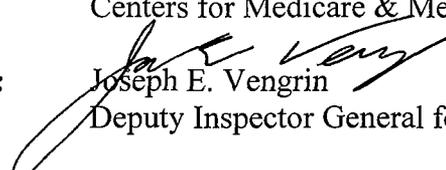




DEC - 5 2005

TO: Tim Hill
Director, Office of Financial Management
Centers for Medicare & Medicaid Services

FROM: 
Joseph E. Vengrin
Deputy Inspector General for Audit Services

SUBJECT: Review of Pension Costs Claimed for Medicare Reimbursement by AdminaStar Federal, Inc., for Fiscal Years 1991 Through 2002 (A-07-05-00187)

Attached is an advance copy of our final report on pension costs that AdminaStar Federal, Inc. (AdminaStar), claimed for Medicare reimbursement for fiscal years (FYs) 1991 through 2002. We will issue this report to AdminaStar within 5 business days.

We suggest that you share this report with the Centers for Medicare & Medicaid Services (CMS) components involved with monitoring the Medicare contractors' financial operations, particularly the Center for Medicare Management and the Office of the Actuary.

Anthem Insurance Companies, Inc. (Anthem), administers Medicare Part A, Part B, Durable Medical Equipment, and Regional Home Health Intermediary operations under its subsidiaries, AdminaStar and Anthem Health Plans of Maine, Inc. Anthem and both subsidiaries operate under cost reimbursement contracts with CMS. AdminaStar claims reimbursement for its Medicare employees' pension costs. Regulations and the Medicare contracts provide guidance for claiming pension costs.

Our objective was to determine the allowability of pension costs that AdminaStar claimed for Medicare reimbursement for FYs 1991 through 2002.

AdminaStar claimed unallowable Medicare pension costs for FYs 1991 through 2002. Allowable Medicare pension costs during this period were \$3,026,079. However, AdminaStar claimed \$7,859,783 of pension costs for Medicare reimbursement. AdminaStar claimed \$4,833,704 of unallowable pension costs because it did not claim pension costs in accordance with the Medicare contracts.

We recommend that AdminaStar revise its Final Administrative Cost Proposals for FYs 1991 through 2002 to reduce its claimed pension costs by \$4,833,704. We also recommend that AdminaStar claim future pension costs in accordance with the Medicare contracts.

AdminaStar agreed with our finding and recommendations and stated that it had implemented policies and procedures to ensure that it correctly claims future pension costs.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact George M. Reeb, Assistant Inspector General for the Centers for

Page 2 – Tim Hill

Medicare & Medicaid Audits, at (410) 786-7104 or Patrick J. Cogley, Regional Inspector General for Audit Services, Region VII, at (816) 426-3591. Please refer to report number A-07-05-00187.

Attachment



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

DEC - 6 2005

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

Report Number: A-07-05-00187

Mr. Jeff Hannah
Executive Director of Internal Controls
AdminaStar Federal, Inc.
8115 Knue Road
Indianapolis, Indiana 46250

Dear Mr. Hannah:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of Pension Costs Claimed for Medicare Reimbursement by AdminaStar Federal, Inc., for Fiscal Years 1991 Through 2002." A copy of this report will be forwarded to the HHS action official noted on the next 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 the HHS action 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.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. § 552, as amended by Public Law 104-231), OIG reports issued to the Department's grantees and contractors are made available to the public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR part 5).

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, extension 274, or contact Jenenne Tambke, Audit Manager, at (573) 893-8338, extension 21 or through e-mail at Jenenne.Tambke@oig.hhs.gov. Please refer to report number A-07-05-00187 in all correspondence.

Sincerely yours,

Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosures

Direct Reply to HHS Action Official:

Ms. Jackie Garner
Regional Administrator
Centers for Medicare & Medicaid Services
233 North Michigan Avenue, Suite 600
Chicago, Illinois 60601

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS
CLAIMED FOR MEDICARE
REIMBURSEMENT BY ADMINASTAR
FEDERAL, INC., FOR FISCAL YEARS
1991 THROUGH 2002**



**Daniel R. Levinson
Inspector General**

**DECEMBER 2005
A-07-05-00187**

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout HHS.

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The Office of Evaluation and Inspections (OEI) conducts short-term management and program evaluations (called inspections) that focus on issues of concern to HHS, Congress, and the public. The findings and recommendations contained in the inspections generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs. OEI also oversees State Medicaid Fraud Control Units, which investigate and prosecute fraud and patient abuse in the Medicaid program.

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The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, or civil monetary penalties.

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Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR part 5.)

OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.



EXECUTIVE SUMMARY

BACKGROUND

Anthem Insurance Companies, Inc. (Anthem), administers Medicare Part A, Part B, Durable Medical Equipment, and Regional Home Health Intermediary operations under its subsidiaries, AdminaStar Federal, Inc. (AdminaStar), and Anthem Health Plans of Maine, Inc. Anthem and both subsidiaries operate under cost reimbursement contracts with the Centers for Medicare & Medicaid Services.

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

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

OBJECTIVE

Our objective was to determine the allowability of pension costs that AdminaStar claimed for Medicare reimbursement for fiscal years (FYs) 1991 through 2002.

SUMMARY OF FINDING

AdminaStar claimed unallowable Medicare pension costs for FYs 1991 through 2002. Allowable Medicare pension costs during this period were \$3,026,079. However, AdminaStar claimed \$7,859,783 of pension costs for Medicare reimbursement. AdminaStar claimed \$4,833,704 of unallowable pension costs because it did not claim pension costs in accordance with the Medicare contracts.

RECOMMENDATIONS

We recommend that AdminaStar revise its Final Administrative Cost Proposals for FYs 1991 through 2002 to reduce its claimed pension costs by \$4,833,704. We also recommend that AdminaStar claim future pension costs in accordance with the Medicare contracts.

AUDITEE'S COMMENTS

AdminaStar agreed with our draft report finding and recommendations and stated that it had implemented policies and procedures to ensure that it correctly claims future pension costs. AdminaStar's response is included in its entirety as the appendix.

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Glossary of Abbreviations and Acronyms

AdminaStar	AdminaStar Federal, Inc.
Anthem	Anthem Insurance Companies, Inc.
CAS	Cost Accounting Standards
CMIC	Community Mutual Insurance Company
CMS	Centers for Medicare & Medicaid Services
FACP	Final Administrative Cost Proposal
FAR	Federal Acquisition Regulations
FY	fiscal year
Kentucky	Blue Cross and Blue Shield of Kentucky
OIG	Office of Inspector General

INTRODUCTION

BACKGROUND

AdminaStar

Anthem Insurance Companies, Inc. (Anthem), administers Medicare Part A, Part B, Durable Medical Equipment, and Regional Home Health Intermediary operations under its subsidiaries, AdminaStar Federal, Inc. (AdminaStar), and Anthem Health Plans of Maine, Inc. Anthem and both subsidiaries operate under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS).

Anthem merged with Blue Cross and Blue Shield of Kentucky (Kentucky) in 1993 and Community Mutual Insurance Company (CMIC) in 1995. On January 1, 1996, Anthem consolidated Kentucky and CMIC Medicare operations into AdminaStar, forming one company to operate Medicare program administration. In this report, we will use AdminaStar to discuss the finding concerning the Medicare Part A, Part B, and Durable Medical Equipment pension costs claimed for fiscal years (FYs) 1991 through 2002.

Medicare

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

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

Regulations

The Medicare contracts address the determination and allocation of pension costs. Appendix B, section XVI, of the contracts states that “The calculation of and accounting for pension costs charged to this agreement/contract are governed by the Federal Acquisition Regulations and Cost Accounting Standards 412 and 413.”

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

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

The CAS 413 regulates 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.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine the allowability of pension costs that AdminaStar claimed for Medicare reimbursement for FYs 1991 through 2002.

Scope

We reviewed pension costs claimed for Medicare reimbursement on AdminaStar's Final Administrative Cost Proposals (FACPs) for FYs 1991 through 2002. Achieving the objective did not require that we review AdminaStar's overall internal control structure. However, we did review the internal controls relating to the pension costs claimed for Medicare reimbursement to ensure that pension costs were allowable in accordance with the CAS and funded in accordance with the FAR.

We excluded costs covered under previous Office of Inspector General (OIG) reviews of pension costs claimed by Kentucky ("Review of Pension Costs Claimed for Medicare Reimbursement by AdminaStar Federal," A-07-98-01225, issued October 15, 1998) and CMIC ("Review of Pension Costs Claimed for Medicare Reimbursement by Community Mutual Insurance Company," A-07-97-01208, issued July 1, 1997).

We performed fieldwork at AdminaStar's office in Louisville, KY, and Anthem's office in Indianapolis, IN, during September 2004, October 2004, and February 2005.

Methodology

In performing our review, we used information that Anthem's actuarial consulting firm provided. The information documented Anthem's methodology to separately calculate AdminaStar's CAS pension costs. The information also included assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We examined Anthem's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Form 5500s. We also examined AdminaStar's accounting records.

We identified Anthem's CAS pension costs for the total company and for AdminaStar. We also determined the extent to which Anthem funded CAS pension costs with contributions to the pension trust fund and accumulated prepayment credits. Using this information, we calculated CAS pension costs that were allowable for Medicare reimbursement for FYs 1991 through 2002. The calculations were based on separately computed CAS pension costs for the Medicare segment (AdminaStar) and total company CAS pension costs. The CMS Office of the Actuary calculated the allocable CAS pension costs based on Anthem's historical practices and on the

results of our segmentation review (“Review of Medicare Contractor’s Pension Segmentation Requirements at Anthem Insurance Companies, Inc., for the Period January 1, 1991, to January 1, 2003,” A-07-04-00181, issued in draft August 18, 2005).

We performed our review in accordance with generally accepted government auditing standards.

FINDING AND RECOMMENDATIONS

UNALLOWABLE PENSION COSTS CLAIMED

AdminaStar claimed \$4,833,704 of unallowable Medicare pension costs for FYs 1991 through 2002.

The Medicare contracts require AdminaStar to allocate or separately calculate CAS pension costs for Medicare reimbursement. However, AdminaStar did not base its claim for Medicare reimbursement on either an allocated or a separately calculated CAS pension cost, instead basing its claim on a pension expense developed for financial reporting purposes.

We calculated the allowable pension costs based on separately computed CAS pension costs for AdminaStar and total company CAS pension costs. We compared allowable CAS pension costs with the pension costs claimed on AdminaStar’s FACPs, as shown in the table below.

Pension Cost Claimed Variance			
FACP	Per OIG	Per AdminaStar	Difference
1991	\$0	\$0	\$0
1992	0	0	0
1993	0	0	0
1994	0	0	0
1995	761,992	515,163	246,829
1996	346,626	1,464,524	(1,117,898)
1997	270	777,010	(776,740)
1998	0	827,135	(827,135)
1999	0	310,668	(310,668)
2000	0	934,977	(934,977)
2001	0	1,507,120	(1,507,120)
2002	1,917,191	1,523,186	394,005
Total	\$3,026,079	\$7,859,783	(\$4,833,704)

For FYs 1991 through 2002, AdminaStar claimed pension costs of \$7,859,783 for Medicare reimbursement; however, allowable CAS pension costs were \$3,026,079. Therefore, AdminaStar claimed \$4,833,704 of unallowable pension costs because it did not claim pension costs in accordance with the Medicare contracts.

RECOMMENDATIONS

We recommend that AdminaStar revise its FACPs for FYs 1991 through 2002 to reduce its claimed pension costs by \$4,833,704. We also recommend that AdminaStar claim future pension costs in accordance with the Medicare contracts.

AUDITEE'S COMMENTS

AdminaStar agreed with our draft report finding and recommendations and stated that it had implemented policies and procedures to ensure that it correctly claims future pension costs. AdminaStar also requested that we redact information from the appendix included in the draft report. AdminaStar's response is included in its entirety as the appendix.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

We commend AdminaStar for its actions to address the recommendations. In response to AdminaStar's comments, we eliminated an appendix from the final report.

APPENDIX



Medicare

A Medicare Carrier & Intermediary

T. Jeffrey Hannah

Regional Vice President

Internal Controls and Ethics & Compliance

Phone: (317) 595-4939

Fax: (317) 841-4582

November 2, 2005

Department of Health & Human Services
Office of Inspector General
Offices of Audit Services, Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

Attention: Mr. Patrick J. Cogley
Regional Inspector General For Audit Services

Re: Report Number A-07-05-00187

Dear Mr. Cogley:

Thank you for providing your Draft Report on the Review of Pension Costs Claimed for Medicare Reimbursement by AdminaStar Federal, Inc., for Fiscal Years 1991 through 2002.

The Draft Report recommends that AdminaStar Federal revise its FACPs for FYs 1991 through 2002 to reduce its claimed pension costs by \$4,833,704 (overall). The Draft Report also recommends that AdminaStar Federal claim future pension costs in accordance with the Medicare contracts.

Response: AdminaStar Federal concurs with the recommendations in the Draft Report. AdminaStar Federal will make the recommended reductions. In addition, AdminaStar Federal has already implemented processes and procedures designed to properly claim future pension costs in accordance with the Medicare contracts.

Please note that AdminaStar Federal is discussing with CMS the appropriate treatment of pension costs included in overhead costs charged from Anthem to AdminaStar Federal, which will be settled separately with CMS.

Finally, AdminaStar Federal respectfully requests that the Draft Report Appendices 1 through 3, which contain confidential financial information relating to AdminaStar's costs, be redacted from any publicly available posting of the Draft Report and subsequent Final Report, and otherwise protected from disclosure pursuant to the Trade Secrets Act and FOIA Exemption 4.

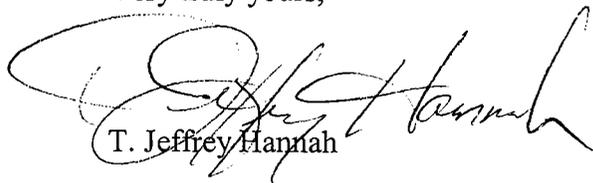


A CMS Contracted Carrier & Intermediary

Thank you for the opportunity to respond to the draft report. AdminaStar Federal appreciates the courtesy and professionalism demonstrated by the OIG in this audit.

If you have any questions or would like to discuss further, please let me know.

Very truly yours,



T. Jeffrey Hannah

cc: Michael McCarron
Glenn Rhodes
Joanne Imel
Peter McCloud