Department of Health and Human Services

OFFICE OF
INSPECTOR GENERAL

FIRST COAST SERVICE OPTIONS, INC., GENERALLY CLAIMED ALLOWABLE MEDICARE PENSION COSTS

Inquiries about this report may be addressed to the Office of Public Affairs at Public.Affairs@oig.hhs.gov.

Gloria L. Jarmon
Deputy Inspector General
for Audit Services

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A-07-16-00495

Office of Inspector General

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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.

Report in Brief
Date: October 2017
Report No. A-07-16-00495

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL

Why OIG Did This Review

The Centers for Medicare & Medicaid Services (CMS) reimburses Medicare contractors for a portion of their pension costs, which are funded by the annual contributions that these contractors make to their pension plans.

At CMS's request, the HHS, OIG, Office of Audit Services, Region VII pension audit team reviews the cost elements related to qualified defined-benefit plans and any other pension-related cost elements claimed by Medicare contractors through Final Administrative Cost Proposals (FACPs).

Previous OIG reviews found that Medicare contractors did not always comply with Federal requirements when claiming pension costs for Medicare reimbursement.

Our objective was to determine whether the fiscal years (FYs) 2008 and 2009 pension costs that First Coast Service Options, Inc. (FCSO), claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its Final Administrative Cost Proposals (FACPs), were allowable and correctly claimed.

How OIG Did This Review

We reviewed $6.34 million of pension costs that FCSO claimed for Medicare reimbursement on its FACPs for FYs 2008 and 2009.

First Coast Service Options, Inc., Generally Claimed Allowable Medicare Pension Costs

What OIG Found

The FYs 2008 and 2009 pension costs that FCSO claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACPs, were generally allowable. FCSO claimed pension costs of $6.34 million for Medicare reimbursement for FYs 2008 and 2009; however, we determined that the allowable Cost Accounting Standards (CAS)-based pension costs during this period were $6.31 million. The difference, $33,619, represented unallowable fiscal intermediary and carrier contract Medicare pension costs that FCSO claimed on its FACPs for FYs 2008 and 2009. FCSO claimed these unallowable Medicare pension costs primarily because it based its claim for Medicare reimbursement on incorrectly calculated CAS pension costs.

What OIG Recommends and Auditee Comments

We recommend that FCSO revise its FACPs for FYs 2008 and 2009 to reduce its claimed Medicare pension costs by $33,619.

FCSO agreed with our recommendation and stated that it would reimburse CMS $33,619 for pension costs.

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INTRODUCTION

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their pension costs, which are funded by the annual contributions that these contractors make to their pension plans. The amount of pension costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the allocability and cost reimbursement principles contained in the Federal Acquisition Regulation (FAR), Cost Accounting Standards (CAS), and Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors have not always complied with Federal requirements when claiming pension 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, postretirement benefit, 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 (FACPs) and/or Incurred Cost Proposals.

For this review, we focused on one Medicare contractor, First Coast Service Options, Inc. (FCSO). In particular, we examined the Medicare segment and Other segment pension costs that FCSO claimed for Medicare reimbursement on its FACPs.

OBJECTIVE

Our objective was to determine whether the fiscal years (FYs) 2008 and 2009 qualified defined-benefit plan pension costs that FCSO claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACPs, were allowable and correctly claimed.

BACKGROUND

First Coast Service Options, Inc.

During our audit period, FCSO and C2C Innovative Solutions, Inc. (C2C), were wholly owned subsidiaries of Diversified Service Options, Inc., a holding company created and owned by Blue Cross and Blue Shield of Florida, Inc. (BCBS Florida), whose office is located in Jacksonville, Florida. FCSO administered Medicare Parts A and B operations under cost reimbursement contracts with CMS until its contractual relationships ended on February 13, 2009, and

February 1, 2009, respectively. With the implementation of Medicare contracting reform,[1] FCSO continued to perform Medicare work after being awarded the MAC contract for Medicare Parts A and B Jurisdiction 9[2] effective September 12, 2008.

On April 2, 2007, C2C was created to perform additional Medicare work under the Qualified Independent Contractors (QIC) contract for the Medicare Part A West jurisdiction and Medicare Part B North jurisdiction; these contracts were originally awarded to FCSO in calendar years (CYs) 2004 and 2006, respectively.[3] On July 9, 2010, the QIC contract was formally novated from FCSO to C2C. Although C2C was created as a separate segment, its participants were included in the FCSO Medicare segment; however, C2C filed separate ICPs when claiming costs for Medicare reimbursement for the QIC contract. Therefore, the CAS pension costs were calculated in total for the FCSO Medicare segment and were then allocated to both the FCSO and C2C ICPs. Subsequently, on August 5, 2011, C2C was sold to TMF Health Quality Institute. C2C did not administer any fiscal intermediary and carrier contracts.

During our audit period, FCSO administered both fiscal intermediary and carrier contracts and MAC-related contracts. This report addresses the pension costs that FCSO claimed under the provisions of its fiscal intermediary and carrier contracts. We are addressing the MAC pension costs that FCSO claimed for CYs 2008 to 2010 in a separate review.

Medicare Reimbursement of Pension Costs

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

Beginning with FY 1988, CMS incorporated specific segmentation language into Medicare contracts that requires contractors to use either an indirect allocation method or a separate calculation method to identify and claim pension costs for Medicare reimbursement. Under the indirect allocation method, the contractor determines total plan CAS-based pension costs and allocates a share to Medicare. Under the separate calculation method, the contractor separately identifies the pension cost components for the Medicare segment. The contractor

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[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] Medicare Parts A and B Jurisdiction 9 consists of the State of Florida and the territories of Puerto Rico and the U.S. Virgin Islands.

[3] The QIC Part A West jurisdiction includes 24 U.S States and 3 U.S. territories. The QIC Part B North jurisdiction includes 35 northern States, the District of Columbia, and 3 U.S. territories.

must use the separate calculation method if its result is materially different from that of the allocation method.

HOW WE CONDUCTED THIS REVIEW

We reviewed $6,342,139 of pension costs that FCSO claimed for Medicare reimbursement on its FACPs for FYs 2008 and 2009.

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.

Appendix A contains details of our audit scope and methodology.

FINDING

The FYs 2008 and 2009 pension costs that FCSO claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACPs, were generally allowable. FCSO claimed pension costs of $6,342,139 for Medicare reimbursement for FYs 2008 and 2009; however, we determined that the allowable CAS-based pension costs during this period were $6,308,520. The difference, $33,619, represented unallowable fiscal intermediary and carrier contract Medicare pension costs that FCSO claimed on its FACPs for FYs 2008 and 2009. FCSO claimed these unallowable Medicare pension costs primarily because it based its claim for Medicare reimbursement on incorrectly calculated CAS pension costs.

CLAIMED PENSION COSTS

FCSO claimed Medicare pension costs of $6,342,139 for Medicare reimbursement, under the provisions of its fiscal intermediary and carrier contracts, on its FACPs for FYs 2008 and 2009. We calculated the allowable Medicare 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. For details on the Federal requirements, see Appendix B.

UNALLOWABLE PENSION COSTS CLAIMED

We determined that the allowable CAS-based pension costs for FYs 2008 and 2009 were $6,308,520. Thus, FCSO claimed $33,619 of unallowable fiscal intermediary and carrier contract Medicare pension costs on its FACPs for FYs 2008 and 2009. This overclaim occurred primarily because FCSO based its claim for Medicare reimbursement on incorrectly calculated CAS pension costs.

The table below shows the differences between the allowable CAS-based pension costs and the pension costs claimed on FCSO's FACPs and reflected in its accounting documents. Appendix C contains additional details on allowable pension costs.

Table: Comparison of Allowable Pension Costs and Claimed Pension Costs

	Medicare Pension Costs		
Fiscal Year	**Allowable Per Audit**	**Claimed by FCSO**	**Difference**
2008	$4,992,978	$4,960,314	$32,664
2009	1,315,542	1,381,825	(66,283)
Total	**$6,308,520**	**$6,342,139**	**($33,619)**

RECOMMENDATION

We recommend that FCSO revise its FACPs for FYs 2008 and 2009 to reduce its claimed Medicare pension costs by $33,619.

AUDITEE COMMENTS

In written comments on our draft report, FCSO agreed with our recommendation and stated that it would reimburse CMS $33,619 for pension costs.

FCSO's comments appear in their entirety as Appendix D.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed $6,342,139 of pension costs that FCSO claimed for Medicare reimbursement on its FACPs for FYs 2008 and 2009.

Achieving our objective did not require that we review FCSO's overall internal control structure. We reviewed the internal controls related to the pension costs claimed for Medicare reimbursement to ensure that the pension costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

We performed our fieldwork at FCSO in Jacksonville, Florida.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;

- reviewed information provided by FCSO to identify the amount of pension costs claimed for Medicare reimbursement for FYs 2008 and 2009;

- used information that FCSO's actuarial consulting firms provided, including information on the pension plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses;

- examined FCSO's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Forms 5500;

- determined the extent to which FCSO funded CAS-based pension costs with contributions to the pension trust fund and accumulated prepayment credits;

- engaged the CMS Office of the Actuary, which provides technical actuarial advice, to calculate the allocable pension costs based on the CAS (the calculations were based on separately computed CAS-based pension costs for the Medicare segment and the Other segment);

- reviewed the CMS actuaries' methodology and calculations; and

- provided the results of the review to FCSO officials on June 28, 2017.

We performed this review in conjunction with the following audits and used the information obtained during these audits for this review:

- *First Coast Service Options, Inc., Understated Its Allocable Pension Costs* (A-07-16-00493) and

- *First Coast Service Options, Inc., Understated Its Medicare Segment Pension Assets* (A-07-16-00494).

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.

APPENDIX B: FEDERAL REQUIREMENTS RELATED TO REIMBURSEMENT OF PENSION COSTS

FEDERAL REGULATIONS

Federal regulations (FAR 31.205-6(j)) address the allowability of pension costs and require that contractors fund the pension costs assigned to contract periods by making contributions to the pension plan.

Federal regulations (CAS 412) (as amended) address the determination and measurement of pension cost components. This regulation also addresses the assignment of pension costs to appropriate accounting periods.

Federal regulations (CAS 413) (as amended) address 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.

MEDICARE CONTRACTS

The Medicare contracts address the determination and allocation of pension costs. The contracts state: "The calculation of and accounting for pension costs charged to this agreement/contract are governed by the Federal Acquisition Regulation and Cost Accounting Standards 412 and 413."

APPENDIX C: ALLOWABLE MEDICARE PENSION COSTS FOR FIRST COAST SERVICE OPTIONS, INC., FOR FISCAL YEARS 2008 AND 2009

Date	Description		Total Company	Other Segment	Medicare Segment	Total Medicare
January 1, 2007	Calendar Year Allowable Pension Cost	1/		$487,360	$5,060,802	
2008	Contributions	2/	$40,000,000	$40,000,000	$0	
	Discount for Interest	3/	($2,790,698)	($2,790,698)	$0	
January 1, 2008	Present Value Contributions	4/	$37,209,302	$37,209,302	$0	
	Prepayment Credit Applied	5/	$49,650,440	$43,881,947	$5,768,493	
	Present Value of Funding	6/	$86,859,742	$81,091,249	$5,768,493	
January 1, 2008	CAS Funding Target	7/	$49,650,440	$43,881,947	$5,768,493	
	Percentage Funded	8/		100.00%	100.00%	
	Funded Pension Cost	9/		$43,881,947	$5,768,493	
	Allowable Interest	10/		$0	$0	
	Allocable Pension Cost	11/		$43,881,947	$5,768,493	
2008	Medicare LOB* Percentage	12/		0.82%	77.11%	
	Calendar Year Allowable Pension Cost	13/		$359,832	$4,448,085	
2008	Fiscal Year Allowable Pension Cost	14/		$391,714	$4,601,264	$4,992,978

Date	Description		Total Company	Other Segment	Medicare Segment	Total Medicare
2009	Contributions		$65,000,000	$65,000,000	$0	
	Discount for Interest		($4,814,815)	($4,814,815)	$0	
January 1, 2009	Present Value Contributions		$60,185,185	$60,185,185	$0	
	Prepayment Credit Applied		$45,037,664	$41,198,189	$3,839,475	
	Present Value of Funding		$105,222,849	$101,383,374	$3,839,475	
January 1, 2009	CAS Funding Target		$45,037,664	$41,198,189	$3,839,475	
	Percentage Funded			100.00%	100.00%	
	Funded Pension Cost			$41,198,189	$3,839,475	
	Allowable Interest			$0	$0	
	Allocable Pension Cost			$41,198,189	$3,839,475	
2009	Medicare LOB* percentage			1.05%	6.48%	
	Calendar Year Allowable Pension Cost	15/		$72,097	$41,466	
2009	Fiscal Year Allowable Pension Cost	16/		$162,055	$1,153,487	$1,315,542

* Line of business.

ENDNOTES

1/ We obtained the CY 2007 allowable pension cost from our prior review (A-07-09-00312, issued March 25, 2010).

2/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the CY and accrued contributions deposited after the end of the CY but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-16-00494). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare segments.

3/ 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 CAS valuation interest rate) and actual contribution amounts.

4/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the CY. For purposes of this Appendix, we deemed deposits made after the end of the CY to have been made on the final day of the CY, consistent with the method established by the Employee Retirement Income Security Act prior to the implementation of the Pension Protection Act.

5/ 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.

6/ 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 CY.

7/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of the FAR 31.205-6(j)(2)(i).

8/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the CY. Because any funding in excess of the CAS funding target is accounted for as a prepayment in accordance with CAS 412.50(c)(1), 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 decimal places.

9/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.

10/ We assumed that interest on the funded CAS-based 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.

11/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.

12/ We calculated the Medicare line of business (LOB) percentages based on information provided by FCSO.

13/ We computed the allowable Medicare pension cost as a CY pension cost multiplied by the CY Medicare LOB percentage.

14/ We converted the CY allowable pension cost to an FY basis (October 1 through September 30). We calculated the FY pension costs as 1/4 of the prior CY's costs plus 3/4 of the current CY's costs.

15/ The CY 2009 allowable pension cost is prorated for the period of January 1, 2009, to February 28, 2009, to reflect the termination of FCSO's fiscal intermediary and carrier contracts on February 13, 2009, and February 1, 2009, respectively.

16/ The FY 2009 allowable pension cost is calculated for the period October 2008 through February 2009 to reflect FCSO's fiscal intermediary and carrier contract terminations on February 13, 2009, and February 1, 2009, respectively.

FIRST COAST
SERVICE OPTIONS, INC.
WHEN EXPERIENCE COUNTS & QUALITY MATTERS

Harvey B. Dikter
President & CEO
First Coast Service Options, Inc.
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September 22, 2017

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

Reference: A-07-16-00495

Dear Mr. Cogley:

We received the U.S. Department of Health & Human Services, Office of Inspector General (OIG) draft report entitled, *"First Coast Service Options Inc., Generally Claimed Allowable Medicare Pension Costs"* and reviewed.

In the draft report, you outlined a recommendation that we have addressed as follows:

Recommendation:

First Coast revise its FACPs for FYs 2008 and 2009 to reduce its claimed Medicare pension costs by $33,619.

Response:

First Coast agrees with the recommendation. Upon direction from the Centers for Medicare and Medicaid Services, First Coast will process reimbursement of $33,619 for Pension costs.

If you have any questions, please contact Mr. Gregory W. England at (904) 791-8364.

Sincerely,

Harvey B. Dikter

cc: Gregory W. England

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