



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services, Region VII
601 East 12th Street, Room 0429
Kansas City, MO 64106

June 2, 2010

Report Number: A-07-10-00327

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

Dear Ms. Rush:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of Pension Costs Claimed for Medicare Reimbursement by CIGNA Government Services, LLC, for Fiscal Years 2005 Through 2007*. 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.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted 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 email at Jenenne.Tambke@oig.hhs.gov. Please refer to report number A-07-10-00327 in all correspondence.

Sincerely,

/Patrick J. Cogley/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Deborah Taylor
Acting Director & Chief Financial Officer
Office of Financial Management
Centers for Medicare & Medicaid Services
Mail Stop C3-01-24
7500 Security Boulevard
Baltimore, MD 21244-1850

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS CLAIMED
FOR MEDICARE REIMBURSEMENT BY
CIGNA GOVERNMENT SERVICES, LLC,
FOR FISCAL YEARS 2005 THROUGH 2007**



Daniel R. Levinson
Inspector General

June 2010
A-07-10-00327

Office of Inspector General

<http://oig.hhs.gov>

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 & 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 Office of Audit Services (OAS) provides 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. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

Office of Counsel to the Inspector General

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 for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that
OIG post its publicly available reports on the OIG Web site.

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

During our audit period, CIGNA Government Services, LLC (CGS), administered Medicare Part B and durable medical equipment operations for Connecticut General Life Insurance Company (CGLIC), the legal entity that entered into these cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS). CGS and CGLIC are wholly owned subsidiaries of CIGNA Corporation.

CGS participates in a defined benefit pension plan, which is a deferred compensation plan in which an employer makes actuarially determined contributions to fund an employee's retirement benefit as defined by the plan's terms.

CMS 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.

OBJECTIVE

Our objective was to determine the allowability of pension costs that CGS claimed for Medicare reimbursement for fiscal years (FY) 2005 through 2007.

SUMMARY OF FINDING

CGS claimed \$12,130 of pension costs that were not allowable for Medicare reimbursement for FYs 2005 through 2007. The overclaim occurred because CGS based its claim on incorrectly computed CAS pension costs. CGS used the incorrect pension costs to claim \$2,736,406 for Medicare reimbursement. We calculated allowable pension costs for FYs 2005 through 2007 in accordance with CAS 412 and 413, as required by the Medicare contracts, to be \$2,724,276, a difference of \$12,130.

RECOMMENDATIONS

We recommend that CGS:

- reduce its Final Administrative Cost Proposal pension costs by \$12,130 or refund this amount to CMS and
- ensure that future pension cost claims are in accordance with the Medicare contracts.

AUDITEE COMMENTS

In written comments on our draft report, CGS agreed with our finding and described corrective actions that it planned to implement. CGS's comments are included in their entirety as Appendix B.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
CIGNA Government Services, LLC.....	1
Medicare Reimbursement of Pension Costs	1
OBJECTIVE, SCOPE, AND METHODOLOGY	1
Objective.....	1
Scope.....	1
Methodology	2
FINDING AND RECOMMENDATIONS	2
FEDERAL REQUIREMENTS	2
UNALLOWABLE PENSION COSTS CLAIMED	3
RECOMMENDATIONS	3
AUDITEE COMMENTS	4
OTHER MATTER	4
APPENDIXES	
APPENDIX A: ALLOWABLE MEDICARE PENSION COSTS FOR CIGNA GOVERNMENT SERVICES, LLC, FOR FISCAL YEARS 2005 THROUGH 2007	
APPENDIX B: AUDITEE COMMENTS	

INTRODUCTION

BACKGROUND

CIGNA Government Services, LLC

During our audit period, CIGNA Government Services, LLC (CGS), administered Medicare Part B and durable medical equipment (DME) operations for Connecticut General Life Insurance Company (CGLIC), the legal entity that entered into these cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS).¹ CGS and CGLIC are wholly owned subsidiaries of CIGNA Corporation.

CGS participates in a defined benefit pension plan, which is a deferred compensation plan in which an employer makes actuarially determined contributions to fund an employee's retirement benefit as defined by the plan's terms.²

Medicare Reimbursement of Pension Costs

CMS 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).

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine the allowability of pension costs that CGS claimed for Medicare reimbursement for fiscal years (FY) 2005 through 2007.

Scope

We reviewed \$2,736,406 of pension costs that CGS claimed for Medicare Part B and DME reimbursement on its Final Administrative Cost Proposals (FACP) for FYs 2005 through 2007. Achieving our objective did not require that we review CGS's overall internal control structure. However, 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.

¹ The DME contractual relationship was terminated on September 29, 2006. CGS also administered Medicare operations under a Medicare administrative contractors (MAC) contract with CMS. CGS assumed full DME Jurisdiction C MAC operations on June 1, 2007.

² CGS participates in employee benefit plans, such as the defined benefit pension plan, of its parent company, CIGNA Corporation.

We performed fieldwork at CGS's office in Nashville, Tennessee, during June 2009 and February 2010.

Methodology

We reviewed the applicable portions of the FAR, CAS, and Medicare contracts. Additionally, we reviewed CGS's FACPs to identify the amount of pension costs claimed for Medicare Part B and DME reimbursement for FYs 2005 through 2007. We also determined the extent to which CGS funded CAS pension costs with contributions to the pension trust fund and accumulated prepayment credits. We based our calculations on separately computed CAS pension costs for the Medicare segment and the "Other" segment. The CMS Office of the Actuary calculated the allocable CAS pension costs based on CGS's historical practices and on the results of our segmentation review, *Review of Medicare Contractor's Pension Segmentation Requirements at CIGNA Government Services, LLC, for the Period January 1, 2004, to January 1, 2008* (A-07-10-00326).

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

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 RECOMMENDATIONS

CGS claimed \$12,130 of pension costs that were not allowable for Medicare reimbursement for FYs 2005 through 2007. The overclaim occurred because CGS based its claim on incorrectly computed CAS pension costs. CGS used the incorrect pension costs to claim \$2,736,406 for Medicare reimbursement. We calculated allowable pension costs for FYs 2005 through 2007 in accordance with CAS 412 and 413, as required by the Medicare contracts, to be \$2,724,276, a difference of \$12,130.

FEDERAL REQUIREMENTS

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."

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

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

CAS 413 addresses 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.

UNALLOWABLE PENSION COSTS CLAIMED

CGS claimed \$12,130 of unallowable Medicare pension costs for FYs 2005 through 2007. During that period, CGS claimed pension costs of \$2,736,406 for Medicare reimbursement. We calculated allowable pension costs based on separately computed CAS pension costs for the Medicare segment and the “Other” segment in accordance with CAS 412 and 413. Based on the terms of the Medicare contracts, the allowable CAS pension costs for this period totaled \$2,724,276.

The following table compares allowable CAS pension costs with the pension costs claimed on CGS’s FACPs. Appendix A contains details on allowable pension costs and contributions.

Comparison of Allowable Pension Costs and Claimed Pension Costs

Fiscal Year	Medicare Pension Costs		Difference
	Allowable Per Audit	Claimed By CGS	
2005	\$985,911	\$990,636	(\$4,725)
2006	1,094,295	1,104,562	(10,267)
2007	644,070	641,208	2,862
Total	\$2,724,276	\$2,736,406	(\$12,130)

The Medicare contracts require CGS to calculate pension costs for Medicare reimbursement pursuant to CAS 412 and 413. CGS based its claim for Medicare reimbursement on CAS pension costs. However, due to incorrect pension cost computations, those CAS pension costs were overstated. As a result, CGS claimed \$12,130 of unallowable pension costs.

RECOMMENDATIONS

We recommend that CGS:

- reduce its Final Administrative Cost Proposal pension costs by \$12,130 or refund this amount to CMS and
- ensure that future pension cost claims are in accordance with the Medicare contracts.

AUDITEE COMMENTS

In written comments on our draft report, CGS agreed with our finding and described corrective actions that it planned to implement. CGS's comments are included in their entirety as Appendix B.

OTHER MATTER

Information from this review is needed for CGS to develop the appropriate pension costs incurred under the DME Jurisdiction C MAC contract. As shown in Appendix A, we determined that plan year (January 1 through December 31) 2007 allocable CAS pension costs were \$638,290 for the Medicare segment and \$89,340,065 for the "Other" segment.

APPENDIXES

**APPENDIX A: ALLOWABLE MEDICARE PENSION COSTS FOR
CIGNA GOVERNMENT SERVICES, LLC,
FOR FISCAL YEARS 2005 THROUGH 2007**

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2004	Allocable Pension Cost	<u>1/</u>	\$85,838,158	\$841,641	
2005	Contributions	<u>2/</u> \$543,000,000	\$542,912,647	\$87,353	
8.50%	Discount for Interest	<u>3/</u> (\$25,102,365)	(\$25,098,327)	(\$4,038)	
January 1, 2005	Present Value Contributions	<u>4/</u> \$517,897,635	\$517,814,320	\$83,315	
	Prepayment Credit Applied	<u>5/</u> \$77,809,165	\$76,964,779	\$844,386	
	Present Value of Funding	<u>6/</u> \$595,706,800	\$594,779,099	\$927,701	
January 1, 2005	CAS Funding Target	<u>7/</u> \$85,486,542	\$84,558,841	\$927,701	
	Percentage Funded	<u>8/</u>	100.00%	100.00%	
	Funded Pension Cost	<u>9/</u>	\$84,558,841	\$927,701	
	Allowable Interest	<u>10/</u>	\$368,082	\$4,038	
2005	Allocable Pension Cost		\$84,926,923	\$931,739	
	Fiscal Year Pension Cost	<u>11/</u>	\$85,154,732	\$909,215	
	Medicare LOB* Percentage	<u>12/</u>	0.13%	96.26%	
	Allowable Pension Cost	<u>13/</u>	\$110,701	\$875,210	\$985,911
2006	Contributions	\$0	\$0	\$0	
8.50%	Discount for Interest	\$0	\$0	\$0	
January 1, 2006	Present Value Contributions	\$0	\$0	\$0	
	Prepayment Credit Applied	\$90,495,806	\$89,468,586	\$1,027,220	
	Present Value of Funding	\$90,495,806	\$89,468,586	\$1,027,220	
January 1, 2006	CAS Funding Target	\$90,495,806	\$89,468,586	\$1,027,220	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$89,468,586	\$1,027,220	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$89,468,586	\$1,027,220	
2006	Fiscal Year Pension Cost		\$88,333,170	\$1,003,350	
	Medicare LOB* Percentage		0.11%	99.38%	
	Allowable Pension Cost		\$97,166	\$997,129	\$1,094,295
2007	Contributions	\$0	\$0	\$0	
8.50%	Discount for Interest	\$0	\$0	\$0	
January 1, 2007	Present Value Contributions	\$0	\$0	\$0	
	Prepayment Credit Applied	\$89,978,355	\$89,340,065	\$638,290	
	Present Value of Funding	\$89,978,355	\$89,340,065	\$638,290	
January 1, 2007	CAS Funding Target	\$89,978,355	\$89,340,065	\$638,290	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$89,340,065	\$638,290	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$89,340,065	\$638,290	
2007	Fiscal Year Pension Cost		\$89,372,195	\$735,523	
	Medicare LOB* Percentage		0.15%	69.34%	
	Allowable Pension Cost		\$134,058	\$510,012	\$644,070

* Line of business.

FOOTNOTES

- 1/ The allocable Cost Accounting Standards (CAS) pension cost is the amount of pension cost that may be allocated for contract cost purposes. The 2004 allocable cost is based on Closing Agreement No. PEN-01. The Centers for Medicare & Medicaid Services (CMS) and Connecticut General Life Insurance Company entered into and executed this closing agreement, in part, to establish a final settlement of the plan year (PY) (January 1 through December 31) 2004 allocable pension cost.
- 2/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. We accepted CIGNA Government Services, LLC's (CGS), methodology whereby only contributions actually made during a PY were considered as funding for that year. We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-10-00326). 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 PY.
- 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 PY.
- 7/ 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).
- 8/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the PY. 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 decimals.
- 9/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.
- 10/ 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 after the end of the quarter.
- 11/ We converted the allocable pension costs to a fiscal year (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 Part B and durable Medicare equipment LOB percentages based upon information provided by CGS as of February 2010.
- 13/ We computed the allowable Medicare pension cost as the FY pension cost multiplied by the Medicare LOB percentage. Pursuant to CAS 412 and 413, the total Medicare allowable pension costs charged to the Medicare contract consisted of the Medicare segment's direct pension costs plus "Other" segment pension costs attributable to indirect Medicare operations.

APPENDIX B: AUDITEE COMMENTS

Steve Bishop
Accounting Director



CIGNA Government
Services

May 14, 2010

Routing 795
Two Vantage Way
Nashville, TN 37221
Telephone 615-782-4616
Facsimile 615-252-3650
stephen.bishop@cigna.com

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

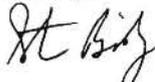
Dear Mr. Cogley:

This letter is in response to Audit Report No. A-07-10-00326, which noted an overstatement of the Medicare segment assets of \$342,743, and A-07-10-00327, which cited unallowable pension costs of \$12,130 for the fiscal years 2005 – 2007, in accordance with CAS 412 and 413.

CIGNA Government Services, LLC (“CGS”) agrees with the findings in both reports and will make the appropriate adjustment to our FACP and reimburse CMS accordingly. We will also instruct our actuaries to adjust the Medicare segment assets as noted.

Please feel free to contact Kara Fitzgerald at 615.782.4687 or myself at 615.782.4616 if you have questions regarding this response.

Sincerely,



Steve Bishop