



DEPARTMENT OF HEALTH AND HUMAN SERVICES

Office of Inspector General
Office of Audit Services

NOV 25 2008

REGION IV
61 Forsyth Street, S.W., Suite 3T41
Atlanta, Georgia 30303

Report Number: A-04-08-00038

Mr. Steve Bishop
Director of Finance
CIGNA Government Services
Two Vantage Way
Nashville, Tennessee 37228

Dear Mr. Bishop:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Audit of CIGNA Government Services' Unaudited Multi-Carrier System Forward Funding Costs for Fiscal Year 2003." 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.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, this report will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Eric Bowen, Audit Manager, at (404) 562-7789 or through e-mail at Eric.Bowen@oig.hhs.gov. Please refer to report number A-04-08-00038 in all correspondence.

Sincerely,

A handwritten signature in cursive script that reads "Peter J. Barbera".

Peter J. Barbera
Regional Inspector General
for Audit Services

Enclosure

Page 2 – Steve Bishop

Direct Reply to HHS Action Official:

Nanette Foster Reilly, Consortium Administrator
Consortium for Financial Management & Fee for Service Operations
Centers for Medicare & Medicaid Services
601 East 12th Street, Room 235
Kansas City, Missouri 64106

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF CIGNA GOVERNMENT
SERVICES' UNAUDITED
MULTI-CARRIER SYSTEM
FORWARD FUNDING COSTS FOR
FISCAL YEAR 2003**



Daniel R. Levinson
Inspector General

November 2008
A-04-08-00038

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:

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The 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. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. Specifically, these evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness in departmental programs. To promote impact, the reports also present practical recommendations for improving program operations.

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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. OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within HHS. OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops compliance program guidances, 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>

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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

Title XVIII of the Social Security Act established the Medicare program. The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program through contractors, including Part B carriers that process and pay Medicare claims. Contracts between CMS and the Medicare contractors define the functions to be performed by the contractors and provide for the reimbursement of allowable administrative costs incurred in the processing of Medicare claims.

Following the close of each fiscal year (FY), contractors submit to CMS a Final Administrative Cost Proposal (FACP) which reports the Medicare administrative costs incurred during the year. The cost proposal and supporting data provide the basis for the CMS contracting officer and contractor to negotiate a final settlement of allowable administrative costs.

CIGNA Government Services (CIGNA) has a contract with CMS and serves as a Part B carrier processing Medicare Part B claims. As of FY 2006, a portion of CIGNA's FY 2003 FACP costs had not been audited by CMS's independent auditor. CMS requested that the Office of Inspector General review CIGNA's unaudited Multi-Carrier System (MCS) forward funding costs to finalize the FY 2003 FACP. The unaudited MCS forward funding costs totaled \$3,479,079 and included salaries, outside technical services, training costs, software licensing, and various data processing and computer services costs.

OBJECTIVE

Our objective was to determine whether the unaudited MCS forward funding costs on CIGNA's FY 2003 FACP were allowable for Federal reimbursement.

SUMMARY OF FINDING

The \$3,479,079 in unaudited MCS forward funding costs was adequately supported, was in accordance with contract provisions, and was therefore allowable for Federal reimbursement.

Although we considered the costs to be adequately supported, we noted one concern that warrants CIGNA's attention. Contrary to CIGNA corporate policy, CIGNA management did not always sign employee timesheets that indicated the employee's presence on the job. CIGNA allowed the payroll department to accept verbal approvals instead of written approvals by managers. Our tests did not disclose any evidence of improper or unsupported salary costs charged to the contract. However, the failure to enforce proper written approval by management is an internal control weakness that could result in improper claims for Federal reimbursement.

RECOMMENDATION

We recommend that CIGNA follow its existing policy and ensure that supervising managers sign all employee timesheets.

AUDITEE COMMENTS

In written comments on the draft report, CIGNA agreed that, in some cases, managers had not signed employee timesheets and payroll had accepted verbal approvals from managers. Although our review found no evidence of improper salary costs, CIGNA recognized that this non-compliance with policy indicated a potential internal control weakness. CIGNA identified actions it has taken since the audit period that should alleviate concerns regarding this potential internal control weakness. CIGNA's comments are included in their entirety as the Appendix.

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AUDITEE COMMENTS	

INTRODUCTION

BACKGROUND

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CIGNA Government Services (CIGNA) has a contract with CMS and serves as a Part B carrier processing Medicare Part B claims. As of FY 2006, a portion of CIGNA's FY 2003 FACP costs had not been audited by CMS's independent auditor. CMS requested that the Office of Inspector General review CIGNA's unaudited Multi-Carrier System (MCS) forward funding costs to finalize the FY 2003 FACP. The unaudited MCS forward funding costs totaled \$3,479,079 and included salaries, outside technical services, training costs, software licensing, and various data processing and computer services costs.

In FY 2007 CMS issued CMS Manual System Pub. 100-20 Change Request 5424 to enhance the Multi-Carrier System. CMS implemented this system enhancement to prevent duplicate payments when the system made a full claim adjustment. CMS did not provide additional funding for contractor training or application as part of this change request. Rather, CMS required the contractors to use their existing budgets to perform the tasks. Accordingly, CIGNA's costs were covered through forward funding.

CMS personnel described forward funding as funds that are obligated in one year, but with prior approval, are used in future years. The Medicare Financial Management Manual states that forward funding “. . . shall include the outstanding costs to be incurred for CMS-approved items for which funding has been received, but the services extend into the subsequent FY.” As these costs are incurred, they are reported in the appropriate category and the forward funding balance is reduced by the equivalent amount.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the unaudited MCS forward funding costs on CIGNA's FY 2003 FACP were allowable for Federal reimbursement.

Scope

We reviewed \$3,479,079 in unaudited MCS forward funding costs budgeted for and applied to the period October 1, 2002, through September 30, 2003.

To achieve our objective, it was not necessary to review CIGNA's overall internal control structure. We limited our review of internal controls to those controls impacting the charging and recording of MCS forward funding costs to the FACP, including payroll system controls, cost allocation controls, and controls over allocating computer operating costs. We also reviewed the FY 2003 audit report issued by CIGNA's independent auditor.

We conducted fieldwork at CIGNA's office in Nashville, Tennessee from November 2007 through April 2008.

Methodology

To accomplish our objective, we:

- coordinated our review with CMS officials and reviewed related correspondence between CMS and CIGNA, including the CMS Change Request 5424;
- reviewed applicable Medicare laws, regulations, and guidelines applicable to the Federal Acquisition Regulations and CIGNA's contract with CMS;
- reviewed the FY 2003 independent auditor's report, noting any administrative cost findings and any internal control weaknesses;
- reconciled the \$3,479,079 unaudited forward funding costs to CIGNA's accounting records and the FY 2003 independent auditor's report;
- interviewed CIGNA personnel to obtain an understanding of CIGNA's cost allocation system, its payroll system, its job order costing system, and related policies and procedures;
- judgmentally selected 72 salary transactions totaling \$157,049 for review and traced the costs to supporting paystubs, timesheets, and personnel records; and
- judgmentally selected 35 non-salary¹ transactions totaling \$1,948,712 for review and traced the costs to supporting documents.

¹Non-salary costs included training, software licensing, computer usage, and other miscellaneous costs.

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 objective.

FINDING AND RECOMMENDATION

The \$3,479,079 in unaudited MCS forward funding costs was adequately supported, was in accordance with contract provisions, and was therefore allowable for Federal reimbursement.

Although we considered the costs to be adequately supported, we noted one concern that warrants CIGNA's attention. Contrary to CIGNA corporate policy, CIGNA management did not always sign employee timesheets that indicated the employee's presence on the job. CIGNA allowed the payroll department to accept verbal approvals instead of written approvals by managers. In discussions, CIGNA agreed that, in some cases, the managers did not sign the timesheets.

Our tests did not disclose any evidence of improper or unsupported salary costs charged to the contract. However, the failure to enforce proper written approval by management is an internal control weakness that could result in improper claims for Federal reimbursement.

RECOMMENDATION

We recommend that CIGNA follow its existing policy and ensure that supervising managers sign all employee timesheets.

AUDITEE COMMENTS

In written comments on the draft report, CIGNA agreed that, in some cases, managers had not signed employee timesheets and payroll had accepted verbal approvals from managers. Although our review found no evidence of improper salary costs, CIGNA recognized that this non-compliance with policy indicated a potential internal control weakness. CIGNA identified actions it has taken since the audit period that should alleviate concerns regarding this potential internal control weakness. CIGNA's comments are included in their entirety as the Appendix.

APPENDIX

Jean Rush
President



**CIGNA Government
Services**

October 29, 2008

Peter J. Barbera
Regional Inspector General for Audit Services, Region IV
Office of Inspector General
61 Forsyth Street, S.W., Suite 3T41
Atlanta, GA 30301

RE: A-04-08-00038

Dear Mr. Barbera:

On October 21, 2008, your office released the draft report entitled "Audit of CIGNA Government Services' Unaudited Multi-Carrier System Forward Funding Costs for Fiscal Year 2003." Per your request, below is our response to the recommendation included in the report.

Although the audit found the \$3,479,097 of costs claimed to be adequately supported, the OIG noted one concern in which CIGNA Government Services' (CGS) management did not always sign off on employee timesheets as required per CIGNA Corporate policy. CGS agrees that in some cases, the employee's manager did not sign off on employee timesheets and that payroll accepted verbal approvals from managers. Although no evidence of improper salary costs were found, CGS does recognize that this indicates a potential internal control weakness.

Since the period under audit, CGS has changed its process for timesheet submission and approval. Hardcopy timesheets are no longer used as the data source for payroll. All timesheets are documented in either the Operations Management Database (OMD) or Peoplesoft system depending on the employee's band level. For Bands 1-2 employees, weekly timesheets are approved electronically in the OMD system by management. For Bands 3 and above only exception time (PTO, sick, etc.) is reported and electronic approval is documented in the above mentioned systems.

We thank you for bringing this issue to our attention and hope that the actions above will alleviate any concerns regarding potential internal control weaknesses.

Sincerely,

Jean Rush
President
CIGNA Government Services, LLC

Peter J. Barbera
October 27, 2008
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cc: Tim Romero, OIG
Eric Bowen, OIG
Mike Logan, CGS
Steve Bishop, CGS