



April 16, 2002

Common Identification Number A-06-01-00044

Mr. J. Kenneth Jansson
Vice President
Audit and Performance Review
Health Care Service Corporation
300 East Randolph Street
Chicago, Illinois 60601-5099

Dear Mr. Jansson:

Enclosed for your information are two copies of an audit report prepared by Conrad and Associates, L.L.P., on behalf of the Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services (OAS). The OAS exercised technical oversight over the examination.

The report covers the audit of administrative costs claimed by Blue Cross and Blue Shield of Texas totaling \$27,271,016 for Part A and \$78,217,344 for Part B of the Medicare Program for the period of October 1, 1998 through September 30, 1999 and included program termination and transition cost of \$8,030,886 (\$1,855,265, Part A and \$6,175,621 Part B). It also included Forward Funding cost totaling \$4,839,218 (\$1,691,549 Part A and \$3,147,669 Part B) incurred subsequent to September 30, 1999.

The report identifies questioned costs totaling \$1,091,848 (\$354,838 for Part A and \$737,010 for Part B). Your attention is invited to the Results of Audit section that identifies the reasons for questioning the cost.

Final determination as to actions to be taken on all matters will be made by the HHS action official named. We request that you respond to the 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 U.S.C. 552, as amended by Public Law 104-231, OIG, OAS reports are made available to members of the public to the extent information contained therein is not subject to exemptions of the Act (see 45 CFR part 5). As such, within 10 business days after the final report is issued, it will be posted on the world-wide-web at <http://oig.hhs.gov>.

Page 2 - Mr. J. Kenneth Jansson

To facilitate identification, please refer to Common Identification Number A-06-01-00044 in all correspondence relating to this report.

Sincerely,

A handwritten signature in black ink that reads "Gordon L. Sato". The signature is written in a cursive style with a large initial 'G'.

Gordon L. Sato
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official

James R. Farris, M.D.
Regional Administrator
Centers for Medicare & Medicaid Services
1301 Young Street, Suite 714
Dallas, Texas 75202

BLUE CROSS BLUE SHIELD OF TEXAS

**Audit of Medicare Final
Administrative Cost Proposals**

**For the Period
October 1, 1998 through September 30, 1999**

**CONRAD AND ASSOCIATES, L.L.P.
1100 Main Street, Suite C
Irvine, California 92614**

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Audit of Medicare Final Administrative Cost Proposals

For the Period
October 1, 1998 through September 30, 1999

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EXECUTIVE SUMMARY

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Audit of Medicare Final Administrative Cost Proposals

For the Period
October 1, 1998 through September 30, 1999

Executive Summary

Conrad and Associates, L.L.P., Certified Public Accountants, under contract with the U.S. Department of Health and Human Services (DHHS), performed a financial and compliance audit of expenditures claimed by Blue Cross Blue Shield of Texas (BCBS) related to administration of the Medicare Part A and Part B programs. The audit covered Final Administrative Cost Proposals (FACP's) for the Medicare program submitted by BCBS for the period of October 1, 1998 through September 30, 1999 which included program termination and transition costs of \$8,030,886 (\$1,855,265, Part A and \$6,175,621 Part B). In addition, the FACP(s) included \$4,839,218 of Section 208 forward funding costs (\$1,691,549 Part A and \$3,147,669 Part B) subsequent to September 30, 1999.

Our audit included such tests necessary to assure that costs charged to Medicare were allowable and allocable and were provided in an economic and efficient manner. Our audit efforts tested the allowability of those administrative costs as well as their allocability to the Medicare program using the Medicare agreements, the Federal Acquisition Regulation (FAR), and appropriate cost accounting standards and generally accepted accounting standards as guiding criteria.

As prescribed by the U.S. Department of Health and Human Services, Office of the Inspector General (OIG) audit guide used for this review, pension costs claimed by BCBS and included in the FACP's were excluded from the scope of our audit. The OIG will perform a separate audit to determine the allowability of the pension costs claimed in accordance with the FAR, and appropriate Cost Accounting Standards. Pension costs claimed by BCBS during the period under audit were as follows:

	<u>Part A</u>	<u>Part B</u>	<u>Total</u>
Fiscal year ended September 30, 1999	<u>\$1,123,851</u>	<u>3,548,211</u>	<u>4,672,062</u>

Results of Audit

For the period under audit, BCBS reported Medicare Part A program administrative costs of \$27,271,016 and Medicare Part B program administrative costs of \$78,217,344. We have questioned reported costs of \$1,091,848 (\$354,838 for Part A and \$737,010 for Part B). The following

1. UNSUPPORTED COSTS

BCBS was unable to provide supporting documentation for various transactions selected for testing. As a result, expenditures totaling \$458,377 were not adequately supported to demonstrate that the costs were related on or properly allocable to Medicare.

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Audit of Medicare Final
Administrative Cost Proposals

For the Period
October 1, 1998 through September 30, 1999

Executive Summary, (Continued)

The failure to provide adequate documentation to support costs charged to Medicare resulted in overstatements of costs to the FACP's as follows:

	<u>Part A</u>	<u>Part B</u>	<u>Total</u>
No documentation provided	\$ 6,342	9,917	16,259
Insufficiently documented	<u>276,501</u>	<u>165,617</u>	<u>442,118</u>
Total	<u>\$282,843</u>	<u>175,534</u>	<u>458,377</u>

2. SELF FUNDED INSURANCE COST OVERSTATED

The self funded insurance program costs were overstated by \$528,745 as a result of recordings for employer contributions having not been recorded correctly prior to the contract period ending date. As a result, the Medicare self funded insurance programs reflected deficits which got charged to Medicare as an expense on the FACP. Employer contribution adjustments represent an allocable credit, which should have been credited to the FACP to reduce the costs to Medicare.

The overstatement of costs is summarized as follows:

	<u>Part A</u>	<u>Part B</u>	<u>Total</u>
Self funded insurance costs	<u>\$45,510</u>	<u>483,235</u>	<u>528,745</u>

3. RETURN ON INVESTMENT EXPENSE

BCBS imputed \$820,796 as an expense to the FACP's for return on investment. The contractor used facilities capital employed as its base in applying the cost of money rate in calculating the expense. However, documentation of facilities capital employed was not maintained or provided for our review.

By using a facilities capital base estimated from the depreciation expense charged to Medicare and the cost of money rate computed by the contractor, the auditors calculated a return on investment expense of \$716,070.

The excess amount charged to Medicare is considered unsupported, and as a result is questioned as follows:

	<u>Part A</u>	<u>Part B</u>	<u>Total</u>
Return on investment expense	<u>\$26,485</u>	<u>78,241</u>	<u>104,726</u>

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Audit of Medicare Final
Administrative Cost Proposals

For the Period
October 1, 1998 through September 30, 1999

Executive Summary, (Continued)

A summary of the questioned costs for Medicare Parts A and B is as follows:

<u>Finding No.</u>	<u>Part A</u>	<u>Part B</u>	<u>Total</u>
1	\$ 282,843	175,534	458,377
2	45,510	483,235	528,745
3	<u>26,485</u>	<u>78,241</u>	<u>104,726</u>
Total	<u>\$354,838</u>	<u>737,010</u>	<u>1,091,848</u>

For a complete discussion of these findings, refer to the Findings and Recommendations section of this report.

We evaluated BCBS's system of significant internal accounting and administrative controls, and compliance with laws and regulations that can materially affect BCBS's financial statements. Based on our evaluation, except for the questioned costs noted above, we believe control procedures were adequate for the Department of Health and Human Services' (HHS) purposes, and that BCBS complied with the terms and provisions of laws and regulations for the transactions tested. In addition, we believe that BCBS had established effective systems of internal control, accounting, and reporting for administrative costs claimed for reimbursement under the Medicare program.

Auditee s Response

A draft copy of the report was provided to BCBS. Their responses, where appropriate, have been included in the body of the report and as Appendix A.

BCBS in their response provided adequate documentation to support \$1,819,917 of equipment purchases as well as \$934,839 of complementary insurance credits that were originally questioned in the draft report. As a result, those questioned costs were removed from the final report. In addition, BCBS provided supporting documentation for various other costs questioned in the draft as unsupported. Based upon a review of the documentation provided, questioned costs were reduced from \$1,885,907 to \$458,377 in the final report. Although BCBS did not dispute questioned costs of \$528,745 identified in the draft report related to overstated self-insurance costs, BCBS nonetheless reserved the right to comment on this finding at a later point in time. Finally, BCBS took exception to the methodology used by the auditors to determine the reasonableness of the return on investment (ROI) claimed on the FACP. However, BCBS failed to provide adequate documentation with their response to fully support the ROI calculation used to claim ROI on the FACP in accordance with the documentation requirements set forth in FAR Section 31.205-10(a)(3). As a result, \$104,726 of ROI remains questioned in the final report as inadequately supported.

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**Audit of Medicare Final
Administrative Cost Proposals**

**For the Period
October 1, 1998 through September 30, 1999**

* * * * *

CONTRACT DISCLOSURE STATEMENT

This report is made pursuant to Contract HHS-100-95-0023 with Conrad and Associates, L.L.P., Certified Public Accountants, 1100 Main Street, Suite C, Irvine, California 92614. Certain information contained herein is subject to disclosure under the Freedom of Information Act, 5 U.S.C. 522(b)(4). The task Coordinator was Mr. Richard Warczynski, U.S. Department of Health and Human Services, Office of the Inspector General, Office of Audit Services, 7500 Security Boulevard, Baltimore, Maryland 21244.

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**Audit of Medicare Final
Administrative Cost Proposals**

**For the Period
October 1, 1998 through September 30, 1999**

Acronyms

CMS	Centers for Medicare and Medicaid Services
BCBS	Blue Cross Blue Shield of Texas
DHHS	U.S. Department of Health and Human Services
FACP	Final Administrative Cost Proposal
FAR	Federal Acquisition Regulation
FY	Fiscal Year
FYE	Fiscal Year End
NOBA	Notice of Budget Authorization
OIG	Office of Inspector General, U.S. Department of Health and Human Services

INTRODUCTION AND BACKGROUND

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Audit of Medicare Final Administrative Cost Proposals

For the Period
October 1, 1998 through September 30, 1999

Introduction and Background

Health Insurance for the Aged and Disabled (Medicare), Title XVIII of the Social Security Act, provides for a hospital insurance program (Part A) and a related supplementary medical insurance program (Part B).

The Centers for Medicare and Medicaid Services (CMS), within the U.S. Department of Health and Human Services (DHHS), administers the Medicare program. Title XVIII provides, however, that public or private organizations (known as "intermediaries" for Medicare Part A and "carriers" for Medicare Part B) may assist in the program's administration.

Agreements with the intermediaries and carriers define the functions to be performed and provide for the reimbursement of allowable administrative costs incurred in their performance. Each participating intermediary and carrier (contractor) submits a prospective budget of administrative costs to be incurred during the Government fiscal year to the CMS Regional Office for review and approval. Following the close of each fiscal year, a final administrative cost proposal (FACP) is submitted, reporting the costs of performing Medicare functions incurred during the year. This cost proposal and supporting data serve as the basis for final settlement of allowable administrative costs.

BCBS was paid its costs for administration of the Medicare contracts under the principle of neither profit nor loss. Appendix B of the contracts and referenced federal regulations identified allowable administrative costs that could be reimbursed. Included in the administrative costs claimed for reimbursement are costs for general and administrative expenses attributable to the general management, supervision, and conduct of a contractor's business as a whole.

The Medicare Agreement states "...costs allowable and allocable under this agreement shall be determined in accordance with the provisions of Part 31 of the Federal Acquisition Regulation (FAR), as interpreted and modified by Appendix B of the agreement."

Section 31.201 of the FAR defines the total cost of a contract as the sum of the allowable direct and indirect costs allocable to a contract, incurred or to be incurred, less any applicable credits. The regulations also state that items of cost are allowable charges if they meet tests of reasonableness and allocability and if generally accepted accounting principles are followed.

A reasonable cost is defined as one that would be incurred by an ordinary prudent person in the conduct of a competitive business. Further, a cost is allocable if it is assignable or chargeable to a particular cost objective in reasonable proportion to the benefits received.

This report details the results of our audit of the FACP's submitted by BCBS to CMS for the period October 1, 1998 through September 30, 1999 which included program termination and transition costs of \$8,030,886 (\$1,855,265, Part A and \$6,175,621, Part B). In addition, the FACP(s) included \$4,839,218 of Section 208 forward funding costs (\$1,691,549, Part A and \$3,147,669, Part B) incurred subsequent to September 30, 1999.

OBJECTIVES AND SCOPE OF AUDIT

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Audit of Medicare Final Administrative Cost Proposals

For the Period

October 1, 1998 through September 30, 1999

Objectives and Scope of Audit

Our audit of the FACP's submitted by BCBS for the fiscal year (FY) ended September 30, 1999 was made in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in the *Government Auditing Standards* as revised in 1999 and issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the FACP's are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the FACP's. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the FACP's. We believe that our audit provides a reasonable basis for our opinion.

The U.S. Department of Health and Human Services' (DHHS) Audit Guide for the Review of Administrative Costs Incurred by Medicare Intermediaries and Carriers under Title XVIII of the Social Security Act (February 1991 revision) and other appropriate guidelines and instructions were used as guides in the audit.

Our audit included such tests necessary to assure that costs charged to Medicare were allowable and allocable and were provided in an economic and efficient manner. Our audit efforts tested the allowability of those administrative costs as well as their allocability to the Medicare program using the Medicare agreements, the Federal Acquisition Regulation (FAR), and appropriate cost accounting standards and generally accepted accounting standards as guiding criteria.

The audit was performed to provide CMS with sufficient data to close out the FACP's and determine if controls were adequate for administration of the Medicare program. The scope of the audit included costs for the year 2000 (Y2k) remediation, which were included in the total costs incurred.

An entrance conference was held on March 5, 2001 with BCBS in Dallas, Texas. Fieldwork was performed during the period of March 5, 2001 through June 8, 2001 at BCBS's office in Dallas, Texas. A preliminary exit conference was held with BCBS representatives in Dallas, Texas on May 10, 2001 to discuss tentative findings related to the audit.

Administrative costs claimed under audit were as follows:

	<u>Part A</u>	<u>Part B</u>
Fiscal year ended September 30, 1999	<u>\$27,271,016</u>	<u>78,217,344</u>

The specific objectives of our audit were to:

1. Determine whether BCBS had established an effective system of internal control, accounting, and reporting for administrative costs incurred under the program.
2. Ascertain whether the FACP's present fairly the cost of program administration allowable in accordance with FAR, Title 48, Chapter 1, Part 31 as interpreted and modified by the Medicare agreements.

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Audit of Medicare Final Administrative Cost Proposals

For the Period
October 1, 1998 through September 30, 1999

Objectives and Scope of Audit, (Continued)

3. Ascertain whether BCBS has complied with contractual and administrative requirements governing specific items of cost.
4. Identify the underlying causes of recommendations for improvement or problems noted and make claimed as appropriate.

As prescribed by the U.S. Department of Health and Human Services, Office of the Inspector General (OIG) audit guide used for this review, pension costs claimed by BCBS and included in the FACP's were excluded from the scope of our audit. The OIG will perform a separate audit to determine the allowability of the pension costs claimed in accordance with the FAR, Title 48, Chapter 1, Part 21.205-6(j) and Cost Accounting Standards 412 and 413. Pension costs claimed by BCBS during the period under audit were as follows:

	<u>Part A</u>	<u>Part B</u>	<u>Total</u>
Fiscal year ended September 30, 1999	<u>\$1,123,851</u>	<u>3,548,211</u>	<u>4,672,062</u>

To meet the above stated objectives, our audit included a study of those internal control procedures of BCBS to the extent we considered necessary to evaluate the system and determine specific compliance therewith. In addition, we performed test of specific costs to determine that BCBS complied with contractual and administrative requirements. All significant items noted during our audit are discussed in the Findings and Recommendations section of this report. Our Independent Auditors' Report on Medicare Final Administrative Cost Proposals and our Report on Compliance and On Internal Control Over Financial Reporting Based on an Audit of Final Administrative Cost Proposals Performed in Accordance with Government Auditing Standards are included in the Auditors' Reports section of this report.

During our audit we used judgmental sampling techniques for the purpose of determining the audit sample sizes. Our samples were designed to be representative and adequate for the purpose of expressing an opinion on the FACP's and included tests of wages, non-personnel costs, cost allocation policies and procedures, as well as specific tests for unallowable costs. Findings included in this report have been based solely upon our sample results.

U.S. Department of Health and Human Services
Centers for Medicare and Medical Services

1100 MAIN STREET, SUITE C
IRVINE, CALIFORNIA 92614
(949) 474-2020
Fax (949) 263-5520

**INDEPENDENT AUDITORS' REPORT ON
MEDICARE FINAL ADMINISTRATIVE COST PROPOSALS**

We have audited the Final Administrative Cost Proposals (FACP's) (Schedules A and B) of Blue Cross Blue Shield of Texas (BCBS) for the fiscal year ended September 30, 1999. The amounts reported in the FACP's are the responsibility of BCBS's management. Our responsibility is to express an opinion on the FACP's based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the FACP's are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts claimed on the FACP's. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the FACP's. We believe that our audit provides a reasonable basis for our opinion.

The accompanying schedules were prepared in accordance with the instructions of the U.S. Department of Health and Human Services and reflect only administrative costs reported for operating the Medicare Part A and Part B programs. Accordingly, the accompanying schedules are not intended to present financial position or results of operations in conformity with generally accepted accounting principles.

In our opinion, subject to the ultimate resolution of the \$1,091,848 of questioned costs identified in this report and the results of a U.S. Department of Health and Human Services, Office of the Inspector General audit regarding the allowability of \$4,672,062 of pension costs claimed and included in the FACP's submitted by BCBS, the FACP's present fairly the costs of allowable program administration for the fiscal year ended September 30, 1999, in accordance with the Federal Acquisition Regulation, Title 48, Chapter 1, Part 31, as interpreted and modified by the Medicare agreements.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2001 on our consideration of BCBS's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contract provisions. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of BCBS, the U.S. Department of Health and Human Services, Office of Inspector General, and the Centers for Medicare and Medicaid Services and is not intended to be and should not be used by anyone other than these specified parties.

Conrad and Associates, L.L.P.

June 8, 2001

AUDITORS' REPORTS

U.S Department of Health and Human Services
Centers for Medicare and Medicaid Services

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINAL ADMINISTRATIVE
COST PROPOSALS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited the Final Administrative Cost Proposals (FACP's) (Schedules A and B) of Blue Cross Blue Shield of Texas (BCBS) for the fiscal year ended September 30, 1999 and have issued our report thereon dated June 8, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Compliance

As part of obtaining reasonable assurance about whether BCBS's Final Administrative Cost Proposals are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of FACP amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Recommendations.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered BCBS's internal controls over reporting of FACP's in order to determine our auditing procedures for the purpose of expressing our opinion on the FACP's and not to provide assurance on the internal control over FACP reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect BCBS's ability to record, process, summarize, and report financial data consistent with the assertions of management in the FACP. Reportable conditions noted and the resultant questioned costs are described in the accompanying Schedule of Findings and Recommendations.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by the employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described in the Schedule of Findings Recommendations are material weaknesses.

This report is intended solely for the information and use of BCBS, the U.S. Department of Health and Human Services, Office of Inspector General, and the Centers for Medicare and Medicaid Services and is not intended to be and should not be used by anyone other than these specified parties.

Conrad and Associates, L.L.P.

June 8, 2001

FINDINGS AND RECOMMENDATIONS

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Audit of Medicare Final Administrative Cost Proposals

For the Period
October 1, 1998 through September 30, 1999

Findings and Recommendations

1. UNSUPPORTED COSTS

BCBS was unable to provide supporting documentation for various transactions selected for testing. As a result, expenditures totaling \$1,885,907 were not adequately supported to demonstrate that the costs were related to or properly allocable to Medicare.

FAR Section 31.201-2 (d) states in part; "A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles...The contracting officer may disallow all or part of a claimed cost which is inadequately supported."

The failure to provide adequate documentation to support costs charged to Medicare resulted in overstatements of costs on the FACPs as follows:

	<u>Part A</u>	<u>Part B</u>	<u>Total</u>
No documentation provided	\$ 24,378	85,708	110,086
Insufficiently documented	<u>518,271</u>	<u>1,257,550</u>	<u>1,775,821</u>
Total	<u>\$542,649</u>	<u>1,343,258</u>	<u>1,885,907</u>

Recommendations

We recommend that the FACPs be adjusted to exclude the unsupported costs summarized above.

Auditee Response

BCBS submitted various forms of supporting documentation for the questioned costs identified in the draft.

Auditor Comment

Based upon our review of the additional documentation provided by BCBS, questioned costs were reduced to \$458,377 as follows:

	<u>Part A</u>	<u>Part B</u>	<u>Total</u>
No documentation provided	\$ 6,342	9,917	16,259
Insufficiently documented	<u>276,501</u>	<u>165,617</u>	<u>442,118</u>
Total	<u>\$282,843</u>	<u>175,534</u>	<u>458,377</u>

The details of the unsupported costs that remain outstanding are included as an attachment to this report in Appendix B.

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Audit of Medicare Final Administrative Cost Proposals

For the Period
October 1, 1998 through September 30, 1999

Findings and Recommendations, (Continued)

2. SELF FUNDED INSURANCE COST OVERSTATED

The self funded insurance program costs were overstated by \$528,745 as a result of recordings for employer contributions having not been recorded correctly prior to the contract period ending date. As a result, the Medicare self funded insurance programs reflected deficits which got charged to Medicare as an expense on the FACP.

FAR Section 31.201-1 (a) states in part; "The total cost of a contract is the sum of the direct and indirect costs allocable to the contract, incurred or to be incurred, less any allocable credits...."

The employer contribution adjustments represent an allocable credit which should have been credited to the FACP to reduce the costs to Medicare.

The overstatement of costs is summarized as follows:

	<u>Part A</u>	<u>Part B</u>	<u>Total</u>
Self funded insurance costs	<u>\$45,510</u>	<u>483,235</u>	<u>528,745</u>

Recommendation

We recommend that the FACP's total costs be adjusted for the overstatement of self funded insurance expenses.

Auditee Response

The auditee did not dispute the questioned costs as presented but reserved the right to comment on this issue at a later point in time.

Auditor Comment

The finding and recommendation remains as previously stated.

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Audit of Medicare Final Administrative Cost Proposals

For the Period
October 1, 1998 through September 30, 1999

Findings and Recommendations, (Continued)

3. RETURN ON INVESTMENT EXPENSE

BCBS imputed \$820,796 as an expense on the FACPs for return on investment. The contractor used facilities capital employed as its base in applying the cost of money rate in calculating the expense. However, documentation to support facilities capital employed in the calculation was not maintained or provided for our review.

FAR Section 31.205-10 (a)(3) states in part; "The facilities capital cost of money need not be entered on the contractor's books of account. However, the contractor shall... (ii) Maintain, in a manner that permits audit and verification, all relevant schedules, cost data, and other data necessary to support the entry fully."

By using a facilities capital base estimated from the depreciation expense charged to Medicare and the cost of money rate computed by the contractor, the auditors calculated a return on investment expense of \$716,070.

The excess amount charged to Medicare is considered unsupported, and as a result is questioned as follows:

	<u>Part A</u>	<u>Part B</u>	<u>Total</u>
Return on investment expense	<u>\$26,485</u>	<u>78,241</u>	<u>104,726</u>

Recommendation

We recommend that the return on investment expense be reduced by the above questioned amount due to lack of documentation provided by BCBS.

Auditee Response

BCBS stated that the use of depreciation expense does not reflect the asset acquisition or disposals that have an effect on the return on investment computation. BCBS included several pages from the monthly computations, which allocate the return on investment to each cost center to support their claim.

In addition, BCBS noted that they incurred \$389,099 of depreciation expense on the Trailblazer Fixed Assets that were not charged to the Medicare line of business. A summary sheet of the asset purchases was attached for review along with a notation that supporting documentation was available upon request.

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Audit of Medicare Final Administrative Cost Proposals

For the Period
October 1, 1998 through September 30, 1999

Findings and Recommendations, (Continued)

3. RETURN ON INVESTMENT EXPENSE, (Continued)

Auditor Comment

We agree with BCBS that the methodology employed regarding the use of depreciation expense to calculate the reasonableness of the ROI costs claimed on the FACP did not take into consideration the effect of asset acquisition and disposals. However, the methodology was only used because BCBS was unable to specifically identify from their accounting system, and present to us for verification, where the asset base figures came from which were used to calculate the ROI costs claimed on the FACP. As a result, BCBS failed to maintain adequate records to support ROI costs claimed in accordance with FAR Section 31.205-10(a)(3) and the questioned costs calculated remain as previously stated

4. CAPITAL EQUIPMENT PURCHASES RECORDED AS EXPENSES

BCBS charged directly to expenses the purchase of new office furnishings and equipment. The purchase which was made on October 1, 1999 was charged to Part B in the amount of \$1,819,917.

FAR Section 31.205-24 (b) states in part; "Expenditures for plant and equipment... which should be capitalized and subject to depreciation, according to generally accepted accounting principles as applied under the contractor's established policy... are allowable only on a depreciation basis."

The contractor's capitalization policy required that equipment costing over \$1,500 and having a useful life over one year be capitalized and depreciated over their respective lives.

BCBS recorded the expenditure as a direct expense and as a result overstated furnishings and equipment expenses on its FACP.

Recommendation

We recommend that the cost of these furnishings and equipment be capitalized and depreciated over the assets useful lives.

BLUE CROSS BLUE SHIELD OF TEXAS

Audit of Medicare Final Administrative Cost Proposals

For the Period
October 1, 1998 through September 30, 1999

Findings and Recommendations, (Continued)

4. CAPITAL EQUIPMENT PURCHASES RECORDED AS EXPENSES, (Continued)

Auditee Response

BCBS stated that the individual items purchased on the questioned invoices were below the dollar capitalization threshold and were therefore expensed. In addition, BCBS noted that there was a high volume of items such as chairs, desks, file cabinets, storage cabinets and moveable panels, with each item under the threshold. Finally, BCBS noted that the transition budget included this transaction and the funds for the purchases were from the transition budget.

BCBS also included correspondence that supported their claim that the expenditure was originally part of the transition budget.

Auditor Comment

We reviewed the additional documentation provided, along with the original invoice supporting the purchase, and agree with BCBS that the cost of the individual items included in the purchase were below the contractor's capitalization policy threshold. In addition, we concur with BCBS that the purchase was part of the approved transition budget and was properly reported on the FACP. Accordingly, the questioned costs identified in the draft report associated with this finding have been removed from the final report.

5. COMPLEMENTARY INSURANCE CREDITS

BCBS routinely bills supplemental insurance carriers for information provided to them concerning their own subscribers. Complementary insurance credits are amounts received from the supplemental carriers for this information which is credited to BCBS's Medicare costs.

BCBS does not record the credit until the amount is received from the supplemental insurance carrier. Since BCBS accounts for the credits on a cash basis, the amount for outstanding billings as of the period ending date had not been recognized as a cost reduction on the FACP.

FAR Section 31.201-5 states in part; "The applicable portion of any income, rebate, allowance, or other credit relating to any allowable cost and received by or accruing to the contractor (emphasis added) shall be credited to the Government as a cost reduction..."

The amount of complementary credits accrued but not recognized as a credit on the FACP at the contract ending date totaled \$934,839 (Part A \$233,710 and Part B \$701,129). The questioned costs were allocated to Part A and Part B in approximate proportion to the total Medicare Costs reported on the FACP(s) (i.e. 25%/75%).

BLUE CROSS BLUE SHIELD OF TEXAS

Audit of Medicare Final Administrative Cost Proposals

For the Period
October 1, 1998 through September 30, 1999

Findings and Recommendations, (Continued)

5. COMPLEMENTARY INSURANCE CREDITS, (Continued)

Recommendation

We recommend that the FACP be adjusted to reflect the accruable complementary credits as of September 30, 1999.

Auditee Response

Documentation was provided by Trailblazer Health Enterprises (THE) as successor intermediary to BCBS for the Medicare Program, to support that the credits in question were received and recognized by THE.

Auditor Comment

Based on the documentation provided, it appears that the complimentary credits in question were collected by THE and accordingly would be reflected as a credit on the FACP(s) prepared by THE. Questioned costs are considered resolved.

OTHER MATTERS

BLUE CROSS BLUE SHIELD OF TEXAS

Audit of Medicare Final Administrative Cost Proposals

For the Period
October 1, 1998 through September 30, 1999

Other Matters

1. Resolution of Prior Audit Findings

A prior examination of BCBS was performed by O'Neal Saul, L.L.C., Certified Public Accountants, covering the period October 1, 1994 through September 30, 1998. Their report (No. 06-99-00006) identified questioned costs of \$1,615,063 which remain unresolved as of the date of our report.

2. Interim Expenditure Reports

As part of our audit, we performed a limited review to ascertain the accuracy of BCBS's Interim Expenditure Reports. Our review was limited to a review of methods and procedures followed by BCBS in developing expenditures reports.

Our tests disclosed that the methods and procedures used to report Medicare administrative costs on the Interim Expenditure Reports were adequate.

3. Data Processing Costs

Other than for year 2000 (Y2K) remediation, BCBS did not incur any significant costs for planning, development or modification of the Medicare claims processing system during the audit period.

4. Complementary Insurance Credits

As part of our audit, we performed tests on the reported complementary insurance credits and ascertained that adequate procedures were being followed to ensure compliance with the Medicare contract.

5. Year 2000 (Y2K) Remediation Costs

The Department of Health and Human Services Office of Inspector General (OIG) performed an audit of BCBS's Y2K costs through the period ended February 28, 1999. The report identified costs totaling \$320,709 as being disallowed as Y2K costs. However, the OIG's report goes on to state that the questioned costs may be allowable as other Medicare costs if they benefited the Medicare program. The report No. A-06-99-0034 was dated November 1999.

The final resolution of the above audit or action taken by CMS or BCBS as a result of the audit were not documented in the contractor's files or made available for our review. However, we saw no evidence that the questioned costs were reclassified or removed from the Y2K costs reported on the final FACP.

SCHEDULES

BLUE CROSS BLUE SHIELD OF TEXAS

Final Administrative Cost Proposals by Cost Classification - Part A

For the Period October 1, 1998 through September 30, 1999

<u>Category</u>	<u>Incurred Costs Reported</u>
Salaries and wages	\$ 12,741,986
Fringe benefits	3,484,271
Facilities or occupancy	753,401
Electronic data processing equipment	516,124
Outside professional services	26,298
Telephone and telegraph	355,821
Postage and express	1,585,457
Furniture and equipment (Non EDP)	1,020,591
Materials and supplies	873,279
Travel	353,418
Return on investment	207,578
Miscellaneous	3,978,658
Forward funding	1,691,549
Credits	<u>(317,415)</u>
 Totals	 <u>27,271,016</u>
 Recommended Adjustments:	
Costs not adequately supported	(282,843)
Self funded insurance costs	(45,510)
Return on investment	<u>(26,485)</u>
 Total recommended adjustments	 <u>(354,838)</u>
 Total adjusted costs	 <u><u>\$ 26,916,178</u></u>

BLUE CROSS BLUE SHIELD OF TEXAS

Final Administrative Cost Proposals by Cost Classification - Part B

For the Period October 1, 1998 through September 30, 1999

<u>Category</u>	<u>Incurred Costs Reported</u>
Salaries and wages	\$38,672,097
Fringe benefits	11,584,773
Facilities or occupancy	2,244,040
Electronic data processing equipment	1,857,776
Outside professional services	101,919
Telephone and telegraph	1,993,348
Postage and express	6,067,769
Furniture and equipment (Non EDP)	6,435,250
Materials and supplies	3,132,128
Travel	1,058,561
Return on investment	613,218
Miscellaneous	1,849,782
Forward funding	3,147,669
Credits	<u>(540,986)</u>
 Totals	 <u>78,217,344</u>
 Recommended Adjustments:	
Costs not adequately supported	(175,534)
Self funded insurance costs	(483,235)
Return on investment	<u>(78,241)</u>
 Total recommended adjustments	 <u>(737,010)</u>
 Total adjusted costs	 <u><u>\$77,480,334</u></u>

BLUE CROSS BLUE SHIELD OF TEXAS

Final Administrative Cost Proposal - Budget to Actual - Part A

For the Period October 1, 1998 through September 30, 1999

<u>Operation</u>	<u>Budget Authorization</u>	<u>Administrative Costs Claimed</u>	<u>Variance- Favorable (Unfavorable) (Note)</u>
Bills/Claims Payment	\$ 5,315,400	5,224,420	90,980
Appeals/Reviews	927,900	1,084,895	(156,995)
Inquiries	1,711,700	1,762,236	(50,536)
Provider Education and Training	856,900	788,728	68,172
Reimbursement	2,260,300	2,170,935	89,365
Productivity Investment	1,695,200	2,962,479	(1,267,279)
Credits	<u>(354,100)</u>	<u>(298,626)</u>	<u>(55,474)</u>
Subtotal - program management	<u>12,413,300</u>	<u>13,695,067</u>	<u>(1,281,767)</u>
Medical Review	2,646,200	2,685,503	(39,303)
Medicare Secondary Payer	1,279,500	1,386,159	(106,659)
Benefits Integrity	791,200	732,035	59,165
Provider Education and Training	111,200	125,413	(14,213)
Audits	8,412,100	8,633,418	(221,318)
Special projects	<u>20,200</u>	<u>13,421</u>	<u>6,779</u>
Subtotal - medicare integrity	<u>13,260,400</u>	<u>13,575,949</u>	<u>(315,549)</u>
Totals	<u>\$ 25,673,700</u>	<u>27,271,016</u>	<u>(1,597,316)</u>

Note: FACP costs claimed include \$1,691,549 of Section 208 Forward Funding Costs not included in Budget Authorization (NOBA).

BLUE CROSS BLUE SHIELD OF TEXAS

Final Administrative Cost Proposal - Budget to Actual - Part B

For the Period October 1, 1998 through September 30, 1999

<u>Operation</u>	<u>Budget Authorization</u>	<u>Administrative Costs Claimed</u>	<u>Variance- Favorable (Unfavorable)</u> (Note)
Bills/Claims Payment	\$ 38,031,200	38,787,950	(756,750)
Appeals/Reviews	5,521,700	6,153,570	(631,870)
Inquiries	19,213,000	21,603,469	(2,390,469)
Provider Education and Training	2,146,200	2,371,205	(225,005)
Participating Physician	430,800	728,397	(297,597)
Productivity Investments	5,072,300	8,591,254	(3,518,954)
PM Special Projects	5,000	4,223	777
Credits	<u>(9,230,900)</u>	<u>(14,420,631)</u>	<u>5,189,731</u>
Subtotal - program management	<u>61,189,300</u>	<u>63,819,437</u>	<u>(2,630,137)</u>
Medical Review	7,157,400	7,048,988	108,412
Medicare Secondary Payer	3,186,600	3,252,036	(65,436)
Benefits Integrity	2,286,900	2,419,990	(133,090)
Provider Education and Training	1,542,800	1,642,598	(99,798)
Productivity Investments	55,000	23,195	31,805
Special projects	<u>42,600</u>	<u>11,100</u>	<u>31,500</u>
Subtotal - medicare integrity	<u>14,271,300</u>	<u>14,397,907</u>	<u>(126,607)</u>
Totals	<u>\$ 75,460,600</u>	<u>78,217,344</u>	<u>(2,756,744)</u>

Note: FACP costs claimed include \$3,147,669 of Section 208 Forward Funding Costs not included in Budget Authorization (NOBA).

BLUE CROSS BLUE SHIELD OF TEXAS

Note to Schedules of Administrative Cost Proposals

October 1, 1998 through September 30, 1999

Note 1 During the year ended September 30, 1999 BCBS changed its accounting procedures from the cash method to the accrual method for certain expenses.

Those expenses and the liability recorded at September 30, 1999 are summarized as follows:

<u>Expense</u>	<u>Liability</u>	<u>Amount</u>
Fringe Benefits	Accumulated Post-Employment Retirement Benefits Payable	\$6,000,000
Salaries and wages	Nonvested compensated absences (accrued from employees' anniversary date to the year end date)	1,246,724
Salaries and wages	Accrued sick leave	<u>296,688</u>
Total		<u>\$7,543,412</u>

APPENDIX A
AUDITEE'S RESPONSE



**BlueCross BlueShield
of Illinois**

An Independent Licensee of the
Blue Cross and Blue Shield Association

300 East Randolph Street
Chicago, Illinois 60601-5099
312-653-6869

J. Kenneth Jansson
Vice President
Audit and Performance Review

September 21, 2001

Ron Rolwes, C.P.A.
Engagement Partner
Conrad & Associates, L.L.P.
1100 Main Street, Suite C
Irvine, California 92614

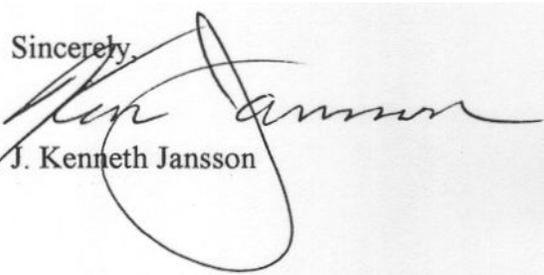
**Re: Texas Trailblazer Final Administrative Cost Audit
October 1, 1998 through termination**

Dear Mr. Rolwes:

Enclosed please find our responses, as well as additional documentation, to support our position on the five findings included in the Draft Report. All responses are labeled for easy reference.

It is our understanding that our written responses will be incorporated into the appropriate sections of the final report.

Please contact Dave Reid at 312-653-8448 or Charles Pickett at 312-653-2773 should you require additional information.

Sincerely,

J. Kenneth Jansson

cc:	Denise Bujak	Sue Gajda	Marti Mahaffey-Trailblazer
	Jim Burda	Gene George	Mary Jo Peters
	Mike Cervanka	George Hamilton	Dave Reid
	Tara Dowd-Gurber	Frank Harzheim	Al Trotter
	Mark Ellis	Justine Knizeski	

HCSC Trailblazer Audit

Conrad & Associates

Responses to Draft Report:

1) CAPITAL EQUIPMENT PURCHASES RECORDED AS EXPENSES

- The individual items purchased on the questioned invoices were below the dollar capitalization thresholds and were therefore expensed. There was a high volume of items such as chairs, desks, file cabinets, storage cabinets and moveable panels, with each item under the threshold. The transition budget included this transaction and the funds for the purchases were from the transition budget.
- We've also included correspondence that supports our claim that this was originally part of the transition budget.

2) UNREPORTED COMPLEMENTARY INSURANCE CREDITS

- Please see attached documentation

3) UNSUPPORTED COSTS

- Please see attached documentation

4) SELF FUNDED INSURANCE COST OVERSTATED

- At this time, HCSC does not object to this finding, but would like to reserve the right to comment on this issue on the final report.

5) RETURN ON INVESTMENT EXPENSE

- Use of depreciation expense does not reflect the asset acquisition or disposals that have an effect on the return on investment computation. We are including several pages from the monthly computations, which allocate the return on investment to each cost center. We would like to have a telephone conference the week of September 24th, to go over the methodology between Al Trotter from our Tax Department and Conrad & Associates (see 5 Exhibit A).
- In addition, we've incurred \$389,099 of depreciation expense on the Trailblazer Fixed Assets that were not charged to the Medicare line of business. A summary sheet of the asset purchases is attached for your review. Supporting documentation is available for you upon request (see 5 Exhibit B).

RETURN ON INVESTMENT EXPENSE

ENCLOSED

- 1) Exhibit A**
- 2) Exhibit B**

0604B COST CENTER 00100
 MANAGER ROGERS COLEMAN
 LOCATION 203 SE 766-6009

INVENTORY - FIXED ASSET
 SHOWING DEPRECIATION THRU SEP
 RUN DATE 10/05/1999

ICB 99 LOB 999 BU 99

DESCRIPTION	SERIAL NUMBER	PURCH DATE	ORIGINAL COST	USEFUL LIFE	DEPREC. TO DATE	NO. OF ITEMS	REMAIN LIFE	REMAIN VALUE	SALV VALUE	SALV PCNT	DEPREC PER/MO
ART-SEPT REFLECTION II	F	11/1993	703.63	120	416.06	1	49	287.57	.00	.0000	5.86
CONTROLLER 20RMB	EN	01/1994	692.80	60	692.80	1		.80	.00	.0000	.00
ROUND CONF. TABLE END	F	04/1994	563.93	120	310.20	1	54	253.73	.00	.0000	4.70
ROUND CONF. TABLE END	F	04/1994	563.93	120	310.20	1	54	253.73	.00	.0000	4.70
BUFFET SERVER	F	07/1994	1,312.84	120	688.59	1	57	623.45	.00	.0000	10.93
HP OFFICEJET FAX	ES531F1R4M	05/1995	914.72	60	808.25	1	7	106.47	.00	.0000	15.25
1994 PARK AVENUE	V6THB31618	06/1996	30,796.64	60	20,531.20	1	20	10,265.44	.00	.0000	513.28
CHEST ON STAND	F	10/1996	691.71	120	207.34	1	84	484.35	.00	.0000	5.74
LUXSTEEL EXEC CHAIR	F	09/1998	1,884.85	60	408.33	1	47	1,476.52	.00	.0000	31.41
IBM COLOR MONITOR	E3N2384079	10/1998	.00	60	.00	1	48	.00	.00	.0000	.00
IBM PC-IMAGE WRKSTN	E236VL18	10/1998	1,900.21	60	380.04	1	48	1,520.17	.00	.0000	31.67
IBM PC-IMAGE WRKSTN	E23GWP85	10/1998	1,900.21	60	380.04	1	48	1,520.17	.00	.0000	31.67
IBM PC-IMAGE WRKSTN	E23GWP92	10/1998	1,900.21	60	380.04	1	48	1,520.17	.00	.0000	31.67
IBM MONITOR	E2322969	12/1998	.00	60	.00	1	50	.00	.00	.0000	.00
IBM PC	E236PA48	12/1998	1,955.69	60	325.90	1	50	1,629.79	.00	.0000	32.59
IBM MONITOR	E23CPHL5	01/1999	.00	60	.00	1	51	.00	.00	.0000	.00
IBM MONITOR	E2325743	10/1998	.00	60	.00	1	48	.00	.00	.0000	.00
1999 CHRYSLER 303M	VAXKH262001	11/1998	25,208.00	60	4,620.00	1	49	20,588.00	.00	.0000	428.00
SONY LIBRETTO LAPTOP	EN	04/1999	2,456.16	60	245.64	1	54	2,210.52	.00	.0000	40.94

INSTALLMENT PURCHASES		.00									.00
EQUIPMENT		32,924.16									183.79
REG FURN.		44,826.43									218.52
MOD FURN.		36,798.72									306.65
TOT FURN.		81,625.15									525.17
LEASE HOLD IMPROVEMENTS		.00									.00
COMPANY VEHICLES		55,996.64									933.28

T CENTER 00100 TOTALS CNT 135 170,545.95 63,204.16 1,642.24

107,341.79 .00

OMP6048 COST CENTER 0010
 MANAGER ROGERS COLEMAN
 LOCATION 203 3E 766-6009

INVENTORY - FIXED ASSET
 SHOWING DEPRECIATION THRU SEP
 RUN DATE 10/05/1999

ICB 99 L06 999 BU 99

PROP. NUMBER	SERIAL NUMBER	PURCH DATE	ORIGINAL COST	USEFUL LIFE	DEPREC. TO DATE	NO. OF ITEMS	REMAIN LIFE	REMAIN VALUE	SALV VALUE	SALV PCNT	DEPREC PER/MO
13159	F	10/1988	1,623.46	60	1,623.46	1		.00	.00	.0000	.00
13160	F	10/1988	630.78	60	630.78	1		.00	.00	.0000	.00
13181	E3124	11/1988	1,480.68	60	1,480.68	1		.00	.00	.0000	.00
13396	F	01/1989	921.09	60	921.09	1		.00	.00	.0000	.00
13457	F	01/1989	602.75	60	602.75	1		.08	.00	.0000	.80
13458	F	01/1989	549.72	60	549.72	1		.00	.00	.0000	.80
15410	E6091814	07/1990	600.00	60	600.00	1		.00	.00	.0000	.80
16519	E3048562	01/1991	1,411.58	60	1,411.58	1		.00	.00	.0000	.80
17197	EFGN82114	05/1991	3,108.40	60	3,108.40	1		.00	.00	.0000	.80
17254	F	05/1991	888.73	120	748.41	1	19	140.32	.80	.0000	7.41
17263	RECORDER E27506	05/1991	329.08	60	329.08	1		.00	.80	.0000	.00
17595	COMPUTER E1HAT20R35	07/1991	5,282.60	60	5,282.60	1		.00	.00	.8000	.00
18318	SOFTWARE E00007168	11/1991	607.02	60	607.02	1		.00	.00	.0000	.00
18579	FILE CABINET F	01/1992	752.33	120	583.11	1	27	169.22	.00	.0000	6.27
13162	FILE F	06/1982	2,450.00	120	2,450.00	1		.00	.00	.0000	.00
13163	FILE F	06/1982	2,450.00	120	2,450.00	1		.00	.00	.0000	.00
13164	FILE F	06/1982	2,450.00	120	2,450.00	1		.00	.00	.0000	.00
13415	MULTI DESK F	03/1982	1,880.34	120	1,880.34	1		.00	.00	.0000	.60
13416	DESK F	03/1982	1,279.74	120	1,279.74	1		.00	.00	.0000	.80
13424	F	03/1982	876.00	120	876.00	1		.00	.00	.0000	.80
13425	F	03/1982	741.00	120	741.00	1		.80	.00	.0000	.80
13427	DESK F	03/1982	541.00	120	541.00	1		.00	.80	.0000	.00
13432	DESK F	04/1982	598.51	120	598.51	1		.00	.80	.0000	.00
13433	DESK F	04/1982	598.52	120	598.52	1		.00	.00	.0000	.00
13402	DESK RECORDER E0	11/1984	69.85	36	69.85	1		.00	.00	.8000	.00
13774	DRYWRITER ECR0315355	05/1985	1,722.89	60	1,722.89	1		.00	.00	.0000	.00
13960	ANScriBER E346458	02/1986	588.36	60	588.36	1		.00	.00	.0000	.00
13972	ANScriBER E345515	03/1986	608.52	60	608.52	1		.00	.00	.0000	.00
13732	CONFERENCE TABLES F	07/1993	3,416.59	120	2,135.25	4	45	1,281.34	.00	.0000	28.47
13766	EXEC. DINE CHAIRS F	11/1993	27,138.27	120	16,056.65	46	49	11,081.62	.00	.0000	226.15
13818	ARGUS CONF. CHAIRS F	08/1993	6,243.86	120	3,850.22	16	46	2,393.64	.00	.0000	52.03
13209	DESK EXT. F	03/1973	796.16	120	796.16	1		.00	.00	.0000	.00
13073	DESK CONF F	04/1975	872.55	120	872.55	1		.00	.00	.0000	.00
13371	CREDENZA F	04/1976	627.90	120	627.90	1		.80	.00	.0000	.00
13962	SONY CASSETTE RECORDER E33875	10/1979	369.60	120	369.60	1		.80	.00	.0000	.00
13817	BORPARADOX SFTW E0	04/1992	550.99	60	550.99	1		.00	.00	.0000	.00
13818	LASERJET PRINTER E128JG8Z17	04/1992	2,098.96	60	2,098.96	1		.00	.80	.0000	.00
13055	FILE CABINET F	05/1992	1,243.80	120	922.93	1	31	320.87	.00	.0000	10.37
13057	FILE CABINET F	05/1992	1,243.80	120	922.93	1	31	320.87	.00	.0000	10.37
13058	SECRETARIAL U UNIT F	05/1992	4,891.81	120	3,628.53	1	31	1,263.28	.00	.0000	48.77
13059	FILE CABINET F	05/1992	1,243.80	120	922.93	1	31	320.87	.00	.0000	10.37
13470	WALNUT CREDENZA F	06/1992	1,329.31	120	975.84	1	32	354.27	.00	.0000	11.08
13536	8518 COLOR MONITOR E23BW6R4	12/1992	491.45	60	491.45	1		.00	.00	.0000	.00
13538	BOR PARADOX SOFTWARE EN/A	12/1992	591.42	60	591.42	1		.00	.00	.0000	.00
13354	IBM WHEELWRITER E427962	07/1986	1,292.76	60	1,292.76	1		.00	.00	.0000	.00
13779	ARTWORK - VICEROY I F	09/1993	572.64	120	348.21	1	47	224.43	.00	.0000	4.77
13780	ARTWORK - VICEROY II F	09/1993	572.64	120	348.21	1	47	224.43	.00	.0000	4.77
13781	ARTWORK-ANTELOPES F	09/1993	1,407.25	120	856.29	1	47	550.96	.00	.0000	11.73
13513	CREDENZA F	11/1993	1,439.72	120	852.80	1	49	587.72	.80	.0000	12.00
13523	ART-SLEEPY HOLLOW F	11/1993	920.13	120	544.57	1	49	375.56	.00	.0000	7.67
13524	ART-PEACEFUL JOURNEY F	11/1993	703.62	120	416.06	1	49	287.56	.00	.0000	5.86
13525	ART-CRYSTAL SILENCE F	11/1993	703.62	120	416.06	1	49	287.56	.00	.0000	5.86
13526	ART-SEPT REFLECTION I F	11/1993	703.62	120	416.06	1	49	287.56	.00	.0000	5.86

Exhibit A

DATE	PAYEE	ACCR IND	CHECK NUMBER	AMOUNT	CURRENT COMPANY	OTHER COMPANIES	COST CENTER	IC
ACCOUNT 696000								
09/30/99	CORRECTING ENTRY TO		000000542	1,936.32-	1,936.32-	0.00	34308	
ACCOUNT 696000 TOTALS		534		1,142,638.34	740,438.95	402,199.39		
ACCOUNT 696010								
09/30/99	CORRECTING ENTRY TO		000000542	354.57	354.57	0.00	34301	
09/30/99	CORRECTING ENTRY TO		000000542	354.57-	354.57-	0.00	34301	
09/30/99	CORRECTING ENTRY TO		000000542	3.22	3.22	0.00	34306	
09/30/99	CORRECTING ENTRY TO		000000542	3.22-	3.22-	0.00	34306	
09/30/99	CORRECTING ENTRY TO		000000542	2.01	2.01	0.00	34308	
09/30/99	CORRECTING ENTRY TO		000000542	2.01-	2.01-	0.00	34308	
ACCOUNT 696010 TOTALS		6		0.00	0.00	0.00		
ACCOUNT 697000								
09/30/99	ROI	1	000000004	0.02	0.02	0.00	00100	
09/30/99	ROI	1	000000004	313.13	219.95	93.18	00100	
09/30/99	ROI	1	000000004	33.10	23.26	9.84	00120	
09/30/99	ROI	1	000000004	82.03	72.53	9.50	00200	
09/30/99	ROI	1	000000004	0.02	0.02	0.00	00200	
09/30/99	ROI	1	000000004	156.14	120.19	35.95	00220	
09/30/99	ROI	1	000000004	0.01	0.01	0.00	00220	
09/30/99	ROI	1	000000004	156.10	156.10	0.00	00225	
09/30/99	ROI	1	000000004	100.37	100.37	0.00	00236	
09/30/99	ROI	1	000000004	0.05	0.05	0.00	00236	
09/30/99	ROI	1	000000004	119.79	118.27	1.52	00240	
09/30/99	ROI	1	000000004	0.12	0.12	0.00	00240	
09/30/99	ROI	1	000000004	14.05	9.87	4.18	00250	
09/30/99	ROI	1	000000004	82.83	59.06	23.77	00310	
09/30/99	ROI	1	000000004	0.02	0.02	0.00	00310	
09/30/99	ROI	1	000000004	196.39	140.06	56.33	00311	
09/30/99	ROI	1	000000004	0.04	0.04	0.00	00311	
09/30/99	ROI	1	000000004	91.31	75.98	15.33	00500	
09/30/99	ROI	1	000000004	94.12	94.12	0.00	00701	
09/30/99	ROI	1	000000004	0.15	0.15	0.00	00701	
09/30/99	ROI	1	000000004	179.52	171.07	8.45	00900	
09/30/99	ROI	1	000000004	0.09	0.09	0.00	00900	
09/30/99	ROI	1	000000004	31.58	30.64	0.94	01500	
09/30/99	ROI	1	000000004	0.01	0.01	0.00	01500	
09/30/99	ROI	1	000000004	39.66	37.25	2.41	01554	

313.15

INVENTORY OF FIXED ASSETS
 SUMMARY OF DEPRECIATION AND FINANCE COST
 RUN DATE 10/05/1999

THE MONTH OF SEP 1999
 THE FINANCE RATE IS .0049542 THE DEP RATE IS .0004625

R	-----DEPRECIATION-----				TOTAL DEPREC	-----REMAINING BOOK VALUE-----				TOTAL BK-VALUE	TOTAL FIN-COST
	VEHICLES/	FUR & EQU/	L.H. INSTL/	PUR IMPR		VEHICLES/	FUR & EQU/	L.H. IMPR/	ISTL PURC		
3	933.28	708.96	.00	.00	1,642.24	30,845.44	32,358.72	.00	.00	63,204.16	313.15
5	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	
0	.00	318.12	.00	.00	318.12	.00	6,681.92	.00	.00	6,681.92	33.10
8	418.33	149.52	.00	.00	557.85	9,391.79	7,166.51	.00	.00	16,558.30	82.05
0	.00	758.43	.00	.00	758.43	.00	31,517.61	.00	.00	31,517.61	156.15
5	.00	750.44	.00	.00	750.44	.00	31,509.59	.00	.00	31,509.59	156.10
4	.00	478.16	.00	.00	478.16	.00	20,259.56	.00	.00	20,259.56	100.42
0	.00	578.43	.00	.00	578.43	.00	24,180.03	.00	.00	24,180.03	119.91
8	.00	62.86	.00	.00	62.86	.00	2,836.18	.00	.00	2,836.18	14.05
0	408.33	57.65	.00	.00	465.98	13,066.76	3,651.48	.00	.00	16,718.24	82.85
1	.00	1,377.67	.00	.00	1,377.67	.00	39,640.88	.00	.00	39,640.88	196.43
10	.00	371.10	.00	.00	371.10	.00	18,430.20	.00	.00	18,430.20	91.31
11	.00	563.50	.00	.00	563.50	.00	18,997.20	.00	.00	18,997.20	94.27
80	424.50	1,036.42	.00	.00	1,460.92	16,980.01	19,254.42	.00	.00	36,234.43	179.61
00	.00	289.17	.00	.00	289.17	.00	6,375.30	.00	.00	6,375.30	31.59
54	.00	243.92	.00	.00	243.92	.00	8,005.64	.00	.00	8,005.64	39.71

09/21/01 13:57
 *** + 312 856 9021

NO. 011 P005/005

Exhibit B

Trailblazer Fixed Asset Write-Off's
Processed after Sale

<u>Date</u>	<u>Amount</u>
6/21/1999	38,677.71
7/21/1999	11,685.61
7/13/1999	1,526.34
7/30/1999	9,087.02
	81,983.14
	5,584.00
	8,983.41
8/31/1999	16,419.39
8/6/1999	913.07
8/10/1999	11,320.01
8/20/1999	21,420.64
8/24/1999	114.66
8/27/1999	10,485.53
	1,765.56
	3,009.36
	5,468.79
	6,335.22
	2,771.20
	6,441.74
	8,297.00
9/7/1999	7,757.22
	20,258.88
	3,604.73
	2,383.34
	1,399.67
	11,065.28
	9,662.06
	800.75
	1,730.00
	13,580.86
9/8/1999	832.00
	6,440.74
9/10/1999	1,441.89
	6,416.01
	680.74
9/14/1999	6,030.27
	23,469.81
	25,142.74
	26,144.41
	9,250.63
9/17/1999	289,984.34
9/21/1999	14,583.45
	9,500.38
9/24/1999	5,496.51
9/28/1999	1,487.73
	3,671.02
	1,270.80
10/1/1999	4,329.35
	67,175.62
	2,691.04
	84,631.70
10/5/1999	4,524.20
	38,010.00
10/13/1999	3,193.81
	1,650.81
10/22/1999	1,028.37
	2,710.68
	96,564.91
	2,367.43
10/29/1999	4,063.81
Total	51,078,844.81

APPENDIX B
SCHEDULE OF UNSUPPORTED COSTS

Date	Payee	Total Cost.	Medicare Part A Questioned Cost	Medicare Part B Questioned Cost	Total Medicare Questioned Cost	Comments
1/10/98	Heffler & Radetich	\$92,513.00	\$ 92,513.00	\$ -	\$ 92,513.00	Canceled check only provided, not able to determine what services were provided
12/21/98	Heffler & Radetich	77,094.00	77,094.00	-	77,094.00	Canceled check only provided, not able to determine what services were provided
3/3/99	Blue Cross/Blue Shield	78,016.12	4,239.40	11,998.10	16,237.50	Unable to determine relationship to Medicare Program.
3/28/99	Blue Cross/Blue Shield	77,295.96	4,200.26	11,887.35	16,087.61	Unable to determine relationship to Medicare Program.
1/31/99	Sq. Foot Allocation	24,549.78	996.48	2,981.08	3,977.56	No documentation was submitted for review.
12/1/98	Sherman Taxes	2,173.19	197.04	370.38	567.42	No documentation was submitted for review.
12/31/98	Loss on FA Disposal	16,796.20	1,522.91	2,862.58	4,385.49	No documentation was submitted for review.
10/5/99	West Group	952.60	80.08	158.47	238.55	No documentation was submitted for review.
1/8/99	Riddle Technologies	61,198.50	30,599.25	30,599.25	61,198.50	Reviewed the contract, however there was no supporting invoice or schedule agreeing the services performed to the amounts being claimed.
2/9/99	Riddle Technologies	64,472.25	32,236.13	32,236.12	64,472.25	Reviewed the contract, however there was no supporting invoice or schedule agreeing the services performed to the amounts being claimed.
12/18/98	AT&T Systems Leasing	56,723.00	6,294.55	19,868.37	26,162.92	Amount paid could be agreed to lease.
1/15/99	AT&T Systems Leasing	56,723.00	6,672.33	21,814.53	28,486.86	Amount paid could be agreed to lease.
2/23/99	AT&T Systems Leasing	56,723.00	6,213.44	19,157.06	25,370.50	Amount paid could be agreed to lease.
2/23/99	AT&T Systems Leasing	7,090.37	776.68	2,394.63	3,171.31	Reviewed canceled check/invoice, amount could not be agreed to lease.
12/11/98	Storagetek Financial	17,030.43	8,515.22	8,515.22	17,030.44	Unable to agree/reconcile cost to the lease agreement.
12/18/98	AT&T Systems Leasing	7,090.37	3,545.19	3,545.19	7,090.38	No documentation was submitted for review.
2/5/99	Lasalle Equipment	14,293.05	7,146.53	7,146.53	14,293.06	Unable to agree/trace the cost to the lease agreement.
	Total Questioned Costs		\$282,842.49	\$ 175,534.86	\$ 458,377.35	