SEP 6 2000

CIN: A-04-00-0 1206

Joel W. Mercer
Director, Medicare Operations
Blue Cross Blue Shield of North Carolina
800 South Duke Street
Durham, North Carolina 27701

Dear Mr. Mercer:

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. A copy of this report will be forwarded to the action official noted below 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 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 (Public Law 90-23), 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 which the Department chooses to exercise. (See 45 Code of Federal Regulation Part 5.)
To facilitate identification, please refer to Common Identification Number (CM) A-04-00-01206 in all correspondence relating to this report.

Sincerely yours,

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

Enclosures - as stated

Direct Reply to HHS Action Official:

Dale Kendrick  
Associate Regional Administrator  
for Medicare, Region IV
REPORT OF EXAMINATION OF THE
ADMINISTRATIVE COSTS INCURRED
UNDER THE HEALTH INSURANCE FOR THE AGED AND DISABLED (MEDICARE)
PART A

BLUE CROSS AND BLUE SHIELD OF NORTH CAROLINA
DURHAM, NORTH CAROLINA

FOR THE PERIOD
OCTOBER 1, 1995 THROUGH SEPTEMBER 30, 1998

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 and Company. Certified Public Accountants, as concurred in 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 North Carolina (BCBS of NC) to process Part A claims submitted by certain hospitals and other medical providers in North Carolina. During the period October 1, 1995 through September 30, 1998, BCBS of NC claimed administrative costs of $3,143,056 to process 10,896,147 Part A claims.

Objectives

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

Results

We determined that BCBS of NC had generally established adequate systems for internal control, accounting and reporting for administrative costs. Further, the administrative costs for the period October 1, 1995 through September 30, 1998 were generally in accordance with Part 31 of the Federal Acquisition Regulations as interpreted and amended by Appendix B of BCBS of NC’s agreement with HCFA. However, we identified $2,130 in costs claimed on the FACPs for which we recommend disallowance for the period October 1, 1995 through September 30, 1997. Unallowable late payment penalties of $128 to the Internal Revenue Service were claimed on the 1996 fiscal year FACP and executive compensation costs of $21,174 were claimed on the 1997 fiscal year FACP in excess of the maximum amounts allowed by Public Law 105-85.

We evaluated BCBS of NC’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 NC’s control procedures were adequate for the Department of Health and Human Service’s purposes and that BCBS of NC complied with the provisions of Part 31 of the Federal Acquisition Regulations as interpreted and amended by Appendix B of BCBS of NC’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.
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

FINANCIAL STATEMENTS
Final Administrative Cost Proposal for the period
October 1, 1995 through September 30, 1996 - Part A ............................................. 9
Final Administrative Cost Proposal for the period
October 1, 1996 through September 30, 1997 - Part A ............................................ 10
Final Administrative Cost Proposal for the period
October 1, 1997 through September 30, 1998 - Part A ............................................ 11

FINDINGS AND RECOMMENDATIONS
Executive Compensation ............................................................................................ 13
Late Payment Penalty ................................................................................................ 13

OTHER MATTERS
Complementary Insurance Financial Policies ......................................................... 14
Plan’s Interim Expenditure Reports .......................................................................... 14
Significant EDP Expenditures .................................................................................... 14
Costs in Excess of Budgets ...................................................................................... 14

BCBS OF NC’S RESPONSE TO THE DRAFT REPORT ........................................... 16
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 the Blue Cross Blue Shield Association who in turn subcontracts with entities such as Blue Cross Blue Shield of North Carolina or by directly 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 Appendix B of the contract.

Objectives

The objectives of our audit were to determine whether (1) BCBS of NC 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 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 NC’s contract with the Blue Cross Blue Shield Association and 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 NC on its FACPs to administer Part A of the Medicare program for the period from October 1, 1995 through September 30, 1998 were reasonable, allocable and allowable.

We examined administrative costs claimed by BCBS of NC 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 NC’s contract (Medicare Agreement) with the Health Care Financing Administration (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 pension costs claimed by BCBS of NC 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 NC on prior audit findings and the effectiveness of BCBS of NC’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 NC during the audit period. The tests performed were designed to determine if BCBS of NC 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 31, 1998 expenditure report to determine if the methods and procedures were adequately documented and would result in accurate reporting.

We reviewed BCBS of NC’s compliance with complementary insurance policies and the amount of credit applied to BCBS of NC claimed administrative costs for the periods from October 1, 1995 through September 30, 1998. Our procedures were designed to determine if BCBS of NC 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 NC had incurred significant costs for planning, developing or modifying the Medicare claims processing system.

Audit fieldwork was performed at BCBS of NC office in Durham North Carolina from October 1999 through March 2000.
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 North Carolina (BCBS of NC) for the period from October 1, 1995 through September 30, 1998. These Final Administrative Cost Proposals are the responsibility of BCBS of NC'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 generally accepted auditing standards, Government Auditing Standards: 1994 Revision, and the Audit Guide for the Review of Administrative Costs Incurred by Medicare Intermediaries and Carriers Under Title XVII 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 NC 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 NC’s contract with HCFA and HCFA’s reporting procedures. Accordingly, the accompanying Final Administrative Cost Proposals are not intended to be a complete presentation BCBS of NC’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, 1995 through September 30, 1998.

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 NC’s contract with HCFA and HCFA’s reporting procedures.

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

Carmichael Brasher Tuvell & Company
Atlanta, Georgia
March 15, 2000
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 North Carolina (BCBS of NC) for the period October 1, 1995 through September 30, 1998 and have issued our report thereon, dated March 15, 2000.

We conducted our audit in accordance with generally accepted auditing standards 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 NC 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 NC is the responsibility of BCBS of NC management. As part of obtaining reasonable assurance about whether the FACPs were free of material misstatement, and whether BCBS of NC 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 NC’s compliance with HCFA agreement provisions, and this report does not affect our report on the FACPs dated March 15, 2000 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 NC 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 NC had not complied in all material respects with those provisions.
Nothing came to our attention in connection with our examination that caused us to believe that BCBS of NC was not in compliance with any of the terms and provisions of applicable agreements, laws, and regulations for those transactions not tested.

This report is intended solely for the use of management of BCBS of NC 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
March 15, 2000
INDEPENDENT AUDITORS' REPORT

ON INTERNAL CONTROL STRUCTURE

We have audited the Final Administrative Cost Proposals (FACPs) of Blue Cross Blue Shield of North Carolina (BCBS of NC) for the period October 1, 1995 to September 30, 1998 and have issued our report thereon, dated March 15, 2000.

We conducted our audit in accordance with generally accepted auditing standards and the standards for audits contained in the 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 NC complied in all material respects with the provisions of Appendix B of the Medicare Agreement.

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

The management of BCBS of NC 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.

Carmichael, Bisbee, Irwin & Company

Atlanta, Georgia
March 15, 2000
FINAL ADMINISTRATIVE COST PROPOSALS
(FACP’S)
BLUE CROSS AND BLUE SHIELD OF NORTH CAROLINA

Final Administrative Cost Proposal
For the Period October 1, 1995 through September 30, 1996

FY96 • PART A

<table>
<thead>
<tr>
<th>OPERATION</th>
<th>ADMINISTRATIVE COSTS CLAIMED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bills Payment</td>
<td>$ 4,794,369</td>
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<tr>
<td>Provider Reimbursement</td>
<td>1,209,275</td>
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<tr>
<td>Reconsideration of Hearings</td>
<td>195,407</td>
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<tr>
<td>Medical Review &amp; Utilization Review</td>
<td>379,424</td>
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<tr>
<td>Provider Desk Reviews</td>
<td>1,150,158</td>
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<tr>
<td>Provider Field Audits</td>
<td>769,462</td>
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<tr>
<td>Provider Settlements</td>
<td>488,043</td>
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<tr>
<td>Productivity Investments</td>
<td>5,467</td>
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<tr>
<td>Medicare Secondary Payer</td>
<td>1,109,719</td>
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<tr>
<td>Benefit Integrity</td>
<td>246,836</td>
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<tr>
<td>Credits</td>
<td>(440,862)</td>
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<td>TOTAL ADMINISTRATIVE COSTS CLAIMED</td>
<td>$ 9,907,298</td>
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</tbody>
</table>

Recommended Adjustments
Late Payment Penalties

COSTS RECOMMENDED FOR ACCEPTANCE $ 9,907,170

See Independent Auditors’ Report. Explanations of each adjustment are provided in the “Findings and Recommendations” section of this report.
BLUE CROSS AND BLUE SHIELD OF NORTH CAROLINA

Final Administrative Cost Proposal
For the Period October 1, 1996 through September 30, 1997

FY97 - PART A

<table>
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<tr>
<th>OPERATION</th>
<th>ADMINISTRATIVE COSTS CLAIMED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bills Payment</td>
<td>$4,819,170</td>
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<tr>
<td>Provider Reimbursement</td>
<td>1,484,957</td>
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<tr>
<td>Reconsideration of Hearings</td>
<td>154,969</td>
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<td>Medical Review &amp; Utilization Review</td>
<td>456,417</td>
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<tr>
<td>Provider Desk Reviews</td>
<td>1,128,375</td>
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<tr>
<td>Provider Field Audits</td>
<td>792,333</td>
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<tr>
<td>Provider Settlements</td>
<td>465,455</td>
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<tr>
<td>Productivity Investments</td>
<td>10,650</td>
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<td>Medicare Secondary Payer</td>
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<td>Benefit Integrity</td>
<td>170,457</td>
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<tr>
<td>Credits</td>
<td>(47,1509)</td>
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<td>TOTAL ADMINISTRATIVE COSTS CLAIMED</td>
<td>$10,076,945</td>
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<td>Recommended Adjustments</td>
<td></td>
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<tr>
<td>Executive Compensation</td>
<td>(21,174)</td>
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<tr>
<td>COSTS RECOMMENDED FOR ACCEPTANCE</td>
<td>$10,055,771</td>
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</tbody>
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See Independent Auditors’ Report.
Explanations of each adjustment are provided in the “Findings and Recommendations” section of this report.
**BLUE CROSS AND BLUE SHIELD OF NORTH CAROLINA**

Final Administrative Cost Proposal
For the Period October 1, 1997 through September 30, 1998

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**FY98 - PART A**

<table>
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<tr>
<th>OPERATIONS</th>
<th>ADMINISTRATIVE COSTS CLAIMED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bills/Claims Payment</td>
<td>$4,180,615</td>
</tr>
<tr>
<td>Reimbursement</td>
<td>1,281,626</td>
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<tr>
<td>Appeals/Reviews</td>
<td>269,856</td>
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<tr>
<td>Inquiries</td>
<td>672,017</td>
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<tr>
<td>Provider Education and Training</td>
<td>70,085</td>
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<tr>
<td>Medical Review</td>
<td>914,146</td>
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<td>Benefits Integrity</td>
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<td>Productivity Investments</td>
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<td>Medicare Secondary Payer</td>
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<td>Provider Educ &amp; Training</td>
<td>88,632</td>
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<td>Audit</td>
<td>2,355,592</td>
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<td>PM Special Projects</td>
<td>28,349</td>
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<tr>
<td>Credits</td>
<td>(420,676)</td>
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**TOTAL ADMINISTRATIVE COSTS CLAIMED** $11,446,213

Recommended Adjustments
None

**COSTS RECOMMENDED FOR ACCEPTANCE** $11,446,213

Explanations of each adjustment are provided in the “Findings and Recommendations” section of this report.
FINDINGS AND RECOMMENDATIONS
Executive Compensation

Section 808 of Public Law 105-85 limits the amount of executive compensation which can be allocated to Medicare. The limitation is for the top five company employees and top five employees within the Medicare division. Salaries of these individuals, defined as total taxable cc-ages plus elective deferrals before any allocations are applied, are limited to $250,000 per year.

BCBS of NC claimed $21,174 in executive compensation in excess of the amount allowed by PL 105-85 on its 1997 fiscal year FACP.

Recommendation

We recommend that BCBS of NC exclude $21,174 from its FACP for fiscal year 1997 for executive compensation in excess of allowable amounts.

Auditee’s Response

BCBS of NC concurred with our recommendation. See the auditee’s complete response at the end of this report.

Penalties

Penalties of $128 paid to the Internal Revenue Service for late payment of payroll taxes were claimed on the FACP for the 1996 fiscal year. FAR 3.1.205-15 states, “costs of fines and penalties...are unallowable...” BCBS of NC’s cost reporting system failed to identify this cost account as unallowable. BCBS of NC’s new cost reporting system implemented in January 1999 should identify and exclude these costs on future IERs and FACPs.

Recommendation

We recommend that BCBS of NC exclude $128 from its FACP for fiscal year 1996 for late payment penalties.

Auditee’s Response

BCBS of NC concurred with our recommendation. See the auditee’s complete response at the end of this report.
Complementary Insurance Financial Policies

Our review of BCBS of NC’s complementary insurance financial policies, as discussed in the “Scope of Audit” section of this report, disclosed that BCBS of NC received approval for its complementary insurance claims processing operations, as required by program regulations. The complementary claims operation was approved by HCFA in March, 1989. It appears that BCBS of NC is calculating and crediting Medicare in accordance with the approved cost rate.

Plan’s Interim Expenditure Reports

We reviewed BCBS of NC’s method for preparing its Interim Expenditure Reports (IERs). BCBS of NC’s July 1998 “Cumulative Interim Expenditure Report” did not agree to the internal accounting documents maintained to support the IER. BCBS of NC filed its July 1998 IER and subsequently discovered a reporting error. BCBS of NC reprinted its accounting reports and corrected the error on subsequent IERs but did not maintain the original accounting records. The difference between the IER and supporting records was not evident without detailed review. No other matters came to our attention during our review which would indicate that BCBS of NC’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 of the Medicare program other than funds expended to correct problems associated with Y2K.

Costs in Excess of Budgeted Amounts

Costs claimed on BCBS of NC’s FACPs exceeded the costs allowed on the Notice of Budget Approval (NOBAs) for fiscal years 1996 and 1997. The total administrative costs claimed on the FACPs and the amounts on the NOBAs were as follows:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>FACPs</th>
<th>NOBAs</th>
<th>Costs in Excess of NOBAs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>$9,907,298</td>
<td>$9,687,800</td>
<td>$219,498</td>
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<tr>
<td>1997</td>
<td>$10,076,945</td>
<td>$10,002,885</td>
<td>$74,060</td>
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</table>
BCBS OF NORTH CAROLINA’S
RESPONSE TO THE DRAFT REPORT
July 28, 2000

Ms. Diana Crawford, CPA
Carmichael. Brasher, Tuvel&Company
Certified Public Accountants
Dunwoodv Exchange
1647 Mount Vernon Road
Atlanta. Georgia 30338


Dear Ms. Crawford:

Thank you for the opportunity to comment on the draft report of our Medicare Administrative Costs for the period October 1, 1995, through September 30, 1998.

We agree with the two recommendations presented. Specifically:

1. We will exclude $2 1,174 from our FACP for fiscal year 1997.

2. We will exclude $128 from our FACP for fiscal year 1996.

Two other matters require comment:

1. The “Other Matters” section reports on “costs in excess of budgeted amounts,” comparing FACPs with NOBAs. Article VI, section I. of the Medicare Part A Subcontract includes a provision where the Secretary may pay allowable costs that exceed the budgeted amount under certain circumstances.* We report actual costs on the FACPs using the “reasonable, allocable, and allowable” mandates of the FAR. even if costs exceed our NOBA. To do otherwise would be false reporting.

2. The “Scope” section of your report noted the exclusion of pension costs from the audit, as these costs have been previously reviewed by the Office of the Inspector General. We understand that the OIG audit results were turned over to the Health Care Financing Administration. Even though Article VI, section K. says “negotiations on final determination of the administrative costs of the Plan shall be undertaken by the Secretary and the Plan as rapidly as possible after the Secretary’s receipt of the Plan’s final statement,” we have been unable to convince HCFA to address and settle the pension cost issue. We therefore believe the two cost exclusions from your earlier recommendations should be made concurrent with the settlement of the outstanding pension costs issue.