DEPARTMENT OF HEALTH & HUMAN SERVICES **Office of Inspector General**

Office of Audit Services, Region VII
601 East 12th Street, Room 0429
Kansas City, MO 64106

September 10, 2010

Report Number: A-07-10-00338

Ms. Nancy Donaldson
Vice President Medicare Contract Administration
Health Care Service Corporation
R13A-5.413
1001 E. Lookout Drive
Richardson, TX 75082

Dear Ms. Donaldson:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross Blue Shield of Oklahoma for Fiscal Years 2000 Through 2008*. We will forward a copy of this report 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 as to actions taken on all matters reported. We request that you respond to this 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.

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 do not hesitate to call me at (816) 426-3591, or contact Jenenne Tambke, Audit Manager, at (573) 893-8338, extension 21, or through email at Jenenne.Tambke@oig.hhs.gov. Please refer to report number A-07-10-00338 in all correspondence.

Sincerely,

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

Enclosure

Direct Reply to HHS Action Official:

Ms. Deborah Taylor
Acting 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 & Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF PENSION COSTS CLAIMED FOR MEDICARE REIMBURSEMENT BY BLUE CROSS BLUE SHIELD OF OKLAHOMA FOR FISCAL YEARS 2000 THROUGH 2008

Daniel R. Levinson
Inspector General

September 2010
A-07-10-00338

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 Oklahoma (Oklahoma), a division of Group Health Service of Oklahoma (GHSO), administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until GHSO merged with Health Care Service Corporation (HCSC) on November 1, 2005. On December 29, 2006, HCSC merged the Non-Contributory Retirement Program for Certain Employees of Group Health Service of Oklahoma, Inc., into the HCSC Employee Pension Plan.

Pursuant to a novation agreement, HCSC assumed GHSO's Medicare contracts and administered the contract under HCSC's Oklahoma division until the contractual relationship terminated effective February 29, 2008. The closing date for the Medicare segment was February 29, 2008. Thus, although we are addressing this report to HCSC, we will associate the term Oklahoma with our finding and recommendation regarding the pension costs claimed for Medicare reimbursement during fiscal years (FY) 2000 through 2008.

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, 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 Oklahoma claimed for Medicare reimbursement for FYs 2000 through 2008.

SUMMARY OF FINDING

Oklahoma did not claim $551,039 of allowable Medicare pension costs on its Final Administrative Cost Proposals (FACP) for FYs 2000 through 2008, primarily because Oklahoma did not claim pension costs for Medicare reimbursement from January 2007 through February 2008. Oklahoma claimed pension costs of $2,896,579 for Medicare reimbursement; however, we determined that the allowable Cost Accounting Standards pension costs were $3,447,618.

RECOMMENDATION

We recommend that Oklahoma revise its FACPs for FYs 2000 through 2008 to claim the additional allowable pension costs of $551,039.

AUDITEE COMMENTS

In written comments on our draft report, Oklahoma concurred with our recommendation. Oklahoma's comments are included in their entirety as Appendix B.

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INTRODUCTION

BACKGROUND

Blue Cross Blue Shield of Oklahoma

Blue Cross Blue Shield of Oklahoma (Oklahoma), a division of Group Health Service of Oklahoma (GHSO), administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until GHSO merged with Health Care Service Corporation (HCSC) on November 1, 2005. On December 29, 2006, HCSC merged the Non-Contributory Retirement Program for Certain Employees of Group Health Service of Oklahoma, Inc., into the HCSC Employee Pension Plan.

Pursuant to a novation agreement, HCSC assumed GHSO's Medicare contracts and administered the contracts under HCSC's Oklahoma division until the contractual relationship terminated effective February 29, 2008. The closing date for the Medicare segment was February 29, 2008. Thus, although we are addressing this report to HCSC, we will associate the term Oklahoma with our finding and recommendation regarding the pension cost claimed for Medicare reimbursement during fiscal years (FY) 2000 through 2008.

Medicare Reimbursement

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 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.

OBJECTIVE, SCOPE AND METHODOLOGY

Objective

Our objective was to determine the allowability of pension costs that Oklahoma claimed for Medicare reimbursement for FYs 2000 through 2008.

Scope

We reviewed $2,896,579 of pension costs that Oklahoma claimed for Medicare reimbursement on its Final Administrative Cost Proposals (FACP) for FYs 2000 through 2008. Achieving our objective did not require that we review Oklahoma's overall internal control structure. However, 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 Oklahoma's office in Tulsa, Oklahoma, during December 2008.

Methodology

We reviewed the applicable portions of the FAR, CAS, and Medicare contracts. Additionally, we reviewed Oklahoma's FACPs to identify the amount of pension costs claimed for Medicare reimbursement for FYs 2000 through 2008. We also determined the extent to which Oklahoma funded CAS pension costs with contributions to the pension trust fund and accumulated prepayment credits. We based our calculations on separately computed CAS pension costs for the Medicare segment and the "Other" segment. The CMS Office of the Actuary calculated the allocable CAS pension costs based on Oklahoma's historical practices and on the results of our segmentation review (*Review of the Qualified Pension Plan at Blue Cross Blue Shield of Oklahoma, a Terminated Medicare Contractor, for the Period January 1, 1999, to February 29, 2008*, A-07-10-00337).

In performing our review, we used information that Oklahoma's actuarial consulting firms provided. The information included assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We examined Oklahoma'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.

FINDING AND RECOMMENDATION

Oklahoma did not claim $551,039 of allowable Medicare pension costs on its FACPs for FYs 2000 through 2008, primarily because Oklahoma did not claim pension costs for Medicare reimbursement from January 2007 through February 2008. Oklahoma claimed pension costs of $2,896,579 for Medicare reimbursement; however, we determined that the allowable CAS pension costs were $3,447,618.

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

Oklahoma did not claim $551,039 of pension costs that were allowable for Medicare reimbursement for FYs 2000 through 2008.[1] During FYs 2000 through 2008, Oklahoma claimed pension costs of $2,896,579 for Medicare reimbursement. We calculated the allowable pension costs based on separately computed CAS pension costs for the Medicare segment and the "Other" segment in accordance with CAS 412 and 413. We determined that the allowable CAS pension costs for FYs 2000 through 2008 were $3,447,618.

The table on the following page compares allowable CAS pension costs with the pension costs claimed on Oklahoma's FACPs. Appendix A contains additional details on allowable pension costs.

[1] The allowable pension costs for FY 2008 were attributable to the pension costs for October 1, 2007, through February 29, 2008.

Comparison of Allowable Pension Costs and Claimed Pension Costs

	Medicare Pension Costs		
	Allowable	**Claimed by**	
Fiscal Year	**Per Audit**	**Oklahoma**	**Difference**
2000	$73,071	$137,873	($64,802)
2001	148,810	146,468	2,342
2002	270,937	229,826	41,111
2003	497,935	512,273	(14,338)
2004	516,437	523,324	(6,887)
2005	569,853	604,736	(34,883)
2006	586,204	574,901	11,303
2007	564,853	167,178	397,675
2008	219,518	0	219,518
Total	**$3,447,618**	**$ 2,896,579**	**$551,039**

This underclaim occurred primarily because Oklahoma did not claim pension costs for Medicare reimbursement from January 2007 through February 2008. As a result, Oklahoma did not claim $551,039 of allowable pension costs.

RECOMMENDATION

We recommend that Oklahoma revise its FACPs for FYs 2000 through 2008 to claim the additional allowable pension costs of $551,039.

AUDITEE COMMENTS

In written comments on our draft report, Oklahoma concurred with our recommendation. Oklahoma's comments are included in their entirety as Appendix B.

APPENDIXES

APPENDIX A: ALLOWABLE MEDICARE PENSION COSTS FOR BLUE CROSS BLUE SHIELD OF OKLAHOMA FOR FISCAL YEARS 2000 THROUGH 2008

Date	Description		Total Company	"Other" Segment	Medicare Segment	Total Medicare
1999	Allocable Pension Cost	1/		$1,849,045	$99,474	
2000	Contributions	2/	$1,984,950	$1,964,357	$20,593	
9.00%	Discount for Interest	3/	($155,241)	($153,630)	($1,611)	
January 1, 2000	Present Value Contributions	4/	$1,829,709	$1,810,727	$18,982	
	Prepayment Credit Applied	5/	$690,315	$666,074	$24,241	
	Present Value of Funding	6/	$2,520,024	$2,476,801	$43,223	
January 1, 2000	CAS Funding Target	7/	$1,230,912	$1,187,688	$43,224	
	Percentage Funded	8/		100.00%	100.00%	
	Funded Pension Cost	9/		$1,187,688	$43,224	
	Allowable Interest	10/		$33,253	$1,210	
	Allocable Pension Cost	11/		$1,220,941	$44,434	
2000	Fiscal Year Pension Cost	12/		$1,377,967	$58,194	
	Medicare LOB* Percentage	13/		1.23%	96.44%	
	Allowable Pension Cost	14/		$16,949	$56,122	$73,071
2001	Contributions		$7,527,637	$7,455,088	$72,549	
9.00%	Discount for Interest		($605,015)	($599,184)	($5,831)	
January 1, 2001	Present Value Contributions		$6,922,622	$6,855,904	$66,718	
	Prepayment Credit Applied		$1,405,131	$1,327,675	$77,456	
	Present Value of Funding		$8,327,753	$8,183,579	$144,174	
January 1, 2001	CAS Funding Target		$2,615,479	$2,471,305	$144,174	
	Percentage Funded			100.00%	100.00%	
	Funded Pension Cost			$2,471,305	$144,174	
	Allowable Interest			$72,906	$4,253	
	Allocable Pension Cost			$2,544,211	$148,427	
2001	Fiscal Year Pension Cost			$2,213,394	$122,429	
	Medicare LOB* Percentage			1.49%	94.61%	
	Allowable Pension Cost			$32,980	$115,830	$148,810

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2002	Contributions	$14,100,000	$14,100,000	$0	
9.00%	Discount for Interest	($1,164,220)	($1,164,220)	$0	
January 1, 2002	Present Value Contributions	$12,935,780	$12,935,780	$0	
	Prepayment Credit Applied	$4,459,124	$4,190,855	$268,269	
	Present Value of Funding	$17,394,904	$17,126,635	$268,269	
January 1, 2002	CAS Funding Target	$4,459,124	$4,190,855	$268,269	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		$4,190,855	$268,269	
	Allowable Interest		$0	$0	
	Allocable Pension Cost		$4,190,855	$268,269	
2002	Fiscal Year Pension Cost		$3,779,194	$238,309	
	Medicare LOB* Percentage		1.12%	95.93%	
	Allowable Pension Cost		$42,327	$228,610	$270,937
2003	Contributions	$22,000,000	$22,000,000	$0	
8.50%	Discount for Interest	($1,723,502)	($1,723,502)	$0	
January 1, 2003	Present Value Contributions	$20,276,498	$20,276,498	$0	
	Prepayment Credit Applied	$7,363,638	$6,896,439	$467,199	
	Present Value of Funding	$27,640,136	$27,172,937	$467,199	
January 1, 2003	CAS Funding Target	$7,363,638	$6,896,439	$467,199	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		$6,896,439	$467,199	
	Allowable Interest		$0	$0	
	Allocable Pension Cost		$6,896,439	$467,199	
2003	Fiscal Year Pension Cost		$6,220,043	$417,467	
	Medicare LOB* Percentage		1.54%	96.33%	
	Allowable Pension Cost		$95,789	$402,146	$497,935

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2004	Contributions	$13,500,000	$13,500,000	$0	
8.50%	Discount for Interest	($1,057,604)	($1,057,604)	$0	
January 1, 2004	Present Value Contributions	$12,442,396	$12,442,396	$0	
	Prepayment Credit Applied	$7,956,474	$7,487,796	$468,678	
	Present Value of Funding	$20,398,870	$19,930,192	$468,678	
January 1, 2004	CAS Funding Target	$7,956,474	$7,487,796	$468,678	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		$7,487,796	$468,678	
	Allowable Interest		$0	$0	
	Allocable Pension Cost		$7,487,796	$468,678	
2004	Fiscal Year Pension Cost		$7,339,957	$468,308	
	Medicare LOB* Percentage		1.05%	93.82%	
	Allowable Pension Cost		$77,070	$439,367	$516,437
2005	Contributions	$13,000,000	$13,000,000	$0	
8.00%	Discount for Interest	($962,963)	($962,963)	$0	
January 1, 2005	Present Value Contributions	$12,037,037	$12,037,037	$0	
	Prepayment Credit Applied	$9,638,005	$9,078,975	$559,030	
	Present Value of Funding	$21,675,042	$21,116,012	$559,030	
January 1, 2005	CAS Funding Target	$9,638,005	$9,078,975	$559,030	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		$9,078,975	$559,030	
	Allowable Interest		$0	$0	
	Allocable Pension Cost		$9,078,975	$559,030	
2005	Fiscal Year Pension Cost		$8,681,180	$536,442	
	Medicare LOB* Percentage		0.81%	93.12%	
	Allowable Pension Cost		$70,318	$499,535	$569,853

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2006	Contributions	$6,000,000	$6,000,000	$0	
8.00%	Discount for Interest	($122,444)	($122,444)	$0	
January 1, 2006	Present Value Contributions	$5,877,556	$5,877,556	$0	
	Prepayment Credit Applied	$10,347,124	$9,776,366	$570,758	
	Present Value of Funding	$16,224,680	$15,653,922	$570,758	
January 1, 2006	CAS Funding Target	$10,347,124	$9,776,366	$570,758	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		$9,776,366	$570,758	
	Allowable Interest		$0	$0	
	Allocable Pension Cost		$9,776,366	$570,758	
2006	Fiscal Year Pension Cost		$9,602,018	$567,826	
	Medicare LOB* Percentage		0.26%	98.84%	
	Allowable Pension Cost		$24,965	$561,239	$586,204
2007	Contributions	$77,950,000	$77,950,000	$0	
8.00%	Discount for Interest	($2,845,464)	($2,845,464)	$0	
January 1, 2007	Present Value Contributions	$75,104,536	$75,104,536	$0	
	Prepayment Credit Applied	$43,226,125	$42,871,296	$354,829	
	Present Value of Funding	$118,330,661	$117,975,832	$354,829	
January 1, 2007	CAS Funding Target	$43,226,125	$42,871,296	$354,829	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		$42,871,296	$354,829	
	Allowable Interest		$0	$0	
	Allocable Pension Cost		$42,871,296	$354,829	
2007	Fiscal Year Pension Cost		$34,597,564	$408,811	
	Medicare LOB* Percentage		0.46%	99.24%	
	Allowable Pension Cost		$159,149	$405,704	$564,853

Date	Description		Total Company	"Other" Segment	Medicare Segment	Total Medicare
2008	Contributions		$12,900,000	$12,900,000	$0	
8.00%	Discount for Interest		($539,602)	($539,602)	$0	
January 1, 2008	Present Value Contributions		$12,360,398	$12,360,398	$0	
	Prepayment Credit Applied		$12,623,153	$12,560,497	$62,656	
	Present Value of Funding		$24,983,551	$24,920,895	$62,656	
January 1, 2008	CAS Funding Target		$12,623,153	$12,560,497	$62,656	
	Percentage Funded			100.00%	100.00%	
	Funded Pension Cost			$12,560,497	$62,656	
	Allowable Interest			$0	$0	
	Allocable Pension Cost	15/		$12,560,497	$62,656	
2008	Fiscal Year Pension Cost	16/		$23,278,321	$151,363	
	Medicare LOB* Percentage			0.30%	98.89%	
	Allowable Pension Cost			$69,835	$149,683	$219,518

* Line of business.

FOOTNOTES

1/ We obtained the 1999 calendar year allocable pension from our prior review (A-07-01-00121; issued July 17, 2001).

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 and accrued contributions deposited after the end of the plan year but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-10-00337). The amounts shown for the "Other" segment represent the difference between the Total Company and the Medicare segments.

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 plan year. 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, consistent with the method mandated by the Employee Retirement Income Security 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 Cost Accounting Standards (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 plan year.

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 plan year. 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 decimals.

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

10/ 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 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/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.

12/ We converted the plan year (January 1 through December 31) allocable pension costs 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.

13/ 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 LOB percentages based upon information provided by Blue Cross Blue Shield of Oklahoma (Oklahoma).

14/ We computed the allowable Medicare pension cost as the 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.

15/ Oklahoma terminated its Medicare contract on February 29, 2008. Therefore, the 2008 allocable pension costs were for a 2-month period only (January 1 through February 29).

16/ The 2008 fiscal year pension costs were for a 5-month period. To calculate the FY 2008 allocable pension costs, we calculated the FY pension costs as 1/4 of the prior year's costs plus all of the current year's costs (January 1 through February 29).

APPENDIX B: AUDITEE COMMENTS

Via UPS and Email via pdf attachment

BlueCross BlueShield
Of Illinois, New Mexico, Oklahoma and Texas

August 20, 2010

Patrick J. Cogley, Regional Inspector General for Audit Services
U.S. Department of Health & Human Services
Office of Inspector General Office of Audit Services
Region VII
601 East 12th street
Room 0429
Kansas City, Missouri 64106
Email: PCogley@OIG.HHS.GOV

Subject: Draft Report Response and Comments
Reports Number A-07-10-00337 and Number A-07-10-00338 respectively entitled
Review of Qualified Pension Plan at Blue Cross Blue Shield of Oklahoma, a Terminated Medicare Contractor, for the Period January 1, 1999 to February 29, 2008
And
Review of Pension costs Claimed for Medicare Reimbursement by Blue Cross Blue Shield of Oklahoma for Fiscal Years 2000 Through 2008

Dear Mr. Cogley:

Your June 29, 2010 letter(s) conveying the draft reports requested that (in order to properly consider our views on the validity of the facts and reasonableness of the recommendations) we provide written comments within 30 days. Based on further interchange with your audit team your office granted an extension for reply until August 20, 2010.

Your letter requests explicit concurrence, including actions taken or non-concurrence, including reasons and alternatives for the recommendation(s) of each audit.

Due to the nature of these type contract termination pension segment closing and settlement audits, our interactive work with the audit team assigned and the structured approach taken in the audit recommendations, our response is summarized at a higher level joining the substance and overarching recommendations across both audits since the outcomes are interrelated. We do also include clarifying and supporting descriptions.

Based on the interlocking approach of the audits as represented in reviews with both the Office of Audit Services staff and the Office of Actuary representatives (OIG), we concur that HCSC (Health Care Service Corporation, a Mutual Legal Reserve Company)(aka Oklahoma per the audit drafts) both: a) Claims the additional allowable pension costs of $551, 039 for the periods from FY 2000 through 2008 ($551,039 is taken directly from the recommendation contained within the A-07-10-0338 draft report--see attachment); and b)Submits the request for reimbursement of $899,827 for Medicare's share of the excess pension liabilities resulting from the segment closing calculations ($899,827 is based directly on the estimated $611,120 stated in the recommendation within the A-07-10-00337 draft report, adjusted in agreement with OIG to reflect the effects of the final Medicare segment liabilities which OIG initially estimated in the draft--see attachment).

The recommendation amount related to A-07-10-0337 is adjusted because the final accrued Medicare Segment liability ($3,698,163) used in the draft report (work papers) to compute the segment closing adjustment was based on OIG estimation. Subsequent to the issuance of the draft report, HCSC (aka Oklahoma per the audit drafts) and Towers Watson & Company Co. (actuarial consultants) provided (and reached agreement with OIG) OIG the actual Medicare segment final accrued liabilities of $3,997,528 as of 2-29-2008, calculated based on the approach OIG employed in the audit (see attachment). The difference in the liability measurement flows into the difference in the settlement amount due in the recommendation of draft A-07-10-0337. Except for revision in the final segment closing amounts as a result of the revision to the final accrued liabilities, the balance of the reports did not change.

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Beyond the primary summary recommendations of the draft reports (coupled in approach) as concurred above, the majority of the balance of the information or "sub-recommendations" in the reports are technically correct realignments related to OIG strict approach and technique differences versus the initial HCSC/Oklahoma draft settlement, building up to the end results.

Other than the adjustments for a few participant segment assignment and transfer method differences that were corrected by the OIG audit team (which HCSC/Oklahoma had captured differently), the end-of-segment-settlement technique HCSC/Oklahoma initially drafted for OIG review would have lead to a similar net-net overall settlement dollar amount result across the draft audits (plus or minus the less material amounts the OIG team recalculated related to annual CAS cost allocation differences for 2000-2006 in A-07-10-0338).

So that the Draft response will clarify/document the point of interpretive difference between how HCSC/Oklahoma approached the segment ending and why OIG methodically recast the results leading to the final draft recommendations, the primary approach difference was that HCSC/Oklahoma initially created an interim close out/settlement of related pension matters as of 12-31-06.

HCSC/Oklahoma initially selected a 12-31-2006 settlement date because we had forecasted (and ultimately our forecast turned out to be correct) that we would not be actively pursuing Medicare Part A&B business after 2006. Because HCSC did not actively pursue Medicare Part A&B business after 2006, we concluded under the prevailing circumstances that HCSC would not seek reimbursement from CMS for pension related costs incurred by the Medicare segment after 2006 and therefore the pension liabilities should be settled at 12-31-2006 rather than the actual contract termination date. The OIG Audit and Actuarial team instead determined that the regulations require the settlement to be as of the contract end date, 2-29-2008, and that based on advancing the previous Medicare pension segment components to 2-28-2008 methodically, HCSC was therefore entitled to reimbursement of pension costs incurred during the period from 12-31-2006 through 2-29-2008. It is our understanding that OIG accepted HCSC's rationale for selecting the 12-31-2006 date as reasonable and logical but ultimately concluded that the regulations and precedent did not, and do not, provide for any discretion on the selection of the settlement date. HCSC accepted the OIG determination, agreed to the revised basis presented in the audit drafts as reflected in the draft recommendations, and agreed that the audits and closing of the pension related matters should be final.

We appreciate the professionalism and cooperation of the OIG while working on these matters. We request that the two draft audits (A-07-10-00337 and A-07-10-00338) be finalized now as updated with the derived reimbursement amounts (as adjusted per the above) due from CMS to HCSC (approximately $1,450,866 sum of the above) being either wired directly to HCSC or credited to the overall BCBSOK Medicare Contract global closing agreement settlement.

Thank you.

Gene George, Executive Director Treasury, HCSC
and

Nancy Donaldson, Vice President Medicare Contract Administration, HCSC

A02-012 or B13A-5.413
1001 E. Lookout Drive
Richardson, Texas 75082
972-766-6192 or 972-766-1664

attachment: (page 3) one page reference support to paragraphs four and five above

Attachment to August 20, 2010 Draft Report Response and Comments Letter
Reports Number A-07-10-00337 and Number A-07-10-00338

Comparison of Allowable Pension Costs and Claimed Pension Costs

	Medicare Pension Costs		
Fiscal Year	Allowable Per Audit	Claimed by Oklahoma	Difference
2000	$73,071	$137,873	($64,802)
2001	148,810	146,468	2,342
2002	270,937	229,826	41,111
2003	497,935	512,273	(14,338)
2004	516,437	523,324	(6,887)
2005	569,853	604,736	(34,883)
2006	586,204	574,901	11,303
2007	564,853	167,178	397,675
2008	219,518	0	219,518
Total	$3,447,618	$ 2,896,579	$551,039

This underclaim occurred primarily because Oklahoma did not claim pension costs for Medicare reimbursement from January 2007 through February 2008. As a result, Oklahoma did not claim $551,039 of allowable pension costs.

BCBS of Oklahoma Pension Plan Settlement of Medicare Segment Pension Liability

		OIG Calculation	HCSC Calculation
1	Medicare Segment Benefit Liabilities at 2/28/2008	3,698,163	3,997,528
2	Unallowed	30,100	30,100
3	Net liability: 1 - 2	3,668,063	3,967,428
4	Medicare Segment Assets at 2/28/2008	3,034,384	3,034,384
5	Unfunded Benefit Liabilities: 3 - 4	633,679	933,044
6	Medicare Segment Audited Costs as Percent of Submitted	96.44%	96.44%
7	Net Reimbursement Amount: 5 x 6	611,120	899,827
			288,707

((for reference only--excerpt of 8-13-2010 OIG Confirmation—"..We have reviewed the support for the revised final Medicare segment accrued liabilities of $3,997,528 as of 2/29/2008. We have determined the revised final liabilities for the Medicare segment appear to be reasonable. We will adjust our final audit report to identify the final Medicare segment accrued liabilities of $3,997,528 as of 2/29/2008...."))