Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

CGS ADMINISTRATORS, LLC, OVERSTATED ITS CIGNA PENSION PLAN MEDICARE SEGMENT PENSION ASSETS AND UNDERSTATED MEDICARE'S SHARE OF EXCESS PENSION LIABILITIES

Inquiries about this report may be addressed to the Office of Public Affairs at Public.Affairs@oig.hhs.gov.

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May 2017
A-07-16-00470

Office of Inspector General

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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EXECUTIVE SUMMARY

CGS Administrators, LLC (CGS), overstated the CIGNA Pension Plan Medicare segment pension assets by $1,296,729 as of May 31, 2011. In addition, CGS understated Medicare's share of the Medicare segment excess pension liabilities by $747,567 as a result of the Medicare segment closing on May 31, 2011.

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. In addition, in situations such as contract terminations or benefit curtailments, CAS 413 requires contractors to identify excess Medicare pension assets and liabilities allocated to the Medicare segment. 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 and Medicare administrative contractors (MACs) through Final Administrative Cost Proposals and/or Incurred Cost Proposals.

The objectives of this review were to determine whether CGS Administrators, LLC (CGS), complied with Federal regulations and the Medicare contracts' pension segmentation requirements when (1) implementing the prior audit recommendations to decrease Medicare segment assets as of January 1, 2008; (2) updating those Medicare segments' pension assets from January 1, 2008, through May 31, 2011; and (3) determining the Medicare segment excess pension liabilities as a result of the Medicare segment closing.

BACKGROUND

During our audit period, CGS (formerly CIGNA Government Services, LLC) administered Medicare Part B and Durable Medical Equipment (DME) operations for Connecticut General Life Insurance Company (CGLIC), the legal entity that entered into these cost reimbursement contracts with CMS. In addition, CGS administered Medicare operations under a MAC contract with CMS. CGS and CGLIC were wholly owned subsidiaries of CIGNA Corporation.

With the implementation of Medicare contracting reform, CGS continued to perform Medicare work after being awarded the MAC contracts for DME Jurisdiction C, effective September 27, 2006, and Medicare Parts A and B Jurisdiction 15, effective July 8, 2010.

Effective June 1, 2011, the CGS Medicare segment was sold to Blue Cross Blue Shield of South Carolina (BCBS South Carolina) for the continued performance of Medicare operations.

During the audit period, CGS participated in CIGNA Corporation's two pension plans: the CIGNA Pension Plan and the CIGNA Pension Plan for Certain Former Employees. The latter was established on January 1, 2009, as a spinoff of the CIGNA Pension Plan. The CIGNA Pension Plan was frozen on July 1, 2009.

As a result of the sale of the CGS Medicare segment to BCBS South Carolina, the CAS requires that a segment closing adjustment be performed. The effective date for the Medicare segment closing was May 31, 2011. This report addresses the update of CIGNA Pension Plan Medicare segment pension assets from January 1, 2008, through May 31, 2011, and the segment closing adjustment as of May 31, 2011. We are separately reviewing the CIGNA Pension Plan for Certain Former Employees Medicare segment pension assets. In addition, we are addressing the pension costs claimed by CGS (for both qualified pension plans) in another separate review.

Upon the Medicare segment closing, CGS identified Medicare's share of the Medicare segment pension excess liabilities to be $756,991.

WHAT WE FOUND

CGS implemented the prior audit recommendation to recognize $16,671,408 as Medicare segment pension assets as of January 1, 2008, in its CAS exhibits. However, with respect to our second objective CGS did not correctly update those Medicare segment pension assets from January 1, 2008, through May 31, 2011, in accordance with Federal regulations and the Medicare contracts' pension segmentation requirements. CGS identified Medicare segment pension assets of $14,239,625 as of May 31, 2011; however, we determined that the Medicare segment pension assets were $12,942,896. Therefore, CGS overstated the Medicare segment pension assets by $1,296,729.

Regarding our third objective, CGS did not fully comply with Federal regulations and the Medicare contracts' pension segmentation requirements when determining the Medicare segment excess pension liabilities as a result of the Medicare segment closing. CGS calculated Medicare's share of the Medicare segment excess pension liabilities to be $756,991 as of May 31, 2011; however, we determined that Medicare's share of the Medicare segment excess pension liabilities was $1,504,558 as of that date. The difference, $747,567, constituted allowable Medicare segment pension liabilities that CGS did not include in its closing adjustment. CGS understated Medicare's share of the Medicare segment excess pension liabilities by $747,567 because it understated the Medicare segment's excess pension liabilities.

WHAT WE RECOMMEND

We recommend that CGS:

- decrease its Medicare segment pension assets by $1,296,729 as of May 31, 2011, and

- increase Medicare's share of the Medicare segment excess pension liabilities as of May 31, 2011, by $747,567 and submit for reimbursement $747,567 as Medicare's share of the Medicare segment excess pension liabilities due to the segment closing calculation.

AUDITEE COMMENTS

In written comments on our draft report, CGS said that it accepted our recommendations.

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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 (FY) 1988. In addition, in situations such as contract terminations or benefit curtailments, CAS 413 requires contractors to identify excess Medicare pension assets and liabilities allocated to the Medicare segment. 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 and Medicare administrative contractors (MACs) through Final Administrative Cost Proposals (FACPs) and/or Incurred Cost Proposals (ICPs).

OBJECTIVES

Our objectives were to determine whether CGS Administrators, LLC (CGS), complied with Federal regulations and the Medicare contracts' pension segmentation requirements when (1) implementing the prior audit recommendations to decrease Medicare segment assets as of January 1, 2008; (2) updating those Medicare segments' pension assets from January 1, 2008, through May 31, 2011; and (3) determining the Medicare segment excess pension liabilities as a result of the Medicare segment closing.

BACKGROUND

CGS Administrators, LLC's, Medicare Contracts

During our audit period, CGS (formerly CIGNA Government Services, LLC) administered Medicare Part B and Durable Medical Equipment (DME) operations for Connecticut General Life Insurance Company (CGLIC), the legal entity that entered into these cost reimbursement contracts with CMS. In addition, CGS administered Medicare operations under a MAC contract with CMS. CGS and CGLIC were wholly owned subsidiaries of CIGNA Corporation.

With the implementation of Medicare contracting reform, CGS continued to perform Medicare work after being awarded the MAC contracts for DME Jurisdiction C, effective September 27, 2006, and Medicare Parts A and B Jurisdiction 15, effective July 8, 2010.

Effective June 1, 2011, the CGS Medicare segment was sold to Blue Cross Blue Shield of South Carolina (BCBS South Carolina) for the continued performance of Medicare operations.

CGS Administrators, LLC's, Pension Plans

During the audit period, CGS participated in CIGNA Corporation's two pension plans: the CIGNA Pension Plan and the CIGNA Pension Plan for Certain Former Employees (Former Employees Pension Plan). The Former Employees Pension Plan was established on January 1, 2009, as a spinoff of the CIGNA Pension Plan. The CIGNA Pension Plan was frozen on July 1, 2009. This report addresses the pension segmentation requirements of the CIGNA Pension Plan.

As a result of the sale of the CGS Medicare segment to BCBS South Carolina, the CAS requires that a segment closing adjustment be performed. The effective date for the Medicare segment closing was May 31, 2011. This report addresses the update of CIGNA Pension Plan Medicare segment pension assets from January 1, 2008, through May 31, 2011, and the segment closing adjustment as of May 31, 2011. We are separately reviewing the Former Employees Pension Plan Medicare segment pension assets. In addition, we are addressing the pension costs claimed by CGS (for both qualified pension plans) in another separate review.

Upon the closing of its Medicare segment, CGS identified Medicare's share of the Medicare segment excess pension liabilities to be $756,991.

HOW WE CONDUCTED THIS REVIEW

We reviewed CGS's implementation of the prior audit recommendation;[1] identification of its Medicare segment; update of Medicare segment assets from January 1, 2008, through May 31, 2011; and the Medicare segment's closing calculation as of May 31, 2011.

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

CGS implemented the prior audit recommendation to recognize $16,671,408 as Medicare segment pension assets as of January 1, 2008, in its CAS exhibits. However, with respect to our second objective CGS did not correctly update these Medicare segment pension assets from January 1, 2008, through May 31, 2011, in accordance with Federal regulations and the Medicare contracts' pension segmentation requirements. CGS identified Medicare segment pension assets of $14,239,625 as of May 31, 2011; however, we determined that the Medicare segment pension assets were $12,942,896. Therefore, CGS overstated the Medicare segment pension assets by $1,296,729.

[1] *Review of Medicare Contractor's Pension Segmentation Requirements at CIGNA Government Services, LLC, for the Period January 1, 2004, to January 1, 2008* (A-07-10-00326), June 2, 2010.

CGS overstated its Medicare segment's pension assets because it did not have controls to ensure that it calculated those assets in accordance with Federal regulations and the pension segmentation language of its Medicare contracts when updating the Medicare segments' pension assets from January 1, 2008, through May 31, 2011.

Appendix B identifies the details of the CGS Medicare segment's pension assets from January 1, 2008, through May 31, 2011, as determined during our audit. Table 1 below summarizes the audit adjustments required to update the CGS Medicare segment's pension assets in accordance with Federal requirements.

Table 1: Summary of Audit Adjustments

	Per Audit	Per CGS	Difference
Prior Audit Recommendation	$16,671,408	$16,671,408	$0
Update of Medicare Segment Assets			
CIGNA Pension Plan for Certain Former Employees Medicare Segment Pension Assets as of January 1, 2009	(795,611)	(497,308)	(298,303)
Contributions and Prepayment Credits	2,114,164	1,997,174	116,990
Benefit Payments	(3,405,091)	(3,509,388)	104,297
Net Transfers	(1,223,946)	(290,482)	(933,464)
Earnings, Net of Expenses	(418,028)	(131,779)	(286,249)
Overstatement of Medicare Segment Assets			**(1,296,729)**

Regarding our third objective, CGS did not fully comply with Federal regulations and the Medicare contracts' pension segmentation requirements when determining the Medicare segment excess pension liabilities as a result of the Medicare segment closing. CGS calculated Medicare's share of the Medicare segment excess pension liabilities to be $756,991 as of May 31, 2011; however, we determined that Medicare's share of the Medicare segment excess pension liabilities was $1,504,558 as of that date. The difference, $747,567, constituted allowable Medicare segment pension liabilities that CGS did not include in its closing adjustment. CGS understated Medicare's share of the Medicare segment excess pension liabilities by $747,567 because it understated the Medicare segment's excess pension liabilities.

PRIOR AUDIT RECOMMENDATION

CGS implemented our prior audit recommendation (A-07-10-00326), which recommended that CGS decrease its Medicare segment assets by $342,743 and, as a result, recognize $16,671,408 as Medicare segment assets as of January 1, 2008.

UPDATE OF 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, permitted unfunded accruals, income, benefit payments, and expenses. For details on the Federal requirements and the relevant language of the Medicare contracts, see Appendix C.

CGS did not correctly update the Medicare segment pension assets from January 1, 2008, to May 31, 2011, in accordance with Federal regulations and the Medicare contracts' pension segmentation requirements. CGS identified Medicare segment pension assets of $14,239,625 as of May 31, 2011; however, we determined that the Medicare segment pension assets were $12,942,896. Therefore, CGS overstated the Medicare segment pension assets by $1,296,729.

CGS overstated its Medicare segment's pension assets because it did not have controls to ensure that it calculated those assets in accordance with Federal regulations and the pension segmentation language of its Medicare contracts when updating the Medicare segments' pension assets from January 1, 2008, through May 31, 2011. The following are our findings regarding the update of Medicare segment pension assets from January 1, 2009, through May 31, 2011.

Medicare Segment Assets as of January 1, 2009

CGS incorrectly computed the Former Employees Pension Plan Medicare segment pension assets as of January 1, 2009. Effective January 1, 2009, CIGNA created the Former Employees Pension Plan and spun off Medicare segment pension assets to that plan from the CIGNA Pension Plan. CGS identified the Former Employees Pension Plan Medicare segment assets of $497,308 as of January 1, 2009. However, we determined that the Medicare segment pension assets as of this date were $795,611. Therefore, CGS overstated the January 1, 2009, assets by $298,303. This overstatement occurred because CGS did not comply with CAS 413 when allocating initial assets to the Medicare segment of the Former Employees Pension Plan.

Contributions and Transferred Prepayment Credits Understated

The audited contributions and transferred prepayment credits[2] are based on the assignable pension costs.[3] 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.

CGS understated contributions and transferred prepayment credits by $116,990 for its Medicare segment. The understatement occurred primarily because of differences in the asset base used to

[2] 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.

[3] These are assigned to a specific cost accounting period.

compute the assignable pension costs. Table 2 below shows the differences between the contributions and prepayment credits proposed by CGS and the contributions and prepayment credits that we calculated during our review.

Table 2: Contributions and Transferred Prepayment Credits

Plan Year	Per Audit	Per CGS	Difference
2008	$1,127,866	$1,113,139	$14,727
2009	684,910	630,575	54,335
2010	219,589	160,803	58,786
2011	81,799	92,657	(10,858)
Total	**$2,114,164**	**$1,997,174**	**$116,990**

Benefit Payments Overstated

CGS overstated benefit payments by $104,297 because it incorrectly identified some benefit payments related to employees who performed non-Medicare work as Medicare segment benefit payments. Table 3 below shows the differences between the benefit payments proposed by CGS and the benefit payments that we calculated during our review.

Table 3: Benefit Payments

Plan Year	Per Audit	Per CGS	Difference
2008	($890,197)	($890,197)	$0
2009	(861,008)	(857,910)	(3,098)
2010	(1,359,670)	(1,413,006)	53,336
2011	(294,216)	(348,275)	54,059
Total	**($3,405,091)**	**($3,509,388)**	**$104,297**

Net Transfers Out Understated

CGS understated net transfers out of its Medicare segment by $933,464. The understatement occurred because CGS incorrectly identified the Medicare segment participants who transferred in and out of the Medicare segment. We identified the Medicare segment participant transfers in accordance with CAS 413.50(c)(8). This understatement of the net transfer adjustment resulted in an overstatement of the CGS Medicare segment pension assets by $933,464. Table 4 on the following page shows the differences between the net transfers proposed by CGS and the net transfers that we calculated during our review.

Table 4: Net Transfers

Plan Year	Per Audit	Per CGS	Difference
2008	($20,260)	($23,790)	$3,530
2009	(70,240)	841,641	(911,881)
2010	(396,068)	(305,045)	(91,023)
2011	(737,378)	(803,288)	65,910
Total	**($1,223,946)**	**($290,482)**	**($933,464)**

Earnings, Net of Expenses Understated

CGS overstated investment earnings, less administrative expenses, by $286,249 for its Medicare segment because it used incorrect Former Employees Pension Plan Medicare segment assets, incorrect contributions and transferred prepayment credits, incorrect benefit payments, and incorrect net transfers out (all discussed above) to develop the 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.

MEDICARE SEGMENT CLOSING ADJUSTMENT

CGS did not fully comply with Federal regulations and the Medicare contracts' pension segmentation requirements when determining the Medicare segment excess pension liabilities as a result of the Medicare segment closing. CGS calculated Medicare's share of the Medicare segment excess pension liabilities to be $756,991 as of May 31, 2011; however, we determined that Medicare's share of the Medicare segment excess pension liabilities was $1,504,558 as of that date. The difference, $747,567, constituted allowable Medicare segment pension liabilities that CGS did not include in its closing adjustment.

Medicare Segment Excess Pension Liabilities as of May 31, 2011

Federal regulations (Appendix C) require CGS to have computed a Medicare segment closing adjustment as a result of the termination of its Medicare contract. CGS identified $756,991 in Medicare segment excess pension liabilities as of May 31, 2011. However, we calculated the Medicare segment excess pension liabilities to be $1,620,592 as of that date. (It is necessary to calculate the pension assets and liabilities as well as any adjustments for the Medicare segment before calculating Medicare's share.) Therefore, CGS understated the excess pension liabilities by $863,601. The understatement occurred because CGS overstated the Medicare segment's final market value of pension assets as of May 31, 2011. The development of excess liabilities was used to identify Medicare's share of Medicare segment's excess pension liabilities.

Medicare's Share of the Medicare Segment Excess Pension Liabilities

CGS calculated the aggregate Medicare percentage (that is, the percentage that reflects Medicare's share of the Medicare segment excess pension liabilities) as 100 percent. We calculated the aggregate Medicare percentage to be 92.84 percent (Appendix D) using the Medicare segment pension costs developed during the prior pension costs claimed reports

(A-07-94-00777, A-07-07-00238, and A-07-10-00345, all cited in Appendix D) and current pension costs claimed (A-07-16-00489 and A-07-16-00490; Appendix A) audits as required by the CAS. For details on the Federal requirements regarding the aggregate Medicare percentage, see Appendix C.

CGS calculated $756,991 as Medicare's share of the Medicare segment excess pension liabilities as of May 31, 2011; however, we determined that Medicare's share of the Medicare segment excess pension liabilities was $1,504,558 as of that date. CGS understated Medicare's share of the Medicare segment excess pension liabilities by $747,567 because it understated the Medicare segment's excess pension liabilities (as discussed above). Table 5 below shows our calculation of Medicare's share of the excess pension liabilities.

Table 5: Medicare's Share of Excess Pension Liabilities

	Excess Medicare Segment Liabilities (A)	**Aggregate Medicare Percentage (B)**	**Excess Liabilities Attributable to Medicare (A x B)**
Per Audit	$1,620,592	92.84%	$1,504,558
Per CGS	756,991	100%	756,991
Difference			**$747,567**

RECOMMENDATIONS

We recommend that CGS:

- decrease its Medicare segment pension assets by $1,296,729 as of May 31, 2011, and

- increase Medicare's share of the Medicare segment excess pension liabilities as of May 31, 2011, by $747,567 and submit for reimbursement $747,567 as Medicare's share of the Medicare segment excess pension liabilities due to the segment closing calculation.

AUDITEE COMMENTS

In written comments on our draft report, CGS said that it accepted our recommendations and that it did not have any additional comments or questions.

CGS's comments are included in their entirety as Appendix E.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed CGS's implementation of the prior audit recommendation (footnote 1); identification of its Medicare segment; update of Medicare segment assets from January 1, 2008, through May 31, 2011; and the Medicare segment's closing calculation as of May 31, 2011.

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

We performed fieldwork at CGS in Nashville, Tennessee.

METHODOLOGY

To accomplish our objectives, we took the following steps:

- We reviewed the portions of the Federal Acquisition Regulation, CAS, and the Medicare contracts applicable to this audit.

- We reviewed the annual actuarial valuation reports prepared by CGS's actuarial consulting firms, which included the pension plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We used this information to calculate the Medicare segments' assets.

- We obtained and reviewed the pension plan documents and Department of Labor/Internal Revenue Service Forms 5500 used in calculating the Medicare segments' assets.

- We interviewed CGS staff responsible for identifying the Medicare segment to determine whether the segments were properly identified in accordance with the Medicare contracts.

- We reviewed CGS's accounting records to verify the segments' identifications and benefit payments made to the Medicare segment.

- We reviewed the prior segmentation audit performed at CGS (A-07-10-00326) to determine the beginning market value of assets for the Medicare segment.

- We provided the CMS Office of the Actuary with the actuarial information necessary for it to calculate the Medicare segments' pension assets from January 1, 2008, through May 31, 2011.

- We reviewed the CMS actuaries' methodology and calculations.

- We provided the results of this review to CGS officials on February 13, 2017.

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

- *CGS Administrators, LLC, Claimed Some Unallowable Medicare Pension Costs* (A-07-16-00489),

- *CGS Administrators, LLC, Claimed Some Unallowable Medicare Administrative Contract Pension Costs* (A-07-16-00490), and

- *CGS Administrators, LLC, Understated Its CIGNA Pension Plan for Certain Former Employees Medicare Segment Pension Assets and Understated Medicare's Share of Excess Pension Assets* (A-07-16-00491).

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: CGS ADMINISTRATORS, LLC, STATEMENT OF MEDICARE SEGMENT PENSION ASSETS FOR THE PERIOD JANUARY 1, 2008, THROUGH MAY 31, 2011

Description		Total Company	Other Segments	Medicare Segment
Assets January 1, 2008	1/	$3,395,877,253	$3,379,205,845	$16,671,408
Prepayment Credits	2/	0	(1,127,866)	1,127,866
Contributions		0	0	0
Transfer to Former Employees Pension Plan	3/	(270,631,082)	(269,835,471)	(795,611)
Earnings, Net Expenses	4/	(929,879,449)	(924,950,999)	(4,928,450)
Benefit Payments	5/	(243,127,045)	(242,236,848)	(890,197)
Transfers	6/		20,260	(20,260)
Assets January 1, 2009		$1,952,239,677	$1,941,074,921	$11,164,756
Prepayment Credits		0	(684,910)	684,910
Contributions	7/	407,347,000	407,347,000	0
Earnings		349,485,429	347,589,423	1,896,006
Benefit Payments		(239,598,966)	(238,737,958)	(861,008)
Transfers		0	70,240	(70,240)
Assets January 1, 2010		$2,469,473,140	$2,456,658,716	$12,814,424
Prepayment Credits		0	(219,589)	219,589
Contributions		143,000,000	143,000,000	0
Earnings		324,414,648	322,771,912	1,642,736
Benefit Payments		(242,673,165)	(241,313,495)	(1,359,670)
Transfers		0	396,068	(396,068)
Assets January 1, 2011		$2,694,214,623	$2,681,293,612	$12,921,011
Prepayment Credits		0	(81,799)	81,799
Contributions		125,000,000	125,000,000	0
Earnings		201,326,464	200,354,784	971,680
Benefit Payments		(109,173,710)	(108,879,494)	(294,216)
Transfers		0	737,378	(737,378)
Assets May 31, 2011		$2,911,367,377	$2,898,424,481	$12,942,896
Per CGS	8/	2,911,367,377	$2,897,127,752	14,239,625
Asset Variance	9/	$0	($1,296,729)	$1,296,729

ENDNOTES

1/ We determined the Medicare segment pension assets as of January 1, 2008, based on our prior segmentation audit of CGS (A-07-10-00326). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare segment. All pension assets are shown at market value.

2/ Transferred prepayment credits represent funds available to satisfy future funding requirements and are applied to future funding requirements before current year contributions in order to avoid incurring unallowable interest. Prepayment credits are transferred to the Medicare segment as needed to cover funding requirements.

3/ This transaction represents an allocation of the CIGNA Pension Plan assets that were spun off into the CIGNA Former Employees Pension Plan on January 1, 2009.

4/ We obtained net investment earnings from the actuarial valuation reports. We allocated net investment earnings based on the ratio of each segment's weighted average value (WAV) of assets to Total Company WAV of assets as required by the CAS. In accordance with the CAS, we allocated administrative expenses to each Medicare segment in proportion to investment earnings.

5/ We based the Medicare segment's benefit payments on actual payments to Medicare retirees. We obtained the benefit payments from documents provided by CGS.

6/ We identified participant transfers between segments by comparing valuation data files provided by CGS. Asset transfers were equal to the actuarial liability determined under the accrued benefit cost method in accordance with the CAS.

7/ We obtained Total Company contribution amounts from the actuarial valuation reports and Department of Labor/Internal Revenue Service Forms 5500. We allocated Total Company contributions to the Medicare segment based on the ratio of the Medicare segment funding target divided by the Total Company funding target. Contributions in excess of the funding targets were treated as prepayment credits and accounted for in the Other segment until needed to fund pension costs in the future.

8/ We obtained total asset amounts from documents prepared by CGS's actuarial consulting firm.

9/ The asset variance represents the difference between our calculation of Medicare segment pension assets and CGS's calculation of the Medicare segment pension assets.

APPENDIX C: FEDERAL REQUIREMENTS RELATED TO PENSION SEGMENTATION AND SEGMENT CLOSING ADJUSTMENT

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 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.

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).”

SEGMENT CLOSING ADJUSTMENT

Federal Regulations

Federal regulations (CAS 413.50(c)(12)) state:

> If a segment is closed, if there is a pension plan termination, or if there is a curtailment of benefits, the contractor shall determine the difference between the actuarial liability for the segment and the market value of the assets allocated to the segment, irrespective of whether or not the pension plan is terminated. The difference between the market value of the assets and the actuarial accrued liability for the segment represents an adjustment of previously-determined pension costs.
>
> i. The determination of the actuarial accrued liability shall be made using the accrued benefit cost method. The actuarial assumptions employed shall be consistent with the current and prior long term assumptions used in the measurement of pension costs….
>
> ii. … The market value of the assets shall be reduced by the accumulated value of prepayment credits, if any. Conversely, the market value of assets shall be increased by the current value of any unfunded actuarial liability separately identified and maintained in accordance with 9904.412-50(a)(2).
>
> iii. The calculation of the difference between the market value of the assets and the actuarial accrued liability shall be made as of the date of the event (e.g., contract termination, plan amendment, plant closure) that caused the closing of the segment, pension plan termination, or curtailment of benefits. If such a date is not readily determinable, or if its use can result in an inequitable calculation, the contracting parties shall agree on an appropriate date.
>
> iv. Pension plan improvements adopted within 60 months of the date of the event which increase the actuarial accrued liability shall be recognized on a prorata basis using the number of months the date of adoption preceded the event date. Plan improvements mandated by law or collective bargaining agreement are not subject to this phase-in.

The methodology for determining the Federal Government's share of excess pension assets and liabilities is addressed by CAS 413.50(c)(12)(vi), which states:

> The Government's share of the adjustment amount determined for a segment shall be the product of the adjustment amount and a fraction. The adjustment amount shall be reduced for any excise tax imposed upon assets withdrawn from the funding agency of a qualified pension plan. The numerator of such fraction shall be the **sum of the pension plan costs** allocated to all contracts and subcontracts (including Foreign Military Sales) subject to this Standard during a period of years representative of the Government's participation in the pension plan. The denominator of such fraction shall be the **total pension costs** assigned to cost accounting periods during those same years. This amount shall represent an adjustment of contract prices or cost allowance as appropriate. The adjustment

> may be recognized by modifying a single contract, several but not all contracts, or all contracts, or by use of any other suitable technique. [Emphasis added.]

Medicare Contracts

In the event of a contract termination, the Medicare contracts require contractors to follow the segment closing provision of the CAS. Furthermore, in situations such as contract terminations, the Medicare contracts require contractors to identify excess Medicare pension assets and liabilities in accordance with CAS 413.

APPENDIX D: CALCULATION OF AGGREGATE MEDICARE PERCENTAGE

Fiscal Year 1/	Allowable Medicare Segment Pension Costs From FACPs (A) 2/	Allowable Medicare Segment DME Pension Costs From ICP (B) 3/	Allowable Medicare Part A/B Segment Pension Costs From ICP (C) 4/	Allowable Other Medicare Segment Pension Costs From ICP (D) 5/	FY Total Allocable Medicare Segment Pension Costs (E) 6/	Medicare Aggregate Percentage ((A+B+C+D)/E) 7/
1991	$380,069	$0	$0	$0	$380,069	
1992	529,741	0	0	0	529,741	
1993	543,872	0	0	0	563,364	
1994	643,628	0	0	0	649,998	
1995	780,657	0	0	0	780,657	
1996	821,036	0	0	0	821,036	
1997	683,907	0	0	0	683,907	
1998	159,397	0	0	0	159,397	
1999	565,061	0	0	0	579,015	
2000	760,812	0	0	0	816,848	
2001	848,289	0	0	0	905,905	
2002	333,043	0	0	0	333,043	
2003	558,770	0	0	0	561,465	
2004	787,365	0	0	0	807,471	
2005	875,210	0	0	0	909,215	
2006	997,129	0	0	0	1,003,350	
2007	510,012	70,658	0	17,138	735,523	
2008	502,535	238,286	0	15,569	1,005,472	
2009	385,460	194,922	0	35,282	795,649	
2010	108,345	80,416	445	26,809	335,919	
2011	30,404	26,044	10,136	6,593	136,696	
Total	$11,804,742	$610,326	$10,581	$101,391	$13,493,740	92.84%

ENDNOTES

1/ The aggregate percentage was based on the audited pension costs developed during the prior pension costs claimed (A-07-06-00209 and A-07-10-00327, issued on January 16, 2007, and June 2, 2010, respectively) and current pension costs claimed (A-07-16-00489 and A-07-16-00490) audits.

2/ This column identifies the allowable Medicare Part B and DME segment pension costs that relate to the legacy Medicare contract.

3\ This column identifies the allowable Medicare DME contract, Jurisdiction C, segment pension costs that relate to the MAC contracts.

4\ This column identifies the allowable Medicare Part A/B contract, Jurisdiction 3, segment pension costs that relate to the MAC contracts.

5/ This column identifies the allowable Medicare segment pension costs that relate to other Medicare contracts.

6/ This column identified the total allocable Medicare segment pension costs during the contract period.

7/ We calculated the aggregate Medicare percentage by dividing the total of the Medicare segments' pension costs charged to Medicare (that is, the combined amounts from the four columns to the right of the "Fiscal Year" column) by the FY Total Allocable Medicare segment pension costs pursuant to CAS 413.

APPENDIX E: AUDITEE COMMENTS

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CGS℠
A CELERIAN GROUP COMPANY

We IMPACT lives.

March 27, 2017

Mr. Patrick J. Cogley
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-07-16-00470

Dear Mr. Cogley:

We are responding to the U.S. Department of Health and Human Services, Office of Inspector General, draft report dated March 13, 2017 and entitled *CGS Administrators, LLC, Overstated Its CIGNA Pension Plan Medicare Segment Pension Assets and Understated Medicare's Share of Excess Pension Liabilities*.

The report contains the following recommendation:

We recommend that CGS:

- decrease its Medicare segment pension assets by $1,296,729 as of May 31, 2011, and
- increase Medicare's share of the Medicare segment excess pension liabilities as of May 31, 2011, by $747,567 and submit for reimbursement $747,567 as Medicare's share of the Medicare segment excess pension liabilities due to the segment closing calculation.

CGS accepts the OIG recommendations and does not have any additional comments or questions.

We appreciate the opportunity to comment on the recommendation. Please let me know if you have questions or need additional information regarding our response.

Sincerely,

/Michael Logan/

Michael Logan
Vice President and CFO

Cc: Steve Bishop, CGS
Larry Kennedy, CGS
Dedee Rowe, BCBSSC
Ryan Loyd, CIGNA
Diane Lastinec, CIGNA