

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 OREGON**



**JUNE GIBBS BROWN
Inspector General**

OCTOBER 1995
CIN: A-07-95-01153



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

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

CIN: A-07-95-01 153

October 25, 1995

Ms. Lisa Johnson, Controller
Blue Cross and Blue Shield of Oregon
100 SW Market Street
P.O. Box 1271
Portland, Oregon 97207-1271

Dear Ms. Johnson:

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 Oregon.*** The purpose of our review was to determine the allowability of Fiscal Years 1993 and 1994 pension costs claimed for Medicare reimbursement.

For 1993 and 1994, Blue Cross and Blue Shield of Oregon (Oregon) underclaimed allowable Medicare pension costs. During this period, the allowable Medicare pension costs were \$243,881. However, Oregon claimed pension costs of \$198,217 for Medicare reimbursement. As a result, Oregon did not claim \$45,664 of allowable pension costs. The underclaim occurred primarily because Oregon based its pension cost calculations on incorrect pension asset values for the Medicare segment.

We are recommending Oregon revise its Final Administrative Cost Proposals (FACPs) to reflect the remaining allowable pension costs. Oregon agreed with our recommendation and its response is included in its entirety in Appendix C.

INTRODUCTION

BACKGROUND

Oregon, and its predecessor Blue Cross of Oregon, have administered Medicare Part A operations under cost reimbursement contracts since Medicare's inception. Oregon also serves as the Common Working File Host (CWFH) for 13 western States under a separate cost reimbursable contract. Medicare contractors must follow cost reimbursement principles

contained in the Cost Accounting Standards (CAS), the Federal Acquisition Regulations (FAR), which superseded the Federal Procurement Regulations, and their Medicare contracts.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 a separate calculation method, a contractor identifies separately the normal costs and amortization for the Medicare segment. Under an allocation method, a contractor determines total plan CAS costs and allocates a share to Medicare. This allocation includes direct and indirect costs.

SCOPE

We made our examination in accordance with generally accepted government auditing standards. This review addresses only one expense category, pension costs. Our objective was to identify allowable CAS pension costs for Fiscal Years 1993 and 1994. Achieving the objective did not require a review of Oregon's internal control structure.

This review was done in conjunction with our audits of pension segmentation (CIN: A-07-95-01 150) and unfunded pension costs (CIN: A-07-95-01 15 1). The information obtained and reviewed during those audits was also used in performing this review.

In our audit of unfunded pension costs, we identified Oregon's CAS pension costs for the total company and for the Medicare segment. We also determined the extent to which Oregon 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 1993 and 1994.

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

We performed site work during May 1995 at Oregon's corporate offices in Portland, Oregon. Subsequently, we performed audit work in the OIG, OAS, Jefferson City, Missouri Field Office.

FINDING AND RECOMMENDATION

For Fiscal Years 1993 and 1994, Oregon did not claim \$45,664 for pension costs which were allowable for Medicare reimbursement. The pension costs were allowable because the funded portion of CAS computed costs exceeded the costs claimed. The underclaim occurred primarily because Oregon based its pension cost calculations on incorrect pension asset values for the Medicare segment. Oregon should revise its FACPs to reflect the additional CAS pension costs which were allowable for reimbursement.

For Fiscal Years 1993 and 1994, Oregon claimed pension costs for Medicare reimbursement on FACPs. Oregon's claims were based on separately calculated pension costs for the Medicare segment, and an allocation of total company costs for indirect Medicare operations. The pension cost calculations and allocations were provided by their consulting actuary. We determined that Oregon's methodology for charging pension costs to the FACPs was acceptable.

Although Oregon's methodology for charging pension costs to Medicare was acceptable, the costs claimed were incorrect. In our audit of pension segmentation, we determined that Oregon had understated Medicare segment pension assets. Therefore, the segment's pension costs computed by Oregon's actuary were also incorrect.

We calculated the allowable CAS pension costs for the Medicare segment and for indirect Medicare operations. The calculations were based on separately computed CAS pension costs for the Medicare segment and total company CAS pension costs. Additionally, since the majority of the CWFH function was performed by the Medicare segment, our calculations included CWFH. Comparing the allowable CAS pension costs to the pension costs claimed on Oregon's FACPs shows:

<u>Fiscal Year</u>	<u>costs Claimed (A)</u>	<u>Allowable CAS Costs (B)</u>	<u>Variance (A)-(B)</u>
1993	\$ 80,578	\$106,628	\$(26,050)
1994	<u>117,639</u>	<u>137,253</u>	(19,614)
TOTAL	<u>\$198,217</u>	<u>\$243,881</u>	<u>1/ \$(45,664)</u>

1/ Includes \$(2,124) attributable to the CWFH contract.

For 1993 and 1994, Oregon claimed pension costs of \$198,217 for Medicare reimbursement. However, the allowable CAS pension costs were \$243,881. As a result, Oregon could have claimed \$45,664 in additional CAS pension costs.

Recommendation

We recommend that Oregon:

- ❶ Revise its FACPs for Fiscal Years 1993 and 1994 to claim additional allowable CAS pension costs of \$45,664.

Auditee Response

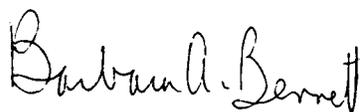
Oregon agreed with the findings and plans to take the necessary steps to reflect these findings.

INSTRUCTIONS FOR AUDITEE RESPONSE

Final determinations as to actions to be taken on all matters reported will be made by the HHS action official identified on the following page. 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.

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

Sincerely,



Barbara A. Bennett
Regional Inspector General
for Audit Services

Enclosures

HHS Action Official:

Ms. Nancy Dapper
Regional Administrator, Region X
Health Care Financing Administration
2201 Sixth Ave.
Mail Stop RX40
Seattle, Washington 98121-2500

BLUE CROSS AND BLUE SHIELD OF OREGON
Portland, Oregon
CIN: A-07-95-01 153

STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR FISCAL YEARS 1993 AND 1994

Year	Description		Plan Total	Medicare Segment
1992	Plan Year Contribution	<u>1/</u>	\$1,606,488	\$ 49,764
	Discount for Interest	<u>2/</u>	(116,927)	(3,622)
	Prepayment Credit		0	0
	Present Value of Funding	<u>3/</u>	\$1,489,561	\$ 46,142
	CAS Pension Costs	<u>4/</u>	<u>1,343,011</u>	<u>41,602</u>
	Percentage of Cost Funded	<u>5/</u>	100.00%	100.00%
	Funded CAS Pension Costs	<u>6/</u>	\$1,343,011	\$ 41,602
	Allowable Interest	<u>7/</u>	<u>85,617</u>	<u>2,652</u>
	Allocable Pension Costs	<u>8/</u>	\$1,428,628	\$ 44,254
1993	Plan Year Contribution		\$3,187,726	\$121,270
	Discount for Interest		(176,859)	(6,728)
	Prepayment Credit	<u>9/</u>	<u>159,739</u>	<u>4,949</u>
	Present Value of Funding		\$3,170,606	\$119,491
	CAS Pension Costs		<u>1,952,597</u>	<u>73,154</u>
	Percentage of Costs Funded		100.00 %	100.00%
	Funded CAS Pension Costs		\$1,952,597	\$ 73,154
	Allowable Interest		<u>114,696</u>	<u>4,297</u>
	Allocable Pension Costs		\$2,067,293	\$ 77,451
Fiscal Year Pension Costs	<u>10/</u>	\$1,907,627	\$ 69,152	

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STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR FISCAL YEARS 1993 AND 1994

Year	Description	Plan Total	Medicare Segment
1994	Plan Year Contribution	\$4,163,440	\$117,975
	Discount for Interest	(208,573)	(5,910)
	Prepayment Credit	<u>1,321,540</u>	<u>50,275</u>
	Present Value of Funding	\$5,276,407	\$162,340
	CAS Pension Costs	<u>2,733,175</u>	<u>90,275</u>
	Percentage of Costs Funded	100.00 %	100.00%
	Funded CAS Pension Costs	\$2,733,175	\$90,275
	Allowable Interest	<u>144,143</u>	<u>4,761</u>
	Allocable Pension Costs	\$2,877,318	\$ 95,036
	Fiscal Year Pension Costs	\$2,674,812	\$ 90,640

FOOTNOTES

- 1/ We assigned contributions to the Medicare segment based on a ratio of the Medicare segment's CAS funding target to the total company CAS funding target.
- 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 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.

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Portland, Oregon

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STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR FISCAL YEARS 1993 AND 1994

- 4/ 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 3 1.205-6(j)(3)(i).
- 5/ 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.
- 6/ We computed the funded CAS pension cost as the CAS pension costs multiplied by the percent funded.
- 7/ 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 3 1.205-6(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.
- 8/ The allocable pension costs are the amounts of pension costs which may be allocated for contract cost purposes, on a plan year basis.
- 9/ We applied the prepayment credit towards the funding of the CAS pension costs. The prepayment credit represents the premature funding from the previous year. Prepayment credits may be carried forward, with interest, to fund future pension costs. The prepayment credits are reimbursable for the plan year in which they are absorbed.
- 10/ We converted the plan year allocable CAS pension costs to a fiscal year 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.

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STATEMENT OF REIMBURSABLE CAS PENSION COSTS
FOR FISCAL YEARS 1993 AND 1994

Year	Description		Medicare	CWFH	Total
1993	Total Company CAS Pension Cost	<u>1/</u>	\$1,907,627	\$1,907,627	\$1,907,627
	Line of Business Percentage	<u>2/</u>	<u>4.28%</u>	<u>0.71%</u>	
	Pension Costs Allocated	<u>3/</u>	\$ 81,646	\$ 13,544	\$ 95,190
	Indirect Line of Business Percentage	<u>4/</u>	<u>36.98%</u>	<u>53.77%</u>	
	Indirect CAS Pension Cost	<u>5/</u>	\$ 30,193	\$ 7,283	\$ 37,476
	Medicare Segment CAS Pension Cost	<u>6/</u>	<u>61,566</u>	<u>7,586</u>	<u>69,152</u>
	Total Reimbursable CAS Pension Cost	<u>7/</u>	\$ 91,759	\$ 14,869	\$ 106,628
1994	Total Company CAS Pension Cost		\$2,674,812	\$2,674,812	\$2,674,812
	Line of Business Percentage		<u>4.30%</u>	<u>0.95%</u>	
	Pension Costs Allocated		\$ 115,017	\$ 25,411	\$ 140,428
	Indirect Line of Business Percentage		<u>30.76%</u>	<u>44.21%</u>	
	Indirect CAS Pension Cost		\$ 35,379	\$ 11,234	\$ 46,613
	Medicare Segment CAS Pension Cost		<u>77,805</u>	<u>12,835</u>	<u>90,640</u>
	Total Reimbursable CAS Pension Cost		\$ 113,184	\$ 24,069	\$ 137,253

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STATEMENT OF REIMBURSABLE CAS PENSION COSTS
FOR FISCAL YEARS 1993 AND 1994

FOOTNOTES

- 1/ See Appendix A for details on the calculation of the total company CAS pension costs.
- 2/ We obtained the total Medicare and CWFH line of business (LOB) percentages from Oregon's accounting records.
- 3/ The allocated pension costs are the product of the total company CAS pension costs multiplied by the Medicare and CWFH LOB percentages.
- 4/ We obtained the indirect Medicare and indirect CWFH LOB percentages from Oregon's accounting records.
- 5/ The indirect CAS pension costs are the product of the allocated pension cost multiplied by the indirect Medicare and indirect CWFH LOB percentages.
- 6/ See Appendix A for details on the calculation of the Medicare segment CAS pension costs. We assigned the Medicare segment's pension cost to Medicare and CWFH based on percentages obtained from Oregon's accounting records. The percentages used are shown below.

	<u>1993</u>	<u>1994</u>
Medicare	89.03 %	85.84%
CWFH	10.97 %	14.16%

- 7/ The total reimbursable CAS pension costs are the amounts which may be claimed for Medicare and CWFH reimbursement, for segment and indirect operations. The methodology used to calculate the total reimbursable CAS pension cost was the same as Oregon's methodology.



100 SW Market Street
PO Box 1271
Portland, Oregon 97207-1271



503/225-5221
1-800-452-7278

October 10, 1995

Ms. Barbara A Bennett
Regional Inspector General for Audit Services
Region VII
Office of Inspector General
Department of Health and Human Services
601 East 12th Street
Room 284 A
Kansas City, MO 64106

Re: CM: A-07-95-01 150
A-07-95-01151
A-07-95-01 153

Dear Ms. Bennett:

We have reviewed the draft findings of the Office of Inspector (OIG) Medicare Audit.

We agree with the recommendation (CIN: A-07-95-01150) that Blue Cross and Blue Shield of Oregon adjust the Medicare segment allocation by increasing the segment assets by \$19 1,3 12 as of January 1, 1994.

We agree with the recommendation (CIN: A-07-95-01 151) that there are accumulated unfunded pension costs of \$260,335 as of January 1, 1995. After the final drafts have been issued, we will be seeking a reassignment of these costs under the revised CAS 412 and 413. At that time, we will work with HCFA's Office of the Actuary and Blue Cross and Blue Shield Association to reassign these costs to future periods.

We also agree with the findings (CM: A-07-95-01 153) that for fiscal years 1993 and 1994 an additional \$45,664 may be claimed for reimbursement. After the final audits have been issued, we will take the necessary steps to reflect these findings.

Sincerely,

Lisa L. Johnson, CPA
Controller

cc: Steve Hooker
Jim Verdick
Ronald L. Solomon, HCFA, Office of Actuary, Baltimore
Richard M. Snow, HCFA
Robert Rhodes, BCBSA
Carol Navin, BCBSA, NEBA