

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**BLUE CROSS BLUE SHIELD
OF GEORGIA DID NOT CLAIM
SOME ALLOWABLE MEDICARE
PENSION COSTS FOR FISCAL YEARS
2006 THROUGH 2009**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



**Patrick J. Cogley
Regional Inspector General**

**June 2013
A-07-12-00398**

Office of Inspector General

<https://oig.hhs.gov/>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

Blue Cross Blue Shield of Georgia, a terminated Medicare contractor, did not claim \$72,458 of allowable pension costs for Medicare reimbursement for fiscal years 2006 through 2009.

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their pension costs, which are funded by the annual contributions that these contractors make to their pension plans. The amount of pension costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the cost reimbursement principles contained in the Federal Acquisition Regulation, Cost Accounting Standards (CAS), and Medicare contracts. Previous Office of Inspector General reviews have found that Medicare contractors have not always complied with Federal requirements when claiming pension costs for Medicare reimbursement.

The objective of this review was to determine whether pension costs claimed by Blue Cross Blue Shield of Georgia (BCBSGA) for Medicare reimbursement for fiscal years (FY) 2006 through 2009 were allowable and correctly claimed.

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 finding and recommendation regarding the costs claimed.

WHAT WE FOUND

BCBSGA claimed negative pension costs of \$30,271 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs during this period were \$42,187. The difference, \$72,458, represented allowable Medicare pension costs that BCBSGA did not claim on its Final Administrative Cost Proposals (FACP) for FYs 2006 through 2009. BCBSGA did not claim these allowable Medicare pension costs primarily because it based its claim for Medicare reimbursement on an amount that did not comply with the provisions of CAS 412 and 413.

WHAT WE RECOMMEND

We recommend that BCBSGA revise its FACPs for FYs 2006 through 2009 to claim the additional pension costs of \$72,458.

AUDITEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, NGS concurred with our finding and recommendation. 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.

TABLE OF CONTENTS

INTRODUCTION	1
Why We Did This Review	1
Objective	1
Background	1
Blue Cross Blue Shield of Georgia	1
Medicare Reimbursement of Pension Costs	1
How We Conducted This Review	2
FINDING	2
Claimed Pension Costs	2
Allowable Pension Costs Not Claimed	2
RECOMMENDATION	3
AUDITEE COMMENTS	3
OFFICE OF INSPECTOR GENERAL RESPONSE	3
APPENDIXES	
A: Audit Scope and Methodology	4
B: Federal Requirements Related to Reimbursement of Pension Costs	6
C: Allowable Medicare Pension Costs for Blue Cross Blue Shield of Georgia for Fiscal Years 2006 Through 2009	7
D: Auditee Comments	10

INTRODUCTION

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their pension costs, which are funded by the annual contributions that these contractors make to their pension plans. The amount of pension costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the cost reimbursement principles contained in the Federal Acquisition Regulation (FAR), Cost Accounting Standards (CAS), and Medicare contracts. Previous Office of Inspector General reviews found that contractors have not always complied with Federal requirements when claiming pension costs for Medicare reimbursement.

OBJECTIVE

Our objective was to determine whether pension costs claimed by Blue Cross Blue Shield of Georgia (BCBSGA) for Medicare reimbursement for fiscal years (FY) 2006 through 2009 were allowable and correctly claimed.

BACKGROUND

Blue Cross Blue Shield of Georgia

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 finding and recommendation regarding the costs claimed.

Medicare Reimbursement of Pension Costs

CMS reimburses a portion of Medicare contractors' annual pension costs, which are funded by the contributions that these contractors make to their pension plans. To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with CAS 412 and 413 and (2) funded as specified by part 31 of the FAR.

Beginning with FY 1988, CMS incorporated specific segmentation language into Medicare contracts that requires contractors to use either an allocation method or a separate calculation method to identify and claim pension costs for Medicare reimbursement. Under the allocation method, the contractor determines total plan CAS-based pension costs and allocates a share to Medicare. Under the separate calculation method, the contractor separately identifies the

pension cost components for the Medicare segment. The contractor must use the separate calculation method if its result is materially different from that of the allocation method.

HOW WE CONDUCTED THIS REVIEW

We reviewed \$30,271 of negative pension costs claimed by BCBSGA for Medicare reimbursement on its Final Administrative Cost Proposals (FACP) for FYs 2006 through 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 finding and conclusions based on our audit objectives.

Appendix A contains details of our audit scope and methodology.

FINDING

BCBSGA claimed negative pension costs of \$30,271 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs during this period were \$42,187. The difference, \$72,458, represented allowable Medicare pension costs that BCBSGA did not claim on its FACPs for FYs 2006 through 2009. BCBSGA did not claim these allowable Medicare pension costs primarily because it based its claim for Medicare reimbursement on an amount that did not comply with the provisions of CAS 412 and 413.

CLAIMED PENSION COSTS

BCBSGA submitted negative Medicare pension costs of \$30,271 for Medicare reimbursement on its FACPs for FYs 2006 through 2009.¹ We calculated the allowable Medicare pension costs based on separately computed CAS-based pension costs for the Medicare segment and the “Other” segment in accordance with CAS 412 and 413. For details on the Federal requirements, see Appendix B.

ALLOWABLE PENSION COSTS NOT CLAIMED

We determined that the allowable CAS-based pension costs for FYs 2006 through 2009 were \$42,187. Thus, BCBSGA did not claim \$72,458 of allowable Medicare pension costs on its FACPs for FYs 2006 through 2009. This underclaim occurred primarily because BCBSGA based its claim for Medicare reimbursement on an amount that did not comply with the provisions of CAS 412 and 413.

¹ The allowable pension costs for FY 2009 were attributable to the pension costs for October 1, 2008, through May 31, 2009.

The table below compares allowable CAS-based pension costs with the pension costs claimed on BCBSGA’s FACPs and reflected in its accounting documents. Appendix C contains additional details on allowable pension costs.

Table: Comparison of Allowable Pension Costs and Claimed Pension Costs

	<u>Medicare Pension Costs</u>		
Fiscal Year	Allowable Per Audit	Claimed by BCBSGA	Difference
2006	\$103	\$68,020	(\$67,917)
2007	11	(7,661)	7,672
2008	13,163	(63,436)	76,599
2009	28,910	(27,194)	56,104
Total	\$42,187	(\$30,271)	\$72,458

RECOMMENDATION

We recommend that BCBSGA revise its FACPs for FYs 2006 through 2009 to claim the additional pension costs of \$72,458.

AUDITEE COMMENTS

In written comments on our draft report, NGS concurred with our finding and recommendation. 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.

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

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 \$30,271 of negative pension costs that BCBSGA claimed for Medicare reimbursement on its FACPs for FYs 2006 through 2009.

Achieving our objective did not require that we review BCBSGA's overall internal control structure. We reviewed the internal controls related to the pension costs claimed for Medicare reimbursement to ensure that the pension costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

We completed our audit work in November and December 2012.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- reviewed information provided by BCBSGA to identify the amount of pension costs claimed for Medicare reimbursement for FYs 2006 through 2009;
- used information that BCBSGA's actuarial consulting firms provided, including information on assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses;
- examined BCBSGA's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Forms 5500;
- determined the extent to which BCBSGA funded CAS-based pension costs with contributions to the pension trust fund and accumulated prepayment credits;
- engaged the CMS Office of the Actuary to calculate the allocable pension costs based on the CAS (the calculations were based on separately computed CAS-based pension costs for the Medicare segment and the "Other" segment); and
- reviewed the CMS actuaries' methodology and calculations.

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

- BCBSGA's segmentation of its Medicare segment pension assets (A-07-12-00397) 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: FEDERAL REQUIREMENTS RELATED TO REIMBURSEMENT OF PENSION COSTS

FEDERAL REGULATIONS

Federal regulations (FAR 31.205-6(j)) address allowability of pension costs and require that contractors fund the pension costs assigned to contract periods by making contributions to the pension plan.

Federal regulations (CAS 412) address the determination and measurement of pension cost components. This regulation also addresses the assignment of pension costs to appropriate accounting periods.

Federal regulations (CAS 413) address 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.

MEDICARE CONTRACTS

The Medicare contracts address the determination and allocation of pension costs. The contracts state: “The calculation of and accounting for pension costs charged to this agreement/contract are governed by the Federal Acquisition Regulation and Cost Accounting Standards 412 and 413.”

**APPENDIX C: ALLOWABLE MEDICARE PENSION COSTS FOR
BLUE CROSS BLUE SHIELD OF GEORGIA FOR FISCAL YEARS 2006 THROUGH 2009**

Date	Description	Total Company	“Other” Segment	NGS Medicare Segment	BCBSGA Medicare Segment	Total BCBSGA Medicare Segment
2005	Allocable Pension Costs <u>1/</u>		\$5,079,557		\$0	
2006	Contributions <u>2/</u>	\$0	\$0	\$0	\$0	
	Discount for Interest <u>3/</u>	\$0	\$0	\$0	\$0	
January 1, 2006	Present Value Contributions <u>4/</u>	\$0	\$0	\$0	\$0	
	Prepayment Credit Applied <u>5/</u>	\$5,146,959	\$3,031,134	\$2,115,825	\$0	
	Present Value of Funding <u>6/</u>	\$5,146,959	\$3,031,134	\$2,115,825	\$0	
January 1, 2006	CAS Funding Target <u>7/</u>	\$5,146,959	\$3,031,134	\$2,115,825	\$0	
	Percentage Funded <u>8/</u>		100.00%	100.00%	0.00%	
	Funded Pension Cost <u>9/</u>		\$3,031,134	\$2,115,825	\$0	
	Allowable Interest <u>10/</u>		\$0	\$0	\$0	
	Allocable Pension Cost		\$3,031,134	\$2,115,825	\$0	
2006	FY Allocable Pension Costs <u>11/</u>		\$3,543,240		\$0	
	Medicare LOB* Percentage <u>12/</u>		0.0029%	N/A	99.9555%	
	Allowable Pension Cost <u>13/</u>		\$103	N/A	\$0	\$103

Date	Description	Total Company	“Other” Segment	NGS Medicare Segment	BCBSGA Medicare Segment	Total BCBSGA Medicare Segment
2007	Contributions	\$326,001	\$326,001	\$0	\$0	
	Discount for Interest	(\$16,283)	(\$16,283)	\$0	\$0	
January 1, 2007	Present Value Contributions	\$309,718	\$309,718	\$0	\$0	
	Prepayment Credit Applied	\$3,144,028	\$0	\$3,144,028	\$0	
	Present Value of Funding	\$3,453,746	\$309,718	\$3,144,028	\$0	
January 1, 2007	CAS Funding Target	\$3,144,028	\$0	\$3,144,028	\$0	
	Percentage Funded		100.00%	100.00%	0.00%	
	Funded Pension Cost		\$0	\$3,144,028	\$0	
	Allowable Interest		\$0	\$0	\$0	
	Allocable Pension Cost <u>14/</u>		\$0	\$3,144,028	\$0	
2007	FY Allocable Pension Costs		\$757,784	\$2,886,977	\$0	
	Medicare LOB* Percentage		0.0014%	N/A	100.00%	
	Allowable Pension Cost		\$11	N/A	\$0	\$11

Date	Description	Total Company	"Other" Segment	NGS Medicare Segment	BCBSGA Medicare Segment	Total BCBSGA Medicare Segment
2008	Contributions	\$58,000,000	\$58,000,000	\$0	\$0	
	Discount for Interest	(\$4,296,296)	(\$4,296,296)	\$0	\$0	
January 1, 2008	Present Value Contributions	\$53,703,704	\$53,703,704	\$0	\$0	
	Prepayment Credit Applied	\$3,214,807	\$92,672	\$3,104,584	\$17,551	
	Present Value of Funding	\$56,918,511	\$53,796,376	\$3,104,584	\$17,551	
January 1, 2008	CAS Funding Target	\$3,214,807	\$92,672	\$3,104,584	\$17,551	
	Percentage Funded		100.00%	100.00%	100.00%	
	Funded Pension Cost		\$92,672	\$3,104,584	\$17,551	
	Allowable Interest		\$0	\$0	\$0	
	Allocable Pension Cost		\$92,672	\$3,104,584	\$17,551	
2008	FY Allocable Pension Costs		\$69,504	\$3,114,445	\$13,163	
	Medicare LOB* Percentage		0.0000%	N/A	100.00%	
	Allowable Pension Cost		\$0	N/A	\$13,163	\$13,163

Date	Description	Total Company	"Other" Segment	NGS Medicare Segment	BCBSGA Medicare Segment	Total BCBSGA Medicare Segment
2009	Contributions	\$33,000,000	\$33,000,000	\$0	\$0	
	Discount for Interest	(\$2,437,844)	(\$2,437,844)	\$0	\$0	
January 1, 2009	Present Value Contributions	\$30,562,156	\$30,562,156	\$0	\$0	
	Prepayment Credit Applied	\$82,566,293	\$78,014,124	\$4,528,167	\$24,002	
	Present Value of Funding	\$113,128,449	\$108,576,280	\$4,528,167	\$24,002	
January 1, 2009	CAS Funding Target	\$82,566,293	\$78,014,124	\$4,528,167	\$24,002	
	Percentage Funded		100.00%	100.00%	100.00%	
	Funded Pension Cost		\$78,014,124	\$4,528,167	\$24,002	
	Allowable Interest		\$0	\$0	\$0	
	Allocable Pension Cost		\$78,014,124	\$4,528,167	\$24,002	
2009	FY Allocable Pension Costs <u>15/</u>		\$32,529,053	\$4,172,271	\$28,390	
	Medicare LOB* Percentage		0.0016%	N/A	100.00%	
	Allowable Pension Cost		\$520	N/A	\$28,390	\$28,910

* Line of business.

ENDNOTES

- 1/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes. We obtained the 2005 calendar year (CY) BCBSGA allocable pension cost from our prior BCBSGA review (A-07-10-00345), issued June 20, 2011. The 2005 and 2006 "Other" segment costs represent the allocable costs for the BCBSGA Medicare contract from the WellPoint Health Networks, Inc., Pension Accumulation Plan.
- 2/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the CY and accrued contributions deposited after the end of the CY but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-12-00397). The amounts shown for the "Other" segment represent the difference between the Total Company and the Medicare segment.
- 3/ We subtracted the interest that was included in the contributions deposited after the beginning of the valuation year to discount the contributions back to their beginning-of-the-year value. For purposes of this Appendix, we computed the interest as the difference between the present value of contributions (at the valuation interest rate) and actual contribution amounts.
- 4/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the CY. For purposes of this Appendix, we deemed deposits made after the end of the CY to have been made on the final day of the CY, consistent with the method mandated by the Employee Retirement Income Security Act used prior to the implementation of the Pension Protection Act.
- 5/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year CAS funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.
- 6/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at the first day of the CY.
- 7/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of FAR 31.205-6(j)(2)(i).
- 8/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the CY. Because any funding in excess of the CAS funding target is accounted for as a prepayment in accordance with CAS 412.50(c)(1) (as amended), the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimal places.
- 9/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.
- 10/ We assumed that interest on the funded CAS-based pension cost, less the prepayment credit, accrues in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in four equal installments deposited within 30 days after the end of the quarter.
- 11/ We converted the allocable pension cost to an FY basis (October 1 through September 30). We calculated the FY pension costs as 1/4 of the prior year's costs plus 3/4 of the current year's costs.
- 12/ We calculated allowable pension costs of the Medicare and "Other" segments based on the Medicare line of business (LOB) percentage of each segment. We determined the Medicare LOB percentages based upon information provided by BCBSGA.
- 13/ We computed the allowable Medicare pension cost as an FY pension cost multiplied by the Medicare LOB percentage. In accordance with CAS 412 and 413, the total Medicare allowable pension costs charged to the Medicare contracts consisted of the Medicare segment's direct pension costs plus "Other" segment pension costs attributable to indirect Medicare operations.
- 14/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes. Starting in 2007, the allocable pension cost is calculated for the WellPoint Cash Balance Pension Plan (includes the NGS and BCBSGA segments). WellPoint Health Networks, Inc., Pension Accumulation Plan assets were merged into the WellPoint Cash Balance Pension Plan on June 30, 2006.
- 15/ BCBSGA terminated its Medicare contract on May 31, 2009. Therefore, we calculated the FY 2009 Medicare segment pension cost as 1/4 of the prior year's cost plus the costs for January through May 2009. We calculated the FY 2009 "Other" segment pension cost as 1/4 of the prior year's cost plus the costs for 5/12 (January 1 through May 31) of the current year.

APPENDIX D: 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-07-12-00398

Dear Mr. Cogley:

We have received the draft audit report from the Inspector General entitled "Blue Cross Blue Shield of Georgia Did Not Claim Some Allowable Pension Costs for Fiscal Years 2006 Through 2009" and thank you for the opportunity to respond.

National Government Services, Inc. (NGS) concurs with the finding and recommendation outlined in the report and will work with the Centers for Medicare & Medicaid Services to seek reimbursement for the additional allowable pension costs identified in the report.

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





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MEDICARE

April 29, 2013
Page 2

- On page 9, in the first endnote (3rd line), please replace "WellPoint's Pension Accumulation Plan" with the correct plan name of "WellPoint Health Networks Pension Accumulation Plan".
- On page 9, please use the following verbiage to accurately reflect the pension plan names conveyed in endnote #14:

The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes. Starting in 2007, the allocable pension cost is calculated for the WellPoint Cash Balance Pension Plan (includes the NGS and BCBSGA segments). WellPoint Health Networks Pension Accumulation Plan assets were merged into the WellPoint Cash Balance Pension Plan on June 30, 2006.

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
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Todd W. Reiger, CPA
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