



DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL



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

June 22, 2012

Report Number: A-07-12-00387

Ms. Sandra Miller
Senior Vice President and President, Federal Government Solutions
National Government Services, Inc.
8115 Knue Road
Indianapolis, IN 46250

Dear Ms. Miller:

Enclosed is the U.S. Department of Health and Human Services, Office of Inspector General (OIG), final report entitled *AdminaStar Federal, Inc., Claimed Some Unallowable Supplemental Executive Retirement Plan Costs for Medicare Reimbursement for Fiscal Years 2004 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. Please refer to report number A-07-12-00387 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**

**ADMINASTAR FEDERAL, INC., CLAIMED
SOME UNALLOWABLE SUPPLEMENTAL
EXECUTIVE RETIREMENT PLAN COSTS
FOR MEDICARE REIMBURSEMENT FOR
FISCAL YEARS 2004 THROUGH 2006**



Daniel R. Levinson
Inspector General

June 2012
A-07-12-00387

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:

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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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The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

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Notices

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

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

On November 30, 2004, Anthem merged with WellPoint Health Network, Inc., and at that time, Anthem changed its name to WellPoint, Inc. (WellPoint). Effective November 11, 2006, a consolidation of certain Medicare operations occurred, forming a new subsidiary of WellPoint called National Government Services (NGS), which included AdminaStar's Medicare segment. We are addressing this report to NGS; however, we will associate the term AdminaStar with our finding and recommendation for the supplemental executive retirement plan (SERP) costs claimed by AdminaStar for fiscal years (FY) 2004 through 2006.

Anthem sponsored a SERP to provide each participant in the plan with the benefits the participant would have received under the pension plan except for certain limitations imposed by the Internal Revenue Code of 1986, as amended. The SERP was thus designed to restore benefits lost due to the Internal Revenue Code limits under the regular qualified pension plan. We performed a prior SERP costs claimed audit at AdminaStar (A-07-05-00195, issued January 20, 2006) for FYs 2000 through 2003.

CMS reimburses a portion of its contractors' SERP costs. In claiming SERP costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation (FAR) and applicable Cost Accounting Standards (CAS) as required by the Medicare contracts.

OBJECTIVE

Our objective was to determine the allowability of SERP costs that AdminaStar claimed for Medicare reimbursement on a pay-as-you-go basis for FYs 2004 through 2006.

SUMMARY OF FINDING

The SERP costs that AdminaStar claimed for Medicare reimbursement on a pay-as-you-go basis for FYs 2004 through 2006 were not always allowable because AdminaStar did not amortize its lump-sum benefit payments when claiming SERP pension costs for this time period.

AdminaStar claimed \$161,454 in SERP costs; however, we determined that allowable Medicare SERP costs were \$155,470. Thus, AdminaStar claimed \$5,984 in unallowable SERP costs for Medicare reimbursement for FYs 2004 through 2006.

RECOMMENDATION

We recommend that AdminaStar revise its Final Administrative Cost Proposals for FYs 2004 through 2006 to reduce its claimed SERP costs by \$5,984.

AUDITEE COMMENTS

In written comments on our draft report, NGS concurred with our finding and recommendation and stated that it would work with CMS on settlement of the \$5,984. NGS's comments are included in their entirety as the Appendix.

INTRODUCTION

BACKGROUND

Anthem Insurance Companies, Inc. and Medicare

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

On November 30, 2004, Anthem merged with WellPoint Health Network, Inc., and at that time, Anthem changed its name to WellPoint, Inc. (WellPoint). Effective November 11, 2006, a consolidation of certain Medicare operations occurred, forming a new subsidiary of WellPoint called National Government Services (NGS), which included AdminaStar's Medicare segment. We are addressing this report to NGS; however, we will associate the term AdminaStar with our finding and recommendation for the supplemental executive retirement plan (SERP) costs claimed by AdminaStar for fiscal years (FY) 2004 through 2006.

Anthem sponsored a SERP to provide each participant in the plan with the benefits the participant would have received under the pension plan except for certain limitations imposed by the Internal Revenue Code of 1986, as amended. The SERP was thus designed to restore benefits lost due to the Internal Revenue Code limits under the regular qualified pension plan. We performed a prior SERP costs claimed audit at AdminaStar (A-07-05-00195, issued January 20, 2006) for FYs 2000 through 2003.

CMS reimburses a portion of its contractors' SERP costs. In claiming SERP costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation (FAR) and applicable Cost Accounting Standards (CAS) as required by the Medicare contracts.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine the allowability of SERP costs that AdminaStar claimed for Medicare reimbursement on a pay-as-you-go basis for FYs 2004 through 2006.

Scope

We reviewed AdminaStar's SERP costs claimed on its Final Administrative Cost Proposals (FACP) for FYs 2004 through 2006, which totaled \$161,454. We focused on this time period, which began where the prior audit left off and ran through the discontinuance of the AdminaStar SERP, because it had not been reviewed in previous Office of Inspector General audits.

Achieving our objective did not require that we review AdminaStar's internal control structure. However, we reviewed the controls related to the SERP costs that AdminaStar claimed for

Medicare reimbursement to ensure that SERP costs were allowable in accordance with the FAR and the CAS.

We performed onsite audit work at AdminaStar's office in Louisville, Kentucky, in April 2011.

Methodology

We obtained information from AdminaStar regarding benefit payments associated with the SERP costs for FYs 2004 through 2006, for the Total Company including the Medicare segment. We calculated Medicare line of business percentages based upon documentation provided by AdminaStar. We calculated the allowable amortizable benefit for participants who received a lump-sum benefit payment in accordance with the FAR and CAS.

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

The SERP costs that AdminaStar claimed for Medicare reimbursement on a pay-as-you-go basis for FYs 2004 through 2006 were not always allowable because AdminaStar did not amortize its lump-sum benefit payments when claiming SERP pension costs for this time period.

AdminaStar claimed \$161,454 in SERP costs; however, we determined that allowable Medicare SERP costs were \$155,470. Thus, AdminaStar claimed \$5,984 in unallowable SERP costs for Medicare reimbursement for FYs 2004 through 2006.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

Federal Requirements

To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with CAS 412 and 413 and (2) funded as specified by part 31 of the FAR.

According to CAS 412-50(b)(3), the cost of defined-benefit pension plans that is accounted for under the pay-as-you-go cost method shall be measured as the sum of the net amount for any periodic benefits paid for that period and the level annual installment required to amortize any lump-sum benefit payments over 15 years.

Unallowable Supplemental Executive Retirement Plan Costs Claimed

AdminaStar claimed \$5,984 of unallowable SERP costs for Medicare reimbursement for FYs 2004 through 2006 because it did not amortize its lump-sum SERP benefit payments in accordance with the CAS. During the audit period, AdminaStar claimed pay-as-you-go SERP

costs of \$161,454 for Medicare reimbursement. We calculated the allowable SERP costs based on periodic payments made to SERP recipients, plus a 15-year amortization of lump-sum SERP payments in accordance with CAS 412-50(b)(3). Accordingly, we determined that the allowable pay-as-you-go SERP costs for FYs 2004 through 2006 totaled \$155,470.

The table below compares allowable SERP costs with the SERP costs claimed on AdminaStar’s FACPs.

Comparison of Allowable SERP Costs and Claimed SERP Costs

Fiscal Year	Allowable Per Audit	Claimed by AdminaStar	Difference
2004	\$49,489	\$63,166	(\$13,677)
2005	56,112	97,903	(41,791)
2006	49,869	385	49,484
Total	\$155,470	\$161,454	(\$5,984)

RECOMMENDATION

We recommend that AdminaStar revise its FACPs for FYs 2004 through 2006 to reduce its claimed SERP costs by \$5,984.

AUDITEE COMMENTS

In written comments on our draft report, NGS concurred with our finding and recommendation, and stated that it would work with CMS on settlement of the \$5,984. NGS also offered technical comments which we incorporated into the report as appropriate. NGS’s comments are included in their entirety as the Appendix.

OTHER MATTER

AdminaStar closed its SERP on December 31, 2005, and moved its participants into other SERPs. AdminaStar claimed SERP costs on its FACP through FY 2006. However, as of October 1, 2006, AdminaStar had a remaining balance for the unamortized SERP payments of \$7,817,386 (\$406,746 for the Medicare segment and \$7,410,640 for the “Other” segment).

APPENDIX

APPENDIX: AUDITEE COMMENTS



A CMS Contracted Agent

National Government Services, Inc.
www.NGSMedicare.com

Medicare

May 25, 2012

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-07-12-00387

Dear Mr. Cogley:

We have received the draft audit report from the Inspector General entitled "Administar Federal Inc., Claimed Some Unallowable Supplemental Executive Retirement Plan Costs for Medicare Reimbursement for Fiscal Years 2004 Through 2006" and thank you for the opportunity to respond.

We concur with the finding and recommendation outlined in the report and will work with the Centers for Medicare & Medicaid Services on settlement of the noted item (approximately \$6,000). In reviewing the report, we believe the accuracy and clarity of the report would be enhanced with the adoption of the following proposed revisions:

- In various places throughout the report, the company is referred to as "Administar". Please correct this to "AdminaStar".
- In the "Executive Summary" section (page i) within the "Background" caption, the second line of the second paragraph reference to "(Wellpoint)" should be "(WellPoint)" – please capitalize the "P". Please correct this on page 1 as well in the "Introduction" section.
- In the "Executive Summary" section (page i) within the "Background" caption, the first line of the third paragraph does not properly reflect the purpose of the plan. The use of the words "to provide deferred compensation to" is incorrect. Please restate to: "Anthem sponsored a SERP to provide each Participant in the Plan with the benefits the Participant would have received under the Pension Plan except for certain limitations imposed by the Internal Revenue Code of 1986, as amended." This also should be corrected on page 1; third paragraph in the "Introduction" section.



May 25, 2012

Page 2 of 2

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,



Digitally signed by Todd W. Reiger
DN: cn=Todd W. Reiger, o=National
Government Services, Inc., ou=Finance,
email=todd.reiger@wellpoint.com,
c=US
Date: 2012.05.25 10:10:11 -05'00'

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

CC: Sandy Miller
Michael Kapp
Jeff Hannah
Dave Marshall
Wendy Perkins
Jim Elmore
Joanne Imel – WellPoint
Marilyn Bryan – CMS
Jenenne Tambke – OIG