



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

MAY 06 2008

Report Number: A-07-08-00257

Mr. Mark Stimpson
Vice President Medicare Northwest
2890 East Cottonwood Parkway
P.O. Box 30270
Salt Lake City, Utah 84130

Dear Mr. Stimpson:

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 The Regence Group for Fiscal Years 1997 Through 2006." 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.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, this report will be posted on the Internet at <http://oig.hhs.gov>.

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-07-08-00257 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Patrick J. Cogley", with a large, sweeping flourish at the end.

Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Nanette Foster Reilly, Consortium Administrator
Consortium for Financial Management & Fee for Service Operations
Centers for Medicare & Medicaid Services
601 East 12th Street, Room 235
Kansas City, Missouri 64106

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS
CLAIMED FOR MEDICARE
REIMBURSEMENT BY THE
REGENCE GROUP FOR FISCAL
YEARS 1997 THROUGH 2006**



Daniel R. Levinson
Inspector General

May 2008
A-07-08-00257

Office of Inspector General

<http://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

The Regence Group (Regence) administered both Medicare Part A and Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated November 30, 2005. The effective closing date for the Medicare segments was January 1, 2006. Regence also served as the Common Working File (CWF) Host for the Great Western Sector and Pacific Sector under separate cost reimbursable contracts until the contracts were terminated on September 30, 2004.

Regence was formed on January 1, 1997, with the merger of Blue Cross Blue Shield of Oregon, King County Medical Blue Shield, Pierce County Medical Bureau, and Medical Service Bureau of Idaho. Each of these four entities had previously maintained a separate qualified defined benefit pension plan. Effective January 1, 1997, Regence merged these four plans to form The Regence Group Retirement Plan. Then, on January 1, 1998, Blue Cross Blue Shield of Utah merged with Regence and merged its noncontributory retirement program into the Regence pension plan. This merger effectively created two Medicare segments: the Oregon Medicare segment and the Utah Medicare segment. This report addresses our review of pension costs claimed for both segments.

During the period of its contract relationship with CMS, Regence prepared and filed three Final Administrative Cost Proposals (FACP). These FACPs contained costs related to the Oregon Medicare Part A operations, Utah Medicare Part A and Part B operations, and CWF costs.

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 (CAS), and Medicare contracts.

The Medicare contracts require contractors to use either an allocation method or a separate calculation method to identify and claim 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 claimed for Medicare reimbursement by Regence on:

- the Oregon and CWF FACPs for fiscal years (FY) 1997 through 2006, and
- the Utah FACPs for FYs 1998 through 2006.

SUMMARY OF FINDINGS

Regence did not claim \$256,658 of allowable Medicare pension costs on its Oregon and CWF FACPs for FYs 1997 through 2006, primarily because Regence made adjustments to its pension costs claimed on the FACPs for FY 1997 and 1998, which reduced the claimed amount to less than the calculated allowable pension costs. Regence claimed pension costs of \$3,038,324 for Medicare reimbursement; however, we determined the allowable CAS pension costs were \$3,294,982.

Regence also did not claim \$664,538 of allowable Medicare pension costs on its Utah FACPs for FYs 1998 through 2006, primarily because (1) Regence adjusted its FACPs to claim zero pension costs for FYs 1998 and 1999 and (2) Regence incorrectly used the contribution amount instead of the CAS pension costs for calendar year 2003 to calculate the allowable pension costs for FYs 2003 and 2004. Regence claimed pension costs of \$1,636,167 for Medicare reimbursement; however, we determined the allowable CAS pension costs were \$2,300,705.

RECOMMENDATIONS

We recommend that Regence:

- revise its Oregon and CWF FACPs for FYs 1997 through 2006 to claim the additional allowable pension costs of \$256,658, and
- revise its Utah FACPs for FYs 1998 through 2006 to claim the additional allowable pension costs of \$664,538.

AUDITEE COMMENTS

In written comments on our draft report, Regence concurred with the audit results but stated that the “. . . scope of this audit is limited to the Medicare Part A and Part B cost reimbursement contracts that terminated on November 30, 2005 and does not include the Oregon Medicare Data Center contract which terminated on December 31, 2006.”

Regence’s comments are included in their entirety as Appendix B.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing Regence’s written comments, we continue to support our findings and recommendations. The data center costs were included in the allowable costs calculated in the scope of this audit. The data center costs from January 1, 2006, through the termination of the Oregon Medicare Data Center were outside the scope of this audit report.

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INTRODUCTION

BACKGROUND

The Regence Group

The Regence Group (Regence) administered both Medicare Part A and Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated November 30, 2005. The effective closing date for the Medicare segments was January 1, 2006. Regence also served as the Common Working File Host (CWF) for the Great Western Sector and Pacific Sector under separate cost reimbursable contracts until the contracts were terminated on September 30, 2004.

Regence was formed on January 1, 1997, with the merger of Blue Cross Blue Shield of Oregon, King County Medical Blue Shield, Pierce County Medical Bureau, and Medical Service Bureau of Idaho. Each of these four entities had previously maintained a separate qualified defined benefit pension plan. Effective January 1, 1997, Regence merged these four plans to form The Regence Group Retirement Plan. Then, on January 1, 1998, Blue Cross Blue Shield of Utah merged with Regence and merged its noncontributory retirement program into the Regence pension plan. This merger effectively created two Medicare segments: the Oregon Medicare segment and the Utah Medicare segment. This report addresses our review of pension costs claimed for both segments.

Regence prepared and filed three Final Administrative Cost Proposals (FACP) during the period of its contract relationship with CMS. These FACP's contained costs related to the Oregon Medicare Part A operations, Utah Medicare Part A and Part B operations, and CWF costs.

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 the 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. Contractors must use the separate calculation method if its result is materially different from that of the allocation method.

Federal Requirements

The Medicare contracts address the determination and allocation of pension costs. The contracts state: “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.”

FAR 31.205-6(j) addresses allowability of pension costs and requires plan contributions to substantiate pension costs assigned to contract periods.

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

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 claimed for Medicare reimbursement by Regence on:

- the Oregon and CWF FACPs for FY 1997 through 2006, and
- the Utah FACPs for FYs 1998 through 2006.

Scope

We reviewed pension costs claimed for Medicare reimbursement on Regence’s FACPs for FYs 1997 through 2006. Achieving the objective did not require that we review Regence’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 allocable in accordance with the CAS and allowable in accordance with the FAR.

We performed fieldwork at Regence’s offices in Portland, Oregon, and Salt Lake City, Utah.

Methodology

We reviewed the applicable portions of the Medicare contract, FAR, and CAS to determine the Federal requirements for pension plans.

We identified Regence’s CAS pension costs for the total company and the Medicare segments. We also determined the extent to which Regence funded CAS pension costs with contributions to the pension trust fund and accumulated prepayment credits. We based our calculations on

separately computed CAS pension costs for the Medicare segments and total company CAS pension costs. The CMS Office of the Actuary calculated the allocable CAS pension costs based on Regence's historical practices and on the results of our segmentation review "Review of Pension Segmentation Requirements at The Regence Group, a Terminated Medicare Contractor, for the Period of January 1, 1997, to January 1, 2006" (A-07-07-00242). We reviewed the CMS actuaries' methodology and calculations. Appendix A contains details on the pension costs and contributions.

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

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINDINGS AND RECOMMENDATIONS

Regence did not claim \$256,658 of allowable Medicare pension costs on its Oregon and CWF FACPs for FYs 1997 through 2006, primarily because Regence made adjustments to its pension costs claimed on the FACPs for FY 1997 and 1998, which reduced the claimed amount to less than the calculated allowable pension costs. Regence claimed pension costs of \$3,038,324 for Medicare reimbursement; however, we determined the allowable CAS pension costs were \$3,294,982.

Regence also did not claim \$664,538 of allowable Medicare pension costs on its Utah FACPs for FYs 1998 through 2006, primarily because (1) Regence adjusted its FACPs to claim zero pension costs for FYs 1998 and 1999 and (2) Regence incorrectly used the contribution amount instead of the CAS pension costs for calendar year 2003 to calculate the allowable pension costs for FYs 2003 and 2004. Regence claimed pension costs of \$1,636,167 for Medicare reimbursement; however, we determined the allowable CAS pension costs were \$2,300,705.

Pension Costs Underclaimed (Oregon and Common Working File)

Regence did not claim \$256,658 of allowable Medicare pension costs on its Oregon and CWF¹ FACPs for FYs 1997 through 2006.²

¹Regence included the Oregon and CWF participants in the Oregon Medicare segment; therefore, we developed one line-of-business percentage to determine the total allowable pension costs. For comparison purposes, we combined the pension costs claimed by Regence on the Oregon and CWF FACPs.

²The allowable pension costs for FY 2006 were attributable to the pension costs for October 1 through December 31, 2005. This applies to the calculation of the FY 2006 costs for both the Oregon and Utah FACPs.

We calculated the allowable pension costs based on separately computed CAS pension costs for the Medicare segment and the total company. For FYs 1997 through 2006, Regence claimed pension costs of \$3,038,324 for Medicare reimbursement; however, we determined the allowable CAS pension costs were \$3,294,982.

We compared allowable CAS pension costs with the pension costs claimed on Regence's FACP, as shown in Table 1.

Table 1: Cost Claimed Variance for Oregon & CWF FACP			
Fiscal Year	Per OIG	Per Regence	Difference
1997	\$201,165	\$87,461	\$113,704
1998	136,496	22,853	113,643
1999	139,880	164,200	(24,320)
2000	78,481	138,667	(60,186)
2001³	326,705	313,072	13,633
2002	441,651	358,775	82,876
2003	626,593	666,215	(39,622)
2004	615,932	640,755	(24,823)
2005	583,144	517,061	66,083
2006	144,935	129,265	15,670
Total	\$3,294,982	\$3,038,324	\$256,658

We determined that Regence underclaimed these costs primarily because Regence made adjustments to its pension costs claimed on the FACP for FY 1997 and 1998, which reduced the claimed amount to less than the calculated allowable pension costs. As a result, Regence did not claim \$256,658 of allowable pension costs.

Pension Costs Underclaimed (Utah)

Regence did not claim \$664,538 of allowable Medicare pension costs on its Utah FACP for FYs 1998 through 2006.

We calculated the allowable pension costs based on separately computed CAS pension costs for the Medicare segment and the total company. For FYs 1998 through 2006, Regence claimed pension costs of \$1,636,167 for Medicare reimbursement; however, we determined the allowable CAS pension costs were \$2,300,705.

³Starting in FY 2001, the Utah Part A pension costs were claimed in the Oregon FACP. Therefore, we included the Utah Part A allowable pension costs with the allowable pension costs for Oregon as shown in Appendix A.

We compared allowable CAS pension costs with the pension costs claimed on Regence’s FACPs, as shown in Table 2.

Table 2: Cost Claimed Variance for Utah FACPs			
Fiscal Year	Per OIG	Per Regence	Difference
1998	\$228,302	\$0	\$228,302
1999	122,429	0	122,429
2000	151,726	130,191	21,535
2001	187,474	183,198	4,276
2002	231,575	229,947	1,628
2003	378,387	250,776	127,611
2004	450,667	315,724	134,943
2005	441,312	443,628	(2,316)
2006	108,833	82,703	26,130
Total	\$2,300,705	\$1,636,167	\$664,538

We determined that Regence underclaimed these costs primarily because (1) Regence adjusted its FACPs to claim zero pension costs for FYs 1998 and 1999 and (2) Regence incorrectly used the contribution amount instead of the CAS pension costs for calendar year 2003 to calculate the allowable pension costs for FYs 2003 and 2004. As a result, Regence did not claim \$664,518 of allowable pension costs.

RECOMMENDATIONS

We recommend that Regence:

- revise its Oregon and CWF FACPs for FYs 1997 through 2006 to claim the additional allowable pension costs of \$256,658, and
- revise its Utah FACPs for FYs 1998 through 2006 to claim the additional allowable pension costs of \$664,538.

OTHER MATTER

As of January 1, 2006, Regence reported \$101,413 of accumulated unallowable pension costs for the Utah Medicare segment. We determined that Regence overstated accumulated unallowable pension costs by \$49,727 for the Utah Medicare segment and therefore should recognize \$51,686 of accumulated unallowable pension costs. We used audited accumulated unallowable pension costs in the termination report (A-07-07-00242) to calculate the excess pension liabilities attributable to the Utah Medicare segment.

AUDITEE COMMENTS

In written comments on our draft report, Regence concurred with the audit results but stated that the “. . . scope of this audit is limited to the Medicare Part A and Part B cost reimbursement contracts that terminated on November 30, 2005 and does not include the Oregon Medicare Data Center contract which terminated on December 31, 2006.”

Regence’s comments are included in their entirety as Appendix B.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing Regence’s written comments, we continue to support our findings and recommendations. The data center costs were included in the allowable costs calculated within the scope of the audit (October 1, 1996, through December 31, 2005). The data center costs from January 1, 2006, through the termination of the Oregon Medicare Data Center were outside the scope of this audit report.

APPENDIXES

THE REGENCE GROUP
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1997 THROUGH 2006

Date	Description	Total Company	Other Segment	Oregon Medicare Segment
1996	Contributions	<u>1/</u> \$3,966,334	\$3,966,334	\$0
8.50%	Discount For Interest	<u>2/</u> (210,362)	(210,362)	0
	Present Value Contributions	<u>3/</u> 3,755,972	3,755,972	0
	Prepayment Credit Applied	<u>4/</u> 4,069,510	3,923,771	145,739
	Present Value Of Funding	<u>5/</u> 7,825,482	7,679,743	145,739
	CAS Funding Target	<u>6/</u> 4,069,510	3,923,771	145,739
	Percentage Funded	<u>7/</u>	100.00%	100.00%
	Funded Pension Cost	<u>8/</u>	3,923,771	145,739
	Allowable Interest	<u>9/</u>	0	0
	Allocable Pension Cost	<u>10/</u>	3,923,771	145,739
	Medicare LOB Percentage *	<u>11/</u>	1.26%	94.03%
1996	Oregon Allowable Calendar Year (CY) Pension Cost	<u>12/</u>	49,440	137,038

1997	Contributions	\$5,729,488	\$5,647,809	\$81,679
9.00%	Discount For Interest	(344,495)	(339,584)	(4,911)
	Present Value Contributions	5,384,993	5,308,225	76,768
	Prepayment Credit Applied	4,608,747	4,503,049	105,698
	Present Value Of Funding	9,993,740	9,811,274	182,466
	CAS Funding Target	7,956,086	7,773,620	182,466
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		7,773,620	182,466
	Allowable Interest		208,499	4,894
	Allocable Pension Cost		7,982,119	187,360
	Medicare LOB Percentage		0.40%	92.94%
1997	Oregon Allowable CY Pension Cost		31,928	174,132
1997	Oregon Allowable Fiscal Year (FY) Pension Cost	<u>13/</u> \$201,165	36,306	164,859

THE REGENCE GROUP
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1997 THROUGH 2006

Date	Description	Total Company	Other Segment	Oregon Medicare Segment	Utah Medicare Segment
1998	Contributions	\$3,531,602	\$3,388,417	\$50,391	\$92,794
9.00%	Discount For Interest	(281,219)	(269,817)	(4,013)	(7,389)
	Present Value Contributions	3,250,383	3,118,600	46,378	85,405
	Prepayment Credit Applied	2,669,175	2,559,724	38,519	70,932
	Present Value Of Funding	5,919,558	5,678,324	84,897	156,337
	CAS Funding Target	5,882,933	5,641,699	84,897	156,337
	Percentage Funded		100.00%	100.00%	100.00%
	Funded Pension Cost		5,641,699	84,897	156,337
	Allowable Interest		196,476	2,957	5,445
	Allocable Pension Cost		5,838,175	87,854	161,782
	Oregon Part A and CWF LOB Percentage		0.60%	89.10%	
	Utah Medicare Part A LOB Percentage		0.32%		29.31%
	Utah Medicare Part B LOB Percentage		0.75%		64.42%
1998	Oregon Allowable CY Pension Cost		35,029	78,278	
1998	Utah Part A Allowable CY Pension Cost		18,682		47,418
1998	Utah Part B Allowable CY Pension Cost		43,786		104,220
1997	Utah Part A Allowable CY pension costs	14/	8,757	N/A	14,412
1997	Utah Part B Allowable CY pension costs	14/	16,055	N/A	28,498
1998	Oregon Allowable FY Pension Cost	\$136,496	34,254	102,242	
1998	Utah Allowable FY Pension Cost	15/ \$228,302	71,663		156,639
1998	Total Allowable FY Pension Cost	16/ \$364,798	\$105,917	\$102,242	\$156,639

1999	Contributions	\$10,000,000	\$9,814,055	\$128,981	\$56,964
9.00%	Discount For Interest	(812,477)	(797,370)	(10,479)	(4,628)
	Present Value Contributions	9,187,523	9,016,685	118,502	52,336
	Prepayment Credit Applied	39,921	38,573	935	413
	Present Value Of Funding	9,227,444	9,055,258	119,437	52,749
	CAS Funding Target	5,097,035	4,924,849	119,437	52,749
	Percentage Funded		100.00%	100.00%	100.00%
	Funded Pension Cost		4,924,849	119,437	52,749
	Allowable Interest		311,500	7,555	3,336
	Allocable Pension Cost		5,236,349	126,992	56,085
	Oregon Part A and CWF LOB Percentage		0.66%	89.91%	
	Utah Medicare Part A LOB Percentage		0.33%		31.46%
	Utah Medicare Part B LOB Percentage		0.37%		66.99%
1999	Oregon Allowable CY Pension Cost		34,560	114,179	
1999	Utah Part A Allowable CY Pension Cost		17,280		17,644
1999	Utah Part B Allowable CY Pension Cost		19,374		37,571
1999	Oregon Allowable FY Pension Cost	\$139,880	34,677	105,203	
1999	Utah Allowable FY Pension Cost	\$122,429	43,108		79,321
1999	Total Allowable FY Pension Cost	\$262,309	\$77,785	\$105,203	\$79,321

THE REGENCE GROUP
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1997 THROUGH 2006

Date	Description	Total Company	Other Segment	Oregon Medicare Segment	Utah Medicare Segment
2000	Contributions	\$14,000,000	\$13,918,588	\$10,364	\$71,048
9.00%	Discount For Interest	<u>(971,356)</u>	<u>(965,708)</u>	<u>(719)</u>	<u>(4,929)</u>
	Present Value Contributions	13,028,644	12,952,880	9,645	66,119
	Prepayment Credit Applied	<u>4,502,146</u>	<u>4,436,747</u>	<u>8,326</u>	<u>57,073</u>
	Present Value Of Funding	17,530,790	17,389,627	17,971	123,192
	CAS Funding Target	9,717,728	9,576,566	17,971	123,191
	Percentage Funded		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
	Funded Pension Cost		<u>9,576,566</u>	<u>17,971</u>	<u>123,191</u>
	Allowable Interest		<u>327,663</u>	<u>615</u>	<u>4,215</u>
	Allocable Pension Cost		<u>9,904,229</u>	<u>18,586</u>	<u>127,406</u>
	Oregon Part A and CWF LOB Percentage		0.39%	88.43%	
	Utah Medicare Part A LOB Percentage		0.13%		29.90%
	Utah Medicare Part B LOB Percentage		<u>0.33%</u>		<u>69.09%</u>
2000	Oregon Allowable CY Pension Cost		38,626	16,436	
2000	Utah Part A Allowable CY Pension Cost		12,875		38,094
2000	Utah Part B Allowable CY Pension Cost		32,684		88,025
2000	Oregon Allowable FY Pension Cost	\$78,481	37,609	40,872	
2000	Utah Allowable FY Pension Cost	<u>\$151,726</u>	<u>43,333</u>		<u>108,393</u>
2000	Total Allowable FY Pension Cost	<u>\$230,207</u>	<u>\$80,942</u>	<u>\$40,872</u>	<u>\$108,393</u>

2001	Contributions	\$31,430,868	\$31,200,530	\$125,131	\$105,207
8.50%	Discount For Interest	<u>(1,973,062)</u>	<u>(1,958,603)</u>	<u>(7,855)</u>	<u>(6,604)</u>
	Present Value Contributions	29,457,806	29,241,927	117,276	98,603
	Prepayment Credit Applied	<u>8,516,238</u>	<u>8,303,290</u>	<u>115,683</u>	<u>97,265</u>
	Present Value Of Funding	37,974,044	37,545,217	232,959	195,868
	CAS Funding Target	17,149,711	16,720,884	232,959	195,868
	Percentage Funded		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
	Funded Pension Cost		<u>16,720,884</u>	<u>232,959</u>	<u>195,868</u>
	Allowable Interest		<u>506,809</u>	<u>7,061</u>	<u>5,937</u>
	Allocable Pension Cost		<u>17,227,693</u>	<u>240,020</u>	<u>201,805</u>
	Oregon Part A and CWF LOB Percentage		0.63%	89.41%	
	Utah Medicare Part A LOB Percentage		0.13%		27.12%
	Utah Medicare Part B LOB Percentage		<u>0.37%</u>		<u>72.34%</u>
2001	Oregon Allowable CY Pension Cost		108,534	214,602	
2001	Utah Part A Allowable CY Pension Cost		22,396		54,730
2001	Utah Part B Allowable CY Pension Cost		63,742		145,986
2001	Oregon Allowable FY Pension Cost	<u>17/</u> \$326,705	111,073	165,061	50,571
2001	Utah Allowable FY Pension Cost	<u>\$187,474</u>	<u>55,978</u>		<u>131,496</u>
2001	Total Allowable FY Pension Cost	<u>\$514,179</u>	<u>\$167,051</u>	<u>\$165,061</u>	<u>\$182,067</u>

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Date	Description	Total Company	Other Segment	Oregon Medicare Segment	Utah Medicare Segment
2002	Contributions	\$41,824,000	\$41,824,000	\$0	\$0
8.50%	Discount For Interest	<u>(2,754,910)</u>	<u>(2,754,910)</u>	<u>0</u>	<u>0</u>
	Present Value Contributions	39,069,090	39,069,090	0	0
	Prepayment Credit Applied	<u>18,031,332</u>	<u>17,513,482</u>	<u>281,101</u>	<u>236,749</u>
	Present Value Of Funding	57,100,422	56,582,572	281,101	236,749
	CAS Funding Target	18,031,332	17,513,482	281,101	236,749
	Percentage Funded		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
	Funded Pension Cost		<u>17,513,482</u>	<u>281,101</u>	<u>236,749</u>
	Allowable Interest		<u>0</u>	<u>0</u>	<u>0</u>
	Allocable Pension Cost		<u>17,513,482</u>	<u>281,101</u>	<u>236,749</u>
	Oregon Part A and CWF LOB Percentage		0.55%	96.79%	
	Utah Medicare Part A LOB Percentage		0.13%		27.15%
	Utah Medicare Part B LOB Percentage		<u>0.38%</u>		<u>72.78%</u>
2002	Oregon Allowable CY Pension Cost		96,324	272,078	
2002	Utah Part A Allowable CY Pension Cost		22,768		64,277
2002	Utah Part B Allowable CY Pension Cost		66,551		172,306
2002	Oregon Allowable FY Pension Cost	\$441,651	122,052	257,709	61,890
2002	Utah Allowable FY Pension Cost	<u>\$231,575</u>	<u>65,849</u>		<u>165,726</u>
2002	Total Allowable FY Pension Cost	<u>\$673,226</u>	<u>\$187,901</u>	<u>\$257,709</u>	<u>\$227,616</u>

2003	Contributions	\$35,945,000	\$35,945,000	\$0	\$0
7.50%	Discount For Interest	<u>(2,387,417)</u>	<u>(2,387,417)</u>	<u>0</u>	<u>0</u>
	Present Value Contributions	33,557,583	33,557,583	0	0
	Prepayment Credit Applied	<u>27,942,130</u>	<u>27,142,899</u>	<u>435,643</u>	<u>363,588</u>
	Present Value Of Funding	61,499,713	60,700,482	435,643	363,588
	CAS Funding Target	27,942,130	27,142,899	435,643	363,588
	Percentage Funded		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
	Funded Pension Cost		<u>27,142,899</u>	<u>435,643</u>	<u>363,588</u>
	Allowable Interest		<u>0</u>	<u>0</u>	<u>0</u>
	Allocable Pension Cost		<u>27,142,899</u>	<u>435,643</u>	<u>363,588</u>
	Oregon Part A and CWF LOB Percentage		0.46%	97.48%	
	Utah Medicare Part A LOB Percentage		0.15%		25.69%
	Utah Medicare Part B LOB Percentage		<u>0.57%</u>		<u>74.31%</u>
2003	Oregon Allowable CY Pension Cost		124,857	424,665	
2003	Utah Part A Allowable CY Pension Cost		40,714		93,406
2003	Utah Part B Allowable CY Pension Cost		154,715		270,182
2003	Oregon Allowable FY Pension Cost	\$626,593	153,951	386,518	86,124
2003	Utah Allowable FY Pension Cost	<u>\$378,387</u>	<u>132,674</u>		<u>245,713</u>
2003	Total Allowable FY Pension Cost	<u>\$1,004,980</u>	<u>\$286,625</u>	<u>\$386,518</u>	<u>\$331,837</u>

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Date	Description	Total Company	Other Segment	Oregon Medicare Segment	Utah Medicare Segment
2004	Contributions	\$63,000,000	\$63,000,000	\$0	\$0
7.50%	Discount For Interest	(3,993,174)	(3,993,174)	0	0
	Present Value Contributions	59,006,826	59,006,826	0	0
	Prepayment Credit Applied	27,616,125	26,847,424	459,428	309,273
	Present Value Of Funding	86,622,951	85,854,250	459,428	309,273
	CAS Funding Target	27,616,125	26,847,424	459,428	309,273
	Percentage Funded		100.00%	100.00%	100.00%
	Funded Pension Cost		26,847,424	459,428	309,273
	Allowable Interest		0	0	0
	Allocable Pension Cost		26,847,424	459,428	309,273
	Oregon Part A and CWF LOB Percentage		0.35%	95.18%	
	Utah Medicare Part A LOB Percentage		0.09%		12.27%
	Utah Medicare Part B LOB Percentage		0.70%		87.73%
2004	Oregon Allowable CY Pension Cost		93,966	437,284	
2004	Utah Part A Allowable CY Pension Cost		24,163		37,948
2004	Utah Part B Allowable CY Pension Cost		187,932		271,325
2004	Oregon Allowable FY Pension Cost	\$615,932	129,990	434,129	51,813
2004	Utah Allowable FY Pension Cost	\$450,667	179,628		271,039
2004	Total Allowable FY Pension Cost	<u>\$1,066,599</u>	<u>\$309,618</u>	<u>\$434,129</u>	<u>\$322,852</u>

2005	Contributions	\$25,000,000	\$25,000,000	\$0	\$0
7.50%	Discount For Interest	(1,744,186)	(1,744,186)	0	0
	Present Value Contributions	23,255,814	23,255,814	0	0
	Prepayment Credit Applied	28,469,657	27,710,547	456,787	302,323
	Present Value Of Funding	51,725,471	50,966,361	456,787	302,323
	CAS Funding Target	28,469,657	27,710,547	456,787	302,323
	Percentage Funded		100.00%	100.00%	100.00%
	Funded Pension Cost		27,710,547	456,787	302,323
	Allowable Interest		0	0	0
	Allocable Pension Cost		27,710,547	456,787	302,323
	Oregon Part A and CWF LOB Percentage		0.41%	93.03%	
	Utah Medicare Part A LOB Percentage		0.03%		10.87%
	Utah Medicare Part B LOB Percentage		0.60%		89.00%
2005	Oregon Allowable CY Pension Cost		113,613	424,949	
2005	Utah Part A Allowable CY Pension Cost		8,313		32,863
2005	Utah Part B Allowable CY Pension Cost		166,263		269,067
2005	Oregon Allowable FY Pension Cost	\$583,144	120,977	428,033	34,134
2005	Utah Allowable FY Pension Cost	\$441,312	171,680		269,632
2005	Total Allowable FY Pension Cost	<u>\$1,024,456</u>	<u>\$292,657</u>	<u>\$428,033</u>	<u>\$303,766</u>

2006	Oregon Allowable FY Pension Cost	18/ \$144,935	30,482	106,237	8,216
2006	Utah Allowable FY Pension Cost	19/ \$108,833	41,566		67,267
2006	Total Allowable FY Pension Cost	<u>\$253,768</u>	<u>\$72,048</u>	<u>\$106,237</u>	<u>\$75,483</u>

* Line of business.

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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. We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-07-00242). 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-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. We deemed deposits made after the end of the plan year to have been made on the final day of the plan year, consistent with the method mandated by the Employee Retirement Income Security Act of 1974.
- 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 is carried forward, with interest, to the first of each subsequent plan year until needed to fund future CAS pension costs. The accumulated value of prepayment credits is available as of the first day of the plan year and is applied as of the first day of the plan year to cover the cost assigned to the period.
- 5/ The present value of funding represents the present value of current year contributions plus applied prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at the first day of each plan year.
- 6/ The CAS funding target must be funded by accumulated prepayment credits or current year 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 current year contributions. However, we limited the interest in accordance with 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 30 days after the end of the quarter.
- 10/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.
- 11/ We calculated allowable pension costs for the Medicare segments and Other segment based on the Medicare line of business (LOB) percentage of each segment. We determined the percentages based upon documents provided by The Regence Group.

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STATEMENT OF ALLOWABLE PENSION COSTS
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- 12/ We computed the allowable Medicare pension cost as the calendar year pension cost multiplied by the Medicare LOB percentage.
- 13/ We converted the plan year (January 1 through December 31) allowable pension costs to a Federal fiscal year (FY) basis (October 1 through September 30). We calculated the FY 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. For FYs 1997 through 2000, the allowable Oregon pension costs represent both allowable pension costs for the Oregon Part A and Common Working File contracts.
- 14/ We calculated the allowable pension costs for the 1/4 of the 1997 pension costs attributable to the Utah plan prior to the merger with Regence. We determined the 1997 Allowable CY pension costs from the calculation of the 1997 pension costs developed in the prior pension costs claimed audit performed at BlueCross BlueShield of Utah (A-07-06-00199). The pension costs shown are 1/4 of the allowable calendar year 1997 pension costs.
- 15/ For FYs 1998 through 2000, the Utah allowable pension costs represent the allowable pension costs for both the Utah Part A and Utah Part B contracts.
- 16/ We computed the total allowable FY pension costs by adding the total allowable pension costs for both the Oregon allowable FY pension cost and Utah allowable FY pension cost.
- 17/ Starting in FY 2001, Regence claimed the Utah Medicare Part A costs on the Oregon FACP. As a result, we calculated and included the Utah Medicare Part A pension costs on the Oregon FY allowable pension costs.
- 18/ We computed Oregon's allowable pension costs for FY 2006 that were attributable to the pension costs for October 1 through December 31, 2005, by taking 1/4 of the 2005 pension costs.
- 19/ We computed Utah's allowable pension costs for FY 2006 that were attributable to the pension costs for October 1 through December 31, 2005, by taking 1/4 of the 2005 pension costs.

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Regence

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4/29/08

Mark Stimpson
Director of Medicare
Regence Blue Cross Blue Shield

OIG
c/o Jenenne Tambke
2425 Hyde Park Road
Jefferson City, Missouri 65109

Re: OIG Medicare Pension audit draft response: report A-07-08-00257

Ms. Tambke,

We concur with the audit results with the following note:

(1) We note that the scope of this audit is limited to the Medicare Part A and Part B cost reimbursement contracts that terminated on November 30, 2005 and does not include the Oregon Medicare Data Center contract which terminated on December 31, 2006. We will submit via separate voucher for Data Center pension to CMS.

Thank you,


Mark Stimpson