

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF
PENSION COSTS CLAIMED FOR
MEDICARE REIMBURSEMENT BY
ROCKY MOUNTAIN HEALTH
CARE CORPORATION**



JUNE GIBBS BROWN
Inspector General

FEBRUARY 1997
CIN: A-07-96-01197



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-07-96-01197

FEB 4 1997

Ms. Pat Miller
Manager of Cost Accounting
Rocky Mountain Health Care Corporation
700 East Broadway
Denver, Colorado 80273

Dear Ms. Miller:

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 Rocky Mountain Health Care Corporation*. The purpose of our review was to determine the allowability of pension costs claimed for Medicare reimbursement for Fiscal Years 1988 through 1995.

In 1989 Blue Cross and Blue Shield of Colorado (Colorado), Blue Cross and Blue Shield of New Mexico (New Mexico), and Blue Cross and Blue Shield of Nevada (Nevada) merged into the Rocky Mountain Health Care Corporation (Rocky Mountain). Our review included pension costs claimed by Colorado prior to the merger. For clarity, we used the current name of Rocky Mountain in this report for referring to Colorado prior to 1989. We reviewed pension costs claimed by New Mexico prior to the merger, in a separate audit (CIN: A-07-96-01196). Nevada was not a Medicare contractor.

We determined that Rocky Mountain underclaimed allowable Medicare pension costs for 1988 through 1995. During this period, the allowable Medicare pension costs were \$783,497. However, Rocky Mountain claimed pension costs of \$708,324 for Medicare reimbursement. As a result, Rocky Mountain did not claim \$75,173 of allowable pension costs. The underclaim occurred primarily because Rocky Mountain did not base its claim on separately computed Cost Accounting Standards (CAS) pension costs for the Medicare segment.

We are recommending Rocky Mountain revise its Final Administrative Cost Proposals (FACPs) to reflect the remaining allowable pension costs. The Auditee was unable to provide a definitive response to our report within the 75 days granted to them for providing a response (30 initial days plus a 45 day extension). The auditee's letter is included as Appendix B.

INTRODUCTION

BACKGROUND

Rocky Mountain, and its predecessor Colorado, has administered Medicare Parts A and B operations under cost reimbursement and fixed price contracts since 1966. Medicare contractors must follow cost reimbursement principles contained in the Cost Accounting Standards (CAS), the Federal Acquisition Regulations (FAR), 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 1988 through 1995. Achieving the objective did not require a review of Rocky Mountain's internal control structure.

This review was done in conjunction with our audits of pension segmentation (CIN: A-07-96-01185) and unfunded pension costs (CIN: A-07-96-01198) and our audits of New Mexico's pensions segmentation (CIN: A-07-96-01195), unfunded pension costs (CIN: A-07-96-01199) and pension costs claimed for Medicare reimbursement (CIN: A-07-96-01196). The information obtained and reviewed during those audits was also used in performing this review.

In our audit of unfunded pension costs, we identified Rocky Mountain's CAS pension costs for the total company and for the Medicare segment. We also determined the extent to which Rocky Mountain 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 1988 through 1995.

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

We performed site work during June 1996 at Rocky Mountain's corporate offices in Denver, Colorado. Subsequently, we performed audit work in the OIG, OAS, Jefferson City, Missouri Field Office.

FINDING AND RECOMMENDATION

For Fiscal Years 1988 through 1995, Rocky Mountain did not claim \$75,173 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 under claim occurred primarily because Rocky Mountain did not base their claim on separately computed CAS pension costs for the Medicare segment. Rocky Mountain should revise its FACPs to reflect the additional CAS pension costs which were allowable for reimbursement.

For years 1994 and 1995, Rocky Mountain claimed pension costs for Medicare reimbursement on FACPs. Rocky Mountain based its claims on an allocation of the total company pension cost, calculated in accordance with Financial Accounting Standard 87 (FAS 87). Rocky Mountain assigned a portion of the FAS 87 pension costs to Medicare direct and indirect operations using cost center and line of business information.

For years 1988 through 1993 Rocky Mountain did not claim Medicare reimbursement for pension costs, because no contributions were made to the pension trust fund within those fiscal years.

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. See Appendix A for details.

We compared the allowable CAS pension costs to the pension costs claimed on Rocky Mountain's FACPs and found:

<u>Fiscal</u> Year	<u>Costs</u> <u>Claimed</u> (A)	<u>Allowable</u> <u>CAS Costs</u> (B)	<u>Variance</u> (A)-(B)
1988	\$ 0	\$ 17,225	\$ (17,225)
1989	0	0	0
1990	0	0	0
1991	0	0	0
1992	0	0	0
1993	0	274,681	(274,681)
1994	376,067	367,377	8,690
1995	<u>332,257</u>	<u>124,214</u>	<u>208,043</u>
TOTAL	<u>\$708,324</u>	<u>\$783,497</u>	<u>\$ 75,173</u>

For 1988 through 1995, Rocky Mountain claimed pension costs of \$708,324 for Medicare reimbursement. However, the allowable CAS pension costs were \$783,497. As a result, Rocky Mountain could have claimed \$75,173 in additional CAS pension costs.

Recommendation

We recommend that Rocky Mountain:

- ① Revise its FACPs to claim additional allowable CAS pension costs of \$75,173.

Auditee Response

The Auditee stated they were unable to provide a definitive response to our report within the 75 days granted to them for providing a response (30 initial days plus a 45 day extension). They also stated they would continue their evaluation of the draft audit report and will work with us and the Contracting Officer to bring these matters to a prompt and fair resolution.

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 the recommendation in this report within 30 days from the date of this report to the HHS 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,

A handwritten signature in black ink that reads "Barbara A. Bennett". The signature is written in a cursive style with a long, sweeping line extending from the end of the name.

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

HHS Action Official:

Ms. Mary K. Smith
Regional Administrator, Region VIII
Health Care Financing Administration
1961 Stout Street
Denver, Colorado 80294-3538

Enclosures

ROCKY MOUNTAIN HEALTH CARE CORPORATION

CIN: A-07-96-01197

STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR FISCAL YEARS 1988 THROUGH 1995

Description		Total Plan	Other Segment	Medicare Segment
1988 Plan Year Contributions	<u>1/</u>	\$ 0	\$ 0	\$ 0
Discount for Interest	<u>2/</u>	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Contributions	<u>3/</u>	\$ 0	\$ 0	\$ 0
Prepayment Credit	<u>4/</u>	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Funding	<u>5/</u>	\$ 0	\$ 0	\$ 0
CAS Pension Costs	<u>6/</u>	(12,603)	(89,701)	77,098
Absorbed Credit	<u>7/</u>	<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target	<u>8/</u>	\$(12,603)	\$(89,701)	\$ 77,098
Percentage of Costs Funded	<u>9/</u>		<u>0.00%</u>	<u>0.00%</u>
Funded CAS Pension Cost	<u>10/</u>		\$ 0	\$ 0
Allowable Interest	<u>11/</u>		<u>0</u>	<u>0</u>
Allocable Pension Cost	<u>12/</u>		\$ 0	\$ 0
Fiscal Year Pension Cost	<u>13/</u>		27,946	18,701
Medicare LOB Percentage	<u>14/</u>		<u>3.71%</u>	<u>86.56%</u>
Medicare Pension Cost	<u>15/</u>	\$17,225	\$ 1,037	\$16,188

1989 Plan Year Contributions		\$ 0	\$ 0	\$ 0
Discount for Interest		<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Contributions		\$ 0	\$ 0	\$ 0
Prepayment Credit		<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Funding		\$ 0	\$ 0	\$ 0
CAS Pension Costs		137,812	89,188	48,624
Absorbed Credit		<u>(89,188)</u>	<u>(89,188)</u>	<u>0</u>
CAS Funding Target		\$ 48,624	\$ 0	\$48,624
Percentage of Costs Funded			<u>0.00%</u>	<u>0.00%</u>
Funded CAS Pension Cost			\$ 0	\$ 0
Allowable Interest			<u>0</u>	<u>0</u>

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FOR FISCAL YEARS 1988 THROUGH 1995

Description	Total Plan	Other Segment	Medicare Segment
1990 Plan Year Contributions	\$ 0	\$ 0	\$ 0
Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Contributions	\$ 0	\$ 0	\$ 0
Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Funding	\$ 0	\$ 0	\$ 0
CAS Pension Costs	(32,375)	(46,506)	14,131
Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target	\$(32,375)	\$(46,506)	\$14,131
Percentage of Costs Funded		<u>0.00%</u>	<u>0.00%</u>
Funded CAS Pension Cost		\$ 0	\$ 0
Allowable Interest		<u>0</u>	<u>0</u>
Allocable Pension Cost		\$ 0	\$ 0
1991 Plan Year Contributions	\$ 0	\$ 0	\$ 0
Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Contributions	\$ 0	\$ 0	\$ 0
Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Funding	\$ 0	\$ 0	\$ 0
CAS Pension Costs	188,390	179,944	8,446
Absorbed Credit	<u>(159,055)</u>	<u>(159,055)</u>	<u>0</u>
CAS Funding Target	\$ 29,335	\$ 20,889	\$ 8,446
Percentage of Costs Funded		<u>0.00%</u>	<u>0.00%</u>
Funded CAS Pension Cost		\$ 0	\$ 0
Allowable Interest		<u>0</u>	<u>0</u>
Allocable Pension Cost		\$ 0	\$ 0

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Description	Total Plan	Other Segment	Medicare Segment
1992 Plan Year Contributions	\$ 0	\$ 0	\$ 0
Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Contributions	\$ 0	\$ 0	\$ 0
Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Funding	\$ 0	\$ 0	\$ 0
CAS Pension Costs	462,127	431,877	30,250
Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target	\$462,127	\$431,877	\$30,250
Percentage of Costs Funded		<u>0.00%</u>	<u>0.00%</u>
Funded CAS Pension Cost		\$ 0	\$ 0
Allowable Interest		<u>0</u>	<u>0</u>
Allocable Pension Cost		\$ 0	\$ 0
1993 Plan Year Contributions	\$2,937,750	\$2,642,735	\$295,015
Discount for Interest	<u>(229,525)</u>	<u>(206,476)</u>	<u>(23,049)</u>
Present Value of Contributions	\$2,708,225	\$2,436,259	\$271,966
Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Funding	\$2,708,225	\$2,436,259	\$271,966
CAS Pension Costs	2,112,131	1,840,165	271,966
Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target	\$2,112,131	\$1,840,165	\$271,966
Percentage of Costs Funded		<u>100.00%</u>	<u>100.00%</u>
Funded CAS Pension Cost		\$1,840,165	\$271,966
Allowable Interest		<u>110,793</u>	<u>16,375</u>
Allocable Pension Cost		\$1,950,958	\$288,341
Fiscal Year Pension Cost		1,463,219	216,256
Medicare LOB Percentage		<u>5.23%</u>	<u>91.63%</u>
Medicare Pension Cost	\$274,681	\$ 76,526	198,155

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Description	Total Plan	Other Segment	Medicare Segment
1994 Plan Year Contributions	\$3,410,968	\$3,178,228	\$232,740
Discount for Interest	<u>(165,824)</u>	<u>(154,510)</u>	<u>(11,314)</u>
Present Value of Contributions	\$3,245,144	\$3,023,718	\$221,426
Prepayment Credit	<u>646,761</u>	<u>564,368</u>	<u>82,393</u>
Present Value of Funding	\$3,891,905	\$3,588,086	\$303,819
CAS Pension Costs	2,384,880	2,081,061	303,819
Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target	\$2,384,880	\$2,081,061	\$303,819
Percentage of Costs Funded		<u>100.00%</u>	<u>100.00%</u>
Funded CAS Pension Cost		\$2,081,061	\$303,819
Allowable Interest		<u>106,341</u>	<u>15,524</u>
Allocable Pension Cost		\$2,187,402	\$319,343
Fiscal Year Pension Cost		2,128,291	311,593
Medicare LOB Percentage		<u>4.11%</u>	<u>89.83%</u>
Medicare Pension Cost	\$367,377	\$87,473	\$279,904
1995 Plan Year Contributions	\$1,839,764	\$1,839,764	\$ 0
Discount for Interest	<u>(59,828)</u>	<u>(58,828)</u>	<u>0</u>
Present Value of Contributions	\$1,779,936	\$1,779,936	\$ 0
Prepayment Credit	<u>1,627,588</u>	<u>1,627,588</u>	<u>0</u>
Present Value of Funding	\$3,407,524	\$3,407,524	\$ 0
CAS Pension Costs	1,925,954	2,136,748	(210,794)
Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target	\$1,925,954	\$2,136,748	\$(210,794)
Percentage of Costs Funded		<u>100.00%</u>	<u>0.00%</u>
Funded CAS Pension Cost		\$2,136,748	\$ 0
Allowable Interest		<u>71,821</u>	<u>0</u>
Allocable Pension Cost		\$2,208,569	\$ 0
Fiscal Year Pension Cost		2,203,277	79,836
Medicare LOB Percentage		<u>2.47%</u>	<u>87.42%</u>
Medicare Pension Cost	\$124,214	\$ 54,421	\$ 69,793

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STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR FISCAL YEARS 1988 THROUGH 1995FOOTNOTES

- 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.
- 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 from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year CAS funding target. A prepayment credit may be carried forward, with interest, to fund future CAS pension costs. The calculation of the prepayment credit is shown in our report of Rocky Mountain's unfunded Medicare segment (CIN: A-07-96-01198).
- 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 pension costs, computed at January 1 of each year, provides the basis to compute the allowable pension cost that can be charged to Medicare. See our audit of Rocky Mountain's unfunded Medicare segment for more details concerning how the CAS costs were computed.

ROCKY MOUNTAIN HEALTH CARE CORPORATION

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FOR FISCAL YEARS 1988 THROUGH 1995

- 7/ The absorbed credit represents the portion of the accumulated unabsorbed credit that is used to fund the current year CAS pension cost. The credit is used first to fund the CAS pension cost before any current or prepaid contributions are considered for funding. See our audit of Rocky Mountain's unfunded Medicare segment for more details concerning how the unabsorbed credit was computed.
- 8/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of FAR 31.205-6(j)(3)(i).
- 9/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the plan year. Since any funding in excess of the CAS funding target is considered premature funding in accordance with CAS 412.50(a)(7), 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 funding target. For purpose of illustration the percentage of funding has been rounded to four decimals.
- 10/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.
- 11/ We assumed interest on the funded CAS pension cost 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 funding target were funded in four equal installments deposited within 30 days of the end of each quarter.
- 12/ The allocable CAS pension cost is the amount of pension cost which may be allocated for contract cost purposes.
- 13/ We converted the calendar year allowable CAS pension costs to a fiscal year basis (October 1 through September 30). We calculated the fiscal year pension costs as one-fourth of the prior year's costs plus three-fourths of the current year's costs. Costs charged to the Medicare contract should consist of the Medicare segment's pension costs plus an allocable portion of the other segment's pension costs attributable to indirect Medicare operations.

ROCKY MOUNTAIN HEALTH CARE CORPORATION

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STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR FISCAL YEARS 1988 THROUGH 1995

- 14/ 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 documents provided by Rocky Mountain.
- 15/ We computed the Medicare Pension Cost as the Fiscal Year pension cost multiplied by the Medicare LOB percentage.

700 Broadway
 Denver, Colorado 80273
 303-831-3131



January 27, 1997

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

Dear Ms. Bennett:

Thank you for extending until January 27, 1997, the time for our response to the following draft audit reports:

CIN: A-07-96-01198 CIN: A-07-96-01199
 CIN: A-07-96-01185 CIN: A-07-96-01195
 CIN: A-07-96-01196 CIN: A-07-96-01197

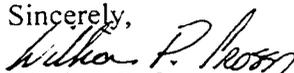
Those draft audit reports relate to the Office of Inspector General's audit of Blue Cross and Blue Shield of Colorado's and Blue Cross and Blue Shield of New Mexico's claimed pension costs, pension segmentation, and unfunded pension costs for Fiscal Years 1988 through 1995.

As you know, the proper treatment of pension costs pursuant to CAS 412 and 413 may be the single most difficult government cost accounting issue, and there are complex interactions among the draft reports. Despite our best efforts, and those of our outside actuarial, legal and accounting consultants, we have not yet been able to complete our review and analysis of the issues raised in the draft reports. Accordingly, we are unable to provide you at this time with the definitive Plan responses that you have requested.

We understand from your letter of December 17, 1996, that you will not grant us a further extension at this time. Nonetheless, please be assured that we will continue our evaluation of the draft audit reports, and will work with your auditors and the Contracting Officer to bring these matters, and the related contract termination pension cost matters, to a prompt and fair resolution.

Thank you for affording us an opportunity to comment on the draft audit reports. We regret that we are unable to do so at this time.

Sincerely,


 William P. Crossen
 Chief Financial Officer