



Region VII
601 East 12th Street
Room 0429
Kansas City, Missouri 64106

October 13, 2009

Report Number: A-07-09-00295

Mr. Brian Fitzpatrick
Director Internal Audit
Blue Cross Blue Shield of Montana
404 Fuller Avenue
Helena, Montana 59604

Dear Mr. Fitzpatrick:

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 Blue Cross Blue Shield of Montana, a Terminated Medicare Contractor, for the Period January 1, 2004, to November 30, 2006." 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.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted 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. Please refer to report number A-07-09-00295 in all correspondence.

Sincerely,

/Patrick J. Cogley/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Deborah Taylor
Acting Director
Office of Financial Management
Centers for Medicare & Medicaid Services
Mail Stop C3-01-24
7500 Security Boulevard
Baltimore, Maryland 21244-1850

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF THE QUALIFIED PENSION
PLAN AT BLUE CROSS BLUE SHIELD
OF MONTANA,
A TERMINATED MEDICARE
CONTRACTOR, FOR THE PERIOD
JANUARY 1, 2004, TO
NOVEMBER 30, 2006**



Daniel R. Levinson
Inspector General

October 2009
A-07-09-00295

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

Blue Cross Blue Shield of Montana (Montana) administered Medicare Part A and Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS). On November 30, 2006, the Part A and Part B contractual relationship was terminated. The closing date for the Medicare segment was November 30, 2006.

Montana sponsors a defined benefit pension plan, which is a deferred compensation plan in which an employer makes actuarially determined contributions to fund an employees' 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 Federal Acquisition Regulation, Cost Accounting Standards (CAS), and Medicare contracts. Furthermore, in situations such as contract terminations, the Medicare contracts require contractors to identify excess Medicare pension liabilities in accordance with CAS 413.

Pension Segmentation

Beginning with fiscal year 1988, CMS incorporated segmentation requirements into the Medicare contracts to ensure conformance with CAS 413. The Medicare contracts define a 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.

Upon the termination of its Medicare contracts, Montana identified Medicare's share of the Medicare segment excess pension liabilities to be \$1,783,379.

OBJECTIVE

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

- updating Medicare segment assets from January 1, 2004, to November 30, 2006, and
- determining Medicare's share of the Medicare segment excess pension liabilities as of the termination of Montana's Medicare contracts.

SUMMARY OF FINDINGS

Montana did not always comply with the Medicare contract's pension segmentation requirements when updating Medicare segment assets to November 30, 2006. As a result, Montana overstated the Medicare segment pension assets by \$21,032. The overstatement occurred primarily because Montana misidentified Medicare segment participants.

In addition, Montana did not fully comply with Federal requirements in its calculation of Medicare's share of the Medicare segment excess pension liabilities associated with the termination of the Medicare contracts. As a result, Montana overstated Medicare's share of excess liabilities by \$32,853.

RECOMMENDATIONS

We recommend that Montana:

- decrease Medicare segment pension assets as of November 30, 2006, by \$21,032 and
- decrease Medicare's portion of the Medicare segment's excess pension liabilities by \$32,853, and therefore recognize \$1,750,526 as Medicare's portion.

AUDITEE COMMENTS

In written comments on our draft report, Montana concurred with our recommendations. Montana's comments are included in their entirety as Appendix C.

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Glossary of Abbreviations and Acronyms

CAS	Cost Accounting Standards
CMS	Centers for Medicare & Medicaid Services
FAR	Federal Acquisition Regulation
Montana	Blue Cross Blue Shield of Montana
WAV	weighted average value

INTRODUCTION

BACKGROUND

Blue Cross Blue Shield of Montana and Medicare

Blue Cross Blue Shield of Montana (Montana) administered Medicare Part A and Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS). On November 30, 2006, the Part A and Part B contractual relationship was terminated. The closing date for the Medicare segment was November 30, 2006.

Montana sponsors a defined benefit pension plan, which is a deferred compensation plan in which an employer makes actuarially determined contributions to fund an employees' 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 Federal Acquisition Regulation (FAR), Cost Accounting Standards (CAS), and Medicare contracts. Furthermore, in situations such as contract terminations, the Medicare contracts require contractors to identify excess Medicare pension liabilities in accordance with CAS 413.

Federal Requirements

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

CAS 413 addresses 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. CAS 413 also addresses the determination of segment assets and liabilities in the event of contract terminations, segment closings, or pension plan terminations.

Pension Segmentation

CMS incorporated CAS 412 and 413 into the Medicare contracts effective October 1, 1980. Beginning with fiscal year 1988, CMS incorporated segmentation requirements into Medicare contracts. The Medicare contracts define a segment and specify the methodology for the identification and initial allocation of pension assets to the segment. The contracts require Medicare segment assets to be updated for each year after the initial allocation 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.

Upon the termination of its Medicare contracts, Montana identified Medicare's share of the Medicare segment excess pension liabilities to be \$1,783,379.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

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

- updating Medicare segment assets from January 1, 2004, to November 30, 2006, and
- determining Medicare's share of the Medicare segment excess pension liabilities as of the termination of Montana's Medicare contracts.

Scope

We reviewed Montana's identification of its Medicare segment; update of Medicare segment assets from January 1, 2004, to the November 30, 2006, determination of final segment liabilities; and development of Medicare's share of the Medicare segment's excess liabilities as of November 30, 2006.

Achieving our objective did not require us to review Montana's overall internal control structure. We reviewed controls relating to the identification of the Medicare segment, the update of the segment's assets, the determination of the final segment liabilities, and the development of Medicare's share of the segment's excess pension liabilities.

We performed fieldwork at Montana in Helena, Montana, during September 2008.

Methodology

To accomplish our objective, we did the following:

- We reviewed the applicable portions of the FAR, CAS, and the Medicare contracts.
- We reviewed the annual actuarial valuation reports prepared by Montana'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 the pension plan documents and Department of Labor/Internal Revenue Service Form 5500s used in calculating the Medicare segment assets.
- We interviewed Montana staff responsible for identifying the Medicare segment to determine whether the segment was properly identified in accordance with the Medicare contracts.
- We reviewed Montana's accounting records to verify the segment identification and benefit payments made to the Medicare segment.

- We provided the CMS Office of the Actuary with the actuarial information necessary for it to calculate the Medicare segment assets and the Medicare segment excess pension liabilities as of November 30, 2006.
- We reviewed the CMS actuaries' methodology and calculations.

We performed this review in conjunction with our audit of Montana's pension costs claimed for Medicare reimbursement (A-07-09-00296) and 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 RECOMMENDATIONS

Montana did not always comply with the Medicare contract's pension segmentation requirements when updating Medicare segment assets to November 30, 2006. As a result, Montana overstated the Medicare segment pension assets by \$21,032. The overstatement occurred primarily because Montana misidentified Medicare segment participants.

In addition, Montana did not fully comply with Federal requirements in its calculation of Medicare's share of the Medicare segment excess pension liabilities associated with the termination of the Medicare contracts. As a result, Montana overstated Medicare's share of excess liabilities by \$32,853.

UPDATE OF MEDICARE SEGMENT PENSION ASSETS

Federal Requirements

The Medicare contracts identify 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.

The Medicare contracts also state 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. 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 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.

Furthermore, CAS 412.50(a)(4) requires that contributions in excess of the pension cost assigned to the period be recognized as prepayment credits and 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.

Appendix A presents details of the Medicare segment’s pension assets from January 1, 2004, to November 30, 2006, 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 in Updating Medicare Segment Assets			
	Per OIG	Per Montana	Difference
Update of Medicare Segment Assets			
Contributions and Transferred Prepayment Credits	\$1,157,937	\$1,087,267	\$70,670
Transfers	(581,444)	(411,548)	(169,896)
Earnings, net expenses	819,039	740,845	78,194
Overstatement of Medicare segment assets			(\$21,032)

Contributions and Prepayment Credits Understated

Montana understated contributions and prepayment credits by \$70,670 for the Medicare segment. The understatement was due to incorrect calculations of assigned pension costs. Specifically, Montana misidentified Medicare segment participants, which resulted in incorrect calculations of assigned pension costs. As a result, Montana understated the Medicare segment assets by \$70,670.

The audited contributions and prepayment credits are based on the assignable pension costs. In compliance with the CAS, 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.

Net Transfers Overstated

Montana overstated the participant transfer adjustments in its update of Medicare segment assets by \$169,896. Montana made adjustments for transfers in its update of segment assets; however, Montana incorrectly identified the participants who transferred in and out of the segment. As a result, Montana overstated its Medicare segment assets by \$169,896.

Earnings and Expenses Understated

Montana understated investment earnings, less administrative expenses, by \$78,194 for the Medicare segment. The understatement of net investment was due to a difference in the Medicare segment asset values throughout the update period. The differences in asset values were caused by differences in the values of other roll-up components. In our audited update, we allocated earnings and expenses based on the applicable CAS requirements.

MEDICARE SEGMENT EXCESS PENSION LIABILITIES

Federal Requirements

Medicare Contracts

In the event of a contract termination, the Medicare contracts require contractors to follow the segment closing provision of the CAS. Furthermore, in situations such as contract terminations, the Medicare contracts require contractors to identify excess Medicare pension liabilities in accordance with CAS 413.

Cost Accounting Standards

During 1980, CMS renegotiated the Medicare contracts and expressly incorporated CAS 412 and 413 into the contracts beginning October 1, 1980.

Contract terminations and segment closings are addressed by CAS 413.50(c)(12), which states:

If a segment is closed, if there is a pension plan termination, or if there is a curtailment of benefits, the contractor shall determine the difference between the actuarial 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 market value of the assets shall be reduced by the accumulated value of prepayment credits, if any. Conversely, the market value of assets shall be increased by the current value of any unfunded actuarial liability separately identified and maintained in accordance with 9904.412-50(a)(2).

(iii) The calculation of the difference between the market value of the assets and the actuarial accrued liability shall be made as of the date of the event (e.g., contract termination, plan amendment, plant closure) that caused the closing of the segment, pension plan termination, or curtailment of benefits. 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.

Excess Medicare Segment Pension Liabilities as of November 30, 2006

Montana identified \$1,783,379 in excess Medicare segment pension liabilities as of November 30, 2006. However, we calculated the excess pension liabilities to be \$1,764,287 as of that date. Therefore, Montana overstated the excess pension liabilities by \$19,092. The overstatement occurred because Montana did not comply fully with Federal requirements in its calculation of the Medicare segment’s excess pension liabilities. Specifically, Montana overstated the segment’s final assets (as previously discussed), misidentified final segment participants, and did not consider accumulated unallowable unfunded pension costs. Table 2 summarizes the differences between Montana’s and our calculations.

Table 2: Adjustments to Excess Medicare Segment Pension Liabilities			
	Per Audit	Per Montana	Difference
Medicare segment assets as of November 30, 2006	\$3,343,733	\$3,364,765	(\$21,032)
Accrued liabilities of segment participants	(5,117,232)	(5,148,144)	30,912
Accumulated unfunded pension costs	9,212	0	9,212
Medicare segment excess pension liabilities	(\$1,764,287)	(\$1,783,379)	
Overstatement of Medicare Segment Excess Liabilities			\$19,092

Medicare’s Share of Excess Pension Liabilities as of November 30, 2006

Federal Requirements

The methodology for determining the Federal Government’s share of excess pension liabilities is addressed by CAS 413.50(c)(12)(vi), which states:

The Government’s share of the adjustment amount determined for a segment shall be the product of the adjustment amount and a fraction. The adjustment amount shall be reduced for any excise tax imposed upon assets withdrawn from the funding agency of a qualified pension plan. The numerator of such fraction shall be the sum of the pension plan costs allocated to all contracts and subcontracts (including Foreign Military Sales) subject to this Standard during a period of years representative of the Government’s participation in the pension plan. The

denominator of such fraction shall be the total pension costs assigned to cost accounting periods during those same years. This amount shall represent an adjustment of contract prices or cost allowance as appropriate. The adjustment may be recognized by modifying a single contract, several but not all contracts, or all contracts, or by use of any other suitable technique. [Emphasis added.]

Montana’s Approach

Montana’s development of Medicare’s share of the excess pension liabilities showed that 100 percent of the segment’s excess pension liabilities were associated with Medicare operations. This approach did not comply with the pension cost methodology specified by CAS 413. Therefore, Montana did not follow the CAS in determining Medicare’s share of excess pension liabilities.

Results per Audit

Montana computed \$1,783,379 as Medicare’s share of the Medicare segment excess pension liabilities as of November 30, 2006; however, we determined that Medicare’s share was \$1,750,526. Therefore, Montana overstated Medicare’s share by \$32,853.

In accordance with CAS 413.50(c)(12)(vi), we calculated the aggregate Medicare percentage using the Medicare segment pension costs developed during both the previous and the current pension audits. Appendix B shows our calculation of the Medicare segment’s aggregate Medicare percentage; Table 3 shows our calculation of Medicare’s share of the excess liabilities.

Table 3: Medicare’s Share of Excess Liabilities (Adjustment)			
	<u>Excess Medicare Segment Liabilities (A)</u>	<u>Aggregate Medicare Percentage (B)</u>	<u>Excess Liabilities Attributable to Medicare (A x B)</u>
Per audit	(\$1,764,287)	99.22%	(\$1,750,526)
Per Montana	(1,783,379)	100.00%	(1,783,379)
Difference			\$32,853

RECOMMENDATIONS

We recommend that Montana:

- decrease Medicare segment pension assets as of November 30, 2006, by \$21,032 and
- decrease Medicare’s portion of the Medicare segment’s excess pension liabilities by \$32,853 and therefore recognize \$1,750,526 as Medicare’s portion.

AUDITEE COMMENTS

In written comments on our draft report, Montana concurred with our recommendations. Montana's comments are included in their entirety as Appendix C.

APPENDIXES

**APPENDIX A: STATEMENT OF MARKET VALUE OF PENSION ASSETS
FOR BLUE CROSS BLUE SHIELD OF MONTANA
FOR THE PERIOD JANUARY 1, 2004, TO NOVEMBER 30, 2006**

Description		Total Company	“Other” Segment	Medicare Segment
Assets January 1, 2004	<u>1/</u>	\$31,511,139	\$29,481,633	\$2,029,506
Transferred Prepayment Credits	<u>2/</u>	0	(347,151)	347,151
Contributions	<u>3/</u>	3,765,000	3,765,000	0
Earnings	<u>4/</u>	2,916,546	2,682,983	233,563
Benefit Payments	<u>5/</u>	(4,306,799)	(4,255,541)	(51,258)
Expenses	<u>6/</u>	(149,414)	(137,449)	(11,965)
Transfers	<u>7/</u>	0	(19,501)	19,501
Assets January 1, 2005		33,736,472	31,169,974	2,566,498
Transferred Prepayment Credits		0	(421,018)	421,018
Contributions		8,075,000	8,075,000	0
Earnings		2,774,067	2,521,970	252,097
Benefit Payments		(1,746,485)	(1,746,485)	0
Expenses		(166,377)	(151,257)	(15,120)
Transfers		0	382,910	(382,910)
Assets January 1, 2006		42,672,677	39,831,094	2,841,583
Transferred Prepayment Credits		0	(389,768)	389,768
Contributions		0	0	0
Earnings		4,801,847	4,429,369	372,478
Benefit Payments		(2,417,931)	(2,387,884)	(30,047)
Expenses		(154,879)	(142,865)	(12,014)
Transfers		0	218,035	(218,035)
Assets November 30, 2006		\$44,901,714	\$41,557,981	\$3,343,733
Per Montana	<u>8/</u>	\$44,901,714	\$41,536,949	\$3,364,765
Asset Variance	<u>9/</u>	\$0	\$21,032	(\$21,032)

FOOTNOTES

1/ We determined the Medicare segment assets as of January 1, 2004, based upon our prior segmentation audit of Montana (A-07-07-00226). 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/ 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.

3/ 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.

- 4/ We obtained investment earnings from actuarial valuation reports and documents prepared by Montana's actuarial consulting firm. 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).
- 5/ We calculated the Medicare segment's benefit payments based on actual payments to Medicare segment retirees. We obtained information on the benefit payments from documents prepared by Montana's actuarial consulting firm. We used actual benefit payments for Medicare segment retirees. We reviewed and accepted Montana's benefit payments to Medicare segment retirees.
- 6/ We allocated administrative expenses to the Medicare segment in proportion to investment earnings.
- 7/ We identified participant transfers between segments by comparing valuation data files provided by Montana. Asset transfers were equal to the actuarial liability determined under the accrued benefit cost method in accordance with the CAS.
- 8/ We obtained total asset amounts as of November 30, 2006, from documents prepared by Montana's actuarial consulting firm.
- 9/ The asset variance represents the difference between our calculation of Medicare segment assets and Montana's calculation of Medicare segment assets.

**APPENDIX B: CALCULATION OF
AGGREGATE MEDICARE PERCENTAGE**

Fiscal Year <u>1/</u>	Medicare Segment Pension Costs Charged to Medicare (A)	Total Medicare Segment Pension Costs (B)	Medicare's Aggregate % (A/B) <u>2/</u>
1990	\$8,251	\$8,515	
1991	27,415	28,522	
1992	9,372	9,507	
1993	94,934	96,497	
1994	125,003	127,217	
1995	105,830	105,830	
1996	76,725	77,173	
1997	70,432	70,900	
1998	17,728	17,805	
1999	47,438	47,681	
2000	15,794	15,894	
2001	0	0	
2002	158,554	162,686	
2003	301,065	301,065	
2004	338,530	342,642	
2005	401,504	402,551	
2006	395,752	397,581	
2007	64,870	64,961	
Total	\$2,259,197	\$2,277,027	99.22%

1/ We obtained information for fiscal years (FY) 1990-2003 from our prior pension costs claimed audit (A-07-07-00227). We obtained information for FYs 2004-2007 during our current pension costs claimed audit (A-07-09-00296).

2/ We calculated the aggregate Medicare percentage by dividing the Medicare segment pension costs charged to Medicare (numerator) by the total Medicare segment pension costs (denominator) pursuant to Cost Accounting Standard 413.

APPENDIX C: AUDITEE COMMENTS



560 N. Park Avenue
PO Box 4309
Helena, Montana 59604
Customer Information Line: 800.447.7828

www.bcbsmt.com

September 23, 2009

Patrick J. Cogley
Regional Inspector General for Audit Services
Office of Inspector General
Office of Audit Services, Region VII
601 E 12th St, Room 0429
Kansas City MO 64106

RE: Draft OIG Report Number: A-07-09-00295

Dear Mr. Cogley:

BlueCross BlueShield of Montana (BCBSMT) is in receipt of the draft copies of the OIG report entitled "Review of the Qualified Pension Plan at BCBSMT, a Terminated Medicare Contractor, for the Period January 1, 2004 To November 30, 2006."

In this report, the OIG recommends that BCBSMT decrease our Medicare segment pension assets as of November 30, 2006 by \$21,032 and decrease our portion of the Medicare segment's excess liabilities by \$32,853.

BCBSMT concurs with this recommendation. In accordance with our exit from the Medicare fee-for-service program, we anticipate reaching a global settlement agreement with CMS. During negotiations for that agreement, we will recognize \$1,750,526 as the excess liabilities for our Medicare pension segment.

We are thankful for the opportunity to respond to the draft report. We also appreciate the professionalism your staff exhibited throughout the audit. If you have any questions about our response, please contact Erin Frisbey, 406-444-8983.

Sincerely,

A handwritten signature in blue ink that reads 'Brian Fitzpatrick'.

Brian Fitzpatrick
BCBSMT Director Internal Audit