



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

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

April 11, 2011

Report Number: A-07-11-00348

Mr. Pat Shiverdecker  
Senior Vice President, Corporate Strategy  
Mutual of Omaha Insurance Company  
Mutual of Omaha Plaza  
Omaha, NE 68175

Dear Mr. Shiverdecker:

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 Mutual of Omaha Insurance Company for Fiscal Years 1992 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](mailto:Jenenne.Tambke@oig.hhs.gov). Please refer to report number A-07-11-00348 in all correspondence.

Sincerely,

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

Enclosure

Page 2 – Mr. Pat Shiverdecker

**Direct Reply to HHS Action Official:**

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Department of Health & Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS CLAIMED  
FOR MEDICARE REIMBURSEMENT BY  
MUTUAL OF OMAHA INSURANCE  
COMPANY FOR FISCAL YEARS  
1992 THROUGH 2007**



Daniel R. Levinson  
Inspector General

April 2011  
A-07-11-00348

# ***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**

Mutual of Omaha Insurance Company (Mutual) administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated on November 5, 2007.

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.

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 Mutual claimed for Medicare reimbursement for fiscal years (FY) 1992 through 2007.

### **SUMMARY OF FINDING**

Mutual did not claim \$1,086,837 of pension costs that were allowable for Medicare reimbursement for FYs 1992 through 2007. This understatement occurred primarily because Mutual calculated its pension expense using the contributions to the pension plan instead of computing pension costs in accordance with CAS 412 and 413, as required by the Medicare contracts. In basing the pension expense on the pension plan contributions, Mutual claimed \$8,079,998 in Medicare reimbursement. We calculated allowable pension costs for this period in accordance with CAS 412 and 413, as required by the Medicare contracts, to be \$9,166,835, a difference of \$1,086,837.

### **RECOMMENDATION**

We recommend that Mutual increase its Final Administrative Cost Proposal (FACP) pension costs by \$1,086,837.

### **AUDITEE COMMENTS**

In written comments on our draft report, Mutual did not concur with our recommendation. Mutual stated that it is entitled to interest on its unclaimed pension costs and added that pension costs for October 1, 2007, through December 31, 2007, should be included as allowable pension costs. Mutual's comments are included in their entirety as Appendix B.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

There are no provisions in the Medicare contracts or in the applicable FAR or CAS rules that would entitle Mutual to earn interest on its unclaimed pension costs. In addition, Mutual did not submit an FACP for FY 2008 to CMS. For this reason, our audit period, within which we calculated the allowable pension costs, extended through FY 2007, which ended on September 30, 2007. Mutual's assertion that pension costs for October 1, 2007, through December 31, 2007, should be included as allowable pension costs is therefore outside the scope of our review. Accordingly, we maintain that our finding and recommendation are valid.

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## **INTRODUCTION**

### **BACKGROUND**

#### **Mutual of Omaha Insurance Company**

Mutual of Omaha Insurance Company (Mutual) administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated on November 5, 2007.

#### **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).

Beginning with 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.

### **OBJECTIVE, SCOPE, AND METHODOLOGY**

#### **Objective**

Our objective was to determine the allowability of pension costs that Mutual claimed for Medicare reimbursement for FYs 1992 through 2007.

#### **Scope**

We reviewed \$8,079,998 of pension costs that Mutual claimed for Medicare reimbursement on its Final Administrative Cost Proposals (FACP) for FYs 1992 through 2007. Achieving our objective did not require that we review Mutual'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.

We performed fieldwork at Mutual's office in Omaha, Nebraska, during June 2008 and July 2009.

## **Methodology**

We reviewed the applicable portions of the FAR, CAS, and Medicare contracts. Additionally, we reviewed Mutual's FACPs to identify the amount of pension costs claimed for Medicare reimbursement for FYs 1992 through 2007. We also determined the extent to which Mutual 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 Mutual's historical practices and on the results of our segmentation review, *Review of the Qualified Pension Plan at Mutual of Omaha Insurance Company, A Terminated Medicare Contractor, for the Period January 1, 1992, to January 1, 2008* (A-07-11-00347).

In performing our review, we used information that Mutual's actuarial consulting firm provided. The information included assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We examined Mutual'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 RECOMMENDATION**

Mutual did not claim \$1,086,837 of pension costs that were allowable for Medicare reimbursement for FYs 1992 through 2007. This understatement occurred primarily because Mutual calculated its pension expense using the contributions to the pension plan instead of computing pension costs in accordance with CAS 412 and 413, as required by the Medicare contracts. In basing the pension expense on the pension plan contributions, Mutual claimed \$8,079,998 in Medicare reimbursement. We calculated allowable pension costs for this period in accordance with CAS 412 and 413, as required by the Medicare contracts, to be \$9,166,835, a difference of \$1,086,837.

## **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.

**ALLOWABLE PENSION COSTS NOT CLAIMED**

Mutual did not claim \$1,086,837 of allowable Medicare pension costs for FYs 1992 through 2007. During that period, Mutual claimed pension costs of \$8,079,998 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 \$9,166,835.

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

**Comparison of Allowable Pension Costs and Claimed Pension Costs**

<b><u>Medicare Pension Costs</u></b>			
<b>Fiscal Year</b>	<b>Allowable Per Audit</b>	<b>Claimed by Mutual</b>	<b>Difference</b>
1992	\$17,951	\$20,387	(\$2,436)
1993	60,914	68,585	(7,671)
1994	64,700	98,411	(33,711)
1995	58,188	90,070	(31,882)
1996	60,721	122,349	(61,628)
1997	155,513	112,737	42,776
1998	541,752	89,296	452,456
1999	733,365	270,125	463,240
2000	980,370	244,575	735,795
2001	1,078,056	38,704	1,039,352
2002	1,338,146	335,855	1,002,291
2003	939,663	1,086,063	(146,400)
2004	1,456,435	1,267,497	188,938
2005	696,415	1,398,465	(702,050)
2006	414,527	1,388,774	(974,247)
2007	570,119	1,448,105	(877,986)
<b>Total</b>	<b>\$9,166,835</b>	<b>\$8,079,998</b>	<b>\$1,086,837</b>

The Medicare contracts required Mutual to calculate pension costs for Medicare reimbursement pursuant to CAS 412 and 413. However, Mutual based its claim on the contributions to the pension plan. As a result, Mutual underclaimed \$1,086,837 of allowable pension costs.

## **RECOMMENDATION**

We recommend that Mutual increase its FACP pension costs by \$1,086,837.

## **AUDITEE COMMENTS**

In written comments on our draft report, Mutual did not concur with our recommendation. Mutual stated that it is entitled to interest on its unclaimed pension costs "... just as earnings were credited on the transferred prepayment credits in determining the [Medicare segment's] market value of pension assets." In addition, Mutual stated that pension costs for October 1, 2007, through December 31, 2007, should be included as allowable pension costs.

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

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

After reviewing Mutual's comments, we maintain that our finding and recommendation are valid. Notwithstanding the fact that earnings were credited on the transferred prepayment credits in determining the Medicare segment's market value of pension assets, Mutual is not entitled to interest on the unclaimed pension costs. In our segmentation review (A-07-11-00347), we determined the interest crediting on prepayment credits and contributions assigned to the Medicare segment in accordance with CAS 412 and 413 as required by the Medicare contracts.

Furthermore, there are no provisions in the Medicare contracts or in the applicable FAR or CAS rules to support an interest adjustment or charge on under-reported or over-reported pension costs—no provisions, that is, that would enable Mutual to earn interest on its unclaimed pension costs. Article XXII, Section H, of the Medicare contracts specifically provides that interest on unpaid claims accrues only from the date that the claim is received by the Secretary of Health & Human Services (the Secretary). Because Mutual did not properly determine its allowable pension costs or make a timely claim for reimbursement of the full amount of those allowable costs, interest costs due to the delay in payment of those claims would nevertheless be unallowable under Article XIII, Section B, of the Medicare contracts, which provides that "in determining the cost allowable under this agreement, the Secretary shall take into account the amount which is reasonable and adequate to meet the costs which must be incurred by an efficiently and economically operated Plan in carrying out the terms of this agreement."

In addition, pension costs for the period October 1, 2007, through December 31, 2007, are associated with FY 2008. Because Mutual did not submit an FACP for FY 2008 to CMS, our audit period and calculation of allowable pension costs extended through FY 2007, which ended on September 30, 2007. Mutual's assertion that pension costs for October 1, 2007, through December 31, 2007, should be included as allowable pension costs is therefore outside the scope of our review.

# **APPENDIXES**

**APPENDIX A: ALLOWABLE MEDICARE PENSION COSTS FOR  
MUTUAL OF OMAHA INSURANCE COMPANY  
FOR FISCAL YEARS 1992 THROUGH 2007**

<b>Date</b>	<b>Description</b>	<b>Total Company</b>	<b>"Other" Segment</b>	<b>Medicare Segment</b>	<b>Total Medicare</b>
1991	Allocable Pension Cost <u>1/</u>		\$0	\$0	
1992	Contributions <u>2/</u>	\$4,154,109	\$4,154,109	\$0	
9.25%	Discount for Interest <u>3/</u>	(\$258,198)	(\$258,198)	\$0	
January 1, 1992	Present Value Contributions <u>4/</u>	\$3,895,911	\$3,895,911	\$0	
	Prepayment Credit Applied <u>5/</u>	\$200,547	\$200,547	\$0	
	Present Value of Funding <u>6/</u>	\$4,096,458	\$4,096,458	\$0	
January 1, 1992	CAS Funding Target <u>7/</u>	\$6,122,851	\$6,261,867	(\$139,016)	
	Percentage Funded <u>8/</u>		65.42%	0.00%	
	Funded Pension Cost <u>9/</u>		\$4,096,458	\$0	
	Allowable Interest <u>10/</u>		\$255,263	\$0	
	Allocable Pension Cost <u>11/</u>		\$4,351,721	\$0	
1992	Fiscal Year Pension Cost <u>12/</u>		\$3,263,791	\$0	
	Medicare LOB* Percentage <u>13/</u>		0.55%	100.00%	
	Allowable Pension Cost <u>14/</u>		\$17,951	\$0	\$17,951
1993	Contributions	\$8,597,302	\$8,597,302	\$0	
9.21%	Discount for Interest	(\$479,104)	(\$479,104)	\$0	
January 1, 1993	Present Value Contributions	\$8,118,198	\$8,118,198	\$0	
	Prepayment Credit Applied	\$0	\$0	\$0	
	Present Value of Funding	\$8,118,198	\$8,118,198	\$0	
January 1, 1993	CAS Funding Target	\$7,740,511	\$7,760,400	(\$19,889)	
	Percentage Funded		100.00%	0.00%	
	Funded Pension Cost		\$7,760,400	\$0	
	Allowable Interest		\$457,988	\$0	
	Allocable Pension Cost		\$8,218,388	\$0	
1993	Fiscal Year Pension Cost		\$7,251,721	\$0	
	Medicare LOB* Percentage		0.84%	100.00%	
	Allowable Pension Cost		\$60,914	\$0	\$60,914
1994	Contributions	\$8,745,945	\$8,745,945	\$0	
8.93%	Discount for Interest	(\$452,848)	(\$452,848)	\$0	
January 1, 1994	Present Value Contributions	\$8,293,097	\$8,293,097	\$0	
	Prepayment Credit Applied	\$390,751	\$390,751	\$0	
	Present Value of Funding	\$8,683,848	\$8,683,848	\$0	
January 1, 1994	CAS Funding Target	\$8,325,995	\$8,329,350	(\$3,355)	
	Percentage Funded		100.00%	0.00%	
	Funded Pension Cost		\$8,329,350	\$0	
	Allowable Interest		\$433,490	\$0	
	Allocable Pension Cost		\$8,762,840	\$0	
1994	Fiscal Year Pension Cost		\$8,626,727	\$0	
	Medicare LOB* Percentage		0.75%	100.00%	
	Allowable Pension Cost		\$64,700	\$0	\$64,700

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
1995	Contributions	\$9,114,637	\$9,114,637	\$0	
9.16%	Discount for Interest	(\$507,319)	(\$507,319)	\$0	
January 1, 1995	Present Value Contributions	\$8,607,318	\$8,607,318	\$0	
	Prepayment Credit Applied	\$386,154	\$386,154	\$0	
	Present Value of Funding	\$8,993,472	\$8,993,472	\$0	
January 1, 1995	CAS Funding Target	\$7,881,384	\$7,881,384	\$0	
	Percentage Funded		100.00%	0.00%	
	Funded Pension Cost		\$7,881,384	\$0	
	Allowable Interest		\$441,772	\$0	
	Allocable Pension Cost		\$8,323,156	\$0	
1995	Fiscal Year Pension Cost		\$8,433,077	\$0	
	Medicare LOB* Percentage		0.69%	100.00%	
	Allowable Pension Cost		\$58,188	\$0	\$58,188
1996	Contributions	\$33,789,310	\$33,789,310	\$0	
9.00%	Discount for Interest	(\$1,809,836)	(\$1,809,836)	\$0	
January 1, 1996	Present Value Contributions	\$31,979,474	\$31,979,474	\$0	
	Prepayment Credit Applied	\$1,213,955	\$1,213,955	\$0	
	Present Value of Funding	\$33,193,429	\$33,193,429	\$0	
January 1, 1996	CAS Funding Target	\$10,000,605	\$10,000,605	\$0	
	Percentage Funded		100.00%	0.00%	
	Funded Pension Cost		\$10,000,605	\$0	
	Allowable Interest		\$497,269	\$0	
	Allocable Pension Cost		\$10,497,874	\$0	
1996	Fiscal Year Pension Cost		\$9,954,195	\$0	
	Medicare LOB* Percentage		0.61%	100.00%	
	Allowable Pension Cost		\$60,721	\$0	\$60,721
1997	Contributions	\$7,972,335	\$7,972,335	\$0	
9.00%	Discount for Interest	(\$432,020)	(\$432,020)	\$0	
January 1, 1997	Present Value Contributions	\$7,540,315	\$7,540,315	\$0	
	Prepayment Credit Applied	\$11,000,756	\$11,000,756	\$0	
	Present Value of Funding	\$18,541,071	\$18,541,071	\$0	
January 1, 1997	CAS Funding Target	\$11,000,756	\$11,000,756	\$0	
	Percentage Funded		100.00%	0.00%	
	Funded Pension Cost		\$11,000,756	\$0	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$11,000,756	\$0	
1997	Fiscal Year Pension Cost		\$10,875,036	\$0	
	Medicare LOB* Percentage		1.43%	100.00%	
	Allowable Pension Cost		\$155,513	\$0	\$155,513

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
1998	Contributions	\$68,068,955	\$68,068,955	\$0	
8.00%	Discount for Interest	(\$4,827,854)	(\$4,827,854)	\$0	
January 1, 1998	Present Value Contributions	\$63,241,101	\$63,241,101	\$0	
	Prepayment Credit Applied	\$21,501,581	\$21,501,581	\$0	
	Present Value of Funding	\$84,742,682	\$84,742,682	\$0	
January 1, 1998	CAS Funding Target	\$21,501,581	\$21,501,581	\$0	
	Percentage Funded		100.00%	0.00%	
	Funded Pension Cost		\$21,501,581	\$0	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$21,501,581	\$0	
1998	Fiscal Year Pension Cost		\$18,876,375	\$0	
	Medicare LOB* Percentage		2.87%	100.00%	
	Allowable Pension Cost		\$541,752	\$0	\$541,752
1999	Contributions	\$12,971,440	\$12,971,440	\$0	
8.00%	Discount for Interest	(\$680,953)	(\$680,953)	\$0	
January 1, 1999	Present Value Contributions	\$12,290,487	\$12,290,487	\$0	
	Prepayment Credit Applied	\$22,675,144	\$22,024,268	\$650,876	
	Present Value of Funding	\$34,965,631	\$34,314,755	\$650,876	
January 1, 1999	CAS Funding Target	\$22,675,144	\$22,024,268	\$650,876	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$22,024,268	\$650,876	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$22,024,268	\$650,876	
1999	Fiscal Year Pension Cost		\$21,893,596	\$488,157	
	Medicare LOB* Percentage		1.12%	100.00%	
	Allowable Pension Cost		\$245,208	\$488,157	\$733,365
2000	Contributions	\$38,399,115	\$38,399,115	\$0	
8.00%	Discount for Interest	(\$2,519,551)	(\$2,519,551)	\$0	
January 1, 2000	Present Value Contributions	\$35,879,564	\$35,879,564	\$0	
	Prepayment Credit Applied	\$22,839,546	\$22,114,599	\$724,947	
	Present Value of Funding	\$58,719,110	\$57,994,163	\$724,947	
January 1, 2000	CAS Funding Target	\$22,839,546	\$22,114,599	\$724,947	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$22,114,599	\$724,947	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$22,114,599	\$724,947	
2000	Fiscal Year Pension Cost		\$22,092,016	\$706,429	
	Medicare LOB* Percentage		1.24%	100.00%	
	Allowable Pension Cost		\$273,941	\$706,429	\$980,370

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2001	Contributions	\$12,414,462	\$12,414,462	\$0	
8.00%	Discount for Interest	(\$613,091)	(\$613,091)	\$0	
January 1, 2001	Present Value Contributions	\$11,801,371	\$11,801,371	\$0	
	Prepayment Credit Applied	\$24,666,450	\$23,842,134	\$824,316	
	Present Value of Funding	\$36,467,821	\$35,643,505	\$824,316	
January 1, 2001	CAS Funding Target	\$24,666,450	\$23,842,134	\$824,316	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$23,842,134	\$824,316	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$23,842,134	\$824,316	
2001	Fiscal Year Pension Cost		\$23,410,250	\$799,474	
	Medicare LOB* Percentage		1.19%	100.00%	
	Allowable Pension Cost		\$278,582	\$799,474	\$1,078,056
2002	Contributions	\$48,482,343	\$48,482,343	\$0	
8.00%	Discount for Interest	(\$3,219,587)	(\$3,219,587)	\$0	
January 1, 2002	Present Value Contributions	\$45,262,756	\$45,262,756	\$0	
	Prepayment Credit Applied	\$21,967,656	\$20,823,625	\$1,144,031	
	Present Value of Funding	\$67,230,412	\$66,086,381	\$1,144,031	
January 1, 2002	CAS Funding Target	\$21,967,656	\$20,823,625	\$1,144,031	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$20,823,625	\$1,144,031	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$20,823,625	\$1,144,031	
2002	Fiscal Year Pension Cost		\$21,578,252	\$1,064,102	
	Medicare LOB* Percentage		1.27%	100.00%	
	Allowable Pension Cost		\$274,044	\$1,064,102	\$1,338,146
2003	Contributions	\$20,200,000	\$20,200,000	\$0	
8.00%	Discount for Interest	(\$430,484)	(\$430,484)	\$0	
January 1, 2003	Present Value Contributions	\$19,769,516	\$19,769,516	\$0	
	Prepayment Credit Applied	\$24,040,981	\$23,890,913	\$150,068	
	Present Value of Funding	\$43,810,497	\$43,660,429	\$150,068	
January 1, 2003	CAS Funding Target	\$24,040,981	\$23,890,913	\$150,068	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$23,890,913	\$150,068	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$23,890,913	\$150,068	
2003	Fiscal Year Pension Cost		\$23,124,091	\$398,559	
	Medicare LOB* Percentage		2.34%	100.00%	
	Allowable Pension Cost		\$541,104	\$398,559	\$939,663

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2004	Contributions	\$20,000,000	\$20,000,000	\$0	
8.00%	Discount for Interest	(\$1,011,704)	(\$1,011,704)	\$0	
January 1, 2004	Present Value Contributions	\$18,988,296	\$18,988,296	\$0	
	Prepayment Credit Applied	\$23,676,670	\$22,692,191	\$984,479	
	Present Value of Funding	\$42,664,966	\$41,680,487	\$984,479	
January 1, 2004	CAS Funding Target	\$23,676,670	\$22,692,191	\$984,479	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$22,692,191	\$984,479	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$22,692,191	\$984,479	
2004	Fiscal Year Pension Cost		\$22,991,872	\$775,876	
	Medicare LOB* Percentage		2.96%	100.00%	
	Allowable Pension Cost		\$680,559	\$775,876	\$1,456,435
2005	Contributions	\$16,000,000	\$16,000,000	\$0	
8.00%	Discount for Interest	(\$798,815)	(\$798,815)	\$0	
January 1, 2005	Present Value Contributions	\$15,201,185	\$15,201,185	\$0	
	Prepayment Credit Applied	\$23,068,231	\$23,068,231	\$0	
	Present Value of Funding	\$38,269,416	\$38,269,416	\$0	
January 1, 2005	CAS Funding Target	\$23,068,231	\$23,068,231	\$0	
	Percentage Funded		100.00%	0.00%	
	Funded Pension Cost		\$23,068,231	\$0	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$23,068,231	\$0	
2005	Fiscal Year Pension Cost		\$22,974,221	\$246,120	
	Medicare LOB* Percentage		1.96%	100.00%	
	Allowable Pension Cost		\$450,295	\$246,120	\$696,415
2006	Contributions	\$66,000,000	\$66,000,000	\$0	
8.00%	Discount for Interest	(\$4,437,644)	(\$4,437,644)	\$0	
January 1, 2006	Present Value Contributions	\$61,562,356	\$61,562,356	\$0	
	Prepayment Credit Applied	\$18,882,834	\$18,882,834	\$0	
	Present Value of Funding	\$80,445,190	\$80,445,190	\$0	
January 1, 2006	CAS Funding Target	\$18,882,834	\$18,882,834	\$0	
	Percentage Funded		100.00%	0.00%	
	Funded Pension Cost		\$18,882,834	\$0	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$18,882,834	\$0	
2006	Fiscal Year Pension Cost		\$19,929,183	\$0	
	Medicare LOB* Percentage		2.08%	100.00%	
	Allowable Pension Cost		\$414,527	\$0	\$414,527

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2007	Contributions	\$0	\$0	\$0	
8.00%	Discount for Interest	\$0	\$0	\$0	
January 1, 2007	Present Value Contributions	\$0	\$0	\$0	
	Prepayment Credit Applied	\$12,864,759	\$12,562,829	\$301,930	
	Present Value of Funding	\$12,864,759	\$12,562,829	\$301,930	
January 1, 2007	CAS Funding Target	\$12,864,759	\$12,562,829	\$301,930	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$12,562,829	\$301,930	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$12,562,829	\$301,930	
2007	Fiscal Year Pension Cost		\$14,142,830	\$226,448	
	Medicare LOB* Percentage		2.43%	100.00%	
	Allowable Pension Cost		\$343,671	\$226,448	\$570,119

\* Line of business.

#### **FOOTNOTES**

- 1/ In resolution of our prior pension costs claimed report (A-07-94-00743), the Centers for Medicare & Medicaid Services prepared and provided Mutual of Omaha Insurance Company (Mutual) with a pension closing agreement and related supporting documentation. We obtained the 1991 allocable pension costs from those documents. To date this pension closing agreement has not been executed.
- 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 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-07-11-00347). 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 plan year (PY). For purposes of this Appendix, we deemed deposits made after the end of the PY to have been made on the final day of the PY, consistent with the method mandated by the Employee Retirement Income Security 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 Cost Accounting Standards (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).

For PYs 1992 through 1994, the Medicare segment's negative CAS funding target represented a refund due to the Federal Government for costs that were previously charged. We treated this as a credit that is available to fund future CAS pension costs of the segment. In accordance with the amended CAS 412.50(a)(vi), the accumulated value of these prior years' credits was reflected as an assignable cost credit and amortized over 10 years.

The 1992 "Other" segment CAS funding target was netted against \$588,730 of accumulated credits associated with prior years' negative CAS pension costs.

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/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.

12/ We converted the PY (January 1 through December 31) 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.

13/ We calculated allowable pension costs of the Medicare and "Other" segments based on the Medicare line of business (LOB) percentage of each segment. The Medicare segment charged 100 percent of its pension costs to Medicare. The "Other" segment charged only a portion of its pension costs to Medicare. We determined the LOB percentages based upon information provided by Mutual.

14/ 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

MUTUAL of OMAHA INSURANCE COMPANY  
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PAT SHIVERDECKER  
Senior Vice President  
Corporate Strategy  
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March 15, 2011

By U.S. Mail and Email

Mr. Patrick J. Cogley  
Regional Inspector General for Audit Services  
601 East 12<sup>th</sup> Street  
Room 0429  
Kansas City, MO 64106

Re: Report Number A-07-11-00348

Dear Mr. Cogley:

This letter provides the written comments of Mutual of Omaha Insurance Company to the draft Report referenced above issued by the Office of Inspector General regarding the OIG's review of the pension costs claimed for reimbursement by Mutual under its Medicare contract for fiscal years 1992 through 2007.

Mutual does not concur with the recommendation in the Report that Mutual increase its FACP pension costs for the fiscal years 1992 through 2007 by \$1,086,837. Mutual believes that the correct amount by which its FACP pension costs should be increased for those years is \$1,162,319. Mutual believes that the allowable pension cost for the Medicare segment for the 2007 calendar year is \$301,930 and the total allowable for 2007 is \$645,601, not \$570,119 as indicated in the table on page 3 of the report. For 2007, CMS incorrectly included only \$226,448 of allowable pension costs for the Medicare segment pursuant to its fiscal year adjustment as of September 30 (footnote 12). However, the remaining \$75,482 should be included as allowable pension costs for the period of October 1, 2007 through December 31, 2007.

In addition, Mutual believes that it is entitled to interest on the \$1,162,319 of allowable pension costs just as earnings were credited on the transferred prepayment credits in determining the market value of pension assets. Based on the CAS 412 assumed valuation interest rate of 8% accumulated from 1992 through 2007, Mutual is entitled to interest in the amount of \$2,224,573 as shown on the attached summary of Medicare Segment Pension Costs. Mutual will incorporate its claims for the allowable pension costs and interest into its discussions with CMS on the termination of Mutual's Medicare contract and the closing of the Medicare segment of its pension plan.

Thank you for the opportunity to provide our comments on the Report.

Sincerely,

Pat Shiverdecker  
Senior Vice President  
Corporate Strategy

## Summary of Mutual of Omaha Medicare Segment Pension Costs

Fiscal Year	Claimed Costs			Allowable Costs			Diff Total Allow vs Claimed	Accum @ 8.0% *
	Indirect	Direct	Total	Indirect	Direct	Total		
1992	20,387	-	20,387	17,951		17,951	(2,436)	(2,533)
1993	68,585	-	68,585	60,914		60,914	(7,671)	(10,714)
1994	98,411	-	98,411	64,700		64,700	(33,711)	(46,631)
1995	90,070	-	90,070	58,188		58,188	(31,882)	(83,518)
1996	122,349	-	122,349	60,721		60,721	(61,628)	(154,293)
1997	112,737	-	112,737	155,513		155,513	42,776	(122,149)
1998	89,296	-	89,296	541,752		541,752	452,456	338,633
1999	270,125	-	270,125	245,208	488,157	733,365	463,240	847,493
2000	244,575	-	244,575	273,941	706,429	980,370	735,795	1,680,520
2001	38,704	-	38,704	278,582	799,474	1,078,056	1,039,352	2,895,887
2002	335,855	-	335,855	274,044	1,064,102	1,338,146	1,002,291	4,169,941
2003	800,800	285,263	1,086,063	541,104	398,559	939,663	(146,400)	4,351,280
2004	1,005,741	261,756	1,267,497	680,559	775,876	1,456,435	188,938	4,895,878
2005	707,715	690,750	1,398,465	450,295	246,120	696,415	(702,050)	4,557,416
2006	649,579	739,195	1,388,774	414,527	-	414,527	(974,247)	3,908,793
2007	766,855	681,250	1,448,105	343,671	301,930	645,601	(802,504)	3,386,892
<b>Total</b>	<b>5,421,784</b>	<b>2,658,214</b>	<b>8,079,998</b>	<b>4,461,670</b>	<b>4,780,647</b>	<b>9,242,317</b>	<b>1,162,319</b>	
							<b>Interest accumulated at 8.0% on above amounts:</b>	<b>2,224,573</b>
							<b>Total Principal plus Interest</b>	<b>3,386,892</b>

\* Assumes mid yr recognition of current year difference. Also \$75,482 was added to the 2007 OIG Allowable Direct cost.