



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

October 3, 2008

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

Report Number: A-07-08-00270

Ms. Sandra Miller
President
National Government Services, Inc.
8115 Knue Road
Indianapolis, Indiana 46250

Dear Ms. Miller:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Pension Costs Claimed for Medicare Reimbursement by New Hampshire – Vermont Health Service for Fiscal Years 1988 Through 2002." We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to 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.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, this report will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, 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-07-08-00270 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Patrick J. Cogley", written over a white background.

Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Nanette Foster Reilly, Consortium Administrator
Consortium for Financial Management & Fee for Service Operations
Centers for Medicare & Medicaid Services
601 East 12th Street, Room 235
Kansas City, Missouri 64106

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS
CLAIMED FOR MEDICARE
REIMBURSEMENT BY
NEW HAMPSHIRE – VERMONT
HEALTH SERVICE FOR FISCAL
YEARS 1988 THROUGH 2002**



Daniel R. Levinson
Inspector General

October 2008
A-07-08-00270

Office of Inspector General

<http://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

BACKGROUND

New Hampshire – Vermont Health Service (NH –VT) administers Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS). On October 27, 1999, Anthem Insurance acquired NH – VT and on December 31, 2002, Anthem merged the NH – VT pension plan into its defined benefit pension plan.

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

The Medicare contracts require contractors to allocate or separately calculate pension costs. Contractors must use the separate calculation method if there is a material difference between the results of the two methods.

OBJECTIVE

Our objective was to determine the allowability of pension costs that NH – VT claimed for Medicare reimbursement for fiscal years (FY) 1988 through 2002.

SUMMARY OF FINDING

NH – VT did not claim all pension costs that were allowable for Medicare reimbursement for FYs 1988 through 2002 primarily because it did not base its claim for Medicare reimbursement on the Medicare segment CAS pension costs for FYs 2001 and 2002. Therefore, NH – VT underclaimed \$190,553 of allowable pension costs.

RECOMMENDATION

We recommend that NH – VT revise its Final Administrative Cost Proposals (FACP) to claim allowable CAS pension costs of \$190,553 for FYs 1988 through 2002.

AUDITEE COMMENTS

In written comments on our draft report, the auditee concurred with our finding and recommendation and stated that it will amend the applicable FACPs or follow other CMS guidance to claim additional allowable pension costs of \$190,553 for FYs 1988 through 2002.

INTRODUCTION

BACKGROUND

New Hampshire – Vermont

New Hampshire – Vermont Health Service (NH – VT) administers Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS). On October 27, 1999, Anthem Insurance acquired NH – VT and on December 31, 2002, Anthem merged the NH – VT pension plan into its defined benefit pension plan.

Medicare Reimbursement of Pension Costs

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

Beginning in fiscal year (FY) 1988, CMS incorporated specific segmentation language into Medicare contracts that requires contractors to use either an allocation method or a separate calculation method to identify and claim pension costs for Medicare reimbursement. Under the allocation method, the contractor determines total plan CAS pension costs and allocates a share to Medicare. Under the separate calculation method, the contractor separately identifies the pension cost components for the Medicare segment. The contractor must use the separate calculation method if its result is materially different from that of the allocation method.

Federal Requirements

The Medicare contracts address the determination and allocation of pension costs. Appendix B, section XVI of the contracts states: “The calculation of and accounting for pension costs charged to this agreement/contract are governed by the Federal Acquisition Regulation and Cost Accounting Standards 412 and 413.”

FAR 31.205-6(j) addresses allowability of pension costs and requires that plan contributions substantiate pension costs assigned to contract periods.

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

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

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine the allowability of pension costs that NH – VT claimed for Medicare reimbursement for FYs 1988 through 2002.

Scope

We reviewed pension costs that NH – VT claimed for Medicare reimbursement on its Final Administrative Cost Proposals (FACP) for FYs 1988 through 2002. NH – VT was unable to identify and provide documentation for the pension costs claimed for FYs 1988 and 1990; therefore, we limited the scope of costs claimed to FYs 1989 and 1991 through 2002. Achieving the objective did not require that we review NH – VT’s overall internal control structure. However, we did review the internal controls related to the pension costs claimed for Medicare reimbursement to ensure that the pension costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

We performed the audit work in the Region VII field office located in Jefferson City, Missouri.

Methodology

We identified NH – VT’s CAS pension costs for the total company and the Medicare segment. We also determined the extent to which NH – VT funded CAS pension costs with contributions to the pension trust fund and accumulated prepayment credits. We based the calculations on separately computed CAS pension costs for the Medicare segment and total company CAS pension costs. The CMS Office of the Actuary calculated the allocable CAS pension costs based on NH – VT’s historical practices and on the results of our segmentation review, “Review of the Qualified Pension Plan at New Hampshire – Vermont Health Service for the Period January 1, 1986, Through December 31, 2002” (A-07-08-00269). Appendix A contains details on the pension costs and contributions.

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

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

FINDING AND RECOMMENDATION

ALLOWABLE PENSION COSTS NOT CLAIMED

NH – VT did not claim all pension costs that were allowable for Medicare reimbursement for FYs 1988 through 2002. Specifically, NH – VT did not claim \$190,553 of pension costs that were allowable for Medicare reimbursement for FYs 1989¹ and 1991 through 2002.

For FYs 1989 and 1991 through 2002, NH – VT claimed pension costs of \$71,771 for Medicare reimbursement. We calculated the allowable costs based on separately computed CAS pension costs for the Medicare segment and the total company. We determined that the allowable CAS pension costs totaled \$262,324.

We compared allowable CAS pension costs with the pension costs claimed on NH – VT's FACPs, as shown in the table below.

Fiscal Year	Pension Cost Claimed Variance		Difference
	Per OIG	Per NH - VT	
1989	\$0	\$0	\$0
1991	0	0	0
1992	0	0	0
1993	0	0	0
1994	0	0	0
1995	15,500	5,730	9,770
1996	42,094	10,899	31,195
1997	12,309	8,900	3,409
1998	0	0	0
1999	0	0	0
2000	0	0	0
2001	58,460	0	58,460
2002	133,961	46,242	87,719
Total	\$262,324	\$71,771	\$190,553

The underclaim primarily occurred because NH – VT did not base its pension costs claimed for Medicare reimbursement on the computed Medicare segment CAS pension costs for FYs 2001 and 2002. Therefore, NH – VT underclaimed pension costs by \$190,553.

¹Due to the lack of documentation mentioned earlier, we were unable to determine the potential under/overclaim of the allowable pension costs for FYs 1988 and 1990. We therefore scoped these two years out of our review; however, based upon our computation the allowable pension costs for those 2 years were \$0 (see Appendix A).

RECOMMENDATION

We recommend that NH – VT revise its FACPs to claim allowable CAS pension costs of \$190,553 for FYs 1989, 1991 through 2002.

OTHER MATTER

NH – VT did not properly fund the pension costs allocable to the Medicare contracts for plan year 1995. In addition, NH – VT did not identify or properly account for accumulated unfunded pension costs. As a result, NH – VT understated the December 31, 2002, accumulated unallowable pension costs by \$394,946 (\$390,159—Other segment and \$4,787—Medicare segment).

AUDITEE COMMENTS

In written comments on our draft report, the auditee concurred with our finding and recommendation. NH – VT's Medicare contract was novated to National Government Services (NGS) effective January 1, 2007; therefore, NGS responded to the NH – VT cost claimed draft audit report.

NGS concurred with the finding and recommendation and stated that it will amend the applicable FACPs or follow other CMS guidance to claim additional allowable pension costs of \$190,553 for FYs 1988 through 2002. NGS also stated that it will review the process of recording pension cost to ensure that such amounts are properly supported by the Medicare segment CAS pension costs calculations.

NGS's comments are included in their entirety as Appendix B.

APPENDIXES

NEW HAMPSHIRE - VERMONT HEALTH SERVICES
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1988-2002

Date	Description	Total Company	Other Segment	Medicare Segment
1987	Contributions	<u>1/</u> \$529,736	\$529,736	\$0
8.50%	Discount for Interest	<u>2/</u> (29,780)	(29,780)	0
1/1/87	Present Value Contributions	<u>3/</u> 499,956	499,956	0
	Prepayment Credit	<u>4/</u> 248,028	248,028	0
	Present Value of Funding	<u>5/</u> 747,984	747,984	0
1/1/87	CAS Funding Target	<u>6/</u> 989,010	989,010	0
	Percentage Funded	<u>7/</u>	75.63%	0.00%
	Funded Pension Cost	<u>8/</u>	747,988	0
	Allowable Interest	<u>9/</u>	29,780	0
	Allocable Pension Cost	<u>10/</u>	777,768	0

1988	Contributions	\$0	\$0	\$0
9.00%	Discount for Interest	0	0	0
1/1/88	Present Value Contributions	<u>0</u>	0	0
	Prepayment Credit	<u>0</u>	0	0
	Present Value of Funding	<u>0</u>	0	0
1/1/88	CAS Funding Target	(11,886)	0	(11,886)
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		0	0
	Allowable Interest		0	0
	Allocable Pension Cost		0	0
1988	Fiscal Year Pension Cost	<u>11/</u>	194,442	0
	Medicare LOB* Percentage	<u>12/</u>	0.00%	100.00%
	Allowable Pension Cost	<u>13/</u> <u>\$0</u>	<u>\$0</u>	<u>\$0</u>

NEW HAMPSHIRE - VERMONT HEALTH SERVICES
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1988-2002

Date	Description	Total Company	Other Segment	Medicare Segment
1989	Contributions	\$0	\$0	\$0
9.00%	Discount for Interest	0	0	0
1/1/89	Present Value Contributions	0	0	0
	Prepayment Credit	0	0	0
	Present Value of Funding	0	0	0
1/1/89	CAS Funding Target	0	0	0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		0	0
	Allowable Interest		0	0
	Allocable Pension Cost		0	0
1989	Fiscal Year Pension Cost		0	0
	Medicare LOB Percentage		0.00%	100.00%
	Allowable Pension Cost	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

1990	Contributions	\$0	\$0	\$0
9.00%	Discount for Interest	0	0	0
1/1/90	Present Value Contributions	0	0	0
	Prepayment Credit	0	0	0
	Present Value of Funding	0	0	0
1/1/90	CAS Funding Target	0	0	0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		0	0
	Allowable Interest		0	0
	Allocable Pension Cost		0	0
1990	Fiscal Year Pension Cost		0	0
	Medicare LOB Percentage		0.00%	100.00%
	Allowable Pension Cost	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

**NEW HAMPSHIRE - VERMONT HEALTH SERVICES
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1988-2002**

Date	Description	Total Company	Other Segment	Medicare Segment
1991	Contributions	\$0	\$0	\$0
9.00%	Discount for Interest	0	0	0
1/1/91	Present Value Contributions	0	0	0
	Prepayment Credit	0	0	0
	Present Value of Funding	0	0	0
1/1/91	CAS Funding Target	0	0	0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		0	0
	Allowable Interest		0	0
	Allocable Pension Cost		0	0
1991	Fiscal Year Pension Cost		0	0
	Medicare LOB Percentage		0.00%	100.00%
	Allowable Pension Cost	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

1992	Contributions	\$0	\$0	\$0
9.00%	Discount for Interest	0	0	0
1/1/92	Present Value Contributions	0	0	0
	Prepayment Credit	0	0	0
	Present Value of Funding	0	0	0
1/1/92	CAS Funding Target	0	0	0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		0	0
	Allowable Interest		0	0
	Allocable Pension Cost		0	0
1992	Fiscal Year Pension Cost		0	0
	Medicare LOB Percentage		0.00%	100.00%
	Allowable Pension Cost	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

**NEW HAMPSHIRE - VERMONT HEALTH SERVICES
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1988-2002**

Date	Description	Total Company	Other Segment	Medicare Segment
1993	Contributions	\$1,222,165	\$1,222,165	\$0
8.50%	Discount for Interest	(73,887)	(73,887)	0
1/1/93	Present Value Contributions	1,148,278	1,148,278	0
	Prepayment Credit	0	0	0
	Present Value of Funding	1,148,278	1,148,278	0
1/1/93	CAS Funding Target	1,068,572	1,068,572	0
	Percentage Funded		100.00%	0.00%
	Funded Pension Cost		1,068,572	0
	Allowable Interest		64,337	0
	Allocable Pension Cost		1,132,909	0
1993	Fiscal Year Pension Cost		849,682	0
	Medicare LOB Percentage		0.00%	100.00%
	Allowable Pension Cost	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

1994	Contributions	\$1,441,235	\$1,441,235	\$0
8.00%	Discount for Interest	(73,076)	(73,076)	0
1/1/94	Present Value Contributions	1,368,159	1,368,159	0
	Prepayment Credit	86,481	86,481	0
	Present Value of Funding	1,454,640	1,454,640	0
1/1/94	CAS Funding Target	1,326,773	1,326,773	0
	Percentage Funded		100.00%	0.00%
	Funded Pension Cost		1,326,773	0
	Allowable Interest		66,246	0
	Allocable Pension Cost		1,393,019	0
1994	Fiscal Year Pension Cost		1,327,992	0
	Medicare LOB Percentage		0.00%	100.00%
	Allowable Pension Cost	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

**NEW HAMPSHIRE - VERMONT HEALTH SERVICES
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1988-2002**

Date	Description	Total Company	Other Segment	Medicare Segment
1995	Contributions	\$1,567,212	\$1,548,219	\$18,993
8.50%	Discount for Interest	(85,956)	(84,914)	(1,042)
1/1/95	Present Value Contributions	1,481,256	1,463,305	17,951
	Prepayment Credit	138,097	136,423	1,674
	Present Value of Funding	1,619,353	1,599,728	19,625
1/1/95	CAS Funding Target	1,820,316	1,798,256	22,060
	Percentage Funded		88.96%	88.96%
	Funded Pension Cost		1,599,729	19,625
	Allowable Interest		84,914	1,042
	Allocable Pension Cost		1,684,643	20,667
1995	Fiscal Year Pension Cost		1,611,737	15,500
	Medicare LOB Percentage		0.00%	100.00%
	Allowable Pension Cost	<u>\$15,500</u>	<u>\$0</u>	<u>\$15,500</u>

1996	Contributions	\$1,782,874	\$1,733,638	\$49,236
8.50%	Discount for Interest	(96,681)	(94,011)	(2,670)
1/1/96	Present Value Contributions	1,686,193	1,639,627	46,566
	Prepayment Credit	0	0	0
	Present Value of Funding	1,686,193	1,639,627	46,566
1/1/96	CAS Funding Target	1,562,672	1,516,106	46,566
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		1,516,106	46,566
	Allowable Interest		86,929	2,670
	Allocable Pension Cost		1,603,035	49,236
1996	Fiscal Year Pension Cost		1,623,437	42,094
	Medicare LOB Percentage		0.00%	100.00%
	Allowable Pension Cost	<u>\$42,094</u>	<u>\$0</u>	<u>\$42,094</u>

**NEW HAMPSHIRE - VERMONT HEALTH SERVICES
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1988-2002**

Date	Description	Total Company	Other Segment	Medicare Segment
1997	Contributions	\$2,490,084	\$2,490,084	\$0
8.50%	Discount for Interest	(148,940)	(148,940)	0
1/1/97	Present Value Contributions	2,341,144	2,341,144	0
	Prepayment Credit	134,020	134,020	0
	Present Value of Funding	2,475,164	2,475,164	0
1/1/97	CAS Funding Target	1,581,827	1,581,827	0
	Percentage Funded		100.00%	0.00%
	Funded Pension Cost		1,581,827	0
	Allowable Interest		87,170	0
	Allocable Pension Cost		1,668,997	0
1997	Fiscal Year Pension Cost		1,652,507	12,309
	Medicare LOB Percentage		0.00%	100.00%
	Allowable Pension Cost	<u>\$12,309</u>	<u>\$0</u>	<u>\$12,309</u>

1998	Contributions	\$435,758	\$435,758	\$0
9.00%	Discount for Interest	(35,962)	(35,962)	0
1/1/98	Present Value Contributions	399,796	399,796	0
	Prepayment Credit	969,270	969,270	0
	Present Value of Funding	1,369,066	1,369,066	0
1/1/98	CAS Funding Target	1,058,264	1,058,264	0
	Percentage Funded		100.00%	0.00%
	Funded Pension Cost		1,058,264	0
	Allowable Interest		5,673	0
	Allocable Pension Cost		1,063,937	0
1998	Fiscal Year Pension Cost		1,215,202	0
	Medicare LOB Percentage		0.00%	100.00%
	Allowable Pension Cost	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

NEW HAMPSHIRE - VERMONT HEALTH SERVICES
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1988-2002

Date	Description	Total Company	Other Segment	Medicare Segment
1999	Contributions	\$388,523	\$388,523	\$0
9.00%	Discount for Interest	(32,080)	(32,080)	0
1/1/99	Present Value Contributions	356,443	356,443	0
	Prepayment Credit	338,775	338,775	0
	Present Value of Funding	695,218	695,218	0
1/1/99	CAS Funding Target	626,778	626,778	0
	Percentage Funded		100.00%	0.00%
	Funded Pension Cost		626,778	0
	Allowable Interest		18,360	0
	Allocable Pension Cost		645,138	0
1999	Fiscal Year Pension Cost		749,838	0
	Medicare LOB Percentage		0.00%	100.00%
	Allowable Pension Cost	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

2000	Contributions	\$3,550,050	\$3,550,050	\$0
9.00%	Discount for Interest	(220,224)	(220,224)	0
1/1/00	Present Value Contributions	3,329,826	3,329,826	0
	Prepayment Credit	0	0	0
	Present Value of Funding	3,329,826	3,329,826	0
1/1/00	CAS Funding Target	0	0	0
	Percentage Funded		0.00%	0.00%
	Funded Pension Cost		0	0
	Allowable Interest		0	0
	Allocable Pension Cost		0	0
2000	Fiscal Year Pension Cost		161,285	0
	Medicare LOB Percentage		0.00%	100.00%
	Allowable Pension Cost	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

**NEW HAMPSHIRE - VERMONT HEALTH SERVICES
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1988-2002**

Date	Description	Total Company	Other Segment	Medicare Segment
2001	Contributions	\$6,420,172	\$6,420,172	\$0
9.00%	Discount for Interest	(515,581)	(515,581)	0
1/1/01	Present Value Contributions	5,904,591	5,904,591	0
	Prepayment Credit	1,604,438	1,526,491	77,947
	Present Value of Funding	7,509,029	7,431,082	77,947
1/1/01	CAS Funding Target	1,604,438	1,526,491	77,947
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		1,526,491	77,947
	Allowable Interest		0	0
	Allocable Pension Cost		1,526,491	77,947
2001	Fiscal Year Pension Cost		1,144,868	58,460
	Medicare LOB Percentage		0.00%	100.00%
	Allowable Pension Cost	<u>\$58,460</u>	<u>\$0</u>	<u>\$58,460</u>

2002	Contributions	\$0	\$0	\$0
9.00%	Discount for Interest	0	0	0
1/1/02	Present Value Contributions	0	0	0
	Prepayment Credit	2,602,533	2,449,901	152,632
	Present Value of Funding	2,602,533	2,449,901	152,632
1/1/02	CAS Funding Target	2,602,533	2,449,901	152,632
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		2,449,901	152,632
	Allowable Interest		0	0
	Allocable Pension Cost		2,449,901	152,632
2002	Fiscal Year Pension Cost		2,219,049	133,961
	Medicare LOB Percentage		0.00%	100.00%
	Allowable Pension Cost	<u>\$133,961</u>	<u>\$0</u>	<u>\$133,961</u>

* Line of business.

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FOOTNOTES

- 1/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the plan year and accrued contributions deposited after the end of the plan year but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-08-00269). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare segment.
- 2/ We subtracted the interest that is included in the contributions deposited after January 1 of each year to discount the contributions back to their beginning-of-the-year value. For purposes of this Appendix, we computed the interest as the difference between the present value of contributions (at the valuation interest rate) and actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to January 1. For purposes of this Appendix, we deemed deposits made after the end of the plan year to have been made on the final day of the plan year, consistent with the method mandated by Employee Retirement Income Security Act.
- 4/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year Cost Accounting Standards (CAS) funding target. A prepayment credit may be carried forward, with interest, to fund future CAS pension costs.
- 5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at January 1 of each year.
- 6/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of the Federal Acquisition Regulation (FAR) 31.205-6(j)(2)(i). A negative CAS funding target represents an assignable cost credit and is carried forward and used to reduce the CAS funding target for future periods in accordance with CAS 412.50(c)(2)(i).
- 7/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the plan year. Because any funding in excess of the CAS funding target is considered premature funding in accordance with CAS 412.50(c)(1) (as amended), the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimals.
- 8/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.

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- 9/ We assumed that interest on the funded CAS pension cost, less the prepayment credit, accrues in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in four equal installments deposited within 30 days of the end of the quarter.
- 10/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.
- 11/ We converted the plan year (January 1 through December 31) allocable pension costs to an FY basis (October 1 through September 30). We calculated the FY pension costs as 1/4 of the prior year's costs plus 3/4 of the current year's costs. Costs charged to the Medicare contract should consist of the Medicare segment's direct pension costs plus pension costs attributable to indirect Medicare operations.
- 12/ We calculated allowable pension costs of the Medicare and Other Segment based on the Medicare line of business (LOB) percentage of each segment. We determined the LOB percentage based upon documentation from NH – VT.
- 13/ We computed the allowable Medicare pension cost as the CY pension cost multiplied by the Medicare LOB percentage.



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September 25, 2008

Mr. Partick J Cogley
Regional Inspector General for Audit Services
DHHS-OIG Office of Audit Services Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

Reference: **Report Number A-07-08-00270**

Dear Mr. Cogley:

We are in receipt of the draft audit report from the Inspector General entitled "Review of Pension Costs Claimed for Medicare Reimbursement by New Hampshire - Vermont Health Service (NH - VT) for Fiscal Years 1998 Through December 2002." The NH - VT Medicare contract was novated to National Government Services (NGS) effective January 1, 2007 thus NGS is responding to this draft report.

We concur with the finding and recommendation and will amend the applicable Final Administrative Cost Proposals or follow other CMS guidance to claim additional allowable pension costs of \$190,553 for FYs 1988 through 2002. We will also review the process of recording pension cost to ensure that such amounts are properly supported by the Medicare segment CAS pension costs calculations.

We appreciate the opportunity to respond to this draft report.

Sincerely,

Handwritten signature of Glenn Rhodes.

Glenn Rhodes
Chief Financial Officer

cc: Sandra Miller
Rob Squire
Joanne Imel - WellPoint
Wendy Perkins
Gary J. Grant - CMS