POSTRETIRED BENEFIT COSTS
CLAIMED BY UNITED GOVERNMENT SERVICES FOR OCTOBER 1, 2001,
THROUGH DECEMBER 31, 2006, WERE REASONABLE AND ALLOWABLE

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Patrick J. Cagle
Regional 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.
EXECUTIVE SUMMARY

Postretirement benefit costs claimed for Medicare reimbursement by United Government Services for the period October 1, 2001, through December 31, 2006, were reasonable and allowable.

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their postretirement benefit (PRB) costs. Contractors that operate a PRB plan on a pay-as-you-go basis are eligible to be reimbursed a portion of their actual payments for PRB costs. In claiming PRB costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation (FAR) and applicable Cost Accounting Standards (CAS) as required by the Medicare contracts.

The objective of this review was to determine whether United Government Services’ (UGS) PRB costs claimed for the period October 1, 2001, through December 31, 2006, were reasonable and allowable for Medicare reimbursement pursuant to Federal regulations.

BACKGROUND

Blue Cross Blue Shield United of Wisconsin (BCBSUW), through its UGS business unit, administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS). UGS sponsored a PRB plan providing a health benefit for its retirees and their dependents. UGS claimed PRB costs for Federal reimbursement on a pay-as-you-go basis.

In 2003, BCBSUW and UGS were purchased by WellPoint Health Networks, Inc., which became a part of Anthem, Inc., on November 30, 2004, and Anthem, Inc., then changed its name to WellPoint, Inc. Effective November 17, 2006, a consolidation of certain Medicare operations occurred, forming a new subsidiary of WellPoint, Inc., called National Government Services (NGS). This consolidation included BCBSUW and, as a result, the UGS PRB plan. Thus, although we are addressing this report to NGS, we will associate the term UGS with our findings and recommendations regarding the PRB costs claimed by UGS for the period October 1, 2001, through December 31, 2006.

UGS claimed $1,494,566 of PRB costs for this period.

WHAT WE FOUND

The PRB costs claimed by UGS for the period October 1, 2001, through December 31, 2006, were reasonable and allowable. Federal regulations (FAR 31.205-6(o)(2)(i)) require that for pay-as-you-go PRB costs to be allowable for Medicare reimbursement, the PRB costs must be assigned to the period in which the benefits are actually provided. After reviewing UGS’s methodology for claiming PRB costs for Medicare reimbursement, we determined that the PRB
costs claimed by UGS for the period October 1, 2001, through December 31, 2006, had complied with that regulatory provision. This report therefore makes no recommendations.
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INTRODUCTION

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their postretirement benefit (PRB) costs. Contractors that operate a PRB plan on a pay-as-you-go basis are eligible to be reimbursed a portion of their actual payments for PRB costs. In claiming PRB costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation (FAR) and applicable Cost Accounting Standards (CAS) as required by the Medicare contracts.

OBJECTIVE

Our objective was to determine whether United Government Services’ (UGS) PRB costs claimed for the period October 1, 2001, through December 31, 2006, were reasonable and allowable for Medicare reimbursement pursuant to Federal regulations.

BACKGROUND

Blue Cross Blue Shield United of Wisconsin (BCBSUW), through its UGS business unit, administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS). UGS sponsored a PRB plan providing a health benefit for its retirees and their dependents. UGS claimed PRB costs for Federal reimbursement on a pay-as-you-go basis.

In 2003, BCBSUW and UGS were purchased by WellPoint Health Networks, Inc., which became a part of Anthem, Inc., on November 30, 2004, and Anthem, Inc., then changed its name to WellPoint, Inc. Effective November 17, 2006, a consolidation of certain Medicare operations occurred, forming a new subsidiary of WellPoint, Inc., called National Government Services (NGS). This consolidation included BCBSUW and, as a result, the UGS PRB plan. Thus, although we are addressing this report to NGS, we will associate the term UGS with our findings and recommendations regarding the PRB costs claimed by UGS for the period October 1, 2001, through December 31, 2006.

HOW WE CONDUCTED THIS REVIEW

We reviewed $1,494,566 of PRB costs claimed by UGS for Medicare reimbursement on its Final Administrative Cost Proposals (FACP) for the period October 1, 2001, through December 31, 2006.

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 objective.

The Appendix contains details of our audit scope and methodology.
FINDING

The PRB costs claimed by UGS for the period October 1, 2001, through December 31, 2006, were reasonable and allowable. Federal regulations (FAR 31.205-6(o)(2)(i)) require that for pay-as-you-go PRB costs to be allowable for Medicare reimbursement, the PRB costs must be assigned to the period in which the benefits are actually provided. After reviewing UGS’s methodology for claiming PRB costs for Medicare reimbursement, we determined that the PRB costs claimed by UGS for the period October 1, 2001, through December 31, 2006, had complied with that regulatory provision. This report therefore makes no recommendations.
APPENDIX: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed $1,494,566 of PRB costs that UGS claimed for Medicare reimbursement on its FACPs for the period October 1, 2001, through December 31, 2006.

Achieving our objective did not require that we review UGS’s overall internal control structure. We reviewed the internal controls related to the PRB costs claimed for Medicare reimbursement to ensure that the PRB costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

We completed our audit work in October 2012.

METHODOLOGY

To accomplish our objectives, we took the following steps:

- We reviewed the portions of the FAR, CAS, and the Medicare contracts applicable to this audit.
- We reviewed the annual PRB actuarial valuation reports prepared by WellPoint’s actuarial consulting firms, which included the PRB plan’s participant data. We used this information to calculate a ratio of UGS employees in the PRB plan to total company employees in the PRB plan.
- We identified the amount of PRB costs claimed on UGS’s FACPs.
- We determined the extent to which UGS incurred PRB costs by paying premiums relating to PRB coverage.
- We interviewed WellPoint staff responsible for identifying the Medicare participants to determine whether the participants were identified in accordance with the Medicare contracts.
- We obtained paid PRB claims provided by UGS. We verified data and used it to calculate the pay-as-you-go PRB costs that were allowable for Medicare reimbursement for the period October 1, 2001, through December 31, 2006.
- We provided the results of our review to NGS officials in a conference call on January 17, 2013.