



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

NOV 20 2008

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

Report Number: A-07-08-00282

Mr. Mark Stimpson
Vice President Medicare Northwest
2890 East Cottonwood Parkway
P.O. Box 30270
Salt Lake City, Utah 84130

Dear Mr. Stimpson:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Postretirement Benefit Costs Claimed for Medicare Reimbursement by The Regence Group – Oregon for Fiscal Years 1992 Through 2005." We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, this report will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, or contact Jenenne Tambke, Audit Manager, at (573) 893-8338, extension 21 or through e-mail at Jenenne.Tambke@oig.hhs.gov. Please refer to report number A-07-08-00282 in all correspondence.

Sincerely,

Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Nanette Foster Reilly, Consortium Administrator
Consortium for Financial Management & Fee for Service Operations
Centers for Medicare & Medicaid Services
601 East 12th Street, Room 235
Kansas City, Missouri 64106

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF POSTRETIREMENT
BENEFIT COSTS CLAIMED FOR
MEDICARE REIMBURSEMENT BY
THE REGENCE GROUP –
OREGON FOR FISCAL YEARS
1992 THROUGH 2005**



Daniel R. Levinson
Inspector General

November 2008
A-07-08-00282

Office of Inspector General

<http://oig.hhs.gov>

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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

BACKGROUND

The Regence Group (Regence) administered the Oregon Medicare Part A operations (Oregon) under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated effective November 30, 2005. Regence also served as the Common Working File (CWF) Host for the Great Western Sector and Pacific Sector under separate cost reimbursable contracts until the contracts were terminated on September 30, 2004. For purposes of this report, we will refer to the Regence – Oregon Medicare Part A and CWF contracts as Oregon.

In August 1992, Oregon established a Voluntary Employee Benefit Association (VEBA) trust for the purpose of funding annual accruals for employees who worked on the Oregon Medicare Part A and CWF contracts. Oregon started claiming accrued postretirement benefit (PRB) costs in fiscal year (FY) 1992.

CMS reimburses a portion of its contractors' PRB costs. In claiming PRB costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation (FAR) and applicable Cost Accounting Standards as required by their Medicare contracts.

Following the close of each FY, Oregon submitted a final administrative cost proposal (FACP) to CMS reporting the administrative costs of performing Medicare functions during the year. The accrued PRB cost is part of the administrative cost of performing Medicare functions and, as such, is claimed on each FY's FACP.

OBJECTIVE

Our objective was to determine the allowability of PRB costs that Oregon claimed for Medicare reimbursement on an accrual basis for FYs 1992 through 2005.

SUMMARY OF FINDING

Oregon did not claim \$59,332 of PRB costs that were allowable for Medicare reimbursement for FYs 1992 through 2005. Oregon claimed \$521,402 of PRB costs for Medicare reimbursement; however, we determined that the allowable PRB costs were \$580,734. This underclaim occurred primarily because Oregon incorrectly excluded a portion of the contributions used to determine the allocable PRB costs in 1992, which reduced Oregon's calculation of the allowable PRB costs.

RECOMMENDATION

We recommend that Oregon revise its FACPs for FYs 1992 through 2005 to claim the additional allowable PRB costs of \$59,332.

AUDITEE COMMENTS

In written comments on our draft report, Oregon agreed with our finding and recommendation.

Oregon's comments are included in their entirety as Appendix B.

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Glossary of Abbreviations and Acronyms

CAS	Cost Accounting Standards
CMS	Centers for Medicare & Medicaid Services
CWF	Common Working File
FACP	final administrative cost proposal
FAR	Federal Acquisition Regulation
FY	fiscal year
PRB	postretirement benefit
SFAS	Statement of Financial Accounting Standards
VEBA	Voluntary Employees Benefit Association
Oregon	The Regence Group – Oregon Medicare Part A and CWF contracts

INTRODUCTION

BACKGROUND

Oregon and Medicare

The Regence Group (Regence) administered the Oregon Medicare Part A operations (Oregon) under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated effective November 30, 2005. In addition, Regence also served as the Common Working File (CWF) Host for the Great Western Sector and Pacific Sector under separate cost reimbursable contracts until the contracts were terminated on September 30, 2004. For purposes of this report, we will refer to the Regence – Oregon Medicare Part A and CWF contracts as Oregon.

In August 1992, Oregon established a Voluntary Employee Benefit Association (VEBA) trust for the purpose of funding annual accruals for employees who worked on the Oregon Medicare Part A and CWF contracts. Oregon started claiming accrued postretirement benefit (PRB) costs in fiscal year (FY) 1992.

Following the close of each FY, Oregon submitted a final administrative cost proposal (FACP) to CMS reporting the administrative costs of performing Medicare functions during the year. The accrued PRB cost is part of the administrative cost of performing Medicare functions and, as such, is claimed on each FY's FACP.

In claiming PRB costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation (FAR) and applicable Cost Accounting Standards as required by their Medicare contracts.

Federal Requirements

CMS reimburses a portion of the funded accruals that contractors charge for their PRB plans. FAR 31.205-6(o) requires that, to be allowable for Medicare reimbursement, PRB accrual costs be determined in accordance with Statement of Financial Accounting Standards (SFAS) 106 and funded in a dedicated trust fund, such as a VEBA trust.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine the allowability of PRB costs that Oregon claimed for Medicare reimbursement on an accrual basis for FYs 1992 through 2005.

Scope

We reviewed accrued PRB costs that Oregon claimed for Medicare reimbursement on its FACPs for FYs 1992 through 2005. Achieving the objective did not require that we review Oregon's overall internal control structure. However, we did review the internal controls related to the accrued PRB costs claimed for Medicare reimbursement to ensure that the PRB costs were allowable pursuant to the FAR.

We performed the audit work in the Region VII field office located in Jefferson City, Missouri.

Methodology

We reviewed applicable Federal requirements. We also identified the amount of accrued PRB costs claimed on the Oregon FACPs. We determined the extent to which Oregon funded the PRB costs with contributions to the VEBA trust fund. In performing our review, we used information provided by Oregon's actuarial consulting firm. The CMS Office of the Actuary staff used this information to develop PRB costs for Oregon based on SFAS 106 methodology applied in accordance with FAR 31.205-6(o). In turn, we verified the actuarial data and used it to calculate the PRB costs that were allowable for Medicare reimbursement on the FACPs for FYs 1992 through 2005. Appendix A contains details on the PRB costs and contributions.

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 objective.

FINDING AND RECOMMENDATION

UNDERCLAIMED POSTRETIREMENT BENEFIT COSTS

Oregon did not claim \$59,332 of PRB costs that were allowable for Medicare reimbursement for FYs 1992 through 2005.¹

For FYs 1992 through 2001, Oregon claimed \$521,402 of PRB costs for Medicare reimbursement. Oregon correctly calculated and claimed zero PRB costs for Medicare reimbursement for FYs 2002 through 2005. We calculated the allowable PRB costs based on total company PRB costs, and we determined that the allowable PRB costs were \$580,734.

We compared allowable accrued PRB costs with the accrued PRB costs claimed on Oregon's FACPs, as shown in the table below.

¹Oregon established its VEBA and began claiming accrual costs in calendar year 1992; therefore, FY 1992 only includes allowable pension costs from January 1, 1992, through September 30, 1992.

Accrued PRB Cost Claimed Variance

Fiscal Year	Per OIG	Per Regence	Difference
1992	\$81,757	\$19,287	\$62,470
1993	83,321	82,905	416
1994	62,792	61,145	1,647
1995	58,742	66,457	(7,715)
1996	65,454	70,309	(4,855)
1997	52,379	51,224	1,155
1998	64,418	61,556	2,862
1999	82,311	88,151	(5,840)
2000	26,944	20,311	6,633
2001	2,616	57	2,559
Total	\$580,734	\$521,402	\$59,332

The underclaim occurred primarily because Oregon incorrectly excluded a portion of the contributions used to determine the allocable PRB costs in 1992, which reduced Oregon's calculation of the allowable PRB costs. Therefore, Oregon underclaimed PRB costs by \$59,332.

RECOMMENDATION

We recommend that Oregon revise its FACPs for FYs 1992 through 2005 to claim the additional allowable PRB costs of \$59,332.

AUDITEE COMMENTS

In written comments on our draft report, Oregon agreed with our finding and recommendation. Oregon further clarified in its response that the Oregon Medicare Part A contract was terminated effective November 30, 2005.

Oregon's comments are included in their entirety as Appendix B.

APPENDIXES

THE REGENCE GROUP - OREGON
STATEMENT OF ALLOWABLE
ACCRUED POSTRETIREMENT BENEFIT COSTS
FOR FISCAL YEARS 1992 THROUGH 2005

Description		Total Company	Other Segment	Medicare Segment
1992	Contributions	1/ \$2,060,024		
6.50%	Discount for Interest	2/ (125,729)		
1/1/1992	Present Value Contributions	3/ 1,934,295		
	Prepayment Credit	4/ 0		
	Present Value of Funding	5/ 1,934,295		
	Assigned PRB Cost	6/ 1,949,553		
	Absorbed Credit	7/ 0		
1/1/1992	CAS Funding Target	8/ 1,949,553		
	Percentage Funded	9/ 99.22%		
	Funded PRB Cost	10/ 1,934,295		
	Allowable Interest	11/ 89,058		
	Total Allocable PRB Cost	12/ \$2,023,353		
	Allocation to Segment	13/ 100.00%	95.30%	4.70%
	Calendar Year Allocable PRB Costs	14/	1,928,255	95,098
1992	Fiscal Year PRB Cost	15/	1,446,192	71,323
	Medicare LOB* Percentage	16/	1.41%	86.04%
	Allowable PRB cost	17/ \$81,757	20,391	61,366

1993	Contributions	\$1,549,256		
6.00%	Discount for Interest	(87,694)		
1/1/1993	Present Value Contributions	1,461,562		
	Prepayment Credit	0		
	Present Value of Funding	1,461,562		
	Assigned PRB Cost	1,646,789		
	Absorbed Credit	0		
1/1/1993	CAS Funding Target	1,646,789		
	Percentage Funded	88.75%		
	Funded PRB Cost	1,461,525		
	Allowable Interest	62,115		
	Total Allocable PRB Cost	\$1,523,640		
	Allocation to Segment	100.00%	95.30%	4.70%
	Calendar Year Allocable PRB Costs		1,452,029	71,611
1993	Fiscal Year PRB Cost		1,571,086	77,483
	Medicare LOB* Percentage		0.92%	88.88%
	Allowable PRB cost	\$83,321	14,454	68,867

THE REGENCE GROUP - OREGON
STATEMENT OF ALLOWABLE
ACCRUED POSTRETIREMENT BENEFIT COSTS
FOR FISCAL YEARS 1992 THROUGH 2005

Description	Total Company	Other Segment	Medicare Segment
1994 Contributions	\$1,405,000		
6.00% Discount for Interest	(79,528)		
1/1/1994 Present Value Contributions	<u>1,325,472</u>		
Prepayment Credit	<u>0</u>		
Present Value of Funding	1,325,472		
Assigned PRB Cost	1,608,629		
Absorbed Credit	<u>0</u>		
1/1/1994 CAS Funding Target	<u>1,608,629</u>		
Percentage Funded	<u>82.40%</u>		
Funded PRB Cost	<u>1,325,472</u>		
Allowable Interest	<u>56,333</u>		
Total Allocable PRB Cost	<u>\$1,381,805</u>		
Allocation to Segment	100.00%	96.00%	4.00%
Calendar Year Allocable PRB Costs		1,326,533	55,272
1994 Fiscal Year PRB Cost		1,357,907	59,357
Medicare LOB* Percentage		0.92%	84.74%
Allowable PRB cost	<u>\$62,792</u>	<u>\$12,493</u>	<u>\$50,299</u>

1995 Contributions	\$1,352,133		
6.00% Discount for Interest	(76,536)		
1/1/1995 Present Value Contributions	<u>1,275,597</u>		
Prepayment Credit	<u>0</u>		
Present Value of Funding	1,275,597		
Assigned PRB Cost	1,231,476		
Absorbed Credit	<u>0</u>		
1/1/1995 CAS Funding Target	<u>1,231,476</u>		
Percentage Funded	<u>100.00%</u>		
Funded PRB Cost	<u>1,231,476</u>		
Allowable Interest	<u>52,338</u>		
Total Allocable PRB Cost	<u>\$1,283,814</u>		
Allocation to Segment	100.00%	95.80%	4.20%
Calendar Year Allocable PRB Costs		1,229,894	53,920
1995 Fiscal Year PRB Cost		1,254,054	54,258
Medicare LOB* Percentage		0.84%	88.85%
Allowable PRB cost	<u>\$58,742</u>	<u>\$10,534</u>	<u>\$48,208</u>

THE REGENCE GROUP - OREGON
STATEMENT OF ALLOWABLE
ACCRUED POSTRETIREMENT BENEFIT COSTS
FOR FISCAL YEARS 1992 THROUGH 2005

Description	Total Company	Other Segment	Medicare Segment
1996 Contributions	\$1,426,285		
6.00% Discount for Interest	(80,733)		
1/1/1996 Present Value Contributions	1,345,552		
Prepayment Credit	46,768		
Present Value of Funding	1,392,320		
Assigned PRB Cost	1,919,437		
Absorbed Credit	0		
1/1/1996 CAS Funding Target	1,919,437		
Percentage Funded	72.54%		
Funded PRB Cost	1,392,320		
Allowable Interest	57,186		
Total Allocable PRB Cost	\$1,449,506		
Allocation to Segment	100.00%	96.00%	4.00%
Calendar Year Allocable PRB Costs		1,391,526	57,980
1996 Fiscal Year PRB Cost		1,351,118	56,965
Medicare LOB* Percentage		0.88%	94.03%
Allowable PRB cost	\$65,454	\$11,890	\$53,564

1997 Contributions	\$1,400,000		
6.00% Discount for Interest	(79,245)		
1/1/1997 Present Value Contributions	1,320,755		
Prepayment Credit	0		
Present Value of Funding	1,320,755		
Assigned PRB Cost	2,079,489		
Absorbed Credit	0		
1/1/1997 CAS Funding Target	2,079,489		
Percentage Funded	63.51%		
Funded PRB Cost	1,320,755		
Allowable Interest	56,132		
Total Allocable PRB Cost	\$1,376,887		
Allocation to Segment	100.00%	97.10%	2.90%
Calendar Year Allocable PRB Costs		1,336,957	39,930
1997 Fiscal Year PRB Cost		1,350,599	44,442
Medicare LOB* Percentage		0.82%	92.94%
Allowable PRB cost	\$52,379	\$11,075	\$41,304

THE REGENCE GROUP - OREGON
STATEMENT OF ALLOWABLE
ACCRUED POSTRETIREMENT BENEFIT COSTS
FOR FISCAL YEARS 1992 THROUGH 2005

Description	Total Company	Other Segment	Medicare Segment
1998 Contributions	\$2,007,541		
6.00% Discount for Interest	(113,634)		
1/1/1998 Present Value Contributions	<u>1,893,907</u>		
Prepayment Credit	<u>0</u>		
Present Value of Funding	1,893,907		
Assigned PRB Cost	1,965,258		
Absorbed Credit	<u>0</u>		
1/1/1998 CAS Funding Target	1,965,258		
Percentage Funded	<u>96.37%</u>		
Funded PRB Cost	1,893,907		
Allowable Interest	<u>80,491</u>		
Total Allocable PRB Cost	\$1,974,398		
Allocation to Segment	100.00%	96.50%	3.50%
Calendar Year Allocable PRB Costs		1,905,294	69,104
1998 Fiscal Year PRB Cost		1,763,210	61,810
Medicare LOB* Percentage		<u>0.53%</u>	<u>89.10%</u>
Allowable PRB cost	\$64,418	\$9,345	\$55,073

1999 Contributions	\$2,117,860		
6.00% Discount for Interest	(119,879)		
1/1/1999 Present Value Contributions	<u>1,997,981</u>		
Prepayment Credit	<u>0</u>		
Present Value of Funding	1,997,981		
Assigned PRB Cost	1,767,771		
Absorbed Credit	<u>0</u>		
1/1/1999 CAS Funding Target	1,767,771		
Percentage Funded	<u>100.00%</u>		
Funded PRB Cost	1,767,771		
Allowable Interest	<u>75,130</u>		
Total Allocable PRB Cost	\$1,842,901		
Allocation to Segment	100.00%	95.80%	4.20%
Calendar Year Allocable PRB Costs		1,765,499	77,402
1999 Fiscal Year PRB Cost		1,800,448	75,327
Medicare LOB* Percentage		<u>0.81%</u>	<u>89.91%</u>
Allowable PRB cost	\$82,311	\$14,584	\$67,727

THE REGENCE GROUP - OREGON
STATEMENT OF ALLOWABLE
ACCRUED POSTRETIREMENT BENEFIT COSTS
FOR FISCAL YEARS 1992 THROUGH 2005

Description	Total Company	Other Segment	Medicare Segment
2000 Contributions	\$0		
6.00% Discount for Interest	0		
1/1/2000 Present Value Contributions	0		
Prepayment Credit	244,023		
Present Value of Funding	244,023		
Assigned PRB Cost	823,281		
Absorbed Credit	0		
1/1/2000 CAS Funding Target	823,281		
Percentage Funded	29.64%		
Funded PRB Cost	244,023		
Allowable Interest	0		
Total Allocable PRB Cost	\$244,023		
Allocation to Segment	100.00%	95.60%	4.40%
Calendar Year Allocable PRB Costs		233,286	10,737
2000 Fiscal Year PRB Cost		616,339	27,403
Medicare LOB* Percentage		0.44%	88.43%
Allowable PRB cost	\$26,944	\$2,712	\$24,232

2001 Contributions	\$0		
6.00% Discount for Interest	0		
1/1/2001 Present Value Contributions	0		
Prepayment Credit	0		
Present Value of Funding	0		
Assigned PRB Cost	558,643		
Absorbed Credit	0		
1/1/2001 CAS Funding Target	558,643		
Percentage Funded	0.00%		
Funded PRB Cost	0		
Allowable Interest	0		
Total Allocable PRB Cost	\$0		
Allocation to Segment	<u>18/</u> N/A	N/A	N/A
Calendar Year Allocable PRB Costs		0	0
2001 Fiscal Year PRB Cost		58,321	2,684
Medicare LOB* Percentage		0.37%	89.41%
Allowable PRB cost	\$2,616	\$216	\$2,400

THE REGENCE GROUP - OREGON
STATEMENT OF ALLOWABLE
ACCRUED POSTRETIREMENT BENEFIT COSTS
FOR FISCAL YEARS 1992 THROUGH 2005

Description	Total Company	Other Segment	Medicare Segment
2002 Contributions	\$0		
6.00% Discount for Interest	0		
1/1/2002 Present Value Contributions	0		
Prepayment Credit	0		
Present Value of Funding	0		
Assigned PRB Cost	1,036,624		
Absorbed Credit	0		
1/1/2002 CAS Funding Target	1,036,624		
Percentage Funded	0.00%		
Funded PRB Cost	0		
Allowable Interest	0		
Total Allocable PRB Cost	\$0		
Allocation to Segment	N/A	N/A	N/A
Calendar Year Allocable PRB Costs			0
2002 Fiscal Year PRB Cost			0
Medicare LOB* Percentage			
Allowable PRB cost	\$0		0

2003 Contributions	\$0		
6.00% Discount for Interest	0		
1/1/2003 Present Value Contributions	0		
Prepayment Credit	0		
Present Value of Funding	0		
Assigned PRB Cost	1,333,958		
Absorbed Credit	0		
1/1/2003 CAS Funding Target	1,333,958		
Percentage Funded	0.00%		
Funded PRB Cost	0		
Allowable Interest	0		
Total Allocable PRB Cost	\$0		
Allocation to Segment	N/A	N/A	N/A
Calendar Year Allocable PRB Costs			0
2003 Fiscal Year PRB Cost			0
Medicare LOB* Percentage			
Allowable PRB cost	\$0		0

THE REGENCE GROUP - OREGON
STATEMENT OF ALLOWABLE
ACCRUED POSTRETIREMENT BENEFIT COSTS
FOR FISCAL YEARS 1992 THROUGH 2005

Description	Total Company	Other Segment	Medicare Segment
2004 Contributions	\$0		
4.50% Discount for Interest	0		
1/1/2004 Present Value Contributions	0		
Prepayment Credit	0		
Present Value of Funding	0		
Assigned PRB Cost	944,845		
Absorbed Credit	0		
1/1/2004 CAS Funding Target	944,845		
Percentage Funded	0.00%		
Funded PRB Cost	0		
Allowable Interest	0		
Total Allocable PRB Cost	\$0		
Allocation to Segment	N/A	N/A	N/A
Calendar Year Allocable PRB Costs			0
2004 Fiscal Year PRB Cost			0
Medicare LOB* Percentage			
Allowable PRB cost	\$0		0

2005 Contributions	\$0		
4.50% Discount for Interest	0		
1/1/2005 Present Value Contributions	0		
Prepayment Credit	0		
Present Value of Funding	0		
Assigned PRB Cost	669,297		
Absorbed Credit	0		
1/1/2005 CAS Funding Target	669,297		
Percentage Funded	0.00%		
Funded PRB Cost	0		
Allowable Interest	0		
Total Allocable PRB Cost	\$0		
Allocation to Segment	N/A	N/A	N/A
Calendar Year Allocable PRB Costs			0
2005 Fiscal Year PRB Cost			0
Medicare LOB* Percentage			
Allowable PRB cost	\$0		0

* Line of business

THE REGENCE GROUP - OREGON
STATEMENT OF ALLOWABLE
ACCRUED POSTRETIREMENT BENEFIT COSTS
FOR FISCAL YEARS 1992 THROUGH 2005

FOOTNOTES

- 1/ Total contributions to the trust fund are the deposits made to the Voluntary Employee Benefit Association (VEBA) trust fund. Such contributions can be used to satisfy the funding requirements of Federal Acquisition Regulation (FAR) 31.205-6(o)(2)(iii) and Cost Accounting Standards (CAS) 416-50(a)(1)(v)(A). The contributions included deposits made during the plan year and the discounted value of accrued contributions deposited after the end of the plan year but within the time allowed for filing tax returns.
- 2/ We subtracted the interest that is included in the contributions deposited after the beginning of each plan 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 actual contribution amounts. Interest is determined using the Statement of Financial Accounting Standards 106 expected long-term rate of return.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the plan year.
- 4/ 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 current period funding requirement. A prepayment credit may be carried forward, with interest, to the first of each subsequent plan year until needed to fund future postretirement benefit (PRB) costs. The accumulated value of prepayment credits is available as of the first day of the plan year and is applied as of the first day of the plan year to cover the cost assigned to the period.
- 5/ The present value of funding represents the present value of contributions plus accumulated prepayment credits. This is the amount of funding that is available to cover the current period funding requirement measured at the first day of each plan year.
- 6/ The assigned PRB costs, computed on January 1 of each year, provide the basis to compute the allowable PRB cost that can be charged to Medicare.
- 7/ Cost credits are created when the PRB cost is a negative value. They are accumulated at the long-term rate, and any accumulated unabsorbed credits are applied to subsequent positive CAS PRB costs before any prepayment credits or contributions are applied. Also, because the unabsorbed credits are created by assets that have already been recognized for reimbursement, the credit is not eligible to be claimed when "absorbed."

THE REGENCE GROUP - OREGON
STATEMENT OF ALLOWABLE
ACCRUED POSTRETIREMENT BENEFIT COSTS
FOR FISCAL YEARS 1992 THROUGH 2005

- 8/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of FAR 31.205-6(o)(3).
- 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 premature funding of future period costs, 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 this calculation the percentage of funding has been rounded to seven decimals.
- 10/ We computed the funded CAS PRB cost as the CAS funding target multiplied by the percent funded.
- 11/ We assumed that interest on the funded PRB cost, less the applied prepayment credit, accrues in the same proportion that the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(o)(4), which provides that interest costs are unallowable if caused by a delay in funding beyond 30 days after each quarter of the year to which they are assigned.
- 12/ The total allocable PRB cost is the amount of PRB cost that may be allocated for contract costing purposes.
- 13/ We obtained the percentage of the Total Company allocable PRB costs attributable to the Medicare segment for 1992 -1995 from the actuarial valuation reports provided by Oregon. The actuarial valuation report identified the percentage of the Total Company contribution that was allocable to Medicare segment employees. For years 1996 - 2000, we obtained the Total Company allocable PRB costs from accounting records provided by Oregon.
- 14/ We determined the calendar year (CY) allocable PRB costs by segment by multiplying the total allocable PRB costs by the allocation to segment percentage.
- 15/ For Federal fiscal year (FY) PRB costs, we converted the plan year allocable PRB costs to a Federal FY basis (October 1 through September 30). We calculated the FY PRB costs as 1/4 of the prior year's costs plus 3/4 of the current year's costs. FY 1992 allowable PRB costs includes only allowable costs from January 1, 1992, to September 30, 1992.
- 16/ We obtained the Medicare line of business (LOB) percentages from documentation provided by Oregon. We did not obtain the Medicare LOB percentage for years in which there were no allocable PRB costs.
- 17/ We computed the allowable PRB cost by multiplying the FY PRB cost by the Medicare LOB percentage.
- 18/ Starting with CY 2001, there were no contributions made to the VEBA; therefore, we did not obtain the allocation to segment percentage.

APPENDIX B

MAILING ADDRESS
P. O. Box 30270
Salt Lake City, Utah 84130-0270



November 12, 2008

Patrick J. Cogley
Regional Inspector General for Audit Services Region VII
601 East 12th Street
Kansas City, Missouri 64106

Dear Mr. Cogley

RE: Audit Report A-07-08-00282 response

We have reviewed the referenced draft audit report and include the following written comments for your consideration:

Summary of Findings:

Oregon did not claim \$59,332 of PRB costs that were allowable for Medicare reimbursement for FYs 1992 through 2005. For FYs 1992 through 2001, Oregon claimed \$521,402 of PRB costs for Medicare reimbursement. Oregon correctly calculated and claimed zero PRB costs for Medicare reimbursement for FYs 2002 through 2005. We calculated the allowable PRB costs based on total company PRB costs, and we determined that the allowable PRB costs were \$580,734.

Recommendation:

We recommend that Oregon revise its FACP for FYs 1992 through 2005 to claim the additional allowable PRB costs of \$59,332.

Regence response:

We agree with the finding and recommendation of the auditors. We will claim the amount identified in our final PRB settlement request to CMS. Regence Blue Cross and Blue Shield of Oregon terminated its Medicare Part A contract effective November 30, 2005. No additional corrective action plan will be taken.

Sincerely,



Mark Stimpson
Vice President of Medicare