



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

JAN 20 2006

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

Report Number: A-07-05-00195

Mr. Jeff Hannah, Executive Director of Internal Controls
AdminaStar Federal
8115 Knue Road
Indianapolis, Indiana 46250

Dear Mr. Hannah:

Enclosed are two copies of the Department of Health and Human Services, Office of Inspector General final report entitled "Review of Supplemental Executive Retirement Program Costs Claimed by AdminaStar Federal, Inc. for Fiscal Years 2000 Through 2003." A copy of this report will be forwarded to the HHS action official noted on the next 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 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), Office of Inspector General reports issued to the Department's grantees and contractors are made available to the public to the extent the information is not subject to exemptions in 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, extension 274, or contact Jenenne Tambke, Audit Manager, at (573) 893-8338, extension 21, or through e-mail at Jenenne.Tambke@oig.hhs.gov. Please refer to report number A-07-05-00195 in all correspondence.

Sincerely yours,

A handwritten signature in black ink that reads "Patrick J. Cogley".

Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosures

Direct Reply to HHS Action Official:

Ms. Jackie Garner
Regional Administrator
Centers for Medicare & Medicaid Services
233 North Michigan Avenue, Suite 600
Chicago, Illinois 60601

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF SUPPLEMENTAL
EXECUTIVE RETIREMENT PROGRAM
COSTS CLAIMED BY ADMINASTAR
FEDERAL, INC. FOR FISCAL YEARS
2000 THROUGH 2003**



**Daniel R. Levinson
Inspector General**

**JANUARY 2006
A-07-05-00195**

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

Anthem Insurance Companies, Inc. (Anthem) administers Medicare Part A, Part B, Durable Medical Equipment, and Regional Home Health Intermediary 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).

Anthem has a Supplemental Executive Retirement Program (SERP) to provide deferred compensation for a select group of management and highly compensated employees, including AdminaStar employees, through a nonqualified pension plan. The SERP is designed to restore benefits lost under the regular qualified plan due to the Internal Revenue Code 401(a)(17) and 415 limits and deferrals to the nonqualified deferred compensation plan.

In claiming costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulations, Cost Accounting Standards (CAS), and Medicare contract.

OBJECTIVE

Our objective was to determine the allowability of SERP costs claimed by AdminaStar for Medicare reimbursement for fiscal years (FY) 2000 through 2003.

SUMMARY OF FINDING

AdminaStar claimed \$934,728 of unallowable SERP costs for FYs 2000 through 2003 because it did not claim SERP costs in accordance with the CAS. During FYs 2000 through 2003, the allowable SERP costs were \$220,821; however, AdminaStar claimed SERP costs of \$1,155,549 for Medicare reimbursement.

RECOMMENDATIONS

We recommend that AdminaStar revise its Final Administrative Cost Proposals for FYs 2000 through 2003 to reduce its claimed SERP costs by \$934,728. We also recommend that AdminaStar claim future SERP costs in accordance with the CAS.

AUDITEE'S COMMENTS

AdminaStar agreed with our finding and recommendations and stated that it had already implemented policies and procedures to ensure that future SERP costs are properly claimed. Anthem also provided information to clarify the report background. Anthem's response is included in its entirety as Appendix B.

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Glossary of Abbreviations and Acronyms

AdminaStar	AdminaStar Federal, Inc.
Anthem	Anthem Insurance Companies, Inc.
CAS	Cost Accounting Standards
CMS	Centers for Medicare & Medicaid Services
FACP	Final Administrative Cost Proposal
FAR	Federal Acquisition Regulations
FY	fiscal year
LOB	Line of Business
SERP	Supplemental Executive Retirement Program

INTRODUCTION

BACKGROUND

Medicare

Anthem Insurance Companies, Inc. (Anthem) administers Medicare Part A, Part B, Durable Medical Equipment, and Regional Home Health Intermediary 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). In claiming costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulations (FAR), Cost Accounting Standards (CAS), and Medicare contract.

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 CAS 412 and 413 and (2) funded as specified by Part 31 of the FAR.

Anthem Supplemental Executive Retirement Program

On February 18, 1988, Anthem established its Supplemental Executive Retirement Program (SERP) to provide deferred compensation for a select group of management and highly compensated employees. The Anthem SERP is an unfunded, nonqualified pension plan designed to restore benefits lost under the regular qualified plan due to the Internal Revenue Code 401(a)(17) and 415 limits and deferrals to the nonqualified deferred compensation plan. The SERP is a supplemental pension plan that, in combination with the regular pension plan, provides a single pension benefit promise to participants.

Anthem SERP participants may receive their supplemental retirement benefit at termination of employment as an immediate lump sum, annual installments over 5 years, annual installments over 10 years, a Life annuity, or a 50-percent Joint and Survivor annuity.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine the allowability of SERP costs claimed by AdminaStar for Medicare reimbursement for fiscal years (FY) 2000 through 2003.

Scope

We reviewed AdminaStar's SERP costs claimed on its Financial Administrative Cost Proposals (FACP) for FYs 2000 through 2003. Achieving the objective did not require a review of Anthem's internal control structure. However, we did review the controls relating to the SERP costs claimed for Medicare reimbursement to ensure that SERP costs were allowable in accordance with the CAS.

We performed fieldwork at AdminaStar’s office in Louisville, KY, and at Anthem’s office in Indianapolis, IN, during September 2004, October 2004, and February 2005.

Methodology

We identified Anthem’s SERP costs for the total company and for AdminaStar. Anthem provided us with information on its SERP benefit payments, allocation percentages for corporate participants, and Medicare Lines of Business percentages. The CMS Office of the Actuary calculated the allowable amortizable benefit for participants who received a lump-sum benefit payment.

FINDING AND RECOMMENDATIONS

AdminaStar claimed unallowable SERP costs of \$934,728 for FYs 2000 through 2003. According to the CAS, the cost of nonqualified, unfunded, defined-benefit pension plans shall be based on the net amount of any periodic benefits paid for that period and the level annual installment required to amortize over 15 years any lump-sum benefit payments. However, AdminaStar based its claims on Medicare’s allocated portion of budgeted SERP costs. We calculated the allowable SERP costs based on actual benefit payments. We compared the allowable SERP costs to the SERP costs claimed on AdminaStar’s FACPs as shown below.

SERP Cost Claimed Variance

FACP	Per AdminaStar	Per OIG	Difference
2000	\$254,750	\$39,575	\$215,175
2001	193,006	62,372	130,634
2002	309,515	62,306	247,209
2003	398,278	56,568	341,710
TOTAL	<u>\$1,155,549</u>	<u>\$220,821</u>	<u>\$934,728</u>

For FYs 2000 through 2003, AdminaStar claimed SERP costs of \$1,155,549 for Medicare reimbursement; however, allowable SERP costs were \$220,821. Therefore, AdminaStar claimed \$934,728 of unallowable SERP costs because it did not claim SERP costs in accordance with the CAS.

RECOMMENDATIONS

AdminaStar should revise its FACPs for FYs 2000 through 2003 to reduce its claimed SERP costs by \$934,728. We also recommend that AdminaStar claim future SERP costs in accordance with the CAS.

AUDITEE’S COMMENTS

AdminaStar agreed with our finding and recommendations and stated that it had already implemented policies and procedures to ensure that future SERP costs are properly claimed.

Anthem also provided information to clarify the report background. Anthem's response is included in its entirety as Appendix B.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

We commend Anthem for its actions to address the recommendations. We clarified the report background with the information Anthem provided.

APPENDIXES

ADMINASTAR FEDERAL, INC.
STATEMENT OF ALLOWABLE SUPPLEMENTAL EXECUTIVE
RETIREMENT PROGRAM COSTS
FISCAL YEARS 2000 THROUGH 2003

Fiscal Year	AdminaStar Amortized Lump-Sum Benefit Payments Note 1/	Line of Business Ratio Note 2/	Medicare Allowable SERP Costs Note 3/	Corporate Amortized Lump-Sum Benefit Payments Note 4/	Line of Business Ratio Note 5/	Medicare Allowable SERP Costs Note 6/	Total Allowable SERP Costs Note 7/
2000	\$87	.9304	\$81	\$593,892	.0665	\$39,494	\$39,575
2001	23,362	.9342	21,825	595,398	.0681	40,547	62,372
2002	23,742	.8650	20,537	600,994	.0695	41,769	62,306
2003	<u>23,716</u>	.8737	<u>20,721</u>	<u>610,680</u>	.0587	<u>35,847</u>	<u>56,568</u>
TOTAL	<u>\$70,907</u>		<u>\$63,164</u>	<u>\$2,400,964</u>		<u>\$157,657</u>	<u>\$220,821</u>

ENDNOTES

- 1/ Anthem provided a schedule of benefit payments to AdminaStar participants. All of the payments were either a lump-sum or a 5-year annuity. In accordance with Cost Accounting Standard (CAS) 412.50(b)(3), we ratably amortized the benefit payments, including an interest equivalent, over a 15-year period.
- 2/ Anthem provided Medicare Line of Business (LOB) ratios for the allocation of AdminaStar allowable costs to the Medicare contracts.
- 3/ Medicare-allowable Supplemental Executive Retirement Program (SERP) costs for AdminaStar benefit payments were amortized benefit payments multiplied by the Medicare LOB ratio.
- 4/ Anthem provided a schedule of benefit payments for Anthem corporate participants. All of the payments were either a lump-sum or an annuity of 10 years or less. In accordance with CAS 412.50(b)(3), we ratably amortized the benefit payments, including an interest equivalent, over a 15-year period.
- 5/ Anthem provided allocation ratios to allocate corporate costs to the AdminaStar subsidiary and Medicare LOB ratios for AdminaStar allowable costs. The Medicare LOB ratios shown in this column are a composite ratio of these two allocations.
- 6/ Medicare allowable SERP costs for benefit payments to corporate participants were amortized benefit payments multiplied by the composite Medicare LOB ratio.
- 7/ Total allowable SERP costs were the sum of columns 3 and 6.



Medicare

A Medicare Carrier & Intermediary

T. Jeffrey Hannah

Regional Vice President

Internal Controls and Ethics & Compliance

Phone: (317) 595-4939

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December 19, 2005

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

RE: Report Number A-07-05-00195

Dear Mr. Cogley:

Thank you for providing your Draft Report on the Review of Supplemental Executive Retirement Program Costs Claimed by AdminaStar Federal, Inc. for Fiscal Years 2000 Through 2003.

The Draft Report recommends that AdminaStar revise its FACPs for FYs 2000 through 2003 to reduce its claimed SERP costs by \$934,728, and recommends that AdminaStar claim future SERP costs in accordance with the CAS. AdminaStar concurs with the recommendations and has already implemented processes and procedures designed to properly claim future SERP costs.

AdminaStar notes the following by way of clarification with regard to the background information in the Draft Report describing the Anthem Supplemental Executive Retirement Program: The Anthem SERP is an unfunded, nonqualified pension plan designed to restore benefits lost under the regular qualified plan due to the Internal Revenue Code 401 (a)(17) and 415 limits and deferrals to the nonqualified deferred compensation plan.

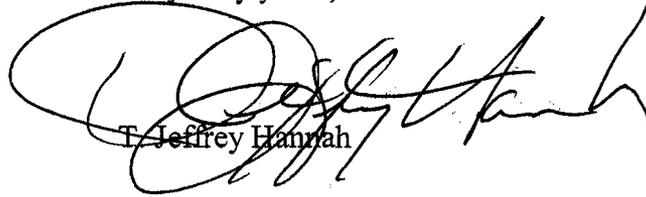
Thank you for the opportunity to respond to the draft report. AdminaStar Federal appreciates the courtesy and professionalism demonstrated by the OIG in this audit.

 AdminaStar Federal

A CMS Contracted Carrier & Intermediary

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

Very truly yours,

A handwritten signature in black ink, appearing to read "T. Jeffrey Hannah". The signature is fluid and cursive, with a large initial "T" and "J".

T. Jeffrey Hannah

cc: Michael McCarron
Glenn Rhodes
Joanne Imel
Peter McCloud