



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

APR 26 2007

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

Report Number: A-07-07-00227

Eric Schindler, Vice President and Chief Financial Officer
Blue Cross Blue Shield of Montana
404 Fuller Avenue
Helena, Montana 59604

Dear Mr. Schindler:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) report entitled "Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross Blue Shield of Montana for Fiscal Years 1990 Through 2003." A copy of this report will be forwarded 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 regarding actions taken on all matters in the report. We request that you respond to the HHS action 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.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. § 552, as amended by Public Law 104-231), OIG reports are made available to the public to the extent the information is not subject to exemptions of the Act that the Department chooses to exercise (see 45 CFR part 5).

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, or 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-07-07-00227 in all correspondence.

Sincerely,

Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosures

Direct Reply to HHS Action Official:

Mr. George Mills
Regional Administrator (Acting), Region VIII
Centers for Medicare & Medicaid Services
Colorado State Bank Building
1600 Broadway, Suite 700
Denver, Colorado 80202

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS
CLAIMED FOR MEDICARE
REIMBURSEMENT BY BLUE
CROSS BLUE SHIELD OF
MONTANA FOR FISCAL YEARS
1990 THROUGH 2003**



Daniel R. Levinson
Inspector General

April 2007
A-07-07-00227

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The Office of Audit Services (OAS) provides all 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.

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. Specifically, these evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness in departmental programs. To promote impact, the reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within HHS. OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops compliance program guidances, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR Part 5.)

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.

EXECUTIVE SUMMARY

BACKGROUND

Blue Cross Blue Shield of Montana (Montana) administers Medicare Part A and B operations under a cost reimbursement contract with the Centers for Medicare & Medicaid Services (CMS). Effective March 1, 1986, Blue Cross of Montana merged with Montana Physicians' Service, and the two companies became Blue Cross and Blue Shield of Montana. The two pension plans merged effective January 1, 1987.

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 Regulations, Cost Accounting Standards, 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 Montana claimed for Medicare reimbursement for fiscal years (FY) 1990 – 2003.

SUMMARY OF FINDING

Montana did not claim Medicare pension costs for FYs 1990 – 2003. Allowable Medicare pension costs during this period were \$1,849,746. Montana did not claim \$1,849,746 of allowable pension costs because it had chosen not to claim pension costs for Medicare reimbursement.

RECOMMENDATIONS

We recommend that Montana revise its Final Administrative Cost Proposals (FACP) to increase claimed pension costs by \$1,849,746. We also recommend that Montana claim future pension costs in accordance with Federal requirements and the Medicare contracts.

AUDITEE'S COMMENTS

In written comments on our draft report, Montana concurred with our recommendation to revise its FACP to increase claimed pension costs by \$1,849,746 and to claim future pension costs in accordance with Federal requirements and the Medicare contracts. Montana clarified that its reason for not claiming pension costs was associated with keeping total costs within Notice of Budget Approval limitations.

Montana's response is included in its entirety as Appendix B.

INTRODUCTION

BACKGROUND

Montana

Blue Cross Blue Shield of Montana (Montana) administers Medicare Part A and B operations under a cost reimbursement contract with the Centers for Medicare & Medicaid Services (CMS). Effective March 1, 1986, Blue Cross of Montana merged with Montana Physicians' Service, and the two companies became Blue Cross and Blue Shield of Montana. The two pension plans merged effective January 1, 1987.

Medicare

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.

Regulations

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."

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

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

The 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 Montana claimed for Medicare reimbursement for FYs 1990 – 2003.

Scope

We reviewed pension costs that Montana claimed for Medicare reimbursement on its Final Administrative Cost Proposals (FACP) for FYs 1990 – 2003. Achieving the objective did not require that we review Montana’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 allowable in accordance with the CAS and funded in accordance with the FAR.

The original scope of our review of pension costs claimed by Montana for Medicare reimbursement was planned to cover FYs 1986 – 2003. However, during the course of our review, we determined that closing agreements were in place that at least partially closed all FYs through 1989. We made the determination that for those years for which only Part A or Part B was closed, we would treat corresponding pension costs as if the period were completely closed. Any necessary adjustments were made in the rollup of Medicare segment assets. Thus, we revised our scope and objective to cover FYs 1990 – 2003.

We performed fieldwork at Montana’s office in Helena, Montana, during September 2006.

Methodology

In performing our review, we used information provided by Montana’s actuarial consulting firms. The information documented Montana’s methodology to separately calculate Montana’s CAS pension costs. The information also included assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We examined Montana’s accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Form 5500s.

We identified Montana’s CAS pension costs for the total company and the Medicare segment. We also determined the extent to which Montana funded CAS pension costs with contributions to the pension trust fund and accumulated prepayment credits. Using this information, we calculated CAS pension costs that were allowable for Medicare reimbursement for FYs 1990 – 2003. 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 Montana’s historical practices and on the results of our segmentation review (“Review of Medicare Contractor’s Pension Segmentation Requirements at Blue Cross Blue Shield of Montana for January 1, 1981, to January 1, 2004,” A-07-07-00226). Appendix A contains details on the pension costs and contributions.

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

FINDING AND RECOMMENDATIONS

ALLOWABLE PENSION COSTS NOT CLAIMED

Montana did not claim Medicare pension costs for FYs 1990 – 2003.

We calculated the allowable pension costs based on separately computed CAS pension costs for the Medicare segment and total company CAS pension costs. We compared allowable CAS pension costs with the pension costs claimed on Montana’s FACPs, as shown in the table below.

Pension Cost Claimed Variance			
FY	Per OIG	Per Montana	Difference
1990	\$26,329	\$0	\$26,329
1991	54,608	\$0	54,608
1992	38,325	\$0	38,325
1993	139,811	\$0	139,811
1994	170,906	\$0	170,906
1995	162,584	\$0	162,584
1996	129,511	\$0	129,511
1997	132,373	\$0	132,373
1998	85,028	\$0	85,028
1999	111,663	\$0	111,663
2000	99,686	\$0	99,686
2001	66,502	\$0	66,502
2002	235,073	\$0	235,073
2003	397,347	\$0	397,347
Total	\$1,849,746	\$0	\$1,849,746

For FYs 1990 – 2003, Montana did not claim allowable pension costs for Medicare reimbursement; however, allowable CAS pension costs were \$1,849,746. Therefore, Montana underclaimed \$1,849,746 of allowable pension costs because it had chosen not to claim pension costs for Medicare reimbursement.

DECISION NOT TO CLAIM PENSION COSTS

Montana did not claim allowable Medicare pension costs because it had chosen not to claim them.

RECOMMENDATIONS

We recommend that Montana revise its FACPs to increase claimed pension costs by \$1,849,746. We also recommend that Montana claim future pension costs in accordance with Federal requirements and the Medicare contracts.

AUDITEE'S COMMENTS

In written comments on our draft report, Montana concurred with our recommendation to revise its FACPs to increase claimed pension costs by \$1,849,746 and to claim future pension costs in accordance with Federal requirements and the Medicare contracts. Montana clarified that its reason for not claiming pension costs was associated with keeping total costs within Notice of Budget Approval limitations.

Montana's response is included in its entirety as Appendix B.

APPENDIXES

**BLUE CROSS BLUE SHIELD OF MONTANA
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1990 THROUGH 2003**

Date	Description	Total Company	Other Segment	Medicare Segment
1989	Contributions	<u>1/</u> \$545,498	\$510,985	\$34,513
9.00%	Discount For Interest	<u>2/</u> (44,793)	(41,959)	(2,834)
	Present Value Contributions	<u>3/</u> 500,705	469,026	31,679
	Prepayment Credit	<u>4/</u> 4,994	4,632	362
	Present Value Of Funding	<u>5/</u> 505,699	473,658	32,041
	CAS Funding Target	<u>6/</u> 441,451	409,410	32,041
	Percentage Funded	<u>7/</u>	100.00%	100.00%
	Funded Pension Cost	<u>8/</u>	409,410	32,041
	Allowable Interest	<u>9/</u>	25,805	2,020
	Allocable Pension Cost	<u>10/</u>	435,215	34,061
1990	Contributions	\$229,254	\$229,254	\$0
9.00%	Discount For Interest	<u>(18,721)</u>	(18,721)	0
	Present Value Contributions	210,533	210,533	0
	Prepayment Credit	<u>70,030</u>	70,030	0
	Present Value Of Funding	280,563	280,563	0
	CAS Funding Target	410,084	410,084	0
	Percentage Funded		68.42%	0.00%
	Funded Pension Cost		280,563	0
	Allowable Interest		13,421	0
	Allocable Pension Cost		293,984	0
	Fiscal Year Pension Cost	<u>11/</u>	329,292	8,515
	Medicare LOB Percentage *	<u>12/</u>	5.49%	96.90%
	Allowable Pension Cost	<u>13/</u> <u>\$26,329</u>	<u>\$18,078</u>	<u>\$8,251</u>

* Line of business.

**BLUE CROSS BLUE SHIELD OF MONTANA
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1990 THROUGH 2003**

Date	Description	Total Company	Other Segment	Medicare Segment
1991	Contributions	\$567,835	\$528,867	\$38,968
9.00%	Discount For Interest	(46,885)	(43,667)	(3,218)
	Present Value Contributions	520,950	485,200	35,750
	Prepayment Credit	0	0	0
	Present Value Of Funding	520,950	485,200	35,750
	CAS Funding Target	486,373	450,623	35,750
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		450,623	35,750
	Allowable Interest		28,727	2,279
	Allocable Pension Cost		479,350	38,029
	Fiscal Year Pension Cost		433,009	28,522
	Medicare LOB Percentage		6.28%	96.12%
	Allowable Pension Cost	<u>\$54,608</u>	<u>\$27,193</u>	<u>\$27,415</u>

1992	Contributions	\$436,589	\$436,589	\$0
9.00%	Discount For Interest	(35,951)	(35,951)	0
	Present Value Contributions	400,638	400,638	0
	Prepayment Credit	37,688	37,688	0
	Present Value Of Funding	438,326	438,326	0
	CAS Funding Target	476,885	476,885	0
	Percentage Funded		91.91%	0.00%
	Funded Pension Cost		438,326	0
	Allowable Interest		25,541	0
	Allocable Pension Cost		463,867	0
	Fiscal Year Pension Cost		467,738	9,507
	Medicare LOB Percentage		6.19%	98.58%
	Allowable Pension Cost	<u>\$38,325</u>	<u>\$28,953</u>	<u>\$9,372</u>

**BLUE CROSS BLUE SHIELD OF MONTANA
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1990 THROUGH 2003**

Date	Description	Total Company	Other Segment	Medicare Segment
1993	Contributions	\$858,618	\$729,454	\$129,164
8.50%	Discount For Interest	(51,908)	(44,099)	(7,809)
	Present Value Contributions	806,710	685,355	121,355
	Prepayment Credit	0	0	0
	Present Value Of Funding	806,710	685,355	121,355
	CAS Funding Target	826,198	701,910	124,288
	Percentage Funded		97.64%	97.64%
	Funded Pension Cost		685,355	121,355
	Allowable Interest		41,264	7,307
	Allocable Pension Cost		726,619	128,662
	Fiscal Year Pension Cost		660,931	96,497
	Medicare LOB Percentage		6.79%	98.38%
	Allowable Pension Cost	<u>\$139,811</u>	<u>\$44,877</u>	<u>\$94,934</u>

1994	Contributions	\$1,141,662	\$1,014,927	\$126,735
8.00%	Discount For Interest	(56,686)	(50,393)	(6,293)
	Present Value Contributions	1,084,976	964,534	120,442
	Prepayment Credit	0	0	0
	Present Value Of Funding	1,084,976	964,534	120,442
	CAS Funding Target	928,926	808,484	120,442
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		808,484	120,442
	Allowable Interest		42,240	6,293
	Allocable Pension Cost		850,724	126,735
	Fiscal Year Pension Cost		819,698	127,217
	Medicare LOB Percentage		5.60%	98.26%
	Allowable Pension Cost	<u>\$170,906</u>	<u>\$45,903</u>	<u>\$125,003</u>

**BLUE CROSS BLUE SHIELD OF MONTANA
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1990 THROUGH 2003**

Date	Description	Total Company	Other Segment	Medicare Segment
1995	Contributions	\$1,210,825	\$1,129,286	\$81,539
8.50%	Discount For Interest	(68,411)	(63,804)	(4,607)
	Present Value Contributions	1,142,414	1,065,482	76,932
	Prepayment Credit	168,534	151,211	17,323
	Present Value Of Funding	1,310,948	1,216,693	94,255
	CAS Funding Target	917,010	822,755	94,255
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		822,755	94,255
	Allowable Interest		40,214	4,607
	Allocable Pension Cost		862,969	98,862
	Fiscal Year Pension Cost		859,908	105,830
	Medicare LOB Percentage		6.60%	100.00%
	Allowable Pension Cost	<u>\$162,584</u>	<u>\$56,754</u>	<u>\$105,830</u>

1996	Contributions	\$1,420,538	\$1,378,112	\$42,426
8.50%	Discount For Interest	(83,242)	(80,756)	(2,486)
	Present Value Contributions	1,337,296	1,297,356	39,940
	Prepayment Credit	427,423	399,825	27,598
	Present Value Of Funding	1,764,719	1,697,181	67,538
	CAS Funding Target	1,045,989	978,451	67,538
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		978,451	67,538
	Allowable Interest		34,838	2,405
	Allocable Pension Cost		1,013,289	69,943
	Fiscal Year Pension Cost		975,709	77,173
	Medicare LOB Percentage		5.41%	99.42%
	Allowable Pension Cost	<u>\$129,511</u>	<u>\$52,786</u>	<u>\$76,725</u>

**BLUE CROSS BLUE SHIELD OF MONTANA
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1990 THROUGH 2003**

Date	Description	Total Company	Other Segment	Medicare Segment
1997	Contributions	\$1,296,737	\$1,273,758	\$22,979
8.50%	Discount For Interest	(76,343)	(74,990)	(1,353)
	Present Value Contributions	1,220,394	1,198,768	21,626
	Prepayment Credit	779,822	731,531	48,291
	Present Value Of Funding	2,000,216	1,930,299	69,917
	CAS Funding Target	1,129,044	1,059,127	69,917
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		1,059,127	69,917
	Allowable Interest		19,724	1,302
	Allocable Pension Cost		1,078,851	71,219
	Fiscal Year Pension Cost		1,062,461	70,900
	Medicare LOB Percentage		5.83%	99.34%
	Allowable Pension Cost	<u>\$132,373</u>	<u>\$61,941</u>	<u>\$70,432</u>

1998	Contributions	\$567,475	\$567,475	\$0
9.00%	Discount For Interest	(32,143)	(32,143)	0
	Present Value Contributions	535,332	535,332	0
	Prepayment Credit	916,814	916,814	0
	Present Value Of Funding	1,452,146	1,452,146	0
	CAS Funding Target	916,814	916,814	0
	Percentage Funded		100.00%	0.00%
	Funded Pension Cost		916,814	0
	Allowable Interest		0	0
	Allocable Pension Cost		916,814	0
	Fiscal Year Pension Cost		957,323	17,805
	Medicare LOB Percentage		7.03%	99.57%
	Allowable Pension Cost	<u>\$85,028</u>	<u>\$67,300</u>	<u>\$17,728</u>

**BLUE CROSS BLUE SHIELD OF MONTANA
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1990 THROUGH 2003**

Date	Description	Total Company	Other Segment	Medicare Segment
1999	Contributions	\$1,030,328	\$999,603	\$30,725
9.00%	Discount For Interest	(84,095)	(81,587)	(2,508)
	Present Value Contributions	946,233	918,016	28,217
	Prepayment Credit	614,476	580,918	33,558
	Present Value Of Funding	1,560,709	1,498,934	61,775
	CAS Funding Target	1,131,151	1,069,376	61,775
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		1,069,376	61,775
	Allowable Interest		31,139	1,799
	Allocable Pension Cost		1,100,515	63,574
	Fiscal Year Pension Cost		1,054,590	47,681
	Medicare LOB Percentage		6.09%	99.49%
	Allowable Pension Cost	<u>\$111,663</u>	<u>\$64,225</u>	<u>\$47,438</u>

2000	Contributions	\$488,427	\$488,427	\$0
9.00%	Discount For Interest	(39,260)	(39,260)	0
	Present Value Contributions	449,167	449,167	0
	Prepayment Credit	468,218	468,218	0
	Present Value Of Funding	917,385	917,385	0
	CAS Funding Target	922,655	922,655	0
	Percentage Funded		99.43%	0.00%
	Funded Pension Cost		917,385	0
	Allowable Interest		28,634	0
	Allocable Pension Cost		946,019	0
	Fiscal Year Pension Cost		984,643	15,894
	Medicare LOB Percentage		8.52%	99.37%
	Allowable Pension Cost	<u>\$99,686</u>	<u>\$83,892</u>	<u>\$15,794</u>

**BLUE CROSS BLUE SHIELD OF MONTANA
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1990 THROUGH 2003**

Date	Description	Total Company	Other Segment	Medicare Segment
2001	Contributions	\$3,950,000	\$3,950,000	\$0
9.00%	Discount For Interest	(321,124)	(321,124)	0
	Present Value Contributions	3,628,876	3,628,876	0
	Prepayment Credit	0	0	0
	Present Value Of Funding	3,628,876	3,628,876	0
	CAS Funding Target	874,282	874,282	0
	Percentage Funded		100.00%	0.00%
	Funded Pension Cost		874,282	0
	Allowable Interest		55,735	0
	Allocable Pension Cost		930,017	0
	Fiscal Year Pension Cost		934,018	0
	Medicare LOB Percentage		7.12%	98.84%
	Allowable Pension Cost	<u>\$66,502</u>	<u>\$66,502</u>	<u>\$0</u>

2002	Contributions	\$6,056,000	\$6,056,000	\$0
9.00%	Discount For Interest	(500,037)	(500,037)	0
	Present Value Contributions	5,555,963	5,555,963	0
	Prepayment Credit	1,639,090	1,422,175	216,915
	Present Value Of Funding	7,195,053	6,978,138	216,915
	CAS Funding Target	1,639,090	1,422,175	216,915
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		1,422,175	216,915
	Allowable Interest		0	0
	Allocable Pension Cost		1,422,175	216,915
	Fiscal Year Pension Cost		1,299,136	162,686
	Medicare LOB Percentage		5.89%	97.46%
	Allowable Pension Cost	<u>\$235,073</u>	<u>\$76,519</u>	<u>\$158,554</u>

**BLUE CROSS BLUE SHIELD OF MONTANA
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1990 THROUGH 2003**

Date	Description	Total Company	Other Segment	Medicare Segment
2003	Contributions	\$6,000,000	\$6,000,000	\$0
8.50%	Discount For Interest	(470,046)	(470,046)	0
	Present Value Contributions	5,529,954	5,529,954	0
	Prepayment Credit	2,569,146	2,240,031	329,115
	Present Value Of Funding	8,099,100	7,769,985	329,115
	CAS Funding Target	2,569,146	2,240,031	329,115
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		2,240,031	329,115
	Allowable Interest		0	0
	Allocable Pension Cost		2,240,031	329,115
	Fiscal Year Pension Cost		2,035,567	301,065
	Medicare LOB Percentage		4.73%	100.00%
	Allowable Pension Cost	<u>\$397,347</u>	<u>\$96,282</u>	<u>\$301,065</u>

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 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.

**BLUE CROSS BLUE SHIELD OF MONTANA
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1990 THROUGH 2003**

- 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 Regulations (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. Since 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 by 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, was 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/ We converted the plan year allocable pension costs to a Federal 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. FY 1991 pension costs equal 3/4 of the calendar year 1991 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.
- 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 Montana.
- 13/ We computed the allowable Medicare pension cost as the FY pension cost multiplied by the Medicare line of business percentage.



560 N. Park Avenue
P.O. Box 4309
Helena, Montana 59604
(406) 444-8200

Customer Information Line:
1-800-447-7828

Website:
www.bluecrossmontana.com

March 16, 2007

Patrick J. Cogley
Regional Inspector General for Audit Services
Office of Inspector General
Offices of Audit Services, Region VII
601 E 12th St, Rm 284A
Kansas City MO 64106

Re: Report Number A-07-07-00227

Dear Mr. Cogley:

Blue Cross Blue Shield of Montana (BCBSMT) is in receipt of the draft copies of the OIG report entitled "Review of Pension Costs Claimed for Medicare Reimbursement by BCBSMT for Fiscal Years 1990 Through 2003."

In this report, the OIG recommends that BCBSMT revise its Final Administrative Cost Proposals (FACP's) for the years reviewed to increase claimed pension costs by \$1,849,746. The OIG also recommends that BCBSMT claim future pension costs in accordance with Federal requirements and the Medicare contracts.

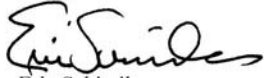
BCBSMT concurs with these recommendations and plans to implement the following corrective action:

1. Immediately amend our FACP's for FY's 2002 - 2005 to include allowable pension cost. All of these years are still open for costs to be claimed.
2. We have spoken with Gretchen Meyer of CMS regarding how to claim allowable pension cost for years prior to 2002, since the FACP's for those years are closed. Gretchen advised that CMS will address costs for these years as part of the global settlement agreement with BCBSMT.

In addition to implementing the corrective action as outlined above, BCBSMT would like to comment on a statement contained in the draft report. On page 3 of the draft report, the last sentence states, "Montana did not claim allowable Medicare pension costs because it had chosen not to claim them." The statement is true in that Montana did choose not to claim pension costs for these years; however it does not indicate the reason why Montana chose not to claim pension costs. From 1987 - 2001, BCBSMT did not claim full cost reimbursement on its FACP's because of Notice of Budget Approval (NOBA) limitations and pressure on small contractors to keep costs within NOBA to avoid negative attention from CMS. Because we were not able to claim full costs, pension and post-retirement benefit costs were costs we elected not to claim due to the internal effort needed to determine allowable amounts.

We appreciate the opportunity to provide input on the draft report. If you have any questions about our response, please contact Erin Frisbey, 406-444-8983.

Sincerely,

A handwritten signature in black ink, appearing to read "Eric Schindler". The signature is fluid and cursive, with the first name "Eric" being more prominent than the last name "Schindler".

Eric Schindler
BCBSMT Vice President and Chief Financial Officer