DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL

OFFICE OF AUDIT SERVICES, REGION IV
61 FORSYTH STREET, SW, SUITE 3T41
ATLANTA, GA 30303

June 29, 2012

Report Number: A-04-11-04018

Mr. Walter J. Johnson
President and COO
Palmetto GBA
2300 Springdale Drive
P.O. Box 7004, Mail code: AG-A03
Camden, SC 29020-1728

Dear Mr. Johnson:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *Audit of Palmetto GBA's Railroad Retirement Board Final Administrative Cost Proposals for Fiscal Years 2007 and 2008*. 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.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://oig.hhs.gov.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Mark Wimple, Audit Manager, at (919) 790-2765 extension 24 or through email at Mark.Wimple@oig.hhs.gov. Please refer to report number A-04-11-04018 in all correspondence.

Sincerely,

/Lori S. Pilcher/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Nanette Foster Reilly
Consortium Administrator
Consortium for Financial Management & Fee for Service Operations
Centers for Medicare & Medicaid Services
601 East 12th Street, Room 355
Kansas City, MO 64106

Department of Health and Human Services

OFFICE OF
INSPECTOR GENERAL

AUDIT OF PALMETTO GBA'S RAILROAD RETIREMENT BOARD FINAL ADMINISTRATIVE COST PROPOSALS FOR FISCAL YEARS 2007 AND 2008

Daniel R. Levinson
Inspector General

June 2012
A-04-11-04018

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

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

Office of Counsel to the Inspector General

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 for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

Notices

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

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

BACKGROUND

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

The contracts with CMS provide for the reimbursement of allowable administrative costs incurred in processing Medicare claims. After the close of each fiscal year (FY), contractors submit a Final Administrative Cost Proposal (cost proposal) reporting Medicare costs. Once CMS accepts a cost proposal, the contractor and CMS negotiate a final settlement of allowable administrative costs.

Palmetto GBA Contract

Palmetto GBA (Palmetto) is a single-member, limited liability company owned by BlueCross BlueShield of South Carolina (BlueCross). During our audit period (FYs 2007 through 2008), CMS contracted with Palmetto to serve as the Medicare Part B carrier for the Railroad Retirement Board (RRB) nationwide. The RRB is an independent Federal agency that administers comprehensive retirement-survivor and unemployment-sickness benefit programs for railroad workers and their families under the Railroad Retirement and Railroad Unemployment Insurance Acts.

The Medicare contract between Palmetto and CMS set forth principles of reimbursement for administrative costs. The contract cited part 31 of the Federal Acquisition Regulation (FAR) (48 CFR chapter 1) as the guiding regulatory principles for the Medicare contract, and provided additional guidelines for specific cost areas.

OBJECTIVE

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

SUMMARY OF FINDINGS

Palmetto claimed administrative costs that substantially complied with the FAR and the Medicare contract. Of the $28,223,656 in costs that we reviewed, $28,000,381 was allowable, allocable, and reasonable in accordance with part 31 of the FAR and the Medicare contract. However, Palmetto claimed $223,275 in its cost proposals that was not allowable including:

- $178,305 of costs that exceeded its general ledger costs,
- $32,272 of unallowable costs, and

- $12,698 of home office costs that exceeded the allocable amount.

Palmetto claimed these unallowable costs because it lacked sufficient internal controls to ensure that it included all allowable general ledger accounts in its cost proposals and to ensure that it did not claim expenses identified as unallowable. In addition, Palmetto claimed unallowable costs because BlueCross allocated home office costs to Palmetto that exceeded the amount allocable to Palmetto's Medicare RRB contract.

RECOMMENDATIONS

We recommend that Palmetto:

- reduce the costs claimed on its cost proposals by $223,275;

- improve its internal controls to ensure that it includes all allowable general ledger accounts, including those with negative balances, when compiling its costs for cost proposals;

- improve its internal controls to ensure that it does not claim expenses it has identified as unallowable; and

- have BlueCross implement a year-end true-up process to correct inherent rounding differences in its home office costs allocation process.

PALMETTO GBA COMMENTS

In written comments on our draft report, Palmetto concurred with all but one of our findings and recommendations. Palmetto disagreed with our finding that home office indirect costs allocated to the Medicare RRB contract exceeded the allocable amount by $12,698. Palmetto stated that rounding is inherent due to the large amounts of money allocated by BlueCross. However, to eliminate similar findings in the future, Palmetto said that BlueCross has implemented a year-end true-up process to correct the inherent rounding differences as recommended. Palmetto's comments are included in their entirety as Appendix B.

OFFICE OF INSPECTOR GENERAL RESPONSE

We continue to maintain that Palmetto should reduce the costs claimed on its cost proposals by $223,275. With regard to home office indirect costs, we are pleased with Palmetto's statement that BlueCross has implemented a year-end true-up process.

TABLE OF CONTENTS

INTRODUCTION

BACKGROUND

Medicare Program

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

The contracts with CMS provide for the reimbursement of allowable administrative costs incurred in processing Medicare claims. After the close of each fiscal year (FY), contractors submit a Final Administrative Cost Proposal (cost proposal) reporting Medicare costs. Once CMS accepts a cost proposal, the contractor and CMS negotiate a final settlement of allowable administrative costs.

Palmetto GBA Contract

Palmetto GBA (Palmetto) is a single-member, limited liability company owned by BlueCross BlueShield of South Carolina (BlueCross). During our audit period (FYs 2007 through 2008), CMS contracted with Palmetto to serve as the Medicare Part B carrier for the Railroad Retirement Board (RRB) nationwide. The RRB is an independent Federal agency that administers comprehensive retirement-survivor and unemployment-sickness benefit programs for railroad workers and their families under the Railroad Retirement and Railroad Unemployment Insurance Acts.

The Medicare contract between Palmetto and CMS set forth principles of reimbursement for administrative costs. The contract cited part 31 of the Federal Acquisition Regulation (FAR) (48 CFR chapter 1) as the guiding regulatory principles for the Medicare contract, and provided additional guidelines for specific cost areas.

The costs that Palmetto claimed for reimbursement included direct costs of administering the contract, as well as home office[1] costs that BlueCross allocated to Palmetto.[2]

[1] A “home office” is an office responsible for directing or managing two or more, but not necessarily all, segments of an organization. It typically establishes policy for, and provides guidance to, the segments in their operations (48 CFR § 9904.403-30(a)(2)).

[2] BlueCross accumulated the home office costs in different pools and allocated them to its lines of business or to other pools based on a variety of methods. The number of lines of business or other pools to which a cost pool was allocated varied depending on the allocation methodology.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

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

Scope

Our audit covered the period October 1, 2006, through September 30, 2008 (FYs 2007 through 2008). For this period, Palmetto claimed administrative costs to CMS totaling $29,368,940. This total included pension costs of $1,145,284 that will be the subject of a separate audit, so we excluded them from this audit. We therefore reviewed $28,223,656 of administrative costs.

We limited our internal control review to those controls related to the recording and reporting of costs on the cost proposals. We accomplished our objective through substantive testing.

We conducted fieldwork at Palmetto's office in Columbia, South Carolina, from August through November 2011.

Methodology

To accomplish our objective, we:

- reviewed applicable Medicare laws, regulations, and guidelines, including the FAR § 31.201-2(d), the *Medicare Financial Management Manual*, chapter 2, section 190.3, and Palmetto's contract with CMS;

- interviewed officials at Palmetto and BlueCross about their cost accumulation processes for cost proposals and gained an understanding of its cost allocation systems;

- reconciled the cost proposals for FY 2007 and 2008 to Palmetto's accounting records;

- created a sampling frame of 9,162 employee pay periods totaling $10,697,424 that included cost centers with total costs of $100,000 or more and salaries of $10,000 or more for FYs 2007 through 2008;

- selected a judgmental sample of 60 employee pay periods (30 from each FY);

- verified that the amount paid was in accordance with the employee's pay rate, the salary was charged to the correct cost center, and the number of hours paid agreed with the time sheets for the 60 employee pay periods;

- reviewed payroll registers, corporate bonus plans, and personnel records;

- compared top executives' compensation to benchmark compensation amounts published in the Federal Register, and tested for excessive compensation claimed;

- created a sampling frame totaling $17,312,472 that consisted of the supporting general ledger account totals for the cost proposals' cost classification lines, other than salaries/wages and fringe benefits, that exceeded $500,000 for FYs 2007 through 2008;

- selected a judgmental sample of 60 nonsalary transactions (30 from each FY);

- tested the selected nonsalary transactions for allowability, allocability, and reasonableness;

- reviewed the allocation methodology for the home office indirect cost pools[3] that allocated more than $3 million per year to Palmetto; and

- recalculated the home office cost allocations for the cost pools reviewed using the allocation statistical bases provided by BlueCross and determined the excess allocated to Palmetto and, more specifically, the portion that was allocated to the Medicare RRB contract.

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.

FINDINGS AND RECOMMENDATIONS

Palmetto claimed administrative costs that substantially complied with the FAR and the Medicare contract. Of the $28,223,656 in costs that we reviewed, $28,000,381 was allowable, allocable, and reasonable in accordance with part 31 of the FAR and the Medicare contract. However, Palmetto claimed $223,275 in its cost proposals that was not allowable including:

- $178,305 of costs that exceeded its general ledger costs,
- $32,272 of unallowable costs, and
- $12,698 of home office costs that exceeded the allocable amount.

Palmetto claimed these unallowable costs because it lacked sufficient internal controls to ensure that it included all allowable general ledger accounts in its cost proposals and to ensure that it did not claim expenses identified as unallowable. In addition, Palmetto claimed unallowable costs because BlueCross allocated home office costs to Palmetto that exceeded the amount allocable to Palmetto's Medicare RRB contract.

---

[3] Indirect cost pool means a grouping of incurred costs identified with two or more objectives but not identified specifically with any final cost objective (48 CFR § 9904.401–30(a)(4)).

COSTS IN EXCESS OF GENERAL LEDGER COSTS

Pursuant to FAR § 31.201-2(d), Palmetto is responsible 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...."

On its FY 2008 cost proposal, Palmetto claimed costs that exceeded its general ledger costs by $178,305. Palmetto did not include all allowable general ledger accounts on its cost proposal. Because the excluded general ledger accounts together had a negative balance, Palmetto overstated its costs by $178,305.

This overstatement occurred because Palmetto implemented a new accounting system in 2008 for which it did not have sufficient internal controls to ensure that it included all allowable general ledger accounts, including those with negative balances, when compiling its costs for cost proposals.

UNALLOWABLE COSTS CLAIMED

Pursuant to FAR § 31.204(a), costs are allowable to the extent they are reasonable [and] allocable…. Additionally, FAR § 31.205 provides a compilation of costs that are unallowable and places limits on the amounts of certain other costs that are otherwise allowable. Palmetto's Medicare contract further restricts the types and amounts of costs that are allowable.

Palmetto properly identified costs in an indirect cost pool as unallowable according to FAR § 31.205 and its Medicare contract. However, Palmetto incorrectly allocated to the Medicare RRB contract a portion of these costs that it had identified as unallowable and claimed these costs on its FY 2007 cost proposal. The total unallowable costs claimed from the indirect cost pool on the FY 2007 cost proposal was $32,272.

Palmetto incorrectly claimed these costs because it did not have adequate internal controls in place to prevent it from including costs in its cost proposal that it had identified as unallowable.

EXCESSIVE HOME OFFICE COSTS CLAIMED

Pursuant to FAR § 31.201-2(d), Palmetto is responsible 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...." Furthermore, FAR § 31.203(d) states that "once an appropriate basis for allocating indirect costs has been accepted, the contractor shall not fragment the base by removing individual elements."[4]

The total home office indirect costs that BlueCross allocated to Palmetto exceeded the allocable amount by $205,419 for our audit period. Of the $205,419, $12,698 was allocated to Palmetto's Medicare RRB contract and claimed by Palmetto on the cost proposal. However, contrary to FAR § 31.201-2(d), Palmetto could not support that these expenses were allocable to the Medicare RRB contract.

[4] In BlueCross' case, the elements included the lines of business or other cost pools.

Palmetto claimed excessive home office indirect costs because BlueCross allocated indirect costs to Palmetto in excess of the allocable amount. BlueCross did not adhere to FAR § 31.203(d) when, at various points in the allocation process, it dropped allocations to certain elements because it allocated by account, by cost center, rather than in the aggregate. Palmetto officials explained that BlueCross' allocation methodology is necessary to preserve transaction level information, and that some rounding is inherent.

RECOMMENDATIONS

We recommend that Palmetto:

- reduce the costs claimed on its cost proposals by $223,275;
- improve its internal controls to ensure that it includes all allowable general ledger accounts, including those with negative balances, when compiling its costs for cost proposals;
- improve its internal controls to ensure that it does not claim expenses it has identified as unallowable; and
- have BlueCross implement a year-end true-up process to correct inherent rounding differences in its home office costs allocation process.

PALMETTO GBA COMMENTS

In written comments on our draft report, Palmetto concurred with all but one of our findings and recommendations. Palmetto disagreed with our finding that home office indirect costs allocated to the Medicare RRB contract exceeded the allocable amount by $12,698. Palmetto stated that rounding is inherent due to the large amounts of money allocated by BlueCross. However, to eliminate similar findings in the future, Palmetto said that BlueCross has implemented a year-end true-up process to correct the inherent rounding differences as recommended. Palmetto's comments are included in their entirety as Appendix B.

OFFICE OF INSPECTOR GENERAL RESPONSE

We continue to maintain that Palmetto should reduce the costs claimed on its cost proposals by $223,275. With regard to home office indirect costs, we are pleased with Palmetto's statement that BlueCross has implemented a year-end true-up process.

APPENDIXES

APPENDIX A: FINAL ADMINISTRATIVE COST PROPOSALS WITH RECOMMENDED COSTS FOR ACCEPTANCE AND RECOMMENDED COSTS FOR DISALLOWANCE FOR FISCAL YEARS 2007 AND 2008

Cost Category	Fiscal Year 2007	Fiscal Year 2008	Total
Salaries and Wages	$6,745,158	$3,676,067	$10,421,225
Fringe Benefits	3,415,572	1,250,927	4,666,499
Facilities or Occupancy	1,105,784	0	1,105,784
EDP Equipment	809,592	31,939	841,531
Subcontracts	112,345	915,342	1,027,687
Outside Professional Services	8,046	221,315	229,361
Telephone and Telegraph	244,566	2,557	247,123
Postage and Express	2,580,930	1,669,174	4,250,104
Furniture and Equipment	164,317	0	164,317
Materials and Supplies	446,863	44,292	491,155
Travel	93,132	1,712	94,844
Return on Investment	51,186	53,110	104,296
Miscellaneous	936,580	0	936,580
Other	0	9,967,403	9,967,403
Credits	(2,686,570)	(2,492,399)	(5,178,969)
Forward Funding	0	0	0
Total Costs Claimed	$14,027,501	$15,341,439	$29,368,940
Less Pension Costs Not Reviewed	518,739	626,545	1,145,284
Total Costs Reviewed	**$13,508,762**	**$14,714,894**	**$28,223,656**
Less: Recommended Disallowances			
Costs in Excess of the General Ledger	$0	$178,305	$178,305
Unallowable Costs From Indirect Cost Pool	32,272	0	32,272
Overstated Home Office Costs	11,953	745	12,698
Total Recommended Disallowances	**$44,225**	**$179,050**	**$223,275**
Recommended for Acceptance	**$13,464,537**	**$14,535,844**	**$28,000,381**

APPENDIX B: PALMETTO GBA COMMENTS

Palmetto GBA
PARTNERS IN EXCELLENCE

Walter J. Johnson
President and Chief Operating Officer

May 3, 2012

Lori S. Pilcher
Regional Inspector General for Audit Services
Region IV
61 Forsyth Street, SW, Suite 3T41
Atlanta, Georgia 30303

Dear Ms. Pilcher:

RE: Audit Report Number A-04-11-04018

Please note effective April 2, 2012, I assumed the President and Chief Operating Officer position at Palmetto GBA. Therefore, I am responding to your letter addressed to Bruce Hughes dated April 2, 2012 entitled "Audit of Palmetto GBA's Railroad Retirement Board Final Administrative Cost Proposal for Fiscal Years 2007 and 2008."

The draft report contained the following recommendations. Our responses to the recommendations are provided below.

We recommend that Palmetto GBA:

- Reduce the cost claimed on its cost proposals by $223,275;
- Improve its internal controls to ensure that it includes all allowable general ledger accounts, including those with negative balances, when compiling its cost for cost proposals.
- Improve its internal controls to ensure that it does not claim expenses it has identified as unallowable; and
- Have BlueCross implement a year-end true up process to correct inherent rounding differences in its home office costs allocation process.

Contractor Response:

- Palmetto GBA agrees with the computation of unallowable cost included on the 2007 cost proposal in the amount of $32,272. In an effort to reduce the size and complexity of the true up journal entry, Palmetto GBA rolled all natural accounts into one account (6GA3) and in the process, inadvertently included unallowable accounts. This account roll up was an isolated occurrence and the process was immediately revised to maintain original account numbers and descriptions, making unallowable cost evident.

- Palmetto GBA agrees with a reduction in cost related to its 2008 cost proposal in the amount of $178,305. This allowable cost, which had credit balances, was included in the three prior cost proposals, but was inadvertently excluded from the final, causing an overstatement of allowable cost. The inclusion of this cost relied on a manual process, which has been eliminated with the addition of several new pools which automated the cost allocation process.

- Palmetto GBA agrees with the recommendation to improve our policies and procedures for maintaining documentation to support that costs included on our cost proposals were incurred, allocable to the contract, and compliant with applicable cost principles. Palmetto GBA has implemented multiple automated processes to replace those that were manual functions. Palmetto GBA will take any other steps deemed necessary to implement this recommendation.

- Palmetto GBA disagrees with the disallowance of the Home Office cost in the amount of $12,698. We believe this cost to be allowable, allocable and reasonable. Our Home Office allocates hundreds of millions of dollars and thus, some rounding is inherent. As recommended, the Home Office has implemented a year end process to true up variances as a result of the rounding (see Home Office narrative below).

  Summary
  The purpose of this email is to explain two prior-year costing adjustments that will be made in the first quarter of 2012 to satisfy government cost accounting requirements and relieve outstanding audit concerns. Cost & Budget does not expect these adjustments to result in significant changes to allocated cost by business segment for 2011. A handful of large LOBs will reflect a change in allocated cost of $100k - $200k for the year, but most of the rounding adjustments will offset within a segment (i.e. Private Business, PGBA, CLife, etc.).

  Detail
  Cost & Budget will implement a new process in 2012 to satisfy government cost accounting requirements and relieve outstanding audit concerns. The new process will include two prior-year cost allocation adjustments during the first quarter of 2012. Any billings or cost reports related to government contracts will need to be adjusted accordingly. It is important for internal management to note that Cost & Budget does not expect these adjustments to result in significant changes in allocated cost for 2011.

  The cost allocation adjustments will take the form of journal entries and will be reflected in a new cost center (Cost Center 05A) which will be used exclusively for these prior year cost allocation adjustments. The total cost in Cost Center 05A will be $0.00; however amounts will be reflected, both positive and negative, per line of business (LOB). The first entry will be made in the January 2012 costing cycle. The second entry will be made during February costing. Each entry will be by LOB and will have the appropriate natural account detail. In addition, the related Home Office cost pools will be documented in the description field for use with government reporting. Again, these entries should not result in significant allocation changes.

  January Entry
  The purpose of this adjustment is to match the timing of cost and allocation statistics. Historically, some allocation stats used by Cost & Budget were on a one month lag due to the availability of current month information within the time allotted for the monthly costing cycle. In order to be in compliance with government cost accounting regulations, cost allocations in a calendar year must be based statistical data from that calendar year. Allocations based on statistics that lag one month are not in compliance with government regulations.

Therefore, a January entry will be made to "true-up" 2011 cost allocations using pool statistics based on calendar year activity.

<u>February Entry</u>
The purpose of this adjustment is to enable Cost and Budget to apply cost allocations to LOBs using dollar amount increments that are not limited to two decimals places. BCBSSC cost allocations are applied to a minimum amount of $0.01. This system process results in very small, but numerous rounding errors that are detectable by government auditors in total. This issue has resulted in an audit finding during a recent Part B audit. Therefore, starting with the 2011 calendar year, Cost & Budget will run a costing model in the first quarter of the following year using the necessary decimal places to eliminate 1) the rounding error in the costing system and 2) the risk of future government audit findings. A handful of large LOBs will reflect a change in allocated cost of $100k - $200k for the year, but most of the rounding adjustments will offset each other within a segment (i.e. Private Business, PGBA, CLife, etc.).

If you have any questions regarding these two adjustments, please contact myself or Lynda Snyder. Otherwise, Cost & Budget will publish the effects of the adjustments prior to entry in the costing system.

If you have any questions, please feel free to contact me at 803-763-1176 or Joe Wright at 803-763-5545.

Sincerely

/ Walter J. Johnson/

cc: Joe Wright, Palmetto GBA
Mark Wimple, OIG