



October 3, 2011

Report Number: A-07-11-00350

Mr. Jeff Leber
Chief Financial Officer
Blue Cross Blue Shield of Mississippi
3545 Lakeland Drive
Flowood, MS 39232-9799

Dear Mr. Leber:

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 Mississippi for Fiscal Years 1997 Through 2009*. 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-07-11-00350 in all correspondence.

Sincerely,

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

Enclosure

Direct Reply to HHS Action Official:

Ms. Deborah Taylor
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 and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS CLAIMED
FOR MEDICARE REIMBURSEMENT BY
BLUE CROSS BLUE SHIELD OF
MISSISSIPPI FOR FISCAL YEARS
1997 THROUGH 2009**



Daniel R. Levinson
Inspector General

October 2011
A-07-11-00350

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 Mississippi (BCBS Mississippi), through its wholly owned subsidiary TriSpan Health Services, Inc., administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated effective September 30, 2009.

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 BCBS Mississippi claimed for Medicare reimbursement for fiscal years (FYs) 1997 through 2009.

SUMMARY OF FINDING

BCBS Mississippi claimed \$518,235 of unallowable pension costs for Medicare reimbursement for FYs 1997 through 2009. The overclaim occurred because BCBS Mississippi based its claim on incorrectly computed CAS pension costs. BCBS Mississippi claimed pension costs of \$12,581,894 for Medicare reimbursement; however, we determined that the allowable CAS pension costs were \$12,063,659, a difference of \$518,235.

RECOMMENDATION

We recommend that BCBS Mississippi decrease its Final Administrative Cost Proposal pension costs by \$518,235 or refund this amount to CMS.

AUDITEE COMMENTS

In written comments on our draft report, BCBS Mississippi concurred with our finding and described corrective action that it planned to implement in conjunction with its final contract settlement proposal to CMS. BCBS Mississippi's comments are included in their entirety as Appendix B.

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INTRODUCTION

BACKGROUND

Blue Cross Blue Shield of Mississippi

Blue Cross Blue Shield of Mississippi (BCBS Mississippi), through its wholly owned subsidiary TriSpan Health Services, Inc., administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated effective September 30, 2009.

Medicare Reimbursement of Pension Costs

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 BCBS Mississippi claimed for Medicare reimbursement for FYs 1997 through 2009.

Scope

We reviewed \$12,581,894 of pension costs that BCBS Mississippi claimed for Medicare reimbursement on its Final Administrative Cost Proposals (FACP) for FYs 1997 through 2009. Achieving our objective did not require that we review BCBS Mississippi'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 BCBS Mississippi's office in Flowood, Mississippi, during October 2010.

Methodology

We reviewed the applicable portions of the FAR, CAS, and Medicare contracts. Additionally, we reviewed information provided by BCBS Mississippi to identify the amount of pension costs claimed for Medicare reimbursement for FYs 1997 through 2009. We also determined the extent to which BCBS Mississippi 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 pension costs based on the CAS and on the results of our segmentation review (*Review of the Qualified Pension Plan at Blue Cross Blue Shield of Mississippi, A Terminated Medicare Contractor, for the Period January 1, 1996, to September 30, 2009, A-07-11-00349*).

In performing our review, we used information that BCBS Mississippi’s actuarial consulting firms provided. The information included assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We examined BCBS Mississippi’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

BCBS Mississippi claimed \$518,235 of unallowable pension costs for Medicare reimbursement for FYs 1997 through 2009. The overclaim occurred because BCBS Mississippi based its claim on incorrectly computed CAS pension costs. BCBS Mississippi claimed pension costs of \$12,581,894 for Medicare reimbursement; however, we determined that the allowable CAS pension costs were \$12,063,659, a difference of \$518,235.

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.

UNALLOWABLE PENSION COSTS CLAIMED

BCBS Mississippi claimed \$518,235 of pension costs that were not allowable for Medicare reimbursement. During FYs 1997 through 2009, BCBS Mississippi claimed pension costs of \$12,581,894 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 1997 through 2009 were \$12,063,659.

The table below compares allowable CAS pension costs with the pension costs claimed on BCBS Mississippi’s accounting documents. Appendix A contains additional details on allowable pension costs.

Comparison of Allowable Pension Costs and Claimed Pension Costs

Plan Year	Medicare Pension Costs		Difference
	Allowable Per Audit	Claimed by BCBS Mississippi	
1997	477,580	513,280	(35,700)
1998	392,732	480,041	(87,309)
1999	383,471	450,846	(67,375)
2000	433,017	515,469	(82,452)
2001	547,149	659,572	(112,423)
2002	693,624	848,152	(154,528)
2003	1,011,359	1,052,389	(41,030)
2004	1,142,325	1,155,786	(13,461)
2005	1,357,805	1,377,171	(19,366)
2006	1,401,693	1,410,730	(9,037)
2007	1,284,832	1,342,857	(58,025)
2008	1,364,560	1,435,677	(71,117)
2009	1,573,512	1,339,924	233,588
Total	\$12,063,659	\$12,581,894	(\$518,235)

The Medicare contracts require BCBS Mississippi to calculate pension costs for Medicare reimbursement pursuant to CAS 412 and 413. BCBS Mississippi based its claim for Medicare reimbursement on CAS pension costs. However, due to incorrect pension cost computations, those CAS pension costs were overstated. As a result, BCBS Mississippi claimed pension costs in excess of allowable CAS pension costs of \$518,235.

RECOMMENDATION

We recommend that BCBS Mississippi decrease its FACP pension costs by \$518,235 or refund this amount to CMS.

AUDITEE COMMENTS

In written comments on our draft report, BCBS Mississippi concurred with our finding and described corrective action that it planned to implement in conjunction with its final contract settlement proposal to CMS.

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

APPENDIXES

**APPENDIX A: ALLOWABLE MEDICARE PENSION COSTS FOR
BLUE CROSS BLUE SHIELD OF MISSISSIPPI
FOR FISCAL YEARS 1997 THROUGH 2009**

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare	
1996	Allocable Pension Cost	1/		\$1,427,488	\$392,821	
1997	Contributions	2/	\$4,328,181	\$4,328,181	\$0	
8.50%	Discount for Interest	3/	(\$222,636)	(\$222,636)	\$0	
January 1, 1997	Present Value Contributions	4/	\$4,105,545	\$4,105,545	\$0	
	Prepayment Credit Applied	5/	\$2,115,368	\$1,712,460	\$402,908	
	Present Value of Funding	6/	\$6,220,913	\$5,818,005	\$402,908	
January 1, 1997	CAS Funding Target	7/	\$2,115,368	\$1,712,460	\$402,908	
	Percentage Funded	8/		100.00%	100.00%	
	Funded Pension Cost	9/		\$1,712,460	\$402,908	
	Allowable Interest	10/		\$0	\$0	
	Allocable Pension Cost			\$1,712,460	\$402,908	
1997	Fiscal Year Pension Cost	11/		\$1,641,217	\$400,386	
	Medicare LOB* Percentage	12/		5.45%	96.94%	
	Allowable Pension Cost	13/		\$89,446	\$388,134	\$477,580
1998	Contributions		\$2,525,000	\$2,525,000	\$0	
9.00%	Discount for Interest		(\$208,486)	(\$208,486)	\$0	
January 1, 1998	Present Value Contributions		\$2,316,514	\$2,316,514	\$0	
	Prepayment Credit Applied		\$1,871,443	\$1,549,874	\$321,569	
	Present Value of Funding		\$4,187,957	\$3,866,388	\$321,569	
January 1, 1998	CAS Funding Target		\$1,871,443	\$1,549,874	\$321,569	
	Percentage Funded			100.00%	100.00%	
	Funded Pension Cost			\$1,549,874	\$321,569	
	Allowable Interest			\$0	\$0	
	Allocable Pension Cost			\$1,549,874	\$321,569	
1998	Fiscal Year Pension Cost			\$1,590,521	\$341,904	
	Medicare LOB* Percentage			3.89%	96.77%	
	Allowable Pension Cost			\$61,871	\$330,861	\$392,732
1999	Contributions		\$875,000	\$875,000	\$0	
9.00%	Discount for Interest		(\$72,248)	(\$72,248)	\$0	
January 1, 1999	Present Value Contributions		\$802,752	\$802,752	\$0	
	Prepayment Credit Applied		\$1,981,524	\$1,637,430	\$344,094	
	Present Value of Funding		\$2,784,276	\$2,440,182	\$344,094	
January 1, 1999	CAS Funding Target		\$1,981,524	\$1,637,430	\$344,094	
	Percentage Funded			100.00%	100.00%	
	Funded Pension Cost			\$1,637,430	\$344,094	
	Allowable Interest			\$0	\$0	
	Allocable Pension Cost			\$1,637,430	\$344,094	
1999	Fiscal Year Pension Cost			\$1,615,541	\$338,463	
	Medicare LOB* Percentage			3.14%	98.31%	
	Allowable Pension Cost			\$50,728	\$332,743	\$383,471

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2000	Contributions	\$2,112,054	\$2,112,054	\$0	
9.00%	Discount for Interest	(\$171,582)	(\$171,582)	\$0	
January 1, 2000	Present Value Contributions	\$1,940,472	\$1,940,472	\$0	
	Prepayment Credit Applied	\$2,232,435	\$1,831,419	\$401,016	
	Present Value of Funding	\$4,172,907	\$3,771,891	\$401,016	
January 1, 2000	CAS Funding Target	\$2,232,435	\$1,831,419	\$401,016	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$1,831,419	\$401,016	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$1,831,419	\$401,016	
2000	Fiscal Year Pension Cost		\$1,782,922	\$386,786	
	Medicare LOB* Percentage		2.76%	99.23%	
	Allowable Pension Cost		\$49,209	\$383,808	\$433,017
2001	Contributions	\$8,100,000	\$8,100,000	\$0	
9.00%	Discount for Interest	(\$595,640)	(\$595,640)	\$0	
January 1, 2001	Present Value Contributions	\$7,504,360	\$7,504,360	\$0	
	Prepayment Credit Applied	\$2,962,845	\$2,434,312	\$528,533	
	Present Value of Funding	\$10,467,205	\$9,938,672	\$528,533	
January 1, 2001	CAS Funding Target	\$2,962,845	\$2,434,312	\$528,533	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$2,434,312	\$528,533	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$2,434,312	\$528,533	
2001	Fiscal Year Pension Cost		\$2,283,589	\$496,654	
	Medicare LOB* Percentage		2.37%	99.27%	
	Allowable Pension Cost		\$54,121	\$493,028	\$547,149
2002	Contributions	\$14,786,608	\$14,786,608	\$0	
9.00%	Discount for Interest	(\$1,220,913)	(\$1,220,913)	\$0	
January 1, 2002	Present Value Contributions	\$13,565,695	\$13,565,695	\$0	
	Prepayment Credit Applied	\$3,901,506	\$3,240,305	\$661,201	
	Present Value of Funding	\$17,467,201	\$16,806,000	\$661,201	
January 1, 2002	CAS Funding Target	\$3,901,506	\$3,240,305	\$661,201	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$3,240,305	\$661,201	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$3,240,305	\$661,201	
2002	Fiscal Year Pension Cost		\$3,038,807	\$628,034	
	Medicare LOB* Percentage		2.27%	99.46%	
	Allowable Pension Cost		\$68,981	\$624,643	\$693,624

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2003	Contributions	\$12,300,000	\$12,300,000	\$0	
8.50%	Discount for Interest	(\$949,141)	(\$949,141)	\$0	
January 1, 2003	Present Value Contributions	\$11,350,859	\$11,350,859	\$0	
	Prepayment Credit Applied	\$6,008,661	\$4,986,161	\$1,022,500	
	Present Value of Funding	\$17,359,520	\$16,337,020	\$1,022,500	
January 1, 2003	CAS Funding Target	\$6,008,661	\$4,986,161	\$1,022,500	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$4,986,161	\$1,022,500	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$4,986,161	\$1,022,500	
2003	Fiscal Year Pension Cost		\$4,549,697	\$932,175	
	Medicare LOB* Percentage		2.31%	97.22%	
	Allowable Pension Cost		\$105,098	\$906,261	\$1,011,359
2004	Contributions	\$5,700,000	\$5,700,000	\$0	
8.50%	Discount for Interest	(\$446,544)	(\$446,544)	\$0	
January 1, 2004	Present Value Contributions	\$5,253,456	\$5,253,456	\$0	
	Prepayment Credit Applied	\$6,310,615	\$5,238,074	\$1,072,541	
	Present Value of Funding	\$11,564,071	\$10,491,530	\$1,072,541	
January 1, 2004	CAS Funding Target	\$6,310,615	\$5,238,074	\$1,072,541	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$5,238,074	\$1,072,541	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$5,238,074	\$1,072,541	
2004	Fiscal Year Pension Cost		\$5,175,096	\$1,060,031	
	Medicare LOB* Percentage		2.26%	96.73%	
	Allowable Pension Cost		\$116,957	\$1,025,368	\$1,142,325
2005	Contributions	\$11,075,000	\$11,075,000	\$0	
8.00%	Discount for Interest	(\$792,396)	(\$792,396)	\$0	
January 1, 2005	Present Value Contributions	\$10,282,604	\$10,282,604	\$0	
	Prepayment Credit Applied	\$7,402,091	\$6,119,106	\$1,282,985	
	Present Value of Funding	\$17,684,695	\$16,401,710	\$1,282,985	
January 1, 2005	CAS Funding Target	\$7,402,091	\$6,119,106	\$1,282,985	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$6,119,106	\$1,282,985	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$6,119,106	\$1,282,985	
2005	Fiscal Year Pension Cost		\$5,898,848	\$1,230,374	
	Medicare LOB* Percentage		2.64%	97.70%	
	Allowable Pension Cost		\$155,730	\$1,202,075	\$1,357,805

Date	Description	Total	"Other"	Medicare	Total
2006	Contributions	\$10,500,000	\$10,500,000	\$0	
8.00%	Discount for Interest	(\$775,444)	(\$775,444)	\$0	
January 1, 2006	Present Value Contributions	\$9,724,556	\$9,724,556	\$0	
	Prepayment Credit Applied	\$7,490,806	\$6,253,794	\$1,237,012	
	Present Value of Funding	\$17,215,362	\$15,978,350	\$1,237,012	
January 1, 2006	CAS Funding Target	\$7,490,806	\$6,253,794	\$1,237,012	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$6,253,794	\$1,237,012	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$6,253,794	\$1,237,012	
2006	Fiscal Year Pension Cost		\$6,220,122	\$1,248,505	
	Medicare LOB* Percentage		2.80%	98.32%	
	Allowable Pension Cost		\$174,163	\$1,227,530	\$1,401,693
2007	Contributions	\$4,600,000	\$4,600,000	\$0	
8.00%	Discount for Interest	(\$338,628)	(\$338,628)	\$0	
January 1, 2007	Present Value Contributions	\$4,261,372	\$4,261,372	\$0	
	Prepayment Credit Applied	\$7,493,695	\$6,340,548	\$1,153,147	
	Present Value of Funding	\$11,755,067	\$10,601,920	\$1,153,147	
January 1, 2007	CAS Funding Target	\$7,493,695	\$6,340,548	\$1,153,147	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$6,340,548	\$1,153,147	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$6,340,548	\$1,153,147	
2007	Fiscal Year Pension Cost		\$6,318,860	\$1,174,113	
	Medicare LOB* Percentage		2.20%	97.59%	
	Allowable Pension Cost		\$139,015	\$1,145,817	\$1,284,832
2008	Contributions	\$22,450,000	\$22,450,000	\$0	
8.00%	Discount for Interest	(\$1,622,387)	(\$1,622,387)	\$0	
January 1, 2008	Present Value Contributions	\$20,827,613	\$20,827,613	\$0	
	Prepayment Credit Applied	\$8,222,133	\$6,961,782	\$1,260,351	
	Present Value of Funding	\$29,049,746	\$27,789,395	\$1,260,351	
January 1, 2008	CAS Funding Target	\$8,222,133	\$6,961,782	\$1,260,351	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$6,961,782	\$1,260,351	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$6,961,782	\$1,260,351	
2008	Fiscal Year Pension Cost		\$6,806,474	\$1,233,550	
	Medicare LOB* Percentage		2.28%	98.04%	
	Allowable Pension Cost		\$155,188	\$1,209,372	\$1,364,560

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2009	Contributions	\$0	\$0	\$0	
8.00%	Discount for Interest	\$0	\$0	\$0	
January 1, 2009	Present Value Contributions	\$0	\$0	\$0	
	Prepayment Credit Applied	\$8,552,141	\$7,397,272	\$1,154,869	
	Present Value of Funding	\$8,552,141	\$7,397,272	\$1,154,869	
January 1, 2009	CAS Funding Target	\$8,552,141	\$7,397,272	\$1,154,869	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$7,397,272	\$1,154,869	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$7,397,272	\$1,154,869	
2009	Fiscal Year Pension Cost	14/	\$9,137,718	\$1,469,957	
	Medicare LOB* Percentage		1.64%	96.85%	
	Allowable Pension Cost		\$149,859	\$1,423,653	\$1,573,512

* Line of business.

FOOTNOTES

- 1/ The allocable Cost Accounting Standards (CAS) pension cost is the amount of pension cost that may be allocated for contract cost purposes. We obtained the 1996 calendar year allocable pension from our prior review (A-07-97-01211; issued September 8, 1997).
- 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-07-11-00349). 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.
- 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 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/ We converted the 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.

12/ 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 Medicare LOB percentages based upon information provided by Blue Cross Blue Shield of Mississippi.

13/ 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.

14/ The 2009 Fiscal Year Pension Cost is calculated as 1/4 of the prior year's cost plus all of the current year's cost. The 2009 Allocable Pension Cost is based on a January 1, 2009, to September 30, 2009, cost.

APPENDIX B: AUDITEE COMMENTS



TRISPAN

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July 18, 2011

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

Re: TriSpan Pension Review Response - A-07-11-00350

Blue Cross & Blue Shield of Mississippi ("BCBSMS") submits this letter in response to the findings identified in the U.S Department of Health & Human Services, Office of Inspector General (OIG), draft report titled *Review of Pension Cost Claims for Medicare Reimbursement by Blue Cross Blue Shield of Mississippi for Fiscal Years 1997 through 2009*.

After further review, BCBSMS concurs with the OIG's Summary of Findings which states that BCBSMS "claimed pension costs of \$12,581,894 for Medicare reimbursement; however, we (OIG) determined that the allowable CAS pension costs were \$12,063,659, a difference of \$518,235."

BCBSMS will make appropriate adjustments that reflect this reduction in claims pension costs in BCBSMS's final settlement proposal that will be submitted in connection with the termination of the Title XVIII Medicare contract.

Please keep us informed of any revisions to the draft report.

Sincerely,

Jeffery T. Leber
Blue Cross Blue Shield of Mississippi
Chief Financial Officer

