

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**HEALTHNOW NEW YORK, INC.,  
UNDERSTATED ITS MEDICARE PART B  
SEGMENT PENSION ASSETS AND  
UNDERSTATED MEDICARE'S SHARE OF  
THE MEDICARE SEGMENT EXCESS  
PENSION LIABILITIES AS OF  
JANUARY 1, 2009**

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Patrick J. Cogley  
Regional Inspector General

October 2013  
A-07-13-00425

# *Office of Inspector General*

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## EXECUTIVE SUMMARY

***HealthNow, a terminated Medicare contractor, understated the Medicare segment pension assets by approximately \$303,000 as of January 1, 2009. In addition, HealthNow understated Medicare's share of the excess pension liabilities by approximately \$635,000 as a result of the contract termination.***

### WHY WE DID THIS REVIEW

Medicare contractors are required to separately account for their Medicare segment pension plan assets based on the requirements of their Medicare contracts and Cost Accounting Standards (CAS). The Centers for Medicare & Medicaid Services (CMS) incorporated this requirement into the Medicare contracts beginning with fiscal year 1988. In addition, in situations such as contract terminations, CAS 413 requires contractors to identify excess Medicare pension assets and liabilities allocated to the Medicare segment. Previous Office of Inspector General reviews found that Medicare contractors did not always correctly identify and update the segmented pension assets.

The objectives of this review were to determine whether HealthNow New York, Inc. (HealthNow), complied with Federal requirements and the Medicare contracts' pension segmentation requirements when (1) implementing the prior audit recommendation to increase the Medicare segment pension assets as of January 1, 2007, (2) updating the Medicare segment's pension assets from January 1, 2007, to January 1, 2009, (3) determining Medicare's share of the Medicare segment excess pension assets as a result of the curtailment of benefits adjustment as of January 1, 2008, and (4) determining the Medicare segment excess pension liabilities as a result of the Medicare segment closing as of January 1, 2009.

### BACKGROUND

HealthNow administered Medicare durable medical equipment regional carrier and Part B operations under cost reimbursement contracts with CMS until the contractual relationships were terminated on June 30, 2006, and August 31, 2008, respectively. The effective segment closing date for the Medicare Part B segment was January 1, 2009.

Effective March 31, 2007, HealthNow amended the HealthNow New York, Inc., Retirement Bonus Plan to discontinue the accrual of benefits for all participants in its retirement plan. In such cases as the discontinuance of benefit accruals for HealthNow's retirement plan, CAS requires that a benefit curtailment adjustment be performed. The effective date for the benefit curtailment adjustment was January 1, 2008. This report addresses the update of the Medicare segment pension assets, benefit curtailment adjustment, and segment closing adjustment for HealthNow's Medicare Part B segment.

We performed a prior pension segmentation audit at HealthNow (A-07-11-00363, issued March 7, 2012), which brought the Medicare segment pension assets to January 1, 2007. We

recommended that HealthNow increase its Medicare segment pension assets by \$803,777 and recognize \$12,054,951 as the Medicare segment pension assets as of January 1, 2007.

As a result of the benefit curtailment, HealthNow identified \$2,345,682 as Medicare's share of the Medicare segment excess pension assets as of January 1, 2008. In addition, upon the termination of its Medicare contracts, HealthNow identified Medicare's share of Medicare segment excess pension liabilities to be \$2,634,787. The net effect of the benefit curtailment and Medicare segment closing adjustments was that HealthNow identified Medicare's share of the Medicare segment excess pension liabilities to be \$289,105 as of January 1, 2009.

## **WHAT WE FOUND**

HealthNow implemented the prior audit recommendation to recognize \$12,054,951 as the Medicare segment pension assets as of January 1, 2007. Regarding our second objective, HealthNow identified Medicare segment pension assets of \$5,626,805 as of January 1, 2009; however, we determined that the Medicare segment pension assets were \$5,929,642. Thus, HealthNow understated the Medicare segment pension assets by \$302,837. HealthNow understated the Medicare segment pension assets because it did not calculate them in accordance with Federal requirements and the Medicare contracts' pension segmentation language when updating the Medicare segment pension assets from January 1, 2007, to January 1, 2009.

Regarding our third objective—the benefit curtailment adjustment—HealthNow calculated Medicare's share of the Medicare segment excess pension assets to be \$2,345,682 as of January 1, 2008; however, we determined that Medicare's share of the Medicare segment excess pension assets was \$1,864,842 as of that date. HealthNow overstated Medicare's share of the Medicare segment excess pension assets by \$480,840 because it (a) overstated the Medicare segment's excess pension assets and (b) did not calculate the aggregate Medicare percentage in accordance with the CAS.

Regarding our fourth objective—the Medicare segment closing adjustment—HealthNow calculated Medicare's share of the Medicare segment excess pension liabilities to be \$2,634,787 as of January 1, 2009; however, we determined that Medicare's share of the Medicare segment excess pension liabilities was \$2,789,360 as of that date. HealthNow understated Medicare's share of the Medicare segment excess pension liabilities by \$154,573 because it (a) understated the Medicare segment's excess pension liabilities and (b) did not calculate the aggregate Medicare percentage in accordance with the CAS.

The net effect of the benefit curtailment and Medicare segment closing adjustments was that HealthNow identified Medicare's share of Medicare segment excess pension liabilities of \$289,105; however, we determined that the net effect of both adjustments was \$924,518. The difference, \$635,413, constituted liabilities that HealthNow did not include in its Medicare segment closing adjustment. HealthNow understated Medicare's share of the Medicare segment excess pension liabilities by \$635,413, primarily because it used incorrect Medicare segment pension liabilities in its calculations of both the benefit curtailment and Medicare segment closing adjustments.

## **WHAT WE RECOMMEND**

We recommend that HealthNow:

- increase Medicare segment pension assets as of January 1, 2009, by \$302,837 and recognize \$5,929,642 as the Medicare segment pension assets, and
- increase Medicare's share of the Medicare segment excess pension liabilities by \$635,413 and recognize \$924,518 as Medicare's share of the Medicare segment excess pension liabilities as of January 1, 2009, as a result of the net effect of the curtailment of benefits and the Medicare segment closing adjustments.

## **AUDITEE COMMENTS**

In written comments on our draft report, HealthNow agreed with our recommendations and stated that it would net our recommendations with other amounts due to and from the Federal Government during its global settlement of outstanding audits.

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## INTRODUCTION

### WHY WE DID THIS REVIEW

Medicare contractors are required to separately account for their Medicare segment pension plan assets based on the requirements of their Medicare contracts and Cost Accounting Standards (CAS). The Centers for Medicare & Medicaid Services (CMS) incorporated this requirement into the Medicare contracts beginning with fiscal year 1988. In addition, in situations such as contract terminations, CAS 413 requires contractors to identify excess Medicare pension assets and liabilities allocated to the Medicare segment. Previous Office of Inspector General reviews found that Medicare contractors did not always correctly identify and update the segmented pension assets.

### OBJECTIVES

Our objectives were to determine whether HealthNow New York, Inc. (HealthNow), complied with Federal requirements and the Medicare contracts' pension segmentation requirements when (1) implementing the prior audit recommendation to increase the Medicare segment pension assets as of January 1, 2007, (2) updating the Medicare segment's pension assets from January 1, 2007, to January 1, 2009, (3) determining Medicare's share of the Medicare segment excess pension assets as a result of the curtailment of benefits adjustment as of January 1, 2008, and (4) determining the Medicare segment excess pension liabilities as a result of the Medicare segment closing as of January 1, 2009.

### BACKGROUND

HealthNow administered Medicare durable medical equipment regional carrier (DMERC) and Part B operations under cost reimbursement contracts with CMS until the contractual relationships terminated on June 30, 2006, and August 31, 2008, respectively.<sup>1</sup> The effective segment closing date for the Medicare Part B segment was January 1, 2009.

Effective March 31, 2007, HealthNow amended the HealthNow New York, Inc., Retirement Bonus Plan to discontinue the accrual of benefits for all participants in its retirement plan. In such cases as the discontinuance of benefit accruals for HealthNow's retirement plan, CAS requires that a benefit curtailment adjustment be performed. The effective date for the benefit curtailment adjustment was January 1, 2008. This report addresses the update of the Medicare segment pension assets, benefit curtailment adjustment, and segment closing adjustment for HealthNow's Medicare Part B segment.

We performed a prior pension segmentation audit at HealthNow (A-07-11-00363, issued March 7, 2012), which brought the Medicare segment pension assets to January 1, 2007. We

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<sup>1</sup> The DMERC contractual relationship was terminated on June 30, 2006. The effective closing date for the DMERC Medicare segment was January 1, 2007. We reviewed the DMERC segment closing in a separate audit (A-07-11-00366, issued March 12, 2012) of HealthNow. Unless otherwise noted, all subsequent references to Medicare segment pension assets, benefit curtailment, and segment closing adjustments in the body of this report relate to the Medicare Part B segment.

recommended that HealthNow increase its Medicare segment pension assets by \$803,777 and recognize \$12,054,951 as the Medicare segment pension assets as of January 1, 2007.

As a result of the benefit curtailment, HealthNow identified \$2,345,682 as Medicare's share of the Medicare segment excess pension assets as of January 1, 2008. In addition, upon the termination of its Medicare contracts, HealthNow identified Medicare's share of Medicare segment excess pension liabilities to be \$2,634,787. The net effect of the benefit curtailment and Medicare segment closing adjustments was that HealthNow identified Medicare's share of the Medicare segment excess pension liabilities to be \$289,105 as of January 1, 2009.

## **HOW WE CONDUCTED THIS REVIEW**

We reviewed HealthNow's implementation of the prior audit recommendation; identification of its Medicare segment; update of Medicare segment assets from January 1, 2007, to January 1, 2009; the Medicare segment benefit curtailment adjustment as of January 1, 2008; and the Medicare segment's closing adjustment as of January 1, 2009.

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 A contains details of our audit scope and methodology.

## **FINDINGS**

HealthNow implemented the prior audit recommendation to recognize \$12,054,951 as the Medicare segment pension assets as of January 1, 2007. Regarding our second objective, HealthNow identified Medicare segment pension assets of \$5,626,805 as of January 1, 2009; however, we determined that the Medicare segment pension assets were \$5,929,642. Thus, HealthNow understated the Medicare segment pension assets by \$302,837. HealthNow understated the Medicare segment pension assets because it did not calculate them in accordance with Federal requirements and the Medicare contracts' pension segmentation language when updating the Medicare segment pension assets from January 1, 2007, to January 1, 2009.

Appendix B presents details of the Medicare segment's pension assets from January 1, 2007, to January 1, 2009, as determined during our audit. Table 1 on the following page summarizes the audit adjustments required to update Medicare segment pension assets in accordance with Federal requirements.

<b>Table 1: Summary of Audit Adjustments</b>			
	<b>Per Audit</b>	<b>Per HealthNow</b>	<b>Difference</b>
<b>Prior Audit Recommendation</b>	\$12,054,951	\$12,054,951	\$0
<b>Update of Medicare Segment Assets</b>			
Contributions and Prepayment Credits	0	0	0
Benefit Payments	(2,924,955)	(2,884,195)	(40,760)
Net Transfers Out	0	0	0
Earnings, Net of Expenses	(1,027,132)	(969,956)	(57,176)
Curtailment of Benefits Adjustment	(2,173,222)	(2,573,995)	400,773
<b>Understatement of Medicare Segment Assets as of January 1, 2009</b>			<b>\$302,837</b>

Regarding our third objective—the benefit curtailment adjustment—HealthNow calculated Medicare’s share of the Medicare segment excess pension assets to be \$2,345,682 as of January 1, 2008; however, we determined that Medicare’s share of the Medicare segment excess pension assets was \$1,864,842 as of that date. The difference, \$480,840, constituted unallowable Medicare segment pension assets that HealthNow included in its benefit curtailment adjustment. HealthNow overstated Medicare’s share of the Medicare segment excess pension assets by \$480,840 because it (a) overstated the Medicare segment’s excess pension assets and (b) did not calculate the aggregate Medicare percentage in accordance with the CAS.

Regarding our fourth objective—the Medicare segment closing adjustment—HealthNow calculated Medicare’s share of the Medicare segment excess pension liabilities to be \$2,634,787 as of January 1, 2009; however, we determined that Medicare’s share of the Medicare segment excess pension liabilities was \$2,789,360 as of that date. The difference, \$154,573, constituted allowable Medicare segment pension that HealthNow did not include in its closing adjustment. HealthNow understated Medicare’s share of the Medicare segment excess pension liabilities by \$154,573 because it (a) understated the Medicare segment’s excess pension liabilities and (b) did not calculate the aggregate Medicare percentage in accordance with the CAS.

The net effect of the benefit curtailment and Medicare segment closing adjustments was that HealthNow identified Medicare’s share of Medicare segment excess pension liabilities of \$289,105; however, we determined that the net effect of both adjustments was \$924,518. The difference, \$635,413, constituted liabilities that HealthNow did not include in its Medicare segment closing adjustment. HealthNow understated Medicare’s share of the Medicare segment excess pension liabilities by \$635,413, primarily because it used incorrect Medicare segment pension liabilities in its calculations of both the benefit curtailment and Medicare segment closing adjustments.

## **PRIOR AUDIT RECOMMENDATION**

HealthNow implemented the prior audit recommendation (A-07-11-00363), which recommended that HealthNow increase its Medicare segment pension assets by \$803,777 and, as a result, recognize \$12,054,951 as the Medicare segment pension assets as of January 1, 2007.

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

The Medicare contracts require Medicare contractors to update the Medicare segment pension assets yearly in accordance with the CAS. The CAS requires that the assets base be adjusted by contributions, permitted unfunded accruals, income, benefit payments, and expenses.

For details on the Federal requirements and the relevant language of the Medicare contracts, see Appendix C.

The following are our findings regarding the update of the Medicare segment pension assets from January 1, 2007, to January 1, 2009.

### **Benefit Payments Understated**

HealthNow understated benefit payments by \$40,760 because it did not correctly identify some Medicare segment participants' benefit payments during the audit period. Table 2 below shows the differences between the Medicare segment benefit payments proposed by HealthNow and the benefit payments that we determined during our review.

<b>Table 2: Benefit Payments</b>			
	<b>Per Audit</b>	<b>Per HealthNow</b>	<b>Difference</b>
2007	1,402,327	1,346,292	56,035
2008	1,522,628	1,537,903	(15,275)
<b>Total</b>	<b>\$2,924,955</b>	<b>\$2,884,195</b>	<b>\$40,760</b>

### **Earnings, Net of Expenses Understated**

HealthNow understated investment earnings, less administrative expenses, by \$57,176 for the Medicare segment, primarily because it incorrectly calculated the weighted average value (WAV) of assets in its calculation of earnings, net of expenses, as required by the CAS. In addition, HealthNow used incorrect benefit payments to develop the Medicare segment pension asset base. In our audited update, we allocated earnings, net of expenses based on the applicable CAS requirements. Table 3 on the following page shows the differences between HealthNow's proposed earnings, net of expenses and the amounts that we calculated during our review. For details on applicable Federal requirements, see Appendix C.

<b>Table 3: Earnings, Net of Expenses</b>			
	<b>Per Audit</b>	<b>Per HealthNow</b>	<b>Difference</b>
2007	1,062,621	1,065,191	(2,570)
2008	(2,089,753)	(2,035,147)	(54,606)
<b>Total</b>	<b>(\$1,027,132)</b>	<b>(\$969,956)</b>	<b>(\$57,176)</b>

## **MEDICARE SEGMENT CURTAILMENT OF BENEFITS ADJUSTMENT**

### **Medicare Segment Excess Pension Assets as of January 1, 2008**

CAS 413 (Appendix C) requires HealthNow to compute an adjustment as a result of the curtailment of benefits. HealthNow identified \$2,573,995 in Medicare segment excess pension assets as of January 1, 2008. However, we calculated the Medicare segment excess pension assets to be \$2,173,222 as of that date. (It is necessary to calculate the pension assets and liabilities as well as any adjustments for the Medicare segment before calculating Medicare's share.) Thus, HealthNow overstated the excess pension assets by \$400,773. The overstatement occurred because HealthNow (a) understated the Medicare segment liabilities as of January 1, 2008, and (b) overstated the Medicare segment's market value of pension assets as of January 1, 2008. The development of excess assets was used to identify Medicare's share of the Medicare segment's excess pension assets.

### **Medicare's Share of the Medicare Segment Excess Pension Assets**

HealthNow calculated the aggregate Medicare percentage (that is, the percentage that reflects Medicare's share of the Medicare segment excess pension assets) as 91.13 percent. We calculated the aggregate Medicare percentage to be 85.81 percent (see Appendix D) using the Medicare segment pension costs developed during the prior pension costs claimed (A-07-11-00364, issued March 7, 2012) and current pension costs claimed (A-07-13-00426) audits as required by the CAS. Table 4 on the following page shows our calculations of Medicare's share of the Medicare segment excess pension assets. For details on the Federal requirements regarding the aggregate Medicare percentage, see Appendix C.

HealthNow calculated \$2,345,682 as Medicare's share of the excess pension assets as of January 1, 2008; however, we determined that Medicare's share of the excess pension assets was \$1,864,842 as of that date. HealthNow overstated Medicare's share of the Medicare segment excess pension assets by \$480,840 because it (a) overstated the Medicare segment's excess pension assets (as discussed above) and (b) did not calculate the aggregate Medicare percentage in accordance with the CAS.

<b>Table 4: Benefit Curtailment Adjustment</b>			
	<b>Excess Medicare Segment Assets (A)</b>	<b>Aggregate Medicare Percentage (B)</b>	<b>Excess Assets Attributable to Medicare (A x B)</b>
Per Audit	\$2,173,222	85.81%	\$1,864,842
Per HealthNow	2,573,995	91.13%	2,345,682
<b>Difference</b>			<b>(\$480,840)</b>

## **MEDICARE SEGMENT CLOSING ADJUSTMENT**

### **Medicare Segment Excess Pension Liabilities as of January 1, 2009**

CAS 413 (Appendix C) requires HealthNow to compute a Medicare segment closing adjustment as a result of the termination of its Medicare contract. HealthNow identified \$2,891,240 in Medicare segment excess pension liabilities as of January 1, 2009. However, we calculated the Medicare excess pension liabilities to be \$3,250,623 as of that date. (It is necessary to calculate the pension assets and liabilities as well as any adjustments for the Medicare segment before calculating Medicare's share.) Therefore, HealthNow understated the excess pension liabilities by \$359,383. The understatement occurred primarily because HealthNow understated the final Medicare segment liabilities as of January 1, 2009. The development of excess liabilities was used to identify Medicare's share of the Medicare segment's excess pension liabilities.

### **Medicare's Share of the Medicare Segment Excess Pension Liabilities**

HealthNow calculated the aggregate Medicare percentage (that is, the percentage that reflects Medicare's share of the Medicare segment excess pension assets) as 91.13 percent. We calculated the aggregate Medicare percentage to be 85.81 percent (see Appendix D) using the Medicare segment pension costs developed during the prior pension costs claimed (A-07-11-00364) and current pension costs claimed (A-07-13-00426) audits as required by the CAS. Table 5 on the following page shows our calculations of Medicare's share of the Medicare segment excess pension liabilities. For details on the Federal requirements regarding the aggregate Medicare percentage, see Appendix C.

HealthNow calculated \$2,634,787 as Medicare's share of the Medicare segment excess pension liabilities as of January 1, 2009; however, we determined that Medicare's share of the Medicare segment excess pension liabilities was \$2,789,360 as of that date. HealthNow understated Medicare's share of the Medicare segment excess pension liabilities by \$154,573 because it (a) understated the Medicare segment's excess pension liabilities (as discussed above) and (b) did not calculate the aggregate Medicare percentage in accordance with the CAS.

	<b>Excess Medicare Segment Liabilities (A)</b>	<b>Aggregate Medicare Percentage (B)</b>	<b>Excess Liabilities Attributable to Medicare (A x B)</b>
Per Audit	\$3,250,623	85.81%	\$2,789,360
Per HealthNow	2,891,240	91.13%	2,634,787
<b>Difference</b>			<b>\$154,573</b>

## **NET EFFECT OF BENEFIT CURTAILMENT AND MEDICARE SEGMENT CLOSING ADJUSTMENTS**

The net effect of the benefit curtailment and Medicare segment closing adjustments was that HealthNow identified Medicare's share of the Medicare segment excess pension liabilities to be \$289,105; however, we determined that the net effect of both adjustments—that is, Medicare's share of the Medicare segment excess pension liabilities—was \$924,518. The difference, \$635,413, constituted liabilities that HealthNow did not include in its Medicare segment closing adjustment. HealthNow understated Medicare's share of the Medicare segment excess pension liabilities by \$635,413 as of January 1, 2009. The understatement occurred primarily because HealthNow used incorrect Medicare segment pension liabilities in its calculations of both the benefit curtailment and Medicare segment closing adjustments. Table 6 below compares HealthNow's proposed curtailment of benefits and segment closing adjustments and our calculations as determined during our review.

	<b>Per Audit</b>	<b>Per HealthNow</b>	<b>Difference</b>
Benefit Curtailment Adjustment— Medicare's Share of Medicare Segment Excess Pension Assets at January 1, 2008	\$1,864,842	\$2,345,682	(\$480,840)
Medicare Segment Closing Adjustment— Medicare's Share of Medicare Segment Excess Pension Liabilities at January 1, 2009	(2,789,360)	(2,634,787)	(154,573)
<b>Total</b>	<b>(\$924,518)</b>	<b>(\$289,105)</b>	<b>(\$635,413)</b>

## **RECOMMENDATIONS**

We recommend that HealthNow:

- increase Medicare segment pension assets as of January 1, 2009, by \$302,837 and recognize \$5,929,642 as the Medicare segment pension assets, and
- increase Medicare's share of the Medicare segment excess pension liabilities by \$635,413 and recognize \$924,518 as Medicare's share of the Medicare segment excess pension liabilities as of January 1, 2009, as a result of the net effect of the curtailment of benefits and the Medicare segment closing adjustments.

## **AUDITEE COMMENTS**

In written comments on our draft report, HealthNow agreed with our recommendations and stated that it would net our recommendations with other amounts due to and from the Federal Government during its global settlement of outstanding audits.

HealthNow's comments are included in their entirety as Appendix E.

## **OTHER MATTER**

We developed the results of this audit based on the identification of January 1, 2009, as the Medicare Part B segment closing date. HealthNow's Medicare Part B contract with CMS terminated on August 31, 2008. Therefore, we based our calculations and findings using the January 1, 2009, actuarial valuation report, which was the closest actuarial valuation report to the contract termination date. In a letter dated January 4, 2010, HealthNow proposed January 1, 2009, as the closing date for the Medicare Part B segment and also indicated that it was performing subcontract work for another Medicare contractor during the period of September 1, 2008, through July 31, 2009.

During coordination with the CMS Office of the Actuary (OACT) after we had both completed our audit work and drafted this report, the CMS OACT voiced concerns over the appropriateness of using the closing date of January 1, 2009, for the Medicare Part B segment. The CMS OACT noted that asset values were unusually low on January 1, 2009, and posited that measuring the segment closing adjustment on that date might result in an inequitable calculation.

Although we based the results of this audit on the identification of January 1, 2009, as the Medicare Part B segment closing date, CMS officials may or may not determine this date to be inequitable based on the provisions of CAS 413.50(c)(12)(iii). CMS may elect to use a later date, such as January 1, 2010, that is acceptable to both HealthNow and CMS. We neither agree nor disagree with the use of an alternative date and wish only to bring this matter to the attention of both HealthNow and CMS.

## **APPENDIX A: AUDIT SCOPE AND METHODOLOGY**

### **SCOPE**

We reviewed HealthNow's implementation of the prior audit recommendation; identification of its Medicare segment; update of Medicare segment assets from January 1, 2007, to January 1, 2009; the Medicare segment benefit curtailment adjustment as of January 1, 2008; and the Medicare segment's closing adjustment as of January 1, 2009.

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

We conducted our audit work in April 2013.

### **METHODOLOGY**

To accomplish our objectives, we took the following steps:

- We reviewed the portions of the Federal Acquisition Regulation, CAS, and the Medicare contracts applicable to this audit.
- We reviewed the annual actuarial valuation reports prepared by HealthNow'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 used in calculating the Medicare segment assets.
- We interviewed HealthNow staff responsible for identifying the Medicare segment to determine whether the segment was properly identified in accordance with the Medicare contracts.
- We reviewed HealthNow's accounting records to verify the segment identification and benefit payments made to the Medicare segment.
- We reviewed the Medicare segment benefit curtailment adjustment prepared by HealthNow's staff and its actuarial consulting firms.
- We reviewed the Medicare segment closing adjustment prepared by HealthNow's staff and its actuarial consulting firms.

- We reviewed the prior segmentation audit performed at HealthNow (A-07-11-00363) to determine the beginning market value of assets.
- We provided the CMS OACT with the actuarial information necessary for it to calculate the Medicare segment pension assets from January 1, 2007, to January 1, 2009, the Medicare segment excess pension assets as of January 1, 2008, and the Medicare segment's excess pension liabilities as of January 1, 2009.
- We reviewed the CMS actuaries' methodology and calculations.
- We provided the results of our review to HealthNow officials on July 15, 2013.

We performed this review in conjunction with our audit of HealthNow's pension costs claimed for Medicare reimbursement (A-07-13-00426) 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 findings and conclusions based on our audit objectives.

**APPENDIX B: STATEMENT OF MARKET VALUE OF PENSION ASSETS  
FOR HEALTHNOW NEW YORK, INC.  
FOR THE PERIOD JANUARY 1, 2007, TO JANUARY 1, 2009**

Description		Total Company	Other Segments	Medicare Segment
Assets January 1, 2007	<u>1/</u>	\$95,360,687	\$83,305,736	\$12,054,951
Contributions		0	0	0
Other Transactions		0	0	0
Earnings	<u>2/</u>	8,570,743	7,508,122	1,062,621
Benefit Payments	<u>3/</u>	(7,569,789)	(6,167,462)	(1,402,327)
Assets January 1, 2008		\$96,361,641	\$84,646,396	\$11,715,245
Contributions	<u>4/</u>	2,700,000	2,700,000	0
Other Transactions	<u>5/</u>	0	2,173,222	(2,173,222)
Earnings		(22,565,313)	(20,475,560)	(2,089,753)
Benefit Payments		(5,793,717)	(4,271,089)	(1,522,628)
Assets January 1, 2009		\$70,702,611	\$64,772,969	\$5,929,642
Per HealthNow	<u>6/</u>	70,702,611	65,075,806	5,626,805
Asset Variance	<u>7/</u>	0	302,837	(302,837)

**ENDNOTES**

1/ We determined the Medicare segment pension assets as of January 1, 2007, based on our prior segmentation audit of HealthNow New York, Inc. (A-07-11-00363). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare segment. All pension assets are shown at market value.

2/ We obtained net investment earnings from the actuarial valuation reports. We allocated net investment earnings based on the ratio of each segments' WAV of assets to Total Company WAV of assets as required by the CAS.

3/ We based each Medicare segment's benefit payments on actual payments to Medicare retirees. We obtained the benefit payments from documents provided by HealthNow.

4/ We obtained Total Company contribution amounts from the actuarial valuation reports and Department of Labor/Internal Revenue Service Forms 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.

5/ The Other transactions represent the curtailment of benefits adjustment as of January 1, 2008. Effective March 31, 2007, HealthNow amended the HealthNow New York, Inc., Retirement Bonus Plan to discontinue the accrual of benefits for all participants. In such cases as the discontinuance of benefit accruals for HealthNow's retirement plan, CAS requires that a benefit curtailment adjustment be performed. The effective date for the curtailment of benefits was January 1, 2008.

6/ We obtained total asset amounts from documents prepared by HealthNow's actuarial consulting firm.

7/ The asset variance represents the difference between our calculation of Medicare segment pension assets and HealthNow's calculation of the Medicare segment pension assets.

## **APPENDIX C: FEDERAL REQUIREMENTS RELATED TO PENSION SEGMENTATION AND SEGMENT CLOSING ADJUSTMENT**

### **PENSION SEGMENTATION**

#### **Federal Regulations**

Federal regulations (CAS 412.50(a)(4)) require that contributions in excess of the pension cost assigned to the period be recognized as prepayment credits and accumulated at the assumed valuation interest rate until applied to future period costs. Prepayment credits that have not been applied to fund pension costs are excluded from the value of assets used to compute pension costs.

Federal regulations (CAS 413.50(c)(7)) require that the asset base be adjusted by contributions, permitted unfunded accruals, income, benefit payments, and expenses. 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 WAV of assets to Total Company WAV of assets.

Federal regulations (CAS 413.50(c)(8)) require 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.

#### **Medicare Contracts**

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)."

## MEDICARE SEGMENT EXCESS PENSION ASSETS AND LIABILITIES

### Federal Regulations

Federal regulations (CAS 413.50(c)(12)) state:

If a segment is closed, if there is a pension plan termination, or if there is a curtailment of benefits, the contractor shall determine the difference between the actuarial liability for the segment and the market value of the assets allocated to the segment, irrespective of whether or not the pension plan is terminated. The difference between the market value of the assets and the actuarial accrued liability for the segment represents an adjustment of previously-determined pension costs.

(i) The determination of the actuarial accrued liability shall be made using the accrued benefit cost method. The actuarial assumptions employed shall be consistent with the current and prior long term assumptions used in the measurement of pension costs ....

(ii) ... The market value of the assets shall be reduced by the accumulated value of prepayment credits, if any. Conversely, the market value of assets shall be increased by the current value of any unfunded actuarial liability separately identified and maintained in accordance with 9904.412-50(a)(2).

(iii) The calculation of the difference between the market value of the assets and the actuarial accrued liability shall be made as of the date of the event (e.g., contract termination, plan amendment, plant closure) that caused the closing of the segment, pension plan termination, or curtailment of benefits. If such a date is not readily determinable, or if its use can result in an inequitable calculation, the contracting parties shall agree on an appropriate date.

(iv) Pension plan improvements adopted within 60 months of the date of the event which increase the actuarial accrued liability shall be recognized on a prorata basis using the number of months the date of adoption preceded the event date. Plan improvements mandated by law or collective bargaining agreement are not subject to this phase-in.

The methodology for determining the Federal Government's share of excess pension assets and liabilities is addressed by CAS 413.50(c)(12)(vi), which states:

The Government's share of the adjustment amount determined for a segment shall be the product of the adjustment amount and a fraction. The adjustment amount shall be reduced for any excise tax imposed upon assets withdrawn from the funding agency of a qualified pension plan. The numerator of such fraction shall be the *sum of the pension plan costs* allocated to all contracts and subcontracts (including Foreign Military Sales) subject to this Standard during a period of

years representative of the Government's participation in the pension plan. The denominator of such fraction shall be the *total pension costs* assigned to cost accounting periods during those same years. This amount shall represent an adjustment of contract prices or cost allowance as appropriate. The adjustment may be recognized by modifying a single contract, several but not all contracts, or all contracts, or by use of any other suitable technique. [Emphasis added.]

### **Medicare Contracts**

In the event of a contract termination, the Medicare contracts require contractors to follow the segment closing provision of the CAS. Furthermore, in situations such as contract terminations, the Medicare contracts require contractors to identify excess Medicare pension assets and liabilities in accordance with CAS 413.

**APPENDIX D: CALCULATION OF MEDICARE PART B AGGREGATE PERCENTAGE**

<b>Fiscal Year</b>	<b>Medicare Segment Pension Costs Charged to Part B Medicare Contract</b>	<b>Medicare Segment Pension Costs Charged to DMERC Medicare Contract</b>	<b>Total Medicare Segment Pension Costs</b>	<b>Medicare Aggregate Percentage</b>
<u>1/</u>	(A) <u>2/</u>	(B) <u>3/</u>	(c) <u>4/</u>	$((A+B)/C)$ <u>5/</u>
1994	634,191	0	634,191	
1995	588,401	0	588,401	
1996	698,513	0	698,513	
1997	523,319	0	523,319	
1998	356,196	0	373,567	
1999	374,486	0	460,000	
2000	384,080	6,275	471,785	
2001	230,867	26,826	318,218	
2002	314,371	41,381	489,141	
2003	259,876	53,040	458,820	
2004	329,340	75,584	596,090	
2005	293,967	84,690	520,848	
2006	323,756	67,983	471,123	
2007	0	0	0	
2008	0	0	0	
<b>Total</b>	<u>\$5,311,363</u>	<u>\$355,779</u>	<u>\$6,604,016</u>	<u>85.81%</u>

**ENDNOTES**

1/ The aggregate percentage was based on the audited pension costs developed during the prior pension costs claimed (A-07-11-00364 and A-07-11-00367, issued on March 7, 2012, and March 12, 2012, respectively) and current pension costs claimed (A-07-13-00426) audits.

2/ This column identifies the allowable Medicare Part B segment pension costs that relate to the Medicare

3/ This column identifies the allowable Medicare Part B segment pension costs that relate to the DMERC contract.

4/ This column identifies the total allocable Medicare Part B segment pension costs during the contract

5/ We calculated the aggregate Medicare percentage by dividing the Medicare Part B segment pension costs charged to Medicare by the total Medicare Part B segment pension costs pursuant to CAS 413.

## APPENDIX E: AUDITEE COMMENTS



257 West Genesee Street • Buffalo, New York 14202

September 18, 2013

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

Re: Report Number: A-07-13-00425

Dear Mr. Cogley:

This letter is in response to the U.S. Department of Health & Human Services, Office of Inspector General, Office of Audit Services' draft report entitled "*HealthNow New York Inc. Did Not Claim Some Allowable Medicare Part B Pension Costs for the Fiscal Years 2007 Through 2009*". HealthNow New York Inc. (HealthNow) has reviewed the draft report in conjunction with our actuaries at Hooker and Holcombe, Inc.

- HealthNow agrees with the recommendations stated in the draft audit report on page iii.

We understand there will be a global settlement of all HealthNow's outstanding audits and we will net this recommendation with other amounts due to/from the Federal Government at that time. We cannot revise the FACP since we are no longer a Part B contractor.

HealthNow would like to thank the audit team for their professionalism and recognition of the ongoing operation during the audit.

If you have any questions, please contact me at 716.887.6922.

Sincerely,

A handwritten signature in black ink, appearing to read "Suzanne M. Gannon".

Suzanne M. Gannon  
Executive Director & CEO, Medicare Operation  
MedUS Services, LLC

cc: Amy M. Arena  
Catherine M. Campbell  
Christopher Leardini  
Carmen L. Snell, Esq.