



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

FEB 18 2005

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

Report Number: A-07-04-00176

Mr. Joseph D. Wright, CPA
Vice President and Chief Financial Officer
Blue Cross Blue Shield of South Carolina
P.O. Box 100134, AG-A15
Columbia, South Carolina 29202-3134

Dear Mr. Wright:

Enclosed are two copies of the Department of Health and Human Services, Office of Inspector General (OIG) report entitled "Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross Blue Shield of South Carolina for Fiscal Years 1994 Through 2002." A copy of this report will be forwarded to the HHS action official noted on the next page for her review and any action deemed necessary.

The action official will make final determination regarding actions taken on all matters in the report. 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 reports are made available publicly to the extent information contained therein is not subject to exemptions of the Act that the Department chooses to exercise. (See 45 CFR part 5.)

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, ext. 225, or Jenenne Tambke, Audit Manager, at (573) 893-8338, ext. 21, or through email at Jenenne.Tambke@oig.hhs.gov. Please refer to report number A-07-04-00176 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "James P. Aasmundstad", with a stylized flourish at the end.

James P. Aasmundstad
Regional Inspector General
for Audit Services

Enclosures

Page 2 - Mr. Joseph D. Wright, CPA

Direct Reply to HHS Action Official:

Rose Crum-Johnson
Regional Administrator
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Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS
CLAIMED FOR MEDICARE
REIMBURSEMENT BY BLUE CROSS
BLUE SHIELD OF SOUTH CAROLINA
FOR FISCAL YEARS 1994
THROUGH 2002**



FEBRUARY 2005

A-07-04-00176

Office of Inspector General

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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.



EXECUTIVE SUMMARY

BACKGROUND

Blue Cross Blue Shield of South Carolina (South Carolina) administers Medicare Part A and Part B operations in its Palmetto Government Benefit Administrators (Palmetto) and TrailBlazer Health Enterprises (TrailBlazer) subsidiaries under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS).

Medicare reimburses a portion of the annual contributions that contractors make to their pension plans. In claiming costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulations (FAR), the Cost Accounting Standards (CAS), and the Medicare contracts.

The Medicare contracts provide for an allocation or a separate calculation of pension costs. The separate calculation method must be used if there is a material difference between the two methods.

We previously conducted a segmentation review (A-07-94-00768) that addressed the computation of the asset fraction, the identification of the segment's assets as of January 1, 1986, and the update of the segment's assets to January 1, 1993.

OBJECTIVE

Our objective was to determine the allowability of pension costs that South Carolina claimed for Medicare reimbursement for fiscal years (FY) 1994 through 2002.

SUMMARY OF FINDING

South Carolina underclaimed \$366,306 in Medicare pension costs for FYs 1994 through 2002 because it did not identify its Medicare segments in accordance with its Medicare contract and did not update its Medicare segment assets in accordance with CAS 412 and 413. South Carolina claimed pension costs of \$24,460,796 for Medicare reimbursement; however, the allowable Medicare pension costs were \$24,827,142.

RECOMMENDATIONS

We recommend that South Carolina revise its Final Administrative Cost Proposals (FACP) for FYs 1994 through 2002 to claim additional CAS pension costs of \$366,306. Additionally, South Carolina should implement procedures to (1) ensure that its Medicare segments are identified in accordance with the Medicare contract and (2) update its Medicare segment assets in accordance with CAS 412 and 413.

AUDITEE'S COMMENTS

South Carolina disagreed with the draft report finding and recommendation because the CAS allowable pension costs were determined by prorating the calendar year CAS allowable amounts to arrive at the fiscal year amount. South Carolina stated that the previous pension review did not reflect this adjustment and its method of applying the CAS amount has been consistently applied. South Carolina's comments are included in their entirety as Appendix B.

OIG RESPONSE

As noted by South Carolina, the previously issued audit report for the period that ended in FY 1993 did not include the adjustment that prorated calendar year CAS allowable amounts to arrive at the fiscal year amount. Although the conversion shown in the draft report is technically correct, we agree that we should maintain a consistent methodology for South Carolina's contracts. Consequently, we have revised our calculations, finding, and recommendations in this final report such that calendar year allowable CAS costs are treated as the fiscal year allowable amounts.

TABLE OF CONTENTS

INTRODUCTION	1
BACKGROUND	1
South Carolina	1
Medicare	1
Regulations	1
OBJECTIVE, SCOPE, AND METHODOLOGY	2
Objective	2
Scope	2
Methodology	2
FINDING AND RECOMMENDATIONS	2
MEDICARE CONTRACT REQUIREMENTS	3
ALLOWABLE PENSION COSTS	3
RECOMMENDATIONS	4
AUDITEE'S COMMENTS	4
OIG RESPONSE	4
APPENDIXES	
(A) STATEMENT OF ALLOWABLE CAS PENSION COSTS FOR FISCAL YEARS 1994 THROUGH 2002	
(B) SOUTH CAROLINA'S RESPONSE	

Glossary of Abbreviations and Acronyms

CAS	Cost Accounting Standards
CMS	Centers for Medicare & Medicaid Services
FACP	Final Administrative Cost Proposal
FAR	Federal Acquisition Regulations
FY	fiscal year
LOB	line of business
OIG	Office of Inspector General

INTRODUCTION

BACKGROUND

South Carolina

South Carolina administers Medicare Part A and Part B operations in its Palmetto and TrailBlazer subsidiaries under cost reimbursement contracts. In claiming costs, contractors must follow cost reimbursement principles contained in the FAR, the CAS, and the Medicare contracts.

South Carolina acquired TrailBlazer from Blue Cross Blue Shield of Texas in October 1999. There were no pension plan assets transferred with the TrailBlazer group as of October 1, 1999, and there were no pension contributions allocated to TrailBlazer prior to January 1, 2000.

Medicare

Medicare reimburses a portion of the annual contributions that contractors make to their 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.

Additionally, CMS incorporated specific segmentation language into Medicare contracts starting in FY 1988. Contracts provide for an allocation or a separate calculation of pension costs. Under the 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.

Regulations

The Medicare contract addresses the determination and allocation of pension costs. The contract 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.”

The FAR addresses allowability of pension costs and requires that funding substantiate pension costs assigned to contract periods.

The CAS 412 regulates the determination and measurement of pension cost components. It also regulates the assignment of pension costs to appropriate accounting periods. The CAS 413 regulates the valuation of pension assets, allocation of pension costs to segments of an organization, adjustment of pension costs for actuarial gains and losses, and assignment of gains and losses to cost accounting periods.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine the allowability of pension costs that South Carolina claimed for Medicare reimbursement for FYs 1994 through 2002.

Scope

We reviewed pension costs claimed for Medicare reimbursement on South Carolina's FACP's for FYs 1994 through 2002. Achieving the objective did not require that we review South Carolina's overall internal control structure. However, we did review the controls relating to the pension costs claimed for Medicare reimbursement to ensure that costs were allowable in accordance with CAS and funded in accordance with FAR.

We performed onsite audit work at South Carolina's corporate office in Columbia, SC during February of 2004.

Methodology

We identified South Carolina's CAS pension costs for the total company and for the Medicare segments. We also determined the extent to which South Carolina funded CAS pension costs with contributions to the pension trust fund and accumulated prepayment credits. Using this information, we calculated CAS pension costs that were allowable for Medicare reimbursement for FYs 1994 through 2002. The calculations were based on separately computed CAS pension costs for the Medicare segments and total company CAS pension costs. The CMS Office of the Actuary developed the methodology used for computing allowable CAS pension costs based on South Carolina's historical practices. Appendix A contains details on the pension costs and contributions.

In performing our review, we used information provided by South Carolina's actuarial consulting firm. The information included assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We examined South Carolina's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Form 5500s.

This review was done in conjunction with our reviews of South Carolina's pension segmentation (A-07-03-03042) and unfunded costs (A-07-04-00178). We used the information obtained and reviewed during those audits in performing this review.

We performed our review in accordance with generally accepted government auditing standards.

FINDING AND RECOMMENDATIONS

South Carolina underclaimed \$366,306 in Medicare pension costs for FYs 1994 through 2002 because it did not identify its Medicare segments in accordance with its Medicare contracts and did not update its Medicare segment assets in accordance with CAS 412 and 413. South

Carolina claimed pension costs of \$24,460,796 for Medicare reimbursement; however, the allowable Medicare pension costs were \$24,827,102.

MEDICARE CONTRACT REQUIREMENTS

The Medicare contract states:

The term “Medicare Segment” shall mean any organizational component of the contractor, such as a division, department, or other similar subdivision, having a significant degree of responsibility and accountability for the Medicare contract/agreement, in which:

1. The majority of the salary dollars is allocated to the Medicare agreement/contract; or
2. Less than a majority of the salary dollars is allocated to the Medicare agreement/contract, and these salary dollars represent 40 percent or more of the total salary dollars allocated to the Medicare agreement/contract.

Furthermore, the Medicare contract 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.”

ALLOWABLE PENSION COSTS

South Carolina overclaimed \$409,166 on its TrailBlazer Medicare segment FACPs. For FYs 2000 through 2002, South Carolina claimed \$10,430,270 of pension costs for TrailBlazer; however, the allowable CAS pension costs were \$10,021,104.

TrailBlazer Pension Cost Claimed Variance			
Fiscal Year	Per TrailBlazer	Per OIG	Difference
2000	\$3,114,749	\$3,009,763	\$104,986
2001	2,755,997	2,562,554	193,443
2002	4,559,524	4,448,787	110,737
Total	<u>\$10,430,270</u>	<u>\$10,021,104</u>	<u>\$409,166</u>

South Carolina underclaimed \$775,472 on its Palmetto Medicare segment FACPs. For FYs 1994 through 2002, it claimed a total of \$14,030,526 in pension costs; however, the allowable CAS pension costs for the period were \$14,805,998.

Palmetto Pension Cost Claimed Variance

Fiscal Year	Per Palmetto	Per OIG	Difference
1994	\$790,165	\$541,630	\$248,535
1995	818,013	575,774	242,239
1996	773,177	924,135	(150,958)
1997	1,008,038	1,011,505	(3,467)
1998	1,209,451	996,440	213,011
1999	1,120,129	1,554,391	(434,262)
2000	1,847,126	1,817,342	29,784
2001	1,980,800	2,238,513	(257,713)
2002	4,483,627	5,146,268	(662,641)
Total	<u>\$14,030,526</u>	<u>\$14,805,998</u>	<u>(\$775,472)</u>

South Carolina did not have adequate controls to ensure that the Medicare segments were identified in accordance with the Medicare contracts and that Medicare segment pension assets were updated in accordance with CAS 412 and 413. As a result, South Carolina underclaimed \$366,306 in CAS pension costs on its FACPs.

RECOMMENDATIONS

We recommend that South Carolina revise its FACPs for FYs 1994 through 2002 to increase its claimed CAS pension costs by \$366,306. Additionally, South Carolina should implement procedures to (1) ensure that its Medicare segments are identified in accordance with the Medicare contract and (2) update its Medicare segment assets in accordance with CAS 412 and 413.

AUDITEE’S COMMENTS

South Carolina disagreed with the draft report finding and recommendation because the CAS allowable pension costs were determined by prorating the calendar year CAS allowable amounts to arrive at the fiscal year amount. South Carolina stated that the previous pension review did not reflect this adjustment and its method of applying the CAS amount has been consistently applied. Except for the change regarding the determination of the fiscal year CAS allowable amount, South Carolina agreed with the findings and will implement the recommendations.

OIG RESPONSE

As noted by South Carolina, the previously issued audit report for the period that ended in FY 1993 did not include the adjustment that prorated calendar year CAS allowable amounts to arrive at the fiscal year amount. Although the conversion shown in the draft report is technically correct, we agree that we should maintain a consistent methodology for South Carolina’s contracts. Consequently, we have revised our calculations, finding, and recommendation in this report such that calendar year allowable CAS costs are treated as the fiscal year allowable amounts.

APPENDIXES

BLUE CROSS BLUE SHIELD OF SOUTH CAROLINA
STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR CALENDAR YEARS 1994 THROUGH 2002

Date	Description		Total Company	Other Segment	Palmetto Segment	Trailblazer Segment
1994	Contributions	1/	\$4,130,610	\$3,942,290	\$188,320	\$0
8.00%	Discount for Interest	2/	(210,539)	(200,940)	(9,599)	0
1/1/94	Present Value Contributions	3/	3,920,071	3,741,350	178,721	0
1/1/94	Prepayment Credit	4/	1,400,857	1,183,290	217,567	0
1/1/94	Present Value of Funding	5/	5,320,928	4,924,640	396,288	0
1/1/94	Assigned Pension Costs	6/	2,551,598	2,155,310	396,288	0
1/1/94	Absorbed Credit		0	0	0	0
1/1/94	CAS Funding Target	7/	2,551,598	2,155,310	396,288	0
1/1/94	Percentage Funded	8/		100.00%	100.00%	0.00%
1/1/94	Funded Pension Cost	9/		2,155,310	396,288	0
	Allowable Interest	10/		52,205	9,599	0
	Allocable Pension Cost	11/		2,207,515	405,887	0
	Medicare LOB Percentage	12/		6.39%	98.69%	0.00%
	Allowable Pension Cost	13/	\$541,630	\$141,060	\$400,570	\$0

Date	Description		Total Company	Other Segment	Palmetto Segment	Trailblazer Segment
1995	Contributions		\$4,058,278	\$4,058,278	\$0	\$0
8.50%	Discount for Interest		(214,698)	(214,698)	0	0
1/1/95	Present Value Contributions		3,843,580	3,843,580	0	0
1/1/95	Prepayment Credit		2,859,751	2,442,757	416,994	0
1/1/95	Present Value of Funding		6,703,331	6,286,337	416,994	0
1/1/95	Assigned Pension Costs		2,859,751	2,442,757	416,994	0
1/1/95	Absorbed Credit		0	0	0	0
1/1/95	CAS Funding Target		2,859,751	2,442,757	416,994	0
1/1/95	Percentage Funded			100.00%	100.00%	0.00%
1/1/95	Funded Pension Cost			2,442,757	416,994	0
	Allowable Interest			0	0	0
	Allocable Pension Cost			2,442,757	416,994	0
	Medicare LOB Percentage			6.71%	98.77%	0.00%
	Allowable Pension Cost		\$575,774	\$163,909	\$411,865	\$0

BLUE CROSS BLUE SHIELD OF SOUTH CAROLINA
STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR CALENDAR YEARS 1994 THROUGH 2002

Date	Description	Total Company	Other Segment	Palmetto Segment	Trailblazer Segment
1996	Contributions	\$4,632,141	\$4,586,354	\$45,787	\$0
8.50%	Discount for Interest	(264,036)	(261,426)	(2,610)	0
1/1/96	Present Value Contributions	4,368,105	4,324,928	43,177	0
1/1/96	Prepayment Credit	4,312,556	3,676,491	636,065	0
1/1/96	Present Value of Funding	8,680,661	8,001,419	679,242	0
1/1/96	Assigned Pension Costs	4,605,300	3,926,058	679,242	0
	Absorbed Credit	0	0	0	0
	CAS Funding Target	4,605,300	3,926,058	679,242	0
1/1/96	Percentage Funded		100.00%	100.00%	0.00%
1/1/96	Funded Pension Cost		3,926,058	679,242	0
	Allowable Interest		15,026	2,600	0
	Allocable Pension Cost		3,941,084	681,842	0
	Medicare LOB Percentage		6.16%	99.93%	0.00%
	Allowable Pension Cost	<u>\$924,135</u>	<u>\$242,771</u>	<u>\$681,364</u>	<u>\$0</u>

Date	Description	Total Company	Other Segment	Palmetto Segment	Trailblazer Segment
1997	Contributions	\$5,488,930	\$5,412,338	\$76,592	\$0
8.50%	Discount for Interest	(296,921)	(292,778)	(4,143)	0
1/1/97	Present Value Contributions	5,192,009	5,119,560	72,449	0
1/1/97	Prepayment Credit	4,421,767	3,733,913	687,854	0
1/1/97	Present Value of Funding	9,613,776	8,853,473	760,303	0
1/1/97	Assigned Pension Costs	4,887,497	4,127,194	760,303	0
	Absorbed Credit	0	0	0	0
	CAS Funding Target	4,887,497	4,127,194	760,303	0
1/1/97	Percentage Funded		100.00%	100.00%	0.00%
1/1/97	Funded Pension Cost		4,127,194	760,303	0
	Allowable Interest		22,491	4,143	0
	Allocable Pension Cost		4,149,685	764,446	0
	Medicare LOB Percentage		6.02%	99.64%	0.00%
	Allowable Pension Cost	<u>\$1,011,505</u>	<u>\$249,811</u>	<u>\$761,694</u>	<u>\$0</u>

BLUE CROSS BLUE SHIELD OF SOUTH CAROLINA
STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR CALENDAR YEARS 1994 THROUGH 2002

Date	Description	Total Company	Other Segment	Palmetto Segment	Trailblazer Segment
1998	Contributions	\$3,989,700	\$3,873,331	\$116,369	\$0
9.00%	Discount for Interest	(246,212)	(239,031)	(7,181)	0
1/1/98	Present Value Contributions	3,743,488	3,634,300	109,188	0
1/1/98	Prepayment Credit	5,128,013	4,484,703	643,310	0
1/1/98	Present Value of Funding	8,871,501	8,119,003	752,498	0
1/1/98	Assigned Pension Costs	5,998,378	5,245,880	752,498	0
	Absorbed Credit	0	0	0	0
	CAS Funding Target	5,998,378	5,245,880	752,498	0
1/1/98	Percentage Funded		100.00%	100.00%	0.00%
1/1/98	Funded Pension Cost		5,245,880	752,498	0
	Allowable Interest		48,525	6,961	0
	Allocable Pension Cost		5,294,405	759,459	0
	Medicare LOB Percentage		4.74%	98.16%	0.00%
	Allowable Pension Cost	<u>\$996,440</u>	<u>\$250,955</u>	<u>\$745,485</u>	<u>\$0</u>

Date	Description	Total Company	Other Segment	Palmetto Segment	Trailblazer Segment
1999	Contributions	\$7,102,786	\$6,345,993	\$756,793	\$0
9.00%	Discount for Interest	(431,934)	(385,912)	(46,022)	0
1/1/99	Present Value Contributions	6,670,852	5,960,081	710,771	0
1/1/99	Prepayment Credit	3,131,704	2,595,771	535,933	0
1/1/99	Present Value of Funding	9,802,556	8,555,852	1,246,704	0
1/1/99	Assigned Pension Costs	7,285,066	6,038,362	1,246,704	0
	Absorbed Credit	0	0	0	0
	CAS Funding Target	7,285,066	6,038,362	1,246,704	0
1/1/99	Percentage Funded		100.00%	100.00%	0.00%
1/1/99	Funded Pension Cost		6,038,362	1,246,704	0
	Allowable Interest		219,465	45,312	0
	Allocable Pension Cost		6,257,827	1,292,016	0
	Medicare LOB Percentage		4.68%	97.64%	0.00%
	Allowable Pension Cost	<u>\$1,554,391</u>	<u>\$292,866</u>	<u>\$1,261,525</u>	<u>\$0</u>

BLUE CROSS BLUE SHIELD OF SOUTH CAROLINA
STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR CALENDAR YEARS 1994 THROUGH 2002

Date	Description	Total Company	Other Segment	Palmetto Segment	Trailblazer Segment
2000	Contributions	\$18,933,402	\$15,220,452	\$1,328,544	\$2,384,406
9.00%	Discount for Interest	(1,291,605)	(1,038,314)	(90,631)	(162,660)
1/1/00	Present Value Contributions	17,641,797	14,182,138	1,237,913	2,221,746
1/1/00	Prepayment Credit	2,744,064	1,737,533	360,150	646,381
1/1/00	Present Value of Funding	20,385,861	15,919,671	1,598,063	2,868,127
1/1/00	Assigned Pension Costs	12,175,989	7,709,799	1,598,063	2,868,127
	Absorbed Credit	0	0	0	0
	CAS Funding Target	12,175,989	7,709,799	1,598,063	2,868,127
1/1/00	Percentage Funded		100.00%	100.00%	100.00%
1/1/00	Funded Pension Cost		7,709,799	1,598,063	2,868,127
	Allowable Interest		380,732	78,917	141,636
	Allocable Pension Cost		8,090,531	1,676,980	3,009,763
	Medicare LOB Percentage		2.45%	96.55%	100.00%
	Allowable Pension Cost	\$4,827,105	\$198,218	\$1,619,124	\$3,009,763

Date	Description	Total Company	Other Segment	Palmetto Segment	Trailblazer Segment
2001	Contributions	\$14,669,236	\$13,145,514	\$637,917	\$885,805
9.00%	Discount for Interest	(1,153,083)	(\$1,033,310)	(50,144)	(69,629)
1/1/01	Present Value Contributions	13,516,153	12,112,204	587,773	816,176
1/1/01	Prepayment Credit	8,948,760	6,034,221	1,220,192	1,694,347
1/1/01	Present Value of Funding	22,464,913	18,146,425	1,807,965	2,510,523
1/1/01	Assigned Pension Costs	13,259,426	8,940,938	1,807,965	2,510,523
	Absorbed Credit	0	0	0	0
	CAS Funding Target	13,259,426	8,940,938	1,807,965	2,510,523
1/1/01	Percentage Funded		100.00%	100.00%	100.00%
1/1/01	Funded Pension Cost		8,940,938	1,807,965	2,510,523
	Allowable Interest		185,303	37,471	52,031
	Allocable Pension Cost		9,126,241	1,845,436	2,562,554
	Medicare LOB Percentage		5.12%	95.98%	100.00%
	Allowable Pension Cost	\$4,801,067	\$467,264	\$1,771,249	\$2,562,554

BLUE CROSS BLUE SHIELD OF SOUTH CAROLINA
STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR CALENDAR YEARS 1994 THROUGH 2002

Date	Description	Total Company	Other Segment	Palmetto Segment	Trailblazer Segment
2002	Contributions	\$37,587,514	\$31,990,288	\$2,698,496	\$2,898,730
8.50%	Discount for Interest	(2,643,996)	(2,250,273)	(189,819)	(203,904)
1/1/02	Present Value Contributions	34,943,518	29,740,015	2,508,677	2,694,826
1/1/02	Prepayment Credit	10,033,981	6,960,512	1,481,759	1,591,710
1/1/02	Present Value of Funding	44,977,499	36,700,527	3,990,436	4,286,536
1/1/02	Assigned Pension Costs	27,021,907	18,744,935	3,990,436	4,286,536
	Absorbed Credit	0	0	0	0
	CAS Funding Target	27,021,907	18,744,935	3,990,436	4,286,536
1/1/02	Percentage Funded		100.00%	100.00%	100.00%
1/1/02	Funded Pension Cost		18,744,935	3,990,436	4,286,536
	Allowable Interest		709,520	151,043	162,250
	Allocable Pension Cost		19,454,455	4,141,479	4,448,786
	Medicare LOB Percentage		5.68%	97.58%	100.00%
	Allowable Pension Cost	<u>\$9,595,054</u>	<u>\$1,105,013</u>	<u>\$4,041,255</u>	<u>\$4,448,786</u>

FOOTNOTES

- 1/ We obtained total company contribution amounts and dates of deposit from Internal Revenue Service 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 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 accumulated value of 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 assigned pension costs, computed at January 1 of each year, provide the basis to compute the allowable pension cost that can be charged to Medicare.

BLUE CROSS BLUE SHIELD OF SOUTH CAROLINA
STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR CALENDAR YEARS 1994 THROUGH 2002

- 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. Because any funding in excess of the CAS funding target is considered premature funding in accordance with CAS 412.50(a)(7), 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.
- 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 the 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 the Medicare line of business, for the segment and indirect operations, based on individual cost center line of business. Salary dollar information was provided by South Carolina.
- 13/ We computed the allowable Medicare pension cost as the allocable calendar year pension cost multiplied by the Medicare line of business percentage.



**Medicare
Palmetto GBA**

Post Office Box 100134
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Joseph D. Wright
Vice President and Chief Financial Officer

December 30, 2004

James P. Aasmundstad
Regional Inspector General for Audit Services
Office of Inspector General
Offices of Audit Services
Region VII
601 East 12th Street, Room 284A
Kansas City, MO 64106

Dear Mr. Aasmundstad:

Re: Draft Report entitled "Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross Blue Shield of South Carolina for Fiscal Years 1994 Through 2002"
Report No. A-07-04-00176

We received the above titled draft report and are responding to the findings and recommendations included in the report. We consulted with Chicago Consulting Actuaries in determining our response to this report.

The report found that we overclaimed \$1,904,738 (\$383,375 for Palmetto and \$1,521,363 for TrailBlazer) in Medicare pension costs for FYs 1994 through 2002 because we did not identify Medicare segments in accordance with our Medicare contract and we did not update our Medicare segment assets in accordance with CAS 412 and 413. We claimed pension costs of \$24,460,796 for Medicare reimbursement; however, the allowable Medicare pension costs were \$22,556,058.

The report recommends that we revise our Final Administrative Cost Proposals (FACP) for FY 1994 through 2002 to reduce our claimed CAS pension costs by \$1,904,738. Additionally, we should implement procedures to (1) ensure that our Medicare segments are identified in accordance with the Medicare contract and (2) update our Medicare segment assets in accordance with CAS 412 and 413.

We disagree with the finding and recommendation to the extent that the CAS allowable pension costs for the Medicare segments (Palmetto and TrailBlazer) were determined by prorating the calendar year CAS allowable amounts to arrive at the fiscal year amount. The previous pension audit did not reflect this adjustment and our method of applying the CAS amount has been consistently applied. The OIG has indicated it agrees with our objection for the periods

reviewed, will revise the calculations in the final report, and recommend that we convert to a fiscal year basis of determining the CAS allowable amount at some point in the future.

Except for the change regarding the determination of the fiscal year CAS allowable amount, we agree with the findings and will implement the recommendations.

Thank you for the additional time to submit our response. We appreciate the professional manner in which this audit was conducted.

Sincerely,

Joseph D. Wright / df

Joseph D. Wright, CPA

Cc: Rose Crum-Johnson, CMS Atlanta

