

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**ANTHEM HEALTH PLANS OF
NEW HAMPSHIRE, INC.,
DID NOT CLAIM SOME
ALLOWABLE MEDICARE PENSION COSTS
FOR FISCAL YEARS
2003 THROUGH 2005**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



**Patrick J. Cogley
Regional Inspector General**

**June 2013
A-07-13-00407**

Office of Inspector General

<https://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

Anthem Health Plans of New Hampshire, Inc., did not claim \$401,791 of allowable pension costs for Medicare reimbursement for fiscal years 2003 through 2005.

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their pension costs, which are funded by the annual contributions that these contractors make to their pension plans. The amount of pension costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the cost reimbursement principles contained in the Federal Acquisition Regulation, Cost Accounting Standards (CAS), and Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors have not always complied with Federal requirements when claiming pension costs for Medicare reimbursement.

The objective of this review was to determine whether the pension costs claimed by Anthem Health Plans of New Hampshire, Inc. (Anthem New Hampshire), for Medicare reimbursement for fiscal years (FY) 2003 through 2005 were allowable and correctly claimed.

BACKGROUND

Anthem New Hampshire, a subsidiary of WellPoint, Inc. (WellPoint), administers Medicare Part A operations under cost reimbursement contracts with CMS.

On October 27, 1999, Anthem Insurance Companies, Inc. (Anthem), acquired New Hampshire – Vermont Health Service (NH – VT) and on December 31, 2002, Anthem merged the Non-Contributory Retirement Program for Certain Employees of New Hampshire – Vermont Health Service into the Anthem Cash Balance Pension Plan. On November 30, 2004, Anthem merged with WellPoint Health Networks, Inc., and at that time, Anthem changed its name to WellPoint. On January 1, 2006, the Anthem Cash Balance Pension Plan was renamed the WellPoint Cash Balance Pension Plan. Also, effective November 17, 2006, WellPoint consolidated its Government contracting segments into one segment, AdminaStar Federal, Inc. (AdminaStar), which included the Anthem New Hampshire Medicare segment. In addition, as of that same date, AdminaStar changed its corporate name to National Government Services, Inc. (NGS). Thus, although we are addressing this report to NGS, we will associate the term Anthem New Hampshire with our finding and recommendation regarding the pension costs claimed.

WHAT WE FOUND

Anthem New Hampshire claimed pension costs of \$332,405 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs during this period were \$734,196. The difference, \$401,791, represented allowable Medicare pension costs that Anthem New Hampshire did not claim on its Final Administrative Cost Proposals (FACP) for FYs 2003

through 2005. Anthem New Hampshire did not claim these allowable Medicare pension costs primarily because it incorrectly calculated the CAS pension costs for FYs 2003 through 2005.

WHAT WE RECOMMEND

We recommend that Anthem New Hampshire revise its FACPs for FYs 2003 through 2005 to claim the additional pension costs of \$401,791.

AUDITEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, NGS concurred with our finding and recommendation. Anthem New Hampshire's Medicare contract was transitioned to NGS effective November 17, 2006; therefore, NGS commented on our draft report.

NGS also made technical comments to enhance the accuracy and clarity of this report; we accepted these suggestions and have incorporated them into this final report.

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INTRODUCTION

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their pension costs, which are funded by the annual contributions that these contractors make to their pension plans. The amount of pension costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the cost reimbursement principles contained in the Federal Acquisition Regulation (FAR), Cost Accounting Standards (CAS), and Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors have not always complied with Federal requirements when claiming pension costs for Medicare reimbursement.

OBJECTIVE

Our objective was to determine whether the pension costs claimed by Anthem Health Plans of New Hampshire, Inc. (Anthem New Hampshire), for Medicare reimbursement for fiscal years (FY) 2003 through 2005 were allowable and correctly claimed.

BACKGROUND

Anthem Health Plans of New Hampshire, Inc.

Anthem New Hampshire, a subsidiary of WellPoint, Inc. (WellPoint), administers Medicare Part A operations under cost reimbursement contracts with CMS.

On October 27, 1999, Anthem Insurance Companies, Inc. (Anthem), acquired New Hampshire – Vermont Health Service (NH – VT) and on December 31, 2002, Anthem merged the Non-Contributory Retirement Program for Certain Employees of New Hampshire – Vermont Health Service into the Anthem Cash Balance Pension Plan. On November 30, 2004, Anthem merged with WellPoint Health Networks, Inc., and at that time, Anthem changed its name to WellPoint. On January 1, 2006, the Anthem Cash Balance Pension Plan was renamed the WellPoint Cash Balance Pension Plan. Also, effective November 17, 2006, WellPoint consolidated its Government contracting segments into one segment, AdminaStar Federal, Inc. (AdminaStar), which included the Anthem New Hampshire Medicare segment. In addition, as of that same date, AdminaStar changed its corporate name to National Government Services, Inc. (NGS). Thus, although we are addressing this report to NGS, we will associate the term Anthem New Hampshire with our finding and recommendation regarding the pension costs claimed.

Medicare Reimbursement of Pension Costs

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

Beginning with 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-based 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.

HOW WE CONDUCTED THIS REVIEW

We reviewed \$332,405 of pension costs claimed by Anthem New Hampshire for Medicare reimbursement on its Final Administrative Cost Proposals (FACP) for FYs 2003 through 2005.

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 objectives.

Appendix A contains details of our audit scope and methodology.

FINDING

Anthem New Hampshire claimed pension costs of \$332,405 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs during this period were \$734,196. The difference, \$401,791, represented allowable Medicare pension costs that Anthem New Hampshire did not claim on its FACP for FYs 2003 through 2005. Anthem New Hampshire did not claim these allowable Medicare pension costs primarily because it incorrectly calculated the CAS pension costs for FYs 2003 through 2005.

CLAIMED PENSION COSTS

Anthem New Hampshire submitted Medicare pension costs of \$332,405 for Medicare reimbursement on its FACP for FYs 2003 through 2005. We calculated the allowable Medicare pension costs based on separately computed CAS-based pension costs for the Medicare segment and the “Other” segment in accordance with CAS 412 and 413. For details on the Federal requirements, see Appendix B.

ALLOWABLE PENSION COSTS NOT CLAIMED

We determined that the allowable CAS-based pension costs for FYs 2003 through 2005 were \$734,196. Thus, Anthem New Hampshire did not claim \$401,791 of allowable Medicare pension costs on its FACP for FYs 2003 through 2005. This underclaim occurred primarily because Anthem New Hampshire incorrectly calculated the CAS pension costs for FYs 2003 through 2005.

The table below compares allowable CAS-based pension costs with the pension costs claimed on Anthem New Hampshire’s FACPs and reflected in its accounting documents. Appendix C contains additional details on allowable pension costs.

Table: Comparison of Allowable Pension Costs and Claimed Pension Costs

	<u>Medicare Pension Costs</u>		
Fiscal Year	Allowable Per Audit	Claimed by Anthem New Hampshire	Difference
2003	\$239,458	\$114,218	\$125,240
2004	261,971	100,000	161,971
2005	232,767	118,187	114,580
Total	\$734,196	\$332,405	\$401,791

RECOMMENDATION

We recommend that Anthem New Hampshire revise its FACPs for FYs 2003 through 2005 to claim the additional pension costs of \$401,791.

AUDITEE COMMENTS

In written comments on our draft report, NGS concurred with our finding and recommendation. Anthem New Hampshire’s Medicare contract was transitioned to NGS effective November 17, 2006; therefore, NGS commented on our draft report.

NGS also made technical comments to enhance the accuracy and clarity of this report. These comments clarified information pertaining to entity and pension plan names as well as the effective date of the Government contract segments’ consolidation.

NGS’s comments are included in their entirety as Appendix D.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing NGS’s comments, we accepted the technical comments and have incorporated them into this final report.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

Scope

We reviewed \$332,405 of pension costs that Anthem New Hampshire claimed for Medicare reimbursement on its FACPs for FYs 2003 through 2005.

Achieving our objective did not require that we review Anthem New Hampshire's overall internal control structure. We reviewed 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 completed our audit work in November and December 2012.

Methodology

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- reviewed information provided by WellPoint to identify the amount of pension costs claimed for Medicare reimbursement for FYs 2003 through 2005;
- used information that WellPoint's actuarial consulting firms provided, including information on assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses;
- examined WellPoint's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Forms 5500;
- determined the extent to which WellPoint funded CAS-based pension costs with contributions to the pension trust fund and accumulated prepayment credits;
- engaged the CMS Office of the Actuary to calculate the allocable pension costs based on the CAS (the calculations were based on separately computed CAS-based pension costs for the Anthem New Hampshire Medicare segment and the "Other" segment); and
- reviewed the CMS actuaries' methodology and calculations.

We performed this review in conjunction with the following audits and used this information obtained during these audits during this review:

- *Anthem Health Plans of Maine, Inc., Overstated Its Medicare Segment Pension Assets as of January 1, 2006 (A-07-13-00404),*

- *Anthem Health Plans of Maine, Inc., Did Not Claim Some Allowable Medicare Pension Costs for Fiscal Years 2003 Through 2005 (A-07-13-00405),*
- *Anthem Health Plans of New Hampshire, Inc., Understated Its Medicare Segment Pension Assets as of January 1, 2006 (A-07-13-00406),*
- *National Government Services, Inc., Understated Its Medicare Segment Pension Assets as of January 1, 2010 (A-07-13-00408), and*
- *National Government Services, Inc., Did Not Claim Some Allowable Medicare Pension Costs for Fiscal Years 2003 Through 2006 (A-07-13-00409).*

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 objectives.

APPENDIX B: FEDERAL REQUIREMENTS RELATED TO REIMBURSEMENT OF PENSION COSTS

FEDERAL REGULATIONS

Federal regulations (FAR 31.205-6(j)) address allowability of pension costs and require that contractors fund the pension costs assigned to contract periods by making contributions to the pension plan.

Federal regulations (CAS 412) address the determination and measurement of pension cost components. This regulation also addresses the assignment of pension costs to appropriate accounting periods.

Federal regulations (CAS 413) address 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.

MEDICARE CONTRACTS

The Medicare contracts address the determination and allocation of pension costs. The contracts state: “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.”

**APPENDIX C: ALLOWABLE MEDICARE PENSION COSTS FOR
ANTHEM HEALTH PLANS OF NEW HAMPSHIRE, INC.,
FOR FISCAL YEARS 2003 THROUGH 2005**

Date	Description		Total Company	“Other” Segment	Anthem New Hampshire Segment	NGS Segment	Anthem Maine Segment	Total Medicare
2002	Allocable Pension Costs	1/		\$2,449,901	\$152,632	\$0	\$0	
2003	Contributions	2/	\$65,000,000	\$65,000,000	\$0	\$0	\$0	
	Discount for Interest	3/	(\$3,534,074)	(\$3,534,074)	\$0	\$0	\$0	
January 1, 2003	Present Value Contributions	4/	\$61,465,926	\$61,465,926	\$0	\$0	\$0	
	Prepayment Credit Applied	5/	\$53,095,812	\$48,531,571	\$243,725	\$3,704,635	\$615,881	
	Present Value of Funding	6/	\$114,561,738	\$109,997,497	\$243,725	\$3,704,635	\$615,881	
January 1, 2003	CAS Funding Target	7/	\$53,095,812	\$48,531,571	\$243,725	\$3,704,635	\$615,881	
	Percentage Funded	8/		100.00%	100.00%	100.00%	100.00%	
	Funded Pension Cost	9/		\$48,531,571	\$243,725	\$3,704,635	\$615,881	
	Allowable Interest	10/		\$0	\$0	\$0	\$0	
	Allocable Pension Cost	11/		\$48,531,571	\$243,725	\$3,704,635	\$615,881	
2003	FY Allocable Pension Costs	12/		\$37,011,154	\$220,952			
	Medicare LOB* Percentage	13/		0.05%	100.00%	N/A	N/A	
	Allowable Pension Cost	14/		\$18,506	\$220,952	N/A	N/A	\$239,458

Date	Description		Total Company	“Other” Segment	Anthem New Hampshire Segment	NGS Segment	Anthem Maine Segment	Total Medicare
2004	Contributions		\$10,000,000	\$10,000,000	\$0	\$0	\$0	
	Discount for Interest		(\$555,556)	(\$555,556)	\$0	\$0	\$0	
January 1, 2004	Present Value Contributions		\$9,444,444	\$9,444,444	\$0	\$0	\$0	
	Prepayment Credit Applied		\$51,790,851	\$47,324,552	\$236,302	\$3,600,628	\$629,369	
	Present Value of Funding		\$61,235,295	\$56,768,996	\$236,302	\$3,600,628	\$629,369	
January 1, 2004	CAS Funding Target		\$51,790,851	\$47,324,552	\$236,302	\$3,600,628	\$629,369	
	Percentage Funded			100.00%	100.00%	100.00%	100.00%	
	Funded Pension Cost			\$47,324,552	\$236,302	\$3,600,628	\$629,369	
	Allowable Interest			\$0	\$0	\$0	\$0	
	Allocable Pension Cost			\$47,324,552	\$236,302	\$3,600,628	\$629,369	
2004	FY Allocable Pension Costs			\$47,626,307	\$238,158	\$3,626,630	\$625,997	
	Medicare LOB* Percentage			0.05%	100.00%	N/A	N/A	
	Allowable Pension Cost			\$23,813	\$238,158	N/A	N/A	\$261,971

Date	Description	Total Company	“Other” Segment	Anthem New Hampshire Segment	NGS Segment	Anthem Maine Segment	Total Medicare
2005	Contributions	\$46,500,000	\$46,500,000	\$0	\$0	\$0	
	Discount for Interest	(\$2,583,333)	(\$2,583,333)	\$0	\$0	\$0	
January 1, 2005	Present Value Contributions	\$43,916,667	\$43,916,667	\$0	\$0	\$0	
	Prepayment Credit Applied	\$49,875,639	\$45,721,239	\$206,990	\$3,276,707	\$670,703	
	Present Value of Funding	\$93,792,306	\$89,637,906	\$206,990	\$3,276,707	\$670,703	
January 1, 2005	CAS Funding Target	\$49,875,639	\$45,721,239	\$206,990	\$3,276,707	\$670,703	
	Percentage Funded		100.00%	100.00%	100.00%	100.00%	
	Funded Pension Cost		\$45,721,239	\$206,990	\$3,276,707	\$670,703	
	Allowable Interest		\$0	\$0	\$0	\$0	
	Allocable Pension Cost		\$45,721,239	\$206,990	\$3,276,707	\$670,703	
2005	FY Allocable Pension Costs		\$46,122,067	\$214,318	\$3,357,687	\$660,370	
	Medicare LOB* Percentage		0.04%	100.00%	N/A	N/A	
	Allowable Pension Cost		\$18,449	\$214,318	N/A	N/A	\$232,767

* Line of business.

ENDNOTES

- 1/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes. We obtained the 2002 calendar year (CY) allocable pension cost from our prior NH - VT review (A-07-08-00270), issued October 3, 2008.
- 2/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the CY and accrued contributions deposited after the end of the CY but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-13-00406). The amounts shown for the “Other” segment represent the difference between the Total Company and the Medicare segment.
- 3/ We subtracted the interest that was included in the contributions deposited after the beginning of the valuation 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.
- 4/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the CY. For purposes of this Appendix, we deemed deposits made after the end of the CY to have been made on the final day of the CY, consistent with the method mandated by the Employee Retirement Income Security Act used prior to the implementation of the Pension Protection Act.
- 5/ 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 CAS funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.
- 6/ 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 the first day of the CY.
- 7/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of the FAR 31.205-6(j)(2)(i).
- 8/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the CY. Because any funding in excess of the CAS funding target is accounted for as a prepayment 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 decimal places.
- 9/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.
- 10/ We assumed that interest on the funded CAS-based 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 after the end of the quarter.
- 11/ We converted the allocable pension cost 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.

- 12/ We calculated allowable pension costs of the Medicare and “Other” segments based on the Medicare line of business (LOB) percentage of each segment. We determined the Medicare LOB percentages based upon information provided by Anthem New Hampshire.
- 13/ We computed the allowable Medicare pension cost as an FY pension cost multiplied by the Medicare LOB percentage. In accordance with CAS 412 and 413, the total Medicare allowable pension costs charged to the Medicare contract consisted of the Anthem New Hampshire Medicare segment’s direct pension costs plus “Other” segment pension costs attributable to indirect Anthem New Hampshire Medicare operations.

APPENDIX D: AUDITEE COMMENTS



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MEDICARE

May 14, 2013

Mr. Patrick J. Cogley
Regional Inspector General for Audit Services
Office of Audit Services, Region VII
601 East 12th Street, Room 0429
Kansas City, Missouri 64106

Reference: Report Number A-07-13-00407

Dear Mr. Cogley:

We have received the draft audit report from the Inspector General entitled "Anthem Health Plans of New Hampshire, Inc. Did Not Claim Some Allowable Medicare Pension Costs for Fiscal Years 2003 through 2005" and thank you for the opportunity to respond.

National Government Services, Inc. (NGS) concurs with the finding and recommendation outlined in the report and will work with the Centers for Medicare & Medicaid Services to seek reimbursement for the additional allowable pension cost identified in the report.

In our review of the report, the following proposed revisions would enhance the accuracy and clarity of the report:

- In the "Executive Summary" section (page i) within the "Background" caption and in the "Introduction" section (page 1) within the "Background" caption, please replace the second paragraph with the following which accurately describes the organization:

On October 27, 1999, Anthem Insurance Companies, Inc. (Anthem), acquired New Hampshire-Vermont Health Service (NH-VT) and on December 31, 2002 Anthem merged the Non-Contributory Retirement Program for Certain Employees of New Hampshire-Vermont Health Service ("Prior New Hampshire Plan") into the Anthem Cash Balance Pension Plan. On November 30, 2004, Anthem merged with WellPoint Health Networks, Inc. and changed its name to WellPoint, Inc. On January 1, 2006, the Anthem Cash Balance Pension Plan was renamed the WellPoint Cash Balance Pension Plan. Also, effective November 17, 2006, WellPoint consolidated its Government contracting segments into one segment, AdminaStar Federal, Inc. (AdminaStar), which include the Anthem





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New Hampshire Medicare segment. In addition as of that same date, AdminaStar changed its corporate name to National Government Services, Inc. (NGS). Thus although we are addressing this report to NGS, we will associate the term Anthem New Hampshire with our finding and recommendation regarding pension costs claimed.

We appreciate the opportunity to respond to this draft report. If you have any further questions, I can be reached at 414-459-5606 or via email at todd.reiger@wellpoint.com.

Sincerely,

A handwritten signature in black ink that reads "Todd W. Reiger".

Digitally signed by
todd.reiger@wellpoint.com
DN: cn=todd.reiger@wellpoint.com
Date: 2013.05.14 08:48:52 -04'00'

Todd W. Reiger, CPA
Medicare Chief Financial Officer
National Government Services, Inc.

CC: Michael Kapp – NGS
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Jeff Hannah – NGS
Jim Maguire – NGS
Matt Hughes – NGS
Jim Elmore – NGS
Joanne Imel – WellPoint
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Jenene Tambke – OIG

