

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**NATIONAL GOVERNMENT SERVICES,  
INC., DID NOT CLAIM SOME  
ALLOWABLE MEDICARE  
PENSION COSTS FOR FISCAL YEARS  
2007 THROUGH 2009**

*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-07-14-00452**

# *Office of Inspector General*

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## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

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## EXECUTIVE SUMMARY

*National Government Services, Inc., did not claim allowable pension costs of \$992,000 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 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 Proposals (FACPs) and/or Incurred Cost Proposals.

For this review, we focused on one Medicare contractor, National Government Services, Inc. (NGS). In particular, we examined the pension costs that NGS claimed for Medicare reimbursement on its FACPs.

The objective of this review was to determine whether the fiscal years (FYs) 2007 through 2009 pension costs that NGS claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACPs, were allowable and correctly claimed.

### BACKGROUND

NGS (formerly AdminaStar Federal, Inc. (AdminaStar)), a subsidiary of WellPoint, Inc., administered Medicare Parts A and B and Durable Medical Equipment (DME) operations under cost reimbursement contracts with CMS.

Effective November 17, 2006, WellPoint consolidated its Government contracting segments into one segment, AdminaStar, which included the following Government contracting segments: the AdminaStar; Anthem Health Plans of Maine, Inc.; Anthem Health Plans of New Hampshire, Inc.; United Government Services, LLC (UGS); and WellChoice, Inc. (formerly Empire), Medicare segments. As of that same date, AdminaStar changed its corporate name to NGS. Although this consolidation included the UGS Medicare segment participants, the WellPoint Cash Balance Plan and the UGS Pension Plan remain stand-alone pension plans.

With the implementation of Medicare contracting reform, NGS continued to perform Medicare work after being awarded the MAC contracts for Medicare DME and Medicare Parts A and B

Jurisdiction B and Jurisdiction 13, effective January 1, 2006, and March 18, 2008, respectively. While performing MAC work, NGS also functioned as a Medicare Part A fiscal intermediary and Part B carrier.

We reviewed \$7,125,010 of Medicare Part A, Medicare Part B, and DME pension costs that NGS claimed for Medicare reimbursement on its FACPs for FYs 2007 through 2009.

## **WHAT WE FOUND**

NGS claimed pension costs of \$7,125,010 for Medicare reimbursement for FYs 2007 through 2009; however, we determined that the allowable CAS-based pension costs during this period were \$8,116,694. The difference, \$991,684, represented allowable fiscal intermediary and carrier contract pension costs that NGS did not claim on its FACPs for FYs 2007 through 2009. NGS did not claim these allowable pension costs because it based its claims for Medicare reimbursement on incorrectly calculated CAS pension costs.

## **WHAT WE RECOMMEND**

We recommend that NGS revise its FACPs for FYs 2007 through 2009 to increase its claimed Medicare pension costs by \$991,684.

## **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 seek reimbursement for the additional allowable pension costs.

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, D, and E 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 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 (ICPs).

For this review, we focused on one Medicare contractor, National Government Services, Inc. (NGS). In particular, we examined the pension costs that NGS claimed for Medicare reimbursement on its FACPs.

### **OBJECTIVE**

Our objective was to determine whether the fiscal years (FYs) 2007 through 2009 pension costs that NGS claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACPs, were allowable and correctly claimed.

### **BACKGROUND**

#### **National Government Services, Inc.**

NGS (formerly AdminaStar Federal, Inc. (AdminaStar)), a subsidiary of WellPoint, Inc., administered Medicare Parts A and B and Durable Medical Equipment (DME) operations under cost reimbursement contracts with CMS.

Effective November 17, 2006, WellPoint consolidated its Government contracting segments into one segment, AdminaStar, which included the following Government contracting segments: the AdminaStar; Anthem Health Plans of Maine, Inc.; Anthem Health Plans of New Hampshire, Inc.; United Government Services, LLC (UGS); and WellChoice, Inc. (formerly Empire), Medicare segments. As of that same date, AdminaStar changed its corporate name to NGS.

Although this consolidation included the UGS Medicare segment participants, the WellPoint Cash Balance Plan<sup>1</sup> and the UGS Pension Plan<sup>2</sup> remain stand-alone pension plans.

With the implementation of Medicare contracting reform,<sup>3</sup> NGS continued to perform Medicare work after being awarded the MAC contracts for Medicare DME and Medicare Parts A and B, Jurisdiction B and Jurisdiction 13, effective January 6, 2006, and March 18, 2008, respectively.<sup>4,5</sup> While performing MAC work, NGS also functioned as a Medicare Part A fiscal intermediary and Part B carrier.

## **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> Although the Medicare operations were consolidated into NGS, the Blue Cross Blue Shield of Georgia (BCBS Georgia) Medicare segment remained a separate segment in the WellPoint Cash Balance Plan. We reviewed the Medicare segment pension costs that BCBS Georgia claimed, under the provisions of its fiscal intermediary contracts, in a separate review (A-07-12-00398, issued June 6, 2013).

<sup>2</sup> The UGS Pension Plan includes the TrustSolutions Medicare segment, which is maintained as a separate segment and was not included in NGS's consolidation of its Government Contracting segments. We reviewed the allocable pension costs that TrustSolutions used to calculate its indirect cost rates, under the provisions of its Program Safeguard Contracts, in a separate review, A-07-14-00451 (Appendix A). TrustSolutions claimed pension costs for Medicare reimbursement through its ICPs.

<sup>3</sup> 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.

<sup>4</sup> DME Jurisdiction B comprises the States of Illinois, Indiana, Kentucky, Michigan, Minnesota, Ohio, and Wisconsin.

<sup>5</sup> Medicare Parts A and B Jurisdiction 13 comprises the States of Connecticut and New York.

## **HOW WE CONDUCTED THIS REVIEW**

We reviewed \$7,125,010 of Medicare Part A, Medicare Part B, and DME pension costs that NGS claimed for Medicare reimbursement on its FACP's 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**

NGS claimed pension costs of \$7,125,010 for Medicare reimbursement for FYs 2007 through 2009; however, we determined that the allowable CAS-based pension costs during this period were \$8,116,694. The difference, \$991,684, represented allowable fiscal intermediary and carrier contract pension costs that NGS did not claim on its FACP's for FYs 2007 through 2009. NGS did not claim these allowable pension costs because it based its claims for Medicare reimbursement on incorrectly calculated CAS pension costs.

### **CLAIMED PENSION COSTS**

NGS submitted Medicare pension costs of \$7,125,010 for Medicare reimbursement on its FACP's 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 \$8,116,694. Thus, NGS did not claim \$991,684 of allowable Medicare pension costs on its FACP's for FYs 2007 through 2009. This underclaim occurred primarily because NGS based its claims for Medicare reimbursement on incorrectly calculated CAS pension costs. Specifically, NGS based its claim for Medicare reimbursement on an amount that differed from its actuarially computed CAS pension cost.

The table on the following page compares allowable CAS-based pension costs with the pension costs claimed on NGS's FACP's and reflected in its accounting documents.

**Table: Comparison of Allowable Pension Costs and Claimed Pension Costs**

|                    | <b>Medicare Pension Costs</b> |                       |                   |
|--------------------|-------------------------------|-----------------------|-------------------|
| <b>Fiscal Year</b> | <b>Allowable Per Audit</b>    | <b>Claimed by NGS</b> | <b>Difference</b> |
| 2007               | \$3,091,024                   | \$2,695,724           | \$395,300         |
| 2008               | 2,701,166                     | 1,870,846             | 830,320           |
| 2009               | 2,324,504                     | 2,558,440             | (233,936)         |
| <b>Total</b>       | <b>\$8,116,694</b>            | <b>\$7,125,010</b>    | <b>\$991,684</b>  |

**RECOMMENDATION**

We recommend that NGS revise its FACPs for FYs 2007 through 2009 to increase its claimed Medicare pension costs by \$991,684.

**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 seek reimbursement for the additional allowable pension costs.

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 F.

**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.

**OTHER MATTER**

CAS 412 requires NGS to properly identify, track, and update with interest, the unallowable unfunded pension costs. While WellPoint identified the unallowable unfunded pension costs for the Total Company and for the BCBS Georgia (footnote 1) segment, it did not identify the unallowable unfunded pension costs related to the NGS Medicare segment. Specifically, WellPoint identified accumulated unallowable unfunded pension costs of \$13,433,195 (which consisted of \$0 for the NGS Medicare segment, \$168,259 for the BCBS Georgia Medicare segment, and \$13,256,731 for the Other segment) as of January 1, 2010. We determined that the Total Company unallowable unfunded pension costs were \$13,433,195 (which consisted of \$8,205 for the NGS Medicare segment, \$168,259 for the BCBS Georgia Medicare segment, and \$13,256,731 for the Other segment) as of that same date. Thus, NGS properly identified the

Total Company unallowable unfunded pension costs as of January 1, 2010; however, it allocated none of those costs to the NGS Medicare segment.

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

### **SCOPE**

We reviewed \$7,125,010 of Medicare Part A, Medicare Part B, and DME pension costs that NGS claimed for Medicare reimbursement on its FACPs for FYs 2007 through 2009.

Achieving our objective did not require that we review NGS'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 NGS's office in Milwaukee, Wisconsin, and at WellPoint's office in Indianapolis, Indiana.

### **METHODOLOGY**

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- reviewed information provided by WellPoint to identify the amount of pension costs claimed for Medicare reimbursement for FYs 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 NGS's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Forms 5500;
- determined the extent to which WellPoint 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 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);*
- *TrustSolutions, LLC, Overstated Its Allocable Pension Costs for Calendar Years 2007 Through 2009 (A-07-14-00451); 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 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 F: 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-07-14-00452

Dear Mr. Cogley:

We have received the draft audit report from the Inspector General entitled "National Government Services, Inc., Did Not Claim Some Allowable Medicare Pension Costs for Fiscal 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 work with the Centers for Medicare & Medicaid Services to seek reimbursement for the additional allowable pension cost identified in the report.

Finally, we respectfully request that the Draft Report Appendix C, D and E 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  
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Todd W. Reiger, CPA  
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