



DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL



OFFICE OF AUDIT SERVICES, REGION VII
601 EAST 12TH STREET, ROOM 0429
KANSAS CITY, MO 64106

April 4, 2012

Report Number: A-07-12-00380

Mr. Peter S. Moore
Vice President of Government Programs
GHI Medicare
25 Broadway
New York, NY 10004

Dear Mr. Moore:

Enclosed is the U.S. Department of Health and Human Services, Office of Inspector General (OIG), final report entitled *Review of the Pension Costs Claimed by Group Health Incorporated for Plan Years 1999 Through 2006*. We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this 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.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, or contact Jenenne Tambke, Audit Manager, at (573) 893-8338, extension 21, or through email at Jenenne.Tambke@oig.hhs.gov. Please refer to report number A-07-12-00380 in all correspondence.

Sincerely,

/Patrick J. Cogley/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Deborah Taylor
Director & Chief Financial Officer
Office of Financial Management
Centers for Medicare & Medicaid Services
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Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF THE PENSION
COSTS CLAIMED BY
GROUP HEALTH INCORPORATED
FOR PLAN YEARS 1999 THROUGH 2006**



Daniel R. Levinson
Inspector General

April 2012
A-07-12-00380

Office of Inspector General

<http://oig.hhs.gov>

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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

BACKGROUND

Group Health Incorporated (GHI), an EmblemHealth Company, administered Medicare Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS), which terminated July 18, 2008. GHI also administers Medicare operations under a Coordination of Benefits (COB) contract with CMS. In addition, GHI performs Medicare work as a subcontractor on the Retiree Drug Subsidy (RDS) contract and on the Medicare Secondary Payer Recovery contract (MSPRC).

During our audit period, GHI had three defined benefit pension plans. This report will address the COB, RDS, and MSPRC contracts' pension costs (which for this report we refer to as Medicare pension costs) claimed for the GHI Local 153 Pension Plan and the GHI Cash Balance Pension Plan.

CMS reimburses a portion of the annual contributions that contractors make to their pension plans. In claiming costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation, Cost Accounting Standards (CAS), and the Medicare contracts.

The Medicare contracts require contractors to allocate or separately calculate pension costs. Contractors must use the separate calculation method if there is a material difference between the results of the two methods.

OBJECTIVE

Our objective was to determine the allowability of Medicare pension costs that GHI claimed for Medicare reimbursement for plan years (PY) 1999 through 2006.

SUMMARY OF FINDING

GHI did not claim \$761,715 of allowable Medicare pension costs on its invoices for PYs 1999 through 2006. The underclaim occurred primarily because GHI based its claim for Medicare reimbursement on an amount that did not comply with the provisions of CAS 412 and 413. GHI claimed \$2,640,041 of Medicare pension costs for Medicare reimbursement; however, we determined that the allowable Medicare pension costs were \$3,401,756. As a result, GHI did not claim \$761,715 of allowable Medicare pension costs during PYs 1999 through 2006.

RECOMMENDATION

We recommend that GHI revise its invoices for PYs 1999 through 2006 to increase Medicare pension costs by \$761,715.

AUDITEE COMMENTS

In written comments on our draft report, GHI agreed with our recommendation.

GHI's comments are included in their entirety as Appendix D.

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INTRODUCTION

BACKGROUND

Group Health Incorporated and Medicare

Group Health Incorporated (GHI), an EmblemHealth Company, administered Medicare Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS), which terminated July 18, 2008.¹ As of November 1, 1999, GHI also administers Medicare operations under a Coordination of Benefits (COB) contract with CMS. In addition, GHI performs Medicare work as a subcontractor on the Retiree Drug Subsidy (RDS) contract and on the Medicare Secondary Payer Recovery contract (MSPRC) as of February 17, 2005, and August 15, 2006, respectively.

During our audit period, GHI had three defined benefit pension plans: the GHI Local 153 Pension Plan, the GHI Cash Balance Pension Plan, and the EmblemHealth Services Company, LLC, Employees' Retirement Plan. Medicare segment employees participated in all three defined benefit pension plans. This report will address the COB, RDS, and MSPRC contracts' Medicare pension costs claimed for the GHI Local 153 Pension Plan and the GHI Cash Balance Pension Plan.²

Medicare Reimbursement

CMS reimburses a portion of the annual contributions that contractors make to their pension plans. To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with Cost Accounting Standards (CAS) 412 and 413 and (2) funded as specified by part 31 of the Federal Acquisition Regulation (FAR).

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine the allowability of Medicare pension costs that GHI claimed for Medicare reimbursement for plan years (PY) 1999 through 2006.

Scope

We reviewed \$2,640,041 of Medicare pension costs that GHI claimed for Medicare reimbursement on its invoices for PYs 1999 through 2006. Achieving our objective did not require that we review GHI's overall internal control structure. We limited our review to the internal controls related to the pension costs claimed for Medicare reimbursement to ensure that

¹ We reviewed the allowability of the Medicare Part B pension costs in a separate audit of GHI (A-07-12-00379).

² Unless otherwise noted, all subsequent references to Medicare pension costs and reimbursement in the body of this report relate to the COB, RDS, and MSPRC's Medicare pension costs.

the pension costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

We performed fieldwork at GHI in New York, New York, during September 2008 and July 2010.

Methodology

We reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit. We identified the amount of pension costs claimed for Medicare reimbursement for PYs 1999 through 2006 by reviewing GHI's invoices and other information from its accounting systems. We also determined the extent to which GHI funded CAS-based pension costs with contributions to the pension trust fund and accumulated prepayment credits.

We based our calculations of allowable pension costs on CMS Office of the Actuary's (OACT) computation of CAS-based pension costs for the Medicare segment and the "Other" segment. OACT separately computed each segment's CAS-based pension costs. OACT based its computations on GHI's historical practices and on the results of our review of GHI's pension segmentation requirements for both of the pension plans—the Local 153 Pension Plan for the period April 1, 1987, to January 1, 2009 (A-07-11-00358) and the GHI Cash Balance Pension Plan for the period September 1, 2003, to January 1, 2009 (A-07-12-00374)—and on our reviews of GHI's unfunded pension costs for the Local 153 Pension Plan for PYs 1987 through 2007 (A-07-12-00375), and for the GHI Cash Balance Pension Plan for PYs 2003 through 2007 (A-07-12-00376).

In performing our review, we used information that GHI's actuarial consulting firms provided. The information included assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We examined GHI's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Forms 5500.

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.

FINDING AND RECOMMENDATION

GHI did not claim \$761,715 of allowable Medicare pension costs on its invoices for PYs 1999 through 2006. The underclaim occurred primarily because GHI based its claim for Medicare reimbursement on an amount that did not comply with the provisions of CAS 412 and 413. GHI claimed \$2,640,041 of Medicare pension costs for Medicare reimbursement; however, we determined that the allowable Medicare pension costs were \$3,401,756. As a result, GHI did not claim \$761,715 of allowable Medicare pension costs during PYs 1999 through 2006.

FEDERAL REQUIREMENTS

The GHI Medicare contracts require GHI to submit invoices in accordance with FAR 52.216-7, “Allowable Cost & Payment.” Furthermore, FAR 52.216-7(a)(1) addresses the invoicing requirements and the allowability of payments as determined by the Contracting Officer in accordance with FAR Subpart 31.2.

FAR 31.205-6(j) requires contractors to measure, assign, and allocate the costs of all defined-benefit pension plans in compliance with CAS 412 and 413. FAR 31.205-6(j) also addresses allowability of pension costs by requiring that plan contributions substantiate pension costs assigned to contract periods.

CAS 412 addresses the determination and measurement of pension cost components. It also addresses the assignment of pension costs to appropriate accounting periods.

CAS 413 addresses 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.

ALLOWABLE PENSION COSTS NOT CLAIMED

GHI did not claim \$761,715 of Medicare pension costs that were allowable for Medicare reimbursement for PYs 1999 through 2006. For that period, GHI claimed Medicare pension costs of \$2,640,041 for Medicare reimbursement. We calculated the allowable 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. Based on the terms of the Medicare contract, the allowable Medicare CAS-based pension costs for PYs 1999 through 2006 were \$3,401,756.

The table on the following page compares allowable Medicare CAS-based pension costs with the Medicare pension costs claimed on GHI’s invoices. Appendix C contains additional details on allowable Medicare pension costs.

Comparison of Allowable Medicare Pension Costs and Claimed Medicare Pension Costs

Plan Year	Medicare Pension Costs		Difference
	Allowable Per Audit	Claimed by GHI	
1999	\$0	\$28	(\$28)
2000	52,773	32,359	20,414
2001	99,032	52,325	46,707
2002	119,082	118,800	282
2003	243,988	140,595	103,393
2004	728,596	162,985	565,611
2005	923,256	778,433	144,823
2006	1,235,029	1,354,516	(119,487)
Total	\$3,401,756	\$2,640,041	\$761,715

The Medicare contracts require GHI to calculate pension costs for Medicare reimbursement in accordance with the provisions of CAS 412 and 413. However, GHI based its claim for Medicare reimbursement on an amount that did not comply with the provisions of CAS 412 and 413. As a result, GHI did not claim \$761,715 of allowable Medicare pension costs.

RECOMMENDATION

We recommend that GHI revise its invoices for PYs 1999 through 2006 to increase Medicare pension costs by \$761,715.

AUDITEE COMMENTS

In written comments on our draft report, GHI agreed with our recommendation.

GHI's comments are included in their entirety as Appendix D.

APPENDIXES

**APPENDIX A: ALLOCABLE MEDICARE PENSION COSTS FOR THE
LOCAL 153 PENSION PLAN FOR GROUP HEALTH INCORPORATED
FOR PLAN YEARS 1999 THROUGH 2006**

Date	Description	Total Company	“Other” Segment	Medicare Segment
1999	Contributions <u>1/</u>	\$2,741,584	\$2,741,584	\$0
8.50%	Discount for Interest <u>2/</u>	(\$198,176)	(\$198,176)	\$0
January 1, 1999	Present Value Contributions <u>3/</u>	\$2,543,408	\$2,543,408	\$0
	Prepayment Credit Applied <u>4/</u>	\$221	\$221	\$0
	Present Value of Funding <u>5/</u>	\$2,543,629	\$2,543,629	\$0
January 1, 1999	CAS Funding Target <u>6/</u>	\$2,645,607	\$2,645,607	\$0
	Percentage Funded <u>7/</u>		96.15%	0.00%
	Funded Pension Cost <u>8/</u>		\$2,543,751	\$0
	Allowable Interest <u>9/</u>		\$153,142	\$0
1999	Allocable Pension Cost <u>10/</u>		\$2,696,893	\$0
2000	Contributions	\$3,361,467	\$3,361,467	\$0
8.50%	Discount for Interest	(\$247,303)	(\$247,303)	\$0
January 1, 2000	Present Value Contributions	\$3,114,164	\$3,114,164	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$3,114,164	\$3,114,164	\$0
January 1, 2000	CAS Funding Target	\$3,111,009	\$3,111,009	\$0
	Percentage Funded		100.00%	0.00%
	Funded Pension Cost		\$3,111,009	\$0
	Allowable Interest		\$187,309	\$0
2000	Allocable Pension Cost		\$3,298,318	\$0
2001	Contributions	\$4,461,143	\$4,461,143	\$0
8.50%	Discount for Interest	(\$272,498)	(\$272,498)	\$0
January 1, 2001	Present Value Contributions	\$4,188,645	\$4,188,645	\$0
	Prepayment Credit Applied	\$3,423	\$3,423	\$0
	Present Value of Funding	\$4,192,068	\$4,192,068	\$0
January 1, 2001	CAS Funding Target	\$4,115,076	\$4,115,076	\$0
	Percentage Funded		100.00%	0.00%
	Funded Pension Cost		\$4,115,076	\$0
	Allowable Interest		\$247,556	\$0
2001	Allocable Pension Cost		\$4,362,632	\$0
2002	Contributions	\$5,859,236	\$5,859,236	\$0
8.50%	Discount for Interest	(\$340,087)	(\$340,087)	\$0
January 1, 2002	Present Value Contributions	\$5,519,149	\$5,519,149	\$0
	Prepayment Credit Applied	\$83,536	\$83,536	\$0
	Present Value of Funding	\$5,602,685	\$5,602,685	\$0
January 1, 2002	CAS Funding Target	\$5,483,754	\$5,483,754	\$0
	Percentage Funded		100.00%	0.00%
	Funded Pension Cost		\$5,483,754	\$0
	Allowable Interest		\$325,138	\$0
2002	Allocable Pension Cost		\$5,808,892	\$0

Date	Description	Total Company	“Other” Segment	Medicare Segment
2003	Contributions	\$7,664,540	\$7,664,540	\$0
8.25%	Discount for Interest	(\$428,754)	(\$428,754)	\$0
January 1, 2003	Present Value Contributions	\$7,235,786	\$7,235,786	\$0
	Prepayment Credit Applied	\$129,040	\$129,040	\$0
	Present Value of Funding	\$7,364,826	\$7,364,826	\$0
January 1, 2003	CAS Funding Target	\$8,230,907	\$8,230,907	\$0
	Percentage Funded		89.48%	0.00%
	Funded Pension Cost		\$7,365,016	\$0
	Allowable Interest		\$422,852	\$0
2003	Allocable Pension Cost		\$7,787,868	\$0
2004	Contributions	\$26,765,678	\$26,363,666	\$402,012
8.25%	Discount for Interest	(\$1,844,662)	(\$1,816,956)	(\$27,706)
January 1, 2004	Present Value Contributions	\$24,921,016	\$24,546,710	\$374,306
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$24,921,016	\$24,546,710	\$374,306
January 1, 2004	CAS Funding Target	\$8,044,606	\$7,670,300	\$374,306
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$7,670,300	\$374,306
	Allowable Interest		\$448,233	\$21,874
2004	Allocable Pension Cost		\$8,118,533	\$396,180
2005	Contributions	\$6,000,000	\$6,000,000	\$0
8.25%	Discount for Interest	(\$457,275)	(\$457,275)	\$0
January 1, 2005	Present Value Contributions	\$5,542,725	\$5,542,725	\$0
	Prepayment Credit Applied	\$7,757,042	\$7,248,219	\$508,823
	Present Value of Funding	\$13,299,767	\$12,790,944	\$508,823
January 1, 2005	CAS Funding Target	\$7,757,042	\$7,248,219	\$508,823
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$7,248,219	\$508,823
	Allowable Interest		\$0	\$0
2005	Allocable Pension Cost		\$7,248,219	\$508,823
2006	Contributions	\$4,174,556	\$4,174,556	\$0
8.25%	Discount for Interest	(\$318,153)	(\$318,153)	\$0
January 1, 2006	Present Value Contributions	\$3,856,403	\$3,856,403	\$0
	Prepayment Credit Applied	\$6,787,383	\$5,879,966	\$907,417
	Present Value of Funding	\$10,643,786	\$9,736,369	\$907,417
January 1, 2006	CAS Funding Target	\$6,787,383	\$5,879,966	\$907,417
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$5,879,966	\$907,417
	Allowable Interest		\$0	\$0
2006	Allocable Pension Cost		\$5,879,966	\$907,417

ENDNOTES

- 1/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the plan year and accrued contributions deposited after the end of the plan year but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segment during the pension segmentation reviews (A-07-11-00358, A-07-12-00374, and A-07-12-00378). The amounts shown for the “Other” segment represent the difference between the Total Company and the Medicare segment.
- 2/ We subtracted the interest that was included in the contributions deposited after the beginning of the valuation year to discount the contributions back to their beginning-of-the-year value. For purposes of this Appendix, we computed the interest as the difference between the present value of contributions (at the valuation interest rate) and actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the plan year. For purposes of this Appendix, we deemed deposits made after the end of the plan year to have been made on the final day of the plan year, consistent with the method mandated by the Employee Retirement Income Security Act.
- 4/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year Cost Accounting Standards (CAS) funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.
- 5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at the first day of the plan year.
- 6/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of the Federal Acquisition Regulation (FAR) 31.205-6(j)(2)(i).
- 7/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the plan year. Because any funding in excess of the CAS funding target is accounted for as a prepayment in accordance with CAS 412.50(c)(1) (as amended), the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimals.
- 8/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.
- 9/ We assumed that interest on the funded CAS 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.
- 10/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.

**APPENDIX B: ALLOCABLE MEDICARE PENSION COSTS FOR THE
CASH BALANCE PENSION PLAN FOR GROUP HEALTH INCORPORATED
FOR PLAN YEARS 2003 THROUGH 2006**

Date	Description	Total Company	“Other” Segment	Medicare Segment
2003	Contributions <u>1/</u>	\$1,200,000	\$1,098,769	\$101,231
8.00%	Discount for Interest <u>2/</u>	(\$88,889)	(\$81,390)	(\$7,499)
September 1, 2003	Present Value Contributions <u>3/</u>	\$1,111,111	\$1,017,379	\$93,732
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding <u>4/</u>	\$1,111,111	\$1,017,379	\$93,732
September 1, 2003	CAS Funding Target <u>5/</u>	\$906,321	\$807,654	\$98,667
	Percentage Funded <u>6/</u>		100.00%	95.00%
	Funded Pension Cost <u>7/</u>		\$807,654	\$93,734
	Allowable Interest <u>8/</u>		\$45,767	\$5,312
2003	Allocable Pension Cost <u>9/</u>		\$853,421	\$99,046
2004	Contributions	\$2,804,772	\$2,494,658	\$310,114
7.50%	Discount for Interest	(\$195,682)	(\$174,046)	(\$21,636)
January 1, 2004	Present Value Contributions	\$2,609,090	\$2,320,612	\$288,478
	Prepayment Credit Applied <u>10/</u>	\$270,128	\$240,261	\$29,867
	Present Value of Funding	\$2,879,218	\$2,560,873	\$318,345
January 1, 2004	CAS Funding Target	\$2,887,566	\$2,568,298	\$319,268
	Percentage Funded		99.71%	99.71%
	Funded Pension Cost		\$2,560,850	\$318,342
	Allowable Interest		\$123,281	\$15,325
2004	Allocable Pension Cost		\$2,684,131	\$333,667
2005	Contributions	\$3,134,294	\$2,775,009	\$359,285
7.50%	Discount for Interest	(\$218,672)	(\$193,606)	(\$25,066)
January 1, 2005	Present Value Contributions	\$2,915,622	\$2,581,403	\$334,219
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$2,915,622	\$2,581,403	\$334,219
January 1, 2005	CAS Funding Target	\$2,909,452	\$2,575,233	\$334,219
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$2,575,233	\$334,219
	Allowable Interest		\$136,809	\$17,755
2005	Allocable Pension Cost		\$2,712,042	\$351,974
2006	Contributions	\$3,134,296	\$2,786,950	\$347,346
7.50%	Discount for Interest	(\$140,016)	(\$124,499)	(\$15,517)
January 1, 2006	Present Value Contributions	\$2,994,280	\$2,662,451	\$331,829
	Prepayment Credit Applied	\$6,633	\$5,857	\$776
	Present Value of Funding	\$3,000,913	\$2,668,308	\$332,605
January 1, 2006	CAS Funding Target	\$2,843,012	\$2,510,407	\$332,605
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$2,510,407	\$332,605
	Allowable Interest		\$117,115	\$15,517
2006	Allocable Pension Cost		\$2,627,522	\$348,122

ENDNOTES

- 1/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the plan year and accrued contributions deposited after the end of the plan year but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segment during the pension segmentation reviews (A-07-11-00358, A-07-12-00374, and A-07-12-00378). The amounts shown for the “Other” segment represent the difference between the Total Company and the Medicare segment.
- 2/ We subtracted the interest that was included in the contributions deposited after the beginning of the valuation year to discount the contributions back to their beginning-of-the-year value. For purposes of this Appendix, we computed the interest as the difference between the present value of contributions (at the valuation interest rate) and actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the plan year. For purposes of this Appendix, we deemed deposits made after the end of the plan year to have been made on the final day of the plan year, consistent with the method mandated by the Employee Retirement Income Security Act.
- 4/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the Cost Accounting Standards (CAS) funding target measured at the first day of the plan year.
- 5/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of the Federal Acquisition Regulation (FAR) 31.205-6(j)(2)(i).
- 6/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the plan year. Because any funding in excess of the CAS funding target is accounted for as a prepayment in accordance with CAS 412.50(c)(1) (as amended), the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimals.
- 7/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.
- 8/ We assumed that interest on the funded CAS 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.
- 9/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.
- 10/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year CAS funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.

**APPENDIX C: ALLOWABLE MEDICARE PENSION COSTS
FOR GROUP HEALTH INCORPORATED FOR PLAN YEARS 1999 THROUGH 2006**

Date	Description		"Other" Segment	Medicare Segment	Total
January 1, 1999	Local 153 Pension Plan Allocable Pension Cost	1/	\$2,696,893	\$0	
	Total PY* Allocable Pension Cost	2/	\$2,696,893	\$0	
	Coordination of Benefits LOB** Percentage	3/	0.00%	0.47%	
1999	PY* Coordination of Benefits Allowable Pension Costs	4/	\$0	\$0	\$0
1999	Total PY* Allowable Pension Costs		\$0	\$0	\$0

January 1, 2000	Local 153 Pension Plan Allocable Pension Cost		\$3,298,318	\$0	
	Total PY* Allocable Pension Cost		\$3,298,318	\$0	
	Coordination of Benefits LOB** Percentage		1.60%	34.80%	
2000	PY* Coordination of Benefits Allowable Pension Costs		\$52,773	\$0	\$52,773
2000	Total PY* Allowable Pension Costs	5/	\$52,773	\$0	\$52,773

January 1, 2001	Local 153 Pension Plan Allocable Pension Cost		\$4,362,632	\$0	
	Total PY* Allocable Pension Cost		\$4,362,632	\$0	
	Coordination of Benefits LOB** Percentage		2.27%	64.46%	
2001	PY* Coordination of Benefits Allowable Pension Costs		\$99,032	\$0	\$99,032
2001	Total PY* Allowable Pension Costs		\$99,032	\$0	\$99,032

January 1, 2002	Local 153 Pension Plan Allocable Pension Cost		\$5,808,892	\$0	
	Total PY* Allocable Pension Cost		\$5,808,892	\$0	
	Coordination of Benefits LOB** Percentage		2.05%	67.71%	
2002	PY* Coordination of Benefits Allowable Pension Costs		\$119,082	\$0	\$119,082
2002	Total PY* Allowable Pension Costs		\$119,082	\$0	\$119,082

January 1, 2003	Local 153 Pension Plan Allocable Pension Cost		\$7,787,868	\$0	
	Cash Balance Pension Plan Allocable Pension Cost	6/	\$853,421	\$99,046	
	Total PY* Allocable Pension Cost		\$8,641,289	\$99,046	
	Coordination of Benefits LOB** Percentage		1.99%	72.72%	
2003	PY* Coordination of Benefits Allowable Pension Costs		\$171,962	\$72,026	\$243,988
2003	Total PY* Allowable Pension Costs		\$171,962	\$72,026	\$243,988

Date	Description	"Other" Segment	Medicare Segment	Total
January 1, 2004	Local 153 Pension Plan Allocable Pension Cost	\$8,118,533	\$396,180	
	Cash Balance Pension Plan Allocable Pension Cost	\$2,684,131	\$333,667	
	Total PY* Allocable Pension Cost	\$10,802,664	\$729,847	
	Coordination of Benefits LOB** Percentage	2.07%	69.19%	
2004	PY* Coordination of Benefits Allowable Pension Costs	\$223,615	\$504,981	\$728,596
2004	Total PY* Allowable Pension Costs	\$223,615	\$504,981	\$728,596

January 1, 2005	Local 153 Pension Plan Allocable Pension Cost	\$7,248,219	\$508,823	
	Cash Balance Pension Plan Allocable Pension Cost	\$2,712,042	\$351,974	
	Total PY* Allocable Pension Cost	\$9,960,261	\$860,797	
	Coordination of Benefits LOB** Percentage	2.68%	68.84%	
	Retiree Drug Subsidy LOB** Percentage	7/ 0.22%	4.86%	
2005	PY* Coordination of Benefits Allowable Pension Costs	\$266,935	\$592,573	\$859,508
2005	PY* Retiree Drug Subsidy Allowable Pension Costs	8/ \$21,913	\$41,835	\$63,748
2005	Total PY* Allowable Pension Costs	\$288,848	\$634,408	\$923,256

January 1, 2006	Local 153 Pension Plan Allocable Pension Cost	\$5,879,966	\$907,417	
	Cash Balance Pension Plan Allocable Pension Cost	\$2,627,522	\$348,122	
	Total PY* Allocable Pension Cost	\$8,507,488	\$1,255,539	
	Coordination of Benefits LOB** Percentage	3.49%	65.04%	
	Retiree Drug Subsidy LOB** Percentage	0.32%	5.83%	
	Medicare Secondary Payer Recovery Contract LOB** Percentage	9/ 0.00%	1.68%	
2006	PY* Coordination of Benefits Allowable Pension Costs	\$296,911	\$816,603	\$1,113,514
2006	PY* Retiree Drug Subsidy Allowable Pension Costs	\$27,224	\$73,198	\$100,422
2006	PY* Medicare Secondary Payer Recovery Contract Allowable Pension Costs	10/ \$0	\$21,093	\$21,093
2006	Total PY* Allowable Pension Costs	\$324,135	\$910,894	\$1,235,029

*Plan Year

**Line of Business

ENDNOTES

- 1/ The allocable Cost Accounting Standards (CAS) pension costs is the amount of pension cost that may be allocated for contract cost purposes. The calculation of the Local 153 Pension Plan allocable pension cost appears in Appendix A.
- 2/ The total plan year (PY) allocable pension costs is the total of the segments' costs from each pension plan.
- 3/ We calculated the Coordination of Benefits (COB) contract's allowable pension costs of the Medicare and "Other" segments based on the COB Medicare line of business (LOB) percentage of each segment. We determined the COB LOB percentages based upon information provided by Group Health Incorporated (GHI).
- 4/ We computed the allowable COB Medicare pension cost as the PY pension cost multiplied by the COB Medicare LOB percentage. Pursuant to CAS 412 and 413, the total COB 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.
- 5/ The total PY allowable pension costs are the sum of the allowable pension costs from each current contract.
- 6/ The allocable CAS pension costs is the amount of pension cost that may be allocated for contract cost purposes. The calculation of the GHI Cash Balance Pension Plan allocable pension cost appears in Appendix B.
- 7/ We calculated the Retiree Drug Subsidy (RDS) contract's allowable pension costs of the Medicare and "Other" segments based on the RDS Medicare LOB percentage of each segment. We determined the RDS LOB percentages based upon information provided by GHI.
- 8/ We computed the allowable RDS Medicare pension cost as the PY pension cost multiplied by the RDS Medicare LOB percentage. Pursuant to CAS 412 and 413, the total RDS 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.
- 9/ We calculated the Medicare Secondary Payer Recovery Contract's (MSPRC) allowable pension costs of the Medicare and "Other" segments based on the MSPRC Medicare LOB percentage of each segment. We determined the MSPRC LOB percentages based upon information provided by GHI.
- 10/ We computed the allowable MSPRC Medicare pension cost as the PY pension cost multiplied by the MSPRC Medicare LOB percentage. Pursuant to CAS 412 and 413, the total MSPRC 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.

APPENDIX D: AUDITEE COMMENTS



February 17, 2012

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

Re: OIG Report Number: A-07-12-00380
*Review of Medicare Part B Pension Costs Claimed by Group Health Incorporated for
Plan Years 1999 through 2006.*

Dear Mr. Cogley:

This response is in regard to the subject report. GHI and its actuaries have carefully reviewed the report and supporting work papers. As recommended by the OIG, GHI agrees to revise its invoices for Plan Years 1999 through 2006 to increase Medicare pension costs by \$761,715.

Please let me know if you have any questions regarding this letter.

Sincerely,

A handwritten signature in blue ink that reads "Peter S. Moore". The signature is written in a cursive style.

Peter S. Moore
Vice President

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