

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
OKLAHOMA**



**JULY 2001
A-07-01-00121**

Office of Inspector General

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

CIN: A-07-01-00121
July 17, 2001

Ms. Gerri Webb
Vice President of Government Programs
Blue Cross and Blue Shield of Oklahoma
P.O. Box 3404
Tulsa, OK 74101-3404

Dear Ms. Webb:

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 Blue Cross and Blue Shield of Oklahoma*. The purpose of our review was to determine the allowability of pension costs claimed for Medicare reimbursement for Fiscal Years 1987 through 1999.

For Fiscal Years (FY's) 1987 through 1999, we determined that Blue Cross and Blue Shield of Oklahoma (Oklahoma) under claimed allowable Medicare pension costs. During this period, the allowable Medicare pension costs were \$926,822. However, Oklahoma claimed pension costs of \$884,359 for Medicare reimbursement. As a result, Oklahoma did not claim \$42,463 in allowable pension costs. This under claim of pension costs was the result of Oklahoma basing their pension cost calculations on incorrect asset values, and not adjusting budgeted costs to actual costs for indirect Medicare operations.

We are recommending Oklahoma revise its Final Administrative Cost Proposals (FACPs) to reflect the remaining allowable pension costs. Oklahoma accepted our recommendations in principle, but noted that the results should change based on adjustments made to our pension segmentation report (CIN: A-07-00-00106). Oklahoma's response is included in its entirety as Appendix B.

INTRODUCTION

BACKGROUND

Oklahoma has administered Medicare Part A operations, under cost reimbursement contracts, since 1970. Medicare contractors must follow cost reimbursement principles contained in the Cost Accounting Standards (CAS), the Federal Acquisition Regulations (FAR), and their Medicare contracts.

Medicare reimburses its portion of contractors' annual pension costs. 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.

Additionally, the Health Care Financing Administration (HCFA) incorporated specific segmentation language into Medicare contracts. The contracts provide for either an allocation or a separate calculation of pension costs. Under an allocation method, a contractor determines total plan CAS costs and allocates a share to Medicare. Under the separate calculation method, a contractor separately identifies the normal costs and amortization for the Medicare segment. The separate calculation method must be used if there is a material difference between the two methods.

OBJECTIVES, SCOPE AND METHODOLOGY

We made our examination in accordance with generally accepted government auditing standards. Our objective was to determine the allowability of pension costs claimed for FY's 1987 through 1999. Achieving the objective did not require a review of Oklahoma's internal control structure.

This review was done in conjunction with our audits of pension segmentation (CIN: A-07-00-00106) and unfunded pension costs (CIN: A-07-01-00120). The information obtained and reviewed during those audits was also used in performing this review.

In our audit of unfunded pension costs, we identified Oklahoma's CAS pension costs for the total company and for the Medicare segment. We also determined the extent to which Oklahoma 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 FY's 1987 through 1999. Appendix A contains the details on the pension costs and contributions.

The HCFA Office of the Actuary developed the methodology used for computing allowable CAS pension costs based on Oklahoma's historical practices. We performed site work during February and April 2000 at Oklahoma's corporate offices in Tulsa, Oklahoma. Subsequently, we performed audit work in the OIG, OAS, Jefferson City, Missouri Field Office.

FINDING AND RECOMMENDATIONS

For FY's 1987 through 1999, Oklahoma did not claim \$42,463 in pension costs that were allowable for Medicare reimbursement. The pension costs are allowable because the funded portion of CAS computed costs exceeded the costs claimed. The under claim occurred primarily due to two factors. The first factor being that we made adjustments to Oklahoma's yearly asset values (see segmentation audit report CIN: A-07-00-00106 for details), which resulted in CAS pension costs different from those calculated by Oklahoma. The second factor primarily responsible for the under claim is that Oklahoma never adjusted their indirect costs from the budgeted values to the actual values. Oklahoma should revise its FACPs to reflect the additional CAS pension costs that were allowable for reimbursement.

We calculated the allowable CAS pension costs for the Medicare segment and for Medicare indirect operations. The calculations were based on separately computed CAS pension costs for the Medicare segment and total company CAS pension costs. See Appendix A for details.

We compared our calculated allowable CAS pension costs to the pension costs claimed on Oklahoma's FACPs and found:

PENSION COSTS CLAIMED VARIANCE

<u>YEAR</u>	<u>PER</u> <u>OK</u>	<u>PER</u> <u>OIG</u>	<u>VARIANCE</u>
1987	\$ 61,400	\$ 62,494	\$ (1,094)
1988	53,194	30,744	22,450
1989	37,939	9,116	28,823
1990	15,877	26,192	(10,315)
1991	40,209	48,022	(7,813)
1992	58,155	50,329	7,826
1993	58,741	83,265	(24,524)
1994	80,419	117,917	(37,498)
1995	94,026	111,917	(17,891)
1996	79,919	55,428	24,491
1997	79,919	68,014	11,905
1998	109,918	139,343	(29,425)
1999	114,643	124,041	(9,398)
	<u>\$ 884,359</u>	<u>\$ 926,822</u>	<u>\$ (42,463)</u>

For 1987 through 1999, Oklahoma claimed pension costs of \$884,359 for Medicare reimbursement. However, the allowable CAS pension costs were \$926,822. As a result, Oklahoma could have claimed \$42,463 in additional CAS pension costs.

Recommendations

Recommendations

We recommend that Oklahoma:

Revise its FACPs for FY's 1987 through 1999 to claim additional allowable CAS pension costs of \$42,463.

Auditee Response

Oklahoma accepted our recommendations in principle, but noted that the results should change based on adjustments made to our pension segmentation report (CIN: A-07-00-00106). Oklahoma's response is included in its entirety as Appendix B.

OIG Comments

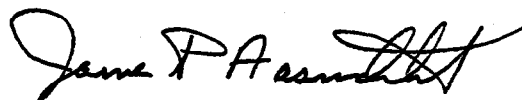
We did revise our pension segmentation report (CIN: A-07-00-00106) as a result of Oklahoma's response to our pension segmentation draft report. Those revisions are included in the findings and recommendations set forth in this report.

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 on the following page. We request that you respond to each of the recommendations 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 determinations.

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,



James P. Aasmundstad
Regional Inspector General
for Audit Services, Region VII

Enclosures

BLUE CROSS AND BLUE SHIELD OF OKLAHOMA
STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR FISCAL YEARS 1987 THROUGH 1999

Date	Description		Total Company	Other Segments	Medicare Segment
1986	Contribution(s)	1/	\$ 1,023,081	\$ 974,049	\$ 49,032
8.00%	Discount for Interest	2/	<u>(55,853)</u>	<u>(53,176)</u>	<u>(2,677)</u>
	Pres Val Contributions	3/	967,228	920,873	46,355
	Prepayment Credit	4/	<u>0</u>	<u>0</u>	<u>0</u>
	Pres Value of Funding	5/	967,228	920,873	46,355
	CAS Pension Cost	6/	966,694	920,338	46,356
	Absorbed Credit	7/	<u>0</u>	<u>0</u>	<u>0</u>
	CAS Funding Target	8/	966,694	920,338	46,356
	% Funded	9/		100.00%	100.00%
	Funded Pension Cost	10/		920,338	46,355
	Allowable Interest	11/		<u>52,152</u>	<u>2,627</u>
	Allocable Pension Cost	12/		972,490	48,982
	Fiscal Year Pension	13/			
	Medicare LOB%	14/		0.00%	0.00%
	Allowable Pension Cost	15/	\$ 0	\$ 0	\$ 0
1987	Contribution(s)		\$ 797,586	\$ 780,540	\$ 17,046
8.00%	Discount for Interest		<u>(53,013)</u>	<u>(51,880)</u>	<u>(1,133)</u>
	Pres Val Contributions		744,573	728,660	15,913
	Prepayment Credit		<u>577</u>	<u>565</u>	<u>12</u>
	Pres Value of Funding		745,150	729,225	15,925
	CAS Pension Cost		751,155	735,101	16,054
	Absorbed Credit		<u>0</u>	<u>0</u>	<u>0</u>
	CAS Funding Target		751,155	735,101	16,054
	% Funded			99.20%	99.20%
	Funded Pension Cost			729,225	15,925
	Allowable Interest			<u>41,291</u>	<u>902</u>
	Allocable Pension Cost			770,516	16,827
	Fiscal Year Pension			888,334	35,584
	Medicare LOB%			3.03%	99.98%
	Allowable Pension Cost		\$ 62,494	\$ 26,917	\$ 35,577

BLUE CROSS AND BLUE SHIELD OF OKLAHOMA
STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR FISCAL YEARS 1987 THROUGH 1999

Date	Description	Total Company	Other Segment	Medicare Segment
1988	Contribution(s)	\$ 290,583	\$ 282,670	\$ 7,913
8.00%	Discount for Interest	<u>(15,343)</u>	<u>(14,925)</u>	<u>(418)</u>
	Pres Val Contributions	275,240	267,745	7,495
	Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
	Pres Value of Funding	275,240	267,745	7,495
	CAS Pension Cost	782,229	760,926	21,303
	Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
	CAS Funding Target	782,229	760,926	21,303
	% Funded		35.19%	35.18%
	Funded Pension Cost		267,745	7,495
	Allowable Interest		<u>14,925</u>	<u>418</u>
	Allocable Pension Cost		282,670	7,913
	Fiscal Year Pension		567,247	13,113
	Medicare LOB%		3.11%	99.92%
	Allowable Pension Cost	<u>\$ 30,744</u>	<u>\$ 17,642</u>	<u>\$ 13,102</u>
1989	Contribution(s)	\$ 0	\$ 0	\$ 0
9.00%	Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Pres Val Contributions	0	0	0
	Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
	Pres Value of Funding	0	0	0
	CAS Pension Cost	477,872	439,021	38,851
	Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
	CAS Funding Target	477,872	439,021	38,851
	% Funded		0.00%	0.00%
	Funded Pension Cost		0	0
	Allowable Interest		<u>0</u>	<u>0</u>
	Allocable Pension Cost		0	0
	Fiscal Year Pension		164,891	4,616
	Medicare LOB%		2.73%	99.96%
	Allowable Pension Cost	<u>\$ 9,116</u>	<u>\$ 4,502</u>	<u>\$ 4,614</u>

BLUE CROSS AND BLUE SHIELD OF OKLAHOMA
STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR FISCAL YEARS 1987 THROUGH 1999

Date	Description	Total Company	Other Segment	Medicare Segment
1990	Contribution(s)	\$ 702,959	\$ 686,078	\$ 16,881
9.00%	Discount for Interest	<u>(58,042)</u>	<u>(56,648)</u>	<u>(1,394)</u>
	Pres Val Contributions	644,917	629,430	15,487
	Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
	Pres Value of Funding	644,917	629,430	15,487
	CAS Pension Cost	621,873	606,386	15,487
	Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
	CAS Funding Target	621,873	606,386	15,487
	% Funded		100.00%	100.00%
	Funded Pension Cost		606,386	15,487
	Allowable Interest		<u>38,657</u>	<u>987</u>
	Allocable Pension Cost		645,043	16,474
	Fiscal Year Pension		483,782	12,356
	Medicare LOB%		2.86%	100.00%
	Allowable Pension Cost	<u>\$ 26,192</u>	<u>\$ 13,836</u>	<u>\$ 12,356</u>

1991	Contribution(s)	\$ 1,218,295	\$ 1,194,026	\$ 24,269
9.00%	Discount for Interest	<u>(85,504)</u>	<u>(83,801)</u>	<u>(1,703)</u>
	Pres Val Contributions	1,132,791	1,110,225	22,566
	Prepayment Credit	<u>25,117</u>	<u>24,430</u>	<u>687</u>
	Pres Value of Funding	1,157,908	1,134,655	23,253
	CAS Pension Cost	849,552	826,299	23,253
	Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
	CAS Funding Target	849,552	826,299	23,253
	% Funded		100.00%	100.00%
	Funded Pension Cost		826,299	23,253
	Allowable Interest		<u>51,119</u>	<u>1,439</u>
	Allocable Pension Cost		877,418	24,692
	Fiscal Year Pension		819,324	22,638
	Medicare LOB%		3.14%	98.49%
	Allowable Pension Cost	<u>\$ 48,022</u>	<u>\$ 25,726</u>	<u>\$ 22,296</u>

BLUE CROSS AND BLUE SHIELD OF OKLAHOMA
STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR FISCAL YEARS 1987 THROUGH 1999

Date	Description	Total Company	Other Segment	Medicare Segment
1992	Contribution(s)	\$ 1,214,651	\$ 1,195,482	\$ 19,169
9.00%	Discount for Interest	<u>(64,117)</u>	<u>(63,105)</u>	<u>(1,012)</u>
	Pres Val Contributions	1,150,534	1,132,377	18,157
	Prepayment Credit	<u>336,108</u>	<u>324,864</u>	<u>11,244</u>
	Pres Value of Funding	1,486,642	1,457,241	29,401
	CAS Pension Cost	878,823	849,422	29,401
	Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
	CAS Funding Target	878,823	849,422	29,401
	% Funded		100.00%	100.00%
	Funded Pension Cost		849,422	29,401
	Allowable Interest		<u>29,233</u>	<u>1,012</u>
	Allocable Pension Cost		878,655	30,413
	Fiscal Year Pension		878,346	28,983
	Medicare LOB%		2.52%	97.28%
	Allowable Pension Cost	<u>\$ 50,329</u>	<u>\$ 22,134</u>	<u>\$ 28,195</u>
1993	Contribution(s)	\$ 1,824,732	\$ 1,791,563	\$ 33,169
8.50%	Discount for Interest	<u>(97,907)</u>	<u>(96,127)</u>	<u>(1,780)</u>
	Pres Val Contributions	1,726,825	1,695,436	31,389
	Prepayment Credit	<u>662,523</u>	<u>634,228</u>	<u>28,295</u>
	Pres Value of Funding	2,389,348	2,329,664	59,684
	CAS Pension Cost	1,397,477	1,337,793	59,684
	Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
	CAS Funding Target	1,397,477	1,337,793	59,684
	% Funded		100.00%	100.00%
	Funded Pension Cost		1,337,793	59,684
	Allowable Interest		<u>39,890</u>	<u>1,780</u>
	Allocable Pension Cost		1,377,683	61,464
	Fiscal Year Pension		1,252,926	53,701
	Medicare LOB%		2.48%	97.19%
	Allowable Pension Cost	<u>\$ 83,265</u>	<u>\$ 31,073</u>	<u>\$ 52,192</u>

BLUE CROSS AND BLUE SHIELD OF OKLAHOMA
STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR FISCAL YEARS 1987 THROUGH 1999

Date	Description	Total Company	Other Segment	Medicare Segment
1994	Contribution(s)	\$ 2,331,253	\$ 2,294,118	\$ 37,135
8.00%	Discount for Interest	<u>(115,147)</u>	<u>(113,313)</u>	<u>(1,834)</u>
	Pres Val Contributions	2,216,106	2,180,805	35,301
	Prepayment Credit	<u>1,076,180</u>	<u>1,023,224</u>	<u>52,956</u>
	Pres Value of Funding	3,292,286	3,204,029	88,257
	CAS Pension Cost	1,793,577	1,705,320	88,257
	Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
	CAS Funding Target	1,793,577	1,705,320	88,257
	% Funded		100.00%	100.00%
	Funded Pension Cost		1,705,320	88,257
	Allowable Interest		<u>35,441</u>	<u>1,834</u>
	Allocable Pension Cost		1,740,761	90,091
	Fiscal Year Pension		1,649,992	82,934
	Medicare LOB%		2.18%	98.81%
	Allowable Pension Cost	<u>\$ 117,917</u>	<u>\$ 35,970</u>	<u>\$ 81,947</u>
1995	Contribution(s)	\$ 1,874,737	\$ 1,874,737	\$ 0
8.50%	Discount for Interest	<u>(84,523)</u>	<u>(84,523)</u>	<u>0</u>
	Pres Val Contributions	1,790,214	1,790,214	0
	Prepayment Credit	<u>1,360,069</u>	<u>1,284,428</u>	<u>75,641</u>
	Pres Value of Funding	3,150,283	3,074,642	75,641
	CAS Pension Cost	1,360,069	1,284,428	75,641
	Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
	CAS Funding Target	1,360,069	1,284,428	75,641
	% Funded		100.00%	100.00%
	Funded Pension Cost		1,284,428	75,641
	Allowable Interest		<u>0</u>	<u>0</u>
	Allocable Pension Cost		1,284,428	75,641
	Fiscal Year Pension		1,398,511	79,254
	Medicare LOB%		2.39%	99.04%
	Allowable Pension Cost	<u>\$ 111,917</u>	<u>\$ 33,424</u>	<u>\$ 78,493</u>

BLUE CROSS AND BLUE SHIELD OF OKLAHOMA
STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR FISCAL YEARS 1987 THROUGH 1999

Date	Description	Total Company	Other Segment	Medicare Segment
1996	Contribution(s)	\$ 1,729,005	\$ 1,729,005	\$ 0
8.50%	Discount for Interest	<u>(89,019)</u>	<u>(89,019)</u>	<u>0</u>
	Pres Val Contributions	1,639,986	1,639,986	0
	Prepayment Credit	<u>1,581,582</u>	<u>1,581,582</u>	<u>0</u>
	Pres Value of Funding	3,221,568	3,221,568	0
	CAS Funding Target	1,581,582	1,581,582	0
	% Funded		100.00%	0.00%
	Funded Pension Cost		1,581,582	0
	Allowable Interest		<u>0</u>	<u>0</u>
	Allocable Pension Cost		1,581,582	
	Fiscal Year Pension		1,507,294	18,910
	Medicare LOB%		2.50%	93.84%
	Allowable Pension Cost	<u>\$ 55,428</u>	<u>\$ 37,682</u>	<u>\$ 17,746</u>

1997	Contribution(s)	\$ 1,470,000	\$ 1,470,000	\$ 0
8.50%	Discount for Interest	<u>(67,623)</u>	<u>(67,623)</u>	<u>0</u>
	Pres Val Contributions	1,402,377	1,402,377	0
	Prepayment Credit	<u>1,801,016</u>	<u>1,748,188</u>	<u>52,828</u>
	Pres Value of Funding	3,203,393	3,150,565	52,828
	CAS Funding Target	1,801,016	1,748,188	52,828
	% Funded		100.00%	100.00%
	Funded Pension Cost		1,748,188	52,828
	Allowable Interest		<u>0</u>	<u>0</u>
	Allocable Pension Cost		1,748,188	52,828
	Fiscal Year Pension		1,706,537	39,621
	Medicare LOB%		1.69%	98.87%
	Allowable Pension Cost	<u>\$ 68,014</u>	<u>\$ 28,840</u>	<u>\$ 39,174</u>

BLUE CROSS AND BLUE SHIELD OF OKLAHOMA
STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR FISCAL YEARS 1987 THROUGH 1999

Date	Description	Total Company	Other Segment	Medicare Segment
1998	Contribution(s)	\$ 1,978,322	\$ 1,978,322	\$ 0
9.00%	Discount for Interest	<u>(86,264)</u>	<u>(86,264)</u>	<u>0</u>
	Pres Val Contributions	1,892,058	1,892,058	0
	Prepayment Credit	<u>2,151,378</u>	<u>2,013,953</u>	<u>137,425</u>
	Pres Value of Funding	4,043,436	3,906,011	137,425
	CAS Funding Target	2,151,378	2,013,953	137,425
	% Funded		100.00%	100.00%
	Funded Pension Cost		2,002,314	137,425
	Allowable Interest		<u>0</u>	<u>0</u>
	Allocable Pension Cost		2,013,953	137,425
	Fiscal Year Pension		1,947,512	116,276
	Medicare LOB%		1.48%	95.05%
	Allowable Pension Cost	<u>\$ 139,343</u>	<u>\$ 28,823</u>	<u>\$ 110,520</u>

1999	Contribution(s)	\$ 0	\$ 0	\$ 0
9.00%	Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
	Pres Val Contributions	0	0	0
	Prepayment Credit	<u>1,948,519</u>	<u>1,849,045</u>	<u>99,474</u>
	Pres Value of Funding	1,948,519	1,849,045	99,474
	CAS Funding Target	1,948,519	1,849,045	99,474
	% Funded		100.00%	100.00%
	Funded Pension Cost		1,849,045	99,474
	Allowable Interest		<u>0</u>	<u>0</u>
	Allocable Pension Cost		1,849,045	99,474
	Fiscal Year Pension		1,890,272	108,962
	Medicare LOB%		1.06%	95.45%
	Allowable Pension Cost	<u>\$ 124,041</u>	<u>\$ 20,037</u>	<u>\$ 104,004</u>

BLUE CROSS AND BLUE SHIELD OF OKLAHOMA
STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR FISCAL YEARS 1987 THROUGH 1999

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 January 1 of each 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 the actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to January 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.
- 4/ A prepayment credit represents the 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 may be carried forward, with interest, to fund future CAS pension costs. The calculation of the prepayment credit is shown in our report of Oklahoma's unfunded Medicare segment (CIN: A-07-01-00120).
- 5/ 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 January 1 of each year.
- 6/ The CAS pension costs, computed at January 1 of each year, provides the basis to compute the allowable pension cost that can be charged to Medicare. See our audit of Oklahoma's unfunded Medicare segment for more details concerning how the CAS costs were computed (CIN: A-07-01-00120).
- 7/ The absorbed credit represents the portion of the accumulated unabsorbed credit that is used to fund the current year CAS pension cost. The credit is used first to fund the CAS pension cost before any current or prepaid contributions are considered for funding.
- 8/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of FAR 31.205-6(j)(3)(I).

BLUE CROSS AND BLUE SHIELD OF OKLAHOMA

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1987 THROUGH 1999

- 9/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the plan year. Since any funding in excess of the CAS funding target 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 funding target. For purposes of illustration, the percentage of funding has been rounded to four decimals.
- 10/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.
- 11/ 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 funding target were funded in four equal installments deposited within 30 days of the end of the quarter.
- 12/ The allocable CAS pension cost is the amount of pension cost which may be allocated for contract cost purposes.
- 13/ We converted the plan year allowable CAS pension costs to a fiscal year basis (October 1 through September 30). Oklahoma's original plan year spanned from May 1 through April 30. We calculated the fiscal year pension costs for 1987 and 1988 by multiplying seven-twelfths (7/12) of the current plan year's pension costs plus five-twelfths (5/12) of the of the next plan year's costs. Fiscal year 1989 resulted in a shortened plan year due to Oklahoma revising its plan year to coincide with the calendar year. For all remaining years, we calculated the fiscal year pension costs as one-fourth (1/4) of the prior year's costs plus three-fourths (3/4) of the current year's costs. Costs charged to the Medicare contract should consist of the Medicare segment's direct pension costs plus pension costs attributable to indirect Medicare operations.
- 14/ We calculated allowable pension costs of the Medicare and other segments based on the Medicare line of business (LOB) percentage of each segment. We obtained the percentages from documents provided by Oklahoma.
- 15/ We computed the Medicare pension cost as the Fiscal Year pension cost multiplied by the Medicare LOB percentage



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June 1, 2001

Mr. Greg Tambke
HHS/OIG/OAS
2425 Hyde Park Road
Jefferson City, Missouri 65109

Dear Greg:

I am writing in regards to the following Office of Inspector General (OIG) Audit Reports:

- Review of Medicare Contractor Pension Segmentation
Blue Cross Blue Shield of Oklahoma # A-07-00-00106
- Review of Unfunded Pension Costs of Blue Cross Blue Shield of Oklahoma
A 07-01-00120
- Review of Pension Costs Claimed for Medicare Reimbursement by
Blue Cross Blue Shield of Oklahoma # A 07-01-00121

Upon reviewing the information in the Office of Inspector General (OIG) audit report entitled "Review of Medicare Contractor's Pension Segmentation, Blue Cross and Blue Shield of Oklahoma" with our actuaries, we have the following response to the findings:

1. Regarding the net transfer adjustments during calendar years 1997 and 1998 (reflected in valuations as of 1/1/1998 and 1/1/1999, respectively), we did base the liability amounts on the ABCM. We do not agree with the claim that these amounts "used an incorrect cost method to value transfers" (page 5) for 1997 and 1998. However, in working through the transfers with HCFA's actuary, Eric Shipley, we discovered that the timing of the recognition of some of the transfers was off by one year (some transfers occurred during 1996 that were reflected in our valuations as having transferred during 1997). We have provided Eric with revised transfer amounts to reflect the proper year of transfer for these individuals.
2. Under net transfer adjustments to the Medicare Segment on page 6, the 1998 value for OK should be (338,029). This is reflected in our Medicare Segment asset development in the CAS Pension Cost section of our 1999 actuarial report. The (579,881) amount that is reflected appears to be the sum of the net transfers (338,029) and the benefit payments



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A HCFA Contracted

Mr. Greg Tambke
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(241,852). However, since the (241,852) amount is also reflected on page 7 under Benefit Payments to Retirees, we feel that this amount should not be double counted. Otherwise, we have no objections to any other items within this report.

We have also reviewed the OIG's audit reports entitled "Review of Unfunded Pension Costs of Blue Cross and Blue Shield of Oklahoma" and "Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross and Blue Shield of Oklahoma". Although we have no comments on the process and methodologies within these reports, we would like to note that the results within these reports should change based on any adjustments that may be made to the results reflected in the report entitled "Review of Medicare Contractor's Pension Segmentation, Blue Cross and Blue Shield of Oklahoma".

Please call me at (918) 560-2090 or Jay Pinkerton (Chicago Consulting Actuaries; (312) 454-8167) if you have any questions or need any additional information.

Sincerely,

/s/

Garoldine Y. Webb

cc: Mr. David Manuszak, Blue Cross Blue Shield Association
Ms. Carol Navin, Blue Cross Blue Shield Association
Mr. John Thomas, Group Health Service of Oklahoma, Inc.
Ms. Kathy Durfee, Group Health Service of Oklahoma, Inc.

Appendix C

**AUDIT REPORT CIN: A-07-01-00121
BLUE CROSS AND BLUE SHIELD OF OKLAHOMA**

**INDIVIDUALS HAVING ACCESS TO SOURCE
INFORMATION REGARDING THIS AUDIT REPORT**

Greg Tambke, Audit Manager
Scott Englund, Senior Auditor
Dave Imhoff, Auditor
Ashok Mullick, Auditor

Class of Persons Having Access To This Report

Office Administrative Personnel