



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

OCT 18 2007

TO: Kerry Weems
Acting Administrator
Centers for Medicare & Medicaid Services

FROM: Joseph E. Vehgrin *For*
Deputy Inspector General for Audit Services

SUBJECT: Review of Excess Plan Costs Claimed by Blue Cross Blue Shield of South Carolina for Medicare Reimbursement for Fiscal Years 1996–2004 (A-07-07-00235)

Attached is an advance copy of our final report on Excess Plan costs claimed by Blue Cross Blue Shield of South Carolina (South Carolina) for Medicare reimbursement. We will issue this report to South Carolina within 5 business days.

South Carolina administers Medicare Part A and Part B operations in its Palmetto Government Benefit Administrators (Palmetto) and TrailBlazer Health Enterprises (TrailBlazer) subsidiaries under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS).

Our objective was to determine the allowability of the Excess Plan costs that South Carolina claimed for Medicare reimbursement for fiscal years (FY) 1996–2004.

We found that South Carolina overclaimed \$1,847,056 in accrued Excess Plan costs for FYs 1996–2004 because it improperly determined costs based on accrual accounting.

We recommend that South Carolina revise its Final Administrative Cost Proposals for FYs 1996–2004 for Palmetto and FYs 2000–2004 for TrailBlazer to reduce claimed Excess Plan costs by \$1,847,056.

In written comments on our draft report, South Carolina did not directly address our recommendation. South Carolina stated that it would amend the Excess Plan to meet the requirements to account for costs on an accrual basis in accordance with Cost Accounting Standard 412 and that it would work with CMS to resolve issues regarding costs previously claimed. After reviewing South Carolina's comments, we continue to support our recommendation.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact George M. Reeb, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or through e-mail at George.Reeb@oig.hhs.gov or Patrick J. Cogley, Regional Inspector General for Audit Services, Region VII, at (816) 426-3591 or through e-mail at Patrick.Cogley@oig.hhs.gov. Please refer to report number A-07-07-00235.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF EXCESS PLAN COSTS
CLAIMED BY BLUE CROSS
BLUE SHIELD OF
SOUTH CAROLINA FOR
MEDICARE REIMBURSEMENT
FOR FISCAL YEARS 1996–2004**



Daniel R. Levinson
Inspector General

October 2007
A-07-07-00235

Office of Inspector General

<http://oig.hhs.gov>

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OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.





DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

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

OCT 19 2007

Report Number: A-07-07-00235

Mr. Joseph D. Wright, CPA
Vice President and Chief Financial Officer
Blue Cross Blue Shield of South Carolina
P.O. Box 100134, AG-A15
Columbia, South Carolina 29202-3134

Dear Mr. Wright:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Excess Plan Costs Claimed by Blue Cross Blue Shield of South Carolina for Medicare Reimbursement for Fiscal Years 1996-2004." 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, within 10 business days after the final report is issued, it 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-07-07-00235 in all correspondence.

Sincerely,

Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Mr. Roger Perez
Regional Administrator, Region IV
Centers for Medicare & Medicaid Services
Atlanta Federal Center
61 Forsyth Street SW., Suite 4T20
Atlanta, Georgia 30303-8909

EXECUTIVE SUMMARY

BACKGROUND

Blue Cross Blue Shield of South Carolina (South Carolina) administers Medicare Part A and Part B operations in its Palmetto Government Benefit Administrators (Palmetto) and TrailBlazer Health Enterprises (TrailBlazer) subsidiaries under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS).

South Carolina's Excess Plan is a nonqualified pension plan designed to restore benefits lost because of the Internal Revenue Code's limits on benefits paid by the regular qualified pension plan. In claiming Excess Plan costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation, the Cost Accounting Standards (CAS), and their Medicare contracts.

OBJECTIVE

Our objective was to determine the allowability of the Excess Plan costs that South Carolina claimed for Medicare reimbursement for fiscal years (FY) 1996–2004.

SUMMARY OF FINDING

South Carolina overclaimed \$1,847,056 in accrued Excess Plan costs for FYs 1996–2004 because it improperly determined costs based on accrual accounting.

RECOMMENDATION

We recommend that South Carolina revise its Final Administrative Cost Proposals for FYs 1996–2004 for Palmetto and FYs 2000–2004 for TrailBlazer to reduce claimed Excess Plan costs by \$1,847,056.

AUDITEE'S COMMENTS

In written comments on our draft report, South Carolina did not directly address our recommendation. South Carolina stated that it would amend the Excess Plan to meet the requirements to account for costs on an accrual basis in accordance with CAS 412 and that it would work with CMS to resolve issues regarding costs previously claimed. South Carolina's comments are included in their entirety as the Appendix.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

According to the CAS, if the right to a pension benefit is forfeitable, costs of nonqualified defined-benefit pension plans must be assigned to cost accounting periods using the pay-as-you-go method. South Carolina's Excess Plan benefits were forfeitable, and there were no pay-as-you-go costs associated with Medicare cost centers. Our recommendation thus reflects the requirements of the CAS.

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Glossary of Abbreviations and Acronyms

CAS	Cost Accounting Standards
CMS	Centers for Medicare & Medicaid Services
FACP	Final Administrative Cost Proposal
FY	fiscal year

INTRODUCTION

BACKGROUND

Blue Cross Blue Shield of South Carolina (South Carolina) administers Medicare Part A and Part B operations in its Palmetto Government Benefit Administrators (Palmetto) and TrailBlazer Health Enterprises (TrailBlazer) subsidiaries under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS).¹

South Carolina maintains an Excess Plan, which is a nonqualified pension plan designed to restore benefits lost under the regular qualified plan because of Internal Revenue Code, sections 401(a)(17) and 415, limits. The Excess Plan is a supplemental plan, which in combination with the regular plan provides a single benefit promise to participants.

To be allowable for Medicare reimbursement, costs claimed for nonqualified defined-benefit pension plans must be in compliance with Cost Accounting Standard (CAS) 412. CAS 412 (48 CFR § 9904.412–50(c)(3)) states that a contractor may use accrual accounting to measure and assign nonqualified defined-benefit pension plan costs if the contractor so elects, the plan is funded, and the pension benefits are nonforfeitable. If the plan does not meet all of these requirements, the contractor must assign the plan's costs using the pay-as-you-go method. Under the pay-as-you-go method, pension costs are recognized only when benefits are paid to retired employees or their beneficiaries.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine the allowability of the Excess Plan costs that South Carolina claimed for Medicare reimbursement for fiscal years (FY) 1996–2004.

Scope

We reviewed the \$1,847,056 in Excess Plan costs that South Carolina claimed for Medicare reimbursement on its Final Administrative Cost Proposals (FACP) for FYs 1996–2004. The objective did not require that we review South Carolina's overall internal control structure. However, we did review the controls relating to the Excess Plan costs claimed for Medicare reimbursement to ensure that costs were allowable pursuant to the Federal Acquisition Regulation.

We performed fieldwork at South Carolina's corporate office in Columbia, South Carolina, in January 2007.

Methodology

We reviewed applicable Federal requirements and obtained information from South Carolina and its consulting actuary regarding South Carolina's Excess Plan costs for FYs 1996–2004. South

¹South Carolina acquired TrailBlazer from Blue Cross Blue Shield of Texas in October 1999.

Carolina determined Excess Plan costs for Medicare reimbursement on an accrual basis. We identified Palmetto's and TrailBlazer's Excess Plan costs that South Carolina claimed for Medicare reimbursement. Additionally, we reviewed benefit payments for allowability on a pay-as-you-go basis.

We performed our review in accordance with generally accepted government auditing standards.

FINDING AND RECOMMENDATION

South Carolina overclaimed \$1,847,056 in accrued Excess Plan costs for FYs 1996–2004 because it improperly determined costs based on accrual accounting. For accrual accounting under CAS 412, pension benefits must be nonforfeitable. South Carolina's Excess Plan benefits, however, were forfeitable. As a result, the claimed Excess Plan costs were unallowable for Medicare reimbursement.

COST ACCOUNTING STANDARDS REQUIREMENTS

According to CAS 412:

The cost of nonqualified defined-benefit pension plans shall be assigned to cost accounting periods in the same manner as qualified plans under the following conditions:

- (i) The contractor, in disclosing or establishing his cost accounting practices, elects to have a plan so accounted for;
- (ii) The plan is funded through the use of a funding agency; and,
- (iii) The right to a pension benefit is nonforfeitable and is communicated to the participants.

The CAS further states that the costs of nonqualified defined-benefit pension plans that do not meet all of the above requirements must be assigned to cost accounting periods using the pay-as-you-go method.

EXCESS PLAN COSTS

South Carolina claimed a total of \$1,847,056 in Excess Plan costs for Medicare reimbursement, as shown in the table on the next page.

Excess Plan Costs Claimed

FY	Palmetto	TrailBlazer	Total
1996	\$32,892	\$0	\$32,892
1997	53,594	0	53,594
1998	75,243	0	75,243
1999	17,836	0	17,836
2000	82,188	111,647	193,835
2001	177,933	92,053	269,986
2002	227,523	148,345	375,868
2003	230,878	94,894	325,772
2004	355,762	146,268	502,030
Total	\$1,253,849	\$593,207	\$1,847,056

Article 4 of the Excess Plan document provides that the plan sponsor reserves the right to terminate the plan at any time. Because no provision protects the benefits earned under the plan prior to termination, the benefits are forfeitable. Therefore, according to the CAS, the only allowable Excess Plan costs would be pay-as-you-go costs. However, none of the benefit payments (i.e., pay-as-you-go costs) were for retirees from cost centers whose costs were allocated to Medicare. As a result, the claimed Excess Plan costs were unallowable for Medicare reimbursement.

RECOMMENDATION

We recommend that South Carolina revise its FACPs for FYs 1996–2004 for Palmetto and FYs 2000–2004 for TrailBlazer to reduce claimed Excess Plan costs by \$1,847,056.

AUDITEE'S COMMENTS

In written comments on our draft report, South Carolina did not directly address our recommendation. South Carolina stated that it would amend the Excess Plan to meet the requirements to account for costs on an accrual basis in accordance with CAS 412 and that it would work with CMS to resolve issues regarding costs previously claimed. South Carolina's comments are included in their entirety as the Appendix.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

According to the CAS, if the right to a pension benefit is forfeitable, costs of nonqualified defined-benefit pension plans must be assigned to cost accounting periods using the pay-as-you-go method. South Carolina's Excess Plan benefits were forfeitable, and there were no pay-as-you-go costs associated with Medicare cost centers. Our recommendation thus reflects the requirements of the CAS.

APPENDIX



Palmetto GBA
Post Office Box 100134
Columbia, South Carolina 29202-3134

Joe Wright
Vice President and CFO

July 20, 2007

Patrick J. Cogley
Regional Inspector General for Audit Services
Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

RE: Audit Report Number A-07-07-00235

Dear Mr. Cogley:

We are responding to your draft audit report dated June 14, 2007 entitled "Review of Supplemental Excess Plan Costs Claimed for Medicare Reimbursement by Blue Cross Blue Shield of South Carolina for Fiscal Years 1996 Through 2004."

The audit contained the following recommendation with which we partially concur.

Recommendation:

We recommend that South Carolina revise its FACPs for FYs 1996 through 2004 for Palmetto and FYs 2000 through 2004 for TrailBlazer to reduce Excess Plan costs by \$1,847,056.

Comment:

The Excess Plan will be amended to meet the requirements to accounting for costs on an accrual basis in accordance with CAS 412. Palmetto GBA and TrailBlazer will work with CMS to resolve issues regarding costs previously claimed.

If you have any questions, please feel free to contact me at 803-763-5544.

Sincerely,

A handwritten signature in black ink that reads "Joe Wright".

Joe Wright

CC: Eric Shipley, OACT-CMS
William R. Horton, BCSSC
Bruce Hughes, Palmetto GBA
Marti Mahaffey, Trailblazer
Bob Leichte, BCSSC
