

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**TRAILBLAZER MOSTLY CLAIMED  
MEDICARE PART A ADMINISTRATIVE  
COSTS IN ACCORDANCE WITH  
FEDERAL REQUIREMENTS**

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# *Office of Inspector General*

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## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

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

## **INTRODUCTION**

### **BACKGROUND**

Title XVIII of the Social Security Act established the Medicare program. The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program through contractors, including Medicare Part A fiscal intermediaries (FIs) that process and pay Medicare claims. Contracts between CMS and the Medicare contractors (contractors) define the functions performed by the contractors and provide for the reimbursement of allowable administrative costs incurred in the processing of Medicare claims.

Following the close of each fiscal year (FY), contractors submit to CMS a Final Administrative Cost Proposal (FACP) which reports the Medicare administrative costs incurred during the year. The FACP and supporting data provide the basis for the CMS contracting officer and contractor to negotiate a final settlement of allowable administrative costs. When claiming costs, contractors must follow cost reimbursement principles contained in part 31 of the Federal Acquisition Regulation (FAR) and other applicable criteria.

During the audit period, which covered October 1, 2004, through September 30, 2008, CMS contracted with TrailBlazer Health Enterprises, LLC (TrailBlazer), to serve as a Part A FI for Colorado, New Mexico, Oklahoma, Texas, and the Indian Health Service. TrailBlazer reported Medicare administrative costs totaling \$125,367,057.

TrailBlazer, headquartered in Dallas, Texas, is a wholly owned subsidiary of BlueCross BlueShield of South Carolina (BlueCross). BlueCross provided certain management and other operational support services for TrailBlazer, including accounting, human resources, legal, and general corporate administration. For a portion of our audit period, Palmetto GBA, LLC, also a wholly owned subsidiary of BlueCross, performed some of these services for TrailBlazer, including Medicare cost accounting and financial reporting.

### **OBJECTIVE, SCOPE, AND METHODOLOGY**

#### **Objective**

Our objective was to determine whether the administrative costs that TrailBlazer claimed on its cost proposals were reasonable, allowable, and allocable in accordance with part 31 of the FAR and the Medicare contract.

#### **Scope**

Our audit covered the period October 1, 2004, through September 30, 2008 (FYs 2005 through 2008). For this period, TrailBlazer reported administrative costs to CMS totaling \$125,367,057.

In planning and performing this audit, we reviewed TrailBlazer's internal controls for allocating costs to cost objectives in accordance with the FAR and the Medicare contract. Our objective did not require us to review TrailBlazer's overall internal control structure. We limited our

review to obtaining an understanding of TrailBlazer's procedures for identifying and reporting cost claims to CMS. We used the latest FACP that we were given for each year as the base for the final settlement amount of allowable administrative costs.

## **Methodology**

To accomplish our objective, we:

- reviewed applicable Medicare laws, regulations, and guidelines, including the FAR Part 31 Contract Cost Principles and Procedures and the *Medicare Financial Management Manual*, chapters 1, 2, and 7;
- reconciled the FACPs from FYs 2005 through 2008 to TrailBlazer's accounting records;
- performed analytical tests of TrailBlazer's trial balances;
- selected and reviewed a judgmental sample of invoices, expense vouchers and reports, and journal entries;
- interviewed TrailBlazer officials about their cost accumulation processes for cost proposals and gained an understanding of their cost allocation systems;
- reviewed payroll journals, corporate bonus plans, and personnel records; and
- tested costs for allowability, allocability, and reasonableness.

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

## **RESULTS OF AUDIT**

The administrative costs TrailBlazer reported on its FYs 2005 through 2008 FACPs were mostly reasonable, allowable, and allocable and in compliance with the FAR and other applicable requirements. However, TrailBlazer did not always report outside professional service (subcontractor) costs in accordance with applicable criteria.

Pursuant to FAR part 31.205-46, costs incurred for lodging, meals, and incidental expenses are reasonable and allowable only to the extent that they do not exceed the maximum per diem rates in effect at the time of travel.

TrailBlazer claimed subcontractor travel charges on the FACP that were higher than the approved per diem rates. However, the subcontractor travel charges in excess of per diem that we reviewed were immaterial. In addition, TrailBlazer incorporated a new travel system in 2011

and began reviewing subcontractor travel charges to ensure that subcontractors adhered to per diem rates. Consequently, this report contains no recommendations.