



DEPARTMENT OF HEALTH AND HUMAN SERVICES

## OFFICE OF INSPECTOR GENERAL



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

March 12, 2012

Report Number: A-07-11-00367

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 Medicare Durable Medical Equipment Regional Carrier Reimbursement by HealthNow New York, Inc., for Fiscal Years 2000 Through 2007*. 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-07-11-00367 in all correspondence.

Sincerely,

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

Enclosure

Page 2 – Ms. Suzanne M. Gannon

**Direct Reply to HHS Action Official:**

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

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS CLAIMED  
FOR MEDICARE DURABLE MEDICAL  
EQUIPMENT REGIONAL CARRIER  
REIMBURSEMENT BY  
HEALTHNOW NEW YORK, INC.,  
FOR FISCAL YEARS  
2000 THROUGH 2007**



Daniel R. Levinson  
Inspector General

February 2012  
A-07-11-00367

# *Office of Inspector General*

<http://oig.hhs.gov>

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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**

### **BACKGROUND**

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). The DMERC contractual relationship was terminated on June 30, 2006. The effective closing date for the DMERC Medicare segment was January 1, 2007.

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 its DMERC Medicare segment for fiscal years (FY) 2000 through 2007.

### **SUMMARY OF FINDING**

HealthNow did not claim \$111,258 of allowable Medicare pension costs on its Final Administrative Cost Proposals (FACP) for its DMERC Medicare segment for FYs 2000 through 2007. The underclaim primarily occurred because HealthNow did not claim pension costs for Medicare reimbursement for FY 2003. For FYs 2000 through 2007, HealthNow claimed pension costs of \$1,422,223 for Medicare reimbursement for the DMERC Medicare segment; however, we determined that the allowable CAS-based pension costs for this segment and during this period were \$1,533,481.

### **RECOMMENDATION**

We recommend that HealthNow revise its DMERC FACP to claim the additional allowable DMERC Medicare pension costs of \$111,258.

### **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.**

HealthNow New York, Inc. (HealthNow), administered Medicare Part B<sup>1</sup> and Durable Medical Equipment Regional Carrier (DMERC) operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS). The DMERC contractual relationship was terminated on June 30, 2006. The effective closing date for the DMERC Medicare segment was January 1, 2007.

HealthNow began administering DMERC operations in September 2000. On January 1, 2002, HealthNow created a new DMERC Medicare segment to separately account for its DMERC operations. During the audit period, HealthNow's Part B Medicare segment allocated a portion of its costs to the DMERC contract. For the purposes of this report, we will address only the DMERC Medicare segment pension costs claimed by HealthNow for fiscal years (FY) 2000 through 2007.

#### **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).

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.

### OBJECTIVE, SCOPE AND METHODOLOGY

#### **Objective**

Our objective was to determine the allowability of pension costs that HealthNow claimed for Medicare reimbursement for its DMERC Medicare segment for FYs 2000 through 2007.

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<sup>1</sup> We reviewed the allowability of Part B pension costs in a separate audit of HealthNow (A-07-11-00364).

## Scope

We reviewed \$1,422,223 of pension costs that HealthNow claimed for Medicare DMERC reimbursement on its Final Administrative Cost Proposals (FACP) and termination vouchers for FYs 2000 through 2007. 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. Additionally, we reviewed HealthNow's FACPs and termination vouchers to identify the amount of pension costs claimed for Medicare DMERC reimbursement for FYs 2000 through 2007. We also determined the extent to which HealthNow funded CAS-based pension costs with contributions to the pension trust fund and accumulated prepayment credits. We based our calculations on separately computed CAS-based pension costs for the Part B Medicare segment, the DMERC Medicare segment, and the "Other" segment. The CMS Office of the Actuary calculated the allocable pension costs based on HealthNow's historical practices and on the results of our segmentation review (*Review of Medicare Contractor's Pension Segmentation Requirements for the Durable Medical Equipment Regional Center Segment at HealthNow New York, Inc., a Terminated Medicare Contractor, for the Period January 1, 2001, to January 1, 2007, A-07-11-00366*).

In 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 Department of Labor/Internal Revenue Service Forms 5500.

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 did not claim \$111,258 of allowable Medicare pension costs on its FACPs for its DMERC Medicare segment for FYs 2000 through 2007. The underclaim primarily occurred because HealthNow did not claim pension costs for Medicare reimbursement for FY 2003. For FYs 2000 through 2007, HealthNow claimed pension costs of \$1,422,223 for Medicare

reimbursement for the DMERC Medicare segment; however, we determined that the allowable CAS-based pension costs for this segment and during this period were \$1,533,481.

## **FEDERAL REQUIREMENTS**

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."

FAR 31.205-6(j) addresses allowability of pension costs and requires 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.

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.

## **ALLOWABLE PENSION COSTS NOT CLAIMED**

HealthNow did not claim \$111,258 of pension costs that were allowable for Medicare reimbursement for its DMERC Medicare segment for FYs 2000 through 2007.<sup>2</sup> During that period, HealthNow claimed pension costs of \$1,422,223 for Medicare reimbursement. We calculated allowable DMERC Medicare pension costs based on separately computed CAS-based pension costs for the Part B Medicare segment,<sup>3</sup> the DMERC Medicare segment, and the "Other" segment according to CAS 412 and 413. Based on the terms of the Medicare contracts, the allowable CAS-based pension costs for the DMERC Medicare segment for FYs 2000 through 2007 were \$1,533,481.

The table on the following page compares allowable CAS-based pension costs with the pension costs claimed on HealthNow's DMERC FACPs. Appendix A contains additional details on allowable pension costs.

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<sup>2</sup> The allowable pension costs for FY 2007 were attributable to the pension costs for the period of July 1, 2006, through January 1, 2007.

<sup>3</sup> During the audit period, the Part B Medicare segment allocated a portion of its costs to the DMERC contract.

**Comparison of Allowable Pension Costs and Claimed Pension Costs for the DMERC Medicare Segment**

<b>Medicare DMERC Pension Costs</b>			
<b>Fiscal Year</b>	<b>Allowable Per Audit</b>	<b>Claimed by HealthNow</b>	<b>Difference</b>
2000	\$7,372	\$0	\$7,372
2001	45,731	111,956	(66,225)
2002	251,719	366,620	(114,901)
2003	302,766	0	302,766
2004	318,828	340,089	(21,261)
2005	323,851	418,671	(94,820)
2006 <sup>4</sup>	182,011	181,130	881
January 1, 2007 <sup>5</sup>	101,203	3,757	97,446
<b>Total</b>	<b>\$1,533,481</b>	<b>\$1,422,223</b>	<b>\$111,258</b>

This underclaim occurred primarily because HealthNow did not claim pension costs for Medicare reimbursement for FY 2003 for its DMERC Medicare segment. As a result, HealthNow did not claim \$111,258 of allowable Medicare DMERC pension costs.

**RECOMMENDATION**

We recommend that HealthNow revise its DMERC FACPs to claim the additional allowable DMERC Medicare pension costs of \$111,258.

**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.

<sup>4</sup> HealthNow's FY 2006 DMERC FACP included only pension costs for a 9-month period (October 1, 2005, through June 30, 2006). For comparison purposes, we also calculated the allowable pension costs for FY 2006 for a 9-month period (October 1, 2005, through June 30, 2006).

<sup>5</sup> HealthNow claimed pension costs for its DMERC Medicare segment on termination vouchers during the period of July 1, 2006, through January 1, 2007, the effective closing date for the DMERC Medicare segment. For comparison purposes, we also calculated the allowable pension costs for a 6-month period (July through January 1, 2007).

# **APPENDIXES**

**APPENDIX A: ALLOWABLE DURABLE MEDICAL EQUIPMENT  
REGIONAL CARRIER MEDICARE PENSION COSTS  
FOR HEALTHNOW NEW YORK, INC.,  
FOR FISCAL YEARS 2000 THROUGH 2007**

Date	Description		Total Company	"Other" Segment	Part B Medicare Segment	DMERC Medicare Segment	Total Medicare DMERC Pension Costs
						1/	
2000	Contributions	2/	\$9,142,603	\$8,843,116	\$299,487	\$0	
7.75%	Discount for Interest	3/	(\$534,685)	(\$517,170)	(\$17,515)	\$0	
January 1, 2000	Present Value Contributions	4/	\$8,607,918	\$8,325,946	\$281,972	\$0	
	Prepayment Credit Applied	5/	\$1,634,113	\$1,459,779	\$174,334	\$0	
	Present Value of Funding	6/	\$10,242,031	\$9,785,725	\$456,306	\$0	
January 1, 2000	CAS Funding Target	7/	\$4,277,167	\$3,820,861	\$456,306	\$0	
	Percentage Funded	8/		100.00%	100.00%	0.00%	
	Funded Pension Cost	9/		\$3,820,861	\$456,306	\$0	
	Allowable Interest	10/		\$129,614	\$15,479	\$0	
	Allocable Pension Cost	11/		\$3,950,475	\$471,785	\$0	
	DMERC Medicare LOB* Percentage	12/		0.09%	1.33%	100.00%	
	PY Allowable Pension Cost	13/		\$3,555	\$6,275	\$0	
2000	FY Allowable Pension Cost	14/		\$2,666	\$4,706	\$0	\$7,372
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	
	DMERC Medicare LOB* Percentage			0.86%	8.43%	99.54%	
	PY Allowable Pension Cost			\$30,872	\$26,826	\$0	
2001	FY Allowable Pension Cost			\$24,043	\$21,688	\$0	\$45,731
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	
	DMERC Medicare LOB* Percentage			0.92%	8.46%	97.85%	
	PY Allowable Pension Cost			\$37,037	\$41,381	\$237,974	
2002	FY Allowable Pension Cost			\$35,496	\$37,742	\$178,481	\$251,719

Date	Description	Total Company	"Other" Segment	Part B Medicare Segment	DMERC Medicare Segment	Total Medicare Part B Pension Costs
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	
	DMERC Medicare LOB* Percentage		0.81%	11.56%	98.64%	
	PY Allowable Pension Cost		\$31,760	\$53,040	\$213,425	
2003	FY Allowable Pension Cost		\$33,079	\$50,125	\$219,562	\$302,766
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	
	DMERC Medicare LOB* Percentage		0.77%	12.68%	98.64%	
	PY Allowable Pension Cost		\$35,127	\$75,584	\$214,985	
2004	FY Allowable Pension Cost		\$34,285	\$69,948	\$214,595	\$318,828
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	
	DMERC Medicare LOB* Percentage		0.81%	16.26%	98.86%	
	PY Allowable Pension Cost		\$33,920	\$84,690	\$204,625	
2005	FY Allowable Pension Cost		\$34,222	\$82,414	\$207,215	\$323,851

Date	Description	Total Company	"Other" Segment	Part B Medicare Segment	DMERC Medicare Segment	Total Medicare Part B Pension Costs
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	
	DMERC Medicare LOB* Percentage		0.65%	14.43%	100.00%	
	PY Allowable Pension Cost		\$25,772	\$67,983	\$108,650	
June 30, 2006	Allowable Pension Cost	<u>15/</u>	\$21,366	\$55,164	\$105,481	\$182,011
January 1, 2007	Allowable Pension Cost	<u>16/</u>	\$12,886	\$33,992	\$54,325	\$101,203

\* Line of business.

#### **ENDNOTES**

1/ Durable Medical Equipment Regional Carrier

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 plan year (PY) and accrued contributions deposited after the end of the PY but within the time allowed for filing tax returns. We determined the contributions allocated to both Medicare segments during the pension segmentation review (A-07-11-00366). The amounts shown for the "Other" segment represent the difference between the Total Company and the Part B and DMERC Medicare segments.

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 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

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 Cost Accounting Standards (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 PY.

7/ 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)).

8/ 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.

- 9/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.
- 10/ 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.
- 11/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.
- 12/ We calculated allowable pension costs for the Part B Medicare segment, the DMERC Medicare segment, and "Other" segment based on the Medicare DMERC line of business (LOB) percentage of each segment. We determined the Medicare DMERC LOB percentages based upon information provided by HealthNow. Our LOB percentages are determined by segment for costs allocated to the Medicare DMERC Title 18 contracts.
- 13/ We computed the PY allowable pension cost as the PY allocable pension cost multiplied by the calendar year Medicare DMERC LOB percentage.
- 14/ 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 DMERC allowable pension costs charged to the Medicare contracts consisted of the DMERC Medicare segment's direct pension costs plus the Part B Medicare and "Other" segment pension costs attributable to indirect Medicare DMERC segment operations.
- 15/ The DMERC contractual relationship was terminated on June 30, 2006. Therefore, we computed allowable pension costs for October 1, 2005, through June 30, 2006, by taking 1/4 of the PY 2005 pension costs plus 6/12 of the PY 2006 pension costs.
- 16/ The effective closing date for the DMERC Medicare segment was January 1, 2007. Therefore, we computed the allowable pension costs for the DMERC Medicare segment for June 30, 2006, through January 1, 2007, by taking 6/12 of the PY 2006 allowable pension costs.

## 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-07-11-00367

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 COST CLAIMED FOR MEDICARE DURABLE MEDICAL EQUIPMENT REGIONAL CARRIER REIMBURSEMENT BY HEALTHNOW NEW YORK INC., FOR FISCAL YEARS 2000 THROUGH 2007" 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.

- HealthNow agrees with this finding stated in the draft audit report to claim an additional allowable DMERC Medicare pension cost of \$111,258. The additional allowable costs resulted because HealthNow did not claim \$111,258 of allowable Medicare pension costs on its FACP for FYs 2000 through 2007.

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