

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**NATIONAL GOVERNMENT SERVICES,  
INC., CLAIMED SOME UNALLOWABLE  
MEDICARE PENSION COSTS  
FOR FISCAL YEARS  
2003 THROUGH 2006**

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**Patrick J. Cogley  
Regional Inspector General**

**October 2013  
A-07-13-00409**

# *Office of Inspector General*

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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

*National Government Services, Inc., claimed unallowable pension costs of \$565,000 for Medicare reimbursement for fiscal years 2003 through 2006.*

### WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their pension costs, which are funded by the annual contributions that these contractors make to their pension plans. The amount of pension costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the cost reimbursement principles contained in the Federal Acquisition Regulation, Cost Accounting Standards (CAS), and Medicare contracts. Previous Office of Inspector General reviews found that contractors have not always complied with Federal requirements when claiming pension costs for Medicare reimbursement.

The objective of this review was to determine whether the pension costs claimed by National Government Services, Inc. (NGS), for Medicare reimbursement for fiscal years (FYs) 2003 through 2006 were allowable and correctly claimed.

### BACKGROUND

NGS (formerly AdminaStar Federal, Inc. (AdminaStar)), a subsidiary of WellPoint, Inc. (WellPoint), administered Medicare Parts A and B and Durable Medical Equipment operations under cost reimbursement contracts with CMS.

On November 30, 2004, Anthem Insurance Companies, Inc. (Anthem), merged with WellPoint Health Networks, Inc., and at that time, Anthem changed its name to WellPoint. On January 1, 2006, the Anthem Cash Balance Pension Plan was renamed the WellPoint Cash Balance Pension Plan. On June 30, 2006, the WellPoint Health Network, Inc., Pension Accumulation Plan assets were merged into the WellPoint Cash Balance Pension Plan, which included the Blue Cross Blue Shield of Georgia (BCBSGA) Medicare segment. BCBSGA was maintained separately from other Medicare operations. Also, effective November 17, 2006, WellPoint consolidated its Government contracting segments into one segment, AdminaStar, which included the following Government contracting segments: AdminaStar; Anthem Health Plans of Maine, Inc.; Anthem Health Plans of New Hampshire, Inc.; United Government Services, LLC; and WellChoice, Inc. (formerly Empire), Medicare segments. As of that same date, AdminaStar changed its corporate name to NGS. Throughout this report, we will associate the term NGS with our findings and recommendations.

### WHAT WE FOUND

NGS claimed pension costs of \$11,728,702 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs during this period were \$11,163,877. The difference, \$564,825, represented unallowable Medicare pension costs that NGS claimed on its Final Administrative Cost Proposals (FACPs) for FYs 2003 through 2006. NGS claimed

these unallowable pension costs because it based its claims for Medicare reimbursement on incorrectly calculated CAS pension costs.

### **WHAT WE RECOMMEND**

We recommend that NGS revise its FACPs for FYs 2003 through 2006 to reduce its claimed Medicare pension costs by \$564,825.

### **AUDITEE COMMENTS**

In written comments on our draft report, NGS concurred with our finding and recommendation and said that it would work with CMS to settle the balance due.

Our draft report included an appendix that NGS asked us to redact from any publicly available posting of this report.

### **OFFICE OF INSPECTOR GENERAL RESPONSE**

In response to NGS's request, we have removed the appendix in question from this final report.

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## INTRODUCTION

### WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their pension costs, which are funded by the annual contributions that these contractors make to their pension plans. The amount of pension costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the cost reimbursement principles contained in the Federal Acquisition Regulation (FAR), Cost Accounting Standards (CAS), and Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors have not always complied with Federal requirements when claiming pension costs for Medicare reimbursement.

### OBJECTIVE

Our objective was to determine whether the pension costs claimed by National Government Services, Inc. (NGS), for Medicare reimbursement for fiscal years (FYs) 2003 through 2006 were allowable and correctly claimed.

### BACKGROUND

#### **National Government Services, Inc.**

NGS (formerly AdminaStar Federal, Inc. (AdminaStar)), a subsidiary of WellPoint, Inc. (WellPoint), administered Medicare Parts A and B and Durable Medical Equipment (DME) operations under cost reimbursement contracts with CMS.

On November 30, 2004, Anthem Insurance Companies, Inc. (Anthem), merged with WellPoint Health Networks, Inc., and at that time, Anthem changed its name to WellPoint. On January 1, 2006, the Anthem Cash Balance Pension Plan was renamed the WellPoint Cash Balance Pension Plan. On June 30, 2006, the WellPoint Health Networks, Inc., Pension Accumulation Plan assets were merged into the WellPoint Cash Balance Pension Plan, which included the Blue Cross Blue Shield of Georgia (BCBSGA) Medicare segment. BCBSGA was maintained separately from other Medicare operations. Also, effective November 17, 2006, WellPoint consolidated its Government contracting segments into one segment, AdminaStar, which included the following Government contracting segments: AdminaStar; Anthem Health Plans of Maine, Inc.; Anthem Health Plans of New Hampshire, Inc.; United Government Services, LLC (UGS);<sup>1</sup> and WellChoice, Inc. (formerly Empire), Medicare segments. As of that same date, AdminaStar changed its corporate name to NGS. Throughout this report, we will associate the term NGS with our findings and recommendations.

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<sup>1</sup> UGS was also consolidated under the NGS Medicare segment; however, UGS participated in its own qualified defined benefit pension plan. In addition, the UGS pension costs were kept separate from the WellPoint Cash Balance Pension Plan until FY 2007. We are separately reviewing the UGS Medicare segment pension assets and pension costs claimed.

## **Medicare Reimbursement of Pension Costs**

CMS reimburses a portion of the Medicare contractors' annual pension costs, which are funded by contributions that these 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 FAR.

Beginning with 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-based 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.

## **HOW WE CONDUCTED THIS REVIEW**

We reviewed \$11,728,702 of Medicare Part A, Medicare Part B, and DME pension costs that NGS claimed for Medicare reimbursement on its Final Administrative Cost Proposals (FACPs) for FYs 2003 through 2006.

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 objectives.

Appendix A contains details of our audit scope and methodology.

## **FINDING**

NGS claimed pension costs of \$11,728,702 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs during this period were \$11,163,877. The difference, \$564,825, represented unallowable Medicare pension costs that NGS claimed on its FACPs for FYs 2003 through 2006. NGS claimed these unallowable pension costs because it based its claims for Medicare reimbursement on incorrectly calculated CAS pension costs.

## **CLAIMED PENSION COSTS**

NGS submitted Medicare pension costs of \$11,728,702 for Medicare reimbursement on its FACPs for FYs 2003 through 2006. We calculated the allowable Medicare pension costs based on separately computed CAS-based pension costs for the Medicare segment and the Other segment in accordance with CAS 412 and 413. For details on the Federal requirements, see Appendix B.

## UNALLOWABLE PENSION COSTS CLAIMED

We determined that the allowable CAS-based pension costs for FYs 2003 through 2006 were \$11,163,877. Thus, NGS claimed \$564,825 of unallowable Medicare pension costs on its FACPs for FYs 2003 through 2006. This overclaim occurred primarily because NGS based its claims for Medicare reimbursement on incorrectly calculated CAS pension costs.

The table below compares allowable CAS-based pension costs with the pension costs claimed on NGS's FACPs and reflected in its accounting documents.

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

Fiscal Year	Medicare Pension Costs		Difference
	Allowable Per Audit	Claimed by NGS	
2003	\$3,165,794	\$3,286,205	(\$120,411)
2004	3,303,370	3,443,662	(140,292)
2005	3,001,610	2,980,923	20,687
2006	1,693,103	2,017,912	(324,809)
<b>Total</b>	<b>\$11,163,877</b>	<b>\$11,728,702</b>	<b>(\$564,825)</b>

## RECOMMENDATION

We recommend that NGS revise its FACPs for FYs 2003 through 2006 to reduce its claimed Medicare pension costs by \$564,825.

## AUDITEE COMMENTS

In written comments on our draft report, NGS concurred with our finding and recommendation and said that it would work with CMS to settle the balance due.

Our draft report included an appendix that NGS asked us to redact from any publicly available posting of this report.

NGS's comments are included in their entirety as Appendix C.

## OFFICE OF INSPECTOR GENERAL RESPONSE

In response to NGS's request, we have removed the appendix in question from this final report.

## OTHER MATTER

CAS 412 requires NGS to properly identify, track, and update with interest, the unallowable unfunded pension costs. While WellPoint identified the unallowable unfunded pension costs for the Total Company and the BCBSGA segment, it did not identify the unallowable unfunded

pension costs related to the NGS Medicare segment. Specifically, WellPoint identified accumulated unallowable unfunded pension costs of \$10,669,836 (\$0 for the NGS Medicare segment, \$139,703 for the BCBSGA Medicare segment, and \$10,530,133 for the Other segment) as of January 1, 2007. We determined that the Total Company unallowable unfunded pension costs were \$10,669,836 (\$6,513 for the NGS Medicare segment, \$139,703 for the BCBSGA Medicare segment and \$10,523,620 for the Other segment) as of January 1, 2007. NGS properly identified the Total Company unallowable unfunded pension costs as of January 1, 2007, and allocated none of those costs to the NGS Medicare segment.

## APPENDIX A: AUDIT SCOPE AND METHODOLOGY

### SCOPE

We reviewed \$11,728,702 of pension costs that NGS claimed for Medicare reimbursement on its FACPs for FYs 2003 through 2006.

Achieving our objective did not require that we review NGS's overall internal control structure. 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 conducted our audit work in November and December 2012.

### METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- reviewed information provided by WellPoint to identify the amount of pension costs claimed for Medicare reimbursement for FYs 2003 through 2006;
- used information that WellPoint's actuarial consulting firms provided, including information on assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses;
- examined WellPoint's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Forms 5500;
- determined the extent to which WellPoint funded CAS-based pension costs with contributions to the pension trust fund and accumulated prepayment credits;
- engaged the CMS Office of the Actuary to calculate the allocable pension costs based on the CAS (the calculations were based on separately computed CAS-based pension costs for the Medicare segment and the Other segment); and
- reviewed the CMS actuaries' methodology and calculations.

We performed this review in conjunction with the following audits and used this information obtained during these audits during this review:

- *Blue Cross Blue Shield of Georgia Overstated Its Medicare Segment Pension Assets and Understated Medicare's Share of the Excess Liabilities as of May 31, 2009* (A-07-12-00397),

- *Blue Cross Blue Shield of Georgia Did Not Claim Some Allowable Medicare Pension Costs for Fiscal Years 2006 Through 2009 (A-07-12-00398),*
- *Anthem Health Plans of Maine, Inc., Overstated Its Medicare Segment Pension Assets as of January 1, 2006 (A-07-13-00404),*
- *Anthem Health Plans of Maine, Inc., Did Not Claim Some Allowable Medicare Pension Costs for Fiscal Years 2003 Through 2005 (A-07-13-00405),*
- *Anthem Health Plans of New Hampshire, Inc., Understated Its Medicare Segment Pension Assets as of January 1, 2006 (A-07-13-00406),*
- *Anthem Health Plans of New Hampshire, Inc., Did Not Claim Some Allowable Medicare Pension Costs for Fiscal Years 2003 Through 2005 (A-07-13-00407), and*
- *National Government Services, Inc., Understated Its Medicare Segment Pension Assets as of January 1, 2010 (A-07-13-00408).*

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 findings and conclusions based on our audit objectives.

## **APPENDIX B: FEDERAL REQUIREMENTS RELATED TO REIMBURSEMENT OF PENSION COSTS**

### **FEDERAL REGULATIONS**

Federal regulations (FAR 31.205-6(j)) address allowability of pension costs and require that contractors fund the pension costs assigned to contract periods by making contributions to the pension plan.

Federal regulations (CAS 412) address the determination and measurement of pension cost components. This regulation also addresses the assignment of pension costs to appropriate accounting periods.

Federal regulations (CAS 413) address 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.

### **MEDICARE CONTRACTS**

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.”

## APPENDIX C: AUDITEE COMMENTS



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MEDICARE

September 20, 2013

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

Reference: Report Number A-07-13-00409

Dear Mr. Cogley:

We have received the draft audit report from the Inspector General entitled "National Government Services, Inc., Claimed Some Unallowable Medicare Pension Costs for Fiscal Years 2003 Through 2006" and thank you for the opportunity to respond.

National Government Services, Inc. (NGS) concurs with the finding and recommendation outlined in the report and will work with the Centers for Medicare & Medicaid Services to settle the balance due.

Finally, NGS respectfully requests that the Draft Report Appendix C, which contains proprietary and confidential financial information relating to NGS' costs, be redacted from any publicly available posting of the Draft Report and subsequent Final Report.

We appreciate the opportunity to respond to this draft report. If you have any further questions, I can be reached at 414-459-5606 or via email at [todd.reiger@wellpoint.com](mailto:todd.reiger@wellpoint.com).

Sincerely,

 Digitally signed by  
todd.reiger@wellpoint.com  
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Todd W. Reiger, CPA  
Medicare Chief Financial Officer  
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## MEDICARE

September 20, 2013

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