

STATE HEALTH INSURANCE PLANS

**TENNESSEE STATE EMPLOYEES GROUP
INSURANCE PROGRAMS**

**TENNESSEE LOCAL EDUCATION EMPLOYEES GROUP
INSURANCE PROGRAM**

**TENNESSEE LOCAL GOVERNMENT EMPLOYEES GROUP
INSURANCE PROGRAM**

**FOR THE PERIOD
JANUARY 1 THROUGH DECEMBER 31, 1994**

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June 25, 1996

Don Sundquist, Governor
and
Members of the General Assembly
and
Bob Corker, 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:

Transmitted herewith is the report on the compliance audit of the State Health Insurance Plans, Tennessee State Employees Group Insurance Program, Tennessee Local Education Employees Group Insurance Program, and Tennessee Local Government Employees Group Insurance Program, for the period January 1 through December 31, 1994.

The review of the operations and contract performance standards of the Preferred Provider Organization (PPO) portion of the State Employees Group Insurance Program, the Local Education Employees Group Insurance Program, and the Local Government Employees Group Insurance Program disclosed certain deficiencies, which are detailed in the Finding and Recommendation section of this report. This report is intended to aid the State Insurance Committee in its review to determine whether the PPO insurance program is properly managed and its assets are properly spent.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/mm
96-052

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
State Health Insurance Plans
For the Period January 1 through December 31, 1994

AUDIT OBJECTIVES

The objectives of the audit were to determine the appropriateness of the transfer of funds between the state and its insurance contractors; to determine if claims payments were properly accounted for; to determine the accuracy of administrative payments to the insurance contractors; to determine compliance with performance standards; to determine if overpayments were returned to the state; to determine the sufficiency and accuracy of recordkeeping; and to recommend actions to correct any deficiencies.

RESULTS OF THE AUDIT

Blue Cross and Blue Shield of Tennessee, Inc., met the contract performance standard of the State Employees Group Insurance Program regarding annual payment increases to medical costs.

FINDING

Deficiencies in the Subscriber Count and the Administrative Fee Payments*

The state failed to properly count the number of enrollees in the State Health Insurance Plans, resulting in a \$57,504.90 underpayment of administrative fees to Blue Cross and Blue Shield for the state employee program, a \$14,741.70 underpayment for the local education program, and a \$7,332.81 underpayment for the local government program (page 9).

* A similar finding was reported in the previous audit.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

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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, 1994

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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, 1994

INTRODUCTION

PURPOSE OF THE AUDIT

This report details the results of a compliance audit of the transactions, books, and accounts of the State Health Insurance Plans. The purpose of this audit was to evaluate the programmatic operations of the Preferred Provider Organization (PPO) plans in accordance with generally accepted government auditing standards and to determine if the plans were administered in accordance with the requirements of *Tennessee Code Annotated*, contracts with the third-party administrators, and directives from the State Insurance Committee. The audit had the following objectives:

1. To determine if the transfer of funds between the state and contracted insurers and administrators was in accordance with contractual terms.
2. To determine if the program administrators have recognized claims in the period specified by the contract.
3. To determine if the Department of Finance and Administration has made appropriate monthly payments to the contractor based on the number of subscribers certified by the state.
4. To determine if Blue Cross and Blue Shield of Tennessee, Inc., achieved specific contract performance standards of the State Employees Group Insurance Program in regard to annual payment increases for medical services.
5. To determine if overpayments were properly refunded to the State of Tennessee.
6. To assess whether the records maintained by the program administrators were adequate to determine compliance with the rules and contract requirements of the State Employees Group Insurance Program, Local Education Group Insurance Program, and the Local Government Employees Group Insurance Program.
7. To recommend appropriate actions to correct any deficiencies.

POST-AUDIT AUTHORITY

This audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform a post-audit of all accounts and other financial records of the state government and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may established by the comptroller . . .”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any government entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate. In addition, Section F.5. of the Administrative Services and Preferred Provider Organization Contract between Blue Cross and Blue Shield and the State of Tennessee provides that the books and records pertinent to the State Employees Group Insurance Program, the Local Education Employees Group Insurance Program, and the Local Government Employees Group Insurance Program “shall be subject to audit . . . by the Office of the Comptroller of the Treasury.”

SCOPE OF THE AUDIT

The audit examined the records, transactions, and contract provisions of the State Health Insurance Plans and their independent contractors, for the period January 1 through December 31, 1994, for the State Employees Group Insurance Program, the Local Education Employees Group Insurance Program, and the Local Government Employees Group Insurance Program. The audit included tests of insurance claims and other such auditing procedures considered necessary. The emphasis of this audit was on the contract performance standards in the State Employees Group Insurance Program.

BACKGROUND INFORMATION

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 8-27-201, 8-27-301, and 8-27-207, *Tennessee Code Annotated*. The State Employees Group Insurance Program serves approximately 53,000 participants; the Local Education Employees Group Insurance Program, approximately 29,500 participants; and the Local Government Employees Group Insurance Program approximately 11,500 participants. Blue Cross and Blue Shield of Tennessee, Inc., processes medical claims, and Provident Life and Accident Insurance Company, Inc., administers basic life insurance, special accident insurance, optional special accident insurance, and the Permaplan. The insurance programs also offer

employees the option of joining a health maintenance organization through participation in either PruCare of Nashville, PruCare of Memphis, or Tennessee First in Knoxville.

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 Governor
- 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 Commerce and Insurance
- The Commissioner of Finance and Administration
- 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 comprised of the following:

- The Governor
- 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 State Employees Group Insurance Program 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.

The contract provisions affecting payment for administrative and medical services for the three group insurance programs are summarized below:

1. Blue Cross and Blue Shield is to be paid an administrative and utilization management fee of \$4.64 per month per subscriber during January through June of 1994 and \$4.56 per month per subscriber during July through December of 1994. 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.

A performance standard was included in the State Employees Group Insurance Program contract. Blue Cross and Blue Shield guaranteed it would hold cost increases for medical services to no more than a percentage to be calculated for the period January 1 through December 31, 1994. The allowable percentage of increase was to be determined by adding half of the percentage increase of 1993 costs over 1992 costs to half of the annual percentage increase in the medical cost component of the Consumer Price Index. Failure to attain this standard would result in Blue Cross refunding excess costs to the state.

The contract specifies the method to be used to compute compliance with this performance standard. For each "performance" period, which is the period over which the standard is measured, there is a defined "base" period. Basically, medical costs in the base period are increased by 8.63 percent and compared to the costs in the performance period. For the performance period January 1 through December 31, 1994, the base period is January 1 through December 31, 1993.

The prior audit of the State Health Insurance Plans, Tennessee State Employees Group Insurance Program, Tennessee Local Education Employees Group Insurance Program, and the Tennessee Local Government Employees Group Insurance Program for period January 1 through December 31, 1993, contained a finding on deficiencies in the subscriber count and the administrative fee payments and billings. The finding was repeated in this report.

RESULTS OF THE AUDIT

Our review of the accuracy of claims processing by Blue Cross consisted of an examination of a sample of processed subscriber claims for the period under review. For the sample claims, we checked the deductible applied, the preferred discount amount (if applicable), the accuracy of precertification for hospital claims, and the pursuit of coordination of benefits. No material discrepancies were noted.

Our examination of the contracts between the Department of Finance and Administration and Blue Cross and Blue Shield revealed discrepancies in the count of eligible contracts (subscribers) used in the determination of the administrative fee paid to Blue Cross and Blue Shield. These discrepancies are further discussed in the Finding and Recommendation section of this report.

Based on our review of supporting documentation and computations, Blue Cross and Blue Shield did meet the performance standard to keep increases in medical payments below the allowed increase for the period January 1 through December 31, 1994. The performance calculation according to Blue Cross appears on Schedule 1. Schedule 2 exhibits the calculation according to the Division of State Audit's determination.

Schedule 1**Amount Due
Computed by Blue Cross and Blue Shield**

	<u>Performance Period</u>	<u>Base Period</u>
	<u>January 1 through December 31, 1994</u>	<u>January 1 through December 31, 1993</u>
Total Medical Payments	\$170,711,834	\$160,861,382
Less Adjustment:		
Inflation (Par)	55,433	-
Inflation (Non-Par)	7,900	-
Charge Audit Recoveries	<u>1,529,533</u>	<u>1,061,267</u>
Net Payments	\$169,118,968	\$159,800,115
Average Contracts	61,941	61,182
Payment per contract	(A) \$ 2,730.32	\$ 2,611.88
Target Payment per Contract		(B) \$ 2,837.29
Difference (A minus B)		(\$ 106.97)
Average Contracts	<u>61,941</u>	
Settlement Provision	(\$6,625,829)	

Schedule 2**Amount Due
Computed by Division of State Audit**

	<u>Performance Period</u>	<u>Base Period</u>
	<u>January 1 through December 31, 1994</u>	<u>January 1 through December 31, 1993</u>
Total Medical Payments	\$170,711,834	\$160,861,382
Less Adjustment:		
Inflation (Par)	55,433	-
Inflation (Non-Par)	7,900	-
Charge Audit Recoveries	<u>492,397</u>	<u>-</u>
Net Payments	\$170,156,104	\$160,861,382
Average Contracts	60,966	61,182
Payment per Contract	(A) \$ 2,790.99	\$ 2,656.63
Target Payment per Contract		(B) \$ 2,885.89
Difference (A minus B)	(\$ 94.90)	
Average Contracts	<u>60,966</u>	
Settlement Provision	(\$5,785,673)	
Blue Cross Calculation	(\$6,625,829)	
Recovery Due	None	

The difference between the determination by State Audit and Blue Cross is due to an error in the computation of charge audit recoveries and the source used for average contracts. As part of its administrative function, Blue Cross periodically audits hospital claims for services provided to its plan participants. Discrepancies may result in refunds from the hospitals to Blue Cross which then must refund the appropriate amount to the state and its other contractors. The contract performance standards states that the state employees charge audit recoveries from the base period should be subtracted from recoveries in the performance period and added to total medical payments. The Division of State Audit has reviewed charge audit recoveries for the settlement period 1994 and has determined the following amounts due to the respective programs: \$1,520,004 to the State Employees Group Insurance Program, \$654,137 to the Local Education Employees Group Insurance Program, and \$469,870 to the Local Government Employees Group Insurance Program. Blue Cross and Blue Shield has correctly remitted these monies to the respective programs. Blue Cross incorrectly computed and applied in the performance calculation the state employees charge audit recovery to be \$1,529,533 as a result of an inaccurate classification of a local government recovery.

The contract performance standards states that the average contracts should be determined from enrollment certified by the State. The Division of State Audit has reviewed the enrollment calculations of the Department of Finance and Administration. Adjustments to enrollment calculations of the Department of Finance and Administration were necessary because of the exclusion of retroactive eligibility in their enrollment figures. The results of these adjustments are detailed in the Finding and Recommendation section of this report. The adjusted enrollment figures from the Department of Finance and Administration were used in the computation by the Division of State Audit of average contracts. Blue Cross and Blue Shield computed average contracts from enrollment figures retrieved from its claims processing system.

Blue Cross and Blue Shield agreed with the results of the audit.

FINDING AND RECOMMENDATION

DEFICIENCIES IN THE SUBSCRIBER COUNT AND THE ADMINISTRATIVE FEE PAYMENTS

FINDING:

The State of Tennessee, Department of Finance and Administration, did not properly reconcile adjustments to monthly subscriber counts for retroactive enrollments. These adjustments are the result of retroactive eligibility for employees and late premium payments by certain agencies. The subscriber counts were used as the basis for payment to Blue Cross for administrative fees for the period January 1 through December 31, 1994.

As a result of deficiencies in the monthly subscriber counts by the Department of Finance and Administration, the State Employees Group Insurance Program has underpaid \$57,504.90, the Local Education Employees Group Insurance Program has underpaid \$14,741.70, and the Local Government Employees Group Insurance Program has underpaid \$7,332.81 in administrative fees to Blue Cross and Blue Shield of Tennessee, Inc.

There was a similar finding in the last audit, which covered the period January 1 through December 31, 1993. The Department of Finance and Administration concurred with the audit's recommendation that the department develop procedures to provide an accurate subscriber count for the payment of administrative fees.

RECOMMENDATION:

The Department of Finance and Administration should develop procedures to reconcile on a quarterly basis the effect of retroactive adjustments to the monthly subscriber counts. The Department of Finance and Administration should remit \$57,504.90 from the State Employees Group Insurance Program, \$14,741.70 from the Local Education Employees Group Insurance Program, and \$7,332.81 from the Local Government Employees Group Insurance Program to Blue Cross and Blue Shield of Tennessee for administrative fees.

MANAGEMENT'S COMMENT:

Management concurs. Beginning with the July 1995 contract counts for this purpose, the Division of Insurance Administration will certify as the total contract counts the number of contract months which have been deleted due to prior cancellation of coverage plus the number of contract months established retroactively due to a delay in processing eligibility. We believe that this procedure, which employs the actual counts and fully recognizes shifts in enrollment, will correct this problem.

SETTLEMENT SUMMARY

	<u>Due to Blue Cross</u>
Underpayment of administration fees for the State Employees Group Insurance Program (see finding)	\$57,504.90
Underpayment of administration fees for the Local Education Employees Group Insurance Program (see finding)	14,741.70
Underpayment of administration fees for the Local Government Employees Group Insurance Program (see finding)	<u>7,332.81</u>
Totals	<u><u>\$79,579.41</u></u>