

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS
CLAIMED FOR MEDICARE
REIMBURSEMENT BY BLUE CROSS
OF WASHINGTON AND ALASKA**



**JUNE GIBBS BROWN
Inspector General**

**MARCH 1997
CIN: A-07-97-01205**



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

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

CIN: A-07-97-01205

MAR 18 1997

Mr. Kenneth Hamm
Vice President of Finance
Blue Cross of Washington and Alaska
7001 220th Street S.W.
Mountlake Terrace, WA 98043-2124

Dear Mr. Hamm:

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 of Washington and Alaska*. The purpose of our review was to determine the allowability of pension costs claimed for Medicare reimbursement for Fiscal Years 1993 through 1995.

During this period, the allowable Medicare pension costs were \$57,826. However, Blue Cross of Washington and Alaska (Washington/Alaska) claimed pension costs of \$73,514 for Medicare reimbursement. As a result, Washington/Alaska claimed \$15,688 in pension costs that were not allowable. The over claim occurred primarily because Washington/Alaska used an inappropriate cost when calculating pension costs attributable to Medicare indirect operations.

We are recommending Washington/Alaska revise its Final Administrative Cost Proposals (FACPs) to eliminate the unallowable pension costs. We are also recommending that Washington/Alaska base future claims for pension costs on costs calculated in accordance with the Cost Accounting Standards (CAS). Washington/Alaska agreed with our recommendation and its response is included in its entirety as Appendix B.

INTRODUCTION

BACKGROUND

Washington/Alaska has 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.

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 Fiscal Years (FYs) 1993 through 1995. Achieving the objective did not require a review of Washington/Alaska's internal control structure.

This review was done in conjunction with our audits of pension segmentation (CIN: A-07-96-01189) and unfunded pension costs (CIN: A-07-97-01206). The information obtained and reviewed during those audits was also used in performing this review.

In our audit of unfunded pension costs, we identified Washington/Alaska's CAS pension costs for the total company and for the Medicare segment. We also determined the extent to which Washington/Alaska 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 allowable for Medicare reimbursement for FYs 1993 through 1995.

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

We performed site work during August 1996 at Washington/Alaska's corporate offices in Mountlake Terrace, Washington. Subsequently, we performed audit work in the OIG, OAS, Jefferson City, Missouri Office.

FINDING AND RECOMMENDATIONS

For FYs 1993 through 1995, Washington/Alaska claimed \$15,688 in pension costs that were not allowable for Medicare reimbursement. The pension costs were unallowable because the costs exceeded the funded portion of the CAS computed costs. The over claim occurred primarily because Washington/Alaska used an inappropriate cost when calculating the pension costs attributable to Medicare indirect operations. Washington/Alaska should revise its FACPs to eliminate the unallowable pension costs.

For FYs 1993 through 1995, Washington/Alaska claimed pension costs for Medicare reimbursement on FACPs. Washington/Alaska based its claims on separately computed costs for the Medicare segment plus an allocation of the total company pension costs attributable to Medicare indirect operations. However, the total company costs assigned to Medicare indirect operations were calculated in accordance with Financial Accounting Standard 87 (FAS 87) instead of the CAS. Washington/Alaska assigned a portion of the FAS 87 pension costs to Medicare indirect operations using cost center and line of business information.

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 the allowable CAS pension costs to the pension costs claimed on Washington/Alaska's FACPs and found:

<u>Fiscal</u> Year	<u>Costs</u> <u>Claimed</u> (A)	<u>Allowable</u> <u>CAS Costs</u> (B)	<u>Variance</u> (A)-(B)
1993	\$ 0	\$ 0	\$ 0
1994	34,914	28,334	6,580
1995	<u>38,600</u>	<u>29,492</u>	<u>9,108</u>
TOTAL	<u>\$73,514</u>	<u>\$57,826</u>	<u>\$15,688</u>

For FYs 1993 through 1995, Washington/Alaska claimed pension costs of \$73,514 for Medicare reimbursement. However, the allowable CAS pension costs were \$57,826. As a result, Washington/Alaska claimed pension costs of \$15,688 that were in excess of the allowable CAS pension costs.

Recommendations

We recommend that Washington/Alaska:

- ❶ Revise its FACPs to eliminate \$15,688 for pension costs in excess of the allowable CAS pension costs.

- ② Base future claims for pension costs on separately calculated CAS costs for the Medicare segment and an allocable portion of plan (total company) CAS costs attributable to the Medicare indirect operations.

Auditee Response

Washington/Alaska agreed with the findings and plans to take the necessary steps to reflect these findings.

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 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 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

Enclosures

HHS Action Official:

Ms. Nancy Dapper
Regional Administrator, Region X
Health Care Financing Administration
2201 Sixth Ave.
Mail Stop RX40
Seattle, Washington 98121-2500

BLUE CROSS OF WASHINGTON AND ALASKA

CIN: A-07-97-01205

STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR FISCAL YEARS 1993 THROUGH 1995

Description		Total Plan	Other Segment	Medicare Segment
1993 Plan Year Contributions	<u>1/</u>	\$ 0	\$ 0	\$ 0
Discount for Interest	<u>2/</u>	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Contributions	<u>3/</u>	\$ 0	\$ 0	\$ 0
Prepayment Credit	<u>4/</u>	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Funding	<u>5/</u>	\$ 0	\$ 0	\$ 0
CAS Pension Costs	<u>6/</u>	437,677	406,348	31,329
Absorbed Credit	<u>7/</u>	<u>(17,352)</u>	<u>0</u>	<u>(17,352)</u>
CAS Funding Target	<u>8/</u>	\$420,325	\$406,348	\$ 13,977
Percentage of Costs Funded	<u>9/</u>		<u>0.00%</u>	<u>0.00%</u>
Funded CAS Pension Cost	<u>10/</u>		\$ 0	\$ 0
Allowable Interest	<u>11/</u>		<u>0</u>	<u>0</u>
Allocable Pension Cost	<u>12/</u>		\$ 0	\$ 0
Fiscal Year Pension Cost	<u>13/</u>		\$ 0	\$ 0

1994 Plan Year Contributions		\$2,183,071	\$2,150,880	\$ 32,191
Discount for Interest		<u>(124,338)</u>	<u>(122,505)</u>	<u>(1,833)</u>
Present Value of Contributions		\$2,058,733	\$2,028,375	\$30,358
Prepayment Credit		<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Funding		\$2,058,733	\$2,028,375	\$30,358
CAS Pension Costs		633,692	603,334	30,358
Absorbed Credit		<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target		\$633,692	\$603,334	\$30,358
Percentage of Costs Funded			<u>100.00%</u>	<u>100.00%</u>
Funded CAS Pension Cost			\$603,334	\$30,358
Allowable Interest			<u>34,189</u>	<u>1,720</u>
Allocable Pension Cost			\$637,523	\$32,078
Fiscal Year Pension Cost			478,142	24,059
Medicare LOB Percentage	<u>14/</u>		<u>0.98%</u>	<u>98.29%</u>
Medicare Pension Cost	<u>15/</u>	\$28,334	\$4,686	\$23,648

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STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR FISCAL YEARS 1993 THROUGH 1995

Description	Total Plan	Other Segment	Medicare Segment
1995 Plan Year Contributions	\$1,443,986	\$1,414,886	\$29,100
Discount for Interest	<u>(113,123)</u>	<u>(110,843)</u>	<u>(2,280)</u>
Present Value of Contributions	\$1,330,863	\$1,304,043	\$26,820
Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Funding	\$1,330,863	\$1,304,043	\$26,820
CAS Pension Costs	(82,121)	(108,941)	26,820
Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target	\$(82,121)	\$(108,941)	\$26,820
Percentage of Costs Funded		<u>00.00%</u>	<u>100.00%</u>
Funded CAS Pension Cost		\$ 0	\$26,820
Allowable Interest		<u>0</u>	<u>1,615</u>
Allocable Pension Cost		\$ 0	\$28,435
Fiscal Year Pension Cost		159,381	29,346
Medicare LOB Percentage		<u>1.13%</u>	<u>94.36%</u>
Medicare Pension Cost	\$29,492	\$1,801	\$27,691

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 year value. For purposes of this appendix, we computed the interest as the difference between the present value of contributions, at the valuation interest rates, and the actual contribution amounts.

*BLUE CROSS OF WASHINGTON AND ALASKA**CIN: A-07-97-01205***STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR FISCAL YEARS 1993 THROUGH 1995**

- 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.
- 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 Washington/Alaska's unfunded Medicare segment for more details concerning how the CAS costs were computed.
- 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. See our audit of Washington/Alaska's unfunded Medicare segment for more details concerning how the unabsorbed credit was computed.
- 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).
- 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.
- 10/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.

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**STATEMENT OF ALLOWABLE CAS PENSION COSTS
FOR FISCAL YEARS 1993 THROUGH 1995**

- 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 each 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 calendar year allowable CAS pension costs to a fiscal year basis (October 1 through September 30). We calculated the fiscal year pension costs as one-fourth of the prior year's costs plus three-fourths of the current year's costs. Costs charged to the Medicare contract should consist of the Medicare segment's pension costs plus an allocable portion of the other segment's 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 Washington/Alaska.
- 15/ We computed the Medicare Pension Cost as the Fiscal Year pension cost multiplied by the Medicare LOB percentage.



P. O. Box 327
Seattle, Washington 98111-0327

March 10, 1997

Ms. Barbara A. Bennett
Regional Inspector General for Audit Services
Region VII
Office of Inspector General
Department of Health and Human Services
601 East 12th Street, Room 284A
Kansas City, MO 64106

Re: CIN: A-07-96-01189
A-07-97-01205
A-07-97-01206

Dear Ms. Bennett:

We have reviewed the draft findings of the Office of Inspector (OIG) Medicare Audit.

We agree with the recommendation (CIN: A-07-96-01189) that Blue Cross of Washington and Alaska adjust the Medicare segment assets by \$96,740 as of January 1, 1995.

We agree with the findings (CIN: A-07-97-01205) that for fiscal years 1993, 1994 and 1995 that \$15,688 in excess pension costs over the allowable CAS pension costs were claimed. After the final audits have been issued, we will take the necessary steps to revise the FACPs for these years.

We agree with the recommendation (CIN: A-07-97-01206) that there are accumulated unfunded pension costs of \$106,843 as of January 1, 1995. After the final audits have been issued, we will be seeking a reassignment of these costs under the revised CAS 412 and 413. At that time, we will work with HCFA's Office of the Actuary and Blue Cross and Blue Shield Association to reassign these costs to future periods.

Sincerely,


Donna C. Christensen

cc: HCFA Seattle Regional Office
Eric Shipley, HCFA, Office of the Actuary (7500 Security Blvd., N3-01-21,
Baltimore, MD 21244-1850
Robert Rhodes, BCBSA
Carol Navin, NEBA