



November 15, 2011

Report Number: A-07-11-00371

Mr. Jerry Feilmeier
Vice President, Government Programs
Blue Cross Blue Shield of Nebraska
1919 Aksarben Drive
Omaha, NE 68106

Dear Mr. Feilmeier:

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 Nebraska for Fiscal Years 1995 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-07-11-00371 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
NEBRASKA FOR FISCAL YEARS
1995 THROUGH 2008**



Daniel R. Levinson
Inspector General

November 2011
A-07-11-00371

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC

at <http://oig.hhs.gov>

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 Nebraska (BCBS Nebraska) administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated effective November 30, 2007.

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 BCBS Nebraska claimed for Medicare reimbursement for fiscal years (FY) 1995 through 2008.

SUMMARY OF FINDINGS

BCBS Nebraska claimed \$111,621 of unallowable pension costs for Medicare reimbursement for FYs 1995 through 2008. The overclaim occurred because BCBS Nebraska based its claim on incorrectly computed CAS-based pension costs. BCBS Nebraska claimed pension costs of \$1,345,247 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs were \$1,233,626, a difference of \$111,621.

RECOMMENDATION

We recommend that BCBS Nebraska either revise its Final Administrative Cost Proposals for FYs 1995 through 2008 to reduce claimed Medicare Part A pension costs by \$111,621 or refund this amount to CMS.

AUDITEE COMMENTS

In written comments on our draft report, BCBS Nebraska concurred with our recommendation and said that it intends to include the reduction of Medicare Part A pension costs as part of the global settlement of the contractor termination costs associated with its terminated Medicare contract. BCBS Nebraska's comments are included in their entirety as Appendix B.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
Blue Cross Blue Shield of Nebraska.....	1
Medicare Reimbursement	1
OBJECTIVE, SCOPE, AND METHODOLOGY	1
Objective	1
Scope.....	1
Methodology	2
FINDING AND RECOMMENDATION	2
FEDERAL REQUIREMENTS	2
UNALLOWABLE PENSION COSTS CLAIMED	3
RECOMMENDATION	4
AUDITEE COMMENTS	4
 APPENDIXES	
A: ALLOWABLE MEDICARE PENSION COSTS FOR BLUE CROSS BLUE SHIELD OF NEBRASKA FOR FISCAL YEARS 1995 THROUGH 2008	
B: AUDITEE COMMENTS	

INTRODUCTION

BACKGROUND

Blue Cross Blue Shield of Nebraska

Blue Cross Blue Shield of Nebraska (BCBS Nebraska) administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated effective November 30, 2007.

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-based 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 Nebraska claimed for Medicare reimbursement for FYs 1995 through 2008.

Scope

We reviewed \$1,345,247 of pension costs that BCBS Nebraska claimed for Medicare reimbursement on its Final Administrative Cost Proposals (FACP) for FYs 1995 through 2008. Achieving our objective did not require that we review BCBS Nebraska'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 Nebraska's office in Omaha, Nebraska, during August 2010.

Methodology

We reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit. Additionally, we reviewed information provided by BCBS Nebraska to identify the amount of pension costs claimed for Medicare reimbursement for FYs 1995 through 2008. We also determined the extent to which BCBS Nebraska funded CAS-based pension costs with contributions to the pension trust fund and accumulated prepayment credits. We based our calculations on separately computed CAS-based 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 Nebraska, A Terminated Medicare Contractor, for the Period January 1, 1994, to November 30, 2007, A-07-11-00370*).

In our review, we used information that BCBS Nebraska’s actuarial consulting firms provided. The information included assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We examined BCBS Nebraska’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 Nebraska claimed \$111,621 of unallowable pension costs for Medicare reimbursement for FYs 1995 through 2008. The overclaim occurred because BCBS Nebraska based its claim on incorrectly computed CAS-based pension costs. BCBS Nebraska claimed pension costs of \$1,345,247 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs were \$1,233,626, a difference of \$111,621.

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 Nebraska claimed \$111,621 of pension costs that were not allowable for Medicare reimbursement. During FYs 1995 through 2008,¹ BCBS Nebraska claimed pension costs of \$1,345,247 for Medicare reimbursement. We calculated the allowable Medicare Part A pension costs based on separately computed CAS-based pension costs for the Medicare segment and the “Other” segment in accordance with CAS 412 and 413. We determined that the allowable CAS-based pension costs for FYs 1995 through 2008 were \$1,233,626.

The table below compares allowable CAS-based pension costs with the pension costs claimed on BCBS Nebraska’s accounting documents. 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 BCBS Nebraska	
1995	36,692	37,597	(905)
1996	47,363	42,191	5,172
1997	55,049	49,428	5,621
1998	30,594	12,952	17,642
1999	46,818	23,537	23,281
2000	22,613	29,885	(7,272)
2001	68,987	79,605	(10,618)
2002	112,908	118,633	(5,725)
2003	158,411	162,179	(3,768)
2004	163,952	160,156	3,796
2005	169,262	182,670	(13,408)
2006	182,471	241,033	(58,562)
2007	121,779	180,985	(59,206)
2008	16,727	24,396	(7,669)
Total	\$1,233,626	\$1,345,247	(\$111,621)

The Medicare contracts require BCBS Nebraska to calculate pension costs for Medicare reimbursement in accordance with CAS 412 and 413. BCBS Nebraska based its claim for Medicare reimbursement on CAS-based pension costs. However, because BCBS Nebraska

¹ The allowable pension costs for FY 2008 were attributable to the pension costs for October 1, 2007, through November 30, 2007.

computed pension costs incorrectly, it overstated those CAS-based pension costs. As a result, BCBS Nebraska claimed Medicare Part A pension costs in excess of allowable CAS-based pension costs of \$111,621.

RECOMMENDATION

We recommend that BCBS Nebraska either revise its FACPs for FYs 1995 through 2008 to reduce claimed Medicare Part A pension costs for FYs 1995 through 2008 by \$111,621 or refund this amount to CMS.

AUDITEE COMMENTS

In written comments on our draft report, BCBS Nebraska concurred with our recommendation and said that it intends to include the reduction of Medicare Part A pension costs as part of the global settlement of the contractor termination costs associated with its terminated Medicare contract.

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

APPENDIXES

**APPENDIX A: ALLOWABLE MEDICARE PENSION COSTS FOR
BLUE CROSS BLUE SHIELD OF NEBRASKA
FOR FISCAL YEARS 1995 THROUGH 2008**

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
1994	Plan Year Allowable Pension Cost <u>1/</u>		\$1,013,727	\$53,287	
1995	Contributions <u>2/</u>	\$1,230,359	\$1,227,196	\$3,163	
	Discount for Interest <u>3/</u>	(\$54,902)	(\$54,761)	(\$141)	
January 1, 1995	Present Value Contributions <u>4/</u>	\$1,175,457	\$1,172,435	\$3,022	
	Prepayment Credit Applied <u>5/</u>	\$756,099	\$716,509	\$39,590	
	Present Value of Funding <u>6/</u>	\$1,931,556	\$1,888,944	\$42,612	
January 1, 1995	CAS Funding Target <u>7/</u>	\$813,810	\$771,198	\$42,612	
	Percentage Funded <u>8/</u>		100.00%	100.00%	
	Funded Pension Cost <u>9/</u>		\$771,198	\$42,612	
	Allowable Interest <u>10/</u>		\$2,554	\$141	
	Allocable Pension Cost <u>11/</u>		\$773,752	\$42,753	
	Medicare LOB* Percentage <u>12/</u>		1.19%	60.82%	
	Plan Year Allowable Pension Cost <u>13/</u>		\$9,208	\$26,002	
	Fiscal Year Allowable Pension <u>14/</u>		\$9,947	\$26,745	\$36,692
1996	Contributions	\$1,809,348	\$1,798,118	\$11,230	
	Discount for Interest	(\$111,724)	(\$111,031)	(\$693)	
January 1, 1996	Present Value Contributions	\$1,697,624	\$1,687,087	\$10,537	
	Prepayment Credit Applied	\$1,212,754	\$1,167,611	\$45,143	
	Present Value of Funding	\$2,910,378	\$2,854,698	\$55,680	
January 1, 1996	CAS Funding Target	\$1,495,811	\$1,440,132	\$55,679	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$1,440,132	\$55,679	
	Allowable Interest		\$16,408	\$634	
	Allocable Pension Cost		\$1,456,540	\$56,313	
	Medicare LOB* Percentage		1.12%	62.33%	
	Plan Year Allowable Pension Cost		\$16,313	\$35,100	
	Fiscal Year Allowable Pension		\$14,537	\$32,826	\$47,363
1997	Contributions	\$1,363,148	\$1,363,148	\$0	
	Discount for Interest	(\$60,176)	(\$60,176)	\$0	
January 1, 1997	Present Value Contributions	\$1,302,972	\$1,302,972	\$0	
	Prepayment Credit Applied	\$1,357,200	\$1,286,593	\$70,607	
	Present Value of Funding	\$2,660,172	\$2,589,565	\$70,607	
January 1, 1997	CAS Funding Target	\$1,357,200	\$1,286,593	\$70,607	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$1,286,593	\$70,607	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$1,286,593	\$70,607	
	Medicare LOB* Percentage		0.91%	63.10%	
	Plan Year Allowable Pension Cost		\$11,708	\$44,553	
	Fiscal Year Allowable Pension		\$12,859	\$42,190	\$55,049

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
1998	Contributions	\$0	\$0	\$0	
	Discount for Interest	\$0	\$0	\$0	
January 1, 1998	Present Value Contributions	\$0	\$0	\$0	
	Prepayment Credit Applied	\$1,063,660	\$1,044,074	\$19,586	
	Present Value of Funding	\$1,063,660	\$1,044,074	\$19,586	
January 1, 1998	CAS Funding Target	\$1,063,660	\$1,044,074	\$19,586	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$1,044,074	\$19,586	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$1,044,074	\$19,586	
	Medicare LOB* Percentage		0.86%	66.68%	
	Plan Year Allowable Pension Cost		\$8,979	\$13,060	
	Fiscal Year Allowable Pension		\$9,661	\$20,933	\$30,594
1999	Contributions	\$613,300	\$579,959	\$33,341	
	Discount for Interest	(\$41,990)	(\$39,707)	(\$2,283)	
January 1, 1999	Present Value Contributions	\$571,310	\$540,252	\$31,058	
	Prepayment Credit Applied	\$591,614	\$558,980	\$32,634	
	Present Value of Funding	\$1,162,924	\$1,099,232	\$63,692	
January 1, 1999	CAS Funding Target	\$1,154,685	\$1,090,992	\$63,693	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$1,090,992	\$63,693	
	Allowable Interest		\$33,916	\$1,980	
	Allocable Pension Cost		\$1,124,908	\$65,673	
	Medicare LOB* Percentage		0.90%	68.45%	
	Plan Year Allowable Pension Cost		\$10,124	\$44,953	
	Fiscal Year Allowable Pension		\$9,838	\$36,980	\$46,818
2000	Contributions	\$763,778	\$750,093	\$13,685	
	Discount for Interest	(\$61,576)	(\$60,473)	(\$1,103)	
January 1, 2000	Present Value Contributions	\$702,202	\$689,620	\$12,582	
	Prepayment Credit Applied	\$8,981	\$8,409	\$572	
	Present Value of Funding	\$711,183	\$698,029	\$13,154	
January 1, 2000	CAS Funding Target	\$206,550	\$193,396	\$13,154	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$193,396	\$13,154	
	Allowable Interest		\$11,793	\$802	
	Allocable Pension Cost		\$205,189	\$13,956	
	Medicare LOB* Percentage		0.76%	73.32%	
	Plan Year Allowable Pension Cost		\$1,559	\$10,233	
	Fiscal Year Allowable Pension		\$3,700	\$18,913	\$22,613

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2001	Contributions	\$10,116,000	\$10,055,579	\$60,421	
	Discount for Interest	(\$794,923)	(\$790,175)	(\$4,748)	
January 1, 2001	Present Value Contributions	\$9,321,077	\$9,265,404	\$55,673	
	Prepayment Credit Applied	\$550,050	\$532,621	\$17,429	
	Present Value of Funding	\$9,871,127	\$9,798,025	\$73,102	
January 1, 2001	CAS Funding Target	\$2,307,073	\$2,233,971	\$73,102	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$2,233,971	\$73,102	
	Allowable Interest		\$108,461	\$3,549	
	Allocable Pension Cost		\$2,342,432	\$76,651	
	Medicare LOB* Percentage		0.49%	99.90%	
	Plan Year Allowable Pension Cost		\$11,478	\$76,574	
	Fiscal Year Allowable Pension		\$8,998	\$59,989	\$68,987
2002	Contributions	\$15,100,000	\$15,100,000	\$0	
	Discount for Interest	(\$1,246,789)	(\$1,246,789)	\$0	
January 1, 2002	Present Value Contributions	\$13,853,211	\$13,853,211	\$0	
	Prepayment Credit Applied	\$3,123,897	\$3,022,348	\$101,549	
	Present Value of Funding	\$16,977,108	\$16,875,559	\$101,549	
January 1, 2002	CAS Funding Target	\$3,123,897	\$3,022,348	\$101,549	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$3,022,348	\$101,549	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$3,022,348	\$101,549	
	Medicare LOB* Percentage		0.65%	100.00%	
	Plan Year Allowable Pension Cost		\$19,645	\$101,549	
	Fiscal Year Allowable Pension		\$17,603	\$95,305	\$112,908
2003	Contributions	\$18,750,000	\$18,750,000	\$0	
	Discount for Interest	(\$1,466,103)	(\$1,466,103)	\$0	
January 1, 2003	Present Value Contributions	\$17,283,897	\$17,283,897	\$0	
	Prepayment Credit Applied	\$5,162,613	\$5,022,939	\$139,674	
	Present Value of Funding	\$22,446,510	\$22,306,836	\$139,674	
January 1, 2003	CAS Funding Target	\$5,162,613	\$5,022,939	\$139,674	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$5,022,939	\$139,674	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$5,022,939	\$139,674	
	Medicare LOB* Percentage		0.62%	100.00%	
	Plan Year Allowable Pension Cost		\$31,142	\$139,674	
	Fiscal Year Allowable Pension		\$28,268	\$130,143	\$158,411

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2004	Contributions	\$5,500,000	\$5,500,000	\$0	
	Discount for Interest	(\$430,876)	(\$430,876)	\$0	
January 1, 2004	Present Value Contributions	\$5,069,124	\$5,069,124	\$0	
	Prepayment Credit Applied	\$5,693,770	\$5,556,555	\$137,215	
	Present Value of Funding	\$10,762,894	\$10,625,679	\$137,215	
January 1, 2004	CAS Funding Target	\$5,693,770	\$5,556,555	\$137,215	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$5,556,555	\$137,215	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$5,556,555	\$137,215	
	Medicare LOB* Percentage		0.44%	100.00%	
	Plan Year Allowable Pension Cost		\$24,449	\$137,215	
	Fiscal Year Allowable Pension		\$26,122	\$137,830	\$163,952
2005	Contributions	\$9,300,000	\$9,300,000	\$0	
	Discount for Interest	(\$673,251)	(\$673,251)	\$0	
January 1, 2005	Present Value Contributions	\$8,626,749	\$8,626,749	\$0	
	Prepayment Credit Applied	\$6,584,998	\$6,413,834	\$171,164	
	Present Value of Funding	\$15,211,747	\$15,040,583	\$171,164	
January 1, 2005	CAS Funding Target	\$6,584,998	\$6,413,834	\$171,164	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$6,413,834	\$171,164	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$6,413,834	\$171,164	
	Medicare LOB* Percentage		0.42%	84.63%	
	Plan Year Allowable Pension Cost		\$26,938	\$144,856	
	Fiscal Year Allowable Pension		\$26,316	\$142,946	\$169,262
2006	Contributions	\$0	\$0	\$0	
	Discount for Interest	\$0	\$0	\$0	
January 1, 2006	Present Value Contributions	\$0	\$0	\$0	
	Prepayment Credit Applied	\$6,603,788	\$6,389,094	\$214,694	
	Present Value of Funding	\$6,603,788	\$6,389,094	\$214,694	
January 1, 2006	CAS Funding Target	\$6,603,788	\$6,389,094	\$214,694	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$6,389,094	\$214,694	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$6,389,094	\$214,694	
	Medicare LOB* Percentage		0.38%	75.34%	
	Plan Year Allowable Pension Cost		\$24,279	\$161,750	
	Fiscal Year Allowable Pension		\$24,944	\$157,527	\$182,471

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2007	Contributions	\$0	\$0	\$0	
	Discount for Interest	\$0	\$0	\$0	
January 1, 2007	Present Value Contributions	\$0	\$0	\$0	
	Prepayment Credit Applied	\$5,681,434	\$5,507,774	\$173,660	
	Present Value of Funding	\$5,681,434	\$5,507,774	\$173,660	
January 1, 2007	CAS Funding Target	\$5,681,434	\$5,507,774	\$173,660	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$5,507,774	\$173,660	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$5,507,774	\$173,660	
	Medicare LOB* Percentage		0.24%	50.18%	
	Plan Year Allowable Pension Cost		\$13,219	\$87,143	
	Fiscal Year Allowable Pension		\$15,984	\$105,795	\$121,779
January 1, 2008	Fiscal Year Allowable Pension <u>15/</u>		\$2,203	\$14,524	\$16,727

* Line of business.

ENDNOTES

- 1/ We obtained the 1994 calendar year allocable pension cost and the Medicare line of business (LOB) from our prior review (A-07-95-01167). We computed the plan year allowable Medicare pension cost as the allocable pension cost multiplied by the Medicare LOB percentage.
- 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-07-11-00370). 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 decimal places.
- 9/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.
- 10/ We assumed that interest on the funded CAS-based 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-based pension cost is the amount of pension cost that may be allocated for contract cost purposes.
- 12/ We calculated plan year allowable pension costs of the Medicare and “Other” segments based on the Medicare LOB percentage of each segment. We determined the LOB percentages based upon information provided by Blue Cross Blue Shield of Nebraska (BCBS Nebraska).
- 13/ We computed the plan year allowable Medicare pension cost as the allocable pension cost multiplied by the Medicare LOB percentage.
- 14/ We converted the plan year allowable pension costs to a fiscal year basis (October 1 through September 30). We calculated the fiscal year pension costs as 1/4 of the prior year’s costs plus 3/4 of the current year’s costs. 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/ BCBS Nebraska terminated its Medicare contract on November 30, 2007. Therefore, we computed the fiscal year allowable pension costs for the BCBS Nebraska Medicare segment for October 1, 2007, through November 30, 2007, by taking 2/12 of the plan year 2007 allowable pension costs.

APPENDIX B: AUDITEE COMMENTS



**BlueCross BlueShield
of Nebraska**

P.O. Box 3248
Omaha, Nebraska 68180-0001
www.bchsne.com

November 4, 2011

Report Number: A-07-11-00371

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 Blue Shield of Nebraska response to the U.S. Department of Health and Human Services, Office of Inspector General (OIG,) draft report entitled *Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross Blue Shield of Nebraska for Fiscal Years 1995 Through 2008*.

We are in concurrence with your recommendation. However, since Blue Cross Blue Shield of Nebraska 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 reduction of Medicare Part A pension costs for FYs 1995 through 2008 as part of the global settlement of the contractor termination costs associated with our terminated Medicare contract.

If you have any questions or comments related to our response, please do not hesitate to contact me at (402) 982-8824.

Sincerely,

A handwritten signature in black ink, appearing to read "Jerry Feilmeier".

Jerry Feilmeier
Vice President, Government Programs