



May 5, 2010

Report Number: A-07-09-00309

Mr. Ron Simmons
Controller
Blue Cross Blue Shield of Kansas
1133 SW Topeka Boulevard
Topeka, KS 66612

Dear Mr. Simmons:

Enclosed is the U.S. Department of Health & 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 Kansas for Fiscal Years 1994 Through 2008*. 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-07-09-00309 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 & Chief Financial Officer
Office of Financial Management
Centers for Medicare & Medicaid Services
Mail Stop C3-01-24
7500 Security Boulevard
Baltimore, MD 21244-1850

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS
CLAIMED FOR MEDICARE
REIMBURSEMENT BY
BLUE CROSS BLUE SHIELD OF
KANSAS FOR FISCAL YEARS
1994 THROUGH 2008**



Daniel R. Levinson
Inspector General

May 2010
A-07-09-00309

Office of Inspector General

<http://oig.hhs.gov>

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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 Kansas (Kansas) administered Medicare Parts A and B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated effective February 29, 2008.

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, 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 Kansas claimed for Medicare reimbursement for fiscal years (FY) 1994 through 2008.

SUMMARY OF FINDING

Kansas did not claim \$883,591 of allowable Medicare pension costs on its Final Administrative Cost Proposals (FACP) for FYs 1994 through 2008, primarily because Kansas made adjustments to its pension costs claimed on its FACPs for FYs 1995 and 1996, adjustments that reduced the claimed amount to less than the calculated allowable pension costs. Kansas claimed pension costs of \$14,986,885 for Medicare reimbursement; however, we determined that the allowable Cost Accounting Standards pension costs were \$15,870,476.

RECOMMENDATION

We recommend that Kansas revise its FACPs for FYs 1994 through 2008 to claim the additional allowable pension costs of \$883,591.

AUDITEE COMMENTS

In written comments on our draft report, Kansas concurred with our recommendation. Kansas stated that it intends to include the increase in allowable pension costs due from CMS as part of the global settlement of the contractor termination costs associated with our terminated Medicare Part A and Medicare Part B contracts.

Kansas's comments are included in their entirety as Appendix B.

OFFICE OF INSPECTOR GENERAL RESPONSE

Kansas concurred with the recommendation; however, due to revisions made to our Medicare segment pension assets review (*Review of the Qualified Pension Plan at Blue Cross Blue Shield of Kansas, a Terminated Medicare Contractor, for the Period January 1, 1993, to February 29, 2008*, A-07-09-00308), some of the specific amounts of allowable pension costs changed. We incorporated those changes into this report and revised our finding and recommendation accordingly. Since we revised our finding and recommendation in this report, we provided Kansas with an opportunity to review and discuss our revisions.

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INTRODUCTION

BACKGROUND

Blue Cross Blue Shield of Kansas

Blue Cross Blue Shield of Kansas (Kansas) administered Medicare Parts A and B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated effective February 29, 2008.

Medicare Reimbursement

CMS 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 Kansas claimed for Medicare reimbursement for FYs 1994 through 2008.

Scope

We reviewed \$14,986,885 of pension costs that Kansas claimed for Medicare reimbursement on its Final Administrative Cost Proposals (FACP) for FYs 1994 through 2008. Achieving our objective did not require that we review Kansas'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 Kansas's office in Topeka, Kansas, during February 2009.

Methodology

We reviewed the applicable portions of the FAR, CAS, and Medicare contracts. Additionally, we reviewed Kansas's FACPs to identify the amount of pension costs claimed for Medicare reimbursement for FYs 1994 through 2008. We also determined the extent to which Kansas 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 Kansas's historical practices and on the results of our segmentation review (*Review of the Qualified Pension Plan at Blue Cross Blue Shield of Kansas, a Terminated Medicare Contractor, for the Period January 1, 1993, to February 29, 2008, A-07-09-00308*).

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

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

Kansas did not claim \$883,591 of allowable Medicare pension costs on its FACPs for FYs 1994 through 2008, primarily because Kansas made adjustments to its pension costs claimed on its FACPs for FYs 1995 and 1996, adjustments that reduced the claimed amount to less than the calculated allowable pension costs. Kansas claimed pension costs of \$14,986,885 for Medicare reimbursement; however, we determined that the allowable CAS pension costs were \$15,870,476.

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

Kansas did not claim \$883,591 of pension costs that were allowable for Medicare reimbursement for FYs 1994 through 2008.¹ During FYs 1994 through 2008 Kansas claimed pension costs of \$14,986,885 for Medicare reimbursement. We calculated the 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. We determined that the allowable CAS pension costs for FYs 1994 through 2008 were \$15,870,476.

The following table compares allowable CAS pension costs with the pension costs claimed on Kansas’s FACPs. Appendix A contains additional details on allowable pension costs.

Comparison of Allowable Pension Costs and Claimed Pension Costs

Fiscal Year	Medicare Pension Costs		Difference
	Allowable Per Audit	Claimed by Kansas	
1994	\$623,451	\$567,163	\$56,288
1995	549,191	251,157	298,034
1996	614,411	225,706	388,705
1997	539,769	490,068	49,701
1998	234,764	147,035	87,729
1999	153,714	97,772	55,942
2000	128,236	(889)	129,125
2001	530,009	558,360	(28,351)
2002	822,993	871,639	(48,646)
2003	1,484,583	1,557,707	(73,124)
2004	1,815,347	1,821,585	(6,238)
2005	2,231,766	2,143,088	88,678
2006	2,561,238	2,576,594	(15,356)
2007	2,542,470	2,609,618	(67,148)
2008	1,038,534	1,070,282	(31,748)
Total	\$15,870,476	\$14,986,885	\$883,591

¹ The allowable pension costs for FY 2008 were attributable to the pension costs for October 1, 2007, through February 29, 2008.

This underclaim occurred primarily because Kansas made adjustments to its pension costs claimed on its FACPs for FY 1995 and 1996, adjustments that reduced the claimed amount to less than the calculated allowable pension costs. As a result, Kansas did not claim \$883,591 of allowable pension costs.

RECOMMENDATION

We recommend that Kansas revise its FACPs for FYs 1994 through 2008 to claim the additional allowable pension costs of \$883,591.

AUDITEE COMMENTS

In written comments on our draft report, Kansas concurred with our recommendation. Kansas stated that it intends to include the increase in allowable pension costs due from CMS as part of the global settlement of the contractor termination costs associated with our terminated Medicare Part A and Medicare Part B contracts.

Kansas's comments are included in their entirety as Appendix B.

OFFICE OF INSPECTOR GENERAL RESPONSE

Kansas concurred with the recommendation; however, due to revisions made to the Medicare segment pension assets mentioned earlier (*Review of the Qualified Pension Plan at Blue Cross Blue Shield of Kansas, a Terminated Medicare Contractor, for the Period January 1, 1993, to February 29, 2008, A-07-09-00308*), some of the specific amounts of allowable pension costs changed. We incorporated those changes into this report and revised our finding and recommendation accordingly. Since we revised our finding and recommendation in this report, we provided Kansas with an opportunity to review and discuss our revisions.

APPENDIXES

**APPENDIX A: ALLOWABLE MEDICARE PENSION COSTS FOR
BLUE CROSS BLUE SHIELD OF KANSAS
FOR FISCAL YEARS 1994 THROUGH 2008**

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
1993	Allocable Pension Cost <u>1/</u>		\$1,673,938	\$344,732	
1994	Contributions <u>2/</u>	\$3,301,750	\$3,301,750	\$0	
8.00%	Discount for Interest <u>3/</u>	(\$163,596)	(\$163,596)	\$0	
January 1, 1994	Present Value Contributions <u>4/</u>	\$3,138,154	\$3,138,154	\$0	
	Prepayment Credit Applied <u>5/</u>	\$2,571,513	\$2,033,246	\$538,267	
	Present Value of Funding <u>6/</u>	\$5,709,667	\$5,171,400	\$538,267	
January 1, 1994	CAS Funding Target <u>7/</u>	\$2,839,420	\$2,301,153	\$538,267	
	Percentage Funded <u>8/</u>		100.00%	100.00%	
	Funded Pension Cost <u>9/</u>		\$2,301,153	\$538,267	
	Allowable Interest <u>10/</u>		\$13,966	\$0	
	Allocable Pension Cost <u>11/</u>		\$2,315,119	\$538,267	
1994	Fiscal Year Pension Cost <u>12/</u>		\$2,154,824	\$489,883	
	Medicare LOB* Percentage <u>13/</u>		7.94%	92.34%	
	Allowable Pension Cost <u>14/</u>		\$171,093	\$452,358	\$623,451
1995	Contributions	\$4,841,435	\$4,841,435	\$0	
8.50%	Discount for Interest	(\$296,448)	(\$296,448)	\$0	
January 1, 1995	Present Value Contributions	\$4,544,987	\$4,544,987	\$0	
	Prepayment Credit Applied	\$2,336,794	\$1,931,577	\$405,217	
	Present Value of Funding	\$6,881,781	\$6,476,564	\$405,217	
January 1, 1995	CAS Funding Target	\$2,336,794	\$1,931,577	\$405,217	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$1,931,577	\$405,217	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$1,931,577	\$405,217	
1995	Fiscal Year Pension Cost		\$2,027,463	\$438,480	
	Medicare LOB* Percentage		7.50%	90.57%	
	Allowable Pension Cost		\$152,060	\$397,131	\$549,191

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
1996	Contributions	\$3,439,843	\$3,439,843	\$0	
8.50%	Discount for Interest	(\$259,267)	(\$259,267)	\$0	
January 1, 1996	Present Value Contributions	\$3,180,576	\$3,180,576	\$0	
	Prepayment Credit Applied	\$3,409,353	\$2,893,529	\$515,824	
	Present Value of Funding	\$6,589,929	\$6,074,105	\$515,824	
January 1, 1996	CAS Funding Target	\$3,409,353	\$2,893,529	\$515,824	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$2,893,529	\$515,824	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$2,893,529	\$515,824	
1996	Fiscal Year Pension Cost		\$2,653,041	\$488,172	
	Medicare LOB* Percentage		6.74%	89.23%	
	Allowable Pension Cost		\$178,815	\$435,596	\$614,411
1997	Contributions	\$950,670	\$950,670	\$0	
8.50%	Discount for Interest	(\$60,624)	(\$60,624)	\$0	
January 1, 1997	Present Value Contributions	\$890,046	\$890,046	\$0	
	Prepayment Credit Applied	\$2,986,783	\$2,580,342	\$406,441	
	Present Value of Funding	\$3,876,829	\$3,470,388	\$406,441	
January 1, 1997	CAS Funding Target	\$2,986,783	\$2,580,342	\$406,441	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$2,580,342	\$406,441	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$2,580,342	\$406,441	
1997	Fiscal Year Pension Cost		\$2,658,639	\$433,787	
	Medicare LOB* Percentage		4.67%	95.81%	
	Allowable Pension Cost		\$124,158	\$415,611	\$539,769

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
1998	Contributions	\$0	\$0	\$0	
9.00%	Discount for Interest	\$0	\$0	\$0	
January 1, 1998	Present Value Contributions	\$0	\$0	\$0	
	Prepayment Credit Applied	\$2,849,648	\$2,849,648	\$0	
	Present Value of Funding	\$2,849,648	\$2,849,648	\$0	
January 1, 1998	CAS Funding Target	\$2,849,648	\$2,849,648	\$0	
	Percentage Funded		100.00%	0.00%	
	Funded Pension Cost		\$2,849,648	\$0	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$2,849,648	\$0	
1998	Fiscal Year Pension Cost		\$2,782,322	\$101,610	
	Medicare LOB* Percentage		4.90%	96.87%	
	Allowable Pension Cost		\$136,334	\$98,430	\$234,764
1999	Contributions	\$738,484	\$716,571	\$21,913	
9.00%	Discount for Interest	(\$59,939)	(\$58,160)	(\$1,779)	
January 1, 1999	Present Value Contributions	\$678,545	\$658,411	\$20,134	
	Prepayment Credit Applied	\$1,510,737	\$1,465,839	\$44,898	
	Present Value of Funding	\$2,189,282	\$2,124,250	\$65,032	
January 1, 1999	CAS Funding Target	\$2,188,246	\$2,123,214	\$65,032	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$2,123,214	\$65,032	
	Allowable Interest		\$41,908	\$1,284	
	Allocable Pension Cost		\$2,165,122	\$66,316	
1999	Fiscal Year Pension Cost		\$2,336,254	\$49,737	
	Medicare LOB* Percentage		4.51%	97.21%	
	Allowable Pension Cost		\$105,365	\$48,349	\$153,714

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2000	Contributions	\$141,267	\$17,235	\$124,032	
9.00%	Discount for Interest	(\$10,635)	(\$1,297)	(\$9,338)	
January 1, 2000	Present Value Contributions	\$130,632	\$15,938	\$114,694	
	Prepayment Credit Applied	\$1,129	\$137	\$992	
	Present Value of Funding	\$131,761	\$16,075	\$115,686	
January 1, 2000	CAS Funding Target	\$131,685	\$15,999	\$115,686	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$15,999	\$115,686	
	Allowable Interest		\$1,011	\$7,312	
	Allocable Pension Cost		\$17,010	\$122,998	
2000	Fiscal Year Pension Cost		\$554,038	\$108,828	
	Medicare LOB* Percentage		4.10%	96.96%	
	Allowable Pension Cost		\$22,716	\$105,520	\$128,236
2001	Contributions	\$20,157,250	\$19,606,270	\$550,980	
9.00%	Discount for Interest	(\$1,523,555)	(\$1,481,910)	(\$41,645)	
January 1, 2001	Present Value Contributions	\$18,633,695	\$18,124,360	\$509,335	
	Prepayment Credit Applied	\$82	\$72	\$10	
	Present Value of Funding	\$18,633,777	\$18,124,432	\$509,345	
January 1, 2001	CAS Funding Target	\$4,018,200	\$3,508,855	\$509,345	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$3,508,855	\$509,345	
	Allowable Interest		\$223,685	\$32,470	
	Allocable Pension Cost		\$3,732,540	\$541,815	
2001	Fiscal Year Pension Cost		\$2,803,658	\$437,111	
	Medicare LOB* Percentage		3.75%	97.20%	
	Allowable Pension Cost		\$105,137	\$424,872	\$530,009

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2002	Contributions	\$31,500,000	\$31,500,000	\$0	
9.00%	Discount for Interest	(\$2,600,917)	(\$2,600,917)	\$0	
January 1, 2002	Present Value Contributions	\$28,899,083	\$28,899,083	\$0	
	Prepayment Credit Applied	\$5,807,230	\$5,122,632	\$684,598	
	Present Value of Funding	\$34,706,313	\$34,021,715	\$684,598	
January 1, 2002	CAS Funding Target	\$5,807,230	\$5,122,632	\$684,598	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$5,122,632	\$684,598	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$5,122,632	\$684,598	
2002	Fiscal Year Pension Cost		\$4,775,109	\$648,902	
	Medicare LOB* Percentage		4.01%	97.32%	
	Allowable Pension Cost		\$191,482	\$631,511	\$822,993
2003	Contributions	\$35,100,000	\$35,100,000	\$0	
8.50%	Discount for Interest	(\$2,749,770)	(\$2,749,770)	\$0	
January 1, 2003	Present Value Contributions	\$32,350,230	\$32,350,230	\$0	
	Prepayment Credit Applied	\$10,120,064	\$8,808,011	\$1,312,053	
	Present Value of Funding	\$42,470,294	\$41,158,241	\$1,312,053	
January 1, 2003	CAS Funding Target	\$10,120,064	\$8,808,011	\$1,312,053	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$8,808,011	\$1,312,053	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$8,808,011	\$1,312,053	
2003	Fiscal Year Pension Cost		\$7,886,666	\$1,155,189	
	Medicare LOB* Percentage		4.43%	98.27%	
	Allowable Pension Cost		\$349,379	\$1,135,204	\$1,484,583

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2004	Contributions	\$16,000,000	\$16,000,000	\$0	
8.50%	Discount for Interest	(\$1,253,456)	(\$1,253,456)	\$0	
January 1, 2004	Present Value Contributions	\$14,746,544	\$14,746,544	\$0	
	Prepayment Credit Applied	\$10,705,831	\$9,422,929	\$1,282,902	
	Present Value of Funding	\$25,452,375	\$24,169,473	\$1,282,902	
January 1, 2004	CAS Funding Target	\$10,705,831	\$9,422,929	\$1,282,902	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$9,422,929	\$1,282,902	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$9,422,929	\$1,282,902	
2004	Fiscal Year Pension Cost		\$9,269,200	\$1,290,190	
	Medicare LOB* Percentage		5.77%	99.25%	
	Allowable Pension Cost		\$534,833	\$1,280,514	\$1,815,347
2005	Contributions	\$13,000,000	\$13,000,000	\$0	
8.00%	Discount for Interest	(\$962,963)	(\$962,963)	\$0	
January 1, 2005	Present Value Contributions	\$12,037,037	\$12,037,037	\$0	
	Prepayment Credit Applied	\$13,022,244	\$11,451,980	\$1,570,264	
	Present Value of Funding	\$25,059,281	\$23,489,017	\$1,570,264	
January 1, 2005	CAS Funding Target	\$13,022,244	\$11,451,980	\$1,570,264	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$11,451,980	\$1,570,264	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$11,451,980	\$1,570,264	
2005	Fiscal Year Pension Cost		\$10,944,717	\$1,498,424	
	Medicare LOB* Percentage		6.71%	99.93%	
	Allowable Pension Cost		\$734,391	\$1,497,375	\$2,231,766

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2006	Contributions	\$7,000,000	\$7,000,000	\$0	
8.00%	Discount for Interest	(\$518,519)	(\$518,519)	\$0	
January 1, 2006	Present Value Contributions	\$6,481,481	\$6,481,481	\$0	
	Prepayment Credit Applied	\$14,185,403	\$12,346,050	\$1,839,353	
	Present Value of Funding	\$20,666,884	\$18,827,531	\$1,839,353	
January 1, 2006	CAS Funding Target	\$14,185,403	\$12,346,050	\$1,839,353	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$12,346,050	\$1,839,353	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$12,346,050	\$1,839,353	
2006	Fiscal Year Pension Cost		\$12,122,533	\$1,772,081	
	Medicare LOB* Percentage		6.58%	99.52%	
	Allowable Pension Cost		\$797,663	\$1,763,575	\$2,561,238
2007	Contributions	\$15,000,000	\$15,000,000	\$0	
8.00%	Discount for Interest	(\$1,111,111)	(\$1,111,111)	\$0	
January 1, 2007	Present Value Contributions	\$13,888,889	\$13,888,889	\$0	
	Prepayment Credit Applied	\$15,151,567	\$13,234,444	\$1,917,123	
	Present Value of Funding	\$29,040,456	\$27,123,333	\$1,917,123	
January 1, 2007	CAS Funding Target	\$15,151,567	\$13,234,444	\$1,917,123	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$13,234,444	\$1,917,123	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$13,234,444	\$1,917,123	
2007	Fiscal Year Pension Cost		\$13,012,346	\$1,897,681	
	Medicare LOB* Percentage		4.98%	99.83%	
	Allowable Pension Cost		\$648,015	\$1,894,455	\$2,542,470

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2008	Contributions	\$0	\$0	\$0	
8.00%	Discount for Interest	\$0	\$0	\$0	
January 1, 2008	Present Value Contributions	\$0	\$0	\$0	
	Prepayment Credit Applied	\$2,540,156	\$2,248,056	\$292,100	
	Present Value of Funding	\$2,540,156	\$2,248,056	\$292,100	
January 1, 2008	CAS Funding Target	\$2,540,156	\$2,248,056	\$292,100	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$2,248,056	\$292,100	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost <u>15/</u>		\$2,248,056	\$292,100	
2008	Fiscal Year Pension Cost <u>16/</u>		\$5,556,667	\$771,381	
	Medicare LOB* Percentage		4.83%	99.84%	
	Allowable Pension Cost		\$268,387	\$770,147	\$1,038,534

* Line of business.

FOOTNOTES

1/ We obtained the 1993 calendar year allocable pension from our prior review (A-07-94-01105).

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-07-09-00308). The amounts shown for the "Other" segment represent the difference between the Total Company and the Medicare segment.

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 Blue Cross Blue Shield of Kansas (Kansas).
- 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/ Kansas terminated its Medicare contract on February 29, 2008. Therefore, the 2008 allocable pension costs were for a 2-month period only (January 1 through February 29).
- 16/ The 2008 fiscal year pension costs were for a 5-month period. To calculate the FY 2008 allocable pension costs, we calculated the FY pension costs as 1/4 of the prior year's costs plus all of the current year's costs.

APPENDIX B: AUDITEE COMMENTS



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March 29, 2010

Report Number: A-07-09-00309

Patrick J. Cogley
Regional Inspector General
For Audit Services
Department of Health & Human Services
Region VII
Room 0429
601 East 12th Street
Kansas City, Missouri 64106

Dear Mr. Cogley:

Enclosed is the Blue Cross and Blue Shield of Kansas response to the U.S. Department of Health & Human Services, Office of Inspector General (OIG), draft report entitled *Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross Blue Shield of Kansas for Fiscal Years 1994 Through 2008*.

We are in concurrence with your recommendation. However, since Blue Cross and Blue Shield of Kansas is no longer a Medicare contractor, we do not have access to the CMS CAFM system to resubmit the FACP. Our intent will be to include the increase in allowable pension costs due from CMS as part of the global settlement of the contractor termination costs associated with our terminated Medicare A and Medicare B contracts.

If you have any questions or comments related to our response, please do not hesitate to contact me at (785) 291-8893.

Sincerely,

A handwritten signature in blue ink that reads "Ronald D. Simmons".

Ronald D. Simmons
Controller