Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

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

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

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Deputy Inspector General
for Audit Services

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Office of Inspector General

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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.

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INTRODUCTION

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their postretirement benefit (PRB) costs, which are funded by direct payments to beneficiaries or contributions to a 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 reviews found that Medicare contractors have not always complied 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) and/or Incurred Cost Proposals (ICPs).

For this review, we focused on one Medicare contractor, First Coast Service Options, Inc. (FCSO). In particular, we examined the Medicare segment and Other segment allowable PRB costs (which for this report we will refer to as "PRB costs") that FCSO claimed for Medicare reimbursement on its FACPs.

OBJECTIVE

Our objective was to determine whether the fiscal years (FYs) 2008 and 2009 PRB costs that FCSO claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACPs, were allowable and correctly claimed.

BACKGROUND

First Coast Service Options, Inc.

During our audit period, FCSO and C2C Innovative Solutions, Inc. (C2C) were wholly owned subsidiaries of Diversified Service Options, Inc., a holding company created and owned by Blue Cross and Blue Shield of Florida, Inc. (BCBS Florida), whose office is located in Jacksonville, Florida. FCSO administered Medicare Parts A and B operations under cost reimbursement contracts with CMS until its contractual relationships ended on February 13, 2009, and February 1, 2009, respectively.

With the implementation of Medicare contracting reform,[1] FCSO continued to perform Medicare work after being awarded the MAC contract for Medicare Parts A and B Jurisdiction 9[2] effective September 12, 2008.

On April 2, 2007, C2C was created to perform additional Medicare work under the Qualified Independent Contractors (QIC) contract for the Medicare Part B North jurisdiction; this contract was originally awarded to FCSO in 2004.[3] On July 9, 2010, the QIC contract was novated from FCSO to C2C. Although C2C was created as a separate segment, BCBS Florida computed PRB costs for FCSO and C2C on a composite basis and allocated those costs to the two entities; however, C2C filed separate ICPs when claiming costs for Medicare reimbursement for the QIC contract. Therefore, the Cost Accounting Standards (CAS) PRB costs were calculated in total for the FCSO Medicare segment, and allocated to both the FCSO and C2C ICPs. Subsequently, on August 5, 2011, C2C was sold to TMF Health Quality Institute.

FCSO and C2C participate in a voluntary employee benefit association (VEBA) trust for the purpose of funding annual PRB accruals offered by BCBS Florida. Furthermore, FCSO's accounting practice, approved by CMS, uses segmented accrual accounting for its PRB plans.

During our audit period, FCSO administered both fiscal intermediary and carrier contracts and MAC-related contracts. This report addresses the PRB costs claimed by FCSO under the provisions of its fiscal intermediary and carrier contracts. We are addressing the MAC PRB costs claimed by FCSO for calendar years (CYs) 2008 to 2012 in a separate review.

Medicare Reimbursement of Postretirement Benefit Costs

CMS reimburses a portion of the Medicare contractors' annual PRB costs, which are funded by contributions that these contractors make to their PRB plans. For PRB costs measured on an accrual accounting basis, 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 (FASB) Accounting Standards Codification (ASC) 715-60

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[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 9 consists of the State of Florida and the territories of Puerto Rico and the U.S. Virgin Islands.

[3] The QIC Part B North jurisdiction includes 35 northern States, the District of Columbia, and 3 U.S. territories.

(formerly Statement of Financial Accounting Standards (SFAS) 106) and (2) funded as specified by part 31 of the FAR. [4]

HOW WE CONDUCTED THIS REVIEW

We reviewed $3,362,275 of PRB costs claimed by FCSO for Medicare reimbursement on its FACPs for FYs 2008 and 2009.

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

FCSO did not claim some allowable PRB costs under its fiscal intermediary and carrier contracts for FYs 2008 and 2009. FCSO claimed PRB costs of $3,362,275 for Medicare reimbursement for FYs 2008 and 2009; however, we determined that the allowable FAR-compliant PRB costs during this period were $3,457,907. The difference, $95,632, represented allowable fiscal intermediary and carrier contract Medicare PRB costs that FCSO did not claim on its FACPs for FYs 2008 and 2009. FCSO did not claim these allowable Medicare PRB costs primarily because it based its claim for Medicare reimbursement on incorrectly calculated PRB costs.

CLAIMED POSTRETIREMENT BENEFIT COSTS

FCSO claimed PRB costs of $3,362,275 for Medicare reimbursement, under the provisions of its fiscal intermediary and carrier contracts, on its FACPs for FYs 2008 and 2009. We calculated the allowable PRB costs based on separately computed PRB costs for the Medicare segment and the Other segment. For details on the Federal requirements, see Appendix B.

ALLOWABLE POSTRETIREMENT BENEFIT COSTS NOT CLAIMED

We determined that the allowable PRB costs for FYs 2008 and 2009 were $3,457,907. Thus, FCSO did not claim $95,632 of allowable fiscal intermediary and carrier contract Medicare PRB costs on its FACPs for FYs 2008 and 2009. This underclaim occurred primarily because FCSO based its claim for Medicare reimbursement on incorrectly calculated PRB costs. Specifically,

[4] Effective for financial statements issued for periods ending after September 15, 2009, the FASB ASC became the single source of authoritative accounting and reporting standards applicable for all nongovernmental entities. SFAS 106 is now referred to as ASC 715-60. Thus in 2010, FCSO began identifying its PRB obligations using ASC 715-60.

FCSO based its claim for reimbursement on understated PRB costs for its Medicare segment for FYs 2008 and 2009.

The table below shows the differences between the allowable PRB costs and the PRB costs claimed on FCSO's FACPs and reflected in its accounting documents. Appendix C contains additional details on allowable PRB costs.

Table: Comparison of Allowable PRB Costs and Claimed PRB Costs

	Medicare PRB Costs		
Fiscal Year	**Allowable Per Audit**	**Claimed by FCSO**	**Difference**
2008	$2,772,682	$2,562,213	$210,469
2009	685,225	800,062	(114,837)
Total	**$3,457,907**	**$3,362,275**	**$95,632**

RECOMMENDATION

We recommend that FCSO revise its FACPs for FYs 2008 and 2009 to increase its claimed Medicare PRB costs by $95,632.

AUDITEE COMMENTS

In written comments on our draft report, FCSO agreed with our recommendation and stated that it would request reimbursement for $95,632 of PRB costs.

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

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed $3,362,275 of PRB costs that FCSO claimed for Medicare reimbursement on its FACPs for FYs 2008 and 2009.

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

We performed our fieldwork at FCSO in Jacksonville, Florida.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;

- reviewed information provided by FCSO to identify the amount of PRB costs claimed for Medicare reimbursement for FYs 2008 and 2009;

- used information that FCSO'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 FCSO's accounting records, PRB plan documents, annual actuarial valuation reports, VEBA Trust Statements, and Department of Labor/Internal Revenue Service Forms 5500;

- determined the extent to which FCSO funded PRB costs with contributions to the VEBA trust fund, accumulated prepayment credits, and direct benefit payments;

- engaged the CMS Office of the Actuary to calculate the PRB costs on the basis of the ASC 715-60 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 Medicare segment for FYs 2008 and 2009; and

- provided the results of this review to FCSO officials on February 23, 2017.

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

- *First Coast Service Options, Inc., Overstated Its Medicare Segment Postretirement Benefit Plan Assets* (A-07-17-00499) and

- *First Coast Service Options, Inc., Understated Its Medicare Segment and Overstated Its Other Segment Allocable Postretirement Benefit Costs* (A-07-17-00502).

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 REGULATIONS RELATED TO MEDICARE REIMBURSEMENT OF POSTRETIREMENT BENEFIT COSTS

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 SFAS 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 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 PLAN COSTS FOR FIRST COAST SERVICE OPTIONS, INC., FOR FISCAL YEARS 2008 AND 2009

Date	Description		Total Company	Other Segment	Medicare Segment
2007	Calendar Year Allowable PRB Cost	1/		$178,231	$3,300,965
2008	Contributions	2/	18,500,000	17,486,049	1,013,951
	Discount for Interest	3/	(849,678)	(803,109)	(46,569)
January 1, 2008	Present Value Contributions	4/	17,650,322	16,682,940	967,382
	Prepayment Credit Applied	5/	11,331,428	9,199,395	2,132,033
	Present Value of Funding	6/	28,981,750	25,882,335	3,099,415
January 1, 2008	Funding Target	7/	16,472,914	13,373,499	3,099,415
	Percentage Funded	8/		100.00%	100.00%
	Funded PRB Cost	9/		13,373,499	3,099,415
	Allowable Interest	10/		200,939	46,569
2008	Calendar Year Allocable PRB Cost	11/		13,574,438	3,145,984
	Medicare LOB* Percentage	12/		0.82%	77.11%
	Calendar Year Allowable PRB Cost			111,310	2,425,868
2008	Allowable Fiscal Year PRB cost	13/	$2,772,682	$128,040	$2,644,642

Date	Description		Total Company	Other Segment	Medicare Segment
2009	Contributions		$18,000,000	$17,536,570	$463,430
	Discount for Interest		(833,657)	(812,194)	(21,463)
January 1, 2009	Present Value Contributions		17,166,343	16,724,376	441,967
	Prepayment Credit Applied		13,134,278	11,066,009	2,068,269
	Present Value of Funding		30,300,621	27,790,385	2,510,236
January 1, 2009	Funding Target		15,940,931	13,430,695	2,510,236
	Percentage Funded			100%	100%
	Funded PRB Cost			13,430,695	2,510,236
	Allowable Interest			83,749	15,653
2009	Calendar Year Allocable PRB Cost			13,514,444	2,525,889
	Medicare LOB* Percentage			1.05%	6.48%
	Calendar Year Allowable PRB Cost	14/		23,650	27,280
2009	Allowable Fiscal Year PRB cost	15/	$685,225	$51,478	$633,747

* Line of Business.

ENDNOTES

1/ We computed the allowable PRB cost as the CY PRB cost multiplied by the Medicare line of business (LOB) percentage. We obtained the CY 2007 allowable PRB cost from our prior FCSO PRB review (A-07-09-00315), issued May 5, 2010.

2/ We obtained the contributions from FCSO'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.

3/ 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.

4/ 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.

5/ 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.

6/ 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.

7/ The funding target is based on the assignable PRB cost computed during our review. The funding target must be funded by accumulated prepayment credits, current year contributions, or direct benefit payments to satisfy the funding requirement contained in the FAR.

8/ The percentage of costs funded is a measure of the portion of the funding target that was funded during the CY. Because any funding in excess of the 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 funding target. For purposes of illustration, the percentage of costs funded has been rounded to four decimal places.

9/ We computed the funded PRB cost as the funding target multiplied by the percent funded. If the percentage funded was less than 100 percent, we set the funded PRB costs to equal the present value of funding.

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 costs that may be allocated for contract cost purposes.

12/ We calculated the Medicare LOB percentages based on information provided by FCSO.

13/ We converted the allowable PRB cost to an FY basis (October 1 through September 30). We calculated the FY PRB costs as 1/4 of the prior year's costs plus 3/4 of the current year's costs.

14/ FCSO's fiscal intermediary and carrier contracts were terminated on February 1, 2009, and February 13, 2009. Therefore, we calculated the 2009 CY allowable PRB cost as 2/12 of the CY cost.

15/ The FY 2009 allowable PRB cost is calculated for the period October 2008 through February 2009 to reflect the termination of FCSO's fiscal intermidiary and carrier contracts on February 1, 2009, and February 13, 2009.

FIRST COAST
SERVICE OPTIONS, INC.
WHEN EXPERIENCE COUNTS & QUALITY MATTERS

Harvey B. Dikter
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May 22, 2017

Mr. 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

Reference: A-07-17-00500

Dear Mr. Cogley:

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

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

Recommendation:

First Coast revise its FACPs for FYs 2008 and 2009 to increase its claimed Medicare PRB costs by $95,632.

Response:

First Coast agrees with the recommendation. Upon direction from the Centers for Medicare and Medicaid Services, First Coast will request reimbursement for $95,632 of PRB costs.

If you have any questions, please contact Mr. Gregory W. England at (904) 791-8364.

Sincerely,

Harvey B. Dikter

cc: Gregory W. England

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