Department of Health and Human Services

OFFICE OF
INSPECTOR GENERAL

PALMETTO GOVERNMENT BENEFITS ADMINISTRATOR, LLC, CLAIMED SOME UNALLOWABLE 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

April 2020
A-07-20-00589

Office of Inspector General

https://oig.hhs.gov/

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at https://oig.hhs.gov

Section 8M of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG website.

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: April 2020
Report No. A-07-20-00589

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, which are funded by the contributions that contractors make to their dedicated trust fund.

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 Final Administrative Cost Proposals (FACPs).

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

Our objective was to determine whether the fiscal year (FY) 2012 PRB 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 $31,957 of PRB costs claimed by Palmetto for Medicare reimbursement on its FACP for FY 2012.

Palmetto Government Benefits Administrator, LLC, Claimed Some Unallowable Medicare Postretirement Benefit Costs

What OIG Found

Palmetto claimed FY 2012 PRB costs of $31,957 for Medicare reimbursement; however, we determined that the allowable PRB costs during this period were $20,258. The difference, $11,699, represented unallowable Medicare PRB costs that Palmetto claimed on its FACP for FY 2012. This overstatement occurred because Palmetto did not calculate its PRB costs in accordance with Federal regulations.

What OIG Recommends and Auditee Comments

We recommend that Palmetto revise its FACP for FY 2012 to decrease its Medicare PRB costs by $11,699. Palmetto concurred with our recommendation.

The full report can be found at https://oig.hhs.gov/oas/reports/region7/72000589.asp.

TABLE OF CONTENTS

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 did not always comply with Federal requirements when claiming PRB costs for Medicare reimbursement.

At CMS's request, the 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) through Final Administrative Cost Proposals (FACPs), Incurred Cost Proposals, or both.

For this audit, we focused on one Medicare contractor, Palmetto Government Benefits Administrator, LLC (Palmetto). We examined the Medicare segment allowable PRB costs that Palmetto claimed for Medicare reimbursement on its FACP.

OBJECTIVE

Our objective was to determine whether the fiscal year (FY) 2012 PRB costs that Palmetto claimed for 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 1[2] and Jurisdiction 11[3] 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 J[4] and M (formerly Jurisdiction 11). Palmetto also continues to perform RRB contract operations under a specialty MAC contract awarded on November 27, 2012.

BCBS South Carolina sponsors a PRB plan, called the BCBS South Carolina Postretirement Health and Life Insurance Programs, which is offered to Palmetto employees. The purpose of this PRB plan is to provide retiree health and life insurance benefits to eligible retirees and their dependents. Palmetto claimed PRB costs using the accrual basis of accounting and funded those accrual costs through a Voluntary Employee Benefit Association (VEBA) trust.

During our audit period, Palmetto administered both fiscal intermediary and carrier contracts and MAC-related contracts. This report addresses the PRB costs that Palmetto claimed under the provisions of its fiscal intermediary and carrier contracts. We are addressing the PRB costs that Palmetto claimed under the provisions of its MAC-related contracts in a separate audit.

Medicare Reimbursement of Postretirement Benefit Costs

CMS reimburses a portion of the Medicare contractors' annual PRB costs, which are funded by contributions that contractors make to their PRB plans. Federal regulations (FAR 31.205-6(o)) require that to be allowable for Medicare reimbursement, PRB costs must be (1) measured, assigned, and allocated in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 715-60 (formerly Statement of Financial Accounting Standards (SFAS) 106) and (2) funded as specified by part 31 of the FAR.

---

[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.

HOW WE CONDUCTED THIS AUDIT

We reviewed $31,957 of PRB 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 PRB costs of $31,957 for Medicare reimbursement; however, we determined that the allowable PRB costs during this period were $20,258. The difference, $11,699, represented unallowable Medicare PRB costs that Palmetto claimed on its FACP for FY 2012. This overstatement occurred because Palmetto did not calculate its PRB costs in accordance with Federal regulations.

CLAIMED MEDICARE POSTRETIREMENT BENEFIT COSTS

Palmetto claimed Medicare PRB costs of $31,957 for Medicare reimbursement, under the provisions of its fiscal intermediary and carrier contracts, on its FACP for FY 2012. We calculated the allowable Medicare PRB costs in accordance with the FAR. For details on the Federal requirements, see Appendix B.

UNALLOWABLE POSTRETIREMENT BENEFIT COSTS CLAIMED

We determined that the allowable PRB costs for FY 2012 were $20,258. Thus, Palmetto claimed $11,699 of unallowable Medicare PRB costs on its FACP for FY 2012. This overclaim occurred primarily because Palmetto based its claims for Medicare reimbursement on incorrectly calculated PRB costs. More specifically, Palmetto did not measure, assign, and allocate its claims in accordance with SFAS 106 as required by the FAR. Appendix C shows the development of the allowable PRB costs.

RECOMMENDATION

We recommend that Palmetto Government Benefits Administrator, LLC, revise its FACP for FY 2012 to decrease its Medicare PRB costs by $11,699.

AUDITEE COMMENTS

In written comments on our draft report, Palmetto concurred with our recommendation to revise its FACP for FY 2012 to decrease its Medicare PRB costs by $11,699.

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

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed $31,957 of PRB 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 PRB costs claimed for Medicare reimbursement to ensure that the PRB costs were 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 and Medicare contracts applicable to this audit;

- reviewed accounting records and FACP information provided by Palmetto to identify the amount of PRB costs claimed for Medicare reimbursement for FY 2012;

- used information that BCBS South Carolina's actuarial consulting firm provided, including information on VEBA assets, PRB obligations, service costs, contributions, claims paid, claims reimbursed, investment earnings, and administrative expenses;

- examined BCBS South Carolina's and Palmetto's PRB plan documents and annual actuarial valuation reports, which included SFAS 106 information;

- determined the extent to which BCBS South Carolina funded PRB costs with contributions to the VEBA trust, accumulated prepayment credits, and direct payments;

- engaged the CMS Office of the Actuary, which provides technical actuarial advice, to calculate the PRB costs based on the SFAS 106 methodology applied in accordance with FAR 31.205-6(o);

- reviewed and verified the CMS actuaries' methodology and calculations and used this information to calculate the PRB costs for the Palmetto Medicare segment for FY 2012; and

- provided the results of our audit to Palmetto officials on February 10, 2020.

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 POSTRETIREMENT BENEFIT COSTS

FEDERAL REGULATIONS

Federal regulations (FAR 31.205-6(o)) require that PRB accrual costs be determined in accordance with SFAS 106 and funded 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) according to generally accepted accounting principles based on amortization of any transition obligation. Costs attributable to past service (transition obligation) must be assigned under the delayed recognition methodology described in paragraphs 112 and 113 of SFAS 106. The FAR also 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.

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

Date	Description		Total Company	Other Segment	Medicare Segment
2011	Contributions	1/	$3,165,133	$3,165,133	$0
	Discount for Interest	2/	($157,881)	($157,881)	$0
January 1, 2011	Present Value Contributions	3/	$3,007,252	$3,007,252	$0
	Prepayment Credit Applied	4/	$0	$0	$0
	Present Value of Funding	5/	$3,007,252	$3,007,252	$0
January 1, 2011	CAS Funding Target	6/	$4,718,600	$4,718,600	$0
	Percentage Funded	7/		63.73%	0.00%
	Funded PRB Cost	8/		$3,007,164	$0
	Unallowable Interest	9/		($1,129,066)	$0
	Allowable Interest	10/		$69,842	$0
	CY Allocable PRB Cost	11/		$1,947,940	$0

Date	Description		Total Company	Other Segment	Medicare Segment
2012	Contributions		$4,050,362	$4,050,362	$0
	Discount for Interest		($202,037)	($202,037)	$0
January 1, 2012	Present Value Contributions		$3,848,325	$3,848,325	$0
	Prepayment Credit Applied		$0	$0	$0
	Present Value of Funding		$3,848,325	$3,848,325	$0
January 1, 2012	CAS Funding Target		$4,950,606	$4,950,606	$0
	Percentage Funded			77.73%	0.00%
	Funded PRB Cost			$3,848,106	$0
	Unallowable Interest			($1,218,911)	$0
	Allowable Interest			$97,773	$0
	CY Allocable PRB Cost			$2,726,968	$0
2012	FY Allocable PRB Cost	12/		$2,532,211	$0
	FY Medicare LOB* Percentage	13/		0.80%	0.00%
2012	FY Allowable PRB Costs	14/		$20,258	$0

*LOB: Line of business

ENDNOTES

1/ We obtained the contributions from BCBS South Carolina's trust statements. The contributions included deposits made during the plan year (PY) and the discounted value of accrued contributions, if any, deposited after the end of the PY but within the time allowed for filing tax returns.

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 and actual contribution amounts. Interest is determined using the expected long-term rate of return assumption as reported in the PRB actuarial valuation report.

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 calendar year (CY).

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 funding target. A prepayment credit is carried forward, with interest, to fund future PRB costs.

5/ 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.

6/ The CAS funding target is based on the assignable PRB costs computed during our review. 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.

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, 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.

8/ We computed the funded PRB cost as the CAS funding target multiplied by the percent funded.

9/ Unallowable interest represents the interest cost attributable to the unallowable unfunded costs that are included in the current-period PRB cost (as determined in accordance with SFAS 106), discounted to the beginning of the year at the long-term interest rate.

10/ We assumed that interest on the funded PRB 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(o)(4), which provides that interest costs are unallowable if caused by a delay in funding beyond 30 days after the end of each quarter to which they are assignable.

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

12/ We converted the CY allocable PRB costs to an FY basis. We calculated the FY PRB costs as 1/4 of the prior year's costs plus 3/4 of the current year's costs.

13/ We calculated the line of business (LOB) percentage based on information provided by Palmetto.

14/ We computed the FY allowable PRB costs as the FY allocable PRB cost multiplied by the Medicare LOB percentage.

PALMETTO GBA®
A CELERIAN GROUP COMPANY

PO BOX 100134 | COLUMBIA, SC 29202-3134 | PALMETTOGBA.COM | ISO 9001

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-07-20-00589

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 Post Retirement Benefits Costs*. The report contains the following recommendation:

- We recommend that Palmetto revise its FACP for FY 2012 to decrease its claimed Medicare PRB costs by $11,699.

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