



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

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

November 16, 2007

Report Number: A-07-07-00238

Ms. Pamela Bell
Vice President, Government Services
Blue Cross Blue Shield of Georgia
3350 Peachtree Road, NE
Atlanta, Georgia 30326

Dear Ms. Bell:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross Blue Shield of Georgia for Fiscal Years 1994 Through 2000." We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this 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.

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If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, or contact Jenenne Tambke, Audit Manager, at (573) 893-8338, extension 21, or through e-mail at Jenenne.Tambke@oig.hhs.gov. Please refer to report number A-07-07-00238 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Patrick J. Cogley", written over a horizontal line.

Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Tom Lenz, Consortium Administrator
Consortium for Financial Management & Fee for Service Operations
Centers for Medicare & Medicaid Services
601 East 12th Street, Room 235
Kansas City, MO 64106

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS
CLAIMED FOR MEDICARE
REIMBURSEMENT BY BLUE
CROSS BLUE SHIELD OF
GEORGIA FOR FISCAL YEARS
1994 THROUGH 2000**



Daniel R. Levinson
Inspector General

November 2007
A-07-07-00238

Office of Inspector General

<http://oig.hhs.gov>

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THIS REPORT IS AVAILABLE TO THE PUBLIC
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In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR Part 5.)

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 HHS divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

Blue Cross Blue Shield of Georgia (Georgia) administers Medicare Part A 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 Regulation, Cost Accounting Standards, and Medicare contracts.

The Medicare contracts require contractors to allocate or separately calculate pension costs. Contractors must use the separate calculation method if there is a material difference between the results of the two methods.

OBJECTIVE

Our objective was to determine the allowability of pension costs that Georgia claimed for Medicare reimbursement for fiscal years (FY) 1994 through 2000.

SUMMARY OF FINDING

Georgia did not claim \$25,889 of allowable pension costs for FYs 1994 through 2000 due to incorrect computations of CAS pension costs. Georgia claimed \$1,012,072 of pension costs for Medicare reimbursement; however, allowable Medicare pension costs were \$1,037,961.

RECOMMENDATIONS

We recommend that Georgia revise its Final Administrative Cost Proposals to increase claimed pension costs by \$25,889. We also recommend that Georgia claim future pension costs in accordance with Federal requirements and its Medicare contract.

AUDITEE'S COMMENTS

In written comments on our draft report, Georgia concurred with our recommendations. Georgia's response is included in its entirety as Appendix B.

INTRODUCTION

BACKGROUND

Georgia

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

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 Cost Accounting Standards (CAS) 412 and 413; and (2) funded as specified by Part 31 of the Federal Acquisition Regulation (FAR).

Beginning in fiscal year (FY) 1988, CMS incorporated specific segmentation language into Medicare contracts that requires contractors to use either an allocation method or a separate calculation method to identify and claim pension costs for Medicare reimbursement. Under the allocation method, the contractor determines total plan CAS pension costs and allocates a share to Medicare. Under the separate calculation method, the contractor separately identifies the pension cost components for the Medicare segment. The contractor must use the separate calculation method if its result is materially different from that of the allocation method.

Federal Regulations

The Medicare contracts address the determination and allocation of pension costs. Appendix B, Section XVI, of the contracts states: “The calculation of and accounting for pension costs charged to this agreement/contract are governed by the Federal Acquisition Regulation and Cost Accounting Standards 412 and 413.”

The FAR 31.205-6(j) addresses allowability of pension costs and requires that plan contributions 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 Georgia claimed for Medicare reimbursement for FYs 1994 through 2000.

Scope

We reviewed pension costs that Georgia claimed for Medicare reimbursement on its Final Administrative Cost Proposals (FACP) for FYs 1994 through 2000. Achieving the objective did not require that we review Georgia's overall internal control structure. However, we did review the internal controls related to the pension costs claimed for Medicare reimbursement to ensure that the pension costs were allowable in accordance with the CAS and funded in accordance with the FAR.

We performed fieldwork at Georgia's office in Atlanta, Georgia, during March 2007.

Methodology

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

We identified Georgia's CAS pension costs for the total company and the Medicare segment. We also determined the extent to which Georgia 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 2000. We based the calculations on separately computed CAS pension costs for the Medicare segment and total company CAS pension costs. The CMS Office of the Actuary calculated the allocable CAS pension costs based on Georgia's historical practices and on the results of our segmentation review ("Review of Medicare Contractor's Pension Segmentation Requirements at Blue Cross Blue Shield of Georgia for January 1, 1993, to May 31, 2001," A-07-07-00236). Appendix A contains details on the pension costs and contributions.

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

FINDING AND RECOMMENDATIONS

ALLOWABLE PENSION COSTS NOT CLAIMED

Georgia did not claim \$25,889 of pension costs that were allowable for Medicare reimbursement for FYs 1994-2000.

We calculated the allowable pension costs based on separately computed CAS pension costs for the Medicare segment and total company CAS pension costs. We compared allowable CAS pension costs with the pension costs claimed on Georgia's FACPs, as shown in the table below.

Pension Cost Claimed Variance			
FY	Per OIG	Per Georgia	Difference
1994	\$129,011	\$99,474	\$29,537
1995	166,049	114,909	51,140
1996	212,222	184,181	28,041
1997	179,408	182,037	(2,629)
1998	124,907	213,363	(88,456)
1999	22,603	0	22,603
2000	203,761	218,108	(14,347)
Total	\$1,037,961	\$1,012,072	\$25,889

For FYs 1994 through 2000, Georgia claimed pension costs of \$1,012,072 for Medicare reimbursement; however, allowable CAS pension costs were \$1,037,961. Therefore, Georgia did not claim \$25,889 of allowable pension costs. The underclaim occurred because Georgia based its claim on incorrectly computed CAS pension costs.

RECOMMENDATIONS

We recommend that Georgia:

- revise its FACPs to increase claimed pension costs by \$25,889, and
- claim future pension costs in accordance with Federal requirements and its Medicare contract.

AUDITEE'S COMMENTS

In written comments on our draft report, Georgia concurred with our recommendations. Georgia's response is included in its entirety as Appendix B.

APPENDIXES

BLUE CROSS BLUE SHIELD OF GEORGIA
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1994 THROUGH 2000

Date	Description		Total Company	Other Segment	Medicare Segment
1994	Contributions	1/	\$2,471,906	\$2,415,416	\$56,490
8.00%	Discount For Interest	2/	<u>(118,029)</u>	<u>(115,332)</u>	<u>(2,697)</u>
	Present Value Contributions	3/	2,353,877	2,300,084	53,793
	Prepayment Credit	4/	<u>1,064,574</u>	<u>1,007,532</u>	<u>57,042</u>
	Present Value Of Funding	5/	3,418,451	3,307,616	110,835
	CAS Funding Target	6/	2,068,530	1,957,695	110,835
	Percentage Funded	7/		<u>100.00%</u>	<u>100.00%</u>
	Funded Pension Cost	8/		1,957,695	110,835
	Allowable Interest	9/		<u>47,644</u>	<u>2,697</u>
	Allocable Pension Cost	10/		2,005,339	113,532
	Medicare LOB Percentage *	11/		<u>0.82%</u>	<u>99.15%</u>
	Allowable Pension Cost	12/	<u>\$129,011</u>	<u>\$16,444</u>	<u>\$112,567</u>
1995	Contributions		\$5,833,692	\$5,762,675	\$71,017
8.50%	Discount For Interest		<u>(397,559)</u>	<u>(392,719)</u>	<u>(4,840)</u>
	Present Value Contributions		5,436,133	5,369,956	66,177
	Prepayment Credit		<u>1,457,915</u>	<u>1,382,707</u>	<u>75,208</u>
	Present Value Of Funding		6,894,048	6,752,663	141,385
	CAS Funding Target		2,740,772	2,599,387	141,385
	Percentage Funded			<u>100.00%</u>	<u>100.00%</u>
	Funded Pension Cost			2,599,387	141,385
	Allowable Interest			<u>73,254</u>	<u>3,984</u>
	Allocable Pension Cost			2,672,641	145,369
	Medicare LOB Percentage			<u>0.82%</u>	<u>99.15%</u>
	Allowable Pension Cost		<u>\$166,049</u>	<u>\$21,916</u>	<u>\$144,133</u>

* Line of business.

**BLUE CROSS BLUE SHIELD OF GEORGIA
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1994 THROUGH 2000**

Date	Description	Total Company	Other Segment	Medicare Segment
1996	Contributions	\$3,402,868	\$3,402,868	\$0
8.50%	Discount For Interest	<u>(259,573)</u>	<u>(259,573)</u>	<u>0</u>
	Present Value Contributions	3,143,295	3,143,295	0
	Prepayment Credit	<u>3,596,113</u>	<u>3,410,275</u>	<u>185,838</u>
	Present Value Of Funding	6,739,408	6,553,570	185,838
	CAS Funding Target	3,596,113	3,410,275	185,838
	Percentage Funded		<u>100.00%</u>	<u>100.00%</u>
	Funded Pension Cost		<u>3,410,275</u>	<u>185,838</u>
	Allowable Interest		<u>0</u>	<u>0</u>
	Allocable Pension Cost		<u>3,410,275</u>	<u>185,838</u>
	Medicare LOB Percentage		<u>0.82%</u>	<u>99.15%</u>
	Allowable Pension Cost	<u>\$212,222</u>	<u>\$27,964</u>	<u>\$184,258</u>

1997	Contributions	\$2,560,816	\$2,560,816	\$0
8.50%	Discount For Interest	<u>(183,665)</u>	<u>(183,665)</u>	<u>0</u>
	Present Value Contributions	2,377,151	2,377,151	0
	Prepayment Credit	<u>3,378,723</u>	<u>3,221,552</u>	<u>157,171</u>
	Present Value Of Funding	5,755,874	5,598,703	157,171
	CAS Funding Target	3,378,723	3,221,552	157,171
	Percentage Funded		<u>100.00%</u>	<u>100.00%</u>
	Funded Pension Cost		<u>3,221,552</u>	<u>157,171</u>
	Allowable Interest		<u>0</u>	<u>0</u>
	Allocable Pension Cost		<u>3,221,552</u>	<u>157,171</u>
	Medicare LOB Percentage		<u>0.70%</u>	<u>99.80%</u>
	Allowable Pension Cost	<u>\$179,408</u>	<u>\$22,551</u>	<u>\$156,857</u>

**BLUE CROSS BLUE SHIELD OF GEORGIA
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1994 THROUGH 2000**

Date	Description	Total Company	Other Segment	Medicare Segment
1998	Contributions	\$1,905,231	\$1,899,746	\$5,485
9.00%	Discount For Interest	<u>(136,390)</u>	<u>(135,997)</u>	<u>(393)</u>
	Present Value Contributions	1,768,841	1,763,749	5,092
	Prepayment Credit	<u>3,685,159</u>	<u>3,592,510</u>	<u>92,649</u>
	Present Value Of Funding	5,454,000	5,356,259	97,741
	CAS Funding Target	3,887,751	3,790,010	97,741
	Percentage Funded		<u>100.00%</u>	<u>100.00%</u>
	Funded Pension Cost		3,790,010	97,741
	Allowable Interest		<u>12,591</u>	<u>325</u>
	Allocable Pension Cost		3,802,601	98,066
	Medicare LOB Percentage		<u>0.71%</u>	<u>99.84%</u>
	Allowable Pension Cost	<u>\$124,907</u>	<u>\$26,998</u>	<u>\$97,909</u>
1999	Contributions	\$1,282,570	\$1,282,570	\$0
9.00%	Discount For Interest	<u>(91,657)</u>	<u>(91,657)</u>	<u>0</u>
	Present Value Contributions	1,190,913	1,190,913	0
	Prepayment Credit	<u>1,707,211</u>	<u>1,707,211</u>	<u>0</u>
	Present Value Of Funding	2,898,124	2,898,124	0
	CAS Funding Target	3,050,497	3,050,497	0
	Percentage Funded		<u>95.00%</u>	<u>0.00%</u>
	Funded Pension Cost		2,898,124	0
	Allowable Interest		<u>75,921</u>	<u>0</u>
	Allocable Pension Cost		2,974,045	0
	Medicare LOB Percentage		<u>0.76%</u>	<u>99.74%</u>
	Allowable Pension Cost	<u>\$22,603</u>	<u>\$22,603</u>	<u>\$0</u>

BLUE CROSS BLUE SHIELD OF GEORGIA
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1994 THROUGH 2000

Date	Description	Total Company	Other Segment	Medicare Segment
2000	Contributions	\$3,692,783	\$3,503,889	\$188,894
9.00%	Discount For Interest	(276,552)	(262,406)	(14,146)
	Present Value Contributions	3,416,231	3,241,483	174,748
	Prepayment Credit	0	0	0
	Present Value Of Funding	3,416,231	3,241,483	174,748
	CAS Funding Target	3,387,874	3,213,126	174,748
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		3,213,126	174,748
	Allowable Interest		204,837	11,140
	Allocable Pension Cost		3,417,963	185,888
	Medicare LOB Percentage		0.53%	99.87%
	Allowable Pension Cost	\$203,761	\$18,115	\$185,646

FOOTNOTES

- 1/ 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. The amounts shown for the Other segment represent the difference between the Total Company and the Medicare segment.
- 2/ We subtracted the 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.
- 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.
- 4/ 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 Cost Accounting Standards (CAS) funding target. A prepayment credit may be carried forward, with interest, to fund future CAS pension costs.

**BLUE CROSS BLUE SHIELD OF GEORGIA
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1994 THROUGH 2000**

- 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 funding target must be funded by current or prepaid contributions to satisfy the funding requirement of the Federal Acquisition Regulation (FAR) 31.205-6(j)(2)(i).
- 7/ 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(c)(1) (as amended), 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.
- 8/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.
- 9/ We assumed that interest on the funded CAS pension cost, less the prepayment credit, accrues 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)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, was funded in four equal installments deposited within 30 days of the end of the quarter.
- 10/ The calendar year (CY) allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.
- 11/ We calculated allowable pension costs of the Medicare and Other Segments based on the Medicare line of business percentage of each segment. We obtained the percentages from documents provided by Georgia.
- 12/ Georgia did not convert its CY pension costs to a fiscal year (FY) basis. We accepted this methodology and computed the FY allowable Medicare pension cost as the CY allocable pension cost multiplied by the CY Medicare line of business percentage.



Blue Cross and Blue Shield of Georgia
3350 Peachtree Road, NE: P.O. Box 4445
Atlanta, Georgia 30326
An Independent Licensee of The Blue Cross and Blue Shield Association

A CMS Contracted Intermediary

October 9, 2007

Mr. Patrick J. Cogley, Regional Inspector General
Office of Inspector General
Office of Audit Services
Regional VII
601 East 12th Street, Room 284A
Kansas City, MO 64106

RE: Report Number: A-07-07-00238

Dear Mr. Cogley:

I am writing to provide comments related to the U.S. Department of Health and Human Services, Office of Inspector General (OIG) draft report. The report is entitled "Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross Blue Shield of Georgia for Fiscal Years 1994 Through 2000". The Report Number is A-07-07-00238.

Blue Cross Blue Shield of Georgia (BCBSGA) concurs with the one finding identified in the report. Therefore, BCBSGA will revise its Final Administrative Cost Proposals to increase claimed pension costs by \$25,889. Further, BCBSGA will claim future pension costs in accordance with Federal requirements and the Medicare contract.

If you have questions, please contact Art Ellis at (404) 842-8742 or by e-mail at aellis@bcbsga.com.

Sincerely,

A handwritten signature in cursive script that reads "Pamela F. Bell".

Pamela F. Bell
Vice President, Government Services
Blue Cross Blue Shield of Georgia

MEDICARE

Pamela Bell
Vice President

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