

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

**FIRST COAST SERVICE OPTIONS,
INC., DID NOT CLAIM ALLOWABLE
MEDICARE POSTRETIREMENT
BENEFIT COSTS**

*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-07-23-00630

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: August 2023

Report No. A-07-23-00630

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 Medicare contractors' costs for postretirement benefit (PRB) plans.

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 did not always correctly identify and claim PRB costs.

Our objective was to determine whether the calendar years (CYs) 2015 through 2018 PRB 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 First Coast's ICPs for CYs 2015 through 2018, in all of which First Coast did not claim any PRB costs.

First Coast Service Options, Inc., Did Not Claim Allowable Medicare Postretirement Benefit Costs

What OIG Found

First Coast did not claim PRB costs for Medicare reimbursement, through its ICPs, for CYs 2015 through 2018; however, we determined that the allowable PRB costs during this period were \$762,388. This amount represented allowable PRB costs that First Coast could have claimed on its ICPs for this period. This understatement occurred because First Coast chose not to claim PRB costs through its ICPs for CYs 2015 through 2018.

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 PRB costs of \$762,388 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 PRB costs.

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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, which are funded by contributions that these contractors make to their dedicated trust fund. The amount of PRB costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the cost reimbursement principles contained in the Federal Acquisition Regulation (FAR) as required by the Medicare contracts. Previous Office of Inspector General audits found that Medicare contractors have not always complied with Federal requirements when claiming PRB costs for Medicare reimbursement.

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 and Medicare administrative contractors (MACs) and Cost Accounting Standard (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 PRB costs that First Coast claimed for Medicare reimbursement and reported on its ICPs. First Coast chose not to claim PRB costs for calendar years (CYs) 2015 through 2018.

OBJECTIVE

Our objective was to determine whether the CYs 2015 through 2018 PRB 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.¹

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.

First Coast participated in a PRB plan called the Guidewell Mutual Holding Corporation, Inc., Retiree Group Benefit Plan. First Coast also participated in a voluntary employee benefit association (VEBA) trust for funding annual PRB accruals offered by BCBS Florida. In addition to the VEBA trust, GuideWell owns and funds a health reimbursement account. This report addresses the allowable PRB costs claimed by First Coast under the provisions of its MAC contracts and reported on its ICPs.

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, Supplemental Executive Retirement Plan, and nonqualified plan costs) that they 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.²

Medicare Reimbursement of Postretirement Benefit Plan Costs

CMS reimburses a portion of the Medicare contractors' annual PRB costs, which are funded by contributions that contractors make to their PRB plans. The PRB costs are included in the computation of the indirect cost rates reported on the ICPs. In turn, CMS uses indirect cost rates in reimbursing costs under cost-reimbursement contracts. FAR 31.205-6(o) requires that to be allowable for Medicare reimbursement, PRB costs must be: (1) measured, assigned, and allocated in accordance with Financial Accounting Standards Board Accounting Standards Codification (ASC) 715-60 and (2) funded as specified by part 31 of the FAR. In claiming costs, contractors must follow cost reimbursement principles contained in the FAR and applicable CAS as required by the Medicare contracts. The cognizant Contracting Officer 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.³ Although First Coast's actuary calculated PRB costs using segmented accrual basis of accounting, First Coast chose not to claim PRB costs for CYs 2015 through 2018.

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

² 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.

³ In accordance with FAR 42.705-1(b)(5)(ii) and FAR 42.705-1-(b)(5)(iii)(B), the cognizant Contracting Officer 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 disallowed 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 PRB 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 PRB costs claimed, for the contracts subject to the FAR. CMS will use our report on allowable PRB 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 First Coast's ICPs for CYs 2015 through 2018, in all of which First Coast chose not to claim 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 findings and conclusions based on our audit objectives.

Appendix A contains details of our audit scope and methodology.

FINDING

First Coast did not claim PRB costs for Medicare reimbursement, through its ICPs, for CYs 2015 through 2018; however, we determined that the allowable PRB costs during this period were \$762,388. This amount represented allowable PRB costs that First Coast could have claimed on its ICPs for this period. This understatement occurred because First Coast made a management decision not to claim PRB costs through its ICPs for CYs 2015 through 2018.

ALLOCABLE MEDICARE SEGMENT POSTRETIREMENT BENEFIT COSTS OVERSTATED

During this audit, we calculated the allocable PRB costs for CY 2015 through 2018 (Appendix C) in accordance with Federal requirements. We determined that the allocable PRB costs for CYs 2015 through 2018 totaled \$854,301. First Coast identified allocable PRB costs of \$1,674,741 for this period, but it did not use these costs to calculate Medicare PRB costs (see "Allowable Postretirement Benefit Plan Costs Were Not Claimed" later in this report).

We used the audited allocable PRB costs to adjust the indirect cost rates (i.e., the fringe benefit and general and administrative rates) and, in turn, to calculate the allowable PRB costs.

ALLOCABLE OTHER SEGMENT POSTRETIREMENT BENEFIT COSTS OVERSTATED

During this audit, we calculated the allocable Other segment PRB costs for CY 2015 through 2018 (Appendix C) in accordance with Federal requirements. We determined that the allocable Other segment PRB costs for CYs 2015 through 2018 totaled \$0. First Coast identified allocable PRB costs of \$1,788,779 for this period, but it did not use these costs to calculate the Other segment PRB costs (see “Allowable Postretirement Benefit Plan Costs Were Not Claimed” later in this report).

COSTS FOR MEDICARE SEGMENT AND OTHER SEGMENT PARTICIPANTS NOT CLAIMED

Although First Coast determined the allocable PRB costs for both the Medicare segment and the Other segment, First Coast made a management decision to no longer request Medicare reimbursement for PRB costs that related to participants in both of these segments. Notwithstanding this decision, the Medicare contract allows contractors to claim PRB costs for Medicare reimbursement. We calculated the allowable PRB costs for CYs 2015 through 2018 in accordance with the FAR.

ALLOWABLE POSTRETIREMENT BENEFIT PLAN COSTS WERE NOT CLAIMED

First Coast did not claim PRB costs for Medicare reimbursement on 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 PRB costs for CYs 2015 through 2018, which First Coast did not claim on its ICPs for this period, were \$762,388. This underclaim occurred because First Coast chose to not claim PRB costs for this period. Before this period, First Coast had claimed PRB costs annually.

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

Table 1 on the following page compares the Medicare PRB costs that we calculated (using our adjusted indirect cost rates) to the PRB costs that First Coast claimed for Medicare reimbursement for CYs 2015 through 2018.

Table 1: Comparison of Allowable PRB Costs and Claimed PRB Costs⁴

CY	Allowable Per Audit	Per First Coast	Difference
2015	\$0	\$0	\$0
2016	462,578	0	462,578
2017	199,099	0	199,099
2018	100,711	0	100,711
Total	\$762,388	\$0	\$762,388

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 PRB costs of \$762,388 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 PRB costs.

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

⁴ 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 First Coast's ICPs for CYs 2015 through 2018, in all of which First Coast chose not to claim PRB costs.

Achieving our objective did not require that we review First Coast's overall internal control structure. We reviewed the internal controls related to the PRB 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 and Medicare contracts applicable to this audit;
- used information that First Coast's actuarial firm provided, including information on the VEBA assets, PRB obligations, service costs, contributions, paid claims, investment earnings, and administrative expenses;
- examined First Coast's accounting records, PRB plan documents, and annual actuarial valuation reports, which included ASC 715-60 information;
- determined the extent to which First Coast funded PRB costs with contributions to the VEBA trust fund, accumulated prepayment credits, and direct benefit payments;
- reviewed the results of the CohnReznick and CLA ICP audits and incorporated those results into our calculations of allowable PRB 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., Overstated Its Medicare Segment Postretirement Benefit Assets as of January 1, 2019 (A-07-23-00629);*
- *First Coast Service Options, Inc., Did Not Claim Some Allowable Medicare Supplemental Executive Retirement Plan Costs (A-07-22-00626);* 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 REIMBURSEMENT OF POSTRETIREMENT BENEFIT COSTS

FEDERAL REGULATIONS

If a contractor elects to use accrual accounting, Federal regulations (FAR 31.205-6(o)) require that PRB accrual costs be determined in accordance with ASC 715-60 (formerly Statement of Financial Accounting Standards 106) and funded by payments to an insurer or into a dedicated trust fund, such as a VEBA trust. The FAR states that accrual accounting may be used to determine the allowable PRB costs if the cost is measured and assigned (actuarially determined) based on amortization of any transition obligation. The FAR states that allowable costs must be funded by the time set for filing the Federal income tax return or any extension thereof and must comply with the applicable standards promulgated by the Actuarial Standards Board.

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.

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.)

**APPENDIX C: ALLOCABLE MEDICARE POSTRETIREMENT BENEFIT COSTS
FOR FIRST COAST SERVICE OPTIONS, INC.,
FOR CALENDAR YEARS 2015 THROUGH 2018**

Date	Description	Total Company	Other Segment	Medicare Segment
2015	Contributions	\$0	\$0	\$0
	Discount for Interest	\$0	\$0	\$0
January 1, 2015	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$0	\$0	\$0
	Present Value of Funding	\$0	\$0	\$0
January 1, 2015	CAS Funding Target	\$0	\$0	\$0
	Percentage Funded		100.00%	100.00%
	Funded PRB Cost		\$0	\$0
	Allowable Interest		\$0	\$0
2015	CY Allocable PRB Cost		\$0	\$0

Date	Description	Total Company	Other Segment	Medicare Segment
2016	Contributions	\$0	\$0	\$0
	Discount for Interest	\$0	\$0	\$0
January 1, 2016	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied <u>1/</u>	\$519,779	\$0	\$519,779
	Present Value of Funding <u>2/</u>	\$519,779	\$0	\$519,779
January 1, 2016	CAS Funding Target <u>3/</u>	\$519,779	\$0	\$519,779
	Percentage Funded <u>4/</u>		100.00%	100.00%
	Funded PRB Cost <u>5/</u>		\$0	\$519,779
	Allowable Interest		\$0	\$0
2016	CY Allocable PRB Cost <u>6/</u>		\$0	\$519,779

Date	Description	Total Company	Other Segment	Medicare Segment
2017	Contributions	\$0	\$0	\$0
	Discount for Interest	\$0	\$0	\$0
January 1, 2017	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$222,546	\$0	\$222,546
	Present Value of Funding	\$222,546	\$0	\$222,546
January 1, 2017	CAS Funding Target	\$222,546	\$0	\$222,546
	Percentage Funded		100.00%	100.00%
	Funded PRB Cost		\$0	\$222,546
	Allowable Interest		\$0	\$0
2017	CY Allocable PRB Cost		\$0	\$222,546

Date	Description	Total Company	Other Segment	Medicare Segment
2018	Contributions	\$0	\$0	\$0
	Discount for Interest	\$0	\$0	\$0
January 1, 2018	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$111,999	\$0	\$111,999
	Present Value of Funding	\$111,999	\$0	\$111,999
January 1, 2018	CAS Funding Target	\$111,999	\$0	\$111,999
	Percentage Funded		100.00%	100.00%
	Funded PRB Cost		\$0	\$111,999
	Allowable Interest		\$0	\$0
2018	CY Allocable PRB Cost		\$0	\$111,999

ENDNOTES

- 1/ 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 funding target. A prepayment credit is carried forward, with interest, to fund future PRB costs.
- 2/ The present value of funding represents the present value of contributions plus prepayment credits plus direct benefit payments. This is the amount of funding that is available to cover the funding target measured at the first day of the CY.
- 3/ The CAS funding target is based on the assignable PRB costs computed during our audit. The CAS funding target must be funded by accumulated prepayment credits or current-year contributions or direct benefit payments to satisfy the funding requirements contained in the FAR.

4/ 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, 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 costs funded has been rounded to four decimal places.

5/ We computed the funded PRB cost as the CAS funding target multiplied by the percent funded. Negative costs are considered to be 100 percent funded.

6/ The CY allocable PRB cost is the amount of PRB cost that may be allocated for contract cost purposes.

APPENDIX D: AUDITEE COMMENTS

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-07-23-00630

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 Allowable Medicare Postretirement Benefit 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 PRB costs of \$762,388 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 PRB costs.

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