

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**BLUE CROSS BLUE SHIELD OF GEORGIA
OVERSTATED ITS
MEDICARE SEGMENT PENSION ASSETS
AND UNDERSTATED MEDICARE'S
SHARE OF THE EXCESS LIABILITIES
AS OF MAY 31, 2009**

*Inquiries about this report may be addressed to the Office of Public Affairs at
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**Patrick J. Cogley
Regional Inspector General**

**June 2013
A-07-12-00397**

Office of Inspector General

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EXECUTIVE SUMMARY

Blue Cross Blue Shield of Georgia, a terminated Medicare contractor, overstated the Medicare segment pension assets by \$13,077 as of May 31, 2009. In addition, Blue Cross Blue Shield of Georgia understated Medicare's share of excess pension liabilities by \$8,646 as a result of the segment closing adjustment on May 31, 2009.

WHY WE DID THIS REVIEW

Medicare contractors are required to separately account for the Medicare segment pension plan assets based on the requirements of their Medicare contract and the Cost Accounting Standards (CAS). The Centers for Medicare & Medicaid Services (CMS) incorporated this requirement into the Medicare contracts beginning with fiscal year 1988. In addition, in situations such as contract terminations, CAS 413 requires contractors to identify excess pension assets and liabilities allocated to the Medicare segment, in accordance with the CAS. Previous Office of Inspector General reviews found that Medicare contractors did not always correctly identify and update the segmented pension assets.

The objectives of this review were to determine whether Blue Cross Blue Shield of Georgia (BCBSGA) complied with Federal requirements and the Medicare contracts' pension segmentation requirements when (1) implementing the prior audit recommendation to decrease Medicare segment pension assets as of June 30, 2006, (2) updating the Medicare segment's pension assets from June 30, 2006, to May 31, 2009, and (3) determining Medicare's share of the Medicare segment excess pension liabilities as a result of the termination of the Medicare contracts.

BACKGROUND

BCBSGA administered Medicare Part A operations under cost reimbursement contracts with CMS until the contractual relationship was terminated effective May 31, 2009.

On June 30, 2006, WellPoint Health Networks, Inc., Pension Accumulation Plan assets were merged into the WellPoint Cash Balance Pension Plan, which included the BCBSGA Medicare segment. On January 1, 2007, WellPoint, Inc. (WellPoint), consolidated its Government contracting segments into one subsidiary, called National Government Services, Inc. (NGS). This consolidation did not include the BCBSGA Medicare segment, which was maintained separately from other Medicare operations. Thus, although we are addressing this report to NGS, we will associate the term BCBSGA with our findings and recommendations regarding the segmentation.

We performed a prior pension segmentation audit at BCBSGA (A-07-10-00344, issued June 20, 2011), which brought the Medicare segment pension assets to June 30, 2006. We recommended that BCBSGA decrease its Medicare segment pension assets by \$164,098 and, as a result, recognize \$2,823,263 as the Medicare segment pension assets as of June 30, 2006.

In addition, upon the termination of its Medicare contracts, BCBSGA identified Medicare's share of the Medicare segment excess pension liabilities to be \$593,940.

WHAT WE FOUND

BCBSGA implemented the prior audit recommendation to recognize \$2,823,263 as the Medicare segment pension assets as of June 30, 2006. Regarding our second objective, BCBSGA identified Medicare segment pension assets of \$1,084,633 as of May 31, 2009; however, we determined that the Medicare segment pension assets were \$1,071,556 as of that date. Therefore, BCBSGA overstated the Medicare segment pension assets by \$13,077. BCBSGA overstated the Medicare segment pension assets because it did not calculate them in accordance with Federal requirements and the Medicare contracts' pension segmentation language when updating the Medicare segment pension assets from June 30, 2006, to May 31, 2009.

Regarding our third objective, BCBSGA computed Medicare's share of the Medicare segment excess pension liabilities to be \$593,940 as of May 31, 2009 (the effective date of the termination of BCBSGA's Medicare contract); however, we determined that Medicare's share of the Medicare segment excess pension liabilities was \$602,586 as of that date. The difference, \$8,646, constituted allowable Medicare costs that BCBSGA did not include in its segment closing adjustment. BCBSGA understated Medicare's share of excess pension liabilities by \$8,646, because it (1) overstated the Medicare segment assets as of May 31, 2009 and (2) did not comply with Federal requirements when calculating Medicare's share of excess pension liabilities.

WHAT WE RECOMMEND

We recommend that BCBSGA:

- decrease Medicare segment pension assets as of May 31, 2009, by \$13,077 and recognize \$1,071,556 as the Medicare segment pension assets and
- increase Medicare's share of the Medicare segment excess pension liabilities by \$8,646 and submit for reimbursement \$602,586 as Medicare's share of the Medicare segment excess pension liabilities due to the segment closing calculation.

AUDITEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, NGS concurred with our findings and recommendations. BCBSGA's Medicare contract was transitioned to NGS effective November 17, 2006; therefore, NGS commented on our draft report.

NGS also made technical comments to enhance the accuracy and clarity of this report; we accepted these suggestions and have incorporated them into this final report.

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INTRODUCTION

WHY WE DID THIS REVIEW

Medicare contractors are required to separately account for the Medicare segment pension plan assets based on the requirements of their Medicare contract and the Cost Accounting Standards (CAS). The Centers for Medicare & Medicaid Services (CMS) incorporated this requirement into the Medicare contracts beginning with fiscal year 1988. In addition, in situations such as contract terminations, CAS 413 requires contractors to identify excess pension assets and liabilities allocated to the Medicare segment, in accordance with the CAS. Previous Office of Inspector General reviews found that Medicare contractors did not always correctly identify and update the segmented pension assets.

OBJECTIVES

Our objectives were to determine whether Blue Cross Blue Shield of Georgia (BCBSGA) complied with Federal requirements and the Medicare contracts' pension segmentation requirements when (1) implementing the prior audit recommendation to decrease the Medicare segment pension assets as of June 30, 2006, (2) updating the Medicare segment's pension assets from June 30, 2006, to May 31, 2009, and (3) determining Medicare's share of the Medicare segment excess pension liabilities as a result of the termination of the Medicare contracts.

BACKGROUND

BCBSGA administered Medicare Part A operations under cost reimbursement contracts with CMS until the contractual relationship was terminated effective May 31, 2009.

On June 30, 2006, WellPoint Health Networks, Inc., Pension Accumulation Plan assets were merged into the WellPoint Cash Balance pension plan, which included the BCBSGA Medicare segment. On January 1, 2007, WellPoint, Inc. (WellPoint), consolidated its Government contracting segments into one subsidiary, called National Government Services, Inc. (NGS). This consolidation did not include the BCBSGA Medicare segment, which was maintained separately from other Medicare operations. Thus, although we are addressing this report to NGS, we will associate the term BCBSGA with our findings and recommendations regarding the segmentation.

We performed a prior pension segmentation audit at BCBSGA (A-07-10-00344, issued June 20, 2011), which brought the Medicare segment pension assets to June 30, 2006. We recommended that BCBSGA decrease its Medicare segment pension assets by \$164,098 and, as a result, recognize \$2,823,263 as the Medicare segment pension assets as of June 30, 2006.

In addition, upon the termination of its Medicare contracts, BCBSGA identified Medicare's share of the Medicare segment excess pension liabilities to be \$593,940.

HOW WE CONDUCTED THIS REVIEW

We reviewed BCBSGA's implementation of the prior audit recommendation; identification of its Medicare segment; and update of Medicare segment assets from June 30, 2006, to May 31, 2009; and the Medicare segment's closing calculation as of May 31, 2009.

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

Appendix A contains details of our audit scope and methodology.

FINDINGS

BCBSGA implemented the prior audit recommendation to recognize \$2,823,263 as the Medicare segment pension assets as of June 30, 2006. Regarding our second objective, BCBSGA identified Medicare segment pension assets of \$1,084,633 as of May 31, 2009; however, we determined that the Medicare segment pension assets were \$1,071,556 as of that date. Therefore, BCBSGA overstated the Medicare segment pension assets by \$13,077. BCBSGA overstated the Medicare segment pension assets because it did not calculate them in accordance with Federal requirements and the Medicare contracts' pension segmentation language when updating the Medicare segment pension assets from June 30, 2006, to May 31, 2009.

Appendix B presents details of the WellPoint Cash Balance Pension Plan assets from January 1, 2006, to January 1, 2010, as determined during our audit. Table 1 below summarizes the audit adjustments required to update Medicare segment pension assets in accordance with Federal requirements.

| Table 1: Summary of Audit Adjustments | | | |
|--|------------------|-------------------|-------------------|
| | Per Audit | Per BCBSGA | Difference |
| Prior Audit Recommendation | \$2,823,263 | \$2,823,263 | \$0 |
| | | | |
| Update of Medicare Segment Assets | | | |
| Contributions and Prepayment Credits | 41,553 | 42,526 | (973) |
| Benefit Payments | 931,022 | 931,022 | 0 |
| Net Transfers Out | (767,169) | (752,397) | (14,772) |
| Earnings, Net Expenses | (95,069) | (97,737) | 2,668 |
| Overstatement of Medicare Segment Assets as of May 31, 2009 | | | (\$13,077) |

Regarding our third objective, the CAS requires that a segment closing adjustment be made to recognize Medicare's share of the Medicare segment excess pension liabilities as a result of the termination of the Medicare contracts. BCBSGA computed Medicare's share of the Medicare segment excess pension liabilities to be \$593,940 as of May 31, 2009 (the effective date of the termination of BCBSGA's Medicare contract); however, we determined that Medicare's share of the Medicare segment excess pension liabilities was \$602,586 as of that date. The difference, \$8,646, constituted allowable Medicare costs that BCBSGA did not include in its segment closing adjustment. BCBSGA understated Medicare's share of excess pension liabilities by \$8,646, because it (1) overstated the Medicare segment assets as of May 31, 2009 and (2) did not comply with Federal requirements when calculating Medicare's share of excess pension liabilities.

PRIOR AUDIT RECOMMENDATION

BCBSGA implemented the prior audit recommendation (A-07-10-00344) which recommended that BCBSGA decrease Medicare segment pension assets by \$164,094 and recognize \$2,823,263 of Medicare segment pension assets as of June 30, 2006.

UPDATE OF MEDICARE SEGMENT PENSION ASSETS

The Medicare contract requires that Medicare contractors update the Medicare segment pension assets yearly in accordance with the CAS. The CAS requires that the assets base be adjusted by contributions, permitted unfunded accruals, income, benefit payments, and expenses.

For details on the Federal requirements and the relevant language of the Medicare contract, see Appendix C.

The following are our findings regarding the update on the Medicare segment pension assets from June 30, 2006, to May 31, 2009.

Contributions and Transferred Prepayment Credits Overstated

The audited contributions and transferred prepayment credits are based on the assignable pension costs. In compliance with the CAS, we applied prepayment credits first to current-year assignable pension costs (because the credits were available at the beginning of the year) and then updated any remaining credits with interest to the next measurement (valuation) date. We then allocated contributions to assigned pension costs, as needed, as of the date of deposit. For details on these Federal requirements, see Appendix C.

BCBSGA overstated contributions and transferred prepayment credits by \$973 for the Medicare segment. The overstatement occurred primarily because BCBSGA did not correctly calculate the assignable pension costs upon which the contributions and prepayment credits were based. As a result, BCBSGA overstated the Medicare segment pension assets by \$973.

Net Transfers Understated

BCBSGA understated net transfers out of the Medicare segment by \$14,772. The understatement occurred primarily because BCBSGA incorrectly transferred participants into the Medicare segment during 2007. This understatement of the net transfer adjustment resulted in an overstatement of the Medicare segment pension assets by \$14,772.

Earnings, Net Expenses Overstated

BCBSGA overstated investment earnings, less administrative expenses, by \$2,668 for the Medicare segment because it used incorrect contributions and transferred prepayment credits and incorrect net transfers (all discussed above), to develop the Medicare segment pension asset base. In our audited update, we allocated earnings, net expenses based on the applicable CAS requirements. For details on applicable Federal requirements, see Appendix C.

MEDICARE SEGMENT CLOSING ADJUSTMENT

Medicare Segment Excess Pension Liabilities as of May 31, 2009

Federal regulations (Appendix C) require BCBSGA to have computed a Medicare segment closing adjustment as a result of the termination of its Medicare contract. BCBSGA identified \$593,940 in Medicare segment excess pension liabilities as of May 31, 2009. However, we calculated the Medicare segment excess pension liabilities to be \$607,017 as of that date. (It is necessary to calculate the pension assets and liabilities as well as any adjustments for the Medicare segment before calculating Medicare's share.) Therefore, BCBSGA understated the excess pension liabilities by \$13,077. The understatement occurred because BCBSGA overstated the Medicare segment's final market value of pension assets as of May 31, 2009. The development of excess liabilities was used to identify Medicare's share of Medicare segment's excess pension liabilities.

Medicare's Share of the Medicare Segment Excess Pension Liabilities

BCBSGA calculated the aggregate Medicare percentage (that is, the percentage that reflects Medicare's share of the Medicare segment excess pension liabilities) as 100 percent. However, we calculated the aggregate Medicare percentage as 99.27 percent (see Appendix D) using the Medicare segment pension costs developed during the prior pension costs claimed reports (A-07-94-00777, A-07-07-00238, and A-07-10-00345, all cited in Appendix E) and current pension costs claimed (A-07-12-00398) audits as required by the CAS. For details on the Federal requirements regarding the aggregate Medicare percentage, see Appendix C.

BCBSGA calculated \$593,940 as Medicare's share of the excess pension liabilities as of May 31, 2009; however, we determined that Medicare's share of the excess pension liabilities was \$602,586 as of May 31, 2009 (see Table 2). The difference, \$8,646, constituted allowable Medicare costs that BCBSGA did not include in its Medicare segment closing adjustment. BCBSGA understated Medicare's share of the excess Medicare segment pension liabilities

because it (1) understated the Medicare segment’s excess pension liabilities (as discussed above) and (2) it did not compute the aggregate Medicare percentage as required by CAS.

Table 2 below shows our calculation of Medicare’s share of the excess pension liabilities.

| Table 2: Medicare’s Share of Excess Pension Liabilities | | | |
|--|--|--|--|
| | Excess Medicare Segment Liabilities (A) | Aggregate Medicare Percentage (B) | Excess Liabilities Attributable to Medicare (A x B) |
| Per Audit | \$607,017 | 99.27% | \$602,586 |
| Per BCBSGA | 593,940 | 100.00% | 593,940 |
| Difference | | | (\$8,646) |

RECOMMENDATIONS

We recommend that BCBSGA:

- decrease Medicare segment pension assets as of May 31, 2009, by \$13,077 and recognize \$1,071,556 as the Medicare segment pension assets and
- increase Medicare’s share of the Medicare segment excess pension liabilities by \$8,646 and submit for reimbursement \$602,586 as Medicare’s share of the Medicare segment excess pension liabilities due to the segment closing calculation.

AUDITEE COMMENTS

In written comments on our draft report, NGS concurred with our findings and recommendations. BCBSGA’s Medicare contract was transitioned to NGS effective November 17, 2006; therefore, NGS commented on our draft report.

NGS also made technical comments to enhance the accuracy and clarity of this report. These comments clarified information pertaining to entity and pension plan names as well as the effective date of the DeCare Dental, LLC, acquisition (referred to in Appendix B).

NGS’s comments are included in their entirety as Appendix F.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing NGS’s comments, we accepted the technical comments and have incorporated them into this final report.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed BCBSGA's implementation of the prior audit recommendation; identification of its Medicare segment; and update of Medicare segment assets from June 30, 2006, to May 31, 2009; and the Medicare segment's closing calculation as of May 31, 2009.

Achieving our objectives did not require us to review BCBSGA's overall internal control structure. We reviewed controls relating to the identification of the Medicare segment, the update of the Medicare segment's assets, and the Medicare segment's final assets and liabilities, to ensure adherence to the Medicare contracts, CAS 412, and 413.

We completed our audit work in November and December 2012.

METHODOLOGY

To accomplish our objectives, we took the following steps:

- We reviewed the portions of the Federal Acquisition Regulation, CAS, and the Medicare contracts applicable to this audit.
- We reviewed the annual actuarial valuation reports prepared by BCBSGA's actuarial consulting firms, 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 assets.
- We reviewed the Medicare segment closing calculation prepared by BCBSGA's staff and its actuarial consulting firms.
- We obtained and reviewed the pension plan documents and Department of Labor/Internal Revenue Service Forms 5500 used in calculating the Medicare segment assets.
- We interviewed BCBSGA staff responsible for identifying the Medicare segment to determine whether the segment was properly identified in accordance with the Medicare contracts.
- We reviewed BCBSGA's accounting records to verify the segment identification and benefit payments made to the Medicare segment.
- We reviewed the prior segmentation audit performed at BCBSGA (A-07-10-00344) to determine the beginning market value of assets.
- We provided the CMS Office of the Actuary with the actuarial information necessary for it to calculate the Medicare segment pension assets from June 30, 2006, to

May 31, 2009, and the Medicare segment's excess pension liabilities as of May 31, 2009.

- We reviewed the CMS actuaries' methodology and calculations.

We performed this review in conjunction with the following audits and used this information obtained during these audits during this review:

- BCBSGA's pension costs claimed for Medicare reimbursement (A-07-12-00398) and
- NGS's pension segmentation (A-07-13-00408) and pension costs claimed for Medicare reimbursement (A-07-13-00409).

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 objectives.

**APPENDIX B: STATEMENT OF MARKET VALUE OF PENSION ASSETS
FOR THE WELLPOINT CASH BALANCE PENSION PLAN
FOR THE PERIOD JANUARY 1, 2006, TO JANUARY 1, 2010**

| Description | | Total Company | “Other” Segment | NGS Medicare Segment | BCBSGA Medicare Segment |
|-------------------------|------------|-----------------|--------------------|----------------------------|-------------------------------|
| Assets January 1, 2006 | <u>1/</u> | \$992,586,626 | \$956,748,658 | \$35,837,968 | |
| Prepayment Credits | <u>2/</u> | 0 | (2,115,825) | 2,115,825 | 0 |
| Contributions | <u>3/</u> | 97,500,000 | 97,500,000 | 0 | 0 |
| Other Transactions | <u>4/</u> | 863,505,475 | 825,430,076 | 35,252,136 | 2,823,263 |
| Earnings | <u>5/</u> | 175,751,241 | 170,316,450 | 5,234,629 | 200,162 |
| Benefit Payments | <u>6/</u> | (128,402,135) | (121,303,236) | (6,741,900) | (356,999) |
| Administrative Expenses | <u>7/</u> | 0 | 0 | 0 | 0 |
| Transfers | <u>8/</u> | 0 | 2,279,142 | (2,141,639) | (137,503) |
| Assets January 1, 2007 | | \$2,000,941,207 | \$1,928,855,265 | \$69,557,019 | \$2,528,923 |
| Prepayment Credits | | 0 | (3,144,028) | 3,144,028 | 0 |
| Contributions | | 326,001 | 326,001 | 0 | 0 |
| Other Transactions | | 0 | 0 | 0 | 0 |
| Earnings | | 157,298,856 | 151,391,866 | 5,699,406 | 207,584 |
| Benefit Payments | | (171,387,896) | (164,781,183) | (6,604,168) | (2,545) |
| Administrative Expenses | | 0 | 0 | 0 | 0 |
| Transfers | | 0 | 6,362,462 | (5,796,394) | (566,068) |
| Assets January 1, 2008 | | \$1,987,178,168 | \$1,919,010,383 | \$65,999,891 | \$2,167,894 |
| Prepayment Credits | | 0 | (3,122,135) | 3,104,584 | 17,551 |
| Contributions | | 58,000,000 | 58,000,000 | 0 | 0 |
| Other Transactions | | 0 | 0 | 0 | 0 |
| Earnings | | (468,249,433) | (452,004,182) | (15,716,563) | (528,688) |
| Benefit Payments | | (119,542,179) | (110,699,660) | (8,824,001) | (18,518) |
| Administrative Expenses | | (1,160,212) | (1,119,960) | (38,942) | (1,310) |
| Transfers | | 0 | 13,046,925 | (13,343,911) | 296,986 |
| Assets January 1, 2009 | | \$1,456,226,344 | \$1,423,111,371 | \$31,181,058 | \$1,933,915 |
| Prepayment Credits | | 0 | (4,552,169) | 4,528,167 | 24,002 |
| Contributions | | 33,000,000 | 33,000,000 | 0 | 0 |
| Other Transactions | <u>9/</u> | 19,401,325 | 19,401,325 | 0 | 0 |
| Earnings | | 256,877,991 | 250,840,139 | 6,010,310 | 27,542 |
| Benefit Payments | | (133,000,077) | (126,065,157) | (6,381,960) | (552,960) |
| Administrative Expenses | | (3,346,324) | (3,267,669) | (78,296) | (359) |
| Transfers | | 0 | 6,077,288 | (5,716,704) | (360,584) |
| Assets January 1, 2010 | <u>10/</u> | \$1,629,159,259 | \$1,598,545,128 | \$29,542,575 | \$1,071,556 |
| Per Wellpoint | <u>11/</u> | 1,629,159,259 | 1,599,692,059 | 28,382,567 | 1,084,633 |
| Asset Variance | <u>12/</u> | 0 | 1,146,931 | (1,160,008) | 13,077 |

ENDNOTES

- 1/ We determined the NGS Medicare segment pension assets as of January 1, 2006, based on our segmentation audits of Maine, New Hampshire, and AdminaStar Federal (A-07-13-00404, A-07-13-00406, and A-07-13-00408, respectively). Maine and New Hampshire merged with AdminaStar Federal, renamed NGS, effective January 1, 2007. 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/ Prepayment credits represent funds available to satisfy future funding requirements and are applied to future funding requirements before current year contributions in order to avoid incurring unallowable interest. Prepayment credits are transferred to the Medicare segment as needed to cover funding requirements.
- 3/ We obtained Total Company contribution amounts from the actuarial valuation reports and Department of Labor/Internal Revenue Service 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.
- 4/ The “Other” transactions in 2006 represent the mergers of the WellPoint Health Networks, Inc., Pension Accumulation Plan (Prior PAP Plan) and Empire Blue Cross and Blue Shield Cash Balance Pension Plan (Prior Empire Plan) into the WellPoint Cash Balance Pension Plan. The Prior PAP Plan merged into the WellPoint Cash Balance Pension Plan on June 30, 2006. We determined the BCBSGA Medicare segment pension assets as of June 30, 2006, based on our prior segmentation audit of BCBSGA (A-07-10-00344, issued June 20, 2011). The Prior Empire Plan merged into the WellPoint Cash Balance Pension Plan on December 31, 2006. We determined the Empire Medicare segment pension assets as of December 31, 2006, based on our prior segmentation audit of Empire (A-07-07-00253, issued April 15, 2008). 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.
- 5/ We obtained investment earnings from the actuarial valuation reports. We allocated investment earnings based on the ratio of the segment’s weighted average value (WAV) of assets to Total Company WAV of assets as required by the CAS.
- 6/ We based the Medicare segment’s benefit payments on actual payments to Medicare retirees. We obtained the benefit payments from documents provided by BCBSGA.
- 7/ We allocated administrative expenses to the Medicare segment in proportion to investment earnings.
- 8/ We identified participant transfers between segments by comparing valuation data files provided by BCBSGA. Asset transfers were equal to the actuarial liability determined under the accrued benefit cost method in accordance with the CAS.
- 9/ The “Other” transactions in 2009 represent the acquisition of DeCare Dental, LLC, on April 8, 2009. Effective December 31, 2009, the DeCare Dental Pension Plan merged into the WellPoint Cash Balance Pension Plan. We obtained the DeCare pension asset amount as of April 2009 from WellPoint’s 2010 actuarial valuation report. These “Other” transactions did not impact the Medicare segment pension assets.
- 10/ The BCBSGA Medicare segment terminated effective May 31, 2009. The pension assets are presented for BCBSGA as of May 31, 2009. The pension assets for the Total Company, “Other” segment, and NGS segment are presented as of January 1, 2010.
- 11/ We obtained the BCBSGA asset amount as of May 31, 2009, and the NGS asset amount as of January 1, 2010, from WellPoint’s actuarial consulting firm.
- 12/ The asset variance represents the difference between our calculation of Medicare segment pension assets and WellPoint’s calculation of the Medicare segment pension assets.

APPENDIX C: FEDERAL REQUIREMENTS RELATED TO PENSION SEGMENTATION AND SEGMENT CLOSING ADJUSTMENT

PENSION SEGMENTATION

Federal Regulations

Federal regulations (CAS 413.50(c)(8)) require that an adjustment be made for transfers (participants who enter or leave the segment) if the transfers materially affect the segment's ratio of pension plan assets to actuarial accrued liabilities.

Federal regulations (CAS 412.50(a)(4)) require that contributions in excess of the pension cost assigned to the period be recognized as prepayment credits and accumulated at the assumed valuation interest rate until applied to future period costs. Prepayment credits that have not been applied to fund pension costs are excluded from the value of assets used to compute pension costs.

Federal regulations (CAS 413.50(c)(7)) require that the asset base be adjusted by contributions, permitted unfunded accruals, income, benefit payments, and expenses. For plan years beginning after March 30, 1995, the CAS requires investment income and expenses to be allocated among segments based on the ratio of the segment's WAV of assets to Total Company WAV of assets.

Medicare Contracts

The Medicare contracts identify a Medicare segment as:

... any organizational component of the contractor, such as a division, department, or other similar subdivision, having a significant degree of responsibility and accountability for the Medicare contract/agreement, in which:

1. The majority of the salary dollars is allocated to the Medicare agreement/contract; or,
2. Less than a majority of the salary dollars are charged to the Medicare agreement/contract, and these salary dollars represent 40% or more of the total salary dollars charged to the Medicare agreement/contract.

Furthermore, the Medicare contracts state that "... the pension assets allocated to each Medicare Segment shall be adjusted in accordance with CAS 413.50(c)(7)."

SEGMENT CLOSING ADJUSTMENT

Federal Regulations

Federal regulations (CAS 413.50(c)(12)) state:

If a segment is closed, if there is a pension plan termination, or if there is a curtailment of benefits, the contractor shall determine the difference between the actuarial liability for the segment and the market value of the assets allocated to the segment, irrespective of whether or not the pension plan is terminated. The difference between the market value of the assets and the actuarial accrued liability for the segment represents an adjustment of previously-determined pension costs.

(i) The determination of the actuarial accrued liability shall be made using the accrued benefit cost method. The actuarial assumptions employed shall be consistent with the current and prior long term assumptions used in the measurement of pension costs....

(ii) ... The market value of the assets shall be reduced by the accumulated value of prepayment credits, if any. Conversely, the market value of assets shall be increased by the current value of any unfunded actuarial liability separately identified and maintained in accordance with 9904.412-50(a)(2).

(iii) The calculation of the difference between the market value of the assets and the actuarial accrued liability shall be made as of the date of the event (e.g., contract termination, plan amendment, plant closure) that caused the closing of the segment, pension plan termination, or curtailment of benefits. If such a date is not readily determinable, or if its use can result in an inequitable calculation, the contracting parties shall agree on an appropriate date.

(iv) Pension plan improvements adopted within 60 months of the date of the event which increase the actuarial accrued liability shall be recognized on a prorata basis using the number of months the date of adoption preceded the event date. Plan improvements mandated by law or collective bargaining agreement are not subject to this phase-in.

The methodology for determining the Federal Government's share of excess pension assets and liabilities is addressed by CAS 413.50(c)(12)(vi), which states:

The Government's share of the adjustment amount determined for a segment shall be the product of the adjustment amount and a fraction. The adjustment amount shall be reduced for any excise tax imposed upon assets withdrawn from the funding agency of a qualified pension plan. The numerator of such fraction shall be the **sum of the pension plan costs** allocated to all contracts and subcontracts (including Foreign Military Sales) subject to this Standard during a period of years representative of the Government's participation in the pension plan. The denominator of such fraction shall be the **total pension costs** assigned to cost accounting periods during those same years. This amount shall represent an adjustment of contract prices or cost allowance as appropriate. The adjustment may be recognized by modifying a single contract, several but not all contracts, or all contracts, or by use of any other suitable technique. [Emphasis added.]

Medicare Contracts

In the event of a contract termination, the Medicare contracts require contractors to follow the segment closing provision of the CAS. Furthermore, in situations such as contract terminations, the Medicare contracts require contractors to identify excess Medicare pension assets and liabilities in accordance with CAS 413.

APPENDIX D: CALCULATION OF AGGREGATE MEDICARE PERCENTAGE

| YEAR | Calendar Year Medicare Segment Pension Costs Charged to Medicare | Calendar Year Total Medicare Segment Pension Costs | Fiscal Year Medicare Segment Pension Costs Charged to Medicare | Fiscal Year Total Medicare Segment Pension Costs | Medicare's Aggregate Percentage |
|--------------|---|---|---|---|--|
| | (A) | (B) | (C) | (D) | (C/D) |
| 1986 | <u>1/</u> \$44,562 | \$45,149 | \$33,422 | \$33,862 | |
| 1987 | 107,278 | 108,658 | 91,599 | 92,781 | |
| 1988 | 0 | 0 | 26,820 | 27,165 | |
| 1989 | 0 | 0 | 0 | 0 | |
| 1990 | 0 | 0 | 0 | 0 | |
| 1991 | 0 | 0 | 0 | 0 | |
| 1992 | 0 | 0 | 0 | 0 | |
| 1993 | 84,597 | 86,855 | 63,448 | 65,141 | |
| 1994 | 112,567 | 113,532 | 105,575 | 106,863 | |
| 1995 | 144,133 | 145,369 | 136,242 | 137,410 | |
| 1996 | 184,258 | 185,838 | 174,227 | 175,721 | |
| 1997 | 156,857 | 157,171 | 163,707 | 164,338 | |
| 1998 | 97,909 | 98,066 | 112,646 | 112,842 | |
| 1999 | 0 | 0 | 24,477 | 24,517 | |
| 2000 | 185,646 | 185,888 | 139,235 | 139,416 | |
| 2001 | <u>2/</u> | | 54,713 | 54,713 | |
| 2002 | | | 18,187 | 18,238 | |
| 2003 | | | 0 | 0 | |
| 2004 | | | 0 | 0 | |
| 2005 | | | 0 | 0 | |
| 2006 | | | 0 | 0 | |
| 2007 | | | 0 | 0 | |
| 2008 | | | 13,163 | 13,163 | |
| 2009 | | | 28,390 | 28,390 | |
| Total | <u>3/</u> | | \$1,185,851 | \$1,194,560 | 99.27% |

1/ The aggregate percentage was based on the audited pension costs as determined during the pension audits related to the BCBSGA Medicare segment. The information for calendar years (CY) 1986 through 1993 and CYs 1994 through 2000 was obtained during our prior audits (A-07-94-00777, issued June 7, 1994, and A-07-07-00238, issued November 16, 2007, respectively). We converted these CY pension costs (January 1 to December 31) to a fiscal year (FY) basis (October 1 to September 30). We calculated the FY pension cost as 1/4 of the prior year's cost plus 3/4 of the current year's costs.

2/ The aggregate percentage was based on the audited pension costs as determined during the pension audits related to the BCBSGA Medicare segment. The information for FYs 2001 through 2005 was obtained during our prior audit (A-07-10-00345, issued June 20, 2011). The information for FYs 2006 through 2009 was obtained from the current audit.

2/ We calculated the aggregate Medicare percentage by dividing the FY Medicare Segment Pension Costs Claimed for Medicare Reimbursement (numerator) by the FY Total Medicare Segment Pension Costs (denominator) pursuant to CAS 413.

APPENDIX E: RELATED OFFICE OF INSPECTOR GENERAL REPORTS

| Report Title | Report Number | Date Issued |
|--|----------------------|--------------------|
| <i>Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross and Blue Shield of Georgia</i> | A-07-94-00777 | 06/07/1994 |
| <i>Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross Blue Shield of Georgia for Fiscal Years 1994 Through 2000</i> | A-07-07-00238 | 11/16/2007 |
| <i>Review of the Pension Segmentation Requirements at Blue Cross Blue Shield of Georgia for the Period January 1, 2001, to June 30, 2006</i> | A-07-10-00344 | 06/20/2011 |
| <i>Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross Blue Shield of Georgia for Fiscal Years 2001 Through 2005</i> | A-07-10-00345 | 06/20/2011 |

APPENDIX F: AUDITEE COMMENTS



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MEDICARE

April 29, 2013

Mr. Patrick J. Cogley
Regional Inspector General for Audit Services
Office of Audit Services, Region VII
601 East 12th Street, Room 0429
Kansas City, Missouri 64106

Reference: Report Number A-07-12-00397

Dear Mr. Cogley:

We have received the draft audit report from the Inspector General entitled "Blue Cross Blue Shield of Georgia Overstated its Medicare Segment Pension Assets and Understated Medicare's Share of the Excess Liabilities as of May 31, 2009" and thank you for the opportunity to respond.

National Government Services, Inc. (NGS) concurs with the findings and recommendations outlined in the report and will make the appropriate adjustments to Medicare segment pension assets as of May 31, 2009 and will work with the Centers for Medicare & Medicaid Services to seek reimbursement for the excess share of Medicare segment pension liabilities resulting from the segment closing.

In our review of the report, the following proposed revisions would enhance the accuracy and clarity of the report:

- In the "Executive Summary" section (page i) within the "Background" caption and in the "Introduction" section (page 1) within the "Background" caption, please replace the second paragraph with the following which accurately describes the organization:

On June 30, 2006, WellPoint Health Networks Inc. Pension Accumulation Plan assets were merged into the WellPoint Cash Balance Pension Plan which included the BCBSGA Medicare segment. On January 1, 2007, WellPoint, Inc. ("WellPoint") consolidated its Government contracting segments into one subsidiary called National Government Services, Inc. ("NGS"). This consolidation did not include the BCBSGA Medicare segment, which was maintained separately from other Medicare operations. Thus, although we are





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addressing this report to NGS, we will associate the term BCBSGA with our findings and recommendations regarding the segmentation.

- On page iii of the Table of Contents, item B under Appendixes should read: Statement of Market Value of Pension Assets for the WellPoint Cash Balance Pension Plan for the Period June 30, 2006, to January 1, 2010.
- On page 2, second paragraph under "Findings", in the first line capitalize the "p" in "plan".
- On page 8, the second row of the page heading should state "For the WellPoint Cash Balance Pension Plan" vs. "WellPoint Inc. Cash Balance Pension Plan".
- On page 9, in the first endnote, please capitalize the "s" in "Adminastar".
- On page 9, please use the following verbiage to accurately reflect the statements conveyed in endnote #4:

The "Other" transactions in 2006 represent the mergers of the WellPoint Health Networks, Inc. Pension Accumulation Plan ("Prior PAP" Plan") and Empire Blue Cross and Blue Shield Cash Balance Pension Plan ("Prior Empire Plan") into the WellPoint Cash Balance Pension Plan. The Prior PAP Plan merged into the WellPoint Cash Balance Pension Plan on June 30, 2006. We determined the BCBSGA Medicare segment pension assets as of June 30, 2006, based upon our prior segmentation audit of BCBSGA (A-07010-00344, issued June 20, 2011). The Prior Empire Plan merged into the WellPoint Cash Balance Pension Plan on December 31, 2006. We determined the Empire Medicare pension assets as of December 31, 2006, based upon our prior segmentation audit of Empire (A-07-07-00253, issued April 15, 2008). 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.





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- On page 9, please use the following verbiage to accurately reflect the statements conveyed in endnote #9:

The "Other" transactions in 2009 represent the acquisition of DeCare Dental, LLC on April 8, 2009. Effective December 31, 2009, the DeCare Dental Pension Plan merged into the WellPoint Cash Balance Pension Plan. These "Other" transactions did not impact the Medicare segment pension assets.

- On page 9, please capitalize the "p" in "Wellpoint" to correctly spell the organization's name in endnote #11 and #12.

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,

Digitally signed by
todd.reiger@wellpoint.com
DN: cn=todd.reiger@wellpoint.com
Date: 2013.04.29 11:50:30 -04'00'

Todd W. Reiger, CPA
Medicare Chief Financial Officer
National Government Services, Inc.

CC: Michael Kapp – NGS
Dave Marshall – NGS
Jeff Hannah – NGS
Jim Maguire – NGS
Matt Hughes – NGS
Jim Elmore – NGS
Joanne Imel – WellPoint
Marilyn Bryan – CMS
Jenenne Tambke – OIG

