

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**BLUE CROSS BLUE SHIELD
ASSOCIATION DID NOT CLAIM
SOME ALLOWABLE MEDICARE
PENSION COSTS FOR FISCAL YEARS
2011 THROUGH 2015**

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



Gloria L. Jarmon
Deputy Inspector General
for Audit Services

March 2017
A-07-17-00497

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 8M 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

Blue Cross Blue Shield Association did not claim allowable pension costs of \$362,000 for Medicare reimbursement for fiscal years 2011 through 2015.

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their pension costs, which are funded by the annual contributions that these contractors make to their pension plans. The amount of pension 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, Cost Accounting Standards (CAS), and the Medicare contracts. Previous Office of Inspector General (OIG) reviews found that Medicare contractors have not always complied with Federal requirements when claiming pension costs for Medicare reimbursement.

At CMS's request, the OIG, Office of Audit Services, Region VII pension audit team reviews the cost elements related to qualified defined-benefit, nonqualified defined-benefit, postretirement benefit, and any other pension-related cost elements claimed by Medicare fiscal intermediaries contractors and Medicare administrative contractors through Final Administrative Cost Proposals (FACPs) and/or Incurred Cost Proposals.

The objective of this review was to determine whether the fiscal years (FYs) 2011 through 2015 pension costs that Blue Cross Blue Shield Association (BCBS Association) claimed for Medicare reimbursement under its fiscal intermediary contracts, and reported on its FACPs, were allowable and correctly claimed.

BACKGROUND

During our audit period, BCBS Association administered Medicare Part A operations under cost reimbursement contracts with CMS until its contractual relationship ended on September 30, 2015.

WHAT WE FOUND

We verified that BCBS Association claimed no pension costs for Medicare reimbursement for FYs 2011 through 2015; however, the allowable CAS-based pension costs during this period were \$361,780. Thus, BCBS Association did not claim \$361,780 of allowable Medicare pension costs on its FACPs for FYs 2011 through 2015. Specifically, BCBS Association did not request reimbursement for its "Other" segment CAS pension costs.

In addition, BCBS Association incorrectly computed its accrued liabilities and normal costs during calendar year (CY) 2015 because it did not comply with CAS and its Medicare contracts when computing those liabilities and normal costs. BCBS Association is required to calculate its actuarial accrued liabilities and normal costs in accordance with CAS 412 and 413 and the

Medicare contracts. The Medicare contracts require that any change in accounting practice for such pension and/or postretirement benefit costs be submitted to CMS in advance for approval. Beginning on January 1, 2015, BCBS Association changed its cost accounting methodology but did not seek approval in advance from CMS to do so. Therefore, the cost accounting methodology that BCBS Association used to value its CY 2015 actuarial accrued liabilities and normal costs did not comply with CAS and the Medicare contracts.

Because BCBS Association's contractual relationship with CMS has ended, it is not appropriate for this report to make a procedural recommendation involving CMS approval of future changes in cost accounting methodology.

WHAT WE RECOMMEND

We recommend that BCBS Association revise its FACP for FYs 2011 through 2015 to claim allowable Medicare pension costs of \$361,780.

AUDITEE COMMENTS

In written comments on our draft report, BCBS Association stated that it accepted our recommendation. BCBS Association also stated that it had no means to adjust the FACP for FYs 2011 through 2015, as the final FACP audits for these years have been conducted by the OIG and are now being closed. BCBS Association added that it understood that the Federal Government would present a global settlement, as a result of the Medicare contract termination, summarizing all Medicare pension segment audit recommendations relating to its contract with the U.S. Department of Health and Human Services, including the recommendation in this report.

TABLE OF CONTENTS

INTRODUCTION	1
Why We Did This Review	1
Objective	1
Background	1
Blue Cross Blue Shield Association.	1
Medicare Reimbursement of Pension Costs	1
How We Conducted This Review	2
FINDING	2
Claimed Pension Costs	2
Change in Cost Accounting Methodology.....	2
Allowable Pension Costs Not Claimed.....	3
RECOMMENDATION	4
AUDITEE COMMENTS.....	4
APPENDIXES	
A: Audit Scope and Methodology	5
B: Federal Requirements Related to Reimbursement of Pension Costs	7
C: Allowable Medicare Pension Costs for Blue Cross Blue Shield Association for Fiscal Years 2011 Through 2015	8
D: Auditee Comments.....	11

INTRODUCTION

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their pension costs, which are funded by the annual contributions that these contractors make to their pension plans. The amount of pension 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), Cost Accounting Standards (CAS), and the Medicare contracts. Previous Office of Inspector General (OIG) reviews found that Medicare contractors have not always complied with Federal requirements when claiming pension costs for Medicare reimbursement.

At CMS's request, the OIG, Office of Audit Services, Region VII pension audit team reviews the cost elements related to qualified defined-benefit, nonqualified defined-benefit, postretirement benefit, and any other pension-related cost elements claimed by Medicare fiscal intermediaries contractors and Medicare administrative contractors through Final Administrative Cost Proposals (FACPs) and/or Incurred Cost Proposals.

OBJECTIVE

Our objective was to determine whether the fiscal years (FYs) 2011 through 2015 pension costs that Blue Cross Blue Shield Association (BCBS Association) claimed for Medicare reimbursement under its fiscal intermediary contracts, and reported on its FACPs, were allowable and correctly claimed.

BACKGROUND

Blue Cross Blue Shield Association

During our audit period, BCBS Association administered Medicare Part A operations under cost reimbursement contracts with CMS until its contractual relationship ended on September 30, 2015.

Medicare Reimbursement of Pension Costs

CMS reimburses a portion of the Medicare contractors' annual pension costs, which are funded by contributions that these contractors make to their 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.

Beginning with 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.

HOW WE CONDUCTED THIS REVIEW

We verified that BCBS Association claimed no pension costs for Medicare reimbursement for FYs 2011 through 2015.

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

BCBS Association claimed no pension costs for Medicare reimbursement for FYs 2011 through 2015; however, the allowable CAS-based pension costs during this period were \$361,780. Thus, BCBS Association did not claim \$361,780 of allowable Medicare pension costs on its FACPs for FYs 2011 through 2015. Specifically, BCBS Association did not request reimbursement for its “Other” segment CAS pension costs.

In addition, BCBS Association incorrectly computed its accrued liabilities and normal costs during calendar year (CY) 2015 because it did not comply with CAS and its Medicare contracts when computing those liabilities and normal costs.

CLAIMED PENSION COSTS

BCBS Association reported Medicare pension costs of \$0 for Medicare reimbursement, under the provisions of its fiscal intermediary contracts, on its FACPs for FYs 2011 through 2015. 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. For details on the Federal requirements, see Appendix B.

CHANGE IN COST ACCOUNTING METHODOLOGY

BCBS Association is required to calculate its actuarial accrued liabilities and normal costs in accordance with CAS 412 and 413 and the Medicare contracts. The Medicare contracts require that any change in accounting practice for such pension and/or postretirement benefit costs be submitted to CMS in advance for approval.

BCBS Association incorrectly computed its accrued liabilities and normal costs during CY 2015 because it did not comply with CAS 412 and 413 and its Medicare contracts when computing those liabilities and normal costs. Beginning on January 1, 2015, BCBS Association changed its

cost accounting methodology but did not seek approval in advance from CMS to do so. Therefore, the cost accounting methodology that BCBS Association used to value its CY 2015 actuarial accrued liabilities and normal costs did not comply with CAS and the Medicare contracts. See additional details on the relevant Federal requirements in Appendix B.

The details on this change in cost accounting methodology and its implications are as follows. Effective January 1, 2015, BCBS Association changed its cost accounting methodology. Whereas it had previously used an expense load on normal costs, BCBS Association's new methodology now began incorporating expenses into the discount rate on participant liabilities. Before CY 2015, BCBS Association computed an expense load on plan normal costs equal to 0.25 percent of the market value of assets. Effective January 1, 2015, BCBS Association removed the expense load and replaced it by lowering the discount rate on plan liabilities by 25 basis points. Thus, BCBS Association decreased its discount rate from 7.5 percent to 7.25 percent and decreased its lump sum conversion rate from 4.5 percent to 4.25 percent. This alteration of the expense load constituted a change in cost accounting methodology and, as such and as specified in the Medicare contracts, required advance approval from CMS.

Absent such approval, BCBS Association's cost accounting methodology no longer complied with the CAS. Therefore, we requested that BCBS Association revise its CY 2015 actuarial accrued liabilities and normal costs using the CY 2014 assumptions (that is, the assumptions it had used before the change in cost accounting methodology). Using the revised actuarial accrued liabilities (which derived from the same assumptions used during CY 2014), we determined that the Total Company actuarial accrued liabilities were \$198,944,321, a decrease of \$15,150,942. The normal costs also decreased from \$4,393,506 to \$3,997,046. We based the results of our review on the revised actuarial accrued liabilities and normal costs.

Because BCBS Association's contractual relationship with CMS has ended, it is not appropriate for this report to make a procedural recommendation involving CMS approval of future changes in cost accounting methodology.

ALLOWABLE PENSION COSTS NOT CLAIMED

We determined that BCBS Association's allowable CAS-based pension costs for FYs 2011 through 2015 were \$361,780. Thus, BCBS Association did not claim \$361,780 of allowable Medicare pension costs on its FACP for FYs 2011 through 2015. This underclaim occurred because BCBS Association did not request reimbursement for its "Other" segment CAS pension costs.

The table on the following page shows the differences between the allowable CAS-based pension costs and the pension costs claimed on BCBS Association's FACP and reflected in its accounting documents. Appendix C contains additional details on allowable pension costs.

Table: Comparison of Allowable Pension Costs and Claimed Pension Costs

	<u>Medicare Pension Costs</u>		
Fiscal Year	Allowable Per Audit	Claimed by BCBS Association	Difference
2011	\$84,965	\$0	\$84,965
2012	76,822	0	76,822
2013	78,726	0	78,726
2014	68,216	0	68,216
2015	53,051	0	53,051
Total	\$361,780	\$0	\$361,780

RECOMMENDATION

We recommend that BCBS Association revise its FACP for FYs 2011 through 2015 to claim allowable Medicare pension costs of \$361,780.

AUDITEE COMMENTS

In written comments on our draft report, BCBS Association stated that it accepted our recommendation. BCBS Association also stated that it had no means to adjust the FACP for FYs 2011 through 2015, as the final FACP audits for these years have been conducted by the OIG and are now being closed. BCBS Association added that it understood that the Federal Government would present a global settlement, as a result of the Medicare contract termination, summarizing all Medicare pension segment audit recommendations relating to its contract with the U.S. Department of Health and Human Services, including the recommendation in this report.

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

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We verified that BCBS Association claimed no pension costs for Medicare reimbursement for FYs 2011 through 2015.

Achieving our objective did not require that we review BCBS Association's overall internal control structure. 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 Association's office in Chicago, Illinois.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- reviewed information provided by BCBS Association to identify the amount of pension costs claimed for Medicare reimbursement for FYs 2011 through 2015;
- used information that BCBS Association's actuarial consulting firm provided, including information on assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses;
- examined BCBS Association's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Forms 5500;
- determined the extent to which BCBS Association funded CAS-based pension costs with contributions to the pension trust fund and accumulated prepayment credits;
- engaged the CMS Office of the Actuary to calculate the allocable pension costs based on the CAS (the calculations were based on separately computed CAS-based pension costs for the Medicare segment and the Other segment);
- reviewed the CMS actuaries' methodology and calculations; and
- provided the results of the review to BCBS Association officials on December 6, 2016.

We performed this review in conjunction with the following audit and used the information obtained during these audits for this review: *Blue Cross Blue Shield Association Overstated Its Medicare Segment Pension Assets and Understated Medicare's Share of the Medicare Segment Excess Pension Assets as of September 30, 2015* (A-07-17-00496).

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 REIMBURSEMENT OF PENSION COSTS

FEDERAL REGULATIONS

Federal regulations (FAR 31.205-6(j)) address allowability of pension costs and require that contractors fund the pension costs assigned to contract periods by making contributions to the pension plan.

Federal regulations (CAS 412) (as amended) address the determination and measurement of pension cost components. This regulation also addresses the assignment of pension costs to appropriate accounting periods.

Federal regulations (CAS 412.40(b)(2)) state:

Each actuarial assumption used to measure pension cost shall be separately identified and shall represent the contractor's best estimates of anticipated experience under the plan, taking into account past experience and reasonable expectations. The validity of each assumption used shall be evaluated solely with respect to that assumption. Actuarial assumptions used in calculating the amount of an unfunded actuarial liability shall be the same as those used for other components of pension cost.

Federal regulations (CAS 412.50(b)(4)) require that actuarial assumptions shall reflect long-term trends so as to avoid distortions caused by short-term fluctuations.

Federal regulations (CAS 413) (as amended) address 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.

MEDICARE CONTRACTS

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."

The Medicare contract, Appendix B, section II(A), requires that costs be estimated (budgeted), accumulated, and reported on a consistent basis. In addition, CMS issued to Medicare contractors the Budget and Performance Requirements, section VI(B), which states that "as regards the allocation of such costs to the Medicare contract/agreement ... [a]ny change in accounting practice for such pension and/or post-retirement benefit costs must be submitted to CMS in advance for approval." (Emphasis in original.)

**APPENDIX C: ALLOWABLE MEDICARE PENSION COSTS FOR
BLUE CROSS BLUE SHIELD ASSOCIATION
FOR FISCAL YEARS 2011 THROUGH 2015**

Date	Description	Total Company	Other Segment	Medicare Segment	Total Medicare
January 1, 2010	Calendar Year Allocable Pension Cost <u>1/</u>		\$11,490,577	\$0	
2011	Contributions <u>2/</u>	\$16,000,000	\$16,000,000	\$0	
	Discount for Interest <u>3/</u>	(\$1,061,230)	(\$1,061,230)	\$0	
January 1, 2011	Present Value Contributions <u>4/</u>	\$14,938,770	\$14,938,770	\$0	
	Prepayment Credit Applied <u>5/</u>	\$10,693,754	\$10,693,754	\$0	
	Present Value of Funding <u>6/</u>	\$25,632,524	\$25,632,524	\$0	
January 1, 2011	CAS Funding Target <u>7/</u>	\$10,693,754	\$10,693,754	\$0	
	Percentage Funded <u>8/</u>		100.00%	100.00%	
	Funded Pension Cost <u>9/</u>		\$10,693,754	\$0	
	Allowable Interest <u>10/</u>		\$0	\$0	
	Calendar Year Allocable Pension Cost		\$10,693,754	\$0	
2011	Fiscal Year Allocable Pension Cost <u>11/</u>		\$10,892,960	\$0	
	Medicare LOB* Percentage <u>12/</u>		0.78%	88.70%	
2011	Fiscal Year Allowable Pension Cost <u>13/</u>		\$84,965	\$0	\$84,965

Date	Description	Total Company	Other Segment	Medicare Segment	Total Medicare
2012	Contributions	\$6,500,000	\$6,500,000	\$0	
	Discount for Interest	(\$453,488)	(\$453,488)	\$0	
January 1, 2012	Present Value Contributions	\$6,046,512	\$6,046,512	\$0	
	Prepayment Credit Applied	\$9,912,924	\$9,912,924	\$0	
	Present Value of Funding	\$15,959,436	\$15,959,436	\$0	
January 1, 2012	CAS Funding Target	\$9,912,924	\$9,912,924	\$0	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$9,912,924	\$0	
	Allowable Interest		\$0	\$0	
	Calendar Year Allocable Pension Cost		\$9,912,924	\$0	
2012	Fiscal Year Allocable Pension Cost		\$10,108,132	\$0	
	Medicare LOB* percentage		0.76%	70.82%	
2012	Fiscal Year Allowable Pension Cost		\$76,822	\$0	\$76,822

Date	Description	Total Company	Other Segment	Medicare Segment	Total Medicare
2013	Contributions	\$6,500,000	\$6,500,000	\$0	
	Discount for Interest 14/	(\$569,035)	(\$569,035)	\$0	
January 1, 2013	Present Value Contributions	\$5,930,965	\$5,930,965	\$0	
	Prepayment Credit Applied	\$9,342,499	\$9,342,499	\$0	
	Present Value of Funding	\$15,273,464	\$15,273,464	\$0	
January 1, 2013	CAS Funding Target	\$9,342,499	\$9,342,499	\$0	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$9,342,499	\$0	
	Allowable Interest		\$0	\$0	
	Calendar Year Allocable Pension Cost		\$9,342,499	\$0	
2013	Fiscal Year Allocable Pension Cost		\$9,485,105	\$0	
	Medicare LOB* percentage		0.83%	85.37%	
2013	Fiscal Year Allowable Pension Cost		\$78,726	\$0	\$78,726

Date	Description	Total Company	Other Segment	Medicare Segment	Total Medicare
2014	Contributions	\$4,500,000	\$4,500,000	\$0	
	Discount for Interest	(\$392,227)	(\$392,227)	\$0	
January 1, 2014	Present Value Contributions	\$4,107,773	\$4,107,773	\$0	
	Prepayment Credit Applied	\$9,177,037	\$9,177,037	\$0	
	Present Value of Funding	\$13,284,810	\$13,284,810	\$0	
January 1, 2014	CAS Funding Target	\$9,177,037	\$9,177,037	\$0	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$9,177,037	\$0	
	Allowable Interest		\$0	\$0	
	Calendar Year Allocable Pension Cost		\$9,177,037	\$0	
2014	Fiscal Year Allocable Pension Cost		\$9,218,403	\$0	
	Medicare LOB* percentage		0.74%	84.02%	
2014	Fiscal Year Allowable Pension Cost		\$68,216	\$0	\$68,216

Date	Description	Total Company	Other Segment	Medicare Segment	Total Medicare
2015	Contributions	\$0	\$0	\$0	
	Discount for Interest	\$0	\$0	\$0	
January 1, 2015	Present Value Contributions	\$0	\$0	\$0	
	Prepayment Credit Applied	\$6,547,562	\$6,547,562	\$0	
	Present Value of Funding	\$6,547,562	\$6,547,562	\$0	
January 1, 2015	CAS Funding Target	\$6,547,562	\$6,547,562	\$0	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$6,547,562	\$0	
	Allowable Interest		\$0	\$0	
	Calendar Year Allocable Pension Cost 15/		\$6,547,562	\$0	
2015	Fiscal Year Allocable Pension Cost 16/		\$8,841,821	\$0	
	Medicare LOB* percentage		0.60%	80.42%	
2015	Fiscal Year Allowable Pension Cost		\$53,051	\$0	\$53,051

* Line of business.

ENDNOTES

- 1/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes. We obtained the CY 2010 allocable pension cost from our prior review (A-07-13-00411, issued January 3, 2013).
- 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 CY and accrued contributions deposited after the end of the CY but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-17-00496). 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 CAS 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 CY. For purposes of this Appendix, we deemed deposits made after the end of the CY to have been made on the final day of the CY, consistent with the method established by the Employee Retirement Income Security Act prior to the implementation of the Pension Protection 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 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 CY.
- 7/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of the 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 CY. Because any funding in excess of the CAS funding target is accounted for as a prepayment in accordance with CAS 412.50(c)(1), 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/ We converted the CY allowable pension cost to an FY basis (October 1 through September 30). We calculated the FY pension costs as 1/4 of the prior CY's costs plus 3/4 of the current CY's costs.
- 12/ We calculated the Medicare line of business (LOB) percentages based on information provided by BCBS Association.
- 13/ We computed the allowable Medicare pension cost as an FY pension cost multiplied by the Medicare LOB percentage. In accordance with CAS 412 and 413, the total Medicare allowable pension costs charged to the Medicare contract consisted of the BCBS Association Medicare segment's direct pension costs plus Other segment pension costs attributable to indirect Medicare operations.
- 14/ Beginning in CY 2013, in accordance with the CAS Pension Harmonization Rule, 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 assumed rate of interest) and actual contribution amounts.
- 15/ The CY 2015 allocable pension cost is calculated for the period January 1 through September 30, 2015. BCBS Association's Medicare operations ended on September 30, 2015.
- 16/ We calculated the FY 2015 allowable pension cost as 1/4 of the prior CY's costs plus all of the current CY's costs, because the CY 2015 allocable pension cost is for the period January 1 through September 30.

APPENDIX D: AUDITEE COMMENTS



February 10, 2017

Patrick J. Cogley
Regional Inspector General
DHHS OIG 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
www.BCBS.com

RE: Draft Audit Report Number: A-07-17-00497

Blue Cross Blue Shield Association (BCBSA) Did Not Claim Some Allowable Medicare Pension
Costs for Fiscal Years 2011 Through 2015

Dear Patrick,

Reference is to the draft audit report submitted to Blue Cross Blue Shield Association under cover of your letter dated January 4, 2017.

Following is the comment in the Recommendation section on page 4 of the report:

- We recommend that BCBS Association revise its FACP's for FYs 2011 through 2015 to claim allowable Medicare pension costs of \$361,780

BCBSA accepts the audit recommendation listed above; however, we have no means to adjust the FACP's for FY 2011 through 2015, as the final FACP audits for these years have been conducted by the OIG and are now being closed. BCBSA understands the Federal Government will present us a global settlement summarizing all Medicare pension segment audit recommendations relating to our contract with the Department of Health and Human Services, including the recommendation referenced in this letter.

I want to thank you and your staff for the professional manner in which this audit was conducted and for affording us the opportunity to discuss the various issues raised during the audit. This spirit of cooperation clearly facilitated the timely completion of the audit.

Sincerely,

/Steve Mickelson/

Executive Director, Financial Services

Copies: Terrance Cooney, BCBSA
Mitchell Helfand, BCBSA
Jeffrey Wilson, DHHS OIG

Mark Rangel, BCBSA
James Williamson, BCBSA
Jenenne Tambke, DHHS OIG

Blue Cross Blue Shield Association is an association of independent Blue Cross and Blue Shield companies.