

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS CLAIMED
FOR MEDICARE REIMBURSEMENT BY
BLUE CROSS AND BLUE SHIELD OF
NORTH DAKOTA**



**JUNE GIBBS BROWN
INSPECTOR GENERAL**

**FEBRUARY 2001
A-07-00-00117**



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

CIN: A-07-00-00117
February 1, 2001

Mr. Allen Aaberg
Assistant Vice President Finance
Blue Cross and Blue Shield of North Dakota
4510 13th Avenue SW
Fargo, North Dakota 58121-0001

Dear Mr. Aaberg:

This report provides you with the results of an Office of Inspector General (OIG), Office of Audit Services (OAS) review titled *Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross and Blue Shield of North Dakota*. The purpose of our review was to determine the allowability of pension costs claimed for Medicare reimbursement for Fiscal Years 1992 through 1998.

We determined that North Dakota over claimed allowable Medicare pension costs for 1992 through 1998. During this period, the allowable Medicare pension costs were \$3,200,126. However, North Dakota claimed pension costs of \$3,216,989 for Medicare reimbursement. As a result, North Dakota has claimed \$16,863 in pension costs that are not allowable. The over claim occurred because the pension costs claimed exceeded the funded portion of the Cost Accounting Standards (CAS) computed pension costs.

We are recommending that North Dakota revise its Final Administrative Cost Proposals (FACPs) to eliminate the unallowable pension costs.

North Dakota concurred with our finding and recommendation. Their response to our draft audit report is included in its entirety as Appendix B.

INTRODUCTION

BACKGROUND

North Dakota has administered Medicare Parts A and B operations under cost reimbursement since 1966. Medicare contractors must follow cost reimbursement principles contained in the Cost Accounting Standards (CAS), the Federal Acquisition Regulations (FAR), and their Medicare contracts.

Since its inception, Medicare has reimbursed a portion of annual contributions paid into contractors' pension plans. To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with CAS 412 and 413, and (2) funded as specified by Part 31 of the FAR.

The CAS deals with stability between contract periods and requires consistent measurement and assignment of pension costs to contract periods. The CAS costs that are allowable as charges to Medicare include (1) the normal cost and (2) the amortization of the unfunded actuarial liability. The FAR addresses allowability of pension costs and requires that pension costs assigned to contract periods be substantiated by funding.

In addition to CAS and FAR requirements, the Health Care Financing Administration (HCFA), starting with Fiscal Year 1988, incorporated specific segmentation language into Medicare contracts. To implement segmentation requirements, contracts stipulated procedures for identifying the Medicare segment and assigning pension assets to the segment. Furthermore, the contracts required a separate calculation of pension costs for a segment if such a calculation (versus an allocation) materially affected pension costs charged to Medicare. Under a separate calculation method, a contractor identifies separately the normal costs and amortization for the Medicare segment. Under an allocation method, a contractor determines total plan CAS costs and allocates a share to Medicare. This allocation includes direct and indirect costs.

SCOPE

We made our examination in accordance with generally accepted government auditing standards. This review addresses only one expense category, pension costs. Our objective was to identify allowable CAS pension costs for Fiscal Years 1992 through 1998. Achieving the objective did not require a review of North Dakota's internal control structure.

This review was done in conjunction with our audits of pension segmentation (CIN: A-07-99-02560), and unfunded pension costs (CIN: A-07-00-00116). The information obtained and reviewed during those audits was also used in performing this review.

In our audit of unfunded pension costs, we identified North Dakota's CAS pension costs for the total company and for the Medicare segment. We also determined the extent to which North Dakota funded CAS pension costs with contributions to the pension trust fund. Appendix A contains the details on the pension costs and contributions. Using this information, we calculated CAS pension costs that were allowable for Medicare reimbursement for Fiscal Years 1992 through 1998.

The HCFA Office of the Actuary developed the methodology used for computing allowable CAS pension costs based on North Dakota's historical practices.

We performed site work during August 1999 at North Dakota's corporate offices in Fargo, North Dakota. Subsequently, we performed audit work in the OIG, OAS, Jefferson City, Missouri Field Office.

FINDINGS AND RECOMMENDATION

For Fiscal Years 1992 through 1998, North Dakota both under and over claimed pension costs resulting in \$16,863 in pension costs that were not allowable for Medicare reimbursement. The pension costs were unallowable because the funded portion of CAS computed costs were less than the costs claimed. North Dakota should revise its FACPs as summarized in the following table and discussed in the following paragraphs. See Appendix A for details on the calculations.

Fiscal Year	Costs Claimed (A)	Allowable CAS Costs (B)	Variance (A) - (B)
1992	\$0	\$0	\$0
1993	137,414	207,132	(69,718)
1994	339,819	323,907	15,912
1995	588,897	273,569	315,328
1996	659,108	671,131	(12,023)
1997	754,906	884,378	(129,472)
1998	736,845	840,009	(103,164)
Total	<u>\$3,216,989</u>	<u>\$3,200,126</u>	<u>\$16,863</u>

For years 1992 through 1998, North Dakota claimed pension costs for Medicare reimbursement on FACPs. North Dakota based its claims on an allocation of the total company pension contributions. North Dakota assigned a portion of the pension contributions to Medicare direct and indirect operations using cost center and line of business information.

We calculated the allowable CAS pension costs for the Medicare segment and for indirect Medicare operations. The calculations were based on separately computed CAS pension costs for the Medicare segment and total company CAS pension costs. See Appendix A for details.

For 1992 through 1998, North Dakota claimed pension costs of \$3,216,989 for Medicare reimbursement. However, the allowable CAS pension costs were \$3,200,126. As a result, North Dakota claimed \$16,863 in CAS pension costs that are not allowable.

Recommendation

We recommend that North Dakota:

- Revise its FACPs to eliminate unallowable CAS pension costs of \$16,863.

Auditee Response

North Dakota concurred with our findings and recommendation. Their response to our draft audit report is included in its entirety as Appendix B.

INSTRUCTIONS FOR AUDITEE RESPONSE

Final determinations as to actions to be taken on all matters reported will be made by the HHS action official identified below. We request that you respond to the recommendations in this report within 30 days from the date of this report to the HHS action official, presenting any comments or additional information that you believe may have a bearing on final determination.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS, reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5).

Sincerely,



James P. Aasmundstad
Regional Inspector General for
Audit Services, Region VII

Enclosures

HHS Action Official:

Ms. Mary K. Smith
Regional Administrator, Region VIII
Health Care Financing Administration
1961 Stout Street
Denver, Colorado 90294-3538

BLUE CROSS AND BLUE SHIELD OF NORTH DAKOTA

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1992 THROUGH 1998

Date	Description	Total Company	Other Segments	Medicare Segment
1992	Contributions	1/ \$0	\$0	\$0
9.00%	Discount For Interest	2/ 0	0	0
	Pres. Val. Contributions	3/ 0	0	0
	Prepayment Credit	4/ 0	0	0
	Pres. Val. Of Funding	5/ 0	0	0
	CAS Pension Cost	6/ 743,890	584,991	158,899
	Absorbed Credit	7/ (192,110)	(192,110)	0
	CAS Funding Target	8/ 551,780	392,881	158,899
	% Funded	9/	0.00%	0.00%
	Funded Pension Costs	10/	0	0
	Allowable Interest	11/	-	-
	Allocable Pension Cost	12/	0	0
	Fiscal Year Pension	13/	0	0
	Medicare LOB %	14/	9.23%	91.67%
	Allowable Pension Cost	15/	\$0.00	\$0.00

1993	Contributions	\$1,800,249	\$1,570,014	\$230,235
8.50%	Discount For Interest	(93,068)	(81,165)	(11,903)
	Pres. Val. Contributions	1,707,181	1,488,849	218,332
	Prepayment Credit	0	0	0
	Pres. Val. Of Funding	1,707,181	1,488,849	218,332
	CAS Pension Cost	1,334,473	1,116,140	218,333
	Absorbed Credit	0	0	0
	CAS Funding Target	1,334,473	1,116,140	218,333
	% Funded		100.00%	100.00%
	Funded Pension Costs		1,116,140	218,332
	Allowable Interest		60,847	11,903
	Allocable Pension Cost		1,176,987	230,235
	Fiscal Year Pension		882,740	172,676
	Medicare LOB %		7.44%	81.92%
	Allowable Pension Cost	\$207,132	\$65,676	\$141,456

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FOR FISCAL YEARS 1992 THROUGH 1998

Date	Description	Total Company	Other Segments	Medicare Segment
1994	Contributions	\$2,763,495	\$2,569,228	\$194,267
8.00%	Discount For Interest	(133,937)	(124,522)	(9,415)
	Pres. Val. Contributions	2,629,558	2,444,706	184,852
	Prepayment Credit	404,388	344,578	59,810
	Pres. Val. Of Funding	3,033,946	2,789,284	244,662
	CAS Pension Cost	1,654,206	1,409,544	244,662
	Absorbed Credit	0	0	0
	CAS Funding Target	1,654,206	1,409,544	244,662
	% Funded		100.00%	100.00%
	Funded Pension Costs		1,409,544	244,662
	Allowable Interest		54,244	9,415
	Allocable Pension Cost		1,463,788	254,077
	Fiscal Year Pension		1,392,088	248,117
	Medicare LOB %		7.20%	90.15%
	Allowable Pension Cost	<u>\$323,907</u>	<u>\$100,230</u>	<u>\$223,677</u>

1995	Contributions	\$2,927,058	\$2,898,650	\$28,408
8.50%	Discount For Interest	(152,513)	(151,033)	(1,480)
	Pres. Val. Contributions	2,774,545	2,747,617	26,928
	Prepayment Credit	1,490,119	1,303,515	186,604
	Pres. Val. Of Funding	4,264,664	4,051,132	213,532
	CAS Pension Cost	1,705,148	1,491,616	213,532
	Absorbed Credit	0	0	0
	CAS Funding Target	1,705,148	1,491,616	213,532
	% Funded		100.00%	100.00%
	Funded Pension Costs		1,491,616	213,532
	Allowable Interest		10,340	1,480
	Allocable Pension Cost		1,501,956	215,012
	Fiscal Year Pension		1,183,729	218,521
	Medicare LOB %		5.59%	94.91%
	Allowable Pension Cost	<u>\$273,569</u>	<u>\$66,171</u>	<u>\$207,398</u>

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STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1992 THROUGH 1998

Date	Description	Total Company	Other Segments	Medicare Segment
1996	Contributions	\$3,241,839	\$3,237,752	\$4,087
8.50%	Discount For Interest	(168,331)	(168,119)	(212)
	Pres. Val. Contributions	3,073,508	3,069,633	3,875
	Prepayment Credit	2,777,075	2,032,495	744,580
	Pres. Val. Of Funding	5,850,583	5,102,128	748,455
	CAS Funding Target	2,791,529	2,043,074	748,455
	% Funded		100.00%	100.00%
	Funded Pension Costs		2,043,074	748,455
	Allowable Interest		579	212
	Allocable Pension Cost		2,043,653	748,667
	Fiscal Year Pension		1,908,229	615,253
	Medicare LOB %		4.65%	94.66%
	Allowable Pension Cost	<u>\$671,131</u>	<u>\$88,733</u>	<u>\$582,399</u>

1997	Contributions	\$5,051,262	\$5,051,262	\$0
8.50%	Discount For Interest	(304,032)	(304,032)	0
	Pres. Val. Contributions	4,747,230	4,747,230	0
	Prepayment Credit	2,892,897	2,161,259	731,638
	Pres. Val. Of Funding	7,640,127	6,908,489	731,638
	CAS Funding Target	2,892,897	2,161,259	731,638
	% Funded		100.00%	100.00%
	Funded Pension Costs		2,161,259	731,638
	Allowable Interest		-	-
	Allocable Pension Cost		2,161,259	731,638
	Fiscal Year Pension		2,131,858	735,895
	Medicare LOB %		8.18%	96.48%
	Allowable Pension Cost	<u>\$884,378</u>	<u>\$174,386</u>	<u>\$709,992</u>

BLUE CROSS AND BLUE SHIELD OF NORTH DAKOTA
STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR FISCAL YEARS 1992 THROUGH 1998

Date	Description	Total Company	Other Segments	Medicare Segment
1998	Contributions	\$4,416,000	\$4,416,000	\$0
9.00%	Discount For Interest	(356,383)	(356,383)	0
	Pres. Val. Contributions	4,059,617	4,059,617	0
	Prepayment Credit	2,586,890	1,883,027	703,863
	Pres. Val. Of Funding	6,646,507	5,942,644	703,863
	CAS Funding Target	2,586,890	1,883,027	703,863
	% Funded		100.00%	100.00%
	Funded Pension Costs		1,883,027	703,863
	Allowable Interest		-	-
	Allocable Pension Cost		1,883,027	703,863
	Fiscal Year Pension		1,952,585	710,807
	Medicare LOB %		6.89%	99.25%
	Allowable Pension Cost	<u>\$840,009</u>	<u>\$134,533</u>	<u>\$705,476</u>

FOOTNOTES

- 1/ We obtained total company contribution amounts and dates of deposit from IRS Form 5500 Reports. The contributions included deposits made during the plan year and accrued contributions deposited after the end of the plan year but within the time allowed for filing tax returns.
- 2/ We subtracted interest that is included in the contributions deposited after January 1 of each year to discount the contributions back to their beginning of the year value. For purposes of this appendix, we computed the interest as the difference between the present value of contributions, at the valuation interest rate, and the actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to January 1. For purposes of this appendix, we deemed deposits made after the end of the plan year to have been made on the final day of the plan year.

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FOR FISCAL YEARS 1992 THROUGH 1998

- 4/ A prepayment credit represents the premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year CAS funding target. A prepayment credit may be carried forward, with interest, to fund future CAS pension costs.
- 5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at January 1 of each year.
- 6/ The CAS pension costs, computed at January 1 of each year, provides the basis to compute the allowable pension cost that can be charged to Medicare.
- 7/ The absorbed credit represents the portion of the accumulated unabsorbed credit that is used to fund the current year CAS pension cost. The credit is used first to fund the CAS pension cost before any current or prepaid contributions are considered for funding.
- 8/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of FAR 31.205-6(j)(3)(I).
- 9/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the plan year. Since any funding in excess of the CAS funding target is considered premature funding in accordance with CAS 412.50(a)(7), we determined that the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimals.
- 10/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.
- 11/ We assumed interest on the funded CAS pension cost is to accrue in the same proportion as the interest on contributions bears to the present value of funding. However, we limited interest by FAR 31.205-6(j)(3)(iii) which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target were funded in four equal installments deposited within 30 days of the end of the quarter.
- 12/ The allocable CAS pension cost is the amount of pension cost which may be allocated for contract cost purposes.

BLUE CROSS AND BLUE SHIELD OF NORTH DAKOTA
STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR FISCAL YEARS 1992 THROUGH 1998

- 13/ We converted the calendar year allowable CAS pension costs to a fiscal year basis (October 1 through September 30). We calculated the fiscal year pension costs as one-fourth of the prior year's costs plus three-fourths of the current year's costs. Costs charged to the Medicare contract should consist of the Medicare segment's pension costs attributable to indirect Medicare operations.
- 14/ We calculated allowable pension costs of the Medicare and other segments based on the Medicare line of business (LOB) percentage of each segment. We obtained the percentages from documents provided by North Dakota.
- 15/ We computed the Medicare pension cost as the Fiscal Year pension cost multiplied by the Medicare LOB percentage.