

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**UNITED GOVERNMENT SERVICES, LLC,
UNDERSTATED ITS MEDICARE SEGMENT
PENSION ASSETS AS OF
JANUARY 1, 2010**

*Inquiries about this report may be addressed to the Office of Public Affairs at
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**Patrick J. Cogley
Regional Inspector General
for Audit Services**

**May 2015
A-07-14-00447**

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

United Government Services, LLC, understated the Medicare segment pension assets by \$7,000 as of January 1, 2010.

WHY WE DID THIS REVIEW

Medicare contractors are required to separately account for Medicare segment pension plan assets based on the requirements of their Medicare contracts and Cost Accounting Standards (CAS) 412 and 413. The Centers for Medicare & Medicaid Services (CMS) incorporated this requirement into the Medicare contracts beginning with fiscal year 1988. Previous Office of Inspector General reviews found that Medicare contractors did not always correctly identify and update the segmented pension assets.

At CMS's request, the Office of Inspector General, Office of Audit Services, Region VII pension audit team reviews the cost elements related to qualified defined-benefit, nonqualified defined-benefit, postretirement benefit, and any other pension-related cost elements claimed by Medicare fiscal intermediaries and carrier contractors and Medicare administrative contractors (MACs) through Final Administrative Cost Proposals and/or Incurred Cost Proposals.

The objectives of this review were to determine whether United Government Services, LLC (UGS), complied with Federal regulations and the Medicare contracts' pension segmentation requirements when (1) implementing the prior audit recommendations to increase both the Salaried Plan Medicare segment pension assets and the Hourly Plan Medicare segment pension assets as of December 31, 1998, and (2) updating those Medicare segments' pension assets from December 31, 1998, to January 1, 2010.

BACKGROUND

Blue Cross Blue Shield United of Wisconsin (BCBSUW), through its UGS business unit, administered Medicare Part A operations under cost reimbursement contracts with the CMS.

On January 1, 1999, United Wisconsin Services, Inc. (UWSI), the parent company of BCBSUW, merged the salaried pension plan and the hourly pension plan. During the same time period, UWSI established a separate defined-benefit pension plan, called the UGS Pension Plan, and moved all of its Government program employees into that pension plan.

In 2003, BCBSUW and UGS were purchased by WellPoint Health Networks, Inc. (WHN). WHN merged with Anthem, Inc., on November 30, 2004, and Anthem then changed its name to WellPoint, Inc. Effective November 17, 2006, a consolidation of certain Medicare operations occurred, forming a new subsidiary of WellPoint, called National Government Services, Inc. (NGS). This consolidation included the UGS Medicare segment participants; however, the UGS Pension Plan remains a stand-alone pension plan. The UGS pension plan contains two Medicare segments: the UGS Medicare segment and the TrustSolutions Medicare segment.

With the implementation of Medicare contracting reform, UGS continued to perform Medicare work under the consolidated NGS segment (formerly AdminaStar Federal). NGS was awarded the MAC contracts for Medicare Durable Medical Equipment and Medicare Parts A and B, Jurisdiction B and Jurisdiction 13, effective January 6, 2006, and March 18, 2008, respectively. In addition to assisting NGS with its MAC contracts, UGS continued to serve as a Medicare Part A fiscal intermediary until July 13, 2013.

This report addresses the UGS Medicare segment pension assets and their compliance with Federal regulations and the Medicare contracts' pension segmentation language. We are separately reviewing the TrustSolutions Medicare segment pension assets. Although we are addressing this report to NGS, we will associate the term UGS with our findings and recommendations.

We performed prior pension segmentation audits at UGS (A-07-09-00322 and A-07-09-00321, both issued on February 17, 2010), which updated the Salaried Plan and Hourly Plan Medicare segment pension assets to December 31, 1998. We recommended that UGS increase its Salaried and Hourly Plans' Medicare segment pension assets by \$18,989 (\$13,145 for the Salaried Plan and \$5,844 for the Hourly Plan) and, as a result, recognize \$13,110,611 (\$8,081,550 for the Salaried Plan and \$5,029,061 for the Hourly Plan) as the Medicare segment pension assets as of December 31, 1998.

WHAT WE FOUND

UGS did not fully implement our prior recommendations to recognize \$13,110,611 (\$8,081,550 for the Salaried Plan and \$5,029,061 for the Hourly Plan) as the Medicare segment pension assets as of December 31, 1998. With respect to our second objective, UGS did not correctly update the Medicare segment pension assets from December 31, 1998, to January 1, 2010, in accordance with Federal regulations and the Medicare contracts' pension segmentation requirements. UGS identified Medicare segment pension assets of \$4,331,351 as of January 1, 2010; however, we determined that the Medicare segment pension assets were \$4,338,222. Therefore, UGS understated the Medicare segment pension assets by \$6,871. UGS understated the Medicare segment pension assets because it did not have controls to ensure that it calculated those assets in accordance with Federal regulations and the pension segmentation language of its Medicare contracts when updating the Medicare segment pension assets from December 31, 1998, to January 1, 2010.

WHAT WE RECOMMEND

We recommend that UGS:

- increase Medicare segment pension assets as of January 1, 2010, by \$6,871 and recognize \$4,338,222 as the Medicare segment pension assets, and
- establish controls to ensure that the Medicare segment assets are updated in accordance with CAS 412 and 413.

AUDITEE COMMENTS AND OUR RESPONSE

In written comments on our draft report, NGS concurred with our findings and recommendations and said that it would make the appropriate adjustments to the Medicare segment pension assets. NGS also said that it would evaluate its current procedures to ensure compliance with Federal regulations. Because the UGS Medicare segment pension assets have become NGS's responsibility as a result of the acquisitions, mergers, and consolidations described above in "Background," NGS responded to our draft report.

Our draft report included appendixes containing proprietary and confidential financial information that NGS asked us to redact from any publicly available posting of this report.

In response to NGS's request, we have removed the appendixes in question from the publicly available version of this final report. We are separately providing this report with these appendixes in their entirety to CMS.

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Office of Inspector General Note—Appendixes C and D contain proprietary and confidential financial information and, at NGS’s request, have been redacted from the publicly available version of this report.

INTRODUCTION

WHY WE DID THIS REVIEW

Medicare contractors are required to separately account for Medicare segment pension plan assets based on the requirements of their Medicare contracts and Cost Accounting Standards (CAS) 412 and 413. The Centers for Medicare & Medicaid Services (CMS) incorporated this requirement into the Medicare contracts beginning with fiscal year 1988. Previous Office of Inspector General reviews found that Medicare contractors did not always correctly identify and update the segmented pension assets.

At CMS's request, the Office of Inspector General, Office of Audit Services, Region VII pension audit team reviews the cost elements related to qualified defined-benefit, nonqualified defined-benefit, postretirement benefit, and any other pension-related cost elements claimed by Medicare fiscal intermediaries and carrier contractors and Medicare administrative contractors (MACs) through Final Administrative Cost Proposals and/or Incurred Cost Proposals.

OBJECTIVES

Our objectives were to determine whether United Government Services, LLC (UGS), complied with Federal regulations and the Medicare contracts' pension segmentation requirements when (1) implementing the prior audit recommendations to increase both the Salaried Plan Medicare segment pension assets and the Hourly Plan Medicare segment pension assets as of December 31, 1998; and (2) updating those Medicare segment's pension assets from December 31, 1998, to January 1, 2010.

BACKGROUND

Blue Cross Blue Shield United of Wisconsin (BCBSUW), through its UGS business unit, administered Medicare Part A operations under cost reimbursement contracts with the CMS.

On January 1, 1999, United Wisconsin Services, Inc. (UWSI), the parent company of BCBSUW, merged the salaried pension plan and the hourly pension plan. During the same time period, UWSI established a separate defined-benefit pension plan, called the UGS Pension Plan, and moved all of its Government program employees into that pension plan.

In 2003, BCBSUW and UGS were purchased by WellPoint Health Networks, Inc. (WHN). WHN merged with Anthem, Inc., on November 30, 2004, and Anthem then changed its name to WellPoint, Inc. Effective November 17, 2006, a consolidation of certain Medicare operations occurred, forming a new subsidiary of WellPoint, called National Government Services, Inc. (NGS). This consolidation included the UGS Medicare segment participants; however, the UGS Pension Plan remains a stand-alone pension plan. The UGS pension plan contains two Medicare segments: the UGS Medicare segment and the TrustSolutions Medicare segment.

With the implementation of Medicare contracting reform,¹ UGS continued to perform Medicare work under the consolidated NGS segment (formerly AdminaStar Federal). NGS was awarded the MAC contracts for Medicare Durable Medical Equipment (DME) and Medicare Parts A and B, Jurisdiction B and Jurisdiction 13, effective January 6, 2006, and March 18, 2008, respectively.^{2,3} In addition to assisting NGS with its MAC contracts, UGS continued to serve as a Medicare Part A fiscal intermediary until July 13, 2013.

This report addresses the UGS Medicare segment pension assets and their compliance with Federal regulations and the Medicare contracts' pension segmentation language. We are separately reviewing the TrustSolutions Medicare segment pension assets. Although we are addressing this report to NGS, we will associate the term UGS with our findings and recommendations.

We performed prior pension segmentation audits at UGS, which updated the Salaried Plan and Hourly Plan Medicare segment pension assets to December 31, 1998.⁴ We recommended that UGS increase its Salaried and Hourly Plans' Medicare segment pension assets by \$18,989 (\$13,145 for the Salaried Plan and \$5,844 for the Hourly Plan) and, as a result, recognize \$13,110,611 (\$8,081,550 for the Salaried Plan and \$5,029,061 for the Hourly Plan) as the Medicare segment pension assets as of December 31, 1998.

HOW WE CONDUCTED THIS REVIEW

We reviewed UGS's implementation of the prior audit recommendations; identification of its Medicare segment; and update of Medicare segment assets from December 31, 1998, to January 1, 2010.

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.

¹ Section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P.L. No. 108-173, required CMS to transfer the functions of fiscal intermediaries and carriers to MACs between October 2005 and October 2011. Most, but not all, of the MACs are fully operational; for jurisdictions where the MACs are not fully operational, the fiscal intermediaries and carriers continue to process claims. For purposes of this report, the term "Medicare contractor" means the fiscal intermediary, carrier, or MAC, whichever is applicable.

² DME Jurisdiction B comprises the States of Illinois, Indiana, Kentucky, Michigan, Minnesota, Ohio, and Wisconsin.

³ Medicare Parts A and B Jurisdiction 13 comprises the States of Connecticut and New York.

⁴ *Review of the Pension Segmentation Requirements for the Salaried Qualified Pension Plan at Blue Cross Blue Shield United of Wisconsin, for the Period January 1, 1986, to December 31, 1998* (A-07-09-00322, issued February 17, 2010) and *Review of the Pension Segmentation Requirements for the Hourly Qualified Pension Plan at Blue Cross Blue Shield United of Wisconsin, for the Period January 1, 1986, to December 31, 1998* (A-07-09-00321, also issued February 17, 2010).

Appendix A contains details of our audit scope and methodology.

FINDINGS

UGS did not fully implement our prior recommendations to recognize \$13,110,611 (\$8,081,550 for the Salaried Plan and \$5,029,061 for the Hourly Plan) as the Medicare segment pension assets as of December 31, 1998. With respect to our second objective, UGS did not correctly update the Medicare segment pension assets from December 31, 1998, to January 1, 2010, in accordance with Federal regulations and the Medicare contracts' pension segmentation requirements. UGS identified Medicare segment pension assets of \$4,331,351 as of January 1, 2010; however, we determined that the Medicare segment pension assets were \$4,338,222. Therefore, UGS understated the Medicare segment pension assets by \$6,871. UGS understated the Medicare segment pension assets because it did not have controls to ensure that it calculated those assets in accordance with Federal regulations and the pension segmentation language of its Medicare contracts when updating the Medicare segment pension assets from December 31, 1998, to January 1, 2010.

Table 1 below summarizes the audit adjustments required to update Medicare segment pension assets in accordance with Federal regulations and the Medicare contracts' pension segmentation requirements.

Table 1: Summary of Audit Adjustments			
	Per Audit	Per UGS	Difference
Prior Audit Recommendations			
Medicare Salaried Plan	\$8,081,550		
Medicare Hourly Plan	\$5,029,061		
Overstatement of Prior Audit Recommendation	\$13,110,611	\$13,120,261	(\$9,650)
UGS Medicare Segment Pension Assets	\$8,564,333	\$8,573,983	(\$9,650)
Update of Medicare Segment Assets			
Contributions and Prepayment Credits	10,335,000	10,013,703	321,297
Benefit Payments	(6,961,914)	(6,964,792)	2,878
Net Transfers	(12,592,439)	(12,429,685)	(162,754)
Earnings, Net of Expenses	4,993,242	5,138,142	(144,900)
Understatement of Medicare Segment Assets			\$6,871

PRIOR AUDIT RECOMMENDATIONS

UGS did not fully implement our prior audit recommendations (A-07-09-00322 and A-07-09-00321) that (1) UGS increase its Salaried Plan Medicare segment pension assets by \$13,145 and, as a result, recognize \$8,081,550 as the Salaried Plan Medicare segment pension assets as of December 31, 1998, and (2) UGS increase its Hourly Plan Medicare segment pension assets by \$5,844 and, as a result, recognize \$5,029,061 as the Hourly Plan Medicare segment pension assets as of December 31, 1998. UGS identified Medicare segment pension

assets of \$13,120,261⁵ and thus overstated its Medicare segment pension assets as of December 31, 1998, by \$9,650.

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 asset 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 B.

UGS did not correctly update the Medicare segment pension assets from December 31, 1998, to January 1, 2010, in accordance with Federal regulations and the Medicare contracts' pension segmentation requirements. UGS identified Medicare segment pension assets of \$4,331,351 as of January 1, 2010; however, we determined that the Medicare segment pension assets were \$4,338,222. Therefore, UGS understated the Medicare segment pension assets by \$6,871. The following are our specific findings regarding the update of the Medicare segment pension assets from December 31, 1998, to January 1, 2010.

Medicare Segment Assets as of December 31, 1998

UGS incorrectly computed the UGS Pension Plan Medicare segment pension assets as of December 31, 1998. UGS identified Medicare segment assets of \$8,573,983 as of December 31, 1998. We determined that the Medicare segment pension assets as of this date were \$8,564,333. Therefore, UGS overstated the December 31, 1998, assets by \$9,650. This overstatement occurred because, as discussed above, UGS incorrectly updated its prior audit recommendation.

Contributions and Transferred Prepayment Credits Understated

The audited contributions and transferred prepayment credits⁶ are based on the assignable pension costs.⁷ In compliance with the CAS, we applied prepayment credits first to current-year assignable pension costs (because the credits were available at the beginning of the year) and then updated any remaining credits with interest to the next measurement (valuation) date. We then allocated contributions to assigned pension costs, as needed, as of the date of deposit. For additional details on these Federal requirements, see Appendix B.

⁵ At the same time the UGS Pension Plan was established, UGS amended its methodology related to the transfers of inactive participants out of the Medicare segment, to be consistent with the methodology established by the National Employee Benefits Association. Therefore, effective December 31, 1998, UGS transferred inactive participants out of the Medicare segment to the Other segment of the UGS Pension Plan. As a result, UGS reduced the beginning Medicare segment pension assets from \$13,120,261 to \$8,573,983 to reflect the transfers of inactive employees to the Other segment of the UGS Pension Plan.

⁶ A prepayment credit is the amount funded in excess of the pension costs assigned to a cost accounting period that is carried forward for future recognition.

⁷ These are assigned to a specific cost accounting period.

UGS understated contributions and transferred prepayment credits by \$321,297 for the Medicare segment. The understatement occurred primarily because of differences in the asset base that UGS used to compute the assignable pension costs. Table 2 below shows the differences between the contributions and prepayment credits that UGS proposed and the contributions and prepayment credits that we calculated during our review.

Table 2: Contributions and Transferred Prepayment Credits			
	Per Audit	Per UGS	Difference
1999	\$0	\$0	\$0
2000	0	0	0
2001	1,809,192	1,740,709	68,483
2002	2,403,531	2,483,858	(80,327)
2003	2,516,566	2,697,551	(180,985)
2004	511,608	453,328	58,280
2005	1,204,391	999,363	205,028
2006	674,962	591,063	83,899
2007	304,640	138,132	166,508
2008	0	0	0
2009	910,110	909,699	411
Total	\$10,335,000	\$10,013,703	\$321,297

Benefit Payments Overstated

UGS overstated benefit payments by \$2,878 because UGS incorrectly identified one benefit payment related to an employee who performed non-Medicare work as a Medicare segment benefit payment during 2006.

Net Transfers Understated

UGS understated net transfers out of the Medicare segment by \$162,754. The understatement occurred primarily because UGS incorrectly transferred Medicare segment participants out of the Medicare segment. This understatement of the net transfer adjustment resulted in an overstatement of the Medicare segment assets by \$162,754. Table 3 on the following page shows the differences between the transfer amounts that UGS proposed and the amounts that we calculated during our review. For details on the applicable Federal requirements, see Appendix B.

Table 3: Transfers			
	Per Audit	Per UGS	Difference
1999	(\$169,808)	(\$169,808)	\$0
2000	(361,803)	(361,803)	0
2001	(244,198)	(246,262)	2,064
2002	(1,093,691)	(1,020,629)	(73,062)
2003	(826,160)	(826,160)	0
2004	(303,261)	(994,806)	691,545
2005	(1,427,072)	(627,413)	(799,659)
2006	(1,096,749)	(1,113,107)	16,358
2007	(2,082,370)	(2,082,370)	0
2008	(4,015,404)	(4,015,404)	0
2009	(971,923)	(971,923)	0
Total	(\$12,592,439)	(\$12,429,685)	(\$162,754)

Earnings, Net of Expenses Overstated

UGS overstated investment earnings, less administrative expenses, by \$144,900 for the Medicare segment, because it used incorrect contributions and transferred prepayment credits, benefit payments, and net transfers (all discussed above), 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 4 below shows the differences between UGS's proposed earnings, net of expenses and the amounts that we calculated during our review. For details on the applicable Federal requirements, see Appendix B.

Table 4: Earnings, Net of Expenses			
	Per Audit	Per UGS	Difference
1999	\$1,304,217	\$1,308,583	(\$4,366)
2000	29,162	40,796	(11,634)
2001	(92,029)	(122,837)	30,808
2002	(1,419,918)	(1,493,529)	73,611
2003	2,576,095	2,638,161	(62,066)
2004	1,322,513	1,324,745	(2,232)
2005	724,894	732,025	(7,131)
2006	1,806,975	1,975,325	(168,350)
2007	1,267,878	1,267,814	64
2008	(3,554,644)	(3,551,506)	(3,138)
2009	1,028,099	1,018,565	9,534
Total	\$4,993,242	\$5,138,142	(\$144,900)

RECOMMENDATIONS

We recommend that UGS:

- increase Medicare segment pension assets as of January 1, 2010, by \$6,871 and recognize \$4,338,222 as the Medicare segment pension assets, and
- establish controls to ensure that the Medicare segment assets are updated in accordance with CAS 412 and 413.

AUDITEE COMMENTS

In written comments on our draft report, NGS concurred with our findings and recommendations and said that it would make the appropriate adjustments to the Medicare segment pension assets. NGS also said that it would evaluate its current procedures to ensure compliance with Federal regulations. Because the UGS Medicare segment pension assets have become NGS's responsibility as a result of the acquisitions, mergers, and consolidations described above in "Background," NGS responded to our draft report.

Our draft report included appendixes containing proprietary and confidential financial information that NGS asked us to redact from any publicly available posting of this report.

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

OFFICE OF INSPECTOR GENERAL RESPONSE

In response to NGS's request, we have removed the appendixes in question from the publicly available version of this final report. We are separately providing this report with these appendixes in their entirety to CMS.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed UGS's implementation of the prior audit recommendations; identification of its Medicare segment; and update of Medicare segment assets from December 31, 1998, to January 1, 2010.

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

We performed fieldwork at UGS's office in Milwaukee, Wisconsin.

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 WellPoint's actuarial consulting firms, which included information on 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 WellPoint's staff responsible for identifying the Medicare segment to determine whether the segment was properly identified in accordance with the Medicare contracts.
- We reviewed UGS's accounting records to verify the segment identification and benefit payments made to the Medicare segment.
- We reviewed the prior segmentation audits performed at UGS (formerly BCBSUW) (A-07-09-00322 and A-07-09-00321) to determine the beginning market value of assets.
- We provided the CMS Office of the Actuary with the actuarial information necessary for it to calculate the Medicare segment pension assets from December 31, 1998, to January 1, 2010.
- We reviewed the CMS actuaries' methodology and calculations.

- We provided the results of the review to NGS officials on September 18, 2014.

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

- *TrustSolutions, LLC, Understated Its Medicare Segment Pension Assets as of January 1, 2010 (A-07-14-00449);*
- *United Government Services, LLC, Claimed Some Unallowable Medicare Pension Costs for Fiscal Years 1999 Through 2006 (A-07-14-00450);*
- *TrustSolutions, LLC, Overstated Its Allocable Pension Costs for Calendar Years 2007 Through 2009 (A-07-14-00451);*
- *National Government Services, Inc., Did Not Claim Some Allowable Medicare Pension Costs for Fiscal Years 2007 Through 2009 (A-07-14-00452); and*
- *National Government Services, Inc., Understated Its Allocable Pension Costs for Calendar Years 2006 Through 2009 (A-07-14-00453).*

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 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 weighted average value (WAV) of assets to Total Company WAV of assets.

Federal regulations (CAS 413.50(c)(8)) require that an adjustment 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)."

APPENDIX E: AUDITEE COMMENTS



MEDICARE

April 24, 2015

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

Reference: Report Number A-07-14-00447

Dear Mr. Cogley:

We have received the draft audit report from the Inspector General entitled "United Government Services, LLC, Overstated Its Medicare Segment Pension Assets as of January 1, 2010" and thank you for the opportunity to respond.

We concur with the finding and recommendation outlined in the report and will make the appropriate adjustment to Medicare segment pension assets. We will also review the processes in place to update Medicare segment plan assets to ensure those processes follow CAS 412 and 413.

Finally, we respectfully request that the Draft Report Appendix B and 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@anthem.com.

Sincerely,

A handwritten signature in black ink that reads "Todd W. Reiger".

Digitally signed by
todd.reiger@wellpoint.com
DN:
cn=todd.reiger@wellpoint.com
Date: 2015.04.24 15:35:45 -04'00'

Todd W. Reiger, CPA
Medicare Chief Financial Officer
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