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 funds.

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 Incurred Cost Proposals (ICPs).

Previous OIG audits 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 calendar years (CYs) 2014 through 2016 PRB costs that Cahaba Safeguard Administrators, LLC (Cahaba CSA), claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

Cahaba Safeguard Administrators, LLC, Claimed Some Unallowable Medicare Postretirement Benefit Costs Through Its Incurred Cost Proposals

What OIG Found
Cahaba CSA claimed PRB costs of $730,814 for Medicare reimbursement, through its ICPs, for CYs 2014 through 2016; however, we determined that the allowable PRB costs during this period were $55,357. The difference, $675,457, represented unallowable Medicare PRB costs that Cahaba CSA claimed on its ICPs for CYs 2014 through 2016. Cahaba CSA claimed these unallowable Medicare PRB costs primarily because it used an incorrect methodology when claiming PRB costs for Medicare reimbursement. More specifically, Cahaba CSA incorrectly calculated its allocable PRB costs using the accrual method instead of the pay-as-you-go method.

What OIG Recommends and Auditee Comments
We recommend that Cahaba CSA work with CMS to ensure that its final settlement of contract costs reflects a decrease in Medicare PRB costs of $675,457 for CYs 2014 through 2016.

Cahaba CSA did not concur with our finding, and its comments on our draft report made clear that it did not agree with our recommendation. Cahaba CSA stated that an accrual method of accounting is an appropriate method to calculate allocable PRB costs provided that Federal guidelines are satisfied. Cahaba CSA also said that it believes that we based our finding on our concern over the effectiveness of the restriction on Cahaba CSA’s retiree medical account under Federal guidelines. Cahaba CSA explained the steps that it had taken to ensure that it could calculate its PRB costs using the accrual method and provided documentation, to include communications with CMS, to further support its position.

After reviewing Cahaba CSA’s comments, we maintain that all of our calculations of the Medicare PRB costs remain valid and that both our finding and recommendation remain valid as well. We have concerns about several provisions of the funding mechanisms that Cahaba CSA has in place and do not believe that those mechanisms satisfy Federal requirements.

The full report can be found at https://oig.hhs.gov/oas/reports/region7/71900578.asp.