

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**BLUE CROSS BLUE SHIELD OF
TENNESSEE OVERCLAIMED
POSTRETIREMENT BENEFIT COSTS
FOR FISCAL YEARS
1992 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

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A-07-12-00403

Office of Inspector General

<https://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 August 1, 2009.

BCBS Tennessee sponsors a postretirement benefit (PRB) plan named the Blue Cross Blue Shield of Tennessee Retiree Health Program. This plan is designed to provide medical, dental, vision and life benefits to retirees and their dependents. BCBS Tennessee claimed PRB costs for Federal reimbursement on an accrual basis. BCBS Tennessee established its Voluntary Employee Benefit Association trust and began funding it in December 1992.

CMS reimburses a portion of its contractors' PRB costs. In claiming PRB costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation (FAR) and applicable Cost Accounting Standards as required by the Medicare contracts.

OBJECTIVE

Our objective was to determine whether the PRB costs claimed by BCBS Tennessee for Medicare reimbursement for fiscal years (FYs) 1992 through 2009 were allowable and correctly claimed.

SUMMARY OF FINDING

BCBS Tennessee claimed \$6,351,051 in PRB costs for FYs 1992 through 2009; however, we determined that allowable PRB costs for this time period were \$6,016,992. The difference, \$334,059, was unallowable for Medicare reimbursement. BCBS Tennessee claimed these unallowable PRB costs because it based its claim on an amount that did not comply with the provisions of FAR 31.205 as required by the Medicare contracts.

RECOMMENDATION

We recommend that BCBS Tennessee revise its final administrative cost proposals to reduce its PRB costs claimed by \$334,059.

AUDITEE COMMENTS

In written comments on our draft report, BCBS Tennessee concurred with our recommendation and stated that it would work directly with CMS to resolve this issue.

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INTRODUCTION

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 August 1, 2009.

BCBS Tennessee sponsors a postretirement benefit (PRB) plan named the Blue Cross Blue Shield of Tennessee Retiree Health Program. This plan is designed to provide medical, dental, vision, and life benefits to retirees and their dependents. BCBS Tennessee claimed PRB costs for Federal reimbursement on an accrual basis. BCBS Tennessee established its Voluntary Employee Benefit Association (VEBA) trust and began funding it in December 1992.

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

Medicare Reimbursement of Postretirement Benefit Costs

Medicare reimburses a portion of the funded accruals that contractors charge for their PRB plans. FAR 31.205-6(o) requires that, to be allowable for Medicare reimbursement, PRB accrual costs be (1) determined in accordance with generally accepted accounting principles (GAAP) and (2) funded into a dedicated trust, such as a VEBA trust.

Following the close of each fiscal year (FY), BCBS Tennessee submitted a final administrative cost proposal (FACP) to CMS reporting the administrative costs of performing Medicare functions during the year. The accrued PRB costs are part of the administrative costs of performing Medicare functions and, as such, are claimed on each FY's FACP.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the PRB costs claimed by BCBS Tennessee for Medicare reimbursement for FYs 1992 through 2009 were allowable and correctly claimed.

Scope

We reviewed \$6,351,051 of PRB costs that BCBS Tennessee claimed for Medicare reimbursement on its FACPs for FYs 1992 through 2009. Achieving the objective did not require that we review BCBS Tennessee's internal control structure. We reviewed the controls related to the accrued PRB costs that BCBS Tennessee claimed for Medicare reimbursement to ensure that PRB costs were allowable pursuant to the FAR.

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

Methodology

We reviewed the applicable portions of the FAR, CAS, and Medicare contracts. We identified the amount of accrued PRB costs claimed on BCBS Tennessee's FACPs. We also determined the extent to which BCBS Tennessee funded the PRB costs with contributions to the VEBA trust and accumulated prepayment credits or with direct payments of benefits.

In performing our review, we used information provided by BCBS Tennessee's actuarial consulting firms. This information included the VEBA assets, PRB obligations, service costs, contributions, claims paid, claims reimbursed, investment earnings, and administrative expenses. We also reviewed BCBS Tennessee's PRB plan documents and PRB actuarial valuation reports, which included Statement of Financial Accounting Standards (SFAS) 106 information. The CMS Office of Actuary staff used this information to develop CAS-based PRB costs for BCBS Tennessee based on SFAS 106 methodology applied in accordance with FAR 31.205-6(o). In turn, we verified the actuarial data and used it to calculate the CAS-based PRB costs that were allowable for Medicare reimbursement on BCBS Tennessee's FACPs for FYs 1992 through 2009. We based our calculations on a Total Company CAS-based PRB costs and allocated the Total Company CAS-based PRB costs to the Medicare segment.

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.

FINDING AND RECOMMENDATION

BCBS Tennessee claimed \$6,351,051 in PRB costs for FYs 1992 through 2009; however, we determined that allowable PRB costs for this time period were \$6,016,992. The difference, \$334,059, was unallowable for Medicare reimbursement. BCBS Tennessee claimed these unallowable PRB costs because it based its claim on an amount that did not comply with the provisions of FAR 31.205 as required by the Medicare contracts.

FEDERAL REQUIREMENTS

The FAR states that accrual accounting may be used to determine the allowable PRB costs if the cost is measured and assigned (actuarially determined) according to GAAP based on amortization of any transition obligation.¹ The FAR also states that allowable costs must be funded by the time set for filing the Federal income tax return or any extension thereof and must comply with the applicable standards promulgated by the CAS Board.

UNALLOWABLE POSTRETIREMENT BENEFIT PLAN COSTS CLAIMED

BCBS Tennessee claimed PRB costs of \$6,351,051 for Medicare reimbursement on its FACPs for FYs 1992 through 2009.² We calculated the allowable CAS-based accrued PRB costs in accordance with the FAR and the CAS and determined that the allowable CAS-based accrued PRB costs for FYs 1992 through 2009 were \$6,016,992.

Thus, BCBS Tennessee claimed unallowable PRB costs totaling \$334,059 on its FACPs for FYs 1992 through 2009. BCBS Tennessee claimed these unallowable PRB costs because it based its claim on an amount that did not comply with the provisions of FAR 31.205 as required by the Medicare contracts.

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

¹ Costs attributable to past service (transition obligation) must be assigned under the delayed recognition methodology described in paragraphs 112 and 113 of SFAS 106.

² The allowable CAS-based PRB costs for FY 2009 were attributable to the PRB costs for October 1, 2008, through August 1, 2009.

<u>Medicare PRB Costs</u>			
Fiscal Year	Allowable Per Audit	Claimed by BCBS Tennessee	Difference
1992	\$59,580	\$0	\$59,580
1993	90,837	75,567	15,270
1994	65,880	79,876	(13,996)
1995	17,776	30,765	(12,989)
1996	60,655	118,881	(58,226)
1997	76,584	145,171	(68,587)
1998	20,677	147,178	(126,501)
1999	1,557	34,087	(32,530)
2000	74,074	98,269	(24,195)
2001	340,202	364,200	(23,998)
2002	644,176	677,326	(33,150)
2003	662,660	695,777	(33,117)
2004	1,325,886	1,115,508	210,378
2005	857,042	841,917	15,125
2006	867,430	931,102	(63,672)
2007	600,316	646,803	(46,487)
2008	216,466	273,122	(56,656)
2009	35,194	75,502	(40,308)
Total	\$6,016,992	\$6,351,051	(\$334,059)

BCBS Tennessee is required to calculate PRB costs for Medicare reimbursement in accordance with the FAR and the CAS. However, BCBS Tennessee incorrectly based its PRB costs claimed for Medicare reimbursement on a net periodic benefit cost without regard to the provisions of FAR 31.205-6(o). Therefore, BCBS Tennessee claimed unallowable PRB costs of \$334,059.

RECOMMENDATION

We recommend that BCBS Tennessee revise its FACPs to reduce its PRB costs claimed by \$334,059.

AUDITEE COMMENTS

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

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

APPENDIXES

**APPENDIX A: BLUE CROSS BLUE SHIELD OF TENNESSEE
STATEMENT OF ALLOWABLE POSTRETIREMENT BENEFIT
PLAN COSTS FOR FOR FISCAL YEARS 1992 THROUGH 2009**

Date	Description	Total Company
1992	Contributions	1/ \$3,407,849
	Discount for Interest	2/ (\$191,717)
January 1, 1992	Present Value Contributions	3/ \$3,216,132
	Prepayment Credit Applied	4/ \$0
	Present Value of Funding	5/ \$3,216,132
January 1, 1992	CAS Funding Target	6/ \$2,285,715
	Percentage Funded	7/ 100.00%
	Funded PRB Cost	8/ \$2,285,715
	Allowable Interest	9/ \$136,254
	Allocable PRB Cost	10/ \$2,421,969
1992	Fiscal Year PRB Costs	11/ \$1,816,477
	Medicare LOB* Percentage	12/ 3.28%
	Allowable PRB Cost	13/ \$59,580
1993	Contributions	\$2,479,652
	Discount for Interest	(\$117,444)
January 1, 1993	Present Value Contributions	\$2,362,208
	Prepayment Credit Applied	\$990,895
	Present Value of Funding	\$3,353,103
January 1, 1994	CAS Funding Target	\$2,808,014
	Percentage Funded	100.00%
	Funded PRB Cost	\$2,808,014
	Allowable Interest	\$77,228
	Allocable PRB Cost	\$2,885,242
1993	Fiscal Year PRB Costs	\$2,769,424
	Medicare LOB* Percentage	3.28%
	Allowable PRB Cost	\$90,837
1994	Contributions	\$1,677,972
	Discount for Interest	(\$90,800)
January 1, 1994	Present Value Contributions	\$1,587,172
	Prepayment Credit Applied	\$577,795
	Present Value of Funding	\$2,164,967
January 1, 1994	CAS Funding Target	\$3,368,134
	Percentage Funded	64.28%
	Funded PRB Cost	\$2,164,967
	Allowable Interest	\$67,455
	Allocable PRB Cost	\$2,232,422
1994	Fiscal Year PRB Costs	\$2,395,627
	Medicare LOB* Percentage	2.75%
	Allowable PRB Cost	\$65,880

Date	Description	Total Company
1995	Contributions	\$1,299,651
	Discount for Interest	(\$70,328)
January 1, 1995	Present Value Contributions	\$1,229,323
	Prepayment Credit Applied	\$0
	Present Value of Funding	\$1,229,323
January 1, 1995	CAS Funding Target	\$3,094,257
	Percentage Funded	39.73%
	Funded PRB Cost	\$1,229,323
	Allowable Interest	\$52,246
	Allocable PRB Cost	\$1,281,569
1995	Fiscal Year PRB Costs	\$1,519,282
	Medicare LOB* Percentage	1.17%
	Allowable PRB Cost	\$17,776
1996	Contributions	\$1,749,027
	Discount for Interest	(\$90,104)
January 1, 1996	Present Value Contributions	\$1,658,923
	Prepayment Credit Applied	\$0
	Present Value of Funding	\$1,658,923
January 1, 1996	CAS Funding Target	\$3,478,250
	Percentage Funded	47.69%
	Funded PRB Cost	\$1,658,923
	Allowable Interest	\$70,504
	Allocable PRB Cost	\$1,729,427
1996	Fiscal Year PRB Costs	\$1,617,463
	Medicare LOB* Percentage	3.75%
	Allowable PRB Cost	\$60,655
1997	Contributions	\$1,964,869
	Discount for Interest	(\$111,219)
January 1, 1997	Present Value Contributions	\$1,853,650
	Prepayment Credit Applied	\$0
	Present Value of Funding	\$1,853,650
January 1, 1997	CAS Funding Target	\$3,525,733
	Percentage Funded	52.57%
	Funded PRB Cost	\$1,853,650
	Allowable Interest	\$78,780
	Allocable PRB Cost	\$1,932,430
1997	Fiscal Year PRB Costs	\$1,881,679
	Medicare LOB* Percentage	4.07%
	Allowable PRB Cost	\$76,584

Date	Description	Total Company
1998	Contributions	\$0
	Discount for Interest	\$0
January 1, 1998	Present Value Contributions	\$0
	Prepayment Credit Applied	\$0
	Present Value of Funding	\$0
January 1, 1998	CAS Funding Target	\$3,186,384
	Percentage Funded	0.00%
	Funded PRB Cost	\$0
	Allowable Interest	\$0
	Allocable PRB Cost	\$0
1998	Fiscal Year PRB Costs	\$483,108
	Medicare LOB* Percentage	4.28%
	Allowable PRB Cost	\$20,677
1999	Contributions	\$241,437
	Discount for Interest	(\$6,833)
January 1, 1999	Present Value Contributions	\$234,604
	Prepayment Credit Applied	\$0
	Present Value of Funding	\$234,604
January 1, 1999	CAS Funding Target	\$3,715,710
	Percentage Funded	6.31%
	Funded PRB Cost	\$234,604
	Allowable Interest	\$6,833
	Allocable PRB Cost	\$241,437
1999	Fiscal Year PRB Costs	\$181,078
	Medicare LOB* Percentage	0.86%
	Allowable PRB Cost	\$1,557
2000	Contributions	\$5,114,041
	Discount for Interest	(\$283,926)
January 1, 2000	Present Value Contributions	\$4,830,115
	Prepayment Credit Applied	\$0
	Present Value of Funding	\$4,830,115
January 1, 2000	CAS Funding Target	\$4,756,425
	Percentage Funded	100.00%
	Funded PRB Cost	\$4,756,425
	Allowable Interest	\$202,148
	Allocable PRB Cost	\$4,958,573
2000	Fiscal Year PRB Costs	\$3,779,289
	Medicare LOB* Percentage	1.96%
	Allowable PRB Cost	\$74,074

Date	Description	Total Company
2001	Contributions	\$9,620,364
	Discount for Interest	(\$535,227)
January 1, 2001	Present Value Contributions	\$9,085,137
	Prepayment Credit Applied	\$78,111
	Present Value of Funding	\$9,163,248
January 1, 2001	CAS Funding Target	\$6,271,678
	Percentage Funded	100.00%
	Funded PRB Cost	\$6,271,678
	Allowable Interest	\$263,227
	Allocable PRB Cost	\$6,534,905
2001	Fiscal Year PRB Costs	\$6,140,822
	Medicare LOB* Percentage	5.54%
	Allowable PRB Cost	\$340,202
2002	Contributions	\$9,381,249
	Discount for Interest	(\$532,924)
January 1, 2002	Present Value Contributions	\$8,848,325
	Prepayment Credit Applied	\$3,065,064
	Present Value of Funding	\$11,913,389
January 1, 2002	CAS Funding Target	\$7,538,180
	Percentage Funded	100.00%
	Funded PRB Cost	\$7,538,180
	Allowable Interest	\$190,107
	Allocable PRB Cost	\$7,728,287
2002	Fiscal Year PRB Costs	\$7,429,942
	Medicare LOB* Percentage	8.67%
	Allowable PRB Cost	\$644,176
2003	Contributions	\$10,000,003
	Discount for Interest	(\$566,038)
January 1, 2003	Present Value Contributions	\$9,433,965
	Prepayment Credit Applied	\$4,637,722
	Present Value of Funding	\$14,071,687
January 1, 2003	CAS Funding Target	\$8,378,700
	Percentage Funded	100.00%
	Funded PRB Cost	\$8,378,700
	Allowable Interest	\$158,992
	Allocable PRB Cost	\$8,537,692
2003	Fiscal Year PRB Costs	\$8,335,341
	Medicare LOB* Percentage	7.95%
	Allowable PRB Cost	\$662,660

Date	Description	Total Company
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2004	Contributions	\$12,300,000
	Discount for Interest	(\$578,874)
January 1, 2004	Present Value Contributions	\$11,721,126
	Prepayment Credit Applied	\$6,034,566
	Present Value of Funding	\$17,755,692
January 1, 2004	CAS Funding Target	\$17,435,021
	Percentage Funded	100.00%
	Funded PRB Cost	\$17,435,021
	Allowable Interest	\$444,143
	Allocable PRB Cost	\$17,879,164
2004	Fiscal Year PRB Costs	\$15,543,796
	Medicare LOB* Percentage	8.53%
	Allowable PRB Cost	\$1,325,886
2005	Contributions	\$11,457,869
	Discount for Interest	(\$567,295)
January 1, 2005	Present Value Contributions	\$10,890,574
	Prepayment Credit Applied	\$338,308
	Present Value of Funding	\$11,228,882
January 1, 2005	CAS Funding Target	\$10,033,943
	Percentage Funded	100.00%
	Funded PRB Cost	\$10,033,943
	Allowable Interest	\$377,726
	Allocable PRB Cost	\$10,411,669
2005	Fiscal Year PRB Costs	\$12,278,543
	Medicare LOB* Percentage	6.98%
	Allowable PRB Cost	\$857,042
2006	Contributions	\$14,278,626
	Discount for Interest	(\$494,134)
January 1, 2006	Present Value Contributions	\$13,784,492
	Prepayment Credit Applied	\$1,260,661
	Present Value of Funding	\$15,045,153
January 1, 2006	CAS Funding Target	\$12,530,740
	Percentage Funded	100.00%
	Funded PRB Cost	\$12,530,740
	Allowable Interest	\$404,000
	Allocable PRB Cost	\$12,934,740
2006	Fiscal Year PRB Costs	\$12,303,972
	Medicare LOB* Percentage	7.05%
	Allowable PRB Cost	\$867,430

Date	Description	Total Company
2007	Contributions	\$11,367,565
	Discount for Interest	(\$532,950)
January 1, 2007	Present Value Contributions	\$10,834,615
	Prepayment Credit Applied	\$2,646,420
	Present Value of Funding	\$13,481,035
January 1, 2007	CAS Funding Target	\$10,033,050
	Percentage Funded	100.00%
	Funded PRB Cost	\$10,033,050
	Allowable Interest	\$261,610
	Allocable PRB Cost	\$10,294,660
2007	Fiscal Year PRB Costs	\$10,954,680
	Medicare LOB* Percentage	5.48%
	Allowable PRB Cost	\$600,316
2008	Contributions	\$216,420
	Discount for Interest	(\$5,152)
January 1, 2008	Present Value Contributions	\$211,268
	Prepayment Credit Applied	\$1,983,492
	Present Value of Funding	\$2,194,760
January 1, 2008	CAS Funding Target	\$1,983,492
	Percentage Funded	100.00%
	Funded PRB Cost	\$1,983,492
	Allowable Interest	\$0
	Allocable PRB Cost	\$1,983,492
2008	Fiscal Year PRB Costs	\$4,061,284
	Medicare LOB* Percentage	5.33%
	Allowable PRB Cost	\$216,466
2009	Contributions	\$384,756
	Discount for Interest	(\$9,161)
January 1, 2009	Present Value Contributions	\$375,595
	Prepayment Credit Applied	\$1,940,568
	Present Value of Funding	\$2,316,163
January 1, 2009	CAS Funding Target	\$2,427,378
	Percentage Funded	95.42%
	Funded PRB Cost	\$2,316,163
	Allowable Interest	\$9,161
	Allocable PRB Cost	\$2,325,324
2009	Fiscal Year PRB Costs	\$1,852,312
	Medicare LOB* Percentage	1.90%
	Allowable PRB Cost	14/ \$35,194

* Line of business.

ENDNOTES

- 1/ Total company contributions were calculated by taking the contribution amounts from the postretirement benefit (PRB) actuarial valuation reports plus any direct benefits payments that were not reimbursed by the trust, as provided by Blue Cross Blue Shield of Tennessee (BCBS Tennessee). Direct benefit payments must be considered toward funding the PRB cost assigned to the periods before considering the amount funded by contributions to the trust fund. Such contributions can be used to satisfy the funding requirement of Federal Acquisition Regulation (FAR) 31.205-6(o)(2)(iii). The contributions included deposits made during the plan year (PY) and the discounted value of accrued contributions, if any, deposited after the end of the PY but within the time allowed for filing tax returns.
- 2/ 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. Interest is determined using the expected long-term rate of return assumption as reported in the PRB actuarial valuation report.
- 3/ 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.
- 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 is carried forward, with interest, to fund future CAS PRB 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 the first day of the PY.
- 6/ The CAS funding target is based on the assignable CAS PRB costs computed during our review. The CAS funding target must be funded by accumulated prepayment credits or current year contributions to satisfy the funding requirement of the FAR.
- 7/ 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, 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.
- 8/ We computed the funded CAS-based PRB cost as the CAS funding target multiplied by the percent funded.
- 9/ We assumed that interest on the funded CAS-based PRB 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(o)(4), which provides that interest costs are unallowable if caused by a delay in funding beyond 30 days after the end of each quarter to which they are assignable.
- 10/ The allocable PRB cost is the amount of PRB cost that may be allocated for contract costing purposes.
- 11/ We converted the allocable PRB cost to a fiscal year (FY) basis (October 1 through September 30). We calculated the FY PRB costs as 1/4 of the prior year's costs plus 3/4 of the current year's costs. Audited PRB costs for FY 1992 cover only the period from January 1, 1992, to September 30, 1992.
- 12/ BCBS Tennessee provided the Medicare line of business (LOB) percentages. We reviewed BCBS Tennessee's Medicare LOB percentages and determined they were reasonable.

13/ We computed the allowable Medicare PRB cost as an FY PRB cost multiplied by the Medicare LOB percentage.

14/ BCBS Tennessee terminated its Medicare contract on August 1, 2009. Therefore, we computed the FY allowable PRB costs for the BCBS Tennessee Medicare segment for October 1, 2008, through August 1, 2009, by taking 3/12 of the PY 2008 allowable PRB costs plus 7/12 of the PY 2009 allowable PRB costs.

APPENDIX B: AUDITEE COMMENTS



of Tennessee

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1 Cameron Hill Circle
Chattanooga, TN 37402

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January 18, 2013

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-07-12-00403

Mr. Cogley:

This letter is in response to your letter dated January 8, 2013, and the attached draft report entitled *Blue Cross Blue Shield of Tennessee Overclaimed Postretirement Benefit Costs for Fiscal Year 1992 Through 2009*. As requested, following are our comments on the summary recommendation 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.

Recommendation: Reduce PRB cost claims by \$334,059

We concur with this recommendation and will work directly with CMS to resolve this issue as we no longer have access to the CAFM system to revise FACP's.

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

Sincerely,

A handwritten signature in blue ink that reads "T. Ralph Woodard, Jr." with a stylized flourish at the end.

T. Ralph Woodard, Jr.
Vice President, Controller & Chief Accounting Officer
BlueCross BlueShield of Tennessee, Inc.