

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**NATIONAL GOVERNMENT
SERVICES, INC., CLAIMED
SOME UNALLOWABLE
MEDICARE PENSION COSTS
THROUGH ITS INCURRED COST
PROPOSALS**

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September 2019
A-07-19-00564

Office of Inspector General

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operating divisions will make final determination on these matters.

Report in Brief

Date: September 2019
Report No. A-07-19-00564



Why OIG Did This Review

The Centers for Medicare & Medicaid Services (CMS) reimburses Medicare contractors for a portion of their pension costs, which are funded by the annual contributions that these 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, postretirement benefit, and any other pension-related cost elements claimed by Medicare contractors through Incurred Cost Proposals (ICPs).

Previous OIG reviews found that Medicare contractors did not always correctly identify and claim pension costs.

Our objective was to determine whether the calendar years (CYs) 2007 through 2014 qualified defined-benefit plan pension costs that National Government Services, Inc. (NGS), claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

How OIG Did This Review

We reviewed \$17.3 million of Medicare pension costs that NGS claimed for Medicare reimbursement on its ICPs for CYs 2007 through 2014.

National Government Services, Inc., Claimed Some Unallowable Medicare Pension Costs Through Its Incurred Cost Proposals

What OIG Found

NGS claimed pension costs of \$17.3 million for Medicare reimbursement, through its ICPs, for CYs 2007 through 2014; however, we determined that the allowable CAS-based pension costs during this period were \$15.5 million. The difference, \$1.8 million, represented unallowable Medicare pension costs that NGS claimed on its ICPs for CYs 2007 through 2014. NGS claimed these unallowable Medicare pension costs primarily because it (1) did not allocate the correct pension costs and (2) used incorrect indirect cost rates when claiming pension costs for Medicare reimbursement.

What OIG Recommends and Auditee Comments

We recommend that NGS work with CMS to ensure that its final settlement of contract costs reflects a decrease in Medicare pension costs of \$1.8 million for CYs 2007 through 2014.

NGS did not specifically agree or disagree with our finding and recommendation but stated that it did not agree with the approach we took to calculate the unallowable pension costs. NGS did not agree with our methodology in incorporating adjustments from other ICP audits conducted by independent accounting firms, including the previous pension audit costs for CYs 2007 through 2009, as those adjustments, according to NGS, had not been negotiated with CMS.

We revised some of our calculations of the Medicare segment pension costs for this final report. We incorporated the ICP audit adjustments because the ICP audit report from the independent accounting firms has been issued in final. The ICP auditors incorporated our pension adjustments from our prior audit for the period of 2007 through 2009. We followed the ICP auditors' methodology and incorporated the pension adjustments from the ICP audit findings into our own calculations. Therefore, we maintain that our finding and recommendation, as revised, are valid.

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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 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 (PRB), and any other pension-related cost elements claimed by Medicare fiscal intermediaries and carrier contractors and Medicare administrative contractors (MACs) and CAS- and FAR-covered contracts through Final Administrative Cost Proposals, Incurred Cost Proposals (ICPs), or both.

For this review, we focused on one Medicare contractor, National Government Services, Inc. (NGS). In particular, we examined the NGS Medicare segment pension costs that NGS claimed for Medicare reimbursement and reported on its ICPs.

OBJECTIVE

Our objective was to determine whether the calendar years (CYs) 2007 through 2014 qualified defined-benefit plan pension costs (herein referred to as "pension costs") that NGS claimed for Medicare reimbursement, and reported on its ICPs, 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 on July 13, 2013, and August 20, 2012, respectively. Effective November 17, 2006, WellPoint consolidated its Government contracting segments into one segment, AdminaStar Federal, Inc. (AdminaStar), which included the following Government contracting segments: AdminaStar; Anthem Health Plans of Maine, Inc.; 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 2, 2010. NGS was also awarded the Medicare Parts A and B contracts (which include home health and hospice services) for Jurisdiction 6 and Jurisdiction 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

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 separately reviewed the allocable pension costs that TrustSolutions used to calculate its indirect cost rates under the provisions of its Program Safeguard Contracts, and in that review we determined the allowable pension costs that TrustSolutions claimed for Medicare reimbursement through its ICPs (A-07-18-00540; Feb. 12, 2019).

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 Connecticut and New York.

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, the Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands.

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

⁷ 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 allowable pension costs claimed by NGS, under the provisions of its MAC contracts and CAS- and FAR-covered contracts, for the Plan A, Plan B, and UGS pension plans.

The disclosure statement that NGS submits to CMS states that NGS uses pooled cost accounting. Medicare contractors use pooled cost accounting to calculate the indirect cost rates (whose computations include pension, PRB, and Supplemental Executive Retirement Plan (SERP) costs) that they submit on their ICPs. The indirect cost rates are used to calculate contract costs reported on the ICPs. CMS uses these indirect cost rates in determining the final indirect cost rates for each contract.⁸

Medicare Reimbursement of Pension Costs

CMS reimburses a portion of the annual contributions that contractors make to their pension plans. The pension costs are included in the computation of the indirect cost rates reported on the ICPs. In turn, CMS uses indirect cost rates in reimbursing costs under cost-reimbursement contracts. 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. In claiming costs, contractors must follow cost reimbursement principles contained in the FAR, the CAS, and the Medicare contracts.

Previous Audit of Allocable Pension Costs

We previously reviewed NGS's allocable pension costs (A-07-14-00453; May 21, 2015). This audit report identified allocable pension costs that NGS should have used when calculating its indirect cost rates for CYs 2006 through 2009. We recommended that NGS increase the Medicare segment pension costs used to calculate its indirect cost rates by \$1,556,668 for CYs 2006 through 2009 and increase the Other segment pension costs used to calculate its indirect cost rates by \$5,030,367 for CY 2006.

Incurred Cost Proposal Audits

At CMS's request, CliftonLarsonAllen LLP (CLA) and Kearney & Company (Kearney) performed audits of the ICPs that NGS submitted for the periods of 2007 through 2014. The objectives of the CLA and Kearney reviews were to determine whether costs were allowable in accordance with the FAR, the U.S. Department of Health and Human Services Acquisition Regulation, and the CAS.

⁸ Each Medicare contractor submits to CMS an ICP that reports the Medicare direct and indirect costs that the contractor incurred during that year. The ICP and supporting data provide the basis for the CMS Contracting Officer and the Medicare contractor to determine the final billing rates for allowable Medicare costs.

For our current audit, we relied on the CLA and Kearney audit findings and recommendations when computing the allowable pension costs discussed in this report.

We incorporated the results of the CLA and Kearney audits into our computations of the audited indirect cost rates, and ultimately the pension costs claimed, for the contracts subject to the FAR. CMS will use our report on allowable pension costs, as well as the CLA and Kearney audit reports, to determine the final indirect cost rates and the total allowable contract costs for NGS for CYs 2007 through 2014. The cognizant Contracting Officer will perform a final settlement with the contractor to determine the final indirect cost rates. These rates ultimately determine the final costs of each contract.⁹

HOW WE CONDUCTED THIS REVIEW

We reviewed \$17,292,976 of Medicare pension costs that NGS claimed for Medicare reimbursement on its ICPs for CYs 2007 through 2014.¹⁰

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 pension costs of \$17,292,976 for Medicare reimbursement, through its ICPs, for CYs 2007 through 2014; however, we determined that the allowable CAS-based pension costs during this period were \$15,512,258. The difference, \$1,780,718, represented unallowable Medicare pension costs that NGS claimed on its ICPs for CYs 2007 through 2014. NGS claimed these unallowable Medicare pension costs primarily because it (1) did not allocate the correct pension costs and (2) used incorrect indirect cost rates when claiming pension costs for Medicare reimbursement.

⁹ In accordance with FAR 42.705-1(b)(5)(ii) and FAR 42.705-1(b)(5)(iii)(B), the cognizant Contracting Officer shall “[p]repare a written indirect cost rate agreement conforming to the requirements of the contracts” and perform a “[r]econciliation of all costs questioned, with identification of items and amounts allowed or disallowed in the final settlement,” respectively.

¹⁰ NGS’s ICPs included only direct pension costs related to the Medicare segment. We followed NGS’s methodology, and for that reason, our audited pension costs included only direct pension costs related to the NGS Medicare segment.

ALLOCABLE PENSION COSTS UNDERSTATED

During this audit, we calculated the allocable pension costs for CYs 2010 through 2014 in accordance with Federal requirements.¹¹ We determined that the allocable pension costs for CYs 2007 through 2014 totaled \$28,496,546. NGS reported that its allocable pension costs, as identified in its actuarial computations, totaled \$27,586,078. Therefore, NGS understated the allocable pension costs by \$910,468.

We used these allocable pension costs to determine the allowable pension costs for Medicare reimbursement. Specifically, we determined the CYs 2010 through 2014 allocable pension costs for the Medicare segment (Appendices C, D, E, and F). We used these allocable pension costs to determine the allowable pension costs for Medicare reimbursement. Table 1 below shows the allocable CAS-based pension costs that we determined for CYs 2007 through 2014.

Table 1: Medicare Segment Allocable Pension Costs

CY	Allocable Per Audit¹²	Per NGS	Difference
2007	\$3,448,668	\$2,162,691	\$1,285,977
2008	3,104,584	2,680,000	424,584
2009	5,438,277	6,232,000	(793,723)
2010	3,999,987	3,999,985	2
2011	3,496,726	3,496,726	0
2012	3,316,861	3,319,342	(2,481)
2013	2,910,687	2,912,253	(1,566)
2014	2,780,756	2,783,081	(2,325)
Total	\$28,496,546	\$27,586,078	\$910,468

CLAIMED MEDICARE PENSION COSTS

NGS claimed Medicare pension costs of \$17,292,976 on its ICPs for CYs 2007 through 2014. We calculated the allowable Medicare pension costs based on separately computed CAS-based pension costs for the Medicare segment in accordance with CAS 412 and 413. For details on the Federal requirements, see Appendix B.

¹¹ We identified the allocable pension costs for CYs 2007 through 2009 in our previous audit (A-07-14-00453; May 21, 2015). Although the results for CYs 2007 through 2009 were incorporated into the ICP audit, we are identifying the qualified defined-benefit plan costs separately so that those costs may be used in the event that a segment closing, plan curtailment, or plan termination (all three of which are addressed by CAS 413-50(c)(12)) should occur.

¹² The Medicare allocable pension costs are presented on a CY basis, which includes the total NGS segment for both 2007 and 2008. NGS's 2007 ICP included only 9 months of the AdminaStar segment and its 2008 ICP included a 15-month period of the entire NGS segment. Although we have presented the CYs 2007 and 2008 allocable pension costs for NGS, we followed NGS's methodology in calculating these allowable pension costs.

UNALLOWABLE PENSION COSTS CLAIMED

After incorporating the results of the CLA and Kearney ICP audits, we determined that the allowable CAS-based pension costs for CYs 2007 through 2014 were \$15,512,258. Thus, NGS claimed \$1,780,718 of unallowable Medicare pension costs on its ICPs for CYs 2007 through 2014. This overclaim occurred primarily because NGS based its claim for Medicare reimbursement on incorrect pension costs included in the indirect cost rates on the ICPs.

SUMMARY OF UNALLOWABLE MEDICARE PENSION COSTS CLAIMED

After performing the calculations discussed above, we then used the allocable cost information to adjust the indirect cost rates (i.e., the fringe benefit and general and administrative rates) and, in turn, to calculate the information presented in Table 2 below. (Our calculation does not appear in this report because those rate computations that NGS used in its ICPs, and to which we referred as part of our review, are proprietary information.) Table 2 below compares the Medicare pension costs that we calculated (using our adjusted indirect cost rates) to the pension costs that NGS claimed for Medicare reimbursement for CYs 2007 through 2014.

Table 2: Comparison of Allowable Pension Costs and Claimed Pension Costs¹³

CY	Allowable Per Audit	Per NGS	Difference
2007	\$345,585	\$316,882	\$28,703
2008	948,159	719,474	228,685
2009	2,625,664	2,615,900	9,764
2010	2,012,907	2,808,031	(795,124)
2011	2,040,906	2,316,348	(275,442)
2012	2,225,985	2,683,570	(457,585)
2013	2,684,170	3,022,166	(337,996)
2014	2,628,882	2,810,605	(181,723)
Total	\$15,512,258	\$17,292,976	(\$1,780,718)

RECOMMENDATION

We recommend that NGS work with CMS to ensure that its final settlement of contract costs reflects a decrease in Medicare pension costs of \$1,780,718 for CYs 2007 through 2014.

¹³ Our calculations incorporated the rate ceilings associated with the Medicare Parts A and B and DME contracts. We applied the indirect cost rate associated with these contracts when computing the allowable pension costs for the Medicare Parts A and B and DME contracts. The amounts identified in this table represent the allowable Medicare pension costs during our audit period and do not represent the Total Company allowable costs on the ICPs.

AUDITEE COMMENTS

In written comments on our draft report, NGS did not specifically agree or disagree with our finding and recommendation. NGS stated that it did not agree with the approach we took to calculate the unallowable pension costs. Specifically, NGS did not agree with the incorporation of the previous pension audit costs for CYs 2007 through 2009 or the incorporation of the adjustments from the ICP audits. These adjustments, according to NGS, have not been “fully negotiated or vetted with CMS. . . . As a result, the unallowable costs cited in the recommendation of this report may be misrepresented by the inclusion of ICP audit adjustments that have not been fully negotiated.”

In this context, NGS stated that the “Per NGS” amounts in Table 1 of this report (Medicare segment allocable pension costs) “appear to reflect” actuarial valuations, provided by its actuarial firm, that had been adjusted to incorporate prior pension findings and that did not represent the original valuations. In regard to the comparison of allowable and claimed pension costs conveyed in Table 2 of this report, NGS referred to the findings from our previous audit (A-07-14-00453) and said that that table did not properly state the impact for CYs 2007 through 2009.

NGS also stated that it would work with CMS to negotiate the overall adjustments due to the ICP adjustments and our audited pension, PRB, nonqualified, and SERP costs and determine the overall impact to CMS.

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

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

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing NGS’s comments, we revised some of our calculations of the Medicare segment pension costs for this final report. Our revisions to this final report, which resulted in an increase of \$205,255 in allowable pension costs, were related to adjustments that were either incorrect or omitted from the ICPs calculations in our draft report. We maintain that our finding and recommendation, as revised, are valid.

With respect to NGS’s statement that it disagreed with our calculation of the unallowable pension costs because the incorporation of the adjustments from the ICP audits had not been negotiated with CMS, we incorporated those findings and recommendations because the ICP audit report has been issued in final. The ICP auditors incorporated our pension adjustments from the prior audit for the period of 2007 through 2009 (A-07-14-00453). We followed the ICP auditors’ methodology and incorporated the pension adjustments from the ICP audit findings

into our own calculations. Therefore, our computations do not misrepresent the indirect cost rates or the resulting unallowable pension costs.

With respect to NGS's statement that Table 1 of this report should present the original valuation pension costs, rather than the valuations provided by its actuarial firm, we used those "Per NGS" amounts for presentation purposes only. The allocable pension costs "Per NGS," as presented in Table 1, do not affect the computations of the allowable costs, which are shown in Table 2. Accordingly, we continue to support our allocable pension cost comparison and our calculations of the unallowable pension costs (revised as mentioned above).

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 \$17,292,976 of Medicare pension costs that NGS claimed for Medicare reimbursement on its ICPs for FYs 2007 through 2014 (footnote 10).

Achieving our objective did not require that we review NGS's overall internal control structure. We reviewed the internal controls related to the pension costs that were included in NGS's ICP and ultimately used as the basis for Medicare reimbursement, to ensure that these costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

We performed our audit work at our office 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 amounts of pension costs used in NGS's calculation of indirect cost rates for CYs 2007 through 2014;
- reviewed the results of CLA's and Kearney's ICP audits and incorporated those results into our calculations of allowable pension costs;
- incorporated information from our previous report (A-07-14-00453; see below) and the CMS PRB Settlement Agreement;¹⁴ and
- 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 April 30, 2019.

¹⁴ On August 22, 2017, CMS and NGS executed this agreement, which closed the prior accounting periods for the PRB costs claimed from FY 2007 through FY 2009. This agreement also allowed NGS to change its method of accounting for the PRBs from the accrual basis to pay-as-you-go (cost basis).

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

- *National Government Services, Inc., Understated Its Allocable Pension Costs for Calendar Years 2006 Through 2009 (A-07-14-00453; May 21, 2015);*
- *National Government Services, Inc., Claimed Some Unallowable Medicare Supplemental Executive Retirement Plan Costs Through Its Incurred Cost Proposals (A-07-19-00565);*
- *National Government Services, Inc., Did Not Claim Some Medicare Postretirement Benefit Plan Costs Through Its Incurred Cost Proposals (A-07-19-00566); and*
- *National Government Services, Inc., Claimed Some Unallowable Medicare Nonqualified Plans Costs Through Its Incurred Cost Proposals (A-07-19-00572).*

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)) require Medicare contractors to measure, assign, and allocate the costs of all defined-benefit pension plans in accordance with CAS 412 and 413.

Federal regulations (FAR 52.216-7(a)(1)) address the invoicing requirements and the allowability of payments as determined by Contracting Officer in accordance with FAR subpart 31.2.

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 require NGS to submit invoices in accordance with FAR 52.216-7, "Allowable Cost & Payment." (See our citation to FAR 52.216-7(a)(1) in "Federal Regulations" above.)



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

August 8, 2019

Sent via Email

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-07-19-00564

Dear Mr. Cogley:

We are in receipt of the draft audit entitled "National Government Services, Inc. Claimed Some Unallowable Medicare Pension Costs Through Its Incurred Cost Proposals". Thank you for the opportunity to respond to the facts and reasonableness of the recommendation presented in the report.

Table 1: Medicare Segment Allocable Pension Costs

The amounts reflected in Table 1 under column labeled "Per NGS" appear to reflect the actuarial valuations as provided to by our Actuarial firm. The amounts reported for 2010 thru 2014 reflect the actuarial valuations that have been adjusted to incorporate the prior pension audit findings and not the original valuations. Had the original valuations been used, the reported amounts in Table 1 under "Per NGS" would have been as follows: 2010: \$4,498,897, 2011: \$3,850,000, 2012: \$4,000,000, 2013: \$3,280,000, and 2014: \$2,970,000.

NGS Incurred Cost Proposal Adjustments

NGS is not in agreement with the approach taken to develop the unallowable costs cited in the report. The approach consisted of impacting indirect rates not only for the cited OIG findings, but also for audit findings that haven't been fully negotiated or vetted with CMS related to open NGS Incurred Cost Proposal (ICP) audits for years 2007 thru 2014. These proposed ICP adjustments require further discussion with CMS prior to finalizing the ICPs for these cost report years. The incorporation of these adjustments is in no way a concession or agreement by NGS to the proposed ICP adjustments. As a result, the unallowable costs cited in the recommendation of this report may be misrepresented by the inclusion of ICP audit adjustments that have not been fully negotiated.

In addition, NGS understands that the ICP reports provided by CMS to the OIG and used to develop the impacts cited in Table 2 incorporated the pension audit findings from report A-07-14-00453 (May 2015) for years 2007 thru 2009, as adjusted by the ICP auditors. If the starting point for measuring the impact cited in Table 2 is the audited pension costs and not the pension costs reported in the original ICP submission, the impact is not properly stated for years 2007 thru 2009. In the table below, the adjustment to increase pension costs from NGS' original ICP submissions to the pension values



already included in the ICPs provided by CMS to the OIG would not include the impact of increasing pension costs by \$458,955.

ICP	Orig NGS ICP Claim	Adj to CMS ICP	CMS ICP Pension	Adj to OIG ICP	OIG ICP Pension
2007	\$437,220	\$849,067	\$1,286,287	\$0	\$1,286,287
2008	3,618,978	271,613	3,890,591	76,160	3,966,751
2009	6,100,002	(661,725)	5,438,277	0	5,438,277
Total	\$10,156,200	\$458,955	\$10,615,155	\$76,160	\$10,691,315

NGS will work with CMS to complete its negotiations of the proposed ICP audit adjustments for 2007 thru 2014. Thru that process, the audited pension costs identified in this report (including audited post-retirement, non-qualified plan and SERP costs identified in other reports) along with the final audited and agreed to ICP adjustments will be incorporated into the respective ICP reports to develop the net impact due to or from CMS.

Conclusion

Although not reflected in the report, NGS was able to confirm the audited pension costs used to adjust the amounts reported on the original submitted ICPs. NGS is in agreement with these amounts, which are as follows:

ICP Period	Amount
2007 (9 months)	\$1,286,287
2008 (15 months)	3,966,751
2009	5,438,277
2010	3,999,987
2011	3,496,726
2012	3,316,861
2013	2,910,687
2014	2,780,756
Total	\$27,196,332

For future reporting, NGS has incorporated all prior pension audit findings into its actuarial valuation process for determining segment assets and assignable pension costs. Additional processes are in place to validate transfers in and out of the segments.

Finally, we respectfully request that Draft Report Appendixes C, D, E and F which contain proprietary and confidential financial information relating to NGS’ assignable cost build-ups and segment information be redacted from any publicly available posting of the Draft Report and subsequent Final Report.

If you have any further questions or need additional clarification, I can be reached at 414-207-2517 or via email at todd.reiger@anthem.com.

Sincerely,

/s/Todd W. Reiger

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