



June 20, 2011

Report Number: A-07-10-00345

Ms. Sandra Miller  
Senior Vice President and President, Federal Government Solutions  
National Government Services, Inc.  
8115 Knue Road  
Indianapolis, IN 46250

Dear Ms. Miller:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross Blue Shield of Georgia for Fiscal Years 2001 Through 2005*. 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](mailto:Jenenne.Tambke@oig.hhs.gov). Please refer to report number A-07-10-00345 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 & Chief Financial Officer  
Office of Financial Management  
Centers for Medicare & Medicaid Services  
Mail Stop C3-01-24  
7500 Security Boulevard  
Baltimore, MD 21244-1850

Department of Health & Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS CLAIMED  
FOR MEDICARE REIMBURSEMENT BY  
BLUE CROSS BLUE SHIELD OF GEORGIA  
FOR FISCAL YEARS 2001 THROUGH 2005**



Daniel R. Levinson  
Inspector General

June 2011  
A-07-10-00345

# *Office of Inspector General*

<http://oig.hhs.gov>

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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.

## **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 Georgia (BCBSGA) administers Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS). BCBSGA merged with WellPoint Health Network, Inc. (WHN), and, effective May 31, 2001, BCBSGA's pension plan assets from the Non-Contributory Retirement Program were merged into WHN's Pension Accumulation Plan. In turn, WHN became a part of Anthem, Inc. (Anthem), on November 30, 2004, and at that time Anthem changed its name to WellPoint, Inc. (WellPoint). On June 30, 2006, the Pension Accumulation Plan assets were merged into WellPoint's Cash Balance pension plan.

CMS reimburses a portion of the annual contributions that contractors make to their pension plans. In claiming costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation, Cost Accounting Standards (CAS), and Medicare contracts.

The Medicare contracts require contractors to allocate or separately calculate pension costs. Contractors must use the separate calculation method if there is a material difference between the results of the two methods.

### **OBJECTIVE**

Our objective was to determine the allowability of pension costs that BCBSGA claimed for Medicare reimbursement for fiscal years (FY) 2001 through 2005.

### **SUMMARY OF FINDINGS**

BCBSGA claimed \$617,723 of unallowable Medicare pension costs for FYs 2001 through 2005. This overclaim occurred because BCBSGA based its claim for Medicare reimbursement on an amount that did not comply with the provisions of CAS 412 and 413. BCBSGA claimed pension costs of \$754,972 for Medicare reimbursement; we determined that the allowable CAS pension costs were \$137,249, a difference of \$617,723.

### **RECOMMENDATIONS**

We recommend that BCBSGA:

- reduce its Final Administrative Cost Proposals by \$617,723 or refund this amount to CMS and
- ensure that future pension costs are claimed in accordance with the Medicare contracts.

## **AUDITEE COMMENTS**

In written comments on our draft report, National Government Services (NGS) concurred with our finding and recommendations. BCBSGA's Medicare contract was transitioned to NGS effective November 11, 2006; therefore, NGS responded to our draft report.

While concurring with our finding and recommendations, NGS also suggested a revision to one portion of the background material in the report.

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

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

After reviewing NGS's written comments, we determined that the suggested revision does not enhance the clarity or accuracy of this report. Therefore, we did not incorporate NGS's suggested revision into this report.

# TABLE OF CONTENTS

	<u>Page</u>
<b>INTRODUCTION</b> .....	1
<b>BACKGROUND</b> .....	1
Blue Cross Blue Shield of Georgia.....	1
Medicare Reimbursement of Pension Costs .....	1
<b>OBJECTIVE, SCOPE, AND METHODOLOGY</b> .....	1
Objective.....	1
Scope.....	2
Methodology.....	2
<b>FINDINGS AND RECOMMENDATIONS</b> .....	2
<b>FEDERAL REQUIREMENTS</b> .....	3
<b>UNALLOWABLE PENSION COSTS CLAIMED</b> .....	3
<b>RECOMMENDATIONS</b> .....	4
<b>AUDITEE COMMENTS</b> .....	4
<b>OFFICE OF INSPECTOR GENERAL RESPONSE</b> .....	4
<b>APPENDIXES</b>	
A: ALLOWABLE MEDICARE PENSION COSTS FOR BLUE CROSS BLUE SHIELD OF GEORGIA FOR FISCAL YEARS 2001 THROUGH 2005	
B: AUDITEE COMMENTS	

## **INTRODUCTION**

### **BACKGROUND**

#### **Blue Cross Blue Shield of Georgia**

Blue Cross Blue Shield of Georgia (BCBSGA) administers Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS). BCBSGA merged with WellPoint Health Network, Inc. (WHN), and, effective May 31, 2001, BCBSGA's pension plan assets from the Non-Contributory Retirement Program were merged into WHN's Pension Accumulation Plan. In turn, WHN became a part of Anthem, Inc. (Anthem), on November 30, 2004, and at that time Anthem changed its name to WellPoint, Inc. (WellPoint). On June 30, 2006, the Pension Accumulation Plan assets were merged into WellPoint's Cash Balance pension plan.

Effective November 11, 2006, a consolidation of certain Medicare operations occurred, forming a new subsidiary of WellPoint called National Government Services (NGS). This consolidation included the BCBSGA Medicare segment, which was maintained separately from other Medicare operations. Thus, although we are addressing this report to NGS, we will associate the term BCBSGA with our findings and recommendations regarding the pension costs claimed for the Pension Accumulation Plan for fiscal years (FY) 2001 through 2005.

#### **Medicare Reimbursement of Pension Costs**

CMS reimburses a portion of the annual contributions that contractors make to their pension plans. To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with Cost Accounting Standards (CAS) 412 and 413 and (2) funded as specified by part 31 of the Federal Acquisition Regulation (FAR).

Beginning with FY 1988, CMS incorporated specific segmentation language into Medicare contracts that requires contractors to use either an allocation method or a separate calculation method to identify and claim pension costs for Medicare reimbursement. Under the allocation method, the contractor determines total plan CAS pension costs and allocates a share to Medicare. Under the separate calculation method, the contractor separately identifies the pension cost components for the Medicare segment. The contractor must use the separate calculation method if its result is materially different from that of the allocation method.

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

#### **Objective**

Our objective was to determine the allowability of pension costs that BCBSGA claimed for Medicare reimbursement for FYs 2001 through 2005.

## Scope

We reviewed \$754,972 of pension costs that BCBSGA claimed for Medicare reimbursement on its Final Administrative Cost Proposals (FACP) for FYs 2001 through 2005. Achieving our objective did not require that we review BCBSGA's overall internal control structure. However, we reviewed the internal controls related to the pension costs claimed for Medicare reimbursement to ensure that the pension costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

We performed fieldwork at BCBSGA's office in Atlanta, Georgia, during September 2009.

## Methodology

We reviewed the applicable portions of the FAR, CAS, and Medicare contracts. Additionally, we reviewed BCBSGA's FACPs to identify the amount of pension costs claimed for Medicare reimbursement for FYs 2001 through 2005. We also determined the extent to which BCBSGA funded CAS pension costs with contributions to the pension trust fund and accumulated prepayment credits. We based our calculations on separately computed CAS pension costs for the Medicare segment and the "Other" segment. The CMS Office of the Actuary calculated the allocable CAS pension costs based on BCBSGA's historical practices and on the results of our segmentation review (*Review of the Pension Segmentation Requirements at Blue Cross Blue Shield of Georgia for the Period January 1, 2001, to June 30, 2006, A-07-10-00344*).

In performing our review, we used information that BCBSGA's actuarial consulting firms provided. The information included assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We examined BCBSGA's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Forms 5500.

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

BCBSGA claimed \$617,723 of unallowable Medicare pension costs for FYs 2001 through 2005. This overclaim occurred because BCBSGA based its claim for Medicare reimbursement on an amount that did not comply with the provisions of CAS 412 and 413. BCBSGA claimed pension costs of \$754,972 for Medicare reimbursement; we determined that the allowable CAS pension costs were \$137,249, a difference of \$617,723.

## FEDERAL REQUIREMENTS

The Medicare contracts address the determination and allocation of pension costs. The contracts state: “The calculation of and accounting for pension costs charged to this agreement/contract are governed by the Federal Acquisition Regulation and Cost Accounting Standards 412 and 413.”

FAR 31.205-6(j) addresses allowability of pension costs and requires that plan contributions substantiate pension costs assigned to contract periods.

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.

## UNALLOWABLE PENSION COSTS CLAIMED

BCBSGA claimed \$617,723 of unallowable Medicare pension costs for FYs 2001 through 2005. During this period, BCBSGA claimed pension costs of \$754,972 for Medicare reimbursement. We calculated allowable pension costs based on separately computed CAS pension costs for the Medicare segment and the “Other” segment in accordance with CAS 412 and 413. We determined that the allowable CAS pension costs for this period were \$137,249.

The following table compares allowable CAS pension costs with the pension costs claimed on BCBSGA’s FACPs. Appendix A contains details on allowable pension costs and contributions.

### Comparison of Allowable Pension Costs and Claimed Pension Costs

<b>Medicare Pension Costs</b>			
<b>Fiscal Year</b>	<b>Allowable Per Audit</b>	<b>Claimed by BCBSGA</b>	<b>Difference</b>
2001	\$90,051	\$186,498	(\$96,447)
2002	35,527	153,169	(117,642)
2003	8,808	222,994	(214,186)
2004	2,482	132,582	(130,100)
2005	381	59,729	(59,348)
<b>Total</b>	<b>\$137,249</b>	<b>\$754,972</b>	<b>(\$617,723)</b>

The Medicare contracts require BCBSGA to calculate pension costs for Medicare reimbursement pursuant to CAS 412 and 413. However, BCBSGA based its claim for Medicare reimbursement on an amount that did not comply with the provisions of CAS 412 and 413. As a result, BCBSGA claimed \$617,723 of unallowable pension costs.

## **RECOMMENDATIONS**

We recommend that BCBSGA:

- reduce its FACP by \$617,723 or refund this amount to CMS and
- ensure that future pension costs are claimed in accordance with the Medicare contracts.

## **AUDITEE COMMENTS**

In written comments on our draft report, NGS concurred with our finding and recommendations.

While concurring with our finding and recommendations, NGS also suggested that the accuracy and clarity of this report would be enhanced if one passage in the background section (page 1) were to be revised as follows: “This report is being addressed to National Government Services, Inc. (NGS) since the BCBSGA Medicare contract was terminated and transitioned to a Medicare Administrative Contractor effective May 4, 2009. NGS is a subsidiary of WellPoint and manages the administration of the organization’s existing Medicare government contract work”.

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

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

After reviewing NGS’s written comments, we determined that the suggested revision does not enhance the clarity or accuracy of this report. Therefore, we did not incorporate NGS’s suggested revision into this report.

# **APPENDIXES**

**APPENDIX A: ALLOWABLE MEDICARE PENSION COSTS FOR  
BLUE CROSS BLUE SHIELD OF GEORGIA  
FOR FISCAL YEARS 2001 THROUGH 2005**

Date	Description		Total Company	"Other" Segment	Medicare Segment	Total Medicare
2001	Contributions	1/	\$13,021,263	\$13,021,263	\$0	
9.00%	Discount for Interest	2/	(\$931,618)	(\$931,618)	\$0	
January 1, 2001	Present Value Contributions	3/	\$12,089,645	\$12,089,645	\$0	
January 1, 2001	Prepayment Credit Applied	4/	\$30,909	\$30,438	\$471	
June 1, 2001	Prepayment Credit Applied	5/	\$4,750,171	\$4,677,692	\$72,479	
9.00%	Discount for Interest	6/	(\$178,131)	(\$175,511)	(\$2,620)	
	Present Value of Funding	7/	\$16,692,594	\$16,622,264	\$70,330	
January 1, 2001	CAS Funding Target	8/	\$4,617,657	\$4,547,327	\$70,330	
	Percentage Funded	9/		100.00%	100.00%	
	Funded Pension Cost	10/		\$4,547,327	\$70,330	
	Allowable Interest	11/		\$273,836	\$2,620	
	Allocable Pension Cost	12/		\$4,821,163	\$72,950	
2001	Fiscal Year Pension Cost	13/		\$3,615,872	\$54,713	
	Medicare LOB* Percentage	14/		0.9773%	100.0000%	
	Allowable Pension Cost	15/		\$35,338	\$54,713	\$90,051
2002	Contributions		\$16,944,554	\$16,944,554	\$0	
8.00%	Discount for Interest		(\$1,200,302)	(\$1,200,302)	\$0	
January 1, 2002	Present Value Contributions		\$15,744,252	\$15,744,252	\$0	
	Prepayment Credit Applied		\$12,371,090	\$12,371,090	\$0	
	Present Value of Funding		\$28,115,342	\$28,115,342	\$0	
January 1, 2002	CAS Funding Target		\$12,371,090	\$12,371,090	\$0	
	Percentage Funded			100.00%	0.00%	
	Funded Pension Cost			\$12,371,090	\$0	
	Allowable Interest			\$0	\$0	
	Allocable Pension Cost			\$12,371,090	\$0	
2002	Fiscal Year Pension Cost			\$10,483,608	\$18,238	
	Medicare LOB* Percentage			0.1654%	99.7208%	
	Allowable Pension Cost			\$17,340	\$18,187	\$35,527
2003	Contributions		\$25,634,926	\$25,634,926	\$0	
7.50%	Discount for Interest		(\$1,726,781)	(\$1,726,781)	\$0	
January 1, 2003	Present Value Contributions		\$23,908,145	\$23,908,145	\$0	
	Prepayment Credit Applied		\$21,350,609	\$21,350,609	\$0	
	Present Value of Funding		\$45,258,754	\$45,258,754	\$0	
January 1, 2003	CAS Funding Target		\$21,350,609	\$21,350,609	\$0	
	Percentage Funded			100.00%	0.00%	
	Funded Pension Cost			\$21,350,609	\$0	
	Allowable Interest			\$0	\$0	
	Allocable Pension Cost			\$21,350,609	\$0	
2003	Fiscal Year Pension Cost			\$19,105,729	\$0	
	Medicare LOB* Percentage			0.0461%	99.4579%	
	Allowable Pension Cost			\$8,808	\$0	\$8,808

Date	Description	Total Company	"Other" Segment	GBA Medicare Segment	Total Medicare
2004	Contributions	\$13,980,114	\$13,980,114	\$0	
7.50%	Discount for Interest	(\$975,357)	(\$975,357)	\$0	
January 1, 2004	Present Value Contributions	\$13,004,757	\$13,004,757	\$0	
	Prepayment Credit Applied	\$0	\$0	\$0	
	Present Value of Funding	\$13,004,757	\$13,004,757	\$0	
January 1, 2004	CAS Funding Target	\$0	\$0	\$0	
	Percentage Funded		0.00%	0.00%	
	Funded Pension Cost		\$0	\$0	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$0	\$0	
2004	Fiscal Year Pension Cost		\$5,337,652	\$0	
	Medicare LOB* Percentage		0.0465%	99.5771%	
	Allowable Pension Cost		\$2,482	\$0	\$2,482
2005	Contributions	\$46,000,000	\$46,000,000	\$0	
7.50%	Discount for Interest	(\$2,422,060)	(\$2,422,060)	\$0	
January 1, 2005	Present Value Contributions	\$43,577,940	\$43,577,940	\$0	
	Prepayment Credit Applied	\$5,079,557	\$5,079,557	\$0	
	Present Value of Funding	\$48,657,497	\$48,657,497	\$0	
January 1, 2005	CAS Funding Target	\$5,079,557	\$5,079,557	\$0	
	Percentage Funded		100.00%	0.00%	
	Funded Pension Cost		\$5,079,557	\$0	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$5,079,557	\$0	
2005	Fiscal Year Pension Cost		\$3,809,668	\$0	
	Medicare LOB* Percentage		0.0100%	99.5181%	
	Allowable Pension Cost		\$381	\$0	\$381

\* Line of business.

#### FOOTNOTES

- 1/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the plan year and accrued contributions deposited after the end of the plan year but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segments during the pension segmentation review (A-07-10-00344). The amounts shown for the "Other" segment represent the difference between the Total Company and the Medicare segment.
- 2/ We subtracted the interest that was included in the contributions deposited after the beginning of the valuation year to discount the contributions back to their beginning-of-the-year value. For purposes of this Appendix, we computed the interest as the difference between the present value of contributions (at the valuation interest rate) and actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the plan year. For purposes of this Appendix, we deemed deposits made after the end of the plan year to have been made on the final day of the plan year, consistent with the method mandated by the Employee Retirement Income Security Act.
- 4/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year Cost Accounting Standards (CAS) funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs. This prepayment credit was from the Non-Contributory Retirement Plan of BCBSGA and was available for use on January 1, 2001.

- 5/ Effective May 31, 2001, the Non-Contributory Retirement Program of BCBSGA pension assets merged into the WellPoint Health Network, Inc., Pension Accumulation Plan. As of the merger date, the Pension Accumulation Plan pension plan assets contained a prepayment credit balance. A portion of the Pension Accumulation Plan prepayment credit balance was transferred to the BCBSGA Medicare segment to fund the remaining assignable pension costs in 2001.
- 6/ We subtracted the interest that was included in the prepayment credit applied on June 1, 2001, to discount the prepayment credit back to its beginning-of-the-year value. We computed the interest by multiplying the prepayment credit applied on June 1, 2001, by the valuation interest rate.
- 7/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at the first day of the plan year.
- 8/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of the Federal Acquisition Regulation (FAR) 31.205-6(j)(2)(i).
- 9/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the plan year. Because any funding in excess of the CAS funding target is accounted for as a prepayment in accordance with CAS 412.50(c)(1) (as amended), the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to six decimals.
- 10/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.
- 11/ We assumed that interest on the funded CAS pension cost, less the prepayment credit, accrues in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in four equal installments deposited within 30 days after the end of the quarter.
- 12/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.
- 13/ We converted the plan year (January 1 through December 31) allocable pension costs to a fiscal year (FY) basis (October 1 through September 30). We calculated the FY pension costs as 1/4 of the prior year's costs plus 3/4 of the current year's costs. Our prior review (A-07-07-00237, issued November 16, 2007) covered costs through calendar year 2000; therefore, to calculate the FY 2001 allocable pension costs, we calculated the FY pension costs as 3/4 of the calendar year 2001 costs.
- 14/ We calculated allowable pension costs of the Medicare and "Other" segments based on the Medicare line of business (LOB) percentage of each segment. We determined the LOB percentages based upon information provided by Blue Cross Blue Shield of Georgia.
- 15/ We computed the allowable Medicare pension cost as the FY pension cost multiplied by the Medicare LOB percentage. Pursuant to CAS 412 and 413, the total Medicare allowable pension costs charged to the Medicare contract consisted of the Medicare segment's direct pension costs plus "Other" segment pension costs attributable to indirect Medicare operations.

## APPENDIX B: AUDITEE COMMENTS



A CMS Contracted Agent

National Government Services, Inc.  
www.NGSMedicare.com

## Medicare

June 2, 2011

Mr. Patrick J. Cogley  
Regional Inspector General for Audit Services  
Office of Inspector General, Region VII  
601 East 12<sup>th</sup> Street, Room 0429  
Kansas City, Missouri 64106

Reference: Report Number A-07-10-00345

Dear Mr. Cogley:

We have received the draft audit report from the Inspector General entitled "Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross Blue Shield of Georgia for Fiscal Years 2001 Through 2005" and thank you for the opportunity to respond.

We concur with the finding and related recommendation outlined in the report. We believe the accuracy and clarity of the report would be enhanced with the adoption of the following proposed revision:

- In the "Introduction" section (page 1) within the "Background" caption, please replace the 2<sup>nd</sup> paragraph with the following:

This report is being addressed to National Government Services, Inc. (NGS) since the BCBSGA Medicare contract was terminated and transitioned to a Medicare Administrative Contractor effective May 4, 2009. NGS is a subsidiary of WellPoint and manages the administration of the organization's existing Medicare government contract work.

We appreciate the opportunity to respond to this draft report. If you have any further questions, I can be reached at 414-459-5606 or via email at [todd.reiger@wellpoint.com](mailto:todd.reiger@wellpoint.com).

Sincerely,

Digitally signed by Todd W. Reiger  
DN: cn=Todd W. Reiger, o=National  
Government Services, Inc., ou=Finance,  
email=todd.reiger@wellpoint.com, c=US  
Date: 2011.06.02 08:58:48 -05'00'

Todd W. Reiger, CPA  
Chief Financial Officer, Medicare Operations



June 2, 2011  
Page 2 of 2

CC: Sandy Miller  
Michael Kapp  
Jeff Hannah  
Wendy Perkins  
Joanne Imel - WellPoint  
Jenene Tambke - OIG