



MAR - 4 2003

TO: Neil Donovan
Director, Audit Liaison Staff
Centers for Medicare and Medicaid Services

FROM: Dennis J. Duquette *Duquette*
Deputy Inspector General
for Audit Services

SUBJECT: Audit of the Pension Plan at a Terminated Medicare Contractor, Wellmark, Inc.
(A-07-02-03022)

As part of an ongoing, collaborative effort between the Office of Inspector General and the Centers for Medicare and Medicaid Services (CMS), we are alerting you to the issuance within 5 business days from the date of this memorandum of our final report entitled, "Audit of the Pension Plan at a Terminated Medicare Contractor, Wellmark, Inc." A copy of this report, identifying over \$1 million in excess pension assets at Wellmark, Inc. (Wellmark), is attached.

We suggest that you share this report with the CMS components involved with monitoring the Medicare contractors' financial operations, particularly the Office of Financial Management, the Center for Medicare Management, and the Office of the Actuary.

Wellmark was a Medicare contractor until its contract was terminated in 2000 and, as such, was allowed to claim reimbursement for its Medicare employees' pension costs. Federal regulations and the Medicare contracts provide, however, that pension gains, which occur when a Medicare segment of a pension plan closes, be credited to the Medicare program. Accordingly, we recommended that Wellmark remit \$1,353,036 in excess pension assets to the Medicare program.

Wellmark did not specifically address our recommendation. Instead, it believed that the application of prior unclaimed administrative costs (approximately \$1.8 million) offset our recommendation. We disagree with Wellmark's assertions and found nothing in Wellmark's response to cause us to change our opinion.

If you have any questions or comments about this report, please do not hesitate to call me or George M. Reeb, Assistant Inspector General for the Centers for Medicare and Medicaid Audits, at (410) 786-7104. To facilitate identification, please refer to report number A-07-02-03022 in all correspondence.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF THE PENSION PLAN
AT A TERMINATED MEDICARE
CONTRACTOR, WELLMARK, INC.**



**JANET REHNQUIST
INSPECTOR GENERAL**

**MARCH 2003
A-07-02-03022**

Notices

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

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services, reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.)

OAS FINDINGS AND OPINIONS

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





MAR - 7 2003

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

Report Number: A-07-02-03022

Mr. Thomas W. Pfeifler, CPA, CMA, HIA, CIA
Manager, Audit Services
Wellmark, Inc.
636 Grand Avenue
Des Moines, Iowa 50309-2565

Dear Mr. Pfeifler:

This report provides the results of an Office of Inspector General (OIG), Office of Audit Services (OAS) review entitled, *Audit of the Pension Plan at a Terminated Medicare Contractor, Wellmark, Inc.*

We computed excess Medicare pension assets of \$1,353,036 as of May 31, 2000 that Wellmark should remit to the Federal Government. Wellmark disagreed with our report, asserting that the application of prior unclaimed administrative costs (approximately \$1.8 million) offsets our recommendation to remit excess pension assets to the Federal Government. Wellmark's response is included as Appendix B.

EXECUTIVE SUMMARY

OBJECTIVES

The audit objectives were to evaluate Wellmark, Inc.'s (Wellmark) compliance with the pension segmentation requirements of its Medicare contract and to determine the excess assets that should be remitted to Medicare as a result of the termination of the Medicare contractual relationship effective May 31, 2000.

FINDINGS

We computed excess pension assets of \$1,412,443 as of May 31, 2000. In our opinion, the excess pension assets were the result of:

- Adjusting for our prior audit recommendation (\$1,629,382 increase),
- Adjusting for benefit payments (\$1,249,494 increase),
- Adjusting for transfers (\$1,249,674 decrease),

- Assigning pension contributions and prepayment transfers equitably to the Medicare segment (\$1,694,941 decrease), and
- Revising net segment earnings and expenses (\$1,478,182 increase).

RECOMMENDATION

We recommend Wellmark remit the \$1,353,036 of excess Medicare pension assets resulting from the termination of its Medicare contract to the Federal Government.

INTRODUCTION

BACKGROUND

Medicare

Wellmark administered Medicare Part A and Part B operations under cost reimbursement contracts until contractual relationships were terminated effective May 31, 2000 and October 31, 1998, respectively. In claiming costs, contractors were to follow cost reimbursement principles contained in the Federal Procurement Regulations (FPR), which were superseded by the Federal Acquisition Regulations (FAR), the Cost Accounting Standards (CAS), and the Medicare contracts.

Since its inception, Medicare has paid a portion of the annual contributions made by contractors to its pension plans. These payments represented allowable pension costs under the FPR and/or the FAR. In 1980, both the FPR and Medicare contracts incorporated CAS 412 and 413.

The Centers for Medicare and Medicaid Services (CMS), formerly the Health Care Financing Administration, incorporated segmentation requirements into Medicare contracts starting with Fiscal Year 1988. The contractual language specifies segmentation requirements and also provides for the separate identification of the pension assets for a Medicare segment.

The Medicare contract defines a segment, and specifies the methodology for the identification and initial allocation of pension assets to the Medicare segment. Furthermore, the contract requires that the Medicare segment assets be updated for each year after the initial allocation in accordance with CAS 413.

Regulations

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

Wellmark

Wellmark sold the Medicare segment of its business to Blue Cross Blue Shield of Alabama (Cahaba) effective May 31, 2000. The majority of Wellmark's Medicare segment employees transferred to Cahaba or terminated their employment; the Medicare segment was closed on that date. In addition, all liabilities were transferred, as well as the assets identified by Wellmark, with the Wellmark Medicare segment employees that went to Cahaba.

Wellmark participates in the National Retirement Program administered by the National Employee Benefit Association.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our objectives were to determine Wellmark's compliance with pension segmentation requirements of its Medicare contract and to determine the amount of excess assets that should be remitted to Medicare as a result of the contract termination and Medicare segment closing.

Scope

Achieving our objectives did not require a review of Wellmark's internal control structure.

We reviewed Wellmark's identification of the Medicare segment and its update of Medicare assets from January 1, 1992 through May 31, 2000. Wellmark's Medicare contract was terminated and the Medicare segment closed on May 31, 2000. Therefore, we determined that May 31, 2000 would be the appropriate settlement date to measure the segment closing adjustment amount.

Methodology

In performing the review, we used information provided by Wellmark's prior and current consulting actuarial firms. The information included liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We reviewed Wellmark's accounting records, pension plan documents, annual actuarial valuation reports, and the Department of Labor/Internal Revenue Service Form 5500s. Using these documents, CMS pension actuarial staff calculated Medicare segment assets as of May 31, 2000. We reviewed their methodology and calculations.

Details for the updated pension assets of the Medicare segment from January 1, 1992 through May 31, 2000 are presented in Appendix A.

Site work at Wellmark’s corporate office in Des Moines, Iowa was performed during February 2002. We performed subsequent audit work in our OIG, OAS Jefferson City, Missouri field office.

Our audit was performed in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

UPDATE OF MEDICARE SEGMENT ASSETS FROM JANUARY 1, 1992 THROUGH MAY 31, 2000

We updated pension assets of the Medicare segment from January 1, 1992 through May 31, 2000 and determined that pension assets were understated by \$1,412,443 as of May 31, 2000. In our opinion, this resulted from the following adjustments in Wellmark’s Medicare pension assets:

- Adjusting for our prior audit recommendation (\$1,629,382 increase),
- Adjusting for benefit payments (\$1,249,494 increase),
- Adjusting for transfers (\$1,249,674 decrease),
- Assigning pension contributions and prepayment transfers equitably to the Medicare segment (\$1,694,941 decrease), and
- Revising net segment earnings and expenses (\$1,478,182 increase).

CRITERIA

Determining segment assets is addressed by the Medicare contract, which states: “...the pension assets allocated to each Medicare segment shall be adjusted in accordance with CAS 413.50(c)(7).” Specifically, CAS 413.50(c)(7) provides that the asset base be adjusted by contributions, income, benefit payments, and expenses. In addition, an adjustment should also be made for transfers (participants who enter or leave the segment).

CONDITION AND CAUSE

Prior Audit Recommendation

Wellmark did not implement the recommendation contained in our previous segmentation report (A-07-94-00744), which was to increase Medicare segment pension assets by \$1,629,382. Wellmark’s lack of action resulted in an understatement of the January 1, 1992 Medicare segment assets by \$1,629,382.

Benefit Payments

Wellmark overstated benefit payments by \$1,249,494. This overstatement occurred because Wellmark incorrectly identified retirement benefit payments made to Medicare segment participants and incorrectly included the payment of benefits after May 31, 2000.

We identified the actual retirement benefits paid to segment participants through May 31, 2000 and assigned these payments to the Medicare segment. A comparison of Wellmark and OIG benefit payment amounts are shown on the following schedule:

Benefit Payments to Medicare Retirees

<u>Year</u>	<u>Wellmark</u>	<u>OIG</u>	<u>Variance</u>
1992	\$0	\$0	\$0
1993	3,075	3,075	0
1994	43,718	43,718	0
1995	44,620	43,295	(1,325)
1996	2,081,371	2,152,484	71,113
1997	17,714	17,714	0
1998	101,732	101,733	1
1999	71,138	123,144	52,006
2000	1,374,514	3,225	(1,371,289)
Total	<u>\$3,737,882</u>	<u>\$2,488,388</u>	<u>(\$1,249,494)</u>

Transfers

Wellmark's transfer adjustments (representing participants transferring into and out of the Medicare segment) were \$1,249,674 less than our net transfers for the period January 1, 1992 through May 31, 2000. Wellmark did not provide details to support its transfer adjustments for the years 1992 through 1996. Consequently, we were unable to identify the reason for the differences between Wellmark's and our audited asset transfers. For the years 1997 through May 31, 2000, the differences may be attributable to a different identification of the Medicare segment by Wellmark and the OIG. Therefore, based on our audit, Wellmark transferred out \$1,249,674 less Medicare segment assets than OIG for the audit period.

A comparison of Wellmark's and our computation of net transfer amounts is as follows:

Net Transfer Variance for the Medicare Segment

Year	Wellmark	OIG	Variance
1992	(\$169,195)	(\$111,946)	(\$57,249)
1993	(79,097)	(122,754)	43,657
1994	12,381	(27,022)	39,403
1995	(71,097)	(147,755)	76,658
1996	(417,388)	(801,649)	384,261
1997	260,327	255,724	4,603
1998	(974,057)	(974,628)	571
1999	(205,696)	(38,104)	(167,592)
2000	(889,431)	(1,814,793)	925,362
Total	<u>(\$2,533,253)</u>	<u>(\$3,782,927)</u>	<u>\$1,249,674</u>

Pension Contributions and Prepayments

Wellmark did not accurately report pension contributions and prepayments. Wellmark's update methodology did not equitably assign pension contributions and prepayment credits to the Medicare segment. Specifically, Wellmark failed to take into account prepayment transfers of \$1,694,602. As a result, Wellmark overstated segment assets by \$1,694,941.

We assigned contributions to the segment using the pension costs as calculated by the CMS Office of the Actuary. We assigned an equitable portion of the total company contributions to the Medicare segment, based on the ratio of the Medicare segment CAS funding target to the total company CAS funding target (see Appendix A). A comparison of Wellmark's and our pension contributions follows:

Contribution Variance for the Medicare Segment

<u>Year</u>	<u>Wellmark</u>	<u>OIG</u>	<u>Variance</u>
1992	\$0	\$0	\$0
1993	215,857	0	215,857
1994	284,956	0	284,956
1995	216,559	0	216,559
1996	610,156	0	610,156
1997	589,443	0	589,443
1998	660,431	0	660,431
1999	560,544	0	560,544
2000	251,597	0	251,597
Total	<u>\$3,389,543</u>	<u>\$0</u>	<u>\$3,389,543</u>

Wellmark overstated contributions by \$3,389,543. Wellmark's overstatement primarily occurred because it assigned contributions to the segment in excess of the segment's CAS pension costs. According to CAS 9904.412-50(c)(1), amounts funded in excess of pension costs (or prepayments) shall be carried forward with interest to fund future CAS pension costs. We considered excess contributions and made prepayment transfers totaling \$1,694,602 to fund the CAS pension costs of the Medicare segment. Wellmark made no prepayment transfers.

Wellmark understated prepayment transfers by \$1,694,602 as shown below:

Prepayment Variance for the Medicare Segment

Year	Wellmark	OIG	Variance
1992	\$0	\$0	\$0
1993	0	0	0
1994	0	0	0
1995	0	0	0
1996	0	513,607	(513,607)
1997	0	512,574	(512,574)
1998	0	478,376	(478,376)
1999	0	98,837	(98,837)
2000	0	91,208	(91,208)
Total	<u>\$0</u>	<u>\$1,694,602</u>	<u>(\$1,694,602)</u>

Wellmark incorrectly allocated Medicare pension contributions and did not consider prepayment transfers. The net affect is the Medicare pension assets are overstated by \$1,694,941 (overstated contribution variance of \$3,389,543 less understated prepayment variance of \$1,694,602).

Earnings and Expenses

Wellmark's earnings and expenses were understated by \$1,478,182. The understatement was due primarily to the fact that a portion of Wellmark's update methodology allocated a portion of expenses based on a ratio of Medicare segment assets to total company assets. Because Wellmark's asset amounts were incorrect, it understated the segment's earnings and expenses for each year of the update. Except for using our adjusted asset values, we used Wellmark's allocation methodology for earnings and expenses in our update and determined that Wellmark's earnings and expenses were understated by \$1,478,182. This resulted in the Medicare segment assets being understated by the same amount. Therefore, we will increase the Medicare segment assets by \$1,478,182.

EFFECT

Wellmark's update of Medicare segment pension assets from January 1, 1992 through May 31, 2000 understated assets by \$1,412,443.

EXCESS MEDICARE PENSION ASSETS

The excess Medicare pension assets at the time the contract was terminated was \$1,412,443 (our calculated market value of Medicare pension assets of \$5,335,275 less the market value of \$3,922,832, as calculated by Wellmark). In our opinion, the excess Medicare pension assets were the result of the conditions discussed above in our **Update of Medicare Segment Assets From January 1, 1992 Through May 31, 2000**. The net effect of the excess pension assets was \$1,353,036 in excess pension assets attributable to Medicare.

CRITERIA

Medicare contracts specifically prohibit any profit (gain) from Medicare activities. Therefore, according to the contract, pension gains, which occur when a Medicare segment closes, should be credited to the Medicare program. In addition, FAR addresses dispositions of gains in situations such as contract terminations. When excess or surplus assets revert to a contractor as a result of termination of a defined benefit pension plan or such assets are constructively received by it for any reason, the contractor shall make a refund or give credit to the government for its equitable share (FAR, Section 31.205-6(j)(4)).

Contract terminations and segment closings are addressed by CAS at 9904.413-50(c)(12), which states:

“If a segment is closed,...the contractor shall determine the difference between the actuarial accrued 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...

(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...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.”

Determining the Federal Government share of the excess segment 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 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....”

CONDITION AND CAUSE

The excess Medicare pensions assets at the time the contract was terminated was \$1,412,443 (our calculated market value of Medicare pension assets of \$5,335,275 less the market value of \$3,922,832, as calculated by Wellmark). Since all applicable liabilities transferred with the Medicare pension plan participants to Cahaba, the excess Medicare pensions assets at the time the contract was terminated was \$1,412,443. However, because the segment was not 100 percent devoted to Medicare operations, only a portion of the excess segment assets is attributable to Medicare.

To arrive at Medicare’s share of the excess assets, we calculated the aggregate percentage of the segment to be 95.794 percent as follows:

Aggregate Percentage Calculation for the Medicare Segment

<u>Year</u>	<u>Medicare Salaries</u>	<u>Total Company Salaries</u>
1988	\$8,762,985	\$10,222,026
1990 *	8,759,989	9,661,758
1991	11,060,805	11,947,003
1992	10,789,673	11,707,920
1993	8,977,893	9,478,586
1994	9,271,561	9,680,589
1995	9,995,970	10,008,998
1996	9,460,987	9,465,336
1997	10,829,734	10,831,370
1998	12,985,010	13,009,710
1999	11,171,237	11,244,823
2000	<u>6,409,894</u>	<u>6,419,466</u>
Total	<u>\$118,475,738</u>	<u>\$123,677,585</u>

(\$118,475,738 / \$123,677,585 = 95.794%)

* Salary information not available for 1989.

After applying the Medicare percentage of 95.794 to the excess segment assets of \$1,412,443, the resulting amount of \$1,353,036 represents the portion attributable to Medicare. Because of the termination of the Medicare contract, this excess must be remitted to the Federal Government.

EFFECT

Wellmark retained excess pension assets for the Medicare segment of \$1,412,443, of which \$1,353,036 represents the Federal Government share.

RECOMMENDATION

We recommend Wellmark refund the \$1,353,036 of excess Medicare pension assets resulting from the termination of its Medicare contract.

Auditee's Comments

Wellmark disagreed with our report. Wellmark's assertions and opinions are summarized in the following paragraph and presented in its entirety in Appendix B. Wellmark did not specifically address our recommendation. Instead, it believes that the application of prior unclaimed administrative costs (approximately \$1.8 million) offsets our recommendation to refund the \$1,353,036¹ of excess Medicare pension assets resulting from the termination of its Medicare contract. Wellmark stated:

“Wellmark disputes the OIG's proposed adjustment of \$1,357,036 in several respects. First, a previous payment in the amount of \$11,369 was not reflected in the draft report. Second, pension expense for the fiscal years 1992-2000, which the OIG asserts is unallowable due to the adjustment of asset values, was more than offset by the over \$1.8 million in unclaimed costs that Wellmark incurred in the administration of the Medicare Program. Our view is that any reopening of the FACPs to account for the OIG's pension findings should also be reopened to allow for the payment of Wellmark's otherwise allowable administrative costs that were not previously reimbursed by the government.”

OIG's Response

Wellmark's comments are not directly related to our recommendation. In Wellmark's closing agreements with CMS, a clause specifically closes all administrative costs and allows for pension

¹In Wellmark's comments at Appendix B, they stated our recommendation was to refund \$1,357,036 instead of the \$1,353,036 noted in our above recommendation. Furthermore, Wellmark adjusted the \$1,357,036 to \$1,345,667 to reflect a payment of \$11,369 to the government for overstated pension costs on the 1995 FACP. That payment had no effect on the amounts presented in this report. We addressed the \$11,369 adjustment in our comments for the **Review of Pension Costs Claimed for Medicare Reimbursement by Wellmark, Inc.** (Report Number A-07-02-03029).

costs to remain open until audited. Therefore, our recommendation does not require the “reopening” of the Final Administrative Cost Proposals.

INSTRUCTIONS FOR AUDITEE RESPONSE

Final determinations as to actions to be taken on all matters reported will be made by the HHS action official identified below. We request that you respond to the recommendation in this report within 30 days from the date of this report to the HHS action official, presenting any comments or additional information that you believe may have a bearing on final determination.

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

Sincerely,



James P. Aasmundstad
Regional Inspector General
for Audit Services, Region VII

Enclosures

HHS Action Official:

Mr. Joe Tilghman
Regional Administrator, Region VII
Richard Bolling Federal Building
Room 235
601 East 12th Street
Kansas City, Missouri 64106

WELLMARK
STATEMENT OF MEDICARE PENSION ASSETS
JANUARY 1, 1992 THROUGH MAY 31, 2000

Description	Total Company	Other Segment	Medicare
Assets January 1, 1992	<u>1/</u> \$34,507,151	\$29,943,311	\$4,563,840
Prepayment Transfers	<u>2/</u> 0	0	0
Contributions	<u>3/</u> 0	0	0
Earnings	<u>4/</u> 1,347,312	1,169,119	178,193
Benefits	<u>5/</u> (1,217,590)	(1,217,590)	0
Expenses	<u>6/</u> (207,914)	(180,416)	(27,498)
Transfers	<u>7/</u> 0	111,946	(111,946)
Assets January 1, 1993	\$34,428,959	\$29,826,370	\$4,602,589
Prepayment Transfers	0	0	0
Contributions	2,522,754	2,522,754	0
Earnings	3,481,117	3,015,749	465,368
Benefits	(1,458,308)	(1,455,233)	(3,075)
Expenses	(283,062)	(245,221)	(37,841)
Transfers	0	122,754	(122,754)
Assets January 1, 1994	\$38,691,460	\$33,787,173	\$4,904,287
Prepayment Transfers	0	0	0
Contributions	2,834,100	2,834,100	0
Earnings	239,440	209,090	30,350
Benefits	(1,878,635)	(1,834,917)	(43,718)
Expenses	(242,813)	(212,036)	(30,777)
Transfers	0	27,022	(27,022)
Assets January 1, 1995	\$39,643,552	\$34,810,432	\$4,833,120

WELLMARK
STATEMENT OF MEDICARE PENSION ASSETS
JANUARY 1, 1992 THROUGH MAY 31, 2000

Description	Total Company	Other Segment	Medicare
Assets January 1, 1995	\$39,643,552	\$34,810,432	\$4,833,120
Prepayment Transfers	0	0	0
Contributions	3,692,418	3,692,418	0
Earnings	10,567,080	9,278,801	1,288,279
Benefits	(1,170,442)	(1,127,147)	(43,295)
Expenses	(234,745)	(206,126)	(28,619)
Transfers	0	147,755	(147,755)
Assets January 1, 1996	\$52,497,863	\$46,596,133	\$5,901,730
Prepayment Transfers	0	(513,607)	513,607
Contributions	3,413,612	3,413,612	0
Earnings	6,691,231	5,855,068	836,163
Benefits	(19,837,099)	(17,684,615)	(2,152,484)
Expenses	(340,925)	(299,263)	(41,662)
Transfers	0	801,649	(801,649)
Assets January 1, 1997	\$42,424,682	\$38,168,977	\$4,255,705
Prepayment Transfers	0	(512,574)	512,574
Contributions	2,716,903	2,716,903	0
Earnings	8,378,129	7,415,554	962,575
Benefits	(1,998,584)	(1,980,870)	(17,714)
Expenses	(426,571)	(378,627)	(47,944)
Transfers	0	(255,724)	255,724
Assets January 1, 1998	\$51,094,559	\$45,173,639	\$5,920,920

WELLMARK
STATEMENT OF MEDICARE PENSION ASSETS
JANUARY 1, 1992 THROUGH MAY 31, 2000

Description	Total Company	Other Segment	Medicare
Assets January 1, 1998	\$51,094,559	\$45,173,639	\$5,920,920
Prepayment Transfers	0	(478,376)	478,376
Contributions	2,158,251	2,158,251	0
Earnings	7,920,391	6,917,078	1,003,313
Benefits	(1,960,548)	(1,858,815)	(101,733)
Expenses	(416,453)	(364,295)	(52,158)
Transfers	0	974,628	(974,628)
Assets January 1, 1999	\$58,796,200	\$52,522,110	\$6,274,090
Prepayment Transfers	0	(98,837)	98,837
Contributions	1,050,000	1,050,000	0
Earnings	9,490,205	8,445,436	1,044,769
Benefits	(2,933,466)	(2,810,322)	(123,144)
Expenses	(273,436)	(243,798)	(29,638)
Transfers	0	38,104	(38,104)
Assets January 1, 2000	\$66,129,503	\$58,902,693	\$7,226,810
Prepayment Transfers	0	(91,208)	91,208
Contributions	0	0	0
Earnings	(1,479,197)	(1,314,472)	(164,725)
Benefits	(858,963)	(855,738)	(3,225)
Expenses	0	0	0
Transfers	0	1,814,793	(1,814,793)
Assets May 31, 2000	\$63,791,343	\$58,456,068	\$5,335,275
Per Wellmark	<u>8/</u> 58,818,511	54,895,679	3,922,832
Asset Variance	<u>9/</u> \$4,972,832	\$3,560,389	\$1,412,443

WELLMARK
STATEMENT OF MEDICARE PENSION ASSETS
JANUARY 1, 1992 THROUGH MAY 31, 2000

FOOTNOTES

1. We determined the Medicare segment assets as of January 1, 1992 in our prior review of Wellmark's pension segmentation (A-07-94-00744). 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. The prepayment credit is created when the contributions made to the pension trust fund exceed the CAS pension cost. The prepayment remains unassigned and accumulates interest in the trust fund until needed to fund future CAS pension costs. We allocated the prepayment in proportion to the CAS pension costs. Wellmark did not allocate prepayment credits to the Medicare segment.
3. We obtained total company contribution amounts from the actuarial valuation reports. We allocated total company contributions to the Medicare segment based on the total prepayment allowed multiplied by the Medicare segment funding target divided by the total company funding target.
4. We obtained investment earnings from actuarial valuation reports. Wellmark allocated its investment earnings based on a ratio of segment assets to total company assets. We used the same methodology.
5. We based the Medicare segment's benefit payments on actual payments to Medicare retirees. We found Medicare segment retirees by comparing total company valuation listings year to year. After finding the retirees, we obtained Department of the Treasury/Internal Revenue Service Form 1099's to verify payment and payment dates from Wellmark. We created a list of retirees with their benefit payment amounts by year.
6. We calculated the total Medicare segment administrative expenses based on a ratio of segment assets to total company assets. Wellmark used the same methodology.
7. We identified participant transfers between segments by comparing annual participant valuation listings provided by Wellmark. The listings contained the actuarial liability of each participant. Our transfer adjustment considered each participant's actuarial liability and the funding level of the segment from which the participant transferred. We adjusted the January 1, 1996 through May 31, 2000 actuarial liability amounts to the Accrued Benefit Cost Method as required by CAS.
8. We obtained total asset amounts as of May 31, 2000 from Wellmark's update of Medicare segment assets.

WELLMARK
STATEMENT OF MEDICARE PENSION ASSETS
JANUARY 1, 1992 THROUGH MAY 31, 2000

9. The asset variance represents the difference between the OIG calculation of Medicare segment assets as of May 31, 2000 and the segment assets calculated by Wellmark.

Wellmark, Inc.
636 Grand Avenue
Des Moines, Iowa 50309-2565

February 11, 2003

Via UPS Overnight

James P. Aasmundstad
Regional Inspector General
Audit Services, Region VII
601 E. 12th Street, Room 684A
Kansas City, MO 64106

Re: CIN: A-07-02-03022
CIN: A-07-02-03029
CIN: A-07-02-03035

Dear Mr. Aasmundstad:

This is in response to the three draft audit reports referenced above, which were conducted by the Department of Health and Human Services Office of Inspector General. These reports covered topics related to pension assets and expenses for the Company's Medicare Operations, prior to Wellmark's exit from the program on May 31, 2000, and to the costs of post retirement benefits.

Wellmark has several responses to the audit reports that it wishes the OIG to consider. Specifically, based on our review, there are several facts that we would like to make note of:

- The amount identified in the audit findings of \$1,357,036 includes the amount of pension expenses or pension costs claimed for Medicare reimbursement for the fiscal years 1992-2000 (\$558,422), which is the subject of the report for CIN: A-07-02-03029. Additionally, in a prior audit for fiscal year 1995, there was an audit finding that pension costs were overstated by Wellmark in the amount of \$11,369. Wellmark paid this amount to the government but the FACP was not adjusted for fiscal year 1995. This amount is not reflected in the findings in the current report. Attached as Exhibit A, please find a copy of the audit finding and the schedule from the Closing Agreement showing the payment. Thus, the total amount allegedly owed is \$1,345,667.
- During the same period, and as outlined below, Wellmark had unclaimed allowable costs in excess of \$1.8 million. If the FACPs are to be reopened as the OIG suggests to make the pension adjustments, then the cost reports should be equally reopened to enable Wellmark to submit unclaimed allowable costs that were not reimbursed as a result of CMS' Bottom Line Unit Costs ("BLUC") limitations. These unclaimed costs are for administrative costs incurred by Wellmark in performance of its Medicare Part A and B Contracts.

These costs are specifically outlined in OIG reports: CIN: A-07-99-01287, CIN: A-07-94-00787, and CIN: A-07-94-00786. For the fiscal years in question, Wellmark (formerly known as IASD Health Services Corp.) had the unclaimed costs listed below:

Medicare Part A:

Fiscal Year	Incurred Costs	Reported Costs	Unclaimed Costs
1992	\$12,986,401	\$12,945,726	\$40,675
1993	\$13,800,001	\$13,747,456	\$52,545
1994	\$13,569,679	\$13,569,679	\$0
1995	\$15,249,044	\$15,249,044	\$0
1996	\$15,068,255	\$15,068,255	\$0
1997	\$18,371,805	\$18,254,519	\$117,286
1998	\$27,197,208	\$27,197,208	\$0
1999	\$27,644,322	\$27,644,322	\$0
2000 (Partial Year)	\$21,178,428	\$21,178,428	\$0
Total Part A	\$165,065,143	\$164,854,637	\$210,506

Medicare Part B:

Fiscal Year	Incurred Costs	Reported Costs	Unclaimed Costs
1992	\$13,006,825	\$12,133,335	\$873,490
1993	\$12,525,637	\$11,976,478	\$549,159
1994	\$11,001,125	\$11,001,125	\$0
1995	\$10,828,564	\$10,643,132	\$185,432
1996	\$9,936,947	\$9,936,947	\$0
1997	\$9,360,313	\$9,330,148	\$30,165
1998	\$8,833,570	\$8,833,570	\$0
Total Part B	\$75,492,981	\$73,854,735	\$1,638,246

Summary of Medicare Part A & B Unclaimed Allowable Cost History:

	Med A	Med B	Totals
1992 - 2000	\$210,506	\$1,638,246	\$1,848,752

As you can see, for fiscal years 1992 through the termination of Wellmark's Medicare contract, Wellmark's unclaimed costs for administration of the Medicare Program totaled \$1,848,752. If the reopening of these years is required, this cost more than offsets any claim that costs were overstated.

- In the pension audits, the OIG noted that Wellmark failed to act upon a prior recommendation contained in OIG's previous segmentation report (CIN: A-07-

94-00744), which was to increase pension assets by \$1,629,382. Initially Wellmark disagreed with the auditor's findings and had engaged in discussions with HCFA regarding this matter. Ultimately, Wellmark acquiesced in the finding and concurred with the finding of the report. Attached, as Exhibit B is a copy of the letter to Mr. Joe Tilghman who was acting Regional Administrator of HCFA at the time to that effect. A copy of this communication was provided to the staff at the Blue Cross Blue Shield Association responsible for plan administration of the pension plan in which Wellmark participates. Apparently, this transfer was inadvertently not completed by the plan administrator, but Wellmark did not detect this oversight until the exit conference with the OIG in early 2002.

Summary

Wellmark disputes the OIG's proposed adjustment of \$1,357,036 in several respects. First, a previous payment in the amount of \$11,369 was not reflected in the draft report. Second, pension expense for the fiscal years 1992-2000, which the OIG asserts is unallowable due to the adjustment of asset values, was more than offset by the over \$1.8 million in unclaimed costs that Wellmark incurred in the administration of the Medicare Program. Our view is that any reopening of the FACPs to account for the OIG's pension findings should also be reopened to allow for the payment of Wellmark's otherwise allowable administrative costs that were not previously reimbursed by the government.

We look forward to the opportunity to discuss the issues raised in all the reports further.

Sincerely,



Brian Lester Smith
Counsel

BLS/clh
Enclosures

Exhibit A

PENSION COSTS

The Auditee did not adjust pension costs claimed in FY 1995 to agree with the Actuary's recommended Medicare segment costs. As a result, pension costs were overstated by \$20,194 in FY 1995.

During calendar years 1994 and 1995, the Auditee funded pensions and the Medicare segment in the following amounts:

<u>Calendar Year</u>	<u>1994</u>	<u>1995</u>	<u>Medicare Segment FY 1995</u>
Total Funding	<u>\$2,609,600</u>	<u>\$2,450,806</u>	
Medicare Segment Per Actuary	\$284,956	\$227,828	
<u>Fiscal Year 1995</u>			
Percent of Medicare Segment FY 1995 Amount	<u>25%</u> <u>\$71,239</u>	<u>75%</u> <u>\$170,871</u>	\$242,110
Medicare Segment -- Pension Cost Claimed			<u>262,304</u>
Excess Amount Claimed			<u>\$20,194</u>
Distribution of Excess Amount:			
	<u>PART A</u>	<u>PART B</u>	<u>TOTAL</u>
FY 1995	<u>\$11,369</u>	<u>\$8,825</u>	<u>\$20,194</u>

According to Auditee officials the Medicare Segment for 1995 was funded and claimed at the 1994 level. However, the 1995 Medicare segment required less funding and no adjustment was made to reduce amounts claimed.

Recommendation

We recommend that:

1. The Auditee establish the necessary procedures to ensure that the proper pension costs are claimed on Medicare.
2. The overstated pension costs of \$20,194 be set aside for further review and resolution by HCFA.

<u>PART A</u>	<u>PART B</u>
<u>\$11,369</u>	<u>\$8,825</u>

Auditee Response

Auditee officials concur with our findings and recommendation. However, they requested that we show the pension differences for all fiscal years covered in the audit. This would reflect not only the overcharge for 1995 but also the undercharges for other years. The net effect would be an undercharge for the five years.

Auditor Comment

We agree that there would be a net undercharge if overcharges and undercharges were netted for all periods. However, costs are claimed by fiscal year on the FACP and will not be offset against another fiscal year costs. Also the Auditee had not claimed the additional pension expenses for 1996 and as a result the undercharge occurred. Therefore, we could not consider that amount unless claimed.

RECRUITMENT COSTS

Medicare was allocated \$8,114 in Miscellaneous Incentive costs in fiscal year 1998 that represented a sign-on bonus paid to the new Senior Vice President – Human Resources. We were unable to determine whether the sign-on bonus was reasonable.

The Auditee recruited an individual in November 1997 to fill its executive position of Senior Vice President – Human Resources (SVP-HR). That individual recovered a starting annual salary of \$150,000 plus a sign-on bonus of \$40,000. The starting salary paid to the SVP-HR appears reasonable as compared to salaries paid other Senior Vice Presidents at Wellmark, Inc. However, we were unable to determine whether the \$8,114 of sign-on bonus allocated to Medicare was reasonable and allowable.

The 48 CFR 31.201-3 provides that reasonableness depends upon a variety of considerations and circumstances including:

(1) Whether it is the type of cost generally recognized as ordinary and necessary for the conduct of the contractor's business or the contract performance;

...and

(4) Any significant deviations from the contractor's established practices.

We were unable to determine whether the bonus is generally recognized as an ordinary and necessary cost for the contract performance. Further, there was no document provided to show that offering a sign-on bonus was the contractors established practice.

SUMMARY OF MEDICARE ADMINISTRATIVE COSTS
 WELLMARK, INC.
 AUDIT REVIEW PERIOD OCTOBER 1, 1993 THRU SEPTEMBER 30,1998

Office of Inspector General Audit Report CIN A-07-99-01287

<u>PERIOD</u>	<u>AMOUNT CLAIMED</u>	<u>AMOUNT QUESTIONED</u>	<u>EXCEPTIONS SUSTAINED</u>	<u>OTHER * ADJ</u>	<u>TOTAL AMOUNT ALLOWED</u>	<u>AMOUNT PAID CONTRACTOR</u>	<u>NET AMOUNT DUE CMS/ (CONTRACTOR)</u>
1994	\$ 13,569,679	\$ 14,172	\$ -	\$ -	\$ 13,569,679	\$ 13,569,679	\$ -
1995	15,249,044	30,538	11,369	-	15,237,675	15,249,044	11,369
1996	15,068,255	8,429	-	-	15,068,255	15,068,255	-
1997	18,254,519	3,993	507	507	18,254,519	18,254,519	-
1998	29,625,928	28,568	27,807	-	29,598,121	29,625,928	27,807
Total	\$ 91,767,425	\$ 85,700	\$ 39,683	\$ 507	\$ 91,728,249	\$ 91,767,425	\$ 39,176

* Offset of Unclaimed Costs



An Independent Licensee of the Blue Cross and Blue Shield Association
 636 Grand Avenue
 Des Moines, IA 50309-2565

Appendix B
 Page 8 of 12

VENDOR ID: CENTERSMED
 VENDOR LOC:
 CHECK NO: 0072298376

INVOICE DATE	INVOICE NUMBER	GROSS AMOUNT	DISCOUNT AMOUNT	NET AMOUNT
03-14-2002	REFUND MED PART A COST	39,176.00		39,176.00
TOTAL		39,176.00		39,176.00

DETACH HERE



An Independent Licensee of the Blue Cross and Blue Shield Association
 636 Grand Avenue
 Des Moines, IA 50309-2565

62-26 0404-08
 311

No. 0072298376

Bankers Trust Company
 Payable at Chase Manhattan Bank Delaware
 Wilmington, DE 19801

DATE 03-18-2002 NET AMOUNT *****\$39,176.00

AY *****NON NEGOTIABLE FILE COPY*****

ORDER OF Centers for Medicare & Medicaid Services- CMS
 Office of Financial Management
 Div. of Acctg, Admin. Pymt. Branch
 PO Box 7520
 Baltimore, MD 21207

WARNING: THIS CHECK MUST HAVE A MACHINE IMPRINTED SIGNATURE
 VOID AFTER 90 DAYS

Exhibit B

June 6, 1994

Mr. Joe L. Tilghman
Acting Regional Administrator, HCFA
Room 235, Federal Office Building
601 East 12th Street
Kansas City, MO 64106

Re: Audit CIN: A-07-94-00744

Dear Mr. Tilghman:

We acknowledge receipt of the final audit report on the OIG Review of Pension Segmentation.

We concur with the findings of the report and will implement the recommendations noted.

A copy of the report along with this letter will be sent to NEBA, the plan administrator, and the appropriate adjustments will be made.

Sincerely,

Sally T. Wood
Vice President, Government Programs

/mg

cc: Roger Perryn, HCFA
Steve Ford, HCFA

Bob Rhodes ✓
Blue Cross and Blue Shield Association
676 North St. Clair Street
Chicago, IL 60611

Vincent R. Imbriani
Regional Inspector General for Audit Services
Region VII
Room 284A, Federal Office Building
601 East 12th Street
Kansas City, MO 64106

Moklestad, Timothy N

From: Navin, Carol [carol.navin@BCBSA.com]
Sent: Tuesday, September 24, 2002 4:45 PM
To: Moklestad, Timothy N
Cc: Barberio, George; 'Pinkerton, Jay - CCA'; Manuszak, David
Subject: FW: Medicare Pension Segment Audits

Tim, finally, here are responses to questions from Carl Voss at Watson Wyatt (Watson Wyatt Worldwide, or WWW). As I said before, the "transfer" (adjustment) was never made.

We need to see what needs to be done going forward. I will advise Jay Pinkerton and company at CCA so we can discuss at some point.

Some of the questions are unanswered -- #3 (must be answered by the OIG) and # 6 (I do not believe that we were actuaries for western IA or SD).

Also, in answer to #1, no, you weren't required to provide an additional request or document re the transfer of assets -- there was no formal process for doing this.

Also, remember that when we talk about "transfer of assets", I believe we are talking about paper adjustments of amounts (not any actual transfer of funds). I know you know this, but just in case this is read by others.....

Please let me know if you have other questions. I am truly sorry this has taken so long. Thanks for your patience.

Carol

-----Original Message-----

From: Voss, Carl (Chicago) [mailto:Carl.Voss@WatsonWyatt.com]
Sent: Friday, September 20, 2002 4:58 PM
To: 'Navin, Carol'
Subject: RE: Medicare Pension Segment Audits

See my responses to #2, #4, and #5 below.

-----Original Message-----

From: Navin, Carol [mailto:carol.navin@BCBSA.com]
Sent: September 18, 2002 3:00 PM
To: 'Voss, Carl -- Wyatt'
Subject: FW: Medicare Pension Segment Audits

-----Original Message-----

From: Navin, Carol
Sent: Thursday, September 12, 2002 10:53 AM
To: 'Voss, Carl - Wyatt'
Subject: FW: Medicare Pension Segment Audits

Carl, this is what I was calling about. Tim asked me again about it - I think it's something that needs to be answered by you, but maybe CCA could answer?

1/31/2003

Thanks ---
Carol

-----Original Message-----

From: Navin, Carol
Sent: Tuesday, June 18, 2002 9:46 AM
To: 'Voss, Carl - Wyatt'
Subject: FW: Medicare Pension Segment Audits

Carl, re the Wellmark OIG audit. Some of Tim's questions, I believe, need to be answered by you - can you look at his questions #2, #4 and #5 below and let me know your reaction? Thanks.

Carol Daskais Navin
Manager, Actuarial Reporting and Systems
National Employee Benefits Administration
Blue Cross Blue Shield Association
225 North Michigan Avenue, Chicago IL 60601
Phone: 312.297.6114
Fax: 312.297.6454
Email: carol.navin@bcbsa.com

-----Original Message-----

From: Moglestad, Timothy N [<mailto:moglestadtn@wellmark.com>]
Sent: Thursday, June 13, 2002 10:05 AM
To: carol.navin@BCBSA.com
Cc: Murphy, Angela J
Subject: Medicare Pension Segment Audits

After reviewing the history of events following the Medicare Pension segment audits for the period 1986 to 1992 I had a few questions.

Questions 1 & 2 relate to the Final 1994 OIG Report on the IASD segment, CIN # A-07-94-00744. On June 6th, 1994 Sally Wood sent a letter to Joe Tighman, Acting Regional Administrator HCFA, including a copy to Bob Rhoades of the BCBS Assoc. The letter said that a copy of the report along with this letter will be sent to NEBA, the plan administrator, and the appropriate adjustments will be made. We have a couple questions related to this:

1. Were we required to send an additional request or document concerning the transfer of the assets?
2. Are we certain that the funds were not transferred? I've been asked this question a few more times so I said that I would ask one more time.

WWW response. We have gone back to the work papers and the adjustments to the asset allocation requested by the auditors in the final 1994 report were never made. There was a internal communication breakdown between the actuary (me) and the people actually doing the segment accounting work.

Question # 3 relates to Final 1994 OIG Report on unfunded pension costs of IASD, CIN # A-07-94-00745

3. Will the OIG auditors automatically include the reassignment of \$574,804 unfunded pension costs in