

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**BLUE CROSS BLUE SHIELD
ASSOCIATION DID NOT CLAIM SOME
ALLOWABLE MEDICARE
POSTRETIREMENT BENEFIT COSTS FOR
FISCAL YEARS 2002 THROUGH 2010**

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Office of Inspector General

<https://oig.hhs.gov/>

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EXECUTIVE SUMMARY

Blue Cross Blue Shield Association did not claim allowable postretirement benefit costs of \$14,000 for Medicare reimbursement for fiscal years 2002 through 2010.

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their postretirement benefit (PRB) costs, which are funded by direct payments to beneficiaries or contributions to a dedicated trust fund. The amount of PRB costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the cost reimbursement principles contained in the Federal Acquisition Regulation as required by the Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors have not always complied with Federal requirements when claiming PRB costs for Medicare reimbursement.

For this review, we focused on one Medicare contractor, Blue Cross Blue Shield Association (the Association). In particular, we examined the Medicare segment and Other segment allowable PRB costs (which for this report we will refer to as “PRB costs”) that the Association claimed for Medicare reimbursement on its Final Administrative Cost Proposals (FACPs).

The objective of this review was to determine whether the fiscal years (FYs) 2002 through 2010 PRB costs that the Association claimed for Medicare reimbursement under the provisions of its fiscal intermediary and carrier contracts, and reported on its FACPs, were allowable and correctly claimed.

BACKGROUND

The Association administers Medicare Part A operations under cost reimbursement contracts with CMS.

The Association sponsors a PRB plan called the Blue Cross Blue Shield Association Retiree Life and Health Benefits Program. This plan is designed to provide medical, dental, and life insurance benefits to Association retirees and their dependents. The Association claimed PRB costs for Federal reimbursement on an accrual basis.

The Association established its Voluntary Employee Benefit Association trust and began funding it in January 1994. During FYs 2002 and 2003, the Association included PRB costs for key employees in its claims for Medicare reimbursement. During FYs 2004 through 2010, the Association excluded PRB costs related to key employees from its claims for Medicare reimbursement.

We reviewed \$981,055 of PRB costs claimed by the Association for Medicare reimbursement under the provisions of its fiscal intermediary and carrier contracts, and reported on its FACPs, for FYs 2002 through 2010.

WHAT WE FOUND

The Association claimed \$981,055 in PRB costs for FYs 2002 through 2010; however, we determined that the allowable PRB costs for this period were \$995,354. The difference, \$14,299, represented allowable PRB costs that the Association did not claim on its FACP for FYs 2002 through 2010. The Association did not claim these allowable Medicare PRB costs primarily because it excluded pay-as-you-go costs for key employees from its claims for Medicare reimbursement.

WHAT WE RECOMMEND

We recommend that the Association revise its FACP for FYs 2002 through 2010 to claim additional PRB costs of \$14,299.

AUDITEE COMMENTS

In written comments on our draft report, the Association accepted our recommendation.

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INTRODUCTION

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their postretirement benefit (PRB) costs, which are funded by direct payments to beneficiaries or contributions to a dedicated trust fund. The amount of PRB costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the cost reimbursement principles contained in the Federal Acquisition Regulation (FAR) as required by the Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors have not always complied with Federal requirements when claiming PRB costs for Medicare reimbursement.

For this review, we focused on one Medicare contractor, Blue Cross Blue Shield Association (the Association). In particular, we examined the Medicare segment and Other segment allowable PRB costs (which for this report we will refer to as “PRB costs”) that the Association claimed for Medicare reimbursement on its Final Administrative Cost Proposals (FACPs).

OBJECTIVE

Our objective was to determine whether the fiscal years (FYs) 2002 through 2010 PRB costs that the Association claimed for Medicare reimbursement under the provisions of its fiscal intermediary and carrier contracts, and reported on its FACPs, were allowable and correctly claimed.

BACKGROUND

Blue Cross Blue Shield Association

The Association administers Medicare Part A operations under cost reimbursement contracts with CMS.

The Association sponsors a PRB plan called the Blue Cross Blue Shield Association Retiree Life and Health Benefits Program. This plan is designed to provide medical, dental, and life insurance benefits to Association retirees and their dependents. The Association claimed PRB costs for Federal reimbursement on an accrual basis.

The Association participates in a Voluntary Employee Benefit Association (VEBA) trust for the purpose of funding annual PRB accruals. The Association established its VEBA trust and began funding it in January 1994. VEBA rules do not allow for the funding and reimbursement of key employees through the VEBA trust. Accordingly, PRB costs for key employees that are not funded through the VEBA trust may be accounted for on a pay-as-you-go basis. The Association’s CMS-approved accounting practice used accrual accounting for non-key employees and the pay-as-you-go basis for key employees. During FYs 2002 and 2003, the Association included PRB costs for key employees in its claims for Medicare reimbursement. During FYs 2004 through 2010, the Association excluded PRB costs related to key employees from its claims for Medicare reimbursement.

Medicare Reimbursement of Postretirement Benefit Costs

CMS reimburses a portion of the funded accruals that contractors charge for their PRB plans. FAR 31.205-6(o) requires that, to be allowable for Medicare reimbursement on an accrual basis, PRB accrual costs be (1) determined in accordance with Statement of Financial Accounting Standards (SFAS) 106 and (2) funded by payments to an insurer or into a dedicated trust fund, such as a VEBA trust.

CMS also reimburses a portion of the pay-as-you-go costs related to employees that are not accounted for on an accrual basis and are not reimbursable from VEBA trust assets. To be allowable for Medicare reimbursement, pay-as-you-go PRB costs must be assigned to the period in which the benefits are actually provided or to the period when the costs are paid to an insurer, provider, or other recipient for current year benefits or premiums (FAR 31.205-6(o)(2)(i)).

HOW WE CONDUCTED THIS REVIEW

We reviewed \$981,055 of PRB costs claimed by the Association for Medicare reimbursement under the provisions of its fiscal intermediary and carrier contracts, and reported on its FACPs, for FYs 2002 through 2010.

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 objectives.

Appendix A contains details of our audit scope and methodology.

FINDING

The Association claimed \$981,055 in PRB costs for FYs 2002 through 2010; however, we determined that the allowable PRB costs for this period were \$995,354. The difference, \$14,299, represented allowable PRB costs that the Association did not claim on its FACPs for FYs 2002 through 2010. The Association did not claim these allowable Medicare PRB costs primarily because it excluded pay-as-you-go costs for key employees from its claims for Medicare reimbursement.

CLAIMED POSTRETIREMENT BENEFIT COSTS

The Association claimed PRB costs of \$981,055 for Medicare reimbursement on its FACPs for FYs 2002 through 2010. We calculated the allowable Medicare PRB costs in accordance with the FAR. For details on the Federal requirements, see Appendix B.

ALLOWABLE POSTRETIREMENT BENEFIT COSTS NOT CLAIMED

We determined that the allowable PRB costs for FYs 2002 through 2010 were \$995,354. Thus, the Association did not claim \$14,299 of allowable PRB costs on its FACP for FYs 2002 through 2010. This underclaim occurred primarily because the Association omitted costs related to key employees. More specifically, during FYs 2004 through 2010, the Association removed the liabilities related to key employees from its PRB cost computations and did not claim pay-as-you-go costs. We determined the portion of key employees' direct benefits that were paid but not reimbursed by the VEBA trust and included those costs as allocable PRB costs.

The table below shows the difference between the allowable PRB costs that we calculated and the PRB costs that the Association claimed on its FACP and that were reflected in its accounting documents for FYs 2002 through 2010. Appendix C contains additional details on allowable PRB costs.

Table: Comparison of Allowable PRB Costs and Claimed PRB Costs

Fiscal Year	Medicare PRB Costs		Difference
	Allowable Per Audit	Claimed by the Association	
2002	\$83,902	\$77,936	\$5,966
2003	122,274	104,100	18,174
2004	107,133	136,987	(29,854)
2005	121,789	87,147	34,642
2006	153,931	154,873	(942)
2007	134,125	143,964	(9,839)
2008	88,543	120,400	(31,857)
2009	93,938	58,575	35,363
2010	89,719	97,073	(7,354)
Total	\$995,354	\$981,055	\$14,299

RECOMMENDATION

We recommend that the Association revise its FACP for FYs 2002 through 2010 to claim additional PRB costs of \$14,299.

AUDITEE COMMENTS

In written comments on our draft report, the Association accepted our recommendation. Specifically, the Association stated that it would work with CMS to claim a refund of \$14,299 and enhance accounting procedures to claim future allowable Medicare PRB costs.

The Association's comments are included in their entirety as Appendix D.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$981,055 of PRB costs that the Association claimed for Medicare reimbursement under the provisions of its fiscal intermediary and carrier contracts, and reported on its FACP, for FYs 2002 through 2010.

Achieving our objective did not require that we review the Association's overall internal control structure. We reviewed the controls related to the accrued PRB costs that the Association claimed for Medicare reimbursement to ensure that the claimed PRB costs were allowable in accordance with the FAR.

We performed our fieldwork at the Association's office in Chicago, Illinois.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR and Medicare contracts applicable to this audit;
- reviewed accounting records and FACP information provided by the Association to identify the amount of PRB costs claimed for Medicare reimbursement for FYs 2002 through 2010;
- used information that the Association's actuarial consulting firms provided, including information on VEBA assets, PRB obligations, service costs, contributions, claims paid, claims reimbursed, investment earnings, and administrative expenses;
- examined the Association's PRB plan documents and annual actuarial valuation reports, which included SFAS 106 information;
- determined the extent to which the Association funded PRB costs with contributions to the VEBA trust, accumulated prepayment credits, and direct payments;
- engaged the CMS Office of the Actuary to calculate the PRB costs based on the SFAS 106 methodology applied in accordance with FAR 31.205-6(o);
- reviewed and verified the CMS actuaries' methodology and calculations and used this information to calculate the PRB costs for the period FYs 2002 through 2010; and
- discussed the results of our review with Association officials on March 24, 2014.

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 objectives.

APPENDIX B: FEDERAL REQUIREMENTS RELATED TO MEDICARE REIMBURSEMENT OF POSTRETIREMENT PENSION COSTS

Federal regulations (FAR 31.205-6(o)) require that PRB accrual costs be determined in accordance with SFAS 106 and funded by payments to an insurer or into a dedicated trust fund, such as a VEBA trust. The FAR states that accrual accounting may be used to determine the allowable PRB costs if the costs are measured and assigned (actuarially determined) according to generally accepted accounting principles based on amortization of any transition obligation. Costs attributable to past service (transition obligation) must be assigned under the delayed recognition methodology described in paragraphs 112 and 113 of SFAS 106. The FAR also states that allowable costs must be funded by the time set for filing the Federal income tax return or any extension thereof, and must comply with the applicable standards promulgated by the Cost Accounting Standards (CAS) Board.

Federal regulation (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 to the period when the costs are paid to an insurer, provider, or other recipient for current year benefits or premiums.

**APPENDIX C: ALLOWABLE MEDICARE POSTRETIREMENT BENEFIT
COSTS FOR BLUE CROSS BLUE SHIELD ASSOCIATION
FOR FISCAL YEARS 2002 THROUGH 2010**

Date	Description		Total Company	Other Segment	Medicare Segment	Total Medicare
2001	Contributions	1/	\$1,467,555	\$1,467,555		
	Discount for Interest	2/	(\$121,174)	(\$121,174)		
January 1, 2001	Present Value Contributions	3/	\$1,346,381	\$1,346,381		
	Prepayment Credit Applied		\$0	\$0		
	Present Value of Funding	4/	\$1,346,381	\$1,346,381		
January 1, 2001	CAS Funding Target	5/	\$1,346,381	\$1,346,381		
	Percentage Funded	6/		100.00%		
	Funded PRB Cost	7/		\$1,346,381		
	Unallowable Interest			\$0		
	Allowable Interest	8/		\$85,832		
2001	CY Allocable PRB Cost	9/		\$1,432,213		
	Headcount Percentage	10/		96.32%	3.68%	
2001	CY Allocable PRB Cost			\$1,379,508	\$52,705	
	Medicare LOB* Percentage	11/		1.64%	99.26%	
2001	CY Allowable PRB Costs	12/		\$22,624	\$52,315	\$74,939

Date	Description		Total Company	Other Segment	Medicare Segment	Total Medicare
2002	Contributions		\$1,731,344	\$1,731,344		
	Discount for Interest		(\$140,996)	(\$140,996)		
January 1, 2002	Present Value Contributions		\$1,590,348	\$1,590,348		
	Prepayment Credit Applied		\$0	\$0		
	Present Value of Funding		\$1,590,348	\$1,590,348		
January 1, 2002	CAS Funding Target		\$1,588,389	\$1,588,389		
	Percentage Funded			100.00%		
	Funded PRB Cost			\$1,588,389		
	Unallowable Interest			\$0		
	Allowable Interest			\$101,260		
2002	CY Allocable PRB Cost			\$1,689,649		
	Headcount Percentage			96.17%	3.83%	
2002	CY Allocable PRB Cost			\$1,624,935	\$64,714	
	Medicare LOB* Percentage			1.44%	98.11%	
2002	CY Allowable PRB Costs			\$23,399	\$63,491	\$86,890
2002	FY Allowable PRB Costs	13/		\$23,205	\$60,697	\$83,902

Date	Description	Total Company	Other Segment	Medicare Segment	Total Medicare
2003	Contributions	\$2,583,991	\$2,583,991		
	Discount for Interest	(\$188,960)	(\$188,960)		
January 1, 2003	Present Value Contributions	\$2,395,031	\$2,395,031		
	Prepayment Credit Applied 14/	\$2,136	\$2,136		
	Present Value of Funding	\$2,397,167	\$2,397,167		
January 1, 2003	CAS Funding Target	\$2,381,737	\$2,381,737		
	Percentage Funded		100.00%		
	Funded PRB Cost		\$2,381,737		
	Unallowable Interest		\$0		
	Allowable Interest		\$143,400		
2003	CY Allocable PRB Cost		\$2,525,137		
	Headcount Percentage		95.42%	4.58%	
2003	CY Allocable PRB Cost		\$2,409,486	\$115,651	
	Medicare LOB* Percentage		1.17%	91.55%	
2003	CY Allowable PRB Costs		\$28,191	\$105,878	\$134,069
2003	FY Allowable PRB Costs		\$26,993	\$95,281	\$122,274

Date	Description	Total Company	Other Segment	Medicare Segment	Total Medicare
2004	Contributions	\$1,796,344	\$1,796,344		
	Discount for Interest	(\$140,348)	(\$140,348)		
January 1, 2004	Present Value Contributions	\$1,655,996	\$1,655,996		
	Prepayment Credit Applied	\$16,742	\$16,742		
	Present Value of Funding	\$1,672,738	\$1,672,738		
January 1, 2004	CAS Funding Target	\$2,272,863	\$2,272,863		
	Percentage Funded		73.60%		
	Funded PRB Cost		\$1,672,827		
	Unallowable Interest		\$0		
	Allowable Interest		\$100,718		
2004	CY Allocable PRB Cost		\$1,773,545		
	CY Allocable Pay-As-You-Go Cost 15/		\$51,262		
	Total CY Allocable PRB Cost		\$1,824,807		
	Headcount Percentage		95.33%	4.67%	
2004	CY Allocable PRB Cost		\$1,739,589	\$85,218	
	Medicare LOB* Percentage		1.04%	93.95%	
2004	CY Allowable PRB Costs		\$18,092	\$80,062	\$98,154
2004	FY Allowable PRB Costs		\$20,617	\$86,516	\$107,133

Date	Description	Total Company	Other Segment	Medicare Segment	Total Medicare
2005	Contributions	\$2,786,624	\$2,786,624		
	Discount for Interest	(\$204,724)	(\$204,724)		
January 1, 2005	Present Value Contributions	\$2,581,900	\$2,581,900		
	Prepayment Credit Applied	\$0	\$0		
	Present Value of Funding	\$2,581,900	\$2,581,900		
January 1, 2005	CAS Funding Target	\$2,546,614	\$2,546,614		
	Percentage Funded		100.00%		
	Funded PRB Cost		\$2,546,614		
	Unallowable Interest	16/	(\$34,667)		
	Allowable Interest		\$142,344		
2005	CY Allocable PRB Cost		\$2,654,291		
	CY Allocable Pay-As-You-Go Cost		\$63,876		
	Total CY Allocable PRB Cost		\$2,718,167		
	Headcount Percentage		95.97%	4.03%	
2005	CY Allocable PRB Cost		\$2,608,625	\$109,542	
	Medicare LOB* Percentage		1.06%	93.13%	
2005	CY Allowable PRB Costs		\$27,651	\$102,016	\$129,667
2005	FY Allowable PRB Costs		\$25,261	\$96,528	\$121,789

Date	Description	Total Company	Other Segment	Medicare Segment	Total Medicare
2006	Contributions	\$3,653,712	\$3,653,712		
	Discount for Interest	(\$277,317)	(\$277,317)		
January 1, 2006	Present Value Contributions	\$3,376,395	\$3,376,395		
	Prepayment Credit Applied	\$38,109	\$38,109		
	Present Value of Funding	\$3,414,504	\$3,414,504		
January 1, 2006	CAS Funding Target	\$3,338,880	\$3,338,880		
	Percentage Funded		100.00%		
	Funded PRB Cost		\$3,338,880		
	Unallowable Interest		(\$33,159)		
	Allowable Interest		\$187,324		
2006	CY Allocable PRB Cost		\$3,493,045		
	CY Allocable Pay-As-You-Go Cost		\$65,659		
	Total CY Allocable PRB Cost		\$3,558,704		
	Headcount Percentage		96.15%	3.85%	
2006	CY Allocable PRB Cost		\$3,421,694	\$137,010	
	Medicare LOB* Percentage		1.04%	92.28%	
2006	CY Allowable PRB Costs		\$35,586	\$126,433	\$162,019
2006	FY Allowable PRB Costs		\$33,602	\$120,329	\$153,931

Date	Description	Total Company	Other Segment	Medicare Segment	Total Medicare
2007	Contributions	\$3,268,292	\$3,268,292		
	Discount for Interest	(\$240,111)	(\$240,111)		
January 1, 2007	Present Value Contributions	\$3,028,181	\$3,028,181		
	Prepayment Credit Applied	\$81,674	\$81,674		
	Present Value of Funding	\$3,109,855	\$3,109,855		
January 1, 2007	CAS Funding Target	\$2,967,255	\$2,967,255		
	Percentage Funded		100.00%		
	Funded PRB Cost		\$2,967,255		
	Unallowable Interest		(\$34,667)		
	Allowable Interest		\$166,180		
2007	CY Allocable PRB Cost		\$3,098,768		
	CY Allocable Pay-As-You-Go Cost		\$64,402		
	Total CY Allocable PRB Cost		\$3,163,170		
	Headcount Percentage		96.29%	3.71%	
2007	CY Allocable PRB Cost		\$3,045,816	\$117,354	
	Medicare LOB* Percentage		0.92%	82.49%	
2007	CY Allowable PRB Costs		\$28,022	\$96,805	\$124,827
2007	FY Allowable PRB Costs		\$29,913	\$104,212	\$134,125

Date	Description	Total Company	Other Segment	Medicare Segment	Total Medicare
2008	Contributions	\$2,111,248	\$2,111,248		
	Discount for Interest	(\$150,821)	(\$150,821)		
January 1, 2008	Present Value Contributions	\$1,960,427	\$1,960,427		
	Prepayment Credit Applied	\$154,009	\$154,009		
	Present Value of Funding	\$2,114,436	\$2,114,436		
January 1, 2008	CAS Funding Target	\$1,944,423	\$1,944,423		
	Percentage Funded		100.00%		
	Funded PRB Cost		\$1,944,423		
	Unallowable Interest		(\$37,681)		
	Allowable Interest		\$108,049		
2008	CY Allocable PRB Cost		\$2,014,791		
	CY Allocable Pay-As-You-Go Cost		\$78,683		
	Total CY Allocable PRB Cost		\$2,093,474		
	Headcount Percentage		96.84%	3.16%	
2008	CY Allocable PRB Cost		\$2,027,320	\$66,154	
	Medicare LOB* Percentage		0.82%	90.43%	
2008	CY Allowable PRB Costs		\$16,624	\$59,823	\$76,447
2008	FY Allowable PRB Costs		\$19,474	\$69,069	\$88,543

Date	Description	Total Company	Other Segment	Medicare Segment	Total Medicare
2009	Contributions	\$2,939,785	\$2,939,785		
	Discount for Interest	(\$209,988)	(\$209,988)		
January 1, 2009	Present Value Contributions	\$2,729,797	\$2,729,797		
	Prepayment Credit Applied	\$183,614	\$183,614		
	Present Value of Funding	\$2,913,411	\$2,913,411		
January 1, 2009	CAS Funding Target	\$2,698,099	\$2,698,099		
	Percentage Funded		100.00%		
	Funded PRB Cost		\$2,698,099		
	Unallowable Interest		(\$40,696)		
	Allowable Interest		\$150,586		
2009	CY Allocable PRB Cost		\$2,807,989		
	CY Allocable Pay-As-You-Go Cost		\$83,560		
	Total CY Allocable PRB Cost		\$2,891,549		
	Headcount Percentage		97.09%	2.91%	
2009	CY Allocable PRB Cost		\$2,807,405	\$84,144	
	Medicare LOB* Percentage		0.85%	90.21%	
2009	CY Allowable PRB Costs		\$23,863	\$75,906	\$99,769
2009	FY Allowable PRB Costs		\$22,053	\$71,885	\$93,938

Date	Description	Total Company	Other Segment	Medicare Segment	Total Medicare
2010	Contributions	\$2,911,415	\$2,911,415		
	Discount for Interest	(\$194,184)	(\$194,184)		
January 1, 2010	Present Value Contributions	\$2,717,231	\$2,717,231		
	Prepayment Credit Applied	\$232,537	\$232,537		
	Present Value of Funding	\$2,949,768	\$2,949,768		
January 1, 2010	CAS Funding Target	\$2,671,106	\$2,671,106		
	Percentage Funded		100.00%		
	Funded PRB Cost		\$2,671,106		
	Unallowable Interest		(\$37,857)		
	Allowable Interest		\$139,891		
2010	CY Allocable PRB Cost		\$2,773,140		
	CY Allocable Pay-As-You-Go Cost		(\$12,952)		
	Total CY Allocable PRB Cost		\$2,760,188		
	Headcount Percentage		97.48%	2.52%	
2010	CY Allocable PRB Cost		\$2,690,631	\$69,557	
	Medicare LOB* Percentage		0.85%	91.29%	
2010	CY Allowable PRB Costs		\$22,870	\$63,499	\$86,369
2010	FY Allowable PRB Costs		\$23,118	\$66,601	\$89,719

* Line of business.

ENDNOTES

- 1/ We calculated Total Company contributions by taking the contribution amounts from the PRB actuarial valuation reports plus any direct benefit payments that were not reimbursed by the VEBA trust, as provided by the Association. Such contributions can be used to satisfy the funding requirement of FAR 31.205-6(o)(2)(iii). The contributions included deposits made during the plan year (PY) and the discounted value of accrued contributions, if any, deposited after the end of the PY but within the time allowed for filing tax returns.
- 2/ 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 and actual contribution amounts. Interest is determined using the expected long-term rate of return assumption as reported in the PRB actuarial valuation report.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the calendar year (CY).
- 4/ The present value of funding represents the present value of contributions plus prepayment credits (see endnote 14) plus unreimbursed direct benefit payments made to participants covered under the VEBA trust and included in the accrued PRB costs. This is the amount of funding that is available to cover the CAS funding target measured at the first day of the CY.
- 5/ The CAS funding target is based on the assignable PRB costs computed during our review. The CAS funding target must be funded by accumulated prepayment credits, current year contributions, or direct benefit payments to satisfy the funding requirements contained in the FAR.
- 6/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the CY. Because any funding in excess of the CAS funding target is accounted for as a prepayment, 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 costs funded has been rounded to four decimal places.
- 7/ We computed the funded PRB cost as the CAS funding target multiplied by the percent funded.
- 8/ We assumed that interest on the funded PRB cost 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(o)(4), which provides that interest costs are unallowable if caused by a delay in funding beyond 30 days after the end of each quarter to which they are assigned.
- 9/ The CY allocable PRB cost is the funded PRB cost discounted to the beginning of the PY plus allowable accrued interest attributable to funding which occurred after the first day of the PY.
- 10/ We allocated the PRB costs to the Medicare and Other segments by the total number of participants in the PRB plan who were 40 years old or older. We determined the number of participants who were in the Medicare segment and Other segment and used those percentages to allocate costs to the Medicare and Other segments.
- 11/ We determined the Medicare LOB percentages based on salary information provided by the Association.
- 12/ We computed the CY allowable PRB costs as the CY allocable PRB cost multiplied by the Medicare LOB percentage.
- 13/ We converted the CY allowable PRB cost to an FY basis (October 1 through September 30). We calculated the FY allowable PRB costs as 1/4 of the prior year's costs plus 3/4 of the current year's costs.
- 14/ 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 PRB costs.
- 15/ The CY allocable pay-as-you-go PRB cost is the amount of direct benefits paid for key employees (that were not funded or reimbursed from the VEBA trust) that may be allocated for contract cost purposes.
- 16/ The unallowable interest represents the interest cost attributable to the unallowable unfunded costs that was included in the current-period PRB cost, discounted to the beginning of the year at the long-term interest rate.

APPENDIX D: AUDITEE COMMENTS



**Blue Cross Blue Shield
Association**

An Association of Independent
Blue Cross and Blue Shield Plans

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May 15, 2014

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

RE: Report Number A-07-14-00434

Dear Mr. Cogley:

In response to your letter dated April 21, 2014, 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 Medicare Postretirement Benefits Costs for Fiscal Years 2002 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 the corrective action:

- As an alternative to the recommendation to revise FACPs for FYs 2002 through 2010, we will explore the possibility of following the accepted procedure used to settle the Medicare Pension audit (which also resulted in an amount due to BCBSA). We will work with Gretchen Meyer of Centers of Medicare and Medicaid Services to claim a refund of \$14,229 due to the Association.
- Enhance accounting procedures to claim future allowable Medicare Postretirement Benefits costs.

Sincerely,

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
Jay Pinkerton, Aon Hewitt
Jenene Tambke, DHHS OIG
Jeffrey Wilson, DHHS OIG