

Department of Health and Human Services
Office of Inspector General



Office of Audit Services

August 2025 | A-07-24-00640

**Palmetto Government Benefits
Administrator, LLC, Claimed Some
Unallowable Medicare
Postretirement Benefit Costs
Through Its Incurred Cost Proposal**



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Why OIG Did This Audit

- CMS reimburses Medicare contractors for a portion of their postretirement benefit (PRB) costs, which are funded by the contributions that these contractors make to their dedicated trust funds.
- HHS, OIG, Office of Audit Services, 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 did not always comply with Federal requirements when claiming PRB costs for Medicare reimbursement.
- This audit examined whether the calendar year (CY) 2017 PRB costs that Palmetto claimed for Medicare reimbursement, and reported on its ICP, were allowable and correctly claimed.

What OIG Found

- Palmetto claimed PRB costs of \$101,518 for Medicare reimbursement, through its ICP, for CY 2017; however, we determined that the allowable PRB costs during this period were \$92,349. The difference, \$9,169, represented unallowable Medicare PRB costs that Palmetto claimed on its ICP for CY 2017.
- Palmetto claimed these unallowable Medicare PRB costs primarily because it used incorrect indirect cost rates when claiming those costs for Medicare reimbursement.

What OIG Recommends

We recommend that Palmetto work with CMS to ensure that its final settlement of contract costs reflects a decrease in Medicare PRB costs of \$9,169 for CY 2017.

Palmetto concurred with our finding but did not specifically indicate concurrence or nonconcurrence with our recommendation. Palmetto said that it would work with CMS to ensure that the final cost settlements are accurate.

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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 the contributions that these contractors make to their dedicated trust funds. 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 (OIG) audits found that Medicare contractors did not always comply with Federal requirements when claiming PRB costs for Medicare reimbursement.

At CMS's request, the Department of Health and Human Services, OIG, Office of Audit Services, reviews the cost elements related to qualified defined-benefit, nonqualified defined-benefit, PRB, and any other pension-related cost elements claimed by Medicare administrative contractors (MACs) and Cost Accounting Standards (CAS)- and FAR-covered contracts through Incurred Cost Proposals (ICPs).

For this audit of Palmetto Government Benefits Administrator, LLC (Palmetto), a Medicare contractor, we examined the Medicare PRB costs that Palmetto claimed for Medicare reimbursement and reported on its ICP.

OBJECTIVE

Our objective was to determine whether the calendar year (CY) 2017 PRB costs that Palmetto claimed for Medicare reimbursement, and reported on its ICP, were allowable and correctly claimed.¹

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 administers Medicare operations under the MAC contracts for Medicare Parts A and B Jurisdictions J and M effective September 7, 2017, and April 1, 2015, respectively, as well as other CAS-covered and

¹ Palmetto elected to claim PRB costs for CY 2017 only and told us that it does not plan to submit reimbursement requests for future PRB cost accounting periods.

FAR-covered contracts.^{2, 3} Palmetto also continues to perform Railroad Retirement Board 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 and in conjunction with a 401(h) account.⁴

The disclosure statement that Palmetto submits to CMS states that Palmetto uses pooled cost accounting. Medicare contractors use pooled cost accounting to calculate the indirect cost rates (whose computations include pension, PRB, Supplemental Executive Retirement Plan III, and Excess Plan costs) that they submit on their ICPs. Medicare contractors use the indirect cost rates to calculate the contract costs that they report on their ICPs. In turn, CMS uses these indirect cost rates in determining the final indirect cost rates for each contract.⁵

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 dedicated trust funds. The PRB costs are included in the computation of the indirect cost rates and reported on the ICPs. In turn, CMS uses indirect cost rates in reimbursing costs under cost-reimbursement contracts.

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 generally accepted accounting principles and (2) funded as specified by part 31 of the FAR. In claiming costs, contractors must follow cost reimbursement principles contained in the FAR and the Medicare contracts.

² Medicare Parts A and B Jurisdiction M consists of the States of North Carolina, South Carolina, Virginia, and West Virginia (but excludes Part B for the counties of Arlington and Fairfax in Virginia and the city of Alexandria in Virginia). Jurisdiction M also includes 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.

³ Medicare Parts A and B Jurisdiction J consists of the States of Alabama, Georgia, and Tennessee.

⁴ A 401(h) account funds retiree health benefits, such as medical expenses for retired employees, their spouses, and their dependents under the provision of Internal Revenue Code Section 401(h).

⁵ For each CY, each Medicare contractor submits to CMS an ICP that reports the Medicare direct and indirect costs that the contractor incurred during that year. The ICP and supporting data provide the basis for the CMS Contracting Officer and the Medicare contractor to determine the final billing rates for allowable Medicare costs.

Incurred Cost Proposal Audits

At CMS's request, CohnReznick, LLP (CohnReznick), and Kearney & Company, P.C. (Kearney), performed audits of the ICP that Palmetto submitted for CY 2017. The objectives of these ICP audits were to determine whether costs were allowable in accordance with applicable Federal regulations.

For our current audit, we relied on the CohnReznick and Kearney ICP audit findings and recommendations when computing the allowable PRB costs discussed in this report.

We incorporated the results of the CohnReznick and Kearney ICP audits into our computations of the audited indirect cost rates, and ultimately the PRB costs claimed, for the contracts subject to the FAR. CMS will use our report on allowable PRB costs, as well as the CohnReznick and Kearney ICP audit reports, to determine the final indirect cost rates and the total allowable contract costs for Palmetto for CY 2017. The cognizant Contracting Officer will perform a final settlement with the contractor to determine the final indirect cost rates. These rates ultimately determine the final costs of each contract.⁶

HOW WE CONDUCTED THIS AUDIT

We reviewed \$101,518 of PRB costs that Palmetto claimed for Medicare reimbursement on its ICP for CY 2017.

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.

FINDINGS

Palmetto claimed PRB costs of \$101,518 for Medicare reimbursement, through its ICP, for CY 2017; however, we determined that the allowable PRB costs during this period were \$92,349.⁷ The difference, \$9,169, represented unallowable Medicare PRB costs that Palmetto claimed on its ICP for CY 2017. Palmetto claimed these unallowable Medicare PRB costs primarily because

⁶ In accordance with FAR 42.705-1(b)(5)(ii) and FAR 42.705-1(b)(5)(iii)(B), the cognizant Contracting Officer shall "[p]repare a written indirect cost rate agreement conforming to the requirements of the contracts" and perform a "[r]econciliation of all costs questioned, with identification of items and amounts allowable or disallowed in the final settlement," respectively.

⁷ These claimed and allowable PRB costs were associated with the cost reimbursement and variable time and material portions of the contracts.

it used incorrect indirect cost rates when claiming those costs for Medicare reimbursement. More specifically, Palmetto used incorrect allocable PRB costs when calculating the indirect cost rates.

ALLOCABLE POSTRETIREMENT BENEFIT COSTS OVERSTATED

During this audit, we calculated the allocable PRB costs for CY 2017 in accordance with Federal requirements. We determined that the allocable PRB costs for CY 2017 totaled \$698,354. Palmetto reported that its allocable PRB costs, as identified in its actuarial computations, totaled \$766,320. Therefore, Palmetto overstated the allocable PRB costs by \$67,966. This overstatement occurred because Palmetto based its claims for Medicare reimbursement on incorrectly calculated PRB costs.

We used the CY 2017 allocable PRB costs to adjust the indirect cost rates (i.e., the fringe benefit and general and administrative rates) and, in turn, to calculate the CY 2017 allowable PRB costs.

CALCULATION OF ALLOWABLE POSTRETIREMENT BENEFIT PLAN COSTS CLAIMED

Palmetto claimed PRB costs of \$101,518 on its ICP for CY 2017. After incorporating the results of the CohnReznick and Kearney ICP audits and our adjustments to the indirect cost rates, we determined that the allowable PRB costs for CY 2017 were \$92,349. Thus, Palmetto claimed \$9,169 of unallowable PRB costs on its ICP for CY 2017. This overclaim occurred specifically because Palmetto based its claim for Medicare reimbursement on incorrect allocable PRB costs and thus calculated incorrect indirect cost rates on the ICP used to calculate the allowable PRB costs.

We calculated the allowable Medicare PRB costs in accordance with the FAR. For details on the Federal requirements, see Appendix B.

RECOMMENDATION

We recommend that Palmetto Government Benefits Administrator, LLC, work with CMS to ensure that its final settlement of contract costs reflects a decrease in Medicare PRB costs of \$9,169 for CY 2017.

AUDITEE COMMENTS

In written comments on our draft report, Palmetto, through its parent company, BCBS South Carolina, concurred with our finding but did not specifically indicate concurrence or

nonconcurrence with our recommendation. Palmetto said that it would work with CMS to ensure that the final cost settlements are accurate.

Palmetto's comments appear in their entirety as Appendix D.⁸

⁸ Although BCBS South Carolina, of which Palmetto is a subsidiary, provided written comments on this draft report, for consistency we associate these comments with Palmetto.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$101,518 of PRB costs that Palmetto claimed for Medicare reimbursement on its ICP for CY 2017.

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 that were included in Palmetto's ICP and ultimately used as the basis for Medicare reimbursement, to ensure that these costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

We performed our audit work from August 2023 to June 2025.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR and Medicare contracts applicable to this audit;
- reviewed information provided by Palmetto to identify the amounts of PRB costs used in Palmetto's calculation of indirect cost rates for CY 2017;
- used information that BCBS South Carolina's actuarial consulting firms 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 PRB plan document and annual actuarial valuation report;
- determined the extent to which BCBS South Carolina funded PRB plan costs with contributions to the VEBA trust, accumulated prepayment credits, and direct payments;
- reviewed the results of the CohnReznick and Kearney ICP audits and incorporated those results into our calculation of allowable PRB costs;
- engaged the CMS Office of the Actuary, which provides technical actuarial advice, to calculate the PRB costs 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 CY 2017; and

- provided the results of our audit to Palmetto officials.

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

- *Palmetto Government Benefits Administrator, LLC, Claimed Some Unallowable Medicare Supplemental Executive Retirement Plan III Costs Through Its Incurred Cost Proposals (OAS-25-07-048);*
- *Palmetto Government Benefits Administrator, LLC, Did Not Claim Some Allowable Medicare Pension Costs Through Its Incurred Cost Proposals (OAS-25-07-020); and*
- *Palmetto Government Benefits Administrator, LLC, Did Not Claim Some Allowable Medicare Excess Plan Costs Through Its Incurred Cost Proposals (OAS-25-07-046).*

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 generally accepted accounting principles 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 FAR 31.205-6(o)(2)(iii)(A)(1)(ii). 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.

Federal regulations (FAR 52.216-7(a)(1)) address the invoicing requirements and the allowability of payments as determined by the Contracting Officer in accordance with FAR subpart 31.2.

MEDICARE CONTRACTS

The Medicare contracts require Palmetto to submit invoices in accordance with FAR 52.216-7, "Allowable Cost & Payment." (See our citation to FAR 52.216-7(a)(1) in "Federal Regulations" above.)

**APPENDIX C: ALLOCABLE POSTRETIREMENT BENEFIT COSTS
FOR PALMETTO GOVERNMENT BENEFITS ADMINISTRATOR, LLC,
FOR CALENDAR YEAR 2017**

Date	Description		Total Company	Other Segment	Medicare
2017	Contributions	<u>1/</u>	\$1,606,703	\$1,606,703	\$0
	Discount for Interest	<u>2/</u>	(\$72,858)	(\$72,858)	\$0
January 1, 2017	Present Value Contributions	<u>3/</u>	\$1,533,845	\$1,533,845	\$0
	Prepayment Credit Applied	<u>4/</u>	\$0	\$0	\$0
	Present Value of Funding	<u>5/</u>	\$1,533,845	\$1,533,845	\$0
January 1, 2017	CAS Funding Target	<u>6/</u>	\$1,607,767	\$1,607,767	\$0
	Percentage Funded	<u>7/</u>		95.40%	0.00%
	Funded PRB Cost	<u>8/</u>		\$1,533,810	\$0
	Unallowable Interest	<u>9/</u>		(\$858,188)	
	Allowable Interest	<u>10/</u>		\$22,732	\$0
2017	CY Allocable PRB Cost	<u>11/</u>		\$698,354	\$0

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 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 CAS funding target measured at the first day of the CY.
- 6/ The CAS funding target is based on the assignable PRB cost computed during our review. The CAS 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.

- 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 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, 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.



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July 8, 2025

James I. Korn
Regional Inspector General for Audit Services
Office of Audit Services, Region VII
1201 Walnut Street, Suite 1309
Kansas City, MO 64106

Report Numbers:

A-07-24-00640

A-07-24-00641

Dear Mr. Korn:

We are responding to the U.S. Department of Health and Human Services, Office of Inspector General, draft reports referenced above which pertain to the BlueCross BlueShield South Carolina sponsored Postretirement Benefit plan.

We concur with findings in each report. While none of the findings individually or collectively resulted in material overstatement of costs, we will work with CMS to ensure final cost settlements are accurate.

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,

/Jennifer Capell/

Jennifer Capell
Vice President, Corporate Controller
BlueCross BlueShield South Carolina

Cc: Bruce Hughes, Celerian Group
Lori Hair, BlueCross BlueShield South Carolina
Jamie Keller, Companion Data Services, LLC
Nancy Lybrand, Palmetto GBA, LLC

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