DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL

OFFICE OF AUDIT SERVICES, REGION VII
601 EAST 12TH STREET, ROOM 0429
KANSAS CITY, MO 64106

July 6, 2012

Report Number: A-07-12-00392

Mr. Ralph Woodard
Vice President, Controller and Chief Accounting Officer
Blue Cross Blue Shield of Tennessee
One Cameron Hill
Chattanooga, TN 37402

Dear Mr. Woodard:

Enclosed is the U.S. Department of Health and Human Services, Office of Inspector General (OIG), final report entitled *401(k) Costs Claimed by Blue Cross Blue Shield of Tennessee for Fiscal Years 2005 Through 2009 Were Reasonable and Allowable*. We will forward a copy of this report to the HHS action official noted below.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://oig.hhs.gov.

If you have any questions or comments about this report, please direct them to the HHS action official. Please refer to report number A-07-12-00392 in all correspondence.

Sincerely,

/Patrick J. Cogley/
Regional Inspector General
for Audit Services

Enclosure

HHS Action Official:

Ms. Deborah Taylor
Director & Chief Financial Officer
Office of Financial Management
Centers for Medicare & Medicaid Services
Mail Stop C3-01-24
7500 Security Boulevard
Baltimore, MD 21244-1850

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

401(K) COSTS CLAIMED BY BLUE CROSS BLUE SHIELD OF TENNESSEE FOR FISCAL YEARS 2005 THROUGH 2009 WERE REASONABLE AND ALLOWABLE

Daniel R. Levinson
Inspector General

July 2012
A-07-12-00392

Office of Inspector General

http://oig.hhs.gov

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Notices

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Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

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 and Medicare

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.

BCBS Tennessee sponsors a 401(k) plan called the Blue Cross Blue Shield of Tennessee Employee Retirement Savings Program. The primary purpose of a 401(k) plan is to offer eligible employees the option to contribute a portion of the employee's wages to the plan on a pretax basis. BCBS Tennessee's 401(k) plan is a qualified defined contribution plan designed to assist eligible employees' long-range retirement and investment goals.

CMS reimburses a portion of its contractors' pension costs. In claiming 401(k) costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation, Cost Accounting Standards, and the Medicare contracts.

OBJECTIVE

Our objective was to determine whether the 401(k) costs claimed by BCBS Tennessee for Medicare reimbursement for fiscal years (FY) 2005 through 2009 were reasonable and allowable.

RESULTS OF REVIEW

During our review, we determined that BCBS Tennessee claimed $2,375,829 of 401(k) costs for FYs 2005 through 2009. After reviewing BCBS Tennessee's methodology for claiming 401(k) costs for Medicare reimbursement, we determined that the 401(k) costs claimed by BCBS Tennessee for FYs 2005 through 2009 were reasonable and allowable. This report therefore makes no recommendations.

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Blue Cross Blue Shield of Tennessee and Medicare

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.

BCBS Tennessee sponsors a 401(k) plan called the Blue Cross Blue Shield of Tennessee Employee Retirement Savings Program. The primary purpose of a 401(k) plan is to offer eligible employees the option to contribute a portion of the employee's wages to the plan on a pretax basis. BCBS Tennessee's 401(k) plan is a qualified defined contribution plan designed to assist eligible employees' long-range retirement and investment goals.

Federal Requirements

CMS reimburses a portion of its contractors' pension costs. In claiming 401(k) costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation (FAR), Cost Accounting Standards (CAS), and the Medicare contracts.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the 401(k) costs claimed by BCBS Tennessee for Medicare reimbursement for fiscal years (FYs) 2005 through 2009 were reasonable and allowable.

Scope

We reviewed BCBS Tennessee's 401(k) costs claimed on its Final Administrative Cost Proposals (FACP) for FYs 2005 through 2009.

Achieving our objective did not require that we review BCBS Tennessee's internal control structure. However, we reviewed the controls related to the 401(k) costs that BCBS Tennessee claimed for Medicare reimbursement to ensure that those costs were allowable in accordance with the FAR and the CAS.

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

Methodology

We reviewed applicable Federal requirements. We also identified the amount of 401(k) costs claimed on BCBS Tennessee's FACPs for FYs 2005 through 2009. We determined the extent to which BCBS Tennessee made contributions to its 401(k) trust fund. In turn, we verified the contributions and used the data provided by BCBS Tennessee to calculate the 401(k) costs that were allowable for Medicare reimbursement for FYs 2005 through 2009.

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

RESULTS OF REVIEW

During our review, we determined that BCBS Tennessee claimed $2,375,829 of 401(k) costs for this timeframe. After reviewing BCBS Tennessee's methodology for claiming 401(k) costs for Medicare reimbursement, we determined that the 401(k) costs claimed by BCBS Tennessee for FYs 2005 through 2009 were reasonable and allowable. This report therefore makes no recommendations.