



November 15, 2011

Report Number: A-07-11-00370

Mr. Jerry Feilmeier
Vice President, Government Programs
Blue Cross Blue Shield of Nebraska
1919 Aksarben Drive
Omaha, NE 68106

Dear Mr. Feilmeier:

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 Nebraska, A Terminated Medicare Contractor, for the Period January 1, 1994, to November 30, 2007*. 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-07-11-00370 in all correspondence.

Sincerely,

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

Enclosure

Page 2 – Mr. Jerry Feilmeier

Direct Reply to HHS Action Official:

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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 NEBRASKA, A TERMINATED
MEDICARE CONTRACTOR, FOR THE
PERIOD JANUARY 1, 1994, TO
NOVEMBER 30, 2007**



Daniel R. Levinson
Inspector General

November 2011
A-07-11-00370

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 Nebraska (BCBS Nebraska) administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated effective November 30, 2007.

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 Nebraska identified Medicare's share of the Medicare segment excess pension liabilities to be \$323,791.

Prior Pension Segmentation Audit Report

We performed a prior pension segmentation audit at BCBS Nebraska (A-07-95-01159, issued January 29, 1996), which brought the Medicare segment pension assets to January 1, 1994. We recommended that BCBS Nebraska increase its Medicare segment pension assets by \$37,549 and, as a result, recognize \$509,926 as the Medicare segment pension assets as of January 1, 1994.

OBJECTIVE

Our objective was to determine whether BCBS Nebraska 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, 1994, to November 30, 2007, 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 Nebraska did not implement the prior audit recommendation and did not always comply with Federal requirements and the Medicare contracts' pension segmentation requirements when updating Medicare segment assets from January 1, 1994, to November 30, 2007. BCBS Nebraska identified Medicare segment pension assets of \$1,356,201; however, we determined that the Medicare segment pension assets were \$1,201,906 as of November 30, 2007. As a result, BCBS Nebraska overstated the Medicare segment pension assets by \$154,295.

In addition, BCBS Nebraska 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 Nebraska computed Medicare's share of the Medicare segment excess pension liabilities to be \$323,791; however, we determined that Medicare's share of the Medicare segment excess pension liabilities was \$317,340 as of November 30, 2007. Accordingly, BCBS Nebraska overstated Medicare's share of excess pension liabilities, as a result of the termination of the Medicare contracts, by \$6,451.

RECOMMENDATIONS

We recommend that BCBS Nebraska:

- decrease Medicare segment pension assets as of November 30, 2007, by \$154,295, and
- decrease Medicare's share of the excess pension liabilities by \$6,451 and submit for reimbursement \$317,340 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 Nebraska concurred with our recommendations and said that it intends to include the adjustment as a part of the contractor termination costs associated with its terminated Medicare contract. BCBS Nebraska's comments are included in their entirety as Appendix C.

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Glossary of Abbreviations and Acronyms

BCBS Nebraska	Blue Cross Blue Shield of Nebraska
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 Nebraska and Medicare

Blue Cross Blue Shield of Nebraska (BCBS Nebraska) administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated effective November 30, 2007.

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 Nebraska identified Medicare's share of the Medicare segment excess pension liabilities to be \$323,791.

Prior Pension Segmentation Audit Report

We performed a prior pension segmentation audit at BCBS Nebraska (A-07-95-01159, issued January 29, 1996), which brought the Medicare segment pension assets to January 1, 1994. The prior audit found that BCBS Nebraska understated Medicare pension assets for the period January 1, 1986, to January 1, 1994, by \$37,549. We recommended that BCBS Nebraska

increase its Medicare segment pension assets by \$37,549 and, as a result, recognize \$509,926 as the Medicare segment pension assets as of January 1, 1994.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether BCBS Nebraska 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, 1994, to November 30, 2007, 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 Nebraska's identification of its Medicare segment; update of Medicare segment assets from January 1, 1994, to November 30, 2007, and the Medicare segment's closing calculation as of November 30, 2007.

Achieving our objective did not require us to review BCBS Nebraska'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 Nebraska's office in Omaha, Nebraska, during August 2010.

Methodology

To accomplish our objectives, we took the following steps:

- We reviewed the portions of the FAR, CAS, and the Medicare contracts applicable to this audit.
- We reviewed the annual actuarial valuation reports prepared by BCBS Nebraska'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 Nebraska's staff and its 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 Nebraska staff responsible for identifying the Medicare segment to determine whether the segment was properly identified in accordance with the Medicare contracts.
- We reviewed BCBS Nebraska'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 Nebraska (A-07-95-01159) 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, 1994, to November 30, 2007, and the Medicare segment's excess pension liabilities as of November 30, 2007.
- We reviewed the CMS actuaries' methodology and calculations.

We performed this review in conjunction with our audit of BCBS Nebraska's pension costs claimed for Medicare reimbursement (A-07-11-00371) 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 Nebraska did not implement the prior audit recommendation and did not always comply with Federal requirements and the Medicare contracts' pension segmentation requirements when updating Medicare segment assets from January 1, 1994, to November 30, 2007. BCBS Nebraska identified Medicare segment pension assets of \$1,356,201; however, we determined that the Medicare segment pension assets were \$1,201,906 as of November 30, 2007. As a result, BCBS Nebraska overstated the Medicare segment pension assets by \$154,295.

Appendix A presents details of the Medicare segment's pension assets from January 1, 1994, to November 30, 2007, as determined during our audit. Table 1 on the following page 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 Nebraska	Difference
Prior Audit Recommendation	\$509,926	\$472,377	\$37,549
Update of Medicare Segment Assets			
Net Transfers	\$149,707	\$333,285	(\$183,578)
Contributions and Transferred Prepayment Credits	1,321,271	1,344,558	(23,287)
Earnings, Net Expenses	982,167	967,146	15,021
Overstatement of Medicare Segment Assets			(\$154,295)

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 Nebraska 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 Nebraska computed Medicare's share of the Medicare segment excess pension liabilities to be \$323,791; however, we determined that Medicare's share of the Medicare segment excess pension liabilities was \$317,340 as of November 30, 2007. Accordingly, BCBS Nebraska overstated Medicare's share of excess pension liabilities, as a result of the termination of the Medicare contracts, by \$6,451.

PRIOR AUDIT RECOMMENDATION

BCBS Nebraska did not implement the prior audit recommendation (A-07-95-01159) which recommended that BCBS Nebraska increase Medicare segment pension assets by \$37,549, and recognize \$509,926 of Medicare segment pension assets as of January 1, 1994. Therefore, the Medicare segment pension assets were understated by \$37,549 as of January 1, 1994. For the current audit, we used \$509,926 as the beginning market value of assets.

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 Nebraska overstated net transfers into the Medicare segment by \$183,578. The overstatement occurred primarily because BCBS Nebraska incorrectly identified participants who transferred in and out of the Medicare segment. This overstatement of the net transfer adjustment resulted in an overstatement of the Medicare segment assets by \$183,578.

A comparison of BCBS Nebraska's and our calculations of net asset transfers into the Medicare segment appears in Table 2.

Table 2: Net Asset Transfers into the Medicare Segment			
	Per Audit	Per BCBS Nebraska	Difference
1994	(\$9,152)	(\$4,886)	(\$4,266)
1995	(192,935)	(184,218)	(8,717)
1996	126,382	179,353	(52,971)
1997	(171,892)	(171,892)	0
1998	(12,155)	(11,919)	(236)
1999	(6,291)	(6,291)	0
2000	(117,097)	(117,223)	126
2001	28,684	25,468	3,216
2002	(21,715)	(21,715)	0
2003	(152,515)	(152,515)	0
2004	264,786	264,786	0
2005	542,981	540,594	2,387
2006	(104,696)	18,421	(123,117)
2007	(24,678)	(24,678)	0
Total	\$149,707	\$333,285	(\$183,578)

Contributions and Transferred Prepayment Credits Overstated

BCBS Nebraska overstated contributions and transferred prepayment credits by \$23,287 for the Medicare segment. The overstatement occurred primarily because BCBS Nebraska did not correctly calculate the assignable pension cost upon which the contributions and transferred prepayment credits were based. As a result, BCBS Nebraska overstated the Medicare segment pension assets by \$23,287.

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.

Earnings, Net Expenses Understated

BCBS Nebraska understated investment earnings, less administrative expenses, by \$15,021 for the Medicare segment, because it used incorrect net transfer amounts, as well as incorrect contributions and transferred prepayment credits (discussed above), 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 assets/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.
- (iv) Pension plan improvements adopted within 60 months of the date of the event which increase the actuarial accrued liability shall be recognized on a prorata basis using the number of months the date of adoption preceded the event date. Plan improvements mandated by law or collective bargaining agreement are not subject to this phase-in.

Medicare Segment Excess Pension Liabilities as of November 30, 2007

BCBS Nebraska identified \$408,827 in excess Medicare segment pension liabilities as of November 30, 2007. However, we calculated the excess Medicare segment pension liabilities to be \$405,910 as of that date. Therefore, BCBS Nebraska overstated the excess pension liabilities by \$2,917. The overstatement occurred because BCBS Nebraska did not fully comply with Federal regulations in its calculation of the Medicare segment's excess pension liabilities. Specifically, BCBS Nebraska overstated the excess pension liabilities because it (a) overstated the Medicare segment's final market value of pension assets as of November 30, 2007, (b) incorrectly identified the final Medicare segment participants as of November 30, 2007, and (c) did not recognize a prorated portion of the 2006 pension plan amendment when calculating its final accrued actuarial liabilities. As part of our review, we used the development of excess liabilities to identify Medicare's share of Medicare segment's excess liabilities.

Medicare's Share of Excess Pension Liabilities as of November 30, 2007

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 Nebraska did not fully 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 November 30, 2007. BCBS Nebraska calculated \$323,791 as Medicare’s share of the excess pension liabilities as of November 30, 2007; however, we determined that Medicare’s share of the excess pension liabilities was \$317,340 as of November 30, 2007. The overstatement occurred primarily because BCBS Nebraska (1) overstated the Medicare segment’s excess pension liabilities (as discussed above), and (2) did not correctly compute the aggregate Medicare percentage. As a result, BCBS Nebraska overstated Medicare’s share of the Medicare segment excess pension liabilities by \$6,451.

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-07-95-01167) and current pension costs claimed (A-07-11-00371) 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	\$405,910	78.18%	\$317,340
Per BCBS Nebraska	408,827	79.20%	323,791
Difference			(\$6,451)

RECOMMENDATIONS

We recommend that BCBS Nebraska:

- decrease Medicare segment pension assets as of November 30, 2007, by \$154,295, and
- decrease Medicare’s share of the excess pension liabilities by \$6,451 and submit for reimbursement \$317,340 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 Nebraska concurred with our recommendations and said that it intends to include the adjustment as a part of the contractor termination costs associated with its terminated Medicare contract.

BCBS Nebraska'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 NEBRASKA
FOR THE PERIOD JANUARY 1, 1994, TO NOVEMBER 30, 2007**

Description		Total Company	"Other" Segment	Medicare Segment
Assets January 1, 1994	1/	\$14,205,118	\$13,695,192	\$509,926
Transferred Prepayment Credits		0	0	0
Contributions	2/	1,480,261	1,444,346	35,915
Earnings	3/	90,680	87,425	3,255
Benefit Payments	4/	(562,108)	(562,108)	0
Expenses	5/	(72,871)	(70,255)	(2,616)
Transfers	6/	0	9,152	(9,152)
Assets January 1, 1995		\$15,141,080	\$14,603,752	\$537,328
Transferred Prepayment Credits	7/	0	(39,590)	39,590
Contributions		1,230,359	1,227,196	3,163
Earnings		4,078,836	3,934,086	144,750
Benefit Payments		(378,810)	(378,810)	0
Expenses		(72,890)	(70,303)	(2,587)
Transfers		0	192,935	(192,935)
Assets January 1, 1996		\$19,998,575	\$19,469,266	\$529,309
Transferred Prepayment Credits		0	(45,143)	45,143
Contributions		1,809,348	1,798,118	11,230
Earnings		3,147,123	3,054,335	92,788
Benefit Payments		(1,634,494)	(1,634,494)	0
Expenses		(99,325)	(96,397)	(2,928)
Transfers		0	(126,382)	126,382
Assets January 1, 1997		\$23,221,227	\$22,419,303	\$801,924
Transferred Prepayment Credits		0	(70,607)	70,607
Contributions		1,363,148	1,363,148	0
Earnings		4,868,129	4,689,811	178,318
Benefit Payments		(1,587,174)	(1,528,735)	(58,439)
Expenses		(119,022)	(114,662)	(4,360)
Transfers		0	171,892	(171,892)
Assets January 1, 1998		\$27,746,308	\$26,930,150	\$816,158
Transferred Prepayment Credits		0	(19,586)	19,586
Contributions		0	0	0
Earnings		4,472,557	4,336,765	135,792
Benefit Payments		(439,200)	(439,200)	0
Expenses		(160,395)	(155,525)	(4,870)
Transfers		0	12,155	(12,155)
Assets January 1, 1999		\$31,619,270	\$30,664,759	\$954,511
Transferred Prepayment Credits		0	(32,634)	32,634
Contributions		613,300	579,959	33,341
Earnings		5,213,901	5,047,367	166,534
Benefit Payments		(1,279,872)	(1,279,872)	0
Expenses		(152,013)	(147,158)	(4,855)
Transfers		0	6,291	(6,291)
Assets January 1, 2000		\$36,014,586	\$34,838,712	\$1,175,874

Description	Total Company	"Other" Segment	Medicare Segment
Assets January 1, 2000	\$36,014,586	\$34,838,712	\$1,175,874
Transferred Prepayment Credits	0	(572)	572
Contributions	763,778	750,093	13,685
Earnings	(1,438,327)	(1,390,023)	(48,304)
Benefit Payments	(1,984,779)	(1,984,779)	0
Expenses	(208,695)	(201,686)	(7,009)
Transfers	0	117,097	(117,097)
Assets January 1, 2001	\$33,146,563	\$32,128,842	\$1,017,721
Transferred Prepayment Credits	0	(17,429)	17,429
Contributions	10,116,000	10,055,579	60,421
Earnings	(1,436,937)	(1,401,460)	(35,477)
Benefit Payments	(5,410,593)	(4,861,710)	(548,883)
Expenses	(161,583)	(157,594)	(3,989)
Transfers	0	(28,684)	28,684
Assets January 1, 2002	\$36,253,450	\$35,717,544	\$535,906
Transferred Prepayment Credits	0	(101,549)	101,549
Contributions	15,100,000	15,100,000	0
Earnings	(2,655,021)	(2,605,451)	(49,570)
Benefit Payments	(4,221,490)	(4,221,490)	0
Expenses	(178,856)	(175,517)	(3,339)
Transfers	0	21,715	(21,715)
Assets January 1, 2003	\$44,298,083	\$43,735,252	\$562,831
Transferred Prepayment Credits	0	(139,674)	139,674
Contributions	18,750,000	18,750,000	0
Earnings	7,381,640	7,260,889	120,751
Benefit Payments	(2,777,634)	(2,777,634)	0
Expenses	(191,089)	(187,963)	(3,126)
Transfers	0	152,515	(152,515)
Assets January 1, 2004	\$67,461,000	\$66,793,385	\$667,615
Transferred Prepayment Credits	0	(137,215)	137,215
Contributions	5,500,000	5,500,000	0
Earnings	6,441,254	6,384,141	57,113
Benefit Payments	(7,922,115)	(7,438,525)	(483,590)
Expenses	(268,333)	(265,954)	(2,379)
Transfers	0	(264,786)	264,786
Assets January 1, 2005	\$71,211,806	\$70,571,046	\$640,760
Transferred Prepayment Credits	0	(171,164)	171,164
Contributions	9,300,000	9,300,000	0
Earnings	5,429,158	5,386,951	42,207
Benefit Payments	(4,767,200)	(4,216,806)	(550,394)
Expenses	(273,155)	(271,031)	(2,124)
Transfers	0	(542,981)	542,981
Assets January 1, 2006	\$80,900,609	\$80,056,015	\$844,594

Description	Total Company	"Other" Segment	Medicare Segment
Assets January 1, 2006	\$80,900,609	\$80,056,015	\$844,594
Transferred Prepayment Credits	0	(214,694)	214,694
Contributions	0	0	0
Earnings	9,074,286	8,944,982	129,304
Benefit Payments	(13,123,687)	(13,123,687)	0
Expenses	(284,507)	(280,453)	(4,054)
Transfers	0	104,696	(104,696)
Assets January 1, 2007	\$76,566,701	\$75,486,859	\$1,079,842
Transferred Prepayment Credits	0	(173,659)	173,659
Contributions	0	0	0
Earnings	6,009,663	5,911,612	98,051
Benefit Payments	(6,822,243)	(6,702,384)	(119,859)
Expenses	(313,124)	(308,015)	(5,109)
Transfers	0	24,678	(24,678)
Assets November 30, 2007	\$75,440,997	\$74,239,091	\$1,201,906
Per BCBS Nebraska	8/ \$75,440,997	\$74,084,796	\$1,356,201
Asset Variance	9/ \$0	\$154,295	(\$154,295)

ENDNOTES

- 1/ We determined the Medicare segment pension assets as of January 1, 1994, based upon our prior segmentation audit of Blue Cross Blue Shield of Nebraska (BCBS Nebraska) (A-07-95-01159). The amounts shown for the "Other" segment represent the difference between the Total Company and the Medicare segment. All pension assets are shown at market value.
- 2/ We obtained Total Company contribution amounts from the actuarial valuation reports and Department of Labor/Internal Revenue Service 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.
- 3/ We obtained investment earnings from actuarial valuation reports. We allocated investment earnings based on the market value of Medicare assets at the beginning of the plan year after adjustments for prepayment credits and participant transfers. For years starting with 1996, we allocated investment earnings based on the ratio of the segment's weighted average value (WAV) of assets to Total Company WAV of assets as required by the Cost Accounting Standards (CAS).
- 4/ We based the Medicare segment's benefit payments on actual payments to Medicare retirees. We obtained the benefit payments from documents provided by BCBS Nebraska.
- 5/ We allocated administrative expenses to the Medicare segment in proportion to investment earnings.
- 6/ We identified participant transfers between segments by comparing valuation data files provided by BCBS Nebraska. For plan years prior to 1996, our transfer adjustment considered each participant's actuarial liability and the funding level of the segment from which the participant transferred. For plan years starting with 1996, asset transfers were equal to the actuarial liability determined under the accrued benefit cost method in accordance with the CAS.
- 7/ 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.
- 8/ We obtained total asset amounts as of November 30, 2007, from documents prepared by BCBS Nebraska's actuarial consulting firms.
- 9/ The asset variance represents the difference between our calculation of Medicare segment pension assets and BCBS Nebraska's calculation of the Medicare segment pension assets.

APPENDIX B: CALCULATION OF AGGREGATE MEDICARE PERCENTAGE

Year	Medicare Segment Pension Costs Charged to Medicare	Total Medicare Segment Pension Costs	Medicare's Aggregate %
1/	(A)	(B)	(A/B) 2/
1987	\$5,642	\$5,942	
1988	1,776	1,858	
1989	0	0	
1990	0	0	
1991	0	0	
1992	0	0	
1993	16,928	32,480	
1994	27,721	50,986	
1995	26,002	42,753	
1996	35,100	56,313	
1997	44,553	70,607	
1998	13,060	19,586	
1999	44,953	65,673	
2000	10,233	13,956	
2001	76,574	76,651	
2002	101,549	101,549	
2003	139,674	139,674	
2004	137,215	137,215	
2005	144,856	171,164	
2006	161,750	214,694	
2007	87,143	173,660	
Total	\$1,074,729	\$1,374,761	78.18%

ENDNOTES

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 Nebraska Medicare segment. The information for fiscal years 1987 - 1994 was obtained during our prior audit (A-07-95-01167). The information for plan years 1995 - 2007 was obtained during the current review (A-07-11-00371).

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



**BlueCross BlueShield
of Nebraska**

P.O. Box 3248
Omaha, Nebraska 68180-0001
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November 4, 2011

Report Number: A-07-11-00370

Patrick J. Cogley
Regional Inspector General for
Audit Services
Department of Health & Human Services
Region VII
Room 0429
601 East 12th Street
Kansas City, Missouri 64106

Dear Mr. Cogley:

Enclosed is the Blue Cross Blue Shield of Nebraska response to the U.S. Department of Health and Human Services, Office of Inspector General (OIG,) draft report entitled *Review of the Qualified Pension Plan at Blue Cross Blue Shield of Nebraska, A Terminated Medicare Contractor, for the Period January 1, 1994, to November 30, 2007.*

We concur with your recommendations. However, since Blue Cross Blue Shield of Nebraska is no longer a Medicare contractor, we do not have access to the CMS systems to submit for reimbursement. Our intent will be to include the adjustment as part of the global settlement of the contractor termination costs associated with our terminated Medicare contract.

If you have any questions or comments related to our response, please do not hesitate to contact me at (402) 982-8824.

Sincerely,

A handwritten signature in black ink, appearing to read "Jerry Feilmeier".

Jerry Feilmeier
Vice President, Government Programs