

**Memorandum**

Date MAR 30 1999

From June Gibbs Brown
Inspector General *June G Brown*

Subject Review of Pension Costs Claimed for Medicare Reimbursement by Blue Shield of California (A-07-98-02523)

To Nancy-Ann Min DeParle
Administrator
Health Care Financing Administration

This is to alert you to the issuance of our final audit report on April 1, 1999, identifying about \$2.4 million in unallowable pension costs at Blue Shield of California (California) which should be refunded to Medicare. A copy is attached and copies of the report have been distributed to your staff for adjudication of the finding.

California was a Medicare Part B contractor until its contract was terminated in 1996, and, as such, claimed Medicare reimbursement for Medicare employees' pension costs. The Medicare contract provides for either an allocation or separate calculation of qualified plan pension costs for a Medicare segment of the contractor's business. Under an allocation method, a contractor determines total plan Cost Accounting Standards costs and allocates a share to Medicare. Under the separate calculation method, a contractor separately identifies the normal costs and amortization for the Medicare segment. The Medicare contract requires, however, that the separate calculation method be used if there is a material difference between the two methods.

For Fiscal Years 1991 through 1997 California based its claim for reimbursement of pension costs on an allocation of total company pension costs, even though those costs were materially higher than the pension costs computed under the separate calculation method. Accordingly, we are recommending that California revise its claims to eliminate about \$2.4 million in unallowable pension costs. California agreed with our finding and recommendation.

If you need additional information about this report, please contact Barbara A. Bennett, Regional Inspector General for Audit Services, Region VII, 816-426-3591.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS
CLAIMED FOR MEDICARE
REIMBURSEMENT BY BLUE SHIELD
OF CALIFORNIA**



JUNE GIBBS BROWN
Inspector General

MARCH 1999
A-07-98-02523



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

CIN A-07-98-02523

Ms. Karen Schievelbein
Senior Vice President, Chief Financial Officer
Blue Shield of California
50 Beale Street
San Francisco, California 94105-1808

Dear Ms. Schievelbein:

This report provides you with 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 Shield of California*. The purpose of our review was to determine the allowability of pension costs claimed for 1991 through 1997.

During this period, the allowable Medicare pension costs were \$1,485,529. However, Blue Shield of California (California) claimed pension costs of \$3,893,548 for Medicare reimbursement. As a result, California claimed \$2,408,019 in pension costs that were not allowable. The over claim occurred primarily because California did not base its claims on the separately computed pension costs for the Medicare segment.

We recommend California revise its Final Administrative Cost Proposals (FACPs) to eliminate the unallowable pension costs. California agreed with our finding and recommendation, but requested that they be allowed to submit a single payment in lieu of revising the FACPs for each year 1991 through 1997. California's response is included in its entirety as Appendix B.

INTRODUCTION

BACKGROUND

California administered Medicare Part B operations under cost reimbursement contracts. Medicare Contractors must follow cost reimbursement principles contained in the Cost Accounting Standards (CAS), the Federal Acquisition Regulations (FAR), and their Medicare contracts.

Medicare reimburses its portion of contractors' annual pension costs. To be allowable for Medicare reimbursement, pension costs must be measured, assigned, and allocated in accordance

with CAS 412 and 413. Additionally, pension costs must be 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.

Additionally, the Health Care Financing Administration (HCFA) incorporated specific segmentation language into Medicare contracts. The contracts provide for either an allocation or separate calculation of qualified plan pension costs. Under an allocation method, a contractor determines total plan CAS costs and allocates a share to Medicare. Under the separate calculation method, a contractor separately identifies the normal costs and amortization for the Medicare segment. The separate calculation method must be used if there is a material difference between the two methods. In our prior report on California's compliance with Medicare contract segmentation requirements (CIN A-07-92-00585, dated February 1, 1994) we recommended that California separately compute the Medicare segment's pension costs.

California's Medicare Part B contract was terminated effective November 30, 1996. Consequently, the majority of California's Medicare segment employees were terminated and the Medicare segment was closed on that date.

OBJECTIVES, SCOPE, AND METHODOLOGY

We made our examination in accordance with generally accepted government auditing standards. Our objective was to determine the allowability of pension costs claimed for Fiscal Years (FYs) 1991 through 1997. Achieving the objective did not require a review of California's internal control structure.

In performing the review, we used information provided by Watson Wyatt Worldwide, California's consulting actuary. The information included liabilities, normal costs, contributions, and earnings. We reviewed California's accounting records, pension plan documents, annual actuarial valuation reports, and the Department of Labor/Internal Revenue Service Form 5500s. Using these documents, we computed (1) CAS pension costs for the total company and Medicare segment and (2) the extent to which California funded costs with contributions to their pension trust fund.

The HCFA Office of the Actuary developed the methodology used for computing allowable CAS pension costs based on California's historical practices. Appendix A contains the details on the pension costs and contributions.

This review was done in conjunction with our audit of the Medicare segment closing at California (CIN A-07-98-02522). The information obtained and reviewed during that audit was also used in performing this review.

Site work at California's corporate offices in San Francisco, California was performed during July and October 1998. We performed subsequent audit work in our OIG, OAS Jefferson City, Missouri field office.

FINDING AND RECOMMENDATION

For FYs 1991 through 1997, California claimed \$2,408,019 for pension costs which were not allowable for Medicare reimbursement. The over claim occurred primarily because California did not base its claim on separately computed CAS pension costs for the Medicare segment. California should revise its FACPs to eliminate the unallowable pension costs.

For FYs years 1991 through 1997, California claimed pension costs for Medicare reimbursement on FACPs. California based its claims on an allocation of the total company pension contributions. California assigned a portion of the total company pension contributions to Medicare direct and indirect operations using cost center and line of business information.

For plan years (PYs) 1991 through 1995, California's consulting actuary calculated the 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. We reviewed those computations, and determined that they were accurate.

Using California's consulting actuary's computations of CAS pension costs for PYs 1991 through 1995, and our computation of PY 1996 CAS pension costs, we calculated the allowable CAS pension costs for FYs 1991 through 1997. Appendix A contains details on the pension cost calculations.

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

<u>Fiscal Year</u>	<u>Allowable CAS Costs</u> (A)	<u>Costs Claimed</u> (B)	<u>Under (Over) Claim</u> (A)-(B)
1991	\$305,404	\$504,043	(\$198,639)
1992	\$445,151	\$973,552	(\$528,401)
1993	\$390,903	\$698,875	(\$307,972)
1994	\$205,070	\$861,341	(\$656,271)
1995	\$85,269	\$470,637	(\$385,368)
1996	\$44,925	\$357,754	(\$312,829)
1997	\$8,807	\$27,346	(\$18,539)
Total	\$1,485,529	\$3,893,548	(\$2,408,019)

For FYs 1991 through 1997, California claimed pension costs of \$3,893,548 for Medicare reimbursement. However, the allowable CAS pension costs were \$1,485,529. As a result, California claimed \$2,408,019 for pension costs that were not allowable.

Recommendation

We recommend that California:

Revise its FACPs for FY 1991 through 1997 to eliminate unallowable pension costs of \$2,408,019.

Auditee Response

California agreed with our finding and recommendation, but requested that they be allowed to submit a single payment in lieu of revising the FACPs for each year 1991 through 1997. California's response is included in its entirety as Appendix B.

OIG Comments

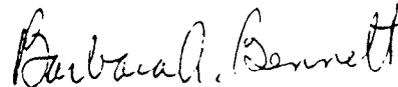
Terms and conditions for the remittance of the overclaim are determined by HCFA.

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 below. 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:

Elizabeth C. Abbott
Regional Administrator, Region IX
Health Care Financing Administration
75 Hawthorne Street, 4th Floors
San Francisco, CA 94105

BLUE SHIELD OF CALIFORNIA
CIN: A-07-98-02523

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1991 THROUGH 1997

Plan Year	Description		Total Plan	Other Segment	Medicare Segment
1990	Plan Year Contributions	1/	\$2,153,788	\$2,153,788	\$0
	Discount for Interest	2/	<u>(\$159,540)</u>	<u>(\$159,540)</u>	<u>\$0</u>
	Present Value of Contributions	3/	\$1,994,248	\$1,994,248	\$0
	Prepayment Credit	4/	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
	Present Value of Funding	5/	\$1,994,248	\$1,994,248	\$0
	Normal Cost	6/	\$2,878,000	\$2,578,264	\$299,736
	Amortization Payment	7/	<u>(\$687,685)</u>	<u>(\$173,594)</u>	<u>(\$514,091)</u>
	CAS Pension Costs	8/	\$2,190,315	\$2,404,670	(\$214,355)
	Absorbed Credit	9/	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
	CAS Funding Target	10/	\$2,190,315	\$2,404,670	(\$214,355)
	Percent Funded	11/		<u>82.9323%</u>	<u>0.00%</u>
	Funded CAS Pension Costs	12/		\$1,994,248	\$0
	Allowable Interest	13/		<u>\$113,007</u>	<u>\$0</u>
	Allocable Pension Costs	14/		<u>\$2,107,255</u>	<u>\$0</u>

BLUE SHIELD OF CALIFORNIA
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STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1991 THROUGH 1997

Plan Year	Description	Total Plan	Other Segment	Medicare Segment
1991	Plan Year Contributions	\$6,480,338	\$6,279,050	\$201,288
	Discount for Interest	<u>(\$381,102)</u>	<u>(\$369,264)</u>	<u>(\$11,838)</u>
	Present Value of Contributions	\$6,099,236	\$5,909,786	\$189,450
	Prepayment Credit	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
	Present Value of Funding	\$6,099,236	\$5,909,786	\$189,450
	Normal Cost	\$4,201,099	\$3,693,660	\$507,439
	Amortization Payment	<u>\$215,015</u>	<u>\$533,004</u>	<u>(\$317,989)</u>
	CAS Pension Costs	\$4,416,114	\$4,226,664	\$189,450
	Absorbed Credit	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
	CAS Funding Target	\$4,416,114	\$4,226,664	\$189,450
	Percent Funded		<u>100.00%</u>	<u>100.00%</u>
	Funded CAS Pension Costs		\$4,226,664	\$189,450
	Allowable Interest			<u>\$10,065</u>
	Allocable Pension Costs		<u>\$4,451,206</u>	<u>\$199,515</u>
	Fiscal Year Pension Costs	15/	\$3,865,219	\$149,636
	Medicare LOB Percentage	16/	<u>4.03%</u>	<u>100.00%</u>
	Allowable Medicare Pension Costs	17/	<u>\$155,768</u>	<u>\$149,636</u>

BLUE SHIELD OF CALIFORNIA
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FOR FISCAL YEARS 1991 THROUGH 1997

Plan Year	Description	Total Plan	Other Segment	Medicare Segment
1992	Plan Year Contributions	\$8,272,402	\$7,993,611	\$278,791
	Discount for Interest	<u>(\$440,780)</u>	<u>(\$426,383)</u>	<u>(\$14,397)</u>
	Present Value of Contributions	\$7,831,622	\$7,567,228	\$264,394
	Prepayment Credit	<u>\$1,809,356</u>	<u>\$1,809,356</u>	<u>\$0</u>
	Present Value of Funding	\$9,640,978	\$9,376,584	\$264,394
	Normal Cost	\$5,175,475	\$4,586,993	\$588,482
	Amortization Payment	<u>\$663,739</u>	<u>\$987,827</u>	<u>(\$324,088)</u>
	CAS Pension Costs	\$5,839,214	\$5,574,820	\$264,394
	Absorbed Credit	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
	CAS Funding Target	\$5,839,214	\$5,574,820	\$264,394
	Percent Funded		<u>100.00%</u>	<u>100.00%</u>
	Funded CAS Pension Costs		\$5,574,820	\$264,394
	Allowable Interest		<u>\$296,162</u>	<u>\$14,046</u>
	Allocable Pension Costs		<u>\$5,870,982</u>	<u>\$278,440</u>
	Fiscal Year Pension Costs		\$5,516,039	\$258,709
	Medicare LOB Percentage		<u>3.38%</u>	<u>100.00%</u>
	Allowable Medicare Pension Costs	<u>\$445,151</u>	<u>\$186,442</u>	<u>\$258,709</u>

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Plan Year	Description	Total Plan	Other Segment	Medicare Segment
1993	Plan Year Contributions	\$8,321,922	\$8,136,842	\$185,080
	Discount for Interest	<u>(\$378,592)</u>	<u>(\$370,172)</u>	<u>(\$8,420)</u>
	Present Value of Contributions	\$7,943,330	\$7,766,670	\$176,660
	Prepayment Credit	<u>\$4,086,897</u>	<u>\$4,086,897</u>	<u>\$0</u>
	Present Value of Funding	\$12,030,227	\$11,853,567	\$176,660
	Normal Cost	\$5,573,904	\$5,014,855	\$559,049
	Amortization Payment	<u>\$554,364</u>	<u>\$936,753</u>	<u>(\$382,389)</u>
	CAS Pension Costs	\$6,128,268	\$5,951,608	\$176,660
	Absorbed Credit	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
	CAS Funding Target	\$6,128,268	\$5,951,608	\$176,660
	Percent Funded		<u>100.00%</u>	<u>100.00%</u>
	Funded CAS Pension Costs		\$5,951,608	\$176,660
	Allowable Interest		<u>\$283,663</u>	<u>\$8,420</u>
	Allocable Pension Costs		<u>\$6,235,271</u>	<u>\$185,080</u>
	Fiscal Year Pension Costs		\$6,144,199	\$208,420
	Medicare LOB Percentage		<u>2.97%</u>	<u>100.00%</u>
	Allowable Medicare Pension Costs	<u>\$390,903</u>	<u>\$182,483</u>	<u>\$208,420</u>

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FOR FISCAL YEARS 1991 THROUGH 1997

Plan Year	Description	Total Plan	Other Segment	Medicare Segment
1994	Plan Year Contributions	\$6,488,925	\$6,486,286	\$2,639
	Discount for Interest	<u>(\$298,176)</u>	<u>(\$298,055)</u>	<u>(\$121)</u>
	Present Value of Contributions	\$6,190,749	\$6,188,231	\$2,518
	Prepayment Credit	<u>\$4,946,231</u>	<u>\$4,946,231</u>	<u>\$0</u>
	Present Value of Funding	\$11,136,980	\$11,134,462	\$2,518
	Normal Cost	\$5,040,988	\$4,566,473	\$474,515
	Amortization Payment	<u>(\$94,757)</u>	<u>\$377,240</u>	<u>(\$471,997)</u>
	CAS Pension Costs	\$4,946,231	\$4,943,713	\$2,518
	Absorbed Credit	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
	CAS Funding Target		\$4,943,713	\$2,518
	Percent Funded		<u>100.00%</u>	<u>100.00%</u>
	Funded CAS Pension Costs		\$4,943,713	\$2,518
	Allowable Interest		<u>\$238,113</u>	<u>\$121</u>
	Allocable Pension Costs		<u>\$5,181,826</u>	<u>\$2,639</u>
	Fiscal Year Pension Costs		\$5,445,188	\$48,249
	Medicare LOB Percentage		<u>2.88%</u>	<u>100.00%</u>
	Allowable Medicare Pension Costs	<u>\$205,070</u>	<u>\$156,821</u>	<u>\$48,249</u>

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STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1991 THROUGH 1997

Plan Year	Description	Total Plan	Other Segment	Medicare Segment
1995	Plan Year Contributions	\$7,239,212	\$7,239,212	\$0
	Discount for Interest	<u>(\$485,185)</u>	<u>(\$485,185)</u>	<u>\$0</u>
	Present Value of Contributions	\$6,754,027	\$6,754,027	\$0
	Prepayment Credit	<u>\$4,698,375</u>	<u>\$4,698,375</u>	<u>\$0</u>
	Present Value of Funding	\$11,452,402	\$11,452,402	\$0
	Normal Cost	\$4,539,935	\$4,159,150	\$380,785
	Amortization Payment	<u>\$81,351</u>	<u>\$541,932</u>	<u>(\$460,581)</u>
	CAS Pension Costs	\$4,621,286	\$4,701,082	(\$79,796)
	Absorbed Credit	<u>(\$2,707)</u>	<u>(\$2,707)</u>	<u>\$0</u>
	CAS Funding Target	\$4,618,579	\$4,698,375	(\$79,796)
	Percent Funded		<u>100.00%</u>	<u>0.00%</u>
	Funded CAS Pension Costs		\$4,698,375	\$0
	Allowable Interest		<u>\$249,601</u>	<u>\$0</u>
	Allocable Pension Costs		<u>\$4,947,976</u>	<u>\$0</u>
	Fiscal Year Pension Costs		\$5,006,439	\$660
	Medicare LOB Percentage		<u>1.69%</u>	<u>100.00%</u>
	Allowable Medicare Pension Costs	<u>\$85,269</u>	<u>\$84,609</u>	<u>\$660</u>

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FOR FISCAL YEARS 1991 THROUGH 1997

Plan Year	Description	Total Plan	Other Segment	Medicare Segment
1996	Plan Year Contributions	\$990,864	\$990,864	\$0
	Discount for Interest	<u>(\$69,130)</u>	<u>(\$69,130)</u>	<u>\$0</u>
	Present Value of Contributions	\$921,734	\$921,734	\$0
	Prepayment Credit	<u>\$1,944,850</u>	<u>\$1,944,850</u>	<u>\$0</u>
	Present Value of Funding	\$2,866,584	\$2,866,584	\$0
	Normal Cost	\$3,909,370	\$3,549,230	\$360,140
	Amortization Payment	<u>(\$929,932)</u>	<u>(\$250,384)</u>	<u>(\$679,548)</u>
	CAS Pension Costs	\$2,979,438	\$3,298,846	(\$319,408)
	Assignable CAS Pension Costs	18/ \$1,944,850	\$1,944,850	\$0
	Percent Funded		<u>100.00%</u>	<u>0.00%</u>
	Funded CAS Pension Costs		\$1,944,850	\$0
	Allowable Interest		<u>\$103,320</u>	<u>\$0</u>
	Allocable Pension Costs		<u>\$2,048,170</u>	<u>\$0</u>
	Fiscal Year Pension Costs		\$2,773,122	\$0
	Medicare LOB Percentage		<u>1.62%</u>	<u>100.00%</u>
	Allowable Medicare Pension Costs	<u>\$44,925</u>	<u>\$44,925</u>	<u>\$0</u>
1997	Fiscal Year Pension Costs	19/	\$512,043	\$0
	Medicare LOB Percentage		<u>1.72%</u>	<u>100.00%</u>
	Allowable Medicare Pension Costs	<u>\$8,807</u>	<u>\$8,807</u>	<u>\$0</u>

BLUE SHIELD OF CALIFORNIA
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STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1991 THROUGH 1997

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. The amount shown for the "other segment" represents the difference between the total company and the Medicare segment. If contributions exceeded the amount required to fund the CAS funding target, the excess contributions were assigned to the "other segment" as an unallocated prepayment credit (see footnote 4/).
- 2/ We subtracted interest that was included in the contributions deposited after January 1 of each year to discount the contributions back to their value at the beginning of the year. 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/ We applied the prepayment credits toward the funding of the CAS pension costs. The prepayment credit represents the premature funding from the previous year(s). Prepayment credits may be carried forward, with interest, to fund future CAS pension costs. The prepayment credits are reimbursable for the plan year in which they are used to fund the CAS pension costs.
- 5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that was available to cover the CAS funding target measured at January 1 of each year.
- 6/ We obtained the normal cost for the total company, and for the Medicare segment, from data provided by California's consulting actuary.
- 7/ We based the amortization payment on a CAS amortization schedule developed from information obtained from California's valuation reports and IRS Form 5500 reports. The Medicare segment's amortization schedule came from segment accounting records, and reports provided by California's consulting actuary.

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STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1991 THROUGH 1997

- 8/ The CAS pension costs represents the sum of the amortization payment and the normal cost. We separately calculated CAS pension costs for plan years 1990 through 1996.
- 9/ 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 costs before any current or prepaid contributions are considered for funding, and is unallowable for Medicare reimbursement.
- 10/ 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).
- 11/ 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 percent funded as the present value of funding divided by the CAS funding target.
- 12/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded. Only the funded CAS pension costs are eligible for Medicare reimbursement.
- 13/ We assumed interest on the funded CAS pension cost accrues 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.
- 14/ The allocable CAS pension costs are the amount of pension costs which may be allocated for contract cost purposes, on a plan year basis.
- 15/ We converted CAS pension costs allocable to the plan year to a fiscal year basis (October 1 through September 30). 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.
- 16/ We calculated allowable plan pension costs for Medicare and other segments based on the Medicare line of business (LOB) percentage of the segments. We obtained the percentages from documents provided by California.

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FOR FISCAL YEARS 1991 THROUGH 1997

- 17/ The Medicare pension costs are the amounts of CAS pension costs which may be claimed for Medicare reimbursement for the segment and indirect Medicare operations.
- 18/ In accordance with the revised CAS, which became applicable to California for plan year 1996, the amount of computed pension costs shall not exceed the assignable cost limitation. The assignable cost limitation, as defined by CAS 412-30(a)(9), means the excess of the actuarial accrued liability plus the current normal cost over the actuarial value of the assets of the pension plan. California's CAS pension costs for plan year 1996 were limited to the assignable cost limitation.
- 19/ Since California's Medicare contract was terminated and the Medicare segment closed as of November 30, 1996, we did not include any portion of the pension costs for plan year 1997 in our calculation of the allowable Medicare pension costs for Fiscal year 1997.

Karen Schievelbein
Senior Vice President
Chief Financial Officer

January 26, 1999

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

Re: CIN: A-07-98-02523

Dear Ms. Bennett:

I have reviewed the draft report of an Office of Inspector General (OIG), Office of Audit Services (OAS) review titled *Review of Pension Costs Claimed for Medicare Reimbursement by Blue Shield of California*, dated December 30, 1998. In the interest of expediency we will accept the draft report's recommendations and are prepared to remit the amount recommended.

To avoid unnecessary administrative costs and expedite final resolution of this item, we request consideration be given to allow the reconciliation be accomplished with a summary report of Allowable CAS Costs compared to Costs Claimed, supported by a Statement of Allowable CAS Pension Costs for each of the fiscal years 1991 through 1997. This would replace your recommendation that "...California [Blue Shield of California] revise its Final Administrative Cost Proposals (FACPs) to eliminate the unallowable pension costs."

We are prepared to issue a check in the full amount with our supporting summary schedules as proposed above upon receipt of the Health Care Financing Association's closing documents for fiscal years 1991 through 1997.

Sincerely,



Karen Schievelbein

cc: Wayne Moon, Blue Shield of California Chairman and CEO
Seth Jacobs, Blue Shield of California, Senior Vice President/General Counsel