

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**NATIONAL GOVERNMENT
SERVICES, INC., CLAIMED
SOME UNALLOWABLE
MEDICARE PENSION COSTS**

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Office of Inspector General

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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.

Report in Brief

Date: November 2018

Report No. A-07-18-00543

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL



Why OIG Did This Review

The Centers for Medicare & Medicaid Services (CMS) reimburses contractors for a portion of their pension costs, which are funded by the annual contributions that contractors make to their pension plans.

At CMS's request, the HHS, OIG, Office of Audit Services, Region VII pension audit team reviews the cost elements related to qualified defined-benefit plans and any other pension-related cost elements claimed by Medicare contractors through Final Administrative Cost Proposals (FACPs).

Previous OIG reviews found that Medicare contractors did not always comply with Federal requirements when claiming pension costs for Medicare reimbursement.

Our objective was to determine whether the fiscal years (FYs) 2010 through 2013 pension costs that National Government Services, Inc. (NGS), claimed for Medicare reimbursement, and reported on its FACPs, were allowable and correctly claimed.

How OIG Did This Review

We reviewed \$6.04 million of Medicare pension costs that NGS claimed for Medicare reimbursement on its FACPs for FYs 2010 through 2013.

National Government Services, Inc., Claimed Some Unallowable Medicare Pension Costs

What OIG Found

NGS claimed FYs 2010 through 2013 pension costs of \$6.04 million for Medicare reimbursement; however, we determined that the allowable Cost Accounting Standards-based pension costs during this period were \$5.28 million. The difference, \$763,067, represented unallowable Medicare pension costs that NGS claimed on its FACPs for FYs 2010 through 2013. NGS claimed these unallowable Medicare pension costs primarily because it based its claim for Medicare reimbursement on incorrect cost information.

What OIG Recommends and Auditee Comments

We recommend that NGS revise its FACPs for FYs 2010 through 2013 to reduce its claimed Medicare pension costs by \$763,067.

NGS concurred with our finding and recommendation and said that it would work with CMS to adjust and settle cost statements to reflect allowable pension costs identified in our report.

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Office of Inspector General Note—Appendices C, D, E, and F 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 allocability and cost reimbursement principles contained in the Federal Acquisition Regulation (FAR), Cost Accounting Standards (CAS), and Medicare contracts. Previous Office of Inspector General (OIG) reviews found that Medicare contractors did not always comply with Federal requirements when claiming pension 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, 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).

OBJECTIVE

Our objective was to determine whether the fiscal years (FYs) 2010 through 2013 qualified defined-benefit plan pension costs (herein referred to as "pension costs") that National Government Services, Inc. (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., and Medicare

NGS is a wholly owned subsidiary of Federal Government Solutions, which is a holding company created and owned by Anthem Inc. (formerly WellPoint, Inc.). NGS administered Medicare Parts A and B under cost reimbursement contracts with CMS until its contractual relationships ended August 20, 2012, and July 13, 2013. Effective November 17, 2006, WellPoint consolidated its Government contracting segments into one segment, AdminaStar, which included the following Government contracting segments: AdminaStar; Anthem Maine; Anthem Health Plans of New Hampshire, Inc.; United Government Services, LLC (UGS); and WellChoice, Inc. (formerly Empire). 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 Pension Plans and the UGS Pension Plan remain stand-alone pension plans.¹

With the implementation of Medicare contracting reform,² NGS continued to perform Medicare work as a MAC. 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 1, 2006, and March 18, 2008, respectively.^{3,4} NGS continued its MAC work after again being awarded the DME contract, Jurisdiction B, on September 7, 2010. NGS was also awarded the Medicare Parts A and B contracts (which include home health and hospice services) for Jurisdiction 6 and K, effective September 27, 2012, and February 22, 2013, respectively.^{5,6}

Effective January 1, 2011, Anthem created a new plan called WellPoint Cash Balance Pension Plan B and transferred assets from the WellPoint Cash Balance Pension Plan⁷ to the WellPoint Cash Balance Pension Plan B. The WellPoint Cash Balance Pension Plan A was frozen to new entrants and ceased accruing benefits to employees. The WellPoint Cash Balance Pension Plan B was comprised of active employees currently accruing benefits as of January 1, 2011, or disabled employees who continued to be disabled and accruing benefits as of January 1, 2011. In addition, on December 2, 2014, WellPoint, Inc., changed its name to Anthem Inc., and changed the names of its qualified plans to Anthem Cash Balance Pension Plan A (Plan A) and Anthem Cash Balance Pension Plan B (Plan B).

¹ 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 will separately review the allocable pension costs that Trust Solutions used to calculate its indirect cost rates under the provisions of its Program Safeguard Contracts. Trust Solutions claimed pension costs for Medicare reimbursement through its ICPs.

² 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.

³ DME Jurisdiction B consists of the States of Illinois, Indiana, Kentucky, Michigan, Minnesota, Ohio, and Wisconsin.

⁴ Medicare Parts A and B Jurisdiction 13 consists of the States of New York and Connecticut.

⁵ Medicare Part A and B Jurisdiction 6 consists of the States of Illinois, Minnesota, and Wisconsin. NGS's jurisdiction for home health and hospice services consists of the States of Alaska, Arizona, California, Hawaii, Idaho, Michigan, Minnesota, Nevada, New Jersey, New York, Oregon, Washington, and Wisconsin, and the U.S. Territories of American Samoa, Guam, Northern Mariana Islands, Puerto Rico, and U.S. Virgin Islands.

⁶ Medicare Parts A and B Jurisdiction K consists of the States of New York, Connecticut, Massachusetts, Rhode Island, Vermont, Maine, and New Hampshire. NGS's jurisdiction for home health and hospice services consists of the States of Connecticut, Massachusetts, Rhode Island, Vermont, Maine, and New Hampshire.

⁷ On January 1, 2012, the WellPoint Cash Balance Pension Plan was renamed the WellPoint Cash Balance Pension Plan A.

This report addresses the allowable pension costs claimed by NGS, under the provisions of its fiscal intermediary and carrier contracts, for the Plan A, Plan B, and UGS pension plans.

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.

Beginning with FY 1988, CMS incorporated specific segmentation language into Medicare contracts that requires contractors to use either an indirect allocation method or a separate calculation method to identify and claim pension costs for Medicare reimbursement. Under the indirect 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 \$6,038,530 of pension costs claimed by NGS for Medicare reimbursement on its FACPs for FYs 2010 through 2013.

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 FYs 2010 through 2013 pension costs of \$6,038,530 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs during this period were \$5,275,463. The difference, \$763,067, represented unallowable Medicare pension costs that NGS claimed on its FACPs for FYs 2010 through 2013. NGS claimed these unallowable Medicare pension costs primarily because it based its claim for Medicare reimbursement on incorrect cost information.

CLAIMED PENSION COSTS

NGS claimed Medicare pension costs of \$6,038,530 for Medicare reimbursement, under the provisions of its fiscal intermediary and carrier contracts, on its FACPs for FYs 2010 through 2013. 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 2010 through 2013 were \$5,275,463. Thus, NGS claimed \$763,067 of unallowable Medicare pension costs on its FACPs for FYs 2010 through 2013. NGS claimed these unallowable Medicare pension costs primarily because it based its claim for Medicare reimbursement on incorrect cost information. More specifically, NGS incorrectly overstated the allowable pension cost for the UGS pension plan when submitting its claim for Medicare reimbursement.

The table below shows the differences between the allowable CAS-based pension costs and the pension costs that NGS claimed on its FACPs and reflected in its accounting documents. Appendices C, D, and E show the development of the allocable pension cost for the Anthem Cash Balance Plans (Plan A and Plan B) and for UGS, and Appendix F contains additional details on allowable pension costs.

Table: Comparison of Allowable Pension Costs and Claimed Pension Costs

	Medicare Pension Costs		
FY	Allowable Per Audit	Claimed by NGS	Difference
2010	\$2,108,719	\$2,418,127	(\$309,408)
2011	1,573,270	1,756,632	(183,362)
2012	1,118,144	1,317,810	(199,666)
2013	475,330	545,961	(70,631)
Total	\$5,275,463	\$6,038,530	(\$763,067)

RECOMMENDATION

We recommend that NGS revise its FACPs for FYs 2010 through 2013 to reduce its claimed Medicare pension costs by \$763,067.

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 adjust and settle cost statements to reflect allowable pension costs identified in our report.

Our draft report included appendices containing proprietary and confidential financial information that NGS asked us to redact from any publicly available posting of this report.

NGS's comments appear in their entirety as Appendix G.

OFFICE OF INSPECTOR GENERAL RESPONSE

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

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$6,038,530 of pension costs that NGS claimed for Medicare reimbursement on its FACPs for FYs 2010 through 2013.

Achieving our objective did not require that we review NGS's overall internal control structures. 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 audit work at our office located in Jefferson City, Missouri.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- reviewed information provided by NGS to identify the amount of pension costs claimed for Medicare reimbursement for FYs 2010 through 2013;
- used information that NGS's actuarial consulting firm provided, including information on the pension plans' 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 NGS funded CAS-based pension costs with contributions to the pension trust fund and accumulated prepayment credits;
- engaged the CMS Office of the Actuary, which provides technical actuarial advice, 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 August 13, 2018.

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

- *National Government Services, Inc., Understated Its Plan A Medicare Segment Pension Assets (A-07-18-00541),*
- *National Government Services, Inc., Properly Updated the Plan B Medicare Segment Pension Assets as of January 1, 2015 (A-07-18-00542), and*
- *United Government Services, LLC, Properly Updated the Medicare Segment Pension Assets as of January 1, 2015 (A-07-18-00538).*

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. These regulations also address 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."



MEDICARE

A CMS Medicare Administrative Contractor
<http://www.NGSMedicare.com>

October 12, 2018

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-07-18-00543

Dear Mr. Cogley:

We have received the draft audit report from the Inspector General entitled "National Government Services, Inc., Claimed Some Unallowable Medicare Pension Costs" 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 adjust and settle cost statements to reflect allowable pension costs 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 414-207-2517 or via email at todd.reiger@anthem.com.

Sincerely,

/s/ Todd W. Reiger

Todd W. Reiger, CPA
Medicare Chief Financial Officer
National Government Services, Inc.

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