



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

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B-164031(3).91

September 6, 1974

The Honorable Ted Stevens  
United States Senate

Dear Senator Stevens:

This is in response to your letter of August 22, 1974, and your subsequent request of September 4, 1974, to our staff to provide assistance in drafting language to the HEW appropriation bill which would serve to meet your intention of preventing carriers under the Medicare program from converting from a subcontract to an in-house EDP claims processing operation, unless such a change meets some reasonable standard of cost effectiveness.

As discussed in the September 4, 1974, meeting with our staff, our technical problems with the proposed amendment enclosed with your August 22 letter were that

- the language would impact on subcontracted services in addition to those intended to be covered.
- the proposed amendment would be difficult to administer because the language would limit reimbursement to some hypothetical amount based on fixed-price competitive bidding which would be virtually undeterminable if a carrier brought its data processing operation in-house, and quite properly, did not go through the motions of obtaining competitive proposals without the bonafide intention of making a subcontract award.
- the proposed amendment and related limitation on reimbursement might not have been enforceable without amending the existing carrier contracts with HEW.

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Enclosed is suggested revised language which we believe would meet the intent of your proposed amendment. The language would meet your indicated preference for a prospective determination of the economic justification for a conversion to an in-house operation, rather than a retrospective determination after the change had been made and any unnecessary costs incurred. In addition, the implementation of the proposed language seems consistent with the Secretary's authority under article XVIII of the existing contracts with the carriers which require prior approval of the Secretary for major data processing system changes which would include a shift from EDP claims processing activities performed on a subcontract basis to in-house operations.

The suggested 3-year period for amortizing conversion or start up costs in assessing the cost effectiveness of a move in-house is consistent with the 3-year data processing subcontract period suggested in the June 21, 1974, report to the Secretary of Health, Education, and Welfare and the Commissioner of Social Security by the Advisory Committee on Medicare Administration, Contracting, and Subcontracting (the Perkins Committee) in order to attempt to equalize the comparison of this aspect of the costs of a subcontracted versus an in-house operation.

With respect to your intention to encourage competition in the EDP claims processing activities under Medicare, we suggest that Paragraph c of article XVII of the existing carrier contracts with the Secretary is adequate to meet your objectives and a copy is enclosed for your consideration.

Sincerely yours,

(SIGNED) ELMER B. STAATS

Comptroller General  
of the United States

Enclosures

Sec. \_\_\_\_\_ (a) No funds appropriated under this Act shall be available to pay any carrier which is a party to an agreement entered into under section 1842 of the Social Security Act, with respect to data processing and related services described in subsection b which are to be provided directly by such carrier unless the Secretary finds prior to the commencement of providing such services, that on an annual basis, the cost of such services judged on the basis of total administrative costs per claim processed, would not be more than such services would have cost had such services been provided under a contract in effect as of June 30, 1974, between the carrier and another party engaged in the business of furnishing such type of services. The Secretary in making such a finding of what total administrative cost would have been, may consider wage and price increases, changes in program requirements, and the amortization of start-up or conversion costs for a period of not to exceed 3 years. Further, the Secretary should consider any costs incurred by the Secretary or other parties under contract with the Secretary for assisting the carrier in providing such services directly.

(b) Data processing and related services referred to in subsection (a) are services

- (1) which are necessary for the carrier to provide in making payments to or on behalf of eligible individuals under the agreement referred to in subsection

(a).

- (2) which on or after June 30, 1974, were furnished by another party pursuant to a contract entered into prior to such date between such other party and such carrier, and
- (3) which are to be furnished after the expiration of the contract referred to in clause (2) directly by such carrier.

Article XVII  
SUBCONTRACTING AND PRIOR APPROVAL

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C. It is the policy of the Government to procure property and services from responsible sources at fair and reasonable prices calculated to result in the lowest ultimate cost to the Government. In order to achieve this objective, competitive proposals shall be utilized to the maximum practical extent. If competition is not available or does not yield reasonable subcontract prices, the Carrier shall also be required to undertake appropriate price analysis in accordance with Part 1-3.807-2(b) of the Federal Procurement Regulations and to undertake cost-analysis in accordance with Part 1-3.807-2(c) of the Federal Procurement Regulations in all subcontracts subject to approval of the Secretary under paragraph B of this Article.

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