



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-04-01-01006

Mr. Launnie Ginn  
Chief Financial Officer  
BCBS of Mississippi  
P.O. Box 1043  
Jackson, Mississippi 39215-1043

Dear Mr. Ginn:

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, 1996 through September 30, 1999. A copy of this report will be forwarded to the 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 HHS action official named below. We request that you respond to the 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 press and general 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-04-01-01006 in all correspondence relating to this report.

Sincerely yours,

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

Enclosures - as stated

Page 2 – Launnie Ginn

Direct Reply to HHS Action Official:

Mr. Dale Kendrick  
Associate Regional Commissioner  
Centers for Medicare and Medicaid Services  
61 Forsyth Street, S.W., Suite 4T20  
Atlanta, Georgia 30303-8909  
(404) 562-7301

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 MISSISSIPPI  
JACKSON, MISSISSIPPI**

FOR THE PERIOD  
OCTOBER 1, 1996 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 Mississippi (BCBS of MS) to process Part A claims submitted by certain hospitals and other medical suppliers in Mississippi. During the period October 1, 1996 through September 30, 1999, BCBS of MS claimed administrative costs of \$36,958,315 to process 13,822,100 Part A claims.

### Objectives

The objective of our audit was to determine whether (1) BCBS of MS 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 MS's agreement with HCFA.

### Results

We determined that BCBS of MS had generally established adequate systems for internal control, accounting and reporting for administrative costs. Further, the administrative costs for the period October 1, 1996 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 MS's agreement with HCFA. However, we identified \$69,546 in charges reported on the FACP for which we recommend disallowance for the period October 1, 1996 through September 30, 1999. The items for which we recommend adjustments are as follows:

- BCBS of MS claimed \$38,636 in compensation during the fiscal period October 1, 1996 through September 30, 1999 which was in excess of reasonable increases as determined by the Employment Cost Index.
- BCBS of MS claimed \$27,386 in costs for life insurance purchased from a wholly owned subsidiary for which profit was not excluded before the allocation to Medicare.
- BCBS of MS claimed \$2,908 in wages which were not incurred.
- BCBS of MS claimed \$616 in costs that included unallowable amounts allocated to the Medicare Program.

We evaluated BCBS of MS'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 MS's control procedures were adequate for the Department of Health and Human Service's purposes and that BCBS of MS complied with the provisions of Part 31 of the Federal Acquisition Regulations as interpreted and amended by Appendix B of BCBS of MS'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 MISSISSIPPI**  
**Jackson, Mississippi**  
**October 1, 1996 through September 30, 1999**

---

**T A B L E O F C O N T E N T S**

PAGE

**INTRODUCTION**

Background .....	1
Objectives .....	1
Scope .....	2

**INDEPENDENT AUDITORS' REPORTS**

Independent Auditors' Report on Final Administrative Cost Proposals .....	3
Independent Auditors' Report on Compliance with Laws and Regulations .....	4
Independent Auditors' Report on Internal Control Structure .....	6

**FINAL ADMINISTRATIVE COST PROPOSALS**

October 1, 1996 through September 30, 1997 .....	9
October 1, 1997 through September 30, 1998 .....	10
October 1, 1998 through September 30, 1999 .....	11

**FINDINGS AND RECOMMENDATIONS**

Excess Salary Increases .....	13
Gains on Self-Insured Life Insurance .....	14
Unallocable Costs .....	15
Wages Not Incurred .....	16

**OTHER MATTERS**

Complementary Insurance Financial Policies .....	17
Interim Expenditure Reports .....	17
Significant EDP Expenditures .....	17

<b>AUDITEE'S COMPLETE RESPONSE TO THE DRAFT AUDIT REPORT .....</b>	<b>18</b>
--	-----------

## **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 MS 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 MS'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 MS on its FACPs to administer Part A of the Medicare program for the period from October 1, 1996 through September 30, 1999 were reasonable, allocable and allowable. During the period October 1, 1996 through to September 30, 1999, BCBS of MS claimed administrative costs of \$36,958,315 to process 13,822,100 Part A claims.

We examined the administrative costs claimed by BCBS of MS 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 MS'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 MS 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 MS on prior audit findings and the effectiveness of BCBS of MS'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 MS during the audit period. The tests performed were designed to determine if BCBS of MS 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 April 2000 expenditure report to determine if the methods and procedures were adequately documented and would result in accurate reporting.

We reviewed BCBS of MS's compliance with complementary insurance policies and the amount of credit applied to BCBS of MS's claimed administrative costs for the periods from October 1, 1996 to September 30, 1999. Our procedures were designed to determine if BCBS of MS 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 MS had incurred significant costs for planning, developing or modifying the Medicare claims processing system.

Audit fieldwork was performed at BCBS of MS's office in Jackson, Mississippi from December 4, 2000 through May 29, 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 Mississippi (BCBS of MS) for the period from October 1, 1996 through September 30, 1999. These Final Administrative Cost Proposals are the responsibility of BCBS of MS'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, 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 MS'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 MS'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 MS'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, 1996 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 MS'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

May 29, 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 Mississippi (BCBS of MS) for the period October 1, 1996 through September 30, 1999 and have issued our report thereon, dated May 29, 2001.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 MS 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 MS is the responsibility of BCBS of MS management. As part of obtaining reasonable assurance about whether the FACPs were free of material misstatement, and whether BCBS of MS 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 MS's compliance with HCFA agreement provisions, and this report does not affect our report on the FACPs dated May 29, 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 MS 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 MS had not complied, in all material respects, with those provisions.

This report is intended solely for the use of management of BCBS of MS 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  
May 29, 2001

**INDEPENDENT AUDITORS' REPORT**  
**ON INTERNAL CONTROL STRUCTURE**

We have audited the Final Administrative Cost Proposals (FACPs) of Blue Cross Blue Shield of Mississippi (BCBS of MS) for the period October 1, 1996 to September 30, 1999 and have issued our report thereon, dated May 29, 2001.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 MS complied in all material respects with the provisions of Appendix B of the Medicare Agreement.

In planning and performing our audit of BCBS of MS, 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 MS 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 MS's system of internal control structure taken as a whole.

The management of BCBS of MS 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  
May 29, 2001

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

# BLUE CROSS BLUE SHIELD OF MISSISSIPPI

## 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	\$ 4,224,220
Reconsiderations and Hearings	385,410
Medicare Secondary Payer	1,274,213
Medical Review & Utilization Review	749,534
Provider Desk Reviews	2,100,030
Provider Field Audits	804,179
Provider Settlements	1,302,709
Provider Reimbursement	1,443,877
Productivity Investments	357,570
Benefit Integrity	237,083
Other	2,973
Credits	<u>(204,515)</u>
TOTAL ADMINISTRATIVE COSTS CLAIMED	\$ <u>12,677,283</u>
Recommended Adjustments:	
Excess Salary Increases	(4,299)
Gains on Self-Insured Life Insurance	(11,964)
Unallocable Costs	(616)
Wages Not Incurred	<u>(9,771)</u>
Total Adjustments	\$ <u>(26,650)</u>
COSTS RECOMMENDED FOR ACCEPTANCE	\$ <u>12,650,633</u>
Pension costs not included in the scope of the audit	\$ <u>601,535</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 MISSISSIPPI

## 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 Payment	\$ 3,094,067
Reconsiderations and Hearings	516,911
Inquiries	717,174
Provider Education and Training	222,778
Medicare Secondary Payer	1,279,723
Medical Review & Utilization Review	842,908
Provider Field Audits	4,796,504
Provider Reimbursement	1,411,983
Productivity Investments	479,814
Benefit Integrity	232,324
PM Special Projects	983
MIP Special Projects	119,032
Credits	<u>(151,806)</u>

TOTAL ADMINISTRATIVE COSTS CLAIMED \$ 13,562,395

Recommended Adjustments:

Employment Cost Index	\$ (25,440)
Gains on Self-Insured Life Insurance	(9,723)
Wages Not Incurred	<u>(10,633)</u>
Total Adjustments	\$ <u>(45,796)</u>

COSTS RECOMMENDED FOR ACCEPTANCE \$ 13,516,599

Pension costs not included in the scope of the audit \$ 589,540

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

# BLUE CROSS BLUE SHIELD OF MISSISSIPPI

## 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 Payment	\$ 2,814,587
Reconsiderations and Hearings	499,875
Inquiries	926,074
Provider Education and Training	245,130
Medicare Secondary Payer	1,356,759
Medical Review & Utilization Review	1,173,284
Provider Field Audits	5,065,896
Provider Reimbursement	1,735,732
Productivity Investments	561,037
Benefit Integrity	250,183
Credits	<u>(186,922)</u>
TOTAL ADMINISTRATIVE COSTS CLAIMED	\$ <u>14,441,635</u>
Recommended Adjustments:	
Employment Cost Index	\$ (8,897)
Gains on Self-Insured Life Insurance	(5,699)
Wages Not Incurred Reimbursement	<u>17,496</u>
Total Adjustments	\$ <u>2,900</u>
COSTS RECOMMENDED FOR ACCEPTANCE	\$ <u>14,444,535</u>
Pension costs not included in the scope of the audit	\$ <u>507,715</u>

See Independent Auditors' Report.

Explanation of each adjustment is provided in the Findings and Recommendations section of this report.

# **FINDINGS AND RECOM MENDATIONS**

# BLUE CROSS BLUE SHIELD OF MISSISSIPPI

## Findings and Recommendations

For the Period October 1, 1996 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 1997 fiscal year, six out of the ten employees tested had compensation increased in excess of the CPI totaling \$4,299; for 1998 and 1999 five out of ten had increased compensation in excess of CPI totaling \$25,440 and \$8,897, respectively.

### Recommendation

We recommend that BCBS of MS exclude excess executive compensation included from its FACPs of \$4,299 for the fiscal year 1997, \$25,440 for fiscal year 1998 and \$8,897 for fiscal year 1999.

### Auditee's Response

BCBS of MS disagreed with this finding, stating that the ECI index should not be the exclusive measure for determining the increases in annual executive compensation which should be charged to the Medicare contract.

### Auditor's Response

We continue to recommend that BCBS of MS exclude excess executive compensation included from its FACPs of \$4,299 for the fiscal year 1997, \$25,440 for fiscal year 1998 and \$8,897 for fiscal year 1999, as the ECI index does provide a reasonable measure for the increase in executive compensation. We used the ECI index as it is the criteria recognized by CMS that is to be used to measure and evaluate executive compensation issues. At the time of our review, BCBS of MS did not offer any alternate measure to take the place of the ECI as an evaluation tool.

# **BLUE CROSS BLUE SHIELD OF MISSISSIPPI**

## **Findings and Recommendations**

**For the Period October 1, 1996 through September 30, 1999**

---

### **Gains on Self-Insured Life Insurance**

BCBS of MS provided its employees with life insurance benefits through its wholly owned subsidiary, Blue Bonnet Life Insurance (BBL). The costs allocated to Medicare on the FACPs were not adjusted to exclude the gain recognized by BBL on the insurance coverage. BCBS of MS allocated to Medicare on its FACPs \$11,964 for fiscal year 1997, \$9,723 for fiscal year 1998 and \$5,699 for fiscal year 1999.

### **Recommendation**

We recommend that BCBS of MS exclude \$11,964 for fiscal year 1997, \$9,723 for fiscal year 1998 and \$5,699 for fiscal year 1999, for premiums allocated to Medicare for life insurance in excess of costs which were charged by a wholly owned subsidiary of BCBS of MS.

### **Auditee's Response**

BCBS of MS disagreed with this finding, stating that these costs should not be included in the scope of this audit as they are currently under review by the CMS regional office. BCBS of MS also commented that the calculations used in determination of the audit finding was not reasonable and should be based on actual payments, claims processed and administrative costs.

### **Auditor's Response**

At the time of our review, the CMS had not completed its evaluation of the self-insurance expenses. Therefore, we were not aware of what the CMS position on these costs might be. However, we understand that through the existing Medicare costing principles, gains such as those BCBS of MS realized from the self-insurance operation were generally not recognizable as allowable Medicare charges. Therefore, we continue to recommend that BCBS of MS exclude \$11,964 for fiscal year 1997, \$9,723 for fiscal year 1998 and \$5,699 for fiscal year 1999, for premiums allocated to Medicare for life insurance in excess of costs which were charged by a wholly owned subsidiary of BCBS of MS. The information in this finding may be utilized by CMS in completing their work in this area. The computation of the excess costs was based on the information supplied by BCBS of MS which was represented to be actual payments, claims and administrative costs. CMS may wish to use our audit results to complete their evaluation of the self-insurance expenses.

# **BLUE CROSS BLUE SHIELD OF MISSISSIPPI**

## **Findings and Recommendations**

**For the Period October 1, 1996 through September 30, 1999**

---

### **Unallocable Costs**

Two invoices that included unallowable amounts were allocated to Medicare on the FACPs. BCBS of MS paid \$232 for membership dues to the Association of Life Underwriters. \$36 of this was allocated to Medicare for the 1997 fiscal year. BCBS of MS paid \$2,820 for tie tacs for the Board of Directors. \$580 of this was allocated to Medicare for the 1997 fiscal year.

### **Recommendation**

We recommend that BCBS of MS exclude \$616 from the 1997 fiscal year FACP.

### **Auditee's Response**

BCBS of MS agreed with this finding.

### **Auditor's Conclusion**

We continue to recommend that BCBS of MS exclude \$616 from the 1997 fiscal year FACP.

# **BLUE CROSS BLUE SHIELD OF MISSISSIPPI**

## **Findings and Recommendations**

**For the Period October 1, 1996 through September 30, 1999**

---

### **Wages Not Incurred**

BCBS of MS allocated to Medicare \$9,771 and \$10,633 in 1997 and 1998, respectively, for wages which were not incurred. In 1999, BCBS of MS credited its FACP for \$17,496 to exclude a portion of the allocated wages not incurred in 1997 and 1998. Medicare was therefore overcharged \$9,771 for fiscal year 1997 and \$10,633 for fiscal year 1998, BCBS of MS undercharged Medicare \$17,496 in fiscal year 1999.

### **Recommendation**

We recommend that BCBS of MS reduce its FACP by \$9,771 in fiscal year 1997 and \$10,633 in fiscal year 1998 and may choose to increase its costs to \$17,496 in fiscal year 1999.

### **Auditee's Response**

BCBS of MS agreed with this finding.

### **Auditor's Conclusion**

We continue to recommend that BCBS of MS reduce its FACP by \$9,771 in fiscal year 1997 and \$10,633 in fiscal year 1998 and may choose to increase its costs to \$17,496 in fiscal year 1999.

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

---

**Complementary Insurance Financial Policies**

Our review of BCBS of MS's complementary insurance financial policies, as discussed in the "Scope of Audit" section of this report, disclosed that BCBS of MS received approval for its complementary insurance claims processing operations, as required by program regulations. The complementary claims operation was approved by HCFA in June, 1998. It appears that BCBS of MS is calculating and crediting Medicare in accordance with the approved cost rate.

**Plan's Interim Expenditure Reports**

We reviewed BCBS of MS's method for preparing its Interim Expenditure Reports (IERs). BCBS of MS's 3 April 2000 "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 MS'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**