

Department of Health and Human Services  
**OFFICE OF  
INSPECTOR GENERAL**

**FIRST COAST SERVICE OPTIONS,  
INC., DID NOT CLAIM SOME  
ALLOWABLE MEDICARE  
SUPPLEMENTAL EXECUTIVE  
RETIREMENT PLAN COSTS**

*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

August 2023  
A-07-22-00626

# *Office of Inspector General*

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operating divisions will make final determination on these matters.

## Report in Brief

Date: August 2023

Report No. A-07-22-00626

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



### Why OIG Did This Audit

The Centers for Medicare & Medicaid Services (CMS) reimburses a portion of its contractors' Supplemental Executive Retirement Plan (SERP) costs.

The HHS, OIG, Office of Audit Services, Region VII pension audit team reviews the cost elements related to qualified defined-benefit, postretirement benefit, and any other pension-related cost elements claimed by Medicare contractors through Incurred Cost Proposals (ICPs).

Previous OIG audits found that Medicare contractors did not always correctly identify and claim SERP costs.

Our objective was to determine whether the calendar years (CYs) 2015 through 2018 SERP costs that First Coast Service Options, Inc. (First Coast), claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

### How OIG Did This Audit

We reviewed \$594,383 of Medicare SERP costs that First Coast claimed on its ICPs for CYs 2015 through 2018.

## First Coast Service Options, Inc., Did Not Claim Some Allowable Medicare Supplemental Executive Retirement Plan Costs

### What OIG Found

First Coast claimed Medicare SERP costs of \$594,383 for Medicare reimbursement, through its ICPs, for CYs 2015 through 2018. However, we determined that the allowable SERP costs during this period were \$861,269. The difference, \$266,886, represented allowable SERP costs that First Coast did not claim on its ICPs for CY 2015 through 2018. This understatement occurred primarily because First Coast based its claims for Medicare reimbursement on incorrectly calculated Cost Accounting Standards-based SERP costs.

### What OIG Recommends and Auditee Comments

We recommend that First Coast work with CMS to ensure that its final settlement of contract costs reflects an increase in Medicare SERP costs of \$266,886 for CYs 2015 through 2018.

First Coast agreed with our recommendation and said that it would work with CMS to ensure that its final settlement of contract costs reflects an increase in Medicare SERP costs.

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## INTRODUCTION

### WHY WE DID THIS AUDIT

The Centers for Medicare & Medicaid Services (CMS) reimburses a portion of its contractors' Supplemental Executive Retirement Plan (SERP) costs. In claiming SERP costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation (FAR), Cost Accounting Standards (CAS), and the Medicare contracts. Previous Office of Inspector General audits found that Medicare contractors did not always correctly identify and claim SERP costs.

At CMS's request, the Department of Health and Human Services, 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 (PRB), and any other pension-related cost elements claimed by Medicare fiscal intermediaries and carrier contractors and Medicare administrative contractors (MACs) and 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, First Coast Service Options, Inc. (First Coast). In particular, we examined the Medicare segment SERP costs that First Coast claimed for Medicare reimbursement and reported on its ICPs.

### OBJECTIVE

Our objective was to determine whether the calendar years (CYs) 2015 through 2018 SERP costs that First Coast claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

### BACKGROUND

#### First Coast Service Options, Inc., and Medicare

First Coast is a wholly owned subsidiary of Diversified Service Options, Inc. (DSO). Since 2015, DSO has been doing business as GuideWell Source, which is a holding company created and owned by Blue Cross and Blue Shield of Florida, Inc. (BCBS Florida), whose office is located in Jacksonville, Florida. First Coast administered Medicare Part A and Medicare Part B contract operations under MAC contracts for Medicare Parts A and B Jurisdictions 9 and N.<sup>1</sup>

The disclosure statement that First Coast submits to CMS states that First Coast uses pooled cost accounting. Medicare contractors use pooled cost accounting to calculate the indirect cost rates (whose computations include pension, PRB, SERP, and nonqualified plan costs) that they

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<sup>1</sup> Medicare Parts A and B Jurisdictions 9 and N include the State of Florida and the territories of Puerto Rico and the U.S. Virgin Islands.

submit on their ICPs. The indirect cost rates are used to calculate contract costs reported on the ICPs. CMS uses these indirect cost rates in determining the final indirect cost rates for each contract.<sup>2</sup>

## **Supplemental Executive Retirement Plan**

BCBS Florida sponsors a SERP, whose primary purpose is to provide a benefit to a select group of management or highly compensated employees. The SERP is designed to restore benefits to participants who lost benefits under the BCBS Florida qualified defined-benefit plan because of the Internal Revenue Code, sections 401(a)(17) and 415, limits.<sup>3,4</sup> This report addresses the SERP costs that First Coast claimed under the provisions of its MAC-related contracts.

## **Medicare Reimbursement of Supplemental Executive Retirement Plan Costs**

CMS reimburses a portion of its contractors' SERP costs. The Medicare contracts require First Coast to calculate SERP costs in accordance with the FAR and CAS 412 and 413. The FAR and the CAS require that the costs for nonqualified defined-benefit plans be measured under either the accrual method or the pay-as-you-go method. For nonqualified defined-benefit plans that are not funded through the use of a funding agency, contractors must use the pay-as-you-go method to account for costs. This method is based on the actual benefits paid to participants, which are comprised of lump-sum payments plus annuity payments. The cognizant Contracting Office will perform a final settlement with the contractor to determine the final indirect cost rates. These rates ultimately determine the final costs of each contract.<sup>5</sup> First Coast claimed its SERP costs under the pay-as-you-go method of accounting.

## **Incurred Cost Proposal Audits**

At CMS's request, CliftonLarsonAllen, LLP (CLA), and CohnReznick, LLC (CohnReznick), performed audits of the ICPs that both GuideWell Source and First Coast submitted for 2015 through 2018. The objectives of the CLA and CohnReznick ICP audits were to determine whether costs were allowable in accordance with the FAR, the U.S. Department of Health and

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<sup>2</sup> For each CY, each Medicare contractor submits to CMS an ICP that reports the Medicare direct and indirect costs that the contractor incurred during that year. The ICP and supporting data provide the basis for the CMS Contracting Officer and the Medicare contractor to determine the final billing rates for allowable Medicare costs.

<sup>3</sup> The Internal Revenue Code section 401(a)(17) limit is the maximum annual compensation that can be used to calculate pension benefits for a qualified defined-benefit plan.

<sup>4</sup> Internal Revenue Code section 415 limits the amounts of benefits that may be paid to a participant in a qualified defined-benefit plan.

<sup>5</sup> In accordance with FAR 42.705-1(b)(ii) and FAR 42.705(b)(5)(iii)(B), the cognizant Contracting Office shall "[p]repare a written indirect cost rate agreement conforming to the requirements of the contracts" and perform a "[r]econciliation of all costs questioned, with identification of items and amounts allowed or disallows in the final settlement," respectively.

Human Services Acquisition Regulation, and the CAS. Each of the ICP audits qualified its opinion (or disclaimed an opinion) because the BCBS Florida costs were not audited.

For our current audit, we relied on the CLA and CohnReznick ICP audit findings and recommendations when computing the allowable SERP costs discussed in this report.

We incorporated the results, if any, of the CLA and CohnReznick ICP audits into our computations of the audited indirect cost rates, and ultimately the SERP costs claimed, for the contracts subject to the FAR. CMS will use our report on allowable SERP costs, as well as the CLA and CohnReznick ICP audit reports, to determine the final indirect cost rates and the total allowable contract costs for First Coast for CYs 2015 through 2018. The cognizant Contracting Officer will perform a final settlement with First Coast to determine the final indirect cost rates. These rates ultimately determine the final costs of each contract.

## **HOW WE CONDUCTED THIS AUDIT**

We reviewed \$594,383 of Medicare SERP costs that First Coast claimed on its ICPs for CYs 2015 through 2018.

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 objectives.

Appendix A contains details of our audit scope and methodology.

## **FINDING**

First Coast claimed Medicare SERP costs of \$594,383 for Medicare reimbursement, through its ICPs, for CYs 2015 through 2018. However, we determined that the allowable SERP costs during this period were \$861,269. The difference, \$266,886, represented allowable SERP costs that First Coast did not claim on its ICPs for CYs 2015 through 2018. This understatement occurred primarily because First Coast based its claims for Medicare reimbursement on incorrectly calculated CAS-based SERP costs.

## **ALLOCABLE MEDICARE SEGMENT SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN COSTS UNDERSTATED**

During this audit (and before we incorporated the results of the CLA and CohnReznick ICP audits), we calculated the allocable SERP costs based on a 15-year amortization of lump-sum payments, in accordance with the FAR and the CAS. Our calculation included an allowable interest component in the amortization installment; to calculate this component, we used the interest rate identified in the qualified defined-benefit plan Internal Revenue Service (IRS) 5500

reports (Appendix A). Accordingly, and as shown in Table 1, we determined that the allocable pay-as-you-go SERP costs for CYs 2015 through 2018 totaled \$936,556. First Coast identified allocable SERP costs of \$623,620 for this period. Therefore, First Coast understated the allocable SERP costs by \$312,936. This understatement occurred primarily because First Coast did not use an interest component when calculating its lump-sum payments' amortization installment.

Table 1 compares the allocable SERP costs that we determined to the allocable SERP costs that First Coast used in its ICPs for CYs 2015 through 2018.

**Table 1: Comparison of Allocable SERP Costs**

<b>CY</b>	<b>Allocable Per Audit</b>	<b>Per First Coast</b>	<b>Difference</b>
2015	\$206,978	\$143,337	\$63,641
2016	211,938	143,337	68,601
2017	261,664	158,487	103,177
2018	255,976	178,459	77,517
<b>Total</b>	<b>\$936,556</b>	<b>\$623,620</b>	<b>\$312,936</b>

After performing the calculations discussed above, we then 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 later in this report. (Our calculations do not appear in this report because those rate computations that First Coast used in its ICPs, and to which referred as part of our audit, are proprietary information.)

**ALLOWABLE MEDICARE SEGMENT SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN COSTS NOT CLAIMED**

First Coast claimed SERP costs of \$594,383 for Medicare reimbursement, through its ICPs, for CYs 2015 through 2018. After incorporating the results of the CLA and CohnReznick ICP audits and our adjustments to the indirect cost rates, we determined that the allowable SERP costs for CYs 2015 through 2018 were \$861,269. Thus, First Coast did not claim \$266,886 of allowable SERP costs on its ICPs for CYs 2015 through 2018. This underclaim occurred because First Coast based its claims for Medicare reimbursement on incorrectly calculated allocable SERP costs included in the indirect cost rates on the ICPs.

We calculated the allowable Medicare SERP costs in accordance with Federal requirements. For details on the Federal requirements, see Appendix B.

Accordingly, Table 2 on the following page compares the Medicare allowable SERP costs that we calculated (using our adjusted indirect cost rates) to the SERP costs that First Coast claimed for Medicare reimbursement for CYs 2015 through 2018.

**Table 2: Comparison of Allowable SERP Costs and Claimed SERP Costs<sup>6</sup>**

<b>CY</b>	<b>Allowable Per Audit</b>	<b>Per First Coast</b>	<b>Difference</b>
2015	\$208,378	\$147,780	\$60,598
2016	188,617	134,541	54,076
2017	234,090	146,096	87,994
2018	230,184	165,966	64,218
<b>Total</b>	<b>\$861,269</b>	<b>\$594,383</b>	<b>\$266,886</b>

Because First Coast did not calculate its SERP costs in accordance with Federal regulations and the Medicare contracts' requirements, it did not claim \$266,886 of allowable SERP costs.

#### **RECOMMENDATION**

We recommend that First Coast Service Options, Inc., work with CMS to ensure that its final settlement of contract costs reflects an increase in Medicare SERP costs of \$266,886 for CYs 2015 through 2018.

#### **AUDITEE COMMENTS**

In written comments on our draft report, First Coast agreed with our recommendation and said that it would work with CMS to ensure that its final settlement of contract costs reflects an increase in Medicare SERP costs.

First Coast's comments appear in their entirety as Appendix C.

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<sup>6</sup> Our calculations of allowable costs do not appear in this report because those rate computations that First Coast used in its ICPs, and to which we referred as part of our audit, are proprietary information.

## APPENDIX A: AUDIT SCOPE AND METHODOLOGY

### SCOPE

We reviewed \$594,383 of SERP costs that First Coast claimed for Medicare reimbursement on its ICPs for CYs 2015 through 2018.

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

We performed audit work in 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;
- reviewed the SERP documents;
- reviewed accounting records and information provided by First Coast to identify the amount of SERP costs claimed for Medicare reimbursement for CYs 2015 through 2018;
- calculated the allowable SERP costs based on a 15-year amortization of lump-sum SERP payments, and including an allowable interest component in the amortization installment (which we calculated using the interest rate identified in the qualified defined-benefit plan IRS 5500 report), in accordance with applicable provisions of the FAR and the CAS;
- reviewed the results of the CLA and CohnReznick ICP audits and incorporated those results into our calculations of allowable SERP costs; and
- provided the results of our audit to First Coast officials on May 22, 2023.

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

- *First Coast Service Options, Inc., Did Not Claim Allowable Medicare Postretirement Benefit Costs (A-07-23-00630)*; and

- *First Coast Service Options, Inc., Claimed Some Unallowable Medicare Nonqualified Plan Costs Through Its Incurred Cost Proposals (A-07-23-00632).*

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 objectives.

## **APPENDIX B: FEDERAL REQUIREMENTS RELATED TO SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN COSTS**

### **FEDERAL REGULATIONS**

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

Federal regulations (CAS 412.40(a)(3)) state that for defined-benefit pension plans accounted for under the pay-as-you-go cost method, the components of pension cost for a cost accounting period are:

- the net amount of periodic benefits paid for the period, and
- an amortization installment, including an interest equivalent on the unamortized settlement amount, attributable to amount paid to irrevocably settle an obligation for periodic benefits due in current and future cost accounting periods.

Federal regulations (CAS 412.50(b)(3)) state that for defined-benefit plans accounted for under the pay-as-you-go cost method, the amount of pension cost assignable to a cost accounting period shall be measured as the sum of:

- the net amount for any periodic benefits paid that period, and
- the level annual installment required to amortize over 15 years any lump-sum benefit payments.

Federal regulations (CAS 412.50(c)(3)) state that the cost of a nonqualified defined-benefit pension plan shall be assigned to cost accounting periods in the same manner as the cost of qualified plans under the following conditions:

- the contractor, in disclosing or establishing cost accounting practices, elects to have a plan so accounted for;
- the plan is funded through the use of a funding agency; and
- the right to a pension benefit is nonforfeitable and is communicated to the participants.

Federal regulations (CAS 412.50(c)(4)) state that the cost of a nonqualified defined-benefit pension plan must be assigned using the pay-as-you-go method if the plan does not meet all of the above requirements.

## **MEDICARE CONTRACTS**

The Medicare contracts require First Coast 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.)



A CMS-Contracted Medicare Administrative Contractor

**Joshua Clifton, CPA**  
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July 12, 2023

Mr. James I. Korn  
Regional Inspector General for Audit Services  
Office of Audit Services, Region VII  
601 East 12<sup>th</sup> Street, Room 0429  
Kansas City, MO 64106

**Reference: A-07-22-00626**

Dear Mr. Korn:

We received the U.S. Department of Health & Human Services, Officer of Inspector General (OIG) draft report entitled, "*First Coast Service Options, Inc. Did Not Claim Some Allowable Medicare Supplemental Executive Retirement Plan Costs*" and reviewed.

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

**Recommendation:**

First Coast Service Options, Inc. work with CMS to ensure that its final settlement of contract costs reflects an increase in Medicare SERP costs of \$266,886 for CYs 2015 through 2018.

**Response:**

First Coast Service Options, Inc. agrees with this recommendation. First Coast will work with CMS to ensure that its final settlement of contract costs reflects an increase in Medicare SERP costs.

If you have any questions or need additional information, please do not hesitate to contact me.

Very truly yours,

/s/

Joshua Clifton

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