

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**UNITED GOVERNMENT SERVICES, LLC,
CLAIMED SOME UNALLOWABLE
MEDICARE PENSION COSTS
FOR FISCAL YEARS
1999 THROUGH 2006**

*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-07-14-00450**

Office of Inspector General

<http://oig.hhs.gov/>

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The designation of financial or management practices as questionable,
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operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

United Government Services, LLC, claimed unallowable pension costs of \$2.1 million for Medicare reimbursement for fiscal years 1999 through 2006.

WHY WE DID THIS REVIEW

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

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 (FACPs) and/or Incurred Cost Proposals.

For this review, we focused on one Medicare contractor, United Government Services, LLC (UGS). In particular, we examined the UGS Pension Plan Medicare segment and Other segment costs that UGS claimed for Medicare reimbursement on its FACPs.

The objective of this review was to determine whether the fiscal years (FYs) 1999 through 2006 pension costs that UGS claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACPs, were allowable and correctly claimed.

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 pension costs claimed by UGS under the provisions of its fiscal intermediary contracts. We are addressing the pension costs claimed by UGS for FYs 2007 to 2009 in a separate review. Although we are addressing this report to NGS, we will associate the term UGS with our findings and recommendations.

We reviewed \$10,856,348 of pension costs claimed by UGS for Medicare reimbursement on its FACPs for FYs 1999 through 2006.

WHAT WE FOUND

UGS claimed pension costs of \$10,856,348 for Medicare reimbursement for FYs 1999 through 2006; however, we determined that the allowable CAS-based pension costs during this period were \$8,787,014. The difference, \$2,069,334, represented unallowable fiscal intermediary and carrier contract Medicare pension costs that UGS claimed on its FACPs for FYs 1999 through 2006. UGS claimed these unallowable Medicare pension costs primarily because it based its claim for Medicare reimbursement on incorrectly calculated CAS pension costs.

WHAT WE RECOMMEND

We recommend that UGS revise its FACPs for FYs 1999 through 2006 to reduce its claimed Medicare pension costs by \$2,069,334.

AUDITEE COMMENTS AND OUR RESPONSE

In written comments on our draft report, NGS concurred with our finding and recommendation and said that it would work with CMS to reduce previously claimed pension costs. Because the pension costs that UGS claimed for Medicare reimbursement under its fiscal intermediary contracts 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 an appendix 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 appendix in question from the publicly available version of this final report. We are separately providing this report with this appendix in its entirety to CMS.

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

INTRODUCTION

WHY WE DID THIS REVIEW

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

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 (FACPs) and/or Incurred Cost Proposals.

For this review, we focused on one Medicare contractor, United Government Services, LLC (UGS). In particular, we examined the UGS Pension Plan Medicare segment and Other segment costs that UGS claimed for Medicare reimbursement on its FACPs.

OBJECTIVE

Our objective was to determine whether the fiscal years (FYs) 1999 through 2006 pension costs that UGS claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACPs, were allowable and correctly claimed.

BACKGROUND

United Government Services, LLC

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 pension costs claimed by UGS under the provisions of its fiscal intermediary contracts. We are addressing the pension costs claimed by UGS for FYs 2007 to 2009 in a separate review. Although we are addressing this report to NGS, we will associate the term UGS with our findings and recommendations.

Medicare Reimbursement of Pension Costs

CMS reimburses a portion of the Medicare contractors' annual pension costs, which are funded by contributions that these contractors make to their pension plans. To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with CAS 412 and 413 and (2) funded as specified by part 31 of the FAR.

Beginning with FY 1988, CMS incorporated specific segmentation language into Medicare contracts that requires contractors to use either an allocation method or a separate calculation method to identify and claim pension costs for Medicare reimbursement. Under the allocation method, the contractor determines total plan CAS-based pension costs and allocates a share to Medicare. Under the separate calculation method, the contractor separately identifies the pension cost components for the Medicare segment. The contractor must use the separate calculation method if its result is materially different from that of the allocation method.

HOW WE CONDUCTED THIS REVIEW

We reviewed \$10,856,348 of pension costs claimed by UGS for Medicare reimbursement on its FACP for FYs 1999 through 2006.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain

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.

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

UGS claimed pension costs of \$10,856,348 for Medicare reimbursement for FYs 1999 through 2006; however, we determined that the allowable CAS-based pension costs during this period were \$8,787,014. The difference, \$2,069,334, represented unallowable fiscal intermediary and carrier contract Medicare pension costs that UGS claimed on its FACPs for FYs 1999 through 2006. UGS claimed these unallowable Medicare pension costs primarily because it based its claim for Medicare reimbursement on incorrectly calculated CAS pension costs.

CLAIMED PENSION COSTS

UGS claimed Medicare pension costs of \$10,856,348 for Medicare reimbursement, under the provisions of its fiscal intermediary and carrier contracts, on its FACPs for FYs 1999 through 2006. We calculated the allowable Medicare pension costs based on separately computed CAS-based pension costs for the Medicare segment and the Other segment in accordance with CAS 412 and 413. For details on the Federal requirements, see Appendix B.

UNALLOWABLE PENSION COSTS CLAIMED

We determined that the allowable CAS-based pension costs for FYs 1999 through 2006 were \$8,787,014. Thus, UGS claimed \$2,069,334 of unallowable fiscal intermediary and carrier contract Medicare pension costs on its FACPs for FYs 1999 through 2006. This overclaim occurred primarily because UGS based its claim for Medicare reimbursement on incorrectly calculated CAS pension costs. Specifically, UGS based its claim for reimbursement on an amount that differed from the CAS pension cost calculated by its actuaries for FYs 2003 through 2006.

The table on the following page shows the differences between the allowable CAS-based pension costs and the pension costs claimed on UGS's FACPs and reflected in its accounting documents.

Table: Comparison of Allowable Pension Costs and Claimed Pension Costs

| | Medicare Pension Costs | | |
|--------------------|-------------------------------|-----------------------|----------------------|
| Fiscal Year | Allowable Per Audit | Claimed by UGS | Difference |
| 1999 | \$0 | \$0 | \$0 |
| 2000 | 0 | 0 | 0 |
| 2001 | 1,313,557 | 1,161,723 | 151,834 |
| 2002 | 2,217,135 | 2,551,256 | (334,121) |
| 2003 | 2,456,602 | 2,872,694 | (416,092) |
| 2004 | 994,640 | 1,588,920 | (594,280) |
| 2005 | 1,009,952 | 1,510,333 | (500,381) |
| 2006 | 795,128 | 1,171,422 | (376,294) |
| Total | \$8,787,014 | \$10,856,348 | (\$2,069,334) |

RECOMMENDATION

We recommend that UGS revise its FACPs for FYs 1999 through 2006 to reduce its claimed Medicare pension costs by \$2,069,334.

AUDITEE COMMENTS

In written comments on our draft report, NGS concurred with our finding and recommendation and said that it would work with CMS to reduce previously claimed pension costs. Because the pension costs that UGS claimed for Medicare reimbursement under its fiscal intermediary contracts 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 an appendix 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 D.

OFFICE OF INSPECTOR GENERAL RESPONSE

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

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$10,856,348 of pension costs that UGS claimed for Medicare reimbursement on its FACPs for FYs 1999 through 2006.

Achieving our objective did not require that we review UGS'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 performed our fieldwork at UGS's office in Milwaukee, Wisconsin.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- reviewed information provided by UGS to identify the amount of pension costs claimed for Medicare reimbursement for FYs 1999 through 2006;
- used information that WellPoint's actuarial consulting firms provided, including information on assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses;
- examined UGS's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Forms 5500;
- determined the extent to which UGS 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 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:

- *United Government Services, LLC, Understated Its Medicare Segment Pension Assets as of January 1, 2010 (A-07-14-00447);*

- *TrustSolutions, LLC, Understated Its Medicare Segment Pension Assets as of January 1, 2010 (A-07-14-00449);*
- *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 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 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 D: 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-07-14-00450

Dear Mr. Cogley:

We have received the draft audit report from the Inspector General entitled "United Government Services, LLC, Claimed Some Unallowable Medicare Pension Costs for Fiscal Years 1999 Through 2006" and thank you for the opportunity to respond.

We concur with the finding and recommendation outlined in the report and will work with the Centers for Medicare & Medicaid Services to reduce previously claimed pension costs as outlined in the report.

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

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

Sincerely,

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

Digitally signed by
todd.reiger@wellpoint.com
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