

## Report in Brief

Date: October 2017

Report No. A-07-16-00493



### Why OIG Did This Review

The Centers for Medicare & Medicaid Services (CMS) reimburses Medicare contractors for a portion of their pension costs, which are funded by the annual contributions that these contractors make to their pension plans.

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 plans and any other pension-related cost elements claimed by Medicare administrative contractors (MACs) through Incurred Cost Proposals (ICPs).

Previous OIG reviews found that Medicare contractors did not always comply with Federal requirements when claiming pension costs for Medicare reimbursement.

Our objective was to determine whether the allocable qualified defined-benefit plan pension costs that First Coast Service Options, Inc. (FCSO), used to calculate the indirect cost rates in its ICPs, under the provisions of its MAC contracts, for calendar years (CYs) 2008 through 2010 complied with Federal requirements.

### How OIG Did This Review

We reviewed \$135.9 million of pension costs used by FCSO in the calculation of the indirect cost rates for its MAC-related contracts for CYs 2008 through 2010.

## First Coast Service Options, Inc., Understated Its Allocable Pension Costs

### What OIG Found

Neither the Medicare segment nor the Other segment pension costs that FCSO used to calculate the indirect cost rates in its ICPs complied with Federal requirements. Specifically, for CYs 2008 through 2010, FCSO used Medicare segment allocable pension costs of \$12.7 million to calculate its indirect cost rates in its ICPs; however, we determined that the Medicare segment pension costs that should have been used to calculate the indirect cost rates were \$12.8 million. Thus, FCSO understated the Medicare segment allocable pension costs used to calculate its indirect cost rates by \$147,268.

In addition, FCSO used Other segment allocable pension costs of \$123.2 million to calculate its indirect cost rates in its ICPs; however, we determined that the Other segment allocable pension costs that should have been used to calculate the indirect cost rates were \$124.4 million. Thus, FCSO understated the Other segment allocable pension costs used to calculate its indirect cost rates by \$1.2 million.

These understatements occurred primarily because FCSO used incorrect Cost Accounting Standards pension costs to calculate its indirect cost rates for CYs 2008 through 2010.

### What OIG Recommends and Auditee Comments

We recommend that FCSO increase the Medicare segment allocable pension costs used to calculate its indirect cost rates for CYs 2008 through 2010 by \$147,268, and increase the Other segment allocable pension costs used to calculate its indirect cost rates for CYs 2008 through 2010 by \$1.2 million.

FCSO agreed with our recommendations and stated that it would work with CMS to address the findings.