



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

JUL 01 2008

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

Report Number: A-07-08-00262

Mr. Tim Crilly
Chief Executive Officer
Blue Cross Blue Shield of Wyoming
4000 House Avenue
Cheyenne, Wyoming 82001

Dear Mr. Crilly:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of the Qualified Pension Plan at Blue Cross Blue Shield of Wyoming, a Terminated Medicare Contractor, for the Period January 1, 1986, to January 1, 2007." 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.

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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 e-mail at Jenenne.Tambke@oig.hhs.gov. Please refer to report number A-07-08-00262 in all correspondence.

Sincerely,

for *Christopher G. Bresette*
Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Nanette Foster Reilly, Consortium Administrator
Consortium for Financial Management & Fee for Service Operations
Centers for Medicare & Medicaid Services
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Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF THE QUALIFIED
PENSION PLAN AT BLUE CROSS
BLUE SHIELD OF WYOMING,
A TERMINATED MEDICARE
CONTRACTOR, FOR THE PERIOD
JANUARY 1, 1986, TO
JANUARY 1, 2007**



Daniel R. Levinson
Inspector General

July 2008
A-07-08-00262

Office of Inspector General

<http://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

BACKGROUND

Blue Cross Blue Shield of Wyoming (Wyoming) administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) from July 1, 1966, until the contractual relationship was terminated on October 31, 2006. The effective closing date for the Medicare segment was January 1, 2007.

Pension Plan

Wyoming sponsors a defined-benefit pension plan, which is a deferred compensation plan in which an employer makes actuarially determined contributions to fund an employee's retirement benefit as defined by the plan's terms.

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 Medicare contracts, Federal Acquisition Regulation, and the Cost Accounting Standards (CAS). Furthermore, the Medicare contracts specifically prohibit any profit (gain) from Medicare activities. Therefore, contractors must credit to the Medicare program those pension gains (excess pension assets) that occur when a Medicare segment terminates.

Pension Segmentation

Beginning with fiscal year 1988, CMS incorporated segmentation requirements into the Medicare contracts. 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 assets to be updated for each year after the initial allocation in accordance with CAS 412 and 413.

Upon the termination of its Medicare contracts, Wyoming identified Medicare's share of the Medicare segment excess pension assets to be \$118,044. However, Wyoming has not refunded any of these excess pension assets, opting to wait until the results of our audit are finalized.

OBJECTIVE

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

- identifying the Medicare segment's initial asset allocation;
- updating the Medicare segment assets from the initial asset allocation to January 1, 2007; and
- determining Medicare's share of the Medicare segment excess pension assets as of the termination of Wyoming's Medicare contracts.

SUMMARY OF FINDINGS

Wyoming did not always comply with Federal requirements and the Medicare contracts' pension segmentation requirements. Wyoming correctly identified the segment's initial assets but incorrectly updated the Medicare segment assets from the initial asset allocation to January 1, 2007. As a result, Wyoming overstated the Medicare segment assets by \$47,955.

In addition, Wyoming did not comply with the provisions of its Medicare contracts or the CAS when determining Medicare's share of the Medicare segment excess pension assets as of the termination of the Medicare contracts. We identified \$70,089 as Medicare's share; however, Wyoming identified \$118,044 as Medicare's share. Therefore, Wyoming overstated Medicare's share by \$47,955.

RECOMMENDATIONS

We recommend that Wyoming:

- decrease Medicare segment pension assets as of January 1, 2007, by \$47,955;
- decrease Medicare's share of the excess Medicare segment pension assets as of January 1, 2007, by \$47,955; and
- refund to the Federal Government \$70,089, which we calculated to be Medicare's share of the Medicare segment excess pension assets as of the termination of the Medicare contracts.

AUDITEE COMMENTS

In written comments on our draft report, Wyoming concurred with our findings and stated that it will refund \$70,089 to the Federal Government.

Wyoming's comments are included in their entirety as Appendix D.

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Glossary of Abbreviations and Acronyms

| | |
|---------|--|
| CAS | Cost Accounting Standards |
| CMS | Centers for Medicare & Medicaid Services |
| FAR | Federal Acquisition Regulation |
| OIG | Office of Inspector General |
| WAV | weighted average value |
| Wyoming | Blue Cross Blue Shield of Wyoming |

INTRODUCTION

BACKGROUND

Blue Cross Blue Shield of Wyoming (Wyoming) administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) from July 1, 1966, until the contractual relationship was terminated on October 31, 2006. The effective closing date for the Medicare segment was January 1, 2007.

Pension Plan

Wyoming sponsors a defined benefit pension plan, which is a deferred compensation plan in which an employer makes actuarially determined contributions to fund an employee's benefit as defined by the plan's terms. Once an employee satisfies the plan's age and service requirements and retires, he or she is eligible to receive a monthly payment from the plan. The plan accumulates assets from employer contributions and net investment earnings to fund the actuarial liability for both earned and projected future benefits. To the extent that assets accumulate from better-than-expected investment earnings, the amount of required annual employer contributions decreases and may even be eliminated for some years.

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 Medicare contracts, Federal Acquisition Regulation (FAR), and the Cost Accounting Standards (CAS). Furthermore, the Medicare contracts specifically prohibit any profit (gain) from Medicare activities. Therefore, contractors must credit to the Medicare program those pension gains (excess pension assets) that occur when a Medicare segment terminates.

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. CAS 413 also addresses the determination of segment assets and liabilities in the event of contract terminations, segment closings, or pension plan terminations.

FAR Part 31 addresses the allowability of pension costs and the recovery of gains, rebates, and other forms of credits for Federal contractors.

Pension Segmentation

CMS incorporated CAS 412 and 413 into the Medicare contracts effective October 1, 1980. Starting in 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. For each year after the initial allocation, the contracts require Medicare segment assets to be updated 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.

Upon the termination of its Medicare contracts, Wyoming identified Medicare's share of the Medicare segment excess pension assets to be \$118,044. However, Wyoming has not refunded any of these excess pension assets, opting to wait until the results of our audit are finalized.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

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

- identifying the Medicare segment's initial asset allocation,
- updating the Medicare segment assets from the initial asset allocation to January 1, 2007; and
- determining Medicare's share of the Medicare segment excess pension assets as of the termination of Wyoming's Medicare contracts.

Scope

We reviewed Wyoming's identification of its Medicare segment, computation of the initial assets allocated to the Medicare segment, update of Medicare segment assets from the initial asset allocation to January 1, 2007, determination of final segment liabilities, and development of Medicare's share of the Medicare segment's excess assets as of January 1, 2007. Although Wyoming's Medicare contracts were terminated on October 31, 2006, we agreed with Wyoming's request to use January 1, 2007 as the closing date for the Medicare segment.

Achieving our objective did not require us to review Wyoming's overall internal control structure. We reviewed controls relating to the identification of the Medicare segment, the update of the segment's assets, the determination of the final segment liabilities, and the development of Medicare's share of the segment's excess pension assets

We performed fieldwork at Wyoming's office in Cheyenne, Wyoming, during January 2008.

Methodology

To accomplish our objective:

- We reviewed the applicable portions of the FAR, CAS, and the Medicare contracts.

- We reviewed the annual actuarial valuation reports prepared by Wyoming’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 assets.
- We obtained the pension plan documents and Department of Labor/Internal Revenue Service Form 5500s used in calculating the Medicare segment assets.
- We interviewed Wyoming staff responsible for identifying the Medicare segment to determine whether the segment was properly identified in accordance with the Medicare contracts.
- We reviewed Wyoming’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 assets and the Medicare segment excess pension assets as of January 1, 2007.
- We reviewed the CMS actuaries’ methodology and calculations.

We performed this review in conjunction with our audit of Wyoming’s pension costs claimed for Medicare reimbursement (A-07-08-00263). We used the information obtained during that audit in this review.

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.

FINDINGS AND RECOMMENDATIONS

Wyoming did not always comply with Federal requirements and the Medicare contracts’ pension segmentation requirements. Wyoming correctly identified the segment’s initial assets but incorrectly updated the Medicare segment assets from the initial asset allocation to January 1, 2007. As a result, Wyoming overstated the Medicare segment assets by \$47,955. Appendix A presents details of the Medicare segment’s pension assets from January 1, 1986, to January 1, 2007. Table 1 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 Wyoming | Difference |
| Initial Allocation | \$ 88,403 | \$ 88,403 | \$ - |
| | | | |
| Update of pension assets: | | | |
| Contributions & Transferred Prepayment Credits | \$ 274,279 | \$ 191,798 | \$ 82,481 |
| Transfers | \$ (55,575) | \$ (50,619) | \$ (4,956) |
| Earnings, net expenses | \$ 345,382 | \$ 470,862 | \$ (125,480) |
| Overstatement of Medicare segment | | | \$ (47,955) |

In addition, Wyoming did not comply with the provisions of its Medicare contracts or the CAS when determining Medicare’s share of the Medicare segment excess pension assets as of the termination of the Medicare contracts. We identified \$70,089 as Medicare’s share; however, Wyoming identified \$118,044 as Medicare’s share.¹ Therefore, Wyoming overstated Medicare’s share by \$47,955.

MEDICARE SEGMENT ASSET BASE (INITIAL ALLOCATION)

Federal Requirements

The Medicare contracts provide for separate identification of 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 first day of the first plan year after December 31, 1980, or the first day of the first plan year following the date the Medicare segment existed, whichever is later. This ratio is known as the asset fraction.

Medicare Segment Asset Base as of January 1, 1986

Wyoming complied with the Medicare contracts’ pension segmentation requirements in identifying the Medicare segment’s initial assets as of January 1, 1986. Wyoming calculated an asset fraction as of January 1, 1981, and used the fraction to calculate Medicare segment assets totaling \$88,403 as of January 1, 1986. We agree with Wyoming’s calculations.

UPDATE OF MEDICARE SEGMENT PENSION ASSETS

Federal Requirements

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:

¹As stated earlier, Wyoming has not refunded any of these excess assets.

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.

The Medicare contracts also 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, permitted unfunded accruals, income, benefit payments, and expenses. For plan years beginning on or before March 30, 1995, the CAS requires investment income and expenses to be allocated among segments in proportion to the beginning-of-year asset value. 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 weighted average value (WAV) of assets to total company WAV of assets.

In addition, CAS 413.50(c)(8) requires an adjustment to 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. For plan years beginning after March 31, 1995, the CAS requires that the assets transferred equal the actuarial accrued liabilities as determined using the accrued benefit cost method.

Furthermore, CAS 412.50(a)(4) requires 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.

Contributions and Transferred Prepayment Credits Understated

Wyoming understated contributions and transferred prepayment credits by \$82,481. Wyoming’s update methodology did not equitably assign pension contributions to the Medicare segment. Primarily, this was due to Wyoming’s misidentification of the Medicare segment. Prior to 1999, Wyoming’s Medicare segment calculations incorrectly included non-Medicare segment participants. Wyoming’s understatement of contributions and prepayment credit transfers led to an understatement of Medicare segment assets of \$82,481.

Appendix B compares Wyoming’s and our calculations of allocated pension contributions and transferred prepayment credits.

Earnings and Expenses Overstated

Wyoming overstated investment earnings, less administrative expenses, by \$125,480 for the Medicare segment. Wyoming did not use the WAV of assets to allocate earnings as required by CAS 413.50(c)(7). Instead, Wyoming’s methodology allocated investment earnings and administrative expenses to the Medicare segment based on a ratio of beginning-of-year segment assets to total company assets. Because of this error, Wyoming’s allocation basis differed from that required by the CAS and led to incorrect allocation amounts. In our audited update, we allocated earnings and expenses based on the applicable CAS requirements. Wyoming’s

overstatement was also caused by its misidentification of the Medicare segment, mentioned earlier. The overstatement in earnings and expenses led to an overstatement of Medicare segment assets of \$125,480.

Transfers Overstated

Wyoming overstated the participant transfer adjustments in its update of Medicare segment assets by \$4,956. The overstatement occurred primarily because Wyoming misidentified the Medicare segment, which resulted in—among other things—the incorrect identification of participants who transferred in and out of the segment. Transfers for the audited update were adjusted based on our revisions to the Medicare segment.

Appendix C compares Wyoming’s and our asset adjustments associated with Medicare segment participant transfers.

MEDICARE SEGMENT EXCESS PENSION ASSETS

Federal Requirements

Medicare Contracts

The Medicare contracts specifically prohibit any profit (gain) from Medicare activities. Pension gains that occur when a segment closes (i.e., contract terminations) must be credited to the Medicare program, as required by the FAR. In the event of a contract termination, the Medicare contracts require contractors to follow the segment closing provision of the CAS.

Federal Acquisition Regulation

The FAR addresses dispositions of gains in situations such as segment closings. When excess or surplus assets revert to a contractor because of a termination of a pension plan, or when such assets are constructively received by the contractor for any reason, the contractor must make a refund or give credit to the Government for its equitable share (FAR 31.205-6(j)(3)).

Cost Accounting Standards

During 1980, CMS renegotiated the Medicare contracts and expressly incorporated CAS 412 and 413 into the contracts beginning October 1, 1980.

Contract terminations and segment closings are addressed by CAS 413.50(c)(12), which states:

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.

The methodology for determining the Federal Government's share of the excess pension assets 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.

Excess Medicare Segment Pension Assets as of January 1, 2007

Wyoming identified \$118,044 in excess Medicare segment pension assets as of January 1, 2007. However, we calculated the excess pension assets to be \$70,089 as of that date. Therefore, Wyoming overstated the excess pension assets by \$47,955. The overstatement occurred because, as previously discussed, Wyoming did not comply with the CAS in updating

the Medicare segment pension assets to January 1, 2007. (Wyoming correctly identified the segment's accrued liabilities.) Table 2 summarizes the differences between Wyoming's and our calculations.

| Table 2: Summary of Adjustments to Excess Medicare Segment Pension Assets | | | |
|--|------------------|--------------------|-------------------|
| | Per Audit | Per Wyoming | Difference |
| Medicare segment assets as of January 1, 2007 | \$551,755 | \$599,710 | (\$47,955) |
| Accrued liabilities of segment participants | (481,666) | (481,666) | 0 |
| Overstatement | | | (\$47,955) |

Medicare's Share of Medicare Segment Excess Pension Assets as of January 1, 2007

As required upon the termination of the Medicare contracts, Wyoming developed an aggregate Medicare percentage in determining Medicare's share of the segment's excess assets. However, because Wyoming's final segment assets were incorrect, its determination of Medicare's share was also incorrect. Wyoming computed \$118,044 as Medicare's share; however, we determined that Medicare's share was \$70,089. Therefore, Wyoming overstated Medicare's share by \$47,955. Table 3 shows our calculation of Medicare's share of the excess assets.

| Table 3: Calculation of Medicare's Share of the Excess Assets | | | |
|--|---|--|---|
| | <u>Excess Medicare Segment Assets (A)</u> | <u>Aggregate Medicare Percentage (B)</u> | <u>Excess Assets Attributable to Medicare (AxB)</u> |
| Per Audit | \$70,089 | 100.00% | \$70,089 |
| Per Wyoming | 118,044 | 100.00% | 118,044 |
| Difference | | | (\$47,955) |

RECOMMENDATIONS

We recommend that Wyoming:

- decrease Medicare segment pension assets as of January 1, 2007, by \$47,955;
- decrease Medicare's share of the excess Medicare segment pension assets as of January 1, 2007, by \$47,955; and
- refund to the Federal Government \$70,089, which we calculated to be Medicare's share of the Medicare segment excess pension assets as of the termination of the Medicare contracts.

AUDITEE COMMENTS

In written comments on our draft report, Wyoming concurred with our findings and stated that it will refund \$70,089 to the Federal Government.

Wyoming's comments are included in their entirety as Appendix D.

APPENDIXES

**MARKET VALUE OF PENSION ASSETS
FOR THE PERIOD
JANUARY 1, 1986, TO JANUARY 1, 2007**

APPENDIX A

Page 1 of 7

| Description | Total Company | Other Segment | Medicare Segment |
|--------------------------------|-----------------------|---------------|------------------|
| Assets January 1, 1986 | <u>1/</u> \$2,828,172 | \$2,739,769 | \$88,403 |
| Transferred Prepayment Credits | 0 | 0 | 0 |
| Contributions | <u>2/</u> 72,969 | 72,969 | 0 |
| Earnings | <u>3/</u> (15,693) | (15,202) | (491) |
| Benefit Payments | <u>4/</u> 231,138 | 231,138 | 0 |
| Expenses | <u>5/</u> (17,477) | (16,930) | (547) |
| Transfers | <u>6/</u> 0 | 35,947 | (35,947) |
| Assets January 1, 1987 | 3,099,109 | 3,047,691 | 51,418 |
| Transferred Prepayment Credits | <u>7/</u> 0 | (3,396) | 3,396 |
| Contributions | 2,031 | 2,031 | 0 |
| Earnings | 143,509 | 140,971 | 2,538 |
| Benefit Payments | (151,530) | (151,530) | 0 |
| Expenses | (20,240) | (19,882) | (358) |
| Transfers | 0 | 0 | |
| Assets January 1, 1988 | 3,072,879 | 3,015,885 | 56,994 |
| Transferred Prepayment Credits | 0 | 0 | 0 |
| Contributions | 0 | 0 | 0 |
| Earnings | 423,208 | 415,359 | 7,849 |
| Benefit Payments | (46,937) | (46,937) | 0 |
| Expenses | (19,873) | (19,504) | (369) |
| Transfers | 0 | 0 | 0 |
| Assets January 1, 1989 | 3,429,277 | 3,364,803 | 64,474 |
| Transferred Prepayment Credits | 0 | 0 | 0 |
| Contributions | 0 | 0 | 0 |
| Earnings | 782,672 | 767,957 | 14,715 |
| Benefit Payments | (58,916) | (57,284) | (1,632) |
| Expenses | (22,602) | (22,177) | (425) |
| Transfers | 0 | 0 | 0 |
| Assets January 1, 1990 | \$4,130,431 | \$4,053,299 | \$77,132 |

**MARKET VALUE OF PENSION ASSETS
FOR THE PERIOD
JANUARY 1, 1986, TO JANUARY 1, 2007**

APPENDIX A

Page 2 of 7

| Description | Total Company | Other Segment | Medicare Segment |
|--------------------------------|--------------------|--------------------|------------------|
| Assets January 1, 1990 | \$4,130,431 | \$4,053,299 | \$77,132 |
| Transferred Prepayment Credits | 0 | 0 | 0 |
| Contributions | 0 | 0 | 0 |
| Earnings | (108,861) | (106,828) | (2,033) |
| Benefit Payments | (246,048) | (243,561) | (2,487) |
| Expenses | (26,131) | (25,643) | (488) |
| Transfers | 0 | 0 | 0 |
| Assets January 1, 1991 | 3,749,391 | 3,677,267 | 72,124 |
| Transferred Prepayment Credits | 0 | 0 | 0 |
| Contributions | 0 | 0 | 0 |
| Earnings | 813,231 | 797,588 | 15,643 |
| Benefit Payments | (153,291) | (153,291) | 0 |
| Expenses | (21,120) | (20,714) | (406) |
| Transfers | 0 | 0 | 0 |
| Assets January 1, 1992 | 4,388,211 | 4,300,850 | 87,361 |
| Transferred Prepayment Credits | 0 | 0 | 0 |
| Contributions | 0 | 0 | 0 |
| Earnings | 174,310 | 170,840 | 3,470 |
| Benefit Payments | (58,394) | (58,394) | 0 |
| Expenses | (21,745) | (21,312) | (433) |
| Transfers | 0 | 0 | 0 |
| Assets January 1, 1993 | 4,482,382 | 4,391,984 | 90,398 |
| Transferred Prepayment Credits | 0 | (8,140) | 8,140 |
| Contributions | 0 | 0 | 0 |
| Earnings | 453,866 | 443,888 | 9,978 |
| Benefit Payments | (63,278) | (63,278) | 0 |
| Expenses | (31,046) | (30,363) | (683) |
| Transfers | 0 | 840 | (840) |
| Assets January 1, 1994 | \$4,841,924 | \$4,734,931 | \$106,993 |

**MARKET VALUE OF PENSION ASSETS
FOR THE PERIOD
JANUARY 1, 1986, TO JANUARY 1, 2007**

APPENDIX A

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| Description | Total Company | Other Segment | Medicare Segment |
|--------------------------------|--------------------|--------------------|------------------|
| Assets January 1, 1994 | \$4,841,924 | \$4,734,931 | \$106,993 |
| Transferred Prepayment Credits | 0 | (4,334) | 4,334 |
| Contributions | 0 | 0 | 0 |
| Earnings | 26,957 | 26,337 | 620 |
| Benefit Payments | (32,828) | (32,828) | 0 |
| Expenses | (24,348) | (23,788) | (560) |
| Transfers | 0 | 0 | 0 |
| Assets January 1, 1995 | 4,811,705 | 4,700,318 | 111,387 |
| Transferred Prepayment Credits | 0 | (11,454) | 11,454 |
| Contributions | 0 | 0 | 0 |
| Earnings | 1,266,287 | 1,233,959 | 32,328 |
| Benefit Payments | (117,995) | (117,995) | 0 |
| Expenses | (23,461) | (22,862) | (599) |
| Transfers | 0 | 0 | 0 |
| Assets January 1, 1996 | 5,936,536 | 5,781,966 | 154,570 |
| Transferred Prepayment Credits | 0 | (12,203) | 12,203 |
| Contributions | 0 | 0 | 0 |
| Earnings | 926,743 | 900,016 | 26,727 |
| Benefit Payments | (307,469) | (307,469) | 0 |
| Expenses | (31,550) | (30,640) | (910) |
| Transfers | 0 | 0 | 0 |
| Assets January 1, 1997 | 6,524,260 | 6,331,670 | 192,590 |
| Transferred Prepayment Credits | 0 | (6,092) | 6,092 |
| Contributions | 0 | 0 | 0 |
| Earnings | 1,369,642 | 1,327,155 | 42,487 |
| Benefit Payments | (238,833) | (238,833) | 0 |
| Expenses | (40,769) | (39,504) | (1,265) |
| Transfers | 0 | 0 | 0 |
| Assets January 1, 1998 | \$7,614,300 | \$7,374,396 | \$239,904 |

**MARKET VALUE OF PENSION ASSETS
FOR THE PERIOD
JANUARY 1, 1986, TO JANUARY 1, 2007**

APPENDIX A

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| Description | Total Company | Other Segment | Medicare Segment |
|--------------------------------|--------------------|--------------------|------------------|
| Assets January 1, 1998 | \$7,614,300 | \$7,374,396 | \$239,904 |
| Transferred Prepayment Credits | 0 | 0 | 0 |
| Contributions | 0 | 0 | 0 |
| Earnings | 1,051,813 | 1,015,815 | 35,998 |
| Benefit Payments | (1,235,603) | (1,234,705) | (898) |
| Expenses | (49,547) | (47,851) | (1,696) |
| Transfers | 0 | 3,141 | (3,141) |
| Assets January 1, 1999 | 7,380,963 | 7,110,796 | 270,167 |
| Transferred Prepayment Credits | 0 | 0 | 0 |
| Contributions | 0 | 0 | 0 |
| Earnings | 1,194,444 | 1,157,256 | 37,188 |
| Benefit Payments | (481,203) | (385,486) | (95,717) |
| Expenses | (42,769) | (41,437) | (1,332) |
| Transfers | 0 | 0 | 0 |
| Assets January 1, 2000 | 8,051,435 | 7,841,129 | 210,306 |
| Transferred Prepayment Credits | 0 | 0 | 0 |
| Contributions | 0 | 0 | 0 |
| Earnings | (335,001) | (326,167) | (8,834) |
| Benefit Payments | (153,238) | (153,238) | 0 |
| Expenses | (72,655) | (70,739) | (1,916) |
| Transfers | 0 | 0 | 0 |
| Assets January 1, 2001 | 7,490,541 | 7,290,985 | 199,556 |
| Transferred Prepayment Credits | 0 | (16,820) | 16,820 |
| Contributions | 350,000 | 350,000 | 0 |
| Earnings | (398,843) | (387,206) | (11,637) |
| Benefit Payments | (148,719) | (148,719) | 0 |
| Expenses | (53,393) | (51,835) | (1,558) |
| Transfers | 0 | 5,357 | (5,357) |
| Assets January 1, 2002 | \$7,239,586 | \$7,041,762 | \$197,824 |

**MARKET VALUE OF PENSION ASSETS
FOR THE PERIOD
JANUARY 1, 1986, TO JANUARY 1, 2007**

APPENDIX A

Page 5 of 7

| Description | Total Company | Other Segment | Medicare Segment |
|--------------------------------|---------------------|---------------------|------------------|
| Assets January 1, 2002 | \$7,239,586 | \$7,041,762 | \$197,824 |
| Transferred Prepayment Credits | 0 | (26,581) | 26,581 |
| Contributions | 2,461,000 | 2,461,000 | 0 |
| Earnings | (573,025) | (553,634) | (19,391) |
| Benefit Payments | (1,216,036) | (1,216,036) | 0 |
| Expenses | (47,767) | (46,151) | (1,616) |
| Transfers | 0 | 0 | 0 |
| Assets January 1, 2003 | 7,863,758 | 7,660,360 | 203,398 |
| Transferred Prepayment Credits | 0 | (34,991) | 34,991 |
| Contributions | 1,000,000 | 1,000,000 | 0 |
| Earnings | 1,531,615 | 1,481,807 | 49,808 |
| Benefit Payments | (1,068,334) | (1,068,334) | 0 |
| Expenses | (58,742) | (56,832) | (1,910) |
| Transfers | 0 | 0 | 0 |
| Assets January 1, 2004 | 9,268,297 | 8,982,010 | 286,287 |
| Transferred Prepayment Credits | 0 | (38,332) | 38,332 |
| Contributions | 1,900,000 | 1,900,000 | 0 |
| Earnings | 980,929 | 946,041 | 34,888 |
| Benefit Payments | (302,273) | (302,273) | 0 |
| Expenses | (62,005) | (59,800) | (2,205) |
| Transfers | 0 | 0 | 0 |
| Assets January 1, 2005 | 11,784,948 | 11,427,646 | 357,302 |
| Transferred Prepayment Credits | 0 | (54,354) | 54,354 |
| Contributions | 2,900,000 | 2,900,000 | 0 |
| Earnings | 933,889 | 900,066 | 33,823 |
| Benefit Payments | (846,977) | (846,977) | 0 |
| Expenses | (66,466) | (64,059) | (2,407) |
| Transfers | 0 | 0 | 0 |
| Assets January 1, 2006 | \$14,705,394 | \$14,262,322 | \$443,072 |

**MARKET VALUE OF PENSION ASSETS
FOR THE PERIOD
JANUARY 1, 1986, TO JANUARY 1, 2007**

APPENDIX A

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| Description | Total Company | Other Segment | Medicare Segment |
|--------------------------------|------------------------|---------------|------------------|
| Assets January 1, 2006 | \$14,705,394 | \$14,262,322 | \$443,072 |
| Transferred Prepayment Credits | 0 | (57,582) | 57,582 |
| Contributions | 1,000,000 | 1,000,000 | 0 |
| Earnings | 1,823,377 | 1,759,504 | 63,873 |
| Benefit Payments | (847,738) | (847,738) | 0 |
| Expenses | (70,858) | (68,376) | (2,482) |
| Transfers | 0 | 10,290 | (10,290) |
| Assets January 1, 2007 | \$16,610,175 | \$16,058,420 | \$551,755 |
| Per Wyoming | <u>8/</u> \$16,610,175 | \$16,010,465 | \$599,710 |
| Asset Variance | <u>9/</u> \$0 | \$47,955 | (\$47,955) |

FOOTNOTES

- 1/ We accepted Wyoming's initial asset allocation as explained in the Findings and Recommendations section. 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 Form 5500s. 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 investment earnings from actuarial valuation reports and documents prepared by Wyoming's consulting actuarial firm. We allocated investment earnings based on the market value of Medicare assets at the beginning of the plan year after adjustment for transfers. For years starting with 1996, 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 Cost Accounting Standards (CAS).

- 4/ We reviewed and accepted Wyoming's benefit payments to Medicare segment retirees.

- 5/ We allocated administrative expenses to the Medicare segment in proportion to investment earnings.

- 6/ We identified participant transfers between segments by comparing valuation data files provided by Wyoming. Following Wyoming's methodology, our transfer adjustments considered each participant's actuarial liability and, where appropriate, the funding level of the segment from which the participant transferred. For transfers occurring prior to the 1996 plan year, asset transfers reflected the transferred liabilities multiplied by the funding level of the segment from which the participant transferred. We calculated the funding level as the assets divided by the liabilities. If the funding level was greater than one, we transferred assets equal to the participant's liability. For plan years starting with 1996, asset

**MARKET VALUE OF PENSION ASSETS
FOR THE PERIOD
JANUARY 1, 1986, TO JANUARY 1, 2007**

APPENDIX A

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transfers were equal to the actuarial liability determined under the accrued benefit cost method in accordance with CAS. We accepted Wyoming's calculations except as explained in the Components of Asset Update section.

- 7/ 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.

- 8/ We obtained total asset amounts as of January 1, 2007, from documents prepared by Wyoming's actuarial consulting firm.

- 9/ The asset variance represents the difference between our calculation of Medicare segment assets and Wyoming's market value of assets.

**COMPARISON OF AUDITED CONTRIBUTIONS
AND TRANSFERRED PREPAYMENT CREDITS**

APPENDIX B

| Contributions & Transferred Prepayment Credits | | | |
|---|------------------|--------------------|-------------------|
| Year | Per Audit | Per Wyoming | Difference |
| 1986 | \$0 | \$7,652 | (\$7,652) |
| 1987 | 3,396 | 1,940 | 1,456 |
| 1988 | 0 | 0 | 0 |
| 1989 | 0 | 0 | 0 |
| 1990 | 0 | 0 | 0 |
| 1991 | 0 | 0 | 0 |
| 1992 | 0 | 0 | 0 |
| 1993 | 8,140 | 0 | 8,140 |
| 1994 | 4,334 | 0 | 4,334 |
| 1995 | 11,454 | 0 | 11,454 |
| 1996 | 12,203 | 0 | 12,203 |
| 1997 | 6,092 | 0 | 6,092 |
| 1998 | 0 | 0 | 0 |
| 1999 | 0 | 0 | 0 |
| 2000 | 0 | 0 | 0 |
| 2001 | 16,820 | 0 | 16,820 |
| 2002 | 26,581 | 21,106 | 5,475 |
| 2003 | 34,991 | 28,907 | 6,084 |
| 2004 | 38,332 | 32,328 | 6,004 |
| 2005 | 54,354 | 48,354 | 6,000 |
| 2006 | 57,582 | 51,511 | 6,071 |
| Total | \$274,279 | \$191,798 | \$82,481 |

COMPARISON OF AUDITED TRANSFERS

APPENDIX C

| Net Asset Transfers | | | |
|----------------------------|-------------------|--------------------|-------------------|
| Year | Per Audit | Per Wyoming | Difference |
| 1986 | (\$35,947) | (\$35,947) | \$0 |
| 1987 | 0 | 0 | 0 |
| 1988 | 0 | 38,411 | (38,411) |
| 1989 | 0 | 0 | 0 |
| 1990 | 0 | 240 | (240) |
| 1991 | 0 | (101,676) | 101,676 |
| 1992 | 0 | 49,778 | (49,778) |
| 1993 | (840) | (21,355) | 20,515 |
| 1994 | 0 | 101,739 | (101,739) |
| 1995 | 0 | (57,898) | 57,898 |
| 1996 | 0 | (960) | 960 |
| 1997 | 0 | 0 | 0 |
| 1998 | (3,141) | (7,025) | 3,884 |
| 1999 | 0 | 38 | (38) |
| 2000 | 0 | (317) | 317 |
| 2001 | (5,357) | (5,357) | 0 |
| 2002 | 0 | 0 | 0 |
| 2003 | 0 | 0 | 0 |
| 2004 | 0 | 0 | 0 |
| 2005 | 0 | 0 | 0 |
| 2006 | (10,290) | (10,290) | 0 |
| Total | (\$55,575) | (\$50,619) | (\$4,956) |



**BlueCross BlueShield
of Wyoming**

A member of the Blue Cross and Blue Shield
Association, An Association of Independent
Blue Cross and Blue Shield Plans.

June 9, 2008

Patrick J. Cogley
Regional Inspector General for Audit Services
Department of Health & Human Services
601 East 12th Street, Room 284A
Kansas City, MO 64106

Dear Mr. Cogley:

We are in receipt of your report number A-07-08-00262 entitled "Review of the Qualified Pension Plan at Blue Cross Blue Shield of Wyoming, a Terminated Medicare Contractor, for the Period January 1, 1986 to January 1, 2007."

We are in concurrence with the findings in the report and will refund \$70,089 to the Federal Government, which is Medicare's share of the excess pension assets.

Please feel free to contact me at 307-432-2791, or through email at diane.gore@bcbswy.com should you require further information. Thank you for your time.

Sincerely,

A handwritten signature in cursive script that reads "Diane G. Gore".

Diane G. Gore
Chief Financial Officer