



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

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

October 3, 2008

Report Number: A-07-08-00269

Ms. Sandra Miller
President
National Government Services, Inc.
8115 Knue Road
Indianapolis, Indiana 46250

Dear Ms. Miller:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of the Qualified Pension Plan at New Hampshire – Vermont Health Service for the Period January 1, 1986, Through December 31, 2002." 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, this report 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 e-mail at Jenenne.Tambke@oig.hhs.gov. Please refer to report number A-07-08-00269 in all correspondence.

Sincerely,

Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Nanette Foster Reilly, Consortium Administrator
Consortium for Financial Management & Fee for Service Operations
Centers for Medicare & Medicaid Services
601 East 12th Street, Room 235
Kansas City, Missouri 64106

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF THE
QUALIFIED PENSION PLAN AT
NEW HAMPSHIRE – VERMONT
HEALTH SERVICE
FOR THE PERIOD
JANUARY 1, 1986, THROUGH
DECEMBER 31, 2002**



Daniel R. Levinson
Inspector General

October 2008
A-07-08-00269

Office of Inspector General

<http://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

BACKGROUND

New Hampshire – Vermont Health Service (NH – VT) administers Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS). On October 27, 1999, Anthem Insurance acquired NH – VT and on December 31, 2002, Anthem merged the NH – VT pension plan into its defined benefit pension plan.

Pension Plan

NH – VT sponsored a defined benefit pension plan, which is a deferred compensation plan in which an employer makes actuarially determined contributions to fund an employee's retirement benefit as defined by the plan's terms.

Since its inception, Medicare has paid a portion of contractors' contributions to their pension plans. These contributions are allowable Medicare costs subject to the criteria set forth in the Medicare contracts, Federal Procurement Regulations, the Federal Acquisition Regulation, and the Cost Accounting Standards (CAS).

Pension Segmentation

Beginning with fiscal year 1988, CMS incorporated segmentation requirements into the Medicare contracts. The Medicare contracts identify the criteria used in identifying the Medicare segment and specify the methodology for the identification and initial allocation of pension assets to the segment. Additionally, the contracts require Medicare segment assets to be updated for each year after the initial allocation in accordance with CAS 412 and 413.

OBJECTIVE

Our objective was to determine whether NH – VT complied with Federal requirements and the Medicare contracts' pension segmentation requirements when:

- identifying the Medicare segment asset base as of January 1, 1986, and
- updating the Medicare segment's assets from January 1, 1986, through December 31, 2002.

SUMMARY OF FINDINGS

NH – VT properly calculated the initial allocation of the Medicare segment assets; however, it did not always comply with Federal requirements and the Medicare contracts' pension segmentation requirements while updating the Medicare segment assets from January 1, 1986, through December 31, 2002. As a result, NH – VT overstated the Medicare segment assets by \$163,046.

RECOMMENDATION

We recommend that NH – VT decrease its Medicare segment pension assets as of December 31, 2002, by \$163,046.

AUDITEE COMMENTS

In written comments on our draft report, the auditee concurred with our findings and recommendation and stated that it will decrease the NH – VT Medicare segment pension assets as of December 31, 2002, by \$163,046.

The auditee's comments are included in their entirety as Appendix B.

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Glossary of Abbreviations and Acronyms

CAS	Cost Accounting Standards
CMS	Centers for Medicare & Medicaid Services
FAR	Federal Acquisition Regulation
NH – VT	New Hampshire – Vermont Health Service
WAV	weighted average value

INTRODUCTION

BACKGROUND

New Hampshire – Vermont Health Service (NH – VT) administers Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS). On October 27, 1999, Anthem Insurance acquired NH – VT and on December 31, 2002, Anthem merged the NH – VT pension plan into its defined benefit pension plan.

Pension Plan

NH – VT sponsored a defined benefit pension plan, which is a deferred compensation plan in which an employer makes actuarially determined contributions to fund an employee's benefit as defined by the plan's terms. Once an employee satisfies the plan's age and service requirements and retires, he or she is eligible to receive payment(s) from the plan. The plan accumulates assets from employer contributions and net investment earnings to fund the actuarial liability for both earned and projected future benefits. The amount of required annual employer contributions may decrease or increase each year based on the annual determination of gain or loss (when actual results differ from what is expected).

Since its inception, Medicare has paid a portion of contractors' contributions to their pension plans. These contributions are allowable Medicare costs subject to the criteria set forth in the Medicare contracts, the Federal Acquisition Regulation (FAR), and the Cost Accounting Standards (CAS).

Federal Requirements

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

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

Pension Segmentation

CMS incorporated CAS 412 and 413 into the Medicare contracts effective October 1, 1980. Starting in fiscal year 1988, CMS incorporated segmentation requirements into Medicare contracts. The Medicare contracts identify the criteria used to identify the Medicare segment and specify the methodology for the identification and initial allocation of pension assets to the segment. For each year after the initial allocation, the contracts require Medicare segment assets to be updated in accordance with CAS 412 and 413. In claiming costs, contractors must follow cost reimbursement principles contained in the FAR, CAS, and the Medicare contracts.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether NH – VT complied with Federal requirements and the Medicare contracts' pension segmentation requirements when:

- identifying the Medicare segment asset base as of January 1, 1986, and
- updating the Medicare segment's assets from January 1, 1986, through December 31, 2002.

Scope

We reviewed NH – VT's initial allocation of the Medicare segment assets, and its update of Medicare segment's assets from January 1, 1986, through December 31, 2002.

Achieving our objectives did not require us to review NH – VT's overall internal control structure. However, we reviewed controls relating to its identification of the Medicare segment and the update of the Medicare segment's assets.

We performed the audit work in the Region VII field office located in Jefferson City, Missouri.

Methodology

To accomplish our objective:

- We reviewed the applicable portions of the FAR, CAS, and the Medicare contracts.
- We reviewed the information provided by NH – VT's actuarial consulting firm, which included the pension plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We used this information to calculate the Medicare segment assets.
- We obtained and reviewed the pension plan documents, actuarial valuation reports, and Department of Labor/Internal Revenue Service Form 5500s which provide information used in calculating the Medicare segment assets.
- We provided the CMS Office of the Actuary with the actuarial information necessary for it to calculate the Medicare segment assets as of December 31, 2002.
- We reviewed the CMS actuaries' methodology and calculations.

We performed this review in conjunction with our audit of NH – VT's pension costs claimed for Medicare reimbursement (A-07-08-00270). We used the information obtained during that audit in this review.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

FINDINGS AND RECOMMENDATION

NH – VT did not always comply with Federal requirements and the Medicare contracts’ pension segmentation requirements while updating the Medicare segment assets from January 1, 1986, through December 31, 2002. As a result, NH – VT overstated the Medicare segment assets by \$163,046.

Appendix A presents details of the Medicare segment’s pension assets from January 1, 1986, through December 31, 2002, as determined during our audit. Table 1 summarizes the audit adjustments required to update Medicare segment pension assets in accordance with Federal requirements.

Table 1: Summary of Audit Adjustments			
	Per OIG	Per NH – VT	Difference
Medicare Segment Asset Base (Initial Allocation)	\$377,317	\$377,317	\$0
Update of Medicare Segment Assets			
Medicare Segment Asset Adjustment	535,722	586,142	(50,420)
Contributions	300,482	265,496	34,986
Benefit payments	443,354	443,354	0
Transfers	81,398	21,165	60,233
Earnings, net expenses	750,624	958,469	(207,845)
Overstatement of Medicare segment assets			(\$163,046)

MEDICARE SEGMENT ASSET BASE (INITIAL ALLOCATION)

Federal Requirements

The Medicare contracts provide for separate identification of pension assets for the Medicare segment. The initial allocation is determined by using the ratio of the actuarial liabilities of the Medicare segment to the actuarial liabilities of the total plan as of the first day of the first plan year after December 31, 1980, or the first day of the first plan year following the date the Medicare segment existed, whichever is later. This ratio is known as the asset fraction. The asset fraction is applied to the total company plan assets as of the first pension plan year after December 31, 1985, or the first day of the first plan year following the date on which a Medicare segment existed to determine the initial allocation of the Medicare segment assets.

Medicare Segment Asset Base as of January 1, 1986

NH – VT correctly calculated the asset fraction as of January 1, 1981, to be 2.8139 percent, and it correctly allocated \$377,317 of assets to the Medicare segment as of January 1, 1986.

UPDATE OF MEDICARE SEGMENT ASSETS

Federal Requirements

The Medicare contract states that “. . . the pension assets allocated to each Medicare Segment shall be adjusted in accordance with CAS 413.50(c)(7).” CAS 413.50(c)(7) requires that the asset base be adjusted by contributions, permitted unfunded accruals, income, benefit payments, and expenses. For plan years beginning after March 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. For plan years beginning after March 30, 1995, the CAS requires that the amount of assets transferred equal the actuarial accrued liabilities as determined using the accrued benefit cost method.

Medicare Segment Asset Adjustment

NH – VT incorrectly identified the beginning market value of assets as of January 1, 1993. In the appendix of the 1993 valuation report, NH – VT correctly identified \$535,722 as the Medicare segment assets as of January 1, 1993; however, in the 1994 actuarial valuation report, it identified the Medicare segment assets as of January 1, 1993, to be \$586,142. As a result, NH – VT overstated the Medicare segment assets by \$50,420.

Contributions and Prepayment Credits Understated

NH – VT understated contributions and prepayment credits for the Medicare segment by \$34,986, due to (1) differences in the assignable pension costs and (2) incorrect assignment of a negative contribution to the Medicare segment for 1988 through 1990. As a result, NH – VT understated the Medicare segment assets by \$34,986.

The audited contributions and prepayment credits are based on the assignable pension costs. In compliance with CAS 412.50(a)(4) and FAR 31.201-1(a), we applied prepayment credits first to current-year assignable pension costs because the credits were available at the beginning of the year and then updated any remaining credits with interest to the next measurement (valuation) date. We then allocated contributions as needed to assigned pension costs as of the date of deposit.

For presentation purposes Table 2 includes only the years when there was a variance between NH – VT’s and our calculations of allocated pension contributions and prepayment credits.

Table 2: Comparison of Audited Contributions			
Year	Per OIG	Per NH - VT	Difference
1986	\$0	\$21,691	(\$21,691)
1987	0	30,239	(30,239)
1988	0	(30,404)	30,404
1989	0	(12,587)	12,587
1990	0	(13,045)	13,045
1991	0	10,460	(10,460)
1994	0	5,730	(5,730)
1995	20,667	11,025	9,642
1996	49,236	8,900	40,336
2001	77,947	74,470	3,477
2002	152,632	159,017	(6,385)
Total	\$300,482	\$265,496	\$34,986

Net Transfers Understated

NH – VT understated transfers into the Medicare segment by \$60,233. The differences in the transfers occurred primarily because NH – VT did not value the 1996 transfers using the accrued benefit cost method and because it failed to identify the 2002 transfers. As a result, NH – VT understated the Medicare segment assets by \$60,233.

Table 3 compares NH – VT’s and our calculations of net asset transfers into the Medicare segment.

Year	Per OIG	Per NH – VT	Difference
1986	\$59,492	\$63,919	(\$4,427)
1987	(11,824)	(11,824)	0
1988	(8,345)	(7,181)	(1,164)
1989	1,035	2,726	(1,691)
1990	193,518	193,708	(190)
1991	(105,544)	(105,544)	0
1992	(87,568)	(87,353)	(215)
1993	(2,144)	(2,273)	129
1994	7,047	849	6,198
1995	(12,993)	(17,442)	4,449
1996	(204,235)	(371,552)	167,317
1997	217,253	218,440	(1,187)
1998	(6,887)	(6,887)	0
1999	0	0	0
2000	238,876	242,268	(3,392)
2001	(91,143)	(90,689)	(454)
2002	(105,140)	0	(105,140)
Total	\$81,398	\$21,165	\$60,233

Earnings, Net Expenses Overstated

NH – VT overstated investment earnings, less administrative expenses, by \$207,845 for the Medicare segment primarily because (1) it incorrectly allocated positive investment earnings instead of negative investment earnings to the Medicare segment in 2000 and (2) it used an incorrect beginning market value of assets for 1993. In our audited update, we allocated earnings and expenses, based on the applicable CAS requirements.

Table 4 compares NH – VT’s and our calculations of earning, net expenses for the Medicare segment.

Table 4: Comparison of Audited Earnings, Net Expenses			
Year	Per OIG	Per NH – VT	Difference
1986	\$56,166	\$56,167	(\$1)
1987	19,270	20,291	(1,021)
1988	63,799	71,114	(7,315)
1989	101,336	108,986	(7,650)
1990	(17,680)	(18,676)	996
1991	159,868	163,792	(3,924)
1992	26,192	27,262	(1,070)
1993	47,456	55,445	(7,989)
1994	(6,879)	(8,039)	1,160
1995	121,487	144,536	(23,049)
1996	90,256	104,724	(14,468)
1997	105,573	88,379	17,194
1998	121,968	110,710	11,258
1999	145,985	125,787	20,198
2000	(59,177)	95,919	(155,096)
2001	(98,902)	(80,483)	(18,419)
2002	(126,094)	(107,445)	(18,649)
TOTAL	\$750,624	\$958,469	(\$207,845)

RECOMMENDATION

We recommend that NH – VT decrease its Medicare segment pension assets as of December 31, 2002, by \$163,046.

AUDITEE COMMENTS

In written comments on our draft report, the auditee concurred with our findings and recommendation. NH – VT’s Medicare contract was novated to National Government Services (NGS) effective January 1, 2007; therefore, NGS responded to the NH – VT segmentation draft audit report. NGS concurred with our findings and recommendation and stated that it will decrease the NH – VT Medicare segment pension assets as of December 31, 2002, by \$163,046.

NGS’s comments are included in their entirety as Appendix B.

APPENDIXES

**MARKET VALUE OF PENSION ASSETS
FOR THE PERIOD
JANUARY 1, 1986, TO DECEMBER 31, 2002**

Description	Total Company	Other Segment	Medicare Segment
Assets January 1, 1986	<u>1/</u> \$13,409,026	\$13,031,709	\$377,317
Prepayment Transfers	0	0	0
Contributions	<u>2/</u> 238,899	238,899	0
Earnings	<u>3/</u> 2,083,698	2,025,065	58,633
Benefit Payments	<u>4/</u> (1,137,176)	(1,137,176)	0
Expenses	<u>5/</u> (87,659)	(85,192)	(2,467)
Transfers	<u>6/</u> 0	(59,492)	59,492
Assets January 1, 1987	14,506,788	14,013,813	492,975
Prepayment Transfers	0	0	0
Contributions	529,736	529,736	0
Earnings	669,563	646,810	22,753
Benefit Payments	(900,931)	(900,931)	0
Expenses	(102,497)	(99,014)	(3,483)
Transfers	0	11,824	(11,824)
Assets January 1, 1988	14,702,659	14,202,238	500,421
Prepayment Transfers	0	0	0
Contributions	0	0	0
Other Transaction	<u>7/</u> (577,856)	(577,856)	0
Earnings	1,975,756	1,908,509	67,247
Benefit Payments	(405,900)	(319,699)	(86,201)
Expenses	(101,309)	(97,861)	(3,448)
Transfers	0	8,345	(8,345)
Assets January 1, 1989	15,593,350	15,123,676	469,674
Prepayment Transfers	0	0	0
Contributions	0	0	0
Earnings	3,472,897	3,368,293	104,604
Benefit Payments	(1,043,481)	(1,043,481)	0
Expenses	(108,487)	(105,219)	(3,268)
Transfers	0	(1,035)	1,035
Assets January 1, 1990	17,914,279	17,342,234	572,045

**MARKET VALUE OF PENSION ASSETS
FOR THE PERIOD
JANUARY 1, 1986, TO DECEMBER 31, 2002**

Description	Total Company	Other Segment	Medicare Segment
Assets January 1, 1990	17,914,279	17,342,234	572,045
Prepayment Transfers	0	0	0
Contributions	0	0	0
Earnings	(451,725)	(437,300)	(14,425)
Benefit Payments	(805,970)	(805,970)	0
Expenses	(101,943)	(98,688)	(3,255)
Transfers	0	(193,518)	193,518
Assets January 1, 1991	16,554,641	15,806,758	747,883
Prepayment Transfers	0	0	0
Contributions	0	0	0
Earnings	3,633,630	3,469,475	164,155
Benefit Payments	(600,326)	(600,326)	0
Expenses	(94,896)	(90,609)	(4,287)
Transfers	0	105,544	(105,544)
Assets January 1, 1992	19,493,049	18,690,842	802,207
Prepayment Transfers	0	0	0
Contributions	0	0	0
Earnings	730,849	700,772	30,077
Benefit Payments	(1,477,348)	(1,238,213)	(239,135)
Expenses	(94,393)	(90,508)	(3,885)
Transfers	0	87,568	(87,568)
Assets January 1, 1993	18,652,157	18,150,461	501,696
Prepayment Transfers	0	0	0
Contributions	1,222,165	1,222,165	0
Earnings	1,895,876	1,844,882	50,994
Benefit Payments	(652,657)	(652,657)	0
Expenses	(131,534)	(127,996)	(3,538)
Transfers	0	2,144	(2,144)
Assets January 1, 1994	20,986,007	20,438,999	547,008

**MARKET VALUE OF PENSION ASSETS
FOR THE PERIOD
JANUARY 1, 1986, TO DECEMBER 31, 2002**

Description	Total Company	Other Segment	Medicare Segment
Assets January 1, 1994	20,986,007	20,438,999	547,008
Prepayment Transfers	0	0	0
Contributions	1,441,235	1,441,235	0
Earnings	(157,517)	(153,411)	(4,106)
Benefit Payments	(12,926,845)	(12,847,110)	(79,735)
Expenses	(106,386)	(103,613)	(2,773)
Transfers	0	(7,047)	7,047
Assets January 1, 1995	9,236,494	8,769,053	467,441
Prepayment Transfers	8/ 0	(1,674)	1,674
Contributions	1,567,212	1,548,219	18,993
Earnings	2,484,879	2,358,674	126,205
Benefit Payments	(594,111)	(594,111)	0
Expenses	(92,901)	(88,183)	(4,718)
Transfers	0	12,993	(12,993)
Assets January 1, 1996	12,601,573	12,004,971	596,602
Prepayment Transfers	0	0	0
Contributions	1,782,874	1,733,638	49,236
Other Transactions	(485,887)	(485,887)	0
Earnings	2,054,582	1,956,748	97,834
Benefit Payments	(606,123)	(606,123)	0
Expenses	(159,138)	(151,560)	(7,578)
Transfers	0	204,235	(204,235)
Assets January 1, 1997	15,187,881	14,656,022	531,859
Prepayment Transfers	0	0	0
Contributions	2,490,084	2,490,084	0
Earnings	3,247,334	3,135,387	111,947
Benefit Payments	(697,379)	(697,379)	0
Expenses	(184,887)	(178,513)	(6,374)
Transfers	0	(217,253)	217,253
Assets January 1, 1998	20,043,033	19,188,348	854,685

**MARKET VALUE OF PENSION ASSETS
FOR THE PERIOD
JANUARY 1, 1986, TO DECEMBER 31, 2002**

Description	Total Company	Other Segment	Medicare Segment
Assets January 1, 1998	20,043,033	19,188,348	854,685
Prepayment Transfers	0	0	0
Contributions	435,758	435,758	0
Other Transactions	(456,801)	(456,801)	0
Earnings	3,013,166	2,881,725	131,441
Benefit Payments	(1,406,302)	(1,384,248)	(22,054)
Expenses	(217,169)	(207,696)	(9,473)
Transfers	0	6,887	(6,887)
Assets January 1, 1999	21,411,685	20,463,973	947,712
Prepayment Transfers	0	0	0
Contributions	388,523	388,523	0
Earnings	3,430,798	3,273,900	156,898
Benefit Payments	(1,377,177)	(1,377,177)	0
Expenses	(238,628)	(227,715)	(10,913)
Transfers	0	0	0
Assets January 1, 2000	23,615,201	22,521,504	1,093,697
Prepayment Transfers	0	0	0
Contributions	3,550,050	3,550,050	0
Earnings	(1,053,263)	(1,004,695)	(48,568)
Benefit Payments	(1,911,080)	(1,894,851)	(16,229)
Expenses	(230,064)	(219,455)	(10,609)
Transfers	0	(238,876)	238,876
Assets January 1, 2001	23,970,844	22,713,677	1,257,167
Prepayment Transfers	0	(77,947)	77,947
Contributions	6,420,172	6,420,172	0
Other Transactions	(58,990)	(58,990)	0
Earnings	(1,456,475)	(1,371,802)	(84,673)
Benefit Payments	(2,362,564)	(2,362,564)	0
Expenses	(244,762)	(230,533)	(14,229)
Transfers	0	91,143	(91,143)
Assets January 1, 2002	26,268,225	25,123,156	1,145,069

**MARKET VALUE OF PENSION ASSETS
FOR THE PERIOD
JANUARY 1, 1986, TO DECEMBER 31, 2002**

Description	Total Company	Other Segment	Medicare Segment
Prepayment Transfers	0	(152,632)	152,632
Contributions	0	0	0
Earnings	(2,445,316)	(2,319,222)	(126,094)
Benefit Payments	(2,204,404)	(2,204,404)	0
Expenses	0	0	0
Transfers	0	105,140	(105,140)
Assets December 31, 2002	21,618,505	20,552,038	1,066,467
Per NH - VT	<u>9/</u> \$21,618,505	\$20,388,992	\$1,229,513
Asset Variance	<u>10/</u> \$0	\$163,046	(\$163,046)

FOOTNOTES

- 1/ We calculated the Medicare segment assets based upon our computed asset fraction (2.8139 percent). We computed the asset fraction as explained in the "Findings" section of the report. 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 prepayments credits and accounted for in the Other segment until needed to fund pension
- 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. 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 calculated the Medicare segment's benefit payments based on actual payments to Medicare retirees. We obtained information on the benefit payments from documents prepared by NH - VT's actuarial consulting firm. We used actual benefit payments for Medicare segment retirees.
- 5/ We allocated administrative expenses to the Medicare segment in proportion to investment earnings.
- 6/ We identified participant transfers between segments by comparing valuation data files provided by NH - VT. Our transfer adjustment considered each participant's actuarial liability and the funding level of the segment from which the participant transferred. For plan years starting with 1996, asset transfers were equal to the actuarial liability determined under the accrued benefit cost method in accordance with the CAS.

**MARKET VALUE OF PENSION ASSETS
FOR THE PERIOD
JANUARY 1, 1986, TO DECEMBER 31, 2002**

APPENDIX A
Page 6 of 6

- 7/ We obtained Other Transactions from documents prepared by NH - VT's consulting actuarial firm. Other Transactions represent plan merger and asset transfer activities. These Other Transactions did not have an impact on the Medicare segment.

- 8/ 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.

- 9/ We obtained total asset amounts as of December 31, 2002, from documents prepared by NH - VT's actuarial consulting firm.

- 10/ The asset variance represents the difference between our calculation of Medicare segment assets and NH - VT's market value of assets.



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September 25, 2008

Mr. Partick J Cogley
Regional Inspector General for Audit Services
DHHS-OIG Office of Audit Services Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

Reference: **Report Number A-07-08-00269**

Dear Mr. Cogley:

We are in receipt of the draft audit report from the Inspector General entitled "Review of The Qualified Pension plan at New Hampshire - Vermont Health Service for the Period January 1, 1986, through December 31, 2002. The New Hampshire - Vermont (NH - VT) Medicare contract was novated to National Government Services (NGS) effective January 1, 2007 thus NGS is responding to this draft report.

We concur with the finding and recommendation and will decrease the NH - VT Medicare segment pension assets as of December 31, 2002 by \$163,046.

We appreciate the opportunity to respond to this draft report.

Sincerely,

A handwritten signature in black ink that reads "Glenn Rhodes".

Glenn Rhodes
Chief Financial Officer

cc: Sandra Miller
Rob Squire
Joanne Imel - WellPoint
Wendy Perkins
Gary J. Grant - CMS