



Office of Audit Services  
Region VII  
601 East 12<sup>th</sup> Street, Room 284A  
Kansas City, MO 64106  
(816) 426-3591

May 2, 2003

Report Number: A-07-03-03036

Mr. Charles J. Reip  
Manager, Financial Reporting  
CareFirst of Maryland, Inc.  
10455 Mill Run Circle  
Owings Mills, Maryland 21117

Dear Mr. Reip:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services' (OAS) report entitled "*Review of Pension Costs Claimed by CareFirst.*" A copy of this report will be forwarded to the action official noted below for his/her review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), OIG, OAS reports issued to the Department's grantees and contractors are made available 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.)

To facilitate identification, please refer to Report Number A-07-03-03036 in all correspondence relating to this report.

Sincerely yours,

James P. Aasmundstad  
Regional Inspector General  
for Audit Services

Enclosures – as stated

**Directly Reply to HHS Action Official:**

Ms. Sonia Madison  
Regional Administrator, Region III  
Centers for Medicare and Medicaid Services  
The Public Ledger Building, Suite 216  
150 South Independence Mall West  
Philadelphia, PA 19106

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS  
CLAIMED BY CAREFIRST**



**JANET REHNQUIST  
INSPECTOR GENERAL**

**MAY 2003  
A-07-03-03036**

# *Office of Inspector General*

<http://oig.hhs.gov/>

---

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

## *Office of Audit Services*

The OIG's Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the Department.

## *Office of Evaluation and Inspections*

The OIG's Office of Evaluation and Inspections (OEI) conducts short-term management and program evaluations (called inspections) that focus on issues of concern to the Department, the Congress, and the public. The findings and recommendations contained in the inspections reports generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs.

## *Office of Investigations*

The OIG's Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, or civil monetary penalties. The OI also oversees State Medicaid fraud control units, which investigate and prosecute fraud and patient abuse in the Medicaid program.

## *Office of Counsel to the Inspector General*

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the Department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops model compliance plans, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

# ***Notices***

**THIS REPORT IS AVAILABLE TO THE PUBLIC  
at <http://oig.hhs.gov/>**

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services, reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.)

## **OAS FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the awarding agency will make final determination on these matters.





DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General  
Office of Audit Services

May 2, 2003

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

Report Number: A-07-03-03036

Mr. Charles J. Reip, CPA  
Manager, Financial Reporting  
CareFirst of Maryland, Inc.  
10455 Mill Run Circle  
Owings Mills, Maryland 21117

Dear Mr. Reip:

This report provides the results of an Office of Inspector General (OIG), Office of Audit Services (OAS) review titled *Review of Pension Costs Claimed by CareFirst*. We determined that CareFirst under claimed pension costs of \$113,184 for Fiscal Years (FYs) 1992 through 2001. CareFirst agreed with our finding and recommendation. CareFirst's response is included as Appendix B.

## EXECUTIVE SUMMARY

### OBJECTIVE

The purpose of our review was to determine the allowability of pension costs claimed for Medicare reimbursement for Fiscal Years (FYs) 1992 through 2001.

### FINDING

For FYs 1992 through 2001, we determined that CareFirst of Maryland (CareFirst) under claimed allowable Medicare pension costs. During this period, the allowable Medicare pension costs were \$589,413. However, CareFirst claimed pension costs of \$476,229 for Medicare reimbursement. As a result, CareFirst did not claim \$113,184 of allowable pension costs.

### RECOMMENDATION

We recommend that CareFirst revise its Final Administrative Cost Proposals (FACPs) for FYs 1992 through 2001 to claim additional allowable CAS pension costs of \$113,184.

## BACKGROUND

### *Medicare*

CareFirst administers Medicare Part A operations under cost reimbursement contracts. Previously, CareFirst also administered Medicare Part B operations. However, the Medicare Part B contract was terminated on December 31, 1994. In claiming costs, contractors were to

follow cost reimbursement principles contained in the Federal Procurement Regulations (FPR), which were superseded by the Federal Acquisition Regulations (FAR), the Cost Accounting Standards (CAS) and the Medicare contracts .

Medicare reimburses its portion of contractors' annual pension costs. 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.

Additionally, the Centers for Medicare & Medicaid Services (CMS), formerly the Health Care Financing Administration, incorporated specific segmentation language into Medicare contracts. The contracts provide for either an allocation or a separate calculation of 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.

## **OBJECTIVES, SCOPE AND METHODOLOGY**

### ***Objective***

The objective of our review was to determine the allowability of pension costs claimed for Medicare reimbursement for FYs 1992 through 2001.

### ***Scope***

This review was done in conjunction with our review of CareFirst's pension segmentation (Report Number: A-07-02-03033), and unfunded pension costs (Report Number: A-07-03-03038). The information obtained and reviewed during those audits was also used in performing this review.

We identified CareFirst's CAS pension costs for the total company and for the Medicare segment. We also determined the extent to which CareFirst funded CAS pension costs with contributions to the pension trust fund. Using this information, we calculated CAS pension costs that are allowable for Medicare reimbursement for FYs 1992 through 2001. Appendix A contains the details on the pension costs and contributions. Achieving the objective did not require a review of CareFirst's internal control structure.

### ***Methodology***

We made our examination in accordance with generally accepted government auditing standards. The CMS Office of the Actuary developed the methodology used for computing allowable CAS pension costs based on CareFirst's historical practices. We performed site work at CareFirst's

corporate office in Owings Mills, Maryland during September and October of 2002, and January of 2003. We also performed audit work in our OIG, OAS offices in Kansas City and Jefferson City, Missouri.

### **FINDINGS IN DETAIL**

For FYs 1992 through 2001, CareFirst under claimed \$113,184 in pension costs. The under claim was primarily due to the funded portion of the CAS computed pension costs exceeding the actual pension costs claimed in 2001. CareFirst did not claim any pension costs for 2001, whereas, they were allowed \$139,512.

### **CRITERIA**

The determination and allocation of pension costs are addressed by the Medicare contract, which states:

*“The calculation of and accounting for pension costs charged to this agreement/contract are governed by the Federal Acquisition Regulation and Cost Accounting Standards 412 and 413.”*

### **CONDITION**

For FYs 1992 through 2001, CareFirst charged \$476,229 of pension costs to Medicare. However, the allowable CAS pension costs were \$589,413 for the same period. Therefore, CareFirst did not claim \$113,184 in allowable pension costs.

### **CAUSE**

The under claim was primarily due to the funded portion of the CAS computed pension costs exceeding the actual pension costs claimed in 2001. Although CareFirst did not make any contributions to the Medicare segment, they did fully fund the total company CAS pension costs for all years throughout the audited period. However, CareFirst did not claim any pension costs for 2001, whereas, they were allowed \$139,512. A CareFirst official stated costs were not claimed in 2001 because CareFirst’s actuarial firm had indicated that no CAS costs were allowable in 2001.

We calculated the allowable CAS pension costs for the Medicare segment and for Medicare indirect 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 our calculated allowable CAS pension costs to the pension costs claimed on CareFirst's FACPs and found:

<b>PENSION COST CLAIMED VARIANCE</b>			
<b>FISCAL YEAR</b>	<b>PER CAREFIRST</b>	<b>PER OIG</b>	<b>DIFFERENCE</b>
1992	\$ 78,174	\$126,506	\$ (48,332)
1993	0	144,513	(144,513)
1994	30,186	24,703	5,483
1995	133,592	31,267	102,325
1996	156,650	50,036	106,614
1997	48,091	47,999	92
1998	26,292	24,877	1,415
1999	3,244	0	3,244
2000	0	0	0
2001	0	139,512	(139,512)
	<u>\$ 476,229</u>	<u>\$589,413</u>	<u>\$ (113,184)</u>

### **EFFECT**

For FYs 1992 through 2001, CareFirst claimed pension costs of \$476,229 for Medicare reimbursement. However, the allowable CAS pension costs were \$589,413. As a result, CareFirst could have claimed \$113,184 in additional CAS pension costs.

### **RECOMMENDATION**

We recommend that CareFirst revise its FACPs for FYs 1992 through 2001 to claim additional allowable CAS pension costs of \$113,184.

### **Auditee's Comments**

CareFirst agreed with our finding and recommendation. CareFirst will either request a reimbursement check from CMS, or revise its FY 2001 FACP to claim an additional \$113,184. CareFirst's response is included in its entirety as Appendix B.

### **OIG Response**

Our recommendation to claim additional pension costs of \$113,184 pertains to the entire audited period. CareFirst should address specifics on matters of resolution to CMS.

**INSTRUCTIONS FOR AUDITEE RESPONSE**

Final determinations as to actions taken on all matters reported will be made by the CMS 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 CMS action official, presenting any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, OIG, OAS reports are made available to the public to the extent information contained therein is not subject to the exemptions in the Act. (See CRF Part 5). As such, within 10 days after this report is issued, it will be posted on the worldwide web at <http://oig.hhs.gov/>.

Sincerely,



James P. Aasmundstad  
Regional Inspector General  
for Audit Services, Region VII

Enclosures

**HHS Action Official:**

Ms. Sonia Madison  
Regional Administrator, Region III  
Centers for Medicare and Medicaid Services  
The Public Ledger Building, Suite 216  
150 South Independence Mall West  
Philadelphia, PA 19106

## CAREFIRST INC.

## STATEMENT OF ALLOWABLE CAS PENSION COSTS

## FOR FISCAL YEARS 1992 THROUGH 2001

Date	Description		Total Company	Other Segments	Medicare Segment
1992	Contribution(s)	<u>1/</u>	\$4,651,538	\$4,651,538	\$0
	9.00% Discount for Interest	<u>2/</u>	(295,198)	(295,198)	0
1/1/92	Pres Val Contributions	<u>3/</u>	4,356,340	4,356,340	0
1/1/92	Prepayment Credit	<u>4/</u>	389,660	389,660	0
1/1/92	Pres Value of Funding	<u>5/</u>	\$4,746,000	\$4,746,000	\$0
1/1/92	Assigned Pension Cost	<u>6/</u>	3,716,670	3,716,670	0
1/1/92	CAS Funding Target	<u>7/</u>	3,716,670	3,716,670	0
1/1/92	% Funded	<u>8/</u>		100.00%	0.00%
1/1/92	Funded Pension Cost	<u>9/</u>		3,716,670	0
	Allowable Interest	<u>10/</u>		212,097	0
	Allocable Pension Cost	<u>11/</u>		3,928,767	0
	Medicare LOB%	<u>12/</u>		3.22%	100.00%
	Allowable Pension Cost	<u>13/</u>	\$126,506	\$126,506	\$0

1993	Contribution(s)		\$6,488,538	\$6,488,538	\$0
	9.00% Discount for Interest		(394,420)	(394,420)	0
1/1/93	Pres Val Contributions		6,094,118	6,094,118	0
1/1/93	Prepayment Credit		1,121,970	1,121,970	0
1/1/93	Pres Value of Funding		7,216,088	7,216,088	0
1/1/93	Assigned Pension Cost		4,835,658	4,835,658	0
1/1/93	CAS Funding Target		4,835,658	4,835,658	0
1/1/93	% Funded			100.00%	0.00%
1/1/93	Funded Pension Cost			4,835,658	0
	Allowable Interest			236,748	0
	Allocable Pension Cost			5,072,406	0
	Medicare LOB%			2.85%	100.00%
	Allowable Pension Cost		\$144,513	\$144,513	\$0

## CAREFIRST INC.

## STATEMENT OF ALLOWABLE CAS PENSION COSTS

## FOR FISCAL YEARS 1992 THROUGH 2001

Date	Description	Total Company	Other Segments	Medicare Segment
1994	Contribution(s)	\$5,805,610	\$5,805,610	\$0
9.00%	Discount for Interest	<u>(285,125)</u>	<u>(285,125)</u>	<u>0</u>
1/1/94	Pres Val Contributions	5,520,485	5,520,485	0
1/1/94	Prepayment Credit	<u>2,594,669</u>	<u>2,594,669</u>	<u>0</u>
1/1/94	Pres Value of Funding	8,115,154	8,115,154	0
1/1/94	Assigned Pension Cost	<u>4,367,409</u>	<u>4,367,409</u>	<u>0</u>
1/1/94	CAS Funding Target	4,367,409	4,367,409	0
1/1/94	% Funded		100.00%	0.00%
1/1/94	Funded Pension Cost		4,367,409	0
	Allowable Interest		<u>91,559</u>	<u>0</u>
	Allocable Pension Cost		4,458,968	0
	Medicare LOB%		0.55%	100.00%
	Allowable Pension Cost	<u>\$24,703</u>	<u>\$24,703</u>	<u>\$0</u>

1995	Contribution(s)	\$5,866,061	\$5,866,061	\$0
9.00%	Discount for Interest	<u>(327,859)</u>	<u>(327,859)</u>	<u>0</u>
1/1/95	Pres Val Contributions	5,538,202	5,538,202	0
1/1/95	Prepayment Credit	<u>4,060,631</u>	<u>4,060,631</u>	<u>0</u>
1/1/95	Pres Value of Funding	9,598,833	9,598,833	0
1/1/95	Assigned Pension Cost	<u>4,060,631</u>	<u>4,060,631</u>	<u>0</u>
1/1/95	CAS Funding Target	4,060,631	4,060,631	0
1/1/95	% Funded		100.00%	0.00%
1/1/95	Funded Pension Cost		4,060,631	0
	Allowable Interest		<u>0</u>	<u>0</u>
	Allocable Pension Cost		4,060,631	0
	Medicare LOB%		0.77%	100.00%
	Allowable Pension Cost	<u>\$31,267</u>	<u>\$31,267</u>	<u>\$0</u>

## CAREFIRST INC.

## STATEMENT OF ALLOWABLE CAS PENSION COSTS

## FOR FISCAL YEARS 1992 THROUGH 2001

Date	Description	Total Company	Other Segments	Medicare Segment
1996	Contribution(s)	\$4,025,320	\$4,025,320	\$0
8.75%	Discount for Interest	<u>(323,876)</u>	<u>(323,876)</u>	0
1/1/96	Pres Val Contributions	3,701,444	3,701,444	0
1/1/96	Prepayment Credit	<u>6,063,248</u>	<u>6,063,248</u>	0
1/1/96	Pres Value of Funding	9,764,692	9,764,692	0
1/1/96	Assigned Pension Cost	<u>6,228,708</u>	<u>6,228,708</u>	0
1/1/96	CAS Funding Target	6,228,708	6,228,708	0
1/1/96	% Funded		100.00%	0.00%
1/1/96	Funded Pension Cost		6,228,708	0
	Allowable Interest		<u>10,255</u>	0
	Allocable Pension Cost		6,238,963	0
	Medicare LOB%		0.80%	100.00%
	Allowable Pension Cost	<u>\$50,036</u>	<u>\$50,036</u>	\$0

1997	Contribution(s)	\$5,227,828	\$5,227,828	\$0
8.75%	Discount for Interest	<u>(388,199)</u>	<u>(388,199)</u>	(0)
1/1/97	Pres Val Contributions	4,839,629	4,839,629	0
1/1/97	Prepayment Credit	<u>3,845,382</u>	<u>3,845,382</u>	0
1/1/97	Pres Value of Funding	8,685,011	8,685,011	0
1/1/97	Assigned Pension Cost	<u>6,671,988</u>	<u>6,671,988</u>	0
1/1/97	CAS Funding Target	6,671,988	6,671,988	0
1/1/97	% Funded		100.00%	0.00%
1/1/97	Funded Pension Cost		6,671,988	0
	Allowable Interest		<u>175,191</u>	0
	Allocable Pension Cost		6,847,179	0
	Medicare LOB%		0.70%	100.00%
	Allowable Pension Cost	<u>\$47,999</u>	<u>\$47,999</u>	\$0

## CAREFIRST INC.

## STATEMENT OF ALLOWABLE CAS PENSION COSTS

## FOR FISCAL YEARS 1992 THROUGH 2001

Date	Description	Total Company	Other Segments	Medicare Segment
1998	Contribution(s)	\$3,001,729	\$3,001,729	\$0
8.75%	Discount for Interest	(112,040)	(112,040)	0
1/1/98	Pres Val Contributions	2,889,689	2,889,689	0
1/1/98	Prepayment Credit	2,189,162	2,189,162	0
1/1/98	Pres Value of Funding	5,078,851	5,078,851	0
1/1/98	Assigned Pension Cost	4,949,373	4,949,373	0
1/1/98	CAS Funding Target	4,949,373	4,949,373	0
1/1/98	% Funded		100.00%	0.00%
1/1/98	Funded Pension Cost		4,949,373	0
	Allowable Interest		107,020	0
	Allocable Pension Cost		5,056,393	0
	Medicare LOB%		0.49%	100.00%
	Allowable Pension Cost	\$24,877	\$24,877	\$0

1999	Contribution(s)	\$400,000	\$400,000	\$0
8.00%	Discount for Interest	(19,218)	(19,218)	0
1/1/99	Pres Val Contributions	380,782	380,782	0
1/1/99	Prepayment Credit	0	0	0
1/1/99	Pres Value of Funding	380,782	380,782	0
1/1/99	Assigned Pension Cost	0	0	0
1/1/99	CAS Funding Target	0	0	0
1/1/99	% Funded		0.00%	0.00%
1/1/99	Funded Pension Cost		0	0
	Allowable Interest		0	0
	Allocable Pension Cost		0	0
	Medicare LOB%		0.55%	100.00%
	Allowable Pension Cost	\$0	\$0	\$0

## CAREFIRST INC.

## STATEMENT OF ALLOWABLE CAS PENSION COSTS

## FOR FISCAL YEARS 1992 THROUGH 2001

Date	Description	Total Company	Other Segments	Medicare Segment
2000	Contribution(s)	\$300,000	\$300,000	\$0
8.00%	Discount for Interest	(11,738)	(11,738)	0
1/1/00	Pres Val Contributions	288,262	288,262	0
1/1/00	Prepayment Credit	0	0	0
1/1/00	Pres Value of Funding	288,262	288,262	0
1/1/00	Assigned Pension Cost	0	0	0
1/1/00	CAS Funding Target	0	0	0
1/1/00	% Funded		0.00%	0.00%
1/1/00	Funded Pension Cost		0	0
	Allowable Interest		0	0
	Allocable Pension Cost		0	0
	Medicare LOB%		1.64%	96.21%
	Allowable Pension Cost	\$0	\$0	\$0

2001	Contribution(s)	\$6,307,525	\$6,307,525	\$0
8.00%	Discount for Interest	(444,657)	(444,657)	0
1/1/01	Pres Val Contributions	5,862,868	5,862,868	0
1/1/01	Prepayment Credit	919,705	919,705	0
1/1/01	Pres Value of Funding	6,782,573	6,782,573	0
1/1/01	Assigned Pension Cost	6,534,119	6,534,119	0
1/1/01	CAS Funding Target	6,534,119	6,534,119	0
1/1/01	% Funded		100.00%	0.00%
1/1/01	Funded Pension Cost		6,534,119	0
	Allowable Interest		318,150	0
	Allocable Pension Cost		6,852,269	0
	Medicare LOB%		2.04%	96.21%
	Allowable Pension Cost	\$139,512	\$139,512	\$0

## CAREFIRST INC.

## STATEMENT OF ALLOWABLE CAS PENSION COSTS

## FOR FISCAL YEARS 1992 THROUGH 2001

**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 the year value. For purposes of this appendix, we computed the interest as the difference between the present value of contributions, at the valuation interest rate, 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.
- 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.
- 7/ 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).
- 8/ 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 purposes of illustration, the percentage of funding has been rounded to four decimals.
- 9/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.

**CAREFIRST INC.****STATEMENT OF ALLOWABLE CAS PENSION COSTS****FOR FISCAL YEARS 1992 THROUGH 2001**

- 10/ 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 the quarter.
- 11/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.
- 12/ 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 CareFirst.
- 13/ We computed the allowable Medicare pension cost as the Fiscal Year pension cost multiplied by the Medicare LOB percentage.

April 9, 2003

James P. Aasmundstad  
Office of Audit Services  
Region VII  
601 East 12<sup>th</sup> Street, Room 284A  
Kansas City, MO 64106

Reference: **Response for Draft Report Number A-07-03-03036**

Dear Mr. Aasmundstad:

Attached is the Pension Audit Report response to the Review of Pension Costs Claimed by CareFirst for Plan Years 1992 through 2001.

**Finding**

For fiscal years 1992 through 2001, we determined that CareFirst of Maryland under claimed allowable Medicare pension costs. During this period, the allowable Medicare pension costs were \$589,413. However, CareFirst claimed pension costs of \$476,229 for Medicare reimbursement. As a result, CareFirst did not claim \$113,184 of allowable pension costs.

**Recommendation**

We recommend that CareFirst revise its Final Administrative Cost Proposal (FACPs) for fiscal years 1992 through 2001 to claim additional allowable CAS pension costs of \$113,184.

**Response:**

CareFirst agrees with the finding that \$113,184 of allowable pension costs was not claimed for the audited period. Even though FACP audits are closed and settled through FY 1999, they are still open for pension costs. As noted in CareFirst Closing Agreement No. 11, "When the allowable amount of pension costs is finally determined, the amount of pension costs will be adjusted accordingly." To expedite this process, CareFirst's recommendation for reimbursement is one of the following two options:

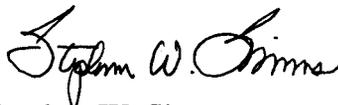
**Option 1:** CMS will generate a check in the amount of the final reimbursement amount, payable to CareFirst of Maryland, Inc.

or

**Option 2:** CareFirst of Maryland, Inc. will refile FY 2001 including the \$113,184 of additional Pension costs that were originally under filed in the FY2001 FACP. CareFirst would then draw the additional reimbursement amount through CAFM.

If you have questions, please contact me at 410-561-4270.

Sincerely,



Stephan W. Simms  
Director,  
Intermediary Operations

cc: Angela Miller  
Charlie Reip  
Bruce Keaton  
Jimmy Riggs

# ACKNOWLEDGMENTS

Report Number: A-07-03-03036  
CAREFIRST INC.

This report was prepared under the direction of James P. Aasmundstad, Regional Inspector General for Audit Services. Other principal Office of Audit Services staff that contributed include:

Greg Tambke, *Audit Manager*  
James Flack, *Senior Auditor*  
Dao Pham, *Auditor*  
Julie Wisner, *Auditor*

For information or copies of this report, please contact the Office of Inspector General's Public Affairs office at (202) 619-1343.