



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

OCT 18 2005

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

Report Number: A-07-05-00188

Ms. Rochelle Shaw, Director
Medicare East Finance AHS and NH
110 Free Street
Portland, Maine 04101

Dear Ms. Shaw:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report titled "Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross Blue Shield of Maine for Fiscal Years 1989 Through 2000." A copy of this report will be forwarded to the HHS action official noted on the next page for her review and any action deemed necessary.

The HHS action official will make final determination regarding actions taken on all matters in the report. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. § 552, as amended by Public Law 104-231), OIG reports are made available to the public to the extent information contained therein is not subject to exemptions of the Act that the Department chooses to exercise. (See 45 CFR part 5.)

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, ext. 274, or contact Jenenne Tambke, Audit Manager, at (573) 893-8338, ext. 21, or through email at Jenenne.Tambke@oig.hhs.gov. Please refer to report number A-07-05-00188 in all correspondence.

Sincerely,

Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosures

Direct Reply to HHS Action Official:

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

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS
CLAIMED FOR MEDICARE
REIMBURSEMENT BY BLUE CROSS
BLUE SHIELD OF MAINE FOR FISCAL
YEARS 1989 THROUGH 2000**



**Daniel R. Levinson
Inspector General**

**OCTOBER 2005
A-07-05-00188**

Office of Inspector General

<http://oig.hhs.gov>

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OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the awarding agency will make final determination on these matters.



EXECUTIVE SUMMARY

BACKGROUND

Blue Cross Blue Shield of Maine (Maine) administered Medicare Part A operations under a cost reimbursement contract with the Centers for Medicare & Medicaid Services (CMS) until it was acquired by Anthem Insurance Companies, Inc. (Anthem) on June 5, 2000, to form Anthem Health Plans of Maine, Inc. For the purpose of this report, Maine will be used to address the finding concerning the Part A pension costs claimed for fiscal years (FY) 1989 through 2000.

Medicare reimburses a portion of the annual contributions that contractors make to their pension plans. In claiming costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulations (FAR), Cost Accounting Standards (CAS), and Medicare contracts.

The Medicare contract requires contractors to allocate or separately calculate pension costs. The separate calculation method must be used if there is a material difference between the two methods.

OBJECTIVE

Our objective was to determine the allowability of pension costs claimed for Medicare reimbursement for FYs 1989 through 2000.

SUMMARY OF FINDING

Maine did not claim all pension costs that were allowable for Medicare reimbursement for FYs 1989 through 2000 because it did not claim pension costs in accordance with its Medicare contract. Therefore, Maine underclaimed \$171,674 of allowable pension costs for FYs 1989 through 2000.

RECOMMENDATION

We recommend that Maine revise its Final Administrative Cost Proposals (FACP) to claim allowable CAS pension costs of \$171,674 for FYs 1989 through 2000.

AUDITEE'S COMMENTS

Maine agreed with our finding. Maine's response is included in its entirety as Appendix C.

INTRODUCTION

BACKGROUND

Maine

Blue Cross Blue Shield of Maine (Maine) administered Medicare Part A operations under a cost reimbursement contract with the Centers for Medicare & Medicaid Services (CMS) until it was acquired by Anthem Insurance Companies, Inc. (Anthem) on June 5, 2000, to form Anthem Health Plans of Maine, Inc. For the purpose of this report, Maine will be used to address the finding concerning the Part A pension costs claimed for fiscal years (FY) 1989 through 2000.

Medicare

Medicare reimburses a portion of the annual contributions that contractors make to their pension plans. To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with Cost Accounting Standards (CAS) 412 and 413; and (2) funded as specified by part 31 of the Federal Acquisition Regulations (FAR).

Beginning in FY 1988, CMS incorporated specific segmentation language into Medicare contracts. The contracts provide for an allocation or a separate calculation of pension costs. Under the allocation method, the contractor determines total plan CAS costs and allocates a share to Medicare. Under the separate calculation method, the contractor separately identifies the pension cost components for the Medicare segment. The separate calculation method must be used if it is materially different than the allocation method.

Regulations

The Medicare contract addresses the determination and allocation of pension costs. The contract states that: “The calculation of and accounting for pension costs charged to this agreement/contract are governed by the Federal Acquisition Regulations and Cost Accounting Standards 412 and 413.”

The FAR addresses allowability of pension costs and requires that funding substantiate pension costs assigned to contract periods.

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

The CAS 413 regulates the valuation of pension assets, allocation of pension costs to segments of an organization, adjustment of pension costs for actuarial gains and losses, and assignment of gains and losses to cost accounting periods.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine the allowability of pension costs claimed by Maine for Medicare reimbursement for FYs 1989 through 2000.

Scope

We reviewed pension costs claimed on Maine's Final Administrative Cost Proposals (FACP) for Medicare reimbursement for FYs 1989 through 2000. Achieving the objective did not require that we review Maine's overall internal control structure. However, we did review the controls relating to the pension costs claimed for Medicare reimbursement to ensure that pension costs were allowable in accordance with CAS and funded in accordance with FAR.

We performed fieldwork at Maine's office in Portland, ME, during September 2004.

Methodology

We identified Maine's CAS pension costs for the total company and for the Medicare segment. We also determined the extent to which Maine funded CAS pension costs with contributions to the pension trust fund and accumulated prepayment credits. Using this information, we calculated CAS pension costs that were allowable for Medicare reimbursement for FYs 1989 through 2000. The calculations were based on separately computed CAS pension costs for the Medicare segment and total company CAS pension costs. The CMS Office of the Actuary calculated the allocable CAS pension costs based on Maine's historical practices and on the results of our segmentation review (A-07-04-00182).

Maine claimed costs on a fiscal year basis for FYs 1989 through 1995 and on a calendar year basis for FYs 1996 through 2000. We used Maine's methodology in determining the allowable pension costs and included the details on the pension costs and contributions in Appendix A and Appendix B.

In performing our review, we used information provided by Maine's actuarial consulting firm. The information included assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We examined Maine's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Form 5500s.

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

FINDING AND RECOMMENDATION

Maine did not claim all pension costs that were allowable for Medicare reimbursement for FYs 1989 through 2000. Therefore, Maine underclaimed \$171,674 of allowable pension costs.

The Medicare contract required Maine to allocate or separately calculate pension costs; however, Maine claimed pension costs by applying a total company salary ratio to total company contributions. We calculated the allowable pension costs based on separately computed CAS pension costs for the Medicare segment and total company CAS pension costs. We compared allowable CAS pension costs to the pension costs claimed on Maine’s FACPs as shown in Table 1.¹

Table 1: Pension Cost Claimed Variance			
FACP ²	Per OIG	Per Maine	Difference
1989	\$216,183	\$382,069	(\$165,886)
1990	177,741	368,488	(190,747)
1991	199,156	131,122	68,034
1992	51,526	109,377	(57,851)
1993	0	0	0
1994	0	0	0
1995	0	0	0
1996	199,581	31,677	167,904
1997	28,568	103,480	(74,912)
1998	0	0	0
1999	1,003,459	734,087	269,372
2000	991,664	835,904	155,760
Total	\$2,867,878	\$2,696,204	\$171,674

Maine claimed pension costs of \$2,696,204 for Medicare reimbursement; however, allowable CAS pension costs for the period were \$2,867,878. As a result, Maine underclaimed \$171,674 of allowable CAS pension costs because it did not calculate the pension costs correctly.

RECOMMENDATION

We recommend that Maine revise its FACPs to claim allowable CAS pension costs of \$171,674 for FYs 1989 through 2000.

¹For FYs 1989 and 1990, Maine was unable to determine the costs claimed for its qualified pension plan. As a result, Maine instructed the auditors to use the amounts as calculated by the administrative cost auditors (report number A-01-92-00502).

²For FYs 1989 through 1995, Maine claimed costs claimed on a fiscal year basis. Beginning in 1996, costs were claimed on a calendar year basis.

OTHER MATTERS

As noted in our report on Maine's pension segmentation requirements (A-07-04-00182), Maine did not correctly identify and update its Medicare segment in accordance with the Medicare contract. Consequently, as of December 31, 2000, Maine reported \$3,268 of accumulated unallowable pension costs. We determined that Maine did not have accumulated unallowable pension costs and should discontinue reporting of \$3,268 in accumulated unallowable pension costs.

We analyzed the costs claimed for FYs 1986 through 1988 that were indirectly allocated to the Medicare contract and found that the allocation concerning the determination of pension costs prior to segmentation complied with the Medicare contract. In addition, we did not find any material misstatement of the claimed costs.

AUDITEE'S COMMENTS

Maine agreed with our finding. Maine's response is included in its entirety as Appendix C.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

We commend Maine for its action to address the recommendation.

APPENDIXES

**BLUE CROSS BLUE SHIELD OF MAINE
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1989 THROUGH 1995**

Date	Description	Total Company	Other Segment	Medicare Segment
1988	Contributions	<u>1/</u> 1,534,818	1,389,691	145,127
8.00%	Discount For Interest	<u>2/</u> (107,051)	(96,929)	(10,122)
	Present Value Contributions	<u>3/</u> 1,427,767	1,292,762	135,005
	Prepayment Credit	<u>4/</u> 0	0	0
	Present Value Of Funding	<u>5/</u> 1,427,767	1,292,762	135,005
	CAS Funding Target	<u>6/</u> 1,306,950	1,171,945	135,005
	Percentage Funded	<u>7/</u>	100.00%	100.00%
	Funded Pension Cost	<u>8/</u>	1,171,945	135,005
	Allowable Interest	<u>9/</u>	66,410	7,650
	Allocable Pension Cost	<u>10/</u>	1,238,355	142,655
	Fiscal Year Pension Cost	<u>11/</u>	N/A	N/A
	Medicare LOB* Percentage	<u>12/</u>	N/A	N/A
	Allowable Pension Cost	<u>13/</u> N/A	N/A	N/A

1989	Contributions	\$1,466,353	\$1,309,576	\$156,777
8.00%	Discount For Interest	<u>(88,720)</u>	<u>(79,234)</u>	<u>(9,486)</u>
	Present Value Contributions	1,377,633	1,230,342	147,291
	Prepayment Credit	<u>130,483</u>	<u>115,457</u>	<u>15,026</u>
	Present Value Of Funding	1,508,116	1,345,799	162,317
	CAS Funding Target	1,409,556	1,247,238	162,318
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		1,247,238	162,317
	Allowable Interest		64,134	8,346
	Allocable Pension Cost		1,311,372	170,663
	Fiscal Year Pension Cost		1,293,118	163,661
	Medicare LOB Percentage		4.84%	93.85%
	Allowable Pension Cost	<u>\$216,183</u>	<u>\$62,587</u>	<u>\$153,596</u>

**BLUE CROSS BLUE SHIELD OF MAINE
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1989 THROUGH 1995**

Date	Description	Total Company	Other Segment	Medicare Segment
1990	Contributions	\$1,452,181	\$1,321,268	\$130,913
8.00%	Discount For Interest	<u>(78,687)</u>	<u>(71,593)</u>	<u>(7,094)</u>
	Present Value Contributions	1,373,494	1,249,675	123,819
	Prepayment Credit	<u>106,445</u>	<u>95,881</u>	<u>10,564</u>
	Present Value Of Funding	1,479,939	1,345,556	134,383
	CAS Funding Target	1,354,020	1,219,637	134,383
	Percentage Funded		<u>100.00%</u>	<u>100.00%</u>
	Funded Pension Cost		1,219,637	134,383
	Allowable Interest		<u>63,680</u>	<u>7,016</u>
	Allocable Pension Cost		1,283,317	141,399
	Fiscal Year Pension Cost		1,290,331	148,715
	Medicare LOB Percentage		<u>2.48%</u>	<u>98.00%</u>
	Allowable Pension Cost	<u>\$177,741</u>	<u>\$32,000</u>	<u>\$145,741</u>

1991	Contributions	\$1,719,099	\$1,579,493	\$139,606
8.00%	Discount For Interest	<u>(86,694)</u>	<u>(79,654)</u>	<u>(7,040)</u>
	Present Value Contributions	1,632,405	1,499,839	132,566
	Prepayment Credit	<u>135,993</u>	<u>123,576</u>	<u>12,417</u>
	Present Value Of Funding	1,768,398	1,623,415	144,983
	CAS Funding Target	1,587,871	1,442,888	144,983
	Percentage Funded		<u>100.00%</u>	<u>100.00%</u>
	Funded Pension Cost		1,442,888	144,983
	Allowable Interest		<u>70,067</u>	<u>7,040</u>
	Allocable Pension Cost		1,512,955	152,023
	Fiscal Year Pension Cost		1,455,546	149,367
	Medicare LOB Percentage		<u>3.63%</u>	<u>97.96%</u>
	Allowable Pension Cost	<u>\$199,156</u>	<u>\$52,836</u>	<u>\$146,320</u>

**BLUE CROSS BLUE SHIELD OF MAINE
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1989 THROUGH 1995**

Date	Description	Total Company	Other Segment	Medicare Segment
1992	Contributions	\$0	\$0	\$0
8.00%	Discount For Interest	0	0	0
	Present Value Contributions	<u>0</u>	<u>0</u>	<u>0</u>
	Prepayment Credit	0	0	0
	Present Value Of Funding	<u>0</u>	<u>0</u>	<u>0</u>
	CAS Funding Target	0	0	0
	Percentage Funded		<u>0.00%</u>	<u>0.00%</u>
	Funded Pension Cost		<u>0</u>	<u>0</u>
	Allowable Interest		<u>0</u>	<u>0</u>
	Allocable Pension Cost		<u>0</u>	<u>0</u>
	Fiscal Year Pension Cost		378,239	38,006
	Medicare LOB Percentage		<u>3.89%</u>	<u>96.86%</u>
	Allowable Pension Cost	<u>\$51,526</u>	<u>\$14,713</u>	<u>\$36,813</u>

1993	Contributions	\$0	\$0	\$0
8.00%	Discount For Interest	0	0	0
	Present Value Contributions	<u>0</u>	<u>0</u>	<u>0</u>
	Prepayment Credit	0	0	0
	Present Value Of Funding	<u>0</u>	<u>0</u>	<u>0</u>
	CAS Funding Target	0	0	0
	Percentage Funded		<u>0.00%</u>	<u>0.00%</u>
	Funded Pension Cost		<u>0</u>	<u>0</u>
	Allowable Interest		<u>0</u>	<u>0</u>
	Allocable Pension Cost		<u>0</u>	<u>0</u>
	Fiscal Year Pension Cost		0	0
	Medicare LOB Percentage		<u>5.23%</u>	<u>93.01%</u>
	Allowable Pension Cost	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

**BLUE CROSS BLUE SHIELD OF MAINE
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1989 THROUGH 1995**

Date	Description	Total Company	Other Segment	Medicare Segment
1994	Contributions	\$0	\$0	\$0
8.00%	Discount For Interest	0	0	0
	Present Value Contributions	0	0	0
	Prepayment Credit	0	0	0
	Present Value Of Funding	0	0	0
	CAS Funding Target	0	0	0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		0	0
	Allowable Interest		0	0
	Allocable Pension Cost		0	0
	Fiscal Year Pension Cost		0	0
	Medicare LOB Percentage		1.40%	99.08%
	Allowable Pension Cost	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

1995	Contributions	\$0	\$0	\$0
8.50%	Discount For Interest	0	0	0
	Present Value Contributions	0	0	0
	Prepayment Credit	0	0	0
	Present Value Of Funding	0	0	0
	CAS Funding Target	0	0	0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		0	0
	Allowable Interest		0	0
	Allocable Pension Cost		0	0
	Fiscal Year Pension Cost		0	0
	Medicare LOB Percentage		2.19%	99.20%
	Allowable Pension Cost	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

* Line of business.

**BLUE CROSS BLUE SHIELD OF MAINE
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1989 THROUGH 1995**

FOOTNOTES

- 1/ We obtained total company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the plan year and accrued contributions deposited after the end of the plan year but within the time allowed for filing tax returns.
- 2/ We subtracted the interest that is included in the contributions deposited after January 1 of each year to discount the contributions back to their beginning of the year value. For purposes of this appendix, we computed the interest as the difference between the present value of contributions at the valuation interest rate and actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to January 1. For purposes of this appendix, we deemed deposits made after the end of the plan year to have been made on the final day of the plan year.
- 4/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year Cost Accounting Standards (CAS) funding target. A prepayment credit may be carried forward, with interest, to fund future CAS pension costs.
- 5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at January 1 of each year.
- 6/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of Federal Acquisition Regulations (FAR) 31.205-6(j)(3)(I).
- 7/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the plan year. Since any funding in excess of the CAS funding target is considered premature funding in accordance with CAS 412.50(a)(7), the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimals.
- 8/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.

**BLUE CROSS BLUE SHIELD OF MAINE
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1989 THROUGH 1995**

- 9/ We assumed interest on the funded CAS pension cost, less the prepayment credit, is to accrue in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest by FAR 31.205-6(j)(3)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, was funded in four equal installments deposited within 30 days of the end of the quarter.
- 10/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.
- 11/ We converted the plan year allocable pension costs to a Federal fiscal year (FY) basis (October 1 through September 30). We calculated the fiscal year pension costs as 1/4 of the prior year's costs plus 3/4 of the current year's costs. Costs charged to the Medicare contract should consist of the Medicare segment's direct pension costs plus pension costs attributable to indirect Medicare operations.
- 12/ We calculated allowable pension costs of the Medicare and other segment based on the Medicare line of business percentage of each segment. We obtained the percentages from documents provided by Maine. We did not calculate pension costs prior to FY 1988 since the Medicare segment was not identified until January 1, 1988.
- 13/ We computed the allowable Medicare pension cost as the allocable pension cost multiplied by the Medicare line of business percentage.

**BLUE CROSS BLUE SHIELD OF MAINE
STATEMENT OF ALLOWABLE PENSION COSTS
FOR CALENDAR YEARS 1996 THROUGH 2000**

Date	Description		Total Company	Other Segment	Medicare Segment
1996	Contributions	<u>1/</u>	\$249,848	\$161,925	\$87,923
8.00%	Discount For Interest	<u>2/</u>	(10,788)	(6,992)	(3,796)
	Present Value Contributions	<u>3/</u>	239,060	154,933	84,127
	Prepayment Credit	<u>4/</u>	266,483	162,419	104,064
	Present Value Of Funding	<u>5/</u>	505,543	317,352	188,191
	CAS Funding Target	<u>6/</u>	481,914	293,723	188,191
	Percentage Funded	<u>7/</u>		100.00%	100.00%
	Funded Pension Cost	<u>8/</u>		293,723	188,191
	Allowable Interest	<u>9/</u>		5,926	3,796
	Allocable Pension Cost	<u>10/</u>		299,649	191,987
	Medicare LOB* Percentage	<u>11/</u>		2.97%	99.32%
	Allowable Pension Cost	<u>12/</u>	<u>\$199,581</u>	<u>\$8,900</u>	<u>\$190,681</u>

1997	Contributions		\$803,432	\$803,432	\$0
8.00%	Discount For Interest		(44,510)	(44,510)	0
	Present Value Contributions		758,922	758,922	0
	Prepayment Credit		25,520	25,520	0
	Present Value Of Funding		784,442	784,442	0
	CAS Funding Target		769,439	769,439	0
	Percentage Funded			100.00%	0.00%
	Funded Pension Cost			769,439	0
	Allowable Interest			42,155	0
	Allocable Pension Cost			811,594	0
	Medicare LOB Percentage			3.52%	99.10%
	Allowable Pension Cost		<u>\$28,568</u>	<u>\$28,568</u>	<u>\$0</u>

**BLUE CROSS BLUE SHIELD OF MAINE
STATEMENT OF ALLOWABLE PENSION COSTS
FOR CALENDAR YEARS 1996 THROUGH 2000**

Date	Description	Total Company	Other Segment	Medicare Segment
1998	Contributions	\$0	\$0	\$0
8.00%	Discount For Interest	0	0	0
	Present Value Contributions	0	0	0
	Prepayment Credit	0	0	0
	Present Value Of Funding	0	0	0
	CAS Funding Target	0	0	0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		0	0
	Allowable Interest		0	0
	Allocable Pension Cost		0	0
	Medicare LOB Percentage		4.69%	98.73%
	Allowable Pension Cost	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

1999	Contributions	\$3,466,563	\$2,556,324	\$910,239
8.00%	Discount For Interest	(192,587)	(142,018)	(50,569)
	Present Value Contributions	3,273,976	2,414,306	859,670
	Prepayment Credit	17,499	12,818	4,681
	Present Value Of Funding	3,291,475	2,427,124	864,351
	CAS Funding Target	3,231,546	2,367,195	864,351
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		2,367,195	864,351
	Allowable Interest		133,415	48,715
	Allocable Pension Cost		2,500,610	913,066
	Medicare LOB Percentage		4.21%	98.37%
	Allowable Pension Cost	<u>\$1,003,459</u>	<u>\$105,276</u>	<u>\$898,183</u>

**BLUE CROSS BLUE SHIELD OF MAINE
STATEMENT OF ALLOWABLE PENSION COSTS
FOR CALENDAR YEARS 1996 THROUGH 2000**

Date	Description	Total Company	Other Segment	Medicare Segment
2000	Contributions	\$3,639,749	\$2,745,826	\$893,923
8.00%	Discount For Interest	(202,208)	(152,546)	(49,662)
	Present Value Contributions	3,437,541	2,593,280	844,261
	Prepayment Credit	64,723	48,110	16,613
	Present Value Of Funding	3,502,264	2,641,390	860,874
	CAS Funding Target	3,353,968	2,493,095	860,873
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		2,493,095	860,873
	Allowable Interest		138,549	47,841
	Allocable Pension Cost		2,631,644	908,714
	Medicare LOB Percentage		3.67%	98.50%
	Allowable Pension Cost	<u>\$991,664</u>	<u>\$96,581</u>	<u>\$895,083</u>

* Line of business.

FOOTNOTES

- 1/ We obtained total company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the plan year and accrued contributions deposited after the end of the plan year but within the time allowed for filing tax returns.
- 2/ We subtracted the interest that is included in the contributions deposited after January 1 of each year to discount the contributions back to their beginning of the year value. For the purposes of this appendix, we computed the interest as the difference between the present value of contributions at the valuation interest rate and actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to January 1. For the purposes of this appendix, we deemed deposits made after the end of the plan year to have been made on the final day of the plan year.
- 4/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of year Cost Accounting Standards (CAS) funding target. A prepayment credit may

**BLUE CROSS BLUE SHIELD OF MAINE
STATEMENT OF ALLOWABLE PENSION COSTS
FOR CALENDAR YEARS 1996 THROUGH 2000**

- 5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at January 1 of each year.
- 6/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of Federal Acquisition Regulations (FAR) 31.205-6(j)(3)(I).
- 7/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the plan year. Since any funding in excess of the CAS funding target is considered premature funding in accordance with CAS 412.50(a)(7), the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimals.
- 8/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.
- 9/ We assumed interest on the funded CAS pension cost, less the prepayment credit, is to accrue in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest by FAR 31.205-6(j)(3)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, was funded in four equal installments deposited within 30 days of the end of the quarter.
- 10/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.
- 11/ We calculated allowable pension costs of the Medicare and other segment based on the Medicare line of business percentage of each segment. We obtained the percentages from documents provided by Maine.
- 12/ We computed the allowable Medicare pension cost as the allocable calendar year pension cost multiplied by the Medicare line of business percentage.



September 28, 2005

Medicare
Part A Intermediary
Maine & Massachusetts
Regional Home Health

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

Attention: Mr. James P. Aasmundstad
Regional Inspector General for Audit Services

Re: Report Number A-07-05-00188

Dear Mr. Aasmundstad:

Thank you for providing your Draft Report on the Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross Blue Shield of Maine for Fiscal Years 1989 through 2000.

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

1. Recommend that Maine revise its Final Administrative Cost Proposals (FACP) to claim allowable CAS pension costs of \$171,674 for FY1989 through 2000.

Response: Anthem concurs and will make the recommended increase.

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

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

Thank you for the opportunity to respond to the draft report. Anthem appreciates the courtesy and professionalism demonstrated by the OIG in this audit.

If you have any questions or would like to discuss further, please let me know.

Very truly yours,

Rochelle Shaw

cc: David Crowley

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