



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

February 8, 2005

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

Report Number: A-07-04-00180

Ms. Sandy L. Coston
President & Chief Operating Officer
First Coast Service Options, Inc.
532 Riverside Avenue 20T
Jacksonville, Florida 32202

Dear Ms. Coston:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) report entitled "Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross Blue Shield of Florida for Fiscal Years 1994 Through 2003." A copy of this report will be forwarded to the HHS action official noted for her review and any action deemed necessary.

The action official will make final determination regarding actions taken on all matters in the report. We request that you respond to the HHS action 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 reports are made available publicly to the extent information contained therein is not subject to exemptions of the Act that the Department chooses to exercise. (See 45 CFR part 5.)

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, ext. 225, or Jenenne Tambke, Audit Manager, at (573) 893-8338, ext. 21, or through email at Jenenne.Tambke@oig.hhs.gov. Please refer to report number A-07-04-00180 in all correspondence.

Sincerely yours,

James P. Aasmundstad
Regional Inspector General
for Audit Services

Enclosure - as stated

Page 2 - Ms. Sandy L. Coston

Direct Reply to HHS Action Official:

Rose Crum-Johnson
Regional Administrator
Centers for Medicare & Medicaid Services
Atlanta Federal Center
61 Forsyth Street, S.W., Suite 4T20
Atlanta, Georgia 30303-8909

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS
CLAIMED FOR MEDICARE
REIMBURSEMENT BY BLUE CROSS
BLUE SHIELD OF FLORIDA FOR
FISCAL YEARS 1994 THROUGH 2003**



**FEBRUARY 2005
A-07-04-00180**

Office of Inspector General

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OAS FINDINGS AND OPINIONS

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 the HHS/OIG/OAS. Authorized officials of the awarding agency will make final determination on these matters.



EXECUTIVE SUMMARY

BACKGROUND

Blue Cross Blue Shield of Florida (Florida) administers Medicare Parts A and B operations under a cost reimbursement contract with the Centers for Medicare & Medicaid Services (CMS).

Medicare reimburses a portion of the annual contributions that contractors make to their pension plans. In claiming costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulations (FAR), the Cost Accounting Standards (CAS), and the Medicare contracts.

The Medicare contracts provide for an allocation or a separate calculation of pension costs. The separate calculation method must be used if there is a material difference between the two methods.

OBJECTIVE

Our objective was to determine the allowability of pension costs that Florida claimed for Medicare reimbursement for fiscal years (FYs) 1994 through 2003.

SUMMARY OF FINDING

Florida overclaimed \$780,087 of Medicare pension costs for FYs 1994 through 2003 because it understated the Medicare segment's pension assets and did not account for a reorganization of the segment in 2002. Florida claimed pension costs of \$24,296,727 for Medicare reimbursement; however, allowable Medicare pension costs were \$23,516,640.

RECOMMENDATIONS

We recommend that Florida:

- revise its Final Administrative Cost Proposals (FACP) for FYs 1994 through 2003 to reduce its claimed CAS pension costs by \$780,087,
- update its Medicare segment assets in accordance with CAS 412 and 413, and
- ensure that reorganizations to its Medicare segment are accounted for in accordance with the Medicare contract.

AUDITEE'S COMMENTS

Florida agreed with our report findings. Florida's comments are presented in Appendix B to this report.

TABLE OF CONTENTS

INTRODUCTION	1
BACKGROUND	1
Medicare	1
Regulations	1
OBJECTIVE, SCOPE, AND METHODOLOGY	2
Objective	2
Scope	2
Methodology	2
FINDING AND RECOMMENDATIONS	3
MEDICARE CONTRACT REQUIREMENTS	3
OVERCLAIM OF PENSION COSTS	3
RECOMMENDATIONS	4
AUDITEE’S COMMENTS	4
APPENDIXES	
A BLUE CROSS BLUE SHIELD OF FLORIDA STATEMENT OF ALLOWABLE CAS PENSION COSTS FOR FISCAL YEARS 1994 THROUGH 2003	
B BLUE CROSS BLUE SHIELD OF FLORIDA’S WRITTEN RESPONSE	

Glossary of Abbreviations and Acronyms

CAS	Cost Accounting Standards
CMS	Centers for Medicare & Medicaid Services
FACP	Final Administrative Cost Proposal
FAR	Federal Acquisition Regulations
FY	fiscal year
LOB	line of business
OIG	Office of Inspector General

INTRODUCTION

BACKGROUND

Medicare

Medicare reimburses a portion of the annual contributions that contractors make to their 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 FAR.

Additionally, CMS incorporated specific segmentation language into Medicare contracts starting in FY 1988. The contracts provide for an allocation or a separate calculation of pension costs. Under the allocation method, a contractor determines total plan CAS costs and allocates a share to Medicare. Under the separate calculation method, a contractor separately identifies the pension cost components for the Medicare segment. The separate calculation method must be used if it is materially different than the allocation method.

Regulations

The Medicare contract addresses the determination and allocation of pension costs. The contract states: “The calculation of and accounting for pension costs charged to this agreement/contract are governed by the Federal Acquisition Regulations and Cost Accounting Standards 412 and 413.”

The FAR addresses allowability of pension costs and requires that funding substantiate pension costs assigned to contract periods.

The CAS 412 regulates the determination and measurement of pension cost components. It also regulates the assignment of pension costs to appropriate accounting periods.

The CAS 413 regulates the valuation of pension assets, allocation of pension costs to segments of an organization, adjustment of pension costs for actuarial gains and losses, and assignment of gains and losses to cost accounting periods.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine the allowability of pension costs that Florida claimed for Medicare reimbursement for fiscal years 1994 through 2003.

Scope

We reviewed pension costs claimed for Medicare reimbursement on Florida's FACPs for FYs 1994 through 2003. Achieving the objective did not require that we review Florida's overall internal control structure. However, we did review the controls relating to the pension costs claimed for Medicare reimbursement to ensure that the costs were allowable in accordance with CAS and funded in accordance with FAR.

We performed onsite audit work at Florida's office in Jacksonville, FL.

Methodology

We identified Florida's CAS pension costs for the total company and for the Medicare segment. We also determined the extent to which Florida funded CAS pension costs with contributions to the pension trust fund and accumulated prepayment credits. Using this information, we calculated CAS pension costs that were allowable for Medicare reimbursement for FYs 1994 through 2003. The calculations were based on separately computed CAS pension costs for the Medicare segment and total company CAS pension costs. The CMS Office of the Actuary developed the methodology used for computing allowable CAS pension costs based on Florida's historical practices. Appendix A to this report contains details on the pension costs and contributions.

In performing our review, we used information provided by Florida's actuarial consulting firms. The information included assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We examined Florida's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Form 5500s.

This review was done in conjunction with our reviews of Florida's pension segmentation (A-07-04-00172) and unfunded costs (A-07-04-00179). We used the information obtained and reviewed during those audits in performing this review.

We performed our review in accordance with generally accepted government auditing standards.

FINDING AND RECOMMENDATIONS

Florida overclaimed \$780,087 of Medicare pension costs for FYs 1994 through 2003 because it understated the Medicare segment's pension assets and did not account for a reorganization of the Medicare segment in 2002. Florida claimed pension costs of \$24,296,727 for Medicare reimbursement; however, allowable Medicare pension costs were \$23,516,640.

MEDICARE CONTRACT REQUIREMENTS

The Medicare contract defines a segment and specifies the methodology for the identification and initial allocation of pension assets to the segment. The contract also requires Medicare segment assets to be updated for each year after the initial allocation in accordance with CAS 412 and 413.

Furthermore, the Medicare contract states: "The calculation of and accounting for pension costs charged to this agreement/contract are governed by the Federal Acquisition Regulations and Cost Accounting Standards 412 and 413."

OVERCLAIM OF PENSION COSTS

Florida overclaimed \$780,087 in pension costs for FYs 1994 through 2003. Florida claimed pension costs of \$24,296,727 for Medicare reimbursement; however, allowable CAS pension costs for the period were \$23,516,640.

We compared allowable CAS pension costs to the pension costs claimed on Florida's FACPs as shown below.

Pension Cost Claimed Variance

FISCAL YEAR	PER OIG	PER FLORIDA	DIFFERENCE
1994	\$2,097,171	\$2,194,936	\$(97,765)
1995	1,734,032	1,934,872	(200,840)
1996	2,393,031	2,394,107	(1,076)
1997	2,627,970	2,723,503	(95,533)
1998	2,260,145	2,239,108	21,037
1999	2,197,478	2,081,825	115,653
2000	760,871	633,564	127,307
2001	2,018,049	2,028,683	(10,634)
2002	3,065,527	3,410,134	(344,607)
2003	4,362,366	4,655,995	(293,629)
TOTAL	\$23,516,640	\$24,296,727	\$(780,087)

Florida did not ensure that the Medicare segment pension assets were updated in accordance with the Medicare contract. In addition, Florida did not ensure the 2002 Medicare segment was identified properly. As a result, Florida overclaimed \$780,087 in CAS pension costs on its FACPs.

RECOMMENDATIONS

We recommend that Florida:

- revise its FACPs for FYs 1994 through 2003 to reduce its claimed CAS pension costs by \$780,087,
- update its Medicare segment assets in accordance with CAS 412 and 413, and
- ensure that reorganizations to its Medicare segment are accounted for in accordance with the Medicare contract.

AUDITEE'S COMMENTS

Florida agreed with our report findings. Florida's comments are presented in Appendix B to this report.

Appendixes

BLUE CROSS BLUE SHIELD OF FLORIDA
STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR FISCAL YEARS 1994 THROUGH 2003

Date	Description		Total Company	Other Segment	Medicare Segment
1993	CY Allowable Pension Cost	1/	\$1,842,894	\$324,354	\$1,518,540
1994	Contributions	2/	12,484,472	10,695,797	1,788,675
8.00%	Discount For Interest	3/	(699,870)	(599,598)	(100,272)
	Present Value Contributions	4/	11,784,602	10,096,199	1,688,403
	Prepayment Credit	5/	0	0	0
	Present Value Of Funding	6/	11,784,602	10,096,199	1,688,403
	CAS Funding Target	7/	8,998,708	7,310,305	1,688,403
	Percentage Funded	8/		100.00%	100.00%
	Funded Pension Cost	9/		7,310,305	1,688,403
	Allowable Interest	10/		414,251	95,676
	CY Allocable Pension Cost	11/		7,724,556	1,784,079
	Medicare LOB* Percentage	12/		5.52%	98.40%
	CY Allowable Pension Cost	13/		426,395	1,755,534
	FY Allowable Pension Cost	14/	<u>\$2,097,171</u>	<u>\$400,885</u>	<u>\$1,696,286</u>

1995	Contributions		\$12,935,979	\$12,069,637	\$866,342
8.50%	Discount For Interest		(841,137)	(784,805)	(56,332)
	Present Value Contributions		12,094,842	11,284,832	810,010
	Prepayment Credit		3,008,765	2,495,675	513,090
	Present Value Of Funding		15,103,607	13,780,507	1,323,100
	CAS Funding Target		7,758,665	6,435,565	1,323,100
	Percentage Funded			100.00%	100.00%
	Funded Pension Cost			6,435,565	1,323,100
	Allowable Interest			237,214	48,769
	CY Allocable Pension Cost			6,672,779	1,371,869
	Medicare LOB Percentage			3.63%	97.86%
	CY Allowable Pension Cost			242,222	1,342,511
	FY Allowable Pension Cost		<u>\$1,734,032</u>	<u>\$288,265</u>	<u>\$1,445,767</u>

BLUE CROSS BLUE SHIELD OF FLORIDA
STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR FISCAL YEARS 1994 THROUGH 2003

Date	Description	Total Company	Other Segment	Medicare Segment
1996	Contributions	\$13,579,701	\$12,650,524	\$929,177
8.50%	Discount For Interest	<u>(1,063,848)</u>	<u>(991,055)</u>	<u>(72,793)</u>
	Present Value Contributions	12,515,853	11,659,469	856,384
	Prepayment Credit	<u>7,969,262</u>	<u>6,514,689</u>	<u>1,454,573</u>
	Present Value Of Funding	20,485,115	18,174,158	2,310,957
	CAS Funding Target	12,661,185	10,350,228	2,310,957
	Percentage Funded		<u>100.00%</u>	<u>100.00%</u>
	Funded Pension Cost		10,350,228	2,310,957
	Allowable Interest		<u>230,931</u>	<u>51,561</u>
	CY Allocable Pension Cost		10,581,159	2,362,518
	Medicare LOB Percentage		<u>3.25%</u>	<u>98.14%</u>
	CY Allowable Pension Cost		343,888	2,318,575
	FY Allowable Pension Cost	<u>\$2,393,031</u>	<u>\$318,472</u>	<u>\$2,074,559</u>

1997	Contributions	\$13,555,415	\$12,759,534	\$795,881
8.50%	Discount For Interest	<u>(1,061,945)</u>	<u>(999,595)</u>	<u>(62,350)</u>
	Present Value Contributions	12,493,470	11,759,939	733,531
	Prepayment Credit	<u>8,488,965</u>	<u>6,996,018</u>	<u>1,492,947</u>
	Present Value Of Funding	20,982,435	18,755,957	2,226,478
	CAS Funding Target	12,659,856	10,433,378	2,226,478
	Percentage Funded		<u>100.00%</u>	<u>100.00%</u>
	Funded Pension Cost		10,433,378	2,226,478
	Allowable Interest		<u>206,958</u>	<u>44,165</u>
	CY Allocable Pension Cost		10,640,336	2,270,643
	Medicare LOB Percentage		<u>3.98%</u>	<u>96.58%</u>
	CY Allowable Pension Cost		423,485	2,192,987
	FY Allowable Pension Cost	<u>\$2,627,970</u>	<u>\$403,586</u>	<u>\$2,224,384</u>

**BLUE CROSS BLUE SHIELD OF FLORIDA
STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR FISCAL YEARS 1994 THROUGH 2003**

Date	Description	Total Company	Other Segment	Medicare Segment
1998	Contributions	\$13,840,673	\$13,191,735	\$648,938
9.00%	Discount For Interest	<u>(1,142,808)</u>	<u>(1,089,226)</u>	<u>(53,582)</u>
	Present Value Contributions	12,697,865	12,102,509	595,356
	Prepayment Credit	<u>9,029,998</u>	<u>7,628,405</u>	<u>1,401,593</u>
	Present Value Of Funding	21,727,863	19,730,914	1,996,949
	CAS Funding Target	12,865,682	10,868,733	1,996,949
	Percentage Funded		<u>100.00%</u>	<u>100.00%</u>
	Funded Pension Cost		10,868,733	1,996,949
	Allowable Interest		<u>206,571</u>	<u>37,954</u>
	CY Allocable Pension Cost		11,075,304	2,034,903
	Medicare LOB Percentage		<u>2.67%</u>	<u>90.70%</u>
	CY Allowable Pension Cost		295,711	1,845,657
	FY Allowable Pension Cost	<u>\$2,260,145</u>	<u>\$327,655</u>	<u>\$1,932,490</u>

1999	Contributions	\$13,157,274	\$12,369,138	\$788,136
9.00%	Discount For Interest	<u>(1,086,380)</u>	<u>(1,021,305)</u>	<u>(65,075)</u>
	Present Value Contributions	12,070,894	11,347,833	723,061
	Prepayment Credit	<u>9,659,777</u>	<u>8,235,018</u>	<u>1,424,759</u>
	Present Value Of Funding	21,730,671	19,582,851	2,147,820
	CAS Funding Target	14,562,086	12,414,266	2,147,820
	Percentage Funded		<u>100.00%</u>	<u>100.00%</u>
	Funded Pension Cost		12,414,266	2,147,820
	Allowable Interest		<u>266,427</u>	<u>46,095</u>
	CY Allocable Pension Cost		12,680,693	2,193,915
	Medicare LOB Percentage		<u>2.25%</u>	<u>88.01%</u>
	CY Allowable Pension Cost		285,316	1,930,865
	FY Allowable Pension Cost	<u>\$2,197,478</u>	<u>\$287,915</u>	<u>\$1,909,563</u>

BLUE CROSS BLUE SHIELD OF FLORIDA
STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR FISCAL YEARS 1994 THROUGH 2003

Date	Description	Total Company	Other Segment	Medicare Segment
2000	Contributions	\$18,160,845	\$18,160,845	\$0
9.00%	Discount For Interest	<u>(1,499,519)</u>	<u>(1,499,519)</u>	<u>0</u>
	Present Value Contributions	16,661,326	16,661,326	0
	Prepayment Credit	<u>7,813,757</u>	<u>7,813,757</u>	<u>0</u>
	Present Value Of Funding	24,475,083	24,475,083	0
	CAS Funding Target	11,136,632	11,136,632	0
	Percentage Funded		100.00%	0.00%
	Funded Pension Cost		11,136,632	0
	Allowable Interest		211,833	0
	CY Allocable Pension Cost		11,348,465	0
	Medicare LOB Percentage		2.43%	88.02%
	CY Allowable Pension Cost		275,768	0
	FY Allowable Pension Cost	<u>\$760,871</u>	<u>\$278,155</u>	<u>\$482,716</u>

2001	Contributions	\$27,481,529	\$26,822,691	\$658,838
8.50%	Discount For Interest	<u>(2,152,931)</u>	<u>(2,101,317)</u>	<u>(51,614)</u>
	Present Value Contributions	25,328,598	24,721,374	607,224
	Prepayment Credit	<u>14,538,911</u>	<u>12,626,701</u>	<u>1,912,210</u>
	Present Value Of Funding	39,867,509	37,348,075	2,519,434
	CAS Funding Target	19,155,754	16,636,320	2,519,434
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		16,636,320	2,519,434
	Allowable Interest		241,412	36,560
	CY Allocable Pension Cost		16,877,732	2,555,994
	Medicare LOB Percentage		2.86%	82.79%
	CY Allowable Pension Cost		482,703	2,116,107
	FY Allowable Pension Cost	<u>\$2,018,049</u>	<u>\$430,969</u>	<u>\$1,587,080</u>

**BLUE CROSS BLUE SHIELD OF FLORIDA
STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR FISCAL YEARS 1994 THROUGH 2003**

Date	Description	Total Company	Other Segment	Medicare Segment
2002	Contributions	\$86,394,313	\$86,184,667	\$209,646
8.50%	Discount For Interest	<u>(6,768,218)</u>	<u>(6,751,794)</u>	<u>(16,424)</u>
	Present Value Contributions	79,626,095	79,432,873	193,222
	Prepayment Credit	<u>22,472,254</u>	<u>19,626,444</u>	<u>2,845,810</u>
	Present Value Of Funding	102,098,349	99,059,317	3,039,032
	CAS Funding Target	23,998,057	20,959,025	3,039,032
	Percentage Funded		<u>100.00%</u>	<u>100.00%</u>
	Funded Pension Cost		20,959,025	3,039,032
	Allowable Interest		<u>80,232</u>	<u>11,634</u>
	CY Allocable Pension Cost		21,039,257	3,050,666
	Medicare LOB Percentage		<u>3.61%</u>	<u>80.69%</u>
	CY Allowable Pension Cost		759,517	2,461,582
	FY Allowable Pension Cost	<u>\$3,065,527</u>	<u>\$690,314</u>	<u>\$2,375,213</u>

2003	Contributions	<u>15/</u> \$0	\$0	\$0
8.00%	Discount For Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Present Value Contributions	0	0	0
	Prepayment Credit	<u>32,022,553</u>	<u>27,713,704</u>	<u>4,308,849</u>
	Present Value Of Funding	32,022,553	27,713,704	4,308,849
	CAS Funding Target	32,022,553	27,713,704	4,308,849
	Percentage Funded		<u>100.00%</u>	<u>100.00%</u>
	Funded Pension Cost		27,713,704	4,308,849
	Allowable Interest		<u>0</u>	<u>0</u>
	CY Allocable Pension Cost		27,713,704	4,308,849
	Medicare LOB Percentage		<u>2.92%</u>	<u>91.29%</u>
	CY Allowable Pension Cost		809,240	3,933,548
	FY Allowable Pension Cost	<u>\$4,362,366</u>	<u>\$796,809</u>	<u>\$3,565,557</u>

* Line of business.

**BLUE CROSS BLUE SHIELD OF FLORIDA
STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR FISCAL YEARS 1994 THROUGH 2003**

FOOTNOTES

- 1/ We obtained the 1993 calendar year allowable pension cost from our prior audit (report number A-07-95-01125).
- 2/ We obtained total company contribution amounts and dates of deposit from Internal Revenue Service 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.
- 3/ 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 actual contribution amounts.
- 4/ 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.
- 5/ A prepayment credit represents the accumulated value of 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.
- 6/ 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.
- 7/ 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).
- 8/ 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), 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.
- 9/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.

BLUE CROSS BLUE SHIELD OF FLORIDA
STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR FISCAL YEARS 1994 THROUGH 2003

- 10/ We assumed interest on the funded CAS pension cost, less the prepayment credit, is to accrue in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the 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, less the prepayment credit, were funded in four equal installments deposited within 30 days of the end of the quarter.
- 11/ The CY allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.
- 12/ The Medicare line of business percentages, for the segment and indirect operations, were provided by Florida.
- 13/ We computed the CY allowable Medicare pension cost as the CY allocable pension cost multiplied by the Medicare line of business percentage.
- 14/ We converted the CY allowable Medicare pension costs to a Federal FY basis (October 1 through September 30). We calculated the fiscal year pension costs as 1/4 of the prior year's costs plus 3/4 of the current year's costs. Costs charged to the Medicare contract should consist of the Medicare segment's direct pension costs plus pension costs attributable to indirect Medicare operations.
- 15/ At the time of our review, the 2003 plan year contribution had not been made. Any 2003 contribution will be treated as a prepayment credit.



A CMS CONTRACTED INTERMEDIARY & CARRIER

MEDICARE

Sandy Coston
President/COO
First Coast Service Options
Sandy.Coston@fcso.com

January 7, 2005

Mr. James P. Aasmundstad
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Inspector General
Office of Audit Services
601 East 12th Street, Room 284A
Kansas City, Missouri 64106

Dear Mr. Aasmundstad:

Reference: A-07-04-00180

The purpose of this letter is to submit our response to the Department of Health and Human Services Office of Inspector General's draft report for the review of Medicare pension costs claimed by Blue Cross Blue Shield of Florida (BCBSF) for fiscal years 1994–2003.

We agree with the report finding regarding over claimed pension costs and will take the following actions to ensure the report recommendations are implemented:

- 1) File revised FACPs for fiscal years 1994–2003 to reduce claimed pension costs by \$780,087.
- 2) Update Medicare segment assets in accordance with the appropriate cost accounting standards.
- 3) Ensure that any reorganization to the Medicare segment is accounted for according to Medicare contractual requirements.

Additionally, we are working with BCBSF's actuaries to ensure pension costs are claimed in accordance with applicable Medicare contractual requirements and Cost Accounting Standards.

We appreciate the opportunity to review and provide our comments prior to release of the final report. If you have any questions regarding our response, please contact Mr. Gregory England at 904-791-8364.

Sincerely,

Sandy Coston

cc: Mike Davis, VP & CFO, FCSSO
Gregory England, Director of Internal Audit, FCSSO
Brenda Francisco, Director of Medicare Reporting, FCSSO
Curtis Lord, CEO, FCSSO
Cheryl Mose, Enterprise Controller, BCBSF
Jay Pinkerton, Chicago Consulting Actuaries, LLP