



Region VII
601 East 12th Street
Room 0429
Kansas City, Missouri 64106

October 13, 2009

Report Number: A-07-09-00297

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 Supplemental Executive Retirement Plan Costs Claimed for Medicare Reimbursement by Blue Cross Blue Shield of Montana for Fiscal Years 1994 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.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

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. Please refer to report number A-07-09-00297 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 SUPPLEMENTAL
EXECUTIVE RETIREMENT PLAN COSTS
CLAIMED FOR MEDICARE
REIMBURSEMENT BY
BLUE CROSS BLUE SHIELD OF
MONTANA FOR
FISCAL YEARS
1994 THROUGH 2007**



Daniel R. Levinson
Inspector General

October 2009
A-07-09-00297

Office of Inspector General

<http://oig.hhs.gov>

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Section 8L of the Inspector General Act, 5 U.S.C. App., requires that
OIG post its publicly available reports on the OIG Web site.

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.

Montana sponsors a Supplemental Executive Retirement Plan (SERP) which is maintained primarily to provide deferred compensation to a select group of management or highly compensated employees. The SERP is a nonqualified pension plan designed to restore benefits lost due to the Internal Revenue Code limits under the regular qualified plan. Montana claimed SERP costs for Federal reimbursement on a pay-as-you-go basis.

CMS reimburses a portion of its contractors' SERP costs. In claiming SERP costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation (FAR) and applicable Cost Accounting Standards (CAS) as required by the Medicare contracts. 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.

Following the close of each fiscal year (FY), Montana submitted a Final Administrative Cost Proposal (FACP) to CMS reporting the administrative costs of performing Medicare functions during the year. The SERP cost is part of the administrative cost of performing Medicare functions and, as such, can be claimed on each FY's FACP. In addition, Montana executed closing agreements with CMS for the purpose of establishing a final settlement of administrative costs claimed on the FACPs.

Montana did not claim SERP costs on its FACPs. Instead, on April 23, 2008, Montana submitted a separate voucher claim for pay-as-you-go SERP costs associated with FYs 1994 through 2007.

OBJECTIVE

Our objective was to determine the allowability of SERP costs that Montana claimed for Medicare reimbursement on a pay-as-you-go basis for FYs 1994 through 2007.

SUMMARY OF FINDING

Montana claimed some unallowable Medicare SERP costs for FYs 1994 through 2007. In total, Montana claimed \$1,023,466 of SERP costs for Medicare reimbursement; however, allowable Medicare SERP costs were \$929,068. Montana claimed \$94,398 of unallowable SERP costs for FYs 1994 through 2007 because it did not claim SERP costs in accordance with the CAS.

RECOMMENDATION

We recommend that Montana revise its separate voucher claim to reduce claimed pay-as-you-go SERP costs by \$94,398.

AUDITEE COMMENTS

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

INTRODUCTION

BACKGROUND

Montana and Medicare

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.

Montana sponsors a Supplemental Executive Retirement Plan (SERP) which is maintained primarily to provide deferred compensation to a select group of management or highly compensated employees. The SERP is a nonqualified pension plan designed to restore benefits lost due to the Internal Revenue Code limits under the regular qualified plan. Montana claimed SERP costs for Federal reimbursement on a pay-as-you-go basis.

CMS reimburses a portion of its contractors' SERP costs. In claiming SERP costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation (FAR) and applicable Cost Accounting Standards (CAS) as required by the Medicare contracts.

Following the close of each fiscal year (FY), Montana submitted a Final Administrative Cost Proposal (FACP) to CMS reporting the administrative costs of performing Medicare functions during the year. The SERP cost is part of the administrative cost of performing Medicare functions and, as such, can be claimed on each FY's FACP. In addition, Montana executed closing agreements with CMS for the purpose of establishing a final settlement of administrative costs claimed on the FACPs.

Montana's Voucher Request To Claim Additional Supplemental Executive Retirement Plan Costs

On April 23, 2008, citing the fact that FACP closing agreements with CMS had not finalized the prior year's SERP costs, Montana submitted a separate voucher claim for additional SERP costs. This claim was associated with pay-as-you-go SERP costs for FYs 1994 through 2007.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine the allowability of SERP costs that Montana claimed for Medicare reimbursement on a pay-as-you-go basis for FYs 1994 through 2007.

Scope

We reviewed \$1,023,466 of SERP costs that Montana claimed for Medicare reimbursement on the separate voucher claim that Montana submitted on April 23, 2008, for SERP costs associated with FYs 1994 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 pay-as-you-go SERP costs claimed for Medicare reimbursement to ensure that the SERP 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 applicable Federal requirements. Additionally, we reviewed Montana's separate voucher claim to identify the amount of SERP costs claimed for Medicare reimbursement for FYs 1994 through 2007. We also determined the extent to which Montana incurred SERP costs by paying benefits relating to SERP coverage. In performing our review, we used SERP information provided by Montana. We verified the data and used it to calculate the pay-as-you-go SERP costs that were allowable for Medicare reimbursement for FYs 1994 through 2007.¹ We followed Montana's approach of considering Medicare's portion of SERP costs associated with retirees.

We performed this review in conjunction with our audits of Medicare segmentation (A-07-09-00295) and pension costs claimed for Medicare reimbursement (A-07-09-00296). We used the information obtained during those audits in this review.

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 claimed some unallowable Medicare SERP costs for FYs 1994 through 2007. In total, Montana claimed \$1,023,466 of SERP costs for Medicare reimbursement; however, allowable Medicare SERP costs were \$929,068. Montana claimed \$94,398 of unallowable SERP costs for FYs 1994 through 2007 because it did not claim SERP costs in accordance with the CAS.

FEDERAL REQUIREMENTS

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.

According to the CAS 412-50(b)(3), the cost of defined-benefit pension plans that is accounted for under the pay-as-you-go cost method shall be based on the net amount of any periodic benefits paid, and a level annual installment required to amortize any lump-sum benefit payments over 15 years.

¹Through the November 30, 2006, contract termination date.

UNALLOWABLE SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN COSTS CLAIMED

Montana claimed \$94,398 of unallowable Medicare SERP costs for FYs 1994 through 2007. During that period, Montana claimed pay-as-you-go SERP costs of \$1,023,466 for Medicare reimbursement. We calculated the Medicare allowable SERP costs based on periodic payments made to SERP recipients, plus a 15-year amortization of lump sum SERP payments in accordance with CAS 412-50(b)(3). Accordingly, we determined that, based on the terms of the Medicare contracts, the allowable pay-as-you-go SERP costs for FYs 1998 through 2007 totaled \$929,068.

The following table compares allowable pay-as-you-go SERP costs with the SERP costs claimed on the separate voucher claim that Montana submitted on April 23, 2008.

Comparison of Allowable SERP Costs and Claimed SERP Costs

Medicare SERP Costs			
	Allowable	Claimed	
Fiscal Year	Per Audit	By Montana	Difference
1994	\$0	\$0	\$0
1995	26,936	0	26,936
1996	35,914	0	35,914
1997	35,914	0	35,914
1998	35,914	0	35,914
1999	37,602	0	37,602
2000	68,723	0	68,723
2001	78,266	0	78,266
2002	104,894	0	104,894
2003	115,352	0	115,352
2004	115,855	0	115,855
2005	123,681	0	123,681
2006	128,482	0	128,482
2007	21,535	0	21,535
Voucher Claim	0	1,023,466	(1,023,466)
Total	\$929,068	\$1,023,466	(\$94,398)

Montana claimed \$94,398 of unallowable SERP costs because it did not claim pay-as-you-go SERP costs in accordance with the CAS. Montana’s separate voucher claim requested reimbursement for Medicare’s share of all benefit payments made to SERP recipients. The payments included a lump sum distribution. Montana’s claim was incorrectly based on the full lump sum payment rather than a 15-year amortization of the lump sum amount as required by CAS 412-50(b)(3).

RECOMMENDATION

We recommend that Montana revise its separate voucher claim to reduce claimed pay-as-you-go SERP costs by \$94,398.

AUDITEE COMMENTS

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

APPENDIX

APPENDIX: AUDITEE COMMENTS



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PO Box 4309
Helena, Montana 59604
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www.bcbsmt.com

September 23, 2009

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

RE: Draft OIG Report Number: A-07-09-00297

Dear Mr. Cogley:

BlueCross BlueShield of Montana (BCBSMT) is in receipt of the draft copies of the OIG report entitled "Review of Supplemental Executive Retirement Plan Costs Claimed for Medicare Reimbursement by BCBSMT for Fiscal Years 1994 Through 2007."

In this report, the OIG recommends that BCBSMT revise its voucher claim for the years reviewed to decrease claimed Supplemental Executive Retirement Plan costs by \$94,398. This amount represents a portion of a lump sum payment that was required to be amortized beyond the termination date of our Medicare contracts.

BCBSMT concurs with this recommendation. A revised voucher will be submitted to CMS for a total allowable amount of \$929,068 upon receipt of the final audit report.

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