

AUDIT REPORT

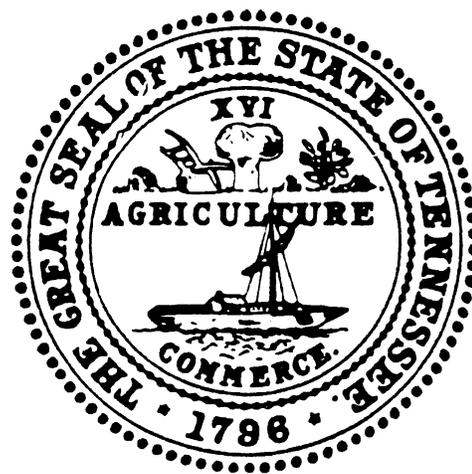
STATE HEALTH INSURANCE PLANS
CLAIMS PROCESSING
REVIEW REPORT

TENNESSEE STATE EMPLOYEES GROUP
INSURANCE PROGRAM

TENNESSEE LOCAL EDUCATION EMPLOYEES GROUP
INSURANCE PROGRAM

TENNESSEE LOCAL GOVERNMENT EMPLOYEES GROUP
INSURANCE PROGRAM

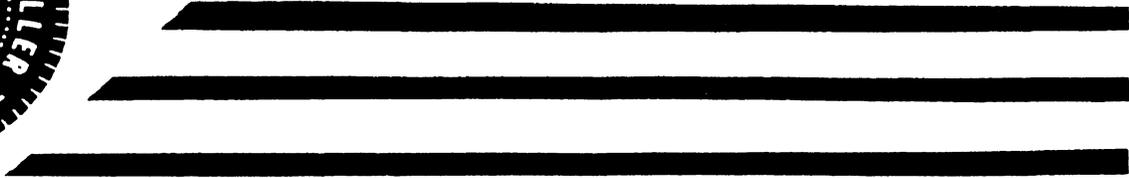
FOR THE PERIOD
JANUARY 1 THROUGH DECEMBER 31, 2003



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit



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STATE OF TENNESSEE
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John G. Morgan
Comptroller

August 11, 2005

The Honorable David Goetz, Commissioner
Department of Finance and Administration
and
Members of the Local Government Insurance Committee
and
Members of the Local Education Insurance Committee
and
Members of the State Insurance Committee
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

In accordance with the contracts between the State of Tennessee and Blue Cross and Blue Shield of Tennessee, the Division of State Audit conducts examinations of the State Health Insurance Plans.

Submitted herewith is the report of the review of claims processing by Blue Cross and Blue Shield for the State Health Insurance Plans for the period January 1 through December 31, 2003.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/pn
04/084

State Health Insurance Plans

**Tennessee State Employees Group Insurance Program
Tennessee Local Education Employees Group Insurance Program
Tennessee Local Government Employees Group Insurance Program**

For the Period January 1 Through December 31, 2003

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State Health Insurance Plans

Tennessee State Employees Group Insurance Program Tennessee Local Education Employees Group Insurance Program Tennessee Local Government Employees Group Insurance Program

For the Period January 1 Through December 31, 2003

INTRODUCTION

PURPOSE AND AUTHORITY OF THE REVIEW

The Standard Terms and Conditions of the Agreement between Blue Cross and Blue Shield (the Contractor) and the State of Tennessee specify that the books and records of the Contractor, insofar as they relate to the administration of the State Health Insurance Plans, are subject to audit by the Tennessee Comptroller of the Treasury.

Under its agreement with the state, the Contractor has asserted that it is in compliance with stated requirements regarding administration of the state health plans. The purpose of our review is to render an opinion on the Contractor's assertions that it has complied with certain claims processing requirements of the contract.

BACKGROUND

The Tennessee State Employees Group Insurance Program, the Local Education Employees Group Insurance Program, and the Local Government Employees Group Insurance Program are administered by the Department of Finance and Administration and are authorized by Sections 8-27-101, 8-27-201, 8-27-301, and 8-27-207, *Tennessee Code Annotated*. The State Employees Group Insurance Program serves approximately 76,000 participants; the Local Education Employees Group Insurance Program, approximately 46,000 participants; and the Local Government Employees Group Insurance Program, approximately 15,500 participants. Blue Cross and Blue Shield of Tennessee, Inc., processes medical claims and administers health care networks for Preferred Provider Organization (PPO) and Point of Service (POS) plans for all three programs. John Deere HealthCare provides POS services for subscribers of all three programs who live east of Pickett, Fentress, Cumberland, White, Van Buren, Grundy, and Franklin Counties. The insurance programs also offer employees the option of joining a health maintenance organization through participation with either Aetna Life Insurance Company or John Deere HealthCare, dependent upon place of residence.

The programs are governed by the State Insurance Committee, the Local Education Insurance Committee, and the Local Government Insurance Committee, respectively. The State Insurance committee is composed of the following:

- The Comptroller of the Treasury
- The State Treasurer
- The Commissioner of Commerce and Insurance
- The Commissioner of Finance and Administration
- The Commissioner of Personnel
- A person to be named by the board of directors of the Tennessee State Employees Association
- Two state employees selected under the procedure for the election of trustees of the Consolidated Retirement System
- One employee of the University of Tennessee system or the Board of Regents system selected under a procedure developed by the Tennessee Higher Education Commission and approved by the State Insurance Committee

The Local Education Insurance Committee is composed of the following:

- The Governor
- The Comptroller of the Treasury
- The State Treasurer
- The Commissioner of Finance and Administration
- The Commissioner of Commerce and Insurance
- A representative of local school boards selected by the Tennessee School Boards Association
- Three teachers selected by the Tennessee Education Association

The Governor has authority to delegate the Commissioner of Education as his representative.

The Local Government Insurance Committee is composed of the following:

- The Comptroller of the Treasury
- The State Treasurer
- The Commissioner of Finance and Administration
- A representative of the Tennessee Municipal League
- A representative of the Tennessee County Services Associations

All three committees act separately but coordinate their activities to provide insurance coverage for each group. The director of the Tennessee Division of Insurance Administration and his staff perform the daily operations for the State Insurance Committee, the Local Education Insurance Committee, and the Local Government Insurance Committee.

At present, Blue Cross and Blue Shield of Tennessee, Inc., headquartered in Chattanooga, Tennessee, processes medical claims for the programs and receives a monthly administrative fee based on the number of covered employees. Since October 1, 1985, Blue

Cross and Blue Shield has provided access to a preferred provider organization for program participants and operated the plans' utilization management activities. During the period January 1 through December 31, 2003, Blue Cross and Blue Shield also provided access to a point of service organization for program participants in Middle and West Tennessee.

The contract provisions with Blue Cross and Blue Shield of Tennessee affecting payment for administrative and medical services for the three group insurance programs are summarized below:

1. Blue Cross and Blue Shield of Tennessee was paid a management fee of \$15.76 per month per subscriber in all three employee plans from January 1 through December 31, 2003, for all services contracted under the preferred provider organization (PPO) contract. The state is responsible for making payments based on its count of the number of subscribers.
2. Blue Cross and Blue Shield agrees to establish and maintain a preferred provider organization (PPO) for plan participants. The state and plan participants are to financially benefit from any contracts between Blue Cross and Blue Shield and health care providers.
3. Blue Cross and Blue Shield of Tennessee was paid a management fee per month per subscriber from January 1 through December 31, 2003, for all services contracted under the point of service (POS) contract. The fees per subscriber for the three plans were as follows: state employees plan - \$18.53 per month, local education employees plan - \$17.62 per month, and local government employees plan - \$20.30 per month. The state is responsible for making payments based on its count of the number of subscribers.
4. Blue Cross and Blue Shield of Tennessee agrees to establish and maintain a point of service organization (POS) for plan participants living in middle and west Tennessee. The state and plan participants are to financially benefit from any contracts between Blue Cross and Blue Shield and health care providers.

SCOPE OF THE REVIEW

Our review covers the adequacy and accuracy of claims processing as required in the contracts between the state and the Contractor for the period January 1 through December 31, 2003. Our examination does not cover clinical or quality of care matters.

RESULTS OF THE REVIEW

Our review found no material instances of noncompliance with contract requirements regarding claims processing by Blue Cross and Blue Shield of Tennessee. Refunds due to the state were found to have been properly and promptly submitted.



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Independent Accountant's Report

July 30, 2004

The Honorable David Goetz, Commissioner
Department of Finance and Administration
and
Members of the Local Government Insurance Committee
and
Members of the Local Education Insurance Committee
and
Members of the State Insurance Committee
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have examined the books and records of the Contractor and the state to determine whether medical claims were adequately and accurately processed in accordance with contracts between the two parties.

In its representation letter dated January 3, 2005, Blue Cross and Blue Shield asserted that it complied with the following requirements during the period January 1 through December 31, 2003:

1. Subscriber claims have been processed accurately, including the applications of deductibles, discounts, and pursuit of coordination of benefits.
2. Subscriber claims have been processed timely and recognized in the period specified in the contracts.
3. Refunds due to the state have been properly submitted.
4. Performance standards have been accurately measured and tabulated.

Management is responsible for ensuring compliance with these aforementioned requirements. Our responsibility is to express an opinion on management's assertions about its organization's compliance based on our examination.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Contractor's compliance with the aforementioned requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the compliance of the Contractor, or the state, with specified requirements.

Our examination uncovered no material noncompliance with management's assertions.

In our opinion, management's assertions that the Contractor complied with the aforementioned requirements for the period January 1 through December 31, 2003, is fairly stated, in all material respects.

This report is intended solely for the use of the State Employees' Insurance Committee, the Local Education Employees' Insurance Committee, the Local Government Employees' Insurance Committee, and the Tennessee Department of Finance and Administration and is not intended and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." The signature is written in a cursive style with a large, prominent initial "A".

Arthur A. Hayes, Jr., CPA
Director

AAH/pn