



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General  
Offices of Audit Services

November 16, 2007

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

Report Number: A-07-07-00236

Ms. Pamela Bell  
Vice President, Government Services  
Blue Cross Blue Shield of Georgia  
3350 Peachtree Road, NE  
Atlanta, Georgia 30326

Dear Ms. Bell:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Medicare Contractor's Pension Segmentation Requirements at Blue Cross Blue Shield of Georgia for January 1, 1993 to May 31, 2001." 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 email at [Jenenne.Tambke@oig.hhs.gov](mailto:Jenenne.Tambke@oig.hhs.gov). Please refer to report number A-07-07-00236 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Patrick J. Cogley".

Patrick J. Cogley  
Regional Inspector General  
for Audit Services

Enclosure

**Direct Reply to HHS Action Official:**

Tom Lenz, Consortium Administrator  
Consortium for Financial Management & Fee for Service Operations  
Centers for Medicare & Medicaid Services  
601 East 12<sup>th</sup> Street, Room 235  
Kansas City, MO 64106

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF MEDICARE  
CONTRACTOR'S PENSION  
SEGMENTATION REQUIREMENTS  
AT BLUE CROSS BLUE SHIELD OF  
GEORGIA FOR JANUARY 1, 1993  
TO MAY 31, 2001**



Daniel R. Levinson  
Inspector General

November 2007  
A-07-07-00236

# ***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 all 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. Specifically, these evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness in departmental programs. To promote impact, the reports also present practical recommendations for improving program operations.

## ***Office of Investigations***

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, 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 in OIG's internal operations. OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within HHS. OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops compliance program guidances, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

# *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 the information 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 HHS divisions will make final determination on these matters.

## **EXECUTIVE SUMMARY**

### **BACKGROUND**

Blue Cross Blue Shield of Georgia (Georgia) administers Medicare Part A operations under a cost reimbursement contract with the Centers for Medicare & Medicaid Services (CMS). In 2001, Georgia merged with WellPoint Health Networks Inc. (WellPoint). Effective May 31, 2001, Georgia's pension plan was merged into WellPoint's pension program.

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. Additionally, 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.

### **OBJECTIVE**

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

- implementing the prior audit findings, and
- updating the Medicare segment's assets from January 1, 1993 to May 31, 2001.

### **SUMMARY OF FINDINGS**

Georgia did not implement the prior audit recommendation to increase Medicare segment assets and did not comply with its Medicare contract's pension segmentation requirements while updating the segment's assets from January 1, 1993 to May 31, 2001. As a result, Georgia understated the May 31, 2001, Medicare segment pension assets by \$85,654.

### **RECOMMENDATIONS**

We recommend that Georgia:

- increase Medicare segment pension assets by \$85,654 as of May 31, 2001, and
- implement controls to ensure that the Medicare segment's assets are updated in accordance with the Medicare contract.

### **AUDITEE'S COMMENTS**

In written comments on our draft report, Georgia concurred with our recommendations. Georgia's response is included in its entirety as Appendix B.

**TABLE OF CONTENTS**

	<u>Page</u>
<b>INTRODUCTION</b> .....	1
<b>BACKGROUND</b> .....	1
Georgia’s Medicare Contract.....	1
Federal Regulations .....	1
<b>OBJECTIVE, SCOPE, AND METHODOLOGY</b> .....	1
Objective.....	1
Scope.....	1
Methodology .....	2
<b>FINDINGS AND RECOMMENDATIONS</b> .....	2
<b>MEDICARE CONTRACT AND COST ACCOUNTING STANDARDS</b> .....	3
Medicare Contract.....	3
Cost Accounting Standards.....	3
<b>PRIOR AUDIT RECOMMENDATION</b> .....	3
<b>COMPONENTS OF ASSET UPDATE</b> .....	4
Contributions and Prepayment Transfers Overstated .....	4
Earnings and Expenses Understated .....	4
Benefit Payments Overstated.....	5
Net Transfers Overstated .....	5
<b>UNDERSTATEMENT OF MEDICARE SEGMENT ASSETS</b> .....	6
<b>RECOMMENDATIONS</b> .....	6
<b>AUDITEE’S COMMENTS</b> .....	6
 <b>APPENDIXES</b>	
A – BLUE CROSS BLUE SHIELD OF GEORGIA STATEMENT OF MEDICARE PENSION ASSETS FOR THE PERIOD JANUARY 1, 1993, TO MAY 31, 2001	
B – AUDITEE’S COMMENTS	

## **Glossary of Abbreviations and Acronyms**

Georgia	Blue Cross Blue Shield of Georgia
CAS	Cost Accounting Standards
CMS	Centers for Medicare & Medicaid Services
OIG	Office of Inspector General
WAV	weighted average value
WellPoint	WellPoint Health Networks Inc.

## **INTRODUCTION**

### **BACKGROUND**

#### **Georgia's Medicare Contract**

Blue Cross Blue Shield of Georgia (Georgia) administers Medicare Part A operations under a cost reimbursement contract with the Centers for Medicare & Medicaid Services (CMS). In 2001, Georgia merged with WellPoint Health Networks Inc. (WellPoint). Effective May 31, 2001, Georgia's pension plan was merged into WellPoint's pension program.

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 asset allocation in accordance with Cost Accounting Standards (CAS) 412 and 413. Finally, in claiming costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation, CAS, and the Medicare contract.

#### **Federal Regulations**

The CAS 412 regulates the determination and measurement of pension cost components. 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.

### **OBJECTIVE, SCOPE, AND METHODOLOGY**

#### **Objective**

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

- implementing the prior audit findings, and
- updating the Medicare segment's assets from January 1, 1993 to May 31, 2001.

#### **Scope**

We reviewed Georgia's identification of its Medicare segment, and its update of Medicare assets from January 1, 1993, to May 31, 2001. Achieving our objective did not require us to review Georgia's overall internal control structure. However, we did review controls relating to the identification of the Medicare segment and the update of the segment assets to ensure adherence to the Medicare contract, CAS 412, and CAS 413.

We performed fieldwork at Georgia's office in Atlanta, Georgia during March 2007.

## **Methodology**

In performing our review, we used information provided by Georgia's prior and current actuarial consulting firms. The information included assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We reviewed Georgia's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Form 5500s. In addition, the CMS Office of the Actuary staff members used the documents to calculate Medicare segment assets as of May 31, 2001. We reviewed their methodology and calculations.

We performed this review in conjunction with our audit of the pension costs Georgia claimed for Medicare reimbursement (A-07-07-00238), and our audit of Georgia's unfunded pension costs (A-07-07-00237). The information obtained and reviewed during these audits was also used in performing this review.

Details of the Medicare segment's updated pension assets from January 1, 1993, to May 31, 2001, are presented in Appendix A.

We performed our review in accordance with generally accepted government auditing standards.

## **FINDINGS AND RECOMMENDATIONS**

Georgia did not implement the recommendation from the prior audit and did not comply with its Medicare contract's pension segmentation requirements while updating Medicare segment assets from January 1, 1993, to May 31, 2001.

As a result, Georgia understated the May 31, 2001, Medicare segment pension assets by \$85,654. The understatement occurred primarily because Georgia did not implement the prior audit recommendation. The accumulated understatement of Medicare segment assets is shown in Table 1.

<b>Table 1: Summary of Asset Adjustments</b>	
Prior Audit Recommendation	\$113,256
Contributions and Prepayment Transfers	(49,906)
Earnings and Expenses	129,583
Benefit Payments	10,526
Net Transfers	(117,805)
<b>(Over)Understatement of Medicare Segment Assets</b>	<b>\$85,654</b>

## **MEDICARE CONTRACT AND COST ACCOUNTING STANDARDS**

### **Medicare Contract**

The Medicare contract identifies a Medicare segment as:

. . . any organizational component of the contractor, such as a division, department, or other similar subdivision, having a significant degree of responsibility and accountability for the Medicare contract/agreement, in which:

1. The majority of the salary dollars is allocated to the Medicare agreement/contract; or,
2. Less than a majority of the salary dollars are charged to the Medicare agreement/contract, and these salary dollars represent 40 % or more of the total salary dollars charged to the Medicare agreement/contract.

Furthermore, the Medicare contract states that “. . . the pension assets allocated to each Medicare Segment shall be adjusted in accordance with CAS 413.50(c)(7).”

### **Cost Accounting Standards**

The CAS 413.50(c)(7) requires that the asset base be adjusted by contributions, permitted unfunded accruals, income, benefit payments, and expenses. For plan years beginning on or before March 30, 1995, the CAS requires investment income and expenses to be allocated among segments in proportion to the beginning of year asset value. For plan years beginning after March 30, 1995, the CAS requires investment income and expenses to be allocated among segments based on the ratio of the segment’s weighted average value (WAV) of assets to total company WAV of assets.

In addition, CAS 413.50(c)(8) requires an adjustment to be made for transfers (participants who enter or leave the segment) if the transfers materially affect the segment’s ratio of pension plan assets to actuarial accrued liabilities.

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

### **PRIOR AUDIT RECOMMENDATION**

Georgia did not implement the recommendation from our prior audit report. Our previous segmentation report (A-07-94-00779) addressed the update of the Medicare segment’s assets from January 1, 1986 to January 1, 1993. In that report, we recommended that Georgia increase segment assets from \$1,824,136 to \$1,937,392 (an increase of \$113,256) as of January 1, 1993. However, Georgia did not take that action.

## COMPONENTS OF ASSET UPDATE

Georgia did not properly account for contributions and prepayment transfers, earnings and expenses, benefit payments, and transfers while updating the segment's assets to May 31, 2001.

### Contributions and Prepayment Transfers Overstated

Georgia's update methodology did not equitably assign pension contributions to the Medicare segment. As a result, Georgia overstated contributions and prepayments by \$49,906. The overstatement occurred primarily because the January 1, 1993 segment assets and the asset values of subsequent years were incorrect.

The audited contributions and prepayment transfers are based on the assignable pension costs as calculated by the CMS Office of the Actuary. Since prepayment credits are available at the beginning of the year, they are applied first to cover current year assignable pension costs, and any remaining prepayment credits are updated with interest to the next measurement (valuation) date. Subsequent contributions are then allocated as needed to assigned pension costs as of the date of deposit.

The segment assets decreased by \$49,906 in the audited update, due to differences in assigned contributions and prepayment transfers. A comparison of Georgia's and OIG's calculations of pension contributions and prepayment transfers is shown in Table 2.

<b>Year</b>	<b>OIG</b>	<b>Georgia</b>	<b>Difference</b>
<b>1993</b>	\$83,652	\$86,307	\$(2,655)
<b>1994</b>	113,532	72,713	40,819
<b>1995</b>	146,225	102,272	43,953
<b>1996</b>	185,838	173,359	12,479
<b>1997</b>	157,171	164,707	(7,536)
<b>1998</b>	98,134	200,325	(102,191)
<b>1999</b>	0	0	0
<b>2000</b>	188,894	218,108	(29,214)
<b>2001*</b>	76,332	81,893	(5,561)
<b>Total</b>	<b>\$1,049,778</b>	<b>\$1,099,684</b>	<b>\$(49,906)</b>

\* Reflects the portion of the year between January 1, 2001 and May 31, 2001

### Earnings and Expenses Understated

Georgia understated the Medicare segment's investment earnings, less administrative expenses, by \$129,583 because it used an incorrect January 1, 1993 asset value and used differing asset components to develop the segment's subsequent annual assets. Georgia also used an incorrect methodology in allocating investment income and expenses to the Medicare segment after the effective date of the revised CAS (plan year 1996). In our audited update, we allocated earnings and expenses based on the applicable CAS requirement.

### **Benefit Payments Overstated**

Georgia overstated benefit payments by \$10,526 because it incorrectly calculated Medicare's share of annuity payments in two different years. This overstatement of benefit payments resulted in an understatement of the Medicare segment assets.

### **Net Transfers Overstated**

Georgia made adjustments for participant transfers in its update of Medicare segment assets. However, we determined that its adjustments were incorrect. As a result, Georgia's Medicare segment assets were overstated by \$117,805.

Following Georgia's methodology, our transfer adjustments considered each participant's actuarial liability and, where appropriate, the funding level of the segment from which the participant transferred. For transfers occurring prior to the 1996 plan year, asset transfers reflected the transferred liabilities multiplied by the funding level of the segment from which the participant transferred. We calculated the funding level as the assets divided by the liabilities. If the funding level was greater than one, we transferred assets equal to the participant's liability. For plan years starting with 1996, asset transfers were equal to the actuarial liability determined under the accrued benefit cost method in accordance with CAS.

A difference existed in net transfers primarily as a result of different segment asset values for the years 1993–1996. Consequently, different funding level percentages were calculated and applied to liability transfers, resulting in different asset transfers.

A comparison of Georgia's and OIG calculations of net asset transfers from the Medicare segment is shown in Table 3.

<b>Year</b>	<b>OIG</b>	<b>Georgia</b>	<b>Difference</b>
<b>1993</b>	\$(464,239)	\$(411,313)	\$(52,926)
<b>1994</b>	32,262	49,391	(17,129)
<b>1995</b>	(18,049)	37,756	(55,805)
<b>1996</b>	23,286	36,017	(12,731)
<b>1997</b>	(107,502)	(108,998)	1,496
<b>1998</b>	17,803	17,434	369
<b>1999</b>	(8,614)	(60,068)	51,454
<b>2000</b>	(221,696)	(189,163)	(32,533)
<b>Total</b>	<b>\$(746,749)</b>	<b>\$(628,944)</b>	<b>\$(117,805)</b>

## **UNDERSTATEMENT OF MEDICARE SEGMENT ASSETS**

These errors occurred because Georgia did not ensure that the Medicare segment's assets were updated in accordance with its Medicare contract. As of May 31, 2001, Georgia understated Medicare segment pension assets by \$85,654.

## **RECOMMENDATIONS**

We recommend that Georgia:

- increase Medicare segment pension assets by \$85,654 as of May 31, 2001, and
- implement controls to ensure that the Medicare segment's assets are updated in accordance with its Medicare contract.

## **AUDITEE'S COMMENTS**

In written comments on our draft report, Georgia concurred with our recommendations. Georgia's response is included in its entirety as Appendix B.

## **APPENDIXES**

**Blue Cross Blue Shield of Georgia**  
**Statement of Medicare Pension Assets**  
**For the Period**  
**January 1, 1993, to May 31, 2001**

**APPENDIX A**  
Page 1 of 4

Description	Total Company	Other Segment	Medicare Segment
Assets January 1, 1993	<u>1/</u> \$27,268,431	25,331,039	\$1,937,392
Prepayment Transfer	0	0	0
Contributions	<u>2/</u> 2,340,295	2,256,643	83,652
Earnings	<u>3/</u> 2,798,310	2,599,493	198,817
Benefit Payments	<u>4/</u> (594,294)	(587,515)	(6,779)
Expenses	<u>5/</u> (194,185)	(180,388)	(13,797)
Transfers	<u>6/</u> 0	464,239	(464,239)
Assets January 1, 1994	31,618,557	29,883,511	1,735,046
Prepayment Transfer	<u>7/</u> 0	(57,042)	57,042
Contributions	2,471,906	2,415,416	56,490
Earnings	157,187	148,278	8,909
Benefit Payments	(4,595,198)	(4,561,701)	(33,497)
Expenses	(158,155)	(149,191)	(8,964)
Transfers	0	(32,262)	32,262
Assets January 1, 1995	29,494,297	27,647,009	1,847,288
Prepayment Transfer	0	(75,208)	75,208
Contributions	5,833,692	5,762,675	71,017
Earnings	7,881,150	7,367,441	513,709
Benefit Payments	(791,201)	(710,697)	(80,504)
Expenses	(145,224)	(135,758)	(9,466)
Transfers	0	18,049	(18,049)
Assets January 1, 1996	42,272,714	39,873,511	2,399,203
Prepayment Transfer	0	(185,838)	185,838
Contributions	3,402,868	3,402,868	0
Earnings	6,541,809	6,123,034	418,775
Benefit Payments	(3,961,070)	(3,961,070)	0
Expenses	(293,829)	(275,019)	(18,810)
Transfers	0	(23,286)	23,286
Assets January 1, 1997	\$47,962,492	\$44,954,200	\$3,008,292

**Blue Cross Blue Shield of Georgia**  
**Statement of Medicare Pension Assets**  
**For the Period**  
**January 1, 1993, to May 31, 2001**

**APPENDIX A**  
Page 2 of 4

Description	Total Company	Other Segment	Medicare Segment
<b>Assets January 1, 1997</b>	<b>\$47,962,492</b>	<b>\$44,954,200</b>	<b>\$3,008,292</b>
Prepayment Transfer	0	(157,171)	157,171
Contributions	2,560,816	2,560,816	0
Earnings	9,739,339	9,083,903	655,436
Benefit Payments	(2,284,410)	(2,284,410)	0
Expenses	(247,054)	(230,428)	(16,626)
Transfers	0	107,502	(107,502)
<b>Assets January 1, 1998</b>	<b>57,731,183</b>	<b>54,034,412</b>	<b>3,696,771</b>
Prepayment Transfer	0	(92,649)	92,649
Contributions	1,905,231	1,899,746	5,485
Earnings	9,170,166	8,555,372	614,794
Benefit Payments	(2,902,658)	(2,902,658)	0
Expenses	(299,594)	(279,508)	(20,086)
Transfers	0	(17,803)	17,803
<b>Assets January 1, 1999</b>	<b>65,604,328</b>	<b>61,196,912</b>	<b>4,407,416</b>
Prepayment Transfer	0	0	0
Contributions	1,282,570	1,282,570	0
Earnings	10,725,881	9,985,799	740,082
Benefit Payments	(3,801,774)	(3,801,774)	0
Expenses	(331,837)	(308,940)	(22,897)
Transfers	0	8,614	(8,614)
<b>Assets January 1, 2000</b>	<b>73,479,168</b>	<b>68,363,181</b>	<b>5,115,987</b>
Prepayment Transfer	0	0	0
Contributions	3,692,783	3,503,889	188,894
Earnings	(3,031,135)	(2,815,155)	(215,980)
Benefit Payments	(3,553,448)	(3,553,448)	0
Expenses	(425,909)	(395,561)	(30,348)
Transfers	0	221,696	(221,696)
<b>Assets January 1, 2001</b>	<b>\$70,161,459</b>	<b>\$65,324,602</b>	<b>\$4,836,857</b>

**Blue Cross Blue Shield of Georgia**  
**Statement of Medicare Pension Assets**  
**For the Period**  
**January 1, 1993, to May 31, 2001**

Description	Total Company	Other Segment	Medicare Segment
Assets January 1, 2001	\$70,161,459	\$65,324,602	\$4,836,857
Prepayment Transfer	0	(1,106)	1,106
Contributions	2,155,128	2,079,902	75,226
Earnings	(3,563,489)	(3,313,967)	(249,522)
Benefit Payments	(2,313,312)	(2,313,312)	0
Expenses	(70,088)	(65,180)	(4,908)
Transfers	n/a	n/a	n/a
Assets May 31, 2001	\$66,369,698	\$61,710,939	\$4,658,759
Per Georgia	<u>8/</u> \$66,369,698	\$61,796,593	\$4,573,105
Asset Variance	<u>9/</u> \$0	(\$85,654)	\$85,654

**FOOTNOTES**

- 1/ We determined the Medicare segment assets as of January 1, 1993 in our prior audit (A-07-94-00779). The amounts shown for the Other segment represent the difference between the total company and the Medicare segment. All pension assets are shown at market value.
- 2/ We obtained total company contribution amounts from the actuarial valuation reports and Department of Labor/Internal Revenue Service Form 5500s. We allocated total company contributions to the Medicare segment based on the ratio of the Medicare segment funding target divided by the total company funding target. Contributions in excess of the funding targets were treated as prepayment credits and accounted for in the Other segment until needed to fund pension costs in the future.
- 3/ We obtained investment earnings from actuarial valuation reports and documents prepared by Georgia's consulting actuarial firm. We allocated investment earnings based on the market value of Medicare assets at the beginning of the plan year after adjustment for transfers. For years starting with 1996, we allocated investment earnings based on the ratio of the segment's weighted average value (WAV) of assets to total company WAV of assets as required by the Cost Accounting Standards.
- 4/ We reviewed and accepted Georgia's benefit payments to Medicare segment retirees except as explained in the Components of Asset Update section of the report. We based the Medicare segment's benefit payments on actual payments to Medicare retirees.
- 5/ We allocated administrative expenses to the Medicare segment in proportion to investment income.

**Blue Cross Blue Shield of Georgia**  
**Statement of Medicare Pension Assets**  
**For the Period**  
**January 1, 1993, to May 31, 2001**

**APPENDIX A**

Page 4 of 4

- 6/ We identified participant transfers between segments by comparing valuation data files provided by Georgia's consulting actuary. Our transfer adjustment considered each participant's actuarial liability as explained in the Components of Asset Update section. Transfers during 2001 were not addressed in this report.
- 7/ Prepayment credits represent funds available to satisfy future funding requirements, and are applied to future funding requirements before current year contributions in order to reduce interest costs to the Federal Government. Prepayment credits are transferred to the Medicare segment as needed to cover funding requirements.
- 8/ We obtained total asset amounts as of May 31, 2001, from documents prepared by Georgia's actuarial consulting firm. Information obtained for 2001 covers the period between January 1, 2001 and May 31, 2001, at which time Georgia's pension plan was merged into the WellPoint pension program.
- 9/ The asset variance represents the difference between our calculation of Medicare segment assets and Georgia's market value of assets.



Blue Cross and Blue Shield of Georgia  
3350 Peachtree Road, NE; P.O. Box 4445  
Atlanta, Georgia 30326  
An Independent Licensee of The Blue Cross and Blue Shield Association

A CMS Contracted Intermediary

November 9, 2007

Mr. Patrick J. Cogley, Regional Inspector General  
Office of Inspector General/Office of Audit Services  
Regional VII  
601 East 12<sup>th</sup> Street, Room 284A  
Kansas City, MO 64106

**RE: Report Number: A-07-07-00236**

Dear Mr. Cogley:

I am writing to provide comments related to the U.S. Department of Health and Human Services, Office of Inspector General (OIG) draft report. The report is entitled "Review of Medicare Contractor's Pension Segmentation Requirements at Blue Cross Blue Shield of Georgia for January 1, 1993 to May 31, 2001."

Blue Cross Blue Shield of Georgia (BCBSGA) concurs with the one finding identified in the report. Therefore, BCBSGA will increase the Medicare segment pension assets by \$85,654 as of May 31, 2001 and will ensure that the Medicare segment's assets are updated in accordance with the Medicare contract for subsequent years.

If you have questions, please contact Art Ellis at (404) 842-8742 or via e-mail at [aellis@bcbsga.com](mailto:aellis@bcbsga.com).

Sincerely,

A handwritten signature in cursive script that reads "Pamela F. Bell".

Pamela F. Bell, Vice President  
Government Services

## MEDICARE

Pamela Bell  
Vice President

Office: 404-842-8643  
Fax: 404-842-8081  
[pbell@bcbsga.com](mailto:pbell@bcbsga.com)

