

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**TRUSTSOLUTIONS, LLC,  
OVERSTATED ITS  
ALLOCABLE PENSION COSTS  
FOR CALENDAR YEARS  
2007 THROUGH 2009**

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[Public.Affairs@oig.hhs.gov](mailto:Public.Affairs@oig.hhs.gov).*



**Patrick J. Cogley  
Regional Inspector General  
for Audit Services**

**May 2015  
A-07-14-00451**

# *Office of Inspector General*

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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

*TrustSolutions, LLC, overstated its allocable pension costs for the Medicare segment by \$52,000 for calendar 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 and Cost Accounting Standards (CAS) as required by the Medicare contracts.

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 through Final Administrative Cost Proposals and/or Incurred Cost Proposals (ICPs).

For this review, we focused on one Medicare contractor, TrustSolutions, LLC. In particular, we examined the Medicare segment allocable pension costs (which for this report we refer to as "pension costs") that TrustSolutions used to calculate the indirect cost rates in its ICPs.

The objective of this review was to determine whether the pension costs that TrustSolutions used to calculate the indirect cost rates in its ICPs for calendar years (CYs) 2007 through 2009 complied with Federal requirements.

### BACKGROUND

TrustSolutions is a wholly owned company of WellPoint, Inc. TrustSolutions administers the Program Safeguard Contract (PSC) under cost reimbursement contracts with CMS. The PSC was originally awarded to United Government Services, LLC (UGS), in 1999. On September 30, 2002, the PSC was novated from UGS to TrustSolutions. Effective January 1, 2003, the UGS pension plan contained two Medicare segments: TrustSolutions and the UGS Medicare segment. The TrustSolutions segment was primarily created from UGS Medicare segment employees who transferred out of the UGS Medicare segment into the TrustSolutions segment.

This report addresses the TrustSolutions Medicare segment pension costs and TrustSolutions' compliance with Federal regulations and the PSC requirements. We are separately reviewing the National Government Services, Inc. (NGS), Medicare segment allocable pension costs. Although we are addressing this report to NGS, we will associate the term TrustSolutions with our findings and recommendation.

Medicare contractors use pooled costing to calculate the indirect cost rates that they submit on their ICPs. The pension costs are included in the computation of the indirect cost rates reported on the ICPs.

We reviewed \$140,542 of Medicare segment pension costs used by TrustSolutions in the calculation of its indirect cost rates for CYs 2007 through 2009.

## **WHAT WE FOUND**

The Medicare segment allocable pension costs that TrustSolutions used to calculate the indirect cost rates in its ICPs did not comply with Federal requirements. Specifically, for CYs 2007 through 2009, TrustSolutions used Medicare segment pension costs of \$140,542 to calculate its indirect cost rates; however, we determined that the Medicare segment pension costs that TrustSolutions should have used to calculate the indirect cost rates were \$88,630. Thus, TrustSolutions overstated the Medicare segment pension costs used to calculate its indirect cost rates by \$51,912. This overstatement occurred primarily because TrustSolutions used incorrect CAS pension costs to calculate its indirect cost rates for CYs 2007 through 2009.

## **WHAT WE RECOMMEND**

We recommend that TrustSolutions decrease the Medicare segment pension costs used to calculate its indirect cost rates by \$51,912 for CYs 2007 through 2009.

## **AUDITEE COMMENTS AND OUR RESPONSE**

In written comments on our draft report, NGS concurred with our finding and recommendation and said that it would implement the appropriate action and work with CMS to adjudicate the final ICPs. Because the TrustSolutions Medicare segment closed in 2012, after which NGS assumed responsibility for these pension costs, 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) and Cost Accounting Standards (CAS) as required by the Medicare contracts.

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 through Final Administrative Cost Proposals and/or Incurred Cost Proposals (ICPs).

For this review, we focused on one Medicare contractor, TrustSolutions, LLC. In particular, we examined the Medicare segment allocable pension costs (which for this report we refer to as "pension costs") that TrustSolutions used to calculate the indirect cost rates in its ICPs.

### OBJECTIVE

Our objective was to determine whether the pension costs that TrustSolutions used to calculate the indirect cost rates in its ICPs for calendar years (CYs) 2007 through 2009 complied with Federal requirements.

### BACKGROUND

#### TrustSolutions, LLC

TrustSolutions is a wholly owned company of WellPoint, Inc.<sup>1</sup> TrustSolutions administers the Program Safeguard Contract (PSC) under cost reimbursement contracts with CMS.<sup>2</sup> The PSC was originally awarded to UGS in 1999. On September 30, 2002, the PSC was novated from UGS to TrustSolutions. Effective January 1, 2003, the UGS pension plan contained two Medicare segments: TrustSolutions and the UGS Medicare segment. The TrustSolutions segment was primarily created from UGS Medicare segment employees who transferred out of the UGS Medicare segment into the TrustSolutions segment.

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<sup>1</sup> In 2003, Blue Cross Blue Shield United of Wisconsin and United Government Services, LLC (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.

<sup>2</sup> PSCs were established under the Medicare Integrity Program, which itself was created by section 202 of the Health Insurance Portability and Accountability Act of 1996, P.L. No. 104-191, which added section 1893 to the Social Security Act.

This report addresses the TrustSolutions Medicare segment pension costs and TrustSolutions' compliance with Federal regulations and the PSC requirements. We are separately reviewing the National Government Services, Inc. (NGS), Medicare segment allocable pension costs. Although we are addressing this report to NGS, we will associate the term TrustSolutions with our findings and recommendation.

Medicare contractors use pooled costing to calculate the indirect cost rates that they submit on their ICPs. The pension costs are included in the computation of the indirect cost rates reported on the ICPs. The FAR requires Medicare contractors to file final indirect cost rates on their ICPs 6 months after the year end. In turn, CMS uses the indirect cost rates in reimbursing costs under cost-reimbursement contracts.

### **Medicare Reimbursement of Pension Costs**

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

In accordance with the FAR and the PSC, reimbursement of indirect costs was based on indirect cost rates that met the negotiated indirect cost rates determined by the PSC.

### **HOW WE CONDUCTED THIS REVIEW**

We reviewed \$140,542 of Medicare segment pension costs used by TrustSolutions in the calculation of its indirect cost rates for CYs 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.

### **FINDINGS**

The Medicare segment allocable pension costs that TrustSolutions used to calculate the indirect cost rates in its ICPs did not comply with Federal requirements. Specifically, for CYs 2007 through 2009, TrustSolutions used Medicare segment pension costs of \$140,542 to calculate its indirect cost rates; however, we determined that the Medicare segment pension costs that TrustSolutions should have used to calculate the indirect cost rates were \$88,630. Thus, TrustSolutions overstated the Medicare segment pension costs used to calculate its indirect cost rates by \$51,912. This overstatement occurred primarily because TrustSolutions used incorrect CAS pension costs to calculate its indirect cost rates for CYs 2007 through 2009.

## OVERSTATEMENT OF PENSION COSTS

### Allocable Medicare Segment Pension Costs

TrustSolutions used pension costs of \$140,542 to calculate its indirect cost rates for the Medicare segment. We calculated CAS-based pension costs for CYs 2007 through 2009 for the Medicare segment in accordance with CAS 412 and 413. For details on the Federal requirements, see Appendix B.

### Overstated Medicare Segment Pension Costs

We determined that the CAS-based pension costs for the Medicare segment were \$88,630 for CYs 2007 through 2009. Thus, TrustSolutions overstated the Medicare segment pension costs used to calculate its indirect cost rates for CYs 2007 through 2009 by \$51,912. This overstatement occurred because TrustSolutions used incorrect CAS pension costs when calculating its indirect cost rates for this time period.

The table below shows the differences between the Medicare segment CAS-based pension costs that we calculated and the pension costs that TrustSolutions used to calculate its indirect cost rates for CYs 2007 through 2009.

**Table: Comparison of Pension Costs for the Medicare Segment**

	<b><u>Medicare Segment Pension Costs</u></b>		
<b>Calendar Year</b>	<b>Per Audit</b>	<b>Per TrustSolutions</b>	<b>Difference</b>
2007	\$0	\$140,542	(\$140,542)
2008	0	0	0
2009	88,630	0	88,630
<b>Total</b>	<b>\$88,630</b>	<b>\$140,542</b>	<b>(\$51,912)</b>

CMS should use the information contained in this report in conjunction with TrustSolution's ICP audit when determining the final indirect cost rates for TrustSolutions.

### RECOMMENDATION

We recommend that TrustSolutions decrease the Medicare segment pension costs used to calculate its indirect cost rates by \$51,912 for CYs 2007 through 2009.

## **AUDITEE COMMENTS**

In written comments on our draft report, NGS concurred with our finding and recommendation and said that it would implement the appropriate action and work with CMS to adjudicate the final ICPs. Because the TrustSolutions Medicare segment closed in 2012, after which NGS assumed responsibility for these pension costs, 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 \$140,542 of Medicare segment pension costs used by TrustSolutions in the calculation of its indirect cost rates for CYs 2007 through 2009.

Achieving our objective did not require that we review TrustSolutions' 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 TrustSolutions' office in Milwaukee, Wisconsin.

### METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts Trust applicable to this audit;
- reviewed information provided by WellPoint to identify the amount of pension costs used in TrustSolutions' calculation of its indirect cost rates for CYs 2007 through 2009;
- 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 TrustSolutions' accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Forms 5500;
- determined the extent to which TrustSolutions 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);
- reviewed the CMS actuaries' methodology and calculations; and
- provided the results of our 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);*
- *United Government Services, LLC, Claimed Some Unallowable Medicare Pension Costs for Fiscal Years 1999 Through 2006 (A-07-14-00450);*
- *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 52.216-7(a)(1)) address the invoicing requirements and the allowability of payments as determined by the Contracting Officer in accordance with FAR subpart 31.2.

Federal regulations (FAR 31.205-6(j)) require Medicare contractors to measure, assign, and allocate the costs of all defined-benefit pension plans in accordance with CAS 412 and 413.

Federal regulations (FAR 31.205-6(j)) also 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.

### **PROGRAM SAFEGUARD CONTRACT**

The contracts state: “Once each month following the effective date of this contract, the Contractor may submit to the Government an invoice for payment, in accordance with FAR clause 52.216-7, ‘Allowable Cost & Payment.’”

## 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 12<sup>th</sup> Street, Room 0429  
Kansas City, Missouri 64106

Reference: Report Number A-07-14-00451

Dear Mr. Cogley:

We have received the draft audit report from the Inspector General entitled "TrustSolutions, LLC, Overstated Its Allocable Pension Costs for Calendar Years 2007 Through 2009" and thank you for the opportunity to respond.

We concur with the finding and recommendation outlined in the report and will implement appropriate action in conjunction with working with the Centers for Medicare & Medicaid Services to adjudicate final Incurred Cost Proposals for the years in question.

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](mailto:todd.reiger@anthem.com).

Sincerely,

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

Digitally signed by  
todd.reiger@wellpoint.com  
DN:  
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Date: 2015.04.24 15:26:25 -0400

Todd W. Reiger, CPA  
Medicare Chief Financial Officer  
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