



# Memorandum

Date SEP - 3 1999

From June Gibbs Brown  
Inspector General *June & Brown*

Subject Audit of Administrative Costs Claimed Under Parts A & B of the Health Insurance for the Aged and Disabled Program - AdminaStar Federal, Indianapolis, Indiana (A-05-98-00042)

To Nancy-Ann Min DeParle  
Administrator  
Health Care Financing Administration

This memorandum is to alert you to the issuance on September 7, 1999, of our final report. A copy is attached.

The audit covered costs claimed by AdminaStar Federal (AdminaStar) on final administrative cost proposals for Fiscal Years 1996 and 1997. Costs audited totaled \$169,697,938; \$64,231,638 for Part A, \$68,185,312 for Part B, and \$37,280,988 for DMERC.

Of the total \$169,697,938 claimed, we are recommending a financial adjustment of \$3,111,728 (\$1,143,303 for Part A, \$1,344,675 for Part B, and \$623,750 for DMERC). Adjustments are recommended because AdminaStar:

- overstated pension costs by \$1,652,865 because the costs were based on accrual accounting entries instead of actual cash contributions.
- overstated return on investment costs by \$447,414 because higher rates of return were used in their calculations than actually earned in their investment portfolio.
- claimed executive salary increases of \$398,132 which exceeded the average increases for comparable positions, as measured by the Federal Bureau of Labor Statistics Employment Cost Index.
- claimed \$264,276 of deferred compensation costs based on accrual accounting entries instead of actual cash contributions.
- overstated cost allocations by \$183,665 because (i) cost estimates were used instead of actual costs (\$130,887), (ii) unallowable costs were charged to

Medicare (\$29,814), (iii) non-Medicare costs were charged to Medicare (\$17,768), and (iv) math errors were made (\$5,196).

- claimed \$165,376 of post-retirement health benefit costs based on accrual accounting entries instead of actual cash contributions.

AdminaStar concurred in \$2,449,320 of our recommended financial adjustments (Pension Cost - \$1,652,865, Return On Investments - \$447,414, Indirect Cost Allocations - \$183,665, and Post-Retirement Health Benefits - \$165,376). AdminaStar disagreed with \$662,408 of our recommended financial adjustments (Executive Salary increases - \$398,132 and Deferred Compensation - \$264,276). The full text of AdminaStar's comments is attached to our report.

For further information, contact:

Paul P. Swanson  
Regional Inspector General  
for Audit Services  
Region V  
(312) 353-2618

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**AUDIT OF ADMINISTRATIVE COSTS  
CLAIMED UNDER PARTS A & B OF THE  
HEALTH INSURANCE FOR THE AGED  
AND DISABLED PROGRAM**

**ADMINASTAR FEDERAL,  
INDIANAPOLIS, INDIANA**



**JUNE GIBBS BROWN  
Inspector General**

**SEPTEMBER 1999  
A-05-98-00042**



DEPARTMENT OF HEALTH AND HUMAN SERVICES

REGION V  
105 W ADAMS ST  
CHICAGO ILLINOIS 60603-6201

OFFICE OF  
INSPECTOR GENERAL

Common Identification No. A-05-98-00042

Mr. Stephen T. Crickmore  
President & CEO, AdminaStar Federal  
8085 Knue Road  
Indianapolis, IN 46250

Dear Mr. Crickmore:

Enclosed for your information and use are two copies of an Office of Inspector General (OIG) audit report entitled, "Audit of Administrative Costs Claimed Under Parts A & B of the Health Insurance for the Aged and Disabled Program - AdminaStar Federal, Indianapolis, Indiana." The audit covered the period October 1, 1995 through September 30, 1997. A copy of this report will be forwarded to the HHS action official named below, for her review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the action official. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (public law 90-23), OIG audit reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5).

To facilitate identification, please refer to the above Common Identification Number in all correspondence relating to this report.

Sincerely,



Paul Swanson  
Regional Inspector General  
for Audit Services

Enclosures

**Direct Reply to:**  
Ms. Daly Vargas  
Associate Regional Administrator  
Division of Medicare  
105 W. Adams Street, 16<sup>th</sup> Floor  
Chicago, IL 60603-6201

## SUMMARY

AdminaStar Federal (AdminaStar) receives, reviews, audits, and pays Medicare Parts A, B, and DMERC claims under agreements that AdminaStar's parent corporation, Anthem, has with the Blue Cross and Blue Shield Association and the Health Care Financing Administration. AdminaStar is entitled to reimbursement for its allowable administrative costs incurred. For the period October 1, 1995 through September 30, 1997, AdminaStar claimed administrative costs as follows:

<u>Fiscal</u> <u>Year</u>	<u>Part A</u>	<u>Part B</u>	<u>DMERC</u>	<u>Total</u>
1996	\$32,436,114	\$34,319,099	\$18,651,738	\$85,406,951
1997	<u>31,795,524</u>	<u>33,866,213</u>	<u>18,629,250</u>	<u>84,290,987</u>
Total	<u>\$64,231,638</u>	<u>\$68,185,312</u>	<u>\$37,280,988</u>	<u>\$169,697,938</u>

Of the \$169,697,938 in administrative costs claimed, we are recommending financial adjustments of \$1,143,303 (Part A), \$1,344,675 (Part B), and \$623,750 (DMERC). These amounts are detailed in the Exhibits and the Findings and Recommendations section of the report.

We found that the following Medicare costs were overstated:

- Pension costs were overstated by \$1,652,865 because they were based on accrual accounting entries instead of actual cash contributions.
- Return on investment costs of \$447,414 were overstated because AdminaStar used higher rates of return in their calculations than they actually earned in their investment portfolio.
- Salary increases for selected executives were overstated by \$398,132 because the increases exceeded average increases for comparable positions, as measured by the Federal Bureau of Labor Statistics Employment Cost Index (ECI).
- Deferred Compensation costs were overstated by \$264,276 because the costs were based on accrual accounting entries instead of actual cash contributions.
- Indirect cost allocations were overstated by \$183,665 because (i) cost estimates were used instead of actual costs (\$130,887), (ii) non-allowable costs were charged to Medicare (\$29,814), (iii) non-Medicare costs were charged to Medicare (\$17,768), and (iv) math errors were made (\$5,196).
- Post-retirement health benefits costs of \$165,376 were overstated because AdminaStar based this amount on accrual accounting entries instead of actual cash contributions.

## **AdminaStar Response**

AdminaStar concurred in \$2,449,320 of our recommended financial adjustments (Pension Cost - \$1,652,865, Return On Investments - \$447,414, Indirect Cost Allocations - \$183,665, and Post-Retirement Health Benefits - \$165,376). AdminaStar disagreed with \$662,408 of our recommended financial adjustments (Executive Salary Increases - \$398,132 and Deferred Compensation - \$264,276). AdminaStar's written comments are summarized at the end of each finding and are attached as an Appendix to this report.

AdminaStar also stated that subsequent to our audit, they filed updated FACPs with the Health Care Financing Administration (HCFA) increasing claimed costs by \$2,132,523.

## **OIG Comments**

Regarding the increase in claimed costs of \$2,132,523, we did not include these costs in our scope of audit since AdminaStar revised their FACPs subsequent to our audit field work. Accordingly, we do not express an opinion on the additional \$2,132,523.

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## INTRODUCTION

### BACKGROUND

Health Insurance for the Aged and Disabled (Medicare) was established by Title XVIII of the Social Security Act. Hospital Insurance (Part A) provides protection against the cost of hospital and related care. Supplemental Medical Insurance (Part B) is a voluntary program that covers physician services, hospital outpatient services, and certain other health services, such as durable medical equipment (DME). The HCFA administers the Medicare program. Under an agreement with HCFA, the Blue Cross and Blue Shield Association (BCBSA) participates as a Medicare intermediary to assist in program administration.

During our audit period, AdminaStar Federal (AdminaStar) was a subsidiary of AdminaStar, Inc., which itself was a subsidiary of Anthem, Inc., a major insurance company.

Under a subcontract with BCBSA, AdminaStar receives, reviews, audits, and pays Medicare Part A claims in the states of Indiana, Ohio, and Kentucky. Under a separate agreement with HCFA, AdminaStar participates as a Medicare carrier and performs the same functions for Medicare Part B in the states of Indiana and Kentucky. Under another separate agreement with HCFA, AdminaStar participates as a Durable Medical Equipment Regional Carrier (DMERC) to process and pay DME claims for a 10 state area.

Subject to limitations specified in the agreements, AdminaStar is entitled to reimbursement for reasonable administrative costs incurred. From October 1, 1995 through September 30, 1997, AdminaStar claimed \$169,697,938 in administrative costs.

### SCOPE

Our audit was conducted in accordance with generally accepted government auditing standards. The audit objective was to determine whether Medicare Parts A, B, and DMERC administrative costs claimed by AdminaStar on its "Final Administrative Cost Proposals" (FACP) were reasonable, allocable, and allowable. We examined the administrative costs claimed by AdminaStar to determine whether the amounts were in accordance with (i) Federal Acquisition Regulations (FAR) part 31, (ii) the Carrier/Intermediary Manual, and (iii) the Medicare agreements. We also reviewed the reasonableness of salary increases given to certain AdminaStar, AdminaStar, Inc., and Anthem executives that were charged to Medicare.

Our examination included audit procedures designed to achieve our objectives, and a review of accounting records and supporting documentation. The audit covered the period October 1, 1995 through September 30, 1997. Audit fieldwork was performed at AdminaStar offices in Louisville, Kentucky from May 1998 through February 1999.

Our audit did not cover pension segmentation. A separate audit of the AdminaStar pension plan for compliance with segmentation requirements will be performed at a later date.

## FINDINGS AND RECOMMENDATIONS

### PENSION COSTS

AdminaStar overstated the FACPs by \$1,652,865 because it's Pension Plan was not funded by cash contributions. The costs were based on accrual entries only. FAR sec 31.205-6(j)(2)(i) states that pension costs must be funded before an organization's Federal income tax return is due. Pension costs assigned to the current year, but not funded by the due date, are not allowable in a subsequent year.

### RECOMMENDATIONS

We recommend that AdminaStar:

1. Make a financial adjustment of \$1,652,865, as follows:

	<u>Part A</u>	<u>Part B</u>	<u>DMERC</u>	<u>Total</u>
FY 1996:	\$203,277	\$215,052	\$116,893	\$ 535,222
FY 1997:	<u>421,575</u>	<u>449,069</u>	<u>246,999</u>	<u>1,117,643</u>
	<u>\$624,852</u>	<u>\$664,121</u>	<u>\$363,892</u>	<u>\$1,652,865</u>

2. Establish procedures to ensure that unfunded pension costs are not charged to Medicare.

### AdminaStar Response

AdminaStar concurred with our recommendations.

### RETURN ON INVESTMENTS

AdminaStar overstated the FACPs by \$447,414 because the rate of returns it used were not in accordance with Medicare guidelines. The Medicare contracts state that the Return on Investments will be determined by multiplying the average undepreciated balance of investment assets by the actual rate of return of the contractor's investment portfolio for the contract period.

AdminaStar did not use it's actual rate of return for the contract period. Generally, AdminaStar used a rate of return of 7.49 percent, except for the 13.80 percent it used for Kentucky Part B, 1996, and the 11.68 percent for Indiana and Kentucky Part A, 1996. AdminaStar officials stated that these were not the actual rates of return for the period, they believed the rates might have related to earlier time periods and were just brought forward.

We analyzed AdminaStar's Trial Balances containing assets and income and determined that AdminaStar's actual portfolio rate of return was 6.06 percent for Fiscal Year (FY) 1996, and 6.93 percent for FY 1997.

## RECOMMENDATIONS

We recommend that AdminaStar:

1. Make a financial adjustment of \$447,414, as follows:

	<u>Part A</u>	<u>Part B</u>	<u>DMERC</u>	<u>Total</u>
FY 1996:	\$129,425	\$270,777	\$ 23,201	\$423,403
FY 1997:	<u>6,710</u>	<u>3,377</u>	<u>13,924</u>	<u>24,011</u>
	<u>\$136,135</u>	<u>\$274,154</u>	<u>\$ 37,125</u>	<u>\$447,414</u>

2. Follow Medicare guidelines by using the actual rate of return of it's investment portfolio for the contract period.

### AdminaStar Response

AdminaStar concurred with our recommendations.

## EXECUTIVE SALARY INCREASES

AdminaStar overstated the FACPs by \$398,132 for executive salary increases which exceeded the average increases for comparable positions as measured by the Department of Labor's Bureau of Labor Statistics ECI.

The ECI represents dozens of indices that are calculated for various occupational and industry groups to measure the rate of change in employee compensation. It is a fixed weight index at the occupational level and eliminates the effects of employment shifts among occupations. The ECI is distinguished from other surveys in that it covers all establishments and occupations in both the private non-farm and public sectors. We used the index for executive compensation because we considered it to be the most equitable and relevant measure.

For executives in managerial/administrative occupations, the ECI had the following average salary increases:

FY 1996	4.5%	FY 1997	3.6%
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We analyzed the salary increases for 11 executives at Anthem, Inc., AdminaStar, Inc., and AdminaStar who were Vice Presidents or above who allocated time to the Medicare contract. The executive's salary increases exceeded the ECI averages by \$398,132 (Medicare share).

## RECOMMENDATION

We recommend that AdminaStar make a financial adjustment of \$398,132, as follows:

	<u>Part A</u>	<u>Part B</u>	<u>DMERC</u>	<u>Total</u>
FY 1996:	\$ 24,939	\$ 26,384	\$ 14,341	\$ 65,664
FY 1997:	<u>125,407</u>	<u>133,586</u>	<u>73,475</u>	<u>332,468</u>
	<u>\$150,346</u>	<u>\$159,970</u>	<u>\$ 87,816</u>	<u>\$398,132</u>

### AdminaStar Response

AdminaStar disagreed with this recommendation. AdminaStar states that we did not determine the reasonableness of the salary increases by considering factors such as, whether the increases conformed to compensation practices of comparable companies in the same industry, of the same size, in the same geographic region, and who are predominately engaged in non-government work.

### OIG Comments

We used the Department of Labor's ECI index for the express purpose of judging the reasonableness of the salary increases. This index is a widely recognized, unbiased, measure of industry-wide compensation practices.

## DEFERRED COMPENSATION

AdminaStar overstated deferred compensation costs on the FACPs by \$264,276, because the costs were not funded with cash.

AdminaStar's deferred compensation plan is a supplemental form of pension plan offered to its "highly compensated" employees. The plan supplements AdminaStar's regular 401(k) plan. AdminaStar accrued deferred compensation costs based on estimates, without a corresponding cash set aside, and charged the costs to Medicare.

Federal regulations at 48 CFR 31.205-6(j)(i) state that pension costs must be funded before the filing date of the Federal income tax return. Pension costs assigned to the current year, but not funded by the deadline, are not allowable in a subsequent year.

## RECOMMENDATION

We recommend that AdminaStar make a financial adjustment of \$264,276 as follows:

	<u>Part A</u>	<u>Part B</u>	<u>DMERC</u>	<u>Total</u>
FY 1996:	\$ 49,682	\$ 52,560	\$ 28,569	\$130,811
FY 1997:	<u>50,343</u>	<u>53,626</u>	<u>29,496</u>	<u>133,465</u>
	<u>\$100,025</u>	<u>\$106,186</u>	<u>\$ 58,065</u>	<u>\$264,276</u>

## **AdminaStar Response**

AdminaStar disagreed with this recommendation. AdminaStar states that the deferred compensation costs are not a form of supplemental pension plan, and should not be subject to pension plan regulations.

## **OIG Comments**

We consider AdminaStar's deferred compensation plan a supplemental pension plan because it allows eligible executives to increase their retirement compensation. Article number 6 of the plan states, in general, that plan proceeds are to be distributed *only upon retirement*, either in 10 equal annual installments, or a lump sum distribution.

## **INDIRECT COST ALLOCATIONS**

AdminaStar received cost allocations from its parent organizations, AdminaStar, Inc. and Anthem, Inc. The cost allocations were overstated by \$183,665 because (i) estimates were used instead of actual costs, (ii) unallowable costs were charged to Medicare, (iii) non-Medicare costs were charged to Medicare, and (iv) math errors were made.

Cost Estimates - \$130,887 AdminaStar, Inc. allocated costs to AdminaStar and its other subsidiaries based on beginning of the year budgeted/estimated direct cost relationships between the subsidiaries. At the end of the year, AdminaStar, Inc. did not adjust the cost allocations to reflect the actual direct cost relationships. We used end of the year income statements to determine that Medicare was over allocated \$130,887 because of the estimates; \$83,817 in 1996 and \$47,070 in 1997.

Non-Allowable Costs - \$29,814 AdminaStar, Inc. allocated costs to AdminaStar for Intercompany Interest Expense (\$3,148 Medicare share), Tax Penalties (\$1,303 Medicare share), and Entertainment (\$571 Medicare share). FAR sec 31.205-20 states that interest expense however it is represented is unallowable. FAR sec 31.205-15 states that fines and penalties are unallowable. FAR sec 31.205-14 states that the cost of entertainments and social activities is unallowable.

Anthem, Inc. allocated \$16,143 (Medicare share) to AdminaStar for chartered private jets used by the corporate officers, usually the President/CEO, which exceeded the allowable coach airfares. FAR sec 31.205-46 (d) states that airfare costs cannot exceed the lowest customary standard, coach, or equivalent airfare offered during normal business hours.

Anthem, Inc. also allocated \$8,649 (Medicare share) to AdminaStar for various sporting events including the cost of an annual luxury skybox at the Indianapolis Colts, and tickets to the Indiana Pacers games. As already noted, FAR sec 31.205-14 states that the cost of entertainment and social activities is unallowable.

Non-Medicare Costs - \$17,768 AdminaStar, Inc. allocated \$17,768 (Medicare share) to AdminaStar for services performed by an outside consulting firm solely for another AdminaStar,

Inc. subsidiary, AdminaStar Defense. The consultant's work was not related to AdminaStar's administration of the Medicare contract. The Medicare contracts state that all non-Medicare costs are unallowable.

Math Error - \$5,196 AdminaStar, Inc. inadvertently did not include an adjustment in their March 1997 allocation to AdminaStar which caused the allocation to be overstated by \$5,196 (Medicare share).

**RECOMMENDATIONS**

We recommend that AdminaStar:

1. Make a financial adjustment of \$183,665 as follows:

	<u>Part A</u>	<u>Part B</u>	<u>DMERC</u>	<u>Total</u>
FY 1996:	\$ 41,832	\$ 44,254	\$ 24,055	\$110,141
FY 1997:	<u>27,733</u>	<u>29,542</u>	<u>16,249</u>	<u>73,524</u>
	<u>\$ 69,565</u>	<u>\$ 73,796</u>	<u>\$ 40,304</u>	<u>\$183,665</u>

2. Establish controls to ensure non-Medicare related costs and estimated costs are not charged to Medicare.

**AdminaStar Response**

AdminaStar concurred with our recommendations.

**POST-RETIREMENT HEALTH INSURANCE**

AdminaStar overstated post-retirement health insurance costs on the FACPs by \$165,376, because it did not fund its post-retirement plan in accordance with the Statement of Financial Accounting Standards (SFAS) No. 106 and applicable Federal regulations.

The SFAS No. 106 requires that the expected costs of retiree health benefits be accrued during the employee's service years, rather than waiting for the costs to be incurred during retirement years. Assets must be segregated and restricted to provide for future benefits.

Federal regulations at 48 CFR 31.205-6(o)(2) state that retiree post-retirement health benefit costs must be paid either to (i) an insurer, provider, or other recipient as current year benefits or premiums or (ii) an insurer or trustee to establish and maintain a fund or reserve for the sole purpose of providing health benefits to retirees. Retiree health benefit costs must be calculated in accordance with generally accepted actuarial principles and practices, and be funded by the time set for filing the Federal income tax return. Retiree health benefit costs assigned to the current year, but not funded or otherwise liquidated by the tax return due date, are not allowable in a subsequent year.

AdminaStar did fund the post-retirement plan for FY 1996. For FY 1997 however, AdminaStar did not fund \$165,376 (Medicare share) of the \$615,290 in Post-Retirement Health benefits they charged to the FACPs. The \$165,376 charged to the FACPs were based on accrual accounting entries, not cash contributions to an insurer, provider, or trustee.

## RECOMMENDATION

We recommend that AdminaStar make a financial adjustment of \$165,376, as follows:

	<u>Part A</u>	<u>Part B</u>	<u>DMERC</u>	<u>Total</u>
FY 1997:	\$62,380	\$66,448	\$36,548	\$165,376

## AdminaStar Response

AdminaStar concurred with our recommendations.

## OTHER MATTERS

AdminaStar claimed Medicare reimbursement for Indiana Gross Income Tax (IGIT) it paid to the State of Indiana. The tax amounts to 1.2 percent of the Medicare reimbursements AdminaStar has claimed on its Final Administrative Cost Proposals. The findings in this report will likely reduce the total amount of Medicare payments AdminaStar receives from HCFA when HCFA makes its final cost determinations. At that time, AdminaStar should adjust downward a proportionate amount of the IGIT charged to Medicare during the period covered by this audit.

Also HCFA requested that comments be included in this report concerning the accuracy of AdminaStar's Interim Expenditure Reports (IERs). We reviewed the methodologies used to prepare the IERs, and our limited testing did not disclose any material inaccuracies or weaknesses other than those disclosed in the findings of this report.

Subsequent to our audit field work, AdminaStar filed revised FACPs with HCFA increasing claimed costs by \$2,132,523. We did not include these costs in our scope of audit since the FACPs were revised subsequent to our field work. Accordingly, we do not express an opinion on the additional \$2,132,523.



*ATTN:*  
**MEDICARE**

Stephen T. Crickmore  
President and Chief Executive Officer  
Phone (317) 577-0346 Ext 2216  
Fax (317) 578-3054

June 21, 1999

Mr. Rick Pound  
Senior Auditor - Department of Health & Human Services  
Office of Inspector General  
Office of Audit Services  
101 West Ohio Street, Suite 750  
Indianapolis, Indiana 46204

Re: CIN A-05-98-00042

Dear Mr. Pound:

We have received and reviewed your draft report of the FY96 & FY97 Audit of Administrative Costs Claimed Under Parts A & B of the Health Insurance for the Aged and Disabled Program for AdminaStar Federal.

Subsequent to your audit, ASF filed updated FACPs for 1996 and 1997. The total administrative costs for 1996 and 1997 should therefore be \$2,132,523 higher than the numbers on your draft report. For the period October 1, 1995, through September 30, 1997, AdminaStar Federal claimed administrative costs, as follows:

<u>Fiscal Year</u>	<u>Part A</u>	<u>Part B</u>	<u>DMERC</u>	<u>Total</u>
1996	\$32,700,135	\$34,237,083	\$18,623,365	\$ 85,560,583
1997	33,386,119	34,040,247	18,843,512	86,269,878
Total	<u>\$66,086,254</u>	<u>\$68,277,330</u>	<u>\$37,466,877</u>	<u>\$171,830,461</u>

We concur with the findings and recommendations noted for **Pension Costs, Return on Investment, Indirect Cost Allocations and Post-Retirement Health Benefits.**

We disagree with the finding in the area of **Executive Salary Increases** since no analysis was presented to us regarding the reasonableness of such executive salary increases. FAR 31.205-6 states that "compensation paid or accrued for each employee must be reasonable for the work performed." Far 31.205-6 along with Far 31.201-3 proscribe basic reasonableness test as well as other factors that should be evaluated in assessing the reasonableness of compensation. Factors such as whether the compensation generally conforms to compensation practices of comparable companies in the same industry, of the same size, in the same geographic region or of companies engaged in predominately

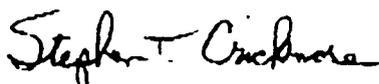
non-government work. To our knowledge, none of these tests or other factors were considered in the determination of the finding. Rather, the finding of excess executive compensation was based solely on the comparison of the Bureau of Labor Statistics Employment Cost Index to the salary increases of certain Anthem and AdminaStar executives. We believe the compensation paid, and increases therein, to be reasonable within the context of normal and prudent business practices, industry norms as well as geographic norms. We also believe the compensation paid, and the related increases, conform with the meaning, intent and requirements of FAR 31.205-6.

We disagree with the finding in the area of Deferred Compensation. Far 31.205-6(K) states that "deferred awards are allowable when they are based on current or future services." The audit finding equates deferred compensation with a supplemental pension plan, which it is not, and therefore applies the incorrect federal regulation. The provisions of 48CFR 9904.415 govern the measurement, allocation and accounting of deferred compensation and do not require current year funding of deferred compensation. Specifically, 48CFR9904.415-40 states that "the cost of deferred compensation shall be assigned to the cost accounting period in which the contractor incurs an obligation to compensate the employee." The federal regulation cited in the finding is incorrect since it pertains to pension accounting.

In summary, AdminaStar Federal's position regarding the six audit findings is as follows:

<u>Finding</u>	<u>OIG Position</u>	<u>AdminaStar Position</u>	<u>Difference</u>
Pension Costs	\$1,652,865	\$1,652,865	
Return on Investments	\$447,414	\$447,414	
Executive Salary Increases	\$398,132	\$0	\$398,132
Deferred Compensation	\$264,276	\$0	\$264,276
Indirect Cost Allocations	\$183,665	\$183,665	
Post-retirement Health Care	\$165,376	\$165,376	
Total			

Sincerely,



Stephen T. Crickmore

STC:ju

cc: K. Blinkhorn  
K. Ewing

EXHIBIT A

ADMINASTAR FEDERAL, INC.  
 FINAL ADMINISTRATIVE COST PROPOSAL (PART A)  
 AND THE OIG RECOMMENDATIONS  
 FOR THE FISCAL YEARS 1996 THROUGH 1997

<u>Operation</u>	<u>Administrative Costs</u>
Bills Payment	\$28,355,521
Reconsideration and Hearings	1,440,991
Medicare Secondary Payer	5,991,956
Medicare and Utilization Review	4,810,228
Provider Desk Reviews	6,813,577
Provider Field Audits	8,115,061
Provider Settlements	3,344,110
Provider Reimbursements	4,617,492
Productivity Investments	1,062,375
Benefit Integrity	1,422,273
Other	23,078
Complementary Insurance Credits	<u>(1,765,024)</u>
	Total Administrative Cost Claimed <u>\$64,231,638</u>

Recommended Adjustments:

1. Pension	\$ 624,852
2. Return On Investment	136,135
3. Executive Salary Increases	150,346
4. Deferred Compensation	100,025
5. Indirect Cost Allocations	69,565
6. Post-Retirement Health Insurance	<u>62,380</u>
	Total Adjustments <u>\$ 1,143,303</u>

Costs Recommended For Acceptance \$63,088,335

Note: Explanation of each adjustment is provided in the  
**"Findings and Recommendations"** section of this report.

**EXHIBIT B**

ADMINASTAR FEDERAL, INC.  
 FINAL ADMINISTRATIVE COST PROPOSAL (PART B)  
 AND THE OIG RECOMMENDATIONS  
 FOR THE FISCAL YEARS 1996 THROUGH 1997

<u>Operation</u>	<u>Administrative Costs</u>
Claims Payment	\$47,767,181
Reviews and Hearings	5,574,730
Beneficiary/Physician Inquiry	8,083,055
Provider Education and Training	1,995,714
Medical and Utilization Review	4,639,092
Medicare Secondary Payer	3,666,471
Participating Physician	1,371,668
Productivity Investments	165,760
Complementary Insurance Credits	(7,745,189)
Benefit Integrity	2,596,930
Other	<u>69,900</u>
Total Administrative Cost Claimed	<u>\$68,185,312</u>

## Recommended Adjustments:

1. Pension	\$ 664,121
2. Return On Investment	274,154
3. Executive Salary Increases	159,970
4. Deferred Compensation	106,186
5. Indirect Cost Allocations	73,796
6. Post-Retirement Health Insurance	<u>66,448</u>
Total Adjustments	<u>\$ 1,344,675</u>

Costs Recommended For Acceptance \$66,840,637

Note: Explanation of each adjustment is provided in the  
**"Findings and Recommendations"** section of this report.

EXHIBIT C

ADMINASTAR FEDERAL, INC.  
 FINAL ADMINISTRATIVE COST PROPOSAL (DMERC)  
 AND THE OIG RECOMMENDATIONS  
 FOR THE FISCAL YEARS 1996 THROUGH 1997

<u>Operation</u>	<u>Administrative Costs</u>
Claims Payment	\$22,931,420
Reviews and Hearings	3,642,485
Beneficiary/Physician Inquiry	5,324,917
Provider Education and Training	1,792,601
Medical and Utilization Review	2,926,957
Medicare Secondary Payer	711,006
Participating Physician	50,400
Productivity Investments	4,446
Benefit Integrity	2,184,238
Complementary Insurance Credits	(2,807,606)
Other	<u>520,124</u>
	Total Administrative Cost Claimed <u>\$37,280,988</u>

Recommended Adjustments:

1. Pension	\$ 363,892
2. Return On Investment	37,125
3. Executive Salary Increases	87,816
4. Deferred Compensation	58,065
5. Indirect Cost	40,304
6. Post-Retirement Health Insurance	<u>36,548</u>
	Total Adjustments \$ <u>623,750</u>

Costs Recommended For Acceptance \$36,657,238

Note: Explanation of each adjustment is provided in the  
**"Findings and Recommendations"** section of this report.

**EXHIBIT D**

ADMINASTAR FEDERAL, INC.  
OHIO PART A  
FINAL ADMINISTRATIVE COST PROPOSAL  
AND THE OIG RECOMMENDATIONS  
OCTOBER 1, 1995 THROUGH SEPTEMBER 30, 1996

<u>Operation</u>	<u>Administrative Costs</u>
Bills Payment	\$8,323,717
Reconsideration and Hearings	298,255
Medicare Secondary Payer	1,792,874
Medical and Utilization Review	1,247,519
Provider Desk Reviews	1,779,731
Provider Field Audits	2,615,812
Provider Settlements	880,584
Provider Reimbursements	1,428,451
Productivity Investments	145,426
Benefit Integrity	400,189
Other	0
Credits	<u>(501,740)</u>
Total Administrative Cost Claim	<u>\$18,410,818</u>

Recommended Adjustments:

1. Pension	\$ 115,394
2. Return On Investment	26,496
3. Executive Salary Increases	14,157
4. Deferred Compensation	28,203
5. Indirect Cost	23,746
6. Post-Retirement Health Insurance	<u>0</u>
Total Adjustments \$	<u>207,996</u>

Costs Recommended For Acceptance \$18,202,822

Note: Explanation of each adjustment is provided in the  
"Findings and Recommendations" section of this report.

EXHIBIT E

ADMINASTAR FEDERAL, INC.  
 INDIANA AND KENTUCKY PART A  
 FINAL ADMINISTRATIVE COST PROPOSAL  
 AND THE OIG RECOMMENDATIONS  
 OCTOBER 1, 1995 THROUGH SEPTEMBER 30, 1996

<u>Operation</u>	<u>Administrative Costs</u>
Bills Payment	\$ 6,270,544
Reconsideration and Hearings	331,311
Medicare Secondary Payer	1,260,158
Medical and Utilization Review	1,161,756
Provider Desk Reviews	1,711,358
Provider Field Audits	1,702,487
Provider Settlements	784,695
Provider Reimbursements	957,753
Productivity Investments	14,044
Benefit Integrity	224,564
Other	0
Credits	<u>(393,374)</u>
	Total Administrative Costs Claimed <u>\$14,025,296</u>

Recommended Adjustments:

1. Pension	\$ 87,883
2. Return On Investment	102,929
3. Executive Salary Increases	10,782
4. Deferred Compensation	21,479
5. Indirect Cost	18,086
6. Post-Retirement Health Insurance	<u>0</u>
	Total Adjustments \$ <u>241,159</u>

Costs Recommended for Acceptance \$13,784,137

Note: Explanation of each adjustment is provided in the  
**"Findings and Recommendations"** section of this report.

EXHIBIT F

ADMINASTAR FEDERAL, INC.  
INDIANA PART B  
FINAL ADMINISTRATIVE COST PROPOSAL  
AND THE OIG RECOMMENDATIONS  
OCTOBER 1, 1995 THROUGH SEPTEMBER 30, 1996

<u>Operation</u>	<u>Administrative Costs</u>
Claims Payment	\$12,549,947
Reviews and Hearings	1,782,906
Beneficiary/Physician Inquiry	2,466,633
Provider Education and Training	526,044
Medical and Utilization Review	1,350,109
Medicare Secondary Payer	843,098
Participating Physician	272,157
Productivity Investments	66,685
Credits	(2,115,716)
Benefit Integrity	671,539
Other	<u>0</u>
Total Administrative Cost Claimed	<u>\$18,413,402</u>

Recommended Adjustments:

1. Pension	\$ 115,394
2. Return On Investment	25,401
3. Executive Salary Increases	14,157
4. Deferred Compensation	28,203
5. Indirect Cost Allocations	23,746
6. Post-Retirement Health Insurance	<u>0</u>
Total Adjustments	<u>\$ 206,901</u>

Costs Recommended For Acceptance \$18,206,501

Note: Explanation of each adjustment is provided in the  
"Findings and Recommendations" section of this report.

**EXHIBIT G**

ADMINASTAR FEDERAL, INC.  
KENTUCKY PART B  
FINAL ADMINISTRATIVE COST PROPOSAL  
AND THE OIG RECOMMENDATIONS  
OCTOBER 1, 1995 THROUGH SEPTEMBER 30, 1996

<u>Operation</u>	<u>Administrative Costs</u>
Claims Payment	\$11,453,414
Reviews and Hearings	1,168,575
Beneficiary/Physician Inquiry	1,370,452
Provider Education and Training	143,580
Medical and Utilization Review	1,031,866
Medicare Secondary Payer	983,920
Participating Physician	620,832
Productivity Investments	99,075
Credits	(1,419,085)
Benefit Integrity	418,568
Other	<u>34,500</u>
Total Administrative Cost Claimed	<u>\$15,905,697</u>

Recommended Adjustments:

1. Pension	\$ 99,658
2. Return On Investment	245,376
3. Executive Salary Increases	12,227
4. Deferred Compensation	24,357
5. Indirect Cost Allocations	20,508
6. Post-Retirement Health Insurance	<u>0</u>
Total Adjustments	<u>\$ 402,126</u>

Costs Recommended For Acceptance \$15,503,571

Note: Explanation of each adjustment is provided in the  
"Findings and Recommendations" section of this report.

**EXHIBIT H**

ADMINASTAR FEDERAL, INC.  
 DMERC  
 FINAL ADMINISTRATIVE COST PROPOSAL  
 AND THE OIG RECOMMENDATIONS  
 OCTOBER 1, 1995 THROUGH SEPTEMBER 30, 1996

<u>Operation</u>	<u>Administrative Costs</u>
Claims Payment	\$ 11,253,145
Reviews and Hearings	1,839,269
Beneficiary/Physician Inquiry	2,619,522
Provider Education and Training	1,156,299
Medical and Utilization Review	1,423,551
Medicare Secondary Payer	401,846
Participating Physician	49,035
Productivity Investments	4,446
Credits	(1,253,135)
Benefit Integrity	1,110,255
Other	<u>47,505</u>
Total Administrative Cost Claimed	<u>\$18,651,738</u>

Recommended Adjustments:

1. Pension	\$ 116,893
2. Return On Investment	23,201
3. Executive Salary Increases	14,341
4. Deferred Compensation	28,569
5. Indirect Cost Allocations	24,055
6. Post-Retirement Health Insurance	<u>0</u>
Total Adjustments	<u>\$ 207,059</u>

Costs Recommended For Acceptance \$18,444,679

Note: Explanation of each adjustment is provided in the  
**"Findings and Recommendations"** section of this report.

EXHIBIT I

ADMINASTAR FEDERAL, INC.  
INDIANA/KENTUCKY/OHIO PART A  
FINAL ADMINISTRATIVE COST PROPOSAL  
AND THE OIG RECOMMENDATIONS  
OCTOBER 1, 1996 THROUGH SEPTEMBER 30, 1997

<u>Operation</u>	<u>Administrative Costs</u>
Bills Payment	\$13,761,260
Reconsideration and Hearings	811,425
Medicare Secondary Payer	2,938,924
Medical and Utilization Review	2,400,953
Provider Desk Reviews	3,322,488
Provider Field Audits	3,796,762
Provider Settlements	1,678,831
Provider Reimbursements	2,231,288
Productivity Investments	902,905
Benefit Integrity	797,520
Other	23,078
Credits	<u>(869,910)</u>
Total Administrative Cost Claim	<u>\$31,795,524</u>

Recommended Adjustments:

1. Pension	\$ 421,575
2. Return On Investment	6,710
3. Executive Salary Increases	125,407
4. Deferred Compensation	50,343
5. Indirect Cost	27,733
6. Post-Retirement Health Insurance	<u>62,380</u>
Total Adjustments	<u>\$ 694,148</u>

Costs Recommended For Acceptance \$31,101,376

Note: Explanation of each adjustment is provided in the  
"Findings and Recommendations" section of this report.

EXHIBIT J

ADMINASTAR FEDERAL, INC.  
 INDIANA/KENTUCKY PART B  
 FINAL ADMINISTRATIVE COST PROPOSAL  
 AND THE OIG RECOMMENDATIONS  
 OCTOBER 1, 1996 THROUGH SEPTEMBER 30, 1997

<u>Operation</u>	<u>Administrative Costs</u>
Claims Payment	\$23,763,820
Reviews and Hearings	2,623,249
Beneficiary/Physician Inquiry	4,245,970
Provider Education and Training	1,326,090
Medical and Utilization Review	2,257,117
Medicare Secondary Payer	1,839,453
Participating Physician	478,679
Productivity Investments	0
Credits	(4,210,388)
Benefit Integrity	1,506,823
Other	<u>35,400</u>
Total Administrative Cost Claimed	<u>\$33,866,213</u>

Recommended Adjustments:

1. Pension	\$ 449,069
2. Return On Investment	3,377
3. Executive Salary Increases	133,586
4. Deferred Compensation	53,626
5. Indirect Cost Allocations	29,542
6. Post-Retirement Health Insurance	<u>66,448</u>
Total Adjustments	<u>\$ 735,648</u>

Costs Recommended For Acceptance \$33,130,565

Note: Explanation of each adjustment is provided in the  
**"Findings and Recommendations"** section of this report.

EXHIBIT K

ADMINASTAR FEDERAL, INC  
 DMERC  
 FINAL ADMINISTRATIVE COST PROPOSAL  
 AND THE OIG RECOMMENDATIONS  
 OCTOBER 1, 1996 THROUGH SEPTEMBER 30, 1997

<u>Operation</u>	<u>Administrative Costs</u>
Claims Payment	\$ 11,678,275
Reviews and Hearings	1,803,216
Beneficiary/Physician Inquiry	2,705,395
Provider Education and Training	636,302
Medical and Utilization Review	1,503,406
Medicare Secondary Payer	309,160
Participating Physician	1,365
Productivity Investments	0
Credits	(1,554,471)
Benefit Integrity	1,073,983
Other	<u>472,619</u>
Total Administrative Cost Claimed	<u>\$18,629,250</u>

Recommended Adjustments:

1. Pension	\$ 246,990
2. Return On Investment	13,924
3. Executive Salary Increases	73,475
4. Deferred Compensation	29,496
5. Indirect Cost Allocations	16,249
6. Post-Retirement Health Insurance	<u>36,548</u>
Total Adjustments	<u>\$ 416,691</u>

Costs Recommended For Acceptance \$18,212,559

Note: Explanation of each adjustment is provided in the  
**"Findings and Recommendations"** section of this report.