

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**

*Inquiries about this report may be addressed to the Office of Public Affairs at
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January 2023
A-07-22-00623

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: January 2023

Report No. A-07-22-00623

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



Why OIG Did This Audit

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.

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 audits 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 calendar years (CYs) 2015 through 2018 qualified defined-benefit plan pension costs (herein referred to as “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 Audit

We reviewed \$9.8 million of Medicare pension costs that NGS claimed for Medicare reimbursement on its ICPs for CYs 2015 through 2018.

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

What OIG Found

NGS claimed pension costs of \$9.8 million for Medicare reimbursement, through its ICPs, for CYs 2015 through 2018; however, we determined that the allowable CAS-based pension costs during this period were \$9.7 million. The difference, \$73,307, represented unallowable Medicare pension costs that NGS claimed on its ICPs for CYs 2015 through 2018. NGS claimed these unallowable Medicare pension costs primarily because NGS based its claim for Medicare reimbursement on incorrect pension costs included in the indirect cost rates on the ICPs.

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 \$73,307 for CYs 2015 through 2018.

NGS concurred with our recommendation and said that it would work with CMS to reflect the final allocable costs in its ICPs upon final settlement of CYs 2015 through 2018.

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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 AUDIT

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) audits found that Medicare contractors did not always comply with Federal requirements when claiming pension costs for Medicare reimbursement.

At CMS's request, the Department of Health and Human Services, 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 audit, 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) 2015 through 2018 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 Elevance Health (formerly Anthem, Inc.).¹ NGS administered Durable Medical Equipment (DME) Jurisdiction B² under MAC contracts until the contract concluded on July 31, 2016. NGS continues to administer Medicare Part A and Medicare Part B contract

¹ Effective June 28, 2022, Anthem Inc., changed its name to Elevance Health.

² DME Jurisdiction B consists of the States of Illinois, Indiana, Kentucky, Michigan, Minnesota, Ohio, and Wisconsin.

operations under MAC contracts for Jurisdictions 6 and K, effective September 27, 2012, and February 22, 2013, respectively.^{3, 4}

This report addresses the allowable pension costs claimed by NGS, under the provisions of its MAC contracts, for the Anthem Cash Balance Pension Plan A (Plan A), the Anthem Cash Balance Pension Plan B (Plan B), and the United Government Services, LLC (UGS), Pension Plan.

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, Supplemental Executive Retirement Plan, and nonqualified plan costs) that they submit on their ICPs. The indirect cost rates are used to calculate contract costs reported on the ICPs. In turn, CMS uses these indirect cost rates in determining the final indirect cost rates for each contract.⁵

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.

Incurred Cost Proposal Audits

At CMS's request, Kearney & Company, P.C. (Kearney), CohnReznick, LLC (CohnReznick), and CliftonLarsonAllen LLP (CLA) performed audits of the ICPs that NGS submitted for the periods of 2015 through 2018. The objectives of the Kearney, CohnReznick, and CLA ICP audits 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.

³ 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.

⁴ 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.

⁵ For each CY, 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 Kearney, CohnReznick, and CLA ICP audit findings and recommendations when computing the allowable pension costs discussed in this report.

We incorporated the results of the Kearney, CohnReznick, and CLA ICP 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 Kearney, CohnReznick, and CLA ICP audit reports, to determine the final indirect cost rates and the total allowable contract costs for NGS for CYs 2015 through 2018. 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.⁶

HOW WE CONDUCTED THIS AUDIT

We reviewed \$9,765,315 of Medicare pension costs that NGS claimed for Medicare reimbursement on its ICPs for CYs 2015 through 2018.

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 findings and conclusions based on our audit objectives.

Appendix A contains details of our audit scope and methodology.

FINDING

NGS claimed pension costs of \$9,765,315 for Medicare reimbursement, through its ICPs, for CYs 2015 through 2018; however, we determined that the allowable CAS-based pension costs during this period were \$9,692,008. The difference, \$73,307, represented unallowable Medicare pension costs that NGS claimed on its ICPs for CYs 2015 through 2018. NGS claimed these unallowable Medicare pension costs primarily because NGS based its claim for Medicare reimbursement on incorrect pension costs included in the indirect cost rates on the ICPs.

ALLOCABLE MEDICARE SEGMENT PENSION COSTS UNDERSTATED

During this audit, we calculated the allocable pension costs for CYs 2015 through 2018 in accordance with Federal requirements. We determined that the allocable pension costs for CYs 2015 through 2018 totaled \$9,492,273. NGS reported that its allocable pension costs for this period, as identified in its actuarial computations, totaled \$9,289,323. Therefore, NGS

⁶ 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.

understated the allocable pension costs by \$202,950. This understatement occurred because of differences in the calculation of the assignable pension costs.

We used these allocable pension costs to determine the allowable pension costs for Medicare reimbursement. Specifically, we determined the CYs 2015 through 2018 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 shows the allocable CAS-based pension costs that we determined for CYs 2015 through 2018.

Table 1: Medicare Segment Allocable Pension Costs

CY	Allocable Per Audit	Per NGS	Difference
2015	\$2,858,040	\$2,858,037	\$3
2016	3,183,202	3,154,246	28,956
2017	2,388,442	2,295,816	92,626
2018	1,062,589	981,224	81,365
Total	\$9,492,273	\$9,289,323	\$202,950

ALLOCABLE OTHER SEGMENT PENSION COSTS OVERSTATED

During the current audit, we calculated the allocable Other segment pension costs for CYs 2015 through 2018 in accordance with Federal requirements. We determined that the allocable Other segment pension costs for CYs 2015 through 2018 totaled \$247,079,543. NGS reported that its Other segment allocable pension costs, as identified in its actuarial computations, totaled \$249,520,279. Therefore, NGS overstated the allocable Other segment pension costs by \$2,440,736. This overstatement occurred because of differences in the calculations of the assignable pension costs.

Table 2 shows the differences between the allocable Other segment CAS-based pension costs that we determined for CYs 2015 through 2018 and the Other segment allocable pension costs that NGS calculated for the same time period.

Table 2: Other Segment Allocable Pension Costs

CY	Allocable Per Audit	Per NGS	Difference
2015	\$45,411,984	\$45,591,397	(\$179,413)
2016	63,750,098	66,013,390	(2,263,292)
2017	73,397,342	73,302,326	95,016
2018	64,520,119	64,613,167	(93,048)
Total	\$247,079,543	\$249,520,279	(\$2,440,736)

CALCULATION OF UNALLOWABLE PENSION COSTS CLAIMED

We used the Medicare segment (Appendix C) allocable pension costs to adjust the indirect cost rates (i.e., the fringe benefit and general and administrative rates) to determine the allowable pension costs for Medicare reimbursement of CYs 2015 through 2018.

NGS claimed Medicare pension costs of \$9,765,315 on its ICPs for CY 2015 through 2018. After incorporating the results of the Kearney, CohnReznick, and CLA ICP audits and our adjustments to the indirect cost rates, we determined that the allowable CAS-based pension costs for CYs 2015 through 2018 were \$9,692,008. Thus, NGS claimed \$73,307 of unallowable Medicare pension costs on its ICPs for CYs 2015 through 2018. 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.

We calculated the allowable Medicare pension costs based on separately computed CAS-based pension costs in accordance with CAS 412 and 413. For details on the Federal requirements, see Appendix B.

Table 3 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 2015 through 2018.

Table 3: Comparison of Allowable Pension Costs and Claimed Pension Costs⁷

CY	Allowable Per Audit	Per NGS	Difference
2015	\$3,414,223	\$3,477,341	(\$63,118)
2016	2,986,365	2,925,260	61,105
2017	2,260,143	2,142,507	117,636
2018	1,031,277	1,220,207	(188,930)
Total	\$9,692,008	\$9,765,315	(\$73,307)

RECOMMENDATION

We recommend that National Government Services, Inc., work with CMS to ensure that its final settlement of contract costs reflects a decrease in Medicare pension costs of \$73,307 for CYs 2015 through 2018.

⁷ Our calculations of allowable costs do not appear in this report because those indirect cost rate computations that NGS used in its ICPs, and to which we referred as part of our audit, are proprietary information.

AUDITEE COMMENTS

In written comments on our draft report, NGS concurred with our recommendation and said that it would work with CMS to reflect the final allocable costs in its ICPs upon final settlement of CYs 2015 through 2018.

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 \$9,765,315 of Medicare pension costs that NGS claimed for Medicare reimbursement on its ICPs for CYs 2015 through 2018.

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 ICPs 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 2015 through 2018;
- 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;
- reviewed the results of the Kearney, CohnReznick, and CLA ICP audits and incorporated those results into our calculations of allowable pension costs;
- 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 audit to NGS officials on August 29, 2022.

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

- *National Government Services, Inc., Claimed Some Unallowable Medicare Postretirement Benefit Plan Costs Through Its Incurred Cost Proposals (A-07-22-00624);*
- *National Government Services, Inc., Claimed Some Unallowable Medicare Supplemental Executive Retirement Plan Costs Through Its Incurred Cost Proposals (A-07-22-00625);*
and
- *National Government Services, Inc., Claimed Some Unallowable Medicare Nonqualified Plan Costs Through Its Incurred Cost Proposals (A-07-22-00628).*

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 findings 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 the 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.)



December 5, 2022

Mr. James I. Korn
Regional Inspector General for Audit Services
Office of Audit Services, Region VII
601 East 12th Street, Room 0429
Kansas City, MO 64106

Re: Report Number A-07-22-00623

We are in receipt of the above referenced draft audit report.

NGS concurs with the recommendation made in the report and will work with CMS to reflect the final allocable costs in its Incurred Cost Proposals upon final settlement of years 2015 thru 2018.

Finally, we respectfully request that 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 report.

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

Sincerely,

/Todd W. Reiger/

Todd W. Reiger, CPA
Medicare Chief Financial Officer

Copy: Jane Hite-Syed
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Jeff Wilson (OIG)