



DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF AUDIT SERVICES  
233 NORTH MICHIGAN AVENUE  
CHICAGO, ILLINOIS 60601

August 25, 2004

REGION V  
OFFICE OF  
INSPECTOR GENERAL

Report Number: A-05-03-00096

Michael McCarron  
President  
AdminaStar Federal, Inc.  
8115 Knue Road  
Indianapolis, IN 46250

Dear Mr. McCarron:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final audit report entitled, "Audit of Administrative Costs Claimed Under Parts A & B of the Health Insurance for the Aged and Disabled Programs at AdminaStar Federal, Inc." for the period October 1, 1999 through September 30, 2002. A copy of this report will be forwarded to the HHS action official noted below for review and any action deemed necessary.

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

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), OIG reports issued to the department's grantees and contractors are made available 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.)

Please refer to Report Number A-05-03-00096 in all correspondence.

Sincerely,

A handwritten signature in cursive script that reads "Paul Swanson".

Paul Swanson  
Regional Inspector General  
for Audit Services

Enclosures

**Direct Reply to HHS Action Official:**

Ms. Jacqueline Garner  
Regional Administrator  
Centers for Medicare & Medicaid Services  
Department of Health and Human Services  
233 North Michigan Avenue, Suite 600  
Chicago, Illinois 60601-5519

**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 PROGRAMS**



**AUGUST 2004  
A-05-03-00096**

# ***Office of Inspector General***

**<http://oig.hhs.gov>**

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The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

## ***Office of Audit Services***

The OIG's Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the department.

## ***Office of Evaluation and Inspections***

The OIG's Office of Evaluation and Inspections (OEI) conducts short-term management and program evaluations (called inspections) that focus on issues of concern to the department, the Congress, and the public. The findings and recommendations contained in the inspections reports generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs. The OEI also oversees State Medicaid fraud control units, which investigate and prosecute fraud and patient abuse in the Medicaid program.

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The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops model compliance plans, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

# *Notices*

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**THIS REPORT IS AVAILABLE TO THE PUBLIC**  
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In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services, reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.)

## **OAS FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Final determination on these matters will be made by authorized officials of the HHS divisions.



## EXECUTIVE SUMMARY

### BACKGROUND

AdminaStar Federal, Inc. (AdminaStar) receives, reviews, audits and pays Medicare Part A claims under contracts that AdminaStar's parent company, Anthem, has with the Blue Cross and Blue Shield Association and the Centers for Medicare and Medicaid Services (CMS). In addition, AdminaStar receives, reviews, audits and pays Medicare Part B and DMERC claims under separate contracts that it has with CMS. AdminaStar is entitled to reimbursement for its allowable administrative costs incurred. For the period October 1, 1999 through September 30, 2002, AdminaStar claimed administrative costs of \$343,133,500 on its Final Administrative Costs Proposals (FACP). The costs claimed break down as follows:

<u>Fiscal Year</u>	<u>Part A</u>	<u>Part B</u>	<u>DMERC</u>	<u>Total</u>
2000	\$50,045,634	\$38,572,028	\$24,050,186	\$112,667,848
2001	50,889,528	40,256,529	26,155,009	117,301,066
2002	<u>49,242,792</u>	<u>37,313,144</u>	<u>26,608,650</u>	<u>113,164,586</u>
Total	<u>\$150,177,954</u>	<u>\$116,141,701</u>	<u>\$76,813,845</u>	<u>\$343,133,500</u>

### OBJECTIVE

The objective of our review 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 costs were in accordance with (i) Federal Acquisition Regulations (FAR) part 31, (ii) the Carrier/Intermediary Manual, and (iii) the Medicare contracts. We also reviewed the reasonableness of salary increases, applicable to certain AdminaStar Federal and Anthem executives, that were charged to Medicare.

### SUMMARY OF FINDINGS

During the period covered by our audit, pension costs claimed on the FACP's were overstated by \$4,595,563 and executive salary increases claimed on the FACP's of \$405,035 were excessive. Costs claimed and amounts questioned, by program and fiscal year, are presented in the attached Exhibits.

### PENSION COSTS

AdminaStar overstated pension costs claimed by \$4,595,563 because it did not fund its pension plan with cash contributions. The FAR Part 31.205-6(j)(2)(i) states that "pension costs must be funded by the time set for filing of the Federal income tax return or any extension thereof ... to be allowable in the current year."

AdminaStar claimed the costs based on accrual accounting entries rather than actual cash contributions. As a result, administrative costs claimed on the FY 2000 through FY 2002 FACPs were overstated by \$4,595,563.

## **EXECUTIVE COMPENSATION**

AdminaStar overstated executive compensation by \$405,035 on FYs 2000 through 2002 FACPs because salary increases awarded to selected AdminaStar and Anthem executives exceeded the average increases for comparable positions established by the Employment Cost Index (ECI), published by the Department of Labor, Bureau of Labor Statistics. This index was used to evaluate reasonableness of executive compensation because we considered it the most equitable and relevant measure.

We analyzed the salary increases for 31 executives at AdminaStar and Anthem, Inc. that had portions of their salaries allocated to the Medicare contracts. Both Anthem and AdminaStar executives received salary increases that were in excess of the percentages from the ECI because neither the ECI nor other comparable tool was used to determine the overall reasonableness of executive salary increases.

## **RECOMMENDATIONS**

We recommend that AdminaStar:

- Make a financial adjustment of \$4,595,563 for pension costs claimed on its FYs 2000 through 2002 FACPs based solely on accrual accounting entries.
- Establish procedures to ensure that unfunded pension costs are not charged to Medicare.
- Make a financial adjustment of \$405,035 for executive salary increases that exceeded the ECI.

## **ADMINASTAR'S COMMENTS**

In its response to our draft report, AdminaStar officials stated that pension costs are the subject of a separate OIG pension segmentation/valuation initiative.

In addition, AdminaStar disagreed with the \$405,035 questioned for executive compensation increases stating that the increases are reasonable within the context of normal and prudent business practices, industry norms, and geographic norms. AdminaStar officials believe that their compensation and related increases conform to the meaning, intent and requirements of FAR 31.205-6.

## **OFFICE OF INSPECTOR GENERAL'S RESPONSE**

CMS officials advised us that they would likely resolve our pension finding of \$4,595,563 after the overall pension segmentation audit is completed. We are questioning unfunded pension costs in this report because the costs were claimed on the FACPs and because this is a repeat finding from prior audits.

As stated in the executive compensation finding, the Department of Labor's ECI index was utilized for the express purpose of judging the reasonableness of executive salary increases. We used this index because it is a widely recognized, unbiased, measure of the industry-wide compensation practices. We continue to maintain the use of this index is an equitable and relevant measure in determining reasonableness of increases in executive compensation. Further, the FAR does not prohibit the use of the ECI index as a measurement tool.

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## INTRODUCTION

### BACKGROUND

Title XVIII of the Social Security Act established Health Insurance for the Aged and Disabled (Medicare). 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 Centers for Medicare & Medicaid Services (CMS) administers the Medicare program. Under a contract with CMS, the Blue Cross and Blue Shield Association (BCBSA) participates as a Medicare intermediary to assist in program administration.

During our audit period, AdminaStar Federal, Inc. 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. Under a separate contract with CMS, AdminaStar participates as a Medicare carrier and performs the same functions for Medicare Part B. Under another separate contract with CMS, AdminaStar participates as a Durable Medical Equipment Regional Carrier (DMERC) to process and pay DME claims for a ten state area.

Subject to limitations specified in the agreements, AdminaStar is entitled to reimbursement for reasonable administrative costs incurred. From October 1, 1999 through September 30, 2002, AdminaStar claimed \$343,133,500 in administrative costs.

### OBJECTIVE, SCOPE, AND METHODOLOGY

**Objective.** 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.

**Scope.** For the period October 1, 1999 through September 30, 2002, 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 contracts. We also reviewed the reasonableness of salary increases, applicable to certain AdminaStar Federal and Anthem executives, which were charged to Medicare. Our audit did not cover pension segmentation. A separate audit of the AdminaStar pension plan for compliance with pension segmentation requirements will be performed by OAS Region VII.

**Methodology.** Our examination included audit procedures designed to achieve our objectives and a review of accounting records and supporting documentation. Audit fieldwork was performed at AdminaStar’s office in Louisville, Kentucky from August 2003 through January 2004.

Our audit was conducted in accordance with generally accepted Government auditing standards.

## **FINDINGS AND RECOMMENDATIONS**

During the period covered by our audit, pension costs claimed on the FACPs were overstated by \$4,595,563 and executive salary increases claimed on the FACPs of \$405,035 were excessive. Costs claimed and amounts questioned, by program and fiscal year, are presented in the attached Exhibits.

### **PENSION COSTS**

AdminaStar overstated pension costs on the FY 2000 through FY 2002 FACPs by \$4,595,563 because AdminaStar did not fund its pension plan with cash contributions. The FAR Part 31.205-6(j)(2)(i) states that “pension costs must be funded by the time set for filing of the Federal income tax return or any extension thereof ... to be allowable in the current year.”

AdminaStar claimed the costs based on accrual accounting entries rather than actual cash contributions. As a result, administrative costs claimed on the FY 2000 through FY 2002 FACPs were overstated by \$4,595,563.

### **RECOMMENDATIONS**

We recommend that AdminaStar:

- make a financial adjustment of \$4,595,563, as follows:

<b>Fiscal Year</b>	<b>Part A</b>	<b>Part B</b>	<b>DMERC</b>	<b>Total</b>
<b>2000</b>	\$462,505	\$435,240	\$266,211	\$1,163,956
<b>2001</b>	658,768	627,282	386,483	1,672,533
<b>2002</b>	670,771	658,544	429,759	1,759,074
<b>Total</b>	<u>\$1,792,044</u>	<u>\$1,721,066</u>	<u>\$1,082,453</u>	<u>\$4,595,563</u>

- establish procedures to ensure that unfunded pension costs are not charged to Medicare.

**ADMINASTAR’S COMMENTS**

AdminaStar officials stated that pension costs are the subject of a separate OIG pension segmentation/valuation initiative.

**OFFICE OF INSPECTOR GENERAL’S RESPONSE**

CMS officials advised us that they would likely resolve our pension finding of \$4,595,563 after the overall pension segmentation audit is completed. We are questioning unfunded pension costs in this report because the costs were included/claimed on the FACPs and because this is a repeat finding from prior audits.

**EXECUTIVE SALARY INCREASES**

AdminaStar overstated executive compensation by \$405,035 on FYs 2000 through 2002 FACPs because salary increases awarded to selected AdminaStar and Anthem executives exceeded the average increases for comparable positions established by the Employment Cost Index (ECI), published by the Department of Labor, Bureau of Labor Statistics. This index was used to evaluate reasonableness of executive compensation because we considered it the most equitable and relevant measure.

The ECI represents dozens of indices that are calculated for various occupational and industry groups to measure the rate of change in employee compensation. The ECI is a fixed weight index at the occupational level and eliminates the effects of employment shifts among occupations. This index is distinguished from other surveys in that it covers all establishments and occupations in both the private non-farm and public sectors. The index was used because we considered it to be the most equitable and relevant measure. For executives in managerial/administrative positions, the ECI showed the following average increases for FY 2000 through FY 2002:

<b>FY 2000</b>	4.0%	<b>FY 2001</b>	3.2%	<b>FY 2002</b>	4.5%
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We analyzed the salary increases for 31 executives (vice president equivalent and above) at Anthem and AdminaStar that had portions of their salaries allocated to the Medicare contracts. Both Anthem and AdminaStar executives received salary increases that were in excess of the percentages from the ECI because neither the ECI nor other comparable tool was used to determine the overall reasonableness of executive salary increases. As a result, AdminaStar overstated executive compensation by \$405,035.

**RECOMMENDATION**

We recommend that AdminaStar make a financial adjustment of \$405,035, as follows:

<b>Fiscal Year</b>	<b>Part A</b>	<b>Part B</b>	<b>DMERC</b>	<b>Total</b>
<b>2000</b>	\$41,582	\$32,049	\$19,983	\$93,614
<b>2001</b>	42,238	33,412	21,708	97,358
<b>2002</b>	93,148	70,582	50,333	214,063
<b>Total</b>	<u>\$176,968</u>	<u>\$136,043</u>	<u>\$92,024</u>	<u>\$405,035</u>

### **ADMINASTAR’S COMMENTS**

AdminaStar disagreed with the \$405,035 questioned for executive compensation increases stating that the increases are reasonable within the context of normal and prudent business practices, industry norms, and geographic norms. AdminaStar officials believe that their compensation and related increases conform to the meaning, intent and requirements of FAR 31.205-6.

### **OFFICE OF INSPECTOR GENERAL’S RESPONSE**

As stated in the executive compensation finding, the Department of Labor’s ECI index was utilized for the express purpose of judging the reasonableness of executive salary increases. We used this index because it is a widely recognized, unbiased, measure of the industry-wide compensation practices. We continue to maintain the use of this index is an equitable and relevant measure in determining reasonableness of increases in executive compensation. Further, the FAR does not prohibit the use of the ECI index as a measurement tool.

### **OTHER MATTERS**

The CMS 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 our report.

# APPENDICES

**APPENDIX A**

ADMINASTAR FEDERAL, INC.  
FINAL ADMINISTRATIVE COST PROPOSAL (PART A)  
AND THE OIG RECOMMENDATIONS  
OCTOBER 1, 1999 THROUGH SEPTEMBER 30, 2000

<u>Operation</u>	<u>Administrative Costs</u>
Bills/Claims Payment	\$14,368,705
Appeals/Reviews	1,413,096
Inquiries	4,263,691
Provider Education and Training	1,624,068
Reimbursement	3,671,138
Productivity Investments	183,685
Complementary Insurance Credits	(1,585,102)
Medical Review	5,237,579
Medicare Secondary Payer	5,137,634
Benefits Integrity	1,306,761
MIP Provider Education and Training	664,205
Audit	13,742,062
MIP Special Projects	18,112
Total Administrative Costs Claimed	<u>\$50,045,634</u>
Recommended Adjustments:	
Pension	462,505
Executive Salary Increases	41,582
Total Adjustments	<u>\$504,087</u>
Costs Recommended for Acceptance	<u>\$49,541,547</u>

**APPENDIX B**

ADMINASTAR FEDERAL, INC.  
FINAL ADMINISTRATIVE COST PROPOSAL (PART B)  
AND THE OIG RECOMMENDATIONS  
OCTOBER 1, 1999 THROUGH SEPTEMBER 30, 2000

<u>Operation</u>	<u>Administrative Costs</u>
Bills/Claims Payment	\$22,667,487
Appeals/Reviews	4,182,236
Inquiries	6,641,315
Provider Education and Training	1,232,022
Participating Physician	52,262
Productivity Investments	813,128
Complementary Insurance Credits	(5,639,022)
Medical Review	4,513,303
Medicare Secondary Payer	2,365,386
Benefits Integrity	1,399,330
MIP Provider Education and Training	326,690
MIP Special Projects	17,891
Total Administrative Costs Claimed	<u>\$38,572,028</u>
Recommended Adjustments:	
Pension	435,240
Executive Salary Increases	32,049
Total Adjustments	<u>\$467,289</u>
Costs Recommended for Acceptance	<u>\$38,104,739</u>

**APPENDIX C**

ADMINASTAR FEDERAL, INC.  
FINAL ADMINISTRATIVE COST PROPOSAL (DMERC)  
AND THE OIG RECOMMENDATIONS  
OCTOBER 1, 1999 THROUGH SEPTEMBER 30, 2000

<u>Operation</u>	<u>Administrative Costs</u>
Bills/Claims Payment	\$11,481,579
Appeals/Reviews	3,699,736
Inquiries	4,761,240
Provider Education and Training	898,660
Productivity Investments	105,525
Complementary Insurance Credits	(2,070,685)
Medical Review	2,697,776
Medicare Secondary Payer	675,346
Benefits Integrity	1,555,364
MIP Provider Education and Training	245,645
Total Administrative Costs Claimed	<u>\$24,050,186</u>
Recommended Adjustments:	
Pension	266,211
Executive Salary Increases	19,983
Total Adjustments	<u>\$286,194</u>
Costs Recommended for Acceptance	<u>\$23,763,992</u>



**APPENDIX D**

**ADMINASTAR FEDERAL, INC.  
FINAL ADMINISTRATIVE COST PROPOSAL (PART A)  
AND THE OIG RECOMMENDATIONS  
OCTOBER 1, 2000 THROUGH SEPTEMBER 30, 2001**

<b><u>Operation</u></b>	<b><u>Administrative Costs</u></b>
Bills/Claims Payment	\$13,321,531
Appeals/Reviews	2,015,512
Inquiries	2,696,642
Provider Education and Training	1,386,085
Reimbursement	3,831,588
Productivity Investments	297,172
Provider Telephone Inquiries	1,941,885
Complementary Insurance Credits	(1,689,824)
Medical Review	5,150,086
Medicare Secondary Payer	5,240,124
Benefits Integrity	1,353,732
MIP Provider Education and Training	991,006
Audit	14,353,989
	<u>Total Administrative Costs Claimed</u>
	<u>\$50,889,528</u>
Recommended Adjustments:	
Pension	658,768
Executive Salary Increases	42,238
	<u>Total Adjustments</u>
	<u>\$701,006</u>
	<u>Costs Recommended for Acceptance</u>
	<u>\$50,188,522</u>

**APPENDIX E**

**ADMINASTAR FEDERAL, INC.  
FINAL ADMINISTRATIVE COST PROPOSAL (PART B)  
AND THE OIG RECOMMENDATIONS  
OCTOBER 1, 2000 THROUGH SEPTEMBER 30, 2001**

<u>Operation</u>	<u>Administrative Costs</u>
Bills/Claims Payment	\$24,137,657
Appeals/Reviews	4,970,083
Inquiries	4,406,666
Provider Education and Training	855,340
Participating Physician	28,875
Productivity Investments	113,011
Provider Telephone Inquiries	2,891,179
Complementary Insurance Credits	(6,398,938)
Medical Review	4,907,297
Medicare Secondary Payer	2,316,504
Benefits Integrity	1,627,083
MIP Provider Education and Training	401,772
Total Administrative Costs Claimed	<u>\$40,256,529</u>
Recommended Adjustments:	
Pension	627,282
Executive Salary Increases	33,412
Total Adjustments	<u>\$660,694</u>
Costs Recommended for Acceptance	<u>\$39,595,835</u>

**APPENDIX F**

**ADMINASTAR FEDERAL, INC.  
FINAL ADMINISTRATIVE COST PROPOSAL (DMERC)  
AND THE OIG RECOMMENDATIONS  
OCTOBER 1, 2000 THROUGH SEPTEMBER 30, 2001**

<b><u>Operation</u></b>	<b><u>Administrative Costs</u></b>
Bills/Claims Payment	\$12,357,961
Appeals/Reviews	4,092,899
Inquiries	4,107,218
Provider Education and Training	654,361
Productivity Investments	95,194
Provider Telephone Inquiries	1,763,254
Complementary Insurance Credits	(2,480,184)
Medical Review	2,718,105
Medicare Secondary Payer	731,607
Benefits Integrity	1,792,576
MIP Provider Education and Training	<u>322,018</u>
Total Administrative Costs Claimed	<u>\$26,155,009</u>
Recommended Adjustments:	
Pension	386,483
Executive Salary Increases	<u>21,708</u>
Total Adjustments	<u>\$408,191</u>
Costs Recommended for Acceptance	<u><u>\$25,746,818</u></u>

**APPENDIX G**

**ADMINASTAR FEDERAL, INC.  
FINAL ADMINISTRATIVE COST PROPOSAL (PART A)  
AND THE OIG RECOMMENDATIONS  
OCTOBER 1, 2001 THROUGH SEPTEMBER 30, 2002**

<b><u>Operation</u></b>	<b><u>Administrative Costs</u></b>
Bills/Claims Payment	\$14,540,000
Appeals/Reviews	2,032,054
Inquiries	2,721,942
Provider Education and Training	982,280
Reimbursement	3,880,542
Productivity Investments	177,429
Provider Telephone Inquiries	1,656,282
Complementary Insurance Credits	(2,046,891)
Medical Review	3,619,059
Medicare Secondary Payer	4,565,206
Benefits Integrity	1,226,171
MIP Provider Education and Training	1,206,927
Audit	14,681,791
	<u>Total Administrative Costs Claimed</u>
	<u>\$49,242,792</u>
Recommended Adjustments:	
Pension	670,771
Executive Salary Increases	93,148
	<u>Total Adjustments</u>
	<u>\$763,919</u>
	<u>Costs Recommended for Acceptance</u>
	<u>\$48,478,873</u>

**APPENDIX H**

**ADMINASTAR FEDERAL, INC.  
FINAL ADMINISTRATIVE COST PROPOSAL (PART B)  
AND THE OIG RECOMMENDATIONS  
OCTOBER 1, 2001 THROUGH SEPTEMBER 30, 2002**

<b><u>Operation</u></b>	<b><u>Administrative Costs</u></b>
Bills/Claims Payment	\$22,840,173
Appeals/Reviews	5,858,715
Inquiries	4,560,746
Provider Education and Training	681,259
Participating Physician	17,277
Productivity Investments	1,131,383
Provider Telephone Inquiries	2,537,630
Complementary Insurance Credits	(7,233,564)
Medical Review	2,641,338
Medicare Secondary Payer	1,876,225
Benefits Integrity	1,736,224
MIP Provider Education and Training	665,738
Total Administrative Costs Claimed	<u>\$37,313,144</u>
Recommended Adjustments:	
Pension	658,544
Executive Salary Increases	<u>70,582</u>
Total Adjustments	<u>\$729,126</u>
Costs Recommended for Acceptance	<u><u>\$36,584,018</u></u>

**APPENDIX I**

ADMINASTAR FEDERAL, INC.  
FINAL ADMINISTRATIVE COST PROPOSAL (DMERC)  
AND THE OIG RECOMMENDATIONS  
OCTOBER 1, 2001 THROUGH SEPTEMBER 30, 2002

<u>Operation</u>	<u>Administrative Costs</u>
Bills/Claims Payment	\$13,051,671
Appeals/Reviews	4,099,718
Inquiries	4,389,903
Provider Education and Training	548,878
Productivity Investments	324,128
Provider Telephone Inquiries	2,344,133
Complementary Insurance Credits	(3,179,213)
Medical Review	2,211,214
Medicare Secondary Payer	648,385
Benefits Integrity	1,684,770
MIP Provider Education and Training	485,063
Total Administrative Costs Claimed	<u>\$26,608,650</u>
Recommended Adjustments:	
Pension	429,759
Executive Salary Increases	50,333
Total Adjustments	<u>\$480,092</u>
Costs Recommended for Acceptance	<u>\$26,128,558</u>



# Medicare

A Medicare Carrier & Intermediary  
(502) 327-5178  
Glenn Rhodes  
Chief Financial Officer

June 25, 2004

Mr. Paul Swanson  
Regional Inspector General for Audit Services  
DHHS-OIG Office of Audit Services  
233 North Michigan Avenue  
Chicago, Illinois 60601

Reference: **Report Number A-05-03-00096**

Dear Mr. Swanson:

We are in receipt of the draft audit report from the Inspector General entitled "Audit of Administrative Costs Claimed Under Parts A & B of the Health Insurance for the Aged and Disabled Programs" covering the period October 1, 1999 through September 30, 2002. We note the finding regarding Pension Costs and understand that the final resolution and disposition of this issue is currently the subject of a separate OIG and AdminaStar pension segmentation/valuation initiative.

As noted in previous administrative expense audits, we disagree with the OIG's finding regarding executive compensation and believe that our executive compensation and increases therein, are reasonable within the context of normal and prudent business practices, industry norms, as well as geographic norms. We also believe that our compensation and related increases conform to the meaning, intent and requirements of FAR 31.205-6.

We appreciate the opportunity to respond to the draft audit report which we believe validates that our administrative expenses for the period reviewed were reasonable, allocable and allowable

Sincerely,

Glenn Rhodes  
Chief Financial Officer

cc: Mike McCarron  
Opal Nealy – CMS Chicago

■ **AdminaStar Federal**

A CMS Contracted Carrier & Intermediary