



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

AUG 08 2006

Report Number: A-07-05-00196

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 U.S. Department of Health and Human Services, Office of Inspector General (OIG) final report entitled "Review of Blue Cross Blue Shield of Maine's Postretirement Benefit Plan." 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, 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-07-05-00196 in all correspondence.

Sincerely,

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:

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

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF BLUE CROSS
BLUE SHIELD OF MAINE'S
POSTRETIREMENT BENEFIT
PLAN**



Daniel R. Levinson
Inspector General

August 2006
A-07-05-00196

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 HHS divisions 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 Anthem Insurance Companies, Inc. (Anthem) acquired it on June 5, 2000, and formed Anthem Health Plans of Maine, Inc. In claiming postretirement benefit (PRB) costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulations and applicable Cost Accounting Standards as required by their Medicare contracts.

Beginning in 1992, Maine used accrual accounting to claim PRB costs. As required by Federal regulations, the annual accruals were funded through a dedicated trust, which was a Voluntary Employees Benefit (VEBA) trust established by Maine. Following the merger in 2000, the majority of Maine's employees were transferred to Anthem's PRB plan, for which Anthem used the cash basis of accounting to claim PRB costs. In addition, Anthem stopped using the VEBA trust assets for all activities, including benefit payments and contributions, essentially abandoning accrual accounting for PRBs of the former Maine employees and freezing the VEBA trust assets.

OBJECTIVES

Our objectives were to determine (1) the allowability of PRB costs Maine claimed for Medicare reimbursement for fiscal years (FY) 1992 through 2000 and (2) the Federal Government's share of excess Medicare assets resulting from previously funded PRB costs.

SUMMARY OF FINDINGS

Maine did not claim all PRB costs that were allowable for Medicare reimbursement for FYs 1992 through 2000 because it did not claim PRB costs in accordance with the Medicare contract. Therefore, Maine underclaimed \$112,044 of allowable PRB costs. The Federal Government's share of excess Medicare assets resulting from previously funded PRB costs was \$625,306. The net of these amounts, \$513,262, should be remitted to the Federal Government.

RECOMMENDATION

We recommend that Maine remit \$513,262 to the Federal Government for excess Medicare assets resulting from previously funded PRB costs.

AUDITEE'S COMMENTS

Maine concurred with our recommendation. Maine's response is included in its entirety as Appendix B.

INTRODUCTION

BACKGROUND

Medicare

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 Anthem Insurance Companies, Inc. (Anthem) acquired it on June 5, 2000, and formed Anthem Health Plans of Maine, Inc. In claiming Postretirement benefit (PRB) costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulations (FAR) and applicable Cost Accounting Standards (CAS) as required by their Medicare contracts.

Medicare reimburses a portion of the funded accruals that contractors charge for their PRB plans. To be allowable for Medicare reimbursement, the FAR 31.205-6(o) requires that PRB accrual costs be (1) determined in accordance with Statement of Financial Accounting Standards (SFAS) 106 and (2) funded into a dedicated trust fund, such as a Voluntary Employees Benefit (VEBA) trust.

Maine's Postretirement Benefits

Maine provided postretirement medical benefits to its employees, their beneficiaries, and covered dependents. Beginning in 1992, Maine used accrual accounting to claim PRB costs that were funded through a dedicated trust as required by Federal regulations. Maine established a VEBA trust as the dedicated trust to receive the funded accruals. Following the merger in 2000, the majority of Maine's employees were transferred to Anthem's PRB plan, for which Anthem used the cash basis of accounting to claim PRB costs. In addition, Anthem stopped using the VEBA trust assets for all activities, including benefit payments and contributions, essentially abandoning accrual accounting for PRBs of the former Maine employees and freezing the VEBA trust assets.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our objectives were to determine (1) the allowability of PRB costs Maine claimed for Medicare reimbursement for fiscal years (FY) 1992 through 2000 and (2) the Federal Government's share of excess Medicare assets resulting from previously funded PRB costs.

Scope

We reviewed PRB costs claimed for Medicare reimbursement on Maine's Final Administrative Cost Proposals (FACP) for FYs 1992 through 2000. Achieving the objective did not require that we review Maine's overall internal control structure. However, we did review the controls related to the PRB costs Maine claimed for Medicare reimbursement to ensure that the costs were allowable pursuant to the FAR.

We performed this review in conjunction with our audits of pension segmentation (A-07-04-00182) and pension costs claimed for reimbursement (A-07-05-00188). We used the information obtained and reviewed during those audits in performing this review.

We performed fieldwork at Anthem Health Plans of Maine's office in Portland, Maine.

Methodology

We identified Maine's PRB costs for the total company and the portion allocable to the Medicare contract. We also determined the extent to which Maine funded the PRB costs with contributions to the VEBA trust fund and identified any over- or underfunding. Because Maine had not followed SFAS 106 to develop PRB costs as required by the FAR, the CMS Office of the Actuary developed PRB accrual costs for Maine based on SFAS 106 methodology pursuant to the FAR.

Using this information, the CMS Office of the Actuary calculated the PRB accrual costs that were allowable for Medicare reimbursement for FYs 1992 through 2000. Appendix A contains the details of the PRB costs and contributions.

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

FINDINGS AND RECOMMENDATION

Maine did not claim all PRB costs that were allowable for Medicare reimbursement for FYs 1992 through 2000 because it did not claim PRB costs in accordance with the Medicare contract. Therefore, Maine underclaimed \$112,044 of allowable PRB costs. The Federal Government's share of excess Medicare assets resulting from previously funded PRB costs was \$625,306. The net of these amounts, \$513,262, should be remitted to the Federal Government.

FAR

The FAR states that accrual accounting may be used to determine allowable PRB costs if the cost is measured and assigned (actuarially determined) according to generally accepted accounting principles. The FAR also states that allowable costs must be funded by the time set for filing the Federal income tax return or any extension thereof, and must comply with the applicable standards promulgated by the CAS Board. Finally, the FAR addresses excess assets in situations involving previously funded PRB costs. When assets revert or otherwise come under the control of the contractor as a result of a change in accounting basis, the contractor shall refund or credit the Federal Government an amount equal to its equitable share.

ALLOWABLE PRB COSTS

For FYs 1992 through 2000, Maine did not claim all of the PRB costs that were allowable for Medicare reimbursement. Maine failed to claim some of the accrued PRB costs that had been funded through deposits to the VEBA trust. Our calculation showed that Maine underclaimed

PRB costs by \$112,044. The following schedule provides a comparison of allowable PRB costs as calculated by Maine and the Office of Inspector General (OIG). Details underlying this schedule may be found in Appendix A.

PRB Costs Claimed Variance			
Fiscal Year	Per OIG	Per Maine	Difference
1992*	\$67,047	\$0	\$67,047
1993	171,633	81,734	89,899
1994	134,753	106,091	28,662
1995	103,310	98,127	5,183
1996	92,676	96,315	(3,639)
1997	92,909	83,824	9,085
1998	107,194	159,950	(52,756)
1999	32,701	48,840	(16,139)
2000	(4,142)	11,156	(15,298)
Total	\$798,081	\$686,037	\$112,044

* 3 Qtrs in FY 1992 (1/1/92 to 9/30/92)

EXCESS MEDICARE ASSETS RESULTING FROM PREVIOUSLY FUNDED PRB COSTS

Before its June 5, 2000, merger with Anthem, Maine used the accrual basis of accounting when determining its PRB costs. Following the merger, the majority of Maine’s employees transferred to Anthem’s PRB plan, which utilized the cash basis of accounting. Anthem officials have stated that no payments were made from the VEBA trust following the merger. Due to the inactivity in the VEBA trust fund and the change to the cash basis of accounting, the assets were no longer used for their intended purpose. For these reasons, the Federal Government should receive an equitable share of the VEBA plan assets.

Because Maine’s PRB accrual costs were not totally devoted to Medicare operations, only a portion of the previously funded PRB costs was attributable to Medicare. To determine Medicare’s share of the excess VEBA plan assets, we calculated the aggregate Medicare percentage and applied it to the fair value of the VEBA plan assets as of June 5, 2000. We computed the aggregate Medicare percentage as the ratio of the allowable PRB costs claimed for Medicare reimbursement to the total allocable PRB costs. The resulting aggregate Medicare percentage was 13.62 (see Appendix B).

We applied the aggregate Medicare percentage to the fair value of the VEBA plan assets and determined that Maine had excess Medicare assets of \$625,306 (13.62 percent multiplied by \$4,591,040). We netted the excess Medicare assets with the additional allowable PRB costs and determined that \$513,262 (\$112,044 less \$625,306) should be remitted to the Federal Government.

RECOMMENDATION

We recommend that Maine remit \$513,262 to the Federal Government for excess Medicare assets resulting from previously funded PRB costs.

AUDITEE'S COMMENTS

Maine concurred with our recommendation. Maine's response is included in its entirety as Appendix B.

APPENDIXES

**Blue Cross Blue Shield of Maine
Statement of Allowable PRB Costs
For Fiscal Years 1992 Through 2000**

Date	Description	Total Company	Other Segment	Medicare Segment
1992	Total Contributions to Trust Fund	<u>1/</u> \$683,775		
6.00%	Discount for Interest at ELTR	<u>2/</u> (38,704)		
1/1/92	Present Value of Trust Fund Contributions	<u>3/</u> 645,071		
1992	Total Direct Benefit Payments	<u>4/</u> 0		
6.00%	Discount for Interest at ELTR	<u>5/</u> 0		
1/1/92	Present Value of Direct Benefit Payments	<u>6/</u> 0		
1/1/92	Prepayment Credit Applied	<u>7/</u> 0		
1/1/92	PV of Direct Benefit Payments Applied	<u>8/</u> 0		
1/1/92	PV of Trust Fund Contributions Applied	<u>9/</u> 645,071		
1/1/92	Funded Net Postretirement Benefit Cost	<u>10/</u> 645,071		
1992	Allowable Interest on Direct Benefit Payments	<u>11/</u> 0		
1992	Allowable Interest on Contributions	<u>12/</u> 27,416		
1992	Total Allowable & Allocable PRB Cost	<u>13/</u> 672,487		
1992	Allocation Basis: Salaries	<u>14/</u> 26,871,210	24,153,360	2,717,850
1992	Allocation Percentages	<u>15/</u> 100.0000%	89.8856%	10.1144%
1992	Allocable PRB Costs	<u>16/</u> 672,487	604,469	68,018
1992	Fiscal Year PRB Costs (Last 3 Quarters)	<u>17/</u>	453,352	51,014
1992	Medicare LOB Percentage	<u>18/</u>	3.89%	96.86%
1992	Medicare Allowable PRB Costs	<u>19/</u> \$67,047	\$17,635	\$49,412

Date	Description	Total Company	Other Segment	Medicare Segment
1993	Total Contributions to Trust Fund	\$1,679,000		
6.00%	Discount for Interest at ELTR	(95,038)		
1/1/93	Present Value of Trust Fund Contributions	1,583,962		
1993	Total Direct Benefit Payments	0		
6.00%	Discount for Interest at ELTR	0		
1/1/93	Present Value of Direct Benefit Payments	0		
1/1/93	Prepayment Credit Applied	0		
1/1/93	PV of Direct Benefit Payments Applied	0		
1/1/93	PV of Trust Fund Contributions Applied	1,301,783		
1/1/93	Funded Net Postretirement Benefit Cost	1,301,783		
1993	Allowable Interest on Direct Benefit Payments	0		
1993	Allowable Interest on Contributions	55,326		
1993	Total Allowable & Allocable PRB Cost	1,357,109		
1993	Allocation Basis: Salaries	29,022,777	25,947,161	3,075,616
1993	Allocation Percentages	100.0000%	89.4028%	10.5972%
1993	Allocable PRB Costs	1,357,109	1,213,293	143,816
1993	Fiscal Year PRB Costs	<u>20/</u>	1,061,087	124,866
1993	Medicare LOB Percentage		5.23%	93.01%
1993	Medicare Allowable PRB Costs	\$171,633	\$55,495	\$116,138

**Blue Cross Blue Shield of Maine
Statement of Allowable PRB Costs
For Fiscal Years 1992 Through 2000**

Date	Description	Total Company	Other Segment	Medicare Segment
1994	Total Contributions to Trust Fund	\$742,739		
6.00%	Discount for Interest at ELTR	(42,042)		
1/1/94	Present Value of Trust Fund Contributions	<u>700,697</u>		
1994	Total Direct Benefit Payments	0		
6.00%	Discount for Interest at ELTR	0		
1/1/94	Present Value of Direct Benefit Payments	<u>0</u>		
1/1/94	Prepayment Credit Applied	299,110		
1/1/94	PV of Direct Benefit Payments Applied	0		
1/1/94	PV of Trust Fund Contributions Applied	<u>700,697</u>		
1/1/94	Funded Net Postretirement Benefit Cost	999,807		
1994	Allowable Interest on Direct Benefit Payments	0		
1994	Allowable Interest on Contributions	29,780		
1994	Total Allowable & Allocable PRB Cost	<u>1,029,587</u>		
1994	Allocation Basis: Salaries	31,060,748	27,598,658	3,462,090
1994	Allocation Percentages	100.0000%	88.8538%	11.1462%
1994	Allocable PRB Costs	1,029,587	914,827	114,760
1994	Fiscal Year PRB Costs		989,443	122,024
1994	Medicare LOB Percentage		1.40%	99.08%
1994	Medicare Allowable PRB Costs	<u>\$134,753</u>	<u>\$13,852</u>	<u>\$120,901</u>

Date	Description	Total Company	Other Segment	Medicare Segment
1995	Total Contributions to Trust Fund	\$715,649		
6.00%	Discount for Interest at ELTR	(40,508)		
1/1/95	Present Value of Trust Fund Contributions	<u>675,141</u>		
1995	Total Direct Benefit Payments	0		
6.00%	Discount for Interest at ELTR	0		
1/1/95	Present Value of Direct Benefit Payments	<u>0</u>		
1/1/95	Prepayment Credit Applied	0		
1/1/95	PV of Direct Benefit Payments Applied	0		
1/1/95	PV of Trust Fund Contributions Applied	<u>675,141</u>		
1/1/95	Funded Net Postretirement Benefit Cost	675,141		
1995	Allowable Interest on Direct Benefit Payments	0		
1995	Allowable Interest on Contributions	28,693		
1995	Total Allowable & Allocable PRB Cost	<u>703,834</u>		
1995	Allocation Basis: Salaries	31,211,996	27,659,856	3,552,140
1995	Allocation Percentages	100.0000%	88.6193%	11.3807%
1995	Allocable PRB Costs	703,834	623,733	80,101
1995	Fiscal Year PRB Costs		696,507	88,766
1995	Medicare LOB Percentage		2.19%	99.20%
1995	Medicare Allowable PRB Costs	<u>\$103,310</u>	<u>\$15,254</u>	<u>\$88,056</u>

**Blue Cross Blue Shield of Maine
Statement of Allowable PRB Costs
For Fiscal Years 1992 Through 2000**

Date	Description	Total Company	Other Segment	Medicare Segment
1996	Total Contributions to Trust Fund	\$669,105		
5.50%	Discount for Interest at ELTR	(34,882)		
1/1/96	Present Value of Trust Fund Contributions	634,223		
1996	Total Direct Benefit Payments	0		
5.50%	Discount for Interest at ELTR	0		
1/1/96	Present Value of Direct Benefit Payments	0		
1/1/96	Prepayment Credit Applied	0		
1/1/96	PV of Direct Benefit Payments Applied	0		
1/1/96	PV of Trust Fund Contributions Applied	634,223		
1/1/96	Funded Net Postretirement Benefit Cost	634,223		
1996	Allowable Interest on Direct Benefit Payments	0		
1996	Allowable Interest on Contributions	24,708		
1996	Total Allowable & Allocable PRB Cost	658,931		
1996	Allocation Basis: Salaries	31,523,654	27,983,184	3,540,470
1996	Allocation Percentages	100.0000%	88.7688%	11.2312%
1996	Allocable PRB Costs	658,931	584,925	74,006
1996	Fiscal Year PRB Costs		594,627	75,530
1996	Medicare LOB Percentage		2.97%	99.32%
1996	Medicare Allowable PRB Costs	\$92,676	\$17,660	\$75,016

Date	Description	Total Company	Other Segment	Medicare Segment
1997	Total Contributions to Trust Fund	\$678,120		
5.50%	Discount for Interest at ELTR	(35,352)		
1/1/97	Present Value of Trust Fund Contributions	642,768		
1997	Total Direct Benefit Payments	0		
5.50%	Discount for Interest at ELTR	0		
1/1/97	Present Value of Direct Benefit Payments	0		
1/1/97	Prepayment Credit Applied	0		
1/1/97	PV of Direct Benefit Payments Applied	0		
1/1/97	PV of Trust Fund Contributions Applied	642,768		
1/1/97	Funded Net Postretirement Benefit Cost	642,768		
1997	Allowable Interest on Direct Benefit Payments	0		
1997	Allowable Interest on Contributions	25,041		
1997	Total Allowable & Allocable PRB Cost	667,809		
1997	Allocation Basis: Salaries	35,802,504	31,928,730	3,873,774
1997	Allocation Percentages	100.0000%	89.1802%	10.8198%
1997	Allocable PRB Costs	667,809	595,553	72,256
1997	Fiscal Year PRB Costs		592,896	72,693
1997	Medicare LOB Percentage		3.52%	99.10%
1997	Medicare Allowable PRB Costs	\$92,909	\$20,870	\$72,039

**Blue Cross Blue Shield of Maine
Statement of Allowable PRB Costs
For Fiscal Years 1992 Through 2000**

Date	Description	Total Company	Other Segment	Medicare Segment
1998	Total Contributions to Trust Fund	\$771,172		
5.00%	Discount for Interest at ELTR	(36,722)		
1/1/98	Present Value of Trust Fund Contributions	734,450		
1998	Total Direct Benefit Payments	0		
5.00%	Discount for Interest at ELTR	0		
1/1/98	Present Value of Direct Benefit Payments	0		
1/1/98	Prepayment Credit Applied	0		
1/1/98	PV of Direct Benefit Payments Applied	0		
1/1/98	PV of Trust Fund Contributions Applied	734,450		
1/1/98	Funded Net Postretirement Benefit Cost	734,450		
1998	Allowable Interest on Direct Benefit Payments	0		
1998	Allowable Interest on Contributions	26,012		
1998	Total Allowable & Allocable PRB Cost	760,462		
1998	Allocation Basis: Salaries	41,228,838	36,952,805	4,276,033
1998	Allocation Percentages	100.0000%	89.6285%	10.3715%
1998	Allocable PRB Costs	760,462	681,591	78,871
1998	Fiscal Year PRB Costs		660,081	77,217
1998	Medicare LOB Percentage		4.69%	98.73%
1998	Medicare Allowable PRB Costs	\$107,194	\$30,958	\$76,236

Date	Description	Total Company	Other Segment	Medicare Segment
1999	Total Contributions to Trust Fund	\$40,066		
5.00%	Discount for Interest at ELTR	(1,908)		
1/1/99	Present Value of Trust Fund Contributions	38,158		
1999	Total Direct Benefit Payments	0		
5.00%	Discount for Interest at ELTR	0		
1/1/99	Present Value of Direct Benefit Payments	0		
1/1/99	Prepayment Credit Applied	0		
1/1/99	PV of Direct Benefit Payments Applied	0		
1/1/99	PV of Trust Fund Contributions Applied	38,158		
1/1/99	Funded Net Postretirement Benefit Cost	38,158		
1999	Allowable Interest on Direct Benefit Payments	0		
1999	Allowable Interest on Contributions	1,351		
1999	Total Allowable & Allocable PRB Cost	39,509		
1999	Allocation Basis: Salaries	50,076,813	41,311,588	8,765,225
1999	Allocation Percentages	100.0000%	82.4964%	17.5036%
1999	Allocable PRB Costs	39,509	32,594	6,915
1999	Fiscal Year PRB Costs		194,844	24,904
1999	Medicare LOB Percentage		4.21%	98.37%
1999	Medicare Allowable PRB Costs	\$32,701	\$8,203	\$24,498

**Blue Cross Blue Shield of Maine
Statement of Allowable PRB Costs
For Fiscal Years 1992 Through 2000**

Date	Description	Total Company	Other Segment	Medicare Segment
2000	Total Contributions to Trust Fund	\$0		
5.00%	Discount for Interest at ELTR	0		
1/1/00	Present Value of Trust Fund Contributions	0		
2000	Total Direct Benefit Payments	0		
5.00%	Discount for Interest at ELTR	0		
1/1/00	Present Value of Direct Benefit Payments	0		
1/1/00	Net Periodic PRB Cost Credit Applied	<u>21/</u> (40,214)		
1/1/00	PV of Direct Benefit Payments Applied	0		
1/1/00	PV of Trust Fund Contributions Applied	0		
1/1/00	Funded Net Postretirement Benefit Cost	(40,214)		
2000	Allowable Interest on Direct Benefit Payments	0		
2000	Allowable Interest on Contributions	0		
2000	Total Allowable & Allocable PRB Cost	(40,214)		
2000	Allocation Basis: Salaries	56,542,186	46,583,526	9,958,660
2000	Allocation Percentages	100.0000%	82.3872%	17.6128%
2000	Allocable PRB Costs	(40,214)	(33,131)	(7,083)
2000	Fiscal Year PRB Costs		(16,700)	(3,583)
2000	Medicare LOB Percentage		3.67%	98.50%
2000	Medicare Allowable PRB Costs	(\$4,142)	(\$613)	(\$3,529)

FOOTNOTES

- 1/** Total contributions to the trust fund are the deposits made to the Voluntary Employee Benefit Association (VEBA) trust fund. Such contributions can be used to satisfy the funding requirements of Federal Acquisition Regulations (FAR) 31.205-6(o)(2)(iii) and Cost Accounting Standards (CAS) 416-50(a)(1)(v)(A). Maine was unable to provide VEBA trust statements or other details of the deposits. Therefore, the amount of annual deposits were imputed from a reconciliation of Statement of Financial Accounting Standards (SFAS) 106 annual net periodic postretirement benefit expense and accrued postretirement benefit expense.
- 2/** Interest on contributions is determined by applying the SFAS 106 expected long-term rate of return.
- 3/** The present value of trust fund contributions is the value of the contributions discounted from the date of deposit back to the first day of the plan year. Lacking evidence to the contrary, we assumed that deposits were made on the last day of the plan year.
- 4/** Direct benefit payments are amounts paid directly to or on behalf of plan beneficiaries. Direct benefit payments must be considered towards funding the PRB cost assigned to the period before considering the amount funded by contributions to the trust fund in accordance with CAS 416-50(a)(1)(iv)(C). In effect, the benefit payments that reduce the recognized accumulated postretirement benefit obligation are deemed liquidated on a cash accounting basis in accordance with FAR 31.205-6(o)(2)(i). Maine was unable to provide verifiable data on direct benefits payments to retirees. The amounts of any direct payments are subsumed in the computation of the annual deposits used for contributions (see footnote 1).
- 5/** Interest on benefit payments is determined by applying the SFAS 106 expected long-term rate of return.
- 6/** The present value of the direct benefit payments is the value of direct benefit payments discounted from the date of payment to the first day of the plan year. All payments are assumed to occur, on average, in the middle of the year.

**Blue Cross Blue Shield of Maine
Statement of Allowable PRB Costs
For Fiscal Years 1992 Through 2000**

FOOTNOTES (continued)

- 7/** Any accumulated value of prepayment credits is immediately applied towards the funding of the accrued current net postretirement benefit cost. The accumulated value of prepayment credits is available as of the first day of the plan year to the cost assigned to the period. FAR 31.205-6(o)(4) states that any increased cost interest due to delayed funded is unallowable. The only year in which a prepayment credit was applied was 1994.
- 8/** The present value of direct benefit payments is applied towards current period funding up to the amount of the accrued current net postretirement benefit cost assigned to the period reduced for any prepayment credits that have been applied. Such direct payments are considered as funding of the cost assigned to the period before considering the amount funded by contributions (fund deposits) in accordance with CAS 416-50(a)(1)(iv)(C).
- 9/** The present value of trust fund contributions is applied towards current period funding up to the amount of the accrued current net postretirement benefit cost reduced for any prepayment credits and present value of direct benefit payments that have been applied. Such contributions can be used to satisfy the funding requirements of FAR 31.205-6(o)(2)(iii) and CAS 416-50(a)(1)(v)(A).
- 10/** The funded PRB cost is the sum of the prepayment credits, present value of direct benefit payments, and present value of trust fund contributions that have been applied. This is the value of the allowable and allocable PRB cost for the period as of the first day of the plan year before considering any allowable interest on the direct benefit payments and trust fund contributions. The allowable and allocable PRB cost can not exceed the accrued net postretirement benefit cost for the period.
- 11/** The allowable interest on direct benefit payments is the amount of the discount for interest prorated by the present value of direct benefit payments applied to the present value of direct benefit payments. Direct benefit payments are deemed to be paid as the costs incurred by and on behalf of plan beneficiaries; therefore, no adjustment for delayed funding is necessary.
- 12/** The allowable interest on trust fund contributions is the lesser of the actual interest incurred or the maximum allowable interest. The actual interest incurred for trust fund contributions applied is the amount of the discount for interest prorated by the present value of trust fund contributions applied to the present value of total trust fund contributions. FAR 31.205-6(o)(4) disallows interest caused by not funding within 30 days of the end of each quarter. Therefore, the maximum allowable interest is the amount of interest that would be incurred if the total contribution were made in four [4] installments: 4 months, 7 months, 10 months, and 13 months after the first day of the plan year.
- 13/** The total allowable and allocable PRB cost is the allowable and allocable PRB cost as of the first day of the plan year plus allowable interest on direct benefit payments and trust fund contributions. The contractor determines the allowable and allocable PRB cost for the corporation as a whole. This total plan cost is allocated down to segments and then to final cost objectives, such as Medicare contracts, as an allowable cost.
- 14/** Following the fringe benefit allocation methodology used by Maine, the PRB costs are allocated based on the total plan salaries for active participants in the Medicare and indirect segments. We obtained the plan participant data, including salaries, during our audit of pension segmentation (A-07-04-00182).
- 15/** Each segment's percentages of the total salary are used to allocate the total allowable PRB costs to that segment.
- 16/** Total allocable PRB costs are allocated to the Medicare and other segments based on the allocation basis percentage of these intermediate cost objectives (see footnote 15).
- 17/** Audited PRB Costs for fiscal year (FY) 1992 only cover the period from January 1, 1992, to September 30, 1992. Maine did not claim any costs for this period; therefore, the amount shown as claimed by Maine in the audit report is zero.

**Blue Cross Blue Shield of Maine
Statement of Allowable PRB Costs
For Fiscal Years 1992 Through 2000**

FOOTNOTES (continued)

- 18/** This is the portion (line-of-business (LOB) percentage) of each segment's allowable PRB costs that was allocated to the Medicare contract as a final cost objective. We obtained and reviewed the percentages from documents provided by the contractor.
- 19/** We calculated allowable PRB costs to the Medicare contract based on the applicable Medicare LOB percentage for each segment.
- 20/** We converted the allocable PRB costs determined on a plan year basis to a Federal fiscal year basis (October 1 through September 30). We calculated the fiscal year PRB costs as 1/4 of the prior plan year's costs plus 3/4 of the current plan year's costs. Costs charged to the Medicare contract should consist of the Medicare segment's direct PRB cost plus PRB cost attributable to indirect Medicare operations.
- 21/** The net postretirement benefit cost is a contract credit amount rather than a contract charge and a credit must be allocated to the Medicare contract in accordance with the FAR 31.201-5 credits clause. None of the relevant guidance (CAS 416, FAR 31.205-6(o) or SFAS 106) impose a zero dollar (\$0) floor; therefore, a net periodic PRB credit is assigned when the sum of the components is a negative value. Because accrual accounting ceased on June 5, 2000, the net periodic PRB credit represents the amount attributable to the first 5 months of the plan year.



Medicare

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July 20, 2006

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-07-05-00196

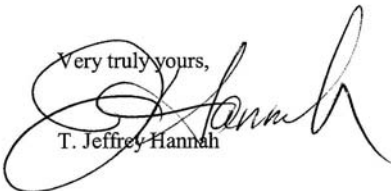
Dear Mr. Cogley:

Thank you for providing your Draft Report entitled "Review of Blue Cross Blue Shield of Maine's Postretirement Benefit Plan". I write on behalf of Anthem Health Plans of Maine, Inc. d/b/a Associated Hospital Service ("Maine"), in response to the Draft Report.

The Draft Report recommends that Maine remit \$513,262 to the Federal Government for excess Medicare assets resulting from previously funded PRB costs. Maine concurs with, and will follow, the recommendation.

Thank you for the opportunity to respond to the draft report. I apologize for the delay in our response. We appreciate 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,


T. Jeffrey Hannah

Cc: Michael McCarron
Rochelle Shaw
David Crowley
Joanne Imel