



DEPARTMENT OF HEALTH AND 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 3, 2012

Report Number: A-07-12-00378

Mr. Peter S. Moore  
Vice President of Government Programs  
GHI Medicare  
25 Broadway  
New York, NY 10004

Dear Mr. Moore:

Enclosed is the U.S. Department of Health and Human Services, Office of Inspector General (OIG), final report entitled *Review of the Pension Segmentation Requirements for the EmblemHealth Services Company, LLC, Employees' Retirement Plan at Group Health Incorporated for the Period of January 1, 2008, to January 1, 2009*. 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-07-12-00378 in all correspondence.

Sincerely,

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

Enclosure

**Direct Reply to HHS Action Official:**

Ms. Deborah Taylor  
Director & Chief Financial Officer  
Office of Financial Management  
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Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF THE PENSION  
SEGMENTATION REQUIREMENTS FOR  
THE EMBLEMHEALTH SERVICES  
COMPANY, LLC, EMPLOYEES'  
RETIREMENT PLAN AT GROUP HEALTH  
INCORPORATED FOR THE PERIOD OF  
JANUARY 1, 2008, TO JANUARY 1, 2009**



Daniel R. Levinson  
Inspector General

April 2012  
A-07-12-00378

# *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**

Group Health Incorporated (GHI), an EmblemHealth Company, administered Medicare Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS). These contracts terminated on July 18, 2008, but GHI continues to administer Medicare operations under a Coordination of Benefits contract with CMS.

During our audit period, GHI had three defined benefit pension plans: the GHI Local 153 Pension Plan; the GHI Cash Balance Pension Plan; and the EmblemHealth Services Company, LLC, Employees' Retirement Plan. This report will address the pension assets for the EmblemHealth Services Company, LLC, Employees' Retirement Plan only.

Since its inception, Medicare has paid a portion of contractors' contributions to their pension plans. These contributions are allowable Medicare costs subject to the criteria set forth in the Federal Acquisition Regulation, Cost Accounting Standards (CAS), and Medicare contracts.

### **Pension Segmentation**

Beginning with fiscal year 1988, CMS incorporated segmentation requirements into the Medicare contracts. The Medicare contracts define a segment and specify the methodology for the identification and initial allocation of pension assets to the segment. Accordingly, the contracts require Medicare segment assets to be updated for each year after the initial allocation in accordance with CAS 412 and 413.

### **OBJECTIVE**

Our objective was to determine whether GHI complied with Federal requirements and the Medicare contracts' pension segmentation requirements when updating the Medicare segment's pension assets from January 1, 2008, to January 1, 2009.

### **SUMMARY OF FINDING**

Contrary to Federal requirements and the Medicare contracts' pension segmentation requirements, GHI did not update the Medicare segment pension assets from January 1, 2008, to January 1, 2009. We updated the Medicare segment pension assets from January 1, 2008, to January 1, 2009, and identified Medicare segment pension assets of \$489,218 as of January 1, 2009. Accordingly, GHI understated the Medicare segment pension assets by \$489,218.

### **RECOMMENDATION**

We recommend that GHI recognize \$489,218 as the Medicare segment pension assets as of January 1, 2009.

## **AUDITEE COMMENTS**

In written comments on our draft report, GHI agreed with our recommendation.

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

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## **Glossary of Abbreviations and Acronyms**

CAS	Cost Accounting Standards
CMS	Centers for Medicare & Medicaid Services
FAR	Federal Acquisition Regulation
GHI	Group Health Incorporated
WAV	weighted average value

## INTRODUCTION

### BACKGROUND

#### Group Health Incorporated and Medicare

Group Health Incorporated (GHI), an EmblemHealth Company, administered Medicare Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS). These contracts terminated July 18, 2008, but GHI continues to administer Medicare operations under a Coordination of Benefits contract with CMS. GHI also performs Medicare work as a subcontractor on the Medicare Secondary Payer Recovery and Retiree Drug Subsidy contracts.

During our audit period, GHI had three defined benefit pension plans: the GHI Local 153 Pension Plan;<sup>1</sup> the GHI Cash Balance Pension Plan;<sup>2</sup> and the EmblemHealth Services Company, LLC, Employees' Retirement Plan. Effective August 31, 2003, benefits accrued under the Local 153 Pension Plan for management employees were frozen at their August 31, 2003, levels. On September 1, 2003, GHI established the GHI Cash Balance Pension Plan for management employees. Employees from the GHI Local 153 plan were given the option to elect participation in the GHI Cash Balance Plan. All active employees elected participation in the GHI Cash Balance Pension Plan and continued to earn a benefit similar to the benefit earned under the GHI Local 153 Pension Plan.

Effective January 1, 2008, GHI froze the GHI Cash Balance Pension Plan to new entrants and future benefit accruals. GHI employees were given an opportunity to elect participation in the EmblemHealth Services Company, LLC, Employees' Retirement Plan, effective January 1, 2008. All active employees elected participation in the EmblemHealth Services Company, LLC, Employees' Retirement Plan and continued to earn a benefit similar to the benefit earned under the GHI Cash Balance Pension Plan. This report will address the pension assets for the EmblemHealth Services Company, LLC, Employees' Retirement Plan only.

Since its inception, Medicare has paid a portion of contractors' contributions to their pension plans. These contributions are allowable Medicare costs subject to the criteria set forth in the Federal Acquisition Regulation (FAR), Cost Accounting Standards (CAS), and Medicare contracts.

#### Federal Requirements

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

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<sup>1</sup> We separately reviewed the pension segmentation requirements for the Local 153 Pension Plan at GHI (A-07-11-00358, issued July 14, 2011).

<sup>2</sup> We are separately reviewing the pension segmentation requirements for the Cash Balance Pension Plan at GHI (A-07-12-00374).

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.

## **Pension Segmentation**

Beginning with fiscal year 1988, CMS incorporated segmentation requirements into the Medicare contracts. The Medicare contracts define a segment and specify the methodology for the identification and initial allocation of pension assets to the segment. Additionally, the contracts require Medicare segment assets to be updated for each year after the initial allocation in accordance with CAS 412 and 413. In claiming costs, contractors must follow cost reimbursement principles contained in the FAR, CAS, and the Medicare contracts.

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

### **Objective**

Our objective was to determine whether GHI complied with Federal requirements and the Medicare contracts' pension segmentation requirements when updating the Medicare segment's pension assets from January 1, 2008, to January 1, 2009.

### **Scope**

We reviewed GHI's identification of its Medicare segment. Achieving our objective did not require us to review GHI's overall internal control structure. We reviewed controls relating to the identification of the Medicare segment and the update of the segment's assets to ensure adherence to the Medicare contracts, CAS 412, and CAS 413.

We performed fieldwork at GHI in New York, New York, during September 2008 and July 2010.

### **Methodology**

To accomplish our objective, we did the following:

- We reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit.
- We reviewed the annual actuarial valuation reports prepared by GHI's actuarial consulting firms, which included the pension plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We used this information to calculate the Medicare segment assets.
- We obtained and reviewed the pension plan documents and Department of Labor/Internal Revenue Service Forms 5500 (DOL/IRS 5500) used in calculating the Medicare segment assets.

- We interviewed GHI staff responsible for identifying the Medicare segment to determine whether the segment was properly identified in accordance with the Medicare contracts.
- We reviewed GHI's accounting records to verify the segment identification and benefit payments made to the Medicare segment.
- We provided the CMS Office of the Actuary with the actuarial information necessary for it to calculate the Medicare segment pension assets from January 1, 2008, to January 1, 2009.
- We reviewed the CMS actuaries' methodology and calculations.

We performed this review in conjunction with our audit of GHI's pension costs claimed for Medicare reimbursement, to be issued in a subsequent report, and used the information obtained during that audit in this review.

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**

Contrary to Federal requirements and the Medicare contracts' pension segmentation requirements, GHI did not update the Medicare segment pension assets from January 1, 2008, to January 1, 2009. We updated the Medicare segment pension assets from January 1, 2008, to January 1, 2009, and identified Medicare segment pension assets of \$489,218 as of January 1, 2009. Accordingly, GHI understated the Medicare segment pension assets by \$489,218.

Appendix A presents details on the Medicare segment's pension assets from January 1, 2008, to January 1, 2009, as determined during our audit. The table below summarizes the audit adjustment required to update Medicare segment pension assets in accordance with Federal requirements and the Medicare contracts.

<b>Summary of Audit Adjustments</b>	
	<b>Per Audit</b>
<b>Update of Medicare Segment Assets</b>	
Contributions and Prepayment Credits	\$447,433
Transfers	71,208
Earnings, Net Expenses	(29,423)
<b>Under/(Over)statement of Medicare Pension Segment Assets</b>	<b>\$489,218</b>

## **UPDATE OF MEDICARE SEGMENT PENSION ASSETS**

GHI did not comply with the Medicare contracts' pension segmentation requirements because it did not update the Medicare segment pension assets from January 1, 2008, to January 1, 2009.

### **Federal Requirements**

The Medicare contracts identify a Medicare segment as:

. . . any organizational component of the contractor, such as a division, department, or other similar subdivision, having a significant degree of responsibility and accountability for the Medicare contract/agreement, in which:

1. The majority of the salary dollars is allocated to the Medicare agreement/contract; or,
2. Less than a majority of the salary dollars are charged to the Medicare agreement/contract, and these salary dollars represent 40% or more of the total salary dollars charged to the Medicare agreement/contract.

Furthermore, the Medicare contracts state that "... the pension assets allocated to each Medicare segment shall be adjusted in accordance with CAS 413.50(c)(7)." CAS 413.50(c)(7) requires that the asset base be adjusted by contributions, permitted unfunded accruals, income, benefit payments, and expenses. The CAS requires expenses to be allocated among the segments in proportion to the investment earnings. In addition, CAS 413.50(c)(8) requires an adjustment to be made for transfers (participants who enter or leave the segment) if the transfers materially affect the segment's ratio of pension plan assets to actuarial accrued liabilities.

For plan years beginning on or before March 30, 1995, the CAS requires investment income and expenses to be allocated among segments in proportion to the beginning-of-year asset value. For plan years beginning after March 30, 1995, the CAS requires investment income and expenses to be allocated among segments based on the ratio of the segment's weighted average value (WAV) of assets to Total Company WAV of assets.

### **Medicare Segment Pension Assets Not Updated**

GHI did not update the Medicare segment pension assets from January 1, 2008, to January 1, 2009, as required by the Medicare contracts. Using information provided by GHI and its actuarial consulting firms, we calculated the update of the Medicare segment pension assets from January 1, 2008, to January 1, 2009. We determined the Medicare segment assets to be \$489,218 as of January 1, 2009. Accordingly, GHI understated the Medicare segment pension assets by \$489,218.

## **RECOMMENDATION**

We recommend that GHI recognize \$489,218 as the Medicare segment pension assets as of January 1, 2009.

## **AUDITEE COMMENTS**

In written comments on our draft report, GHI agreed with our recommendation.

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

# **APPENDIXES**

**APPENDIX A: STATEMENT OF MARKET VALUE OF PENSION ASSETS FOR THE  
EMBLEMHEALTH SERVICES COMPANY, LLC, EMPLOYEES' RETIREMENT  
PLAN AT GROUP HEALTH INCORPORATED FOR THE  
PERIOD OF JANUARY 1, 2008, TO JANUARY 1, 2009**

Description		Total Company	“Other” Segment	Medicare Segment
Assets September 1, 2008	<u>1/</u>	\$127,638,149	\$127,638,149	\$0
Contributions	<u>2/</u>	15,712,164	15,264,731	447,433
Earnings	<u>3/</u>	(27,645,842)	(27,617,670)	(28,172)
Benefit Payments	<u>4/</u>	(2,613,997)	(2,613,997)	0
Expenses	<u>5/</u>	(1,227,819)	(1,226,568)	(1,251)
Transfers	<u>6/</u>	0	(71,208)	71,208
Assets January 1, 2009		\$111,862,655	\$111,373,437	\$489,218
Per GHI	<u>7/</u>	\$111,862,655	\$111,862,655	\$0
Asset Variance	<u>8/</u>	\$0	(\$489,218)	\$489,218

**FOOTNOTES**

- 1/ On January 1, 2008, Group Health Incorporated (GHI) employees were given an opportunity to elect participation in the EmblemHealth Services Company, LLC, Employees’ Retirement Plan. All of the active Medicare employees elected to change their participation, beginning on January 1, 2008, with zero accrued liability and assets in the EmblemHealth Services Company, LLC, Employees’ Retirement Plan. The assets and liabilities accrued prior to January 1, 2008, for these employees remained with the GHI Cash Balance Plan. Prior to January 1, 2008, there was no Medicare segment in the EmblemHealth Services Company, LLC, Employees’ Retirement Plan. The amounts shown for the “Other” segment represent the difference between the Total Company and the Medicare segments. All pension assets in this appendix are shown at market value.
- 2/ We obtained Total Company contribution amounts from the Department of Labor/Internal Revenue Service Forms 5500 (DOL/IRS 5500). We allocated Total Company contributions to the Medicare segment based on the ratio of the Medicare segment funding target divided by the Total Company funding target. Contributions in excess of the funding targets were treated as prepayment credits and accounted for in the “Other” segment until needed to fund pension costs in the future.
- 3/ We obtained investment earnings from DOL/IRS 5500s. We allocated investment earnings based on the ratio of the segment’s weighted average value (WAV) of assets to Total Company WAV of assets as required by the Cost Accounting Standards (CAS).
- 4/ We based the Medicare segment’s benefit payments on actual payments to Medicare retirees. We obtained the benefit payments from documents provided by GHI.
- 5/ We allocated administrative expenses to the Medicare segment in proportion to investment earnings as required by the CAS.
- 6/ We identified participant transfers between segments by comparing valuation data files provided by GHI. Asset transfers were equal to the actuarial liability determined under the accrued benefit cost method in accordance with the CAS.
- 7/ We obtained total asset amounts as of January 1, 2009, from documents prepared by GHI’s actuarial consulting firms.
- 8/ The asset variance represents the difference between our calculation of Medicare segment pension assets and GHI’s calculation of the Medicare segment pension assets.

## APPENDIX B: AUDITEE COMMENTS

# OHI

February 17, 2012

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

Re: **OIG Report Number: A-07-12-00378**  
*Review of the Pension Segmentation Requirements for the EmblemHealth Services Company, LLC, Employees' Retirement Plan at Group Health Incorporated for the period of January 1, 2008 to January 1, 2009.*

Dear Mr. Cogley:

This response is in regard to the subject report. GHI and its actuaries have carefully reviewed the report and supporting work papers. As recommended by the OIG, GHI agrees to recognize \$489,218 as the Medicare segment pension assets as of January 1, 2009.

Please let me know if you have any questions regarding this letter.

Sincerely,

A stylized signature consisting of a thick, dark, slanted line that curves upwards and then levels off to the right.

Vice President

*Group Health, Incorporated*  
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[www.ghimedicare.com](http://www.ghimedicare.com)