



February 17, 2010

Report Number: A-07-09-00322

Ms. Sandra Miller
Senior Vice President and President, Federal Government Solutions
National Government Services, Inc.
8115 Knue Road
Indianapolis, IN 46250

Dear Ms. Miller:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of the Pension Segmentation Requirements for the Salaried Qualified Pension Plan at Blue Cross Blue Shield United of Wisconsin, for the Period January 1, 1986, to December 31, 1998*. 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-07-09-00322 in all correspondence.

Sincerely,

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

Enclosure

Direct Reply to HHS Action Official:

Ms. Nanette Foster Reilly
Consortium Administrator
Consortium for Financial Management & Fee for Service Operations
Centers for Medicare & Medicaid Services
601 East 12th Street, Room 235
Kansas City, MO 64106

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF THE PENSION
SEGMENTATION REQUIREMENTS FOR
THE SALARIED QUALIFIED PENSION
PLAN AT BLUE CROSS BLUE SHIELD
UNITED OF WISCONSIN,
FOR THE PERIOD JANUARY 1, 1986,
TO DECEMBER 31, 1998**



Daniel R. Levinson
Inspector General

February 2010
A-07-09-00322

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 United of Wisconsin

Blue Cross Blue Shield United of Wisconsin (BCBSUW), through its United Government Services business unit, administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS). During our audit period (January 1, 1986, to December 31, 1998), BCBSUW maintained two defined benefit pension plans: a salaried pension plan and an hourly pension plan. For the purpose of this report, the term BCBSUW will be associated with the findings concerning the segmentation of the salaried pension plan pension assets for the period January 1, 1986, to December 31, 1998.

Medicare

Since its inception, Medicare has paid a portion of contractors' contributions to their pension plans. These contributions are allowable Medicare costs subject to the criteria set forth in the Federal Procurement Regulations, Federal Acquisition Regulation (FAR), Cost Accounting Standards (CAS), and Medicare contracts.

Pension Segmentation

Beginning with fiscal year 1988, CMS incorporated specific segmentation requirements into the Medicare contracts to ensure conformance with CAS 413. The Medicare contracts define a segment and specify the methodology for the identification and initial allocation of pension assets to the segment. Additionally, the contracts require Medicare segment pension assets to be updated for each year after the initial allocation in accordance with CAS 412 and 413.

OBJECTIVE

Our objective was to determine whether BCBSUW complied with Federal requirements and the Medicare contracts' pension segmentation requirements when:

- identifying the Medicare segment's pension asset base as of January 1, 1986, and
- updating the Medicare segment's pension assets from January 1, 1986, to December 31, 1998.

SUMMARY OF FINDINGS

BCBSUW correctly computed the initial allocation of the Medicare segment pension assets as of January 1, 1986; however, BCBSUW used an incorrect total company investment earnings amount when allocating investment earnings to the Medicare segment for calendar years 1994, 1995, and 1998. Additionally, BCBSUW did not correctly account for long-term disability

premiums when updating its total company pension assets from January 1, 1998, to December 31, 1998. As a result, BCBSUW understated the Medicare segment pension assets by \$13,145, and overstated total company pension assets by \$145,604, as of December 31, 1998.

RECOMMENDATIONS

We recommend that BCBSUW:

- increase its Medicare segment pension assets as of December 31, 1998, by \$13,145 and recognize \$8,081,550 as the Medicare segment pension assets;
- decrease its total company pension assets as of December 31, 1998, by \$145,604 and recognize \$114,345,921 as the total company pension assets; and
- implement controls to ensure that in the future the Medicare segment is updated in accordance with CAS 412 and 413.

AUDITEE COMMENTS

In written comments on our draft report, National Government Services (NGS) concurred with our findings and recommendations and described corrective actions that it will take. NGS stated that BCBSUW'S Medicare contract was novated to NGS effective January 1, 2007; therefore, NGS responded to our draft report.

While concurring with the findings and recommendations, NGS also suggested several revisions to the text of the report.

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

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing NGS's written comments, we revised the background section to clarify the relationship between BCBSUW and NGS. We also revised the references (in Appendix A) to the asset variance for the "Other" segment and the "Medicare" segment as NGS had suggested; these revisions, though, did not have an effect on either the substance or the dollar amounts in our findings and recommendations. After reviewing the other revisions suggested by NGS, we determined that those revisions do not enhance the clarity or accuracy of this report; therefore, we did not make the other suggested revisions.

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Glossary of Abbreviations and Acronyms

| | |
|--------|--|
| BCBSUW | Blue Cross Blue Shield United of Wisconsin |
| CAS | Cost Accounting Standards |
| CMS | Centers for Medicare & Medicaid Services |
| FAR | Federal Acquisition Regulation |
| NGS | National Government Services |
| UGS | United Government Services |

INTRODUCTION

BACKGROUND

Blue Cross Blue Shield United of Wisconsin

Blue Cross Blue Shield United of Wisconsin (BCBSUW), through its United Government Services (UGS) business unit, administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS). During our audit period (January 1, 1986, to December 31, 1998), BCBSUW maintained two defined benefit pension plans: a salaried pension plan and an hourly pension plan.

On January 1, 1999, United Wisconsin Services, Inc. (UWSI), the parent company of BCBSUW, merged the salaried pension plan and the hourly pension plan. During the same time, UWSI established a separate defined benefit pension plan, UGS Pension Plan, and moved all of its government program employees into that pension plan.

In 2003, BCBSUW and UGS were purchased by WellPoint Health Networks, Inc. (WHN). WHN became a part of Anthem, Inc., on November 30, 2004, and Anthem, Inc., changed its name to WellPoint, Inc. Effective November 17, 2006, a consolidation of certain Medicare operations occurred, forming a new subsidiary of WellPoint, Inc., called National Government Services (NGS). This consolidation included UGS, and the UGS pension plan remained a stand-alone defined benefit pension plan. Thus, although we are addressing this report to NGS, we will associate the term BCBSUW with our findings and recommendations regarding the segmentation of the salaried pension plan pension assets for the period January 1, 1986, to December 31, 1998.

Medicare

Since its inception, Medicare has paid a portion of contractors' contributions to their pension plans. These contributions are allowable Medicare costs subject to the criteria set forth in the Federal Procurement Regulations, Federal Acquisition Regulation (FAR), Cost Accounting Standards (CAS), and Medicare contracts.

Federal Requirements

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.

Pension Segmentation

CMS incorporated CAS 412 and 413 into the Medicare contracts effective October 1, 1980. Beginning with fiscal year 1988, CMS incorporated segmentation requirements into Medicare contracts. The Medicare contracts define a segment and specify the methodology for the identification and initial allocation of pension assets to the segment. The contracts require Medicare segment pension assets to be updated for each year after the initial allocation in accordance with CAS 412 and 413. In claiming costs, contractors must follow cost reimbursement principles contained in the FAR, CAS, and the Medicare contracts.

OBJECTIVE, SCOPE AND METHODOLOGY

Objective

Our objective was to determine whether BCBSUW complied with Federal requirements and the Medicare contracts' pension segmentation requirements when:

- identifying the Medicare segment's pension asset base as of January 1, 1986, and
- updating the Medicare segment's pension assets from January 1, 1986, to December 31, 1998.

Scope

We reviewed BCBSUW's initial allocation of the Medicare segment's pension assets and its update of the Medicare segment's pension assets from January 1, 1986, to December 31, 1998.

Achieving our objectives did not require us to review BCBSUW's overall internal control structure. However, we reviewed controls relating to the identification of the Medicare segment, the initial allocation of the Medicare segment pension assets, and the update of the Medicare segment's pension assets.

We performed fieldwork at BCBSUW's office in Milwaukee, Wisconsin, during August 2009.

Methodology

To accomplish our objective, we did the following:

- We reviewed the applicable portions of the FAR, CAS, and Medicare contracts.
- We reviewed the information provided by BCBSUW's actuarial consulting firm, which included the pension plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We used this information to calculate the Medicare segment pension assets.

- We obtained and reviewed the pension plan documents, actuarial valuation reports, and Department of Labor/Internal Revenue Service Forms 5500 used in calculating the Medicare segment pension assets.
- We interviewed BCBSUW staff responsible for identifying the Medicare segment to determine whether the segment was properly identified in accordance with the Medicare contracts.
- We reviewed BCBSUW's accounting records to verify the segment identification and benefit payments made to the Medicare segment.
- We provided the CMS Office of the Actuary with the actuarial information necessary for it to calculate the Medicare segment pension assets as of December 31, 1998.
- We reviewed the CMS actuaries' methodology and calculations.

We performed a separate review of the BCBSUW hourly pension plan (A-07-09-00321).

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.

FINDINGS AND RECOMMENDATIONS

BCBSUW correctly computed the initial allocation of the Medicare segment pension assets as of January 1, 1986; however, BCBSUW used an incorrect total company investment earnings amount when allocating investment earnings to the Medicare segment for calendar years 1994, 1995, and 1998. Additionally, BCBSUW did not correctly account for long-term disability premiums when updating its total company pension assets from January 1, 1998, to December 31, 1998. As a result, BCBSUW understated the Medicare segment pension assets by \$13,145, and overstated total company pension assets by \$145,604, as of December 31, 1998.

Appendix A presents details on the Medicare segment's pension assets from January 1, 1986, to December 31, 1998, as determined during our audit.

MEDICARE ASSET BASE (INITIAL ALLOCATION) AS OF JANUARY 1, 1986

The Medicare contracts provide for separate identification of the pension assets for the Medicare segment. The identification involves the allocation of assets to the Medicare segment as of the first pension plan year after December 31, 1985, in which the salary criterion was met. The allocation is to use the ratio of the actuarial liabilities of the Medicare segment to the actuarial liabilities of the total plan, as of the later of the first day of the first plan year after December 31, 1980, or the first day of the first pension plan year following the date such Medicare segment existed. This ratio is known as the asset fraction.

BCBSUW correctly computed the asset fraction of 6.3560 percent as of January 1, 1981. Furthermore, BCBSUW correctly computed the initial allocation of the Medicare segment pension assets totaling \$2,854,624 as of January 1, 1986.

UPDATE OF MEDICARE SEGMENT PENSION ASSETS

Federal Requirements

The Medicare contracts state that “. . . the pension assets allocated to each Medicare Segment shall be adjusted in accordance with CAS 413.50(c)(7).” CAS 413.50(c)(7) requires that the asset base be adjusted by contributions, unfunded accruals, income, benefit payments, and expenses. The CAS requires investment income and expenses to be allocated among segments based on the ratio of the segment’s average value of assets to total company average value of assets.

Earnings and Expenses Understated

BCBSUW understated investment earnings, less administrative expenses, by \$13,145 for the Medicare segment primarily because it used an incorrect total company investment earnings amount when allocating investment earnings to the Medicare segment for calendar years 1994, 1995, and 1998. For its allocations in these three years, BCBSUW incorrectly included a portion of the total company benefit payments in the investment earnings. We allocated earnings and expenses, based on the applicable CAS requirements, and determined that BCBSUW understated the Medicare segment pension assets by \$13,145.

TOTAL COMPANY PENSION ASSETS AS OF DECEMBER 31, 1998

Federal Requirements

CAS 413.50(c)(7) requires that the asset base be adjusted by contributions, unfunded accruals, income, benefit payments, and expenses.

Total Company Pension Assets Overstated

BCBSUW overstated total company pension assets by \$145,604 primarily because it did not account for long-term disability premiums when updating its total company pension assets from January 1, 1998, to December 31, 1998. We included the long-term disability premiums in our update of the total company assets and determined that BCBSUW overstated the total company pension assets as of December 31, 1998, by \$145,604.

RECOMMENDATIONS

We recommend that BCBSUW:

- increase its Medicare segment pension assets as of December 31, 1998, by \$13,145 and recognize \$8,081,550 as the Medicare segment pension assets;
- decrease its total company pension assets as of December 31, 1998, by \$145,604 and recognize \$114,345,921 as the total company pension assets; and
- implement controls to ensure that in the future the Medicare segment is updated in accordance with CAS 412 and 413.

OTHER MATTER

BCBSUW correctly computed that the pension plan was fully funded throughout the audit period. Therefore, BCBSUW was correct when it did not claim any pension cost for Medicare reimbursement for fiscal years 1988 through 1998.

AUDITEE COMMENTS

In written comments on our draft report, NGS¹ concurred with our findings and recommendations and stated that it will make the appropriate adjustments to the Medicare segment pension assets and total company pension assets. In addition, NGS stated that it will review the processes in place to update the Medicare segment plan assets to ensure that those processes follow the provisions of CAS 412 and 413.

While concurring with the findings and recommendations, NGS also suggested several revisions to the text of the report. Specifically, NGS requested that we make the following revisions:

- Revise the “Summary of Findings” paragraph in both the Executive Summary and the text of our report to indicate that BCBSUW used an incorrect total company benefit payments amount when allocating investment earnings to the Medicare segment for calendar year 1994, and that a portion of 1995 income was allocated to 1994. Furthermore, NGS requested that we revise the term “long-term disability premiums” to “liabilities payable” in this portion of the report.
- Revise the background section to further clarify the relationship between BCBSUW and NGS.
- Revise the “Earning and Expenses” section to indicate that the understatement primarily occurred because BCBSUW used an incorrect total company benefit payments when allocating investment earnings to the Medicare segment in calendar year 1994.

¹BCBSUW’S Medicare contract was novated to NGS effective January 1, 2007; therefore, NGS responded to our draft report.

- In the Appendix, revise the asset variance to indicate (\$158,749) for the “Other” segment and \$13,145 for the “Medicare” segment.

NGS’s comments are included in their entirety as Appendix B

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing NGS’s written comments, we revised the background section to clarify the relationship between BCBSUW and NGS. We also revised the references (in Appendix A) to the asset variance for the “Other” segment and the “Medicare” segment as NGS had suggested; these revisions, though, did not have an effect on either the substance or the dollar amounts in our findings and recommendations. After reviewing the other revisions suggested by NGS, we determined that those revisions do not enhance the clarity or accuracy of this report; therefore, we did not make the other suggested revisions.

APPENDIXES

APPENDIX A: BLUE CROSS BLUE SHIELD UNITED OF WISCONSIN
STATEMENT OF MARKET VALUE OF SALARY PENSION ASSETS
FOR THE PERIOD
JANUARY 1, 1986, TO DECEMBER 31, 1998

| Description | | Total Company | "Other" Segment | Medicare Segment |
|--------------------------------|----|---------------|-----------------|------------------|
| Assets January 1, 1986 | 1/ | \$44,912,275 | \$42,057,651 | \$2,854,624 |
| Transferred Prepayment Credits | | 0 | 0 | 0 |
| Contributions | 2/ | 0 | 0 | 0 |
| Other Transactions | 3/ | (62) | (62) | 0 |
| Earnings | 4/ | 7,535,915 | 7,054,687 | 481,228 |
| Benefit Payments | 5/ | (1,082,173) | (1,039,829) | (42,344) |
| Expenses | 6/ | (341,790) | (319,964) | (21,826) |
| Transfers | 7/ | 0 | 51,076 | (51,076) |
| Assets January 1, 1987 | | \$51,024,165 | \$47,803,559 | \$3,220,606 |
| Transferred Prepayment Credits | 8/ | 0 | 0 | 0 |
| Contributions | | 0 | 0 | 0 |
| Other Transactions | | 3,171 | 3,171 | 0 |
| Earnings | | 3,191,231 | 2,988,450 | 202,781 |
| Benefit Payments | | (1,375,235) | (1,331,309) | (43,926) |
| Expenses | | (293,720) | (275,056) | (18,664) |
| Transfers | | 0 | 43,324 | (43,324) |
| Assets January 1, 1988 | | \$52,549,612 | \$49,232,139 | \$3,317,473 |
| Transferred Prepayment Credits | | 0 | 0 | 0 |
| Contributions | | 0 | 0 | 0 |
| Other Transactions | | 0 | 0 | 0 |
| Earnings | | 6,061,296 | 5,673,143 | 388,153 |
| Benefit Payments | | (2,224,944) | (2,177,849) | (47,095) |
| Expenses | | (257,320) | (240,842) | (16,478) |
| Transfers | | 0 | 34,425 | (34,425) |
| Assets January 1, 1989 | | \$56,128,644 | \$52,521,016 | \$3,607,628 |
| Transferred Prepayment Credits | | 0 | 0 | 0 |
| Contributions | | 0 | 0 | 0 |
| Other Transactions | | 0 | 0 | 0 |
| Earnings | | 8,583,452 | 8,027,091 | 556,361 |
| Benefit Payments | | (2,301,728) | (2,213,556) | (88,172) |
| Expenses | | (353,913) | (330,973) | (22,940) |
| Transfers | | 0 | (203,464) | 203,464 |
| Assets January 1, 1990 | | \$62,056,455 | \$57,800,114 | \$4,256,341 |
| Transferred Prepayment Credits | | 0 | 0 | 0 |
| Contributions | | 0 | 0 | 0 |
| Other Transactions | | 0 | 0 | 0 |
| Earnings | | 1,359,746 | 1,265,967 | 93,779 |
| Benefit Payments | | (1,812,077) | (1,734,197) | (77,880) |
| Expenses | | (287,089) | (267,289) | (19,800) |
| Transfers | | 0 | (497,773) | 497,773 |
| Assets January 1, 1991 | | \$61,317,035 | \$56,566,822 | \$4,750,213 |

| Description | Total Company | "Other" Segment | Medicare Segment |
|--------------------------------|---------------|-----------------|------------------|
| Assets January 1, 1991 | \$61,317,035 | \$56,566,822 | \$4,750,213 |
| Transferred Prepayment Credits | 0 | 0 | 0 |
| Contributions | 0 | 0 | 0 |
| Other Transactions | 0 | 0 | 0 |
| Earnings | 11,707,025 | 10,796,266 | 910,759 |
| Benefit Payments | (1,819,779) | (1,718,215) | (101,564) |
| Expenses | (435,924) | (402,011) | (33,913) |
| Transfers | 0 | 150,121 | (150,121) |
| Assets January 1, 1992 | \$70,768,357 | \$65,392,983 | \$5,375,374 |
| Transferred Prepayment Credits | 0 | 0 | 0 |
| Contributions | 0 | 0 | 0 |
| Other Transactions | 0 | 0 | 0 |
| Earnings | 3,806,242 | 3,515,472 | 290,770 |
| Benefit Payments | (2,187,511) | (2,082,056) | (105,455) |
| Expenses | (498,848) | (460,740) | (38,108) |
| Transfers | 0 | 350,134 | (350,134) |
| Assets January 1, 1993 | \$71,888,240 | \$66,715,793 | \$5,172,447 |
| Transferred Prepayment Credits | 0 | 0 | 0 |
| Contributions | 0 | 0 | 0 |
| Other Transactions | 0 | 0 | 0 |
| Earnings | 7,180,729 | 6,663,185 | 517,544 |
| Benefit Payments | (2,244,776) | (2,100,650) | (144,126) |
| Expenses | (486,190) | (451,148) | (35,042) |
| Transfers | 0 | 164,983 | (164,983) |
| Assets January 1, 1994 | \$76,338,003 | \$70,992,163 | \$5,345,840 |
| Transferred Prepayment Credits | 0 | 0 | 0 |
| Contributions | 0 | 0 | 0 |
| Other Transactions | 0 | 0 | 0 |
| Earnings | (784,398) | (729,501) | (54,897) |
| Benefit Payments | (2,449,750) | (2,278,096) | (171,654) |
| Expenses | (362,755) | (331,125) | (31,630) |
| Transfers | 0 | (52,361) | 52,361 |
| Assets January 1, 1995 | \$72,741,100 | \$67,601,080 | \$5,140,020 |
| Transferred Prepayment Credits | 0 | 0 | 0 |
| Contributions | 0 | 0 | 0 |
| Other Transactions | 0 | 0 | 0 |
| Earnings | 17,721,294 | 16,467,387 | 1,253,907 |
| Benefit Payments | (2,805,053) | (2,626,576) | (178,477) |
| Expenses | (468,095) | (428,832) | (39,263) |
| Transfers | 0 | (115,683) | 115,683 |
| Assets January 1, 1996 | \$87,189,246 | \$80,897,376 | \$6,291,870 |

| Description | Total Company | "Other" Segment | Medicare Segment |
|--------------------------------|------------------|-----------------|------------------|
| Assets January 1, 1996 | \$87,189,246 | \$80,897,376 | \$6,291,870 |
| Transferred Prepayment Credits | 0 | 0 | 0 |
| Contributions | 0 | 0 | 0 |
| Other Transactions | 0 | 0 | 0 |
| Earnings | 12,532,182 | 11,626,591 | 905,591 |
| Benefit Payments | (2,877,436) | (2,693,416) | (184,020) |
| Expenses | (514,950) | (470,904) | (44,046) |
| Transfers | 0 | 370,924 | (370,924) |
| Assets January 1, 1997 | \$96,329,042 | \$89,730,571 | \$6,598,471 |
| Transferred Prepayment Credits | 0 | 0 | 0 |
| Contributions | 0 | 0 | 0 |
| Other Transactions | 0 | 0 | 0 |
| Earnings | 16,694,001 | 15,565,320 | 1,128,681 |
| Benefit Payments | (3,977,581) | (3,546,698) | (430,883) |
| Expenses | (536,371) | (490,732) | (45,639) |
| Transfers | 0 | (60,276) | 60,276 |
| Assets January 1, 1998 | \$108,509,091 | \$101,198,185 | \$7,310,906 |
| Transferred Prepayment Credits | 0 | 0 | 0 |
| Contributions | 0 | 0 | 0 |
| Other Transactions | 0 | 0 | 0 |
| Earnings | 13,489,115 | 12,578,807 | 910,308 |
| Benefit Payments | (7,081,770) | (6,637,071) | (444,699) |
| Expenses | (570,515) | (522,388) | (48,127) |
| Transfers | 0 | (353,162) | 353,162 |
| Assets December 31, 1998 | \$114,345,921 | \$106,264,371 | \$8,081,550 |
| Per UGS | 9/ \$114,491,525 | \$106,423,120 | \$8,068,405 |
| Asset Variance | 10/ (\$145,604) | (\$158,749) | \$13,145 |

FOOTNOTES

- 1/ We calculated the Medicare segment pension assets based upon the audited asset fraction (6.3560 percent). We computed the asset fraction as explained in the findings section of the report. The amounts shown for the "Other" segment represent the difference between the Total Company and the Medicare segment. All pension assets are shown at market value.
- 2/ We obtained Total Company contribution amounts from the actuarial valuation reports and Department of Labor/Internal Revenue Service (DOL/IRS) Forms 5500. We allocated Total Company contributions to the Medicare segment based on the ratio of the Medicare segment funding target divided by the Total Company funding target. Contributions in excess of the funding targets were treated as prepayment credits and accounted for in the "Other" segment until needed to fund pension costs in the future.
- 3/ We obtained the other transactions amounts from the actuarial valuation reports. These other transactions amounts represent a transfer of plan assets from the salaried pension plan to the hourly pension plan.
- 4/ We obtained investment earnings from the actuarial valuation reports and the DOL/IRS Forms 5500. We allocated investment earnings based on the weighted average of the market value of assets (MVA) available during the Plan Year. The weighted average of MVA is based on the ratio of the segment's weighted average to the Total Company weighted average, which is based on the time of contributions, benefit payments, and administrative expenses.

- 5/ We based the Medicare segment's benefit payments on actual payments to Medicare retirees. We obtained the benefit payments from documents provided by Blue Cross Blue Shield United of Wisconsin (BCBSUW).
- 6/ We allocated administrative expenses to the Medicare segment in proportion to investment earnings as required by the Cost Accounting Standards.
- 7/ We identified participant transfers between segments based on the participant data files provided by BCBSUW's actuarial consulting firm. Asset transfers were equal to the accrued actuarial liability determined under the accrued benefit cost method.
- 8/ Prepayment credits represent funds available to satisfy future funding requirements and are applied to future funding requirements before current year contributions in order to reduce interest costs to the Federal Government. Prepayment credits are transferred to the Medicare segment as needed to cover funding requirements.
- 9/ We obtained the pension asset amounts as of December 31, 1998, from the DOL/IRS Form 5500.
- 10/ The asset variance represents the difference between our calculation of Medicare segment pension assets and BCBSUW's calculation of the Medicare segment pension assets.

APPENDIX B: AUDITEE COMMENTS



A CMS Contracted Agent

National Government Services, Inc.
www.NGSMedicare.com

Medicare

January 28, 2010

Mr. Patrick J. Cogley
Regional Inspector General for Audit Services
National External Audit Review Center
1100 Walnut St., Suite 850
Kansas City, Missouri 64106-2197

Reference: Report Number A-07-09-00322

Dear Mr. Cogley:

We have received the draft audit report from the Inspector General entitled "Review of Pension Segmentation Requirements For the Salaried Qualified Pension Plan At Blue Cross Blue Shield United of Wisconsin, For The Period January 1, 1986 To December 31, 1998," and thank you for the opportunity to respond.¹

We concur with the findings and recommendations outlined in the report and will make the appropriate adjustments to Medicare segment pension assets and total company pension assets. We will also review the processes in place to update Medicare segment plan assets to ensure those processes follow CAS 412 and 413.

We believe the accuracy and clarity of the report would be enhanced with the adoption of the following proposed revisions:

- In the "Executive Summary" section (page i) within the "Summary of Findings" caption, please replace that paragraph with the following:

BCBSUW correctly computed the initial allocation of the Medicare segment pension assets as of January 1, 1986; however, BCBSUW used an incorrect total company benefit payments amount, resulting in an incorrect investment earnings amount when allocating investment earnings to the Medicare segment for calendar year 1994. Also, BCBSUW allocated a portion of 1995 income to the 1994 year. Additionally, BCBSUW did not reflect liabilities payable when updating its total company pension assets from January 1, 1998 to December 31, 1998. As a

¹ The Medicare contract to which this report relates was novated to National Government Services, Inc. (NGS) effective January 1, 2007.



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result, BCBSUW understated the Medicare segment pension assets by \$13,145 and overstated total company pension assets by \$145,604, as of December 31, 1998.

- In the "Background" section (page 1) within the "Blue Cross Blue Shield United of Wisconsin" caption, please replace the first sentence in the first paragraph with the following:

Blue Cross Blue Shield United of Wisconsin (BCBSUW) through its United Government Services (UGS) business unit, administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS).

- In the "Background" section (page 1) within the "Blue Cross Blue Shield United of Wisconsin" caption, please replace the third paragraph with the following:

In 2003, BCBSUW and UGS were purchased by WellPoint Health Networks, Inc. ("WHN"). WHN became a part of Anthem, Inc. on November 30, 2004, and Anthem Inc. changed its name to WellPoint, Inc. Effective November 17, 2006 a consolidation of certain Medicare Operations occurred forming a new subsidiary of WellPoint Inc. called National Government Services, Inc. This consolidation included UGS and the UGS Pension Plan remained a stand-alone defined benefit pension plan. Thus although we are addressing this report to NGS, we will associate the term BCBSUW with our findings and recommendations regarding the segmentation of the salaried pension plan pension assets for the period January 1, 1986, to December 31, 1998.

- In the "Findings and Recommendation" caption (page 3), please replace the first paragraph with the paragraph reflected in the first bullet above.
- In the "Update of Medicare Segment Pension Assets" section (page 4) within the "Earnings and Expenses Understated" caption, please replace the first sentence of the paragraph with the following:

BCBSUW understated investment earnings, less administrative expenses, by \$13,145 for the Medicare segment primarily because it used an incorrect total company benefit payments, resulting in an incorrect total company investment earnings amount when allocating investment earnings to the Medicare segment for calendar year 1994."

- In the "Total Company Pension Assets as of December 31 1998" section (page 4) within the "Total Company Pension Assets Overstated" caption, please replace the paragraph with the following:

BCBSUW overstated total company pension assets by \$145,604 primarily because it did not reflect liabilities payable when updating its total company pension assets from January 1, 1998 to December 31, 1998. We reflected the liabilities payable in our update of the total company assets and determined that BCBSUW overstated the total company pension assets as of December 31, 1998 by \$145,604.

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- In the Appendix (page 4 of 5), the asset variance for the "other segment" should be reflected as (\$158,749) and the asset variance for the "Medicare" segment should be reflected as \$13,145.

We appreciate the opportunity to respond to this draft report. If you have any further questions, I can be reached at 414-459-5606 or via email at todd.reiger@wellpoint.com.

Sincerely,



Todd W. Reiger, CPA
Director of Accounting & Reporting
National Government Services, Inc.

CC: Sandy Miller
Michael Kapp
Jim Elmore
Rob Squire
Wendy Perkins
Joanne Imel – WellPoint
Marilyn Bryan – CMS
Jenenne Tambke – OIG