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

MAY 06 2008

Report Number: A-07-07-00242

Mr. Mark Stimpson
Vice President Medicare Northwest
2890 East Cottonwood Parkway
P.O. Box 30270
Salt Lake City, Utah 84130

Dear Mr. Stimpson:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Pension Segmentation Requirements at The Regence Group, a Terminated Medicare Contractor, for the Period of January 1, 1997, to January 1, 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.

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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-07-07-00242 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 PENSION SEGMENTATION REQUIREMENTS AT THE REGENCE GROUP, A TERMINATED MEDICARE CONTRACTOR, FOR THE PERIOD OF JANUARY 1, 1997, TO JANUARY 1, 2006

Daniel R. Levinson
Inspector General

May 2008
A-07-07-00242

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

The Regence Group (Regence) administered both Medicare Part A and Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated November 30, 2005. The effective closing date for the Medicare segments was January 1, 2006. Regence also served as the Common Working File Host for the Great Western Sector and Pacific Sector under separate cost reimbursable contracts until the contracts were terminated on September 30, 2004.

Regence was formed on January 1, 1997, with the merger of Blue Cross Blue Shield of Oregon, King County Medical Blue Shield, Pierce County Medical Bureau, and Medical Service Bureau of Idaho. Each of these four entities had previously maintained a separate qualified defined benefit pension plan. Effective January 1, 1997, Regence merged these four plans to form The Regence Group Retirement Plan. Then, on January 1, 1998, Blue Cross Blue Shield of Utah merged with Regence and merged its noncontributory retirement program into the Regence pension plan. This merger effectively created two Medicare segments: the Oregon Medicare segment and the Utah Medicare segment. This report addresses our review of segmentation requirements for both segments.

Starting with fiscal year 1988, CMS incorporated segmentation requirements into Medicare contracts. The Medicare contract defines a segment and specifies the methodology for the identification and initial allocation of pension assets to the segment. Furthermore, the contract requires Medicare segment assets to be updated for each year after the initial allocation in accordance with Cost Accounting Standards (CAS) 412 and 413. Additionally, in situations such as contract terminations, the Medicare contract requires contractors to make segment closing adjustments in order to recognize Medicare's share of the excess Medicare pension assets and/or liabilities in accordance with CAS 413.

OBJECTIVE

Our objective was to determine whether Regence complied with the Medicare contract's pension segmentation requirements while:

- updating the Medicare segments' assets from January 1, 1997, to January 1, 2006, and
- determining Medicare's share of excess liabilities as a result of the termination of the Medicare contracts.

SUMMARY OF FINDINGS

Regence did not comply with the Medicare contract's pension segmentation requirements while updating the Medicare segments' assets from January 1, 1997, to January 1, 2006. As a result, Regence overstated the Oregon Medicare segment assets by $1,746,136 and understated the Utah Medicare segment assets by $27,533.

In addition, the CAS requires a segment closing adjustment to be made in order to recognize Medicare's share of the excess liabilities as a result of the termination of its Medicare contracts. Regence did not calculate Medicare's share of the excess pension liabilities; however, we calculated Medicare's share of the excess pension liabilities to be $1,737,943 ($1,015,961 attributable to the Oregon Medicare segment and $721,982 attributable to the Utah Medicare segment). Accordingly, we determined that Regence understated Medicare's share of the excess pension liabilities by $1,737,943 due to the Medicare contracts termination.

RECOMMENDATIONS

We recommend that Regence:

- decrease the Oregon Medicare segment pension assets by $1,749,136, and increase the Utah Medicare segment pension assets by $27,533, as of January 1, 2006, and

- recognize $1,737,943 ($1,015,961 attributable to the Oregon Medicare segment and $721,982 attributable to the Utah Medicare segment) as Medicare's share of the excess pension liabilities due to the segment closing calculation.

AUDITEE COMMENTS

In written comments on our draft report, Regence concurred with our audit results but took exception to the value of the participant liabilities used in the calculation of the segment closing. Regence also indicated that the Oregon Medicare Data Center was not included in the segment closing and stated that it will submit a separate claim to CMS for those costs.

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

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing Regence's written comments, we continue to support our findings and recommendations. During the audit we used the final liabilities provided by Regence. In addition, Regence's written comments did not provide any additional documentation to support its claim for higher final accrued liabilities. Thus, our position has not changed and we recommend that Regence recognize $1,737,943 as Medicare's share of the excess pension liabilities due to the segment closing calculation.

The Oregon Medicare Data Center did not terminate until after the Medicare segment closing; therefore, its contract termination was outside the scope of this audit report.

TABLE OF CONTENTS

Page

APPENDIXES

Glossary of Abbreviations and Acronyms

CAS	Cost Accounting Standards
CMS	Centers for Medicare & Medicaid Services
FAR	Federal Acquisition Regulation
OIG	Office of Inspector General
Regence	The Regence Group
WAV	weighted average value

INTRODUCTION

BACKGROUND

The Regence Group

The Regence Group (Regence) administered both Medicare Part A and Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated November 30, 2005. The effective closing date for the Medicare segments was January 1, 2006. Regence also served as the Common Working File Host for the Great Western Sector and Pacific Sector under separate cost reimbursable contracts until the contracts were terminated on September 30, 2004.

Regence was formed on January 1, 1997, with the merger of Blue Cross Blue Shield of Oregon, King County Medical Blue Shield, Pierce County Medical Bureau, and Medical Service Bureau of Idaho. Each of these four entities had previously maintained a separate qualified defined benefit pension plan. Effective January 1, 1997, Regence merged these four plans to form The Regence Group Retirement Plan. Then, on January 1, 1998, Blue Cross Blue Shield of Utah merged with Regence and merged its noncontributory retirement program into the Regence pension plan. This merger effectively created two Medicare segments: the Oregon Medicare segment and the Utah Medicare segment. This report addresses our review of segmentation requirements for both segments.

Segmentation Requirements

CMS incorporated segmentation requirements into Medicare contracts starting in fiscal year 1988. The Medicare contract defines a segment and specifies the methodology for the identification and initial allocation of pension assets to the segment. Furthermore, the contract requires Medicare segment assets to be updated for each year after the initial allocation in accordance with Cost Accounting Standards (CAS) 412 and 413. Additionally, in situations such as contract terminations, the Medicare contract requires contractors to make segment closing adjustments in order to recognize Medicare's share of the excess Medicare assets and/or liabilities in accordance with CAS 413. In claiming costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation (FAR), CAS, and Medicare contract.

Federal Requirements

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

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

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether Regence complied with the Medicare contract's pension segmentation requirements while:

- updating the Medicare segments' assets from January 1, 1997, to January 1, 2006, and

- determining Medicare's share of excess liabilities as a result of the termination of the Medicare contracts.

Scope

We reviewed Regence's identification of its Medicare segments and update of Medicare segments assets from January 1, 1997, to January 1, 2006. Regence's Medicare contracts were terminated on November 30, 2005. We agreed with Regence to use January 1, 2006, as the appropriate settlement date for the contract termination adjustment.

Achieving our objectives did not require us to review Regence's overall internal control structure. However, we did review controls relating to the identification of the Medicare segments, the update of the segments' assets, and the determination of the final segment liabilities to ensure adherence to the Medicare contract, CAS 412, and CAS 413.

We performed fieldwork at Regence's offices in Portland, Oregon, and Salt Lake City, Utah.

Methodology

We reviewed the applicable portions of the Medicare contract, FAR, and CAS to determine the Federal requirements for pension plans.

In addition, we used the prior segmentation audits performed at Blue Cross Blue Shield of Oregon (A-07-06-00197) and Blue Cross Blue Shield of Utah (A-07-05-00190) to determine the beginning value of assets.

In performing this review, we also used information provided by Regence's actuarial consulting firm. The information included assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We reviewed Regence's accounting records to verify segment identification and benefit payments. We also reviewed the pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Form 5500s. The CMS Office of the Actuary staff used the documents to calculate the Medicare segments assets as of January 1, 2006. We reviewed the CMS actuaries' methodology and calculations.

We performed this review in conjunction with our audit of Regence's pension costs claimed for Medicare reimbursement (A-07-08-00257) 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 RECOMMENDATIONS

Regence did not comply with the Medicare contract's pension segmentation requirements while updating the Medicare segments' assets from January 1, 1997, to January 1, 2006. As a result, Regence overstated the Oregon Medicare segment assets by $1,746,136 and understated the Utah Medicare segment assets by $27,533.

Appendix A presents details of the Medicare segments' updated pension assets from January 1, 1997, to January 1, 2006. Table 1 summarizes the audit adjustments required to update Medicare segments pension assets in accordance with Federal requirements.

Table 1: Summary of Asset Adjustments

	Oregon	**Utah**
Beginning Value of Medicare Segment Assets	($298,048)	$0
Contributions & Prepayment Credits	(1,818,608)	(213,834)
Benefit Payments	(1,728,327)	(93,692)
Transfers	2,694,819	(1,369,384)
Earnings and Expenses	(595,972)	1,699,882
Other Transactions	0	4,561
(Over)/Understatement	**($1,746,136)**	**$27,533**

In addition, the CAS requires a segment closing adjustment to be made in order to recognize Medicare's share of the excess liabilities as a result of the termination of its Medicare contracts. Regence did not calculate Medicare's share of the excess pension liabilities. We calculated Medicare's share of the excess pension liabilities to be $1,737,943 ($1,015,961 attributable to the Oregon Medicare segment and $721,982 attributable to the Utah Medicare segment). Accordingly, we determined that Regence understated Medicare's share of the excess pension liabilities by $1,737,943 due to the Medicare contracts termination.

UPDATE OF MEDICARE SEGMENT ASSETS

Cost Accounting Standards

The Medicare contract states 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 after March 31, 1995, CAS 413 also 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 contractors to make an adjustment 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, CAS 413 requires that the amount of assets transferred equal the actuarial accrued liabilities as determined using the accrued benefit cost method.

Furthermore, CAS 412.50(a)(4) requires contractors to recognize contributions in excess of the pension cost assigned to the period as prepayment credits, to be accumulated at the assumed valuation interest rate until applied to future period costs. Prepayment credits that have not been applied to fund prior period pension costs are excluded from the value of assets used to compute current period pension costs.

Beginning Value of the Medicare Segment Assets (Oregon)

Regence identified the Oregon Medicare segment assets as of January 1, 1997, to be $2,357,897; however, during our prior audit of Blue Cross Blue Shield of Oregon[1] we determined the Medicare segment assets to be $2,059,849 as of January 1, 1997. Accordingly, we determined that Regence overstated beginning value of the Oregon Medicare segment assets by $298,048.

Contributions and Prepayment Credits Overstated (Oregon)

Regence's update methodology did not equitably assign pension contributions to the Oregon Medicare segment. This error primarily occurred in the Oregon Medicare segment because Regence assigned contributions to the Medicare segment that were greater than the assignable pension costs, thereby creating a prepayment credit in the Medicare segment. However, CAS 412 requires that the prepayment credits be separately identified and not allocated until needed to cover future pension costs. As a result of this error in its update methodology, Regence overstated contribution and prepayment credits for the Oregon Medicare segment by $1,818,608.

[1]As mentioned earlier, we previously reviewed the Medicare segment assets for the Oregon Medicare segment during the audit of Blue Cross Blue Shield of Oregon's update of segment assets from January 1, 1994, to January 1, 1997 (A-07-06-00197).

The audited contributions and prepayment credits are based on the assignable pension costs as calculated by the CMS Office of the Actuary. Table 2 presents a comparison of Regence's and our calculations of allocated pension contributions and prepayment credits.

Table 2: Comparison of Audited Contributions and Prepayment Credits			
Oregon Medicare Segment			
Year	**Per OIG**	**Per Regence**	**Difference**
1997	$187,377	$156,127	$31,250
1998	88,910	69,578	19,332
1999	129,916	227,551	(97,635)
2000	18,690	519,514	(500,824)
2001	240,814	592,185	(351,371)
2002	281,101	1,113,528	(832,427)
2003	435,643	398,117	37,526
2004	459,428	714,006	(254,578)
2005	456,787	326,668	130,119
Total	**$2,298,666**	**$4,117,274**	**($1,818,608)**

Contributions and Prepayment Credits Overstated (Utah)

Regence overstated contributions and prepayment credits in the Utah Medicare segment primarily because it did not correctly calculate the assignable pension costs upon which the contributions and prepayment credits are based. Regence did not identify any prepayment credits during the audit period; however, in the audited update, prepayment credits were available for use in every year during the audit. In fact, for plan years 2002 through 2005, prepayment credits covered the entire assignable pension costs. The recognition of prepayment credits in the audited results reduced the allowable interest, resulting in lower assignable pension costs and a lower allocation of contributions and prepayment credits to the Medicare segment. Therefore, Regence overstated the contributions and prepayment credits for the Utah Medicare segment by $213,834.

Benefit Payments Understated (Oregon)

Regence understated benefit payments made from the Oregon Medicare segment by $1,728,327 primarily because it did not identify benefit payments made to Medicare segment participants for plan years 1997 through 2003. This understatement of benefit payments results in an overstatement of the Medicare segment assets. Table 3 presents a comparison of Regence's and our calculations of audited benefit payments.

Table 3: Comparison of Audited Benefit Payments			
Oregon Medicare Segment			
Year	**Per OIG**	**Per Regence**	**Difference**
1997	$0	$0	$0
1998	73,820	0	73,820
1999	24,684	0	24,684
2000	64,164	0	64,164
2001	97,375	0	97,375
2002	0	0	0
2003	1,507,108	0	1,507,108
2004	45,741	45,641	100
2005	152,826	191,750	(38,924)
Total	**$1,965,718**	**$237,391**	**$1,728,327**

Benefit Payments Understated (Utah)

Regence understated benefit payments made from the Utah Medicare segment by $93,692 because it incorrectly identified the Medicare segment participant benefit payments. This understatement of benefit payments results in an overstatement of the Medicare segment assets.

Net Transfers Overstated (Oregon)

Regence overstated transfers out of the Oregon Medicare segment by $2,694,819. It made adjustments for transfers in its update of segment assets; however, it incorrectly identified the participants who transferred in and out of the segment. As a result, Regence understated its Oregon Medicare segment assets by $2,694,819.

Table 4 presents a comparison of Regence's and our calculations of net asset transfers from the Oregon Medicare segment.

Table 4: Comparison of Audited Transfers from the			
Oregon Medicare Segment			
Year	**Per OIG**	**Per Regence**	**Difference**
1997	($236,188)	$82,779	$318,967
1998	(230,189)	(102,141)	128,048
1999	3,462	(1,051,236)	(1,054,698)
2000	21,910	114,081	92,171
2001	(87,029)	(205,847)	(118,818)
2002	(41,582)	(75,437)	(33,855)
2003	(964,513)	(1,961,174)	(996,661)
2004	87,092	(634,913)	(722,005)
2005	(115,509)	(423,477)	(307,968)
Total	**($1,562,546)**	**($4,257,365)**	**($2,694,819)**

Net Transfers Understated (Utah)

Regence understated transfers out of the Utah Medicare segment by $1,369,384 primarily because it did not make adjustments for transfers in its update of segment assets for plan years 1998 through 2004. As a result, Regence overstated its Utah Medicare segment assets by $1,369,384.

Table 5 presents a comparison of Regence's and our calculations of net asset transfers from the Utah Medicare segment.

Table 5: Comparison of Audited Transfers from the Utah Medicare Segment			
Year	**Per OIG**	**Per Regence**	**Difference**
1998	($324,986)	$0	$324,986
1999	(180,229)	0	180,229
2000	(37,987)	0	37,987
2001	(13,579)	0	13,579
2002	(44,091)	0	44,091
2003	(855,186)	0	855,186
2004	(118,694)	0	118,694
2005	204,535	(833)	(205,368)
Total	**($1,370,217)**	**($833)**	**$1,369,384**

Other Transaction (Utah)

Regence understated the other transactions attributable to the Medicare segment by $4,561. Regence did not allocate to the Utah Medicare segment its portion of the asset adjustment in 1998 for the plan transfer and the non-employer contribution in 1999. As required by the CAS, we allocated the other transactions to the Medicare segment based upon the ratio of the beginning market value of assets.

Earnings and Expenses Overstated (Oregon)

Regence overstated investment earnings, less administrative expenses, for the Oregon Medicare segment by $595,972 because it used an incorrect beginning value of assets, as well as incorrect contribution, prepayment credit, benefit payment, and transfer adjustment amounts (all discussed above) to develop the Medicare asset base. In addition, Regence incorrectly used the ratio of beginning-of-year asset values, instead of the WAV of assets, to allocate investment earnings and expenses. For our calculations, we allocated earnings and expenses based upon ratio of the segment's WAV of assets to total company WAV of assets, as required by the CAS.

Earnings and Expenses Understated (Utah)

Regence understated investment earnings, less administrative expenses, for the Utah Medicare segment by $1,699,882 because it used incorrect contribution, prepayment credit, benefit payment, transfer adjustment, and other transaction amounts (all discussed above) to develop the Medicare asset base. In addition, Regence incorrectly used the ratio of beginning-of-year asset values, instead of the WAV of assets, to allocate investment earnings and expenses. For our calculations, we allocated earnings and expenses based upon ratio of the segment's WAV of assets to total company WAV of assets, as required by the CAS.

EXCESS PENSION LIABILITIES

Cost Accounting Standards

CAS 9904.413-50(c)(12), which addresses contract terminations and segment closings, 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.
>
> (iv) Pension plan improvements adopted within 60 months of the date of the event which increase the actuarial accrued liability shall be recognized on a prorata basis using the number of months the date of adoption preceded the event date. Plan improvements mandated by law or collective bargaining agreement are not subject to this phase-in.

CAS 413.50(c)(12)(vi) addresses the methodology for determining the Federal Government's share of the excess pension liabilities, and 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 Segments Pension Liabilities as of January 1, 2006

Regence did not provide a calculation of the excess pension liabilities as of January 1, 2006; however, in order to determine Medicare's share of the excess liabilities we calculated the excess pension liabilities (see Appendix B). We calculated the Oregon Medicare segment excess liabilities to be $1,076,800 and the Utah Medicare segment excess liabilities to be $732,308 as of January 1, 2006. As a result, Regence understated the excess Medicare segment pension liabilities by $1,076,800 for the Oregon Medicare segment and $732,308 for the Utah Medicare segment. The understatement occurred because Regence did not provide its final calculation of the excess Medicare segments pension liabilities.

Medicare's Share of Excess Medicare Segments Pension Liabilities

Regence did not comply with the Medicare contract in determining Medicare's share of the excess pension liabilities as of January 1, 2006. Regence did not calculate Medicare's share of the excess pension liabilities; however, we calculated that Medicare's share of the excess pension liabilities was $1,737,943 ($1,015,961 attributable to the Oregon Medicare segment and $721,982 attributable to the Utah Medicare segment). As a result, Regence understated Medicare's share of the excess pension liabilities by $1,737,943.

We calculated both the Oregon Medicare segment's and Utah Medicare segment's aggregate Medicare percentage (see Appendix C) and applied it to the Medicare segment's excess liabilities to determine the correct amount of Medicare's share of the excess liabilities. Table 6 presents the calculation of Medicare's share of the excess liabilities.

Table 6: Calculation of Medicare's Share of the Medicare Segments Excess Liabilities			
Medicare Segment	Excess Liabilities as of January 1, 2006 (A)	Aggregate Medicare Percentage (B)	Excess Liabilities Attributable to Medicare (AxB)
Oregon	($1,076,800)	94.35%	($1,015,961)
Utah	($732,308)	98.59%	($721,982)
Per OIG Due to Regence			($1,737,943)
Amount Reimbursed to Regence			$0
Difference			**($1,737,943)**

RECOMMENDATIONS

We recommend that Regence:

- decrease the Oregon Medicare segment pension assets by $1,749,136, and increase the Utah Medicare segment pension assets by $27,533, as of January 1, 2006, and

- recognize $1,737,943 ($1,015,961 attributable to the Oregon Medicare segment and $721,982 attributable to the Utah Medicare segment) as Medicare's share of the excess pension liabilities due to the segment closing calculation.

AUDITEE COMMENTS

In written comments on our draft report, Regence concurred with our audit results but took exception to our calculation of the final liabilities. Regence stated that

> . . . an approximate measure was used to establish the valuation of the termination liability. Subsequently, a significantly larger than anticipated number of participants who terminated at the contract close date chose to receive lump sums. Since the plan's actual liability for these participants can now be quantified, we reserve the right to address the actual contract benefit liability with CMS as part of the final settlement.

Regence also indicated that the Oregon Medicare Data Center was not included in the segment closing and stated that it will submit a separate claim to CMS for those costs.

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

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing Regence's written comments, we continue to support our findings and recommendations. During the audit we used the final liabilities provided by Regence. In addition, Regence's written comments did not provide any additional documentation in its response to support its claim for higher final accrued liabilities. Thus, our position has not changed and we recommend that Regence recognize $1,737,943 as Medicare's share of the excess pension liabilities due to the segment closing calculation.

The Oregon Medicare Data Center did not terminate until after the Medicare segment closing; therefore, its contract termination was outside the scope of this audit report.

APPENDIXES

The Regence Group
Statement of Market Value of Pension Assets
For the Period
January 1, 1997, to January 1, 2006

Description		Total Company	Other Segment	Oregon	Utah
Assets January 1, 1997	1/	$108,852,263	106,792,414	$2,059,849	
Prepayment Transfer	2/	0	(105,698)	105,698	
Contributions	3/	5,729,488	5,647,809	81,679	
Earnings	4/	18,556,068	18,172,776	383,292	
Benefit Payments	5/	(8,990,951)	(8,990,951)	0	
Expenses	6/	(437,697)	(428,656)	(9,041)	
Transfers	7/	0	236,188	(236,188)	
Merger of Utah Assets	8/	19,270,224	17,230,050	0	2,040,174
Assets January 1, 1998		142,979,395	138,553,932	2,385,289	2,040,174
Prepayment Transfer		0	(109,451)	38,519	70,932
Contributions		3,531,602	3,388,417	50,391	92,794
Earnings		15,060,705	14,574,126	258,349	228,230
Other Income	9/	234,223	230,765	0	3,458
Benefit Payments		(8,176,247)	(8,087,113)	(73,820)	(15,314)
Expenses		(756,302)	(731,868)	(12,973)	(11,461)
Transfers		0	555,175	(230,189)	(324,986)
Assets January 1, 1999		152,873,376	148,373,983	2,415,566	2,083,827
Prepayment Transfer		0	(1,348)	935	413
Contributions		10,000,000	9,814,055	128,981	56,964
Other Transaction	10/	80,917	79,814	0	1,103
Earnings		19,911,641	19,308,527	325,843	277,271
Benefit Payments		(12,149,053)	(12,046,934)	(24,684)	(77,435)
Expenses		(857,429)	(831,458)	(14,031)	(11,940)
Transfers		0	176,767	3,462	(180,229)
Assets January 1, 2000		169,859,452	164,873,406	2,836,072	2,149,974

The Regence Group
Statement of Market Value of Pension Assets
For the Period
January 1, 1997, to January 1, 2006

Description	Total Company	Other Segment	Oregon	Utah
Assets January 1, 2000	169,859,452	164,873,406	2,836,072	2,149,974
Prepayment Transfer	0	(65,399)	8,326	57,073
Contributions	14,000,000	13,918,588	10,364	71,048
Earnings	6,444,083	6,248,374	109,689	86,020
Benefit Payments	(13,554,922)	(13,467,513)	(64,164)	(23,245)
Expenses	(1,035,701)	(1,004,247)	(17,629)	(13,825)
Transfers	0	16,077	21,910	(37,987)
Assets January 1, 2001	175,712,912	170,519,286	2,904,568	2,289,058
Prepayment Transfer	0	(212,948)	115,683	97,265
Contributions	31,430,868	31,200,530	125,131	105,207
Other Transaction		0	0	
Earnings	(2,222,759)	(2,155,653)	(37,948)	(29,158)
Benefit Payments	(12,896,694)	(12,589,556)	(97,375)	(209,763)
Expenses	(1,323,966)	(1,283,995)	(22,603)	(17,368)
Transfers	0	100,608	(87,029)	(13,579)
Assets January 1, 2002	190,700,361	185,578,272	2,900,427	2,221,662
Prepayment Transfer	0	(517,850)	281,101	236,749
Contributions	41,824,000	41,824,000	0	0
Earnings	(14,207,995)	(13,798,180)	(235,688)	(174,127)
Benefit Payments	(11,133,430)	(10,917,654)	0	(215,776)
Expenses	(1,207,459)	(1,172,631)	(20,030)	(14,798)
Transfers	0	85,673	(41,582)	(44,091)
Assets January 1, 2003	205,975,477	201,081,630	2,884,228	2,009,619

The Regence Group
Statement of Market Value of Pension Assets
For the Period
January 1, 1997, to January 1, 2006

Description		Total Company	Other Segment	Oregon	Utah
Assets January 1, 2003		205,975,477	201,081,630	2,884,228	2,009,619
Prepayment Transfer		0	(799,231)	435,643	363,588
Contributions		35,945,000	35,945,000	0	0
Earnings		47,285,242	46,140,819	612,671	531,752
Benefit Payments		(19,270,635)	(17,471,854)	(1,507,108)	(291,673)
Expenses		(1,357,982)	(1,325,116)	(17,595)	(15,271)
Transfers		0	1,819,699	(964,513)	(855,186)
Assets January 1, 2004		268,577,102	265,390,947	1,443,326	1,742,829
Prepayment Transfer		0	(768,701)	459,428	309,273
Contributions		63,000,000	63,000,000	0	0
Earnings		29,611,535	29,159,373	218,993	233,169
Benefit Payments		(40,299,781)	(40,152,978)	(45,741)	(101,062)
Expenses		(2,284,083)	(2,249,206)	(16,892)	(17,985)
Transfers		0	31,602	87,092	(118,694)
Assets January 1, 2005		318,604,773	314,411,037	2,146,206	2,047,530
Prepayment Transfer		0	(759,110)	456,787	302,323
Contributions		25,000,000	25,000,000	0	0
Earnings		17,850,924	17,606,993	148,568	95,363
Benefit Payments		(30,054,680)	(28,445,671)	(152,826)	(1,456,183)
Expenses		(1,389,817)	(1,370,825)	(11,567)	(7,425)
Transfers		0	(89,026)	(115,509)	204,535
Assets January 1, 2006		$330,011,200	$326,353,398	$2,471,659	$1,186,143
Per The Regence Group	11/	$330,011,200	$324,634,795	$4,217,795	$1,158,610
Asset Variance	12/	$0	$1,718,603	($1,746,136)	$27,533

FOOTNOTES

1/ We determined the Medicare segment assets as of January 1, 1997, based upon our prior segmentation audit (A-07-06-00197). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare segment. All pension assets are shown at market value.

2/ Prepayment credits represent funds available to satisfy future funding requirements and are applied to current year funding requirements before current year contributions in order to reduce interest costs to the Federal Government. Prepayment credits are transferred to the Medicare segment at the first of the year as needed to cover funding requirements.

3/ We obtained Total Company contribution amounts from the actuarial valuation reports and Department of Labor/Internal Revenue Service 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 future pension costs.

4/ We obtained investment earnings from actuarial valuation reports. 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).

5/ We based the Medicare segment's benefit payments on actual payments to Medicare retirees. The Regence Group (Regence) provided us with supporting documentation for benefit payment amounts to plan retirees. We used actual benefit payments for Medicare segment retirees.

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

7/ We identified participant transfers between segments by comparing valuation data files provided by Regence. Our transfer adjustment considered each participant's actuarial liability and the funding level of the segment from which the participant transferred. For plan years starting with 1996, asset transfers were equal to the actuarial liability determined under the accrued benefit cost method in accordance with the CAS.

The Regence Group
Statement of Market Value of Pension Assets
For the Period
January 1, 1997, to January 1, 2006

8/ On January 1, 1998, Blue Cross Blue Shield of Utah (Utah) pension plan assets were merged into Regence pension plan. The plan assets were determined in the prior segmentation audit of Utah (A-07-05-

9/ Additional income from the prior Utah plan was transferred into the Regence pension plan. The income was only attributable to the Utah plan participants. The portion allocated to the Utah Medicare segment was based upon the ratio of the beginning-of-year assets.

10/ Non-employer contributions were made to the pension plan. The contribution was determined to be attributable to the Utah plan participants. The portion allocated to the Utah Medicare segment was based upon the ratio of the beginning-of-year assets.

11/ We obtained total asset amounts as of January 1, 2006, from the actuarial valuation report prepared by Regence's actuarial consulting firm.

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

The Regence Group **APPENDIX B**

Calculation of Excess Liabilities as of January 1, 2006

		Oregon Medicare Segment	Utah Medicare Segment
Final Market Value of Assets As January 1, 2006	1/	$2,471,659	$1,186,143
Accrued Actuarial Liabilities As of January 1, 2006	2/	3,563,322	1,970,137
Adjustment to Accrued Actuarial Liabilities:			
Unallowable Unfunded Actuarial Liability	3/	(14,863)	(51,686)
Adjusted Actuarial Liability		3,548,459	1,918,451
Excess Accrued Actuarial Liabilities as of January 1, 2006	4/	**($1,076,800)**	**($732,308)**

FOOTNOTES:

1/ We obtained the final market value of assets from Appendix A.

2/ We obtained the accrued actuarial liabilities as of January 1, 2006, from the valuation data files provided by Regence's actuarial firm. We determined Medicare segments' participants' accrued actuarial liabilities based upon our audit work. Regence calculated the accrued actuarial liability using the accrued benefit cost method in accordance with CAS 413-50(c)(12)(i).

3/ CAS 413-50(c)(12)(ii) requires that the market value of assets shall be increased by the current value of any unfunded actuarial liability. The reduction of accrued actuarial liabilities results in an increase in the market value of assets.

4/ We calculated the excess liabilities due to the contract termination based upon the required adjustments. The excess liabilities represent the final market value of assets less the adjusted accrued actuarial liability.

Oregon Medicare Segment Aggregate Medicare Percentage			
Fiscal Year	**Medicare Segment Pension Costs Claimed for Medicare Reimbursement**	**Total Oregon Medicare Segment Pension Costs**	**Aggregate Medicare Percentage** [1]
1993	$69,152	$69,152	
1994 [2]	90,640	90,640	
1996	120,266	128,986	
1997	164,859	176,955	
1998	102,242	112,731	
1999	105,203	117,208	
2000	40,872	45,688	
2001	165,061	184,662	
2002	257,709	270,831	
2003	386,518	397,008	
2004	434,129	453,482	
2005	428,033	457,447	
2006	106,237	114,197	
Total	**$2,470,921**	**$2,618,987**	**94.35%** [3]

[1]The aggregate percentage was based on the audited pension costs as determined during the pension audits related to the Oregon Medicare segment. We obtained the information for 1993, 1994, and 1996 during our prior audit (A-07-06-00197). We obtained the information for 1997 through 2006 during the current review (A-07-08-00257).

[2]The Fiscal Year 1995 pension costs for the Oregon Medicare segment were closed before these costs could be audited. As a result, we were unable to determine the amount of pension costs claimed during that year. Therefore, we excluded fiscal year 1995 from our computation of the aggregate Medicare percentage for the Oregon Medicare segment.

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

The Regence Group
Calculation of the Aggregate Medicare Percentage

Utah Medicare Segment Aggregate Medicare Percentage			
Fiscal Year	**Medicare Segment Pension Costs Claimed for Medicare Reimbursement**	**Total Utah Medicare Segment Pension Costs**	**Aggregate Medicare Percentage [4]**
1987	$2,047	$2,214	
1988	692	738	
1989	0	0	
1990	0	0	
1991	36,326	37,238	
1992	102,930	105,288	
1993	110,101	113,156	
1994	135,300	141,306	
1995	147,287	153,456	
1996	158,349	163,331	
1997	171,638	171,930	
1998	156,639	164,319	
1999	79,321	82,509	
2000	108,393	109,576	
2001	182,066	183,205	
2002	227,615	228,013	
2003	331,836	331,878	
2004	322,851	322,852	
2005	303,765	304,061	
2006	75,482	75,581	
Total	**$2,652,638**	**$2,690,651**	**98.59%**

[4]We based the aggregate percentage on the audited pension costs as determined during the pension audits related to the Utah Medicare segment. We obtained the information for 1987 through 1997 during our prior audit (A-07-06-00199). We obtained the information for 1998 through 2006 during the current review (A-07-08-00257).

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4/29/08

Mark Stimpson
Director of Medicare
Regence Blue Cross Blue Shield

OIG
c/o Jenenne Tambke
2425 Hyde Park Road
Jefferson City, Missouri 65109

Re: OIG Medicare Pension audit draft response: report A-07-07-00242

Ms. Tambke,

We concur with the audit results with the following exceptions:

(1) During the timeframe of the audit, an approximate measure was used to establish the valuation of the termination liability. Subsequently, a significantly larger than anticipated number of participants who terminated at the contract close date chose to receive lump sums. Since the plan's actual
liability for these participants can now be quantified, we reserve the right to address the actual contract benefit liability with CMS as part of the final settlement.

(2) We note that the scope of this audit is limited to the Medicare Part A and Part B cost reimbursement contracts that terminated on November 30, 2005 and does not include the Oregon Medicare Data Center contract which terminated on December 31, 2006. We will submit via separate voucher for Data Center pension to CMS.

Thank you,

Mark Stimpson