

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS CLAIMED  
FOR MEDICARE REIMBURSEMENT BY  
ANTHEM BLUE CROSS AND BLUE  
SHIELD OF CONNECTICUT**



**JUNE GIBBS BROWN  
Inspector General**

**MARCH 1998  
A-07-98-02502**



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-07-98-02502

MAR 24 1998

Mr. Phillip Finger  
Director of Cost and Budget  
Anthem Blue Cross and Blue Shield of Connecticut  
370 Bassett Road  
North Haven, Connecticut 06473-420 1

Dear Mr. Finger:

This report provides the results of an Office of Inspector General (OIG), Office of Audit Services (OAS) review titled *Pension Costs Claimed for Medicare Reimbursement by Anthem Blue Cross and Blue Shield of Connecticut*. The purpose of our review was to determine the allowability of pension costs claimed for Medicare reimbursement for Fiscal Years 1992 through 1996.

We determined that Anthem Blue Cross and Blue Shield of Connecticut (Connecticut) claimed pension costs of \$2,725 for 1992 through 1996, that are unallowable for Medicare reimbursement. During this period, the allowable Medicare pension costs were \$61,560. However, Connecticut claimed pension costs of \$64,285 for Medicare reimbursement. As a result, Connecticut claimed \$2,725 in pension costs that are not allowable. The over claim occurred due to differences in the separately computed Cost Accounting Standards (CAS) pension costs.

We are recommending that Connecticut revise its Final Administrative Cost Proposals (FACPs) to eliminate the unallowable pension costs.

Subsequent to our review Connecticut provided corrected cost center information on four pension plan participants that was not factored into the original calculation of the allowable Medicare pension costs. Additionally, Connecticut concluded that an entire cost center should be excluded from the Medicare segment. We have corrected the cost center information on the four pension plan participants and excluded the entire cost center in our calculations and made the appropriate adjustments.

## **INTRODUCTION**

### **BACKGROUND**

Connecticut has administered Medicare Part A operations, under cost reimbursement contracts, since the start of the Medicare program. Contractors were to 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 3.1 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.

### **OBJECTIVE, SCOPE, AND METHODOLOGY**

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 (FYs) 1992 through 1996. Achieving our objective did not require that we review Connecticut's internal control structure.

This review was done in conjunction with our audit of Connecticut's pension segmentation (CIN: A-07-97-02500) and unfunded pension costs (CIN: A-07-98-02501). The information obtained and reviewed during those audits was also used in performing this review.

We identified Connecticut's CAS pension costs for the total company and for the Medicare segment. We also determined the extent to which Connecticut 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 unallowable for Medicare reimbursement for FYs 1992 through 1996.

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

We performed site work during September 1997 at Connecticut's corporate offices in North Haven, Connecticut. Subsequently, we performed audit work in our Jefferson City, Missouri office.

### **FINDING AND RECOMMENDATION**

For FYs 1992 through 1996, Connecticut both under and over claimed pension costs resulting in \$2,725 in pension costs that were not allowable for Medicare reimbursement. Connecticut should make adjustments to its FACPs as summarized in the following table and discussed in the following paragraphs. See Appendix A for details on the calculations.

<u>Fiscal Year</u>	<u>Costs Claimed</u>	<u>Allowable CAS Costs</u>	<u>Variance</u>
1993	\$0	\$9,294	(\$9,294)
1994	\$12,539	\$13,169	(\$630)
1995	\$17,218	\$16,788	\$430
1996	\$34,528	\$22,309	\$12,219
Total	<u>\$64,285</u>	<u>\$ 6 1 , 5 6 0</u>	<u>\$2,725</u>

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.

For FYs 1993 and 1994, Connecticut did not claim \$9,924 for pension costs that were allowable for Medicare reimbursement. The pension costs were allowable because the funded portion of CAS computed costs exceeded the costs claimed. Additionally, for FYs 1995 and 1996 Connecticut claimed pension costs of \$12,649 that were not allowable for Medicare reimbursement. The costs were unallowable because the costs claimed exceeded the funded portion of CAS computed costs. Both the under claim and the over claim were due to differences between the separately computed CAS pension costs derived by Connecticut and the separately computed CAS pension costs derived by audit.

For FYs 1992 through 1996, Connecticut claimed pension costs of \$64,285 for Medicare reimbursement. However, the allowable CAS pension costs were \$61,560. As a result, Connecticut claimed pension costs of \$2,725 that are in excess of the allowable CAS pension costs.

**Recommendation**

We recommend that Connecticut:

- ① Revise its FACPs for Fiscal Years 1992 through 1996 to eliminate \$2,725 for pension costs in excess of the allow'able CAS pension costs.

**Auditee Response**

Connecticut stated that revisions to the participant transfer data and the FEP asset spin-off will affect the CAS pension costs for each of the years.

**OIG Response**

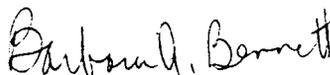
We corrected the participant transfer data through the correction of the cost center information on four pension plan participants and the exclusion of one cost center from our identification of the Medicare segment and made the appropriate adjustments to the allowable Medicare pension cost calculations.

**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 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, Region VII

Enclosure

HHS Action Official:

Ms. Judy Berek  
Acting Regional Administrator, Region I  
Health Care Financing Administration  
John F. Kennedy Federal Building, Room 2325  
Boston, Massachusetts 02203-0003

ANTHEM BLUE CROSS AND BLUE SHIELD OF CONNECTICUT  
CM: A-07-98-02502

**STATEMENT OF ALLOWABLE CAS PENSION COSTS**  
FOR FISCAL YEARS 1992 THROUGH 1996

Description	Total Plan	Other Segment	Medicare Segment	FEP Segment
<b>1992</b> Plan Year Contributions <u>1/</u>	\$0	\$0	\$0	\$0
Discount for Interest <u>2/</u>	\$0	\$0	\$0	\$0
Present Value of Contributions <u>3/</u>	\$0	\$0	\$0	\$0
Prepayment Credit <u>4/</u>	\$0	\$0	\$0	\$0
Present Value of Funding <u>5/</u>	\$0	\$0	\$0	\$0
CAS Pension Cost <u>6/</u>	\$1,825,040	\$1,858,317	(\$33,277)	\$0
Absorbed Credit <u>7/</u>	\$0	\$0	\$0	\$0
CAS Funding Target <u>8/</u>	\$1,825,040	\$1,858,317	(\$33,277)	\$0
Percentage of Costs Funded <u>9/</u>		0.00%	0.00%	0.00%
Funded CAS Pension Cost <u>10/</u>		\$0	\$0	\$0
Allowable Interest <u>11/</u>		\$0	\$0	\$0
Allocable Pension Cost <u>12/</u>		\$0	\$0	\$0
<b>1993</b> Plan Year Contribution	\$6,000,000	\$6,000,000	\$0	\$0
Discount for Interest	(\$411,589)	(\$411,589)	\$0	\$0
Present Value of Contributions	\$5,588,411	\$5,588,411	\$0	\$0
CAS Pension Cost	\$2,063,216	\$2,079,105	(\$ 18,756)	\$2,867
Absorbed Credit	(\$2,867)	\$0	\$0	(\$2,867)
CAS Funding Target	\$2,060,349	\$2,079,105	(\$ 18,756)	\$0
Percentage of Costs Funded		100.00%	0.00%	0.00%
Funded CAS Pension Cost		\$2,079,105	\$0	\$0
Allowable Interest		\$132,543	\$0	\$0
Allocable Pension Cost		\$2,211,648	\$0	\$0
Fiscal Year Pension Cost <u>13/</u>		\$1,658,736		

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**STATEMENT OF ALLOWABLE CAS PENSION COSTS**  
FOR FISCAL YEARS 1992 THROUGH 1996

Medicare LOB Percentage      14/                              0.5603%  
Medicare Pension Cost        15/                                      \$9,294

Description	Total Plan	Other Segment	Medicare Segment	F E P Segment
1994 Plan Year Contributions	\$6,800,000	\$6,800,000	\$0	\$0
Discount for Interest	(\$201,155)	(\$201,155)	\$0	\$0
Present Value of Contributions	\$6,598,845	\$6,598,845	\$0	\$0
Prepayment Credit	\$2,888,624	\$2,888,624	\$0	\$0
Present Value of Funding	\$9,487,469	\$9,487,469	\$0	\$0
CAS Pension Cost	\$2,905,623	\$2,888,624	\$5,354	\$11,645
Absorbed Credit	(\$16,999)	\$0	(\$5,354)	(\$11,645)
CAS Funding Target	\$2,888,624	\$2,888,624	\$0	\$0
Percentage of Costs Funded		100.00%	0.00%	100.00%
Funded CAS Pension Cost		\$2,888,624	\$0	\$0
Allowable Interest		\$88,055	\$0	\$0
Allocable Pension Cost		\$2,976,679	\$0	\$0
Fiscal Year Pension Cost		\$2,785,421	\$0	\$0
Medicare LOB Percentage		0.4728%	0.000%	0.00%
Medicare Pension Cost		\$13,169	\$0	\$0
Administrative Expense		\$0	\$0	\$0
Total Medicare Pension Cost		\$13,169	\$0	\$0

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FOR FISCAL YEARS 1992 THROUGH 1996

Description	Total Plan	Other Segment	Medicare Segment	FEP Segment
<b>1995</b> Plan Year Contributions	\$6,600,000	\$6,600,000	\$0	\$0
Discount for Interest	(\$78,075)	(\$78,075)	\$0	\$0
Present Value of Contributions	\$6,521,925	\$6,521,925	\$0	\$0
Prepayment Credit	\$3,239,034	\$3,225,191	\$0	\$13,843
Present Value of Funding	\$9,760,959	\$9,747,116	\$0	\$13,843
CAS Pension Cost	\$3,260,055	\$3,225,191	\$13,106	\$21,758
Absorbed Credit	(\$21,021)	\$0	(\$13,106)	(\$7,915)
CAS Funding Target	\$3,239,034	\$3,225,191	\$0	\$13,843
Percentage of Costs Funded		100.00%	0.00%	100.00%
Funded CAS Pension Cost		\$3,225,191	\$0	\$13,843
Allowable Interest		\$38,609	\$0	\$0
Allocable Pension Cost		\$3,263,800	\$0	\$13,843
Fiscal Year Pension Cost		\$3,192,020	\$0	\$10,382
Medicare LOB Percentage		0.4308%	0.000%	0.000%
Medicare Pension Cost		\$13,751	\$0	\$0
Administrative Expense <u>16/</u>		\$3,037	\$0	\$0
Total Medicare Pension Cost		\$16,788	\$0	\$0

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**STATEMENT OF ALLOWABLE CAS PENSION COSTS**  
FOR FISCAL YEARS 1992 THROUGH 1996

Description	Total Plan	Other Segment	Medicare Segment	FEP Segment
<b>1996</b> Plan Year Contributions	\$8,351,738	\$8,351,738	\$0	\$0
Discount for Interest	(\$171,161)	(\$171,161)	\$0	\$0
Present Value of Contributions	\$8,180,577	\$8,180,577	\$0	\$0
Prepayment Credit	\$4,651,566	\$4,621,630	\$0	\$29,936
Present Value of Funding	\$12,832,143	\$12,802,207	\$0	\$29,936
CAS Pension Cost	\$4,683,106	\$4,621,630	\$3,1540	\$29,936
Absorbed Credit	(\$3,1540)	\$0	(\$3,1540)	\$0
CAS Funding Target	\$4,651,566	\$4,621,630	\$0	\$29,936
Percentage of Costs Funded		100.00%	100.00%	100.00%
Funded CAS Pension Cost		\$4,621,630	\$0	\$29,936
Allowable Interest		\$96,698	\$0	\$0
Allocable Pension Cost		\$4,718,328	\$0	\$29,936
Fiscal Year Pension Cost		\$4,354,696	\$0	\$25,913
Medicare LOB Percentage		0.4421%	0.000%	0.000%
Medicare Pension Cost		\$19,252	\$0	\$0
Administrative Expense		\$3,057	\$0	\$0
Total Medicare Pension Cost		\$22,309	\$0	\$0

**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.

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

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**STATEMENT OF ALLOWABLE CAS PENSION COSTS**  
FOR FISCAL YEARS 1992 THROUGH 1996

appendix, we computed the interest as the difference between the present value of contributions, at the valuation 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 Connecticut's unfunded Medicare segment (CIN: A-07-98-02501).

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 costs that can be charged to Medicare. See our audit of Connecticut's unfunded Medicare segment for more details concerning how the CAS costs were computed.

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 Connecticut'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 the illustration the percentage of funding has been rounded to four decimals.

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**STATEMENT OF ALLOWABLE CAS PENSION COSTS**  
FOR FISCAL YEARS 1992 THROUGH 1996

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 3 1.205-6(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.

14/ We calculated allowable pension costs of the Medicare and other segment's based on the Medicare line of business (LOB) percentage of each segment. We obtained the percentages from documents provided by Connecticut.

15/ We computed the Medicare Pension Cost as the Fiscal Year pension cost multiplied by the Medicare LOB percentage.

16/ Connecticut did not charge administrative expenses for direct actuarial expenses for fiscal years 1995 and 1996 as professional services, instead Connecticut charged them as allowable pension costs. We used this same methodology for years 1995 and 1996.



February 6, 1998

Mr. Jack Morman  
OIG Office of Audit Services, Region VII  
601 East 12th Street  
Room 284A  
Kansas City, MO 64106

Re: CIN: A-07-97-02500  
CIN: A-07-98-0250 1  
CIN: **A-07-98-02502**

Dear Jack:

This letter responds to the audit of the Medicare segment of the Blue Cross Blue Shield of Connecticut, Inc. Employees' Retirement Plan which was conducted by your office last year. We have reviewed your draft reports and our conclusions follow:

**CIN: A-07-97-02500 - Pension Segmentation**

- **Participant Transfers** - We do not concur with the reports findings on participant transfers. As you are now aware, BCBS erred when providing you with cost center information and has subsequently provided you with the correction information. We believe the transfer calculations as originally prepared by our actuaries are correct.
- **Federal Employee Program Spin-off** - We agree with your methodology for spinning off assets for the FEP segment, but given that your January 1, 1993 Medicare assets are overstated due to the excessive transfers in 1991 and 1992, the FEP asset spin-off is also overstated.
- **Pension Contributions** - Given that we agree with your methodology for the FEP spin-off, FEP is no longer a sub-segment of the Medicare segment. The FEP segment exists independent of the Medicare segment. Therefore, positive contributions to FEP should not have any impact on the Medicare assets.
- **Earnings and Expenses** - The above stated revisions will **affect** the earnings and expenses year by year.

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Mr. Jack Morman

OIG Office of Audit Services, Region VII

**CIN: A-07-98-02501 - Unfunded Pension Cost**

- **Unallowable Direct Pension Costs** - We concur with your methodology, but a revision of the participant transfer data will **affect** the amount allocated to the **FEP** segment.
- BCBS has filed a request with HCFA to allow recapture of the Unallowable Direct Pension Costs and use of the Fresh Start approach. If needed, we will also request use of the \$0 floor on pension costs and the reassignment of negative pension costs. Karen Claggett at HCFA, Division of Accounting, has informed us that they will not act on our request until this audit is closed.
- **Unabsorbed Credits** - Recalculation of the CAS pension costs due to revised transfer information will impact the unabsorbed credit amount.

**CIN: A-07-98-02502 - CAS Pension Cost Claimed for Medicare Reimbursement**

- Revisions to the participant transfer data and the **FEP** asset spin-off will **affect** the CAS pension costs for each of the years.

I understand that you are considering whether or not to change the results presented in the draft audit report to reflect the corrected data. We believe that the final audit report should use the corrected data. The corrections will more accurately reflect the actual CAS costs we have incurred. In addition, our **actuaries** have used the correct data, and will have to revise their records based upon the incorrect data if the audit stays as originally drafted.

Please call me if we can be of additional assistance.

Sincerely,



Phil Finger

cc: Ronald O. Schlee