



October 3, 2011

Report Number: A-07-11-00349

Mr. Jeff Leber
Chief Financial Officer
Blue Cross Blue Shield of Mississippi
3545 Lakeland Drive
Flowood, MS 39232-9799

Dear Mr. Leber:

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 Mississippi, A Terminated Medicare Contractor, for the Period January 1, 1996, to September 30, 2009*. 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.

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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-07-11-00349 in all correspondence.

Sincerely,

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

Enclosure

Direct Reply to HHS Action Official:

Ms. Deborah Taylor
Director & Chief Financial Officer
Office of Financial Management
Centers for Medicare & Medicaid Services
Mail Stop C3-01-24
7500 Security Boulevard
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Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF THE QUALIFIED PENSION
PLAN AT BLUE CROSS BLUE SHIELD OF
MISSISSIPPI, A TERMINATED MEDICARE
CONTRACTOR, FOR THE PERIOD
JANUARY 1, 1996, TO
SEPTEMBER 30, 2009**



Daniel R. Levinson
Inspector General

October 2011
A-07-11-00349

Office of Inspector General

<http://oig.hhs.gov>

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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 Mississippi (BCBS Mississippi), through its wholly owned subsidiary TriSpan Health Services, Inc., administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated effective September 30, 2009.

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 assets/liabilities, in accordance with CAS 413.

Pension Segmentation

Beginning with fiscal year 1988, CMS incorporated segmentation requirements into the Medicare contracts. 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, BCBS Mississippi identified Medicare's share of the Medicare segment excess pension liabilities to be \$7,992,802.

Prior Pension Segmentation Audit Report

We performed a prior pension segmentation audit at BCBS Mississippi (A-07-97-01209, issued September 8, 1997), which brought the Medicare segment pension assets to January 1, 1996. The prior audit found that BCBS Mississippi overstated Medicare pension assets for the period January 1, 1986, to January 1, 1996, by \$725,701. We recommended that BCBS Mississippi reduce its Medicare segment pension assets by \$725,701 and, as a result, recognize \$2,717,989 as the Medicare segment pension assets as of January 1, 1996.

OBJECTIVE

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

- implementing the prior audit recommendation,
- updating the Medicare segment's pension assets from January 1, 1996, to September 30, 2009, and

- determining Medicare's share of the Medicare segment excess pension liabilities as a result of the termination of the Medicare contracts.

SUMMARY OF FINDINGS

BCBS Mississippi implemented the prior audit recommendation; however, BCBS Mississippi did not always comply with Federal requirements and the Medicare contracts' pension segmentation requirements when updating Medicare segment assets from January 1, 1996, to September 30, 2009. BCBS Mississippi identified Medicare segment pension assets of (\$7,992,802); however, we determined that the Medicare segment pension assets were (\$7,677,758) as of September 30, 2009. As a result, BCBS Mississippi overstated the Medicare segment pension assets by \$315,044.

In addition, BCBS Mississippi 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. BCBS Mississippi computed Medicare's share of the Medicare segment excess pension liabilities to be \$7,992,802; however, we determined that Medicare's share of the Medicare segment excess pension liabilities was \$7,124,056 as of September 30, 2009. Accordingly, we determined that BCBS Mississippi overstated Medicare's share of excess pension liabilities, due to the termination of the Medicare contracts, by \$868,746.

RECOMMENDATIONS

We recommend that BCBS Mississippi:

- decrease Medicare segment pension assets as of September 30, 2009, by \$315,044, and
- decrease Medicare's share of the excess pension liabilities by \$868,746 and submit for reimbursement \$7,124,056 as Medicare's share of the excess pension liabilities due to the segment closing calculation.

AUDITEE COMMENTS

In written comments on our draft report, BCBS Mississippi concurred with our findings and described corrective action that it planned to implement in conjunction with its final contract settlement proposal to CMS. BCBS Mississippi's comments are included in their entirety as Appendix C.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
Blue Cross Blue Shield of Mississippi and Medicare.....	1
Federal Requirements	1
Pension Segmentation.....	1
Prior Pension Segmentation Audit Report.....	1
OBJECTIVE, SCOPE, AND METHODOLOGY	2
Objective.....	2
Scope.....	2
Methodology.....	2
FINDINGS AND RECOMMENDATIONS	3
PRIOR AUDIT RECOMMENDATION	4
UPDATE OF MEDICARE SEGMENT PENSION ASSETS	4
Federal Requirements	4
Net Transfers Overstated	5
Contributions and Transferred Prepayment Credits Overstated	6
Benefit Payments Understated.....	6
Earnings, Net Expenses Understated	6
MEDICARE SEGMENT EXCESS PENSION LIABILITIES	7
Federal Requirements	7
Medicare Segment Excess Pension Liabilities as of September 30, 2009.....	8
Medicare’s Share of Excess Pension Liabilities as of September 30, 2009	8
RECOMMENDATIONS	9
AUDITEE COMMENTS	9
APPENDIXES	
A: STATEMENT OF MARKET VALUE OF PENSION ASSETS FOR BLUE CROSS BLUE SHIELD OF MISSISSIPPI FOR THE PERIOD JANUARY 1, 1996, TO SEPTEMBER 30, 2009	
B: CALCULATION OF AGGREGATE MEDICARE PERCENTAGE	
C: AUDITEE COMMENTS	

Glossary of Abbreviations and Acronyms

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

INTRODUCTION

BACKGROUND

Blue Cross Blue Shield of Mississippi and Medicare

Blue Cross Blue Shield of Mississippi (BCBS Mississippi), through its wholly owned subsidiary TriSpan Health Services, Inc., administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated effective September 30, 2009.

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 assets/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

Beginning with fiscal year 1988, CMS incorporated segmentation requirements into the 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, BCBS Mississippi identified Medicare's share of the Medicare segment excess pension liabilities to be \$7,992,802.

Prior Pension Segmentation Audit Report

We performed a prior pension segmentation audit at BCBS Mississippi (A-07-97-01209, issued September 8, 1997), which brought the Medicare segment pension assets to January 1, 1996. The prior audit found that BCBS Mississippi overstated Medicare pension assets for the period

January 1, 1986, to January 1, 1996, by \$725,701. We recommended that BCBS Mississippi reduce its Medicare segment pension assets by \$725,701 and, as a result, recognize \$2,717,989 as the Medicare segment pension assets as of January 1, 1996.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

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

- implementing the prior audit recommendation,
- updating the Medicare segment's pension assets from January 1, 1996, to September 30, 2009, and
- determining Medicare's share of the Medicare segment excess pension liabilities as a result of the termination of the Medicare contracts.

Scope

We reviewed BCBS Mississippi's identification of its Medicare segment; update of Medicare segment assets from January 1, 1996, to September 30, 2009, and the Medicare segment's closing calculation as of September 30, 2009.

Achieving our objective did not require us to review BCBS Mississippi's overall internal control structure. We reviewed controls relating to the identification of the Medicare segment, the update of the Medicare segment's assets, and the Medicare segment's final assets and liabilities to ensure adherence to the Medicare contracts, CAS 412, and CAS 413.

We performed fieldwork at BCBS Mississippi's office in Flowood, Mississippi, during October 2010.

Methodology

To accomplish our objectives, we took the following steps:

- We reviewed the applicable portions of the FAR, CAS, and the Medicare contracts.
- We reviewed the annual actuarial valuation reports prepared by BCBS Mississippi's actuarial consulting firms, 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 reviewed the Medicare segment closing calculation prepared by BCBS Mississippi's actuarial consulting firms.

- We obtained and reviewed the pension plan documents and Department of Labor/Internal Revenue Service Forms 5500 used in calculating the Medicare segment assets.
- We interviewed BCBS Mississippi staff responsible for identifying the Medicare segment to determine whether the segment was properly identified in accordance with the Medicare contracts.
- We reviewed BCBS Mississippi's accounting records to verify the segment identification and benefit payments made to the Medicare segment.
- We reviewed the prior segmentation audit performed at BCBS Mississippi (A-07-97-01209) to determine the beginning market value of assets.
- We provided the CMS Office of the Actuary with the actuarial information necessary for it to calculate the Medicare segment pension assets from January 1, 1996, to September 30, 2009, and the Medicare segment's excess pension liabilities as of September 30, 2009.
- We reviewed the CMS actuaries' methodology and calculations.

We performed this review in conjunction with our audit of BCBS Mississippi's pension costs claimed for Medicare reimbursement (A-07-11-00350) 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

BCBS Mississippi implemented the prior audit recommendation; however, BCBS Mississippi did not always comply with Federal requirements and the Medicare contracts' pension segmentation requirements when updating Medicare segment assets from January 1, 1996, to September 30, 2009. BCBS Mississippi identified Medicare segment pension assets of (\$7,992,802); however, we determined that the Medicare segment pension assets were (\$7,677,758) as of September 30, 2009. As a result, BCBS Mississippi overstated the Medicare segment pension assets by \$315,044.¹

¹ As of September 30, 2009, our audited update of BCBS Mississippi's Medicare segment pension assets identified negative pension assets. We treated the Medicare segment negative pension assets as liabilities in the Update of Medicare Segment Pension Assets and the Medicare Segment Excess Pension Liabilities sections of this report.

Appendix A presents details of the Medicare segment's pension assets from January 1, 1996, to September 30, 2009, 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 Audit	Per BCBS Mississippi	Difference
Update of Medicare Segment Assets			
Net Transfers	(\$6,292,071)	(\$7,041,730)	\$749,659
Contributions and Transferred Prepayment Credits	11,213,239	11,674,304	(461,065)
Benefit Payments	(19,194,788)	(18,953,970)	(240,818)
Earnings, Net Expenses	3,877,873	3,610,605	267,268
Understatement of Medicare Segment Assets			\$315,044

In addition, CAS 413 requires a segment closing adjustment to be made in order to recognize Medicare's share of the Medicare segment excess pension liabilities as a result of the termination of the Medicare contracts. BCBS Mississippi 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. BCBS Mississippi computed Medicare's share of the Medicare segment excess pension liabilities to be \$7,992,802; however, we determined that Medicare's share of the Medicare segment excess pension liabilities was \$7,124,056 as of September 30, 2009. Accordingly, we determined that BCBS Mississippi overstated Medicare's share of excess pension liabilities, due to the termination of the Medicare contracts, by \$868,746.

PRIOR AUDIT RECOMMENDATION

BCBS Mississippi implemented the prior audit recommendation (A-07-97-01209) which recommended that BCBS Mississippi reduce its Medicare segment pension assets by \$725,701 and recognize \$2,717,989 as the Medicare segment pension assets as of January 1, 1996.

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.

Furthermore, the Medicare contracts 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. 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.

Finally, 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.

Net Transfers Overstated

BCBS Mississippi overstated net transfers out of the Medicare segment by \$749,659. The overstatement occurred primarily because BCBS Mississippi computed its transfer adjustments for plan years 1996 and 1997 using non-CAS-compliant liabilities. Additionally, BCBS Mississippi incorrectly identified participants who transferred in and out of the Medicare segment. This overstatement of the net transfer adjustment resulted in an understatement of the Medicare segment assets by \$749,659.

A comparison of BCBS Mississippi's and our calculations of net asset transfers from the Medicare segment appears in Table 2 on the following page.

Table 2: Net Asset Transfers from the Medicare Segment

	Per Audit	Per BCBS Mississippi	Difference
1996	(\$77,340)	(\$576,411)	\$499,071
1997	(247,029)	(382,002)	134,973
1998	(96,541)	(100,771)	4,230
1999	62,214	59,138	3,076
2000	(3,345)	(22,579)	19,234
2001	(323,477)	(324,920)	1,443
2002	(25,684)	(7,914)	(17,770)
2003	(28,787)	87,430	(116,217)
2004	(131,915)	(140,648)	8,733
2005	(672,489)	(397,126)	(275,363)
2006	(430,425)	(532,253)	101,828
2007	(544,455)	(600,967)	56,512
2008	(501,798)	(514,466)	12,668
2009	(3,271,000)	(3,588,241)	317,241
Total	(\$6,292,071)	(\$7,041,730)	\$749,659

Contributions and Transferred Prepayment Credits Overstated

BCBS Mississippi overstated contributions and transferred prepayment credits by \$461,065 for the Medicare segment. The overstatement occurred primarily because BCBS Mississippi overstated the segment's assignable pension costs for the audit period. As a result, BCBS Mississippi overstated the Medicare segment assets by \$461,065.

The audited contributions and transferred 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 to assigned pension costs, as needed, as of the date of deposit.

Benefit Payments Understated

BCBS Mississippi understated benefit payments by \$240,818, primarily because it incorrectly accounted for its 2002 benefit payments. More specifically, the understatement occurred because BCBS Mississippi incorrectly accounted for the 2002 benefit payments as income rather than as a distribution of Medicare segment assets. Therefore, the Medicare segment pension assets were overstated by \$240,818.

Earnings, Net Expenses Understated

BCBS Mississippi understated investment earnings, less administrative expenses, by \$267,268 for the Medicare segment, because it (a) used an incorrect methodology in allocating its investment earnings, less administrative expenses, during 1996 and 1997, and (b) used incorrect

net transfers, contributions and transferred prepayment credits, and benefit payment amounts (as previously discussed) to develop the Medicare segment pension asset base. In our audited update, we allocated earnings, net 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

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.

Medicare Segment Excess Pension Liabilities as of September 30, 2009

BCBS Mississippi identified \$7,992,802 in excess Medicare segment pension liabilities as of September 30, 2009.² However, we calculated the excess Medicare segment pension liabilities to be \$7,315,728 as of that date. Therefore, BCBS Mississippi overstated the excess pension liabilities by \$677,074. The overstatement occurred because BCBS Mississippi did not fully comply with Federal regulations in its calculation of the Medicare segment's excess pension liabilities. Specifically, BCBS Mississippi overstated the excess pension liabilities because it (a) overstated the Medicare segment's final market value of pension assets as of September 30, 2009, and (b) did not adjust the Medicare segment's final market value of assets by the accumulated unfunded actuarial liability. The development of excess liabilities was used to identify Medicare's share of the Medicare segment's excess liabilities.

Medicare's Share of Excess Pension Liabilities as of September 30, 2009

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.]

Medicare's Share of the Excess Pension Liabilities Overstated

BCBS Mississippi did not comply with the Medicare contracts in determining Medicare's share of the excess pension liabilities associated with the termination of the Medicare contracts as of September 30, 2009. BCBS Mississippi calculated \$7,992,802 as Medicare's share of the excess pension liabilities as of September 30, 2009; however, we determined that Medicare's share of the excess pension liabilities was \$7,124,056 as of September 30, 2009. The overstatement occurred primarily because BCBS Mississippi (1) overstated the Medicare segment's excess pension liabilities (as discussed above), and (2) did not compute the aggregate Medicare percentage in accordance with the CAS. As a result, BCBS Mississippi overstated Medicare's share of the Medicare segment excess pension liabilities by \$868,746.

² BCBS Mississippi presented its termination calculation with negative pension assets. We treated the negative pension assets as pension liabilities in the calculation of the Medicare Segment's Excess Pension Liabilities.

In accordance with CAS 413.50(c)(12)(vi), we calculated the aggregate Medicare percentage using the Medicare segment pension costs developed during the prior pension costs claimed (A-07-97-01211) and current pension costs claimed (A-07-11-00350) 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 pension liabilities.

Table 3: Medicare's Share of Excess Pension Liabilities			
	Excess Medicare Segment Liabilities (A)	Aggregate Medicare Percentage (B)	Excess Liabilities Attributable to Medicare (A x B)
Per Audit	\$7,315,728	97.38%	\$7,124,056
Per BCBS Mississippi	7,992,802	100.00%	7,992,802
Difference			(\$868,746)

RECOMMENDATIONS

We recommend that BCBS Mississippi:

- decrease Medicare segment pension assets as of September 30, 2009, by \$315,044, and
- decrease Medicare's share of the excess pension liabilities by \$868,746 and submit for reimbursement \$7,124,056 as Medicare's share of the excess pension liabilities due to the segment closing calculation.

AUDITEE COMMENTS

In written comments on our draft report, BCBS Mississippi concurred with our findings and described corrective action that it planned to implement in conjunction with its final contract settlement proposal to CMS.

BCBS Mississippi'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 MISSISSIPPI
FOR THE PERIOD JANUARY 1, 1996, TO SEPTEMBER 30, 2009**

Description		Total Company	"Other" Segment	Medicare Segment
Assets January 1, 1996	1/	\$16,267,463	\$13,549,474	\$2,717,989
Transferred Prepayment Credits	2/	0	(370,513)	370,513
Contributions	3/	2,995,390	2,995,390	0
Earnings	4/	2,599,815	2,105,563	494,252
Benefit Payments	5/	(1,802,758)	(1,802,758)	0
Expenses	6/	(114,422)	(92,669)	(21,753)
Transfers	7/	0	77,340	(77,340)
Assets January 1, 1997		19,945,488	16,461,827	3,483,661
Transferred Prepayment Credits		0	(402,908)	402,908
Contributions		4,328,181	4,328,181	0
Earnings		4,484,610	3,651,864	832,746
Benefit Payments		(1,002,656)	(1,002,656)	0
Expenses		(143,543)	(116,889)	(26,654)
Transfers		0	247,029	(247,029)
Assets January 1, 1998		27,612,080	23,166,448	4,445,632
Transferred Prepayment Credits		0	(321,569)	321,569
Contributions		2,525,000	2,525,000	0
Earnings		4,392,415	3,596,788	795,627
Benefit Payments		(2,830,234)	(2,786,290)	(43,944)
Expenses		(156,642)	(128,268)	(28,374)
Transfers		0	96,541	(96,541)
Assets January 1, 1999		31,542,619	26,148,650	5,393,969
Transferred Prepayment Credits		0	(344,094)	344,094
Contributions		875,000	875,000	0
Earnings		5,171,483	4,187,336	984,147
Benefit Payments		(2,780,655)	(2,780,655)	0
Expenses		(161,716)	(130,941)	(30,775)
Transfers		0	(62,214)	62,214
Assets January 1, 2000		34,646,731	27,893,082	6,753,649
Transferred Prepayment Credits		0	(401,016)	401,016
Contributions		2,112,054	2,112,054	0
Earnings		(1,165,820)	(936,115)	(229,705)
Benefit Payments		(1,866,631)	(856,026)	(1,010,605)
Expenses		(222,286)	(178,488)	(43,798)
Transfers		0	3,345	(3,345)
Assets January 1, 2001		\$33,504,048	\$27,636,836	\$5,867,212

Description	Total Company	"Other" Segment	Medicare Segment
Assets January 1, 2001	\$33,504,048	\$27,636,836	\$5,867,212
Transferred Prepayment Credits	0	(528,533)	528,533
Contributions	8,100,000	8,100,000	0
Earnings	(1,289,243)	(1,063,580)	(225,663)
Benefit Payments	(1,798,575)	(731,255)	(1,067,320)
Expenses	(199,227)	(164,355)	(34,872)
Transfers	0	323,477	(323,477)
Assets January 1, 2002	38,317,003	33,572,590	4,744,413
Transferred Prepayment Credits	0	(661,201)	661,201
Contributions	14,786,608	14,786,608	0
Earnings	(2,886,814)	(2,471,596)	(415,218)
Benefit Payments	(4,103,431)	(3,724,477)	(378,954)
Expenses	(187,577)	(160,597)	(26,980)
Transfers	0	25,684	(25,684)
Assets January 1, 2003	45,925,789	41,367,011	4,558,778
Transferred Prepayment Credits	0	(1,022,500)	1,022,500
Contributions	12,300,000	12,300,000	0
Earnings	8,962,823	7,834,452	1,128,371
Benefit Payments	(3,554,700)	(3,554,700)	0
Expenses	(223,877)	(195,692)	(28,185)
Transfers	0	28,787	(28,787)
Assets January 1, 2004	63,410,035	56,757,358	6,652,677
Transferred Prepayment Credits	0	(1,072,541)	1,072,541
Contributions	5,700,000	5,700,000	0
Earnings	6,432,396	5,621,381	811,015
Benefit Payments	(4,278,223)	(4,278,223)	0
Expenses	(287,633)	(251,367)	(36,266)
Transfers	0	131,915	(131,915)
Assets January 1, 2005	70,976,575	62,608,523	8,368,052
Transferred Prepayment Credits	0	(1,282,985)	1,282,985
Contributions	11,075,000	11,075,000	0
Earnings	5,698,977	4,907,836	791,141
Benefit Payments	(6,386,580)	(6,008,922)	(377,658)
Expenses	(286,876)	(247,051)	(39,825)
Transfers	0	672,489	(672,489)
Assets January 1, 2006	\$81,077,096	\$71,724,890	\$9,352,206

Description	Total Company	"Other" Segment	Medicare Segment
Assets January 1, 2006	\$81,077,096	\$71,724,890	\$9,352,206
Transferred Prepayment Credits	0	(1,237,012)	1,237,012
Contributions	10,500,000	10,500,000	0
Earnings	9,815,378	8,518,013	1,297,365
Benefit Payments	(5,677,426)	(5,189,915)	(487,511)
Expenses	(302,650)	(262,647)	(40,003)
Transfers	0	430,425	(430,425)
Assets January 1, 2007	95,412,398	84,483,754	10,928,644
Transferred Prepayment Credits	0	(1,153,147)	1,153,147
Contributions	4,600,000	4,600,000	0
Earnings	6,768,761	5,946,531	822,230
Benefit Payments	(9,220,415)	(7,124,025)	(2,096,390)
Expenses	(398,353)	(349,963)	(48,390)
Transfers	0	544,455	(544,455)
Assets January 1, 2008	97,162,391	86,947,605	10,214,786
Transferred Prepayment Credits	0	(1,260,351)	1,260,351
Contributions	22,450,000	22,450,000	0
Earnings	(25,710,548)	(22,661,793)	(3,048,755)
Benefit Payments	(4,408,994)	(4,108,833)	(300,161)
Expenses	(64,260)	(56,640)	(7,620)
Transfers	0	501,798	(501,798)
Assets January 1, 2009	89,428,589	81,811,786	7,616,803
Transferred Prepayment Credits	0	(1,154,869)	1,154,869
Contributions	0	0	0
Earnings	10,081,148	9,822,647	258,501
Benefit Payments	(18,530,300)	(5,098,055)	(13,432,245)
Expenses	(182,765)	(178,079)	(4,686)
Transfers	0	3,271,000	(3,271,000)
Assets September 30, 2009	\$80,796,672	\$88,474,430	(\$7,677,758)
Per BCBS Mississippi	8/ \$80,796,672	\$88,789,474	(\$7,992,802)
Asset Variance	9/ \$0	(\$315,044)	\$315,044

FOOTNOTES

- 1/ We determined the Medicare segment pension assets as of January 1, 1996, based upon our prior segmentation audit of Blue Cross Blue Shield of Mississippi (BCBS Mississippi) (A-07-97-01209). 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 avoid incurring unallowable interest. 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 Forms 5500. 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. 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 based the Medicare segment's benefit payments on actual payments to Medicare retirees. We obtained the benefit payments from documents provided by BCBS Mississippi.
- 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 BCBS Mississippi. 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 September 30, 2009, from documents prepared by BCBS Mississippi's actuarial consulting firms.
- 9/ The asset variance represents the difference between our calculation of Medicare segment assets and BCBS Mississippi's calculation of the Medicare segment market value of assets.

APPENDIX B: CALCULATION OF AGGREGATE MEDICARE PERCENTAGE

Fiscal Year	Medicare Segment Pension Costs Charged to Medicare	Total Medicare Segment Pension Costs	Medicare Aggregate Percentage
<u>1/</u>	(A)	(B)	(A/B) <u>2/</u>
1992	\$87,003	\$96,147	
1993	197,028	218,920	
1994	313,073	331,680	
1995	347,674	369,433	
1996	383,424	387,728	
1997	388,134	400,386	
1998	330,861	341,904	
1999	332,743	338,463	
2000	383,808	386,786	
2001	493,028	496,654	
2002	624,643	628,034	
2003	906,261	932,175	
2004	1,025,368	1,060,031	
2005	1,202,075	1,230,374	
2006	1,227,530	1,248,505	
2007	1,145,817	1,174,113	
2008	1,209,372	1,233,550	
2009	1,423,653	1,469,957	
Total	\$12,021,495	\$12,344,840	97.38%

FOOTNOTES

1/ The aggregate percentage was based on the audited pension costs as determined during the pension audits related to the Blue Cross Blue Shield of Mississippi Medicare segment. The information for fiscal years (FY) 1992 - 1996 was obtained during our prior pension costs claimed review (A-07-97-01211). The information for FYs 1997 - 2008 was obtained during the current pension costs claimed review (A-07-11-00350).

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



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August 26, 2011

Patrick J. Cogley
Regional Inspector General For Audit Services
Office of Audit Services, Region VII
601 East 12th Street, Room 0429
Kansas City, MO 64106

Re: TriSpan Pension Review Response A-07-11-00349

Blue Cross & Blue Shield of Mississippi ("BCBSMS") submits this letter in response to the findings identified in the U.S Department of Health & Human Services, Office of Inspector General (OIG), draft report titled *Review of the Qualified Pension Plan at Blue Cross Blue Shield of Mississippi. A Terminated Medicare Contractor for the Period January 1, 1996 to September 30, 2009.*

After further review, BCBSMS concurs with the OIG's Summary of Findings which states that BCBSMS "overstated the Medicare segment pension assets by \$315,044."

Additionally, BCBSMS concurs with OIG's Summary of Findings which states that BCBSMS "overstated Medicare's share of excess pension liabilities, due to the termination of the Medicare contract, by \$868,746."

BCBSMS will make appropriate adjustments that reflect this reduction in claims pension costs in BCBSMS's final settlement proposal that will be submitted in connection with the termination of the Title XVIII Medicare contract.

Please keep us informed of any revisions to the draft report.

Sincerely,

Jeffery T. Leber
Blue Cross Blue Shield of Mississippi
Chief Financial Officer

