



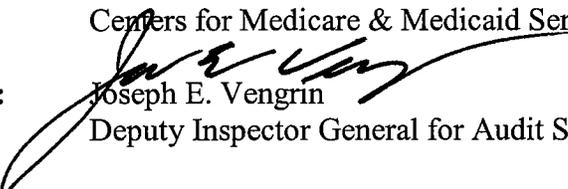
DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

APR 26 2006

TO: Wynethea Walker
Director, Audit Liaison Staff
Centers for Medicare & Medicaid Services

FROM: 
Joseph E. Vengrin
Deputy Inspector General for Audit Services

SUBJECT: Review of Medicare Contractor's Pension Segmentation Requirements at Blue Cross Blue Shield of Utah for the Period Covering January 1, 1986, to January 1, 1998 (A-07-05-00190)

Attached is an advance copy of our final report on Blue Cross Blue Shield of Utah's (Utah's) pension segmentation requirements. We will issue this report to Utah within 5 business days. We suggest that you share this report with the Centers for Medicare & Medicaid Services (CMS) components involved with monitoring the Medicare contractors' financial operations, particularly the Center for Medicare Management and the Office of the Actuary.

Utah administered Medicare Parts A and B operations under cost reimbursement contracts with CMS until Utah merged with The Regence Group on January 1, 1998. Regulations and the Medicare contracts provide for pension segmentation requirements and the update of segment assets.

Our objective was to determine whether Utah complied with the Medicare contracts' pension segmentation requirements while updating Medicare segment assets from January 1, 1986, to January 1, 1998.

Utah did not correctly identify the initial allocation of pension plan assets to the Medicare segment as of January 1, 1986, and did not comply with the Medicare contract's pension segmentation requirements for updating Medicare segment assets from January 1, 1986, to January 1, 1991. Additionally, Utah did not update the Medicare segment assets from January 1, 1991, to January 1, 1998. If Utah had properly updated its pension plan assets, it would have identified Medicare segment pension assets of \$2,040,174 as of January 1, 1998.

We recommend that Utah identify Medicare segment pension assets of \$2,040,174 as of January 1, 1998. Utah agreed with our recommendation.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact George M. Reeb, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or Patrick J. Cogley, Regional Inspector General for Audit Services, Region VII, at (816) 426-3591. Please refer to report number A-07-05-00190.

Attachment



Office of Audit Services
Region VII
601 East 12th Street, Room 284A
Kansas City, MO 64106
(816) 426-3591

Report Number: A-07-05-00190

APR 28 2006

Mr. R. Paul Warburton, CPA
Director of Finance
Regence Blue Cross Blue Shield of Utah
2890 East Cottonwood Parkway
Salt Lake City, Utah 84121-7035

Dear Mr. Warburton:

Enclosed are two copies of 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 Utah for the Period Covering January 1, 1986, to January 1, 1998." A copy of this report will be forwarded to the HHS action official noted on the next 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 the HHS action 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.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. § 552, as amended by Public Law 104-231), OIG reports issued to the Department's grantees and contractors are made available to the public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR part 5).

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591 or Jenenne Tambke, Audit Manager, at (573) 893-8338, extension 21, or through e-mail at Jenenne.Tambke@oig.hhs.gov. Please refer to report number A-07-05-00190 in all correspondence.

Sincerely,

Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosures

Direct Reply to HHS Action Official:

Mr. Alex Trujillo
Regional Administrator, Region VIII
Centers for Medicare & Medicaid Services
Colorado State Bank Building
1600 Broadway, Suite 700
Denver, Colorado 80202

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF MEDICARE
CONTRACTOR'S PENSION
SEGMENTATION REQUIREMENTS
AT BLUE CROSS BLUE SHIELD
OF UTAH FOR THE PERIOD
COVERING JANUARY 1, 1986, TO
JANUARY 1, 1998**



Daniel R. Levinson
Inspector General

April 2006
A-07-05-00190

Office of Inspector General

<http://oig.hhs.gov>

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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 Utah (Utah) administered Medicare Parts A and B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until Utah merged with The Regence Group (TRG) on January 1, 1998. Effective January 1, 1998, TRG merged Utah's noncontributory retirement program into the TRG pension plan.

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 412 and 413.

OBJECTIVE

Our objective was to determine whether Utah complied with the Medicare contracts' pension segmentation requirements while updating Medicare segment assets from January 1, 1986, to January 1, 1998.

SUMMARY OF FINDINGS

Utah did not correctly identify the initial allocation of pension plan assets to the Medicare segment as of January 1, 1986, and did not comply with the Medicare contract's pension segmentation requirements for updating Medicare segment assets from January 1, 1986, to January 1, 1991. Additionally, Utah did not update the Medicare segment assets from January 1, 1991, to January 1, 1998. If Utah had properly updated its pension plan assets, it would have identified Medicare segment pension assets of \$2,040,174 as of January 1, 1998.

RECOMMENDATION

We recommend that Utah identify Medicare segment pension assets of \$2,040,174 as of January 1, 1998.

AUDITEE'S COMMENTS

Utah concurred with our recommendation. Utah's response is included in its entirety as Appendix B.

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Glossary of Abbreviations and Acronyms

CAS	Cost Accounting Standards
CMS	Centers for Medicare & Medicaid Services
FY	fiscal year
NEBA	National Employee Benefit Administration
OIG	Office of Inspector General
TRG	The Regence Group
Utah	Blue Cross Blue Shield of Utah

INTRODUCTION

BACKGROUND

Utah's Medicare Contract

Blue Cross Blue Shield of Utah (Utah) administered Medicare Parts A and B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until Utah merged with The Regence Group (TRG) on January 1, 1998. Effective January 1, 1998, TRG merged Utah's noncontributory retirement program into the TRG pension plan. Utah also participated in the National Retirement Program administered by the Blue Cross Blue Shield National Employee Benefit Administration (NEBA) until January 1, 1992.

CMS incorporated segmentation requirements into Medicare contracts starting in fiscal year (FY) 1988. The Medicare contract defines a segment and specifies the methodology for the identification and initial allocation of pension assets to the segment. Furthermore, the contract requires Medicare segment assets to be updated for each year after the initial allocation in accordance with Cost Accounting Standards (CAS) 412 and 413. Finally, in claiming costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulations, CAS, and Medicare contract.

Regulations

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

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

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether Utah complied with the Medicare contracts' pension segmentation requirements while updating Medicare segment assets from January 1, 1986, to January 1, 1998.

Scope

We reviewed Utah's identification of the Medicare segment as of January 1, 1986, and traced the segment's organizational lineage back to 1981. We also reviewed Utah's computation of the asset fraction and its update of Medicare assets from January 1, 1986, to January 1, 1991. Our objectives did not require us to review Utah'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 Utah's office in Salt Lake City, Utah, during May 2005.

Methodology

In performing this review, we used information provided by Utah's current actuarial consulting firm for plan years 1992 through 1997 and NEBA's consulting actuarial firm for plan years 1986 through 1991. The information included assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We reviewed Utah's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Form 5500s. Using these documents, we calculated the asset fraction and determined the 1986 Medicare segment assets. In addition, the CMS Office of the Actuary staff used the documents to calculate Medicare segment assets as of January 1, 1998. We reviewed the methodology and calculations.

We performed this review in conjunction with our audits of unfunded pension costs (A-07-06-00198) and pension costs claimed for Medicare reimbursement (A-07-06-00199). We used the information obtained and reviewed during those audits in performing this review.

Appendix A presents details for the updated pension assets of the Medicare segment from January 1, 1986, to January 1, 1998.

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

FINDINGS AND RECOMMENDATION

Utah did not correctly identify the initial allocation of pension plan assets to the Medicare segment as of January 1, 1986, and did not comply with the Medicare contract's pension segmentation requirements for updating Medicare segment assets from January 1, 1986, to January 1, 1991. Additionally, Utah did not update the Medicare segment assets from January 1, 1991, to January 1, 1998. If Utah had properly updated its pension plan assets, it would have identified Medicare segment pension assets of \$2,040,174 as of January 1, 1998.

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 is allocated to the Medicare agreement/contract, and these salary dollars represent 40 percent or more of the total salary dollars allocated 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).”

The contract also provides for separate identification of the pension assets of the Medicare segment. The identification involves the allocation of assets to the Medicare segment as of the first pension plan year after December 31, 1985, in which the salary criterion was met. The allocation is to use the ratio of the actuarial liabilities of the Medicare segment to the actuarial liabilities of the total plan as of the later of the first day of the first plan year after December 31, 1980, or the first day of the first pension plan year following the date such Medicare segment existed.

Cost Accounting Standards

CAS 413.50(c)(7) requires that contractors adjust the asset base by contributions, income, benefit payments, and expenses. In addition, CAS 413.50(c)(8) requires an adjustment for transfers (participants who enter or leave the segment) if the transfers materially affect the segment’s ratio of pension plan assets to actuarial accrued liabilities.

Furthermore, CAS 412.50(a)(4) states that for contractors with prepayment credits, the credits represent funds available to the contractors at the beginning of plan years. The funds should be applied first to satisfy funding requirements to reduce interest costs to the Federal Government.

MEDICARE ASSET BASE AS OF JANUARY 1, 1986

Utah did not correctly identify the initial allocation of pension plan assets to the Medicare segment as of January 1, 1986. Utah’s asset fraction was overstated by 2.24 percent. Utah incorrectly included some participants and omitted three other participants from its 1981 segment identification. As a result, Utah calculated an asset fraction of 14.55 percent and Medicare segment assets totaling \$1,104,886 as of January 1, 1986.

We applied our audited asset fraction to the audited total company pension assets as of January 1, 1986, and calculated Utah’s Medicare segment asset base to be \$934,705. Our calculations decreased the Medicare segment assets by \$170,181 (\$934,705 less \$1,104,886) as of January 1, 1986. Table 1 includes details of Utah’s and the Office of Inspector General’s (OIG’s) calculations.

Table 1: Initial Allocation of Medicare Segment Assets Variance					
Calculation	1981 Total Actuarial Liability	1981 Medicare Actuarial Liability	1981 Rounded Asset Fraction	1986 Total Company Assets	1986 Medicare Segment Assets
	(A)	(B)	(C)	(D)	(E)
			(B) / (A)		(C) x (D)
OIG	\$4,864,758	\$598,834	0.123096	\$7,593,304	\$934,705
Utah	4,864,758	707,863	0.145508	7,593,304	1,104,886
Variance	\$0	(\$109,029)	(0.022412)	\$0	(\$170,181)

**MEDICARE ASSET BASE AS OF JANUARY 1, 1986,
UPDATED TO JANUARY 1, 1991**

Utah did not comply with the Medicare contracts' pension segmentation requirements while updating its Medicare segment assets from January 1, 1986, to January 1, 1991. Utah did not properly account for contributions and prepayments, benefit payments, transfers, and earnings and expenses. The misstatements are summarized in Table 2.

Table 2: Summary of Asset Misstatements as of January 1, 1991	
Contributions & Prepayments	(\$353,125)
Benefit Payments	(\$66,201)
Transfers	\$419,072
Earnings and Expenses	\$101,897

Contributions and Prepayment Credits Overstated

Utah's update methodology did not equitably assign pension contributions to the Medicare segment. As a result, Utah overstated segment assets by \$353,125. The overstatement occurred primarily because Utah's contributions exceeded the required funding of CAS pension costs for 1986 through 1990. In addition, Utah failed to identify prepayment credits.

According to CAS, amounts funded in excess of pension costs (or prepayments) shall be carried forward with interest to fund future CAS pension costs. In our audited update, we accounted for the excess contributions and made prepayment adjustments to fund CAS pension costs of the Medicare segment.

The audited update of Medicare segment assets assigned contributions to the Medicare segment using the pension costs as calculated by the CMS Office of the Actuary. The segment assets decreased by \$353,125 in the audited update because of differences in assigned

contributions. Table 3 shows a comparison of Utah’s and our calculations of pension contributions and prepayment credits.

Table 3: Contributions and Prepayment Credits			
Year	OIG	Utah	Difference
1986	\$0	\$38,297	(\$38,297)
1987	2,952	82,534	(79,582)
1988	0	57,515	(57,515)
1989	0	97,637	(97,637)
1990	0	80,094	(80,094)
Total	\$2,952	\$356,077	(\$353,125)

Benefit Payments Understated

Utah’s update of segment assets did not properly identify benefit payments to retirees from the Medicare segment. Using Utah’s methodology, we identified the actual benefits paid to the retirees from the segment and assigned the costs to the segment. As a result, Utah understated segment benefit payments and overstated segment assets by \$66,201.

Transfers Overstated

Utah made adjustments for transfers in its update of segment assets from January 1, 1986, to January 1, 1991. However, Utah incorrectly identified the participants who transferred in and out of the segment. As a result, Utah understated its Medicare segment assets by \$419,072. We adjusted transfers in the audited update of Medicare segment assets based on our revisions to the Medicare segment.

Table 4 shows a comparison of Utah’s and our calculations of net asset transfers from the Medicare segment.

Table 4: Net Asset Transfers From the Medicare Segment			
Year	OIG	Utah	Difference
1986	(\$29,052)	(\$523,047)	\$493,995
1987	4,395	(273,054)	277,449
1988	43,791	123,282	(79,491)
1989	(82,709)	(41,753)	(40,956)
1990	(274,507)	(42,582)	(231,925)
Total	(\$338,082)	(\$757,154)	\$419,072

Earnings and Expenses Understated

Utah understated its investment earnings, less administrative expenses, by \$101,897 because it used incorrect contribution, prepayment credit, transfer, and benefit amounts (discussed above) to develop the Medicare asset base. In our audited update, we allocated earnings and expenses based upon the applicable CAS requirements.

MEDICARE ASSET BASE AS OF JANUARY 1, 1991, UPDATED TO JANUARY 1, 1998

Utah did not update the Medicare segment assets from January 1, 1991, to January 1, 1998, as required by the Medicare contract. Using information that Utah provided and applying the same update methodologies that Utah used, we calculated the update of segment assets from January 1, 1991, to January 1, 1998. We determined Medicare segment pension assets to be \$2,040,174 as of January 1, 1998.

RECOMMENDATION

We recommend that Utah identify pension assets of \$2,040,174 for the Medicare segment as of January 1, 1998.

AUDITEE'S COMMENTS

Utah concurred with our recommendation. Utah's response is included in its entirety as Appendix B.

APPENDIXES

BLUE CROSS BLUE SHIELD OF UTAH
STATEMENT OF MEDICARE PENSION ASSETS
FOR THE PERIOD
JANUARY 1, 1986, TO JANUARY 1, 1998

Description	Total Company	Other Segment	Medicare
Assets January 1, 1986	<u>1/</u> \$7,593,304	\$6,658,599	\$934,705
Prepayment transfer	0	0	0
Contributions	<u>2/</u> 204,728	204,728	0
Earnings	<u>3/</u> 1,052,913	923,304	129,609
Benefit payments	<u>4/</u> (320,475)	(320,475)	0
Expenses	<u>5/</u> (48,288)	(42,344)	(5,944)
Transfers	<u>6/</u> 0	29,052	(29,052)
Assets January 1, 1987	8,482,182	7,452,864	1,029,318
Prepayment transfer	<u>7/</u> 0	(1,157)	1,157
Contribution	550,061	548,266	1,795
Earnings	371,622	326,475	45,147
Benefit payments	(2,054,582)	(1,988,903)	(65,679)
Expenses	(56,107)	(49,291)	(6,816)
Transfers	0	(4,395)	4,395
Assets January 1, 1988	7,293,176	6,283,859	1,009,317
Prepayment transfer	0	0	0
Contribution	0	0	0
Earnings	1,000,797	862,295	138,502
Benefit payments	(158,664)	(156,864)	(1,800)
Expenses	(53,132)	(45,779)	(7,353)
Transfers	0	(43,791)	43,791
Assets January 1, 1989	8,082,177	6,899,720	1,182,457

BLUE CROSS BLUE SHIELD OF UTAH
STATEMENT OF MEDICARE PENSION ASSETS
FOR THE PERIOD
JANUARY 1, 1986, TO JANUARY 1, 1998

Description	Total Company	Other Segment	Medicare
Assets January 1, 1989	\$8,082,177	6,899,720	\$1,182,457
Prepayment transfer	0	0	0
Contributions	0	0	0
Earnings	1,832,123	1,564,076	268,047
Benefit payments	(223,956)	(223,956)	0
Expenses	(59,297)	(50,622)	(8,675)
Transfers	0	82,709	(82,709)
Assets January 1, 1990	9,631,047	8,271,927	1,359,120
Prepayment transfer	0	0	0
Contribution	0	0	0
Earnings	(246,110)	(211,379)	(34,731)
Benefit payments	(235,092)	(235,092)	0
Expenses	(60,858)	(52,270)	(8,588)
Transfers	0	274,507	(274,507)
Assets January 1, 1991	9,088,987	8,047,693	1,041,294
Prepayment transfer	0	0	0
Contribution	464,402	414,578	49,824
Earnings	2,028,085	1,795,734	232,351
Benefit payments	(253,205)	(252,816)	(389)
Expenses	(49,066)	(43,445)	(5,621)
Transfers	0	(2,512)	2,512
Assets January 1, 1992	11,279,203	9,959,232	1,319,971

BLUE CROSS BLUE SHIELD OF UTAH
STATEMENT OF MEDICARE PENSION ASSETS
FOR THE PERIOD
JANUARY 1, 1986, TO JANUARY 1, 1998

Description	Total Company	Other Segment	Medicare
Assets January 1, 1992	\$11,279,203	\$9,959,232	\$1,319,971
Prepayment transfer	0	(6,582)	6,582
Contributions	845,591	727,607	117,984
Earnings	365,287	322,325	42,962
Benefit payments	(619,769)	(325,754)	(294,015)
Expenses	(84,251)	(74,342)	(9,909)
Transfers	0	25,241	(25,241)
Assets January 1, 1993	11,786,061	10,627,727	1,158,334
Prepayment transfer	0	(8,346)	8,346
Contribution	751,208	649,958	101,250
Earnings	544,640	490,727	53,913
Benefit payments	(472,697)	(469,112)	(3,585)
Expenses	(113,926)	(102,649)	(11,277)
Transfers	0	(3,267)	3,267
Assets January 1, 1994	12,495,286	11,185,038	1,310,248
Prepayment transfer	0	0	0
Contribution	1,045,364	893,488	151,876
Earnings	(199,873)	(178,914)	(20,959)
Benefit payments	(1,088,591)	(1,069,011)	(19,580)
Expenses	(249,097)	(222,976)	(26,121)
Transfers	0	139,004	(139,004)
Assets January 1, 1995	12,003,089	10,746,629	1,256,460

**BLUE CROSS BLUE SHIELD OF UTAH
STATEMENT OF MEDICARE PENSION ASSETS
FOR THE PERIOD
JANUARY 1, 1986, TO JANUARY 1, 1998**

Description	Total Company	Other Segment	Medicare
Assets January 1, 1995	\$12,003,089	\$10,746,629	\$1,256,460
Prepayment transfer	0	(5,054)	5,054
Contribution	1,025,068	876,133	148,935
Earnings	2,581,892	2,310,537	271,355
Benefit payments	(778,042)	(729,421)	(48,621)
Expenses	(196,775)	(176,094)	(20,681)
Transfers	0	127,811	(127,811)
Assets January 1, 1996	14,635,232	13,150,541	1,484,691
Prepayment transfer	0	0	0
Contribution	1,346,951	1,180,504	166,447
Earnings	1,734,134	1,558,524	175,610
Benefit payments	(943,386)	(824,807)	(118,579)
Expenses	(251,735)	(226,243)	(25,492)
Transfers	0	(437)	437
Assets January 1, 1997	16,521,196	14,838,082	1,683,114
Prepayment transfer	0	(116)	116
Contribution	1,911,262	1,737,527	173,735
Earnings	2,780,521	2,487,339	293,182
Benefit payments	(1,708,775)	(1,661,137)	(47,638)
Expenses	(233,980)	(209,309)	(24,671)
Transfers	0	37,664	(37,664)
Assets January 1, 1998	\$19,270,224	\$17,230,050	\$2,040,174
Per Utah	<u>8/</u> \$19,270,224	\$19,270,224	\$0
Asset Variance	<u>9/</u> \$0	(\$2,040,174)	\$2,040,174

**BLUE CROSS BLUE SHIELD OF UTAH
STATEMENT OF MEDICARE PENSION ASSETS
FOR THE PERIOD
JANUARY 1, 1986, TO JANUARY 1, 1998**

FOOTNOTES

- 1/ We calculated the Medicare segment assets based on our identification of the Medicare segment and our computed asset fraction (12.3096 percent). We computed the asset fraction as explained in the "Findings and Recommendations" section.
- 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 prepayments credits and accounted for in the Other segment until needed to fund pension cost in the future. Utah's contributions up until January 1, 1991, included the amounts actually charged to Medicare and did not consider the funding levels.
- 3/ We obtained investment earnings from actuarial valuation reports. We allocated investment earnings based on the market value of Medicare assets at the beginning of the plan year after adjustment for transfers. Utah used the same methodology until January 1, 1991. For years starting with 1996, we allocated investment earnings based on the ratio of the segment's weighted average value (WAV) of assets to total company WAV of assets as required by the Cost Accounting Standards (CAS).
- 4/ We based the Medicare segment's benefit payments on actual payments to Medicare retirees. Utah provided us with supporting documentation for benefit payment amounts to plan retirees. We used actual benefit payments for Medicare segment retirees.
- 5/ We allocated administrative expenses to the Medicare segment in proportion to investment income. Utah used the same methodology until January 1, 1991.
- 6/ We identified participant transfers between segments by comparing valuation data files provided by Utah. Our transfer adjustment considered each participant's actuarial liability and the funding level of the segment from which the participant transferred. For transfers that occurred prior to the 1996 plan year, asset transfers reflected the funding level of the segment from which the participant transferred, based on the actuarial liability and the asset value used for cost purposes. We calculated the funding level as the assets divided by the liabilities. If the funding level was greater than 1, 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 the CAS.
- 7/ Prepayment credits represent funds available to satisfy future funding requirements and are applied to future funding requirements before current-year contributions to reduce interest costs to the Federal Government. Prepayment credits are transferred to the Medicare segment as needed to cover funding requirements.

**BLUE CROSS BLUE SHIELD OF UTAH
STATEMENT OF MEDICARE PENSION ASSETS
FOR THE PERIOD
JANUARY 1, 1986, TO JANUARY 1, 1998**

- 8/ We obtained total asset amounts as of January 1, 1998, from The Regence Group's actuarial valuation report.
- 9/ The asset variance represents the difference between our calculation of Medicare segment assets and Utah's lack of an update of Medicare segment assets from January 1, 1991, to January 1, 1998.

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 Salt Lake City, Utah 84130-0270



**Regence
 BlueCross BlueShield
 of Utah**

An Independent Licensee of the Blue Cross and Blue Shield Association

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March 31, 2006

Patrick, J. Cogley
 Regional Inspector General for Audit Services
 Dept. of Health & Human Services Region VII
 601 East 12th Street
 Kansas City, Missouri 64106

Re: Report Number: A-07-05-00190
 Report Number: A-07-06-00198
 Report Number: A-07-06-00199

Dear Mr. Cogley

We have reviewed the referenced draft audit reports and include the following written comments for your consideration;

Report Number: A-07-05-00190
 "Review of Medicare Contractor's Pension Segmentation Requirements, Blue Cross Blue Shield of Utah for the Period Covering January 1, 1986 to January 1, 1998"

Recommendation: We recommend that Utah identify pension assets of \$2,040,174 for the Medicare segment as of January 1, 1998.

Response: We agree with the recommendation. Regence BlueCross and BlueShield of Utah terminated its Medicare contract effective November 30, 2005.

Report Number: A-07-06-00198
 "Audit of BlueCross BlueShield of Utah's Unfunded Pension Cost for 1986 through 1997"

Recommendation: We recommend that Utah identify accumulated unallowable pension costs of \$202,066 (\$174,774 for the other segment plus \$27,292 for the Medicare segment) as of January 1, 1998).

Response: We agree with the recommendation. Regence BlueCross and BlueShield of Utah terminated its Medicare contract effective November 30, 2005.

Report Number: A-07-06-00199
 "Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross Blue Shield of Utah for Fiscal Years 1987 Through 1997."

Recommendation: We recommend that Utah revise its Final Administrative Cost Proposals (FACP) to claim allowable CAS pension cost of \$756,509 for FYs 1987 through 1997.

Response: We agree with the finding. Regence BlueCross and BlueShield of Utah (RBCBSU) terminated its Medicare contract effective November 30, 2005 and will include allowable pension costs of \$756,509 as a part of our global settlement with CMS.

If you have questions or comments concerning our response, please feel free to call me at (801) 333-5294.

Sincerely,

 R Paul Warburton
 Director of Finance