

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**BLUE CROSS BLUE SHIELD
ASSOCIATION DID NOT CLAIM SOME
ALLOWABLE PENSION COSTS
FOR FISCAL YEARS
1997 THROUGH 2010**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



Patrick J. Cogley
Regional Inspector General

February 2013
A-07-13-00411

Office of Inspector General

<https://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 <https://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 Association (the Association) administers Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS).

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 whether the pension costs claimed by the Association for Medicare reimbursement for fiscal years (FY) 1997 through 2010 were allowable and correctly claimed.

SUMMARY OF FINDING

The Association claimed no pension costs for Medicare reimbursement for FYs 1997 through 2010; however, we determined that the allowable CAS-based pension costs during this period were \$351,223. Thus, the Association did not claim \$351,223 of allowable Medicare pension costs on its final administrative cost proposals (FACP) for FYs 1997 through 2010. This underclaim occurred primarily because the Association did not request reimbursement for its “Other” segment CAS pension costs.

RECOMMENDATION

We recommend that the Association revise its FACPs to claim the additional allowable Medicare pension costs of \$351,223.

AUDITEE COMMENTS

In written comments on our draft report, the Association accepted our recommendation and described corrective actions that it planned to implement.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
Blue Cross Blue Shield Association and Medicare	1
Medicare Reimbursement of Pension Costs	1
OBJECTIVE, SCOPE, AND METHODOLOGY	1
Objective	1
Scope.....	1
Methodology.....	2
FINDING AND RECOMMENDATION	2
FEDERAL REQUIREMENTS	2
ALLOWABLE PENSION COSTS NOT CLAIMED	3
RECOMMENDATION	4
AUDITEE COMMENTS	4
APPENDIXES	
A: ALLOWABLE MEDICARE PENSION COSTS FOR BLUE CROSS BLUE SHIELD ASSOCIATION FOR FISCAL YEARS 1997 THROUGH 2010	
B: AUDITEE COMMENTS	

INTRODUCTION

BACKGROUND

Blue Cross Blue Shield Association and Medicare

Blue Cross Blue Shield Association (the Association) administers Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS).

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 whether the pension costs claimed by the Association for Medicare reimbursement for FYs 1997 through 2010 were allowable and correctly claimed.

Scope

We verified that the Association claimed no pension costs for Medicare reimbursement on its final administrative cost proposals (FACP) for FYs 1997 through 2010, then reviewed information provided by the Association and its actuarial consulting firms (see “Methodology”) to identify any allowable pension costs.

Achieving our objective did not require that we review the Association’s overall internal control structure. We reviewed the internal controls related to the pension costs that were, or could have been, claimed for Medicare reimbursement to ensure that those costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

We performed fieldwork at the Association’s office in Chicago, Illinois, during April and May 2012.

Methodology

We reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit. Additionally, we reviewed information provided by the Association to identify the amount of pension costs claimed for Medicare reimbursement for FYs 1997 through 2010. We also determined the extent to which the Association 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 (*Blue Cross Blue Shield Association Understated the Medicare Segment Pension Assets for the Period of January 1, 1997, to January 1, 2011, A-07-13-00410*).

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

The Association claimed no pension costs for Medicare reimbursement for FYs 1997 through 2010; however, we determined that the allowable CAS-based pension costs during this period were \$351,223. Thus, the Association did not claim \$351,223 of allowable Medicare pension costs on its FACPs for FYs 1997 through 2010. This underclaim occurred primarily because the Association did not request reimbursement for its “Other” segment CAS pension costs.

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

The Association submitted Medicare pension costs of \$0 for Medicare reimbursement on its FACPs for FYs 1997 through 2010. We calculated the allowable Medicare 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 2003 through 2010 were \$351,223.

Thus, the Association did not claim \$351,223 of allowable Medicare pension costs on its FACPs for FYs 1997 through 2010. This underclaim occurred primarily because the Association did not request reimbursement for its “Other” segment CAS pension costs.

The table below compares allowable CAS-based pension costs with the pension costs claimed on the Association’s FACPs. Appendix A contains additional details on allowable pension costs.

Table: Comparison of Allowable Pension Costs and Claimed Pension Costs

	Medicare Pension Costs		
Fiscal Year	Allowable Per Audit	Claimed by Association	Difference
1997	\$0	\$0	\$0
1998	0	0	0
1999	0	0	0
2000	0	0	0
2001	0	0	0
2002	0	0	0
2003	0	0	0
2004	0	0	0
2005	35,024	0	35,024
2006	45,374	0	45,374
2007	45,751	0	45,751
2008	50,848	0	50,848
2009	79,205	0	79,205
2010	95,021	0	95,021
Total	\$351,223	\$0	\$351,223

The Medicare contracts require the Association to calculate pension costs for Medicare reimbursement in accordance with CAS 412 and 413. The Association based its claim for Medicare reimbursement on CAS-based pension costs. However, because the Association incorrectly assumed that the “Other” segment allocable CAS pension costs related only to its Federal Employee Program, it understated those CAS-based pension costs. We determined that

costs related to the Medicare contracts were included in the “Other” segment CAS-based pension costs. Accordingly, the Association did not claim \$351,223 of allowable pension costs.

RECOMMENDATION

We recommend that the Association revise its FACPs to claim the additional allowable Medicare pension costs of \$351,223.

AUDITEE COMMENTS

In written comments on our draft report, the Association accepted our recommendation and described corrective actions that it planned to implement.

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

APPENDIXES

**APPENDIX A: ALLOWABLE MEDICARE PENSION COSTS FOR
BLUE CROSS BLUE SHIELD ASSOCIATION
FOR FISCAL YEARS 1997 THROUGH 2010**

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
1996	Allocable Pension Cost <u>1/</u>		\$0	\$0	
1997	Contributions	\$0	\$0	\$0	
	Discount for Interest	\$0	\$0	\$0	
January 1, 1997	Present Value Contributions	\$0	\$0	\$0	
	Prepayment Credit Applied	\$0	\$0	\$0	
	Present Value of Funding	\$0	\$0	\$0	
January 1, 1997	CAS Funding Target	\$0	\$0	\$0	
	Percentage Funded		0.00%	0.00%	
	Funded Pension Cost		\$0	\$0	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$0	\$0	
1997	Fiscal Year Pension Costs		\$0	\$0	
	Medicare LOB* Percentage		0.00%	0.00%	
	Allowable Pension Cost		\$0	\$0	\$0
1998	Contributions	\$0	\$0	\$0	
	Discount for Interest	\$0	\$0	\$0	
January 1, 1998	Present Value Contributions	\$0	\$0	\$0	
	Prepayment Credit Applied	\$0	\$0	\$0	
	Present Value of Funding	\$0	\$0	\$0	
January 1, 1998	CAS Funding Target	\$0	\$0	\$0	
	Percentage Funded		0.00%	0.00%	
	Funded Pension Cost		\$0	\$0	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$0	\$0	
1998	Fiscal Year Pension Costs		\$0	\$0	
	Medicare LOB* Percentage <u>2/</u>		1.98%	40.96%	
	Allowable Pension Cost		\$0	\$0	\$0
1999	Contributions	\$0	\$0	\$0	
	Discount for Interest	\$0	\$0	\$0	
January 1, 1999	Present Value Contributions	\$0	\$0	\$0	
	Prepayment Credit Applied	\$0	\$0	\$0	
	Present Value of Funding	\$0	\$0	\$0	
January 1, 1999	CAS Funding Target	\$0	\$0	\$0	
	Percentage Funded		0.00%	0.00%	
	Funded Pension Cost		\$0	\$0	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$0	\$0	
1999	Fiscal Year Pension Costs		\$0	\$0	
	Medicare LOB* Percentage		1.66%	94.75%	
	Allowable Pension Cost		\$0	\$0	\$0

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2000	Contributions	\$0	\$0	\$0	
	Discount for Interest	\$0	\$0	\$0	
January 1, 2000	Present Value Contributions	\$0	\$0	\$0	
	Prepayment Credit Applied	\$0	\$0	\$0	
	Present Value of Funding	\$0	\$0	\$0	
January 1, 2000	CAS Funding Target	\$0	\$0	\$0	
	Percentage Funded		0.00%	0.00%	
	Funded Pension Cost		\$0	\$0	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$0	\$0	
2000	Fiscal Year Pension Costs		\$0	\$0	
	Medicare LOB* Percentage		1.48%	98.12%	
	Allowable Pension Cost		\$0	\$0	\$0
2001	Contributions	\$0	\$0	\$0	
	Discount for Interest	\$0	\$0	\$0	
January 1, 2001	Present Value Contributions	\$0	\$0	\$0	
	Prepayment Credit Applied	\$0	\$0	\$0	
	Present Value of Funding	\$0	\$0	\$0	
January 1, 2001	CAS Funding Target	\$0	\$0	\$0	
	Percentage Funded		0.00%	0.00%	
	Funded Pension Cost		\$0	\$0	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$0	\$0	
2001	Fiscal Year Pension Costs		\$0	\$0	
	Medicare LOB* Percentage		1.64%	99.26%	
	Allowable Pension Cost		\$0	\$0	\$0
2002	Contributions	\$0	\$0	\$0	
	Discount for Interest	\$0	\$0	\$0	
January 1, 2002	Present Value Contributions	\$0	\$0	\$0	
	Prepayment Credit Applied	\$0	\$0	\$0	
	Present Value of Funding	\$0	\$0	\$0	
January 1, 2002	CAS Funding Target	\$0	\$0	\$0	
	Percentage Funded		0.00%	0.00%	
	Funded Pension Cost		\$0	\$0	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$0	\$0	
2002	Fiscal Year Pension Costs		\$0	\$0	
	Medicare LOB* Percentage		1.44%	98.11%	
	Allowable Pension Cost		\$0	\$0	\$0

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2003	Contributions	\$0	\$0	\$0	
	Discount for Interest	\$0	\$0	\$0	
January 1, 2003	Present Value Contributions	\$0	\$0	\$0	
	Prepayment Credit Applied	\$0	\$0	\$0	
	Present Value of Funding	\$0	\$0	\$0	
January 1, 2003	CAS Funding Target	\$0	\$0	\$0	
	Percentage Funded		0.00%	0.00%	
	Funded Pension Cost		\$0	\$0	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$0	\$0	
2003	Fiscal Year Pension Costs		\$0	\$0	
	Medicare LOB* Percentage		1.17%	91.55%	
	Allowable Pension Cost		\$0	\$0	\$0
2004	Contributions <u>3/</u>	\$5,000,000	\$5,000,000	\$0	
	Discount for Interest <u>4/</u>	(\$391,705)	(\$391,705)	\$0	
January 1, 2004	Present Value Contributions <u>5/</u>	\$4,608,295	\$4,608,295	\$0	
	Prepayment Credit Applied	\$0	\$0	\$0	
	Present Value of Funding <u>6/</u>	\$4,608,295	\$4,608,295	\$0	
January 1, 2004	CAS Funding Target	\$0	\$0	\$0	
	Percentage Funded		0.00%	0.00%	
	Funded Pension Cost		\$0	\$0	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$0	\$0	
2004	Fiscal Year Pension Costs		\$0	\$0	
	Medicare LOB* Percentage		1.04%	93.95%	
	Allowable Pension Cost		\$0	\$0	\$0
2005	Contributions	\$5,400,000	\$5,400,000	\$0	
	Discount for Interest	(\$400,000)	(\$400,000)	\$0	
January 1, 2005	Present Value Contributions	\$5,000,000	\$5,000,000	\$0	
	Prepayment Credit Applied <u>7/</u>	\$4,405,482	\$4,405,482	\$0	
	Present Value of Funding	\$9,405,482	\$9,405,482	\$0	
January 1, 2005	CAS Funding Target <u>8/</u>	\$4,405,482	\$4,405,482	\$0	
	Percentage Funded <u>9/</u>		100.00%	0.00%	
	Funded Pension Cost <u>10/</u>		\$4,405,482	\$0	
	Allowable Interest <u>11/</u>		\$0	\$0	
	Allocable Pension Cost		\$4,405,482	\$0	
2005	Fiscal Year Pension Costs <u>12/</u>		\$3,304,112	\$0	
	Medicare LOB* Percentage		1.06%	93.13%	
	Allowable Pension Cost <u>13/</u>		\$35,024	\$0	\$35,024

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2006	Contributions	\$3,200,000	\$3,200,000	\$0	
	Discount for Interest	(\$237,037)	(\$237,037)	\$0	
January 1, 2006	Present Value Contributions	\$2,962,963	\$2,962,963	\$0	
	Prepayment Credit Applied	\$4,348,694	\$4,348,694	\$0	
	Present Value of Funding	\$7,311,657	\$7,311,657	\$0	
January 1, 2006	CAS Funding Target	\$4,348,694	\$4,348,694	\$0	
	Percentage Funded		100.00%	0.00%	
	Funded Pension Cost		\$4,348,694	\$0	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$4,348,694	\$0	
2006	Fiscal Year Pension Costs		\$4,362,891	\$0	
	Medicare LOB* Percentage		1.04%	92.28%	
	Allowable Pension Cost		\$45,374	\$0	\$45,374
2007	Contributions	\$12,000,000	\$12,000,000	\$0	
	Discount for Interest	(\$888,889)	(\$888,889)	\$0	
January 1, 2007	Present Value Contributions	\$11,111,111	\$11,111,111	\$0	
	Prepayment Credit Applied	\$5,028,856	\$5,028,856	\$0	
	Present Value of Funding	\$16,139,967	\$16,139,967	\$0	
January 1, 2007	CAS Funding Target	\$5,172,812	\$5,172,812	\$0	
	Percentage Funded		100.00%	0.00%	
	Funded Pension Cost		\$5,172,812	\$0	
	Allowable Interest		\$8,158	\$0	
	Allocable Pension Cost		\$5,180,970	\$0	
2007	Fiscal Year Pension Costs		\$4,972,901	\$0	
	Medicare LOB* Percentage		0.92%	82.49%	
	Allowable Pension Cost		\$45,751	\$0	\$45,751
2008	Contributions	\$20,000,000	\$20,000,000	\$0	
	Discount for Interest	(\$1,481,481)	(\$1,481,481)	\$0	
January 1, 2008	Present Value Contributions	\$18,518,519	\$18,518,519	\$0	
	Prepayment Credit Applied	\$6,540,916	\$6,540,916	\$0	
	Present Value of Funding	\$25,059,435	\$25,059,435	\$0	
January 1, 2008	CAS Funding Target	\$6,540,916	\$6,540,916	\$0	
	Percentage Funded		100.00%	0.00%	
	Funded Pension Cost		\$6,540,916	\$0	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$6,540,916	\$0	
2008	Fiscal Year Pension Costs		\$6,200,930	\$0	
	Medicare LOB* Percentage		0.82%	90.43%	
	Allowable Pension Cost		\$50,848	\$0	\$50,848

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2009	Contributions	\$20,000,000	\$20,000,000	\$0	
	Discount for Interest	(\$1,481,481)	(\$1,481,481)	\$0	
January 1, 2009	Present Value Contributions	\$18,518,519	\$18,518,519	\$0	
	Prepayment Credit Applied	\$10,244,046	\$10,244,046	\$0	
	Present Value of Funding	\$28,762,565	\$28,762,565	\$0	
January 1, 2009	CAS Funding Target	\$10,244,046	\$10,244,046	\$0	
	Percentage Funded		100.00%	0.00%	
	Funded Pension Cost		\$10,244,046	\$0	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$10,244,046	\$0	
2009	Fiscal Year Pension Costs		\$9,318,264	\$0	
	Medicare LOB* Percentage		0.85%	90.21%	
	Allowable Pension Cost		\$79,205	\$0	\$79,205
2010	Contributions	\$14,000,000	\$14,000,000	\$0	
	Discount for Interest	(\$976,744)	(\$976,744)	\$0	
January 1, 2010	Present Value Contributions	\$13,023,256	\$13,023,256	\$0	
	Prepayment Credit Applied	\$11,490,577	\$11,490,577	\$0	
	Present Value of Funding	\$24,513,833	\$24,513,833	\$0	
January 1, 2010	CAS Funding Target	\$11,490,577	\$11,490,577	\$0	
	Percentage Funded		100.00%	0.00%	
	Funded Pension Cost		\$11,490,577	\$0	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$11,490,577	\$0	
2010	Fiscal Year Pension Costs		\$11,178,944	\$0	
	Medicare LOB* Percentage		0.85%	91.29%	
	Allowable Pension Cost		\$95,021	\$0	\$95,021

* Line of business.

ENDNOTES

1/ The allocable Cost Accounting Standards (CAS) pension cost is the amount of pension cost that may be allocated for contract cost purposes. We determined the 1996 calendar year allocable pension cost from prior audit workpapers.

2/ 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 Association.

3/ 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 (PY) and accrued contributions deposited after the end of the PY but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-13-00410). The amounts shown for the "Other" segment represent the difference between the Total Company and the Medicare segment.

- 4/ 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.
- 5/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the PY. For purposes of this Appendix, we deemed deposits made after the end of the PY to have been made on the final day of the PY, consistent with the method mandated by the Employee Retirement Income Security Act used prior to the implementation of the Pension Protection Act.
- 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 PY.
- 7/ 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.
- 8/ 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).
- 9/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the PY. 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.
- 10/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.
- 11/ 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.
- 12/ We converted the allocable pension cost 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 computed the allowable Medicare pension cost as an 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.

APPENDIX B: AUDITEE COMMENTS



**BlueCross BlueShield
Association**

An Association of Independent
Blue Cross and Blue Shield Plans

January 29, 2013

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

225 North Michigan Avenue
Chicago, Illinois 60601-7680
312.297.6000
Fax 312.297.6609
www.BCBS.com

RE: Report Number A-07-13-00411

Dear Mr. Cogley:

In response to your letter dated January 3, 2013, regarding the Office of Inspector General (OIG), Office of Audit Services draft audit report entitled "*Blue Cross Blue Shield Association Did Not Claim Some Allowable Pension Costs for Fiscal Years 1997 Through 2010*", please be advised that the Blue Cross and Blue Shield Association (Association) has accepted the OIG's audit recommendations and will undertake the following steps to implement corrective action:

- FACPs for 2005 to 2010 are to be revised to claim the additional allowable Medicare pension costs of \$351,223.
- Enhance accounting procedures to claim future CAS-based allowable pension costs attributable to the "Other" segment when those pension cost are funded.

Sincerely,

A handwritten signature in black ink, appearing to read "James", written over a large, stylized blue circular graphic element.

James Williamson
Director, General Accounting
Corporate Finance

With attachment

Copies without attachment to:

Mitch Helfand, BCBSA
Peter Kelly, BCBSA
Sharon Keyes, BCBSA
Ed Sawica, BCBSA

Kevin Shanklin, BCBSA
Jenene Tambke, DHHS OIG
Jeffrey Wilson, DHHS OIG