



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General  
Office of Audit Services

Region VII  
601 East 12<sup>th</sup> Street  
Room 0429  
Kansas City, Missouri 64106

October 13, 2009

Report Number: A-07-09-00296

Mr. Brian Fitzpatrick  
Director Internal Audit  
Blue Cross Blue Shield of Montana  
404 Fuller Avenue  
Helena, Montana 59604

Dear Mr. Fitzpatrick:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross Blue Shield of Montana for Fiscal Years 2004 Through 2007." We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this 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.

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If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, or contact Jenenne Tambke, Audit Manager, at (573) 893-8338, extension 21, or through email at [Jenenne.Tambke@oig.hhs.gov](mailto:Jenenne.Tambke@oig.hhs.gov). Please refer to report number A-07-09-00296 in all correspondence.

Sincerely,

/Patrick J. Cogley/  
Regional Inspector General  
for Audit Services

Enclosure

**Direct Reply to HHS Action Official:**

Ms. Deborah Taylor  
Acting Director  
Office of Financial Management  
Centers for Medicare & Medicaid Services  
Mail Stop C3-01-24  
7500 Security Boulevard  
Baltimore, Maryland 21244-1850

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS CLAIMED  
FOR MEDICARE REIMBURSEMENT BY  
BLUE CROSS BLUE SHIELD OF  
MONTANA FOR FISCAL YEARS  
2004 THROUGH 2007**



Daniel R. Levinson  
Inspector General

October 2009  
A-07-09-00296

# ***Office of Inspector General***

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## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

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

## **EXECUTIVE SUMMARY**

### **BACKGROUND**

Blue Cross Blue Shield of Montana (Montana) administered Medicare Part A and Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated November 30, 2006.

CMS 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 Regulation, Cost Accounting Standards (CAS), and Medicare contracts.

The Medicare contracts require contractors to allocate or separately calculate pension costs. Contractors must use the separate calculation method if there is a material difference between the results of the two methods.

### **OBJECTIVE**

Our objective was to determine the allowability of pension costs that Montana claimed for Medicare reimbursement for fiscal years (FY) 2004 through 2007.

### **SUMMARY OF FINDING**

Montana did not claim \$671,454 of pension costs that were allowable for Medicare reimbursement for FYs 2004 through 2007. The underclaim occurred primarily because Montana (a) did not claim pension costs for FY 2004 and (b) did not claim pension costs associated with indirect Medicare operations for FYs 2005 through 2007. Beginning with FY 2005, Montana used only the Medicare segment's pension cost to claim \$875,853 for Medicare reimbursement. We calculated allowable pension costs for FYs 2004 through 2007 in accordance with CAS 412 and 413, as required by the Medicare contracts, to be \$1,547,307, a difference of \$671,454.

### **RECOMMENDATION**

We recommend that Montana increase its Final Administrative Cost Proposal pension costs by \$671,454.

### **AUDITEE COMMENTS**

In written comments on our draft report, Montana concurred with our recommendation. Montana's comments are included in their entirety as Appendix B.

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## **INTRODUCTION**

### **BACKGROUND**

#### **Blue Cross Blue Shield of Montana**

Blue Cross Blue Shield of Montana (Montana) administered Medicare Part A and Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated November 30, 2006.

#### **Medicare Reimbursement of Pension Costs**

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 Cost Accounting Standards (CAS) 412 and 413 and (2) funded as specified by part 31 of the Federal Acquisition Regulation (FAR).

Beginning with fiscal year (FY) 1988, CMS incorporated specific segmentation language into Medicare contracts that requires contractors to use either an allocation method or a separate calculation method to identify and claim pension costs for Medicare reimbursement. Under the allocation method, the contractor determines total plan CAS pension costs and allocates a share to Medicare. Under the separate calculation method, the contractor separately identifies the pension cost components for the Medicare segment. The contractor must use the separate calculation method if its result is materially different from that of the allocation method.

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

#### **Objective**

Our objective was to determine the allowability of pension costs that Montana claimed for Medicare reimbursement for FYs 2004 through 2007.

#### **Scope**

We reviewed \$875,853 of pension costs that Montana claimed for Medicare reimbursement on its Final Administrative Cost Proposals (FACP) for FYs 2004 through 2007. Achieving our objective did not require that we review Montana's overall internal control structure. However, we reviewed the internal controls related to the pension costs claimed for Medicare reimbursement to ensure that the pension costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

We performed fieldwork at Montana's office in Helena, Montana, in September 2008.

## **Methodology**

We reviewed the applicable portions of the FAR, CAS, and Medicare contracts. Additionally, we reviewed Montana's FACPs to identify the amount of pension costs claimed for Medicare reimbursement for FYs 2004 through 2007. We also determined the extent to which Montana funded CAS pension costs with contributions to the pension trust fund and accumulated prepayment credits. We based our calculations on separately computed CAS pension costs for the Medicare segment and the "Other" segment. The CMS Office of the Actuary calculated the allocable CAS pension costs based on Montana's historical practices and on the results of our segmentation review, "Review of the Qualified Pension Plan at Blue Cross Blue Shield of Montana, a Terminated Medicare Contractor, for the Period January 1, 2004, to November 30, 2006" (A-07-09-00295).

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

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

## **FINDING AND RECOMMENDATION**

Montana did not claim \$671,454 of pension costs that were allowable for Medicare reimbursement for FYs 2004 through 2007. The underclaim occurred primarily because Montana (a) did not claim pension costs for FY 2004 and (b) did not claim pension costs associated with indirect Medicare operations for FYs 2005 through 2007. Beginning with FY 2005, Montana used only the Medicare segment's pension cost to claim \$875,853 for Medicare reimbursement. We calculated allowable pension costs for FYs 2004 through 2007 in accordance with CAS 412 and 413, as required by the Medicare contracts, to be \$1,547,307, a difference of \$671,454.

## **FEDERAL REQUIREMENTS**

The Medicare contracts address the determination and allocation of pension costs. The contracts state: "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."

FAR 31.205-6(j) addresses allowability of pension costs and requires that plan contributions substantiate pension costs assigned to contract periods.

CAS 412 addresses the determination and measurement of pension cost components. It also addresses the assignment of pension costs to appropriate accounting periods.

CAS 413 addresses 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.

**ALLOWABLE PENSION COSTS NOT CLAIMED**

Montana did not claim \$671,454 of allowable Medicare pension costs for FYs 2004 through 2007. During that period, Montana claimed pension costs of \$875,853 for Medicare reimbursement. We calculated allowable pension costs based on separately computed CAS pension costs for the Medicare segment and the “Other” segment in accordance with CAS 412 and 413. Based on the terms of the Medicare contracts, the allowable CAS pension costs for this period totaled \$1,547,307.

The following table compares allowable CAS pension costs with the pension costs claimed on Montana’s FACP. Appendix A contains details on allowable pension costs and contributions.

**Comparison of Allowable Pension Costs and Claimed Pension Costs**

<b>Fiscal Year</b>	<b>Medicare Pension Costs</b>		<b>Difference</b>
	<b>Allowable Per Audit</b>	<b>Claimed By Montana</b>	
2004	\$414,653	\$0	\$414,653
2005	529,024	379,851	149,173
2006	521,148	431,493	89,655
2007	82,482	64,509	17,973
<b>Total</b>	<b>\$1,547,307</b>	<b>\$875,853</b>	<b>\$671,454</b>

The Medicare contracts require Montana to calculate pension costs for Medicare reimbursement pursuant to CAS 412 and 413. However, Montana (a) did not claim pension costs for FY 2004 and (b) did not claim pension costs associated with indirect Medicare operations for FYs 2005 through 2007. As a result, Montana underclaimed \$671,454 of allowable pension costs.

**RECOMMENDATION**

We recommend that Montana increase its FACP pension costs by \$671,454.

**AUDITEE COMMENTS**

In written comments on our draft report, Montana concurred with our recommendation. Montana’s comments are included in their entirety as Appendix B.

# **APPENDIXES**

**APPENDIX A: ALLOWABLE MEDICARE PENSION COSTS FOR  
BLUE CROSS BLUE SHIELD OF MONTANA  
FOR FISCAL YEARS 2004 THROUGH 2007**

<b>Date</b>	<b>Description</b>	<b>Total Company</b>	<b>"Other" Segment</b>	<b>Medicare Segment</b>	<b>Total Medicare</b>
2003	Allocable Pension Cost <u>1/</u>		\$2,240,031	\$329,115	
2004	Contributions <u>2/</u>	\$3,765,000	\$3,765,000	\$0	
8.50%	Discount for Interest <u>3/</u>	(\$294,954)	(\$294,954)	\$0	
January 1, 2004	Present Value Contributions <u>4/</u>	\$3,470,046	\$3,470,046	\$0	
	Prepayment Credit Applied <u>5/</u>	\$2,822,606	\$2,475,455	\$347,151	
	Present Value of Funding <u>6/</u>	\$6,292,652	\$5,945,501	\$347,151	
January 1, 2004	CAS Funding Target <u>7/</u>	\$2,822,606	\$2,475,455	\$347,151	
	Percentage Funded <u>8/</u>		100.00%	100.00%	
	Funded Pension Cost <u>9/</u>		\$2,475,455	\$347,151	
	Allowable Interest <u>10/</u>		\$0	\$0	
	Allocable Pension Cost <u>11/</u>		\$2,475,455	\$347,151	
2004	Fiscal Year Pension Cost <u>12/</u>		\$2,416,599	\$342,642	
	Medicare LOB* Percentage <u>13/</u>		3.15%	98.80%	
	Allowable Pension Cost <u>14/</u>		\$76,123	\$338,530	\$414,653
2005	Contributions	\$8,075,000	\$8,075,000	\$0	
8.00%	Discount for Interest	(\$597,311)	(\$597,311)	\$0	
January 1, 2005	Present Value Contributions	\$7,477,689	\$7,477,689	\$0	
	Prepayment Credit Applied	\$3,722,713	\$3,301,695	\$421,018	
	Present Value of Funding	\$11,200,402	\$10,779,384	\$421,018	
January 1, 2005	CAS Funding Target	\$3,722,713	\$3,301,695	\$421,018	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$3,301,695	\$421,018	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$3,301,695	\$421,018	
2005	Fiscal Year Pension Cost		\$3,095,135	\$402,551	
	Medicare LOB* Percentage		4.12%	99.74%	
	Allowable Pension Cost		\$127,520	\$401,504	\$529,024

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2006	Contributions	\$0	\$0	\$0	
8.00%	Discount for Interest	\$0	\$0	\$0	
January 1, 2006	Present Value Contributions	\$0	\$0	\$0	
	Prepayment Credit Applied	\$3,479,535	\$3,089,767	\$389,768	
	Present Value of Funding	\$3,479,535	\$3,089,767	\$389,768	
January 1, 2006	CAS Funding Target	\$3,479,535	\$3,089,767	\$389,768	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$3,089,767	\$389,768	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$3,089,767	\$389,768	
2006	Fiscal Year Pension Cost		\$3,142,749	\$397,581	
	Medicare LOB* Percentage		3.99%	99.54%	
	Allowable Pension Cost		\$125,396	\$395,752	\$521,148
2007	Fiscal Year Pension Cost <u>15/</u>		\$514,961	\$64,961	
	Medicare LOB* Percentage		3.42%	99.86%	
	Allowable Pension Cost		\$17,612	\$64,870	\$82,482

\* Line of business.

## **FOOTNOTES**

- 1/ We obtained the 2003 calendar year allocable pension from our prior review (A-07-07-00227; issued April 26, 2007).
- 2/ 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. We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-09-00295). The amounts shown for the "Other" segment represent the difference between the Total Company and the Medicare segments.
- 3/ We subtracted the interest that was included in the contributions deposited after the beginning of the valuation 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.
- 4/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the plan year. 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, consistent with the method mandated by the Employee Retirement Income Security Act.

- 5/ 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 Cost Accounting Standards (CAS) funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.
- 6/ 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 the first day of the plan year.
- 7/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of the Federal Acquisition Regulation (FAR) 31.205-6(j)(2)(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 accounted for as a prepayment in accordance with CAS 412.50(c)(1) (as amended), 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 that interest on the funded CAS pension cost, less the prepayment credit, accrues in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in four equal installments deposited within 30 days after 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 converted the plan year (January 1 through December 31) allocable pension costs to a fiscal year (FY) basis (October 1 through September 30). We calculated the FY pension costs as 1/4 of the prior year's costs plus 3/4 of the current year's costs.
- 13/ We calculated allowable pension costs of the Medicare and "Other" segments based on the Medicare line of business (LOB) percentage of each segment. We determined the LOB percentages based upon information provided by Montana.
- 14/ We computed the allowable Medicare pension cost as the FY pension cost multiplied by the Medicare LOB percentage. Pursuant to CAS 412 and 413, the total Medicare allowable pension costs charged to the Medicare contract consisted of the Medicare segment's direct pension costs plus "Other" segment pension costs attributable to indirect Medicare operations.
- 15/ Due to Montana's Medicare contract termination on 11/30/2006, we computed FY 2007 pension costs for the two applicable months of the fiscal year.

## APPENDIX B: AUDITEE COMMENTS



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September 23, 2009

Patrick J. Cogley  
Regional Inspector General for Audit Services  
Office of Inspector General  
Office of Audit Services, Region VII  
601 E 12<sup>th</sup> St, Room 0429  
Kansas City MO 64106

RE: Draft OIG Report Number: A-07-09-00296

Dear Mr. Cogley:

BlueCross BlueShield of Montana (BCBSMT) is in receipt of the draft copies of the OIG report entitled "Review of Pension Costs Claimed for Medicare Reimbursement by BCBSMT for Fiscal Years 2004 Through 2007."

In this report, the OIG recommends that BCBSMT revise its Final Administrative Cost Proposals (FACP's) for the years reviewed to increase claimed pension costs by \$671,454.

BCBSMT concurs with this recommendation. In accordance with our exit from the Medicare fee-for-service program, we no longer have access to CMS systems in order to be able to amend our FACP submissions. However, it is our understanding based upon previous discussions with CMS, that the recommended adjustments will be considered in our global settlement agreement with CMS as part of the final Medicare contract closure procedures.

We are thankful for the opportunity to respond to the draft report. We also appreciate the professionalism your staff exhibited throughout the audit. If you have any questions about our response, please contact Erin Frisbey, 406-444-8983.

Sincerely,

A handwritten signature in blue ink that reads 'Brian Fitzpatrick'.

Brian Fitzpatrick  
BCBSMT Director Internal Audit