

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**ANTHEM HEALTH PLANS OF  
MAINE, INC., DID NOT CLAIM  
SOME ALLOWABLE MEDICARE  
PENSION COSTS  
FOR FISCAL YEARS  
2003 THROUGH 2005**

*Inquiries about this report may be addressed to the Office of Public Affairs at  
[Public.Affairs@oig.hhs.gov](mailto:Public.Affairs@oig.hhs.gov).*



Patrick J. Cogley  
Regional Inspector General

June 2013  
A-07-13-00405

# ***Office of Inspector General***

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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

*Anthem Health Plans of Maine, Inc., did not claim \$853,422 of allowable pension costs for Medicare reimbursement for fiscal years 2003 through 2005.*

### WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their pension costs, which are funded by the annual contributions that these contractors make to their pension plans. The amount of pension costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the cost reimbursement principles contained in the Federal Acquisition Regulation, Cost Accounting Standards (CAS), and Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors have not always complied with Federal requirements when claiming pension costs for Medicare reimbursement.

The objective of this review was to determine whether the pension costs claimed by Anthem Health Plans of Maine, Inc. (Anthem Maine), for Medicare reimbursement for fiscal years (FY) 2003 through 2005 were allowable and correctly claimed.

### BACKGROUND

Anthem Maine, a subsidiary of WellPoint, Inc. (WellPoint), administered Medicare Part A and Regional Home Health Intermediary operations under cost reimbursement contracts with CMS.

On June 5, 2000, Anthem Insurance Companies, Inc. (Anthem), acquired Associated Hospital Service of Maine doing business as Blue Cross Blue Shield of Maine. Effective December 31, 2000, Associated Hospital Service of Maine Retirement Plan merged into the Anthem Cash Balance Pension Plan. On November 30, 2004, Anthem merged with WellPoint Health Networks, Inc., and changed its name to WellPoint. On January 1, 2006, the Anthem Cash Balance Pension Plan was renamed the WellPoint Cash Balance Pension Plan. Also, effective November 17, 2006, WellPoint consolidated its Government contracting segments into one segment, AdminaStar Federal, Inc. (AdminaStar), which included the Anthem Maine Medicare segment. In addition, as of that same date, AdminaStar changed its corporate name to National Government Services, Inc. (NGS). Thus, although we are addressing this report to NGS, we will associate the term Anthem Maine with our finding and recommendation regarding the pension costs claimed.

### WHAT WE FOUND

Anthem Maine claimed pension costs of \$1,190,926 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs during this period were \$2,044,348. The difference, \$853,422, represented allowable Medicare pension costs that Anthem Maine did not claim on its Final Administrative Cost Proposals (FACP) for FYs 2003 through 2005. Anthem Maine did not claim these allowable Medicare pension costs primarily because it incorrectly calculated the CAS pension costs for FYs 2003 through 2005.

## **WHAT WE RECOMMEND**

We recommend that Anthem Maine revise its FACPs for FYs 2003 through 2005 to claim the additional pension costs of \$853,422.

## **AUDITEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

In written comments on our draft report, NGS concurred with our finding and recommendation. Anthem Maine's Medicare contract was transitioned to NGS effective November 17, 2006; therefore, NGS commented on our draft report.

NGS also made technical comments to enhance the accuracy and clarity of this report; we accepted these suggestions and have incorporated them into this final report.

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## **INTRODUCTION**

### **WHY WE DID THIS REVIEW**

Medicare contractors are eligible to be reimbursed a portion of their pension costs, which are funded by the annual contributions that these contractors make to their pension plans. The amount of pension costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the cost reimbursement principles contained in the Federal Acquisition Regulation (FAR), Cost Accounting Standards (CAS), and Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors have not always complied with Federal requirements when claiming pension costs for Medicare reimbursement.

### **OBJECTIVE**

Our objective was to determine whether the pension costs claimed by Anthem Health Plans of Maine, Inc. (Anthem Maine), for Medicare reimbursement for fiscal years (FY) 2003 through 2005 were allowable and correctly claimed.

### **BACKGROUND**

#### **Anthem Health Plans of Maine, Inc.**

Anthem Maine, a subsidiary of WellPoint, Inc. (WellPoint), administered Medicare Part A and Regional Home Health Intermediary operations under cost reimbursement contracts with CMS.

On June 5, 2000, Anthem Insurance Companies, Inc. (Anthem), acquired Associated Hospital Service of Maine doing business as Blue Cross Blue Shield of Maine. Effective December 31, 2000, Associated Hospital Service of Maine Retirement Plan merged into the Anthem Cash Balance Pension Plan. On November 30, 2004, Anthem merged with WellPoint Health Networks, Inc., and changed its name to WellPoint. On January 1, 2006, the Anthem Cash Balance Pension Plan was renamed the WellPoint Cash Balance Pension Plan. Also, effective November 17, 2006, WellPoint consolidated its Government contracting segments into one segment, AdminaStar Federal, Inc. (AdminaStar), which included the Anthem Maine Medicare segment. In addition, as of that same date, AdminaStar changed its corporate name to National Government Services, Inc. (NGS). Thus, although we are addressing this report to NGS, we will associate the term Anthem Maine with our finding and recommendation regarding the pension costs claimed.

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

CMS reimburses a portion of the Medicare contractors' annual pension costs, which are funded by the contributions that these contractors make to their pension plans. 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.

Beginning with 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-based 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.

## **HOW WE CONDUCTED THIS REVIEW**

We reviewed \$1,190,926 of pension costs claimed by Anthem Maine for Medicare reimbursement on its Final Administrative Cost Proposals (FACP) for FYs 2003 through 2005.

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 objectives.

Appendix A contains details of our audit scope and methodology.

## **FINDING**

Anthem Maine claimed pension costs of \$1,190,926 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs during this period were \$2,044,348. The difference, \$853,422, represented allowable Medicare pension costs that Anthem Maine did not claim on its FACPs for FYs 2003 through 2005. Anthem Maine did not claim these allowable Medicare pension costs primarily because it incorrectly calculated the CAS pension costs for FYs 2003 through 2005.

### **CLAIMED PENSION COSTS**

Anthem Maine submitted Medicare pension costs of \$1,190,926 for Medicare reimbursement on its FACPs for FYs 2003 through 2005. We calculated the allowable Medicare pension costs based on separately computed CAS-based pension costs for the Medicare segment and the “Other” segment in accordance with CAS 412 and 413. For details on the Federal requirements, see Appendix B.

### **ALLOWABLE PENSION COSTS NOT CLAIMED**

We determined that the allowable CAS-based pension costs for FYs 2003 through 2005 were \$2,044,348. Thus, Anthem Maine did not claim \$853,422 of allowable Medicare pension costs on its FACPs for FYs 2003 through 2005. This underclaim occurred primarily because Anthem Maine incorrectly calculated the CAS pension costs for FYs 2003 through 2005.

The table below compares allowable CAS-based pension costs with the pension costs claimed on Anthem Maine’s FACP’s and reflected in its accounting documents. Appendix C contains additional details on allowable pension costs.

**Table: Comparison of Allowable Pension Costs and Claimed Pension Costs**

	<b><u>Medicare Pension Costs</u></b>		
<b>Fiscal Year</b>	<b>Allowable Per Audit</b>	<b>Claimed by Anthem Maine</b>	<b>Difference</b>
2003	\$551,584	\$329,586	\$221,998
2004	735,538	378,799	356,739
2005	757,226	482,541	274,685
<b>Total</b>	<b>\$2,044,348</b>	<b>\$1,190,926</b>	<b>\$853,422</b>

**RECOMMENDATION**

We recommend that Anthem Maine revise its FACP’s for FYs 2003 through 2005 to claim the additional pension costs of \$853,422.

**AUDITEE COMMENTS**

In written comments on our draft report, NGS concurred with our finding and recommendation. Anthem Maine’s Medicare contract was transitioned to NGS effective November 17, 2006; therefore, NGS commented on our draft report.

NGS also made technical comments to enhance the accuracy and clarity of this report. These comments clarified information pertaining to entity and pension plan names as well as the effective date of the Government contract segments’ consolidation.

NGS’s comments are included in their entirety as Appendix D.

**OFFICE OF INSPECTOR GENERAL RESPONSE**

After reviewing NGS’s comments, we accepted the technical comments and have incorporated them into this final report.

## APPENDIX A: AUDIT SCOPE AND METHODOLOGY

### Scope

We reviewed \$1,190,926 of pension costs that Anthem Maine claimed for Medicare reimbursement on its FACPs for FYs 2003 through 2005.

Achieving our objective did not require that we review Anthem Maine's overall internal control structure. We reviewed 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 completed our audit work in November and December 2012.

### Methodology

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- reviewed information provided by WellPoint to identify the amount of pension costs claimed for Medicare reimbursement for FYs 2003 through 2005;
- used information that WellPoint's actuarial consulting firms provided, including information on assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses;
- examined WellPoint's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Forms 5500;
- determined the extent to which WellPoint funded CAS-based pension costs with contributions to the pension trust fund and accumulated prepayment credits;
- engaged the CMS Office of the Actuary to calculate the allocable pension costs based on the CAS (the calculations were based on separately computed CAS-based pension costs for the Anthem Maine Medicare segment and the "Other" segment); and
- reviewed the CMS actuaries' methodology and calculations.

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

- *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 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),*
- *National Government Services, Inc., Understated Its Medicare Segment Pension Assets as of January 1, 2010 (A-07-13-00408), and*
- *National Government Services, Inc., Did Not Claim Some Allowable 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 finding and conclusions based on our audit objectives.

## **APPENDIX B: FEDERAL REQUIREMENTS RELATED TO REIMBURSEMENT OF PENSION COSTS**

### **FEDERAL REGULATIONS**

Federal regulations (FAR 31.205-6(j)) address allowability of pension costs and require that contractors fund the pension costs assigned to contract periods by making contributions to the pension plan.

Federal regulations (CAS 412) address the determination and measurement of pension cost components. This regulation also addresses the assignment of pension costs to appropriate accounting periods.

Federal regulations (CAS 413) address 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.

### **MEDICARE CONTRACTS**

The Medicare contracts address the determination and allocation of pension costs. The 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.”

**APPENDIX C: ALLOWABLE MEDICARE PENSION COSTS FOR  
ANTHEM HEALTH PLANS OF MAINE, INC., FOR FISCAL YEARS 2003 THROUGH 2005**

Date	Description	Total Company	"Other" Segment	Anthem New Hampshire Segment	NGS Segment	Anthem Maine Segment	Total Medicare
2002	Allocable Pension Costs <u>1/</u>		\$25,211,534	\$0	\$2,891,085	\$0	
2003	Contributions <u>2/</u>	\$65,000,000	\$65,000,000	\$0	\$0	\$0	
	Discount for Interest <u>3/</u>	(\$3,534,074)	(\$3,534,074)	\$0	\$0	\$0	
January 1, 2003	Present Value Contributions <u>4/</u>	\$61,465,926	\$61,465,926	\$0	\$0	\$0	
	Prepayment Credit Applied <u>5/</u>	\$53,095,812	\$48,531,571	\$243,725	\$3,704,635	\$615,881	
	Present Value of Funding <u>6/</u>	\$114,561,738	\$109,997,497	\$243,725	\$3,704,635	\$615,881	
January 1, 2003	CAS Funding Target <u>7/</u>	\$53,095,812	\$48,531,571	\$243,725	\$3,704,635	\$615,881	
	Percentage Funded <u>8/</u>		100.00%	100.00%	100.00%	100.00%	
	Funded Pension Cost <u>9/</u>		\$48,531,571	\$243,725	\$3,704,635	\$615,881	
	Allowable Interest <u>10/</u>		\$0	\$0	\$0	\$0	
	Allocable Pension Cost		\$48,531,571	\$243,725	\$3,704,635	\$615,881	
2003	FY Allocable Pension Costs <u>11/</u>		\$42,701,562		\$3,501,248	\$461,911	
	Medicare LOB* Percentage <u>12/</u>		0.21%	N/A	N/A	100.00%	
	Allowable Pension Cost <u>13/</u>		\$89,673	N/A	N/A	\$461,911	\$551,584

Date	Description	Total Company	"Other" Segment	Anthem New Hampshire Segment	NGS Segment	Anthem Maine Segment	Total Medicare
2004	Contributions	\$10,000,000	\$10,000,000	\$0	\$0	\$0	
	Discount for Interest	(\$555,556)	(\$555,556)	\$0	\$0	\$0	
January 1, 2004	Present Value Contributions	\$9,444,444	\$9,444,444	\$0	\$0	\$0	
	Prepayment Credit Applied	\$51,790,851	\$47,324,552	\$236,302	\$3,600,628	\$629,369	
	Present Value of Funding	\$61,235,295	\$56,768,996	\$236,302	\$3,600,628	\$629,369	
January 1, 2004	CAS Funding Target	\$51,790,851	\$47,324,552	\$236,302	\$3,600,628	\$629,369	
	Percentage Funded		100.00%	100.00%	100.00%	100.00%	
	Funded Pension Cost		\$47,324,552	\$236,302	\$3,600,628	\$629,369	
	Allowable Interest		\$0	\$0	\$0	\$0	
	Allocable Pension Cost		\$47,324,552	\$236,302	\$3,600,628	\$629,369	
2004	FY Allocable Pension Costs		\$47,626,307	\$238,158	\$3,626,630	\$625,997	
	Medicare LOB* Percentage		0.23%	N/A	N/A	100.00%	
	Allowable Pension Cost		\$109,541	N/A	N/A	\$625,997	\$735,538

Date	Description	Total Company	“Other” Segment	Anthem New Hampshire Segment	NGS Segment	Anthem Maine Segment	Total Medicare
2005	Contributions	\$46,500,000	\$46,500,000	\$0	\$0	\$0	
	Discount for Interest	(\$2,583,333)	(\$2,583,333)	\$0	\$0	\$0	
January 1, 2005	Present Value Contributions	\$43,916,667	\$43,916,667	\$0	\$0	\$0	
	Prepayment Credit Applied	\$49,875,639	\$45,721,239	\$206,990	\$3,276,707	\$670,703	
	Present Value of Funding	\$93,792,306	\$89,637,906	\$206,990	\$3,276,707	\$670,703	
January 1, 2005	CAS Funding Target	\$49,875,639	\$45,721,239	\$206,990	\$3,276,707	\$670,703	
	Percentage Funded		100.00%	100.00%	100.00%	100.00%	
	Funded Pension Cost		\$45,721,239	\$206,990	\$3,276,707	\$670,703	
	Allowable Interest		\$0	\$0	\$0	\$0	
	Allocable Pension Cost		\$45,721,239	\$206,990	\$3,276,707	\$670,703	
2005	FY Allocable Pension Costs		\$46,122,067	\$214,318	\$3,357,687	\$660,370	
	Medicare LOB* Percentage		0.21%	N/A	N/A	100.00%	
	Allowable Pension Cost		\$96,856	N/A	N/A	\$660,370	\$757,226

\* Line of business.

#### ENDNOTES

- 1/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes. We obtained the 2002 calendar year (CY) allocable pension cost from our prior Anthem Maine review (A-07-05-00194), issued October 18, 2005.
- 2/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the CY and accrued contributions deposited after the end of the CY but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-13-00404). The amounts shown for the “Other” segment represent the difference between the Total Company and the Medicare segment.
- 3/ 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.
- 4/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the CY. For purposes of this Appendix, we deemed deposits made after the end of the CY to have been made on the final day of the CY, consistent with the method mandated by the Employee Retirement Income Security Act used prior to the implementation of the Pension Protection Act.
- 5/ 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 CAS funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.
- 6/ 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 CY.
- 7/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of the FAR 31.205-6(j)(2)(i).
- 8/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the CY. 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 decimal places.
- 9/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.
- 10/ We assumed that interest on the funded CAS-based 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.
- 11/ We converted the allocable pension cost to an 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.

12/ We calculated allowable pension costs of the Medicare and “Other” segments based on the Medicare line of business (LOB) percentage of each segment. We determined the Medicare LOB percentages based upon information provided by Anthem Maine.

13/ We computed the allowable Medicare pension cost as an FY pension cost multiplied by the Medicare LOB percentage. In accordance with CAS 412 and 413, the total Medicare allowable pension costs charged to the Medicare contract consisted of the Anthem Maine Medicare segment’s direct pension costs plus “Other” segment pension costs attributable to indirect Anthem Maine Medicare operations.

## APPENDIX D: AUDITEE COMMENTS



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**MEDICARE**

April 29, 2013

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

Reference: Report Number A-07-13-00405

Dear Mr. Cogley:

We have received the draft audit report from the Inspector General entitled "Anthem Health Plans of Maine, Inc. Did Not Claim Some Allowable Medicare Pension Costs for Fiscal Years 2003 through 2005" 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 work with the Centers for Medicare & Medicaid Services to seek reimbursement for the additional allowable pension cost identified in the report.

In our review of the report, the following proposed revisions would enhance the accuracy and clarity of the report:

- In the "Executive Summary" section (page i) within the "Background" caption and in the "Introduction" section (page 1) within the "Background" caption, please replace the second paragraph with the following which accurately describes the organization:

On June 5, 2000, Anthem Insurance Companies, Inc. (Anthem) acquired Associated Hospital Service of Maine d/b/a Blue Cross Blue Shield of Maine. Effective December 31, 2000, Associated Hospital Service of Maine Retirement Plan merged into the Anthem Cash Balance Pension Plan. On November 30, 2004, Anthem merged with WellPoint Health Networks, Inc. and changed its name to WellPoint, Inc. On January 1, 2006, the Anthem Cash Balance Pension Plan was renamed the WellPoint Cash Balance Pension Plan. Also effective November 17, 2006, WellPoint consolidated its Government contracting segments into one segment, AdminaStar Federal, Inc. (AdminaStar), which included the Anthem Maine Medicare segment. In addition as of that





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## MEDICARE

April 29, 2013  
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same date AdminaStar changed its corporate name to National Government Services, Inc. (NGS). Thus, although we are addressing this report to NGS, we will associate the term Anthem Maine with our finding and recommendation regarding the pension costs claimed.

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](mailto:todd.reiger@wellpoint.com).

Sincerely,

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

Digitally signed by  
todd.reiger@wellpoint.com  
DN: cn=todd.reiger@wellpoint.com  
Date: 2013.04.29 12:01:28 -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  
Matt Hughes – NGS  
Jim Elmore – NGS  
Joanne Imel – WellPoint  
Marilyn Bryan – CMS  
Jenene Tambke – OIG

