

Report in Brief

Date: July 2017

Report No. A-07-17-00502

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



Why OIG Did This Review

The Centers for Medicare & Medicaid Services (CMS) reimburses a portion of Medicare contractors' costs for postretirement benefit (PRB) plans. At CMS's request, the OIG, Office of Audit Services, Region VII pension audit team reviews the Medicare segment PRB assets to ensure compliance with Federal requirements.

Previous OIG reviews found that Medicare contractors have not always complied with Federal requirements when claiming PRB costs for Medicare reimbursement.

Our objective was to determine whether the PRB costs that First Coast Service Options, Inc. (FCSO), calculated, under the provisions of its Medicare administrative contractor (MAC) contract, for calendar years (CYs) 2008 through 2012 complied with Federal requirements.

How OIG Did This Review

We reviewed \$41.6 million of allocable PRB costs used in the calculation of the indirect cost rates for the MAC-related contract for CYs 2008 through 2012.

First Coast Service Options, Inc., Understated Its Medicare Segment and Overstated Its Other Segment Allocable Postretirement Benefit Costs

What OIG Found

The allocable PRB costs that FCSO calculated under the provisions of its MAC contract for CYs 2008 through 2012 did not always comply with Federal requirements. Specifically, neither the Medicare segment nor the Other segment allocable PRB costs that FCSO used to calculate the indirect cost rates in its incurred cost proposals (ICPs) complied with Federal requirements.

FCSO used Medicare segment PRB costs of \$6.9 million to calculate its indirect cost rates in its ICPs; however, we determined that the Medicare segment PRB costs that should have been used to calculate the indirect cost rates were \$7.0 million. Thus, FCSO understated the Medicare segment PRB costs used to calculate its indirect cost rates by \$50,000.

FCSO used Other segment PRB costs of \$34.7 million to calculate its indirect cost rates in its ICPs; however, we determined that the Other segment PRB costs that should have been used to calculate the indirect cost rates were \$31.3 million. Thus, FCSO overstated the Other segment PRB costs used to calculate its indirect cost rates by \$3.4 million.

These misstatements occurred because FCSO did not calculate its allocable PRB costs in accordance with Federal requirements.

What OIG Recommends and Auditee Comments

We recommend that FCSO increase the Medicare segment PRB costs used to calculate its indirect cost rates by \$50,000 for CYs 2008 through 2012, and decrease the Other segment PRB costs used to calculate its indirect cost rates by \$3.4 million for CYs 2008 through 2012.

FCSO agreed with our recommendations and stated that it would adjust its indirect cost rates.