



## Memorandum

JAN 30 1992

Date

From

Richard P. Kusserow  
Inspector General*for Bryan [Signature]*

Subject

Audit of Medicare **Contractor's Segmented** Pension Cost, Blue Cross and Blue Shield of Texas, Inc. (A-07-91-00472)

To

Gail R. Wilensky, Ph.D.  
Administrator  
Health Care Financing Administration

This is to alert you to the issuance on January 31, 1992, of our final audit report. A copy is attached. The audit was of Blue Cross and Blue Shield of Texas, Inc.'s (Texas) implementation of its Medicare contract clause on pension plan segmentation. The clause requires Texas to identify, allocate, and report pension assets and costs separately for Medicare segments. Compliance requires Texas to (1) compute actuarial liabilities for the Medicare segments as of 1981, (2) determine a ratio of Medicare's total actuarial liability to the plan's total actuarial liability as of 1981, (3) allocate a portion of the total pension assets as of 1986 to Medicare based on the 1981 ratio (computed in item 2), (4) update the 1986 Medicare assets to 1990, and (5) assess whether Medicare's pension costs should be determined by a separate segmented calculation.

Texas identified four Medicare segments in 1981 using cost centers instead of responsible organizational units as specified in the contract. Texas' identification methodology understated the actuarial liability fraction. When applied to the 1986 pension assets, Texas' fraction understated Medicare's pension assets as of 1986 by \$552,870. We are recommending that Medicare's segmented assets be increased by \$552,870.

Medicare's pension assets were understated by another \$880,874 in the updating of Medicare's segmented assets from 1986 to 1990. The understatement occurred because Texas incorrectly identified the Medicare segments and had not adjusted for participant transfers in and out of the Medicare segments after 1986. We are recommending that Texas increase pension assets of the Medicare segments

Page 2 - Gail R. Wilensky, Ph.D.

by an additional \$880,874. As of April 1, 1990, Medicare's pension assets should have been \$12,459,789 rather than the \$11,026,045 that Texas identified.

In addition, Texas incorrectly determined that there was not a material difference between allocating or separately calculating pension costs for the Medicare segments and concluded that it would charge pension costs using allocations. Our analysis showed that there was a material difference, measured as a dollar amount or as a percentage of cost, in pension costs allocated or separately calculated for the Medicare segments. Texas, in order to be in compliance with contractual provisions, should separately calculate pension costs for the Medicare segments whenever material differences occur in the amounts to be charged using the two methods.

Texas generally agreed with recommendations contained in the final report. The Health Care Financing Administration also agreed with our findings and recommendations.

For further information contact:  
Vincent R. Imbriani  
Regional Inspector General  
for Audit Services, Region VII  
FTS: 867-3591

Attachment

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**AUDIT OF MEDICARE CONTRACTOR'S  
SEGMENTED PENSION COST,  
BLUE CROSS AND BLUE SHIELD  
OF TEXAS, INC.**



**Richard P. Kusserow  
INSPECTOR GENERAL**

**A-07-91-00472**

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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

CXN: A-07-91-00472

Mr. Vernon Walker  
Vice President, Comptroller  
Blue Cross and Blue Shield of Texas, Inc.  
901 South Central Expressway  
Richardson, Texas 75080

Dear Mr. Walker:

Enclosed for your information are two copies of an Office of Inspector General (OIG), Office of Audit Services (OAS) report titled "Audit of Medicare Contractor's Segmented Pension Cost Blue Cross and Blue Shield of Texas, Inc." The review was performed at Blue Cross and Blue Shield of Texas, Inc. in Dallas, Texas. Your attention is invited to the findings and recommendations contained in the report. The below named official will be communicating with you in the near future regarding implementation of necessary actions.

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).

To facilitate identification, please refer to the above common identification number in all correspondence relating to this report.

Sincerely,

Vincent R. Imbriani  
Regional Inspector General for  
Audit Services, Region VII

Enclosure

Action Official:  
Gale A. Drapala  
Regional Administrator, Region VI  
Health Care Financing Administration  
1200 Main Tower, Room 2000  
Dallas, Texas 75202

## SUMMARY

Beginning with Fiscal Year 1988, Blue Cross and Blue Shield of Texas, Inc. (Texas) was required to comply with a contract clause on pension cost segmentation. The clause requires Texas to identify, allocate, and report pension assets and costs separately for Medicare segments. Compliance requires Texas to (1) compute actuarial liabilities for the Medicare segments as of 1981, (2) determine a ratio of Medicare's total actuarial liability to the plan's total actuarial liability as of 1981, (3) allocate a portion of the total pension assets as of 1986 to Medicare based on the 1981 ratio (computed in item 2), (4) update the 1986 Medicare assets to 1990, and (5) assess whether Medicare's pension costs should be determined by a separate segmented calculation. Medicare pension costs, whether allocated or separately calculated, were to be computed, assigned, and adjusted in accordance with the Cost Accounting Standards (CAS).

Texas identified four Medicare segments in 1981 using cost centers instead of responsible organizational units as specified in the contract. Texas' identification methodology understated the actuarial liability fraction. When applied to the 1986 pension assets, Texas' fraction understated Medicare's pension assets as of 1986 by \$552,870. We are recommending that Medicare's segmented assets be increased by \$552,870.

Medicare's pension assets were understated by another \$880,874 in the updating of Medicare's segmented assets from 1986 to 1990. The understatement occurred because Texas incorrectly identified the Medicare segments and had not adjusted for participant transfers in and out of the Medicare segments after 1986. We are recommending that Texas increase pension assets of the Medicare segments by an additional \$880,874. As of April 1, 1990, Medicare's pension assets should have been \$12,459,789 rather than the \$11,026,045 that Texas identified.

In addition, Texas incorrectly determined that there was not a material difference between allocating or separately calculating pension costs for the Medicare segments and concluded that it would charge pension costs using allocations. Our analysis showed that there was a material difference, measured as a dollar amount or as a percentage of cost, in pension costs allocated or separately calculated for the Medicare segments. Texas, in order to be in compliance with contractual provisions, should separately calculate pension costs for the Medicare segments whenever material differences occur in the amounts to be charged using the two methods.

Texas generally agreed with the recommendations contained in the final report.

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## INTRODUCTION

### BACKGROUND

Title XVIII of the Social Security Act, Health Insurance for the Aged and Disabled (Medicare), provides that organizations may assist in administering the Medicare program under contracts with the Secretary, U.S. Department of Health and Human Services (HHS). Medicare contractors, intermediaries (Part A) and carriers (Part B), were reimbursed for reasonable and allowable costs incurred in administering the Medicare program. Most of the contracts were cost **reimbursement** and **were** renewed annually.

Blue Cross and Blue Shield of Texas, Inc. (Texas) has administered Medicare Parts A and B operations under cost reimbursement contracts since July 1, 1966.

Contractors were to follow cost reimbursement principles contained in their contracts, the Federal Acquisition Regulations (FAR), which superseded the Federal Procurement Regulations (FPR), and the Cost Accounting Standards (CAS). A fundamental reimbursement principle in the contracts was that the contractor ". . .shall be paid its costs of administration under the principle of neither profit nor loss..."

To ensure that a no profit, no loss principle was followed concerning pension plans and costs, we issued an audit report to the Health Care Financing Administration (HCFA) in 1985. The report was titled "Medicare Intermediaries and Carriers Should Be Required To Use Segment Accounting For Claiming Pension Costs." Our report demonstrated that pension contributions charged to Medicare exceeded what was required to meet Medicare's pension liabilities. The report recommended that HCFA amend Medicare contracts to require treatment of Medicare as a separate segment for calculating and charging pension costs.

The HCFA subsequently negotiated segmenting requirements with private insurance companies and the Blue Cross/Blue Shield Association. Segmenting requirements were incorporated into Medicare contracts starting with Fiscal Year (FY) 1988. To assist contractors with the segmenting requirements, HCFA distributed a pension cost questionnaire to contractors in 1989. The questionnaire was to ensure that contractors had, and would maintain, data necessary to make and document the segmentation calculations.

Texas' questionnaire response, received by HCFA on May 30, 1989, identified four Medicare segments: Provider Automation (Segment 1), Data Processing (Segment 2), Medicare Division (Segment 3), and Provider Reimbursement (Segment 4). The response identified total pension assets of \$43.8 million as of April 1, 1988. Medicare's share of these assets was



\$9.9 million. The response also stated that the difference **between** allocating to or separately calculating pension **costs** for the **Medicare** segments for the plan year beginning April 1, 1988 would not produce materially different results.

**CRITERIA GOVERNING  
SEGMENTED PENSION COSTS**

Since its inception, Medicare has reimbursed a portion of annual contributions paid into contractors' pension plans. The Medicare reimbursements represented allowable pension costs in accordance with the FPR and/or the FAR. In 1980, CAS 412 and 413 were incorporated into both the FPR and the **Medicare** contracts:

"The cost of all defined benefit pension plans shall be measured, allocated, and accounted for in compliance with the provisions of CAS 412, Composition and Measurement of Pension Costs, and CAS 413, Adjustment and Allocation of Pension Costs."  
(FAR, Section 31.205-6(j)(2))

The CAS 412 provided guidance for determining and measuring the components of pension costs, such as normal cost and the amortization of the unfunded liability. It also specified how pension costs were to be assigned to appropriate accounting periods. The CAS 413 provided guidance for valuing pension assets, allocating pension costs to segments of an organization, adjusting pension costs by measuring actuarial gains and losses, and assigning such gains and losses to cost accounting periods.

Pension costs were to be calculated separately for a segment whenever (i) there was a material termination gain or loss attributable to one operation of a company, (ii) benefit levels, eligibility or age distributions for the segment were materially different, or (iii) appropriate assumptions, such as termination rates or retirement ages, were significantly different for one organizational operation of a company (CAS, Section 413.50(c)(2)).

Separate calculations were also required whenever pension plans of different segments were merged and the ratio of assets to actuarial liabilities was materially different after the merger (CAS, Section 413.50(c)(3)). Pension costs could be separately calculated for the segment for all participants or just active participants (CAS, Section 413.50(c)(9)).

Another provision specified how to initially allocate the assets of a pension fund among segments (CAS, Section 413.50(c)(5)) and described how segment assets were to be adjusted each year (CAS, Section 413.50(c)(7)). Adjustments were required for transfers in and out of the segment if the ratio of assets to liabilities would otherwise be distorted (CAS, Section 413.50(c)(8)).

In addition to the **CAS** requirements, HCFA, starting With FY 1988, incorporated specific segmenting language into **Medicare** contracts. The contracts stated:

"The term 'Medicare Segment' shall mean any organizational component of the contractor, such as a division, department, or other similar subdivision, having a significant degree of responsibility and accountability for the Medicare contract/agreement, in which:

1. The majority of the salary dollars is allocated to the Medicare agreement/contract:  
or
2. Less than a majority of the salary dollars is allocated to the Medicare agreement/contract, and these salary dollars represent 40 percent or more of the total salary dollars allocated to the Medicare agreement/contract."

The contracts also provided that, beginning with FY 1988, pension assets applicable to a Medicare segment were to be separately identified regardless of whether pension costs were allocated or separately calculated.

To implement the segmentation requirements, contracts stipulated the procedures by which assets were to be allocated to Medicare once it was determined that a segment existed. The assets were to be allocated as of the first pension plan year following the date the salary criteria was met, but not earlier than the first plan year starting after December 31, 1985. The asset allocation was to be based on the ratio of the actuarial liability of the Medicare segment in relation to the total plan actuarial liability as of the first day of the first plan year starting after December 31, 1980. Contracts also identified when Medicare operations should have pension cost calculated separately for a segment.

In summary, Texas' contract required it to (1) compute the actuarial liability for the Medicare segments as of 1981, (2) determine a ratio of Medicare's actuarial liability to the total actuarial liability as of 1981, (3) allocate a portion of total pension assets to Medicare as of 1986 based on the 1981 ratio, (4) update the 1986 Medicare assets to 1990, and (5) assess whether Medicare's pension costs should be determined by a separate segmented calculation.

## **SCOPE OF AUDIT**

Our examination was made in accordance with generally **accepted** Government auditing standards. The audit only addressed pension segmentation requirements. The primary purpose was to determine Texas' compliance with contract requirements involving pension segmentation.

Our review covered the period of April 1, 1981 through April 1, 1990. We reviewed Texas' identification of **Medicare segments** as of April 1, 1988 and traced the organizational lineage of the segments back to 1981. We also reviewed Texas' assignment of actuarial liability to the Medicare work force on April 1, 1981 and April 1, 1988. The HCFA's pension actuarial staff reviewed calculations of the actuarial liability, and they computed CAS pension costs for 1988 through 1990. We reviewed pension assets allocated to Medicare segments as of April 1, 1986 and the asset adjustment from April 1, 1986 through April 1, 1990.

We reviewed documents from the Comptroller's department regarding cost centers that comprised the Medicare segments. Participant listings, benefit listings, and other records associated with the valuation of the pension plan for 1981 through 1990 were obtained from Texas' consulting actuary. We also reviewed the actuarial liability determined by the consulting actuary for employees who worked in the Medicare segments.

In establishing pension assets and the actuarial liability, we reviewed pension plan documents, annual actuarial valuation reports, and the Department of Labor/Internal Revenue Service Forms 5500.

We performed our fieldwork during January and February 1991 at Texas' corporate offices in Dallas, Texas.

## **FINDINGS AND RECOMMENDATIONS**

### **CONTRACTOR'S 1981 RATIO OF MEDICARE'S ACTUARIAL LIABILITY TO TOTAL PLAN'S ACTUARIAL LIABILITY**

Texas understated Medicare's allocation of pension assets for 1986 by \$552,870. Texas was required to allocate 1986 pension assets to Medicare segments using the ratio of Medicare's actuarial liability to the plan's total actuarial liability as of January 1, 1981. In computing the ratio, Texas misclassified some plan participants and excluded all inactive plan participants. As a result, assets for the Medicare segments were understated.

The **agreement** provided that assets for the **Medicare segments** were to be determined as follows:

- Assets initially allocated to a segment were to be determined by multiplying the actuarial value of the undivided pension fund assets, as of the allocation date, by the asset fraction.
- The numerator of the asset fraction was the actuarial liability of a Medicare segment. The denominator of the fraction was the actuarial liability of the total pension plan.

Texas defined Medicare segments at the cost center level. In the process of identifying the cost centers as Medicare related and non-Medicare related, Texas treated the cost centers inconsistently and omitted plan participants. This, in turn, resulted in an understated asset fraction and a subsequent understatement of Medicare's share of pension assets.

**Medicare Participants Omitted From Segments**

Texas identified four Medicare segments. Medicare Segments 3 and 4 performed only Medicare functions. Medicare Segments 1 and 2 performed a combination of Medicare and non-Medicare functions. Texas also identified 1981 actuarial liabilities of \$6,326,917 for the Medicare segments and \$30,874,973 for the total plan. Texas applied the Medicare asset fraction (\$6,326,917/\$30,874,973) to 1986 pension assets and determined Medicare's 1986 assets to be \$6,695,873 as illustrated in the following table.

<u>Medicare Segment</u>	<u>Actuarial Liability</u>	<u>Asset Fraction</u>	<u>1986 Assets</u>
1	\$ 142,577	0.462%	\$ 150,961
2	715,634	2.318%	757,419
3	4,850,774	15.711%	5,133,655
4	<u>617,932</u>	<u>2.001%</u>	<u>653,838</u>
Total Medicare	<u>\$6,326,917</u>	<u>20.492%</u>	<u>\$6,695,873</u>
Other	<u>\$24,548,056</u>	<u>79.508%</u>	<u>\$25,979,675</u>
Total Company	<u>\$30,874,973</u>	<u>100.000%</u>	<u>\$32,675,548</u>

Texas organizationally distributed its work force into cost centers. Cost centers were then grouped into departments, and departments were functionally aligned into divisions. According to the Medicare contract, "Medicare Segment" means any organizational component having a significant degree of responsibility and accountability for the Medicare contract. At Texas, that degree of responsibility and accountability existed at the division level.

We defined **Medicare** segments at a divisional level rather than a cost center level. We found that **Texas'** methodology for defining **Medicare segments** included 90 **active plan** participants in the total actuarial liability that should also have been included in the Medicare segments. This omission from the Medicare segments understated Medicare's actuarial liability which resulted in an understatement of the Medicare asset fraction (**Medicare** actuarial liability/total plan actuarial liability).

Texas acknowledged that 85 of the 90 participants were inadvertently omitted from Medicare Segment 2. However, the remaining five participants were purposely excluded from Medicare Segment 1 because, under Texas' methodology, the cost center comprised of the five employees did not meet criteria for inclusion in a Medicare segment. As previously stated, segments should have been identified at a divisional level. Therefore, we included all 90 individuals as Medicare participants in calculating the Medicare asset fraction for determining Medicare's segmented assets as of 1986. Including the 90 individuals as Medicare participants increased assets of the Medicare segments by \$654,680. (Additional information as to the effect of cost center versus divisional level segment identification is contained in the **MEDICARE'S ASSET BASE AS OF 1986 ADJUSTED TO 1990, Omissions From Segments**, section of this report).

#### Liability **Excluded** for **Inactive** Participants

In addition to the omission of 90 active plan participants from the Medicare asset determination, Texas also excluded the actuarial liability of all inactive plan participants. The consulting actuary excluded the actuarial liability for inactive participants because they had not yet received a pension settlement as of April 1, 1981. Texas' policy in 1981 was to settle pension liability of a plan participant when he/she retired or was terminated. The actuary's basis for exclusion of the liability was that the liability represented an asset adjustment rather than a plan liability. Therefore, he believed that exclusion of the liability would not materially affect the asset fraction.

The omission of the actuarial liability for these inactive participants materially affected the asset fraction and the assets allocated to the Medicare segments as of 1986. We included the inactive participants in our calculation of assets for the Medicare segments. It resulted in a reduction of \$101,810 in assets for the Medicare segments.

#### Computation of Medicare Assets as of April 1, 1986

We recomputed the asset fraction for each Medicare segment, including the active and inactive participants that had been excluded from Texas' calculations. The recomputed fractions were

applied to the total pension plan **assets** as of April 1, 1986, to determine each **segment's** share.

The following is Texas' calculation of Medicare's pension assets as compared with our calculations. For illustration purposes, we have combined the actuarial liabilities and assets of all Medicare segments. Details by individual segment can be found in Appendix A.

	1981 Total Actuarial Liability (A)	1981 Medicare's Actuarial Liability (B)	Rounded Asset Fraction (C) (B)/(A)	1986 Total Company Assets 1/ (D)	1986 Medicare Segments' Assets 1/ (E) (C)x(D)
OIG Calculation	\$31,417,241	\$6,969,635	22.184%	\$32,675,548	\$7,248,743
Texas Calculation	<u>30,874,973</u>	<u>6,326,917</u>	<u>20.492%</u>	32,675,544	<u>6,695,873</u>
Difference	<u>\$542,268</u>	<u>\$642,718</u>	<u>1.692%</u>	<u>0</u>	<u>\$552,870</u>

1/ Actuarial Value

### Recommendation

We recommend that Texas increase Medicare's allocation of 1986 pension assets by \$552,870 to \$7,248,743. (This action will also increase assets of the Medicare segments by \$552,870 as of April 1, 1990).

### Auditee Comments

"While logical argument could probably be built for either approach, we do not argue that the divisional approach can be efficiently employed. We furnished a revised 'rollup' to the auditors prior to draft release that reflects all 'cost center' changes discussed during the audit. The revised rollup (attached) agrees to the numbers presented in the audit draft (before transfers). Therefore the OIG Auditors and Blue Cross and Blue Shield of Texas, Inc. have reached mutual agreement on this aspect."

### MEDICARE'S ASSET BASK AS OF 1986 ADJUSTED TO 1990

In accordance with contractual requirements, Texas updated Medicare's asset base from April 1, 1986 to April 1, 1990. As a result of this update, we determined that Medicare's asset understatement of \$552,870 increased by \$880,874 to \$1,433,744. This increase was due to Texas' use of the lesser amount of Medicare's segmented assets as of 1986 and additional omissions of participants from Medicare's segments between 1986 and 1990.

Two factors contributed to Texas' omission of participants and the related understatement of Medicare's pension assets between 1986 and 1990. First, Texas had not correctly identified participants in the Medicare segments. Second, Texas had not considered the effect of participants transferring in and out of Medicare segments. As a result, Texas had not considered the proper amounts of contributions and benefit payments in adjusting Medicare's segmented assets from 1986 to 1990.

### **Omissions From Segments**

As was the case with determining Medicare's segmented assets as of 1986, Texas also used a cost center approach in updating the assets from 1986 to 1990. In their update, Texas included in a segment only the cost centers in which the salaries were over 50 percent Medicare related for that year. Since there were numerous changes in cost centers on a year-to-year basis, Texas' methodology necessitated tracking and analyzing individual cost centers from year to year. Texas had not implemented a tracking and analysis system that provided for reasonable and consistent treatment of cost centers for inclusion in Medicare's Segment 2 and Segment 1. Texas agreed that its cost center methodology had resulted in inconsistencies.

From 1986 to 1990, Segment 2 consisted of various cost centers in departments within the Data Processing Division (DPD). Texas stated that it had considered including all cost centers within the DPD in the Medicare segment and, in fact, had taken this approach effective April 1, 1990.

In the update from 1986 to 1990, Texas identified Segment 1 as one of two cost centers within the Information Management Division (IMD). Since our definition of segment was based on the division level, we used all cost centers in the IMD for Segment 1 in updating assets from 1986 to 1990.

### **Participant Transfers**

Texas did not adjust for participant transfers in and out of the Medicare segments after 1986. An adjustment was required if the transfers were large enough that their nonconsideration would result in a distortion of a segment's ratio of fund assets to actuarial liabilities (CAS, Section 413.50(c)(8)).

We analyzed the movement of participants for the years after 1986. Our analysis considered both participant numbers and participant liabilities. We found that the exclusion of transfers in and out of the segments significantly distorted the ratio of assets to liabilities for 1988 and 1989. The following illustrates the cumulative differences in funding levels as of 1990 with asset adjustments for the transfers included and excluded (See Appendix B for details).

<u>1990</u>	<u>Segment 1</u>	<u>Segment 2</u>	<u>Segment 3</u>	<u>Segment 4</u>	Other
Included	58.41%	50.41%	58.04%	50.09%	65.95%
Excluded	<u>57.45%</u>	<u>40.83%</u>	<u>57.40%</u>	<u>49.83%</u>	<u>67.02%</u>
Difference	<u>96%</u>	<u>9.59%</u>	<u>.64%</u>	<u>.26%</u>	<u>(1.06%)</u>

We adjusted for the distortions by transferring assets as required by CAS for participant transfers in and out of the Medicare segments. This resulted in a net addition of \$510,266 in Medicare's segmented assets over the four-year period. The net addition consisted of additions of \$521,287 for 1988 and 1989 and reductions of \$11,023 for 1987 and 1990. (The reductions, although insignificant, were made for consistency purposes).

#### Computation of **Medicare Assets as** of April 1, 1990

We recalculated Texas' update of Medicare pension assets from April 1, 1986 to April 1, 1990 (See Appendix A). Our calculation included contributions and benefit payments for participants omitted in Texas' calculations and asset adjustments for transfers. Our calculation otherwise utilized the same methodology of allocation as Texas. Our calculation showed that the understatement of \$552,870 in Medicare's segmented assets as of 1986 increased by another \$880,874 due to the asset adjustments from 1986 to 1990.

#### Recommendation

We recommend that Texas increase Medicare's segmented pension assets by \$880,874 as of April 1, 1990.

#### Auditee Comments

"...we recommend at this point that the revised rollup (attached) furnished to the auditors which agrees to the rollup results presented in the draft (before transfers) be solidified as the audited rollup through April 1, 1990. We recommend that we continue to work out a reasonable asset adjustment recognizing identified transfers to date, which will be applied to the April 1, 1990 asset as an adjustment. We could then propose that effective April 1, 1990 we could employ the method recommended by the auditors to recognize subsequent transfers."

#### **MEDICARE PENSION COST ALLOCATED OR CALCULATED SEPARATELY**

The Medicare contracts provided that pension costs, based on pension plan contributions made in accordance with CAS, could be charged to Medicare on an annual basis through allocations.



However, consistent with CAS, the contracts specified that where Medicare segments existed, a separate calculation of pension costs for the segments was required if such a calculation (versus an allocation) materially affected the amount of pension costs charged to the contract.

Texas did not separately calculate pension costs for Medicare on a segmented basis as of April 1, 1988. The contractor made no contributions to the pension plan fund for 1988 through 1990 because of a full funding limitation established by the Omnibus Budget Reconciliation Act of 1987. However, Texas indicated on its questionnaire response that when pension plan contributions were made, they would be charged to the segment on an allocated basis.

We computed pension costs, in accordance with CAS, for 1988 through 1990 and determined what the charges would have been to the Medicare segments on an allocation and separate calculation basis. The results are shown in the following schedule.

<u>Annual CAS Pension Costs</u>			
<u>Method</u>	1988	1989	1990
Allocation	\$1,445,719	\$1,595,908	\$1,938,015
Separate Calculation	<u>1,594,770</u>	<u>1,727,509</u>	<u>2,034,499</u>
Difference	<u>\$149,051</u>	<u>\$131,601</u>	<u>\$96,484</u>
Percentage	10.3	8.2	5.0

As shown, the costs separately calculated were materially different in dollar amounts and as a percentage of cost.

#### **Recommendation**

We recommend that Texas revise its response and separately compute pension costs for the Medicare segments as of April 1, 1988 and for future years whenever material differences exist between allocated pension costs and separately computed pension costs.

#### **Auditee Comments**

"In order to determine whether or not there is a significant difference (sic) between the methods, both calculations would have to be made. In an effort to address the auditors concerns and to minimize actuarial expenses, Blue Cross and Blue Shield of Texas, Inc. plans to compute separate CAS pension costs for each segment in addition to the overall 'ERISA' calculation to be employed as necessary for reference, tolerance, or as a basis for cost justification."

## OTHER MATTERS

In addition to **addressing** the **issues** and **recommendation** contained in the audit report, the auditee also included the following comments in its response to the audit report.

"In addition to the specific '**finding**' responses delineated above, we wish to point out a couple of very concerning and important facts that relate to this audit even though they don't **arise** as **specific** points in the draft. First, although assets have been allocated, rolled up, and labeled as 'Medicare Segment Assets' these assets have not **been** assigned to Medicare nor to any participant in any segment. All of the assets of the plan are available to pay any and all benefits which are payable from the plan. We have performed the rollup for reference as requested under the current Medicare contract. Second, there does exist a disparity between the regulations promulgated by several federal bodies including **ERISA**, **IRS** and **CAS**. Ultimately a plan must be funded annually in accordance with **ERISA** but **IRS** has placed an annual cap on contributions deductible (sic) while **CAS** contends that all allowable costs must be funded within a contract year. This 'Catch 22' will at some point result in some contention about need, requirement, allowability and chargability (sic) of cost. With the health of the plan and the protection of the participant in mind, we need to address this paramount issue in conjunction with this audit, since it causes the issue to arise."

We agree that this is an important issue and it will be the subject of a separate report.

## INSTRUCTIONS FOR AUDITEE RESPONSE

The HHS action official will contact you to resolve the issues in this audit report. Any additional comments or information that you believe may have a bearing on the resolution of this audit may be presented at that time.

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In accordance with the principles of the Freedom of Information Act (Public Law 90-23), Office of Inspector General, Office of Audit Services 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).

**APPENDICES**

**BLUE CROSS AND BLUE SHIELD OF TEXAS, INC.**  
**DALLAS, TEXAS**

**STATEMENT OF MEDICARE PENSION ASSETS**

**FOR THE PERIOD**  
**APRIL 1, 1986 THROUGH APRIL 1, 1990**

	<u>MEDICARE SEGMENT 1</u>	<u>MEDICARE SEGMENT 2</u>	<u>MEDICARE SEGMENT 3</u>	<u>MEDICARE SEGMENT 4</u>	<u>TOTAL MEDICARE SEGMENTS</u>	<u>OTHER SEGMENTS</u>	<u>TOTAL COMPANY</u>
<b>Assets April 1, 1986</b> 1/	<b>\$326,102</b>	<b>\$964,255</b>	<b>\$5,310,103</b>	<b>\$648,283</b>	<b>\$7,248,743</b>	<b>\$25,426,805</b>	<b>\$32,675,548</b>
1986 Contributions 2/	29,138	248,753	664,884	140,512	1,083,287	2,717,566	3,800,853
1986 Benefits Paid 3/	D	0	(115,916)	(7,445)	(123,361)	(998,449)	(1,121,810)
1986 Earnings 4/	28,040	82,913	456,596	55,743	623,292	2,186,355	2,809,647
1986 Transfers 5/	<u>0</u>	<u>8,615</u>	<u>(17,876)</u>	<u>804</u>	<u>(8,457)</u>	<u>a. 457</u>	<u>0</u>
<b>Assets April 1, 1987</b>	<b>\$383,280</b>	<b>\$1,304,536</b>	<b>\$6,297,791</b>	<b>\$837,897</b>	<b>\$8,823,504</b>	<b>\$29,340,734</b>	<b>\$38,164,238</b>
1987 Contributions	31,253	262,036	764,141	168,861	1,206,291	2,940,242	4,146,533
1987 Benefits Paid	0	0	(177,622)	(14,603)	(192,225)	(1,603,531)	(1,795,756)
1987 Earnings	32,664	111,201	536,877	71,445	752,187	2,501,220	3,253,407
1987 Transfers	<u>7,612</u>	<u>113,459</u>	<u>84,122</u>	<u>(4,447)</u>	<u>200,746</u>	<u>(200,746)</u>	<u>0</u>
<b>Assets April 1, 1988</b>	<b>\$454,809</b>	<b>\$1,791,232</b>	<b>\$7,505,309</b>	<b>\$1,039,153</b>	<b>\$10,790,503</b>	<b>\$32,977,919</b>	<b>\$43,768,422</b>
1988 Contributions 6/	0	0	0	0	0	0	0
1988 Benefits Paid	(13,754)	0	(140,864)	0	0	(1,637,143)	(1,791,761)
1988 Earnings	38,898	153,197	641,896	88,874	(154,618) 922,967	2,820,465	3,743,332
1988 Transfers	<u>17,383</u>	<u>306,343</u>	<u>(9,978)</u>	<u>6,795</u>	<u>320,543</u>	<u>(320,543)</u>	<u>0</u>
<b>Assets April 1, 1989</b>	<b>\$497,336</b>	<b>\$2,250,772</b>	<b>\$7,996,365</b>	<b>\$1,134,822</b>	<b>\$11,879,295</b>	<b>\$33,840,698</b>	<b>\$45,719,993</b>
1989 Contributions	0	0	0	0	0	0	0
1989 Benefits Paid	0	(1,299)	(136,472)	0	(137,771)	(1,190,582)	(1,328,353)
1989 Earnings	30,178	136,576	485,216	68,861	720,831	2,053,440	2,774,271
1989 Transfers	<u>(18,825)</u>	<u>(15,469)</u>	<u>28,581</u>	<u>3,147</u>	<u>(2,566)</u>	<u>2,566</u>	<u>0</u>
<b>Assets April 1, 1990</b>	<b>\$508,689</b>	<b>\$2,370,580</b>	<b>\$8,373,690</b>	<b>\$1,206,830</b>	<b>\$12,459,789</b>	<b>\$34,706,122</b>	<b>\$47,165,911</b>
Assets Per BCBSIX Valuation Report	<u>245,569</u>	<u>1,531,832</u>	<u>8,048,735</u>	<u>1,199,909</u>	<u>11,026,045</u>	<u>36,139,866</u>	<u>47,165,911</u>
<b>Asset Variance</b> 7/	<b><u>\$263,120</u></b>	<b><u>\$838,748</u></b>	<b><u>\$324,955</u></b>	<b><u>\$6,921</u></b>	<b><u>\$1,433,744</u></b>	<b><u>\$(1,433,744)</u></b>	<b><u>so</u></b>

FOOTNOTES TO STATEMENT OF MEDICARE PENSION ASSETS

1/ Total actuarial value of assets (\$32,675,548) was obtained from Blue Cross and Blue Shield of Texas, Inc.'s (Texas) 1986 valuation report. Segment amounts were based on OIG identification of the segments and recomputed asset fractions applied to the total. The recomputed asset fractions, as a percentage, were:

Medicare Segment 1	0.998%
Medicare Segment 2	2.951%
Medicare Segment 3	16.251%
Medicare Segment 4	<u>1.984%</u>
All Medicare Segments	22.184%
Other Segments	<u>77.816%</u>
Total Company	<u>100.000%</u>

See finding in the narrative for more details.

2/ Total contribution amounts were obtained from IRS Form 5500 reports. Contributions were reallocated in accordance with OIG identification of the Medicare segments. The method of allocation was identical to Texas' methodology and was based on the normal cost and actuarial liability of participants in each segment.

3/ Benefit payment amounts, by cost center, were provided by Texas and verified to IRS Form 5500 reports.

4/ Total earning amounts were provided by Texas and verified to IRS Form 5500 reports. Earnings were reallocated in accordance with OIG identification of the Medicare segments. The method of allocation was identical to Texas' methodology and was based on actuarial value of assets. This methodology is described in CAS 413.50 (c)(7).

5/ See Appendix B.

6/ Texas made no contributions to the trust fund for 1988 through 1990 because of OBRA 87 full funding limitations.

7/ The asset variance represents the difference between the OIG calculation of assets as of April 1, 1990 and the assets reported in Texas' April 1, 1990 valuation report.

**BLUE CROSS AND BLUE SHIELD OF TEXAS, INC.**  
**DALLAS, TEXAS**

**STATEMENT OF MEDICARE PENSION ASSET TRANSFERS**  
**FOR THE PERIOD**  
**APRIL 1, 1986 THROUGH APRIL 1, 1990**

<u>4/1/86 TO 4/1/87</u>	<u>MEDICARE SEGMENT 1</u>	<u>MEDICARE SEGMENT</u>	<u>MEDICARE SEGMENT 3</u>	<u>MEDICARE SEGMENT 4</u>	<u>OTHER SEGMENTS</u>	<u>TOTAL</u>
Actuarial Liability						
Transferred Out	1/ \$ 0	\$ 0	\$143,648	\$25,407	\$133,554	
Funding Level	2/ <u>69.01%</u>	<u>63.31%</u>	<u>72.45%</u>	<u>54.30%</u>	<u>80.58%</u>	
Assets Transferred Out	3/ 0	0	(104,072)	(13,796)	(107,618)	(\$225,486)
Assets Transferred In	4/ <u>0</u>	<u>8,615</u>	<u>86,196</u>	<u>14,600</u>	<u>116,075</u>	<u>225,486</u>
Net Asset Adjustment	5/ \$ <u>0</u>	<u>\$8,615</u>	<u>(\$17,876)</u>	<u>\$804</u>	<u>\$8,457</u>	<u>\$ 0</u>
<u>4/1/87 TO 4/1/88</u>						
Actuarial Liability						
Transferred Out	\$ 0	\$ 2,963	\$243,846	\$16,482	\$454,611	
Funding Level	<u>67.61%</u>	<u>58.73%</u>	<u>71.48%</u>	<u>57.53%</u>	<u>82.56%</u>	
Assets Transferred Out	0	(1,740)	(174,301)	(9,482)	(375,327)	(\$560,850)
Assets Transferred In	<u>7,612</u>	<u>115,199</u>	<u>258,423</u>	<u>5,035</u>	<u>174,581</u>	<u>560,850</u>
Net Asset Adjustment	<u>\$7,612</u>	<u>\$113,459</u>	<u>\$84,122</u>	<u>(\$4,447)</u>	<u>(\$200,746)</u>	<u>\$ 0</u>
<u>4/1/88 TO 4/1/89</u>						
Actuarial Liability						
Transferred Out	\$ 0	\$	\$138,797	\$ 0	\$459,841	
Funding Level	<u>67.01%</u>	<u>53.0%</u>	<u>67.00%</u>	<u>53.17%</u>	<u>77.56%</u>	
Assets Transferred Out	0	0	(92,994)	0	(356,653)	(\$449,647)
Assets Transferred In	<u>17,383</u>	<u>306,343</u>	<u>83,016</u>	<u>6,795</u>	<u>36,110</u>	<u>449,647</u>
Net Asset Adjustment	<u>\$17,383</u>	<u>\$306,343</u>	<u>(\$9,978)</u>	<u>\$6,795</u>	<u>(\$320,543)</u>	<u>\$ 0</u>
<u>4/1/89 TO 4/1/90</u>						
Actuarial Liability						
Transferred Out	\$31,079	\$61,391	\$55,178	\$9,560	\$69,906	
Funding Level	<u>60.57%</u>	<u>50.74%</u>	<u>57.84%</u>	<u>49.96%</u>	<u>65.95%</u>	
Assets Transferred Out	(18,825)	(31,150)	(31,914)	(4,776)	(46,102)	(\$132,767)
Assets Transferred In	<u>0</u>	<u>15,681</u>	<u>60,495</u>	<u>7,923</u>	<u>48,668</u>	<u>132,767</u>
Net Asset Adjustment	<u>(\$18,825)</u>	<u>\$15,469</u>	<u>\$28,581</u>	<u>\$3,147</u>	<u>\$2,566</u>	<u>\$ 0</u>

FOOTNOTES TO STATEMENT OF MEDICARE PENSION ASSET TRANSFERS

1/ We identified participant transfers among segments by comparing annual participant listings. Once the transferees were identified, the HCFA Office of the **Actuary calculated** the actuarial liability of each transferee as of the end of the plan year. The calculated liabilities were based on information obtained from Blue Cross and Blue Shield of Texas and its consulting actuary. The amounts shown represented the actuarial liability of all participants that transferred from each segment. The actuarial liability for each segment was based upon the employees in the segment as of the valuation date. Thus, liabilities always followed the participant's movement between segments.

2/ We determined the funding level as of the end of the year before adjusting for transfers. The funding level represented the ratio of the actuarial value of pension assets to the actuarial liabilities for each segment.

3/ We determined the assets associated with the liability that transferred out by multiplying the transferee's actuarial liability by the segment's funding ratio.

4/ The assets transferred in represented the assets transferred out of other segments.

5/ The net asset adjustment represented the net change in each segment's assets after adding the transfers in and subtracting the transfers out.



Vernon W. Walker  
Vice President, Comptroller

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Dallas, Texas 75265-5730  
(214) 668-6180

November 14, 1991

Mr. Vincent R. Imbriani  
Regional Inspector General  
for Audit Services, Region VII  
Department of Health and Human Services  
Office of Inspector General  
Office of Audit Services Region VII  
601 East 12th Street  
Room 284A  
Kansas City, Missouri 64106

RE: Audit of Medicare Contractor's Segmented Pension Cost - Blue Cross  
and Blue Shield of Texas, Inc. Response to Audit Draft dated October  
4, 1991 received October 7, 1991.

Dear Mr. Imbriani:

We have reviewed your draft of the OIG report titled "Audit of Medicare  
Contractor's Segmented Pension Cost Blue Cross and Blue Shield of Texas,  
Inc."

During the draft report review process, we consulted with The Wyatt Company,  
Consultants and Actuaries, as well as both the OIG Audit Team representative  
and the HCFA Actuarial Audit Team representative. Further exchanges of  
information, work papers, perspectives, data files/calculations, and facts  
surrounding the audit specifics and general regulations occurred among  
Blue Cross and Blue Shield of Texas, Inc., OIG, HCFA, and The Wyatt Company  
as part of the draft review process.

We reached mutual agreement with Jim Aasmundstad to defer our draft response  
due date to approximately November 15, 1991, while collectively analyzing  
the facts.

With regard to the broad subject of the Audit draft, Blue Cross and Blue  
Shield of Texas, Inc. complied with the intent of the 1988 Medicare contract  
clause requiring identification of "Medicare Segments" and related pension  
plan costs and assets. Following the general criteria set out in the  
contract guidelines, four "Medicare Segments" and one "Non Segment" were  
identified. The term "responsible organizational unit" was interpreted  
on a cost center unit basis in establishing the segments. The *cost* centers  
chosen fairly well represented entire divisional organizational units  
relative to the underlying Medicare allocations. In moving forward from  
the establishment or base period cost center identification as *cost* center  
numbers changed and work activity changed, the "Cost Center" approach



caused ~~some~~ amount of ~~identification~~ difficulty and inconsistency. The auditors pointed out that cost center identification using a Divisional number range as the organizational unit would make segment identification not only more straightforward but would tend to alleviate slippage caused by cost center changes. -----

-w-w--- While logical argument could probably be built for either approach, we do not argue that the divisional approach can be efficiently employed. We furnished a revised "rollup" to the auditors prior to draft release that reflects all 'cost center' changes discussed during the audit. The revised rollup (attached) agrees to the numbers presented in the audit draft (before transfers). Therefore the OIG Auditors and Blue Cross and Blue Shield of Texas, Inc. have reached mutual agreement on this aspect.

Again with regard to the original calculations, inactive participants were not included in the actuarial liability when determining the allocation of assets to segments for the 1986 beginning year which also affected allocation of contributions for 1986 and 1987.-----

-----w- The Wyatt Company recovered certain data files related to the base periods and provided information to the auditors to adjust inactive participants for applicable valuation dates. The same information was used to produce the revised rollup (attached) furnished to the auditors prior to draft release, which agrees to the numbers presented in the audit draft (before transfers). Therefore, the OIG auditors and Blue Cross and Blue Shield of Texas, Inc. have reached mutual agreement on this aspect.

With regard to participant transfers, we did not reflect any such adjustments in the initial rollup. No transfer was made at initial rollup time partially because there were no apparent indications under CAS as to how such transfer amounts would be calculated and partially because our actuaries believed that participant related asset transfers would not have significant impact on overall asset allocation. This point was discussed with the auditors and The Wyatt Company during the audit. We theorized a method that would "adjust for transfers" at the time an actual participant benefit disbursement was determined based on individual "years worked" in various segments subsequent to the rollup start date. No distributions that crossed segments were identified as having occurred within the reviewed rollup periods. This method would have recognized transfers ultimately. ---s-w-

----- Within the audit draft, the OIG auditors have proposed a method of recognizing and transferring assets based on asset assignment to an individual at the time of transfer, using an individuals relative weight within the segment departed based on beginning of year/end of year snapshots, rather than redistribution of ultimate expense. Our actuaries have analyzed the auditors proposed methodology and believe it to represent a fair and equitable method. The auditor's method is probably also easier to manage. However, the underlying actuarial accrued liabilities used by the auditors to arrive at draft asset adjustments for the identified transferred participants is not consistent with the overall valuation of the Texas Blue Cross Employees Retirement

Plan. The **attempt** by the auditors to calculate the actuarial accrued liability for draft presentation purposes based on what we believe to be **insufficient** data appears to have resulted in a somewhat overstated amount of asset transfers. We have discussed this aspect with the audit team and have reached agreement that either recalculation or factoring based on a **sample** may be in order. Therefore, while we agree that the draft proposal for recognizing asset transfers is reasonable, we reserve the right to either substitute calculations made on complete data or to continue with the auditors to reach agreement on an adjustment to their calculations.

Based on the above discussion and apparent agreement, we **recommend** at this point that the revised **rollup** (attached) furnished to the auditors which agrees to the rollup results presented in the draft (before transfers) be solidified as the audited rollup through April 1, 1990. We **recommend** that we continue to work out a reasonable asset adjustment recognizing identified transfers to date, which will be applied to the April 1, 1990 asset as an adjustment. We could then propose that effective April 1, 1990 we could employ the method **recommended** by the auditors to recognize subsequent transfers.

Finally, with regard to "separate calculation" of pension costs, the auditors do point out that no contributions were made to the plan during plan years beginning April 1, 1988, April 1, 1989, and April 1, 1990 due to the mentioned "full funding limitation". This point has no direct applicability to the rollup numbers presented and no adjustments are recommended. We do recognize that this aspect has indirect relevance to this discussion and to the issue of funding and funding timing in general especially as both are impacted by the aforementioned full funding limitation versus CAS. We should clarify however the potential interpretation of "allocation", "separate calculation", and "charges to Medicare segments". We have historically computed pension costs on an individual participant basis (for the overall Plan) and charged those costs to organizational units (cost centers) where participants worked (letting these periodic costs move from unit to unit as people moved). Charges to Medicare only occurred when participants were performing work in cost centers equitably allocable to Medicare. As agreed, this method is not a broad "allocation" and most equitably recognizes pension cost for any line of business. --V-B-

----- The method comparison schedule contained in the draft implies that the depicted costs might have been those actually charged to Medicare. The costs depicted in fact represent the auditors' computation of costs potentially identified to the "Medicare Segments". Even if pension costs are first identified by segment via a "separate CAS valuation" for each, the amounts will have to be further applied by individual (allocated) within each segment and then charged to cost centers where the individual works to determine actual Medicare charges. The final result will be an equitable charge to Medicare that may composite to a somewhat different number than forecasted for each segment. In order to determine whether or not there is a significant difference between the methods, both calculations would have to be made. In an effort to address the auditors concerns and to minimize actuarial expenses, Blue Cross and Blue Shield of Texas, Inc. plans to compute separate CAS pension costs for each segment in addition to the overall "ERISA" calculation to be employed as necessary for reference, tolerance, or as a basis for cost justification.

In addition to the specific "finding" responses delineated above, ~~we wish~~ to point out a couple of very concerning and important facts that relate to this audit even though they don't arise as **specific** points in the draft. First, al though assets have been allocated, rolled up, and labeled as "Medicare Segment Assets" these assets have not been assigned to Medicare nor to any participant in any segment. All of the assets of the plan are available to pay any and all benefits which are payable from the plan. We have performed the roll up for reference as requested under the current Medicare contract. Second, there does exist a disparity between the regulations **promulgated** by several federal bodies including ERISA, IRS and CAS. Ultimately a plan must be funded annually in accordance with ERISA but IRS has placed an annual cap on contributions deductible while CAS contends that all allowable costs must be funded within a contract year. This "Catch 22" will at some point result in some contention about need, requirement, allowability and **chargability** of cost. With the health of the plan and the protection of the participant in mind, we need to address this paramount issue in conjunction with this audit, since it causes the issue to arise.

If you wish to discuss this response, please contact either me or Gene George who coordinated the audit for Blue Cross and Blue Shield of Texas, Inc. Relay our appreciation to your audit staff for their diligence and cooperation during this process. We look forward to continuing dialogue.

Sincerely,



VW:lm

cc: Gene George - 214-669-6192  
Clarence Bayer - The Wyatt Company

attachments

BLUE CROSS AND BLUE SHIELD OF TEXAS, INC.

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~~REVISOR~~

ALLOCATION AND ROLLUP OF ASSETS FOR THE MEDICARE SEGMENTS

	NON-MEDICARE SEGMENT	MEDICARE SEGMENT 1	MEDICARE SEGMENT 2	MEDICARE SEGMENT 3	MEDICARE S E - 4	MEDICARE TOTAL	TOTAL
4/1/81 PAST SERVICE COST	24,447,606	313,454	927,117	5,105,691	623,372	6,969,635	31,417,241
PSC AS % OF TOTAL	77.810%	0.988%	2.981%	16.251%	1.884%	22.184%	199.9091
4/1/86 ASSET ALLOCATION	25,426,805	326,102	964,255	5,310,103	648,283	7,248,743	32,675,541
1986 CONTRIBUTION ALLOC	2,717,566	29,136	246,753	664,864	140,512	1,083,267	3,800,851
1986 BENEFITS PAID	996,449	0	0	115,916	7,446	123,361	1,121,811
1986 EARNINGS ALLOCATION	2,186,355	26,040	82,913	456,506	55,743	623,292	2,809,841
4/1/87 ASSETS	29,332,277	363,290	1,295,921	6,315,867	637,093	8,631,981	38,184,221
1987 CONTRIBUTION ALLOC	2,940,342	31,253	262,036	764,141	148,861	1,206,291	4,146,531
1987 BENEFITS PAID	1,603,531	0	0	177,622	14,603	192,225	1,795,751
1987 EARNINGS ALLOCATION	2,500,504	32,664	110,486	536,406	71,347	752,903	3,253,401
4/1/88 ASSETS	33,169,492	447,197	1,668,443	7,440,592	1,042,698	10,598,930	43,768,421
1988 CONTRIBUTION ALLOC	0	0	0	0	0	0	0
1988 BENEFITS PAID	1,637,143	13,754	0	140,864	0	154,619	1,791,761
1988 EARNINGS ALLOCATION	2,636,449	36,247	142,895	636,363	89,178	906,483	3,743,331
4/1/89 ASSETS	34,369,198	471,690	1,811,138	7,936,091	1,131,876	11,350,795	45,719,991
1989 CONTRIBUTION ALLOC	0	0	0	0	0	0	0
1989 BENEFITS PAID	1,190,582	0	1,299	136,472	0	137,771	1,328,351
1989 EARNINGS ALLOCATION	2,085,508	26,622	109,899	481,559	66,662	666,762	2,774,271
4/1/90 ASSETS	35,264,124	500,312	1,919,738	8,281,178	1,200,558	11,901,788	47,165,911

ATTACHMENT TO AUDIT DRAFT RESPONSE

AUDIT OF MEDICARE CONTRACTORS SEGMENTED PENSION COST - BLUE CROSS AND BLUE SHIELD OF TEXAS, INC