HEALTHNOW NEW YORK, INC., DID NOT CLAIM SOME ALLOWABLE MEDICARE PART B PENSION COSTS FOR FISCAL YEARS 2007 THROUGH 2009

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

Patrick J. Cogley
Regional Inspector General

October 2013
A-07-13-00426
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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

HealthNow did not claim allowable pension costs of approximately $23,000 for Medicare reimbursement for fiscal years 2007 through 2009.

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, Cost Accounting Standards (CAS), and Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors did not always comply with Federal requirements when claiming pension costs for Medicare reimbursement.

The objective of this review was to determine whether HealthNow New York, Inc. (HealthNow), complied with Federal requirements when claiming pension costs for Medicare reimbursement for fiscal years (FYs) 2007 through 2009.

BACKGROUND

HealthNow administered Medicare durable medical equipment regional carrier and Part B operations under cost reimbursement contracts with CMS until the contractual relationships were terminated on June 30, 2006, and August 31, 2008, respectively. The effective segment closing date for the Medicare Part B segment was January 1, 2009. This report addresses the allowable pension costs for HealthNow’s Medicare Part B segment.

WHAT WE FOUND

HealthNow claimed pension costs of $65,915 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs during this period were $89,266. The difference, $23,351, represented allowable Medicare pension costs that HealthNow did not claim on its Final Administrative Cost Proposals (FACPs) for FYs 2007 through 2009. HealthNow did not claim these allowable Medicare pension costs primarily because it incorrectly calculated the CAS pension cost for FY 2007.

WHAT WE RECOMMEND

We recommend that HealthNow revise its FACPs for FYs 2007 through 2009 to claim additional Medicare pension costs of $23,351.
AUDITEE COMMENTS

In written comments on our draft report, HealthNow agreed with our findings and stated that it would net our recommendation with other amounts due to and from the Federal Government during its global settlement of outstanding audits.
TABLE OF CONTENTS

INTRODUCTION .......................................................................................................................... 1

  Why We Did This Review .................................................................................................. 1
  Objective ............................................................................................................................. 1
  Background ......................................................................................................................... 1
    HealthNow New York, Inc. .................................................................................... 1
    Medicare Reimbursement of Pension Costs ........................................................... 1
  How We Conducted This Review ....................................................................................... 2

FINDING ........................................................................................................................................ 2

  Claimed Pension Costs ....................................................................................................... 2
  Allowable Pension Costs Not Claimed ............................................................................... 2

RECOMMENDATION .................................................................................................................. 3

AUDITEE COMMENTS................................................................................................................ 3

APPENDIXES

  A: Audit Scope and Methodology ............................................................................................ 4

  B: Federal Requirements Related to Reimbursement of Pension Costs.............................. 6


  D: Auditee Comments ............................................................................................................... 9
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 reviews found that Medicare contractors did not always comply with Federal requirements when claiming pension costs for Medicare reimbursement.

OBJECTIVE

Our objective was to determine whether HealthNow New York, Inc. (HealthNow), complied with Federal requirements when claiming pension costs for Medicare reimbursement for fiscal years (FYs) 2007 through 2009.

BACKGROUND

HealthNow New York, Inc.

HealthNow administered Medicare durable medical equipment regional carrier (DMERC) and Part B operations under cost reimbursement contracts with CMS until the contractual relationships were terminated on June 30, 2006, and August 31, 2008, respectively.¹ The effective segment closing date for the Medicare Part B segment was January 1, 2009. This report addresses the allowable pension costs for HealthNow’s Medicare Part B segment.

Medicare Reimbursement of Pension Costs

CMS reimburses a portion of the Medicare contractors’ annual pension costs, which are funded by contributions that these contractors make to their pension plans. 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.

Beginning with FY 1988, CMS incorporated specific segmentation language into Medicare contracts that requires contractors to use either an allocation method or a separate calculation method to identify and claim pension costs for Medicare reimbursement. Under the allocation method, the contractor determines total plan CAS-based pension costs and allocates a share to Medicare. Under the separate calculation method, the contractor separately identifies the pension cost components for the Medicare segment. The contractor must use the separate calculation method if its result is materially different from that of the allocation method.

¹ We performed a separate review of the allowability of pension costs for the DMERC segment (A-07-11-00367, issued March 12, 2012) of HealthNow. Unless otherwise noted, all subsequent references to Medicare pension costs and reimbursements in the body of this report relate to the Medicare Part B segment.
HOW WE CONDUCTED THIS REVIEW

We reviewed $65,915 of pension costs claimed by HealthNow for Medicare reimbursement on its Final Administrative Cost Proposals (FACPs) for FYs 2007 through 2009.

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

HealthNow claimed pension costs of $65,915 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs during this period were $89,266. The difference, $23,351, represented allowable Medicare pension costs that HealthNow did not claim on its FACPs for FYs 2007 through 2009. HealthNow did not claim these allowable Medicare pension costs primarily because it incorrectly calculated the CAS pension cost for FY 2007.

CLAIMED PENSION COSTS

HealthNow submitted Medicare pension costs of $65,915 for Medicare reimbursement on its FACPs for FYs 2007 through 2009. We calculated the allowable Medicare pension costs based on separately computed CAS-based pension costs for the Medicare segment and the Other segment in accordance with CAS 412 and 413. For details on the Federal requirements, see Appendix B.

ALLOWABLE PENSION COSTS NOT CLAIMED

We determined that the allowable CAS-based pension costs for FYs 2007 through 2009 were $89,266. Thus, HealthNow did not claim $23,351 of allowable Medicare pension costs on its FACPs for this time period. This underclaim occurred primarily because HealthNow incorrectly calculated the CAS pension cost for FY 2007.

The table on the following page compares allowable CAS-based pension costs with the pension costs claimed on HealthNow’s FACPs and reflected in its accounting documents. Appendix C contains additional details on allowable pension costs.
Table: Comparison of Allowable Pension Costs and Claimed Pension Costs

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Allowable Per Audit</th>
<th>Claimed by HealthNow</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>89,266</td>
<td>61,064</td>
<td>28,202</td>
</tr>
<tr>
<td>2008</td>
<td>0</td>
<td>4,833</td>
<td>(4,833)</td>
</tr>
<tr>
<td>2009</td>
<td>0</td>
<td>18^2</td>
<td>(18)</td>
</tr>
<tr>
<td>Total</td>
<td>$89,266</td>
<td>$65,915</td>
<td>$23,351</td>
</tr>
</tbody>
</table>

**RECOMMENDATION**

We recommend that HealthNow revise its FACPs for FYs 2007 through 2009 to claim additional Medicare pension costs of $23,351.

**AUDITEE COMMENTS**

In written comments on our draft report, HealthNow agreed with our findings and stated that it would net our recommendation with other amounts due to and from the Federal Government during its global settlement of outstanding audits.

HealthNow’s comments are included in their entirety as Appendix D.

^2 HealthNow included pension costs of $18 in its termination vouchers submitted to CMS during the period of September through December 2008. Therefore, we have included these pension costs in our comparison as they were claimed during FY 2009.
APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed $65,915 of pension costs that HealthNow claimed for Medicare reimbursement on its FACPs for FYs 2007 through 2009.

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

We conducted our audit work in April 2013.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- reviewed information provided by HealthNow to identify the amount of pension costs claimed for Medicare reimbursement for FYs 2007 through 2009;
- used information that HealthNow’s actuarial consulting firms provided, including information on assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses;
- examined HealthNow’s accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Forms 5500;
- determined the extent to which HealthNow funded CAS-based pension costs with contributions to the pension trust fund and accumulated prepayment credits;
- engaged the CMS Office of the Actuary to calculated 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 HealthNow officials on July 15, 2013.

We performed this review in conjunction with our audit of HealthNow’s pension segmentation (A-07-13-00425) and used the information obtained during that audit during this review.

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)) address allowability of pension costs and require that Medicare contractors fund the pension costs assigned to contract periods by making contributions to the pension plan.

Federal regulations (CAS 412) (as amended) address the determination and measurement of pension cost components. This regulation also addresses 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 address the determination and allocation of pension costs. The contracts state: “The calculation of and accounting for pension costs charged to this agreement/contract are governed by the Federal Acquisition Regulation and Cost Accounting Standards 412 and 413.”
<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Total Company</th>
<th>Other Segment</th>
<th>Medicare Segment</th>
<th>Total Medicare</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>PY Allocable Pension Cost 1/</td>
<td>$3,964,991</td>
<td>$471,123</td>
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</tr>
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<td></td>
<td>Medicare LOB* Percentage 2/</td>
<td>0.84%</td>
<td>68.72%</td>
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<tr>
<td>2006</td>
<td>PY Allowable Pension Cost 3/</td>
<td>$33,306</td>
<td>$323,756</td>
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<td>$357,062</td>
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<tr>
<td>2007</td>
<td>Contributions 4/</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>Discount for Interest 5/</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>Present Value Contributions 6/</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>Prepayment Credit Applied 7/</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td></td>
<td>Present Value of Funding 8/</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td></td>
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<td></td>
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<tr>
<td></td>
<td>January 1, 2007 CAS Funding Target 9/</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>Percentage Funded 10/</td>
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<td>0.00%</td>
<td></td>
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<tr>
<td></td>
<td>Funded Pension Cost 11/</td>
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<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>Allowable Interest 12/</td>
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<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>PY Allocable Pension Cost 13/</td>
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<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>Medicare LOB* Percentage 14/</td>
<td>1.00%</td>
<td>78.50%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>PY Allowable Pension Cost</td>
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<td>$0</td>
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<tr>
<td>2008</td>
<td>Contributions</td>
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<td>$0</td>
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<tr>
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<td>Discount for Interest</td>
<td>($97,100)</td>
<td>($97,100)</td>
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<tr>
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<td>$0</td>
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<tr>
<td></td>
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<td>$2,602,900</td>
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<td></td>
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<tr>
<td></td>
<td>January 1, 2008 CAS Funding Target</td>
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<td>$0</td>
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<tr>
<td></td>
<td>Percentage Funded</td>
<td>0.00%</td>
<td>0.00%</td>
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<tr>
<td></td>
<td>Funded Pension Cost</td>
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<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>Allowable Interest</td>
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<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>Allocable Pension Cost</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>Medicare LOB* Percentage</td>
<td>1.15%</td>
<td>62.31%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>PY Allowable Pension Cost</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>2008</td>
<td>FY Allowable Pension Cost</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>2009</td>
<td>FY Allowable Pension Cost</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>

* Line of business.
We assumed that interest on the funded CAS-based pension cost, less the prepayment credit, accrues in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in four equal installments deposited within 30 days after the end of the quarter.

We converted the PY allowable pension cost to an FY basis (October 1 through September 30). We calculated the FY pension costs as 1/4 of the prior year’s costs plus 3/4 of the current year’s costs. In accordance with CAS 412 and 413, the total Medicare allowable pension costs charged to the Medicare contract consisted of the Medicare segment’s direct pension costs plus Other segment pension costs attributable to indirect Medicare operations.

HealthNow terminated its Medicare contract on August 31, 2008. The effective closing date for the Medicare segment was January 1, 2009. Therefore, we calculated the FY 2009 pension cost as 1/4 of the prior year’s cost.
September 18, 2013

Mr. Patrick J. Cogley
Regional Inspector General, Office of Audit Services
Region VII
601 East 12th Street
Room 0429
Kansas City, Missouri 64106

Re: Report Number: A-07-13-00426

Dear Mr. Cogley:

This letter is in response to the U.S. Department of Health & Human Services, Office of Inspector General, Office of Audit Services' draft report entitled “HealthNow New York Inc. Did Not Claim Some Allowable Medicare Part B Pension Costs for the Fiscal Years 2007 Through 2009”. HealthNow New York Inc. (HealthNow) has reviewed the draft report in conjunction with our actuaries at Hooker and Holcombe, Inc. Following are comments regarding the specific findings.

• HealthNow agrees with the findings stated in the draft audit report on pages 2 and 3.

We understand there will be a global settlement of all HealthNow’s outstanding audits and we will net this recommendation with other amounts due to/from the Federal Government at that time. We cannot revise the FACP since we are no longer a Part B contractor.

HealthNow would like to thank the audit team for their professionalism and recognition of the ongoing operation during the audit.

If you have any questions, please contact me at 716.887.6922.

Sincerely,

Suzanne M. Gannon
Executive Director & CFO, Medicare Operation
MedUS Services, LLC

cc: Amy M. Arena
    Catherine M. Campbell
    Christopher Leardini
    Carmen L. Snell, Esq.