millions dollars; and
- the Railroad Retirement Board program to reconcile the \$1.1 million dollars.

We also recommend that Palmetto generate a corrected paid claims electronic file and notify us when this action has been completed.

Palmetto Comments

In its written response to our draft report, Palmetto agreed that for three of the processing systems, it did not have a paid claims tape that had been generated or that could be reconciled. Palmetto believes that the implementation of change requests will address the issues in a timely manner. Palmetto is also confident that the various system controls and edits in the system are sufficient to ensure proper payment of all claims. Palmetto further stated it has fully reconciled payments using standard system reports as instructed by CMS, and that it is the responsibility of CMS and the standard system maintainers to furnish a reconcilable paid claims file. Palmetto stated that without a reconcilable paid claims file it was unable to resolve the out-of-balance conditions with the existing paid claims files or to generate corrected paid claim files.

We have included the complete text of Palmetto's comments as Appendix F of this report.

OIG Response

We agree that the controls Palmetto cited are in place and are operating as described. This situation would provide some degree of assurance that the claims were paid properly. CMS may agree that by using the standard system reports, Palmetto has completed its functions and responsibilities. However, CMS will need to be the final authority as to whether those practices in place are sufficient to preclude further work by Palmetto to resolve the \$1.7 million out-of-balance condition we identified.

RESULTS OF WORK PERFORMED BY OTHERS

The public accountants were engaged by the OIG to do one audit at Palmetto related to the FY 2003 CFO audit. This audit was a review of the Medicare benefit payment process and performing additional reviews. This review included tests of accounts receivable balances included on the CMS contractors' 750/751 financial reports, tests of non-claims disbursements and withholdings transactions included on the Medicare contractors' 1522 report of expenditures, cash and cash receipts, and a review of the internal control environment surrounding claims processing activities. The public accountants will report the audit separately to Palmetto.

We reviewed the work of the public accountants and determined that they performed the December 2002 reconciliation of the CMS 1522 in sufficient detail to support the audit objectives. They had no findings or issues to report.

* * * * *

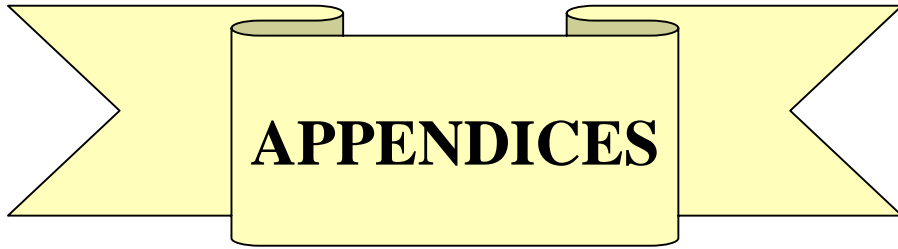
To facilitate identification, please refer to report number A-04-03-03027 in all correspondence related to this report.

Sincerely,

A handwritten signature in cursive script that reads "Charles J. Curtis". The signature is written in black ink and is positioned above the printed name.

Charles J. Curtis
Regional Inspector General
for Audit Services, Region IV

Enclosures



TOTAL FUNDS EXPENDED BY PALMETTO - JANUARY 2003 - PART A
A-04-03-03027

Reconciliation of Funds Expended	Palmetto	Audit	Difference	Note
Provider Reimbursement Tape	\$1,108,851,873.75	\$1,101,072,465.47	\$7,779,408.28	
PIP Claims Processed	(94,648,506.81)	(94,648,506.81)	0.00	
Outlier Payments	1,436,011.12	1,436,011.12	0.00	
Patient Reimbursement Tape - SC	0.00	0.00	0.00	
Claim Interest - SC	9,740.75	0.00	9,740.75	1
Claims Bypassed - SC	179,503.69	0.00	179,503.69	1
Errors Recs Out (In Error) - SC	(368,272.80)	0.00	(368,272.80)	1
Claims Recs Out (In Error) - SC	3,005.01	0.00	3,005.01	1
Claims Recs Out (Dropped) - SC	(7,613,700.10)	0.00	(7,613,700.10)	1
Hemophilia - SC	0.00	0.00	0.00	1
Claims Reimbursement Diff - SC	(3,091.38)	0.00	(3,091.38)	1
Paid to Patient Interest - SC	0.00	0.00	0.00	1
Identified Out of Balance - SC	0.00	0.00	0.00	1
Excluded Units - NC	569,352.04	569,352.04	0.00	
Negative Balance Carryovers - NC	1,002,402.64	1,002,402.64	0.00	
Subtotal	1,009,418,317.91	1,009,431,724.46	(13,406.55)	
PIP Payments at 100%	79,735,092.00	79,735,092.00	0.00	
Pass Thru Payments	13,485,398.00	13,485,398.00	0.00	
Accelerated Payments	289,031.83	289,031.83	0.00	
Release of Penalty - SC	6,791,492.33	6,791,492.33	0.00	
Settlement Payments - SC	15,441,879.77	15,441,879.77	0.00	
Claims Accounts Receivable HI - SC	4,729,995.84	4,729,995.84	0.00	
Claims Account Receivable SMI - SC	13,133,626.88	13,133,626.88	0.00	
Refund Provider Payments - SC	1,711,278.44	1,711,278.44	0.00	
Refund Other Payee Payment - SC	0.00	0.00	0.00	
Report Error - SC	(30,301.95)	(30,301.95)	0.00	
PIP Payment Discount - SC	0.00	0.00	0.00	
Pass Thru Payments Discount - SC	0.00	0.00	0.00	
Penalty Withholdings - SC	(5,174,877.76)	(5,174,877.76)	0.00	
Settlement Withholdings - SC	(8,944,472.89)	(8,944,472.89)	0.00	
Claims AR Receivable Withholding HI - SC	(4,500,350.77)	(4,500,350.77)	0.00	
Claims AR Receivable Withholding SMI - SC	(13,193,246.95)	(13,193,246.95)	0.00	
Accelerated Payment Withholdings - SC	0.00	0.00	0.00	
Penalty Recoupment - SC	(1,207,428.34)	(1,207,428.34)	0.00	
Indirect Medical - NC	0.00	0.00	0.00	
Type of Bil - NC	34,759.42	34,759.42	0.00	
Retroactive Adjustments - NC	605,352.08	605,352.08	0.00	
Interim Rate Adjustments - NC	1,348,180.34	1,348,180.34	0.00	
Interest Adjustments - NC	(1,789.97)	(1,789.97)	0.00	
Top Adjustment - NC	2,541,250.73	2,541,250.73	0.00	
Carryover Adjustment - NC	(983,110.68)	(983,110.68)	0.00	
Suspend/Withhold Adjustment - NC	(27,211.29)	(27,211.29)	0.00	
Subtotal	105,784,547.06	105,784,547.06	0.00	
Net Disbursements	1,115,202,864.97	1,115,216,271.52	(13,406.55)	
Manual Checks	356,619.19	356,619.19	0.00	
Voids/Stops	0.00	0.00	0.00	
Deposits	(13,119,799.19)	(13,119,799.19)	0.00	
Holding Account	104,960.20	104,960.20	0.00	
Journal Entry Adjustment	(633,803.58)	(633,803.58)	0.00	
Subtotal	(13,292,023.38)	(13,292,023.38)	0.00	
Total	1,101,910,841.59	1,101,924,248.14	(13,406.55)	

TOTAL FUNDS EXPENDED BY PALMETTO - JANUARY 2003 - PART A
A-04-03-03027

Total Funds Expended	1,101,910,841.59	1,101,910,841.59	0.00
Difference	0.00	13,406.55	(13,406.55)

CMS Form 1522	Palmetto	Audit	Difference	Note
Balance Beginning of Month per Bank	2,331,141.64	2,331,141.64	0.00	
Payment Vouchers Drawn During Month	1,075,500,000.00	1,075,500,000.00	0.00	
Other Deposits	12,996,454.14	12,996,454.14	0.00	
Misc	0.00	0.00	0.00	
Checks Honored by Bank During Month	(1,090,454,263.08)	(1,090,454,263.08)	0.00	
Transferred To Time Account	(2,220,488.10)	(2,220,488.10)	0.00	
Debit Memos/Credit Memos	209,503.63	209,503.63	0.00	
Balance End of Month per Bank	<u>(1,637,651.77)</u>	<u>(1,637,651.77)</u>	0.00	
Balance End of Month per Bank	(1,637,651.77)	(1,637,651.77)	0.00	
Deposits in Transit	370,275.24	370,275.24	0.00	
Outstanding Checks	<u>(80,636,563.92)</u>	<u>(80,406,742.80)</u>	(229,821.12)	2
Balance End of Month Per Books	<u>(81,903,940.45)</u>	<u>(81,674,119.33)</u>	(229,821.12)	

NOTE 1:

The OIG paid claims tape includes these items.

NOTE 2:

Palmetto was able to provide a reconciliation of the outstanding check amount from the December 2002 Bank Outstanding Check Report to the January 2003 Bank Outstanding Check Report. We agree with the reconciliation and Palmetto has demonstrated that the Outstanding Check Amount contains only items for the current month. Palmetto also has reconciled the Outstanding Check Amount to the General Ledger balance.

**TOTAL FUNDS EXPENDED BY PALMETTO - JANUARY 2003 - B South Carolina, Ohio, and West Virginia
A-04-03-03027**

Reconciliation of Funds Expended	Palmetto	Audit	Difference	Note
Payment File -SC	\$59,843,829.12	\$59,843,829.12	\$0.00	
Payment File -OH/WVA	\$191,405,592.62	\$190,759,584.57	\$646,008.05	1
HPSA Payments	203,649.98	203,649.98	0.00	
Miscellaneous Checks - SC	185,691.46	185,691.46	0.00	
Miscellaneous Checks - OH/WVA	94,785.86	94,785.86	0.00	
Deposits - SC	(264,515.82)	(264,515.82)	0.00	
Deposits - OH/WVA	(540,335.01)	(540,335.01)	0.00	
Offsets and Withholdings - SC	(61,275.80)	(61,275.80)	0.00	
Offsets and Withholdings - OH/WVA	(1,006,910.51)	(1,006,910.51)	0.00	
Voids, Stop Payments, Staledates - SC	(209,875.69)	(209,875.69)	0.00	
Voids, Stop Payments, Staledates - OH/WVA	(387,113.95)	(387,113.95)	0.00	
Journal Entry - SC	111.27	111.27	0.00	
Journal Entry - OH/WVA	(10,842.29)	(10,842.29)	0.00	
System Report Problem - OH/WVA	315.12	315.12	0.00	
Holding Account Adjustment	24,101.69	24,101.69	0.00	
Total	249,277,208.05	248,631,200.00	646,008.05	
Total Funds Expended per CMS 1522	249,277,208.05	249,277,208.05	0.00	
Difference	0.00	(646,008.05)	646,008.05	
CMS Form 1522	Palmetto	Audit	Difference	Note
Balance Beginning of Month per Bank	124,873.96	124,873.96	0.00	
Payment Vouchers Drawn During Month	310,156,000.00	310,156,000.00	0.00	
Other Deposits	770,979.57	770,979.57	0.00	
Transferred From Time Account	0.00	0.00	0.00	
Misc	(18,425,336.71)	(18,425,336.71)	0.00	
Checks Honored by Bank During Month	(292,543,629.38)	(292,543,629.38)	0.00	
Debit Memos	(723,216.38)	(723,216.38)	0.00	
Credit Memos	739,796.50	739,796.50	0.00	
Balance End of Month per Bank	99,467.56	99,467.56	0.00	
Balance End of Month per Bank	99,467.56	99,467.56	0.00	
Deposits in Transit	41,277.74	41,277.74	0.00	
Outstanding Checks	(64,300,991.97)	(67,184,088.39)	2,883,096.42	2
Balance End of Month Per Books	(64,160,246.67)	(67,043,343.09)	2,883,096.42	

NOTE: 1

We are not able to reconcile due to the Multi-Carrier System does not generate a paid claims tape. We reconciled to a system generated report. Palmetto is researching this issue. The amount is considered immaterial.

NOTE: 2

Palmetto was able to provide a reconciliation of the outstanding check amount from the December 2002 Bank Outstanding Check Report to the January 2003 Bank Outstanding Check Report. We agree with the reconciliation and Palmetto has demonstrated that the Outstanding Check Amount contains only items for the current month. Palmetto also has reconciled the Outstanding Check Amount to the General Ledger balance.

**TOTAL FUNDS EXPENDED BY PALMETTO - JANUARY 2003 - Durable Medical Equipment
A-04-03-03027**

Reconciliation of Funds Expended	Palmetto	Audit	Difference	Note
Payment File	\$298,247,686.95	\$298,247,686.95	\$ (0.00)	
HPSA Payments	0.00	0.00	0.00	
Miscellaneous Checks	4,056,340.51	4,056,340.51	0.00	
Deposits	(3,887,765.72)	(3,887,765.72)	0.00	
Offsets and Withholdings	(3,349,172.41)	(3,349,172.41)	0.00	
Voids, Stop Payments, Staledates	(1,042,633.34)	(1,042,633.34)	0.00	
Journal Entry	(276,625.83)	(276,625.83)	0.00	
Holding Account Adjustment	159,509.08	159,509.08	0.00	
Difference Between OIG Paid Claims Tape and Check Registers	10.31	10.31	0.00	
Total	\$ 293,907,349.55	\$ 293,907,349.55	\$ (0.00)	
Total Funds Expended	\$ 293,907,349.55	\$ 293,907,349.55	\$ -	
Difference	\$ (0.00)	\$ -	\$ (0.00)	
CMS Form 1522	Palmetto	Audit	Difference	Note
Balance Beginning of Month per Bank	\$ 328,691.37	\$ 328,691.37	\$ -	
Payment Vouchers Drawn During Month	346,032,000.00	346,032,000.00	0.00	
Other Deposits	3,989,947.41	3,989,947.41	0.00	
Transferred From Time Account	0.00	0.00	0.00	
Misc	(13,245,766.13)	(13,245,766.13)	0.00	
Checks Honored by Bank During Month	(337,114,112.82)	(337,114,112.82)	0.00	
Debit Memos	(995,046.14)	(995,046.14)	0.00	
Credit Memos	1,461,652.58	1,461,652.58	0.00	
Balance End of Month per Bank	\$ 457,366.27	\$ 457,366.27	0.00	
Balance End of Month per Bank	\$ 457,366.27	\$ 457,366.27	0.00	
Deposits in Transit	83,916.98	83,916.98	0.00	
Outstanding Checks	(46,451,427.93)	(45,771,208.46)	(680,219.47)	1
Balance End of Month Per Books	\$ (45,910,144.68)	\$ (45,229,925.21)	\$ (680,219.47)	

NOTE: 1

Palmetto was able to provide a reconciliation of the outstanding check amount from the December 2002 Bank Outstanding Check Report to the January 2003 Bank Outstanding Check Report. We agree with the reconciliation and Palmetto has demonstrated that the Outstanding Check Amount contains only items for the current month. Palmetto also has reconciled the Outstanding Check Amount to the General Ledger balance.

**TOTAL FUNDS EXPENDED BY PALMETTO - JANUARY 2003 RAILROAD RETIREMENT BOARD
A-04-03-03027**

Reconciliation of Funds Expended	Palmetto	Audit	Difference	Note
Payment File	\$60,637,845.22	\$61,756,104.85	(\$1,118,259.63)	1
HPSA Payments	254,018.51	254,018.51	0.00	
Miscellaneous Checks	69,894.10	69,894.10	0.00	
Deposits	(308,559.92)	(308,560.18)	0.26	
Voids, Stop Payments	(344,133.92)	(344,133.92)	0.00	
Journal Entry	(131,149.89)	(131,149.89)	0.00	
Total	60,177,914.10	61,296,173.47	(1,118,259.37)	
Total Funds Expended	60,177,914.10	61,296,173.77	(1,118,259.67)	
Difference	(0.00)	(0.30)	0.30	
 CMS Form 1522	 Palmetto	 Audit	 Difference	 Note
Balance Beginning of Month per Bank	55,313.50	55,313.50	0.00	
Payment Vouchers Drawn During Month	118,588,000.00	118,588,000.00	0.00	
Other Deposits	321,508.07	321,508.07	0.00	
Transferred From Time Account	0.00	0.00	0.00	
Misc	0.00	0.00	0.00	
Checks Honored by Bank During Month	74,123,358.82	74,123,358.82	0.00	
Debit Memos	21,252.84	21,252.84	0.00	
Credit Memos	(44,791,941.09)	(44,791,941.09)	0.00	
Balance End of Month per Bank	148,317,492.14	148,317,492.14	0.00	
Balance End of Month per Bank	148,317,492.14	148,317,492.14	0.00	
Deposits in Transit	6,721.52	6,721.52	0.00	
Outstanding Checks	18,708,423.97	16,399,954.24	2,308,469.73	2
Balance End of Month Per Books	167,032,637.63	164,724,167.90	2,308,469.73	

NOTE 1:

We are not able to reconcile because the Multi-Carrier System does not generate a paid claims tape. We reconciled to a system generated report. Palmetto is researching this issue. The amount is considered immaterial.

NOTE 2:

Palmetto was able to provide a reconciliation of the outstanding check amount from the December 2002 Bank Outstanding Check Report to the January 2003 Bank Outstanding Check Report. We agree with the reconciliation and Palmetto has demonstrated that the Outstanding Check Amount contains only items for the current month. Palmetto also has reconciled the Outstanding Check Amount to the General Ledger balance.

APPENDIX E

**TOTAL FUNDS EXPENDED PALMETTO – JANUARY 2003
And 2nd QUARTER FY 2003
A-04-03-03027**

Adjudicated Claims, Funds Drawn, Funds Expended - January 2003

<i>Medicare Program</i>	<i>Number of Claims Processed</i>	<i>Dollar Value of Claims Processed</i>	<i>Funds Drawn</i>	<i>Funds Expended</i>
<i>Part A – SC</i>	914,816	\$778,002,150	\$1,075,500,000	\$1,101,910,842
<i>Part A – NC</i>	386,707	323,070,316	0	0
<i>Total Part A*</i>	1,301,523	1,101,072,466	1,075,500,000	1,101,910,842
<i>Part B – SC</i>	695,595	59,843,829	310,156,000	249,277,209
<i>Part B - OH/WV</i>	5,237,220	190,759,585	0	0
<i>Total Part B*</i>	5,932,815	250,603,414	310,156,000	249,277,209
<i>DME</i>	1,501,820	298,247,687	346,032,000	293,907,3450
<i>RRB</i>	1,011,020	61,756,105	118,588,000	60,177,914
<i>Total</i>	9,747,178	\$1,711,679,672	\$1,850,276,000	\$1,705,273,315

* Funds Drawn are by Medicare Program and are distributed to the components based on payments issued.

Funds Drawn – FY 2003 2nd Quarter

<i>Month</i>	<i>Part A</i>	<i>Part B</i>	<i>DME</i>	<i>RRB</i>	<i>Total</i>
<i>January 03</i>	1,075,500,000	310,156,000	346,032,000	118,588,000	1,850,276,000
<i>February 03</i>	1,090,135,000	237,424,000	281,567,000	56,287,000	1,665,413,000
<i>March 03</i>	1,128,583,000	274,988,000	349,597,000	66,313,000	1,819,481,000
<i>Total</i>	3,294,218,000	822,568,000	977,196,000	241,188,000	5,335,170,000

Funds Expended – FY 2003 2nd Quarter

<i>Month</i>	<i>Part A</i>	<i>Part B</i>	<i>DME</i>	<i>RRB</i>	<i>Total</i>
<i>January 03</i>	1,101,910,842	249,277,208	293,907,350	60,177,914	1,705,273,314
<i>February 03</i>	1,061,428,712	243,582,358	288,118,025	61,755,785	1,654,884,880
<i>March 03</i>	1,132,763,763	286,450,400	364,835,532	70,434,629	1,854,484,324
<i>Total</i>	3,296,103,317	779,309,966	946,860,907	192,368,328	5,214,642,518



Palmetto GBA

Post Office Box 100134
Columbia, South Carolina 29202-3134

Bruce W. Hughes
Executive Vice President and Chief Operating Officer

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Office of Audit Services

December 11, 2003

Mr. Charles J. Curtis
Regional Inspector General for Audit Services, Region IV
Department of Health and Human Services
Office of Inspector General
Office of Audit Services, Region IV
61 Forsyth Street, S.W., Suite 3T41
Atlanta, Georgia 30303

Dear Mr. Curtis:

RE: Report Number: A-04-03-03027

We agree with the findings as determined in the draft report entitled *Assist Audit of the Centers for Medicare and Medicaid Services' Fiscal Year 2003 Financial Statements at Palmetto Government Benefits Administrators – January 2003*. You audited the January 2003 CMS 1522 reconciliation of total funds expended.

Response to Findings

The report identified three processing systems for which Palmetto GBA did not generate a January 2003 paid claims electronic file. For the Part A workload on the FISS system, Palmetto GBA was able to create and reconcile to an actual paid claims file up until the release of Home Health PPS in October 2000. Part of PPS was the creation of RAP (Request for Anticipated Payment) payments that essentially went back and adjusted the original claim. The coding on these claims varied, and some of the claims could not be picked up properly in the paid claims file. The first month that this occurred, we reported the problem to FISS and CMS, but to date, no solution has been implemented. We expect this problem to be addressed with CR 2795 due out in the January 2004 release.

For the Ohio/West Virginia and Railroad Retirement Board workloads on the MCS system, the actual paid claims file has never balanced to the funds expended. These problems stem from coding issues for full claims adjustments and coding to pull claims from those in an approved location and not the finalized location. Various change requests, such as CR 4512, were logged with MCS but were subsequently closed by CMS. Currently, there are eight problem logs open with MCS to correct this issue and hopefully all will be addressed in CR 2794 due out in the January 2004 release.

Mr. Charles J. Curtis
December 11, 2003
Page Two

For the Railroad Retirement Board workload, the month chosen to review was processed on the old standard system, HPBSS. During the transition in May 2003, all data including claims history was mapped and converted to a new format. This conversion, along with the MCS system issues, contributed to the inability to produce an exact file.

Response to Recommendations

The report recommendations are as follows:

“We recommend that Palmetto continue their work to resolve out-of-balance conditions by working with:

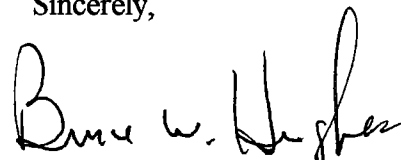
- The Part B Ohio and West Virginia program to reconcile the \$.6 millions of dollars; and
- The Railroad Retirement Board program to reconcile the \$1.1 million dollars

We also recommend that Palmetto generate a corrected paid claims electronic file and notify us when this action has been completed.”

We believe the implementation of the change requests identified above by the standard system maintainers will address these issues in a timely manner. For all workloads, however, we feel confident that the various controls and edits in place in the systems are sufficient to ensure proper payment of all claims. Although we have not reconciled to the paid claims file for the systems indicated in your recommendations, we have fully reconciled payments using standard system reports as instructed by CMS. It is the responsibility of CMS and the standard system maintainers to furnish a reconcilable paid claims file. Therefore, we are unable to resolve the out-of-balance conditions with the existing paid claims files or to generate corrected paid claim files.

Thank you for the opportunity to comment and respond to the report. Should have question or need additional information regarding our response, you may reach me at 803-763-7130 or Joe Wright, our CFO for Medicare, at 803-763-5544.

Sincerely,



cc: Bill Horton
Charles Higgins
Joe Wright

ACKNOWLEDGMENTS

A-04-03-03027

This report was prepared under the direction of Charles J. Curtis, Regional Inspector General for Audit Services, Atlanta. Other principal Office of Audit Services staff who contributed include:

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