

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**CIGNA GOVERNMENT SERVICES, LLC'S
POSTRETIREMENT BENEFIT ALLOCABLE
COSTS WERE REASONABLE AND
ALLOWABLE FOR CALENDAR YEARS
2007 THROUGH 2011**

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Office of Inspector General

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The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

Postretirement benefit costs that CIGNA Government Services, LLC, used to calculate its indirect cost rates for calendar years 2007 through 2011 were reasonable and allowable.

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their postretirement benefit (PRB) costs, which are funded by direct payments to beneficiaries or contributions to a dedicated trust fund. The amount of PRB costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the cost reimbursement principles contained in the Federal Acquisition Regulation (FAR) as required by the Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors have not always complied with Federal requirements when claiming PRB costs for Medicare reimbursement.

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, PRB, 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 (ICPs).

For this review, we focused on one Medicare contractor, CIGNA Government Services, LLC (CGS). In particular, we examined the allocable PRB costs (referred to in this report as "PRB costs") that CGS used to calculate the indirect cost rates in its ICPs.

The objective of this review was to determine whether the PRB costs that CGS used to calculate the indirect cost rates in its ICPs, under the provisions of its MAC contracts, for calendar years (CYs) 2007 through 2011 were reasonable and allowable pursuant to Federal requirements.

BACKGROUND

During our audit period, CGS administered Medicare Part B and Durable Medicare Equipment (DME) operations for Connecticut General Life Insurance Company (CGLIC), the legal entity that entered into these cost reimbursement contracts with CMS. CGS and CGLIC are wholly owned subsidiaries of CIGNA Corporation. Effective June 1, 2011, the CGS Medicare segment was sold to Blue Cross Blue Shield of South Carolina. On June 2, 2011, CGS changed its name to CGS Administrators, LLC. Although we have addressed this report to CGS Administrators, we will refer to our auditee as CGS in this report.

With the implementation of Medicare contracting reform, CGS continued to perform Medicare work after being awarded the MAC contracts for Medicare DME Jurisdiction C and Medicare Parts A and B Jurisdiction 15, effective June 1, 2007, and July 8, 2010, respectively. While performing MAC work, CGS also functioned as a Medicare Part B carrier. CIGNA sponsors a PRB plan called CIGNA's Retiree Benefit Plan. The purpose of this PRB plan is to provide

medical, dental, vision, prescription drug, and group life insurance benefits to eligible retirees and their dependents. As a subsidiary of CIGNA, CGS employees were eligible to participate in this PRB plan. CGS claimed PRB costs using the pay-as-you-go basis of accounting.

During our audit period, CGS administered Medicare Part B carrier contracts and MAC-related contracts. This report will address the PRB costs that CGS claimed under the provisions of its MAC contracts. We are addressing the PRB costs that CGS claimed under the provisions of its Medicare Part B carrier contracts in a separate review.

We reviewed \$168,997,000 of PRB costs used by CGS in the calculation of its indirect cost rates for CYs 2007 through 2011.

RESULTS OF OUR REVIEW

The PRB costs that CGS used to calculate the indirect cost rates in its ICPs for CYs 2007 through 2011 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 CGS's methodology for computing its indirect cost rates for the MAC contract, we determined that the PRB costs for CYs 2007 through 2011 had complied with Federal requirements. 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, which are funded by direct payments to beneficiaries or contributions to a dedicated trust fund. The amount of PRB costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the cost reimbursement principles contained in the Federal Acquisition Regulation (FAR) as required by the Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors have not always complied with Federal requirements when claiming PRB costs for Medicare reimbursement.

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, PRB, 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 (ICPs).

For this review, we focused on one Medicare contractor, CIGNA Government Services, LLC (CGS). In particular, we examined the allocable PRB costs (referred to in this report as "PRB costs") that CGS used to calculate the indirect cost rates in its ICPs.

OBJECTIVE

Our objective was to determine whether the PRB costs that CGS used to calculate the indirect cost rates in its ICPs, under the provisions of its MAC contracts, for calendar years (CYs) 2007 through 2011 were reasonable and allowable pursuant to Federal requirements.

BACKGROUND

CIGNA Government Services, LLC

During our audit period, CGS administered Medicare Part B and Durable Medicare Equipment (DME) operations for Connecticut General Life Insurance Company (CGLIC), the legal entity that entered into these cost reimbursement contracts with CMS. CGS and CGLIC are wholly owned subsidiaries of CIGNA Corporation (CIGNA). Effective June 1, 2011, the CGS Medicare segment was sold to Blue Cross Blue Shield of South Carolina. On June 2, 2011, CGS changed its name to CGS Administrators, LLC. Although we have addressed this report to CGS Administrators, we will refer to our auditee as CGS in this report.

With the implementation of Medicare contracting reform,¹ CGS continued to perform Medicare work after being awarded the MAC contracts for Medicare DME Jurisdiction C and Medicare Parts A and B Jurisdiction 15, effective June 1, 2007, and July 8, 2010, respectively.^{2, 3} While performing MAC work, CGS also functioned as a Medicare Part B carrier.

CIGNA sponsors a PRB plan called CIGNA's Retiree Benefits Plan. The purpose of this PRB plan is to provide medical, dental, vision, prescription drug, and group life insurance benefits to eligible retirees and their dependents. As a subsidiary of CIGNA, CGS employees were eligible to participate in this PRB plan.

During our audit period, CGS administered Medicare Part B carrier contracts and MAC-related contracts. This report will address the PRB costs that CGS claimed under the provisions of its MAC contracts. We are addressing the PRB costs that CGS claimed under the provisions of its Medicare Part B carrier contracts in a separate review.

Medicare Reimbursement of Postretirement Benefit Costs

CMS reimburses a portion of Medicare contractors' PRB costs. In claiming PRB costs, contractors must follow cost reimbursement principles contained in the FAR and applicable Cost Accounting Standards (CAS) as required by the Medicare contracts. To be allowable for Medicare reimbursement, pay-as-you-go PRB costs must be assigned to the period in which the benefits are actually provided; or when the costs are paid to an insurer, provider, or other recipient for current year benefits or premiums. CGS claimed PRB costs using the pay-as-you-go basis of accounting.

Under the provisions of Medicare contracting reform, CMS transferred the functions of the fiscal intermediaries and contract carriers, which had executed the fiscal intermediary and carrier contracts, to MACs. Under the MAC contracts, the method by which Medicare reimbursed PRB costs to the contractors changed from a cost reimbursement basis to an indirect cost basis. In accordance with the FAR and the MAC contract, reimbursement of indirect costs was now based on indirect cost rates that met the negotiated indirect cost rates determined in the contracts.

Medicare contractors use pooled costing to calculate the indirect cost rates that they submit on their ICPs. The PRB costs are included in the computation of the indirect cost rates reported on

¹ Section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P.L. No. 108-173, required CMS to transfer the functions of fiscal intermediaries and carriers to MACs between October 2005 and October 2011. Most, but not all, of the MACs are fully operational; for jurisdictions where the MACs are not fully operational, the fiscal intermediaries and carriers continue to process claims. For purposes of this report, the term "Medicare contractor" means the fiscal intermediary, carrier, or MAC, whichever is applicable.

² DME Jurisdiction C consists of the States of Alabama, Arkansas, Colorado, Florida, Georgia, Louisiana, Mississippi, New Mexico, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia, the commonwealth of Puerto Rico, and the territory of the U.S. Virgin Islands.

³ Medicare Parts A and B Jurisdiction 15 consists of the States of Kentucky and Ohio. Jurisdiction 15 also includes home health and hospice services provided in the States of Colorado, Delaware, Iowa, Kansas, Maryland, Missouri, Montana, Nebraska, North Dakota, Pennsylvania, South Dakota, Utah, Virginia, West Virginia, and Wyoming, and in the District of Columbia.

the ICPs. The FAR requires Medicare contractors to file final indirect cost rates on their ICPs 6 months after the year end. In turn, CMS uses the indirect cost rates in reimbursing costs under cost-reimbursement contracts.

HOW WE CONDUCTED THIS REVIEW

We reviewed \$168,997,000 of PRB costs used by CGS in the calculation of its indirect cost rates for CYs 2007 through 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.

The Appendix contains details of our audit scope and methodology.

RESULTS OF REVIEW

The PRB costs that CGS used to calculate the indirect cost rates in its ICPs for CYs 2007 through 2011 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 CGS's methodology in computing its indirect cost rates for the MAC contract, we determined that the PRB costs for CYs 2007 through 2011 had complied with Federal requirements. This report therefore makes no recommendations.

APPENDIX: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$168,997,000 of PRB costs used by CGS in the calculation of its indirect cost rates for CYs 2007 through 2011.

Achieving our objective did not require that we review CGS' 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 performed our fieldwork at CGS's office in Nashville, Tennessee.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR and Medicare contracts applicable to this audit;
- reviewed accounting records and ICP information provided by CGS to identify the amount of PRB costs used to calculate CGS's indirect cost rates for CYs 2007 through 2011;
- examined CGS's PRB plan documents; and
- provided the results of our review to CGS officials on November 24, 2015.

We performed this review in conjunction with the following audit and used the information obtained during this audit: *CIGNA Government Services, LLC, Claimed Some Unallowable Medicare Postretirement Benefit Costs for Fiscal Years 2004 Through 2011 (A-07-15-00464)*.

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.