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
for Audit Services

May 2015
A-07-14-00449
The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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Section 8M of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

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

TrustSolutions, LLC, understated the Medicare segment pension assets by $105,000 as of January 1, 2010.

WHY WE DID THIS REVIEW

Medicare contractors are required to separately account for 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. 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 through Final Administrative Cost Proposals and/or Incurred Cost Proposals.

The objective of this review was to determine whether TrustSolutions, LLC, complied with Federal regulations and the Program Safeguard Contract (PSC) requirements when identifying the initial Medicare segment pension assets and updating those assets from January 1, 2003, to January 1, 2010.

BACKGROUND

TrustSolutions is a wholly owned company of WellPoint, Inc. TrustSolutions administers the PSC under cost reimbursement contracts with CMS. The PSC was originally awarded to United Government Services, LLC (UGS), in 1999. On September 30, 2002, the PSC was novated from UGS to TrustSolutions. Effective January 1, 2003, the UGS pension plan contained two Medicare segments: TrustSolutions and the UGS Medicare segment. The TrustSolutions segment was primarily created from UGS Medicare segment employees who transferred out of the UGS Medicare segment into the TrustSolutions segment.

This report addresses the TrustSolutions Medicare segment pension assets and TrustSolutions’ compliance with Federal regulations and the PSC requirements. We are separately reviewing the UGS Medicare segment pension assets. Although we are addressing this report to National Government Services, Inc. (NGS), we will associate the term TrustSolutions with our findings and recommendations.

WHAT WE FOUND

TrustSolutions identified Medicare segment pension assets of $1,117,306 as of January 1, 2010; however, we determined that the Medicare segment pension assets as of that date were
$1,222,549. Therefore, TrustSolutions understated the Medicare segment pension assets by $105,243. TrustSolutions understated the Medicare segment pension assets because it did not have controls to ensure that it calculated those assets in accordance with Federal regulations and the PSC requirements when updating the Medicare segment pension assets from January 1, 2003, to January 1, 2010.

WHAT WE RECOMMEND

We recommend that TrustSolutions:

- increase Medicare segment pension assets as of January 1, 2010, by $105,243 and recognize $1,222,549 as the Medicare segment pension assets and
- establish controls to ensure that the Medicare segment assets are updated in accordance with CAS 412 and 413.

AUDITEE COMMENTS AND OUR RESPONSE

In written comments on our draft report, NGS concurred with our findings and recommendations and said that it would make the appropriate adjustments to the Medicare segment pension assets. NGS also said that it would evaluate its current procedures to ensure compliance with Federal regulations. Because the TrustSolutions Medicare segment closed in 2012, after which NGS assumed responsibility for these assets, NGS responded to our draft report.

Our draft report included an appendix containing proprietary and confidential financial information that NGS asked us to redact from any publicly available posting of this report.

In response to NGS’s request, we have removed the appendix in question from the publicly available version of this final report. We are separately providing this report with this appendix in its entirety to CMS.
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Office of Inspector General Note—Appendix C contains proprietary and confidential financial information and, at NGS’s request, has been redacted from the publicly available version of this report.
INTRODUCTION

WHY WE DID THIS REVIEW

Medicare contractors are required to separately account for 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. 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 through Final Administrative Cost Proposals and/or Incurred Cost Proposals (ICPs).

OBJECTIVE

Our objective was to determine whether TrustSolutions, LLC, complied with Federal regulations and the Program Safeguard Contract (PSC) requirements when identifying the initial Medicare segment pension assets and updating those assets from January 1, 2003, to January 1, 2010.

BACKGROUND

TrustSolutions is a wholly owned company of WellPoint, Inc. TrustSolutions administers the PSC under cost reimbursement contracts with CMS. The PSC was originally awarded to UGS in 1999. On September 30, 2002, the PSC was novated from UGS to TrustSolutions. Effective January 1, 2003, the UGS pension plan contained two Medicare segments: TrustSolutions and the UGS Medicare segment. The TrustSolutions segment was primarily created from UGS Medicare segment employees who transferred out of the UGS Medicare segment into the TrustSolutions segment.

This report addresses the TrustSolutions Medicare segment pension assets and TrustSolutions’ compliance with Federal regulations and the PSC requirements. We are separately reviewing the UGS Medicare segment pension assets. Although we are addressing this report to National Government Services, Inc. (NGS), we will associate the term TrustSolutions with our findings and recommendations.

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1 In 2003, Blue Cross Blue Shield United of Wisconsin and United Government Services, LLC (UGS), were purchased by WellPoint Health Networks, Inc. (WHN). WHN merged with Anthem, Inc., on November 30, 2004, and Anthem then changed its name to WellPoint.

2 PSCs were established under the Medicare Integrity Program, which itself was created by section 202 of the Health Insurance Portability and Accountability Act of 1996, P.L. No. 104-191, which added section 1893 to the Social Security Act.
HOW WE CONDUCTED THIS REVIEW

We reviewed TrustSolutions’ initial asset allocation, identification of its Medicare segment, and update of its Medicare segment assets from January 1, 2003, to January 1, 2010.

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.

FINDINGS

TrustSolutions identified Medicare segment pension assets of $1,117,306 as of January 1, 2010; however, we determined that the Medicare segment pension assets as of that date were $1,222,549. Therefore, TrustSolutions understated the Medicare segment pension assets by $105,243. TrustSolutions understated the Medicare segment pension assets because it did not have controls to ensure that it calculated those assets in accordance with Federal regulations and the PSC requirements when updating the Medicare segment pension assets from January 1, 2003, to January 1, 2010.

Table 1 below summarizes the audit adjustments required to update Medicare segment pension assets in accordance with Federal regulations and the PSC requirements.

<table>
<thead>
<tr>
<th>Table 1: Summary of Audit Adjustments</th>
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<tr>
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<td><strong>Update of Medicare Segment Assets</strong></td>
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<tr>
<td>Contributions and Prepayment Credits</td>
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<tr>
<td>Benefit Payments</td>
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<tr>
<td>Net Transfers In</td>
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<tr>
<td>Earnings, Net of Expenses</td>
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<tr>
<td><strong>Understatement of Medicare Segment Assets</strong></td>
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</tbody>
</table>

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 regulations and the relevant language of the PSC, see Appendix B.
TrustSolutions did not correctly update the Medicare segment pension assets from January 1, 2003, to January 1, 2010, in accordance with Federal regulations and the PSC requirements. TrustSolutions identified Medicare segment pension assets of $1,117,306 as of January 1, 2010; however, we determined that the Medicare segment pension assets as of that date were $1,222,549. Therefore, TrustSolutions understated the Medicare segment pension assets by $105,243. The following are our specific findings regarding the update of the Medicare segment pension assets from January 1, 2003, to January 1, 2010.

Contributions and Transferred Prepayment Credits Understated

The audited contributions and transferred prepayment credits\(^3\) are based on the assignable pension costs.\(^4\) 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.\(^5\) For additional details on these Federal requirements, see Appendix B.

TrustSolutions understated contributions and transferred prepayment credits by $10,278 for the Medicare segment. The understatement occurred primarily because of differences in the asset base that TrustSolutions used to compute the assignable pension costs. Table 2 below shows the differences between the contributions and prepayment credits that TrustSolutions proposed and the contributions and prepayment credits that we calculated during our review.

<table>
<thead>
<tr>
<th>Year</th>
<th>Per Audit</th>
<th>Per TrustSolutions</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>$97,041</td>
<td>$125,077</td>
<td>($28,036)</td>
</tr>
<tr>
<td>2004</td>
<td>50,815</td>
<td>2,635</td>
<td>48,180</td>
</tr>
<tr>
<td>2005</td>
<td>119,490</td>
<td>72,334</td>
<td>47,156</td>
</tr>
<tr>
<td>2006</td>
<td>0</td>
<td>42,941</td>
<td>(42,941)</td>
</tr>
<tr>
<td>2007</td>
<td>0</td>
<td>781</td>
<td>(781)</td>
</tr>
<tr>
<td>2008</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2009</td>
<td>85,418</td>
<td>98,718</td>
<td>(13,300)</td>
</tr>
<tr>
<td>Total</td>
<td>$352,764</td>
<td>$342,486</td>
<td>$10,278</td>
</tr>
</tbody>
</table>

\(^3\) 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.

\(^4\) These are assigned to a specific cost accounting period.

\(^5\) CMS and TrustSolutions settled and closed the pension costs claimed by TrustSolutions in its ICPs for calendar years (CYs) 2003 through 2006 through a final indirect rate agreement letter. Accordingly, we incorporated those settled costs into our pension asset and cost calculations when updating the Medicare segment pension asset to January 1, 2010. For CYs 2003 through 2006, we set the assignable pension costs equal to the settled pension costs. In compliance with the CAS, we allocated prepayment credits and contributions to satisfy the assignable pension costs during CYs 2003 through 2006.
Net Transfers Understated

TrustSolutions understated net transfers into the Medicare segment by $73,063.\textsuperscript{6} The understatement occurred primarily because TrustSolutions incorrectly identified the participants who transferred into the Medicare segment.\textsuperscript{7} This understatement of the net transfer adjustment resulted in an understatement of the Medicare segment assets by $73,063. For details on the applicable Federal requirements, see Appendix B.

Earnings, Net of Expenses Understated

TrustSolutions understated investment earnings, less administrative expenses, by $21,902 for the Medicare segment, because it used incorrect contributions and transferred prepayment credits and incorrect net transfers (as 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. Table 3 below shows the differences between TrustSolutions’ proposed earnings, net of expenses and the amounts that we calculated during our review. For details on the applicable Federal requirements, see Appendix B.

<table>
<thead>
<tr>
<th>Year</th>
<th>Per Audit</th>
<th>Per TrustSolutions</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>$143,357</td>
<td>$134,856</td>
<td>$8,501</td>
</tr>
<tr>
<td>2004</td>
<td>86,640</td>
<td>76,171</td>
<td>10,469</td>
</tr>
<tr>
<td>2005</td>
<td>49,215</td>
<td>44,253</td>
<td>4,962</td>
</tr>
<tr>
<td>2006</td>
<td>123,417</td>
<td>118,572</td>
<td>4,845</td>
</tr>
<tr>
<td>2007</td>
<td>94,273</td>
<td>83,399</td>
<td>10,874</td>
</tr>
<tr>
<td>2008</td>
<td>(451,513)</td>
<td>(411,696)</td>
<td>(39,817)</td>
</tr>
<tr>
<td>2009</td>
<td>289,314</td>
<td>267,246</td>
<td>22,068</td>
</tr>
<tr>
<td>Total</td>
<td>$334,703</td>
<td>$312,801</td>
<td>$21,902</td>
</tr>
</tbody>
</table>

\textsuperscript{6} As stated in “Background,” the TrustSolutions segment was primarily created from UGS Medicare segment employees who transferred out of the UGS Medicare segment into the TrustSolutions segment. Although the creation of TrustSolutions was effective January 1, 2003, the relevant accounting records show that the transfers from the UGS Medicare segment to the TrustSolutions Medicare segment occurred during 2002.

\textsuperscript{7} The PSC was awarded to UGS in 1999. UGS novated the PSC to TrustSolutions on September 30, 2002. Therefore, we calculated the January 1, 2003, asset value for TrustSolutions in accordance with CAS 413-50(c)(5)(ii) and CAS 413-50(c)(8). In accordance with CAS 413-50(c)(ii), we allocated the undivided Government assets of 16 participants who were Medicare segment employees as of 1999 based on the Government employees’ liabilities in each segment after the move. For the 17 other participants, who were not Medicare segment employees, we allocated assets in accordance with CAS 413-50(c)(8). Under this provision of the CAS, we transferred the assets equal to the accrued benefit cost method liability.
RECOMMENDATIONS

We recommend that TrustSolutions:

- increase Medicare segment pension assets as of January 1, 2010, by $105,243 and recognize $1,222,549 as the Medicare segment pension assets and
- establish controls to ensure that the Medicare segment assets are updated in accordance with CAS 412 and 413.

AUDITEE COMMENTS

In written comments on our draft report, NGS concurred with our findings and recommendations and said that it would make the appropriate adjustments to the Medicare segment pension assets. NGS also said that it would evaluate its current procedures to ensure compliance with Federal regulations. Because the TrustSolutions Medicare segment closed in 2012, after which NGS assumed responsibility for these assets, NGS responded to our draft report.

Our draft report included an appendix containing proprietary and confidential financial information that NGS asked us to redact from any publicly available posting of this report.

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

OFFICE OF INSPECTOR GENERAL RESPONSE

In response to NGS’s request, we have removed the appendix in question from the publicly available version of this final report. We are separately providing this report with this appendix in its entirety to CMS.
APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed TrustSolutions’ initial asset allocation, identification of its Medicare segment, and update of Medicare segment assets from January 1, 2003, to January 1, 2010.

Achieving our objective did not require that we review TrustSolutions’ overall internal control structure. We reviewed controls relating to the identification of the Medicare segment and the update of the Medicare segment’s assets to ensure adherence to the Medicare contracts, CAS 412, and CAS 413.

We performed fieldwork at UGS’s office in Milwaukee, Wisconsin.

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 WellPoint’s actuarial consulting firms, which included information on the pension plan’s assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We used this information to calculate the Medicare segment assets.

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

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

- We reviewed TrustSolutions’ accounting records to verify the segment identification and benefit payments made to the Medicare segment.

- We provided the CMS Office of the Actuary with the actuarial information necessary for it to calculate the Medicare segment pension assets from January 1, 2003, to January 1, 2010.

- We reviewed the CMS actuaries’ methodology and calculations.

- We provided the results of the review to NGS officials on September 18, 2014.
We performed this review in conjunction with the following audits and used the information obtained during this review:

- **United Government Services, LLC, Understated Its Medicare Segment Pension Assets as of January 1, 2010** (A-07-14-00447);

- **United Government Services, LLC, Claimed Some Unallowable Medicare Pension Costs for Fiscal Years 1999 Through 2006** (A-07-14-00450);

- **TrustSolutions, LLC, Overstated Its Allocable Pension Costs for Calendar Years 2007 Through 2009** (A-07-14-00451);

- **National Government Services, Inc., Did Not Claim Some Allowable Medicare Pension Costs for Fiscal Years 2007 Through 2009** (A-07-14-00452); and


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

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 31.205-6(j)) also 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 412.50(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)(5)(ii) require that the market value of assets be based on the ratio of the actuarial accrued liability of the segment to the plan as a whole and determined in a manner consistent with the immediate gain actuarial cost method or methods used to compute cost.

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 weighted average value (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.

PROGRAM SAFEGUARD CONTRACT

The contract states: “Once each month following the effective date of this contract, the Contractor may submit to the Government an invoice for payment, in accordance with FAR clause 52.216-7, ‘Allowable Cost & Payment.’”
APPENDIX D: AUDITEE COMMENTS

April 24, 2015

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

Reference: Report Number A-07-14-00449

Dear Mr. Cogley:

We have received the draft audit report from the Inspector General entitled “TrustSolutions, LLC, Understated its Medicare Segment Pension Assets as of January 1, 2010” and thank you for the opportunity to respond.

We concur with the finding and recommendation outlined in the report and will make the appropriate adjustment to Medicare segment pension assets. We will also review the processes in place to update Medicare segment plan assets to ensure those processes follow CAS 412 and 413.

Finally, we respectfully request that the Draft Report Appendix B which contains proprietary and confidential financial information relating to NGS’ costs, be redacted from any publicly available posting of the Draft Report and subsequent Final Report.

We appreciate the opportunity to respond to this draft report. If you have any further questions, I can be reached at 414-459-5606 or via email at todd.reiger@anthem.com.

Sincerely,

Todd W. Reiger, CPA
Medicare Chief Financial Officer
National Government Services, Inc.

CC: Michael Kapp – NGS
    Jim Maguire – NGS
    Mary Ludden – NGS
    Renee Sherrill – NGS
    Joanne Imel - Anthem

    Jerenne Tambke – OIG