Report in Brief

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

Why OIG Did This Review

Medicare contractors are required to separately account for the Medicare segment pension plan assets based on the requirements of their Medicare contracts and Cost Accounting Standards (CAS) 412 and 413.

The HHS, OIG, Office of Audit Services, Region VII pension audit team reviews the Medicare segment pension assets to ensure compliance with Federal regulations.

Previous OIG reviews found that Medicare contractors did not always correctly calculate Medicare's share of the Medicare segment excess pension assets or liabilities.

Our objectives were to determine whether First Coast Service Options, Inc. (FCSO), complied with Federal requirements when (1) implementing the previous audit recommendations to increase the Medicare segment assets as of December 31, 2010, and (2) determining Medicare's share of the Medicare segment excess pension assets or liabilities as a result of its benefit curtailment.

How OIG Did This Review

We reviewed $10.3 million that FCSO proposed as Medicare's share of the Medicare segment excess pension liabilities as of December 31, 2010, as a result of its benefit curtailment.

First Coast Service Options, Inc., Overstated Medicare's Share of the Medicare Segment Excess Pension Liabilities

What OIG Found

FCSO implemented our previous audit recommendations and increased the Medicare pension asset amount by $1.03 million to calculate Medicare's share of the Medicare segment's excess pension liabilities as of December 31, 2010.

Regarding our second objective, FCSO did not comply with Federal requirements when determining Medicare's share of the Medicare segment excess pension liabilities as of the benefit curtailment date. FCSO calculated Medicare's share of the excess pension liabilities as of December 31, 2010, to be $10.3 million. We determined, however, that Medicare's share of the excess pension liabilities was $3.7 million as of that date. Therefore, FCSO overstated Medicare's share of the Medicare segment pension liabilities by $6.6 million. FCSO overstated the Medicare segment excess pension liabilities because its calculation used an unreasonable long-term interest rate and long-term lump sum conversion interest rate as of December 31, 2010, which did not comply with CAS 413.50(c)(12).

What OIG Recommends and Auditee Comments

We recommend that FCSO decrease Medicare's share of the Medicare segment excess pension liabilities as of December 31, 2010, by $6.6 million and recognize $3.7 million as Medicare's share of the excess pension liabilities as a result of the benefit curtailment.

FCSO disagreed with several of the findings underlying our recommendation. Specifically, FCSO stated that its long-term interest rate and long-term lump sum conversion interest rate were proper actuarial assumptions and that we arbitrarily applied historical assumptions from a single point in time that predated the curtailment.

We maintain that our findings and recommendation remain valid. The long-term interest rate and long-term lump sum conversion interest rate that FCSO used were unreasonable and did not comply with Federal requirements. Actuarial assumptions should remain fairly stable from year to year; there were no actuarially sound reasons for the drops in the long-term interest rate and long-term lump sum conversion interest rate that FCSO used to compute its accrued liabilities as of December 31, 2010.

The full report can be found at https://oig.hhs.gov/oas/reports/region7/71800535.asp.