



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

JUL 10 2009

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

Report Number: A-07-09-00316

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

Dear Mr. Simmons:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Postretirement Benefit Costs Claimed for Medicare Reimbursement by Blue Cross Blue Shield of Kansas for Fiscal Years 2005 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.

Pursuant to the Freedom of Information Act, 5 U.S.C. § 552, OIG reports generally are made available to the public to the extent that information in the report is not subject to exemptions in the Act. Accordingly, this report will be posted on the Internet 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 e-mail at Jenenne.Tambke@oig.hhs.gov. Please refer to report number A-07-09-00316 in all correspondence.

Sincerely,

for 
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 (OFM)
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 POSTRETIREMENT
BENEFIT COSTS CLAIMED FOR
MEDICARE REIMBURSEMENT BY
BLUE CROSS BLUE SHIELD OF
KANSAS FOR FISCAL YEARS 2005
THROUGH 2008**



Daniel R. Levinson
Inspector General

July 2009
A-07-09-00316

Office of Inspector General

<http://oig.hhs.gov>

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EXECUTIVE SUMMARY

BACKGROUND

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

Kansas sponsors a postretirement benefit (PRB) plan providing health benefits for its retirees and their dependents. Kansas claimed PRB costs using the pay-as-you-go basis.

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

OBJECTIVE

Our objective was to determine the allowability of PRB costs that Kansas claimed for Medicare reimbursement on the pay-as-you-go method for fiscal years (FY) 2005 through 2008.

SUMMARY OF FINDING

Kansas's claim in FY 2005 for PRB costs totaling \$404,104 was reasonable and allowable; however, for FYs 2006 through 2008, Kansas claimed \$134,467 of unallowable PRB costs. The overclaim occurred because Kansas's method for allocating PRB costs to Medicare for FYs 2006 through 2008 did not distribute costs in a reasonable proportion to the benefits received. Kansas's allocation method for FYs 2006 through 2008 excluded a portion of employees from the Total Company headcount, which resulted in an overclaim of PRB costs by \$134,467.

RECOMMENDATION

We recommend that Kansas reduce the PRB costs claimed on its Final Administrative Cost Proposals (FACP) for FYs 2006 through 2008 by \$134,467.

AUDITEE COMMENTS

In written comments on our draft report, Kansas did not agree with our finding. Kansas's written comments are included as Appendix B.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing Kansas's comments, we maintain that Kansas should reduce the PRB costs claimed on its FACPs for FYs 2006 through 2008 by \$134,467.

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Glossary of Abbreviations and Acronyms

CMS	Centers for Medicare & Medicaid Services
FACP	Final Administrative Cost Proposal
FAR	Federal Acquisition Regulation
FY	fiscal year
Kansas	Blue Cross Blue Shield of Kansas
PRB	postretirement benefit

INTRODUCTION

BACKGROUND

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

Kansas sponsored a postretirement benefit (PRB) plan providing health benefits for its retirees and their dependents. Kansas claimed PRB costs using the pay-as-you-go basis.

PRB costs may include postretirement health care, life insurance provided outside a pension plan, and other welfare provided after retirement. However, PRB costs do not include retirement income and ancillary benefits, such as life insurance, that pension plans pay following employees' retirement.

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

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine the allowability of PRB costs that Kansas claimed for Medicare reimbursement on the pay-as-you-go method for fiscal years (FY) 2005 through 2008.

Scope

We reviewed the PRB costs that Kansas claimed for Medicare reimbursement on its Final Administrative Cost Proposals (FACP) for FYs 2005 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 PRB costs claimed for Medicare reimbursement to ensure that the PRB costs were allowable pursuant to the FAR.

Methodology

To accomplish our objective, we:

- reviewed the applicable portions of the FAR as it relates to the PRB costs,
- reviewed the FACPs to identify the PRB costs claimed for Medicare reimbursement for FYs 2005 through 2008,

- interviewed Kansas staff responsible for allocating PRB costs to determine Kansas's methodology for claiming PRB costs for Medicare reimbursement,
- examined Kansas's accounting records to determine the amount of premiums paid by Kansas that we associated with PRB coverage, and
- obtained the accounting records necessary to compute the allowable PRB costs.

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.

We performed fieldwork at Kansas's office located in Topeka, Kansas, during February 2009.

FINDING AND RECOMMENDATION

Kansas's claim in FY 2005 for PRB costs totaling \$404,104 was reasonable and allowable; however, for FYs 2006 through 2008, Kansas claimed \$134,467 of unallowable PRB costs. The overclaim occurred because Kansas's method for allocating PRB costs to Medicare for FYs 2006 through 2008 did not distribute costs in a reasonable proportion to the benefits received. Kansas's allocation method for FYs 2006 through 2008 excluded a portion of employees from the Total Company headcount, which resulted in an overclaim of PRB costs by \$134,467.

FEDERAL REQUIREMENTS

FAR 31.205-6(o)(2)(i) requires that, to be allowable for Medicare reimbursement, pay-as-you-go PRB costs be assigned to the period in which the benefits are actually provided; or when the costs are paid to an insurer, provider, or other recipient for current year benefits or premiums.

FAR 31.201-4(b) states that a cost is allocable to a Government contract if it benefits both the contract and other work, and can be distributed to them in a reasonable proportion to the benefits received.

UNALLOWABLE POSTRETIREMENT BENEFIT COSTS

Kansas's claim in FY 2005 for PRB costs totaling \$404,104 was reasonable and allowable; however, for FYs 2006 through 2008 Kansas claimed \$134,467 of unallowable PRB costs. This overclaim occurred because Kansas's method for allocating PRB costs to Medicare for FYs 2006 through 2008 did not distribute costs in a reasonable proportion to the benefits received.

During FYs 2006 through 2008, Kansas claimed \$1,283,886 of PRB costs for Medicare reimbursement. We determined that the allowable PRB costs for FYs 2006 through 2008 were \$1,149,419 (see Appendix A), a difference of \$134,467.

The following table compares the PRB costs claimed on Kansas’s FACPs with allowable PRB costs.

Comparison of Claimed PRB Costs and Allowable PRB Costs

Medicare PRB Cost Claimed Variance			
Fiscal Year	Per Kansas	Per OIG	Variance
2006	\$ 543,975	\$ 476,211	\$ 67,764
2007	527,490	501,890	25,600
2008 ¹	212,421	171,318	41,103
Total	\$ 1,283,886	\$ 1,149,419	\$ 134,467

We determined that Kansas’s methodology to allocate PRB costs to Medicare in FY 2005 distributed costs in a reasonable proportion to the benefits received. This methodology used, with respect to employee time, a ratio of total Medicare hours to Total Company hours.

However, beginning with FY 2006, Kansas changed its method of allocating PRB costs to use the headcount statistics to compute the ratio of Medicare employees (numerator) to Total Company employees (denominator). We determined that Kansas’s revised methodology, which it used for FYs 2006 through 2008, was inequitable because it excluded a portion of its employees from the Total Company headcount when computing the Medicare ratio. Accordingly, we computed the allowable PRB costs using a ratio of total Medicare hours to Total Company hours, the same method Kansas used to allocate PRB costs in FY 2005. This computation method revealed that Kansas overclaimed PRB costs for FYs 2006 through 2008 by \$134,467.

RECOMMENDATION

We recommend that Kansas reduce the PRB costs claimed on its FACPs for FYs 2006 through 2008 by \$134,467.

AUDITEE COMMENTS

In written comments on our draft report, Kansas did not agree with our finding. Kansas stated that “[t]he amounts claimed are based on an appropriate allocation methodology and are otherwise correct.”

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

¹Kansas terminated its Medicare contract on February 29, 2008; therefore, the FY 2008 PRB costs were for a five-month period (October 2007 through February 2008).

OFFICE OF INSPECTOR GENERAL RESPONSE

Kansas provided no elaboration or further documentation to support its statement that it used “an appropriate allocation methodology” in claiming PRB costs for Medicare reimbursement. We maintain that on its FACPs for FYs 2006 through 2008 Kansas used an inequitable allocation methodology when claiming PRB costs for Medicare reimbursement. Therefore, Kansas should reduce its FACPs for FY 2006 through 2008 by \$134,467.

APPENDIXES

**BLUE CROSS BLUE SHIELD OF KANSAS
ALLOWABLE POSTRETIREMENT BENEFIT COSTS
FOR FISCAL YEARS 2006 THROUGH 2008**

FY 2006			
Month	Medicare Hours	Total Company Hours¹	Medicare Ratio
October 2005	67,311	263,453	
November 2005	70,428	277,774	
December 2005	62,444	240,962	
January 2006	58,817	229,729	
February 2006	67,731	272,443	
March 2006	66,334	275,485	
April 2006	56,174	246,110	
May 2006	63,142	279,198	
June 2006	54,558	247,322	
July 2006	47,197	212,734	
August 2006	64,234	290,913	
September 2006	57,117	254,811	
Total	735,487	3,090,934	23.79%²

Total PRB Premiums Paid³ \$2,001,726
Total Allowable PRB Costs⁴ \$476,211

FY 2007			
Month	Medicare Hours	Total Company Hours	Medicare Ratio
October 2006	59,036	271,119	
November 2006	65,377	296,569	
December 2006	52,245	239,603	
January 2007	81,371	245,971	
February 2007	55,782	248,905	
March 2007	62,790	338,508	
April 2007	35,433	224,038	
May 2007	59,462	262,615	
June 2007	56,841	245,354	
July 2007	54,484	238,170	
August 2007	62,538	353,628	
September 2007	48,734	239,532	
Total	694,093	3,204,012	21.66%

Total PRB Premiums Paid \$2,317,128
Total Allowable PRB Costs \$501,890

**BLUE CROSS BLUE SHIELD OF KANSAS
ALLOWABLE POSTRETIREMENT BENEFIT COSTS
FOR FISCAL YEARS 2006 THROUGH 2008**

FY 2008			
Month	Medicare Hours	Total Company Hours	Medicare Ratio
October 2007	55,896	257,299	
November 2007	47,286	248,764	
December 2007	40,300	213,035	
January 2008	48,742	278,965	
February 2008	47,543	441,017	
Total	239,767	1,439,080	16.66%

Total PRB Premiums Paid \$1,028,319
Total Allowable PRB Costs \$171,318

FOOTNOTES

- 1/ We obtained the monthly Medicare and Total Company hour summaries for fiscal years (FY) 2006 through 2008 from internal reports provided by Blue Cross Blue Shield of Kansas (Kansas).
- 2/ We calculated the Medicare ratio by dividing the total Medicare hours (numerator) by the Total Company hours (denominator).
- 3/ We obtained the total Postretirement Benefit (PRB) premiums paid for each year from documents provided by Kansas.
- 4/ We determined the total allowable PRB costs for FYs 2006 through 2008 by multiplying the Medicare ratio by the total PRB premiums paid.



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June 18, 2009

Mr. Patrick J. Cogley
Office of Inspector General
Offices of Audit Services, Region VII
601 East 12th Street, Room 0429
Kansas City, MO 64106

Dear Mr. Cogley,

This letter sets out the response of Blue Cross and Blue Shield of Kansas (BCBSKS) to the May 19, 2009 Office of Inspector General (OIG) draft report entitled "Review of Postretirement Benefit Costs Claimed for Medicare Reimbursement by Blue Cross Blue Shield of Kansas for Fiscal Years 2005 Through 2008" (Report Number A-07-09-00316).

BCBSKS disagrees (nonconcurrence) with the OIG's finding that \$134,467 in PRB costs incurred and paid for FYs 2006 through 2008 are unallowable. The amounts claimed are based on an appropriate allocation methodology and are otherwise correct.

Respectfully,

A handwritten signature in blue ink, appearing to read "Ronald D. Simmons".

Ronald D. Simmons
Controller