



Office of Audit Services
Region VII
601 East 12th Street, Room 284A
Kansas City, MO 64106
(816) 426-3591

May 13, 2003

Report Number: A-07-02-03034

Ms. Gwen Miyasato
Senior Vice President
Hawaii Medical Service Association
818 Keeaumoku Street
P.O. Box 860
Honolulu, Hawaii 96808-0860

Dear Ms. Miyasato:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services' (OAS) report entitled *Audit of the Pension Plan at a Terminated Medicare Contractor, Hawaii Medical Service Association.* A copy of this report will be forwarded to the action official noted below for his/her review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), OIG, OAS reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

To facilitate identification, please refer to Report Number A-07-02-03034 in all correspondence relating to this report.

Sincerely yours,

A handwritten signature in black ink, appearing to read "James P. Aasmundstad".

James P. Aasmundstad
Regional Inspector General
for Audit Services

Enclosures – as stated

Directly Reply to HHS Action Official:

Ms. Elizabeth Abbott
Regional Administrator, Region IX
Centers for Medicare & Medicaid Services
75 Hawthorne Street, 4th Floor
San Francisco, California 94105-3903

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF THE PENSION PLAN
AT A TERMINATED MEDICARE
CONTRACTOR, HAWAII MEDICAL
SERVICE ASSOCIATION**



**JANET REHNQUIST
INSPECTOR GENERAL**

**MAY 2003
A-07-02-03034**

Office of Inspector General

<http://oig.hhs.gov/>

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:

Office of Audit Services

The OIG's Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the Department.

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The OIG's Office of Evaluation and Inspections (OEI) conducts short-term management and program evaluations (called inspections) that focus on issues of concern to the Department, the Congress, and the public. The findings and recommendations contained in the inspections reports generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs.

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The OIG's Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, or civil monetary penalties. The OI also oversees State Medicaid fraud control units, which investigate and prosecute fraud and patient abuse in the Medicaid program.

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The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the Department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops model compliance plans, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

Notices

**THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov/>**

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services, reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.)

OAS FINDINGS AND OPINIONS

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





DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

May 13, 2003

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

Report Number: A-07-02-03034

Ms. Gwen Miyasato
Senior Vice President
Hawaii Medical Service Association
818 Keeaumoku Street
P.O. Box 860
Honolulu, Hawaii 96808-0860

Dear Ms. Miyasato:

This report provides the results of an Office of Inspector General (OIG), Office of Audit Services (OAS) review titled *Audit of the Pension Plan at a Terminated Medicare Contractor, Hawaii Medical Service Association*.

We computed excess Medicare pension assets of \$456,481 as of January 1, 2000 that Hawaii Medical Service Association (HMSA) should remit to the Federal Government. HMSA agreed with our report and their response is included as Appendix A.

EXECUTIVE SUMMARY

OBJECTIVES

The audit objectives were to evaluate HMSA's compliance with the pension segmentation requirements of its Medicare contract and to determine the excess assets that should be remitted to Medicare as a result of the termination of the Medicare contractual relationship effective June 30, 1999.

FINDINGS

We computed excess Medicare pension assets of \$456,481 as of January 1, 2000. In our opinion, the excess pension assets were the result of HMSA terminating the Medicare program and transferring all remaining Medicare liabilities out of the Medicare segment.

RECOMMENDATION

We recommend HMSA remit the \$456,481 of excess Medicare pension assets resulting from the termination of its Medicare contract to the Federal government.

INTRODUCTION

BACKGROUND

Medicare

HMSA administered Medicare Part A operations under a cost reimbursement contract until the contractual relationship was terminated effective June 30, 1999. In claiming costs, contractors were to follow cost reimbursement principles contained in the Federal Procurement Regulations (FPR), which were superseded by the Federal Acquisition Regulations (FAR), the Cost Accounting Standards (CAS), and the Medicare contracts.

Since its inception, Medicare has paid a portion of the annual contributions made by contractors to its pension plans. These payments represented allowable pension costs under the FPR and/or the FAR. In 1980, both the FPR and Medicare contracts incorporated CAS 412 and 413.

The Centers for Medicare and Medicaid Services (CMS), formerly the Health Care Financing Administration, incorporated segmentation requirements into Medicare contracts starting with Fiscal Year 1988. The contractual language specifies segmentation requirements and also provides for the separate identification of the pension assets for a Medicare segment.

The Medicare contract defines a segment, and specifies the methodology for the identification and initial allocation of pension assets to the Medicare segment. Furthermore, the contract requires that the Medicare segment assets be updated for each year after the initial allocation in accordance with CAS 413.

Regulations

The CAS 412 regulates the determination and measurement of the components of pension costs. It also regulates the assignment of pension costs to appropriate accounting periods. The CAS 413 regulates 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.

HMSA

HMSA's Medicare Part A contract was terminated effective June 30, 1999. Consequently, HMSA's Medicare pension plan participants transferred out of the Medicare segment and the segment was closed on that date.

HMSA participates in the National Retirement Program administered by the National Employee Benefit Association.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

Our objectives were to determine HMSA's compliance with pension segmentation requirements of its Medicare contract and to determine the amount of excess assets that should be remitted to Medicare as a result of the contract termination and Medicare segment closing.

Scope

Achieving our objectives did not require a review of HMSA's internal control structure. HMSA's Medicare contract was terminated and the Medicare segment closed on June 30, 1999. HMSA's actuaries updated the Medicare segment assets up to January 1, 2000, which was the next actuarial valuation date. Accordingly, we determined that January 1, 2000 would be the appropriate settlement date to measure the segment closing adjustment amount. Therefore, we reviewed HMSA's identification of the Medicare segment and its update of Medicare assets from January 1, 1986 through January 1, 2000. We also traced the segment's organizational lineage back to 1981 and reviewed HMSA's computation of the asset fraction.

Methodology

In performing the review, we used information provided by HMSA's prior and current consulting actuarial firms. The information included liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We reviewed HMSA's accounting records, pension plan documents, annual actuarial valuation reports, and the Department of Labor/Internal Revenue Service Form 5500s. Using these documents, CMS pension actuarial staff estimated Medicare segment assets as of January 1, 2000. We reviewed their methodology and calculations.

Site work at HMSA's corporate office in Honolulu, Hawaii was performed by OIG, OAS Region IX auditors during November and December 2002. We performed subsequent audit work in our OIG, OAS Jefferson City, Missouri field office.

Our audit was performed in accordance with generally accepted government auditing standards.

FINDING AND RECOMMENDATION

When HMSA's Medicare segment closed, Medicare's share of the excess pension assets was \$456,481, which we are recommending be remitted to the Federal government. To determine Medicare's share it was necessary to (1) update segment assets to January 1, 2000 and (2) calculate the actuarial liability for accrued benefits for the segment, and the excess Medicare assets.

CONDITION AND CAUSE

As of January 1, 2000, HMSA identified Medicare segment assets of \$456,481. Since all Medicare pension plan participants and applicable liabilities transferred out of the Medicare segment when it closed, the Medicare segment's actuarial liability as of January 1, 2000 was zero.

We reviewed HMSA's update of Medicare segment assets to January 1, 2000, agreed with HMSA's determination, and concluded that the January 1, 2000 value of \$456,481 was materially accurate. Therefore we computed Medicare's share of excess pension assets to be \$456,481 as of January 1, 2000.

CRITERIA

Medicare contracts specifically prohibit any profit (gain) from Medicare activities. Therefore, according to the contract, pension gains, which occur when a Medicare segment closes, should be credited to the Medicare program. In addition, FAR addresses dispositions of gains in situations such as contract terminations. When excess or surplus assets revert to a contractor as a result of termination of a defined benefit pension plan or such assets are constructively received by it for any reason, the contractor shall make a refund or give credit to the government for its equitable share (FAR, Section 31.205-6(j)(4)).

Contract terminations and segment closings are addressed by CAS at 9904.413-50(c)(12), which states:

"If a segment is closed, ...the contractor shall determine the difference between the actuarial accrued 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....

(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.... 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."

EFFECT

HMSA retained excess pension assets for the Medicare segment of \$456,481, which represents the Federal government share.

RECOMMENDATION

We recommend HMSA remit the \$456,481 of excess Medicare pension assets resulting from the termination of its Medicare contract to the Federal government.

Auditee's Comments

HMSA agreed with our finding in its entirety; see Appendix A.

INSTRUCTIONS FOR AUDITEE RESPONSE

Final determinations as to actions to be taken on all matters reported will be made by the HHS action official identified below. We request that you respond to the recommendation in this report within 30 days from the date of this report to the HHS action official, presenting any comments or additional information that you believe may have a bearing on final determination.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, OIG, OAS reports are made available to the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR part 5). As such, within 10 business days after the final report is issued, it will be posted on the worldwide web at <http://oig.hhs.gov/>.

Sincerely,



James P. Aasmundstad
Regional Inspector General for
Audit Services, Region VII

Enclosures

HHS Action Official:

Ms. Elizabeth Abbott
Regional Administrator, Region IX
Centers for Medicare & Medicaid Services
75 Hawthorne Street, 4th Floor
San Francisco, California 94105-3903

HMSA



An Independent Licensee of the Blue Cross and Blue Shield Association

May 6, 2003

Mr. James P. Aasmundstad
Regional Inspector General For
Audit Services, Region VII
601 East 12th Street, Room 284A
Kansas City, MO 64106

Dear Mr. Aasmundstad:

Re: Report Number A-07-02-03034

We have completed our review of the draft report and the pension audit documents associated with the termination of the Medicare contract for the Hawaii Medical Service Association (HMSA) Retirement Program.

The documents, which were provided by your staff, proposes that HMSA reimburse CMS \$456,481. We accept this amount. Please provide us with instructions so that we can remit the amount to CMS on a timely basis.

Sincerely,

A handwritten signature in black ink that reads 'Gwen S. Miyasato'.

Gwen S. Miyasato
Senior Vice President

GSM:kyg

ACKNOWLEDGMENTS

Report Number: A-07-02-03034
Audit of the Pension Plan at a Terminated Medicare Contractor,
Hawaii Medical Service Association

This report was prepared under the direction of James P. Aasmundstad, Regional Inspector General for Audit Services. Other principal Office of Audit Services staff that contributed include:

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For information or copies of this report, please contact the Office of Inspector General's Public Affairs office at (202) 619-1343.