



JUL 01 2008

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

Report Number: A-07-08-00263

Mr. Tim Crilly
Chief Executive Officer
Blue Cross Blue Shield of Wyoming
4000 House Avenue
Cheyenne, Wyoming 82001

Dear Mr. Crilly:

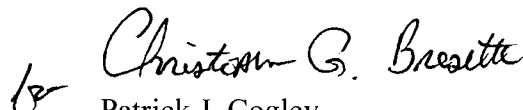
Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross Blue Shield of Wyoming for Fiscal Years 1986 Through 2007." We will forward a copy of this report to the 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-07-08-00263 in all correspondence.

Sincerely,


Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

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 PENSION COSTS
CLAIMED FOR MEDICARE
REIMBURSEMENT BY BLUE
CROSS BLUE SHIELD OF
WYOMING FOR FISCAL YEARS
1986 THROUGH 2007**



Daniel R. Levinson
Inspector General

July 2008
A-07-08-00263

Office of Inspector General

<http://oig.hhs.gov>

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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.

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Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, Office of Inspector General 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).

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

Blue Cross Blue Shield of Wyoming (Wyoming) administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services until the contractual relationship was terminated October 31, 2006. The effective closing date for the Medicare segment was January 1, 2007.

Medicare reimburses a portion of the annual contributions that contractors make to their pension plans. In claiming costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation, Cost Accounting Standards (CAS), and Medicare contracts.

The Medicare contracts require contractors to allocate or separately calculate pension costs. Contractors must use the separate calculation method if there is a material difference between the results of the two methods.

OBJECTIVE

Our objective was to determine the allowability of pension costs that Wyoming claimed for Medicare reimbursement for fiscal years (FY) 1986 through 2007.

SUMMARY OF FINDING

Wyoming did not claim all pension costs that were allowable for Medicare reimbursement for FYs 1986 through 2007 because it did not claim all of its pension costs in accordance with the Medicare contracts. Therefore, Wyoming underclaimed \$40,702 of allowable pension costs.

RECOMMENDATION

We recommend that Wyoming revise its Final Administrative Cost Proposals to claim allowable CAS pension costs of \$40,702 for FYs 1986 through 2007.

AUDITEE COMMENTS

In written comments on our draft report, Wyoming concurred with our finding and stated that it will revise its Final Administrative Cost Proposals to claim allowable CAS pension costs of \$40,702 for FYs 1986 through 2007.

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

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INTRODUCTION

BACKGROUND

Wyoming

Blue Cross Blue Shield of Wyoming (Wyoming) administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated October 31, 2006. The effective closing date for the Medicare segment was January 1, 2007.

Medicare Reimbursement of Pension Costs

Medicare reimburses a portion of the annual contributions that contractors make to their pension plans. To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with Cost Accounting Standards (CAS) 412 and 413 and (2) funded as specified by part 31 of the Federal Acquisition Regulation (FAR).

Beginning in fiscal year (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 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.

Federal Requirements

The Medicare contracts address the determination and allocation of pension costs. Appendix B, section XVI of the contracts states: “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.”

FAR 31.205-6(j) addresses allowability of pension costs and requires that plan contributions substantiate pension costs assigned to contract periods.

CAS 412 regulates the determination and measurement of pension cost components. It also regulates the assignment of pension costs to appropriate accounting periods.

CAS 413 regulates 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.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine the allowability of pension costs that Wyoming claimed for Medicare reimbursement for FYs 1986 through 2007.

Scope

We reviewed pension costs that Wyoming claimed for Medicare reimbursement on its Final Administrative Cost Proposals (FACP) for FYs 1986 through 2007. Achieving the objective did not require that we review Wyoming's overall internal control structure. However, we did review 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 Wyoming's office in Cheyenne, Wyoming, during January 2008.

Methodology

We identified Wyoming's CAS pension costs for the total company and the Medicare segment. We also determined the extent to which Wyoming funded CAS pension costs with contributions to the pension trust fund and accumulated prepayment credits. We based the calculations on separately computed CAS pension costs for the Medicare segment and total company CAS pension costs. The CMS Office of the Actuary calculated the allocable CAS pension costs based on Wyoming's historical practices and on the results of our segmentation review, "Review of the Qualified Pension Plan at Blue Cross Blue Shield of Wyoming, a Terminated Medicare Contractor, for the Period January 1, 1986, to January 1, 2007" (A-07-08-00262). Appendix A contains details on the pension costs and contributions.

In performing our review, we used information that Wyoming's actuarial consulting firm provided. The information included assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We examined Wyoming's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Form 5500s.

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 findings and conclusions based on our audit objectives.

FINDING AND RECOMMENDATION

ALLOWABLE PENSION COSTS NOT CLAIMED

Wyoming did not claim all pension costs that were allowable for Medicare reimbursement for FYs 1986 through 2007 because it did not claim all of its pension costs in accordance with the Medicare contracts. Specifically, Wyoming did not claim \$40,702 of pension costs that were allowable for Medicare reimbursement for FYs 1986 through 2007.¹

For FYs 1986 through 2007, Wyoming claimed pension costs of \$249,509 for Medicare reimbursement. We calculated the allowable costs based on separately computed CAS pension costs for the Medicare segment and the total company. We determined that the allowable CAS pension costs totaled \$290,211. We compared allowable CAS pension costs with the pension costs claimed on Wyoming's FACPs, as shown in the table below.

Pension Cost Claimed Variance			
Fiscal Year	Per Audit	Per Wyoming	Difference
1986	\$0	\$5,739	(\$5,739)
1987	2,547	1,940	\$607
1988	849	0	\$849
1989	0	0	\$0
1990	0	0	\$0
1991	0	0	\$0
1992	0	0	\$0
1993	6,105	0	\$6,105
1994	5,286	0	\$5,286
1995	9,674	5,029	\$4,645
1996	12,016	9,749	\$2,267
1997	7,620	10,277	(\$2,657)
1998	1,523	8,969	(\$7,446)
1999	0	9,434	(\$9,434)
2000	0	6,362	(\$6,362)
2001	12,615	9,804	\$2,811
2002	26,718	21,106	\$5,612
2003	37,680	28,907	\$8,773
2004	43,341	32,328	\$11,013
2005	56,363	48,354	\$8,009
2006	62,589	51,511	\$11,078
2007	5,285	0	\$5,285
Total	\$290,211	\$249,509	\$40,702

¹Due to unavailable information for plan year 1985, the comparison of FY 1986 costs covered the period January 1, 1986, through September 30, 1986. Because the Medicare contract was terminated October 31, 2006, the calculation of the allowable FY 2007 costs covered the period October 1, 2006, through October 31, 2006.

The Medicare contracts required Wyoming to allocate or separately calculate CAS pension costs for Medicare reimbursement. However, Wyoming did not base its claim for Medicare reimbursement in accordance with the contracts. Instead, prior to FY 2002, it based its claim on the Financial Accounting Standard No. 87 expense developed for financial reporting purposes. In addition, starting with FY 2002, Wyoming based its claim solely on a separately computed CAS pension cost for the Medicare segment, omitting pension costs from indirect operations. As a result of these incorrect procedures, Wyoming did not claim \$40,702 of allowable pension costs.

RECOMMENDATION

We recommend that Wyoming revise its FACPs to claim allowable CAS pension costs of \$40,702 for FYs 1986 through 2007.

AUDITEE COMMENTS

In written comments on our draft report, Wyoming concurred with our finding and stated that it will revise its FACPs to claim allowable CAS pension costs of \$40,702 for FYs 1986 through 2007.

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

APPENDIXES

APPENDIX A

Date	Description		Total Company	Other Segment	Medicare Segment
1986	Contributions	<u>1/</u>	\$72,969	\$72,969	\$0
9.00%	Discount for Interest	<u>2/</u>	(3,479)	(3,479)	0
1/1/86	Present Value Contributions	<u>3/</u>	69,490	69,490	0
	Prepayment Credit	<u>4/</u>	0	0	0
	Present Value of Funding	<u>5/</u>	69,490	69,490	0
1/1/86	CAS Funding Target	<u>6/</u>	(924)	(924)	0
	Percentage Funded	<u>7/</u>		0.00%	0.00%
	Funded Pension Cost	<u>8/</u>		0	0
	Allowable Interest	<u>9/</u>		0	0
	Allocable Pension Cost	<u>10/</u>		0	0
1986	Fiscal Year Pension Cost	<u>11/</u>		0	0
	Medicare LOB* Percentage	<u>12/</u>		1.26%	100.00%
	Allowable Pension Cost	<u>13/</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

1987	Contributions		\$2,031	\$2,031	\$0
8.50%	Discount for Interest		29	29	0
1/1/87	Present Value Contributions		2,060	2,060	0
	Prepayment Credit		3,396	0	3,396
	Present Value of Funding		5,456	2,060	3,396
1/1/87	CAS Funding Target		3,396	0	3,396
	Percentage Funded			0.00%	100.00%
	Funded Pension Cost			0	3,396
	Allowable Interest			0	0
	Allocable Pension Cost			0	3,396
1987	Fiscal Year Pension Cost			0	2,547
	Medicare LOB Percentage			1.26%	100.00%
	Allowable Pension Cost		<u>\$2,547</u>	<u>\$0</u>	<u>\$2,547</u>

APPENDIX A

Date	Description	Total Company	Other Segment	Medicare Segment
1988	Contributions	\$0	\$0	\$0
9.00%	Discount for Interest	0	0	0
1/1/88	Present Value Contributions	0	0	0
	Prepayment Credit	0	0	0
	Present Value of Funding	0	0	0
1/1/88	CAS Funding Target	(15,822)	(15,822)	0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		0	0
	Allowable Interest		0	0
	Allocable Pension Cost		0	0
1988	Fiscal Year Pension Cost		0	849
	Medicare LOB Percentage		1.26%	100.00%
	Allowable Pension Cost	<u>\$849</u>	<u>\$0</u>	<u>\$849</u>

1989	Contributions	\$0	\$0	\$0
9.00%	Discount for Interest	0	0	0
1/1/89	Present Value Contributions	0	0	0
	Prepayment Credit	0	0	0
	Present Value of Funding	0	0	0
1/1/89	CAS Funding Target	0	0	0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		0	0
	Allowable Interest		0	0
	Allocable Pension Cost		0	0
1989	Fiscal Year Pension Cost		0	0
	Medicare LOB Percentage		1.26%	100.00%
	Allowable Pension Cost	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

APPENDIX A

Date	Description	Total Company	Other Segment	Medicare Segment
1990	Contributions	\$0	\$0	\$0
9.00%	Discount for Interest	0	0	0
1/1/90	Present Value Contributions	0	0	0
	Prepayment Credit	0	0	0
	Present Value of Funding	0	0	0
1/1/90	CAS Funding Target	(33,201)	(33,201)	0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		0	0
	Allowable Interest		0	0
	Allocable Pension Cost		0	0
1990	Fiscal Year Pension Cost		0	0
	Medicare LOB Percentage		1.26%	100.00%
	Allowable Pension Cost	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

1991	Contributions	\$0	\$0	\$0
9.00%	Discount for Interest	0	0	0
1/1/91	Present Value Contributions	0	0	0
	Prepayment Credit	0	0	0
	Present Value of Funding	0	0	0
1/1/91	CAS Funding Target	(7,493)	(7,493)	0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		0	0
	Allowable Interest		0	0
	Allocable Pension Cost		0	0
1991	Fiscal Year Pension Cost		0	0
	Medicare LOB Percentage		1.26%	100.00%
	Allowable Pension Cost	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

APPENDIX A

Date	Description	Total Company	Other Segment	Medicare Segment
1992	Contributions	\$0	\$0	\$0
9.00%	Discount for Interest	0	0	0
1/1/92	Present Value Contributions	0	0	0
	Prepayment Credit	0	0	0
	Present Value of Funding	0	0	0
1/1/92	CAS Funding Target	0	0	0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		0	0
	Allowable Interest		0	0
	Allocable Pension Cost		0	0
1992	Fiscal Year Pension Cost		0	0
	Medicare LOB Percentage		1.21%	100.00%
	Allowable Pension Cost	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

1993	Contributions	\$0	\$0	\$0
8.50%	Discount for Interest	0	0	0
1/1/93	Present Value Contributions	0	0	0
	Prepayment Credit	8,140	0	8,140
	Present Value of Funding	8,140	0	8,140
1/1/93	CAS Funding Target	8,140	0	8,140
	Percentage Funded		0.00%	100.00%
	Funded Pension Cost		0	8,140
	Allowable Interest		0	0
	Allocable Pension Cost		0	8,140
1993	Fiscal Year Pension Cost		0	6,105
	Medicare LOB Percentage		1.19%	100.00%
	Allowable Pension Cost	<u>\$6,105</u>	<u>\$0</u>	<u>\$6,105</u>

APPENDIX A

Date	Description	Total Company	Other Segment	Medicare Segment
1994	Contributions	\$0	\$0	\$0
8.00%	Discount for Interest	0	0	0
1/1/94	Present Value Contributions	0	0	0
	Prepayment Credit	4,334	0	4,334
	Present Value of Funding	4,334	0	4,334
1/1/94	CAS Funding Target	4,334	0	4,334
	Percentage Funded		0.00%	100.00%
	Funded Pension Cost		0	4,334
	Allowable Interest		0	0
	Allocable Pension Cost		0	4,334
1994	Fiscal Year Pension Cost		0	5,286
	Medicare LOB Percentage		1.15%	100.00%
	Allowable Pension Cost	<u>\$5,286</u>	<u>\$0</u>	<u>\$5,286</u>

1995	Contributions	\$0	\$0	\$0
8.50%	Discount for Interest	0	0	0
1/1/95	Present Value Contributions	0	0	0
	Prepayment Credit	11,454	0	11,454
	Present Value of Funding	11,454	0	11,454
1/1/95	CAS Funding Target	11,454	0	11,454
	Percentage Funded		0.00%	100.00%
	Funded Pension Cost		0	11,454
	Allowable Interest		0	0
	Allocable Pension Cost		0	11,454
1995	Fiscal Year Pension Cost		0	9,674
	Medicare LOB Percentage		1.04%	100.00%
	Allowable Pension Cost	<u>\$9,674</u>	<u>\$0</u>	<u>\$9,674</u>

APPENDIX A

Date	Description	Total Company	Other Segment	Medicare Segment
1996	Contributions	\$0	\$0	\$0
8.50%	Discount for Interest	0	0	0
1/1/96	Present Value Contributions	0	0	0
	Prepayment Credit	12,203	0	12,203
	Present Value of Funding	12,203	0	12,203
1/1/96	CAS Funding Target	12,203	0	12,203
	Percentage Funded		0.00%	100.00%
	Funded Pension Cost		0	12,203
	Allowable Interest		0	0
	Allocable Pension Cost		0	12,203
1996	Fiscal Year Pension Cost		0	12,016
	Medicare LOB Percentage		1.00%	100.00%
	Allowable Pension Cost	<u>\$12,016</u>	<u>\$0</u>	<u>\$12,016</u>

1997	Contributions	\$0	\$0	\$0
8.50%	Discount for Interest	0	0	0
1/1/97	Present Value Contributions	0	0	0
	Prepayment Credit	6,092	0	6,092
	Present Value of Funding	6,092	0	6,092
1/1/97	CAS Funding Target	6,092	0	6,092
	Percentage Funded		0.00%	100.00%
	Funded Pension Cost		0	6,092
	Allowable Interest		0	0
	Allocable Pension Cost		0	6,092
1997	Fiscal Year Pension Cost		0	7,620
	Medicare LOB Percentage		1.04%	100.00%
	Allowable Pension Cost	<u>\$7,620</u>	<u>\$0</u>	<u>\$7,620</u>

APPENDIX A

Date	Description	Total Company	Other Segment	Medicare Segment
1998	Contributions	\$0	\$0	\$0
9.00%	Discount for Interest	0	0	0
1/1/98	Present Value Contributions	0	0	0
	Prepayment Credit	0	0	0
	Present Value of Funding	0	0	0
1/1/98	CAS Funding Target	0	0	0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		0	0
	Allowable Interest		0	0
	Allocable Pension Cost		0	0
1998	Fiscal Year Pension Cost		0	1,523
	Medicare LOB Percentage		0.95%	100.00%
	Allowable Pension Cost	<u>\$1,523</u>	<u>\$0</u>	<u>\$1,523</u>

1999	Contributions	\$0	\$0	\$0
9.00%	Discount for Interest	0	0	0
1/1/99	Present Value Contributions	0	0	0
	Prepayment Credit	0	0	0
	Present Value of Funding	0	0	0
1/1/99	CAS Funding Target	0	0	0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		0	0
	Allowable Interest		0	0
	Allocable Pension Cost		0	0
1999	Fiscal Year Pension Cost		0	0
	Medicare LOB Percentage		0.95%	100.00%
	Allowable Pension Cost	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

APPENDIX A

Date	Description	Total Company	Other Segment	Medicare Segment
2000	Contributions	\$0	\$0	\$0
9.00%	Discount for Interest	0	0	0
1/1/00	Present Value Contributions	0	0	0
	Prepayment Credit	0	0	0
	Present Value of Funding	0	0	0
1/1/00	CAS Funding Target	0	0	0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		0	0
	Allowable Interest		0	0
	Allocable Pension Cost		0	0
2000	Fiscal Year Pension Cost		0	0
	Medicare LOB Percentage		0.96%	100.00%
	Allowable Pension Cost	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

2001	Contributions	\$350,000	\$350,000	\$0
9.00%	Discount for Interest	(28,899)	(28,899)	0
1/1/01	Present Value Contributions	321,101	321,101	0
	Prepayment Credit	16,820	0	16,820
	Present Value of Funding	337,921	321,101	16,820
1/1/01	CAS Funding Target	16,820	0	16,820
	Percentage Funded		0.00%	100.00%
	Funded Pension Cost		0	16,820
	Allowable Interest		0	0
	Allocable Pension Cost		0	16,820
2001	Fiscal Year Pension Cost		0	12,615
	Medicare LOB Percentage		0.97%	100.00%
	Allowable Pension Cost	<u>\$12,615</u>	<u>\$0</u>	<u>\$12,615</u>

APPENDIX A

Date	Description	Total Company	Other Segment	Medicare Segment
2002	Contributions	\$2,461,000	\$2,461,000	\$0
8.50%	Discount for Interest	<u>(192,797)</u>	<u>(192,797)</u>	<u>0</u>
1/1/02	Present Value Contributions	2,268,203	2,268,203	0
	Prepayment Credit	<u>440,587</u>	<u>414,006</u>	<u>26,581</u>
	Present Value of Funding	2,708,790	2,682,209	26,581
1/1/02	CAS Funding Target	440,587	414,006	26,581
	Percentage Funded		<u>100.00%</u>	<u>100.00%</u>
	Funded Pension Cost		414,006	26,581
	Allowable Interest		<u>0</u>	<u>0</u>
	Allocable Pension Cost		414,006	26,581
2002	Fiscal Year Pension Cost		310,505	24,141
	Medicare LOB Percentage		<u>0.83%</u>	<u>100.00%</u>
	Allowable Pension Cost	<u>\$26,718</u>	<u>\$2,577</u>	<u>\$24,141</u>

2003	Contributions	\$1,000,000	\$1,000,000	\$0
8.50%	Discount for Interest	<u>(78,263)</u>	<u>(78,263)</u>	<u>0</u>
1/1/03	Present Value Contributions	921,737	921,737	0
	Prepayment Credit	<u>685,662</u>	<u>650,671</u>	<u>34,991</u>
	Present Value of Funding	1,607,399	1,572,408	34,991
1/1/03	CAS Funding Target	685,662	650,671	34,991
	Percentage Funded		<u>100.00%</u>	<u>100.00%</u>
	Funded Pension Cost		650,671	34,991
	Allowable Interest		<u>0</u>	<u>0</u>
	Allocable Pension Cost		650,671	34,991
2003	Fiscal Year Pension Cost		591,505	32,889
	Medicare LOB Percentage		<u>0.81%</u>	<u>100.00%</u>
	Allowable Pension Cost	<u>\$37,680</u>	<u>\$4,791</u>	<u>\$32,889</u>

APPENDIX A

Date	Description	Total Company	Other Segment	Medicare Segment
2004	Contributions	\$1,900,000	\$1,900,000	\$0
8.50%	Discount for Interest	(148,074)	(148,074)	0
1/1/04	Present Value Contributions	1,751,926	1,751,926	0
	Prepayment Credit	795,511	757,179	38,332
	Present Value of Funding	2,547,437	2,509,105	38,332
1/1/04	CAS Funding Target	795,511	757,179	38,332
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		757,179	38,332
	Allowable Interest		0	0
	Allocable Pension Cost		757,179	38,332
2004	Fiscal Year Pension Cost		730,552	37,497
	Medicare LOB Percentage		0.80%	100.00%
	Allowable Pension Cost	<u>\$43,341</u>	<u>\$5,844</u>	<u>\$37,497</u>

2005	Contributions	\$2,900,000	\$2,900,000	\$0
8.00%	Discount for Interest	(214,450)	(214,450)	0
1/1/05	Present Value Contributions	2,685,550	2,685,550	0
	Prepayment Credit	1,016,834	962,480	54,354
	Present Value of Funding	3,702,384	3,648,030	54,354
1/1/05	CAS Funding Target	1,016,834	962,480	54,354
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		962,480	54,354
	Allowable Interest		0	0
	Allocable Pension Cost		962,480	54,354
2005	Fiscal Year Pension Cost		911,155	50,349
	Medicare LOB Percentage		0.66%	100.00%
	Allowable Pension Cost	<u>\$56,363</u>	<u>\$6,014</u>	<u>\$50,349</u>

Date	Description	Total Company	Other Segment	Medicare Segment
2006	Contributions	\$1,000,000	\$1,000,000	\$0
8.00%	Discount for Interest	(73,289)	(73,289)	0
1/1/06	Present Value Contributions	926,711	926,711	0
	Prepayment Credit	1,028,738	971,156	57,582
	Present Value of Funding	1,955,449	1,897,867	57,582
1/1/06	CAS Funding Target	1,028,738	971,156	57,582
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		971,156	57,582
	Allowable Interest		0	0
	Allocable Pension Cost		971,156	57,582
2006	Fiscal Year Pension Cost		968,987	56,775
	Medicare LOB Percentage		0.60%	100.00%
	Allowable Pension Cost	<u>\$62,589</u>	<u>\$5,814</u>	<u>\$56,775</u>
2007	Fiscal Year Pension Cost	<u>14/</u>	80,930	4,799
	Medicare LOB Percentage		0.60%	100.00%
	Allowable Pension Cost	<u>\$5,285</u>	<u>\$486</u>	<u>\$4,799</u>

* Line of business.

FOOTNOTES

1/ We obtained total company contribution amounts and dates of deposit from Internal Revenue Service 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. The contributions allocated to the Medicare segment were determined during the pension segmentation review (A-07-08-00262). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare segment.

2/ We subtracted the 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 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, consistent with the method mandated by the Employee Retirement Income Security Act.
- 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 Cost Accounting Standards (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 funding target must be funded by current or prepaid contributions to satisfy the funding requirement of the Federal Acquisition Regulation (FAR) 31.205-6(j)(2)(i).
- 7/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the plan year. Because any funding in excess of the CAS funding target is considered premature funding in accordance with CAS 412.50(c)(1) (as amended), 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.
- 8/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.
- 9/ We assumed that interest on the funded CAS 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 of the end of the quarter.
- 10/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.

11/ Unless noted otherwise, we converted the plan year (January 1 through December 31) allocable pension costs to a fiscal year (FY) basis (October 1 through September 30). We calculated the FY pension costs as 1/4 of the prior year's costs plus 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. Because plan year 1985 pension costs were not computed (due to the unavailable information mentioned earlier in this report), we calculated FY 1986 pension costs as 3/4 of the plan year 1986 allocable pension cost.

12/ 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 Wyoming.

13/ We computed the allowable Medicare pension cost as the FY pension cost multiplied by the Medicare line of business percentage.

14/ FY 2007 pension costs were computed as 1/12 of the prior year's allocable cost to represent the period October 1, 2006, through October 31, 2006.



**BlueCross BlueShield
of Wyoming**

A member of the Blue Cross and Blue Shield
Association, An Association of Independent
Blue Cross and Blue Shield Plans.

May 20, 2008

Patrick J. Cogley
Regional Inspector General for Audit Services
Department of Health & Human Services
601 East 12th Street, Room 284A
Kansas City, MO 64106

Dear Mr. Cogley:

We are in receipt of your report number A-07-08-00263 entitled "Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross Blue Shield of Wyoming for Fiscal Years 1986 through 2007."

We are in concurrence with the finding in the report and will revise our Final Administrative Cost Proposals to claim allowable CAS pension costs of \$40,702 for fiscal years 1986 through 2007.

Please feel free to contact me at 307-432-2791, or through email at diane.gore@bcbswy.com should you require further information. Thank you for you time.

Sincerely,

A handwritten signature in dark ink that reads "Diane G. Gore".

Diane G. Gore
Chief Financial Officer