



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

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

OCT 02 2006

Report Number: A-07-06-00215

Ms. Jean Rush, President
CIGNA Government Services
Two Vantage Way
Nashville, Tennessee 37228

Dear Ms. Rush:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of Excess Benefit Plan Costs Claimed by CIGNA for Medicare Reimbursement for Fiscal Years 1991 Through 2004" (A-07-06-00215). A copy of this report will be forwarded to the HHS action official noted on the next page for his review and any action deemed necessary.

The HHS action official will make final determination regarding actions taken on all matters in the report. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. § 552, as amended by Public Law 104-231), OIG reports are made available to the public to the extent information contained therein is not subject to exemptions of the Act that the Department chooses to exercise (see 45 CFR part 5).

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, extension 274, or Jenenne Tambke, Audit Manager, at (573) 893-8338, extension 21, or through email at Jenenne.Tambke@oig.hhs.gov. Please refer to report number A-07-06-00215 in all correspondence.

Sincerely yours,

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

Attachment

Direct Reply to HHS Action Official:

Mr. Roger Perez
Regional Administrator, Region IV
Centers for Medicare & Medicaid Services
Atlanta Federal Center
61 Forsyth Street, S.W., Suite 4T20
Atlanta, Georgia 30303-8909

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF EXCESS BENEFIT
PLAN COSTS CLAIMED BY
CIGNA FOR MEDICARE
REIMBURSEMENT FOR FISCAL
YEARS 1991 THROUGH 2004**



Daniel R. Levinson
Inspector General

October 2006
A-07-06-00215

Office of Inspector General

<http://oig.hhs.gov>

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Notices

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OAS FINDINGS AND OPINIONS

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

This report provides the results of our audit regarding the costs claimed for CIGNA's Excess Benefit Plan (EBP) for fiscal years (FYs) 1991 through 2004. We determined that CIGNA claimed \$115,666 of unallowable EBP costs.

OBJECTIVE

Our objective was to determine the allowability of EBP costs claimed by CIGNA for Medicare reimbursement for FYs 1991 through 2004.

SUMMARY OF FINDING

CIGNA claimed unallowable EBP costs for FYs 1991 through 2004. During this period, the allowable EBP costs were \$213,630. However, CIGNA claimed EBP costs of \$329,296 for Medicare reimbursement. CIGNA claimed \$115,666 of unallowable EBP costs because it did not claim EBP costs in accordance with the Cost Accounting Standards (CAS).

BACKGROUND

CIGNA and Medicare

On March 1, 1990, CIGNA acquired Equicor, a Medicare contractor and joint venture of the Equitable Life Assurance Society and the Hospital Corporation of America. At that time, the Centers for Medicare & Medicaid Services (CMS) awarded CIGNA cost reimbursement contracts to administer Medicare Part B and Durable Medical Equipment operations.

CIGNA is a holding company for Connecticut General Life Insurance Company, the legal entity that contracts with Medicare. CIGNA HealthCare, one of CIGNA's lines of business, administered the Medicare contracts until May 2005, when CIGNA Government Services, LLC, was formed and assumed the responsibilities.

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 CAS 412 and 413; and (2) funded as specified by part 31 of the Federal Acquisition Regulations.

CIGNA Excess Benefit Plan

CIGNA has a nonqualified pension plan it calls its Excess Benefit Plan. The employees can elect to have the benefits under this plan as either a lump sum or a life annuity. The EBP is a nonqualified pension plan designed to restore benefits lost due to the Internal Revenue Code limits under the regular qualified plan.

SCOPE AND METHODOLOGY

We reviewed CIGNA's EBP costs claimed on its Final Administrative Cost Proposals (FACPs) for FYs 1991 through 2004. Achieving the objective did not require that we review CIGNA's internal control structure. However, we did review the controls related to the EBP costs CIGNA claimed for Medicare reimbursement to ensure that EBP costs were allowable in accordance with the CAS.

We obtained information from CIGNA and its consulting actuary (Pine Cliff Consulting Inc.) regarding the pension costs associated with CIGNA's EBP for FYs 1991 through 2004. The information contained CIGNA's calculations of the difference between claimed and allowable EBP costs. In conjunction with the CMS Office of the Actuary, we verified and accepted CIGNA's calculations.

We performed this review in conjunction with our audits of pension segmentation requirements (A-07-05-00189) and pension costs claimed for Medicare reimbursement (A-07-06-00209). We also used the information obtained and reviewed during these audits in performing this review.

We performed fieldwork at CIGNA's office in Nashville, Tennessee, during June 2005 and February 2006.

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

RESULTS OF AUDIT

CIGNA claimed unallowable EBP costs of \$115,666 for FYs 1991 through 2004.

According to the CAS, the cost of nonqualified unfunded defined-benefit pension plans shall be based on the net amount for any periodic benefits paid for that period, and the level annual installment required to amortize over 15 years any lump-sum benefit payments. However, CIGNA based its claim on a pension expense developed for financial reporting purposes.

For FYs 1991 through 2004, allowable EBP costs were \$213,630; however, CIGNA claimed EBP costs of \$329,296 for Medicare reimbursement. CIGNA claimed \$115,666 of unallowable EBP costs because it did not claim EBP costs in accordance with the CAS.

RECOMMENDATIONS

We recommend that CIGNA revise its FACPs for FYs 1991 through 2004 to reduce its claimed EBP costs by \$115,666. We also recommend that CIGNA claim future EBP costs in accordance with the CAS.

AUDITEE'S COMMENTS

CIGNA concurred with our findings and stated that it will be working with CMS to settle the \$115,666 owed. CIGNA also stated that they were working with their actuaries to ensure that future pension costs for the EBP would be claimed in accordance with CAS. CIGNA's response is included in its entirety as the appendix.

APPENDIX

Jean Rush
President



**CIGNA Government
Services**

June 12, 2006

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Hartford, CT 06152
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Jean.Rush@cigna.com

Patrick J. Cogley
Regional Inspector General for Audit Services
Office of Inspector General
Office of Audit Services
Region VII
601 East 12th Street
Room 284A
Kansas City, MO 64106

Dear Mr. Cogley,

On May 23, 2006, your office released the draft report number A-07-06-00215 entitled "Review of Excess Benefit Plan Costs Claimed by CIGNA for Medicare Reimbursement for Fiscal Years 1991 Through 2004." As this draft report pertains to pension costs incurred by CIGNA Government Services ("CGS"), you have requested our views relative to the validity of the facts and reasonableness of the recommendations presented. We thank you for the opportunity to respond.

CGS concurs with the findings presented in the draft audit report and will work with CMS to settle the \$115,666 owed.

We thank you for bringing the items in the draft report to our attention. We are working with our actuaries to ensure that the pension costs for the Excess Benefit Plan are calculated in compliance with the Cost Accounting Standards going forward.

If there are any questions regarding the above information, please contact Jennifer Ullig, Compliance Specialist at 615.252.6532.

Sincerely,

A handwritten signature in black ink, appearing to read "Jean Rush".

Jean Rush
President
CIGNA Government Services, LLC

cc: Kathy Markman, CMS
Lilia Calma, CMS
Lori Borelli, CMS
Jeff Chambers, CGS

1991-2004 Excess Benefit Plan Audit Report – CGS Response
June 12, 2006
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Steve Bishop, CGS
Mike Logan, CGS