



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General  
Offices of Audit Services

OCT 18 2005

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

Report Number: A-07-05-00194

Mr. David Crowley, Regional Vice President of Medicare East  
Associated Hospital Service  
110 Free Street  
Portland, Maine 04101

Dear Mr. Crowley:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of the Inspector General (OIG) report titled "Review of Pension Costs Claimed for Medicare Reimbursement by Anthem Health Plans of Maine, Inc. for Fiscal Years 2001 Through 2002." A copy of this report will be forwarded to the HHS action official noted on the next page for her review and any action deemed necessary.

The HHS action official will make final determination regarding actions taken on all matters in the report. 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.

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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, ext. 274, or contact Jenenne Tambke, Audit Manager, at (573) 893-8338, ext. 21, or through email at [Jenenne.Tambke@oig.hhs.gov](mailto:Jenenne.Tambke@oig.hhs.gov). Please refer to report number A-07-05-00194 in all correspondence.

Sincerely yours,

A handwritten signature in black ink that reads "Patrick J. Cogley".

Patrick J. Cogley  
Regional Inspector General  
for Audit Services

Enclosures

Page 2– Mr. David Crowley

**Direct Reply to HHS Action Official:**

Charlotte S. Yeh, M.D.  
Regional Administrator  
Centers for Medicare & Medicaid Services  
JFK Federal Building  
Room 2325  
Boston, Massachusetts 02203

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS  
CLAIMED FOR MEDICARE  
REIMBURSEMENT BY ANTHEM  
HEALTH PLANS OF MAINE, INC. FOR  
FISCAL YEARS 2001 THROUGH 2002**



**Daniel R. Levinson  
Inspector General**

**OCTOBER 2005  
A-07-05-00194**

# ***Office of Inspector General***

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## **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 awarding agency will make final determination on these matters.



## **EXECUTIVE SUMMARY**

### **BACKGROUND**

Anthem Insurance Companies, Inc. administers Medicare Part A, Part B, Durable Medical Equipment, and Regional Home Health Intermediary operations under its subsidiaries, AdminaStar Federal, Inc. and Anthem Health Plans of Maine, Inc. (Maine). 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. The separate calculation method must be used if there is a material difference between the two methods.

### **OBJECTIVE**

Our objective was to determine the allowability of pension costs claimed by Maine for Medicare reimbursement for fiscal years (FY) 2001 through 2002.

### **SUMMARY OF FINDING**

Maine claimed unallowable Medicare pension costs for FYs 2001 through 2002. During this period, the allowable Medicare pension costs were \$20,800. However, Maine claimed pension costs of \$183,907 for Medicare reimbursement. Maine claimed \$163,107 of unallowable pension costs because it did not claim pension costs in accordance with its Medicare contract.

### **RECOMMENDATIONS**

We recommend that Maine revise its Final Administrative Cost Proposals for FYs 2001 through 2002 to reduce its claimed pension costs by \$163,107. We also recommend that Maine claim future pension costs in accordance with the Medicare contract.

### **AUDITEE'S COMMENTS**

Anthem agreed with our report finding. Anthem also provided information that we used to clarify the report background. Anthem's response is included in its entirety as Appendix B.

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b>INTRODUCTION</b> .....	1
<b>BACKGROUND</b> .....	1
Maine .....	1
Medicare .....	1
Regulations .....	1
<b>OBJECTIVE, SCOPE, AND METHODOLOGY</b> .....	2
Objective .....	2
Scope.....	2
Methodology .....	2
<b>FINDING AND RECOMMENDATIONS</b> .....	3
<b>RECOMMENDATIONS</b> .....	3
<b>AUDITEE’S COMMENTS</b> .....	3
<b>OFFICE OF INSPECTOR GENERAL’S RESPONSE</b> .....	3
 <b>APPENDIXES</b>	
<b>STATEMENT OF ALLOWABLE PENSION COSTS     FOR FISCAL YEARS 2001 THROUGH 2002</b> .....	A
<b>ANTHEM HEALTH PLANS OF MAINE, INC.’S     WRITTEN RESPONSE</b> .....	B

## **Glossary of Abbreviations and Acronyms**

Anthem	Anthem Insurance Companies, Inc.
CAS	Cost Accounting Standards
CMS	Centers for Medicare and Medicaid Services
FACP	Final Administrative Cost Proposal
FAR	Federal Acquisition Regulations
FY	fiscal year
LOB	line of business
Maine	Anthem Health Plans of Maine, Inc.
OIG	Office of Inspector General

# INTRODUCTION

## BACKGROUND

### Maine

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. and Anthem Health Plans of Maine, Inc. (Maine). Anthem and both subsidiaries operate under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS). For the purpose of this report, Maine will be used to address the finding concerning the Medicare Part A pension costs claimed for fiscal years (FY) 2001 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. The contracts provide for an allocation or a separate calculation of pension costs. Under the allocation method, the contractor determines total plan CAS 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 separate calculation method must be used if it is materially different than the allocation method.

### Regulations

The Medicare contracts address the determination and allocation of pension costs. The contracts state 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 addresses allowability of pension costs and requires that funding 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 claimed by Maine for Medicare reimbursement for FYs 2001 through 2002.

### **Scope**

We reviewed pension costs claimed for Medicare reimbursement on Maine's Final Administrative Cost Proposals (FACP) for FYs 2001 through 2002. Achieving the objective did not require that we review Maine's overall internal control structure. However, we did review the 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 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**

We identified Anthem's CAS pension costs for the total company and for Maine. 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 2001 through 2002. The calculations were based on separately computed CAS pension costs for the Medicare segment 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 (A-07-04-00181).

In performing our review, we used information provided by Anthem's actuarial consulting firm. The information 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 Maine's accounting records.

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

**FINDING AND RECOMMENDATIONS**

Maine claimed \$163,107 of unallowable Medicare pension costs for FYs 2001 through 2002.

The Medicare contract required Maine to allocate or separately calculate CAS pension costs for Medicare reimbursement; however, Maine claimed pension costs based on an unadjusted Financial Accounting Standards pension expense for FY 2002.

We calculated the allowable pension costs based on separately computed CAS pension costs for Maine and total company CAS pension costs. We compared allowable CAS pension costs to the pension costs claimed on Maine’s FACP’s as shown in the Table below.

<b>Table: Pension Cost Claimed Variance</b>			
<b>FACP</b>	<b>Per OIG</b>	<b>Per Maine</b>	<b>Difference</b>
2001	\$0	\$0	\$0
2002	20,800	183,907	(163,107)
<b>Total</b>	<b>\$20,800</b>	<b>\$183,907</b>	<b>(\$163,107)</b>

For FYs 2001 through 2002, Maine claimed pension costs of \$183,907 for Medicare reimbursement; however, allowable CAS pension costs were \$20,800. Maine claimed \$163,107 of unallowable pension costs because it did not claim pension costs in accordance with the Medicare contract.

**RECOMMENDATIONS**

We recommend that Maine revise its FACP’s for FYs 2001 through 2002 to reduce its claimed pension costs by \$163,107. We also recommend that Maine claim future pension costs in accordance with the Medicare contract.

**AUDITEE’S COMMENTS**

Anthem agreed with our report finding. Anthem’s response is included in its entirety as Appendix B.

**OFFICE OF INSPECTOR GENERAL’S RESPONSE**

We commend Anthem for its actions to address the recommendations. We clarified the report background with information Anthem provided.

# **APPENDIXES**

**ANTHEM HEALTH PLANS OF MAINE, INC.**  
**STATEMENT OF ALLOWABLE PENSION COSTS**  
**FOR FISCAL YEARS 2001 THROUGH 2002**

Date	Description	Total Company	Other Segment	AdminaStar Segment	Maine Segment
2001	Contributions	<u>1/</u> \$70,119,086	\$70,119,086	\$0	\$0
9.00%	Discount For Interest	<u>2/</u> (5,631,013)	(5,631,013)	0	0
	Present Value Contributions	<u>3/</u> 64,488,073	64,488,073	0	0
	Prepayment Credit	<u>4/</u> 0	0	0	0
	Present Value Of Funding	<u>5/</u> 64,488,073	64,488,073	0	0
	CAS Funding Target	<u>6/</u> 0	0	0	0
	Percentage Funded	<u>7/</u>	0.00%	0.00%	0.00%
	Funded Pension Cost	<u>8/</u>	0	0	0
	Allowable Interest	<u>9/</u>	0	0	0
	CY Allocable Pension Cost	<u>10/</u>	0	0	0
	FY Allocable Pension Cost	<u>11/</u>	0		0
	Medicare LOB Percentage	<u>12/</u>	0.22%		100.00%
	<b>FY Allowable Pension Cost</b>	<u>13/</u> <b>\$0</b>	<b>\$0</b>	<b>n/a</b>	<b>\$0</b>

2002	Contributions	\$136,900,000	\$136,900,000	\$0	\$0
9.00%	Discount For Interest	<u>(8,477,752)</u>	(8,477,752)	0	0
	Present Value Contributions	128,422,248	128,422,248	0	0
	Prepayment Credit	<u>28,102,619</u>	25,211,534	2,891,085	0
	Present Value Of Funding	156,524,867	153,633,782	2,891,085	0
	CAS Funding Target	28,102,619	25,211,534	2,891,085	0
	Percentage Funded		100.00%	100.00%	100.00%
	Funded Pension Cost		25,211,534	2,891,085	0
	Allowable Interest		0	0	0
	CY Allocable Pension Cost		25,211,534	2,891,085	0
	FY Allocable Pension Cost		18,908,651		0
	Medicare LOB Percentage		0.11%		100.00%
	<b>FY Allowable Pension Cost</b>	<b>\$20,800</b>	<b>\$20,800</b>	<b>n/a</b>	<b>\$0</b>

**ANTHEM HEALTH PLANS OF MAINE, INC.**  
**STATEMENT OF ALLOWABLE PENSION COSTS**  
**FOR FISCAL YEARS 2001 THROUGH 2002**

**FOOTNOTES**

- 1/ We obtained total company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the plan year and accrued contributions deposited after the end of the plan year but within the time allowed for filing tax returns. The amounts shown for the other segment represents the difference between the total company and the Medicare segments.
- 2/ We subtracted the interest that is included in the contributions deposited after January 1 of each year to discount the contributions back to their beginning of the year value. For purposes of this appendix, we computed the interest as the difference between the present value of contributions at the valuation interest rate and actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to January 1. For purposes of this appendix, we deemed deposits made after the end of the plan year to have been made on the final day of the plan year.
- 4/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of year Cost Accounting Standards (CAS) funding target. A prepayment credit may be carried forward, with interest, to fund future CAS pension costs.
- 5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at January 1 of each year.
- 6/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of Federal Acquisition Regulations (FAR) 31.205-6(j)(3)(I).
- 7/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the plan year. Since any funding in excess of the CAS funding target is considered premature funding in accordance with CAS 412.50(a)(7), the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimals.
- 8/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.
- 9/ We assumed interest on the funded CAS pension cost, less the prepayment credit, is to accrue in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest by FAR 31.205-6(j)(3)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, was funded in four equal installments deposited within 30 days of the end of the quarter.
- 10/ The calendar year (CY) allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.
- 11/ We converted the CY allocable CAS pension costs to a Federal fiscal year (FY) basis (October 1 through September 30). We calculated the FY pension costs as 1/4 of the prior year's costs plus 3/4 of the current year's costs. However, since Maine claimed CY 2000 costs for FY 2000, we calculated FY 2001 allocable costs as 3/4 of CY 2001 costs. Costs charged to the Medicare contract should consist of the Medicare segment's direct pension costs plus pension costs attributable to indirect Medicare operations.
- 12/ The Medicare line-of-business (LOB) percentages, for the segment and indirect operations, were provided by Maine.
- 13/ We computed the FY allowable Medicare pension cost as the FY allocable pension cost multiplied by the Medicare LOB percentage.



September 28, 2005

**Medicare**  
Part A Intermediary  
Maine & Massachusetts  
Regional Home Health

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

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

Re: Report Number A-07-05-00194

Dear Mr. Cogley:

Thank you for providing your Draft Report on the Review of Pension Costs Claimed for Medicare Reimbursement by Anthem Health Plans of Maine, Inc. for Fiscal Years 2001 through 2002.

The Draft Report makes one recommendation, to which Anthem responds as follows:

1. Recommend that Maine revise its Final Administrative Cost Proposals for FY2001 through 2002 to reduce its claimed cost by \$163,107.

Response: Anthem concurs and will make the recommended decrease.

2. Recommend that Maine claim future pension cost in accordance with the Medicare contract.

Response: Anthem concurs and has already implemented processes and procedures designed to properly report pension cost in accordance with the Medicare contracts.

Anthem also notes the following by way of clarification with regard to the background information in the Draft Report:

The Part A and Regional Home Health Intermediary contracts in the Northeast (Part A: Maine and Massachusetts; RHHI: Maine, New Hampshire, Vermont, Rhode Island, Massachusetts and Connecticut) are held and performed by Anthem Health Plans of Maine, Inc. d/b/a Associated Hospital Service.

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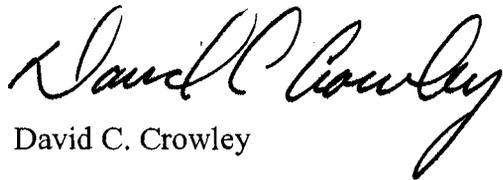
50 Salem Street  
Lynnfield, MA 01940-2694

**A CMS Contracted Intermediary**

Thank you for the opportunity to respond to the draft report. Anthem 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,

A handwritten signature in black ink, appearing to read "David C. Crowley". The signature is fluid and cursive, with the first name "David" being the most prominent.

David C. Crowley

Cc: Rochelle Shaw