

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**NATIONAL GOVERNMENT SERVICES,
INC., DID NOT CLAIM SOME
ALLOWABLE MEDICARE
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

November 2018
A-07-18-00552

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-07-18-00552

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 postretirement benefit (PRB) costs. Actual payments can be reimbursed under the pay-as-you-go methodology.

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).

Our objective was to determine whether the fiscal years (FYs) 2010 through 2013 PRB 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.

How OIG Did This Review

We reviewed \$1.8 million of Medicare PRB costs that NGS claimed for Medicare reimbursement on its FACPs for CYs 2010 through 2013.

National Government Services, Inc., Did Not Claim Some Allowable Medicare Postretirement Benefit Costs

What OIG Found

NGS claimed FYs 2010 through 2013 PRB costs of \$1.8 million for Medicare reimbursement; however, we determined that the allowable PRB costs during this period were \$2.9 million. The difference, \$1.1 million, represented allowable Medicare PRB costs that NGS did not claim on its FACPs for FYs 2010 through 2013. NGS did not claim these allowable Medicare PRB costs primarily because it based its claim for Medicare reimbursement on an incorrect methodology.

What OIG Recommends and Auditee Comments

We recommend that NGS revise its FACPs for FYs 2010 through 2013 to increase its claimed Medicare PRB costs by \$1.1 million.

NGS concurred with our finding and recommendation and said that it would work with CMS to seek reimbursement for the additional allowable PRB cost identified in our report.

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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 by the Centers for Medicare & Medicaid Services (CMS). Contractors that operate a PRB plan on a pay-as-you-go basis are eligible to be reimbursed a portion of their actual payments for PRB costs. In claiming PRB costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation (FAR) 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, 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 (ICPs).

OBJECTIVE

Our objective was to determine whether the fiscal years (FYs) 2010 through 2013 PRB 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 (FGS), 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; and WellChoice, Inc. (formerly Empire). As of that same date, AdminaStar changed its corporate name to NGS. With this change, Anthem expanded the Blue Cross and Blue Shield Plans' National Retiree Health Benefits Trust to include the consolidated segments.

With the implementation of Medicare contracting reform,¹ 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.^{2,3} 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.^{4,5}

Anthem sponsors a PRB plan called the WellPoint Voluntary Employee Benefit Association (VEBA) Retiree Health Benefits Plan (later renamed the Anthem VEBA Retiree Health Benefits Plan). In addition, Anthem sponsors the Anthem Retirees Life Insurance Plan. The purpose of these plans is to provide medical, dental, vision, and life coverage to eligible retirees and their eligible family members. These plans are offered to NGS employees. During our audit period, NGS claimed PRB costs on an accrual basis. However, NGS sought and received CMS approval to change its methodology from an accrual basis to the pay-as-you-go method.

This report addresses the allowable PRB costs calculated by NGS, under the provisions of its fiscal intermediary and carrier contracts. Although we are addressing this report to FGS, we will associate the term NGS with our findings and recommendations.

Medicare Reimbursement of Postretirement Benefit Costs

CMS reimburses a portion of its contractors' PRB costs. In claiming PRB costs, contractors must follow cost reimbursement principles contained in the FAR and applicable Cost Accounting Standards (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

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

³ Medicare Parts A and B Jurisdiction 13 consists of the States of New York and Connecticut.

⁴ 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.

⁵ 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.

current year benefits or premiums.

HOW WE CONDUCTED THIS REVIEW

We reviewed \$1,762,671 of PRB 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 PRB costs of \$1,762,671 for Medicare reimbursement; however, we determined that the allowable PRB costs during this period were \$2,911,207. The difference, \$1,148,536, represented allowable Medicare PRB costs that NGS did not claim on its FACPs for FYs 2010 through 2013. NGS did not claim these allowable Medicare PRB costs primarily because it based its claim for Medicare reimbursement on an incorrect methodology.

CLAIMED POSTRETIREMENT BENEFIT COSTS

NGS claimed Medicare PRB costs of \$1,762,671 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 PRB costs in accordance with Federal requirements. For details on the Federal requirements, see Appendix B.

ALLOWABLE POSTRETIREMENT BENEFIT COSTS NOT CLAIMED

We determined that the allowable PRB costs for FYs 2010 through 2013 were \$2,911,207. Thus, NGS did not claim \$1,148,536 of allowable Medicare PRB costs on its FACPs for FYs 2010 through 2013. NGS did not claim these allowable Medicare PRB costs primarily because it based its claim for Medicare reimbursement on an incorrect methodology. More specifically, NGS used the accrual basis instead of the pay-as-you-go costs when claiming PRB costs, and NGS did not revise its FACPs to reflect this change.

The table on the following page shows the differences between the allowable PRB costs and the PRB costs that NGS claimed on its FACPs and reflected in its accounting documents.

Table: Comparison of Allowable PRB Costs and Claimed PRB Costs

	Medicare PRB Costs		
FY	Allowable Per Audit	Claimed by NGS	Difference
2010	\$1,044,506	\$670,681	\$373,825
2011	956,647	563,371	393,276
2012	641,758	377,898	263,860
2013	268,296	150,721	117,575
Total	\$2,911,207	\$1,762,671	\$1,148,536

RECOMMENDATION

We recommend that NGS revise its FACPs for FYs 2010 through 2013 to increase its claimed Medicare PRB costs by \$1,148,536.

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 PRB cost identified in our report.

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

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$1,762,671 of PRB 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 PRB costs claimed for Medicare reimbursement to ensure that the PRB costs were allowable in accordance with the FAR.

We performed 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;
- identified the amount of PRB costs claimed on NGS's FACPs;
- determined the extent to which NGS incurred PRB costs by paying premiums relating to PRB coverage;
- interviewed Anthem and NGS staff responsible for identifying the Medicare participants to determine whether the participants were identified in accordance with the Medicare contracts;
- obtained and reviewed the NGS paid PRB claims, to include verifying data and using those data to calculate pay-as-you-go PRB costs that were allowable for Medicare reimbursement for FYs 2010 through 2013; and
- provided the results of our review to NGS officials on August 31, 2018.

We performed this review in conjunction with the following audit and used the information obtained during this audit: *National Government Services, Inc., Claimed Some Unallowable Medicare Pension Costs (A-07-18-00543)*.

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)) address the allowability of pay-as-you-go PRB costs and require that PRB costs 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.



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-07-18-00552
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 Postretirement Benefit 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 seek reimbursement for the additional allowable postretirement benefit cost identified in the 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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