

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**PALMETTO GOVERNMENT BENEFITS
ADMINISTRATOR, LLC, UNDERSTATED
ITS MEDICARE SEGMENT ALLOCABLE
PENSION COSTS**

*Inquiries about this report may be addressed to the Office of Public Affairs at
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Gloria L. Jarmon
Deputy Inspector General
for Audit Services

July 2017
A-07-17-00505

Office of Inspector General

<https://oig.hhs.gov/>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

Report in Brief

Date: July 2017

Report No. A-07-17-00505

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



Why **OIG** Did This Review

The Centers for Medicare & Medicaid Services (CMS) reimburses contractors for a portion of their pension costs, which are funded by the annual contributions that 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 contractors 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 pension costs that Palmetto Government Benefits Administrator, LLC (Palmetto), used to calculate the indirect cost rates in its ICPs for calendar years (CYs) 2006 through 2012 complied with Federal requirements.

How **OIG** Did This Review

We reviewed \$39.7 million of Medicare segment pension costs used by Palmetto in the calculation of its indirect cost rates for CYs 2006 through 2012.

Palmetto Government Benefits Administrator, LLC, Understated Its Medicare Segment Allocable Pension Costs

What **OIG** Found

The Medicare segment allocable pension costs that Palmetto used to calculate the indirect cost rates in its ICPs did not comply with Federal requirements. Specifically, for CYs 2006 through 2012, Palmetto used Medicare segment pension costs of \$39.7 million to calculate its indirect cost rates; however, we determined that the Medicare segment pension costs that Palmetto should have used to calculate the indirect cost rates were \$39.8 million. Thus, Palmetto understated the Medicare segment pension costs used to calculate its indirect cost rates by \$143,000. This understatement occurred primarily because Palmetto used incorrect Cost Accounting Standards pension costs to calculate its indirect cost rates for CYs 2006 through 2012.

What **OIG** Recommends and Palmetto Comments

We recommend that Palmetto increase the Medicare segment pension costs used to calculate its indirect cost rates by \$143,000 for CYs 2006 through 2012.

Palmetto concurred with our recommendation.

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INTRODUCTION

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their pension costs, which are funded by the annual contributions that these contractors make to their pension plans. The amount of pension 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) and Cost Accounting Standards (CAS) as required by the Medicare contracts. Previous Office of Inspector General (OIG) reviews found that Medicare contractors have not always complied with Federal requirements when claiming pension costs for Medicare reimbursement.

At CMS's request, the OIG, Office of Audit Services, Region VII pension audit team reviews the cost elements related to qualified defined-benefit, nonqualified defined-benefit, postretirement benefit, and any other pension-related cost elements claimed by Medicare fiscal intermediaries and carrier contractors and Medicare administrative contractors (MACs) through Final Administrative Cost Proposals and/or Incurred Cost Proposals (ICPs).

For this review, we focused on one Medicare contractor, Palmetto Government Benefits Administrator, LLC (Palmetto). In particular, we examined the Medicare segment allocable pension costs (herein referred to "pension costs") that Palmetto used to calculate the indirect cost rates in its ICPs.

OBJECTIVE

Our objective was to determine whether the pension costs that Palmetto used to calculate the indirect cost rates in its ICPs for calendar years (CYs) 2006 through 2012 complied with Federal requirements.

BACKGROUND

Palmetto Government Benefits Administrator, LLC

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 administered Medicare Part A fiscal intermediary and Medicare Part B carrier contract operations under cost reimbursement contracts with CMS. With the implementation of Medicare contracting reform,¹ Palmetto continued to perform Medicare work after being

¹ Section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), P.L. No. 108-173, required CMS to transfer the functions of fiscal intermediaries and carriers to MACs between October 2005 and October 2011. During the audit period most, but not all, of the MACs were fully operational; for jurisdictions where the MACs were not fully operational, the fiscal intermediaries and carriers continued to process claims.

awarded the MAC contracts for Medicare Parts A and B Jurisdiction 1² and Jurisdiction 11³ (including home health and hospice services) effective October 25, 2007, and May 21, 2010, respectively.

Under the provisions of their MAC-related contracts, Medicare contractors use pooled costing to calculate the indirect cost rates that they report on their ICPs. The FAR requires Medicare contractors to file final indirect cost rates on their ICPs 6 months after the year end. In turn, CMS uses the indirect cost rates in reimbursing costs under cost-reimbursement contracts.

This report addresses the Palmetto Medicare segment pension costs and Palmetto's compliance with Federal regulations. We are addressing, in a separate review, the Other segment (costs allocable from BCBS South Carolina) allocable pension costs that were allocated to Palmetto from BCBS South Carolina.

Medicare Reimbursement of Pension Costs

CMS reimburses a portion of the Medicare contractor's annual pension costs, which are funded by the annual contributions that these contractors make to their pension plans. To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with CAS 412 and 413 and (2) funded as specified by part 31 of the FAR.

Under the provisions of the contracts that CMS developed with the Medicare contractors as part of the implementation of the MMA, the method by which Medicare reimbursed pension costs to the contractor changed from a cost reimbursement basis to an indirect cost basis. In accordance with the FAR and the MAC contract, reimbursement of costs was now based on indirect cost rates determined by the contract.

HOW WE CONDUCTED THIS REVIEW

We reviewed \$39,692,560 of Medicare segment pension costs used by Palmetto in the calculation of its indirect cost rates for CYs 2006 through 2012.

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

² Medicare Parts A and B Jurisdiction 1 consists of the States of California, Hawaii, and Nevada, and the territories of American Samoa, Guam, and the Northern Mariana Islands.

³ Medicare Parts A and B Jurisdiction 11 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 11 also included 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.

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.

FINDING

The Medicare segment allocable pension costs that Palmetto used to calculate the indirect cost rates in its ICPs did not comply with Federal requirements. Specifically, for CYs 2006 through 2012, Palmetto used Medicare segment pension costs of \$39,692,560 to calculate its indirect cost rates; however, we determined that the Medicare segment pension costs that Palmetto should have used to calculate the indirect cost rates were \$39,835,821. Thus, Palmetto understated the Medicare segment pension costs used to calculate its indirect cost rates by \$143,261. This understatement occurred primarily because Palmetto used incorrect CAS pension costs to calculate its indirect cost rates for CYs 2006 through 2012.

UNDERSTATEMENT OF PENSION COSTS

Allocable Medicare Segment Pension Costs

Palmetto used pension costs of \$39,692,560 to calculate its indirect cost rates for the Medicare segment. We calculated CAS-based pension costs for CYs 2006 through 2012 for the Medicare segment in accordance with CAS 412 and 413. For details on the Federal requirements, see Appendix B.

Understated Medicare Segment Pension Costs

We determined that the CAS-based pension costs for the Medicare segment for CYs 2006 through 2012 were \$39,835,821. Thus, Palmetto understated the Medicare segment pension costs used to calculate its indirect cost rates for CYs 2006 through 2012 by \$143,261. This understatement occurred because Palmetto used incorrect CAS pension costs when calculating its indirect cost rates for this time period.

The table on the following page shows the differences between the Medicare segment CAS-based pension costs that we calculated and the pension costs that Palmetto used to calculate its indirect cost rates for CYs 2006 through 2012.

Table: Comparison of Pension Costs for the Medicare Segment

Calendar Year	Per Audit	Per Palmetto	Difference
2006	\$7,161,326	\$7,383,222	(\$221,896)
2007	6,557,001	5,921,503	635,498
2008	4,985,138	4,933,061	52,077
2009	5,031,604	5,134,859	(103,255)
2010	5,650,955	5,601,487	49,468
2011	5,334,690	5,426,966	(92,276)
2012	5,115,107	5,291,462	(176,355)
Total	\$39,835,821	\$39,692,560	\$143,261

The OIG will use the information contained in this report, the related fiscal intermediary and carrier contract report, and the BCBS South Carolina allocable cost reports (Appendix A) to determine the allowable Medicare segment pension costs for Palmetto.

RECOMMENDATION

We recommend that Palmetto increase the Medicare segment pension costs used to calculate its indirect cost rates for CYs 2006 through 2012 by \$143,261.

AUDITEE COMMENTS

In written comments on our draft report, Palmetto concurred with our recommendation. Palmetto's comments appear in their entirety as Appendix D.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$39,692,560 of Medicare segment pension costs used by Palmetto in the calculation of its indirect cost rates for CYs 2006 through 2012.

Achieving our objective did not require that we review Palmetto's overall internal control structure. We reviewed the internal controls related to the pension costs claimed for Medicare reimbursement to ensure that the pension costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

We performed our fieldwork at Palmetto in Columbia, South Carolina.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- reviewed information provided by BCBS South Carolina and Palmetto to identify the amount of pension costs used in its calculation of its indirect cost rates for CYs 2006 through 2012;
- used information that Palmetto's actuarial consulting firms provided, including information on the pension plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses;
- examined Palmetto's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Forms 5500;
- determined the extent to which Palmetto funded CAS-based pension costs with contributions to the pension trust fund and accumulated prepayment credits;
- engaged the CMS Office of the Actuary to calculate the allocable pension costs based on the CAS (the calculations were based on separately computed CAS-based pension costs for the Medicare segment);
- reviewed the CMS actuaries' methodology and calculations; and
- provided the results of the review to Palmetto officials on April 7, 2017.

We provided the results of our review to the Defense Contract Audit Agency (DCAA) to calculate Palmetto's final indirect cost rates for CYs 2007 through 2009. We coordinated our

audit efforts with DCAA, the audit organization responsible for identifying Palmetto's final indirect cost rates.

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

- *Palmetto Government Benefits Administrator, LLC, Understated Its Medicare Segment Pension Assets (A-07-17-00503),*
- *Palmetto Government Benefits Administrator, LLC, Generally Claimed Allowable Medicare Pension Costs (A-07-17-00504),*
- *Blue Cross Blue Shield of South Carolina Overstated Its Allocable Qualified Pension Plan Costs (A-07-17-00509), and*
- *Companion Data Services, LLC, Understated Its Allocable Pension Costs (A-07-17-00511).*

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 PENSION COSTS

FEDERAL REGULATIONS

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.

Federal regulations (FAR 31.205-6(j)) require Medicare contractors to measure, assign, and allocate the costs of all defined-benefit pension plans in accordance with CAS 412 and 413. This regulation also addresses the allowability of pension costs and requires that contractors fund the pension costs assigned to contract periods by making contributions to the pension plan.

Federal regulations (CAS 412) (as amended) address the determination and measurement of pension cost components. This regulation also addresses the assignment of pension costs to appropriate accounting periods.

Federal regulations (CAS 413) (as amended) address the valuation of pension assets, allocation of pension costs to segments of an organization, adjustment of pension costs for actuarial gains and losses, and assignment of gains and losses to cost accounting periods.

MEDICARE CONTRACTS

The contracts state: "Once each month following the effective date of this contract, the Contractor may submit to the Government an invoice for payment, in accordance with FAR clause 52.216-7, 'Allowable Cost & Payment.'"

**APPENDIX C: ALLOCABLE MEDICARE PENSION COSTS FOR
PALMETTO GOVERNMENT BENEFITS ADMINISTRATOR, LLC,
FOR CALENDAR YEARS 2006 THROUGH 2012**

Date	Description		Total Company	"Other" Segment	Palmetto Segment	TrailBlazer Segment	CDS Segment
2006	Contributions	<u>1/</u>	\$80,000,000	\$80,000,000	\$0	\$0	\$0
	Discount for Interest	<u>2/</u>	(\$5,818,667)	(\$5,818,667)	\$0	\$0	\$0
January 1, 2006	Present Value Contributions	<u>3/</u>					
			\$74,181,333	\$74,181,333	\$0	\$0	\$0
	Prepayment Credit Applied	<u>4/</u>	\$44,897,533	\$31,827,132	\$7,161,326	\$5,909,075	\$0
	Present Value of Funding	<u>5/</u>	\$119,078,866	\$106,008,465	\$7,161,326	\$5,909,075	\$0
January 1, 2006	CAS Funding Target	<u>6/</u>	\$44,897,533	\$31,827,132	\$7,161,326	\$5,909,075	\$0
	Percentage Funded	<u>7/</u>		100.00%	100.00%	100.00%	0.00%
	Funded Pension Cost	<u>8/</u>		\$31,827,132	\$7,161,326	\$5,909,075	\$0
	Allowable Interest	<u>9/</u>		\$0	\$0	\$0	\$0
2006	CY Allocable Pension Cost	<u>10/</u>		\$31,827,132	\$7,161,326	\$5,909,075	\$0

Date	Description		Total Company	"Other" Segment	Palmetto Segment	TrailBlazer Segment	CDS Segment
2007	Contributions		\$30,000,000	\$30,000,000	\$0	\$0	\$0
	Discount for Interest		(\$2,222,222)	(\$2,222,222)	\$0	\$0	\$0
January 1, 2007	Present Value Contributions						
			\$27,777,778	\$27,777,778	\$0	\$0	\$0
	Prepayment Credit Applied		\$44,260,248	\$32,402,967	\$6,557,001	\$5,300,280	\$0
	Present Value of Funding		\$72,038,026	\$60,180,745	\$6,557,001	\$5,300,280	\$0
January 1, 2007	CAS Funding Target		\$44,260,248	\$32,402,967	\$6,557,001	\$5,300,280	\$0
	Percentage Funded			100.00%	100.00%	100.00%	0.00%
	Funded Pension Cost			\$32,402,967	\$6,557,001	\$5,300,280	\$0
	Allowable Interest			\$0	\$0	\$0	\$0
2007	CY Allocable Pension Cost			\$32,402,967	\$6,557,001	\$5,300,280	\$0

Date	Description		Total Company	"Other" Segment	Palmetto Segment	TrailBlazer Segment	CDS Segment
2008	Contributions		\$55,000,000	\$55,000,000	\$0	\$0	\$0
	Discount for Interest		(\$4,074,074)	(\$4,074,074)	\$0	\$0	\$0
January 1, 2008	Present Value Contributions		\$50,925,926	\$50,925,926	\$0	\$0	\$0
	Prepayment Credit Applied		\$44,832,164	\$34,654,231	\$4,985,138	\$4,196,561	\$996,234
	Present Value of Funding		\$95,758,090	\$85,580,157	\$4,985,138	\$4,196,561	\$996,234
January 1, 2008	CAS Funding Target		\$44,832,164	\$34,654,231	\$4,985,138	\$4,196,561	\$996,234
	Percentage Funded			100.00%	100.00%	100.00%	100.00%
	Funded Pension Cost			\$34,654,231	\$4,985,138	\$4,196,561	\$996,234
	Allowable Interest			\$0	\$0	\$0	\$0
2008	CY Allocable Pension Cost			\$34,654,231	\$4,985,138	\$4,196,561	\$996,234

Date	Description	Total Company	"Other" Segment	Palmetto Segment	TrailBlazer Segment	CDS Segment
2009	Contributions	\$50,000,000	\$50,000,000	\$0	\$0	\$0
	Discount for Interest	(\$3,638,889)	(\$3,638,889)	\$0	\$0	\$0
January 1, 2009	Present Value Contributions	\$46,361,111	\$46,361,111	\$0	\$0	\$0
	Prepayment Credit Applied	\$59,552,309	\$48,168,674	\$5,031,604	\$5,021,589	\$1,330,442
	Present Value of Funding	\$105,913,420	\$94,529,785	\$5,031,604	\$5,021,589	\$1,330,442
January 1, 2009	CAS Funding Target	\$59,552,309	\$48,168,674	\$5,031,604	\$5,021,589	\$1,330,442
	Percentage Funded		100.00%	100.00%	100.00%	100.00%
	Funded Pension Cost		\$48,168,674	\$5,031,604	\$5,021,589	\$1,330,442
	Allowable Interest		\$0	\$0	\$0	\$0
2009	CY Allocable Pension Cost		\$48,168,674	\$5,031,604	\$5,021,589	\$1,330,442

Date	Description	Total Company	"Other" Segment	Palmetto Segment	TrailBlazer Segment	CDS Segment
2010	Contributions	\$80,000,000	\$80,000,000	\$0	\$0	\$0
	Discount for Interest	(\$5,860,741)	(\$5,860,741)	\$0	\$0	\$0
January 1, 2010	Present Value Contributions	\$74,139,259	\$74,139,259	\$0	\$0	\$0
	Prepayment Credit Applied	\$63,326,220	\$50,736,124	\$5,650,955	\$5,244,885	\$1,694,256
	Present Value of Funding	\$137,465,479	\$124,875,383	\$5,650,955	\$5,244,885	\$1,694,256
January 1, 2010	CAS Funding Target	\$63,326,220	\$50,736,124	\$5,650,955	\$5,244,885	\$1,694,256
	Percentage Funded		100.00%	100.00%	100.00%	100.00%
	Funded Pension Cost		\$50,736,124	\$5,650,955	\$5,244,885	\$1,694,256
	Allowable Interest		\$0	\$0	\$0	\$0
2010	CY Allocable Pension Cost		\$50,736,124	\$5,650,955	\$5,244,885	\$1,694,256

Date	Description	Total Company	"Other" Segment	Palmetto Segment	TrailBlazer Segment	CDS Segment
2011	Contributions	\$55,000,000	\$55,000,000	\$0	\$0	\$0
	Discount for Interest	(\$3,997,074)	(\$3,997,074)	\$0	\$0	\$0
January 1, 2011	Present Value Contributions	\$51,002,926	\$51,002,926	\$0	\$0	\$0
	Prepayment Credit Applied	\$62,453,139	\$50,062,318	\$5,334,690	\$5,195,739	\$1,860,392
	Present Value of Funding	\$113,456,065	\$101,065,244	\$5,334,690	\$5,195,739	\$1,860,392
January 1, 2011	CAS Funding Target	\$62,453,139	\$50,062,318	\$5,334,690	\$5,195,739	\$1,860,392
	Percentage Funded		100.00%	100.00%	100.00%	100.00%
	Funded Pension Cost		\$50,062,318	\$5,334,690	\$5,195,739	\$1,860,392
	Allowable Interest		\$0	\$0	\$0	\$0
2011	CY Allocable Pension Cost		\$50,062,318	\$5,334,690	\$5,195,739	\$1,860,392

Date	Description	Total Company	"Other" Segment	Palmetto Segment	TrailBlazer Segment	CDS Segment
2012	Contributions	\$45,000,000	\$45,000,000	\$0	\$0	\$0
	Discount for Interest	(\$3,333,333)	(\$3,333,333)	\$0	\$0	\$0
January 1, 2012	Present Value Contributions	\$41,666,667	\$41,666,667	\$0	\$0	\$0
	Prepayment Credit Applied	\$53,584,576	\$46,652,450	\$5,115,107	\$0	\$1,817,019
	Present Value of Funding	\$95,251,243	\$88,319,117	\$5,115,107	\$0	\$1,817,019
January 1, 2012	CAS Funding Target	\$53,584,576	\$46,652,450	\$5,115,107	\$0	\$1,817,019
	Percentage Funded		100.00%	100.00%	0.00%	100.00%
	Funded Pension Cost		\$46,652,450	\$5,115,107	\$0	\$1,817,019
	Allowable Interest		\$0	\$0	\$0	\$0
2012	CY Allocable Pension Cost		\$46,652,450	\$5,115,107	\$0	\$1,817,019

ENDNOTES

- 1/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the CY and accrued contributions deposited after the end of the CY but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-17-00503). Therefore, the amounts shown for the "Other" segment represent the difference between the Total Company and each of the Medicare segments.
- 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 (at the CAS valuation interest rate) and actual contribution amounts.
- 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. For purposes of this Appendix, we deemed deposits made after the end of the CY to have been made on the final day of the CY, consistent with the method established by the Employee Retirement Income Security Act prior to the implementation of the Pension Protection Act.
- 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 CAS funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.
- 5/ The present value of funding represents the present value of contributions plus prepayment credits. 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 must be funded by contributions made during the current accounting period or prepaid contributions to satisfy the funding requirement of the FAR 31.205-6(j)(2)(i).
- 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 in accordance with CAS 412.50(c)(1), 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 of funding has been rounded to four decimal places.
- 8/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.
- 9/ We assumed that interest on the funded CAS-based pension 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(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in four equal installments deposited within 30 days after the end of the quarter.
- 10/ The CY allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.

APPENDIX D: AUDITEE COMMENTS



PALMETTO GBA®
A CELERIAN GROUP COMPANY

PO BOX 100134 | COLUMBIA, SC 29202-3134 | PALMETTOGBA.COM | ISO 9001
KENNETH LEWIS
Vice President and CFO

May 25, 2017

Patrick J. Cogley
Regional Inspector General for Audit Services
Office of Audit Services, Region VII
601 East 12th Street, Room 0429
Kansas City, MO 64106

Re: Report Number A-07-17-00505

Dear Mr. Cogley:

We are responding to the U.S. Department of Health and Human Services, Office of Inspector General, draft report dated April 25, 2017 and entitled *Palmetto Government Benefits Administrator, LLC, Understated Its Medicare Segment Allocable Pension Costs*.

The report contains the following recommendation:

- We recommend that Palmetto increase the Medicare segment pension costs used to calculate its indirect cost rates for CYs 2006 through 2012 by \$143,261.

Palmetto concurs with the OIG recommendations and does not have any additional comments or questions.

We appreciate the opportunity to comment on the recommendation. Please let me know if you have questions or need additional information regarding our response.

Sincerely,

/Kenneth Lewis/

Kenneth Lewis
Vice President and CFO

Cc: Bruce Hughes, Celerian Group
Joe Johnson, Palmetto GBA
Louis McElveen, BCBSSC