



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

NOV 23 2001

REGION IV
Room 3T41
61 Forsyth Street, S.W.
Atlanta, Georgia 30303-8909

CIN: A-04-01-01007

Mr. Randall Edwards
Senior Vice President of Finance
and Chief Financial Officer
BCBS of Georgia
3350 Peachtree Road
Atlanta, Georgia 30326

Dear Mr. Edwards:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) report entitled *Examination of the Administrative Costs Incurred Under the Health Insurance for the Aged and Disabled (Medicare) Part A*. The report covers the period October 1, 1994 through September 30, 1999. A copy of this report will be forwarded to the HHS action official for his review and any action deemed necessary.

The review was completed under a contract with HHS, OIG. The OIG exercised technical oversight and quality control of the examination. In our oversight, we found nothing to indicate that Carmichael, Brasher, Tuvell & Company's work was inappropriate or that the report cannot be relied upon.

Final determination as to actions taken on all matters reported will be made by the 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 United States Code 552, as amended by Public Law 104-231, OIG, OAS reports issued to the Department's grantees and contractors are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 Code of Federal Regulations Part 5.)

To facilitate identification please refer to Common Identification Number (CIN) A-04-01-01007 in all correspondence relating to this report.

Sincerely yours,

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

Enclosures - as stated

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cc:

Mr. Neil Vannoy
Executive Vice President Community Operations

Direct Reply to HHS Action Official:

Mr. Dale Kendrick
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REPORT OF EXAMINATION OF THE
ADMINISTRATIVE COSTS INCURRED
UNDER THE HEALTH INSURANCE FOR THE AGED AND DISABLED (MEDICARE)

PART A

**BLUE CROSS BLUE SHIELD OF GEORGIA
ATLANTA, GEORGIA**

FOR THE PERIOD
OCTOBER 1, 1994 THROUGH SEPTEMBER 30, 1999

NOTICE

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 Carmichael, Brasher, Tuvell & Company, Certified Public Accountants, as concurred with by the DHHS-OIG, Office of Audit Services. Final determinations on these matters will be made by authorized DHHS operating division officials.

EXECUTIVE SUMMARY

Background

The Health Care Financing Administration (HCFA) administers the Medicare Program by contracting with private organizations to process and pay claims for services provided to eligible beneficiaries. HCFA has contracted with Blue Cross Blue Shield of Georgia (BCBS of GA) to process Part A claims submitted by certain hospitals and other medical suppliers in Georgia. During the period October 1, 1994 through September 30, 1999, BCBS of GA claimed administrative costs of \$40,769,774 to process 14,393,826 Part A claims.

Objectives

The objective of our audit was to determine whether (1) BCBS of GA had established effective systems of internal control, accounting and reporting for administrative costs and (2) the Final Administrative Cost Proposals (FACPs) presented fairly, in all material respects, the costs of program administration for the Part A program in accordance with Part 31 of the Federal Acquisition Regulations as interpreted and amended by Appendix B of BCBS of GA's agreement with HCFA.

Results

We determined that BCBS of GA had generally established adequate systems for internal control, accounting and reporting for administrative costs. Further, the administrative costs for the period October 1, 1994 through September 30, 1999, were generally in accordance with Part 31 of the Federal Acquisition Regulations as interpreted and amended by Appendix B of BCBS of GA's agreement with HCFA. However, we identified \$575,471 in charges reported on the FACP for which we recommend disallowance for the period October 1, 1994 through September 30, 1999. The items for which we recommend adjustments are as follows:

- BCBS of GA claimed reserves on its self insured health insurance costs totaling \$201,265 accumulated from \$102,700 for fiscal year 1995, \$84,999 for fiscal year 1997 and \$13,566 for fiscal year 1998. BCBS of GA under reported claims paid of \$215,625 accumulated from \$102,614 for fiscal year 1996 and \$113,011 for fiscal year 1999.
- BCBS of GA did not provide sufficient documentation to support return on investments amounts of \$81,384 for fiscal year 1995 and \$58,530 for fiscal year 1999. BCBS of GA under reported return on investment of \$2,750 on the fiscal year 1998 FACP.
- BCBS of GA did not provide sufficient documentation to support \$104,729 in depreciation expense reported on the 1999 fiscal year FACP.
- BCBS of GA claimed costs from two invoices for excessive or unallowable amounts and could not provide support for 34 invoices totaling \$92,121 accumulated from \$55,698 for fiscal year 1995, \$3,030 for fiscal year 1996, \$1,115 for fiscal year 1997, \$2,503 for fiscal year 1998, and \$29,775 for fiscal year 1999.
- BCBS of GA did not provide sufficient documentation to support professional and consultant costs of \$42 for fiscal year 1995, and \$14,566 for fiscal year 1999.

- BCBS of GA did not provide sufficient documentation to support data processing costs of \$9,375 for fiscal year 1995.
- BCBS of GA did not provide sufficient documentation to support rental costs totaling \$7,552 accumulated from \$5,513 for fiscal year 1995, \$1,111 for fiscal year 1996, \$92 for fiscal year 1998, and \$836 for fiscal year 1999.
- BCBS of GA claimed \$5,907 in compensation during the fiscal period October 1, 1994 through September 30, 1999 which was in excess of reasonable increases as determined by the Employment Cost Index.

We evaluated BCBS of GA's system of significant internal accounting and administrative controls, and compliance with laws and regulations that could materially affect the FACPs. Based on our evaluation, except as indicated above, BCBS of GA's control procedures were adequate for the Department of Health and Human Service's purposes and that BCBS of GA complied with the provisions of Part 31 of the Federal Acquisition Regulations as interpreted and amended by Appendix B of BCBS of GA's agreement with HCFA for the transactions tested. We have issued our report on compliance and the review of internal controls which appear on pages 4 and 6, respectively.

BLUE CROSS BLUE SHIELD OF GEORGIA
ATLANTA, GEORGIA
October 1, 1995 through September 30, 1999

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INTRODUCTION

Background

The Health Insurance for the Aged and Disabled (Medicare) program was established by Title XVIII of the Social Security Act. Hospital Insurance (Part A) provides protection against the cost of inpatient hospital care, post-hospital extended care, and post-hospital home health care. Supplemental Medical Insurance (Part B) is a voluntary program that covers physician services, hospital outpatient services, home health care and certain other health services. Part A and Part B provide insurance benefits to (1) eligible persons 65 and over, (2) disabled persons under 65 who have been entitled to Social Security benefits for at least 24 consecutive months and (3) individuals under age 65 with chronic kidney disease who are currently insured by or entitled to Social Security benefits.

The Health Care Financing Administration (HCFA) administers the Medicare Program by contracting with private organizations to process and pay claims for services provided to eligible beneficiaries. Contractors administering Part A of the program are known as Intermediaries and contractors administering Part B of the program are known as Carriers. The contracts between HCFA and the Intermediaries and Carriers define the functions which are to be performed and that costs allowable under the contract will be determined in accordance with Part 31 of the Federal Acquisition Regulations as interpreted and amended by the contract.

Objectives

The objectives of our audit were to determine whether (1) BCBS of GA had established an effective system of internal control, accounting and reporting for administrative costs incurred under the program and (2) the Final Administrative Cost Proposals (FACPs) presented fairly, in all material respects, the costs of program administration for Part A and B of the Medicare program in accordance with Part 31 of the Federal Acquisition Regulations (FAR) as interpreted and modified by Appendix B of BCBS of GA's contract with HCFA.

Scope

Our audit was conducted in accordance with generally accepted government auditing standards. The audit objective was to determine whether administrative costs claimed by BCBS of GA on its FACPs to administer Part A of the Medicare program for the period from October 1, 1994 through September 30, 1999 were reasonable, allocable and allowable. During the period October 1, 1994 through to September 30, 1999, BCBS of GA claimed administrative costs of \$40,769,774 to process Part A claims.

We examined the administrative costs claimed by BCBS of GA to the extent we considered necessary to determine if amounts claimed were in accordance with Part 31 of the Federal Acquisition Regulations as interpreted and modified by Appendix B of BCBS of GA's contract with HCFA. Our audit included audit procedures designed to achieve our objective and included a review of accounting records and supporting documentation. Our audit excluded a review of the pension costs claimed by BCBS of GA on the FACPs. Pension costs were reviewed by the Office of Inspector General, Office of Audit Services and as such, were excluded from the scope of our audit.

We reviewed the action taken by BCBS of GA on prior audit findings and the effectiveness of BCBS of GA's corrective action in regard to the findings and recommendations. We reviewed and verified the accuracy of the cumulative "Interim Expenditure Reports" filed by BCBS of GA during the audit period. The tests performed were designed to determine if BCBS of GA prepared the reports based upon verifiable statistics which resulted in the accurate reporting of interim expenditures. We reviewed the methods and procedures utilized in the preparation of the July 1999 expenditure report to determine if the methods and procedures were adequately documented and would result in accurate reporting.

We reviewed BCBS of GA's compliance with complementary insurance policies and the amount of credit applied to BCBS of GA's claimed administrative costs for the periods from October 1, 1994 to September 30, 1999. Our procedures were designed to determine if BCBS of GA was complying with complementary insurance policies and that credits due Medicare were properly included in the FACPs.

We reviewed the extent to which BCBS of GA had incurred significant costs for planning, developing or modifying the Medicare claims processing system.

Audit fieldwork was performed at BCBS of GA's office in Atlanta, Georgia from November 13, 2000 through July 5, 2001.

INDEPENDENT AUDITORS' REPORT ON
FINAL ADMINISTRATIVE COST PROPOSALS

We have audited the administrative costs incurred and reported on the Final Administrative Cost Proposals of Blue Cross Blue Shield of Georgia (BCBS of GA) for the period from October 1, 1994 through September 30, 1999. These Final Administrative Cost Proposals are the responsibility of BCBS of GA's management. Our responsibility is to express an opinion on the Final Administrative Cost Proposals based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Government Auditing Standards; 1994 Revision, and the Audit Guide for the Review of Administrative Costs Incurred by Medicare Intermediaries and Carriers Under Title XVIII of the Social Security Act, dated February 25, 1991, issued by the Office of Inspector General - Department of Health and Human Services. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Final Administrative Cost Proposals are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts in the Final Administrative Cost Proposals. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Final Administrative Cost Proposals. We believe that our audit provides a reasonable basis for our opinion.

BCBS of GA's policy is to prepare and report its costs of administering Part A of the Medicare program on the Final Administrative Cost Proposals in conformity with Part 31 of the Federal Acquisition Regulations as interpreted and modified by Appendix B of BCBS of GA's contract (Medicare Agreement) with the Health Care Financing Administration (HCFA) and HCFA's reporting procedures. Accordingly, the accompanying Final Administrative Cost Proposals are not intended to be a complete presentation of BCBS of GA's assets, liabilities, revenue and expenses.

We did not audit and do not express an opinion on the pension costs contained in the Final Administrative Cost Proposals for the period October 1, 1994 through September 30, 1999.

In our opinion, except for the above pension costs and the adjustments as disclosed in the findings and recommendations section of this report, the accompanying Final Administrative Cost Proposals, as adjusted, present fairly, in all material respects, the cost of administering Part A of the Medicare Program in accordance with Part 31 of the Federal Acquisition Regulations as interpreted and modified by Appendix B of BCBS of GA's Medicare Agreement and HCFA's reporting procedures.

This report is intended solely for the use described above and should not be used for any other purpose.

Atlanta, Georgia
July 5, 2001

INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH LAWS AND REGULATIONS

We have performed an audit of the Final Administrative Cost Proposals (FACPs) of Blue Cross Blue Shield of Georgia (BCBS of GA) for the period October 1, 1994 through September 30, 1999 and have issued our report thereon, dated July 5, 2001.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, 1994 Revision, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the FACPs are free of material misstatement and whether BCBS of GA complied in all material respects with the provisions of Appendix B of the Medicare Agreement.

Compliance with laws, regulations and agreement requirements applicable to BCBS of GA is the responsibility of BCBS of GA management. As part of obtaining reasonable assurance about whether the FACPs were free of material misstatement, and whether BCBS of GA complied in all material respects with the provisions of Appendix B of the Medicare Agreement, we performed tests of compliance with certain provisions of laws, regulations and the agreement. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements or violations of prohibitions, contained in statutes, regulations or contracts, that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations are material to the Health Care Financing Administration (HCFA) agreement and the FACPs.

The results of our tests of compliance disclosed potential immaterial instances of noncompliance (see Schedule of Adjustments) with HCFA agreement provisions as disclosed in the Findings and Recommendations section of this report.

We considered the immaterial instances of noncompliance in forming our opinion on the FACPs and on BCBS of GA's compliance with HCFA agreement provisions, and this report does not affect our report on the FACPs dated July 5, 2001 and the opinion rendered therein.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, BCBS of GA complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that BCBS of GA had not complied, in all material respects, with those provisions.

This report is intended solely for the use of management of BCBS of GA and the Department of Health and Human Services (DHHS). This restriction is not intended to limit the distribution of this report which, upon acceptance by the DHHS is a matter of public record.

Atlanta, Georgia
July 5, 2001

INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL STRUCTURE

We have audited the Final Administrative Cost Proposals (FACPs) of Blue Cross Blue Shield of Georgia (BCBS of GA) for the period October 1, 1994 to September 30, 1999 and have issued our report thereon, dated July 5, 2001.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, 1994 Revision, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the FACPs are free of material misstatement and whether BCBS of GA complied in all material respects with the provisions of Appendix B of the Medicare Agreement.

In planning and performing our audit of BCBS of GA, we considered its internal control structure and administrative controls as they relate to the Medicare Agreement in order to determine our auditing procedures for the purpose of expressing our opinion on the FACPs and whether BCBS of GA complied with Health Care Financing Administration (HCFA) agreement provisions and not to provide assurance on the internal control structure. Our study and evaluation was more limited than would be necessary to express an opinion on BCBS of GA's system of internal control structure taken as a whole.

The management of BCBS of GA is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures.

The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reports in accordance with HCFA agreement provisions. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purposes of this report, we have classified the significant internal control structure policies and procedures and administrative controls in the following categories:

Accounting Controls

- Cash receipts and disbursements
- Payroll and fringe benefits
- Indirect costs
- Depreciation and use charges
- Claims processing charges

Administrative Controls

- Interim Expenditure Reports (IER)
- Final Administrative Cost Proposal (FACP) Reports
- Subcontract and EDP Contracting
- Cost of Investment
- Complementary Insurance Credit
- Budget Comparisons

For all of the control categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation. We also assessed control risk for the control categories listed above.

Our consideration of the internal control structure and administrative controls would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the HCFA agreement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted certain matters involving the internal control structure and its operations that we considered to be immaterial weaknesses as defined above (refer to the Findings and Recommendations section of this report).

This report is intended solely for the use of management and the Department of Health and Human Services (DHHS). This restriction is not intended to limit the distribution of this report which, upon acceptance by the DHHS, Office of Inspector General, is a matter of public record.

Atlanta, Georgia
July 5, 2001

**FINAL ADMINISTRATIVE COST PROPOSALS
(FACP'S)**

BLUE CROSS BLUE SHIELD OF GEORGIA
 Final Administrative Cost Proposal
 For the Period October 1, 1994 through September 30, 1995
 Part A

<u>Operation</u>	<u>Fiscal Year 1995 Administrative Costs</u>
Bills Payment	\$ 2,608,892
Reconsiderations and Hearings	208,905
Medicare Secondary Payer	877,167
Medical Review & Utilization Review	490,236
Provider Desk Reviews	622,753
Provider Field Audits	876,844
Provider Settlements	409,790
Provider Reimbursement	640,686
Productivity Investments	18,809
Benefit Integrity	162,133
Other	33,545
Credits	<u>(260,992)</u>
TOTAL ADMINISTRATIVE COSTS CLAIMED	\$ <u>6,688,768</u>
Recommended Adjustments:	
Fringe Benefits	(102,700)
Return on Investment	(81,384)
Unallowable/Unsupported Invoices	(55,698)
Professional and Consultant Services	(42)
Data Processing	(9,375)
Rental Costs	(5,513)
Executive Salaries	<u>(3,849)</u>
Total Adjustments	\$ <u>(258,561)</u>
COSTS RECOMMENDED FOR ACCEPTANCE	\$ <u>6,430,207</u>
Pension costs not included in the scope of the audit	\$ <u>114,909</u>

See Independent Auditors' Report.
 Explanation of each adjustment is provided in the Findings and Recommendations
 section of this report.

BLUE CROSS BLUE SHIELD OF GEORGIA
 Final Administrative Cost Proposal
 For the Period October 1, 1995 through September 30, 1996
 Part A

<u>Operation</u>	<u>Fiscal Year 1996 Administrative Costs</u>
Bills Payment	\$ 2,886,396
Reconsiderations and Hearings	265,640
Medicare Secondary Payer	993,080
Medical Review & Utilization Review	493,992
Provider Desk Reviews	553,218
Provider Field Audits	967,967
Provider Settlements	411,452
Provider Reimbursement	581,538
Productivity Investments	21,280
Benefit Integrity	155,809
Other	3,459
Credits	<u>(323,651)</u>

TOTAL ADMINISTRATIVE COSTS CLAIMED \$ 7,010,180

Recommended Adjustments:

Unallowable/Unsupported Invoices	(3,030)
Rental Costs	(1,111)
Executive Salaries	<u>(2,058)</u>
Total Adjustments	\$ <u>(6,199)</u>

COSTS RECOMMENDED FOR ACCEPTANCE \$ 7,003,981

Pension costs not included in the scope of the audit \$ 184,181

See Independent Auditors' Report.
 Explanation of each adjustment is provided in the Findings and Recommendations
 section of this report.

BLUE CROSS BLUE SHIELD OF GEORGIA
Final Administrative Cost Proposal
For the Period October 1, 1996 through September 30, 1997
Part A

<u>Operation</u>	<u>Fiscal Year 1997 Administrative Costs</u>
Bills Payment	\$ 3,048,599
Reconsiderations and Hearings	313,420
Medicare Secondary Paycr	943,843
Medical Review & Utilization Review	476,526
Provider Desk Reviews	728,284
Provider Field Audits	836,649
Provider Settlements	426,871
Provider Reimbursement	591,395
Productivity Investments	316,351
Benefit Integrity	162,936
MIP Other	0
Credits	<u>(371,725)</u>
 TOTAL ADMINISTRATIVE COSTS CLAIMED	 \$ <u><u>7,473,149</u></u>
 Recommended Adjustments:	
Fringe Benefits	(84,999)
Unallowable/Unsupported Invoices	<u>(1,115)</u>
Total Adjustments	\$ <u><u>(86,114)</u></u>
 COSTS RECOMMENDED FOR ACCEPTANCE	 \$ <u><u>7,387,035</u></u>
 Pension costs not included in the scope of the audit	 \$ <u><u>182,037</u></u>

See Independent Auditors' Report.
Explanation of each adjustment is provided in the Findings and Recommendations
section of this report.

BLUE CROSS BLUE SHIELD OF GEORGIA
 Final Administrative Cost Proposal
 For the Period October 1, 1997 through September 30, 1998
 Part A

<u>Operation</u>	<u>Fiscal Year 1998 Administrative Costs</u>
Bills/Claims Payment	\$ 2,435,215
Appeals and Reviews	307,473
Inquiries	551,128
Provider Education and Training	214,912
Provider Reimbursement	646,548
Productivity Investments	432,446
PM Special Projects	559
Credits	(301,839)
Medical Review	855,380
Medicare Secondary Payer	1,075,238
Benefits Integrity	202,021
Provider Education and Training	48,556
Audit	2,723,747
Productivity Investments	<u>179,608</u>
TOTAL ADMINISTRATIVE COSTS CLAIMED	\$ <u>9,370,992</u>
Recommended Adjustments:	
Fringe Benefits	(13,566)
Unallowable/Unsupported Invoices	(2,503)
Rental Costs	<u>(92)</u>
Total Adjustments	\$ <u>(16,161)</u>
COSTS RECOMMENDED FOR ACCEPTANCE	\$ <u>9,354,831</u>
Pension costs not included in the scope of the audit	\$ <u>213,363</u>

BLUE CROSS BLUE SHIELD OF GEORGIA
 Final Administrative Cost Proposal
 For the Period October 1, 1998 through September 30, 1999
 Part A

<u>Operation</u>	<u>Fiscal Year 1999 Administrative Costs</u>
Bills/Claims Payment	\$ 2,466,559
Appeals and Reviews	308,038
Inquiries	607,891
Provider Education and Training	175,654
Provider Reimbursement	614,112
Productivity Investments	1,859,639
Credits	(348,276)
Medical Review	923,996
Medicare Secondary Payer	1,108,251
Benefits Integrity	221,480
Provider Education and Training	50,931
Audit	2,206,208
MIP Productivity Investments	<u>32,203</u>
TOTAL ADMINISTRATIVE COSTS CLAIMED	<u>\$ 10,226,686</u>
Recommended Adjustments:	
Return on Investment	(58,530)
Depreciation	(104,729)
Unallowable/Unsupported Invoices	(29,775)
Professional and Consultant Services	(14,566)
Rental Costs	<u>(836)</u>
Total Adjustments	<u>\$ (208,436)</u>
COSTS RECOMMENDED FOR ACCEPTANCE	<u>\$ 10,018,250</u>
Pension costs not included in the scope of the audit	<u>\$ 58,530</u>

FINDINGS AND RECOMMENDATIONS

BLUE CROSS BLUE SHIELD OF GEORGIA

Findings and Recommendations

For the Period October 1, 1994 through September 30, 1999

Fringe Benefits

BCBS of GA self insured its health insurance coverage for its employees. BCBS of GA allocated to Medicare, amounts representing actual claims paid plus an allowance for reserves. The allowance for reserves is not an expense and should not be allocated to Medicare. Medicare was allocated amounts attributable to reserves of:

Fiscal year 1995	\$ 102,700
Fiscal year 1996	(102,614)
Fiscal year 1997	84,999
Fiscal year 1998	13,566
Fiscal year 1999	(113,011)

Recommendation

We recommend BCBS of GA exclude amounts claimed on the FACPs for reserves of \$102,700 for fiscal year 1995, \$84,999 for fiscal year 1997 and \$13,566 for fiscal year 1998. BCBS of GA may wish to claim additional claims expense of \$102,614 for fiscal year 1996 and \$113,011 for fiscal year 1999.

Auditee's Reponse

BCBS of GA concurred with the finding and stated they would claim the additional claims expenses for the fiscal years 1996 and 1999.

Auditor's Conclusion

We continue to recommend that BCBS of GA exclude amounts claimed on the FACPs for reserves of \$102,700 for fiscal year 1995, \$84,999 for fiscal year 1997 and \$13,566 for fiscal year 1998, and BCBS of GA has concurred with this finding. BCBS of GA has stated they intend to claim the additional claims expense of \$102,614 for fiscal year 1996 and \$113,011 for fiscal year 1999.

BLUE CROSS BLUE SHIELD OF GEORGIA
Findings and Recommendations
For the Period October 1, 1994 through September 30, 1999

Return of Investment

BCBS of GA did not provide adequate documentation to allow us to test return on investment of \$81,384 for fiscal year 1995 and \$58,530 for fiscal year 1999.

BCBS of GA reported return on investment of \$74,986 for fiscal year 1998 on the FACP. However, return on investment for fiscal year 1998 was calculated at \$77,736.

Recommendation

We recommend that BCBS of GA either exclude \$81,384 for fiscal year 1995 and \$58,530 for fiscal year 1999 from its FACPs or provide the documentation to support the return on investment amounts recorded on the FACPs. For fiscal year 1998, we recommend BCBS of GA include an additional expense of \$2,750 for fiscal year 1998 to the FACP.

Auditee's Response

BCBS of GA stated they would provide additional documentation to support the return on investment expenses claimed for fiscal years 1995 and 1999.

Auditor's Conclusion

We continue to recommend that BCBS of GA exclude \$81,384 for fiscal year 1995 and \$58,530 for fiscal year 1999 from its FACPs as documentation to support the return on investment amounts recorded on the FACPs was not provided.

BLUE CROSS BLUE SHIELD OF GEORGIA
Findings and Recommendations
For the Period October 1, 1994 through September 30, 1999

Depreciation

BCBS of GA did not provide adequate documentation to allow us to appropriately test fiscal year 1999 depreciation costs of \$104,729.

Recommendation

We recommend BCBS of GA provide documentation for us to appropriately test depreciation claimed on the FACP of \$104,729 for fiscal year 1999 or exclude this amount from its 1999 fiscal year FACP.

Auditee's Response

BCBS of GA stated they would provide additional documentation to support to support the depreciation expenses.

Auditor's Conclusion

We continue to recommend that BCBS of GA exclude depreciation costs claimed on the FACP of \$104,729 for fiscal year 1999 as documentation to support the depreciation expenses was not provided.

BLUE CROSS BLUE SHIELD OF GEORGIA
Findings and Recommendations
For the Period October 1, 1994 through September 30, 1999

Unallowable/Unsupported Invoices

BCBS of GA allocated \$20 and \$2 to Medicare for unallowable items in fiscal year 1996 and 1997 respectively. BCBS of GA also did not provide documentation for several invoices. The amount allocated to Medicare for the unsupported invoices was \$55,698 for fiscal year 1995, \$3,010 for fiscal year 1996, \$1,113 for fiscal year 1997, \$2,503 for fiscal year 1998, and \$29,775 for fiscal year 1999.

Recommendation

We recommend that BCBS of GA exclude excess expense included in its FACPs of \$20 for fiscal year 1996 and \$2 for fiscal year 1997. Also, BCBS of GA should either exclude expenses included in its FACPs of \$55,698 for fiscal year 1995, \$3,010 for fiscal year 1996, \$1,113 for fiscal year 1997, \$2,503 for fiscal year 1998, and \$29,775 for fiscal year 1999, or provide the documentation to support the costs recorded on the FACPs.

Auditee's Response

BCBS of GA concurred with the unallowable items of \$20 and \$2 claimed in 1996 and 1997, respectively. BCBS of GA stated they were in the process of requesting duplicate copies of invoices from vendors for the unsupported invoices.

Auditor's Conclusion

We continue to recommend that BCBS of GA exclude excess expense included in its FACPs of \$20 for fiscal year 1996 and \$2 for fiscal year 1997. Also, BCBS of GA should exclude expenses included in its FACPs of \$55,698 for fiscal year 1995, \$3,010 for fiscal year 1996, \$1,113 for fiscal year 1997, \$2,503 for fiscal year 1998, and \$29,775 for fiscal year 1999, as documentation to support the costs recorded on the FACPs was not provided.

BLUE CROSS BLUE SHIELD OF GEORGIA
Findings and Recommendations
For the Period October 1, 1994 through September 30, 1999

Professional and Consultant Services

BCBS of GA did not provide adequate documentation to allow us to test three invoices of \$42 for fiscal year 1995, and \$14,566 for fiscal year 1999 for professional and consultant service costs.

Recommendation

We recommend that BCBS of GA either exclude \$42 for fiscal year 1995 and \$14,566 for fiscal year 1999 from its FACPs or provide the documentation to support the professional and consultant service costs recorded on the FACPs.

Auditee's Response

BCBS of GA stated that they would supply additional documentation to support the professional and consultant services expenses for 1995 and 1999.

Auditor's Conclusion

We continue to recommend that BCBS of GA exclude \$42 for fiscal year 1995 and \$14,566 for fiscal year 1999 from its FACPs as documentation to support the professional and consultant service costs recorded on the FACPs was not provided.

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Findings and Recommendations
For the Period October 1, 1994 through September 30, 1999

Data Processing

BCBS of GA did not provide adequate documentation to allow us to test one invoice of \$9,375 for data processing costs for fiscal year 1995.

Recommendation

We recommend that BCBS of GA either exclude \$9,375 for fiscal year 1995 from its FACPs or provide the documentation to support the data processing costs recorded on the FACPs.

Auditee's Response

BCBS of GA stated that they would supply additional documentation to support the data processing invoice in questioned for fiscal year 1995.

Auditor's Conclusion

We recommend that BCBS of GA exclude \$9,375 for fiscal year 1995 from its FACPs as documentation to support the data processing costs recorded on the FACPs was not provided.

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Findings and Recommendations
For the Period October 1, 1994 through September 30, 1999

Rental Costs

BCBS of GA did not provide adequate documentation to allow us to test six invoices for rental costs. Four invoices which we were unable to test had rental costs of \$5,513 for fiscal year 1995, \$92 for fiscal year 1998, and \$836 for fiscal year 1999. One lease agreement was not provided to allow us to appropriately test two invoices. The two invoices had rental costs of \$1,111 for fiscal year 1996.

Recommendation

We recommend that BCBS of GA either exclude \$5,513 for fiscal year 1995, \$1,111 for fiscal year 1996, \$92 for fiscal year 1998, and \$836 for fiscal year 1999 from its FACPs or provide the documentation to support the rental costs reported on the FACPs.

Auditee's Response

BCBS of GA stated they would provide the additional documentation to support the allocation of six invoices in question and provide the missing lease agreement to document two invoices.

Auditor's Conclusion

We continue to recommend that BCBS of GA exclude \$5,513 for fiscal year 1995, \$1,111 for fiscal year 1996, \$92 for fiscal year 1998, and \$836 for fiscal year 1999 from its FACPs as the documentation to support the rental costs reported on the FACPs was not provided.

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Findings and Recommendations
For the Period October 1, 1994 through September 30, 1999

Excess Salary Increases

The reasonableness of salaries paid is evaluated in terms of the increase in compensation in excess of the increase in employment cost index (ECI), annually. For the 1995 fiscal year, two out of the ten employees tested had compensation increased in excess of the ECI totaling \$3,849; for 1996 one out of ten had increased compensation in excess of ECI totaling \$2,058.

Recommendation

We recommend that BCBS of GA exclude excess compensation included from its FACPs of \$3,849 for the fiscal year 1995, \$2,058 for fiscal year 1996.

Auditee's Response

BCBS of GA disagreed with this finding stating that the methodology used to evaluate the reasonableness of the salaries paid was not part of the Medicare contract or the Federal Acquisition Regulations.

Auditor's Conclusion

We continue to recommend that BCBS of GA exclude excess compensation included from its FACPs of \$3,849 for the fiscal year 1995, \$2,058 for fiscal year 1996. The Federal Acquisition Regulations require that costs charged be reasonable, as such, increases of compensation in excess of the ECI were not considered reasonable.

BLUE CROSS BLUE SHIELD OF GEORGIA
OTHER MATTERS
For the Period October 1, 1996 through September 30, 1999

Complementary Insurance Financial Policies

Our review of BCBS of GA's complementary insurance financial policies, as discussed in the "Scope of Audit" section of this report, disclosed that BCBS of GA received approval for its complementary insurance claims processing operations, as required by program regulations. The complementary claims operation was approved by HCFA in October, 1995. It appears that BCBS of GA is calculating and crediting Medicare in accordance with the approved cost rate.

Plan's Interim Expenditure Reports

We reviewed BCBS of GA's method for preparing its Interim Expenditure Reports (IERs). BCBS of GA's July 1999 "Cumulative Interim Expenditure Report" agreed to the internal accounting documents maintained to support the IER. No matters came to our attention during our review which would indicate that BCBS of GA's methods and procedures for the preparation of the Interim Expenditure Reports were not adequate.

Significant EDP Expenditures

No significant EDP costs were incurred during our audit period for planning, development or modification of the Medicare claims processing system for Part A or B of the Medicare program other than funds expended to correct problems associated with Y2K.

**AUDITEE'S RESPONSE
TO
DRAFT AUDIT REPORT**