



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

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

APR 15 2008

Report Number: A-07-07-00253

Ms. Sandra Miller
President
National Government Services, Inc.
8115 Knue Road
Indianapolis, Indiana 46250

Dear Ms. Miller:

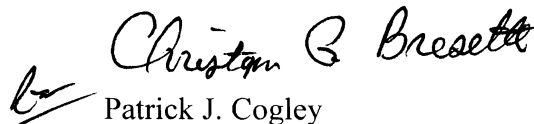
Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of the Qualified Pension Plan at Empire Blue Cross Blue Shield for the Period January 1, 1999, Through December 31, 2006." We will forward a copy of this report to the 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.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, within 10 business days after the final report is issued, it will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, or contact Jenenne Tambke, Audit Manager, at (573) 893-8338, extension 21, or through e-mail at Jenenne.Tambke@oig.hhs.gov. Please refer to report number A-07-07-00253 in all correspondence.

Sincerely,


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
601 East 12th Street, Room 235
Kansas City, Missouri 64106

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF THE QUALIFIED
PENSION PLAN AT EMPIRE
BLUE CROSS BLUE SHIELD FOR
THE PERIOD JANUARY 1, 1999,
THROUGH DECEMBER 31, 2006**



Daniel R. Levinson
Inspector General

April 2008
A-07-07-00253

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, Office of Inspector General reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5).

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

Empire Blue Cross Blue Shield (Empire) administered Medicare Part A and Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until Empire merged with Wellpoint Inc. (Wellpoint) on December 31, 2006. Effective December 31, 2006, Wellpoint merged Empire's cash balance pension plan into the Wellpoint cash balance pension plan.

Pension Plan

Empire sponsored 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 Procurement Regulations, the Federal Acquisition Regulation, and the Cost Accounting Standards (CAS).

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.

We previously reviewed Empire's Medicare pension plan (A-07-98-02534) and recommended that Empire identify \$38,626,351 of Medicare segment assets as of January 1, 1999.

OBJECTIVE

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

- implementing the prior audit recommendation, and
- updating the Medicare segment's assets from January 1, 1999, through December 31, 2006.

SUMMARY OF FINDINGS

Empire properly implemented the prior audit recommendation; however, it did not always comply with Federal requirements and the Medicare contracts' pension segmentation requirements while updating the Medicare segment assets from January 1, 1999, through December 31, 2006. As a result, Empire overstated the Medicare segment assets by \$131,494.

RECOMMENDATION

We recommend that Empire decrease its Medicare segment pension assets as of December 31, 2006, by \$131,494.

AUDITEE'S COMMENTS

In written comments on our draft report, the auditee agreed with our findings. Empire's Medicare contract was novated to National Government Services (NGS) effective January 1, 2007; therefore, NGS responded to the Empire segmentation draft audit report. NGS agreed that the Medicare segment pension assets as of December 31, 2006, should be adjusted to \$35,252,136.

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

OFFICE OF INSPECTOR GENERAL'S RESPONSE

We have made the necessary adjustments to the Medicare segment pension assets. We agree with NGS that the Medicare segment pension assets as of December 31, 2006, are \$35,252,136.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
Pension Plan.....	1
Federal Requirements	1
Pension Segmentation.....	1
OBJECTIVE, SCOPE, AN METHODOLOGY	2
Objective.....	2
Scope.....	2
Methodology.....	2
FINDINGS AND RECOMMENDATION	3
PRIOR AUDIT RECOMMENDATION	4
UPDATE OF MEDICARE SEGMENT ASSETS	4
Federal Requirements	4
Contributions Overstated	4
Benefit Payments Understated.....	5
Net Transfers Overstated	5
Earnings and Expenses Overstated	6
RECOMMENDATION	6
AUDITEE’S COMMENTS	6
OFFICE OF INSPECTOR GENERAL’S RESPONSE	6
 APPENDIXES	
A – MARKET VALUE OF PENSION ASSETS FOR THE PERIOD JANUARY 1, 1999, THROUGH DECEMBER 31, 2006	
B – AUDITEE’S COMMENTS	

Glossary of Abbreviations and Acronyms

CAS	Cost Accounting Standards
CMS	Centers for Medicare & Medicaid Services
Empire	Empire Blue Cross Blue Shield
FAR	Federal Acquisition Regulation
WAV	weighted average value
Wellpoint	Wellpoint, Inc.

INTRODUCTION

BACKGROUND

Empire Blue Cross Blue Shield (Empire) administered Medicare Part A and Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until Empire merged with Wellpoint Inc. (Wellpoint) on December 31, 2006. Effective December 31, 2006, Wellpoint merged Empire's cash balance pension plan into the Wellpoint cash balance pension plan.

Pension Plan

Empire sponsored 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 payment(s) 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. The amount of required annual employer contributions may decrease or increase each year based on the annual determination of gain or loss (when actual results differ from what is expected).

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, the Federal Acquisition Regulation (FAR), and the Cost Accounting Standards (CAS).

Federal Requirements

CAS 412 addresses the determination and measurement of pension cost components. It also addresses the assignment of pension costs to appropriate accounting periods.

CAS 413 addresses the valuation of pension assets, allocation of pension costs to segments of an organization, adjustment of pension costs for actuarial gains and losses, and assignment of gains and losses to cost accounting periods.

Pension Segmentation

CMS incorporated CAS 412 and 413 into the Medicare contracts effective October 1, 1980. 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. The contracts require Medicare segment assets to be updated for each year after the initial allocation in accordance with CAS 412 and 413. In claiming costs, contractors must follow cost reimbursement principles contained in the FAR, CAS, and the Medicare contracts.

We previously reviewed Empire's Medicare pension plan (A-07-98-02534) and recommended that Empire identify \$38,626,351 of Medicare segment assets as of January 1, 1999.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

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

- implementing the prior audit recommendation, and
- updating the Medicare segment's assets from January 1, 1999, through December 31, 2006.

Scope

We reviewed Empire's implementation of the prior audit recommendation, identification of its Medicare segment, and update of Medicare segment's assets from January 1, 1999, through December 31, 2006. Empire merged its pension plan with the Wellpoint cash balance pension plan on December 31, 2006.

Achieving our objectives did not require us to review Empire's overall internal control structure. However, we reviewed controls relating to the implementation of the prior audit recommendation, identification of the Medicare segment, and the update of the Medicare segment's assets.

We performed fieldwork at Empire's office in Syracuse, New York during June 2007.

Methodology

To accomplish our objective:

- We reviewed the applicable portions of the FAR, CAS, and the Medicare contracts.
- We reviewed the information provided by Empire'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 and reviewed the pension plan documents, actuarial valuation reports, and Department of Labor/Internal Revenue Service Form 5500s used in calculating the Medicare segment assets.
- We reviewed the findings and recommendation contained in our prior audit report (A-07-98-02534) of Empire's Medicare pension plan.

- We interviewed Empire staff responsible for identifying the Medicare segment to determine whether the segment was properly identified in accordance with the Medicare contracts.
- We reviewed Empire’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 as of December 31, 2006.
- We reviewed the CMS actuaries’ methodology and calculations.

We performed this review in conjunction with our audit of Empire’s pension costs claimed for Medicare reimbursement (A-07-07-00254) and 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 RECOMMENDATION

Empire properly implemented the prior audit recommendation; however, it did not always comply with Federal requirements and the Medicare contracts’ pension segmentation requirements while updating the Medicare segment assets from January 1, 1999, through December 31, 2006. As a result, Empire overstated the Medicare segment assets by \$131,494.

Appendix A presents details of the Medicare segment’s pension assets from January 1, 1999, through December 31, 2006, as determined during our audit. 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 OIG	Per Empire	Difference
Prior Audit Recommendation	\$38,626,351	\$38,626,351	\$0
Update of Medicare Segment Assets			
Contributions	0	857,517	(857,517)
Benefit payments	(15,251,008)	0	(15,251,008)
Transfers	(12,954,644)	(29,170,837)	16,216,193
Earnings, net expenses	24,831,437	25,070,599	(239,162)
Overstatement of Medicare segment assets			(\$131,494)

PRIOR AUDIT RECOMMENDATION

Empire properly implemented the recommendation from the prior segmentation report (A-07-98-02534), which recommended that Empire identify \$38,626,351 of Medicare segment pension assets as of January 1, 1999.

UPDATE OF MEDICARE SEGMENT ASSETS

Federal Requirements

The Medicare contract states that “. . . the pension assets allocated to each Medicare Segment shall be adjusted in accordance with CAS 413.50(c)(7).” The CAS 413.50(c)(7) requires that the asset base be adjusted by contributions, unfunded accruals, income, benefit payments, and expenses. For plan years beginning after March 31, 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 amount of assets transferred equal the actuarial accrued liabilities as determined using the accrued benefit cost method.

Contributions Overstated

Empire overstated contributions for the Medicare segment by \$857,517. Empire’s update methodology did not equitably assign pension contributions to the Medicare segment primarily due to the increase in the Medicare segment assets as a result of the prior audit. The increase in the Medicare segment assets reduced the assignable pension costs to zero for each year within our audit period. Since contributions are based upon the assignable pension costs, the contributions assigned to the Medicare segment were zero for all years. As a result of this error, Empire overstated contributions for the Medicare segment by \$857,517.

The audited contributions are based on the assignable pension costs as calculated by the CMS Office of the Actuary. For presentation purposes Table 2 only includes the years when there was a variance between Empire’s and our calculations of allocated pension contributions.

Year	Per OIG	Per Empire	Difference
2005	\$0	\$733,032	(\$733,032)
2006	0	124,485	(124,485)
Total	\$0	\$857,517	(\$857,517)

Benefit Payments Understated

Empire understated benefit payments by \$15,251,008 because it did not identify the Medicare segment benefit payments. Benefit payments made during the year to Medicare segment participants should have been treated as benefit payments rather than as asset transfers out of the Medicare segment, as required by CAS 413.50(c)(7). Table 3 presents a comparison of Empire's and our calculations of audited benefit payments.

Year	Per OIG	Per Empire	Difference
1999	\$1,587,788	\$0	\$1,587,788
2000	959,983	0	959,983
2001	1,225,838	0	1,225,838
2002	922,766	0	922,766
2003	1,852,408	0	1,852,408
2004	1,453,100	0	1,453,100
2005	2,569,453	0	2,569,453
2006	4,679,672	0	4,679,672
Total	\$15,251,008	\$0	\$15,251,008

Net Transfers Overstated

Empire overstated transfers out of the Medicare segment by \$16,216,193. Empire made adjustments for transfers in its update of segment assets; however, it incorrectly transferred out the accrued liabilities of employees instead of identifying these liabilities as benefit payments. In addition, Empire incorrectly transferred out the terminated non-vested employees, who should have been left in the Medicare segment and properly recognized as gains to the Medicare segment. As a result of these errors, Empire understated its Medicare segment assets by \$16,216,193. Table 4 presents a comparison of Empire's and our calculations of net asset transfers from the Medicare segment.

Year	Per OIG	Per Empire	Difference
1999	\$660,568	(\$1,356,993)	\$2,017,561
2000	(749,572)	(1,863,599)	1,114,027
2001	(741,136)	(2,373,542)	1,632,406
2002	(439,462)	(833,613)	394,151
2003	(700,643)	(2,737,093)	2,036,450
2004	(2,240,335)	(4,422,101)	2,181,766
2005	(1,522,958)	(4,039,029)	2,516,071
2006	(7,221,106)	(11,544,867)	4,323,761
Total	(\$12,954,644)	(\$29,170,837)	\$16,216,193

Earnings and Expenses Overstated

Empire overstated investment earnings, less administrative expenses, by \$239,162 for the Medicare segment because it used incorrect contribution, benefit payment, and transfer adjustment amounts (all discussed above) to develop the Medicare asset base. In our audited update, we reallocated earnings and expenses, based on the applicable CAS requirements, and determined that Empire overstated investment earnings (less administrative expenses) by \$239,162.

RECOMMENDATION

We recommend that Empire decrease its Medicare segment pension assets as of December 31, 2006, by \$131,494.

AUDITEE'S COMMENTS

In written comments on our draft report, the auditee agreed with our findings. Empire's Medicare contract was novated to National Government Services (NGS) effective January 1, 2007; therefore, NGS responded to the Empire segmentation draft audit report. NGS cited "further discussions with members of the [Office of Inspector General] audit team," undertaken after publication of our draft report, that led to a mutual agreement to adjust some of the dollar amounts conveyed in our draft report. NGS agreed that the Medicare segment pension assets as of December 31, 2006, should be adjusted to \$35,252,136.

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

OFFICE OF INSPECTOR GENERAL'S RESPONSE

We have made the necessary adjustments to the Medicare segment pension assets. Those changes are properly reflected in this report. We agree with NGS that the Medicare segment pension assets as of December 31, 2006, are \$35,252,136.

APPENDIXES

**MARKET VALUE OF PENSION ASSETS
FOR THE PERIOD
JANUARY 1, 1999, THROUGH DECEMBER 31, 2006**

APPENDIX A

Page 1 of 3

Description	Total Company	Other Segment	Medicare
Assets January 1, 1999	<u>1/</u> \$432,734,909	\$394,108,558	\$38,626,351
Contributions	<u>2/</u> 0	0	0
Earnings	<u>3/</u> 2,026,316	1,842,785	183,531
Benefit payments	<u>4/</u> (30,074,860)	(28,487,072)	(1,587,788)
Expenses	<u>5/</u> (1,023,264)	(930,583)	(92,681)
Transfers	<u>6/</u> 0	(660,568)	660,568
Assets January 1, 2000	403,663,101	365,873,120	37,789,981
Contribution	0	0	0
Earnings	36,596,398	33,117,476	3,478,922
Benefit payments	(22,363,975)	(21,403,992)	(959,983)
Expenses	(543,903)	(492,199)	(51,704)
Transfers	0	749,572	(749,572)
Assets January 1, 2001	417,351,621	377,843,977	39,507,644
Contribution	0	0	0
Earnings	70,634,649	63,892,442	6,742,207
Benefit payments	(19,743,075)	(18,517,237)	(1,225,838)
Expenses	(720,449)	(651,681)	(68,768)
Transfers	0	741,136	(741,136)
Assets January 1, 2002	467,522,746	423,308,637	44,214,109
Contributions	0	0	0
Earnings	27,641,771	24,929,370	2,712,401
Benefit payments	(43,287,370)	(42,364,604)	(922,766)
Expenses	(900,001)	(811,687)	(88,314)
Transfers	0	439,462	(439,462)
Assets January 1, 2003	\$450,977,146	\$405,501,178	\$45,475,968

**MARKET VALUE OF PENSION ASSETS
FOR THE PERIOD
JANUARY 1, 1999, THROUGH DECEMBER 31, 2006**

APPENDIX A

Page 2 of 3

Description	Total Company	Other Segment	Medicare
Assets January 1, 2003	\$450,977,146	\$405,501,178	\$45,475,968
Contribution	0	0	0
Earnings	33,916,011	30,416,180	3,499,831
Benefit payments	(38,512,553)	(36,660,145)	(1,852,408)
Expenses	(870,138)	(780,347)	(89,791)
Transfers	0	700,643	(700,643)
Assets January 1, 2004	445,510,466	399,177,509	46,332,957
Contribution	0	0	0
Earnings	20,596,497	18,423,100	2,173,397
Benefit payments	(26,630,200)	(25,177,100)	(1,453,100)
Expenses	(1,166,855)	(1,043,725)	(123,130)
Transfers	0	2,240,335	(2,240,335)
Assets January 1, 2005	438,309,908	393,620,119	44,689,789
Contributions	733,032	733,032	0
Earnings	17,202,866	15,455,523	1,747,343
Benefit payments	(21,960,391)	(19,390,938)	(2,569,453)
Expenses	(969,916)	(871,399)	(98,517)
Transfers	0	1,522,958	(1,522,958)
Assets January 1, 2006	433,315,499	391,069,295	42,246,204
Contribution	2,500,000	2,500,000	0
Earnings	51,034,247	46,109,091	4,925,156
Benefit payments	(40,865,015)	(36,185,343)	(4,679,672)
Expenses	(191,137)	(172,691)	(18,446)
Transfers	0	7,221,106	(7,221,106)
Assets December 31, 2006	\$445,793,594	\$410,541,458	\$35,252,136
Per Empire	<u>7/</u> \$445,793,594	\$410,409,964	\$35,383,630
Asset Variance	<u>8/</u> \$0	\$131,494	(\$131,494)

**MARKET VALUE OF PENSION ASSETS
FOR THE PERIOD
JANUARY 1, 1999, THROUGH DECEMBER 31, 2006**

APPENDIX A

Page 3 of 3

FOOTNOTES

- 1/ We determined the Medicare segment assets as of January 1, 1999, based upon our prior segmentation audit of Empire (A-07-98-02534). 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. 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 calculated the Medicare segment's benefit payments based on actual payments to Medicare retirees. We obtained information on the benefit payments from documents prepared by Empire. We used actual benefit payments for 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 Empire. Asset transfers were equal to the actuarial liability determined under the accrued benefit cost method in accordance with the CAS.
- 7/ We obtained total asset amounts as of December 31, 2006, from documents prepared by Empire's actuarial consulting firm.
- 8/ The asset variance represents the difference between our calculation of Medicare segment assets and Empire's market value of assets.



National Government Services, Inc.
9901 Inn Station Road
Louisville, Kentucky 40223
A CMS Contracted Agent

GLENN RHODES
Chief Financial Officer
OFFICE: 502-423-2178
FAX: 502-339-5182
CELL: 502-645-2584
glenn.rhodes@anthem.com

March 26, 2008

Mr. Partick J Cogley
Regional Inspector General for Audit Services
DHHS-OIG Office of Audit Services Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

Reference: **Report Number A-07-07-00253**

Dear Mr. Cogley:

We are in receipt of the draft audit report from the Inspector General entitled "Review of the Qualified Pension Plan at Empire Blue Cross Blue Shield for the Period January 1, 1999, Through December 31, 2006." The Empire Medicare contract was novated to National Government Services (NGS) effective January 1, 2007 thus NGS is responding to this draft report.

We have reviewed the above mentioned report and, after further discussions with members of the OIG audit team, we have agreed that the Medicare segment pension assets as of December 31, 2006 should be adjusted to \$35,252,136, an increase of \$94,780 from the value currently reflected in this report. Other than the changes throughout the report as a result of this adjustment, we concur with the finding and recommendation. We will reduce the Empire Medicare segment pension assets as of December 31, 2006 by \$131,494.

We appreciate the OIG's willingness to work with us to clarify the correct Empire segment pension asset balance as of December 31, 2006 and the opportunity to include the updated information in our response.

Sincerely,

A handwritten signature in cursive script, appearing to read "Glenn Rhodes".

Glenn Rhodes
Chief Financial Officer

cc: Sandra Miller
Jeff Hannah
Joanne Imel – WellPoint
Wendy Perkins
Ron Bryant - CMS