

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**NATIONAL GOVERNMENT SERVICES,
INC., UNDERSTATED
ITS MEDICARE SEGMENT
PENSION ASSETS
AS OF JANUARY 1, 2010**

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Office of Inspector General

<https://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

National Government Services, Inc., a Medicare contractor, understated its Medicare segment pension assets by approximately \$1.2 million as of January 1, 2010.

WHY WE DID THIS REVIEW

The Centers for Medicare & Medicaid Services (CMS) reimburses a portion of the annual contributions that Medicare contractors make 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. The Medicare contracts require contractors to separately account for Medicare segment pension plan assets and update them in accordance with CAS 413. In turn, CAS 413 requires these contractors to update the pension assets with contributions, permitted unfunded accruals, income, benefit payments, participant transfers, and administrative expenses. These assets are calculated by the contractors' actuarial consulting firms and are usually included as CAS exhibits in the contractors' pension plan actuarial valuation reports. The Medicare segment pension assets are integral to calculating the allowable Medicare pension costs.

CMS incorporated pension segmentation requirements into Medicare contracts beginning with fiscal year 1988. Previous Office of Inspector General reviews found that Medicare contractors did not always correctly identify and update the segmented pension assets. Specifically, our prior pension segmentation audit of Anthem Insurance Companies, Inc. (Anthem) (A-07-04-00181), found that Anthem, which later became WellPoint, Inc. (WellPoint), did not correctly identify and update the Medicare segment pension assets for its AdminaStar Federal, Inc. (AdminaStar), and Anthem Health Plans of Maine, Inc. (Anthem Maine), segments, which were themselves later consolidated into National Government Services, Inc. (NGS).

The objectives of this review were to determine whether NGS complied with Federal requirements and the Medicare contracts' pension segmentation requirements when (1) implementing the prior audit recommendation to decrease the Medicare segment pension assets as of January 1, 2003, and (2) updating the Medicare segment's pension assets with contributions, permitted unfunded accruals, income, benefit payments, participant transfers, and administrative expenses in its CAS exhibits from January 1, 2003, to January 1, 2010.

BACKGROUND

NGS (formerly AdminaStar), a subsidiary of WellPoint, administered Medicare Parts A and B and Durable Medical Equipment operations under cost reimbursement contracts with CMS.

On November 30, 2004, Anthem merged with WellPoint Health Networks, Inc., and at that time, Anthem changed its name to WellPoint. On January 1, 2006, the Anthem Cash Balance Pension Plan was renamed the WellPoint Cash Balance Pension Plan. On June 30, 2006, WellPoint Health Networks, Inc., Pension Accumulation Plan assets merged into the WellPoint Cash Balance Pension Plan, which included the Blue Cross Blue Shield of Georgia (BCBSGA)

Medicare segment. BCBSGA was maintained separately from other Medicare operations. Also, effective November 17, 2006, WellPoint consolidated its Government contracting segments into one segment, AdminaStar, which included the following Government contracting segments: AdminaStar; Anthem Maine; Anthem Health Plans of New Hampshire, Inc.; United Government Services, LLC; and WellChoice, Inc. (formerly Empire), Medicare segments. As of that same date, AdminaStar changed its corporate name to NGS. Throughout this report, we will associate the term NGS with our findings and recommendations.

We performed a prior pension segmentation audit of Anthem (A-07-04-00181, issued October 18, 2005), which updated the NGS Medicare segment pension assets as of January 1, 2003. We recommended that Anthem decrease its NGS Medicare segment pension assets by \$440,294 and, as a result, recognize \$21,594,429 as the Medicare segment pension assets as of January 1, 2003, in its CAS exhibits.

WHAT WE FOUND

NGS implemented the prior audit recommendation to recognize \$21,594,429 as Medicare segment pension assets as of January 1, 2003, in its CAS exhibits. Regarding our second objective, NGS identified Medicare segment pension assets of \$28,382,567 as of January 1, 2010; however, we determined that NGS's Medicare segment pension assets were \$29,542,575. Therefore, NGS's CAS calculations understated its Medicare segment pension assets by \$1,160,008. NGS understated the Medicare segment pension assets because it did not have controls to ensure that it calculated those assets in accordance with Federal requirements and the pension segmentation language of its Medicare contracts when updating the Medicare segment pension assets from January 1, 2003, to January 1, 2010.

WHAT WE RECOMMEND

We recommend that NGS:

- increase the Medicare segment pension assets as of January 1, 2010, by \$1,160,008 and recognize \$29,542,575 as the Medicare segment pension assets and
- establish controls to ensure compliance with Federal regulations and the Medicare contracts' pension segmentation requirements when allocating contributions and transferred prepayment credits, benefit payments, participant transfers, and investment earnings and expenses.

AUDITEE COMMENTS

In written comments on our draft report, NGS concurred with our findings and recommendations and said that it would make the appropriate adjustments to the Medicare segment pension assets as of January 1, 2010. NGS also said that it would evaluate its current procedures to ensure compliance with Federal regulations.

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INTRODUCTION

WHY WE DID THIS REVIEW

The Centers for Medicare & Medicaid Services (CMS) reimburses a portion of the annual contributions that Medicare contractors make 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. The Medicare contracts require contractors to separately account for Medicare segment pension plan assets and update them in accordance with CAS 413. In turn, CAS 413 requires these contractors to update the pension assets with contributions, permitted unfunded accruals, income, benefit payments, participant transfers, and administrative expenses. These assets are calculated by the contractors' actuarial consulting firms and are usually included as CAS exhibits in the contractors' pension plan actuarial valuation reports. The Medicare segment pension assets are integral to calculating the allowable Medicare pension costs.

CMS incorporated pension segmentation requirements into Medicare contracts beginning with fiscal year 1988. Previous Office of Inspector General reviews found that Medicare contractors did not always correctly identify and update the segmented pension assets. Specifically, our prior pension segmentation audit of Anthem Insurance Companies, Inc. (Anthem) (A-07-04-00181), found that Anthem, which later became WellPoint, Inc. (WellPoint), did not correctly identify and update the Medicare segment pension assets for its AdminaStar Federal, Inc. (AdminaStar), and Anthem Health Plans of Maine, Inc. (Anthem Maine), segments, which were themselves later consolidated into National Government Services, Inc. (NGS).

OBJECTIVES

Our objectives were to determine whether NGS complied with Federal requirements and the Medicare contracts' pension segmentation requirements when (1) implementing the prior audit recommendation to decrease the Medicare segment pension assets as of January 1, 2003, and (2) updating the Medicare segment's pension assets with contributions, permitted unfunded accruals, income, benefit payments, participant transfers, and administrative expenses in its CAS exhibits from January 1, 2003, to January 1, 2010.

BACKGROUND

NGS (formerly AdminaStar), a subsidiary of WellPoint, administered Medicare Parts A and B and Durable Medical Equipment operations under cost reimbursement contracts with CMS.

On November 30, 2004, Anthem merged with WellPoint Health Networks, Inc., and at that time, Anthem changed its name to WellPoint. On January 1, 2006, the Anthem Cash Balance Pension Plan was renamed the WellPoint Cash Balance Pension Plan. On June 30, 2006, WellPoint Health Networks, Inc., Pension Accumulation Plan assets merged into the WellPoint Cash Balance Pension Plan, which included the Blue Cross Blue Shield of Georgia (BCBSGA) Medicare segment. BCBSGA was maintained separately from other Medicare operations. Also, effective November 17, 2006, WellPoint consolidated its Government contracting segments into

one segment, AdminaStar, which included the following Government contracting segments: AdminaStar; Anthem Maine; Anthem Health Plans of New Hampshire, Inc. (Anthem New Hampshire); United Government Services, LLC (UGS);¹ and WellChoice, Inc. (formerly Empire), Medicare segments. As of that same date, AdminaStar changed its corporate name to NGS. Throughout this report, we will associate the term NGS with our findings and recommendations.

We performed a prior pension segmentation audit of Anthem (A-07-04-00181, issued October 18, 2005), which updated the NGS Medicare segment pension assets as of January 1, 2003. We recommended that Anthem decrease its NGS Medicare segment pension assets by \$440,294 and, as a result, recognize \$21,594,429 as the Medicare segment pension assets as of January 1, 2003, in its CAS exhibits.

HOW WE CONDUCTED THIS REVIEW

We reviewed NGS's implementation of the prior audit recommendation; identification of its Medicare segment; and update of the Medicare segment assets with contributions, permitted unfunded accruals, income, benefit payments, participant transfers, and administrative expenses in its CAS exhibits from January 1, 2003, to January 1, 2010.

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 objectives.

Appendix A contains details of our audit scope and methodology.

FINDINGS

NGS implemented the prior audit recommendation to recognize \$21,594,429 as Medicare segment pension assets as of January 1, 2003, in its CAS exhibits. Regarding our second objective, NGS identified Medicare segment pension assets of \$28,382,567 as of January 1, 2010; however, we determined that NGS's Medicare segment pension assets were \$29,542,575. Therefore, NGS's CAS calculations understated its Medicare segment pension assets by \$1,160,008. NGS understated the Medicare segment pension assets because it did not have controls to ensure that it calculated those assets in accordance with Federal requirements and the pension segmentation language of its Medicare contracts when updating the Medicare segment pension assets from January 1, 2003, to January 1, 2010.

¹ UGS was also consolidated under the NGS Medicare segment; however, UGS participated in its own qualified defined benefit pension plan. In addition, the UGS pension costs were kept separate from the WellPoint Cash Balance Pension Plan until fiscal year 2007. We are separately reviewing the UGS Medicare segment pension assets and pension costs claimed.

Appendix B presents details of the WellPoint Cash Balance Pension Plan assets from January 1, 2003, to January 1, 2010, as determined during our audit. The table below summarizes the audit adjustments required to update NGS's Medicare segment pension assets in accordance with Federal requirements and the terms of its Medicare contract.

Table: Summary of Audit Adjustments			
	Per Audit	Per NGS	Difference
Prior audit recommendation	\$21,594,429	\$21,594,429	\$0
Anthem Maine Medicare segment asset variance as of January 1, 2006	3,988,364	4,472,179	(483,815)
Anthem New Hampshire Medicare segment asset variance as of January 1, 2006	301,081	276,718	24,363
Update of Medicare segment assets			
Contributions and transferred prepayment credits	23,474,574	22,311,037	1,163,537
Net transfers out	(30,493,042)	(30,096,775)	(396,267)
Benefit payments	(36,178,763)	(36,146,549)	(32,214)
Earnings, net expenses	11,603,796	10,719,392	884,404
Understatement of Medicare segment assets			\$1,160,008

NATIONAL GOVERNMENT SERVICES, INC., IMPLEMENTED OUR PRIOR AUDIT RECOMMENDATION

NGS implemented our prior recommendation to decrease Medicare segment pension assets by \$440,294 and, as a result, recognize \$21,594,429 of Medicare segment pension assets as of January 1, 2003, in its CAS exhibits.

ANTHEM HEALTH PLANS OF MAINE, INC., ASSET VARIANCE

We conducted a separate review of the Anthem Maine Medicare segment (A-07-13-00404), which updated the Anthem Maine Medicare segment pension assets as of January 1, 2006 (the date on which the Anthem Maine Medicare segment was merged with NGS). During that review, Anthem Maine identified Medicare segment assets of \$4,472,179; however, we determined that the Medicare segment pension assets were \$3,988,364, a difference of \$483,815. Therefore, we have included an adjustment to the NGS Medicare segment pension assets at January 1, 2006, in the amount of \$483,815 to account for the variance identified in the segmentation audit of the Anthem Maine Medicare segment.²

² Although WellPoint officially consolidated its Government contracting segments into one subsidiary on November 17, 2006, the documentation provided by WellPoint indicated that the pension assets relating to Anthem Maine, Anthem New Hampshire, and AdminaStar were consolidated as of January 1, 2006.

ANTHEM HEALTH PLANS OF NEW HAMPSHIRE, INC., ASSET VARIANCE

We conducted a separate review of the Anthem New Hampshire Medicare segment (A-07-13-00406), which updated the Anthem New Hampshire Medicare segment pension assets as of January 1, 2006 (the date on which the Anthem New Hampshire Medicare segment was merged with NGS). During that review, Anthem New Hampshire identified Medicare segment assets of \$276,718; however, we determined that the Medicare segment pension assets were \$301,081, a difference of \$24,363. Therefore, we have included an adjustment to the NGS Medicare segment pension assets as of January 1, 2006, in the amount of \$24,363 to account for the variance identified in the segmentation audit.

UPDATE OF MEDICARE SEGMENT PENSION ASSETS

The Medicare contract requires that Medicare contractors update the Medicare segment pension assets yearly in accordance with the CAS. The CAS requires that the asset base be adjusted by contributions, permitted unfunded accruals, income, benefit payments, and expenses.

For details on the Federal requirements and the Medicare contract, see Appendix C.

The following are our findings regarding the update of the NGS Medicare segment pension assets from January 1, 2003, to January 1, 2010.

Contributions and Transferred Prepayment Credits Understated

The audited contributions and transferred prepayment credits³ are based on the assignable pension costs.⁴ 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. For details on these Federal requirements, see Appendix C.

NGS understated contributions and transferred prepayment credits by \$1,163,537 for the Medicare segment. The understatement occurred primarily because NGS incorrectly calculated the assignable pension costs upon which the contributions and prepayment credits were based. As a result, NGS understated the Medicare segment pension assets by \$1,163,537.

Net Transfers Understated

NGS understated net transfers out of the Medicare segment by \$396,267. The understatement occurred primarily because NGS incorrectly identified participants who transferred out of that segment as required by CAS 413.50(c)(8). More specifically, the inactive participants were not

³ A prepayment credit is the amount funded in excess of the pension costs assigned to a cost accounting period that is carried forward for future recognition.

⁴ These are assigned to a specific cost accounting period.

transferred out of the Medicare segment in 2006. This understatement of the net transfer adjustment resulted in an overstatement of the Medicare segment pension assets by \$396,267.

Benefit Payments Understated

NGS understated benefit payments for the Medicare segment by \$32,214. The understatement occurred because NGS incorrectly recorded a benefit payment in 2003. This understatement of benefit payments resulted in an overstatement of the NGS Medicare segment pension assets by \$32,214.

Earnings, Net Expenses Understated

NGS understated investment earnings, less administrative expenses, by \$884,404 for the Medicare segment. This understatement occurred primarily because the 2003 weighted average value⁵ (WAV) calculation incorrectly included the assets related to the Anthem Health Plans of Virginia, Inc., Retirement Program (Anthem Southeast) merger that occurred on December 31, 2003. In addition, NGS used incorrect contributions and transferred prepayment credits, net transfers, and benefit payments (all discussed above) to develop the Medicare segment pension asset base. In our calculation of the Medicare segment pension assets as of January 1, 2010, we allocated earnings, net expenses based on the applicable CAS requirements. For details on these Federal requirements, see Appendix C.

RECOMMENDATIONS

We recommend that NGS:

- increase the Medicare segment pension assets as of January 1, 2010, by \$1,160,008 and recognize \$29,542,575 as the Medicare segment pension assets and
- establish controls to ensure compliance with Federal regulations and the Medicare contracts' pension segmentation requirements when allocating contributions and transferred prepayment credits, benefit payments, participant transfers, and investment earnings and expenses.

AUDITEE COMMENTS

In written comments on our draft report, NGS concurred with our findings and recommendations and said that it would make the appropriate adjustments to the Medicare segment pension assets as of January 1, 2010. NGS also said that it would evaluate its current procedures to ensure compliance with Federal regulations. NGS's comments are included in their entirety as Appendix D.

⁵ The weighted average market value of assets is based on the timing of the contributions, other transactions, benefit payments, and administrative expenses.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed NGS's implementation of the prior audit recommendation; identification of its Medicare segment; and update of the Medicare segment assets from January 1, 2003, to January 1, 2010.

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

We conducted our audit work in November and December 2012.

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 NGS'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 pension assets.
- We obtained and reviewed the pension plan documents and Department of Labor/Internal Revenue Service Forms 5500 used in calculating the NGS Medicare segment assets.
- We interviewed NGS staff responsible for identifying the Medicare segment to determine whether the segment was properly identified in accordance with the Medicare contracts.
- We reviewed NGS's accounting records to verify the segment identification and benefit payments made to the Medicare segment.
- We reviewed the prior segmentation audit of Anthem (A-07-04-00181) 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 NGS Medicare segment pension assets from January 1, 2003, to January 1, 2010.
- We reviewed the CMS actuaries' methodology and calculations.

We performed this review in conjunction with the following audits and used the information obtained during these audits during this review:

- *Blue Cross Blue Shield of Georgia Overstated Its Medicare Segment Pension Assets and Understated Medicare's Share of the Excess Liabilities as of May 31, 2009* (A-07-12-00397),
- *Blue Cross Blue Shield of Georgia Did Not Claim Some Allowable Medicare Pension Costs for Fiscal Years 2006 Through 2009* (A-07-12-00398),
- *Anthem Health Plans of Maine, Inc., Overstated Its Medicare Segment Pension Assets as of January 1, 2006* (A-07-13-00404),
- *Anthem Health Plans of Maine, Inc., Did Not Claim Some Allowable Medicare Pension Costs for Fiscal Years 2003 Through 2005* (A-07-13-00405),
- *Anthem Health Plans of New Hampshire, Inc., Understated Its Medicare Segment Pension Assets as of January 1, 2006* (A-07-13-00406),
- *Anthem Health Plans of New Hampshire, Inc., Did Not Claim Some Allowable Medicare Pension Costs for Fiscal Years 2003 Through 2005* (A-07-13-00407), and
- *National Government Services, Inc., Claimed Some Unallowable Medicare Pension Costs for Fiscal Years 2003 Through 2006* (A-07-13-00409).

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 objectives.

**APPENDIX B: STATEMENT OF MARKET VALUE OF PENSION ASSETS
FOR THE WELLPOINT CASH BALANCE PENSION PLAN
FOR THE PERIOD JANUARY 1, 2003, TO JANUARY 1, 2010**

Description		Total Company	Other Segments	Anthem New Hampshire Segment	NGS Segment	Anthem Maine Segment	BCBSGA Segment
Assets January 1, 2003	<u>1/</u>	\$615,266,988	\$587,811,989	\$1,066,467	\$21,594,429	\$4,794,103	
Prepayment credits	<u>2/</u>	0	(4,564,241)	243,725	3,704,635	615,881	
Contributions	<u>3/</u>	65,000,000	65,000,000	0	0	0	
Other transactions	<u>4/</u>	187,077,099	187,077,099	0	0	0	
Earnings	<u>5/</u>	130,802,578	124,178,263	223,306	5,256,726	1,144,283	
Benefit payments	<u>6/</u>	(61,198,247)	(58,130,416)	(565,058)	(2,214,866)	(287,907)	
Administrative expenses		0	0	0	0	0	
Transfers	<u>7/</u>	0	1,757,989	32	(1,568,631)	(189,390)	
Assets January 1, 2004		\$936,948,418	\$903,130,683	\$968,472	\$26,772,293	\$6,076,970	\$0
Prepayment credits		0	(4,466,299)	236,302	3,600,628	629,369	
Contributions		10,000,000	10,000,000	0	0	0	
Other transactions		0	0	0	0	0	
Earnings		96,892,114	93,048,973	121,928	3,074,529	646,684	
Benefit payments		(71,819,385)	(66,927,468)	(135,543)	(3,404,623)	(1,351,751)	
Administrative expenses		0	0	0	0	0	
Transfers		0	2,384,375	(186,544)	(954,014)	(1,243,817)	
Assets January 1, 2005		\$972,021,147	\$937,170,264	\$1,004,615	\$29,088,813	\$4,757,455	\$0
Prepayment credits		0	(4,154,400)	206,990	3,276,707	670,703	
Contributions		46,500,000	46,500,000	0	0	0	
Other transactions	<u>8/</u>	0	0	(301,081)	4,289,445	(3,988,364)	
Earnings		64,686,123	62,144,538	50,476	2,161,997	329,112	
Benefit payments		(90,620,644)	(86,346,471)	(958,801)	(2,007,245)	(1,308,127)	
Administrative expenses		0	0	0	0	0	
Transfers		0	1,434,727	(2,199)	(971,749)	(460,779)	
Assets January 1, 2006		\$992,586,626	\$956,748,658	\$0	\$35,837,968	\$0	\$0

Description		Total Company	Other Segments	NGS Segment	BCBSGA Segment
Assets January 1, 2006		\$992,586,626	\$956,748,658	\$35,837,968	\$0
Prepayment credits		0	(2,115,825)	2,115,825	0
Contributions		97,500,000	97,500,000	0	0
Other transactions	<u>9/</u>	863,505,475	825,430,076	35,252,136	2,823,263
Earnings		175,751,241	170,316,450	5,234,629	200,162
Benefit payments		(128,402,135)	(121,303,236)	(6,741,900)	(356,999)
Administrative expenses		0	0	0	0
Transfers		0	2,279,142	(2,141,639)	(137,503)
Assets January 1, 2007		\$2,000,941,207	\$1,928,855,265	\$69,557,019	\$2,528,923
Prepayment credits		0	(3,144,028)	3,144,028	0
Contributions		326,001	326,001	0	0
Other transactions		0	0	0	0
Earnings		157,298,856	151,391,866	5,699,406	207,584
Benefit payments		(171,387,896)	(164,781,183)	(6,604,168)	(2,545)
Administrative expenses		0	0	0	0
Transfers		0	6,362,462	(5,796,394)	(566,068)
Assets January 1, 2008		\$1,987,178,168	\$1,919,010,383	\$65,999,891	\$2,167,894
Prepayment credits		0	(3,122,135)	3,104,584	17,551
Contributions		58,000,000	58,000,000	0	0
Other transactions		0	0	0	0
Earnings		(468,249,433)	(452,004,182)	(15,716,563)	(528,688)
Benefit payments		(119,542,179)	(110,699,660)	(8,824,001)	(18,518)
Administrative expenses	<u>10/</u>	(1,160,212)	(1,119,960)	(38,942)	(1,310)
Transfers		0	13,046,925	(13,343,911)	296,986
Assets January 1, 2009		\$1,456,226,344	\$1,423,111,371	\$31,181,058	\$1,933,915

Description		Total Company	Other Segments	NGS Segment	BCBSGA Segment
Assets January 1, 2009		\$1,456,226,344	\$1,423,111,371	\$31,181,058	\$1,933,915
Prepayment credits		0	(4,552,169)	4,528,167	24,002
Contributions		33,000,000	33,000,000	0	0
Other transactions	<u>11/</u>	19,401,325	19,401,325	0	0
Earnings		256,877,991	250,840,139	6,010,310	27,542
Benefit payments		(133,000,077)	(126,065,157)	(6,381,960)	(552,960)
Administrative expenses		(3,346,324)	(3,267,669)	(78,296)	(359)
Transfers		0	6,077,288	(5,716,704)	(360,584)
Assets January 1, 2010		\$1,629,159,259	\$1,598,545,128	\$29,542,575	\$1,071,556
Per WellPoint	<u>12/</u>	1,629,159,259	1,599,692,059	28,382,567	1,084,633
Asset variance	<u>13/</u>	0	1,146,931	(1,160,008)	13,077

ENDNOTES

- 1/ We determined the Anthem Maine and NGS Medicare segment pension assets as of January 1, 2003, based on our prior segmentation audit of Anthem (A-07-04-00181). We determined the Anthem New Hampshire Medicare segment pension assets as of December 31, 2002, based on our prior segmentation audit of New Hampshire-Vermont (A-07-08-00269). The New Hampshire-Vermont Health Service pension plan merged into the WellPoint Cash Balance Pension Plan effective December 31, 2002. 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/ Transferred 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/ The Other transactions represent the merger of the Anthem Health Plans of Virginia, Inc. Retirement Program (Anthem Southeast) into the WellPoint Cash Balance Pension Plan on December 31, 2003. We obtained the Anthem Southeast pension asset amount as of December 31, 2003, from WellPoint's 2004 actuarial valuation report. These Other transactions did not impact the Medicare segment pension assets.

- 5/ We obtained net investment earnings from the actuarial valuation reports. We allocated net investment earnings based on the ratio of the segments' WAV of assets to Total Company WAV of assets as required by the CAS.
- 6/ We based the Medicare segment's benefit payments on actual payments to Medicare retirees. We obtained the benefit payments from documents provided by WellPoint.
- 7/ We identified participant transfers between segments by comparing valuation data files provided by WellPoint. Asset transfers were equal to the actuarial liability determined under the accrued benefit cost method in accordance with the CAS.
- 8/ The Other transactions for 2005 represent the merger of the Anthem Maine and Anthem New Hampshire segments into NGS. Effective November 17, 2006, Adminastar Federal, Inc., was renamed NGS.
- 9/ The Other transactions for 2006 represent the mergers of WellPoint Health Networks, Inc., Pension Accumulation Plan (Prior PAP) and Empire Blue Cross and Blue Shield Cash Balance Pension Plan (Prior Empire) into the WellPoint Cash Balance Pension Plan. The Prior PAP plan merged into the WellPoint Cash Balance Pension Plan on June 30, 2006. We determined the BCBSGA Medicare segment pension assets as of June 30, 2006, based on our prior segmentation audit of BCBSGA (A-07-10-00344). The Prior Empire plan merged into the WellPoint Cash Balance Pension Plan on December 31, 2006. We determined the Empire Medicare segment pension assets as of December 31, 2006, based on our prior segmentation audit of Empire (A-07-07-00253). 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.
- 10/ We allocated administrative expenses to the Medicare segment in proportion to investment earnings.
- 11/ The Other transactions for 2009 represent the acquisition of DeCare Dental, LLC in April 2009. Effective December 31, 2009, the DeCare Dental Pension Plan merged into the WellPoint Cash Balance Pension Plan. We obtained the DeCare pension asset amount as of April 2009 from WellPoint's 2010 actuarial valuation report. These Other transactions did not impact the Medicare segment pension assets.
- 12/ We obtained total asset amounts from documents prepared by WellPoint's actuarial consulting firm.
- 13/ The asset variance represents the difference between our calculation of Medicare segment pension assets and WellPoint's calculation of the Medicare segment pension assets.

APPENDIX C: FEDERAL REQUIREMENTS RELATED TO PENSION SEGMENTATION

FEDERAL REGULATIONS

Federal regulations (CAS 412.50(a)(4)) require 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.

Federal regulations (CAS 413.50(c)(7)) require 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 WAV of assets to Total Company WAV of assets.

Federal regulations (CAS 413.50(c)(8)) require 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.

MEDICARE CONTRACTS

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)."

APPENDIX D: AUDITEE COMMENTS



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Indianapolis, IN 46250

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MEDICARE

September 20, 2013

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

Reference: Report Number A-07-13-00408

Dear Mr. Cogley:

We have received the draft audit report from the Inspector General entitled "National Government Services, Inc., Understated Its Medicare Segment Pension Assets as of January 1, 2010" and thank you for the opportunity to respond.

National Government Services, Inc. (NGS) concurs with the finding and recommendation outlined in the report and will make the appropriate adjustments to Medicare segment pension assets as of January 1, 2010. In addition, NGS will evaluate its current procedures in place to ensure asset development complies with appropriate federal regulations.

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.

Sincerely,

A handwritten signature in blue ink that reads "Todd W. Reiger".

Digitally signed by
todd.reiger@wellpoint.com
DN: cn=todd.reiger@wellpoint.com
Date: 2013.09.20 14:36:13 -04'00'

Todd W. Reiger, CPA
Medicare Chief Financial Officer
National Government Services, Inc.

CC: Michael Kapp – NGS
Dave Marshall – NGS
Jeff Hannah – NGS
Jim Maguire – NGS

Renee Sherrill – NGS
Jim Elmore – NGS
Joanne Imel – WellPoint
Marilyn Bryan – CMS

Jenenne Tambke – OIG
Jeff Wilson – OIG

