

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

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

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**Amy J. Frontz**  
Deputy Inspector General  
for Audit Services

December 2022  
A-07-22-00624

# *Office of Inspector General*

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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: December 2022

Report No. A-07-22-00624

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



### Why OIG Did This Audit

The Centers for Medicare & Medicaid Services (CMS) reimburses a portion of its contractors' postretirement benefit (PRB) costs.

The HHS, OIG, Office of Audit Services, Region VII pension audit team reviews the cost elements related to qualified defined-benefit, PRB, and any other pension-related cost elements claimed by Medicare contractors through Incurred Cost Proposals (ICPs).

Previous OIG audits found that Medicare contractors have not always complied with Federal requirements when claiming PRB costs for Medicare reimbursement.

Our objective was to determine whether the calendar years (CYs) 2015 through 2018 PRB 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 \$5.9 million of Medicare PRB costs that NGS claimed for Medicare reimbursement on its ICPs for CYs 2015 through 2018.

## National Government Services, Inc., Claimed Some Unallowable Medicare Postretirement Benefit Plan Costs Through Its Incurred Cost Proposals

### What OIG Found

NGS claimed PRB costs of \$5.9 million for Medicare reimbursement, through its ICPs, for CYs 2015 through 2018; however, we determined that the allowable PRB costs during this period were \$5.3 million. The difference, \$636,197, represented unallowable PRB costs that NGS claimed on its ICPs for CY 2015 through 2018. This overstatement occurred primarily because NGS based the allocable PRB costs on an estimated amount.

### 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 PRB costs of \$636,197 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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## INTRODUCTION

### WHY WE DID THIS AUDIT

Medicare contractors are eligible to be reimbursed a portion of their postretirement benefit (PRB) costs, which are funded by contributions that these contractors make to their dedicated trust fund. The amount of PRB 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) as required by the Medicare contracts. Previous Office of Inspector General audits found that Medicare contractors have not always complied with Federal requirements when claiming PRB costs for Medicare reimbursement.

At CMS's request, the Department of Health and Human Services (HHS), 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) and Cost Accounting Standard (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 PRB 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 PRB 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.).<sup>1</sup> NGS administered Durable Medical Equipment (DME) Jurisdiction B<sup>2</sup> under MAC contracts until the contract concluded on July 31, 2016. NGS continues to administer Medicare Part A and Medicare Part B contract

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<sup>1</sup> Effective June 28, 2022, Anthem Inc., changed its name to Elevance Health.

<sup>2</sup> 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.<sup>3,4</sup>

Anthem sponsors two PRB plans: the Anthem Voluntary Employee Benefit Association Retiree Health Benefits Plan and the Anthem Retirees Life Insurance Plan. The purpose of these plans is to provide medical, dental, vision, and life insurance coverage to eligible retirees and their eligible family members.

This report addresses the allowable PRB costs claimed by NGS under the provisions of its MAC contracts.

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. CMS uses these indirect cost rates in determining the final indirect cost rates for each contract.<sup>5</sup>

### **Medicare Reimbursement of Postretirement Benefit Plan Costs**

CMS reimburses a portion of the Medicare contractors' annual PRB costs. In claiming PRB costs, contractors must follow cost reimbursement principles contained in the FAR and applicable 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 current-year benefits or premiums.<sup>6</sup>

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<sup>3</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>4</sup> 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.

<sup>5</sup> 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.

<sup>6</sup> The pay-as-you-go method is a method of recognizing costs only when benefits are paid to retired employees or their beneficiaries.

## **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.

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 NGS to determine the final indirect cost rates. These rates ultimately determine the final costs of each contract.<sup>7</sup>

## **HOW WE CONDUCTED THIS AUDIT**

We reviewed \$5,902,651 of Medicare PRB 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 PRB costs of \$5,902,651 for Medicare reimbursement, through its ICPs, for CYs 2015 through 2018; however, we determined that the allowable PRB costs during this period were \$5,266,454. The difference, \$636,197, represented unallowable PRB costs that NGS claimed on its ICPs for CY 2015 through 2018. This overstatement occurred primarily because NGS based the allocable PRB costs on an estimated amount.

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<sup>7</sup> 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.

## ALLOCABLE POSTRETIREMENT BENEFIT COSTS OVERSTATED

During this audit, we calculated the allocable PRB costs for CY 2015 through 2018 in accordance with Federal requirements. We determined that the allocable PRB costs for CYs 2015 through 2018 totaled \$5,100,996. NGS identified the allocable PRB costs of \$5,802,704 for this period. Therefore, NGS overstated the allocable PRB costs by \$701,708. This overstatement occurred because NGS based the allocable PRB costs on an estimated amount.

We used the allocable PRB costs to adjust the indirect cost rates (i.e., the fringe benefit and general and administrative rates) and, in turn, to calculate the allowable PRB costs. Table 1 shows the differences between the allocable Medicare segment PRB costs that we determined for CYs 2015 through 2018 and the Medicare segment PRB costs that NGS calculated for the same time period.

**Table 1: Medicare Segment Allocable PRB Costs**

<b>CY</b>	<b>Allocable Per Audit</b>	<b>Per NGS</b>	<b>Difference</b>
2015	\$1,639,243	\$1,599,695	\$39,548
2016	856,255	1,320,000	(463,745)
2017	1,003,895	1,383,009	(379,114)
2018	1,601,603	1,500,000	101,603
<b>Total</b>	<b>\$5,100,996</b>	<b>\$5,802,704</b>	<b>(\$701,708)</b>

## SOME UNALLOWABLE POSTRETIREMENT BENEFIT PLAN COSTS CLAIMED

NGS claimed PRB costs of \$5,902,651 for Medicare reimbursement on its ICPS for CYs 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 PRB costs for CYs 2015 through 2018 were \$5,266,454. Thus, NGS claimed \$636,197 of unallowable PRB costs on its ICPs for CY 2015 through 2018. This overclaim occurred because NGS based its claim for Medicare reimbursement on incorrect allocable PRB costs included in the indirect cost rates on the ICPs. More specifically, NGS based the allocable PRB costs on an estimated amount.

We calculated the allowable Medicare PRB costs in accordance with Federal requirements. For details on the Federal requirements, see Appendix B.

Table 2 on the following page compares the Medicare PRB costs that we calculated (using our adjusted indirect cost rates) to the PRB costs that NGS claimed for Medicare reimbursement for CYs 2015 through 2018.

**Table 2: Comparison of Allowable PRB Costs and Claimed PRB Costs<sup>8</sup>**

<b>CY</b>	<b>Allowable Per Audit</b>	<b>Per NGS</b>	<b>Difference</b>
2015	\$1,958,278	\$1,911,551	\$46,727
2016	803,277	1,236,695	(433,418)
2017	950,172	1,303,656	(353,484)
2018	1,554,727	1,450,749	103,978
<b>Total</b>	<b>\$5,266,454</b>	<b>\$5,902,651</b>	<b>(\$636,197)</b>

**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 PRB costs of \$636,197 for CYs 2015 through 2018.

**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.

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

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<sup>8</sup> Our calculations of allowable costs do not appear in this report because those rate computations that NGS used in its ICPs, and to which we referred as part of our audit, are proprietary information.

## APPENDIX A: AUDIT SCOPE AND METHODOLOGY

### SCOPE

We reviewed \$5,902,651 of Medicare PRB 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 PRB costs that were included in NGS's ICPs and ultimately used as the basis for Medicare reimbursement, to ensure that these costs were allowable in accordance with the FAR.

We performed audit work in 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;
- identified the amount of PRB costs claimed on NGS's ICPs;
- determined the extent to which NGS incurred PRB costs by paying premiums related 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 and using those data to calculate pay-as-you-go PRB costs that were allowable for Medicare reimbursement for CYs 2015 through 2018;
- reviewed the results of the Kearney, CohnReznick, and CLA ICP audits and incorporated those results into our calculations of allowable PRB costs; 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 Pension Costs Through Its Incurred Cost Proposals (A-07-22-00623);*

- *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 POSTRETIREMENT BENEFIT COSTS**

### **FEDERAL REGULATIONS**

Federal regulations (FAR 31.205-6(o)) 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.

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.

### **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 12<sup>th</sup> Street, Room 0429  
Kansas City, MO 64106

**Re: Report Number A-07-22-00624**

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.

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

Sincerely,

/Todd W. Reiger/

Todd W. Reiger, CPA  
Medicare Chief Financial Officer

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