

**Memorandum**

Date **MAR 29 2002**  
From Janet Rehnquist  
Inspector General *Janet Rehnquist*

Subject Audit of Medicare Administrative Costs Claimed by General American Life Insurance Company for the Period October 1, 1993 Through December 31, 1999 (A-07-01-02086)

To Thomas Scully  
Administrator  
Centers for Medicare & Medicaid Services

This memorandum alerts you to the issuance within 5 business days of the final audit report to General American Life Insurance Company (GALIC) entitled, *Report of Examination of the Administrative Costs Incurred Under the Health Insurance for the Aged and Disabled (Medicare) Part B by General American Life Insurance Company of St. Louis, Missouri*. A copy of the report is attached. The review was conducted at the request of the Centers for Medicare & Medicaid Services (CMS) and was performed by Carmichael, Brasher, Tuvell & Company, certified public accountants, with the Office of Inspector General, Office of Audit Services exercising technical oversight over the examination.

The purpose of the review was to determine whether administrative costs claimed by GALIC on its final administrative cost proposals (FACP) to administer Part B of the Medicare program for the period October 1, 1993 through December 31, 1999 (termination) were reasonable, allocable, and allowable. For the period audited, GALIC claimed administrative costs of \$80,888,009 to process Part B claims and \$1,936,617 for termination costs. In addition, the report contains the Independent Auditor's Report on 1) the FACPs, 2) Compliance with Laws and Regulations, and 3) Internal Control Structure.

The report identifies \$42,797,421 of recommended cost disallowances, as well as material internal control weaknesses in the areas of indirect costs, fringe benefits, miscellaneous costs, and termination costs. We refer you to page 16 of the report for a listing of the cost classification categories that constitute the recommended disallowances. There are, however, two primary areas that account for about \$38 million of the total \$42 million of questioned costs. They are:

- Indirect costs allocated to Medicare of about \$27 million.
- Fringe benefit costs allocated to Medicare of about \$11 million.

Page 2 - Thomas Scully

The Findings and Recommendations section of the report also addresses the lack of cooperation by GALIC with the auditors.

The GALIC did not concur with the majority of the costs recommended for disallowance. The response to the draft report consisted of 9 volumes (13 binders) of material. Costs questioned were amended, where warranted, based on the response to the draft report. Because of the volume of the response, we were not able to append it to the report. However, CMS officials who are responsible for audit resolution have complete copies of the auditee's response. We have also informed CMS officials of our willingness to assist them in the resolution of the audit findings.

Any questions or comments on any aspect of this memorandum are welcome. Please address them to George M. Reeb, Assistant Inspector General for Health Care Financing Audits, at (410) 786-7104 or James P. Aasmundstad, Regional Inspector General for Audit Services, Region VII, at (816) 426-3591.

Attachment

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**AUDIT OF MEDICARE  
ADMINISTRATIVE COSTS CLAIMED BY  
GENERAL AMERICAN LIFE  
INSURANCE COMPANY FOR THE  
PERIOD OCTOBER 1, 1993 THROUGH  
DECEMBER 31, 1999**



**JANET REHNQUIST  
INSPECTOR GENERAL**

**APRIL 2002  
A-07-01-02086**



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General  
Office of Audit Services

Region VII  
601 East 12th Street  
Room 284A  
Kansas City, Missouri 64106

CIN: A-07-01-02086

APR - 3 2002

Mr. Barry Cooper  
Vice President – Finance  
General American Life Insurance Company  
700 Market Street  
St. Louis, Missouri 63101-1887

Dear Mr. Cooper:

Enclosed for your information are two copies of an audit report (A-07-01-02086) prepared by Carmichael, Brasher, Tuvell & Company, 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 General American Life Insurance Company for Part B of the Medicare Program for the period October 1, 1993 through December 30, 1998 and for the termination period January 1, 1999 through December 31, 1999. For the period audited, General American Life Insurance Company claimed administrative costs of \$80,888,009 to process Part B claims and \$1,936,617 for termination costs. Your attention is invited to the findings and recommendations contained in the report. The report identifies \$42,797,421 of costs reported on the final administrative cost proposals for disallowance, as well as material internal control weaknesses in the areas of indirect costs, fringe benefits, miscellaneous costs, and termination costs. The Findings and Recommendations section of the report also addresses inadequate audit cooperation.

Final determination as to actions to be taken on all matters reported 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. Barry Cooper

To facilitate identification, please refer to the above Common Identification Number in all correspondence relating to this report.

Sincerely,

A handwritten signature in black ink, appearing to read "James P. Aasmundstad". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

James P. Aasmundstad  
Regional Inspector General  
for Audit Services

Enclosure

**Direct Reply to HHS Action Official:**

Mr. Joe Tilghman  
Regional Administrator  
Centers for Medicare & Medicaid Services  
601 E. 12<sup>th</sup> Street  
Room 235, Federal Building  
Kansas City, Missouri 64106

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

PART B

**GENERAL AMERICAN LIFE INSURANCE COMPANY  
ST. LOUIS, MISSOURI**

FOR THE PERIOD  
OCTOBER 1, 1993 THROUGH  
DECEMBER 31, 1999 (Termination)

**NOTICE**

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of Carmichael, Brasher, Tuvell & Company, Certified Public Accountants, as concurred with by the DHHS-OIG, Office of Audit Services. Final determinations on these matters will be made by authorized DHHS operating division officials.

## EXECUTIVE SUMMARY

### Background

The Centers for Medicare and Medicaid Services (CMS)<sup>1</sup> administers the Medicare Program by contracting with private organizations to process and pay claims for services provided to eligible beneficiaries. CMS has contracted with General American Life Insurance Company (GALIC) to process Part B claims submitted by certain hospitals and other medical providers in Missouri. During the period October 1, 1993 through December 30, 1998, GALIC claimed administrative costs of \$80,888,009 to process 53,629,570 Part B claims. During the period January 1, 1999 to December 31, 1999, GALIC claimed termination costs of \$1,936,617. Total costs claimed by GALIC on the Final Administrative Cost Proposals (FACPs) for the period from October 1, 1993 through December 31, 1999 was \$82,824,626.

### Objectives

The objective of our audit was to determine whether (1) GALIC had established effective systems of internal control, accounting and reporting for administrative costs and (2) the 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 GALIC's agreement with CMS.

### Results

We determined that GALIC had not established adequate systems for internal control, accounting and reporting for indirect costs. As such, indirect costs could not be reviewed and have been questioned as described in the findings and recommendations section of this report. We determined that GALIC had established adequate systems for internal control, accounting and reporting for direct costs, for the period October 1, 1993 through December 31, 1999 (Termination). These direct costs were in accordance with Part 31 of the Federal Acquisition Regulations as interpreted and amended by Appendix B of GALIC's agreement with CMS, except as specifically identified in the findings and recommendations section of this report.

GALIC prepared a response to our draft audit report consisting of nine volumes (13 binders) of material. We have amended costs questioned in the draft, where warranted, based on the response to the draft report. The amounts amended are noted in the findings and recommendations section of this report. Because of the volume of the response, we are not able to append it to this report. However, CMS officials who are responsible for audit resolution, as well as officials of HHS; Office of Inspector General, have complete copies of the response.

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<sup>1</sup> On June 14, 2001, the Department of Health and Human Services announced that the Health Care Financing Administration (HCFA) would be known as the Centers for Medicare and Medicaid Services.

We identified \$42,797,421 in costs reported on the FACPs for which we recommend disallowance for the period October 1, 1993 through December 31, 1999. The items for which we recommend disallowance are as follows:

- GALIC did not provide sufficient documentation to support the indirect costs allocated to Medicare on the FACPs. GALIC's accounting system did not retain the detail to support the percentage or amount by which cost centers were allocated to Medicare. Indirect costs allocated to Medicare for the period October 1, 1993 through December 31, 1999 were \$27,581,494.
- GALIC did not provide sufficient documentation to support the fringe benefits allocated to Medicare. GALIC provided Federal information returns which illustrated items such as the total premiums charged for employees and total claims paid; however, this information did not support that fringe benefit costs allocated to Medicare were reasonable, allowable and allocable. Total fringe benefits allocated to Medicare was \$10,892,031 for the period October 1, 1993 through December 31, 1998, the review of fringe benefits during the termination period is addressed below under the finding regarding termination period costs.
- GALIC did not provide sufficient documentation to fully support the ROI costs allocated to Medicare. GALIC provided information as to how the amount claimed on the FACPs for return on investment (ROI) was calculated. However, the information provided to support the average value of undepreciated Medicare assets and the portfolio rate of return used in the calculation of ROI did not agree with the amounts provided to support depreciation costs charged. Also, a portion of ROI for buildings was included in both the ROI cost and the facilities costs. ROI costs allocated to Medicare for the period October 1, 1993 through December 31, 1999 which could not be supported were \$1,789,322.
- GALIC did not provide sufficient documentation to allow the review of miscellaneous costs allocated to Medicare. A detailed listing of the transactions contained in the accounts and amounts claimed for miscellaneous costs, in sufficient detail for a sample of transactions to be identified and tested, was not provided. Miscellaneous costs allocated to Medicare for the period October 1, 1993 through September 30, 1997 which could not be tested were \$2,218,619. (Subsequent to October 1, 1997, cost classification reports were not provided and miscellaneous costs could not be specifically identified, as such all unidentified costs were included in the finding and recommendation regarding indirect costs.)
- GALIC did not provide sufficient documentation to support termination costs of \$315,955, for the following:
  - \$58,235 in costs for which no invoices or other documentation was provided to support the costs claimed was provided,
  - \$146,042 in costs in the termination period January 1, 1999 through December 31, 1999 which were attributable to the 1998 or 1999 fiscal year; and,
  - \$111,678 in costs which were not allocable to Medicare.

The termination costs arose as a result of GALIC's termination of their contract with CMS as a Medicare Carrier, effective December 31, 1998.

- GALIC did not exclude from claimed costs, executive compensation in excess of the maximum limits allowed by Public Law 105-85, of \$105,486 for fiscal year 1997, \$96,811 for fiscal year 1998 and \$49,538 for fiscal year 1999. (These amounts are included in the \$27,581,494 indirect costs questioned above)

We evaluated GALIC'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, GALIC's control procedures were adequate for the Department of Health and Human Service's purposes and that GALIC generally complied with the provisions of Part 31 of the Federal Acquisition Regulations as interpreted and amended by Appendix B of GALIC's agreement with CMS 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.

**GENERAL AMERICAN LIFE INSURANCE COMPANY**  
**St. Louis, Missouri**  
**October 1, 1993 through December 31, 1999 (Termination)**

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## **INTRODUCTION**

### **Background**

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

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

### **Objectives**

The objectives of our audit were to determine whether (1) GALIC 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 B of the Medicare program in accordance with Part 31 of the Federal Acquisition Regulations (FAR) as interpreted and modified by Appendix B of GALIC's contract with CMS.

### **Scope**

Our audit was conducted in accordance with generally accepted government auditing standards. The audit objective was to determine whether administrative costs claimed by GALIC on its FACPs to administer Part B of the Medicare program for the period from October 1, 1993 through December 31, 1999 (Termination) were reasonable, allocable and allowable. During the period October 1, 1993 through to December 31, 1998, GALIC claimed administrative costs of \$80,888,009 to process 53,629,570 Part B claims.

We examined the administrative costs claimed by GALIC 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 GALIC's contract with CMS. Our audit included audit procedures designed to achieve our objective and included a review of accounting records and supporting documentation. Our audit excluded a review of the pension costs claimed by GALIC 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 GALIC on prior audit findings and the effectiveness of GALIC's corrective action in regard to the findings and recommendations.

We reviewed GALIC's compliance with complementary insurance policies and the amount of credit applied to GALIC's claimed administrative costs for the periods from October 1, 1995 to December 31, 1998. Our procedures were designed to determine if GALIC was complying with complementary insurance policies and that credits due Medicare were properly included in the FACPs.

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

Audit fieldwork was performed at GALIC's office in St. Louis, Missouri and in our office in Atlanta, Georgia from November 16, 1998 through June 30, 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 General American Life Insurance Company for the period from October 1, 1993 through December 31, 1999 (Termination). These Final Administrative Cost Proposals are the responsibility of General American Life Insurance Company's management. Our responsibility is to express an opinion on the Final Administrative Cost Proposals based on our audit.

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

General American Life Insurance Company's policy is to prepare and report its costs of administering Part B 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 General American Life Insurance Company's contract (Medicare Agreement) with CMS and CMS' reporting procedures. Accordingly, the accompanying Final Administrative Cost Proposals are not intended to be a complete presentation of General American Life Insurance Company'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, 1993 through December 31, 1999.

In our opinion, except for the above pension costs and the adjustments as disclosed in the findings and recommendations section of this report, the accompanying Final Administrative Cost Proposals, as adjusted, present fairly, in all material respects, the cost of administering Part B of the Medicare Program in accordance with Part 31 of the Federal Acquisition Regulations as interpreted and modified by Appendix B of General American Life Insurance Company's Medicare Agreement and CMS' 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  
June 30, 2000

**INDEPENDENT AUDITORS' REPORT**  
**ON COMPLIANCE WITH LAWS AND REGULATIONS**

We have performed an audit of the Final Administrative Cost Proposals of General American Life Insurance Company for the period October 1, 1993 through December 31, 1999 (Termination) and have issued our report thereon, dated June 30, 2000.

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

Compliance with laws, regulations and agreement requirements applicable to General American Life Insurance Company is the responsibility of General American Life Insurance Company management. As part of obtaining reasonable assurance about whether the FACPs were free of material misstatement, and whether General American Life Insurance Company 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 CMS' agreement and the FACPs. The results of our tests of compliance disclosed potential material instances of noncompliance with CMS agreement provisions which have been disclosed in the Findings and Recommendations section of this report. The potential material instances of noncompliance include those findings and recommendation involving indirect costs, executive compensation, fringe benefits, return on investment, miscellaneous Costs and termination costs.

We considered the material instances of noncompliance in forming our opinion on the FACPs and on General American Life Insurance Company's compliance with CMS agreement provisions, and this report does not affect our report on the FACPs dated June 30, 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, General American Life Insurance Company 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 General American Life Insurance Company 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 GALIC 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 General American Life Insurance Company and the Department of Health and Human Services. This restriction is not intended to limit the distribution of this report which, upon acceptance by the DHHS is a matter of public record.

*Carmichael, Brasher, Jewell + Company*

Atlanta, Georgia

June 30, 2000

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

We have audited the Final Administrative Cost Proposals of General American Life Insurance Company for the period October 1, 1993 to December 31, 1999 (Termination) and have issued our report thereon, dated June 30, 2000.

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

In planning and performing our audit of General American Life Insurance Company, 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 General American Life Insurance Company complied with CMS 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 General American Life Insurance Company's system of internal control structure taken as a whole.

The management of General American Life Insurance Company 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 CMS 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 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 CMS 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 material weaknesses as defined above. These material weaknesses include the internal control structure and administrative controls surrounding indirect costs, fringe benefits, miscellaneous costs and termination costs as described in 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. 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, Brader, Sewell & Company*

Atlanta, Georgia  
June 30, 2000

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

# GENERAL AMERICAN LIFE INSURANCE COMPANY

## Final Administrative Cost Proposal

For the Period October 1, 1993 through September 30, 1994

### Part B

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#### COSTS CLAIMED BY OPERATION

<u>Operation</u>	<u>Costs Claimed</u>
Claims Payment	\$ 9,009,328
Beneficiary/Phys. Inquiry	1,820,799
Reviews and Hearings	466,628
Medical Review & Utilization Review	1,237,792
Provider Education and Training	543,078
Participating Physician	230,453
Benefit Integrity	675,940
Productivity Investments	943,515
Medicare Secondary Payer	1,286,337
Other	<u>142,546</u>
Total Administrative Costs Claimed	\$16,356,416
Questioned Costs (See Details Below)	<u>(7,678,606)</u>
Costs Recommended for Acceptance	<u>\$ 8,677,810</u>

#### COSTS CLAIMED BY COST CLASSIFICATION CATEGORY

	<u>Costs Claimed</u>	<u>Questioned Costs</u>
Salaries and Wages	\$8,241,994	\$2,908,844
Fringe Benefits <sup>2</sup>	2,310,760	2,310,760
Facilities and Occupancy	714,173	203,960
Electronic Data Processing Equipment	1,072,278	660,961
Subcontracts	0	0
Outside Professional Services	171,942	0
Telephone and Telegraph	228,338	0
Postage and Express	2,127,408	11,896
Furniture and Equipment (not EDP)	254,801	186,012
Materials and Supplies	871,328	0
Travel	31,101	31,101
Return on Investment	356,128	352,321
Miscellaneous	1,012,751	1,012,751
Other	0	0
Credits	<u>(1,036,586)</u>	<u>0</u>
TOTALS	<u>\$16,356,416</u>	<u>\$7,678,606</u>

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(1) Pension costs were not included in the scope of the audit.

See Independent Auditors' Report.

Explanation of questioned costs is provided in the Findings and Recommendations section of this report.

# GENERAL AMERICAN LIFE INSURANCE COMPANY

## Final Administrative Cost Proposal

For the Period October 1, 1994 through September 30, 1995

### Part B

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#### COSTS CLAIMED BY OPERATION

<u>Operation</u>	<u>Costs Claimed</u>
Claims Payment	\$10,862,771
Beneficiary/Phys. Inquiry	1,658,390
Reviews and Hearings	341,509
Medical Review & Utilization Review	1,086,674
Provider Education and Training	516,085
Participating Physician	214,291
Benefit Integrity	570,065
Productivity Investments	2,555,667
Medicare Secondary Payer	1,116,369
Other	<u>(1,274,367)</u>
Total Administrative Costs Claimed	\$17,647,454
Questioned Costs (See Details Below)	<u>(7,027,546)</u>
Costs Recommended for Acceptance	<u>\$10,619,908</u>

#### COSTS CLAIMED BY COST CLASSIFICATION CATEGORY

	<u>Costs Claimed</u>	<u>Questioned Costs</u>
Salaries and Wages	\$8,239,089	\$2,844,073
Fringe Benefits <sup>2</sup>	2,255,340	2,255,340
Facilities and Occupancy	844,984	224,412
Electronic Data Processing Equipment	1,128,061	701,252
Subcontracts	1,781,686	0
Outside Professional Services	98,760	5,091
Telephone and Telegraph	241,376	71,411
Postage and Express	2,305,107	12,234
Furniture and Equipment (not EDP)	180,679	125,557
Materials and Supplies	1,165,476	3,710
Travel	150,421	101,315
Return on Investment	396,736	390,737
Miscellaneous	292,414	292,414
Credits	<u>(1,432,675)</u>	<u>0</u>
TOTALS	<u>\$17,647,454</u>	<u>\$7,027,546</u>

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(1) Pension costs were not included in the scope of the audit.

See Independent Auditors' Report.

Explanation of questioned costs is provided in the Findings and Recommendations section of this report.

# GENERAL AMERICAN LIFE INSURANCE COMPANY

## Final Administrative Cost Proposal

For the Period October 1, 1995 through September 30, 1996

### Part B

#### COSTS CLAIMED BY OPERATION

<u>Operation</u>	<u>Costs Claimed</u>
Claims Payment	\$12,252,445
Beneficiary/Phys. Inquiry	1,689,114
Reviews and Hearings	445,433
Medical Review & Utilization Review	1,152,552
Provider Education and Training	284,198
Participating Physician	193,693
Benefit Integrity	636,694
Productivity Investments	833,088
Medicare Secondary Payer	1,012,907
Other	<u>(1,710,195)</u>
Total Administrative Costs Claimed	\$16,789,929
Questioned Costs (See Details Below)	<u>(8,174,521)</u>
Costs Recommended for Acceptance	<u>\$ 8,615,408</u>

#### COSTS CLAIMED BY COST CLASSIFICATION CATEGORY

	<u>Costs Claimed</u>	<u>Questioned Costs</u>
Salaries and Wages	\$8,962,525	\$2,977,799
Fringe Benefits <sup>2</sup>	2,413,166	2,413,166
Facilities and Occupancy	861,803	233,404
Electronic Data Processing Equipment	1,656,667	1,229,858
Outside Professional Services	130,574	2,215
Telephone and Telegraph	65,911	24,081
Postage and Express	2,361,172	13,081
Furniture and Equipment (not EDP)	204,976	162,106
Materials and Supplies	1,001,444	217,921
Travel	119,765	65,249
Return on Investment	381,998	375,523
Miscellaneous	460,118	460,118
Credits	<u>(1,830,190)</u>	<u>0</u>
TOTALS	<u>\$16,789,929</u>	<u>\$8,174,521</u>

(1) Pension costs were not included in the scope of our audit.

See Independent Auditors' Report.

Explanation of questioned costs is provided in the Findings and Recommendations section of this report.

# GENERAL AMERICAN LIFE INSURANCE COMPANY

## Final Administrative Cost Proposal

For the Period October 1, 1996 through September 30, 1997

### Part B

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#### COSTS CLAIMED BY OPERATION

<u>Operation</u>	<u>Costs Claimed</u>
Claims Payment	\$10,790,600
Beneficiary/Phys. Inquiry	1,667,048
Reviews and Hearings	434,169
Medical Review & Utilization Review	1,045,319
Provider Education and Training	259,816
Participating Physician	209,734
Benefit Integrity	676,493
Productivity Investments	218,213
Medicare Secondary Payer	863,560
Other	<u>(1,926,834)</u>
Total Administrative Costs Claimed	\$14,238,118
Questioned Costs (See Details Below)	<u>(8,404,004)</u>
Costs Recommended for Acceptance	<u>\$ 5,834,114</u>

#### COSTS CLAIMED BY COST CLASSIFICATION CATEGORY

	<u>Costs Claimed</u>	<u>Questioned Costs</u>
Salaries and Wages	\$8,124,910	\$3,086,765
Fringe Benefits <sup>2</sup>	2,135,515	2,135,515
Facilities and Occupancy	858,405	296,980
Electronic Data Processing Equipment	1,948,305	1,617,488
Outside Professional Services	(4,428)	0
Telephone and Telegraph	28,906	28,675
Postage and Express	1,398,707	19,771
Furniture and Equipment (not EDP)	226,132	178,723
Materials and Supplies	742,685	215,430
Travel	89,934	52,432
Return on Investment	328,160	318,889
Miscellaneous	453,336	453,336
Credits	<u>(2,092,449)</u>	<u>0</u>
TOTAL	<u>\$14,238,118</u>	<u>\$8,404,004</u>

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(1) Pension costs were not included in the scope of the audit.

See Independent Auditors' Report.

Explanation of questioned costs is provided in the Findings and Recommendations section of this report.

# GENERAL AMERICAN LIFE INSURANCE COMPANY

## Final Administrative Cost Proposal

For the Period October 1, 1997 through September 30, 1998

### Part B

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#### COSTS CLAIMED BY OPERATION

<u>Operation</u>	<u>Costs Claimed</u>
Claims Payment	\$9,384,351
Beneficiary/Phys. Inquiry	1,522,159
Reviews and Hearings	354,970
Medical Review & Utilization Review	1,094,118
Provider Education and Training	248,406
Participating Physician	240,930
Benefit Integrity	865,894
Productivity Investments	286,117
Medicare Secondary Payer	826,997
Other	<u>(2,083,552)</u>
Total Administrative Costs Claimed	\$12,740,390
Questioned Costs (See Details Below)	<u>(8,496,270)</u>
Costs Recommended for Acceptance	<u>\$ 4,244,120</u>

#### COSTS CLAIMED BY COST CLASSIFICATION CATEGORY

	<u>Costs Claimed</u>	<u>Questioned Costs</u>
Salaries and Wages	\$5,478,215	\$1,287,608
Fringe Benefits <sup>2</sup>	1,442,101	1,442,101
Electronic Data Processing Equipment	1,281,130	689,060
Subcontracts	0	0
Return on Investment	302,158	286,731
Other Direct Costs	2,772,416	1,242,848
Other Costs	0	0
Non. COB Credits	0	0
Overhead	3,488,042	3,488,042
Credits	<u>(2,083,552)</u>	0
Forward Funding	<u>59,880</u>	<u>59,880</u>
TOTALS	<u>\$12,740,390</u>	<u>\$8,496,270</u>

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(1) Pension costs were not included in the scope of the audit

See Independent Auditors' Report.

Explanation of questioned costs is provided in the  
Findings and Recommendations section of this report.

# GENERAL AMERICAN LIFE INSURANCE COMPANY

## Final Administrative Cost Proposal

For the Period October 1, 1998 through December 31, 1998

### Part B

#### COSTS CLAIMED BY OPERATION

<u>Operation</u>	<u>Costs Claimed</u>
Claims Payment	\$2,335,044
Beneficiary/Phys. Inquiry	387,159
Reviews and Hearings	102,704
Medical Review & Utilization Review	233,806
Provider Education and Training	81,809
Participation Physician	100,706
Benefit Integrity	207,898
Productivity Investments	0
Medicare Secondary Payer	189,689
Other	<u>(523,113)</u>
Total Administrative Costs Claimed	\$3,115,702
Questioned Costs (See Details Below)	<u>(2,700,519)</u>
Costs Recommended for Acceptance	<u>\$ 415,183</u>

#### COSTS CLAIMED BY COST CLASSIFICATION CATEGORY

	<u>Costs Claimed</u>	<u>Questioned Costs</u>
Salaries and Wages	\$1,324,609	\$568,763
Fringe Benefits <sup>2</sup>	335,149	335,149
Facilities	359,917	213,143
Subcontracts	0	0
Return on Investment	68,698	65,121
Other Direct Costs	719,050	686,951
Other Costs	0	0
Non. COB Credits	0	0
Overhead	171,333	171,333
G&A	660,059	660,059
Credits	<u>(523,113)</u>	<u>0</u>
TOTALS	<u>\$3,115,702</u>	<u>\$2,700,519</u>

(1) Pension costs were not included in the scope of the audit.

See Independent Auditors' Report.

Explanation of questioned costs is provided in the Findings and Recommendations section of this report.

# GENERAL AMERICAN LIFE INSURANCE COMPANY

## Final Administrative Cost Proposal

For the Period January 1, 1999 through December 31, 1999

### Termination Costs

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#### COSTS CLAIMED BY COST CLASSIFICATION CATEGORY

	<u>Costs Claimed</u>	<u>Questioned Costs</u>
Salaries and Wages	\$1,084,868	\$ 64,704
Fringe Benefits <sup>2</sup>	113,437	2,712
Facilities	207,012	83,476
Other Direct Costs	521,916	165,063
G&A	<u>9,384</u>	<u>0</u>
TOTALS	<u>\$1,936,617</u>	<u>\$ 315,955</u>

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(1) Pension costs were not included in the scope of the audit.

See Independent Auditors' Report.

Explanation of questioned costs is provided in the Findings and Recommendations section of this report.

# GENERAL AMERICAN LIFE INSURANCE COMPANY

## Supplementary Information

Summary of Costs Claimed on the Final Administrative Cost Proposals

For the Period October 1, 1993 through December 31, 1999

### COSTS CLAIMED BY COST CLASSIFICATION CATEGORY

	Costs Claimed	Total Questioned Costs	Allocation of Questioned Costs	
			10/1/93 to 12/31/98	1/1/99 to 12/31/99
Salaries and Wages	\$41,456,210	\$13,738,556	\$13,673,852	\$ 64,704
Fringe Benefits <sup>1</sup>	11,005,468	10,894,743	10,892,031	2,712
Facilities and Occupancy	3,846,294	1,255,375	1,171,899	83,476
Electronic Data Processing Equipment	7,086,441	4,898,619	4,898,619	
Subcontracts	1,781,686	0		
Outside Professional Services	396,848	7,306	7,306	
Telephone and Telegraph	564,531	124,167	124,167	
Postage and Express	8,192,394	56,982	56,982	
Furniture and Equipment (not EDP)	866,588	652,398	652,398	
Materials and Supplies	3,780,933	437,061	437,061	
Travel	391,221	250,097	250,097	
Return on Investment	1,833,878	1,789,322	1,789,322	
Miscellaneous	2,218,619	2,218,619	2,218,619	
Other	8,402,080	6,474,176	6,309,113	165,063
Credits	<u>(8,998,565)</u>	<u>0</u>		<u>0</u>
TOTALS	<u>\$82,824,626</u>	<u>\$42,797,421</u>	<u>\$42,481,466</u>	<u>\$ 315,955</u>

(1) Pension Costs were not included in the scope of this audit.

See Independent Auditors' Report.

Explanation of questioned costs is provided in the  
Findings and Recommendations section of this report.

# **FINDINGS AND RECOMMENDATIONS**

**GENERAL AMERICAN LIFE INSURANCE COMPANY**  
Findings and Recommendations  
For the Period October 1, 1993 through December 31, 1999 (Termination)

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**Indirect and Other Costs**

GALIC did not provide documentation to support the indirect costs allocated to Medicare on the FACPs. GALIC's accounting system did not retain the detail to support the percentage or amount by which cost centers were allocated to Medicare.

GALIC employed a new accounting system (MBA) during 1995. In response to our request for documentation to support the indirect costs GALIC allocated to Medicare, GALIC provided the following description of their cost accounting system. "From 1996 through 1999 the MBA system provided the vehicle to allocate expenses to Medicare. This process started with the cost centers that provided services to Medicare and allocated a percentage of their time to them. The normal process was to bill Medicare at a standard rate through the ledger then true up the standard cost to get an actual allocation. In order to do this true up, the expenses by cost center were moved to the Medicare control entity on MBA. The movement of these expenses from one ledger to another on MBA was done automatically through the system, but at the same time the original cost center identity was lost. When the expenses were entered on the Medicare ledger, the cost center showed up as allocated and did not keep the original costs center identity. Consequently, we can not provide the breakdown by cost center but only by account number. We can show the cost centers that had percents allocated to Medicare, but we do not have the history of the Medicare percents anywhere on the system. The calculation of the percents was done by the system and automatically allocated to Medicare."

As GALIC could not provide documentation to support the history of the Medicare percents, nor the breakdown of costs by center, we were unable to determine that the costs claimed were reasonable and allowable. We were able to audit portions of direct costs GALIC reported on its FACPs. However, as some direct costs were derived from allocated indirect costs, neither could we determine the reasonableness and allowability of these amounts, as described below.

***Facilities and Occupancy***

GALIC included amounts on its FACPs, for facilities which included depreciation, return on investment, utilities, property taxes, insurance, and maintenance. Facilities costs were recorded in GALIC's accounting system monthly by the use of a standard journal entry based on a standard amount per square foot and the square footage occupied by each direct cost center. The standard journal entry was then adjusted to reflect actual facilities costs at year end. The detail of facilities costs and square footage for direct cost centers was provided by GALIC. GALIC did not provide information which supported facilities charged for indirect costs. The facilities charges for indirect assets has been recommended for disallowance.

# GENERAL AMERICAN LIFE INSURANCE COMPANY

## Findings and Recommendations

For the Period October 1, 1993 through December 31, 1999 (Termination)

### *Electronic Data Processing*

GALIC included amounts on its FACPs for electronic data processing costs. Electronic data processing (EDP) costs consisted of expenses for depreciation on EDP equipment, software purchases and leases and allocated costs from GALIC's data center. Depreciation on EDP equipment in direct cost centers was reviewed; however, adequate supporting detail for allocated amounts included in EDP costs from GALIC's data center was not provided for review. The EDP charges for expenses allocated from the data center have been recommended for disallowance.

### *Depreciation*

GALIC provided depreciation schedules which detailed the depreciation for EDP equipment and furniture and fixtures attributable to assets used solely by Medicare. GALIC did not provide depreciation schedules which supported depreciation charged for indirect assets. The depreciation for indirect assets has been recommended for disallowance.

### *Other Costs*

GALIC provided accounting records which supported the amounts claimed for direct costs in the areas of Outside Professional Services, Telephone and Telegraph, Postage, Materials and Supplies, and Travel. A sample of invoices from these accounts, charged to direct cost centers, was reviewed. Three invoices contained charges which were not allocable to Medicare, two invoices charged to Medicare during the 1995 fiscal year which included unallowable expenses totaling \$195 and one invoice for \$456 charged to Medicare during the 1998 fiscal year for expenses attributable to an employee who was not a Medicare employee.

### *Indirect Costs*

As GALIC could not provide the amounts accumulated in the indirect cost centers or the percentages with which Medicare was allocated indirect costs, we were unable to audit the indirect costs claimed by GALIC on their FACPs. The indirect costs claimed by GALIC were as follows:

	FISCAL YEARS						Total
	1994	1995	1996	1997	1998	1999	
Salaries and Wages	2,908,844	2,844,073	2,977,799	3,086,765	1,287,608	568,763	13,673,852
Facilities and Occupancy	203,960	224,412	233,404	296,980		213,143	1,171,899
EDP Equipment	660,961	701,252	1,229,858	1,617,488	689,060		4,898,619
Outside Professional Services		5,091	2,215				7,306
Telephone and Telegraph		71,411	24,081	28,675			124,167
Postage and Express	11,896	12,234	13,081	19,771			56,982
Furniture and Equipment	186,012	125,557	162,106	178,723			652,398
Materials and Supplies		3,710	217,921	215,430			437,061
Travel	31,101	101,315	65,249	52,432			250,097
Other - Not Classified					4,790,770	1,518,343	6,309,113
Total Questioned Costs	4,002,774	4,089,055	4,925,714	5,496,264	6,767,438	2,300,249	27,581,494

# GENERAL AMERICAN LIFE INSURANCE COMPANY

## Findings and Recommendations

For the Period October 1, 1993 through December 31, 1999 (Termination)

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The Federal Acquisition Regulations, Part 31.201-(2) require that "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 in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed costs which is inadequately supported."

### Recommendation

We recommend that GALIC provide documentation to support indirect costs or exclude \$27,581,494 of indirect costs from the FACPs for the period October 1, 1993 through December 31, 1998.

### Auditee's Response

In response to our draft report, GALIC questioned how costs were classified as indirect costs in this finding, stating that some of the costs were in fact direct costs. GALIC responded that another extension of CBTC's fieldwork at the GALIC offices might have provided additional information that could have resolved some of the confusion over what was direct and indirect costs.

### Auditor's Conclusion

GALIC failed to provide sufficient additional information in their response to our draft report which would allow us to accept the costs claimed on the FACPs which is questioned in this finding. Some costs may not have been appropriately labeled in the draft report; however, because of the limited documentation GALIC provided during our audit, the distinction between costs as direct or indirect was not always possible. Only those costs that could be identified and audited were included for acceptance in this report, all other costs were questioned. The semantics over whether they were direct or indirect costs is irrelevant. FAR 31.202(b) states "For reasons of practicality, any direct cost of minor dollar amount may be treated as indirect cost if the accounting treatment (1) is consistently applied to all final cost objectives; and (2) Produces substantially the same results as treating the cost as a direct cost." GALIC's suggestion that an extension of fieldwork would have resolved whether costs were direct and indirect is also irrelevant. While GALIC asserts that additional information could have been provided had an additional field visit been conducted, the support for the costs being questioned was first requested prior to the beginning of fieldwork in the letter confirming the entrance conference, continually throughout the audit and again in the draft audit report. If the information to support the costs questioned in this finding was available, GALIC was given ample opportunity to provide the documentation requested. We continue to recommend that GALIC exclude \$27,581,494 of indirect costs from the FACPs for the period October 1, 1993 through December 31, 1998.

Appendix B contains GALIC's summary of their response to the draft audit report. Of note, the response indicates that information regarding indirect costs will be provided in Volume III; however, Volume III is labeled "N/A" and a Volume III was not provided.

**GENERAL AMERICAN LIFE INSURANCE COMPANY**  
**Findings and Recommendations**  
For the Period October 1, 1993 through December 31, 1999 (Termination)

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**Fringe Benefits**

GALIC provided various fringe benefits to its employees. GALIC was the self-insurer for fringe benefits such as health insurance, dental insurance, etc. We requested documentation to support the amounts expended by GALIC for fringe benefit costs and the amounts allocated to Medicare for fringe benefit costs.

We were provided with the Form 5500, Annual Return/Report of Employee Benefit Plan, filed with the Internal Revenue Service for the years 1993 through 1998. These forms indicate that employees of GALIC were provided with life, long-term disability and medical insurance benefits. Part III of the Form 5500 detail the premiums charged to GALIC, the claims paid by GALIC, the increase/decrease in claim reserves, other expenses associated with providing the benefits and the status of policyholder reserves at the end of the year. The Part III sections of the Form 5500s reported premiums charged in excess of claims paid and other expenses of approximately \$1.9 million for the period covering the calendar years from 1993 through 1998. From the information provided by GALIC, we could not determine the amount of fringe benefit expenses which were properly allocable to Medicare. Also, we requested, but GALIC did not provide, information regarding the amount of fringe benefits charged per cost center.

GALIC also provided other benefits to its employees in the form of a profit sharing plan. We requested, and were provided with the Form 5500s for the Progress Sharing Plan and Trust for the years 1993 through 1998. We requested, but were not provided with the amounts which were allocated to Medicare from each cost center per year, as a percentage of total expenditures. GALIC provided a summary schedule and written explanation of the progress sharing methodology but no further details. Without the requested information regarding the allocation of progress sharing expenses by cost center, we could not determine whether the amount of progress sharing allocable to Medicare was reasonable, allowable or allocable.

GALIC also provided its employees with pension benefits. The audit of GALIC's pension plan was not within the scope of our audit. However, we were not able to determine and report on the amount of pension benefits allocated to Medicare due to the lack of information as described above.

The costs claimed on the FACPs for fringe benefits were as follows:

	FISCAL YEARS						Total
	1994	1995	1996	1997	1998	1999	
Total Questioned Costs	2,310,760	2,255,340	2,413,166	2,135,515	1,442,101	335,149	10,892,031

**Recommendation**

We recommend GALIC provide documentation which demonstrates that the amounts allocated to Medicare for fringe benefits are based on actual costs and provide documentation of the costs allocated by cost center or exclude \$10,892,031 in costs from its FACPs for the period October 1, 1993 through December 31, 1998.

**GENERAL AMERICAN LIFE INSURANCE COMPANY**  
**Findings and Recommendations**  
For the Period October 1, 1993 through December 31, 1999 (Termination)

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Auditee's Response

In response to our draft report, GALIC stated that the data necessary to audit GALIC's direct costs of fringe benefits and progress sharing for all fiscal years had been provided. GALIC also provided detailed transaction reports showing the direct costs of fringe benefits charged to each Medicare cost center for the period November 1998-January 1999.

Auditor's Conclusion

GALIC failed to provide sufficient additional information in their response to our draft report which would allow us to accept the costs claimed on the FACPs which is questioned in this finding. GALIC provided three months of the report which was requested for the duration of the audit period. This report would be needed for all months of the audit, as well as a reconciliation of actual total costs for the year for fringe benefits as compared to what was allocated to Medicare throughout the year would be needed. We continue to recommend that GALIC exclude \$10,892,031 in costs from its FACPs for the period October 1, 1993 through December 31, 1998.

Return on Investment

GALIC provided details of the corporate calculation of ROI but did not provided documentation to support the amounts reported on the FACPs for the average undepreciated balance of Medicare assets. We recalculated ROI based on the depreciation schedules and investment income information provided by GALIC, as follows:

	FY1994	FY1995	FY1996	FY1997	FY1998	FY1999	Total
Average Value of Undepreciated Medicare Assets	57,703	57,703	77,895	129,486	234,665	234,665	
Rate of Return*	6.60%	10.40%	8.31%	7.16%	6.57%	1.52%	
ROI	3,807	5,999	6,475	9,271	15,427	3,577	44,556
ROI Claimed	356,128	396,736	381,998	328,160	302,158	68,698	1,833,878
Questioned ROI	352,321	390,737	375,523	318,889	286,731	65,121	1,789,322

(\*) Portfolio Rate of Return was calculated based upon quarterly rates of return as follows:

1st Qtr	1.68475%	1.02241%	3.40999%	1.96329%	1.80990%	1.52425%
2nd Qtr	1.78545%	3.19228%	1.73474%	1.68446%	1.69253%	
3rd Qtr	1.67053%	3.13531%	1.77235%	1.74238%	1.54758%	
4th Qtr	1.45682%	3.04688%	1.39540%	1.76996%	1.52425%	
Total	6.59755%	10.39688%	8.31248%	7.16009%	6.57426%	1.52425%

**GENERAL AMERICAN LIFE INSURANCE COMPANY**  
**Findings and Recommendations**  
For the Period October 1, 1993 through December 31, 1999 (Termination)

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Recommendation

We recommend GALIC provide documentation to support the amount claimed for ROI on its FACPs or adjust its FACPs by \$1,789,322.

Auditee's Response

In response to our draft report, GALIC agreed that appropriate support is required for the ROI, stating that CMS has required that ROI be set out as a separate line item on the Carrier's FACPs, and as such GALIC is providing such support. GALIC states that returns on indirect assets and on rent, both direct and indirect, were not properly included in the calculation of ROI in the audit report.

Auditor's Conclusion

GALIC failed to provide sufficient additional information in their response to our draft report which would allow us to accept the costs claimed on the FACPs which is questioned in this finding. Part X of Appendix B of the Medicare Agreement is specific as to the computation of cost of investment for land and tangible depreciable assets that are owned by the corporation and used for Medicare purposes. GALIC did not calculate cost of investment in accordance with the Appendix B of the Medicare Agreement. Additionally, the information provided by GALIC in response to the findings in the draft report was listings of journal entries made to various accounts and reclassification of rent information, not information which could be used to determine that the amounts used to compute and support the amount claimed on the FACPs for ROI were appropriate, adequately supported, allowable and allocable.

Miscellaneous

GALIC was requested to provide the details of the expense items included in the Miscellaneous category of the FACPs. GALIC provided a listing of the total amounts of each expense category included in the Miscellaneous cost component; however, GALIC did not provide transaction level detail sufficient to allow the selection of and testing of a sample of transactions. The miscellaneous costs for which sufficient information was not provided was:

The costs claimed on the FACPs for miscellaneous costs were as follows:

	FISCAL YEARS					Total
	1994	1995	1996	1997	1998	
Total Questioned Costs	1,012,751	292,414	460,118	453,336		2,218,619

Recommendation

We recommend GALIC provide transaction details of the Miscellaneous costs contained in the FACPs at a level sufficient for a sample of transactions to be pulled for testing. The invoices selected would then need to be provided for review and explanations provided for any items to which the relevancy to

**GENERAL AMERICAN LIFE INSURANCE COMPANY**  
Findings and Recommendations  
For the Period October 1, 1993 through December 31, 1999 (Termination)

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Medicare was not apparent. If GALIC can not provide the details, at the transaction level, of the costs included in the Miscellaneous cost component of the FACPs, then GALIC should exclude miscellaneous costs of \$2,218,619 from its FACPs.

Auditee's Response

In response to our draft report, GALIC agreed that "transactional details should be provided and does so in this section of its Response." GALIC stated that they would select a sample for testing and will provide the results of this work promptly upon completion.

Auditor's Conclusion

In their response, GALIC failed to provide sufficient additional information to our draft report which would allow us to accept the costs claimed. Transaction level detail reports were provided for the years 1996 through 1999. The summary schedule indicated that the detail provided did not agree to the amounts claimed. The schedule is included in the audited's response section of this report.

The description on the transactions in the reports provided were not in sufficient detail to allow us to determine whether the amounts were of a nature, type and amount which would be reasonable, allowable and allocable to Medicare. Examples of the descriptions of the line items included on these reports are: "Alloc. Of indirect overhead from," "Allocation of direct overhead(F," "Allocation of I/S Actuals to Proj," and "Reverse Incorrect Posting." We continue to recommend that GALIC exclude miscellaneous costs of \$2,218,619 from its FACPs.

Termination Costs

GALIC ceased processing Medicare claims at the end of December 1998 and claimed termination costs of \$1,936,617 for the period from January 1999 through December 1999. Costs incurred during termination were reported on a voucher and were tested separately from costs incurred under performance of the contract. With respect to costs incurred during termination, the following costs are questioned.

Salaries:	Justification for salary of Medicare Employee	\$ 73,963
	Justification for salary of Medicare Employee	120,291
	Justification for salary of Medicare Employee	
	September through December 1999	28,988
MIP Incentives:	Incorrect fiscal year	81,361
Special Bonus:	Not an allocable expense	367,616

# GENERAL AMERICAN LIFE INSURANCE COMPANY

## Findings and Recommendations

For the Period October 1, 1993 through December 31, 1999 (Termination)

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Severance:	Part time employees received excess severance pay:	4,447
Temporary Help:	Amount not supported	2,722
	Incorrect Fiscal Year	36,827
Payroll Taxes:	7.65% for FICA. .8% for FUTA on applicable wage base and .8% for SUI on applicable wage base:	41,942
Fringe Benefits:	Amount not supported	18,176
Rent:	Rent allocated for February and March is excessive. Rent could have been avoided if CMS had been notified of GALIC's intent to charge for rent due to assets remaining in space:	83,476
Non EDP Equip Svcs:	Incorrect Fiscal Year	4,167
Rental Non-EDP:	Amount not supported	6,479
	Incorrect Fiscal Year	336
Printing and supplies:	Amount not supported	1,605
	Incorrect Fiscal Year	9,283
Postage Service:	Amount not supported	2,134
	Incorrect Fiscal Year	6,005
Freight Service:	Amount not supported	1,285
	Incorrect Fiscal Year	1,005
Travel - General:	Amount not supported	943
Business Meals:	Amount not supported	348
	Incorrect Fiscal Year	3,843
Reproduction Exp:	Amount not supported	21
EDP Equipment Maintenance:	Amount not supported	49
Outside Purchased Software:	Incorrect Fiscal Year	20,278
Info-Tech Consulting charge:	No consulting agreement provided. Entity is a related party.	51,232
Medical Exam Fees:	Incorrect Fiscal Year	1,208

**GENERAL AMERICAN LIFE INSURANCE COMPANY**

Findings and Recommendations

For the Period October 1, 1993 through December 31, 1999 (Termination)

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Miscellaneous Expenses: Incorrect Fiscal Year	<u>64,268</u>
Total Termination Costs Recommended for Disallowance	<u>\$1,034,298</u>

Auditee's Response

In response to our draft report, GALIC provided additional information with regards to the termination costs claimed. GALIC submitted its termination costs proposal of \$1,936,617 in February 2000. GALIC's response was as follows:

Salaries: GALIC agreed that \$16,036, all attributable to a Medicare employee's salary, was in fact not allowable.

MIP Incentives: GALIC disagreed with the disallowance of \$81,361 due to incorrect fiscal year.

Special Bonus: GALIC disagreed that \$367,616 was not an allocable expense paid to Medicare employees.

Severance: GALIC disagreed that part time employees were paid excess severance pay of \$4,447 but part time employees should have been paid a severance amount of \$3,558.

Temporary Help: GALIC, stated that \$2,722 in invoices supporting these costs were not included and \$36,827 costs of temporary help for claims processing paid in the contract Fiscal Year 1999 and included in GALIC's FACP for that year.

Payroll Taxes: GALIC disagreed with the disallowance of \$41,942, stating that some \$39,763 was allowable.

Fringe Benefits: GALIC disagreed with the disallowance of \$18,176 due to support for this item not being provided, support was included with response for \$16,760 is allocable.

Rent: GALIC disagreed with the disallowance of \$83,476, on the grounds that rent could have been avoided if CMS had been notified of GALIC's intent to charge rent to assets remaining in space.

Non-EDP Equipment Services: GALIC disagreed with the disallowance of \$4,167 on grounds of incorrect fiscal year.

Rental Non-EDP: GALIC provided supporting invoices for costs of \$6,479 and GALIC disagreed with the disallowance of \$336 in costs attributable to the "Incorrect Fiscal Year".

Printing & Supplies: GALIC provided supporting invoices for costs of \$1,605 and GALIC disagreed with the disallowance of \$9,283 in costs attributable to the "Incorrect Fiscal Year", which were incurred in the last quarter of 1998.

**GENERAL AMERICAN LIFE INSURANCE COMPANY**  
Findings and Recommendations  
For the Period October 1, 1993 through December 31, 1999 (Termination)

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Postage Services: GALIC provided supporting invoices for costs of \$2,314 and GALIC disagreed with the disallowance of \$6,005 in costs attributable to the "Incorrect Fiscal Year," which were incurred in the last quarter of 1998.

Freight Service: GALIC provided supporting invoices for costs of \$1,285 and GALIC disagreed with the disallowance of \$1,005 in costs attributable to the "Incorrect Fiscal Year", which were incurred in the last quarter of 1998 but paid in 1999.

Travel: GALIC provided supporting invoices for costs of \$943.

Business Meals: GALIC provided supporting invoices for costs of \$348 and GALIC disagreed with the disallowance of \$3,843 in costs attributable to the "Incorrect Fiscal Year", were incurred in the last quarter of 1998 but paid in 1999.

Reproduction Expenses: GALIC located the invoice but determined that the invoice was not related to Medicare, and agreed with the disallowed costs.

EDP Equipment Maintenance: GALIC provided supporting invoices for costs of \$49.

Outside Purchase of Software: GALIC disagreed with the disallowance of \$20,278 in costs attributable to the "Incorrect Fiscal Year", costs incurred during October through December 1998, but paid in 1999.

Info-Tech Consulting: There is no formal agreement between NTC and GALIC, NTC is a subsidiary of GALIC. Services are considered "in-house" and provided on an "as needed" basis and are billed at an in-house rate based on cost.

Medical Fees: GALIC disagreed with the disallowance of \$1,208 on the grounds they were attributable to "Incorrect Fiscal Year", services incurred during October through December 1998 but were paid in 1999.

Miscellaneous Expenses: GALIC disagreed with the disallowance of \$64,268 in costs attributable to the "Incorrect Fiscal Year". Invoices from six vendors were for services incurred during October through December of 1998, paid in 1999, but were not filed with the 1999 FACF.

**GENERAL AMERICAN LIFE INSURANCE COMPANY**  
**Findings and Recommendations**  
For the Period October 1, 1993 through December 31, 1999 (Termination)

Costs	Amount Questioned in Draft Report	Amounts Accepted Based on Additional Documentation	Revised Questioned Costs
Salaries	\$223,242	\$201,726	\$21,516
MIP Incentives	81,361	81,361	0
Special Bonus	367,616	367,616	0
Severance	4,447	494	3,953
Temporary help	39,549	314	39,235
Payroll Taxes	41,942	39,230	2,712
Fringe Benefits	18,176	18,176	0
Rent	83,476	0	83,476
Non EDP Equip Svcs	4,167	0	4,167
Rental Non-EDP	6,815	6,449	366
Printing and Supplies	10,888	317	10,571
Postage Service	8,139	40	8,099
Freight Service	2,290	980	1,310
Travel - General	943	35	908
Business Meals	4,191	348	3,843
Reproduction Exp	21	0	21
EDP Equipment Maintenance	49	49	0
Outside Purchased Software	20,278	0	20,278
Info-Tech Consulting	51,232	0	51,232
Medical Exam Fees	1,208	1,208	0
Miscellaneous Expenses	64,268	0	64,268
Totals	<u>\$1,034,298</u>	<u>\$718,343</u>	<u>\$315,955</u>

**Auditor's Conclusion**

GALIC failed to provide sufficient additional information in their response to our draft report which would allow us to accept all of the costs claimed on the FACPs which is questioned in this finding.

**GENERAL AMERICAN LIFE INSURANCE COMPANY**  
Findings and Recommendations  
For the Period October 1, 1993 through December 31, 1999 (Termination)

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GALIC's response to the overall finding involved a discussion on the allocability of costs to Medicare based on the benefit or equitable relationship to Medicare and not when the costs were incurred. Costs must be reasonable, allowable and allocable. Some of the costs claimed in the termination contract may have been allocable to Medicare; however, the costs were charged to the termination contract when in fact they should have been claimed for reimbursement in a prior period where the costs may not have been reimbursable due to budget or other restraints. The revision of prior period FACP's for misreported costs is a matter which must be resolved between CMS and GALIC.

**Salaries:** Compensation is allowed for two Medicare employees based on the additional information provided. GALIC agreed that one Medicare employee's salary from September 26 through December 31, of \$19,426 was unallowable as was vacation pay of \$2,090.

**MIP Incentives:** These costs will be allowed based on the additional information provided by GALIC.

**Special Bonus:** These costs will be allowed based on the additional information provided by GALIC.

**Severance:** Based on the additional information provided by GALIC, the questioned costs have been reduced from \$4,447 to \$3,953.

**Temporary Help:** Based on the additional information provided by GALIC, the questioned costs for unsupported invoices has been reduced from \$2,722 to \$2,408. We continue to recommend that GALIC remove \$36,827 from the termination period costs as these costs should have been claimed in the 1999 fiscal year FACP and not in the termination contract.

**Payroll Taxes:** Based on the additional information provided by GALIC, the questioned costs have been reduced from \$41,942 to \$2,712.

**Fringe Benefits:** Fringe benefit costs are not being questioned. Fringe benefit costs were audited in a separate audit conducted by the HHS-OIG and are not included in the scope of our audit.

**Rent:** The rent costs remain questioned, GALIC failed to provide CMS with a termination budget prior to incurring termination costs which would have given CMS the opportunity to remove the furniture and equipment from the space in a more timely fashion. We continue to recommend that GALIC remove \$83,476 in rent costs.

**Non-EDP Equipment Services:** We continue to recommend that GALIC remove \$4,167 from the termination period costs as these costs should have been claimed in the 1999 fiscal year FACP and not in the termination contract.

**Rental Non-EDP:** Based on the additional information provided by GALIC, the questioned costs for the unsupported expenses have been reduced from \$6,479 to \$0. We do continue to recommend that GALIC remove \$366 from the termination period costs as these costs should have been claimed in the 1999 fiscal year FACP and not in the termination contract.

# GENERAL AMERICAN LIFE INSURANCE COMPANY

## Findings and Recommendations

For the Period October 1, 1993 through December 31, 1999 (Termination)

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**Printing & Supplies:** Based on the additional information provided by GALIC, the questioned costs have been reduced from \$1,605 to \$1,288. We continue to recommend that GALIC remove \$9,283 from the termination period costs as these costs should have been claimed in the 1999 fiscal year FACP and not in the termination contract.

**Postage Services:** Based on the additional information provided by GALIC, the questioned costs have been reduced from \$2,134 to \$2,094. We continue to recommend that GALIC remove \$6,005 from the termination period costs as these costs should have been claimed in the 1999 fiscal year FACP and not in the termination contract.

**Freight Service:** Based on the additional information provided by GALIC, the questioned costs have been reduced from \$1,285 to \$305. We continue to recommend that GALIC remove \$1,005 from the termination period costs as these costs should have been claimed in the 1999 fiscal year FACP and not in the termination contract.

**Travel:** Based on the additional information provided by GALIC, the questioned costs have been reduced from \$943 to \$908.

**Business Meals:** Based on the additional information provided by GALIC, the questioned costs have been reduced from \$348 to \$0. We continue to recommend that GALIC remove \$3,843 from the termination period costs as these costs should have been claimed in the 1999 fiscal year FACP and not in the termination contract. CBT agreed with support documentation for reported costs.

**Reproduction Expenses:** GALIC agreed that the \$21 was not allocable to Medicare and we continue to recommend that these costs be excluded from the termination contract.

**EDP Equipment Maintenance:** Based on the additional information provided by GALIC, the questioned costs have been reduced from \$49 to \$0.

**Outside Purchase of Software:** We continue to recommend that GALIC remove \$20,278 from the termination period costs as these costs should have been claimed in the 1999 fiscal year FACP and not in the termination contract.

**Info-Tech Consulting:** We continue to recommend that GALIC exclude \$51,232 in consulting services. The consulting costs would be allowable in accordance with FAR 31.205.26 (e); however, the information which would establish that the costs were in accordance with this section of the FAR, specifically "Allowance for services that are sold or transferred between subsidiaries on the basis of cost incurred," was not provided. The subsidiary invoiced GALIC based on a fixed rate per day and no cost support or justification was provided.

**Medical Fees:** Based on the additional information provided by GALIC, the questioned costs have been reduced from \$1,208 to \$0.

**GENERAL AMERICAN LIFE INSURANCE COMPANY**  
Findings and Recommendations  
For the Period October 1, 1993 through December 31, 1999 (Termination)

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Miscellaneous Expenses: We continue to recommend that GALIC remove \$64,268 from the termination period costs as these costs should have been claimed in the 1999 fiscal year FACP and not in the termination contract.

In summary, we recommend that GALIC exclude \$315,955 from its termination voucher.

**Executive Compensation**

Section 808 of Public Law 105-85 limited, for fiscal years 1997 and after, 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 wages plus elective deferrals before any allocations are applied, was limited to \$250,000 for 1997 and \$340,650 for 1998.

The top five executives for GALIC were paid salaries in excess of the amounts to which allocable compensation is limited. Additional information regarding the amounts allocated to Medicare would be necessary to determine whether executive compensation had been properly limited prior to the allocation to Medicare per Public Law 105-85 (See the Indirect Costs Finding).

Prior to Public Law 105-85, the reasonableness of executive compensation was compared against the increase in the Employment Cost Index (ECI). The increases in executive's compensation did exceed the year-to-year ECI increase for the period from 1994 to 1997. The amount by which the excess executive compensation was allocated to Medicare; however, could not be determined (See the Indirect Costs Finding).

**Recommendation**

We recommend that GALIC provide documentation to demonstrate that the allocation of indirect salaries for executive compensation was limited to the amounts allowed by Section 808 of Public Law 105-85 or was at or less than the year-to-year ECI increases prior to 1997 when Public Law 105-85 became effective.

**Auditee's Response**

In response to our draft report, GALIC agreed that excess executive compensation as allowed by Section 808 of Public Law 105-85 was included in the FACP's for fiscal year 1997 of \$69,321, for fiscal year 1998 of \$86,923 and for fiscal year 1999 of \$46,313. GALIC disagreed with the portion of the finding as it related to costs in excess of the ECI indicating that the amount of compensation paid, not the year to year increase, should be a measure of reasonableness.

**GENERAL AMERICAN LIFE INSURANCE COMPANY**  
Findings and Recommendations  
For the Period October 1, 1993 through December 31, 1999 (Termination)

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Auditor's Conclusion

GALIC's calculation of the executive compensation used amounts which did not agree to the Supplemental Compensation Exhibit (Page 911) filed with the Missouri State Insurance Commissioner's Office for the years 1997 through 1999. Using the amounts reported on the Supplemental Compensation Exhibit and the percentages of executive salaries allocated to Medicare, we recomputed the executive compensation in excess of the amounts allowed by Section 808 of Public Law 105-85, for which we recommend that these costs be excluded from the FACPS, to be \$105,486 for fiscal year 1997, \$96,811 for fiscal year 1998 and \$49,538 for fiscal year 1999. While terminology regarding the ECI index was inadvertently incorrect in the draft audit report, we continue to recommend that GALIC limit the costs claimed for executive compensation for fiscal years 1994 through 1996 to the reasonable increases as computed by the ECI. GALIC included a copy of CMS' Risk Assessment Review performed in June 1995 in which GALIC was notified that executive compensation was compared to the Employment Cost Index.

Audit Cooperation

Our audit of GALIC was scheduled to be conducted from November 16, 1998 through the end of January 1999. Often, when documentation was requested, GALIC would not provide the documentation when requested. When information was finally provided, the information was not complete or would be an example of information requested with comments that further details were to come later. The detailed information would then be requested; however, this information was not provided later.

One example of information not timely provided which significantly contributed to the questioned costs increased the duration of our audit was a reconciliation of the costs charged on the FACPs to GALIC's official accounting records, with support for any adjustments made. This information was not provided by GALIC for each year of the audit.

GALIC's lack of cooperation with our audit significantly increased the time incurred to perform and the duration of our audit. We often informed GALIC as to the items which were outstanding both orally and in writing. The personnel to whom GALIC designated as our contacts did not appear to have the time available to efficiently coordinate our audit.

Auditee's Response

In response to our draft report, GALIC stated that they had provided adequate cooperation. GALIC did agree that the company was unquestionably encountering difficulties locating documents due to the many institutional issues the company experienced in 1999, most importantly the departure of key personnel.

**GENERAL AMERICAN LIFE INSURANCE COMPANY**  
Findings and Recommendations  
For the Period October 1, 1993 through December 31, 1999 (Termination)

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Auditor's Conclusion

GALIC, from the first days of the audit, did not provide requested documentation. A listing of items necessary to begin the audit accompanied the letter sent on October 29, 1998 confirming the entrance conference date of November 16, 1998. The entrance conference letter stated "We would like to obtain or have access to these documents when we arrive to begin fieldwork on November 16, 1998." The type of documentation requested was, for example: "Most recent auditors' reports. All ledgers and accounting data that support the administrative costs charged to Medicare." Immediately following the entrance conference, no documents or records were available for our audit team to begin fieldwork. By the end of the second day of fieldwork, we had received only two personnel manuals which had been requested in the listing sent with the entrance conference letter. By the end of the second day of fieldwork, a detailed and comprehensive additional listing of 27 items needed to begin the audit was given to GALIC Medicare personnel. Some of this information also was not provided by the auditee throughout the audit. After our initial weeks of fieldwork, we pulled off the audit on December 3, 1998, leaving a comprehensive list of items which had been requested and not yet received, asking that these items be ready and available for our auditors upon return on January 4, 1999. Upon our auditors return to GALIC on January 4, 1999, little of the information previously requested was ready and available for review. All information that had been made available was reviewed and with no more information provided to assist us in our audit, the auditors concluded fieldwork until such time as the cost report for the termination period was filed. The cost report for the termination period was not filed by GALIC until February 15, 2000 after CMS officials set a deadline for GALIC to file the report and provide supporting documentation. The decision to handle the termination cost audit off-site rather than on-site was discussed with HHS officials and made in light of the previous failure by GALIC to provide information. That is the reason the auditors did not return to GALIC after January 1999. A few items of documentation were provided over this period and after discussions with HHS officials, we requested that we be allowed to conclude our audit based on the information provided to date. A draft report was prepared and submitted to the appropriate officials for review. After numerous revisions, a draft report was approved for release to GALIC, the timing of the issuance of the draft report was not within our control. Another opportunity was given to GALIC to provide the documentation previously requested in response to our draft report. GALIC requested additional time to respond to the draft report which was granted. However, complete and adequate documentation was again not provided. Appendix A provides a summary of our formal written document requests to GALIC.

Appropriate HHS officials were made aware of the status of the audit as it progressed, especially the extreme difficulties experienced in obtaining documentation. Our progress with regard to the audit was monitored and we requested guidance from HHS officials as necessary throughout the audit. GALIC would not have been aware of this interaction.

**GENERAL AMERICAN LIFE INSURANCE COMPANY**  
**OTHER MATTERS**  
For the Period October 1, 1995 through September 30, 1998

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**Complementary Insurance Financial Policies**

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

**Significant EDP Expenditures**

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

**GENERAL AMERICAN LIFE INSURANCE COMPANY**

**APPENDIX A**

**Summary of Requested Documents**

For the Period October 1, 1995 through September 30, 1998

The following list summarizes the dates on which information was requested from GALIC.

Documents/Items Requested	Date Requested
Entrance Conference Notification Letter requesting initial testwork items sent to auditee	October 29, 1998
On-site, list provided to comprehensive detailed list of items needed during fieldwork provided to auditee	November 16, 1998
On-site conducting fieldwork	Weeks of: November 16, 1998 November 30, 1998
Recap of information requested but not received to date provided to auditee	December 3, 1998
On-site conducting fieldwork	Weeks of: January 4, 1999 January 11, 1999
Notice of Insufficient Documentation issued for major items not received to date	January 14, 1999
Fax to auditee detailing the invoices requested, but not provided for the auditors while on site.	January 22, 1999
Letter to auditee requesting items not received.	February 24, 1999
Letter to auditee regarding additional time to comply with request for documentation	February 26, 1999
Fax to auditee concerning items received from General American in response to our February 24, 1999 letter	March 1, 1999
E-mail to/from auditee concerning depreciation schedules, fixed asset schedules, etc.	March 2, 1999
Fax to auditee regarding information needed for the reconciliations of the FACPs to the general ledger.	March 2, 1999
Fax to auditee on report layout needed to verify direct/indirect costs allocated to Medicare. Example schedules were prepared and given to auditee on November 16, 1998.	March 23, 1999

GENERAL AMERICAN LIFE INSURANCE COMPANY  
APPENDIX B  
AUDITEES' RESPONSE  
For the Period October 1, 1995 through September 30, 1998

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July 30, 2001

Barry C. Cooper, CPA, FLMI  
Vice President  
Finance

Via Facsimile and Federal Express  
(678-443-9700)

Ms. Diana Crawford, CPA  
Carmichael, Brasher, Tuvell & Company  
Dunwoody Exchange  
1647 Mount Vernon Road  
Atlanta, GA 30338

Re: Response of General American Life Insurance Company to Draft Audit Report on  
Administrative Costs Incurred Under GA's Medicare Part B Carrier Contract

Dear Ms. Crawford:

This letter forwards the response of General American Life Insurance Company (GA) to the above Draft Audit Report prepared by your firm which you forwarded to GA by letter dated February 26, 2001 (hereinafter GA's Response or GA Response). As you know, GA's Response to the Draft Audit Report is due Tuesday, July 31, 2001. We are therefore delivering GA's Response on time.

The GA Response package sent you today consists of ten volumes that, in turn, are made up of twelve binders. Thus, we are sending you a total of 24 binders constituting two sets of the GA Response. I believe the GA Response is self-evident as to its structure and organization. However, please feel free to call me if you have any questions.

Sincerely,

A handwritten signature in cursive script, appearing to read "Barry Cooper".

Barry Cooper  
Vice President - Finance

cc: Robin Magwood  
HCFA/CMS Audit Liaison (w/encl. Vol. 1-10)  
Terry Eddleman  
H&HS IG (w/encl. Vol. 1-10)  
Jeffrey Robbins, Esq.  
Business and Administrative Law Division  
Office of General Counsel  
H&HS (w/encl. Vol. 1-10)  
Kathy Markham  
Contracting Officer (w/encl. Vol. 1 only)

GENERAL AMERICAN LIFE INSURANCE COMPANY  
APPENDIX B  
AUDITEES' RESPONSE  
For the Period October 1, 1995 through September 30, 1998

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Miscellaneous Costs (“MC”)  
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Executive Compensation (“EC”)  
Audit Cooperation (“AC”)  
GA’s Affirmative Support for Costs Claimed in FY 1994 through First Quarter  
FY 1999 (October 1, 1993 – December 31, 1998) (“ASC”)

VOLUME 2

Internal Controls (“INC”) With Exhibits and Supporting Schedules

VOLUME 3

Indirect Costs (“IC”) N/A

VOLUME 4

FY 1994 Costs (“1994 Costs”) and Fringe Benefits With Exhibits and Supporting  
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VOLUME 5

Return on Investments (“ROI”) With Exhibits and Supporting Schedules

VOLUME 6

Miscellaneous Costs (“MC”) With Exhibits and Supporting Schedules

VOLUME 7<sup>1</sup>

Termination Costs (“TC”) With Exhibits and Supporting Schedules

GENERAL AMERICAN LIFE INSURANCE COMPANY  
APPENDIX B  
AUDITEES' RESPONSE  
For the Period October 1, 1995 through September 30, 1998

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VOLUME 8

Executive Compensation ("EC") With Exhibits and Supporting Schedules

VOLUME 9

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GA's Affirmative Support for Costs Claimed in FY 1994 through First Quarter FY 1999  
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Schedules

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<sup>1</sup> Volume 8, Termination Costs has three binders marked, respectively, Volume 8, T-1, Volume 8, T-2, Volume 8,  
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