Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

BLUE CROSS BLUE SHIELD OF TENNESSEE DID NOT CLAIM SOME ALLOWABLE PENSION COSTS FOR FISCAL YEARS 2003 THROUGH 2009

Inquiries about this report may be addressed to the Office of Public Affairs at Public.Affairs@oig.hhs.gov.

Patrick J. Cogley
Regional Inspector General

August 2012
A-07-12-00390

Office of Inspector General

http://oig.hhs.gov

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

BACKGROUND

Blue Cross Blue Shield of Tennessee (BCBS Tennessee), doing business as Riverbend Government Benefits Administrator, administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated effective August 1, 2009.

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

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

OBJECTIVE

Our objective was to determine whether the following costs were allowable for Medicare reimbursement:

- pension costs claimed by BCBS Tennessee for Medicare reimbursement for fiscal years (FY) 2003 through 2009; and

- BCBS Tennessee's qualified defined benefit plan (QDBP) termination claim, dated November 24, 2009, for pension costs associated with the Medicare Part A contracts.

SUMMARY OF FINDINGS

BCBS Tennessee claimed pension costs of $7,025,719 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs during this period were $7,247,152. The difference, $221,433, constituted allowable Medicare pension costs that BCBS Tennessee did not claim on its final administrative cost proposals (FACP) for FYs 2003 through 2009. BCBS Tennessee did not claim these allowable Medicare pension costs primarily because it incorrectly calculated its CAS pension cost.

In addition, BCBS Tennessee's QDBP termination claim for pension costs was unallowable for Medicare reimbursement. BCBS Tennessee submitted a termination claim of $444,026 for Medicare reimbursement of pension costs that it said it would incur subsequent to the termination of the Medicare contracts. Pursuant to CAS 412 and 413, BCBS Tennessee's entire QDBP termination claim of $444,026 for pension costs was unallowable for Medicare reimbursement.

RECOMMENDATIONS

We recommend that BCBS Tennessee:

- revise its FACPs for FYs 2003 through 2009 to claim the additional pension costs of $221,433 and

- withdraw its QDBP termination claim of $444,026 for pension costs associated with the Medicare Part A contracts.

AUDITEE COMMENTS

In written comments on our draft report, BCBS Tennessee concurred with our recommendations and stated that it would work directly with CMS to resolve these issues.

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

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INTRODUCTION

BACKGROUND

Blue Cross Blue Shield of Tennessee

Blue Cross Blue Shield of Tennessee (BCBS Tennessee), doing business as Riverbend Government Benefits Administrator, administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated effective August 1, 2009.

Medicare Reimbursement of Pension Costs

CMS 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 with 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-based 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.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the following costs were allowable for Medicare reimbursement:

- pension costs claimed by BCBS Tennessee for Medicare reimbursement for FYs 2003 through 2009; and

- BCBS Tennessee's qualified defined benefit plan (QDBP) termination claim, dated November 24, 2009, for pension costs associated with the Medicare Part A contracts.

Scope

We reviewed $7,025,719 of pension costs that BCBS Tennessee claimed for Medicare reimbursement on its final administrative cost proposals (FACP) for FYs 2003 through 2009. Additionally, at the request of CMS, we audited the QDBP pension termination claim of $444,026 that BCBS Tennessee submitted for the Medicare Part A contracts' pension costs.

Achieving our objective did not require that we review BCBS Tennessee's overall internal control structure. We reviewed the internal controls related to the pension costs claimed for Medicare reimbursement to ensure that the pension costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

We performed fieldwork at BCBS Tennessee's office in Chattanooga, Tennessee, during November and December 2011.

Methodology

We reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit. Additionally, we reviewed information provided by BCBS Tennessee to identify the amount of pension costs claimed for Medicare reimbursement for FYs 2003 through 2009, as well as the termination claim submitted to CMS. We also determined the extent to which BCBS Tennessee funded CAS-based pension costs with contributions to the pension trust fund and accumulated prepayment credits. We based our calculations on separately computed CAS-based pension costs for the Medicare segment and the "Other" segment. The CMS Office of the Actuary calculated the allocable pension costs based on the CAS and on the results of our segmentation review (*Blue Cross Blue Shield of Tennessee Overstated the Medicare Segment Pension Assets and Medicare's Share of the Excess Pension Liabilities Due to the Segment Closing*, A-07-12-00389).

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

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

FINDINGS AND RECOMMENDATIONS

BCBS Tennessee claimed pension costs of $7,025,719 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs during this period were $7,247,152. The difference, $221,433, constituted allowable Medicare pension costs that BCBS Tennessee did not claim on its FACPs for FYs 2003 through 2009. BCBS Tennessee did not claim these allowable Medicare pension costs primarily because it incorrectly calculated its CAS pension cost.

In addition, BCBS Tennessee's QDBP termination claim for pension costs was unallowable for Medicare reimbursement. BCBS Tennessee submitted a termination claim of $444,026 for Medicare reimbursement of pension costs that it said it would incur subsequent to the termination of the Medicare contracts. Pursuant to CAS 412 and 413, BCBS Tennessee's entire QDBP termination claim of $444,026 for pension costs was unallowable for Medicare reimbursement.

FEDERAL REQUIREMENTS

The Medicare contracts address the determination and allocation of pension costs. The contracts state: "The calculation of and accounting for pension costs charged to this agreement/contract are governed by the Federal Acquisition Regulation and Cost Accounting Standards 412 and 413."

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

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

CAS 413 addresses 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.

ALLOWABLE PENSION COSTS NOT CLAIMED

BCBS Tennessee submitted Medicare pension costs of $7,025,719 for Medicare reimbursement on its FACPs for FYs 2003 through 2009.[1] We calculated the allowable Medicare pension costs based on separately computed CAS-based pension costs for the Medicare segment and the "Other" segment in accordance with CAS 412 and 413. We determined that the allowable CAS-based pension costs for FYs 2003 through 2009 were $7,247,152.

Thus, BCBS Tennessee did not claim $221,433 of allowable Medicare pension costs on its FACPs for FYs 2003 through 2009. This underclaim occurred primarily because BCBS Tennessee incorrectly calculated its CAS pension cost.

The table on the following page compares allowable CAS-based pension costs with the pension costs claimed on BCBS Tennessee's accounting documents. Appendix A contains additional details on allowable pension costs.

[1] The allowable pension costs for FY 2009 were attributable to the pension costs for October 1, 2008, through August 1, 2009.

Comparison of Allowable Pension Costs and Claimed Pension Costs

	Medicare Pension Costs		
Fiscal Year	Allowable Per Audit	Claimed by BCBS Tennessee	Difference
2003	$948,695	$949,439	($744)
2004	1,093,236	1,117,351	(24,115)
2005	1,321,783	1,256,508	65,275
2006	1,412,227	1,298,219	114,008
2007	1,321,634	1,231,548	90,086
2008	661,493	679,552	(18,059)
2009	488,084	493,102	(5,018)
Total	**$7,247,152**	**$7,025,719**	**$221,433**

The Medicare contracts require BCBS Tennessee to calculate pension costs for Medicare reimbursement in accordance with CAS 412 and 413. BCBS Tennessee based its claim for Medicare reimbursement on CAS-based pension costs. However, because BCBS Tennessee computed pension costs incorrectly, it understated those CAS-based pension costs. As a result, BCBS Tennessee did not claim $221,433 of allowable pension costs.

UNALLOWABLE QUALIFIED DEFINED BENEFIT PLAN TERMINATION CLAIM

BCBS Tennessee’s QDBP termination claim for pension costs was unallowable for Medicare reimbursement. BCBS Tennessee submitted a termination claim of $444,026 for Medicare reimbursement of pension costs that it said it would incur subsequent to the termination of the Medicare contracts. Pursuant to CAS 412 and 413, BCBS Tennessee’s entire QDBP termination claim of $444,026 for pension costs was unallowable for Medicare reimbursement.

BCBS Tennessee’s contractual relationship with CMS was terminated effective August 1, 2009. On November 24, 2009, BCBS Tennessee submitted a termination claim of $444,026 to seek reimbursement for unamortized QDBP pension costs. This termination claim was based on a 2003 settlement charge computed under Financial Accounting Standard (FAS) No. 88.

The Medicare contracts require BCBS Tennessee to calculate pension costs in accordance with the provisions of CAS 412 and 413. However, BCBS Tennessee based its termination claim on a FAS 88 amount that did not comply with these provisions. As a result, BCBS Tennessee’s QDBP termination claim of $444,026 for pension costs was unallowable for Medicare reimbursement.

RECOMMENDATIONS

We recommend that BCBS Tennessee:

- revise its FACPs for FYs 2003 through 2009 to claim the additional pension costs of $221,433 and

- withdraw its QDBP termination claim of $444,026 for pension costs associated with the Medicare Part A contracts.

AUDITEE COMMENTS

In written comments on our draft report, BCBS Tennessee concurred with our recommendations and stated that it would work directly with CMS to resolve these issues.

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

APPENDIXES

APPENDIX A: ALLOWABLE MEDICARE PENSION COSTS FOR
BLUE CROSS BLUE SHIELD OF TENNESSEE
FOR FISCAL YEARS 2003 THROUGH 2009

Date	Description		Total Company	"Other" Segment	Medicare Segment	Total Medicare
2002	Allocable Pension Cost	1/		$14,366,799	$668,557	
2003	Contributions	2/	$15,000,000	$15,000,000	$0	
	Discount for Interest	3/	($1,168,887)	($1,168,887)	$0	
January 1, 2003	Present Value Contributions	4/	$13,831,113	$13,831,113	$0	
	Prepayment Credit Applied	5/	$17,600,734	$16,824,032	$776,702	
	Present Value of Funding	6/	$31,431,847	$30,655,145	$776,702	
January 1, 2003	CAS Funding Target	7/	$17,600,734	$16,824,032	$776,702	
	Percentage Funded	8/		100.00%	100.00%	
	Funded Pension Cost	9/		$16,824,032	$776,702	
	Allowable Interest	10/		$0	$0	
	Allocable Pension Cost			$16,824,032	$776,702	
2003	Fiscal Year Pension Costs	11/		$16,209,724	$749,666	
	Medicare LOB* Percentage	12/		1.46%	94.98%	
	Allowable Pension Cost	13/		$236,662	$712,033	$948,695
2004	Contributions		$12,500,000	$12,500,000	$0	
	Discount for Interest		($971,526)	($971,526)	$0	
January 1, 2004	Present Value Contributions		$11,528,474	$11,528,474	$0	
	Prepayment Credit Applied		$19,165,037	$18,275,750	$889,287	
	Present Value of Funding		$30,693,511	$29,804,224	$889,287	
January 1, 2004	CAS Funding Target		$19,165,037	$18,275,750	$889,287	
	Percentage Funded			100.00%	100.00%	
	Funded Pension Cost			$18,275,750	$889,287	
	Allowable Interest			$0	$0	
	Allocable Pension Cost			$18,275,750	$889,287	
2004	Fiscal Year Pension Costs			$17,912,821	$861,141	
	Medicare LOB* Percentage			1.60%	93.67%	
	Allowable Pension Cost			$286,605	$806,631	$1,093,236
2005	Contributions		$25,500,000	$25,500,000	$0	
	Discount for Interest		($1,853,567)	($1,853,567)	$0	
January 1, 2005	Present Value Contributions		$23,646,433	$23,646,433	$0	
	Prepayment Credit Applied		$21,827,742	$20,742,577	$1,085,165	
	Present Value of Funding		$45,474,175	$44,389,010	$1,085,165	
January 1, 2005	CAS Funding Target		$21,827,742	$20,742,577	$1,085,165	
	Percentage Funded			100.00%	100.00%	
	Funded Pension Cost			$20,742,577	$1,085,165	
	Allowable Interest			$0	$0	
	Allocable Pension Cost			$20,742,577	$1,085,165	
2005	Fiscal Year Pension Costs			$20,125,870	$1,036,196	
	Medicare LOB* Percentage			1.80%	92.60%	
	Allowable Pension Cost			$362,266	$959,517	$1,321,783

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2006	Contributions	$14,500,000	$14,500,000	$0	
	Discount for Interest	($1,074,074)	($1,074,074)	$0	
January 1, 2006	Present Value Contributions	$13,425,926	$13,425,926	$0	
	Prepayment Credit Applied	$22,452,532	$21,376,030	$1,076,502	
	Present Value of Funding	$35,878,458	$34,801,956	$1,076,502	
January 1, 2006	CAS Funding Target	$22,452,532	$21,376,030	$1,076,502	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		$21,376,030	$1,076,502	
	Allowable Interest		$0	$0	
	Allocable Pension Cost		$21,376,030	$1,076,502	
2006	Fiscal Year Pension Costs		$21,217,667	$1,078,668	
	Medicare LOB* Percentage		1.84%	94.73%	
	Allowable Pension Cost		$390,405	$1,021,822	$1,412,227
2007	Contributions	$11,800,000	$11,800,000	$0	
	Discount for Interest	($874,074)	($874,074)	$0	
January 1, 2007	Present Value Contributions	$10,925,926	$10,925,926	$0	
	Prepayment Credit Applied	$23,812,020	$22,879,426	$932,594	
	Present Value of Funding	$34,737,946	$33,805,352	$932,594	
January 1, 2007	CAS Funding Target	$23,812,020	$22,879,426	$932,594	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		$22,879,426	$932,594	
	Allowable Interest		$0	$0	
	Allocable Pension Cost		$22,879,426	$932,594	
2007	Fiscal Year Pension Costs		$22,503,577	$968,571	
	Medicare LOB* Percentage		1.89%	92.54%	
	Allowable Pension Cost		$425,318	$896,316	$1,321,634
2008	Contributions	$46,500,000	$46,500,000	$0	
	Discount for Interest	($3,444,444)	($3,444,444)	$0	
January 1, 2008	Present Value Contributions	$43,055,556	$43,055,556	$0	
	Prepayment Credit Applied	$11,172,126	$10,839,370	$332,756	
	Present Value of Funding	$54,227,682	$53,894,926	$332,756	
January 1, 2008	CAS Funding Target	$11,172,126	$10,839,370	$332,756	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		$10,839,370	$332,756	
	Allowable Interest		$0	$0	
	Allocable Pension Cost		$10,839,370	$332,756	
2008	Fiscal Year Pension Costs		$13,849,384	$482,716	
	Medicare LOB* Percentage		1.63%	90.27%	
	Allowable Pension Cost		$225,745	$435,748	$661,493

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2009	Contributions	$0	$0	$0	
	Discount for Interest	$0	$0	$0	
January 1, 2009	Present Value Contributions	$0	$0	$0	
	Prepayment Credit Applied	$9,850,736	$9,596,425	$254,311	
	Present Value of Funding	$9,850,736	$9,596,425	$254,311	
January 1, 2009	CAS Funding Target	$9,850,736	$9,596,425	$254,311	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		$9,596,425	$254,311	
	Allowable Interest		$0	$0	
	Allocable Pension Cost		$9,596,425	$254,311	
2009	Fiscal Year Pension Costs		$12,306,268	$337,500	
	Medicare LOB* Percentage		1.42%	92.84%	
	Allowable Pension Cost 14/		$174,749	$313,335	$488,084

* Line of business.

ENDNOTES

1/ The allocable Cost Accounting Standards (CAS) pension cost is the amount of pension cost that may be allocated for contract cost purposes. We obtained the 2002 calendar year allocable pension cost from our prior review (A-07-04-03054, issued October 4, 2004).

2/ 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 (PY) and accrued contributions deposited after the end of the PY but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-12-00389). The amounts shown for the "Other" segment represent the difference between the Total Company and the Medicare segment.

3/ We subtracted the interest that was included in the contributions deposited after the beginning of the valuation 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.

4/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the PY. For purposes of this Appendix, we deemed deposits made after the end of the PY to have been made on the final day of the PY, consistent with the method mandated by the Employee Retirement Income Security Act used prior to the implementation of the Pension Protection Act.

5/ 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 CAS funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.

6/ 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 the first day of the PY.

7/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of the Federal Acquisition Regulation (FAR) 31.205-6(j)(2)(i).

8/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the PY. Because any funding in excess of the CAS funding target is accounted for as a prepayment 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 decimal places.

9/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.

10/ We assumed that interest on the funded CAS-based pension cost, less the prepayment credit, accrues in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in four equal installments deposited within 30 days after the end of the quarter.

11/ We converted the allocable pension cost to a fiscal year (FY) basis (October 1 through September 30). We calculated the FY pension costs as 1/4 of the prior year's costs plus 3/4 of the current year's costs.

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 determined the Medicare LOB percentages based upon information provided by Blue Cross Blue Shield of Tennessee (BCBS Tennessee).

13/ We computed the allowable Medicare pension cost as an FY pension cost multiplied by the Medicare LOB percentage. Pursuant to CAS 412 and 413, the total Medicare allowable pension costs charged to the Medicare contract consisted of the Medicare segment's direct pension costs plus "Other" segment pension costs attributable to indirect Medicare operations.

14/ BCBS Tennessee terminated its Medicare contract on August 1, 2009. Therefore, the 2009 FY pension cost is calculated as 1/4 of the prior year's cost plus all of the current year's cost. The 2009 allowable pension cost is based on a January 1, 2009, to August 1, 2009, cost.

APPENDIX B: AUDITEE COMMENTS

of Tennessee
plans for better health. plans for a better life.

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July 13, 2012

Patrick J. Cogley
Regional Inspector General for Audit Services
Department of Health & Human Services
Office of Inspector General
Office of Audit Services, Region VII
601 East 12th Street, Room 0429
Kansas City, MO 64016

Re: Report Number: A-07-12-00390

Mr. Cogley:

This letter is in response to your letter dated June 22, 2012, and the attached draft report entitled *Blue Cross Blue Shield of Tennessee Did Not Claim Some Allowable Pension Costs for Fiscal Years 2003 Through 2009.* As requested, following are our comments on the two summary recommendations set forth in the report including a statement of concurrence as well as a statement describing the nature of the corrective action taken or planned to be taken.

Recommendation: Revise FACP's to claim additional pension costs of $221,433

We concur with this recommendation and will work directly with CMS to resolve this issue because we no longer have access to the CAFM system.

Recommendation: Withdraw QDBP termination claim of $444,026

We concur with this recommendation and will work with CMS to resolve this issue.

If you have questions or comments regarding this response or require anything further from us please contact me by e-mail at Ralph_Woodard@BCBST.com or by phone at 423-535-5192.

Sincerely,

T. Ralph Woodard, Jr.

T. Ralph Woodard, Jr.
Chief Financial Officer, Riverbend Government Benefits Administrator, Inc.