

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**CGS ADMINISTRATORS, LLC, DID NOT
CLAIM SOME ALLOWABLE MEDICARE
ADMINISTRATIVE CONTRACT
POSTRETIREMENT BENEFIT COSTS**

*Inquiries about this report may be addressed to the Office of Public Affairs at
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Deputy Inspector General
for Audit Services

May 2017
A-07-17-00498

Office of Inspector General

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

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The designation of financial or management practices as questionable,
a recommendation for the disallowance of costs incurred or claimed,
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operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

CGS Administrators, LLC, did not claim allowable Medicare administrative contract postretirement benefit costs of \$5,639 for Medicare reimbursement for calendar years 2010 and 2011.

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their postretirement benefit (PRB) costs, which are funded by the 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 as required by the Medicare contracts. Previous Office of Inspector General (OIG) reviews found that Medicare contractors have not always complied with Federal requirements when claiming PRB costs for Medicare reimbursement.

At CMS's request, the OIG, 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 and/or Incurred Cost Proposals (ICPs).

For this review, we focused on one Medicare contractor, CIGNA Government Services, LLC (CGS). In particular, we examined the Medicare segment and Other segment MAC PRB costs (herein referred to as "PRB costs") that CGS claimed for Medicare reimbursement and reported on its ICPs.

The objective of this review was to determine whether the calendar years (CYs) 2010 and 2011 PRB costs that CGS claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

BACKGROUND

During our audit period, CGS (formerly CIGNA Government Services, LLC) administered Medicare Part B and Durable Medical Equipment (DME) operations for Connecticut General Life Insurance Company (CGLIC), the legal entity that entered into these cost reimbursement contracts with CMS. In addition, CGS administered Medicare operations under a MAC contract with CMS. CGS and CGLIC are wholly owned subsidiaries of CIGNA Corporation.

With the implementation of Medicare contracting reform, CGS continued to perform Medicare work after being awarded the MAC contracts for DME Jurisdiction C, effective September 27, 2006, and Medicare Parts A and B Jurisdiction 15, effective July 8, 2010.

Effective June 1, 2011, the CGS Medicare segment was sold to Blue Cross Blue Shield of South Carolina for the continued performance of Medicare operations.

CGS's disclosure statement indicates that CGS uses pooled costing. Medicare contractors use pooled costing to calculate the indirect cost rates that they submit on their ICPs. The PRB costs are included in the computations of the indirect cost rates reported on the ICPs. CMS uses these indirect cost rates when reimbursing costs for cost-plus-award-fee type contracts.

We calculated the allocable PRB costs in a previous audit for CYs 2010 and 2011 (A-07-15-00465, issued January 27, 2016). The previous audit found that the allocable PRB costs that CGS used when calculating its indirect cost rates for CYs 2010 and 2011 were reasonable and allowable.

At CMS's request, Kearney & Company (Kearney) and Watkins Meegan performed audits of the ICPs that CGS submitted for CYs 2010 and 2011. CMS will use this OIG report and the ICP audit reports to determine the final indirect cost rates and the total allowable contract costs for CGS for CYs 2010 and 2011.

We reviewed \$314,001 of PRB costs that CGS claimed for Medicare reimbursement on its ICPs for CYs 2010 and 2011.

WHAT WE FOUND

CGS claimed PRB costs of \$314,001 for Medicare reimbursement for CYs 2010 and 2011; however, we determined that the allowable PRB costs during this period were \$319,639. The difference, \$5,639, represented allowable Medicare PRB costs that CGS did not claim on its ICPs for CYs 2010 and 2011. CGS did not claim these allowable Medicare PRB costs primarily because it used incorrect indirect cost rates when claiming PRB costs for Medicare reimbursement.

WHAT WE RECOMMEND

We recommend that CGS work with CMS to ensure that CGS's final settlement of contract costs reflects an increase in Medicare PRB costs of \$5,639 for CYs 2010 and 2011.

AUDITEE COMMENTS

In written comments on our draft report, CGS said that it accepted our recommendations.

TABLE OF CONTENTS

INTRODUCTION 1

 Why We Did This Review 1

 Objective 1

 Background 1

 CGS Administrators, LLC 1

 Medicare Reimbursement of Postretirement Benefit Costs..... 2

 Previous Audit of Allocable Postretirement Benefit Costs 2

 Incurred Cost Proposal Audits and Our and CMS’s Use of Their Results 2

 CMS Settlement of Durable Medical Equipment Contract 3

 How We Conducted This Review 3

FINDING 3

 Claimed Postirement Benefit Costs 3

 Allowable Medicare Postretirement Benefit Costs Not Claimed 3

RECOMMENDATION 4

AUDITEE COMMENTS..... 4

APPENDIXES

 A: Audit Scope and Methodology5

 B: Federal Requirements Related to
 Reimbursement of Postretirement Benefit Costs6

 C: Auditee Comments7

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 the 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 as required by the Medicare contracts. Previous Office of Inspector General (OIG) reviews found that Medicare contractors have not always complied with Federal requirements when claiming PRB costs for Medicare reimbursement.

At CMS's request, the OIG, 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 and/or Incurred Cost Proposals (ICPs).

For this review, we focused on one Medicare contractor, CIGNA Government Services, LLC (CGS). In particular, we examined the Medicare segment and Other segment MAC PRB costs (herein referred to as "PRB costs") that CGS claimed for Medicare reimbursement and reported on its ICPs.

OBJECTIVE

Our objective was to determine whether the calendar years (CYs) 2010 and 2011 PRB costs that CGS claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

BACKGROUND

CGS Administrators, LLC

During our audit period, CGS (formerly CIGNA Government Services, LLC) administered Medicare Part B and Durable Medical Equipment (DME) operations for Connecticut General Life Insurance Company (CGLIC), the legal entity that entered into these cost reimbursement contracts with CMS. In addition, CGS administered Medicare operations under a MAC contract with CMS. CGS and CGLIC are wholly owned subsidiaries of CIGNA Corporation.

With the implementation of Medicare contracting reform, CGS continued to perform Medicare work after being awarded the MAC contracts for DME Jurisdiction C, effective September 27, 2006, and Medicare Parts A and B Jurisdiction 15, effective July 8, 2010.

Effective June 1, 2011, the CGS Medicare segment was sold to Blue Cross Blue Shield of South Carolina for the continued performance of Medicare operations.

CGS's disclosure statement indicates that CGS uses pooled costing. Medicare contractors use pooled costing to calculate the indirect cost rates that they submit on their ICPs. The PRB costs are included in the computations of the indirect cost rates reported on the ICPs. CMS uses these indirect cost rates when reimbursing costs for cost-plus-award-fee type contracts.

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.

During our audit period, CGS administered Medicare Part B carrier contracts and MAC-related contracts. This report addresses the PRB costs that CGS claimed under the provisions of its MAC contracts.

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 CAS 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. CGS claimed PRB costs using the pay-as-you-go basis of accounting.

Previous Audit of Allocable Postretirement Benefit Costs

We previously reviewed CGS's allocable PRB costs (A-07-15-00465, issued January 27, 2016; see also Appendix A for additional details). The previous audit found that the allocable PRB costs that CGS used when calculating its indirect cost rates for CYs 2010 and 2011 were reasonable and allowable.

Incurred Cost Proposal Audits and Our and CMS's Use of Their Results

At CMS's request, Kearney & Company (Kearney) and Watkins Meegan (Watkins) performed audits of the ICPs that CGS submitted for CYs 2010 and 2011. The objective of the Kearney ICP audit was to determine whether costs included in the ICPs were allowable in accordance with the FAR. Watkins' ICP audit examined the ICPs to determine whether CGS was in compliance with the applicable requirements of the FAR, the CAS, the U.S. Department of Health and Human Services Acquisition Regulation System, the Social Security Handbook, and relevant contract provisions and guidelines issued by the Defense Contract Audit Agency.

For this current audit, we relied on the ICP audits' findings and recommendations when computing the allowable PRB costs discussed in this report.

CMS will use this OIG report on allowable PRB costs, as well as the ICP audit reports, to determine the final indirect cost rates and the total allowable contractor costs for CGS for CYs 2010 and 2011.

CMS Settlement of Durable Medical Equipment Contract

CMS performed a settlement, on July 15, 2013, of certain contract line item numbers (CLINs) for DME contracts.¹ This settlement included the period June 1, 2007, through November 30, 2010; therefore, no adjustments could be made as these costs were finalized.

HOW WE CONDUCTED THIS REVIEW

We reviewed \$314,001 of PRB costs that CGS claimed for Medicare reimbursement on its ICPs for CYs 2010 and 2011.

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

CGS claimed PRB costs of \$314,001 for Medicare reimbursement for CYs 2010 and 2011; however, we determined that the allowable PRB costs during this period were \$319,639. The difference, \$5,639, represented allowable Medicare PRB costs that CGS did not claim on its ICPs for CYs 2010 and 2011. CGS did not claim these allowable Medicare PRB costs primarily because it used incorrect indirect cost rates when claiming PRB costs for Medicare reimbursement.

CLAIMED POSTRETIREMENT BENEFIT COSTS

CGS claimed Medicare PRB costs of \$314,001 for CYs 2010 and 2011. We calculated the allowable Medicare PRB costs in accordance with the FAR.

ALLOWABLE MEDICARE POSTRETIREMENT BENEFIT COSTS NOT CLAIMED

After incorporating the results of the Kearney and Watkins ICP audits and our previous allocable PRB costs audit report,² we determined that the allowable Medicare PRB costs for CYs 2010 and 2011 were \$319,639. Thus, CGS understated the allowable PRB costs for these CYs by \$5,639. This underclaim occurred because CGS based its allowable PRB cost on incorrectly calculated indirect cost rates. In addition, according to Kearney's ICP report, CGS's ICP submissions for CYs 2008 through 2011 did not comply with the FAR or the CAS.

¹ The CLIN corresponds to a certain period of performance as identified in the contract.

² Although our previous audit found that the allocable PRB costs that CGS used when calculating its indirect cost rates for CYs 2010 and 2011 were reasonable and allowable, changes to those rates affected the allowable PRB costs computed during this review.

As mentioned earlier in this report, we found in our previous audit of allocable PRB costs that CGS's PRB costs were reasonable and allowable. We then used those costs to adjust the indirect cost rates (i.e., fringe benefit and general and administrative rates) and, in turn, to calculate the information presented in the table below. Our calculation will not be presented in this report because those rate calculations that CGS used in its ICPs, and to which we referred as part of our review, are proprietary information.

Accordingly, the table below compares, for both of the contracts (DME and Medicare Parts A and B), the Medicare segment PRB costs that we calculated (using our adjusted indirect cost rates) and the PRB costs that CGS claimed for Medicare reimbursement for CYs 2010 and 2011.

Table: Comparison of Allowable PRB Costs and Claimed PRB Costs

	Per Audit	Per ICP Audit	Difference
CY 2010			
DME Contract	\$41,457	\$41,473	(\$16)
Parts A/B Contract	3,694	3,695	(1)
Total CY 2010	\$45,151	\$45,168	(\$17)
CY 2011			
DME Contract	\$161,024	\$159,500	\$1,524
Parts A/B Contract	113,464	109,333	4,131
Total CY 2011	\$274,488	\$268,832	5,656
Total of PRB Costs	\$319,639	\$314,001	\$5,639

RECOMMENDATION

We recommend that CGS work with CMS to ensure that CGS's final settlement of contract costs reflects an increase in Medicare PRB costs of \$5,639 for CYs 2010 and 2011.

AUDITEE COMMENTS

In written comments on our draft report, CGS said that it accepted our recommendations and that it did not have any additional comments or questions. CGS stated that it assumed that the repayment would be negotiated and settled with CMS at the appropriate time and added that it would make any necessary adjustments to its ICPs as requested by CMS.

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

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$314,001 of PRB costs that CGS claimed for Medicare reimbursement on its ICPs for CYs 2010 and 2011.

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 in Nashville, Tennessee.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR and Medicare contracts applicable to this audit;
- reviewed information provided by CGS to identify the amount of PRB costs used in CGS's calculation of its indirect cost rates for CYs 2010 and 2011;
- reviewed the results of Kearney and Watkins ICP audits and incorporated the results of those audits into our calculations of allowable PRB costs;
- incorporated the information from our previous audit report (A-07-15-00465, issued January 27, 2016) into our work for this audit; and
- provided the results of this review to CGS officials on February 13, 2017.

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

- *CGS Administrators, LLC, Claimed Some Unallowable Medicare Administrative Contract Pension Costs (A-07-16-00490), and*
- *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 finding and conclusions based on our audit objectives.

APPENDIX B: FEDERAL REQUIREMENTS RELATED TO REIMBURSEMENT OF POSTRETIREMENT BENEFIT COSTS

FEDERAL REGULATIONS

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.

Federal regulations (CAS 403) address the allocation of the expenses of a home office to the segments of the organization based on beneficial or causal relationship. These regulations also address the allocation of residual home office expenses to segments.

MEDICARE CONTRACTS

The Medicare contracts require CGS to submit invoices in accordance with FAR 52.216-7, “Allowable Cost & Payment.” Furthermore, FAR 52.216-7(a)(1) addresses the invoicing requirements and the allowability of payments as determined by the Contracting Officer in accordance with FAR subpart 31.2.

APPENDIX C: AUDITEE COMMENTS

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A CELERIAN GROUP COMPANY

March 27, 2017

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-07-16-00498

Dear Mr. Cogley:

We are responding to the U.S. Department of Health and Human Services, Office of Inspector General, draft report dated March 6, 2017 and entitled *CGS Administrators, LLC, Did Not Claim Some Allowable Medicare Administrative Contract Postretirement Benefit Cost*.

The report contains the following recommendation:

We recommend that CGS work with CMS to ensure that CGS's final settlement of contract costs reflects an increase in Medicare PRB costs of \$5,639 for CYs 2010 and 2011.

CGS accepts the OIG recommendations 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 ICP'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/

Michael Logan
Vice President and CFO

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

CGS Administrators, LLC, Postretirement Benefit Costs Claimed (A-07-17-00498)

7