AUDIT OF THE POST RETIREMENT BENEFIT COSTS CLAIMED BY WELLMARK, INC.
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:

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The OIG's 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 in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the Department.

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**Office of Investigations**

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**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. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the Department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops model compliance plans, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.
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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 information contained therein 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 awarding agency will make final determination on these matters.
Mr. Thomas W. Pheifler, CPA, CMA, HIA, CIA
Manager, Audit Services
Wellmark, Inc.
636 Grand Avenue
Des Moines, Iowa 50309

Dear Mr. Pheifler:

This report provides you with the results of an Office of Inspector General (OIG), Office of Audit Services (OAS) review entitled, *Audit of the Post Retirement Benefit Costs Claimed by Wellmark, Inc.* The purpose of our review was to determine the allowability of $717,106 in post retirement benefit (PRB) costs claimed for Medicare reimbursement by Wellmark, Inc. (Wellmark). The $717,106 represents PRB costs that will be incurred subsequent to the termination of Wellmark's Medicare contract. The review showed that the claimed costs are unallowable for Medicare reimbursement and we recommend that Wellmark withdraw the claim.

We determined that Wellmark claimed $717,106 in PRB costs that are unallowable for Medicare reimbursement. Wellmark disagreed with our report, asserting that the application of prior unclaimed administrative costs (approximately $1.8 million) offsets our recommendation to withdraw the claim for PRB costs. Wellmark’s response is included as Appendix B.

**INTRODUCTION**

**BACKGROUND**

Wellmark administered Medicare Part A and Part B operations under cost reimbursement contracts until the contractual relationships were terminated effective May 31, 2000 and October 31, 1998, respectively. Contractors were to follow cost reimbursement principles contained in the Cost Accounting Standards, the Federal Acquisition Regulations (FAR), and their Medicare contracts.

The FAR sets forth the allowability requirements and applicable methods of accounting for PRB costs under a Government contract. The PRB costs can include, but are not limited to, post retirement health care; life insurance provided outside a pension plan; and other welfare benefits such as tuition assistance, day care, legal services, and housing subsidies provided after
retirement. The PRBs do not cover cash and life insurance paid by pension plans during the period following the employees’ retirement.

According to FAR 31.205-6(o)(2), PRB costs can be calculated using one of the following:

- **Cash Basis** (or pay-as-you-go) - recognizes costs as PRBs when they are actually provided.

- **Terminal Funding** - accrues and pays the entire PRB liability to the insurer or trustee in a lump sum upon the termination of employees to establish and maintain a fund or reserve for the purpose of providing PRBs to retirees. The lump-sum payment is allowable if amortized over a period of 15 years.

- **Accrual Basis** - measures and assigns costs according to generally accepted accounting principles and pays an insurer or trustee to establish and maintain a fund or reserve for the sole purpose of providing PRBs to retirees. The accrual must be calculated in accordance with generally accepted actuarial principles and practices as promulgated by the Actuarial Standards Board.

The FAR further states that to be allowable, costs must be funded by the time set for filing the Federal income tax return or any extension thereof. The PRB costs assigned to the current year, but not funded by the tax return time, are not allowable in any subsequent year.

In 1990, the Financial Accounting Standards Board issued the Statement of Financial Accounting Standard (SFAS) 106 which established accounting standards for PRBs. The SFAS 106 significantly changed the practice of accounting for PRBs from the cash basis to the accrual basis only.

With the implementation of SFAS 106, companies are required to report in their financial statements the accrued liability for PRBs for current and retired employees. The SFAS 106 requires the annual reporting of net periodic service costs, as well as a transition obligation (i.e., a cumulative effect of an accounting change) which may be recognized either immediately or amortized on a straight line basis over the average remaining service of active plan participants.

The FAR allows contractors the option of electing SFAS 106 accrual accounting for funded PRBs, or of continuing to recognize PRB costs on the cash basis for Government contract purposes if that had been their practice. However, the FAR does not allow contractors to immediately recognize any SFAS 106 transition obligation. The FAR provides for recognition on an amortized basis.

Medicare contractors were alerted to the SFAS 106 requirements and the FAR options by instructions in the Budget and Performance Requirements for Fiscal Year 1993. Wellmark chose to continue using the cash basis for its Government contracting purposes and, thus, recognize PRB costs when they were actually provided.
OBJECTIVES, SCOPE, AND METHODOLOGY

At the request of CMS, we audited Wellmark’s May 10, 2001 claim of $717,106 for PRB costs to be incurred subsequent to the termination of the Medicare contract.\(^1\)

We performed our audit in accordance with generally accepted government auditing standards. The objective of our audit was to determine whether PRB costs claimed for the period subsequent to Wellmark’s termination were allowable for Medicare reimbursement. Achieving our objective did not require that we review Wellmark’s internal control structure.

This review was done in conjunction with our audit of pension segmentation for a terminated contractor (A-07-02-03022). The information obtained and reviewed during that audit was also used in performing this review.

In performing our review, we used information as presented in Wellmark’s Termination Cost Voucher, which included support provided by Wellmark’s consulting actuaries. In addition, we also used the information presented in Wellmark’s December 7, 2001 letter to CMS. Finally, we examined Wellmark’s PRB claim in relation to applicable laws and regulations to determine whether Wellmark complied with regulatory requirements.

We conducted our review at Wellmark during February 2002 and subsequently at our OIG, OAS Jefferson City, Missouri field office.

FINDINGS AND RECOMMENDATION

Wellmark claimed $717,106 in PRB costs that are unallowable for Medicare reimbursement. The $717,106 represents costs for PRBs that Wellmark estimates will be incurred after the termination of its Medicare contracts. The claim represented: (1) a retroactive change in accounting basis with immediate recognition of the transition obligation, and (2) a request for reimbursement of unfunded costs. None of these costs are allowable in accordance with the FAR and, therefore, the costs are unallowable for Medicare reimbursement.

Wellmark’s contractual relationship under Medicare was terminated in 2000. On May 10, 2001, Wellmark claimed $717,106 to cover PRBs to be paid subsequent to the contract completion date. The FAR allows contractors the option of electing SFAS 106 accrual accounting, but it requires the amortization of the transition obligation amount. Additionally, the FAR states that to be allowable, costs must be funded by the time set for filing the Federal income tax return or any extension thereof.

---
\(^1\) Wellmark initially submitted a claim of $849,397 on May 10, 2001. In a December 7, 2001 letter to CMS, Wellmark revised its PRB claim to $717,106.
Wellmark’s normal practice for Government contracting purposes has been to claim PRB costs on the cash basis. On this basis, Wellmark would have been reimbursed for actual PRB costs incurred through the contract termination date. Wellmark’s subsequent claim for PRB costs was calculated using an accrual basis considering the immediate recognition of the entire transition obligation amount.

The PRB claim is based on the retroactive changing from a cash basis to an accrual basis for claiming PRB costs subsequent to its contract termination. In addition to being a retroactive change, Wellmark’s application of the SFAS 106 accrual method of accounting for PRBs is not in compliance with the FAR with regard to treatment of a transition obligation. Furthermore, although Wellmark’s claim is based on the accrual method, Wellmark has not established a fund or reserve to provide PRBs to retirees. Therefore, Wellmark is claiming reimbursement for unfunded costs.

Accordingly, we concluded that PRB costs of $717,106 claimed by Wellmark are unallowable for Medicare reimbursement and we are recommending that Wellmark withdraw the claim.

RECOMMENDATION

We recommend that Wellmark withdraw the May 10, 2001 claim of $717,106 for PRB costs.

Auditee’s Comments

Wellmark disagreed with our report. Wellmark’s assertions and opinions are summarized in the following paragraph and presented in its entirety on Appendix B. Wellmark did not specifically address our recommendation. Instead, they believe that the application of prior unclaimed administrative costs (approximately $1.8 million) offsets our recommendation to withdraw the May 10, 2001 claim of $717,106 for PRB costs. Wellmark stated:

“Wellmark disputes the OIG’s proposed adjustment of $1,357,036 in several respects. First, a previous payment in the amount of $11,369 was not reflected in the draft report. Second, pension expense for the fiscal years 1992-2000, which the OIG asserts is unallowable due to the adjustment of asset values, was more than offset by the over $1.8 million in unclaimed costs that Wellmark incurred in the administration of the Medicare Program. Our view is that any reopening of the FACPs to account for the OIG’s pension findings should also be reopened to allow for the payment of Wellmark’s otherwise allowable administrative costs that were not previously reimbursed by the government.”

OIG Response

Wellmark’s comments are not directly related to our recommendation. In Wellmark’s closing agreements with CMS, a clause specifically closes all administrative costs and allows for pension costs to remain open until audited. Therefore, our recommendation does not require the “reopening” of the FACPs.
INSTRUCTIONS FOR AUDITEE RESPONSE

Final determinations as to actions to be taken on all matters reported will be made by the HHS action official identified below. We request that you respond to the recommendation in this report within 30 days from the date of this report to the HHS action official, presenting any comments or additional information that you believe may have a bearing on 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, OAS reports are made available to the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR part 5). As such, within 10 business days after the final report is issued, it will be posted on the worldwide web at http://oig.hhs.gov/.

Sincerely,

[Signature]

James P. Aasmundstad
Regional Inspector General for Audit Services

Enclosures

HHS Action Official:

Mr. Joe Tilghman
Regional Administrator, Region VII
Richard Bolling Federal Building
Room 235
601 East 12th Street
Kansas City, Missouri 64106
ACKNOWLEDGMENTS

AUDIT REPORT NUMBER: A-07-02-03035
WELLMARK INC.

This report was prepared under the direction of James P. Aasmundstad, Regional Inspector General for Audit Services. Other principal Office of Audit Services staff who contributed include:

Greg Tambke, Audit Manager
Scott Englund, Senior Auditor
Tricia Hankins, Auditor
Dave Imhoff, Auditor

For information or copies of this report, please contact the Office of Inspector General’s Public Affairs office at (202) 619-1343.
February 11, 2003

Via UPS Overnight

James P. Aasmundstad
Regional Inspector General
Audit Services, Region VII
601 E. 12th Street, Room 684A
Kansas City, MO 64106

Re: CIN: A-07-02-03022
CIN: A-07-02-03029
CIN: A-07-02-03035

Dear Mr. Aasmundstad:

This is in response to the three draft audit reports referenced above, which were conducted by the Department of Health and Human Services Office of Inspector General. These reports covered topics related to pension assets and expenses for the Company's Medicare Operations, prior to Wellmark's exit from the program on May 31, 2000, and to the costs of post retirement benefits.

Wellmark has several responses to the audit reports that it wishes the OIG to consider. Specifically, based on our review, there are several facts that we would like to make note of:

- The amount identified in the audit findings of $1,357,036 includes the amount of pension expenses or pension costs claimed for Medicare reimbursement for the fiscal years 1992-2000 ($558,422), which is the subject of the report for CIN: A-07-02-03029. Additionally, in a prior audit for fiscal year 1995, there was an audit finding that pension costs were overstated by Wellmark in the amount of $11,369. Wellmark paid this amount to the government but the FACP was not adjusted for fiscal year 1995. This amount is not reflected in the findings in the current report. Attached as Exhibit A, please find a copy of the audit finding and the schedule from the Closing Agreement showing the payment. Thus, the total amount allegedly owed is $1,345,667.

- During the same period, and as outlined below, Wellmark had unclaimed allowable costs in excess of $1.8 million. If the FACPs are to be reopened as the OIG suggests to make the pension adjustments, then the cost reports should be equally reopened to enable Wellmark to submit unclaimed allowable costs that were not reimbursed as a result of CMS' Bottom Line Unit Costs ("BLUC") limitations. These unclaimed costs are for administrative costs incurred by Wellmark in performance of its Medicare Part A and B Contracts.
These costs are specifically outlined in OIG reports: CIN: A-07-99-01287, CIN: A-07-94-00787, and CIN: A-07-94-00786. For the fiscal years in question, Wellmark (formerly known as IASD Health Services Corp.) had the unclaimed costs listed below:

Medicare Part A:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Incurred Costs</th>
<th>Reported Costs</th>
<th>Unclaimed Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>$12,986,401</td>
<td>$12,945,726</td>
<td>$40,675</td>
</tr>
<tr>
<td>1993</td>
<td>$13,800,001</td>
<td>$13,747,456</td>
<td>$52,545</td>
</tr>
<tr>
<td>1994</td>
<td>$13,569,679</td>
<td>$13,569,679</td>
<td>$0</td>
</tr>
<tr>
<td>1995</td>
<td>$15,249,044</td>
<td>$15,249,044</td>
<td>$0</td>
</tr>
<tr>
<td>1996</td>
<td>$15,068,255</td>
<td>$15,068,255</td>
<td>$0</td>
</tr>
<tr>
<td>1997</td>
<td>$18,371,805</td>
<td>$18,254,519</td>
<td>$117,286</td>
</tr>
<tr>
<td>1998</td>
<td>$27,197,208</td>
<td>$27,197,208</td>
<td>$0</td>
</tr>
<tr>
<td>1999</td>
<td>$27,644,322</td>
<td>$27,644,322</td>
<td>$0</td>
</tr>
<tr>
<td>2000 (Partial Year)</td>
<td>$21,178,428</td>
<td>$21,178,428</td>
<td>$0</td>
</tr>
</tbody>
</table>

Total Part A | $165,065,143 | $164,854,637 | $210,506 |

Medicare Part B:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Incurred Costs</th>
<th>Reported Costs</th>
<th>Unclaimed Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>$13,006,825</td>
<td>$12,133,335</td>
<td>$873,490</td>
</tr>
<tr>
<td>1993</td>
<td>$12,525,637</td>
<td>$11,976,478</td>
<td>$549,159</td>
</tr>
<tr>
<td>1994</td>
<td>$11,001,125</td>
<td>$11,001,125</td>
<td>$0</td>
</tr>
<tr>
<td>1995</td>
<td>$10,828,564</td>
<td>$10,643,132</td>
<td>$185,432</td>
</tr>
<tr>
<td>1996</td>
<td>$9,936,947</td>
<td>$9,936,947</td>
<td>$0</td>
</tr>
<tr>
<td>1997</td>
<td>$9,360,313</td>
<td>$9,330,148</td>
<td>$30,165</td>
</tr>
<tr>
<td>1998</td>
<td>$8,833,570</td>
<td>$8,833,570</td>
<td>$0</td>
</tr>
</tbody>
</table>

Total Part B | $75,492,981 | $73,854,735 | $1,638,246 |

Summary of Medicare Part A & B Unclaimed Allowable Cost History:

<table>
<thead>
<tr>
<th></th>
<th>Med A</th>
<th>Med B</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992 - 2000</td>
<td>$210,506</td>
<td>$1,638,246</td>
<td>$1,848,752</td>
</tr>
</tbody>
</table>

As you can see, for fiscal years 1992 through the termination of Wellmark's Medicare contract, Wellmark's unclaimed costs for administration of the Medicare Program totaled $1,848,752. If the reopening of these years is required, this cost more than offsets any claim that costs were overstated.

- In the pension audits, the OIG noted that Wellmark failed to act upon a prior recommendation contained in OIG's previous segmentation report (CIN: A-07-
94-00744), which was to increase pension assets by $1,629,382. Initially Wellmark disagreed with the auditor's findings and had engaged in discussions with HCFA regarding this matter. Ultimately, Wellmark acquiesced in the finding and concurred with the finding of the report. Attached, as Exhibit B is a copy of the letter to Mr. Joe Tilghman who was acting Regional Administrator of HCFA at the time to that effect. A copy of this communication was provided to the staff at the Blue Cross Blue Shield Association responsible for plan administration of the pension plan in which Wellmark participates. Apparently, this transfer was inadvertently not completed by the plan administrator, but Wellmark did not detect this oversight until the exit conference with the OIG in early 2002.

Summary

Wellmark disputes the OIG's proposed adjustment of $1,357,036 in several respects. First, a previous payment in the amount of $11,369 was not reflected in the draft report. Second, pension expense for the fiscal years 1992-2000, which the OIG asserts is unallowable due to the adjustment of asset values, was more than offset by the over $1.8 million in unclaimed costs that Wellmark incurred in the administration of the Medicare Program. Our view is that any reopening of the FACPs to account for the OIG's pension findings should also be reopened to allow for the payment of Wellmark's otherwise allowable administrative costs that were not previously reimbursed by the government.

We look forward to the opportunity to discuss the issues raised in all the reports further.

Sincerely,

[Brian Lester Smith]
Brian Lester Smith
Counsel

BLS/ch
Enclosures
Exhibit A
PENSION COSTS

The Auditee did not adjust pension costs claimed in FY 1995 to agree with the Actuary's recommended Medicare segment costs. As a result, pension costs were overstated by $20,194 in FY 1995.

During calendar years 1994 and 1995, the Auditee funded pensions and the Medicare segment in the following amounts:

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>1994</th>
<th>1995</th>
<th>Medicare Segment FY 1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Funding</td>
<td>$2,609,600</td>
<td>$2,450,806</td>
<td></td>
</tr>
<tr>
<td>Medicare Segment Per Actuary</td>
<td>$284,956</td>
<td>$227,828</td>
<td></td>
</tr>
</tbody>
</table>

**Fiscal Year 1995**

<table>
<thead>
<tr>
<th>Percent of Medicare Segment</th>
<th>FY 1995 Amount</th>
<th>Medicare Segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>25%</td>
<td>$71,239</td>
<td>$242,110</td>
</tr>
<tr>
<td>75%</td>
<td>$170,871</td>
<td></td>
</tr>
</tbody>
</table>

Medicare Segment --

- Pension Cost Claimed
- Excess Amount Claimed

Distribution of Excess Amount:

<table>
<thead>
<tr>
<th>FY 1995</th>
<th>PART A</th>
<th>PART B</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$11,369</td>
<td>$8,825</td>
<td>$20,194</td>
</tr>
</tbody>
</table>

According to Auditee officials the Medicare Segment for 1995 was funded and claimed at the 1994 level. However, the 1995 Medicare segment required less funding and no adjustment was made to reduce amounts claimed.

**Recommendation**

We recommend that:

1. The Auditee establish the necessary procedures to ensure that the proper pension costs are claimed on Medicare.
2. The overstated pension costs of $20,194 be set aside for further review and resolution by HCFA.

<table>
<thead>
<tr>
<th>PART A</th>
<th>PART B</th>
</tr>
</thead>
<tbody>
<tr>
<td>$11,369</td>
<td>$8,825</td>
</tr>
</tbody>
</table>
**Auditee Response**

Auditee officials concur with our findings and recommendation. However, they requested that we show the pension differences for all fiscal years covered in the audit. This would reflect not only the overcharge for 1995 but also the undercharges for other years. The net effect would be an undercharge for the five years.

**Auditor Comment**

We agree that there would be a net undercharge if overcharges and undercharges were netted for all periods. However, costs are claimed by fiscal year on the FACP and will not be offset against another fiscal year costs. Also the Auditee had not claimed the additional pension expenses for 1996 and as a result the undercharge occurred. Therefore, we could not consider that amount unless claimed.

**RECRUITMENT COSTS**

Medicare was allocated $8,114 in Miscellaneous Incentive costs in fiscal year 1998 that represented a sign-on bonus paid to the new Senior Vice President – Human Resources. We were unable to determine whether the sign-on bonus was reasonable.

The Auditee recruited an individual in November 1997 to fill its executive position of Senior Vice President – Human Resources (SVP-HR). That individual recovered a starting annual salary of $150,000 plus a sign-on bonus of $40,000. The starting salary paid to the SVP-HR appears reasonable as compared to salaries paid other Senior Vice Presidents at Wellmark, Inc. However, we were unable to determine whether the $8,114 of sign-on bonus allocated to Medicare was reasonable and allowable.

The 48 CFR 31.201-3 provides that reasonableness depends upon a variety of considerations and circumstances including:

(1) *Whether it is the type of cost generally recognized as ordinary and necessary for the conduct of the contractor’s business or the contract performance;*

...and

(4) *Any significant deviations from the contractor’s established practices.*

We were unable to determine whether the bonus is generally recognized as an ordinary and necessary cost for the contract performance. Further, there was no document provided to show that offering a sign-on bonus was the contractors established practice.
<table>
<thead>
<tr>
<th>PERIOD</th>
<th>AMOUNT CLAIMED</th>
<th>AMOUNT QUESTIONED</th>
<th>EXCEPTIONS SUSTAINED</th>
<th>OTHER *</th>
<th>TOTAL AMOUNT ALLOWED</th>
<th>AMOUNT PAID CONTRACTOR</th>
<th>NET AMOUNT DUE CMS/ CONTRACTOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>$13,569,679</td>
<td>$14,172</td>
<td>$-</td>
<td>$-</td>
<td>$13,569,679</td>
<td>$13,569,679</td>
<td>$-</td>
</tr>
<tr>
<td>1995</td>
<td>$15,249,044</td>
<td>$30,538</td>
<td>$11,369</td>
<td>$-</td>
<td>$15,237,675</td>
<td>$15,249,044</td>
<td>$11,369</td>
</tr>
<tr>
<td>1996</td>
<td>$15,068,255</td>
<td>$8,429</td>
<td>$-</td>
<td>$-</td>
<td>$15,068,255</td>
<td>$15,068,255</td>
<td>$-</td>
</tr>
<tr>
<td>1997</td>
<td>$18,254,519</td>
<td>$3,993</td>
<td>$507</td>
<td>$507</td>
<td>$18,254,519</td>
<td>$18,254,519</td>
<td>$-</td>
</tr>
<tr>
<td>1998</td>
<td>$29,625,928</td>
<td>$28,568</td>
<td>$27,807</td>
<td>$-</td>
<td>$29,598,121</td>
<td>$29,625,928</td>
<td>$27,807</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$91,767,425</strong></td>
<td><strong>$85,700</strong></td>
<td><strong>$39,683</strong></td>
<td><strong>507</strong></td>
<td><strong>$91,728,249</strong></td>
<td><strong>$91,767,425</strong></td>
<td><strong>$39,176</strong></td>
</tr>
</tbody>
</table>

* Offset of Unclaimed Costs
<table>
<thead>
<tr>
<th>INVOICE DATE</th>
<th>INVOICE NUMBER</th>
<th>GROSS AMOUNT</th>
<th>DISCOUNT AMOUNT</th>
<th>NET AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>03-14-2002</td>
<td>REFUND MED PART A COST 39,176.00</td>
<td></td>
<td></td>
<td>39,176.00</td>
</tr>
</tbody>
</table>

**TOTAL**

39,176.00

39,176.00

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THE Centers for Medicare & Medicaid Services- CMS
Office of Financial Management
Div. of Acctg, Admin. Pymt. Branch
PO Box 7520
Baltimore, MD 21207

WARNING: THIS CHECK MUST HAVE A MACHINE IMPRINTED SIGNATURE
VOID AFTER 90 DAYS
Exhibit B
June 6, 1994

Mr. Joe L. Tilghman  
Acting Regional Administrator, HCFA  
Room 235, Federal Office Building  
601 East 12th Street  
Kansas City, MO 64106

Re: Audit CIN: A-07-94-00744

Dear Mr. Tilghman:

We acknowledge receipt of the final audit report on the OIG Review of Pension Segmentation.

We concur with the findings of the report and will implement the recommendations noted.

A copy of the report along with this letter will be sent to NEBA, the plan administrator, and the appropriate adjustments will be made.

Sincerely,

Sally T. Wood  
Vice President, Government Programs

/mg

cc: Roger Perryn, HCFA  
Steve Ford, HCFA

Bob Rhodes  
Blue Cross and Blue Shield Association  
676 North St. Clair Street  
Chicago, IL 60611

Vincent R. Imbriani  
Regional Inspector General for Audit Services  
Region VII  
Room 284A, Federal Office Building  
601 East 12th Street  
Kansas City, MO 64106
From: Navin, Carol [carol.navin@BCBSA.com]
Sent: Tuesday, September 24, 2002 4:45 PM
To: Moklestad, Timothy N
Cc: Barberio, George; 'Pinkerton, Jay -- CCA'; Manuszak, David
Subject: FW: Medicare Pension Segment Audits

Tim, finally, here are responses to questions from Carl Voss at Watson Wyatt (Watson Wyatt Worldwide, or WWW). As I said before, the "transfer" (adjustment) was never made.

We need to see what needs to be done going forward. I will advise Jay Pinkerton and company at CCA so we can discuss at some point.

Some of the questions are unanswered -- #3 (must be answered by the OIG) and # 6 (I do not believe that we were actuaries for western IA or SD).

Also, in answer to #1, no, you weren't required to provide an additional request or document re the transfer of assets -- there was no formal process for doing this.

Also, remember that when we talk about "transfer of assets", I believe we are talking about paper adjustments of amounts (not any actual transfer of funds). I know you know this, but just in case this is read by others.....

Please let me know if you have other questions. I am truly sorry this has taken so long. Thanks for your patience.

Carol

-----Original Message-----
From: Voss, Carl (Chicago) [mailto:Carl.Voss@WatsonWyatt.com]
Sent: Friday, September 20, 2002 4:58 PM
To: 'Navin, Carol'
Subject: RE: Medicare Pension Segment Audits

See my responses to #2, #4, and #5 below.

-----Original Message-----
From: Navin, Carol [mailto:carol.navin@BCBSA.com]
Sent: September 18, 2002 3:00 PM
To: 'Voss, Carl -- Wyatt'
Subject: FW: Medicare Pension Segment Audits

-----Original Message-----
From: Navin, Carol
Sent: Thursday, September 12, 2002 10:53 AM
To: 'Voss, Carl -- Wyatt'
Subject: FW: Medicare Pension Segment Audits

Carl, this is what I was calling about. Tim asked me again about it - I think it's something that needs to be answered by you, but maybe CCA could answer?
Thanks ---
Carol

-----Original Message-----
From: Navin, Carol
Sent: Tuesday, June 18, 2002 9:46 AM
To: 'Voss, Carl - Wyatt'
Subject: FW: Medicare Pension Segment Audits

Carl, re the Wellmark OIG audit. Some of Tim's questions, I believe, need to be answered by you - can you look at his questions #2, #4 and #5 below and let me know your reaction? Thanks.

Carol Daskais Navin
Manager, Actuarial Reporting and Systems
National Employee Benefits Administration
Blue Cross Blue Shield Association
225 North Michigan Avenue, Chicago IL 60601
Phone: 312.297.6114
Fax: 312.297.6454
Email: carol.navin@bcbsa.com

-----Original Message-----
From: Moklestad, Timothy N [mailto:moklestdtn@wellmark.com]
Sent: Thursday, June 13, 2002 10:05 AM
To: carol.navin@BCBSA.com
Cc: Murphy, Angela J
Subject: Medicare Pension Segment Audits

After reviewing the history of events following the Medicare Pension segment audits for the period 1986 to 1992 I had a few questions.

Questions 1 & 2 relate to the Final 1994 OIG Report on the IASD segment, CIN # A-07-94-00744. On June 6th, 1994 Sally Wood sent a letter to Joe Tighman, Acting Regional Administrator HCFA, including a copy to Bob Rhoades of the BCBS Assoc. The letter said that a copy of the report along with this letter will be sent to NEBA, the plan administrator, and the appropriate adjustments will be made. We have a couple questions related to this:

1. Were we required to send an additional request or document concerning the transfer of the assets?
2. Are we certain that the funds were not transferred? I've been asked this question a few more times so I said that I would ask one more time.

WWW response. We have gone back to the work papers and the adjustments to the asset allocation requested by the auditors in the final 1994 report were never made. There was an internal communication breakdown between the actuary (me) and the people actually doing the segment accounting work.

Question # 3 relates to Final 1994 OIG Report on unfunded pension costs of IASD, CIN # A-07-94-00745

3. Will the OIG auditors automatically include the reassignment of $574,804 unfunded pension costs in

1/31/2003