



DEPARTMENT OF HEALTH AND HUMAN SERVICES

## OFFICE OF INSPECTOR GENERAL

WASHINGTON, DC 20201



March 5, 2012

**TO:** Marilyn Tavenner  
Acting Administrator  
Centers for Medicare & Medicaid Services

**FROM:** /Gloria L. Jarmon/  
Deputy Inspector General for Audit Services

**SUBJECT:** Review of Pension Costs Claimed for the Medicare Part B Segment by HealthNow New York Inc. for Fiscal Years 1995 Through 2006 (A-07-11-00364)

Attached, for your information, is an advance copy of our final report on the pension costs claimed for the Medicare Part B segment by HealthNow New York Inc. (HealthNow) for fiscal years 1995 through 2006. We will issue this report to HealthNow within 5 business days.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Brian P. Ritchie, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or through email at [Brian.Ritchie@oig.hhs.gov](mailto:Brian.Ritchie@oig.hhs.gov) or Patrick J. Cogley, Regional Inspector General for Audit Services, Region VII, at (816) 426-3591 or through email at [Patrick.Cogley@oig.hhs.gov](mailto:Patrick.Cogley@oig.hhs.gov). Please refer to report number A-07-11-00364.

Attachment



DEPARTMENT OF HEALTH AND HUMAN SERVICES

## OFFICE OF INSPECTOR GENERAL



March 7, 2012

OFFICE OF AUDIT SERVICES, REGION VII  
601 EAST 12<sup>TH</sup> STREET, ROOM 0429  
KANSAS CITY, MO 64106

Report Number: A-07-11-00364

Ms. Suzanne M. Gannon  
Executive Director and Chief Financial Officer  
MedUS Services, LLC  
HealthNow New York Inc.  
257 West Genesee Street  
Buffalo, NY 14202

Dear Ms. Gannon:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of Pension Costs Claimed for the Medicare Part B Segment by HealthNow New York Inc. for Fiscal Years 1995 Through 2006*. 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.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

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](mailto:Jenenne.Tambke@oig.hhs.gov). Please refer to report number A-07-11-00364 in all correspondence.

Sincerely,

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

Enclosure

**Direct Reply to HHS Action Official:**

Ms. Deborah Taylor  
Director and Chief Financial Officer  
Office of Financial Management  
Centers for Medicare & Medicaid Services  
Mail Stop C3-01-24  
7500 Security Boulevard  
Baltimore, MD 21244-1850

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF  
PENSION COSTS CLAIMED FOR THE  
MEDICARE PART B SEGMENT  
BY HEALTHNOW NEW YORK INC. FOR  
FISCAL YEARS 1995 THROUGH 2006**



Daniel R. Levinson  
Inspector General

March 2012  
A-07-11-00364

# *Office of Inspector General*

<http://oig.hhs.gov>

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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:

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The Office of Audit Services (OAS) provides 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. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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# *Notices*

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

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

## **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**

During our audit period (Federal fiscal years (FY) 1995 through 2006), HealthNow New York Inc. (HealthNow) administered Medicare Part B and Durable Medical Equipment Regional Carrier operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS).

CMS 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 Regulation, Cost Accounting Standards (CAS), 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 HealthNow claimed for Medicare reimbursement for FYs 1995 through 2006.

### **SUMMARY OF FINDING**

HealthNow claimed \$3,899,459 of unallowable pension costs on its Final Administrative Cost Proposals (FACP) for FYs 1995 through 2006. This overclaim occurred primarily because HealthNow did not calculate the pension expense reported on its FACPs using a CAS-based methodology prior to 2005. Before FY 2005, HealthNow used several different methodologies to calculate its pension expense. None of these methodologies complied with the provisions of CAS 412 and 413. In addition, although the methodology HealthNow used for FYs 2005 and 2006 complied with the provisions of CAS 412 and 413, the amounts HealthNow calculated for these two FYs differed from the amounts we calculated. Specifically, on its FACPs for FYs 1995 through 2006 HealthNow claimed pension costs of \$9,177,687 for Medicare reimbursement. We determined that the allowable Medicare CAS-based pension costs for that period were \$5,278,228.

### **RECOMMENDATION**

We recommend that HealthNow either revise its FACPs for FYs 1995 through 2006 to reduce claimed Medicare pension costs by \$3,899,459 or refund this amount to CMS.

## **AUDITEE COMMENTS**

In written comments on our draft report, HealthNow agreed with our finding. HealthNow also stated that it will net this recommendation with other amounts due to/from the Federal Government during its global settlement of outstanding audits.

HealthNow's comments are included in their entirety as Appendix B.

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## **INTRODUCTION**

### **BACKGROUND**

#### **HealthNow New York Inc.**

During our audit period (Federal fiscal years (FY) 1995 through 2006), HealthNow New York Inc. (HealthNow) administered Medicare Part B and Durable Medical Equipment Regional Carrier (DMERC) operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS).<sup>1</sup>

#### **Medicare Reimbursement of Pension Costs**

CMS 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 Regulation (FAR).

### **OBJECTIVE, SCOPE, AND METHODOLOGY**

#### **Objective**

Our objective was to determine the allowability of pension costs that HealthNow claimed for Medicare reimbursement for FYs 1995 through 2006.

#### **Scope**

We reviewed \$9,177,687 of pension costs that HealthNow claimed for reimbursement on its Final Administrative Cost Proposals (FACP) for FYs 1995 through 2006. Achieving our objective did not require that we review HealthNow's overall internal control structure. We limited our review to the internal controls related to the pension costs claimed for Medicare reimbursement to ensure that the pension costs were allocable in accordance with the CAS and allowable in accordance with the FAR. We performed fieldwork at HealthNow's office in Buffalo, New York.

#### **Methodology**

We reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit. We identified the amount of pension costs claimed for Medicare reimbursement for FYs 1995 through 2006 by reviewing HealthNow's FACPs. We also determined the extent to which HealthNow funded CAS-based pension costs with contributions to the pension trust fund and accumulated prepayment credits.

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<sup>1</sup> We are reviewing the allowability of pension costs for the DMERC segment in a separate audit (A-07-11-00367) of HealthNow. Unless otherwise noted, all subsequent references to Medicare pension costs and reimbursements in the body of this report relate to Medicare Part B pension costs and reimbursements.

We based our calculations of allowable pension costs on CMS Office of the Actuary's (OACT) computation of CAS-based pension costs for the Medicare Part B segment, the DMERC Medicare segment, and the "Other" segment. OACT separately computed each segment's CAS-based pension costs. OACT based its computations on HealthNow's historical practices and on the results of our review of HealthNow's pension segmentation requirements for the Part B Medicare segment for the period April 1, 1995, to January 1, 2007 (A-07-11-00363), and our review of HealthNow's unfunded pension costs for 1995 through 2006 (A-07-11-00365).

In performing our review, we used information that HealthNow's actuarial consulting firm provided. The information included assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We examined HealthNow's accounting records, pension plan documents, annual actuarial valuation reports, and Form 5500 Series disclosure documents.<sup>2</sup>

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 finding and conclusions based on our audit objective.

## **FINDING AND RECOMMENDATION**

HealthNow claimed \$3,899,459 of unallowable pension costs on its FACPs for FYs 1995 through 2006. This overclaim occurred primarily because HealthNow did not calculate the pension expense reported on its FACPs using a CAS-based methodology prior to 2005. Before FY 2005, HealthNow used several different methodologies to calculate its pension expense. None of these methodologies complied with the provisions of CAS 412 and 413. In addition, although the methodology HealthNow used for FYs 2005 and 2006 complied with the provisions of CAS 412 and 413, the amounts HealthNow calculated for these two FYs differed from the amounts we calculated. Specifically, on its FACPs for FYs 1995 through 2006 HealthNow claimed pension costs of \$9,177,687 for Medicare reimbursement. We determined that the allowable Medicare CAS-based pension costs for that period were \$5,278,228.

## **FEDERAL REQUIREMENTS**

The HealthNow Medicare contracts state: "The calculation of and accounting for pension costs charged to this agreement/contract are governed by the Federal Acquisition Regulation and Cost Accounting Standards 412 and 413."

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

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

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<sup>2</sup> Employee benefit plans are required to file these forms with the U.S. Department of Labor and the Internal Revenue Service.

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.

### **UNALLOWABLE MEDICARE PART B PENSION COSTS CLAIMED**

HealthNow claimed \$3,899,459 of unallowable pension costs on its FACPs for FYs 1995 through 2006. During that period, HealthNow claimed pension costs of \$9,177,687 for Medicare reimbursement. We calculated allowable pension costs based on separately computed CAS-based pension costs for the Part B Medicare segment, DMERC Medicare segment, and the “Other” segment according to CAS 412 and 413. Based on the terms of the Medicare contracts, the allowable Medicare CAS-based pension costs for this period were \$5,278,228.

The table on the following page compares pension costs claimed on HealthNow’s FACPs to allowable CAS-based pension costs.<sup>3</sup> Appendix A contains details on allowable pension costs and contributions.

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<sup>3</sup> The table shows only costs associated with HealthNow’s Pension Plan B. We reviewed and accepted Plan A pension costs reported on HealthNow’s Medicare Part B FACPs.

**Comparison of Claimed Pension Costs  
To Allowable Pension Costs for Medicare Part B**

<b>Fiscal Year</b>	<b>Claimed by HealthNow</b>	<b>Allowable Per Audit</b>	<b>Unallowable Pension Costs</b>
1995	\$886,181	\$639,412	\$246,769
1996	789,006	671,597	117,409
1997	782,987	727,923	55,064
1998	706,004	464,515	241,489
1999	1,034,997	397,639	637,358
2000	1,118,519	412,626	705,893
2001	866,391	298,242	568,149
2002	942,314	328,336	613,978
2003	635,039	307,602	327,437
2004	542,095	345,405	196,690
2005	477,070	335,530	141,540
2006	397,084	349,401	47,683
<b>Total</b>	<b>\$9,177,687</b>	<b>\$5,278,228</b>	<b>\$3,899,459</b>

The Medicare contracts require HealthNow to calculate pension costs for Medicare reimbursement according to CAS 412 and 413. HealthNow did not calculate the pension expense reported on its FACP's using a CAS-based methodology prior to 2005. Before FY 2005, HealthNow used several different methodologies to calculate its pension expense. None of these methodologies complied with the provisions of CAS 412 and 413.

In addition, although the methodology HealthNow used for FYs 2005 and 2006 complied with the provisions of CAS 412 and 413, the amounts HealthNow calculated for these two FYs differed from the amounts we calculated. The differences for these two FYs occurred primarily because HealthNow based its CAS pension cost calculations on misstated Medicare segment assets (as discussed in our segmentation review (A-07-11-00363)).

As a result of these errors in calculating pension costs, HealthNow claimed \$3,899,459 of unallowable Medicare pension costs.

### **RECOMMENDATION**

We recommend that HealthNow either revise its FACPs for FYs 1995 through 2006 to reduce claimed Medicare pension costs by \$3,899,459 or refund this amount to CMS.

### **AUDITEE COMMENTS**

In written comments on our draft report, HealthNow agreed with our finding. HealthNow also stated that it will net this recommendation with other amounts due to/from the Federal Government during its global settlement of outstanding audits.

HealthNow's comments are included in their entirety as Appendix B.

# **APPENDIXES**



Date	Description	Total Company	"Other" Segment	Part B Medicare Segment	DMERC Medicare Segment	Total Medicare Part B Pension Costs
1998	Contributions	\$3,389,930	\$3,037,771	\$352,159	\$0	
7.75%	Discount for Interest	(\$243,823)	(\$218,494)	(\$25,329)	\$0	
January 1, 1998	Present Value Contributions	\$3,146,107	\$2,819,277	\$326,830	\$0	
	Prepayment Credit Applied	\$228,341	\$199,546	\$28,795	\$0	
	Present Value of Funding	\$3,374,448	\$3,018,823	\$355,625	\$0	
January 1, 1998	CAS Funding Target	\$2,820,094	\$2,464,469	\$355,625	\$0	
	Percentage Funded		100.00%	100.00%	0.00%	
	Funded Pension Cost		\$2,464,469	\$355,625	\$0	
	Allowable Interest		\$124,335	\$17,942	\$0	
	Allocable Pension Cost		\$2,588,804	\$373,567	\$0	
	Part B Medicare LOB* Percentage		0.79%	95.35%	0.00%	
	PY Allowable Pension Cost		\$20,452	\$356,196	\$0	
January 1, 1998	FY Allowable Pension Cost		\$22,928	\$441,587	\$0	\$464,515
1999	Contributions	\$5,313,049	\$4,914,739	\$398,310	\$0	
7.75%	Discount for Interest	(\$308,888)	(\$285,732)	(\$23,156)	\$0	
January 1, 1999	Present Value Contributions	\$5,004,161	\$4,629,007	\$375,154	\$0	
	Prepayment Credit Applied	\$597,316	\$533,064	\$64,252	\$0	
	Present Value of Funding	\$5,601,477	\$5,162,071	\$439,406	\$0	
January 1, 1999	CAS Funding Target	\$4,084,899	\$3,645,493	\$439,406	\$0	
	Percentage Funded		100.00%	100.00%	0.00%	
	Funded Pension Cost		\$3,645,493	\$439,406	\$0	
	Allowable Interest		\$170,859	\$20,594	\$0	
	Allocable Pension Cost		\$3,816,352	\$460,000	\$0	
	Part B Medicare LOB* Percentage		0.79%	81.41%	0.00%	
	PY Allowable Pension Cost		\$30,149	\$374,486	\$0	
January 1, 1999	FY Allowable Pension Cost		\$27,725	\$369,914	\$0	\$397,639
2000	Contributions	\$9,142,603	\$8,843,116	\$299,487	\$0	
7.75%	Discount for Interest	(\$534,685)	(\$517,170)	(\$17,515)	\$0	
January 1, 2000	Present Value Contributions	\$8,607,918	\$8,325,946	\$281,972	\$0	
	Prepayment Credit Applied	\$1,634,113	\$1,459,779	\$174,334	\$0	
	Present Value of Funding	\$10,242,031	\$9,785,725	\$456,306	\$0	
January 1, 2000	CAS Funding Target	\$4,277,167	\$3,820,861	\$456,306	\$0	
	Percentage Funded		100.00%	100.00%	0.00%	
	Funded Pension Cost		\$3,820,861	\$456,306	\$0	
	Allowable Interest		\$129,614	\$15,479	\$0	
	Allocable Pension Cost		\$3,950,475	\$471,785	\$0	
	Part B Medicare LOB* Percentage		0.79%	81.41%	0.00%	
	PY Allowable Pension Cost		\$31,209	\$384,080	\$0	
January 1, 2000	FY Allowable Pension Cost		\$30,944	\$381,682	\$0	\$412,626

Date	Description	Total Company	"Other" Segment	Part B Medicare Segment	DMERC Medicare Segment	Total Medicare Part B Pension Costs
2001	Contributions	\$8,719,704	\$8,719,704	\$0	\$0	
7.75%	Discount for Interest	(\$530,273)	(\$530,273)	\$0	\$0	
January 1, 2001	Present Value Contributions	\$8,189,431	\$8,189,431	\$0	\$0	
	Prepayment Credit Applied	\$3,908,014	\$3,589,796	\$318,218	\$0	
	Present Value of Funding	\$12,097,445	\$11,779,227	\$318,218	\$0	
January 1, 2001	CAS Funding Target	\$3,908,014	\$3,589,796	\$318,218	\$0	
	Percentage Funded		100.00%	100.00%	0.00%	
	Funded Pension Cost		\$3,589,796	\$318,218	\$0	
	Allowable Interest		\$0	\$0	\$0	
	Allocable Pension Cost		\$3,589,796	\$318,218	\$0	
	Part B Medicare LOB* Percentage		0.79%	72.55%	0.46%	
	PY Allowable Pension Cost		\$28,359	\$230,867	\$0	
January 1, 2001	FY Allowable Pension Cost		\$29,072	\$269,170	\$0	\$298,242
2002	Contributions	\$7,930,000	\$7,930,000	\$0	\$0	
7.75%	Discount for Interest	(\$570,371)	(\$570,371)	\$0	\$0	
January 1, 2002	Present Value Contributions	\$7,359,629	\$7,359,629	\$0	\$0	
	Prepayment Credit Applied	\$4,758,155	\$4,025,811	\$489,141	\$243,203	
	Present Value of Funding	\$12,117,784	\$11,385,440	\$489,141	\$243,203	
January 1, 2002	CAS Funding Target	\$4,758,155	\$4,025,811	\$489,141	\$243,203	
	Percentage Funded		100.00%	100.00%	100.00%	
	Funded Pension Cost		\$4,025,811	\$489,141	\$243,203	
	Allowable Interest		\$0	\$0	\$0	
	Allocable Pension Cost		\$4,025,811	\$489,141	\$243,203	
	Part B Medicare LOB* Percentage		0.82%	64.27%	1.64%	
	PY Allowable Pension Cost		\$33,012	\$314,371	\$3,989	
January 1, 2002	FY Allowable Pension Cost		\$31,849	\$293,495	\$2,992	\$328,336
2003	Contributions	\$6,850,000	\$6,850,000	\$0	\$0	
7.75%	Discount for Interest	(\$492,691)	(\$492,691)	\$0	\$0	
January 1, 2003	Present Value Contributions	\$6,357,309	\$6,357,309	\$0	\$0	
	Prepayment Credit Applied	\$4,596,186	\$3,920,998	\$458,820	\$216,368	
	Present Value of Funding	\$10,953,495	\$10,278,307	\$458,820	\$216,368	
January 1, 2003	CAS Funding Target	\$4,596,186	\$3,920,998	\$458,820	\$216,368	
	Percentage Funded		100.00%	100.00%	100.00%	
	Funded Pension Cost		\$3,920,998	\$458,820	\$216,368	
	Allowable Interest		\$0	\$0	\$0	
	Allocable Pension Cost		\$3,920,998	\$458,820	\$216,368	
	Part B Medicare LOB* Percentage		0.77%	56.64%	1.36%	
	PY Allowable Pension Cost		\$30,192	\$259,876	\$2,943	
January 1, 2003	FY Allowable Pension Cost		\$30,897	\$273,500	\$3,205	\$307,602

Date	Description	Total Company	"Other" Segment	Part B Medicare Segment	DMERC Medicare Segment	Total Medicare Part B Pension Costs
2004	Contributions	\$6,750,000	\$6,750,000	\$0	\$0	
7.75%	Discount for Interest	(\$485,499)	(\$485,499)	\$0	\$0	
January 1, 2004	Present Value Contributions	\$6,264,501	\$6,264,501	\$0	\$0	
	Prepayment Credit Applied	\$5,375,975	\$4,561,936	\$596,090	\$217,949	
	Present Value of Funding	\$11,640,476	\$10,826,437	\$596,090	\$217,949	
January 1, 2004	CAS Funding Target	\$5,375,975	\$4,561,936	\$596,090	\$217,949	
	Percentage Funded		100.00%	100.00%	100.00%	
	Funded Pension Cost		\$4,561,936	\$596,090	\$217,949	
	Allowable Interest		\$0	\$0	\$0	
	Allocable Pension Cost		\$4,561,936	\$596,090	\$217,949	
	Part B Medicare LOB* Percentage		0.67%	55.25%	1.36%	
	PY Allowable Pension Cost		\$30,565	\$329,340	\$2,964	
January 1, 2004	FY Allowable Pension Cost		\$30,472	\$311,974	\$2,959	\$345,405
2005	Contributions	\$6,600,000	\$6,600,000	\$0	\$0	
8.00%	Discount for Interest	(\$488,889)	(\$488,889)	\$0	\$0	
January 1, 2005	Present Value Contributions	\$6,111,111	\$6,111,111	\$0	\$0	
	Prepayment Credit Applied	\$4,915,529	\$4,187,696	\$520,848	\$206,985	
	Present Value of Funding	\$11,026,640	\$10,298,807	\$520,848	\$206,985	
January 1, 2005	CAS Funding Target	\$4,915,529	\$4,187,696	\$520,848	\$206,985	
	Percentage Funded		100.00%	100.00%	100.00%	
	Funded Pension Cost		\$4,187,696	\$520,848	\$206,985	
	Allowable Interest		\$0	\$0	\$0	
	Allocable Pension Cost		\$4,187,696	\$520,848	\$206,985	
	Part B Medicare LOB* Percentage		0.72%	56.44%	1.11%	
	PY Allowable Pension Cost		\$30,151	\$293,967	\$2,298	
January 1, 2005	FY Allowable Pension Cost		\$30,255	\$302,810	\$2,465	\$335,530
2006	Contributions	\$0	\$0	\$0	\$0	
8.00%	Discount for Interest	\$0	\$0	\$0	\$0	
January 1, 2006	Present Value Contributions	\$0	\$0	\$0	\$0	
	Prepayment Credit Applied	\$4,544,764	\$3,964,991	\$471,123	\$108,650	
	Present Value of Funding	\$4,544,764	\$3,964,991	\$471,123	\$108,650	
January 1, 2006	CAS Funding Target	\$4,544,764	\$3,964,991	\$471,123	\$108,650	
	Percentage Funded		100.00%	100.00%	100.00%	
	Funded Pension Cost		\$3,964,991	\$471,123	\$108,650	
	Allowable Interest		\$0	\$0	\$0	
	Allocable Pension Cost		\$3,964,991	\$471,123	\$108,650	
	Part B Medicare LOB* Percentage		0.84%	68.72%	0.00%	
	PY Allowable Pension Cost		\$33,306	\$323,756	\$0	
January 1, 2006	FY Allowable Pension Cost		\$32,517	\$316,309	\$575	\$349,401

\* Line of business.

**ENDNOTES**

- 1/ Durable Medical Equipment Regional Carrier.
- 2/ HealthNow New York Inc. (HealthNow), could not provide participant information for plan year (PY) 1994; therefore we could not compute segmented pension costs for PY 1994. In order to compute the PY 1994 allowable pension cost, we treated the PY 1994 Funded Costs from HealthNow's 1994 Valuation Report as the allocable pension cost. We assumed the PY 1994 Funded Costs to be fully assignable and allocated those costs to both Medicare segments based on the ratio of the segmented costs determined for 1995. The amounts shown for the "Other" segment represent the difference between the Total Company and the Part B and DMERC Medicare segments.
- 3/ We calculated allowable pension costs for the Part B Medicare segment, DMERC Medicare segment, and "Other" segment based on the Medicare Part B line of business (LOB) percentage of each segment. We determined the Medicare Part B LOB percentages based upon information provided by HealthNow. Our LOB percentages are determined by segment for costs allocated to the Medicare Part B Title 18 contracts. For PY 1994, we applied the same LOB percentages that were computed for 1995.
- 4/ We computed the PY allowable pension cost as the PY allocable pension cost multiplied by the calendar year Medicare Part B LOB percentage.
- 5/ 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. We determined the contributions allocated to both Medicare segments during the pension segmentation review (A-07-11-00363).
- 6/ We subtracted the interest that was included in the contributions deposited after the beginning of the valuation 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.
- 7/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the PY. For purposes of this Appendix, we deemed deposits made after the end of the PY to have been made on the final day of the PY, consistent with the method mandated by the Employee Retirement Income Security Act.
- 8/ 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 is carried forward, with interest, to fund future CAS pension costs.
- 9/ 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 the first day of the PY.

- 10/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of the Federal Acquisition Regulation (FAR) 31.205-6(j)(2)(i).
- 11/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the PY. Because any funding in excess of the CAS funding target is accounted for as a prepayment in accordance with CAS 412.50(c)(1) (as amended), 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.
- 12/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.
- 13/ We assumed that interest on the funded CAS pension cost, less the prepayment credit, accrues in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in four equal installments deposited within 30 days after the end of the quarter.
- 14/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.
- 15/ We converted the PY allowable pension costs to a fiscal year (October 1 through September 30) allowable pension cost. Pursuant to CAS 412 and 413, the total Medicare Part B allowable pension costs charged to the Medicare contracts consisted of the Part B Medicare segment's direct pension costs plus the DMERC Medicare and "Other" segment pension costs attributable to indirect Medicare Part B segment operations.

## APPENDIX B: AUDITEE COMMENTS



257 West Genesee Street • Buffalo, New York 14202-2657

January 30, 2012

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

Re: Report Number: A-07-11-00364

Dear Mr. Cogley:

This letter is in response to the U.S. Department of Health & Human Services, Office of Inspector General, Office of Audit Services' draft report entitled "REVIEW OF PENSION COSTS CLAIMED FOR THE MEDICARE PART B SEGMENT BY HEALTHNOW NEW YORK INC FOR THE FISCAL YEARS 1995 THROUGH 2006" HealthNow New York Inc. (HealthNow) has reviewed the draft report in conjunction with our actuaries at Hooker and Holcombe, Inc. Following are comments regarding the specific findings.

- That HealthNow claimed \$3,899,459 of unallowable pension costs on its Final Administrative Cost Proposals for fiscal years 1995 through 2006.

We agree with this finding but we have no means to adjust the FACP for that time period. We understand there will be a global settlement of all HealthNow's outstanding audits and we will net this recommendation with other amounts due to/from the Federal Government at that time.

HealthNow would like to thank the audit team for their professionalism and recognition of the ongoing operation during the audit. I am also grateful to Jenenne Tambke for the extension to respond to this draft report.

If you have any questions please contact me at 716.887.6922.

Sincerely,

A handwritten signature in blue ink that reads "Suzanne M. Gannon".

Suzanne M. Gannon  
Executive Director & CFO, Medicare Operation  
MedUS Services, LLC  
HealthNow New York Inc.

CC: Carmen L. Snell, Esq.  
Christopher Leardini  
Catherine M. Campbell