

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**CIGNA GOVERNMENT SERVICES,
LLC, CLAIMED SOME UNALLOWABLE
MEDICARE POSTRETIREMENT
BENEFIT COSTS FOR
FISCAL YEARS 2004 THROUGH 2012**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



Brian P. Ritchie
Assistant Inspector General
for Audit Services

May 2016
A-07-15-00464

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

CIGNA Government Services, LLC, claimed unallowable postretirement benefit costs of \$281,000 for Medicare reimbursement for fiscal years 2004 through 2012.

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their postretirement benefit (PRB) costs, which are funded by direct payments to beneficiaries or contributions to a dedicated trust fund. The amount of PRB 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 as required by the Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors have not always complied with Federal requirements when claiming PRB 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, PRB, 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, CIGNA Government Services, LLC (CGS). In particular, we examined the PRB costs that CGS claimed for Medicare reimbursement on its FACPs.

The objective of this review was to determine whether the fiscal years (FYs) 2004 through 2012 PRB costs that CGS claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACPs, were allowable and correctly claimed.

BACKGROUND

During our audit period, CGS administered Medicare Part B and Durable Medicare Equipment (DME) operations for Connecticut General Life Insurance Company (CGLIC), the legal entity that entered into these cost reimbursement contracts with CMS. CGS and CGLIC are wholly owned subsidiaries of CIGNA Corporation. Effective June 1, 2011, the CGS Medicare segment was sold to Blue Cross Blue Shield of South Carolina. On June 2, 2011, CGS changed its name to CGS Administrators, LLC. Although we have addressed this report to CGS Administrators, we will refer to our auditee as CGS in this report.

With the implementation of Medicare contracting reform, CGS continued to perform Medicare work after being awarded the MAC contracts for Medicare DME Jurisdiction C and Medicare Parts A and B Jurisdiction 15, effective June 1, 2007, and July 8, 2010, respectively. While performing MAC work, CGS also functioned as a Medicare Part B carrier.

We reviewed \$4,908,783 of Medicare Part B and DME PRB costs that CGS claimed for Medicare reimbursement on its FACP's for FYs 2004 through 2012.

WHAT WE FOUND

CGS claimed PRB costs of \$4,908,783 for Medicare reimbursement for FYs 2004 through 2012; however, we determined that the allowable PRB costs during this period were \$4,627,797. The difference, \$280,986, represented unallowable fiscal intermediary and carrier contract PRB costs that CGS claimed on its FACP's for FYs 2004 through 2012. CGS claimed these unallowable PRB costs because it based its claims for Medicare reimbursement on incorrectly allocated PRB costs.

WHAT WE RECOMMEND

We recommend that CGS revise its FACP's for FYs 2004 through 2012 to decrease its claimed Medicare PRB costs by \$280,986.

AUDITEE COMMENTS

In written comments on our draft report, CGS said that it accepted our recommendation to decrease the Medicare PRB costs. In addition, CGS said that it would work with CMS to negotiate and settle these costs at the appropriate time.

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INTRODUCTION

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their postretirement benefit (PRB) costs, which are funded by direct payments to beneficiaries or contributions to a dedicated trust fund. The amount of PRB 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 as required by the Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors have not always complied with Federal requirements when claiming PRB 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, PRB, 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, CIGNA Government Services, LLC (CGS). In particular, we examined the PRB costs that CGS claimed for Medicare reimbursement on its FACPs.

OBJECTIVE

Our objective was to determine whether the fiscal years (FYs) 2004 through 2012 PRB costs that CGS claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACPs, were allowable and correctly claimed.

BACKGROUND

CIGNA Government Services, LLC

During our audit period, CGS administered Medicare Part B and Durable Medicare Equipment (DME) operations for Connecticut General Life Insurance Company (CGLIC), the legal entity that entered into these cost reimbursement contracts with CMS. CGS and CGLIC are wholly owned subsidiaries of CIGNA Corporation (CIGNA). Effective June 1, 2011, the CGS Medicare segment was sold to Blue Cross Blue Shield of South Carolina. On June 2, 2011, CGS changed its name to CGS Administrators, LLC. Although we have addressed this report to CGS Administrators, we will refer to our auditee as CGS in this report.

With the implementation of Medicare contracting reform,¹ CGS continued to perform Medicare work after being awarded the MAC contracts for Medicare DME Jurisdiction C and Medicare Parts A and B Jurisdiction 15, effective June 1, 2007, and July 8, 2010, respectively.^{2, 3} While performing MAC work, CGS also functioned as a Medicare Part B carrier.

CIGNA sponsors a PRB plan called CIGNA's Retiree Benefits Plan. The purpose of this PRB plan is to provide medical, dental, vision, prescription drug, and group life insurance benefits to eligible retirees and their dependents. As a subsidiary of CIGNA, CGS employees were eligible to participate in this PRB plan. CGS claimed PRB costs using the pay-as-you-go basis of accounting.

Medicare Reimbursement of Postretirement Benefit Costs

CMS reimburses a portion of Medicare contractors' PRB costs. In claiming PRB costs, contractors must follow cost reimbursement principles contained in the FAR and applicable Cost Accounting Standards as required by the Medicare contracts. To be allowable for Medicare reimbursement, pay-as-you-go PRB costs must be assigned to the period in which the benefits are actually provided; or when the costs are paid to an insurer, provider, or other recipient for current year benefits or premiums.

HOW WE CONDUCTED THIS REVIEW

We reviewed \$4,908,783 of Medicare Part B and DME PRB costs that CGS claimed for Medicare reimbursement on its FACPs for FYs 2004 through 2012.

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.

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 C consists of the States of Alabama, Arkansas, Colorado, Florida, Georgia, Louisiana, Mississippi, New Mexico, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia, the commonwealth of Puerto Rico, and the territory of the U.S. Virgin Islands.

³ Medicare Parts A and B Jurisdiction 15 consists of the States of Kentucky and Ohio. Jurisdiction 15 also includes home health and hospice services provided in the States of Colorado, Delaware, Iowa, Kansas, Maryland, Missouri, Montana, Nebraska, North Dakota, Pennsylvania, South Dakota, Utah, Virginia, West Virginia, and Wyoming, and in the District of Columbia.

FINDING

CGS claimed PRB costs of \$4,908,783 for Medicare reimbursement for FYs 2004 through 2012; however, we determined that the allowable PRB costs during this period were \$4,627,797. The difference, \$280,986, represented unallowable fiscal intermediary and carrier contract PRB costs that CGS claimed on its FACPs for FYs 2004 through 2012. CGS claimed these unallowable PRB costs because it based its claims for Medicare reimbursement on incorrectly allocated PRB costs.

CLAIMED POSTRETIREMENT BENEFIT COSTS

CGS claimed Medicare PRB costs of \$4,908,783 for Medicare reimbursement on its FACPs for FYs 2004 through 2012. We calculated the allowable Medicare PRB costs in accordance with the FAR. For details on the Federal requirements, see Appendix B.

UNALLOWABLE POSTRETIREMENT BENEFIT COSTS CLAIMED

We determined that the allowable PRB costs for FYs 2004 through 2012 were \$4,627,797. Thus, CGS claimed \$280,986 of unallowable PRB costs on its FACPS for FYs 2004 through 2012. This overclaim occurred primarily because CGS used an incorrect methodology when allocating its PRB costs.

The table below shows the difference between the allowable PRB costs that we calculated and the PRB costs that CGS claimed on its FACPs and that were reflected in its accounting documents for FYs 2004 through 2012.

Table: Comparison of Allowable PRB Costs and Claimed PRB Costs

	<u>Medicare PRB Costs</u>		
Fiscal Year	Allowable Per Audit	Claimed by CGS	Difference
2004	\$1,002,340	\$991,231	\$11,109
2005	830,405	966,396	(135,991)
2006	921,206	996,765	(75,559)
2007	468,512	517,090	(48,578)
2008	488,386	503,613	(15,227)
2009	480,830	494,535	(13,705)
2010	330,226	311,063	19,163
2011	105,892	123,784	(17,892)
2012	n/a ⁴	4,306	(4,306)
Total	\$4,627,797	\$4,908,783	(\$280,986)

⁴ Costs from CIGNA's Retiree Benefits Plan for FY 2012 are unallowable as the Medicare segment was sold to Blue Cross Blue Shield of South Carolina effective June 1, 2011.

RECOMMENDATION

We recommend that CGS revise its FACPs for FYs 2004 through 2012 to decrease its claimed Medicare PRB costs by \$280,986.

AUDITEE COMMENTS

In written comments on our draft report, CGS said that it accepted our recommendation to decrease the Medicare PRB costs. In addition, CGS said that it would work with CMS to negotiate and settle these costs at the appropriate time.

CGS's comments are included in their entirety as Appendix C.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$4,908,783 of Medicare PRB costs that CGS claimed for Medicare reimbursement under the provisions of its fiscal intermediary and carrier contracts, and reported on its FACPs, for FYs 2004 through 2012.

Achieving our objective did not require that we review CGS's overall internal control structure. We reviewed the internal controls related to the PRB costs that CGS claimed for Medicare reimbursement to ensure that the claimed PRB costs were allowable in accordance with the FAR.

We performed our fieldwork at CGS's office in Nashville, Tennessee.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR and Medicare contracts applicable to this audit;
- reviewed accounting records, which included the PRB plan's participant data, and used this information to calculate a ratio of CGS employees in the PRB plan to Total Company employees in the PRB plan;
- reviewed the FACP information provided by CGS to identify the amount of PRB costs that CGS claimed for Medicare reimbursement for FYs 2004 through 2012;
- verified information to calculate the pay-as-you-go PRB costs that were allowable for Medicare reimbursement;
- examined CGS's PRB plan documents; and
- provided the results of our review to CGS officials on November 24, 2015.

We performed this review in conjunction with the following audit and used the information obtained during that audit: *CIGNA Government Services, LLC's Postretirement Benefit Allocable Costs Were Reasonable and Allowable for Calendar Years 2007 Through 2011* (A-07-15-00465).

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
MEDICARE REIMBURSEMENT OF POSTRETIREMENT BENEFIT COSTS**

Federal regulations (FAR 31.205-6(o)(2)(i)) require that, to be allowable for Medicare reimbursement, pay-as-you-go PRB costs be assigned to the period in which the benefits are actually provided or to the period when the costs are paid to an insurer, provider, or other recipient for current year benefits or premiums.

APPENDIX C: AUDITEE COMMENTS

TWO VANTAGE WAY | NASHVILLE, TN 37228-1504 | CGSMEDICARE.COM



March 23, 2016

We IMPACT lives.

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

Re: Report Number A-07-15-00464

Dear Mr. Cogley:

We are responding to the U.S. Department of Health and Human Services, Office of Inspector General, draft report dated January 27, 2016 and entitled *CGS Administrators, LLC, Claimed Some Unallowable Medicare Postretirement Benefit Costs for Fiscal Year 2014 – 2012*.

The report contains the following recommendation:

We recommend that CGS revise its FACP for FY 2004 through 2012 to decrease its claimed Medicare PRB costs by \$280,986.

CGS accepts the OIG recommended decrease in Medicare PRB costs and does not have any additional comments or questions. CGS' assumption is that the repayment will be negotiated and settled with CMS at the appropriate time. CGS will make any necessary adjustments to the FACP's as requested by CMS.

We appreciate the opportunity to comment on the recommendation. Please let me know if you have questions or need additional information regarding our response.

Sincerely,

Michael Logan
Vice President and CFO

Cc: Steve Bishop, CGS
Larry Kennedy, CGS
Dedee Rowe, BCBSSC
Ryan Loyd, CIGNA
Diane Lastinec, CIGNA