

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**GROUP HEALTH INCORPORATED
CLAIMED SOME UNALLOWABLE
MEDICARE POSTRETIREMENT BENEFIT
COSTS FOR CALENDAR YEARS 2009
THROUGH 2016**

*Inquiries about this report may be addressed to the Office of Public Affairs at
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Amy J. Frontz
Deputy Inspector General
for Audit Services

September 2020
A-07-19-00583

Office of Inspector General

<https://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.

Report in Brief

Date: September 2020
Report No. A-07-19-00583

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



Why OIG Did This Audit

The Centers for Medicare & Medicaid Services (CMS) reimburses contractors for a portion of their postretirement benefit (PRB) costs.

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, PRB, and any other pension-related cost elements claimed by Medicare contractors through Incurred Cost Proposals (ICPs).

Previous OIG audits found that Medicare contractors have not always complied with Federal requirements when claiming PRB costs for Medicare reimbursement.

Our objective was to determine whether the calendar years (CYs) 2009 through 2016 PRB costs that Group Health Incorporated (GHI) claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

How OIG Did This Audit

We reviewed \$3.1 million of Medicare PRB costs that GHI claimed for Medicare reimbursement on its ICPs for CYs 2009 through 2016. After we calculated the allocable PRB costs, we incorporated the results of other CMS-contracted audits into our calculations of allowable PRB costs.

Group Health Incorporated Claimed Some Unallowable Medicare Postretirement Benefit Costs for Calendar Years 2009 Through 2016

What OIG Found

The CYs 2009 through 2016 PRB costs that GHI claimed for Medicare reimbursement, and reported on its ICPs, were not always correctly claimed. Specifically, GHI claimed PRB costs of \$3.1 million for Medicare reimbursement on its ICPs for CYs 2009 through 2016. However, we determined that the allowable PRB costs for this period were \$1.5 million. The difference, \$1.6 million, constituted unallowable Medicare PRB costs that GHI claimed on its ICPs for CYs 2009 through 2016. GHI claimed unallowable PRB costs primarily because it used an incorrect methodology when allocating its PRB costs.

What OIG Recommends and Auditee Comments

We recommend that GHI work with CMS to ensure that its final settlement of contract costs reflects a decrease in Medicare PRB costs of \$1.6 million for CYs 2009 through 2016.

GHI did not directly address our recommendation. However, GHI's comments disagreeing with our findings in this and related reports suggested that it disagreed with our recommendation. Specifically, GHI said that we did not provide supporting documentation for our finding and that we incorrectly incorporated ceiling rates when determining GHI's final indirect cost rates for CYs 2009 through 2016. We maintain that we gave supporting documentation for our finding to GHI before GHI sent its comments on our draft report and that we correctly incorporated ceiling rates when determining GHI's final indirect cost rates for CYs 2009 through 2016. Accordingly, all of our calculations of the allowable PRB costs remain valid. Therefore, we maintain that our finding and recommendation remain valid as well.

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INTRODUCTION

WHY WE DID THIS AUDIT

Medicare contractors are eligible to be reimbursed a portion of their postretirement benefit (PRB) costs by the Centers for Medicare & Medicaid Services (CMS). Contractors that operate a PRB plan on a pay-as-you-go basis are eligible to be reimbursed a portion of their actual payments for PRB costs. In claiming PRB costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation (FAR) as required by the Medicare contracts. Previous Office of Inspector General (OIG) audits found that Medicare contractors have not always complied with Federal requirements when claiming PRB costs for Medicare reimbursement.

At CMS's request, the OIG, 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) and Cost Accounting Standards (CAS)- and FAR-covered contracts through Final Administrative Cost Proposals, Incurred Cost Proposals (ICPs), or both.

For this audit, we focused on one Medicare contractor, Group Health Incorporated (GHI). In particular, we examined the allowable Medicare segment PRB costs that GHI claimed for Medicare reimbursement and reported on its ICPs.

OBJECTIVE

Our objective was to determine whether the calendar years (CYs) 2009 through 2016 PRB costs that GHI claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

BACKGROUND

Group Health Incorporated and Medicare

GHI, a subsidiary of EmblemHealth Services Company, LLC, administered Medicare operations under Coordination of Benefits (COB) contracts with CMS. During our audit period, GHI also performed Medicare work on the Medicare Secondary Payer Recovery and Benefit Coordination and Recovery (MSPRC) contracts.¹ GHI also performed work as a subcontractor on the Retiree Drug Subsidy (RDS) contract. GHI participates in the EmblemHealth Services

¹ Before September 2011, GHI performed Medicare work as a subcontractor on the MSPRC contract and the RDS contract. From September 2011 through February 2014, GHI performed Medicare work as the prime contractor on the MSPRC contracts.

Health and Welfare Benefits Plan. The purpose of this plan is to provide medical and life coverage to eligible retirees and their eligible family members.

Medicare Reimbursement of Postretirement Benefit Plan Costs

CMS reimburses a portion of its contractors' PRB costs. In claiming PRB costs, contractors must follow cost reimbursement principles contained in the FAR and applicable 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.

Incurred Cost Proposal Audits

At CMS's request, Figliozi & Company, P.C. (Figliozi), Kearney & Company, P.C. (Kearney), and Davis Farr, LLP (Farr), performed audits of the ICPs that GHI submitted for CYs 2009 through 2016. The objectives of the Figliozi, Kearney, and Farr ICP audits were to determine whether costs were allowable in accordance with the FAR, the U.S. Department of Health and Human Services Acquisition Regulation, and the CAS.

For our current audit, we relied on the Figliozi, Kearney, and Farr ICP audit findings and recommendations when computing the allowable PRB costs discussed in this report.

We incorporated the results of the Figliozi, Kearney, and Farr ICP audits into our computations of the audited indirect cost rates, and ultimately the PRB costs claimed, for the contracts subject to the FAR. CMS will use our report on allowable PRB costs, as well as the Figliozi, Kearney, and Farr ICP audit reports, to determine the final indirect cost rates and the total allowable contract costs for GHI for CYs 2009 through 2016.

HOW WE CONDUCTED THIS AUDIT

We reviewed \$3,089,871 of Medicare PRB costs that GHI claimed for Medicare reimbursement on its ICPs for CYs 2009 through 2016. After we calculated the allocable PRB costs, we incorporated the results of the Figliozi, Kearney, and Farr ICP audits into our calculations of allowable PRB 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 finding and conclusions based on our audit objectives.

Appendix A contains details of our audit scope and methodology.

FINDING

The CYs 2009 through 2016 PRB costs that GHI claimed for Medicare reimbursement, and reported on its ICPs, were not always correctly claimed. Specifically, GHI claimed PRB costs of \$3,089,871 for Medicare reimbursement on its ICPs for CYs 2009 through 2016. However, we determined that the allowable PRB costs for this period were \$1,467,657. The difference, \$1,622,214, constituted unallowable Medicare PRB costs that GHI claimed on its ICPs for CYs 2009 through 2016. GHI claimed unallowable PRB costs primarily because it used an incorrect methodology when allocating its PRB costs.

ALLOCABLE POSTRETIREMENT BENEFIT PLAN COSTS OVERSTATED

During this audit, we calculated the allocable PRB costs for CYs 2009 through 2016 in accordance with Federal requirements. We determined that the allocable PRB costs for this time period were \$1,533,438. GHI identified allocable PRB costs of \$3,013,692. Therefore, GHI overstated the allocable PRB costs by \$1,480,254.² This overstatement occurred primarily because GHI used an incorrect methodology when allocating its PRB costs.

We used these allocable PRB costs to determine the allowable PRB costs for Medicare reimbursement. Table 1 compares the allocable PRB costs that we determined for CYs 2009 through 2016 with the costs that GHI reported for the same timeframe.

Table 1: Allocable PRB Costs

CY	Allocable Per Audit	Per GHI	Difference
2009	\$175,435	\$277,175	(\$101,740)
2010	190,074	356,909	(166,835)
2011	217,969	506,734	(288,765)
2012	215,778	564,829	(349,051)
2013	245,204	513,688	(268,484)
2014	251,939	323,678	(71,739)
2015	237,039	470,679	(233,640)
2016	0	0	0
Total	\$1,533,438	\$3,013,692	(\$1,480,254)

² Because this section of the report discusses our calculations before we incorporated into them the results of the Figliozi, Kearney, and Farr ICP audits, the dollar amounts conveyed in this paragraph differ from those conveyed both earlier in the “Finding” section and later in our recommendation.

POSTRETIREMENT BENEFIT PLAN COSTS CLAIMED

GHI claimed PRB costs of \$3,089,871 for Medicare reimbursement on its ICPs for CYs 2009 through 2016. We calculated the allowable Medicare PRB costs in accordance with Federal requirements. For details on the Federal requirements, see Appendix B.

UNALLOWABLE POSTRETIREMENT BENEFIT PLAN COSTS CLAIMED

After incorporating the results of the Figliozi, Kearney, and Farr ICP audits, we determined that the allowable PRB costs for CYs 2009 through 2016 were \$1,467,657. Thus, GHI claimed \$1,622,214 of unallowable PRB costs on its ICPs for CYs 2009 through 2016. GHI claimed unallowable PRB costs primarily because it used an incorrect methodology when allocating its PRB costs to the Medicare segment.

SUMMARY OF UNALLOWABLE MEDICARE POSTRETIREMENT BENEFIT PLAN COSTS CLAIMED

We used the allocable cost information to adjust the indirect cost rates (i.e., the fringe benefit and general and administrative rates) and, in turn, to calculate the information presented in Table 2 below. (Our calculation does not appear in this report because those rate computations that GHI used in its ICPs, and to which we referred as part of our review, are proprietary information.) Table 2 compares the Medicare segment PRB costs that we calculated (using our adjusted indirect cost rates) to the PRB costs that GHI claimed for Medicare reimbursement for CYs 2009 through 2016.

Table 2: Comparison of Allowable PRB Costs and Claimed PRB Costs³

CY	Allowable Per Audit	Per GHI	Difference
2009	\$172,459	\$329,152	(\$156,693)
2010	132,437	312,541	(180,104)
2011	208,688	469,748	(261,060)
2012	220,129	689,090	(468,961)
2013	244,557	512,071	(267,514)
2014	254,178	271,747	(17,569)
2015	235,209	505,522	(270,313)
2016	0	0	0
Total	\$1,467,657	\$3,089,871	(\$1,622,214)

³ Our calculations incorporated the rate ceilings associated with the COB contracts. We applied the indirect cost rate associated with these contracts when calculating the allowable PRB costs for the COB contracts. The amounts identified in this table represent the allowable Medicare PRB costs during our audit period and do not represent the Total Company allowable costs on the ICPs.

RECOMMENDATION

We recommend that Group Health Incorporated work with CMS to ensure that its final settlement of contract costs reflects a decrease in Medicare PRB costs of \$1,622,214 for CYs 2009 through 2016.

AUDITEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, GHI did not directly address our recommendation. However, GHI's comments disagreeing with our findings in this and related reports (Appendix A), and with our findings in other current audits of GHI's qualified defined-benefit plans, suggested that it disagreed with our recommendation. Specifically, GHI said that we did not provide supporting documentation for our finding; GHI also disagreed with our use of the rate ceilings when determining GHI's final indirect cost rates for CYs 2009 through 2016. A summary of GHI's main points and our responses follows.

GHI's comments (which also apply to our two current related reports cited in Appendix A as well as other current audit reports) appear in their entirety as Appendix C.

After reviewing GHI's comments, we maintain that we gave GHI supporting documentation for our finding before the date of GHI's comments on our draft report, and that all of our calculations of the allowable PRB costs remain valid. Therefore, we maintain that our finding and recommendation remain valid as well.

POSTRETIREMENT BENEFIT COSTS

Auditee Comments

GHI disagreed with our finding that it claimed \$1,622,214 in unallowable Medicare PRB costs. GHI said that our draft report identified the amounts that we determined were unallowable but did not disclose how we calculated that amount. Additionally, GHI said that we did not provide support for our calculations in response to GHI's request.

Office of Inspector General Response

We disagree that our draft report did not disclose how we calculated the PRB costs that we determined were unallowable. Both our draft and this final report clearly explain that we computed the PRB costs in accordance with applicable provisions of the CAS and the FAR. Our discussion in our finding also details how we computed allocable PRB costs and then used those audited allocable amounts when calculating the allowable PRB costs.

Additionally, and contrary to GHI's assertion, we provided GHI with information supporting our cost calculations on June 12, 2020—after issuance of our draft report but 13 days before the date of GHI's written comments.

INDIRECT COST RATES

Auditee Comments

GHI stated that we incorrectly incorporated ceiling rates when determining GHI's final indirect cost rates for CYs 2009 through 2016. GHI comments included a table, which we have added to this report as Table 3, detailing the ceiling rates that we used in our calculations.

Table 3: Ceiling Rates Used by OIG

	Fringe	Overhead
2010 COB	64.93%	
2010 RDS	65.93%	
2011 COB	68.37%	34.15%
2011 RDS		35.15%
2011 MSPRC		35.15%

GHI said that it agreed with our use of the 35.15 percent ceiling rate for the MSPRC contract. However, GHI disagreed with our use of the ceiling rates shown in Table 3 when we determined the pension costs for the COB and RDS contracts. GHI stated that both the COB and RDS contracts did not have ceiling rates during CYs 2010 and 2011.

Office of Inspector General Response

The ceiling rates that GHI mentioned, and that we depicted in Table 3, are the rates we used when calculating the allowable pension costs for CYs 2010 and 2011. However, we disagree that those ceiling rates were inaccurate. We incorporated the results of the Kearney ICP audit for CYs 2010 and 2011, which recommended these ceiling rates, into our computations of the audited indirect cost rates. In GHI's response to the Kearney ICP audit recommendation, GHI agreed that its actual expenses for all contracts were higher than the ceiling that CMS had reviewed and approved. We maintain that we correctly incorporated ceiling rates when determining GHI's final indirect cost rates for CYs 2009 through 2016 and that, accordingly, all of our calculations of the allowable Medicare PRB costs remain valid. Therefore, we maintain that our finding and recommendation remain valid as well.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$3,089,871 of Medicare PRB costs that GHI claimed for Medicare reimbursement on its ICPs for CYs 2009 through 2016.

Achieving our objective did not require that we review GHI's overall internal control structure. We reviewed the internal controls related to the PRB costs that were included in GHI's ICPs and ultimately used as the basis for Medicare reimbursement, to ensure that these costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

We performed our audit work at our office in Jefferson City, Missouri.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- identified the amount of PRB costs claimed on GHI's ICPs;
- determined the extent to which GHI incurred PRB costs by paying premiums relating to PRB coverage;
- interviewed GHI staff responsible for identifying the Medicare participants to determine whether the participants were identified in accordance with the Medicare contracts;
- obtained and reviewed the GHI paid PRB claims, to include verifying data and using those data to calculate pay-as-you-go PRB costs that were allowable for Medicare reimbursement for CYs 2009 through 2016;
- reviewed the results of the Figliozi, Kearney, and Farr ICP audits and incorporated those results into our calculations of allowable PRB costs; and
- provided the results of our audit to GHI officials on April 23, 2020.

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

- *Group Health Incorporated Did Not Claim Some Allowable Medicare Pension Costs for Calendar Years 2009 Through 2016 (A-07-19-00581)* and

- *Group Health Incorporated Overstated Its Allowable Medicare Supplemental Executive Retirement Plan Costs for Calendar Years 2009 Through 2016 (A-07-19-00582).*

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 POSTRETIREMENT BENEFIT PLAN COSTS

FEDERAL REGULATIONS

Federal regulations (FAR 31.201-4(b)) state that a cost is allocable to a Government contract if it benefits both the contract and other work, and can be distributed to them in a reasonable proportion to the benefit received.

Federal regulations (FAR 31.205-6(o)(2)) address the allowability of pay-as-you-go PRB costs and require that PRB costs 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.

Federal regulations (FAR 52.216-7(a)(1)) address the invoicing requirements and the allowability of payments as determined by Contracting Officer in accordance with FAR subpart 31.2.

MEDICARE CONTRACTS

The Medicare contracts require GHI to submit invoices in accordance with FAR 52.216-7, “Allowable Cost & Payment.” (See our citation to FAR 52.216-7(a)(1) in “Federal Regulations” above.)



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June 25, 2020

By Email

Mr. Patrick Cogley
Regional Inspector General for Audit Services
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Office of the Inspector General
Department of Health & Human Services
601 East 12th Street, Room 0429
Kansas City, MO 64106

Re: GHI Response to Draft Report Nos. A-07-19-00579-00583

Dear Mr. Cogley:

Group Health Inc. (“GHI”) respectfully provides the following responses to the above-referenced Office of the Inspector General (“OIG”) draft reports regarding GHI’s Medicare Segment Pension Assets for its Employees’ Retirement Plan as of December 31, 2015 (Report No. -00579), Medicare Segment Pension Assets for its Local 153 Pension Plan as of August 31, 2016 (Report No. -00580), Medicare Pension Costs for 2009-2016 (Report No. -00581), Medicare Supplemental Executive Retirement Plan Costs for 2009-2016 (Report No. -00582), and Medicare Postretirement benefit costs for 2009-2016 (Report No. -00583). GHI welcomes OIG’s completion of these audits, and looks forward to the prompt completion of OIG’s audits of GHI’s pension and post-retirement benefit costs for the periods covered in these reports.

The above-referenced draft reports make findings in several broad categories. GHI’s responses to each category of findings is set forth below:

Implementation of Prior Audit Reports (Report Nos. -00579 and -00580). GHI disagrees with the findings in OIG Audit Report Nos. A-07-19-00561 and -00562, for the reasons that GHI identified in response to the drafts of those reports. GHI therefore disagrees that it was required to implement the findings of those reports in subsequent periods, including the periods covered by draft Report Nos. -00579 and -00580.

Contributions and Transferred Prepayment Credits (Report Nos. -00579 to -00581). OIG disagrees with the long-term interest rate assumptions that GHI employed to compute accrued liabilities, which affect GHI’s calculation of contributions and prepayment credits, and, ultimately, allowable pension cost. GHI’s position regarding the appropriate long-term interest rate assumptions is set forth in

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the Complaint that GHI filed in *Group Health Inc. v. United States*, No. 19-499, which is pending before the United States Court of Federal Claims, and the submissions that GHI has made to the Court and the Government in that case. OIG has provided no support for the 7.00% long term interest rate assumption that it has employed. OIG claims that this is the “historical long-term interest rate,” but provides no support for that statement. Regardless, a “historical” assumption necessarily would not reflect an “estimate of future conditions affecting pension costs” that considers the actual investment strategy and asset allocation of the plans at any time during the period being reviewed by the draft Reports. Indeed, OIG’s draft reports contain no discussion whatsoever regarding the plans’ asset allocation or the expected return on plan assets during the relevant periods. OIG’s 7.00% long term interest rate assumption is therefore an arbitrary number chosen by OIG, apparently for the sole purpose of artificially lowering the adjustment of previously determined pension costs required by CAS 413. It therefore cannot be a reasonable actuarial assumption under 48 C.F.R. §§ 9904.412-30(3) and 9904.413-50(c)(12). 48 C.F.R. § 9904.413-50(c)(i) requires that the actuarial assumptions used to calculate an adjustment of previously determined costs required by CAS 413 be “consistent with the prior and long term assumptions used in the measurement of pension cost.” But as GHI has explained in the certified claim that is the subject of Case No. 19-499 and in our submissions in that case, this requirement only states that different assumptions be reconcilable with one another, not that assumptions in one period be arbitrarily pegged to the assumptions in prior periods.

Net Transfers (Report Nos. -00579 to -00581). We requested that OIG identify the plan participants that OIG claims transferred into the Medicare segment during the periods in question, but OIG declined to do so. GHI is therefore unable to respond to OIG’s findings, which also impact OIG’s calculation of allowable pension cost.

Benefit Payments (Report Nos. -00579 to -00581). We requested that OIG provide support for its calculation of benefit payments, but OIG declined to do so. GHI is therefore unable to respond to OIG’s findings, which also impact OIG’s calculation of allowable pension cost.

Earnings, Net of Expenses (Report Nos. -00579 to -00581). GHI understands OIG’s position regarding investment earnings, net of expenses, to be derivative of OIG’s other findings. Accordingly, GHI incorporates its responses to OIG’s other findings here. If OIG’s position regarding earnings, net of expenses, is based on additional concerns not captured within OIG’s other findings, please identify those concerns.

Medicare’s Share of Excess Pension Assets/(Liabilities) (Report Nos. -00579 to -00581). OIG did not calculate the Government’s share of the adjustment of previously determined pension costs in accordance with 48 C.F.R. § 9904.413-50(c)(12). OIG divided allowable Medicare segment pension costs by allocable Medicare segment pension costs. CAS requires that the numerator include all pension costs allocated to CAS covered contracts. GHI did not allocate Medicare segment pension costs to any cost

objectives that were not CAS-covered contracts. Allowable costs could only have been lower than allocable costs in a given year because of indirect rate ceilings or other cost limitations applicable to specific CAS-covered contracts, but this does not change the fact that 100% of Medicare segment pension costs were allocable to CAS-covered contracts and therefore Medicare's share of the adjustment of previously determined pension costs is 100%.

Calculation of Interest on Prepayment Credits (Report No. -00581). OIG improperly disallowed quarterly interest because of the existence of prepayment credits. Draft Report No. -00581 explains OIG's rationale for disallowing quarterly interest in Appendix F, endnote 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.

FAR 31.205-6(j)(2)(iii) does not support OIG's position that quarterly interest cannot accrue if the contractor has prepayment credits. FAR 31.205-6(j)(2)(iii) does not even reference prepayment credits. Instead, FAR 31.205-6(j)(2)(iii) simply provides that "[i]ncreased pension costs are unallowable if the increase is caused by a delay in funding beyond 30 days after each quarter of the year to which they are assignable." Accordingly, interest is only unallowable if payment is made 30 days after the end of each quarter. EmblemHealth submitted quarterly cash contributions within 30 days after the end of each quarter. The accrued interest on EmblemHealth's quarterly pension payments is therefore allowable in accordance with the plain language of FAR 31.205-6(j)(2)(iii).

Calculations of GHI's Indirect Cost Rates and Allowable and Unallowable Costs (Report Nos. -00581 to -00583). OIG states that it "incorporated the rate ceilings associated with the Coordination of Benefits contracts" in determining GHI's final indirect cost rates for 2009-2016. In reviewing OIG's calculations, it appears that OIG imposed the following ceilings for GHI's fringe and overhead rates in 2010 and 2011:

	Fringe	Overhead
2010 COB	64.93%	
2010 RDS	65.93%	
2011 COB	68.37%	34.15%
2011 RDS		35.15%
2011 MSPRC		35.15%

GHI agrees that the Medicare Secondary Payer Recovery Contractor (“MSPRC”) prime contract imposed a 35.15% ceiling on GHI’s overhead rate for 2011; however, GHI disagrees with the other rate ceilings identified by OIG. Under the Coordination of Benefits (“COB”) Contract, indirect rate ceilings were established for 2008 by Modification 66, but indirect rate ceilings were not established for any other years. No indirect rate ceilings were established for the Retiree Drug Subsidy (“RDS”) subcontract.

Postretirement (“PRB”) costs (Report No. -00583). GHI disagrees with OIG’s finding that GHI claimed \$1.6 million in unallowable Medicare PRB costs. Although OIG’s draft report identifies the amounts that it determined were unallowable in each year between 2009 and 2016, OIG’s draft report does not disclose how OIG calculated this amount, and OIG did not provide support for its calculation in response to GHI’s request. During 2009-2016, GHI accounted for PRB costs using the same accounting practices that GHI used, and OIG accepted, for years prior to 2009.

Please let me know if you have any questions regarding GHI’s response to your draft reports.

Sincerely,

/Daniel P. Graham/

Daniel P. Graham

cc: Daniel Byrne
Tony Angi