



JAN 27 2003

Washington, D.C. 20201

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

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

A handwritten signature in black ink, which appears to read "D. Duquette", is written over the printed name and title of the sender.

SUBJECT: Audit of the Pension Plan at a Terminated Medicare Contractor, Blue Cross Blue Shield of Minnesota (A-07-01-03001)

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, Blue Cross Blue Shield of Minnesota." A copy of this report, identifying over \$2 million in excess pension assets at Blue Cross Blue Shield of Minnesota (Minnesota), 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.

Minnesota was a Medicare contractor until its contract was terminated in 1999 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 Minnesota remit \$2,003,341 in excess pension assets to the Medicare program.

Minnesota concurred with our findings and recommendation.

If you need additional information about this report, contact George M. Reeb, Assistant Inspector General for the Centers for Medicare and Medicaid Audits, at (410) 786-7104 or James P. Aasmundstad, Regional Inspector General for Audit Services, Region VII, on (816) 426-3591.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF THE PENSION PLAN
AT A TERMINATED MEDICARE
CONTRACTOR, BLUE CROSS
BLUE SHIELD OF MINNESOTA**



**JANET
INSPECTOR GENERAL**

**JANUARY 2003
A-07-01-03001**

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 Authorized officials of the awarding agency will make final determination on these matters.





DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

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

Report Number A-07-01-03001

JAN 30 2003

Mr. Keith A. Lindstam
Principal Internal Auditor
Blue Cross Blue Shield of Minnesota
1303 Corporate Center Drive (Route T-106)
Eagan, Minnesota 55121-1204

Dear Mr. Lindstam:

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, Blue Cross Blue Shield of Minnesota." The purpose of our review was to evaluate Blue Cross Blue Shield of Minnesota's (Minnesota) 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 July 31, 1999.

We computed excess pension assets of \$2,003,341 which Minnesota should remit to the Federal Government. Minnesota concurred with our findings in total.

INTRODUCTION

BACKGROUND

Minnesota administered Medicare Parts A and B under cost reimbursement contracts until the Part B contractual relationship terminated in 1996, and the Part A contractual relationship terminated in 1999. 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 their 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 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.

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.

Minnesota terminated a prior pension plan on or about December 31, 1986 and implemented a new pension plan on January 1, 1987. In our report entitled, "Audit of Medicare Contractor's Segmented Pension Costs, Blue Cross Blue Shield of Minnesota," dated May 16, 1990 (A-07-90-00263), we addressed the termination of the prior pension plan.

Minnesota's Medicare Part B contract was terminated as of January 1, 1996. Minnesota's Part A contract was terminated on July 31, 1999. The majority of Minnesota's Medicare Part B employees were terminated or transferred out of the segment by December 31, 1996. Also, the majority of Minnesota's Medicare Part A employees were terminated or transferred out of the segment by July 31, 1999, and the Medicare segment was closed on that date. 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....

(ii) 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."

Medicare contracts specifically prohibit any profit (gain) from Medicare activities. Therefore, according to the contract, pension gains that occur when a Medicare segment terminates 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 Federal Government for its equitable share (FAR, section 31.205-6(j)(4)).

OBJECTIVES, SCOPE, AND METHODOLOGY

We made our examination in accordance with generally accepted government auditing standards. Our objectives were to determine Minnesota'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. Achieving our objectives did not require a review of Minnesota's internal control structure.

Minnesota's contract was terminated and the Medicare segment closed on July 31, 1999. Minnesota suggested, and we agreed, that July 31, 1999 would be an appropriate settlement date for the closing of the segment. We, therefore, reviewed Minnesota's identification of the Medicare segment and its update of Medicare assets from January 1, 1987 to July 31, 1999.

In performing the review, we used information provided by Towers and Perrin, and Watson Wyatt Worldwide, Minnesota's actuaries. The information included liabilities, normal costs, contributions, benefit payments, earnings, and administrative expenses. We reviewed Minnesota's accounting records, pension plan documents, annual actuarial valuation reports, and the Department of Labor/Internal Revenue Service Form 5500s. Using these documents, we calculated Medicare segment assets as of July 31, 1999. The CMS pension actuarial staff reviewed our methodology and calculations.

Site work at Minnesota's corporate offices in Eagan, Minnesota was performed during May 2001. We performed subsequent audit work in our OIG, OAS Jefferson City, Missouri field office.

FINDINGS AND RECOMMENDATION

When Minnesota's Medicare segment closed, Medicare's share of the excess pension assets was \$2,003,341, which we are recommending be remitted to the Federal Government. To determine Medicare's share, it was necessary to (1) update segment assets to July 31, 1999 and (2) calculate the actuarial liability for accrued benefits for the segment and the excess Medicare assets.

UPDATE OF MEDICARE SEGMENT ASSETS FROM JANUARY 1, 1987 TO JULY 31, 1999

Minnesota's methodology in updating the Medicare segment assets from January 1, 1987 to July 31, 1999 resulted in an understatement of Medicare segment assets of \$242,181. This understatement occurred because Minnesota: (1) overstated net transfers out, (2) overstated pension contributions, (3) overstated benefit payments, and (4) overstated earnings and expenses.

Participants and Transfers

Minnesota's transfer adjustments (representing participants transferring into and out of the Medicare segment) understated Medicare segment assets by \$978,749. We identified net transfers of the Medicare segment for the period January 1, 1987 to July 31, 1999 of \$5,206,014. Minnesota identified net transfers out as \$6,184,763 for the same period. Therefore, Minnesota transferred out \$978,749 more assets than the OIG for the period. Minnesota did not provide details to support its transfer adjustments. Consequently, we were unable to identify the reason for the differences between Minnesota's and our audited asset transfers. In comparison, Minnesota's and our computation of net transfer amounts were as follows:

Net Transfer Variance For The Medicare Segment

<u>Year</u>	<u>Net Transfers Per OIG</u>	<u>Net Transfers Per Minnesota</u>	<u>Variance</u>
1987	\$(23,282)	\$0	(\$23,282)
1988	(278)	0	(278)
1989	(25,022)	0	(25,022)
1990	(59,521)	(50,054)	(9,467)
1991	(103,083)	(83,817)	(19,266)
1992	(107,598)	346,559	(454,157)
1993	(409,424)	(856,982)	447,558
1994	(466,307)	(538,325)	72,018
1995	(649,449)	(491,575)	(157,874)
1996	(1,624,216)	(2,302,394)	678,178
1997	(1,196,086)	(1,091,691)	(104,395)
1998	(541,748)	(1,038,290)	496,542
1999	0	(78,194)	78,194
Total	<u>(\$5,206,014)</u>	<u>(\$6,184,763)</u>	<u>\$978,749</u>

We used the OIG transfer amounts in updating the Medicare segment assets (see Appendix A). Our computation resulted in a net increase of \$978,749 in the Medicare segment.

Pension Contributions and Prepayment Credits

Minnesota's update methodology did not equitably assign pension contributions to the Medicare segment. As a result, Minnesota overstated segment assets by \$662,979. The overstatement

primarily occurred because Minnesota assigned contributions equal to the segment's computed pension costs.

Minnesota assigned a portion of the total company pension contributions to the Medicare segment based on its computation of the segment's separately calculated pension costs. Our changes to the asset base changed the computation of the segment's pension costs as well as the assignment of the contributions.

Additionally, for the years 1988, 1989, 1992, 1993, and 1999, Minnesota's assigned contributions exceeded the required funding of the CAS pension costs. According to the CAS at 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. Minnesota did not take these excess contributions into consideration when developing its update of segment assets. We considered these excess contributions in our computations and prepayment adjustments to fund the CAS pension costs of the Medicare segment.

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). Our calculations decreased the segment assets by \$662,979. A comparison of Minnesota's and our calculation of pension contributions follows:

Contribution Variance For The Medicare Segment

<u>Year</u>	<u>Contributions Per OIG</u>	<u>Contributions Per Minnesota</u>	<u>Variance</u>
1987	\$338,896	\$366,838	(27,942)
1988	257,053	309,300	(52,247)
1989	323,930	340,363	(16,433)
1990	495,500	512,004	(16,504)
1991	474,035	549,988	(75,953)
1992	489,854	579,448	(89,594)
1993	691,567	707,540	(15,973)
1994	789,758	771,236	18,522
1995	776,460	769,040	7,420
1996	522,430	636,728	(114,298)
1997	497,724	483,044	14,680
1998	455,745	490,888	(35,143)
1999	0	259,514	(259,514)
Total	<u>\$6,112,952</u>	<u>\$6,775,931</u>	<u>\$(662,979)</u>

Benefit Payments

For the years 1987 through 1992, Minnesota identified benefit payments to Medicare segment inactive participants totaling \$14,060. However, Minnesota was unable to provide the necessary documentation to verify these payments. We, therefore, disallowed the \$14,060 of benefit payments for the years 1987 through 1992.

For the years 1993 through the segment closing date, Minnesota changed its methodology for its inactive participants and transferred them out of its pension plan. We accepted Minnesota's change in methodology for these years and utilized it in our update of segment assets for the years 1993 through the segment closing date.

Earnings and Expenses

Minnesota's update methodology allocated investment earnings and expenses based on a ratio of Medicare segment assets to total company assets. Because Minnesota's asset amounts were incorrect, it overstated the segment's earnings and expenses for each year of the update. Except for using our adjusted asset values, we used Minnesota's allocation methodology for earnings and expenses in our update and decreased the Medicare segment assets by \$87,649.

CALCULATION OF ACTUARIAL ACCRUED LIABILITY AND EXCESS MEDICARE ASSETS

Minnesota computed the Medicare segment's actuarial accrued liability for accrued benefits to be \$3,602,163 as of the July 31, 1999 segment closing date. We accepted Minnesota's calculation of these final segment liabilities. After considering our computed Medicare segment assets of \$5,673,720, the excess segment assets as of July 31, 1999 were \$2,071,557. 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 96.707 percent. After applying the Medicare percentage of 96.707 to the excess segment assets of \$2,071,557, the resulting amount of \$2,003,341 represents the portion attributable to Medicare. Because of the termination of the Medicare contract, this excess must be remitted to the Federal Government.

Recommendation

We recommend that Minnesota:

- Refund \$2,003,341 of excess Medicare pension assets resulting from the termination of its Medicare contract to the Federal Government.

Auditee's Response

Minnesota concurred with our findings in total (see Appendix B).

INSTRUCTIONS FOR AUDITEE RESPONSE

Final determination as to actions taken on all matters reported will be made by the CMS 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 CMS 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 the 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 worldwide web at <http://oig.hhs.gov/>.

Sincerely,



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

Enclosures

HHS Action Official:

Ms. Dorothy Burk Collins
Regional Administrator, Region V
Centers for Medicare and Medicaid Services
233 North Michigan Avenue, Suite 600
Chicago, Illinois 60601

BLUE CROSS BLUE SHIELD OF MINNESOTA
STATEMENT OF MEDICARE PENSION ASSETS
JANUARY 1, 1987 TO JULY 31, 1999

Description		Total Company	Other Segment	Medicare
Assets as of January 1, 1987	<u>1/</u>	\$500,974	\$500,974	\$0
Prepayment Transfers	<u>2/</u>	0	0	0
Contributions	<u>3/</u>	3,197,028	2,858,132	338,896
Net Spin-Off Adjustment	<u>4/</u>	80,567	80,567	0
Earnings	<u>5/</u>	74,773	74,773	0
Benefit Payments	<u>6/</u>	(54,269)	(54,269)	0
Expenses	<u>7/</u>	(7,692)	(7,692)	0
Transfers	<u>8/</u>	0	23,282	(23,282)
Assets as of January 1, 1988		\$3,791,381	\$3,475,767	\$315,614
Prepayment Transfers		0	(4)	4
Contributions		2,608,228	2,351,175	257,053
Other Transactions		0	0	0
Earnings		44,233	40,544	3,689
Benefit Payments		(13,243)	(13,243)	0
Expenses		(76,430)	(70,056)	(6,374)
Transfers		0	278	(278)
Assets as of January 1, 1989		\$6,354,169	\$5,784,461	\$569,708
Prepayment Transfers		0	0	0
Contributions		3,234,952	2,911,022	323,930
Other Transactions		0	0	0
Earnings		461,522	419,907	41,615
Benefit Payments		(21,769)	(21,769)	0
Expenses		(158,388)	(144,106)	(14,282)
Transfers		0	25,022	(25,022)
Assets as of January 1, 1990		\$9,870,486	\$8,974,537	\$895,949

BLUE CROSS BLUE SHIELD OF MINNESOTA
STATEMENT OF MEDICARE PENSION ASSETS
JANUARY 1, 1987 TO JULY 31, 1999

Description	Total Company	Other Segment	Medicare
Assets as of January 1, 1990	\$9,870,486	\$8,974,537	\$895,949
Prepayment Transfers	0	0	0
Contributions	5,452,227	4,956,727	495,500
Other Transactions	0	0	0
Earnings	930,174	845,277	84,897
Benefit Payments	(112,637)	(112,637)	0
Expenses	(135,245)	(122,901)	(12,344)
Transfers	0	59,521	(59,521)
Assets as of January 1, 1991	\$16,005,005	\$14,600,524	\$1,404,481
Prepayment Transfers	0	(48,523)	48,523
Contributions	5,311,266	4,837,231	474,035
Other Transactions	0	0	0
Earnings	3,269,868	2,971,673	298,195
Benefit Payments	(194,866)	(194,866)	0
Expenses	(208,896)	(189,846)	(19,050)
Transfers	0	103,083	(103,083)
Assets as of January 1, 1992	\$24,182,377	\$22,079,276	\$2,103,101
Prepayment Transfers	0	(41,118)	41,118
Contributions	5,137,181	4,647,327	489,854
Delta Dental Transfer	<u>9/</u> 2,362,109	2,152,664	209,445
Earnings	2,303,518	2,097,799	205,719
Benefit Payments	(135,395)	(135,395)	0
Expenses	(231,532)	(210,855)	(20,677)
Transfers	0	107,598	(107,598)
Assets as of January 1, 1993	\$33,618,258	\$30,697,296	\$2,920,962

BLUE CROSS BLUE SHIELD OF MINNESOTA
STATEMENT OF MEDICARE PENSION ASSETS
JANUARY 1, 1987 TO JULY 31, 1999

Description	Total Company	Other Segment	Medicare
Assets as of January 1, 1993	\$33,618,258	\$30,697,296	\$2,920,962
Prepayment Transfers	0	0	0
Contributions	6,532,909	5,841,342	691,567
Other Transactions	0	0	0
Earnings	2,862,876	2,610,494	252,382
Benefit Payments	(236,607)	(236,607)	0
Expenses	(195,145)	(177,942)	(17,203)
Transfers	0	409,424	(409,424)
Assets as of January 1, 1994	\$42,582,291	\$39,144,007	\$3,438,284
Prepayment Transfers	0	0	0
Contributions	10,255,016	9,465,258	789,758
Other Transactions	0	0	0
Earnings	(115,912)	(105,962)	(9,950)
Benefit Payments	(5,553,157)	(5,553,157)	0
Expenses	0	0	0
Transfers	0	466,307	(466,307)
Assets as of January 1, 1995	\$47,168,238	\$43,416,453	\$3,751,785
Prepayment Transfers	0	(23,629)	23,629
Contributions	12,507,836	11,731,376	776,460
Other Transactions	0	0	0
Earnings	10,799,326	9,921,471	877,855
Benefit Payments	(2,822,245)	(2,822,245)	0
Expenses	(856,946)	(787,287)	(69,659)
Transfers	0	649,449	(649,449)
Assets as of January 1, 1996	\$66,796,209	\$62,085,588	\$4,710,621

BLUE CROSS BLUE SHIELD OF MINNESOTA
STATEMENT OF MEDICARE PENSION ASSETS
JANUARY 1, 1987 TO JULY 31, 1999

Description	Total Company	Other Segment	Medicare
Assets as of January 1, 1996	\$66,796,209	\$62,085,588	\$4,710,621
Prepayment Transfers	0	(57,333)	57,333
Contributions	13,125,337	12,602,907	522,430
Other Transactions	0	0	0
Earnings	10,935,113	10,118,104	817,009
Benefit Payments	(10,015,779)	(10,015,779)	0
Expenses	0	0	0
Transfers	0	1,624,216	(1,624,216)
Assets as of January 1, 1997	\$80,840,880	\$76,357,703	\$4,483,177
Prepayment Transfers	0	(46,797)	46,797
Contributions	17,049,892	16,552,168	497,724
Other Transactions	0	0	0
Earnings	16,216,974	15,265,816	951,158
Benefit Payments	(11,824,629)	(11,824,629)	0
Expenses	0	0	0
Transfers	0	1,196,086	(1,196,086)
Assets as of January 1, 1998	\$102,283,117	\$97,500,347	\$4,782,770
Prepayment Transfers	0	(45,580)	45,580
Contributions	14,032,188	13,576,443	455,745
Other Transactions	0	0	0
Earnings	13,528,128	12,882,015	646,113
Benefit Payments	(6,152,898)	(6,152,898)	0
Expenses	0	0	0
Transfers	0	541,748	(541,748)
Assets as of January 1, 1999	\$123,690,535	\$118,302,075	\$5,388,460

BLUE CROSS BLUE SHIELD OF MINNESOTA
STATEMENT OF MEDICARE PENSION ASSETS
JANUARY 1, 1987 TO JULY 31, 1999

Description	Total Company	Other Segment	Medicare
Assets as of January 1, 1999	\$123,690,535	\$118,302,075	\$5,388,460
Prepayment Transfers	0	0	0
Contributions	8,452,922	8,452,922	0
Other Transaction	0	0	0
Earnings	6,732,158	6,436,492	295,666
Benefit Payments	(7,519,054)	(7,519,054)	0
Expenses	(236,935)	(226,529)	(10,406)
Transfers	0	0	0
Assets as of July 31, 1999	\$131,119,626	\$125,445,906	\$5,673,720
Per Minnesota	<u>10/</u> <u>131,119,626</u>	<u>125,688,087</u>	<u>5,431,539</u>
Asset Variance	<u>11/</u> <u>\$0</u>	<u><u>(\$242,181)</u></u>	<u><u>\$242,181</u></u>

FOOTNOTES

1. We updated the Medicare segment assets from January 1, 1987 to July 31, 1999. 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 costs. 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. Minnesota did not compute prepayment credits for contributions in excess of the CAS costs. The audited prepayment credits are computed in accordance with the CAS standards.
3. We obtained total contribution amounts from IRS Form 5500 reports. We assigned contributions to the Medicare segment based on the ratio of the segment's year-end CAS required funding to the total company's year-end CAS required funding. Minnesota, however, used actual contributions and allocated to the segments based on the expected CAS costs for the year.
4. Other transactions include adjustments made for pension plan spin-offs and pension plan mergers. We reviewed Minnesota's pension plan spin-off in our prior report

BLUE CROSS BLUE SHIELD OF MINNESOTA
STATEMENT OF MEDICARE PENSION ASSETS
JANUARY 1, 1987 TO JULY 31, 1999

(A-07-90-00263). The only other transaction of this type that Minnesota had was the Delta Dental transfer of assets. See Note 9 for the details of this transaction.

5. We obtained investment earnings from actuarial valuation reports. Minnesota allocated their investment earnings based on the average value of assets. We followed Minnesota's methodology.
6. We obtained total benefit payments from actuarial valuation reports. However, Minnesota could not substantiate its Medicare segment benefit payments. We, therefore, disallowed the benefit payments charged to the Medicare segment.
7. We obtained Minnesota's pension plan expenses from actuarial valuation reports. Minnesota allocated their investment earnings based on the average value of assets. We followed Minnesota's methodology.
8. We identified participant transfers between segments by comparing annual participant valuation listings provided by Minnesota. 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 calculated the funding level as the assets divided by the liabilities. If the funding level ratio was greater than one, we transferred assets equal to the participant's liability.
9. The Delta Dental Plan of Minnesota pension plan was merged into Minnesota's pension plan effective January 1, 1993. We allocated a portion of Delta's plan assets to the Medicare segment based on the ratio of the January 1, 1992 Medicare segment assets, plus prepayment transfers to the segment, to the January 1, 1992 total company assets, plus any prepayment transfers to the total company.
10. We obtained the total company assets as of July 31, 1999 from Minnesota's update of assets as provided by its actuary.
11. The asset variance represents the difference between the OIG calculation of Medicare segment assets as of July 31, 1999 and the segment assets calculated by Minnesota

**BlueCross BlueShield
of Minnesota**



December 20, 2002

Mr. Greg Tambke
Office of Inspector General
Office of Audit Services
Region VII
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Kansas City, Missouri 64106

P.O. Box 64560

St. Paul, MN

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1.800.382.2000

www.bluecrossmn.com

Re: CIN: A-07-01-03001

Dear Mr. Tambke,

I am writing in reference to the draft report titled *Audit of the Pension Plan of a Terminated Medicare Contractor, Blue Cross Blue Shield of Minnesota*. The draft report was dated October 18, 2002.

The single recommendation in the report was that Blue Cross Blue Shield of Minnesota refund \$1,862,235 of excess Medicare pension assets resulting from the termination of its Medicare contract to the Federal Government. This amount was revised to \$2,003,341 in a later communication.

We have reviewed your report and we accept the recommendation. We understand that any financial settlement will not take place until all reviews related to this topic have been completed.

Please contact me at 651-662-1668 if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Timothy A. Schultz".

Timothy A. Schultz
Vice President of Finance

cc: Keith Lindstam BCBSMN
Bruce Thoresen BCBSMN