

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 FLORIDA**



JUNE GIBBS BROWN
Inspector General

DECEMBER 1995
CIN: A-07-95-01 125



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

CIN: A-07-95-01 125

December 7, 1995

Mr. Rick Kibler
Director of Internal Audit
Blue Cross and Blue Shield of Florida
P.O. Box 1798 - JMA-3
Jacksonville, Florida 32231-0014

Dear Mr. Kibler:

This report provides 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 Florida*. The purpose of our review was to determine the allowability of Fiscal Years 1992 and 1993 pension costs claimed for Medicare reimbursement.

For 1992 and 1993, we determined that Blue Cross and Blue Shield of Florida (Florida) has not claimed \$216,113 in pension costs that are allowable for Medicare reimbursement. During this period, the allowable Medicare pension costs were \$2,808,784. However, Florida claimed pension costs of \$2,592,671 for Medicare reimbursement. As a result, Florida has not claimed \$216,113 in allowable CAS pension costs. The under claim occurred primarily because Florida based its claim on estimated pension costs as computed by their consulting actuary.

We are recommending Florida revise its Final Administrative Cost Proposals (FACPs) to claim the remaining allowable pension costs. Florida agreed to revise its 1992 FACP to claim allowable pension costs, however, Florida is continuing to review our computation of the 1993 pension costs. Florida's response is included in its entirety as Appendix B.

INTRODUCTION

BACKGROUND

Florida has administered Medicare Part A and Part B operations under cost reimbursement contracts since Medicare's inception. Contractors were to follow cost reimbursement principles contained in the CAS, the Federal Acquisition Regulations (FAR), which superseded the Federal Procurement Regulations, and their Medicare contracts.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 the separate calculation method, a contractor separately identifies normal costs and amortization for the Medicare segment. Under the allocation method, a contractor determines total plan CAS costs and allocates a share to Medicare. This allocation includes direct and indirect costs.

SCOPE OF AUDIT

We made our examination in accordance with generally accepted government auditing standards. This audit addresses **only** one expense category, pension costs. Our objective was to identify allowable CAS pension costs for Fiscal Years 1992 and 1993. Achieving our objective did not require that we review Florida's internal control structure.

This review was done in conjunction with our audits of pension segmentation (CIN: A-07-94-01107) and unfunded pension costs (CIN: A-07-95-01 126). The information obtained and reviewed during those audits was also used in performing this review.

In our audit of unfunded pension costs, 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. Appendix A contains the details on the pension costs and contributions. Using this information, we calculated CAS pension costs that are allowable for Medicare reimbursement for Fiscal Years 1992 and 1993.

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

We performed site work during September 1994 at Florida's corporate offices in Jacksonville, Florida. Subsequently, we performed audit work in the OIG, OAS, Jefferson City, Missouri Field Office.

FINDING AND RECOMMENDATION

For Fiscal Years 1992 and 1993, Florida has not claimed \$216,113 in pension costs that are allowable for Medicare reimbursement. The pension costs are allowable because the funded portion of CAS pension costs exceeded the pension costs claimed for reimbursement. The under claim occurred primarily because Florida based their claim on estimated pension costs provided by their actuary. Florida should revise its FACPs to claim the remaining allowable pension costs.

For Fiscal Years 1992 and 1993, Florida claimed pension costs for Medicare reimbursement on FACPs. Florida's claims were based on estimated pension costs provided by their consulting actuary. Florida assigned a portion of the estimated pension costs to Medicare direct and indirect operations using cost center and line of business information.

Pension costs that are allowable for Medicare reimbursement are limited to the lesser of CAS computed pension costs or actual contributions. We calculated the allowable CAS pension costs for the Medicare segment and for indirect Medicare operations. Our calculations were based on separately computed CAS pension costs for the Medicare segment and total company CAS pension costs. We compared the allowable CAS pension costs to the pension costs claimed on Florida's FACPs and found:

<u>Fiscal</u> <u>Year</u>	costs <u>Claimed</u> (A)	Allowable <u>CAS Costs</u> (B)	<u>Variance</u> (A)-(B)
1992	\$ 0	\$1,069,960	\$(1,069,960)
1993	<u>2,592,671</u>	<u>1,738,824</u>	<u>853,847</u>
TOTAL	<u><u>2,592,671</u></u>	<u><u>2,808,784</u></u>	<u><u>\$ (216.113)</u></u>

For 1992 and 1993, Florida claimed pension costs of \$2,592,671 for Medicare reimbursement. However, the allowable CAS pension costs were \$2,808,784. As a result, Florida has not claimed \$216,113 of CAS pension costs that are allowable for Medicare reimbursement.

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Recommendation

We recommend that Florida:

- 0 Revise its FACPs for Fiscal Years 1992 and 1993 to claim \$216,113 in allowable CAS pension costs.

Auditee Response

Florida agreed that it did not fully claim its pension costs for Fiscal Year 1992 and anticipates that it will request reimbursement for the unclaimed costs. Florida is continuing to review the disallowance of \$853,847 in Fiscal Year 1993 pension costs.

INSTRUCTIONS FOR AUDITEE RESPONSE

Final determination 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 each of 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.

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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 in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

Sincerely,



Barbara A. Bennett
Regional Inspector General for
Audit Services, Region VII

Enclosure

HHS Action Official:

Mr. Clarence J. Boone
Acting Regional Administrator, Region IV
Health Care Financing Administration
101 Marietta Street
Atlanta, Georgia 30023

BLUE CROSS AND BLUE SHIELD OF FLORIDA
JACKSONVILLE, FLORIDA

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1992 THROUGH 1993

Description		Total Company	Other Segment	Medicare Segment
1991	Plan Year Contributions	<u>1/</u> \$ 0	\$ 0	\$ 0
	Discount for Interest	<u>2/</u> 0	0	0
	Present Value of Contributions	<u>3/</u> \$ 0	\$ 0	\$ 0
	Prepayment Credit	<u>4/</u> 0	0	0
	Present Value of Funding	<u>5/</u> \$ 0	\$ 0	\$ 0
	CAS Pension Cost	<u>6/</u> 4,039,433	2,938,340	1,101,093
	Percentage of Costs Funded	<u>7/</u>	0.00%	0.00%
	Funded CAS Pension Costs	<u>8/</u> \$ 0	\$ 0	\$ 0
	Allowable Interest	<u>9/</u>	0	0
	Allocable Pension Costs	<u>10/</u>	\$ 0	\$ 0
1992	Plan Year Contributions	\$5,571,012	\$4,298,228	\$1,272,784
	Discount for Interest	(459,992)	(354,900)	(105,092)
	Present Value of Contributions	\$5,111,020	\$3,943,328	\$1,167,692
	Prepayment Credit	0	0	0
	Present Value of Funding	\$5,111,020	\$3,943,328	\$1,167,692
	CAS Pension Cost	4,890,038	3,772,833	1,117,205
	Percentage of Costs Funded	100.00%	100.00%	100.00 %
	Funded CAS Pension Costs	\$4,890,038	\$3,772,833	\$1,117,205
	Allowable Interest		240,518	71,222
	Allocable Pension Costs		\$4,013,351	\$1,188,427
	Medicare LOB Percentage	<u>11/</u>	6.00%	99.78%
	Calendar Year Pension Costs	<u>12/</u> \$1,426,613	\$ 240,801	\$1,185,812
	Medicare Pension Costs	<u>13/</u> \$1,069,960	\$ 180,601	\$ 889,359

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FOR FISCAL YEARS 1992 THROUGH 1993

Description	Total Company	Other Segment	Medicare Segment
1993 Plan Year Contributions	\$6,996,899	\$5,504,329	\$1,492,570
Discount for Interest	<u>(365,996)</u>	<u>(287,922)</u>	<u>(78,074)</u>
Present Value of Contributions	\$6,630,903	\$5,216,407	\$1,414,496
Prepayment Credit	<u>240,871</u>	<u>185,840</u>	<u>55,031</u>
Present Value of Funding	\$6,871,774	\$5,402,247	\$1,469,527
CAS Pension Cost	<u>7,130,178</u>	<u>5,605,529</u>	<u>1,524,649</u>
Percentage of Costs Funded	96.38%	96.37%	96.38%
Funded CAS Pension Costs	\$6,871,774	\$5,402,247	\$1,469,527
Allowable Interest		<u>298,180</u>	<u>81,111</u>
Allocable Pension Costs		\$5,700,427	\$1,550,638
Medicare LOB Percentage		<u>5.69%</u>	<u>97.93%</u>
Calendar Year Pension Costs	\$1,842,894	\$ 324,354	\$1,518,540
Medicare Pension Costs	\$1,738,824	\$ 303,466	\$1,435,358

BLUE CROSS AND BLUE SHIELD OF FLORIDA
JACKSONVILLE, FLORIDA

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FOR FISCAL YEARS 1992 THROUGH 1993

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. We assigned contributions to the Medicare segment based on the CAS funding target. The calculation of the CAS funding target is shown in our report of Florida's unfunded pension costs (CIN: A-07-95-01126).
- The amounts shown for the "other segment" represent the difference between the total company and the Medicare segment.
- 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 year value. For purposes of this appendix, we computed the interest as the difference between the present value of contributions, at the valuation interest rates, 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.
- 4/ A prepayment credit represents the premature funding (negative unfunded CAS cost) from the previous year(s). A prepayment credit may be carried forward, with interest, to fund future CAS pension costs. See our audit of unfunded pension costs for more details concerning the calculation of the prepayment credit.
- 5/ The present value of funding represents the present value of contributions plus the prepayment credit. This is the amount of funding that is available to cover the CAS pension cost measured at January 1 of each year.
- 6/ The CAS pension costs, computed at January 1 of each year, must be funded by current or prepaid contributions to satisfy the funding requirement of FAR 31.205-6(j)(3)(i). Our audit of unfunded pension costs contains details on how the CAS costs were computed.

BLUE CROSS AND BLUE SHIELD OF FLORIDA
JACKSONVILLE, FLORIDA

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1992 THROUGH 1993

- 7/ The percentage of costs funded is a measure of the portion of the CAS pension cost that was funded during the plan year. Since any funding in excess of the CAS pension cost 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 pension cost.
- 8/ We computed the funded CAS pension cost as the CAS pension costs multiplied by the percent funded.
- 9/ We assumed interest on the funded CAS pension costs 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 pension costs were funded in four equal installments deposited within 30 days of the end of each quarter.
- 10/ The allocable pension costs are the amounts of pension costs which may be allocated for contract cost purposes, on a plan year basis.
- 11/ 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 information provided by Florida.
- 12/ The calendar year pension cost represents the pension cost which may be claimed for Medicare reimbursement on a calendar year basis.
- 13/ We converted the calendar year pension costs to a fiscal year basis (October 1 through September 30). We calculated the Medicare pension costs as 1/4 of the prior year's costs plus 3/4 of the current year's costs. The Medicare pension costs are the amounts of CAS pension costs which may be claimed for Medicare reimbursement for segment and indirect Medicare operations.



P O Box 1798, JMA-3
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July 7, 1995

Ms. Barbara A. Bennett
Regional Inspector General for Audit Services, Region VII
Office of Inspector General
Office of Audit Services
601 East 12th Street
Kansas City, Missouri 61106

Re: Review of Pension Costs Claimed For Medicare Reimbursement CIN: A-07-95-01125
Review of Unfunded Pension Costs CIN: A-07-95-01 126
Review of Medicare Contractor's Pension Segmentation CIN: A-07-94-0 1107

Dear Ms. Bennett:

We have reviewed the drafts of the three audit reports referenced above. This letter will serve to document Blue Cross and Blue Shield of Florida's response. Due to the technical nature of the review, we have relied heavily on our consultants from the National Employee Benefits Administration (NEBA) and our actuary from The Wyatt Company. The page numbers below correspond to the page numbers in the draft reports.

- o CIN: A-07-95-01 125 Pension Costs Claimed For Medicare Reimbursement (Recommendation - page 4) We recommend that Florida: Revise its FACPs for Fiscal Years 1992 and 1993 to claim \$216,113 in allowable CAS pension costs.

Response: The Plan agrees that it did not fully claim its pension costs for Fiscal Year 1992. It anticipates that it will request reimbursement for those costs for which it is entitled to submit claims. Additionally it is continuing to review whether it agrees with the finding that \$853,847 in pension costs should be disallowed for Fiscal Year 1993.

- o CIN: A-07-95-01 126 Unfunded Pension Costs (Recommendation - page 5) We recommend that Florida: Identify \$6,428,087 (\$2,378,198 determined in prior audit plus \$4,049,889) as an unallowable component of direct pension costs as of January 1, 1994.

Annually update the unallowable pension cost component related to the accumulated unfunded CAS costs as of January 1, 1994.

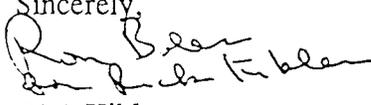
Update unfunded pension costs for any subsequent years unallowable costs are identified.

Response: The Plan agrees that it did not make contributions in 1990 and 1991 and that it under-funded the 1993 CAS pension costs by \$59,808. In accord with recent changes to the Cost Accounting Standards, BCBSF anticipates filing a request to amortize the eligible unfunded pension costs. It also agrees that it should identify, as an unallowable component of direct pension costs as of January 1, 1994, those pension costs that will remain unfunded following resolution of its request. Additionally, the Plan agrees with the last two recommendations.

- 0 CIN: A-07-94-01 107 Medicare Contractor's Pension Segmentation
(Recommendation - page 6) We recommend that Florida:
Increase the pension assets of the Medicare segment by 5813,122 (\$432,579 plus \$380,543) as of January 1,1994.

Response: The Plan agrees with the recommendation.

If you have additional questions, please do not hesitate to call me at (904) 363-4661 or Ken Perkins at (904) 363-4662.

Sincerely,

Rick Kibler
Audit Director
Internal Audit Division

RAb/rab
(RAB05552)