

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**NATIONAL GOVERNMENT  
SERVICES, INC.,  
UNDERSTATED ITS  
PLAN A MEDICARE SEGMENT  
PENSION ASSETS**

*Inquiries about this report may be addressed to the Office of Public Affairs at  
[Public.Affairs@oig.hhs.gov](mailto:Public.Affairs@oig.hhs.gov).*



Gloria L. Jarmon  
Deputy Inspector General  
for Audit Services

November 2018  
A-07-18-00541

# *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-07-18-00541

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



### Why OIG Did This Review

Certain Medicare contractors are required to separately account for the Medicare segment pension plan assets based on the requirements of their Medicare contracts and Cost Accounting Standards (CAS) 412 and 413.

The HHS, OIG, Office of Audit Services, Region VII pension audit team reviews the Medicare segment pension assets to ensure compliance with Federal regulations.

Previous OIG reviews found that Medicare contractors did not always correctly identify and update the segmented pension assets.

Our objectives were to determine whether National Government Services, Inc. (NGS), complied with Federal requirements and the Medicare contracts' pension segmentation requirements when (1) implementing the prior audit recommendation to increase the NGS Plan A Medicare segment pension assets as of January 1, 2010, and (2) updating the NGS Plan A Medicare segment pension assets from January 1, 2010, to January 1, 2015.

### How OIG Did This Review

We reviewed NGS's implementation of the prior audit recommendation, its identification of its Plan A Medicare segment, and its update of the Plan A Medicare segment pension assets from January 1, 2010, to January 1, 2015.

## National Government Services, Inc., Understated Its Plan A Medicare Segment Pension Assets

### What OIG Found

NGS implemented our prior audit recommendation to increase the Medicare segment pension assets by \$1.2 million as of January 1, 2010. Regarding our second objective, NGS did not correctly update the Plan A Medicare segment pension assets from January 1, 2010, to January 1, 2015, in accordance with Federal requirements and the Medicare contracts' pension segmentation requirements. NGS identified \$8.76 million as the Plan A Medicare segment pension assets as of January 1, 2015; however, we determined that the Plan A Medicare segment pension assets were \$8.78 million as of that date. Therefore, NGS understated the Plan A Medicare segment pension assets as of January 1, 2015, by \$21,152. NGS understated those pension assets because it did not have quality assurance procedures to ensure that it calculated those assets in accordance with Federal requirements when updating the Medicare segments' pension assets from January 1, 2010, to January 1, 2015.

### What OIG Recommends and Auditee Comments

We recommend that NGS increase the Plan A Medicare segment pension assets by \$21,152 and recognize \$8.78 million as the Plan A Medicare segment pension assets as of January 1, 2015, and develop quality assurance procedures to ensure that, going forward, it calculates Medicare segment pension assets in accordance with Federal requirements.

NGS concurred with our findings and recommendations and said that it would make the appropriate adjustment to its Medicare segment pension assets. With respect to our second recommendation, NGS said that it would review the processes in place to update the Medicare segment plan assets to ensure that those processes follow Federal requirements.

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**Office of Inspector General Note**—Appendices B and D 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 required to separately account for the Medicare segment pension plan assets based on the requirements of their Medicare contracts and Cost Accounting Standards (CAS) 412 and 413. The Centers for Medicare & Medicaid Services (CMS) incorporated this requirement into the Medicare contracts beginning with fiscal year 1988. Previous Office of Inspector General reviews found that Medicare contractors did not always correctly identify and update the segmented pension assets.

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, Medicare administrative contractors (MACs), and other CAS-covered and Federal Acquisition Regulation (FAR)-covered contracts through Final Administrative Cost Proposals and/or Incurred Cost Proposals.

For this review, we focused on one entity, National Government Services, Inc. (NGS). In particular, we examined the Other segment and Plan A Medicare segment pension assets that NGS updated from January 1, 2010, to January 1, 2015.

### OBJECTIVES

Our objectives were to determine whether NGS complied with Federal requirements and the Medicare contracts' pension segmentation requirements when (1) implementing the prior audit recommendation to increase the NGS Plan A Medicare segment pension assets as of January 1, 2010, and (2) updating the NGS Plan A Medicare segment pension assets from January 1, 2010, to January 1, 2015.

### BACKGROUND

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

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.<sup>1</sup>

With the implementation of Medicare contracting reform,<sup>2</sup> 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.<sup>3,4</sup> 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 Jurisdictions 6 and K, effective September 27, 2012, and February 22, 2013, respectively.<sup>5,6</sup>

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 Plan<sup>7</sup> 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

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<sup>1</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 will separately review the pension costs that Trust Solutions used to calculate its indirect cost rates under the provisions of its Program Safeguard Contracts.

<sup>2</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>3</sup> DME Jurisdiction B consists of the States of Illinois, Indiana, Kentucky, Michigan, Minnesota, Ohio, and Wisconsin.

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

<sup>5</sup> Medicare Parts 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.

<sup>6</sup> 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.

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

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).

This report addresses the Medicare segment pension assets for Plan A for the period January 1, 2010, to January 1, 2015. We are addressing the Medicare segment pension assets for the UGS Plan and Plan B in a separate review.

### **Prior Pension Segmentation Audit**

We performed a prior pension segmentation audit for NGS (A-07-13-00408, Oct. 29, 2013), which brought the NGS Medicare segment pension assets to January 1, 2010. We recommended that NGS increase the Medicare segment pension assets by \$1,160,008 and, as a result, recognize \$29,542,575 as the Medicare segment pension assets as of January 1, 2010.

### **HOW WE CONDUCTED THIS REVIEW**

We reviewed NGS's implementation of the prior audit recommendation, its identification of its Plan A Medicare segment, and its update of the Plan A Medicare segment pension assets from January 1, 2010, to January 1, 2015.

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.

### **FINDINGS**

NGS implemented our prior audit recommendation to increase the Medicare segment pension assets by \$1,160,008 as of January 1, 2010. Regarding our second objective, NGS did not correctly update the Plan A Medicare segment pension assets from January 1, 2010, to January 1, 2015, in accordance with Federal requirements and the Medicare contracts' pension segmentation requirements. NGS identified \$8,757,025 as the Plan A Medicare segment pension assets as of January 1, 2015; however, we determined that the Plan A Medicare segment pension assets were \$8,778,177 as of that date. Therefore, NGS understated the Plan A Medicare segment pension assets as of January 1, 2015, by \$21,152. NGS understated those pension assets because it did not have quality assurance procedures to ensure that it calculated those assets in accordance with Federal requirements when updating the Plan A Medicare segments' pension assets from January 1, 2010, to January 1, 2015.

Appendix B identifies the details of NGS's Plan A Medicare segment pension assets from January 1, 2010, to January 1, 2015, as determined during our audit. Table 1 on the following

page summarizes the audit adjustments required to update NGS’s Plan A Medicare segment pension assets in accordance with Federal requirements.

**Table 1: Summary of Audit Adjustments**

	<b>Per Audit</b>	<b>Per NGS</b>	<b>Difference</b>
<b>Prior Audit Recommendation</b>	\$29,542,575	\$29,542,575	\$0
<b>Update of Plan A Medicare Segment Assets</b>			
Contributions and Prepayment Credits	5,719,460	5,725,830	(6,370)
Benefit Payments	(8,642,432)	(8,642,432)	0
Net Transfers	(5,489,032)	(5,507,436)	18,404
Earnings, Net of Expenses	6,581,772	6,572,654	9,118
Assets Transferred to Plan B as of January 1, 2011	18,934,166	18,934,166	0
<b>Understatement of Plan A Medicare Segment Assets</b>			<b>\$21,152</b>

**PRIOR AUDIT RECOMMENDATION**

NGS implemented the prior audit recommendation (A-07-13-00408, Oct. 29, 2013), which recommended that NGS increase its Medicare segment pension assets by \$1,160,008 and recognize \$29,542,575 as the Medicare segment pension assets as of January 1, 2010.

**UPDATE OF PLAN A MEDICARE SEGMENT PENSION ASSETS**

The Medicare contracts require Medicare contractors to update the Medicare segment pension assets yearly in accordance with the CAS. The CAS requires that the asset base be adjusted by contributions, income, benefit payments, and expenses. For details on the Federal requirements and the relevant language of the Medicare contracts, see Appendix C.

NGS did not correctly update the Plan A Medicare segment pension assets from January 1, 2010, to January 1, 2015, in accordance with Federal requirements and the Medicare contracts’ pension segmentation requirements. NGS identified \$8,757,025 as the Plan A Medicare segment pension assets as of January 1, 2015; however, we determined that the Plan A Medicare segment pension assets were \$8,778,177 as of that date. Therefore, NGS understated the Plan A Medicare segment pension assets as of January 1, 2015, by \$21,152. The following are our findings regarding the update of the Plan A Medicare segment pension

assets from January 1, 2010, to January 1, 2015. Appendix D identifies NGS’s CAS balance equation as of January 1, 2015.<sup>8</sup>

### Contributions and Transferred Prepayment Credits Overstated

The audited contributions and transferred prepayment credits<sup>9</sup> are based on the assignable pension costs.<sup>10</sup> In compliance with the CAS, we applied prepayment credits first to current-year assignable pension costs (because the credits were available at the beginning of the year) and then updated any remaining credits with interest to the next measurement (valuation) date. We then allocated contributions to assigned pension costs, as needed, as of the date of deposit. For additional details on these Federal requirements, see Appendix C.

NGS overstated contributions and transferred prepayment credits by \$6,370 for its Plan A Medicare segment. The overstatement occurred primarily because of differences in the asset base used to compute the assignable pension costs.

### Net Transfers Out Overstated

NGS overstated net transfers out of its Plan A Medicare segment by \$18,404. The overstatement occurred because NGS incorrectly identified the participants who transferred in or out of its Plan A Medicare segment. This overstatement of the net transfer adjustment resulted in an understatement of the NGS Plan A Medicare segment pension assets by \$18,404. Table 2 below shows the differences between the net transfers proposed by NGS and the net transfers that we calculated during our review.

**Table 2: Net Transfers Out of the Plan A Medicare Segment**

<b>Calendar Year (CY)</b>	<b>Per Audit</b>	<b>Per NGS</b>	<b>Difference</b>
2010	\$(4,421,971)	\$(4,421,971)	\$0
2011	(472,826)	(497,437)	24,611
2012	(151,164)	(148,937)	(2,227)
2013	(197,790)	(193,810)	(3,980)
2014	(245,281)	(245,281)	0
<b>Total</b>	<b>(\$5,489,032)</b>	<b>(\$5,507,436)</b>	<b>\$18,404</b>

<sup>8</sup> The CAS balance equation identifies the market value of assets, actuarial accrued liability, actuarial value of assets, accumulated value of prepayment credits, and the unfunded actuarial liability in accordance with CAS 412-40(c).

<sup>9</sup> A prepayment credit is the amount funded in excess of the pension costs assigned to a cost accounting period that is carried forward for future recognition.

<sup>10</sup> These are assigned to a specific cost accounting period.

## **Earnings, Net of Expenses, Understated**

NGS understated investment earnings, less administrative expenses, by \$9,118 for its Plan A Medicare segment, because it used incorrect contributions and transferred prepayment credits and incorrect net transfers (all discussed above) to develop the Plan A Medicare segment pension asset base. In our audited update, we allocated earnings, net of expenses based on the applicable CAS requirements. For details on applicable Federal requirements, see Appendix C.

## **Assets Transferred to Plan B Medicare Segment as of January 1, 2011**

NGS correctly computed the assets transferred to the Plan B Medicare segment as of January 1, 2011. Effective that date, Anthem created the Plan B Medicare segment and transferred Medicare segment pension assets to that plan from the Plan A Medicare segment.

## **RECOMMENDATIONS**

We recommend that NGS:

- increase the Plan A Medicare segment pension assets by \$21,152 and recognize \$8,778,177 as the Plan A Medicare segment pension assets as of January 1, 2015, and
- develop quality assurance procedures to ensure that going forward, it calculates Medicare segment pension assets in accordance with Federal requirements.

## **AUDITEE COMMENTS**

In written comments on our draft report, NGS concurred with our findings and recommendations and said that it would make the appropriate adjustment to its Medicare segment pension assets. With respect to our second recommendation, NGS said that it would review the processes in place to update the Medicare segment plan assets to ensure that those processes follow Federal requirements.

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 E.

## **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 NGS's implementation of the prior audit recommendation, its identification of its Plan A Medicare segment, and its update of the Plan A Medicare segment pension assets from January 1, 2010, to January 1, 2015.

Achieving our objective did not require that we review NGS's overall internal control structures. We reviewed controls relating to the identification of the Medicare segment and to the update of the Medicare segment pension assets to ensure adherence to the Medicare contracts, CAS 412, and CAS 413.

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;
- reviewed the annual actuarial valuation reports prepared by Anthem's actuarial consulting firms, which included the pension plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses, and used this information to calculate the Plan A Medicare segment assets;
- obtained and reviewed the pension plan documents and Department of Labor/Internal Revenue Service Forms 5500 used in calculating the Plan A Medicare segment assets;
- interviewed Anthem and NGS staff responsible for identifying the Plan A Medicare segment to determine whether the segment was properly identified in accordance with the Medicare contracts;
- reviewed NGS's accounting records to verify the Plan A Medicare segment identification as well as the benefit payments made from the Plan A Medicare segment;
- reviewed the prior segmentation audit performed at NGS (A-07-13-00408) to determine the beginning market value of assets;
- provided the CMS Office of the Actuary, which provides technical actuarial advice, with the actuarial information necessary for it to calculate the Plan A Medicare segment pension assets from January 1, 2010, to January 1, 2015;

- 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 this audit:

- *National Government Services, Inc., Properly Updated the Plan B Medicare Segment Pension Assets as of January 1, 2015 (A-07-18-00542)* and
- *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 C: FEDERAL REQUIREMENTS RELATED TO PENSION SEGMENTATION**

### **FEDERAL REGULATIONS**

Federal regulations (CAS 412.50(a)(4)) require that contributions in excess of the pension cost assigned to the period be recognized as prepayment credits and accumulated at the assumed valuation interest rate until applied to future period costs. Prepayment credits that have not been applied to fund pension costs are excluded from the value of assets used to compute pension costs.

Federal regulations (CAS 412.64-1(b)) require that contractors or subcontractors that become subject to the Standard, as amended, during the Pension Harmonization Rule Transition Period shall phase in of the minimum actuarial liability and minimum normal cost.<sup>11</sup> During each successive accounting period of Pension Harmonization Rule Transition Period, the contractor shall recognize on a scheduled basis the amount by which the minimum actuarial liability differs from the actuarial accrued liability and the amount by which the sum of the minimum normal cost plus any expense load differs from the sum of the normal cost plus any expense load

Federal regulations (CAS 412.64-1(b)(3)) require that the scheduled applicable percentages for each successive accounting period of the Pension Harmonization Rule Transition Period are as follows: 0 percent for the first cost accounting period, 25 percent for the second cost accounting period, 50 percent for the third cost accounting period, 75 percent for the fourth cost accounting period, and 100 percent for the fifth cost accounting period.

Federal regulations (CAS 413.50(c)(7)) require that the asset base be adjusted by contributions, permitted unfunded accruals, income, benefit payments, and expenses. For plan years beginning after March 30, 1995, the CAS requires investment income and expenses to be allocated among segments based on the ratio of the segment's WAV of assets to Total Company WAV of assets.

Federal regulations (CAS 413.50(c)(8)) require an adjustment to be made for transfers (participants who enter or leave the segment) if the transfers materially affect the segment's ratio of pension plan assets to actuarial accrued liabilities.

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<sup>11</sup> Explanatory language in the CAS Harmonization Rule states: “[t]o promote equity and fairness in achieving an orderly change in the contract cost accounting for pension costs, this final rule retains the transition period consisting of five cost accounting periods, the Pension Harmonization Rule Transition Period, that will phase in recognition of any adjustment of the actuarial accrued liability and normal cost. This transition method will apply to all contractors with contracts subject to CAS 412 and 413.”

## **MEDICARE CONTRACTS**

The Medicare contracts identify a Medicare segment as:

. . . any organizational component of the contractor, such as a division, department, or other similar subdivision, having a significant degree of responsibility and accountability for the Medicare contract/agreement, in which:

1. The majority of the salary dollars is allocated to the Medicare agreement/contract; or,
2. Less than a majority of the salary dollars are charged to the Medicare agreement/contract, and these salary dollars represent 40% or more of the total salary dollars charged to the Medicare agreement/contract.

Furthermore, the Medicare contracts state that “. . . the pension assets allocated to each Medicare Segment shall be adjusted in accordance with CAS 413.50(c)(7).”



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 12<sup>th</sup> Street, Room 0429  
 Kansas City, Missouri 64106

Reference: Report Number A-07-18-00541

Dear Mr. Cogley:

We have received the draft audit report from the Inspector General entitled “National Government Services, Inc., Understated Its Plan A Medicare Segment Pension Assets” and thank you for the opportunity to respond.

We concur with the finding and recommendation outlined in the report and will make the appropriate adjustment to Medicare segment pension assets. We will also review the processes in place to update Medicare segment plan assets to ensure those processes follow Federal requirements.

Finally, we respectfully request that the Draft Report Appendix B and D 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](mailto:todd.reiger@anthem.com).

Sincerely,

/s/ Todd W. Reiger

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

CC: Fran Gary – FGS  
 Andrew Conn – FGS  
 Matthew Solomson – FGS  
 Tom Healy – FGS  
 Renee Sherrill – FGS  
 Sarah Lorange – FGS  
 Joanne Imel – Anthem

Jenenne Tambke – OIG

