

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF  
PENSION COSTS  
CLAIMED FOR MEDICARE  
REIMBURSEMENT BY  
BLUE CROSS AND BLUE SHIELD  
OF NEW MEXICO**



**JUNE GIBBS BROWN**  
Inspector General

NOVEMBER 1996  
CIN: A-07-96-01196



Region VII  
601 East 12th Street  
Room 284A  
Kansas City, Missouri 64106

CIN: A-07-96-01196

November 8, 1996

Ms. Pat Miller  
Manager of Cost Accounting  
Rocky Mountain Health Care Corporation  
700 East Broadway  
Denver, Colorado 80273

Dear Ms. Miller:

This report provides you with the results of an Office of Inspector General (OIG), Office of Audit Services (OAS) review titled *Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross and Blue Shield of New Mexico*. The purpose of our review was to determine the allowability of pension costs claimed for Medicare reimbursement for Fiscal Years 1986 through 1988.

We determined that the pension costs Blue Cross and Blue Shield of New Mexico (New Mexico) claimed for Medicare reimbursement for 1986 through 1988 were materially correct. Therefore, we make no recommendations.

## INTRODUCTION

### BACKGROUND

New Mexico had administered Medicare Part A operations under cost reimbursement contracts since 1966. Medicare contractors must follow cost reimbursement principles contained in the Cost Accounting Standards (CAS), the Federal Acquisition Regulations (FAR), and their Medicare contracts.

Since its inception, Medicare has reimbursed a portion of annual contributions paid into contractors' pension plans. To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with CAS 412 and 413, and (2) funded as specified by part 31 of the FAR.

The CAS deals with stability between contract periods and requires consistent measurement and assignment of pension costs to contract periods. The CAS costs that are allowable as charges to Medicare include (1) the normal cost and (2) the amortization of the unfunded actuarial liability.

The FAR addresses allowability of pension costs and requires that pension costs assigned to contract periods be substantiated by funding.

In addition to CAS and FAR requirements, the Health Care Financing Administration (HCFA), starting with Fiscal Year 1988, incorporated specific segmentation language into Medicare contracts. To implement segmentation requirements, contracts stipulated procedures for identifying the Medicare segment and assigning pension assets to the segment.

Furthermore, the contracts required a separate calculation of pension costs for a segment if such a calculation (versus an allocation) materially affected pension costs charged to Medicare. Under a separate calculation method, a contractor identifies separately the normal costs and amortization for the Medicare segment. Under an allocation method, a contractor determines total plan CAS costs and allocates a share to Medicare. This allocation includes direct and indirect costs.

## **SCOPE**

We made our examination in accordance with generally accepted government auditing standards. This review addresses only one expense category, pension costs. Our objective was to identify allowable CAS pension costs for Fiscal Years 1986 through 1988. Achieving the objective did not require a review of New Mexico's internal control structure.

This review was done in conjunction with our audits of pension segmentation (CIN: A-07-96-01195) and unfunded pension costs (CIN: A-07-97-01199). The information obtained and reviewed during those audits was also used in performing this review.

In our audit of unfunded pension costs, we identified New Mexico's CAS pension costs for the total company and for the Medicare segment. We also determined the extent to which New Mexico funded CAS pension costs with contributions to the pension trust fund. Using this information, we calculated CAS pension costs that are allowable for Medicare reimbursement for Fiscal Years 1986 through 1988.

The HCFA Office of the Actuary developed the methodology used for computing allowable CAS pension costs based on New Mexico's historical practices.

We performed site work during June 1996 at New Mexico's corporate offices in Denver, Colorado. Subsequently, we performed audit work in the OIG, OAS, Jefferson City, Missouri Field Office.

## RESULTS OF REVIEW

For Fiscal Years 1986 through 1988, New Mexico claimed pension costs of \$75,730 for Medicare reimbursement. We determined that the costs claimed were materially correct and were allowable for Medicare reimbursement.

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In accordance with the principles of the Freedom of Information Act, (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5).

If you have any questions or wish to discuss the report in further detail, please contact Mr. Jim Aasmundstad, OIG, OAS, at (816) 426-3591. Please refer to the Common Identification Number (CIN) in all correspondence about this report.

Sincerely,



Barbara A. Bennett  
Regional Inspector General  
for Audit Services, Region VII