

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**PALMETTO GOVERNMENT BENEFITS
ADMINISTRATOR, LLC, CLAIMED
SOME UNALLOWABLE
MEDICARE PENSION COSTS**

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**Amy J. Frontz
Deputy Inspector General
for Audit Services**

**April 2020
A-07-20-00588**

Office of Inspector General

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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: April 2020

Report No. A-07-20-00588

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 pension costs, which are funded by the annual contributions that contractors make to their pension plans.

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

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

Our objective was to determine whether the fiscal year (FY) 2012 qualified defined-benefit plan pension costs (pension costs) that Palmetto Government Benefits Administrator, LLC (Palmetto), claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACP, were allowable and correctly claimed.

How OIG Did This Audit

We reviewed \$398,188 of Medicare pension costs that Palmetto claimed for Medicare reimbursement on its FACP for FY 2012.

Palmetto Government Benefits Administrator, LLC, Claimed Some Unallowable Medicare Pension Costs

What OIG Found

Palmetto claimed FY 2012 pension costs of \$398,188 for Medicare reimbursement; however, we determined that the allowable Cost Accounting Standards (CAS)-based pension costs during this period were \$356,134. The difference, \$42,054, represented unallowable Medicare pension costs that Palmetto claimed on its FACP for FY 2012. Palmetto claimed these unallowable Medicare pension costs primarily because it calculated an incorrect CAS pension cost.

What OIG Recommends and Auditee Comments

We recommend that Palmetto revise its FACP for FY 2012 to reduce its claimed Medicare pension costs by \$42,054. Palmetto concurred with our recommendation.

TABLE OF CONTENTS

INTRODUCTION.....	1
Why We Did This Audit.....	1
Objective.....	1
Background.....	1
Palmetto Government Benefits Administrator, LLC, and Medicare.....	1
Medicare Reimbursement of Pension Costs.....	2
How We Conducted This Audit.....	3
FINDING.....	3
Claimed Medicare Pension Costs.....	3
Unallowable Pension Costs Claimed.....	3
RECOMMENDATION.....	4
AUDITEE COMMENTS.....	4
APPENDICES	
A: Audit Scope and Methodology.....	5
B: Federal Requirements Related to Reimbursement of Pension Costs.....	7
C: Allowable Medicare Pension Costs for Palmetto Government Benefits Administrator, LLC, for Fiscal Year 2012.....	8
D: Auditee Comments.....	9

INTRODUCTION

WHY WE DID THIS AUDIT

Medicare contractors are eligible to be reimbursed a portion of their pension costs, which are funded by the annual contributions that these contractors make to their pension plans. The amount of pension costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the allocability and cost reimbursement principles contained in the Federal Acquisition Regulation (FAR), the Cost Accounting Standards (CAS), and the Medicare contracts. Previous Office of Inspector General (OIG) audits found that Medicare contractors did not always comply with Federal requirements when claiming pension 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, postretirement benefit, and any other pension-related cost elements claimed by Medicare fiscal intermediaries and carrier contractors and Medicare administrative contractors (MACs) through Final Administrative Cost Proposals (FACPs), Incurred Cost Proposals, or both.

For this audit, we focused on one entity, Palmetto Government Benefits Administrator, LLC (Palmetto). In particular, we examined the Palmetto Medicare segment and Other segment costs that Palmetto claimed for Medicare reimbursement on its FACPs.

OBJECTIVE

Our objective was to determine whether the fiscal year (FY) 2012 qualified defined-benefit plan pension costs (herein referred to as "pension costs") that Palmetto claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACP, were allowable and correctly claimed.

BACKGROUND

Palmetto Government Benefits Administrator, LLC, and Medicare

During our audit period, Palmetto was a subsidiary of Blue Cross Blue Shield of South Carolina (BCBS South Carolina), whose home office is in Columbia, South Carolina. Palmetto administered Medicare Part A fiscal intermediary, Medicare Part B carrier, and Railroad Retirement Board (RRB) contract operations under cost reimbursement contracts with CMS. The Medicare Part A fiscal intermediary and Medicare Part B carrier contracts ended on January 24, 2011, and June 20, 2011, respectively. The original RRB contract ended on November 26, 2012.

With the implementation of Medicare contracting reform,¹ Palmetto continued to perform Medicare work after being awarded the MAC contracts for Medicare Parts A and B Jurisdiction 1² and Jurisdiction 11³ effective October 25, 2007, and May 21, 2010, respectively, as well as other CAS-covered and FAR-covered contracts. Currently, Palmetto is the Medicare Parts A and B contractor for Jurisdictions J⁴ and M (formerly Jurisdiction 11). Palmetto also continues to perform RRB contract operations under a specialty MAC contract awarded on November 27, 2012.

During our audit period, BCBS South Carolina had three Medicare segments that participated in its qualified defined-benefit pension plan: (1) Palmetto, (2) Companion Data Services, LLC (CDS), and (3) TrailBlazer Health Enterprises, LLC (TrailBlazer).⁵ This report addresses Palmetto's compliance with Federal regulations and the fiscal intermediary and carrier contracts when claiming Medicare pension costs for Medicare reimbursement. We are addressing the pension costs claimed by CDS in a separate audit.

Medicare Reimbursement of Pension Costs

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

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

¹ Section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P.L. No. 108-173, required CMS to transfer the functions of fiscal intermediaries and carriers to MACs between October 2005 and October 2011. Most, but not all, of the MACs are fully operational; for jurisdictions where the MACs are not fully operational, the fiscal intermediaries and carriers continue to process claims. For purposes of this report, the term "Medicare contractor" means the fiscal intermediary, carrier, or MAC, whichever is applicable.

² Medicare Parts A and B Jurisdiction 1 consisted of the States of California, Hawaii, and Nevada, and the territories of American Samoa, Guam, and the Northern Mariana Islands.

³ Medicare Parts A and B Jurisdiction 11 consisted of the States of North Carolina, South Carolina, Virginia, and West Virginia (but excluded Part B for the counties of Arlington and Fairfax in Virginia and the city of Alexandria in Virginia). Jurisdiction 11 also included home health and hospice services provided in the States of Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Kentucky, Louisiana, Mississippi, New Mexico, North Carolina, Ohio, Oklahoma, South Carolina, Tennessee, and Texas. Service areas for Jurisdiction M (mentioned in the next sentence of this section) are the same as those for Jurisdiction 11.

⁴ Medicare Parts A and B Jurisdiction J consists of the states of Alabama, Georgia, and Tennessee.

⁵ The TrailBlazer Medicare segment closed on April 30, 2013. We issued our audit report on the TrailBlazer Medicare segment closing on August 8, 2017 (A-07-17-00507).

allocates a share to Medicare. Under the separate calculation method, the contractor separately identifies the pension cost components for the Medicare segment. The contractor must use the separate calculation method if its result is materially different from that of the allocation method.

HOW WE CONDUCTED THIS AUDIT

We reviewed \$398,188 of pension costs claimed by Palmetto for Medicare reimbursement on its FACP for FY 2012.

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

Palmetto claimed FY 2012 pension costs of \$398,188 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs during this period were \$356,134. The difference, \$42,054, represented unallowable Medicare pension costs that Palmetto claimed on its FACP for FY 2012. Palmetto claimed these unallowable Medicare pension costs primarily because it calculated an incorrect CAS pension cost.

CLAIMED MEDICARE PENSION COSTS

Palmetto claimed Medicare pension costs of \$398,188 for Medicare reimbursement, under the provisions of its fiscal intermediary and carrier contracts, on its FACP for FY 2012. We calculated the allowable Medicare pension costs based on separately computed CAS-based pension costs for the Medicare segment and the Other segment in accordance with CAS 412 and 413. For details on the Federal requirements, see Appendix B.

UNALLOWABLE PENSION COSTS CLAIMED

We determined that the allowable CAS-based pension costs for FY 2012 were \$356,134. Thus, Palmetto claimed \$42,054 of unallowable Medicare pension costs on its FACP for FY 2012. Palmetto claimed these unallowable Medicare pension costs primarily because it calculated an incorrect CAS pension cost. Appendix C shows the development of the allowable pension costs.

RECOMMENDATION

We recommend that Palmetto Government Benefits Administrator, LLC, revise its FACP for FY 2012 to reduce its claimed Medicare pension costs by \$42,054.

AUDITEE COMMENTS

In written comments on our draft report, Palmetto concurred with our recommendation to revise its FACP for FY 2012 to reduce its claimed Medicare pension costs by \$42,054.

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

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$398,188 of pension costs that Palmetto claimed for Medicare reimbursement on its FACP for FY 2012.

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

We performed fieldwork at BCBS South Carolina and Palmetto in Columbia, South Carolina.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- reviewed information provided by Palmetto to identify the amount of pension costs claimed for Medicare reimbursement for FY 2012;
- used information that Palmetto's actuarial consulting firm provided, including information on the pension plans' assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses;
- examined Palmetto's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Forms 5500;
- determined the extent to which Palmetto funded CAS-based pension costs with contributions to the pension trust fund and accumulated prepayment credits;
- engaged the CMS Office of the Actuary, which provides technical actuarial advice, to calculate the allocable pension costs based on the CAS (the calculations were based on separately computed CAS-based pension costs for the Medicare segment and the Other segment);
- reviewed the CMS actuaries' methodology and calculations; and
- provided the results of our audit to Palmetto officials on February 10, 2020.

We performed this audit in conjunction with the following audit and used the information obtained during it: *Palmetto Government Benefits Administrator, LLC, Overstated Its Medicare Segment Pension Assets as of January 1, 2017 (A-07-20-00586)*.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

APPENDIX B: FEDERAL REQUIREMENTS RELATED TO REIMBURSEMENT OF PENSION COSTS

FEDERAL REGULATIONS

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

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

Federal regulations (CAS 413) (as amended) address the valuation of pension assets, allocation of pension costs to segments of an organization, adjustment of pension costs for actuarial gains and losses, and assignment of gains and losses to cost accounting periods.

MEDICARE CONTRACTS

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

**APPENDIX C: ALLOWABLE MEDICARE PENSION COSTS
FOR PALMETTO GOVERNMENT BENEFITS ADMINISTRATOR, LLC,
FOR FISCAL YEAR 2012**

Date	Description	Total Company	"Other" Segment	Palmetto Segment	CDS Segment	Total Medicare
2012	Contributions <u>1/</u>	\$45,000,000	\$45,000,000	\$0	\$0	
	Discount for Interest <u>2/</u>	(\$3,333,333)	(\$3,333,333)	\$0	\$0	
January 1, 2012	Present Value Contributions <u>3/</u>	\$41,666,667	\$41,666,667	\$0	\$0	
	Prepayment Credit Applied <u>4/</u>	\$53,584,576	\$46,652,450	\$5,115,107	\$1,817,019	
	Present Value of Funding <u>5/</u>	\$95,251,243	\$88,319,117	\$5,115,107	\$1,817,019	
January 1, 2012	CAS Funding Target <u>6/</u>	\$53,584,576	\$46,652,450	\$5,115,107	\$1,817,019	
	Percentage Funded <u>7/</u>		100.00%	100.00%	100.00%	
	Funded Pension Cost <u>8/</u>		\$46,652,450	\$5,115,107	\$1,817,019	
	Allowable Interest <u>9/</u>		\$0	\$0	\$0	
	Allocable Pension Cost <u>10/</u>		\$46,652,450	\$5,115,107	\$1,817,019	
	FY Medicare LOB* Percentage <u>11/</u>		0.02%	6.78%	n/a	
2012	FY Allowable Pension Costs <u>12/</u>		\$9,330	\$346,804	n/a	\$356,134

*LOB: Line of business

ENDNOTES

- 1/ We obtained these Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. These contributions include deposits made during the calendar year (CY). We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-20-00586). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare segments.
- 2/ We subtracted the interest that was included in the contributions deposited after the beginning of the valuation year to discount the contributions back to their beginning-of-the-year value. For purposes of this Appendix, we computed the interest as the difference between the present value of contributions (at the CAS valuation interest rate) and actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the CY. For purposes of this Appendix, we deemed deposits made after the end of the CY to have been made on the final day of the CY, consistent with the method established by the Employee Retirement Income Security Act prior to the implementation of the Pension Protection Act.
- 4/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year CAS funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.
- 5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at the first day of the CY.
- 6/ The CAS funding target must be funded by contributions made during the current accounting period or prepaid contributions to satisfy the funding requirement of the FAR 31.205-6(j)(2)(i).
- 7/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the CY. Because any funding in excess of the CAS funding target is accounted for as a prepayment in accordance with CAS 412.50(c)(1), the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimal places.
- 8/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.
- 9/ 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.
- 10/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.
- 11/ We calculated the line of business (LOB) percentages based on information provided by Palmetto.
- 12/ We computed the allowable Medicare pension cost as the CY allocable pension cost multiplied by the Medicare LOB percentage.



March 23, 2020

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

Report Number: A-07-20-00588

Dear Mr. Cogley:

We are responding to the U.S. Department of Health and Human Services, Office of Inspector General, draft report dated February 26, 2020 and entitled *Palmetto Government Benefits Administrator, LLC, Claimed Some Unallowable Medicare Pension Costs*. The report contains the following recommendation:

- We recommend that Palmetto revise its FACP for FY 2012 to reduce its claimed Medicare pension costs by \$42,054.

Palmetto concurs with the OIG recommendations and does not have any additional comments or questions.

We appreciate the opportunity to comment on the recommendations. Please let me know if you have any questions or need additional information regarding our response.

Sincerely,

/Kenneth Lewis/

Kenneth Lewis
Vice President and CFO

Cc: Lori Hair, BCBSSC
Bruce Hughes, Celerian Group
Joe Johnson, Palmetto GBA