



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

OCT 19 2005

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

Report Number: A-07-04-00182

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) report titled "Review of Medicare Contractor's Pension Segmentation Requirements, Blue Cross Blue Shield of Maine for the Period Covering January 1, 1988, to December 31, 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-07-04-00182 in all correspondence.

Sincerely,

A handwritten signature in black ink that reads "Patrick J. Cogley". The signature is fluid and cursive, with the first name "Patrick" being particularly prominent.

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 MEDICARE
CONTRACTOR'S PENSION
SEGMENTATION REQUIREMENTS,
BLUE CROSS BLUE SHIELD
OF MAINE FOR THE PERIOD
COVERING JANUARY 1, 1988, TO
DECEMBER 31, 2000**



**Daniel R. Levinson
Inspector General**

**OCTOBER 2005
A-07-04-00182**

Office of Inspector General

<http://oig.hhs.gov>

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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, Office of Audit Services, reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.)

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 findings concerning the Part A pension plan segment assets for the period January 1, 1988, to December 31, 2000.

Starting with fiscal year (FY) 1988, CMS incorporated segmentation requirements into Medicare contracts. The Medicare contract defines a segment and specifies the methodology for the identification and initial allocation of pension assets to the segment. Additionally, the contract requires Medicare segment assets to be updated for each year after the initial allocation in accordance with Cost Accounting Standards (CAS) 412 and 413.

OBJECTIVE

Our objective was to determine if Maine complied with the pension segmentation requirements of the Medicare contract while updating Medicare segment assets from January 1, 1988, to December 31, 2000.

SUMMARY OF FINDINGS

Maine did not correctly identify the initial allocation of pension plan assets to the Medicare segment. In addition, Maine did not comply with the Medicare contract's pension segmentation requirements while updating Medicare segment assets from January 1, 1988, to December 31, 2000. As a result, Maine understated Medicare segment pension assets by \$942,882.

RECOMMENDATION

We recommend that Maine increase the Medicare segment pension assets by \$942,882 as of December 31, 2000.

AUDITEE'S COMMENTS

Maine agreed with our findings. Maine's response is included in its entirety as Appendix B.

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Glossary of Abbreviations and Acronyms

CAS	Cost Accounting Standards
CMS	Centers for Medicare & Medicaid Services
FAR	Federal Acquisition Regulations
FY	fiscal year
OIG	Office of Inspector General
Maine	Blue Cross Blue Shield of Maine
Anthem	Anthem Insurance Companies, Inc.

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 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 findings concerning the Part A pension plan segment assets for the period January 1, 1988, to December 31, 2000.

CMS incorporated segmentation requirements into Medicare contracts starting in fiscal year (FY) 1988. The Medicare contract defines a segment and specifies the methodology for the identification and initial allocation of pension assets to the segment. Furthermore, the contract requires Medicare segment assets to be updated for each year after the initial allocation in accordance with Cost Accounting Standards (CAS) 412 and 413. Finally, in claiming costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulations (FAR), CAS, and Medicare contract.

Regulations

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 if Maine complied with the pension segmentation requirements of the Medicare contract while updating Medicare segment assets from January 1, 1988, to December 31, 2000.

Scope

We reviewed Maine's identification of the Medicare segment, its computation of the initial assets allocated to the Medicare segment, and its update of Medicare assets from January 1, 1988, to December 31, 2000. Achieving our objectives did not require us to review Maine's overall internal control structure. However, we did review controls relating to the identification of the Medicare segment and the update of the segment assets to ensure adherence to the Medicare contract, CAS 412, and CAS 413.

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

Methodology

In performing this 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 reviewed Maine’s accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Form 5500s. The CMS Office of the Actuary staff used the documents to calculate Medicare segment assets as of December 31, 2000. We reviewed the methodology and calculations.

We performed this review in conjunction with our audit of the pension costs claimed for Medicare reimbursement (A-07-05-00188). The information obtained and reviewed during the audit also was used in performing this review.

Details of the Medicare segment’s updated pension assets from January 1, 1988, to December 31, 2000, are presented on Appendix A.

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

FINDINGS AND RECOMMENDATION

Maine did not correctly identify the initial allocation of pension plan assets to the Medicare segment. In addition, Maine did not comply with the Medicare contract’s pension segmentation requirements while updating Medicare segment assets from January 1, 1988, to December 31, 2000. Maine did not (1) equitably assign pension contributions to the Medicare segment, (2) correctly identify prepayment credits, (3) properly identify benefit payments to retirees from the Medicare segment, or (4) correctly identify participants who transferred in and out of the segment. Maine also understated its investment earnings because its asset base was incorrect.

As a result, as of December 31, 2000, Maine understated the Medicare segment assets by \$942,882. This understatement is summarized in Table 1.

Table 1: Summary of Asset Adjustments	
Initial Asset Allocation	(\$296,564)
Contributions & Prepayments	41,630
Benefit Payments	186,448
Transfers	918,097
Earnings and Expenses	93,271
(Over)/UnderStatement	\$942,882

MEDICARE CONTRACT & COST ACCOUNTING STANDARDS

Medicare Contract

The Medicare contract identifies a Medicare segment as:

. . . any organizational component of the contractor, such as a division, department, or other similar subdivision, having a significant degree of responsibility and accountability for the Medicare contract/agreement, in which:

1. The majority of the salary dollars is allocated to the Medicare agreement/contract; or,
2. Less than a majority of the salary dollars is allocated to the Medicare agreement/contract, and these salary dollars represent 40 percent or more of the total salary dollars allocated to the Medicare agreement/contract.

Furthermore, the Medicare contract states that: “. . . the pension assets allocated to each Medicare segment shall be adjusted in accordance with CAS 413.50(c)(7).”

The contract also provides for separate identification of the pension assets of the Medicare segment. The identification involves the allocation of assets to the Medicare segment as of the first pension plan year after December 31, 1985, in which the salary criterion was met. The allocation is to use the ratio of the actuarial liabilities of the Medicare segment to the actuarial liabilities of the total plan, as of the later of the first day of the first plan year after December 31, 1980, or the first day of the first pension plan year following the date such Medicare segment existed.

Cost Accounting Standards

The CAS 413.50(c)(7) requires that the asset base be adjusted by contributions, income, benefit payments, and expenses. In addition, CAS 413.50(c)(8) requires an adjustment to be made for transfers (participants who enter or leave the segment) if the transfers materially affect the segment's ratio of pension plan assets to actuarial accrued liabilities.

Furthermore, CAS 412.50(a)(4) states that for contractors with prepayment credits, the credits represent funds available to the contractors at the beginning of plan years. The funds should be applied first to satisfy funding requirements in order to reduce interest costs to the Federal Government.

INITIAL ASSET ALLOCATION

Maine did not comply with the Medicare contract's pension segmentation requirements because it did not correctly allocate pension assets to the Medicare segment. Maine initially allocated pension assets to the Medicare segment on January 1, 1987, following a corporate restructure in May 1986; however, Maine did not maintain complete valuation data until January 1, 1988. Due to incomplete valuation data for 1987, we used January 1, 1988, for the calculation of the asset

fraction and initial allocation of pension assets. We calculated Maine’s January 1, 1988, asset fraction to be 5.1044 percent.

We applied our audited asset fraction to the audited total company pension assets as of January 1, 1988, and calculated Maine’s Medicare segment asset base to be \$644,558. However, Maine reported its Medicare segment assets as of January 1, 1988, to be \$941,122. Our calculations decreased the Medicare segment assets by \$296,564 (\$644,558 less \$941,122) as of January 1, 1988.

COMPONENTS OF ASSET UPDATE

Contributions and Prepayment Credits Understated

Maine’s update methodology did not equitably assign pension contributions to the Medicare segment because Maine did not correctly identify the Medicare segment. In addition, Maine failed to identify prepayment credits. As a result, Maine understated segment assets by \$41,630.

For several years in the update, Maine’s contributions exceeded the required funding of the CAS pension costs. According to the CAS, amounts funded in excess of pension costs (or prepayments) shall be carried forward with interest to fund future CAS pension costs. In our audited update, we accounted for the excess contributions and made prepayment adjustments to fund CAS pension costs of the Medicare segment.

The audited update of Medicare segment assets assigned contributions to the Medicare segment using the pension costs as calculated by the CMS Office of the Actuary. In our audited update, we increased segment assets by \$41,630 because of adjustments to assigned contributions and prepayment credits. A comparison of the OIG and Maine’s calculations of pension contributions and prepayment credits is shown in Table 2.

Year	OIG	Maine	Difference
1988	\$145,127	\$186,647	(\$41,520)
1989	171,803	206,510	(34,707)
1990	141,477	170,402	(28,925)
1991	152,023	182,656	(30,633)
1996	191,987	32,592	159,395
1997	0	93,136	(93,136)
1999	914,920	823,719	91,201
2000	910,536	890,581	19,955
Total	\$2,627,873	\$2,586,243	\$41,630

Benefit Payments Overstated

Maine's update of segment assets did not properly identify benefit payments to retirees from the Medicare segment. Using Maine's methodology, we identified the actual benefits paid to the retirees from the segment and assigned the costs to the segment. As a result, Maine overstated segment benefit payments and understated segment assets by \$186,448.

Transfers Understated

Maine made adjustments for transfers in its update of segment assets from January 1, 1988, to December 31, 1990. However, Maine incorrectly identified the participants who transferred in and out of the segment. Maine also did not make adjustments for transfers in its update from January 1, 1991, to December 31, 1999. As a result, Maine understated its Medicare segment assets by \$918,097. We adjusted transfers in the audited update of Medicare segment assets based on our revisions to the Medicare segment.

A comparison of OIG and Maine's calculations of net asset transfers into the Medicare segment is shown in Table 3.

Year	OIG	Maine	Difference
1988	\$17,484	\$8,760	\$8,724
1989	63,549	(125,380)	188,929
1990	(4,176)	38,282	(42,458)
1991	67,005	0	67,005
1992	217,313	0	217,313
1993	93,795	0	93,795
1994	54,688	0	54,688
1995	(69,760)	0	(69,760)
1996	(15,068)	0	(15,068)
1997	73,990	0	73,990
1998	332,958	0	332,958
1999	7,981	0	7,981
Total	\$839,759	(\$78,338)	\$918,097

Earnings and Expenses Understated

Maine understated its investment earnings, less administrative expenses, by \$93,271 because it developed the Medicare asset base using incorrect contribution, prepayment credit, transfer, and benefit amounts (discussed above). In our audited update, we allocated earnings and expenses based upon the applicable CAS requirements.

UNDERSTATEMENT OF MEDICARE SEGMENT ASSETS

Maine did not ensure that the Medicare segment was correctly identified and updated in accordance with the Medicare contract. As a result, as of December 31, 2000, Maine understated Medicare segment pension assets by \$942,882.

RECOMMENDATION

We recommend that Maine increase the Medicare segment pension assets by \$942,882 as of December 31, 2000.

AUDITEE'S COMMENTS

Maine agreed with our report findings. Maine's response is included in its entirety as Appendix B.

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 Medicare Pension Assets
For the Period
January 1, 1988, to December 31, 2000

Description		Total Company	Other Segment	Medicare
Assets January 1, 1988	<u>1/</u>	\$12,627,495	\$11,982,937	\$644,558
Prepayment Transfer		0	0	0
Contributions	<u>2/</u>	1,534,818	1,389,691	145,127
Earnings	<u>3/</u>	1,220,053	1,157,777	62,276
Benefit Payments	<u>4/</u>	(687,816)	(674,476)	(13,340)
Expenses	<u>5/</u>	0	0	0
Transfers	<u>6/</u>	0	(17,484)	17,484
Assets January 1, 1989		14,694,550	13,838,445	856,105
Prepayment Transfer	<u>7/</u>	0	(15,026)	15,026
Contribution		1,466,353	1,309,576	156,777
Earnings		3,347,963	3,149,487	198,476
Benefit Payments		(822,813)	(754,437)	(68,376)
Expenses		0	0	0
Transfers		0	(63,549)	63,549
Assets January 1, 1990		18,686,053	17,464,496	1,221,557
Prepayment Transfer		0	(10,564)	10,564
Contribution		1,452,181	1,321,268	130,913
Earnings		754,704	704,940	49,764
Benefit Payments		(989,612)	(953,494)	(36,118)
Expenses		0	0	0
Transfers		0	4,176	(4,176)
Assets January 1, 1991		19,903,326	18,530,822	1,372,504

Blue Cross Blue Shield of Maine
Statement of Medicare Pension Assets
For the Period
January 1, 1988, to December 31, 2000

Description	Total Company	Other Segment	Medicare
Assets January 1, 1991	\$19,903,326	18,530,822	\$1,372,504
Prepayment Transfer	0	(12,417)	12,417
Contributions	1,719,099	1,579,493	139,606
Earnings	4,429,230	4,121,034	308,196
Benefit Payments	(987,033)	(957,586)	(29,447)
Expenses	0	0	0
Transfers	0	(67,005)	67,005
Assets January 1, 1992	25,064,622	23,194,341	1,870,281
Prepayment Transfer	0	0	0
Contribution	0	0	0
Earnings	2,167,676	2,005,928	161,748
Benefit Payments	(1,015,536)	(996,679)	(18,857)
Expenses	0	0	0
Transfers	0	(217,313)	217,313
Assets January 1, 1993	26,216,762	23,986,277	2,230,485
Prepayment Transfer	0	0	0
Contribution	0	0	0
Earnings	1,786,952	1,634,921	152,031
Benefit Payments	(1,310,909)	(1,275,442)	(35,467)
Expenses	0	0	0
Transfers	0	(93,795)	93,795
Assets January 1, 1994	26,692,805	24,251,961	2,440,844

Blue Cross Blue Shield of Maine
Statement of Medicare Pension Assets
For the Period
January 1, 1988, to December 31, 2000

Description	Total Company	Other Segment	Medicare
Assets January 1, 1994	\$26,692,805	\$24,251,961	\$2,440,844
Prepayment Transfer	0	0	0
Contributions	0	0	0
Earnings	(403)	(366)	(37)
Benefit Payments	(1,662,399)	(1,597,686)	(64,713)
Expenses	0	0	0
Transfers	0	(54,688)	54,688
Assets January 1, 1995	25,030,003	22,599,221	2,430,782
Prepayment Transfer	0	0	0
Contribution	0	0	0
Earnings	6,627,328	5,983,717	643,611
Benefit Payments	(1,873,706)	(1,841,074)	(32,632)
Expenses	(111,194)	(100,395)	(10,799)
Transfers	0	69,760	(69,760)
Assets January 1, 1996	29,672,431	26,711,229	2,961,202
Prepayment Transfer	0	(104,064)	104,064
Contribution	249,848	161,925	87,923
Earnings	3,977,660	3,551,657	426,003
Benefit Payments	(2,105,578)	(2,054,288)	(51,290)
Expenses	0	0	0
Transfers	0	15,068	(15,068)
Assets January 1, 1997	31,794,361	28,281,527	3,512,834

Blue Cross Blue Shield of Maine
Statement of Medicare Pension Assets
For the Period
January 1, 1988, to December 31, 2000

Description	Total Company	Other Segment	Medicare
Assets January 1, 1997	\$31,794,361	\$28,281,527	\$3,512,834
Prepayment Transfer	0	0	0
Contribution	803,432	803,432	0
Earnings	5,355,217	4,737,876	617,341
Benefit Payments	(3,449,359)	(3,403,160)	(46,199)
Expenses	0	0	0
Transfers	0	(73,990)	73,990
Assets January 1, 1998	34,503,651	30,345,685	4,157,966
Prepayment Transfer	0	0	0
Contribution	0	0	0
Earnings	4,587,405	4,014,301	573,104
Benefit Payments	(2,775,599)	(2,733,991)	(41,608)
Expenses	(165,871)	(145,149)	(20,722)
Transfers	0	(332,958)	332,958
Assets January 1, 1999	36,149,586	31,147,888	5,001,698
Prepayment Transfer	0	(4,681)	4,681
Contribution	3,466,563	2,556,324	910,239
Earnings	4,477,978	3,830,640	647,338
Benefit Payments	(1,962,012)	(1,912,664)	(49,348)
Expenses	0	0	0
Transfers	0	(7,981)	7,981
Assets January 1, 2000	42,132,115	35,609,526	6,522,589
Prepayment Transfer	0	(16,613)	16,613
Contribution	3,639,749	2,745,826	893,923
Earnings	633,811	532,206	101,605
Benefit Payments	(2,111,660)	(2,047,687)	(63,973)
Expenses	(144,373)	(121,229)	(23,144)
Assets December 31, 2000	\$44,149,642	\$36,702,029	\$7,447,613
Per Maine	<u>8/</u> \$44,149,642	\$37,644,911	\$6,504,731
Asset Variance	<u>9/</u> \$0	(\$942,882)	\$942,882

Blue Cross Blue Shield of Maine
Statement of Medicare Pension Assets
For the Period
January 1, 1988, to December 31, 2000

FOOTNOTES

- 1/ We calculated the Medicare segment assets based on our identification of the Medicare segment and our computed asset fraction (5.1044 percent). We computed the asset fraction as explained in the Findings section.
- 2/ We obtained total company contribution amounts from the actuarial valuation reports and Department of Labor/Internal Revenue Service Form 5500s. We allocated total company contributions to the Medicare segment based on the ratio of the Medicare segment funding target divided by the total company funding target. Contributions in excess of the funding targets were treated as prepayments credits and accounted for in the Other segment until needed to fund pension cost in the future.
- 3/ We obtained investment earnings from actuarial valuation reports. We allocated investment earnings based on the market value of Medicare assets at the beginning of the plan year after adjustment for transfers. For years starting with 1996, we allocated investment earnings based on the ratio of the segment's Weighted Average Value (WAV) of assets to total company WAV of assets as required by Cost Accounting Standards (CAS).
- 4/ We based the Medicare segment's benefit payments on actual payments to Medicare retirees. Maine provided us with supporting documentation for benefit payment amounts to plan retirees. We used actual benefit payments for Medicare segment retirees.
- 5/ We allocated administrative expenses to the Medicare segment in proportion to investment income.
- 6/ We identified participant transfers between segments by comparing valuation data files provided by Maine. Our transfer adjustment considered each participant's actuarial liability and the funding level of the segment from which the participant transferred. For transfers that occurred prior to the 1996 plan year, asset transfers reflected the funding level of the segment from which the participant transferred, based on the actuarial liability and the asset value used for cost purposes. We calculated the funding leveling as the assets divided by the liabilities. If the funding level was greater than one, we transferred assets equal to the participant's liability. For plan years starting with 1996, asset transfers were equal to the actuarial liability determined under the accrued benefit cost method in accordance with CAS.
- 7/ Prepayment credits represent funds available to satisfy future funding requirements and are applied to future funding requirements before current year contributions in order to reduce interest costs to the Federal Government. Prepayment credits are transferred to the Medicare segment as needed to cover funding requirements.

**Blue Cross Blue Shield of Maine
Statement of Medicare Pension Assets
For the Period
January 1, 1988, to December 31, 2000**

- 8/ We obtained total asset amounts as of December 31, 2000, from Maine's update of Medicare segment assets prior to transfer adjustments.
- 9/ The asset variance represents the difference between the Office of Inspector General calculation of Medicare segment assets and Maine's market value of assets shown in its update of Medicare segment assets.



Medicare
Part A Intermediary
Maine & Massachusetts
Regional Home Health

September 28, 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. James P. Aasmundstad
Regional Inspector General for Audit Services

Re: Report Number A-07-04-00182

Dear Mr. Aasmundstad;

Thank you for providing your Draft Report on the Review of Medicare Contractor's Pension Segmentation Requirements, Blue Cross Blue Shield of Maine for the Period January 1, 1988, to December 31, 2000.

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

1. Recommend that Maine increase the Medicare segment pension assets by \$942,882 as of December 31, 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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Portland, ME 04101-3908



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