

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**HEALTHNOW NEW YORK, INC.,  
DID NOT CLAIM SOME ALLOWABLE  
MEDICARE PART B PENSION COSTS FOR  
FISCAL YEARS 2007 THROUGH 2009**

*Inquiries about this report may be addressed to the Office of Public Affairs at  
[Public.Affairs@oig.hhs.gov](mailto:Public.Affairs@oig.hhs.gov).*



**Patrick J. Cogley**  
Regional Inspector General

October 2013  
A-07-13-00426

# *Office of Inspector General*

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## EXECUTIVE SUMMARY

*HealthNow did not claim allowable pension costs of approximately \$23,000 for Medicare reimbursement for fiscal years 2007 through 2009.*

### 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 Medicare contractors did not always comply with Federal requirements when claiming pension costs for Medicare reimbursement.

The objective of this review was to determine whether HealthNow New York, Inc. (HealthNow), complied with Federal requirements when claiming pension costs for Medicare reimbursement for fiscal years (FYs) 2007 through 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. This report addresses the allowable pension costs for HealthNow's Medicare Part B segment.

### WHAT WE FOUND

HealthNow claimed pension costs of \$65,915 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs during this period were \$89,266. The difference, \$23,351, represented allowable Medicare pension costs that HealthNow did not claim on its Final Administrative Cost Proposals (FACPs) for FYs 2007 through 2009. HealthNow did not claim these allowable Medicare pension costs primarily because it incorrectly calculated the CAS pension cost for FY 2007.

### WHAT WE RECOMMEND

We recommend that HealthNow revise its FACPs for FYs 2007 through 2009 to claim additional Medicare pension costs of \$23,351.

## **AUDITEE COMMENTS**

In written comments on our draft report, HealthNow agreed with our findings and stated that it would net our recommendation 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 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 did not always comply with Federal requirements when claiming pension costs for Medicare reimbursement.

### OBJECTIVE

Our objective was to determine whether HealthNow New York, Inc. (HealthNow), complied with Federal requirements when claiming pension costs for Medicare reimbursement for fiscal years (FYs) 2007 through 2009.

### BACKGROUND

#### HealthNow New York, Inc.

HealthNow administered Medicare durable medical equipment regional carrier (DMERC) 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.<sup>1</sup> The effective segment closing date for the Medicare Part B segment was January 1, 2009. This report addresses the allowable pension costs for HealthNow's Medicare Part B segment.

#### 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.

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<sup>1</sup> We performed a separate review of the allowability of pension costs for the DMERC segment (A-07-11-00367, issued March 12, 2012) of HealthNow. Unless otherwise noted, all subsequent references to Medicare pension costs and reimbursements in the body of this report relate to the Medicare Part B segment.

## **HOW WE CONDUCTED THIS REVIEW**

We reviewed \$65,915 of pension costs claimed by HealthNow for Medicare reimbursement on its Final Administrative Cost Proposals (FACPs) for FYs 2007 through 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 finding and conclusions based on our audit objectives.

Appendix A contains details of our audit scope and methodology.

## **FINDING**

HealthNow claimed pension costs of \$65,915 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs during this period were \$89,266. The difference, \$23,351, represented allowable Medicare pension costs that HealthNow did not claim on its FACPs for FYs 2007 through 2009. HealthNow did not claim these allowable Medicare pension costs primarily because it incorrectly calculated the CAS pension cost for FY 2007.

## **CLAIMED PENSION COSTS**

HealthNow submitted Medicare pension costs of \$65,915 for Medicare reimbursement on its FACPs for FYs 2007 through 2009. 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.

## **ALLOWABLE PENSION COSTS NOT CLAIMED**

We determined that the allowable CAS-based pension costs for FYs 2007 through 2009 were \$89,266. Thus, HealthNow did not claim \$23,351 of allowable Medicare pension costs on its FACPs for this time period. This underclaim occurred primarily because HealthNow incorrectly calculated the CAS pension cost for FY 2007.

The table on the following page compares allowable CAS-based pension costs with the pension costs claimed on HealthNow's FACPs and reflected in its accounting documents. Appendix C contains additional details on allowable pension costs.

**Table: 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 HealthNow</b>	<b>Difference</b>
2007	89,266	61,064	28,202
2008	0	4,833	(4,833)
2009	0	18 <sup>2</sup>	(18)
<b>Total</b>	<b>\$89,266</b>	<b>\$65,915</b>	<b>\$23,351</b>

**RECOMMENDATION**

We recommend that HealthNow revise its FACPs for FYs 2007 through 2009 to claim additional Medicare pension costs of \$23,351.

**AUDITEE COMMENTS**

In written comments on our draft report, HealthNow agreed with our findings and stated that it would net our recommendation 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 D.

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<sup>2</sup> HealthNow included pension costs of \$18 in its termination vouchers submitted to CMS during the period of September through December 2008. Therefore, we have included these pension costs in our comparison as they were claimed during FY 2009.

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

### **SCOPE**

We reviewed \$65,915 of pension costs that HealthNow claimed for Medicare reimbursement on its FACPs for FYs 2007 through 2009.

Achieving our objective did not require that we review HealthNow'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 April 2013.

### **METHODOLOGY**

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- reviewed information provided by HealthNow to identify the amount of pension costs claimed for Medicare reimbursement for FYs 2007 through 2009;
- used information that HealthNow's actuarial consulting firms provided, including information on assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses;
- examined HealthNow's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Forms 5500;
- determined the extent to which HealthNow 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);
- reviewed the CMS actuaries' methodology and calculations; and
- 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 segmentation (A-07-13-00425) and used the information obtained during that audit during 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 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 Medicare contractors fund the pension costs assigned to contract periods by making contributions to the pension plan.

Federal regulations (CAS 412) (as amended) 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) (as amended) 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: ALLOWABLE MEDICARE PART B PENSION COSTS FOR  
HEALTHNOW NEW YORK, INC., FOR FISCAL YEARS 2007 THROUGH 2009**

<b>Date</b>	<b>Description</b>	<b>Total Company</b>	<b>Other Segment</b>	<b>Medicare Segment</b>	<b>Total Medicare</b>
2006	PY Allocable Pension Cost <u>1/</u>		\$3,964,991	\$471,123	
	Medicare LOB* Percentage <u>2/</u>		0.84%	68.72%	
2006	PY Allowable Pension Cost <u>3/</u>		\$33,306	\$323,756	
2007	Contributions <u>4/</u>	\$0	\$0	\$0	
	Discount for Interest <u>5/</u>	\$0	\$0	\$0	
January 1, 2007	Present Value Contributions <u>6/</u>	\$0	\$0	\$0	
	Prepayment Credit Applied <u>7/</u>	\$0	\$0	\$0	
	Present Value of Funding <u>8/</u>	\$0	\$0	\$0	
January 1, 2007	CAS Funding Target <u>9/</u>	\$0	\$0	\$0	
	Percentage Funded <u>10/</u>		0.00%	0.00%	
	Funded Pension Cost <u>11/</u>		\$0	\$0	
	Allowable Interest <u>12/</u>		\$0	\$0	
	PY Allocable Pension Cost		\$0	\$0	
	Medicare LOB* Percentage		1.00%	78.50%	
2007	PY Allowable Pension Cost		\$0	\$0	
2007	FY Allowable Pension Cost <u>13/</u>		\$8,327	\$80,939	\$89,266

<b>Date</b>	<b>Description</b>	<b>Total Company</b>	<b>Other Segment</b>	<b>Medicare Segment</b>	<b>Total Medicare</b>
2008	Contributions	\$2,700,000	\$2,700,000	\$0	
	Discount for Interest	(\$97,100)	(\$97,100)	\$0	
January 1, 2008	Present Value Contributions	\$2,602,900	\$2,602,900	\$0	
	Prepayment Credit Applied	\$0	\$0	\$0	
	Present Value of Funding	\$2,602,900	\$2,602,900	\$0	
January 1, 2008	CAS Funding Target	\$0	\$0	\$0	
	Percentage Funded		0.00%	0.00%	
	Funded Pension Cost		\$0	\$0	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$0	\$0	
	Medicare LOB* Percentage		1.15%	62.31%	
2008	PY Allowable Pension Cost		\$0	\$0	
2008	FY Allowable Pension Cost		\$0	\$0	\$0
2009	FY Allowable Pension Cost <u>14/</u>		\$0	\$0	\$0

\* Line of business.

## ENDNOTES

- 1/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes. We obtained the 2006 plan year (PY) allocable pension cost from our prior review (A-07-11-00364), issued March 7, 2012.
- 2/ We calculated allowable pension costs of the Medicare and Other segments based on the Medicare line of business (LOB) percentage of each segment. We determined the Medicare LOB percentages based upon information provided by HealthNow.
- 3/ We computed the PY allowable pension cost as the PY allocable pension cost multiplied by the calendar year Medicare LOB percentage.
- 4/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the PY and accrued contributions deposited after the end of the PY but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-13-00425). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare segment.
- 5/ 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 CAS valuation interest rate) and actual contribution amounts.
- 6/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the PY. 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 established by the Employee Retirement Income Security Act prior to the implementation of the Pension Protection Act.
- 7/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year CAS funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.
- 8/ 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.
- 9/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of the FAR 31.205-6(j)(2)(i).
- 10/ 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), 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 decimal places.
- 11/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.
- 12/ We assumed that interest on the funded CAS-based 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.
- 13/ We converted the PY allowable pension cost to an 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. In accordance with 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.
- 14/ HealthNow terminated its Medicare contract on August 31, 2008. The effective closing date for the Medicare segment was January 1, 2009. Therefore, we calculated the FY 2009 pension cost as 1/4 of the prior year's cost.

## APPENDIX D: 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-07-13-00426

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. Following are comments regarding the specific findings.

- HealthNow agrees with the findings stated in the draft audit report on pages 2 and 3.

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,

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

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