

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

**FIRST COAST SERVICE OPTIONS,
INC., OVERSTATED ITS MEDICARE
SEGMENT POSTRETIREMENT BENEFIT
ASSETS AS OF JANUARY 1, 2019**

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



Amy J. Frontz
Deputy Inspector General
for Audit Services

August 2023
A-07-23-00629

Office of Inspector General

<https://oig.hhs.gov/>

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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: August 2023

Report No. A-07-23-00629

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



Why OIG Did This Audit

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

The HHS, OIG, Office of Audit Services, Region VII pension audit team reviews the Medicare segment PRB assets to ensure compliance with Federal regulations.

Previous OIG audits found that Medicare contractors did not always correctly identify and update the Medicare segment PRB assets.

Our objectives were to determine whether First Coast Service Options, Inc. (First Coast), complied with Federal requirements when:

- (1) implementing the prior audit recommendation to decrease the First Coast Medicare segment PRB assets as of January 1, 2013; and
- (2) updating the Medicare segment PRB assets with contributions, permitted unfunded accruals, income, claims paid, participant transfers, and administrative expenses in its Cost Accounting Standards exhibits from January 1, 2013, to January 1, 2019.

How OIG Did This Audit

We reviewed First Coast's implementation of the prior audit recommendation; its identification of its PRB Medicare segment; and its update of the Medicare segment PRB assets from January 1, 2013, to January 1, 2019.

First Coast Service Options, Inc., Overstated Its Medicare Segment Postretirement Benefit Assets as of January 1, 2019

What OIG Found

First Coast implemented our prior audit recommendation to decrease the Medicare segment PRB assets by \$5.0 million as of January 1, 2013. Regarding our second objective, First Coast did not fully comply with Federal requirements and its established cost accounting practice when updating the Medicare segment PRB assets from January 1, 2013, to January 1, 2019. First Coast identified Medicare segment PRB assets of \$15.3 million as of January 1, 2019; however, we determined that the Medicare segment PRB assets were \$15.1 million as of that date. Therefore, First Coast overstated the Medicare segment PRB assets as of January 1, 2019, by \$211,471. First Coast overstated the Medicare segment PRB assets because it did not have policies and procedures to ensure that it calculated those assets in accordance with Federal regulations and its established cost accounting practice when updating the Medicare segment's PRB assets from January 1, 2013, to January 1, 2019.

What OIG Recommends and Auditee Comments

We recommend that First Coast decrease the Medicare segment PRB assets by \$211,471 as of January 1, 2019.

First Coast agreed with our recommendation and said that it would decrease the Medicare segment PRB assets.

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INTRODUCTION

WHY WE DID THIS AUDIT

The Centers for Medicare & Medicaid Services (CMS) reimburses a portion of Medicare contractors' costs for postretirement benefit (PRB) plans. In claiming these costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation (FAR) and applicable Cost Accounting Standards (CAS). First Coast Service Options, Inc. (First Coast), elected to use segmented accrual accounting for its PRB plan.

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, PRB, and any other pension-related cost elements claimed by Medicare fiscal intermediaries and carrier contractors, Medicare administrative contractors (MACs), and other CAS-covered and FAR-covered contracts through Final Administrative Cost Proposals, Incurred Cost Proposals (ICPs), or both.

We used the Medicare contracts' pension segmentation requirements as authoritative guidance. The fiscal intermediary and carrier contracts required that the pension assets be allocated to each Medicare segment and adjusted in accordance with CAS 413. In turn, CAS 413 requires these contractors to update the pension assets with contributions, permitted unfunded accruals, income, benefit payments (claims paid), participant transfers, and administrative expenses. These PRB assets are calculated by the contractors' actuarial consulting firm and are usually included as CAS exhibits (that is, the update of the PRB assets as of January 1 of each year under review) in the contractors' PRB plan actuarial valuation reports. The Medicare segment PRB assets are integral to calculating the allowable Medicare PRB costs.

Previous Office of Inspector General audits found that Medicare contractors did not always correctly identify and update the Medicare segment PRB assets. Specifically, our prior PRB segmentation audit report of First Coast (A-07-17-00499, Jul. 2017) found that First Coast did not correctly identify and update its Medicare segment PRB assets.

OBJECTIVES

Our objectives were to determine whether First Coast complied with Federal requirements when: (1) implementing the prior audit recommendation to decrease the First Coast Medicare segment PRB assets as of January 1, 2013; and (2) updating the Medicare segment PRB assets with contributions, permitted unfunded accruals, income, claims paid, participant transfers, and administrative expenses in its CAS exhibits from January 1, 2013, to January 1, 2019.

BACKGROUND

First Coast Service Options, Inc.

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.¹

First Coast participated in a voluntary employee benefit association (VEBA) trust for the purpose of funding annual PRB accruals offered by BCBS Florida. The VEBA funds contributions to the retiree's health reimbursement account for the payment of claims and premiums.

Prior Postretirement Benefit Segmentation Audit

We performed a prior PRB segmentation audit of First Coast (A-07-17-00499, July 7, 2017), which brought the First Coast Medicare segment PRB assets to January 1, 2013. We recommended that First Coast decrease the Medicare segment PRB assets by \$4,997,091 and, as a result, recognize \$17,525,123 as the Medicare segment PRB assets as of January 1, 2013.

HOW WE CONDUCTED THIS AUDIT

We reviewed First Coast's implementation of the prior audit recommendation; its identification of its PRB Medicare segment; and its update of the Medicare segment PRB assets from January 1, 2013, to January 1, 2019.

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.

¹ 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.

FINDINGS

First Coast implemented our prior audit recommendation to decrease the Medicare segment PRB assets by \$4,997,091 as of January 1, 2013.² Regarding our second objective, First Coast did not fully comply with Federal requirements and its established cost accounting practice when updating the Medicare segment PRB assets from January 1, 2013, to January 1, 2019. First Coast identified Medicare segment PRB assets of \$15,330,012 as of January 1, 2019; however, we determined that the Medicare segment PRB assets were \$15,118,541 as of that date. Therefore, First Coast overstated the Medicare segment PRB assets as of January 1, 2019, by \$211,471. First Coast overstated these assets because it did not have policies and procedures to ensure that it calculated those assets in accordance with Federal regulations and its established cost accounting practice when updating the Medicare segment's PRB assets from January 1, 2013, to January 1, 2019.

Appendix B identifies the details of First Coast's Medicare segment PRB assets from January 1, 2013, to January 1, 2019, as determined during our audit. Table 1 summarizes the audit adjustments required to update First Coast's Medicare segment PRB assets in accordance with Federal requirements.

Table 1: Summary of Audit Adjustments

	Per Audit	Per First Coast	Difference
Prior Audit Recommendation	\$17,525,123	\$22,522,214	(\$4,997,091)
Update of Medicare Segment Assets			
Prior Audit Adjustment – 2017 Valuation Report ³	0	(5,672,685)	5,672,685
Reimbursements for Paid Claims	(7,083,552)	(7,083,552)	0
Contributions and Prepayment Credits	854,324	933,765	(79,441)
Earnings, Net of Expenses	3,822,646	4,630,270	(807,624)
Overstatement of Medicare Segment Assets			(\$211,471)

PRIOR AUDIT RECOMMENDATION

We performed a prior pension segmentation audit of First Coast's Medicare segment PRB assets (A-07-17-00499, July 7, 2017), which recommended that First Coast decrease its

² Implementation of our prior audit recommendation required the restatement of First Coast's annual valuation report. First Coast agreed with our prior audit findings and recommendation and chose to update the assets in its January 1, 2017, valuation report.

³ The prior Audit Adjustment is the adjustment for the prior audit recommendation. This adjustment was made in the January 1, 2017, valuation. The adjustment incorporated the prior audit finding plus interest. Please refer to the prior audit recommendation section for additional details.

Medicare segment PRB assets by \$4,997,091 and, as a result, recognize \$17,525,123 as the Medicare segment PRB assets as of January 1, 2013. First Coast agreed with our prior audit recommendation.

First Coast implemented the prior audit recommendation during 2016 in its January 1, 2017, valuation report (footnote 2). To do so, First Coast made an adjustment of \$5,672,685 (\$4,997,091 prior audit recommendation plus \$675,594 interest).

UPDATE OF MEDICARE SEGMENT POSTRETIREMENT BENEFIT ASSETS

First Coast elected to use segmented accrual accounting for its PRB plan. In accordance with First Coast's established cost accounting practice, we used CAS 413 pension segmentation requirements as authoritative guidance. CAS 413.50(c)(7) states that "the contractor shall maintain a record of the portion of subsequent contributions, permitted unfunded accruals, income, benefit payments, and expenses attributable to the segment." For details on the Federal requirements, see Appendix C.

First Coast did not correctly update the Medicare segment PRB assets from January 1, 2013, to January 1, 2019, in accordance with Federal requirements and its established cost accounting practice. First Coast identified \$15,330,012 as the Medicare segment PRB assets as of January 1, 2019; however, we determined that those assets were \$15,118,541 as of that date. Therefore, First Coast overstated the Medicare segment PRB assets as of January 1, 2019, by \$211,471. The following are our findings regarding the update of the Medicare segment PRB assets from January 1, 2013, to January 1, 2019.⁴

Contributions and Prepayment Credits Overstated

First Coast overstated prepayment credits for the Medicare segment by \$79,441. The overstatement occurred because First Coast incorrectly calculated the PRB cost on which the prepayment credits were based. Therefore, First Coast overstated the Medicare segment PRB assets by \$79,441.

Earnings, Net of Expenses, Understated

First Coast overstated investment earnings, less administrative expenses, by \$807,624 for its Medicare segment, because it used an incorrect weighted average value (WAV) of assets to allocate the investment earnings to the Medicare segment. Specifically, First Coast used the incorrect Medicare segment PRB asset amounts to calculate the WAV of assets because First Coast did not implement the prior audit recommendation until its January 1, 2017, valuation report (footnotes 2 and 3). In our calculation of the Medicare segment PRB assets as of

⁴ As shown in Table 1, our calculation of First Coast's benefit payments (claims paid) agreed with First Coast's calculations. For that reason, we do not convey a finding on those assets.

January 1, 2019, we allocated earnings, net of expenses, based on the applicable CAS requirements. For details on applicable Federal requirements, see Appendix C.

RECOMMENDATION

We recommend that First Coast Service Options, Inc., decrease the Medicare segment PRB assets by \$211,471 as of January 1, 2019.

AUDITEE COMMENTS

In written comments on our draft report, First Coast agreed with our recommendation and said that it would decrease the Medicare segment PRB assets.

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

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed First Coast's implementation of the prior audit recommendation; its identification of its PRB Medicare segment; and its update of the Medicare segment PRB assets with contributions, permitted unfunded accruals, income, benefit payments (claims paid), participant transfers, and administrative expenses in its CAS exhibits from January 1, 2013, to January 1, 2019.

Achieving our objective did not require that we review First Coast's overall internal control structures. We reviewed controls relating to the identification of the PRB Medicare segment and to the update of the Medicare segment PRB assets.

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

METHODOLOGY

To accomplish our objectives, we:

- reviewed the portions of the FAR and CAS applicable to this audit;
- reviewed the annual actuarial valuation reports prepared by First Coast's actuarial consulting firm, which included the PRB plan's assets, PRB obligations, service costs, contributions, claims paid, investment earnings, and administrative expenses, and used this information to calculate the Medicare segment PRB assets;
- obtained and reviewed the PRB plan documents;
- interviewed First Coast staff for determining and implementing the methodology that First Coast used in its identification of the PRB Medicare segment;
- reviewed First Coast's accounting records to verify the PRB Medicare segment identification;
- reviewed the prior segmentation audit performed of First Coast (A-07-17-00499) to determine the beginning market value of assets;
- provided the CMS Office of the Actuary, which provides technical actuarial advice, with the actuarial information necessary for it to calculate the Medicare segment's PRB assets from January 1, 2013, to January 1, 2019;
- reviewed the CMS actuaries' methodology and calculations; and

- provided the results of our audit to First Coast officials on May 22, 2023.

We performed this audit in conjunction with the following audit and used the information obtained during this audit: *First Coast Service Options, Inc., Did Not Claim Allowable Medicare Postretirement Benefit Costs (A-07-23-00630)*.

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: FIRST COAST SERVICE OPTIONS, INC.,
STATEMENT OF MARKET VALUE OF POSTRETIREMENT BENEFIT PLAN
FOR THE PERIOD JANUARY 1, 2013, TO JANUARY 1, 2019**

Description		Total Company	Other Segment	Medicare Segment
Assets January 1, 2013	1/	\$129,557,274	\$112,032,151	\$17,525,123
Transferred Prepayment Credits	2/	-	-	-
Claims Reimbursed	3/	(3,900,000)	(3,201,121)	(698,879)
Investment Return	4/	6,647,440	5,752,708	894,732
Assets January 1, 2014		\$132,304,714	\$114,583,738	\$17,720,976
Transferred Prepayment Credits		-	-	-
Claims Reimbursed		(12,100,000)	(9,894,628)	(2,205,372)
Investment Return		9,833,130	8,538,843	1,294,287
Assets January 1, 2015		\$130,037,844	\$113,227,953	\$16,809,891
Transferred Prepayment Credits		-	-	-
Claims Reimbursed		(6,800,000)	(5,483,570)	(1,316,430)
Investment Return		2,484,573	2,167,685	316,888
Assets January 1, 2016		\$125,722,417	\$109,912,068	\$15,810,349
Transferred Prepayment Credits		-	(519,779)	519,779
Claims Reimbursed		(5,500,000)	(4,505,645)	(994,355)
Investment Return		2,753,781	2,399,226	354,555
Assets January 1, 2017		\$122,976,198	\$107,285,870	\$15,690,328
Transferred Prepayment Credits		-	(222,546)	222,546
Claims Reimbursed		(5,300,000)	(4,348,536)	(951,464)
Investment Return		7,348,389	6,405,634	942,755
Assets January 1, 2018		125,024,587	109,120,422	\$15,904,165
Transferred Prepayment Credits		-	(111,999)	111,999
Claims Reimbursed		(5,200,000)	(4,282,948)	(917,052)
Investment Return		152,890	133,461	19,429
Assets January 1, 2019		119,977,477	\$104,858,936	\$15,118,541
Per First Coast	5/	\$119,977,477	\$104,647,465	\$15,330,012
Asset Variance	6/	\$0	\$211,471	(\$211,471)

ENDNOTES

- 1/ We determined the Medicare segment PRB assets as of January 1, 2013, based on our prior segmentation audit of First Coast (A-07-17-00499; Jul. 7, 2017). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare segment. All PRB assets are shown at market value.
- 2/ Prepayment credits represent funds available to satisfy future funding requirements and are applied to future funding requirements before current-year contributions to avoid incurring unallowable interest. Prepayment credits are transferred to the Medicare segment as needed to cover funding requirements.
- 3/ Claims reimbursed represent benefit reimbursements from the trust fund for claims paid. We obtained Medicare segment claims paid amounts from documents prepared by First Coast's actuarial consulting firm.
- 4/ We obtained investment returns from the PRB actuarial valuation reports. We allocated net investment returns based on the ratio of each segment's weighted average value (WAV) of assets to Total Company WAV of assets as required by the CAS.
- 5/ We obtained the asset amount as of January 1, 2019, from First Coast's actuarial valuation report.
- 6/ The asset variance represents the difference between our calculation of the Medicare segment PRB assets and First Coast's calculation of the Medicare segment PRB assets.

APPENDIX C: FEDERAL REQUIREMENTS RELATED TO POSTRETIREMENT BENEFIT SEGMENTATION

FEDERAL REGULATIONS

Federal regulations (FAR 31.205-6(o)) require that, to be allowable for Medicare reimbursement, PRB accrual costs be: (1) measured and assigned in accordance with generally accepted accounting principles, (2) funded in a dedicated trust fund, such as a VEBA trust, and (3) calculated in accordance with generally accepted actuarial principles and practices as promulgated by the Actuarial Standards Board.

Federal regulations (CAS 412.50(a)(4)) require that contributions in excess of the pension cost assigned to the period be recognized as prepayment credits and accumulated at the assumed valuation interest rate until applied to future-period costs. Prepayment credits that have not been applied to fund pension costs are excluded from the value of assets used to compute pension costs.

Federal regulations (CAS 413.50(c)(7)) require that the asset base be updated by contributions, permitted unfunded accruals, income, benefit payments, and expenses. For plan years beginning after March 30, 1995, the CAS requires investment income and expenses to be allocated among segments based on the ratio of the segment's WAV of assets to the Total Company WAV of assets.



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 12th Street, Room 0429
Kansas City, MO 64106

Reference: A-07-23-00629

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. Overstated Its Medicare Segment Postretirement Benefit Assets as of January 31, 2019*" and reviewed.

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

Recommendation:

First Coast Service Options, Inc. decrease the Medicare segment PRB assets by \$211,471 as of January 1, 2019.

Response:

First Coast Service Options, Inc. agrees with this recommendation. Medicare segment PRB assets will be decreased.

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

Very truly yours,

/s/

Joshua Clifton

cc: Harvey Dikter, GuideWell Source
Thomas Anderson, GuideWell Source
Gregory England, GuideWell Source