

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS
CLAIMED FOR MEDICARE
REIMBURSEMENT BY
ADMINASTAR FEDERAL**



**JUNE GIBBS BROWN
Inspector General**

**OCTOBER 1998
A-07-98-01225**



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

CIN: A-07-98-01225

OCT 15 1998

Mr. Robert B. Fleming
Vice President and Chief Financial Officer
AdminaStar Federal
9901 Linn Station Road, Suite 400
Louisville, Kentucky 40223-3824

Dear Mr. Fleming:

This report provides 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 AdminaStar Federal*. The purpose of our review was to determine the allowability of Fiscal Years 1987 through 1995 pension costs claimed for Medicare reimbursement.

For 1987 through 1995, we determined that AdminaStar Federal (Kentucky) claimed pension costs of \$736,134 that are unallowable for Medicare reimbursement. During this period, the allowable Medicare pension costs were \$1,576,657. However, Kentucky claimed pension costs of \$2,312,791 for Medicare reimbursement. As a result, Kentucky claimed \$736,134 in pension costs that are not allowable. The over claim occurred because the pension costs exceeded the funded portion of the Cost Accounting Standards (CAS) computed pension costs.

We are recommending that Kentucky revise its Final Administrative Cost Proposals (FACPs) to eliminate the unallowable pension costs. The auditee did not provide a response to our report.

INTRODUCTION

BACKGROUND

Kentucky has administered Medicare Part A operations, under cost reimbursement contracts, since the start of the Medicare program, and Medicare Part B since 1982. Contractors were to follow cost reimbursement principles contained in the Cost Accounting Standards (CAS), the Federal Acquisition Regulations (FAR), which superseded the Federal Procurement Regulations, and their Medicare contracts.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.

OBJECTIVE, SCOPE, AND METHODOLOGY

We made our examination in accordance with generally accepted government auditing standards, except that we have not reported the auditee's views concerning our findings, conclusions, and recommendations. We repeatedly solicited, but did not receive, Kentucky's comments on our report. Kentucky's failure to respond to our report does not change the results of the audit.

This audit addresses only one expense category, pension costs. Our objective was to identify allowable CAS pension costs for Fiscal Years (FYs) 1987 through 1995. Achieving our objective did not require that we review Kentucky's internal control structure.

This review was done in conjunction with our audit of Kentucky's pension segmentation (CIN: A-07-97-01223) and unfunded pension costs (CIN: A-07-98-01224). The information obtained and reviewed during those audits were also used in performing this review.

We identified Kentucky's CAS pension costs for the total company and for the Medicare segment. We also determined the extent to which Kentucky funded CAS pension costs with contributions to the pension trust fund. Appendix A contains the details on the pension costs and contributions. Using this information, we calculated CAS pension costs that are unallowable for Medicare reimbursement for FYs 1987 through 1995.

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

We performed site work during August and September 1997 at Kentucky's corporate offices in Louisville, Kentucky. Subsequently, we performed audit work in our Jefferson City, Missouri office.

FINDING AND RECOMMENDATION

For FYs 1987 through 1995, Kentucky both under and over claimed pension costs resulting in \$736,134 in pension costs that were not allowable for Medicare reimbursement. Kentucky should make adjustments to its FACPs as summarized in the following table and discussed in the following paragraphs. See Appendix A for details on the calculations.

<u>Fiscal Year</u>	<u>Costs Claimed</u>	<u>Allowable CAS Costs</u>	<u>Variance</u>
1987	\$463,737	\$804,599	(\$340,862)
1988	\$325,914	\$0	\$325,914
1989	\$465,715	\$0	\$465,715
1990	\$0	\$0	\$0
1991	\$0	\$0	\$0
1992	\$0	\$0	\$0
1993	\$0	\$0	\$0
1994	\$0	\$772,058	(\$772,058)
1995	\$1,057,425	\$0	\$1,057,425
Total	<u>\$2,312,791</u>	<u>\$1,576,657</u>	<u>\$736,134</u>

We calculated the allowable CAS pension costs for the Medicare segment and for indirect Medicare operations. Our calculations were based on separately computed CAS pension costs for the Medicare segment and total company CAS pension costs.

For FYs 1987 and 1994, Kentucky did not claim \$1,112,920 for pension costs that were allowable for Medicare reimbursement. The pension costs were allowable because the funded portion of CAS computed costs exceeded the costs claimed. Additionally, for FYs 1988, 1989, and 1995 Kentucky claimed pension costs of \$1,849,054 that were not allowable for Medicare reimbursement. The costs were unallowable because the costs claimed exceeded the funded portion of CAS computed costs. Both the under claim and the over claim were due to differences between the separately computed CAS pension costs derived by audit and the funded portion of the computed CAS pension costs.

For FYs 1987 through 1995, Kentucky claimed pension costs of \$2,312,791 for Medicare reimbursement. However, the allowable CAS pension costs were \$1,576,657. As a result, Kentucky claimed pension costs of \$736,134 that are in excess of the allowable CAS pension costs.

Recommendation

We recommend that Kentucky:

- ❶ Revise its FACPs for Fiscal Years 1987 through 1995 to eliminate \$736,134 for pension costs in excess of the allowable CAS pension costs.

Auditee Response

As previously stated, Kentucky did not provide a response to our report.

INSTRUCTIONS FOR AUDITEE RESPONSE

Final determinations as to actions to be taken on all matters reported will be made by the HHS action official identified below. We request that you respond to the recommendation in this report within 30 days from the date of this report to the HHS action official, presenting any comments or additional information that you believe may have a bearing on final determination.

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).

Sincerely,



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

HHS Action Official:

Ms. Rose Crum-Johnson
Regional Administrator, Region IV
Health Care Financing Administration
Atlanta Federal Center
61 Forsyth Street SW, Suite 4T20
Atlanta, Georgia 30303-8909

Enclosure

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STATEMENT OF ALLOWABLE CAS PENSION COSTS FOR MEDICARE PART A
FOR FISCAL YEARS 1987 THROUGH 1995

Description		Total Company	Other Segment	Medicare A	Medicare B
1987	Plan Year Contributions	<u>1/</u> \$2,937,403	\$2,472,299	\$153,723	\$311,381
	Discount for Interest	<u>2/</u> (\$164,756)	(\$138,670)	(\$8,622)	(\$17,464)
	Present Value of Funding	<u>3/</u> \$2,772,647	\$2,333,629	\$145,101	\$293,917
	CAS Pension Costs	<u>4/</u> \$2,862,942	\$2,409,628	\$149,826	\$303,488
	Percentage of Costs Funded	<u>5/</u>	96.85%	96.85%	96.85%
	Funded CAS Pension Costs	<u>6/</u>	\$2,333,629	\$145,101	\$293,917
	Allowable Interest	<u>7/</u>	\$132,239	\$8,222	\$16,655
	Allocable Pension Cost	<u>8/</u>	\$2,465,868	\$153,323	\$310,572
	Medicare Part A LOB Percentage	<u>9/</u>	8.73%	94.89%	3.45%
	Medicare Part A Pension Costs	<u>10/</u> \$371,473	\$215,270	\$145,488	\$10,715
1988	Plan Year Contributions	\$0	\$0	\$0	\$0
	Discount for Interest	\$0	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0	\$0
	CAS Pension Costs	\$3,868,600	\$3,306,344	\$208,005	\$354,251
	Percentage of Costs Funded		0.00%	0.00%	0.00%
	Funded CAS Pension Costs		\$0	\$0	\$0
	Allowable Interest		\$0	\$0	\$0
	Allocable Pension Cost		\$0	\$0	\$0

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STATEMENT OF ALLOWABLE CAS PENSION COSTS FOR MEDICARE PART A
FOR FISCAL YEARS 1987 THROUGH 1995

Description	Total Company	Other Segment	Medicare A	Medicare B
1989 Plan Year Contributions	\$0	\$0	\$0	\$0
Discount for Interest	\$0	\$0	\$0	\$0
Present Value of Funding	\$0	\$0	\$0	\$0
CAS Pension Costs	\$2,926,744	\$2,466,681	\$143,152	\$316,911
Percentage of Costs Funded		0.00%	0.00%	0.00%
Funded CAS Pension Costs		\$0	\$0	\$0
Allowable Interest		\$0	\$0	\$0
Allocable Pension Cost		\$0	\$0	\$0
1990 Plan Year Contributions	\$0	\$0	\$0	\$0
Discount for Interest	\$0	\$0	\$0	\$0
Present Value of Funding	\$0	\$0	\$0	\$0
CAS Pension Costs	\$2,410,832	\$2,025,626	\$115,382	\$269,824
Percentage of Costs Funded		0.00%	0.00%	0.00%
Funded CAS Pension Costs		\$0	\$0	\$0
Allowable Interest		\$0	\$0	\$0
Allocable Pension Cost		\$0	\$0	\$0

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FOR FISCAL YEARS 1987 THROUGH 1995

Description	Total Company	Other Segment	Medicare A	Medicare B
1991 Plan Year Contributions	\$0	\$0	\$0	\$0
Discount for Interest	\$0	\$0	\$0	\$0
Present Value of Funding	\$0	\$0	\$0	\$0
CAS Pension Costs	\$2,618,189	\$2,125,975	\$137,049	\$355,165
Percentage of Costs Funded		0.00%	0.00%	0.00%
Funded CAS Pension Costs		\$0	\$0	\$0
Allowable Interest		\$0	\$0	\$0
Allocable Pension Cost		\$0	\$0	\$0
1992 Plan Year Contributions	\$0	\$0	\$0	\$0
Discount for Interest	\$0	\$0	\$0	\$0
Present Value of Funding	\$0	\$0	\$0	\$0
CAS Pension Costs	\$2,578,823	\$2,121,995	\$60,783	\$396,045
Percentage of Costs Funded		0.00%	0.00%	0.00%
Funded CAS Pension Costs		\$0	\$0	\$0
Allowable Interest		\$0	\$0	\$0
Allocable Pension Cost		\$0	\$0	\$0

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FOR FISCAL YEARS 1987 THROUGH 1995

Description		Total Company	Other Segment	Medicare A	Medicare B
1993	Plan Year Contributions	\$0	\$0	\$0	\$0
	Discount for Interest	\$0	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0	\$0
	CAS Pension Costs	\$2,985,144	\$2,465,494	\$71,762	\$447,888
	Percentage of Costs Funded		0.00%	0.00%	0.00%
	Funded CAS Pension Costs		\$0	\$0	\$0
	Allowable Interest		\$0	\$0	\$0
	Allocable Pension Cost		\$0	\$0	\$0
1994	Plan Year Contributions	\$3,704,137	\$2,979,077	\$157,226	\$567,834
	Discount for Interest	(\$262,363)	(\$211,008)	(\$11,136)	(\$40,219)
	Present Value of Funding	\$3,441,774	\$2,768,069	\$146,090	\$527,615
	CAS Pension Costs	\$3,658,762	\$2,942,584	\$155,300	\$560,878
	Percentage of Costs Funded		94.07%	94.07%	94.07%
	Funded CAS Pension Costs		\$2,768,069	\$146,090	\$527,615
	Allowable Interest		\$156,857	\$8,278	\$29,898
	Allocable Pension Cost		\$2,924,926	\$154,368	\$557,513
	Medicare Part A LOB Percentage		0.00%	80.40%	17.77%
	Medicare Part A Pension Costs	\$223,182	\$0	\$124,112	\$99,070

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FOR FISCAL YEARS 1987 THROUGH 1995

Description	Total Company	Other Segment	Medicare A	Medicare B
1995 Plan Year Contributions	\$0	\$0	\$0	\$0
Discount for Interest	\$0	\$0	\$0	\$0
Present Value of Funding	\$0	\$0	\$0	\$0
CAS Pension Costs	(\$305,255)	(\$296,028)	(\$14,071)	\$4,844
Percentage of Costs Funded		0.00%	0.00%	0.00%
Funded CAS Pension Costs		\$0	\$0	\$0
Allowable Interest		\$0	\$0	\$0
Allocable Pension Cost		\$0	\$0	\$0

FOOTNOTES

1/ We obtained total company contribution amounts and dates of deposit from IRS 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.

2/ We subtracted interest that is included in the contributions deposited after October 1 of each year to discount the contributions back to their beginning of year value. For purposes of this appendix, we computed interest as the difference between the present value of contributions, at the valuation rates, and the actual contribution amounts.

3/ The present value of funding is the value of contributions discounted from the date of deposit back to October 1. 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. This is the amount of funding that is available to cover the CAS funding target measured at October 1 of each year.

4/ The CAS pension costs, computed at October 1 of each year, provides the basis to compute

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FOR FISCAL YEARS 1987 THROUGH 1995

allowable pension costs that can be charged to Medicare. See our audit of Kentucky's unfunded Medicare segment for more details concerning how the CAS costs were computed.

5/ The percentage of costs funded is a measure of the portion of the CAS pension cost that was funded during the plan year. Since any funding in excess of the CAS pension cost is considered premature funding in accordance with CAS 412.50(a)(7), we determined that the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS pension cost. For purpose of the illustration the percentage of funding has been rounded to four decimals.

6/ We computed the funded CAS pension cost as the CAS pension cost multiplied by the percent funded.

7/ We assumed interest on the funded CAS pension cost is to accrue in the same proportion as the interest on contributions bears to the present value of funding. However, we limited interest by FAR 31.205-6(j)(3)(iii) which does not permit the allowable interest to exceed the interest that would accrue if the CAS pension cost was funded in four equal installments deposited within 30 days of the end of each quarter.

8/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.

9/ We calculated allowable pension costs of the Medicare and other segment's based on the Medicare Part A line of business (LOB) percentage of each segment. We obtained the percentages from documents provided by Kentucky.

10/ The Medicare pension costs are the amounts of CAS pension costs which may be claimed for Medicare Part A reimbursement for the segment and indirect Medicare Part A operations.

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STATEMENT OF ALLOWABLE CAS PENSION COSTS FOR MEDICARE PART B
FOR FISCAL YEARS 1987 THROUGH 1995

Description		Total Company	Other Segment	Medicare A	Medicare B
1987	Plan Year Contributions	<u>1/</u> \$2,937,403	\$2,472,299	\$153,723	\$311,381
	Discount for Interest	<u>2/</u> (\$164,756)	(\$138,670)	(\$8,622)	(\$17,464)
	Present Value of Funding	<u>3/</u> \$2,772,647	\$2,333,629	\$145,101	\$293,917
	CAS Pension Costs	<u>4/</u> \$2,862,942	\$2,409,628	\$149,826	\$303,488
	Percentage of Costs Funded	<u>5/</u>	96.85%	96.85%	96.85%
	Funded CAS Pension Costs	<u>6/</u>	\$2,333,629	\$145,101	\$293,917
	Allowable Interest	<u>7/</u>	\$132,239	\$8,222	\$16,655
	Allocable Pension Cost	<u>8/</u>	\$2,465,868	\$153,323	\$310,572
	Medicare Part B LOB Percentage	<u>9/</u>	4.97%	0.00%	100.00%
	Medicare Part B Pension Costs	<u>10/</u> \$433,126	\$122,554	\$0	\$310,572
1988	Plan Year Contributions	\$0	\$0	\$0	\$0
	Discount for Interest	\$0	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0	\$0
	CAS Pension Costs	\$3,868,600	\$3,306,344	\$208,005	\$354,251
	Percentage of Costs Funded		0.00%	0.00%	0.00%
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Discount for Interest	\$0	\$0	\$0	\$0
Present Value of Funding	\$0	\$0	\$0	\$0
CAS Pension Costs	\$2,926,744	\$2,466,681	\$143,152	\$316,911
Percentage of Costs Funded		0.00%	0.00%	0.00%
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Allocable Pension Cost		\$0	\$0	\$0
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Discount for Interest	\$0	\$0	\$0	\$0
Present Value of Funding	\$0	\$0	\$0	\$0
CAS Pension Costs	\$2,410,832	\$2,025,626	\$115,382	\$269,824
Percentage of Costs Funded		0.00%	0.00%	0.00%
Funded CAS Pension Costs		\$0	\$0	\$0
Allowable Interest		\$0	\$0	\$0
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Discount for Interest	\$0	\$0	\$0	\$0
Present Value of Funding	\$0	\$0	\$0	\$0
CAS Pension Costs	\$2,618,189	\$2,125,975	\$137,049	\$355,165
Percentage of Costs Funded		0.00%	0.00%	0.00%
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Allocable Pension Cost		\$0	\$0	\$0
1992 Plan Year Contributions	\$0	\$0	\$0	\$0
Discount for Interest	\$0	\$0	\$0	\$0
Present Value of Funding	\$0	\$0	\$0	\$0
CAS Pension Costs	\$2,578,823	\$2,121,995	\$60,783	\$396,045
Percentage of Costs Funded		0.00%	0.00%	0.00%
Funded CAS Pension Costs		\$0	\$0	\$0
Allowable Interest		\$0	\$0	\$0
Allocable Pension Cost		\$0	\$0	\$0

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FOR FISCAL YEARS 1987 THROUGH 1995

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1993 Plan Year Contributions	\$0	\$0	\$0	\$0
Discount for Interest	\$0	\$0	\$0	\$0
Present Value of Funding	\$0	\$0	\$0	\$0
CAS Pension Costs	\$2,985,144	\$2,465,494	\$71,762	\$447,888
Percentage of Costs Funded		0.00%	0.00%	0.00%
Funded CAS Pension Costs		\$0	\$0	\$0
Allowable Interest		\$0	\$0	\$0
Allocable Pension Cost		\$0	\$0	\$0
1994 Plan Year Contributions	\$3,704,137	\$2,979,077	\$157,226	\$567,834
Discount for Interest	(\$262,363)	(\$211,008)	(\$11,136)	(\$40,219)
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CAS Pension Costs	\$3,658,762	\$2,942,584	\$155,300	\$560,878
Percentage of Costs Funded		94.07%	94.07%	94.07%
Funded CAS Pension Costs		\$2,768,069	\$146,090	\$527,615
Allowable Interest		\$156,857	\$8,278	\$29,898
Allocable Pension Cost		\$2,924,926	\$154,368	\$557,513
Medicare Part B LOB Percentage		0.00%	2.17%	97.85%
Medicare Part B Pension Costs	\$548,876	\$0	\$3,350	\$545,526

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Description	Total Company	Other Segment	Medicare A	Medicare B
1995 Plan Year Contributions	\$0	\$0	\$0	\$0
Discount for Interest	\$0	\$0	\$0	\$0
Present Value of Funding	\$0	\$0	\$0	\$0
CAS Pension Costs	(\$305,255)	(\$296,028)	(\$14,071)	\$4,844
Percentage of Costs Funded		0.00%	0.00%	0.00%
Funded CAS Pension Costs		\$0	\$0	\$0
Allowable Interest		\$0	\$0	\$0
Allocable Pension Cost		\$0	\$0	\$0

FOOTNOTES

1/ We obtained total company contribution amounts and dates of deposit from IRS 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.

2/ We subtracted interest that was included in the contributions deposited after October 1 of each year to discount the contributions back to their beginning of year value. For purposes of this appendix, we computed interest as the difference between the present value of contributions, at the valuation rates, and the actual contribution amounts.

3/ The present value of funding was the value of contributions discounted from the date of deposit back to October 1. 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. This is the amount of funding that is available to cover the CAS funding target measured at October 1 of each year.

4/ The CAS pension costs, computed at October 1 of each year, provided the basis to compute allowable pension costs that would be charged to Medicare. See our audit of Kentucky's unfunded Medicare segment for more details concerning how the CAS costs were computed.

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FOR FISCAL YEARS 1987 THROUGH 1995

5/ The percentage of costs funded is a measure of the portion of the CAS pension cost that was funded during the plan year. Since any funding in excess of the CAS pension cost is considered premature funding in accordance with CAS 412.50(a)(7), we determined that the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS pension cost. For purpose of the illustration the percentage of funding has been rounded to four decimals.

6/ We computed the funded CAS pension cost as the CAS pension cost multiplied by the percent funded.

7/ We assumed interest on the funded CAS pension cost is to accrue in the same proportion as the interest on contributions bears to the present value of funding. However, we limited interest by FAR 31.205-6(j)(3)(iii) which does not permit the allowable interest to exceed the interest that would accrue if the CAS pension cost was funded in four equal installments deposited within 30 days of the end of each quarter.

8/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.

9/ We calculated allowable pension costs of the Medicare and other segment's based on the Medicare Part B line of business (LOB) percentage of each segment. We obtained the percentages from documents provided by Kentucky.

10/ The Medicare pension costs are the amounts of CAS pension costs which may be claimed for Medicare Part B reimbursement for the segment and indirect Medicare Part A operations.