Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

CAHABA GOVERNMENT BENEFIT ADMINISTRATORS, LLC, APPLIED THE SENIOR EXECUTIVE COMPENSATION BENCHMARK IN ACCORDANCE WITH FEDERAL REGULATIONS

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November 2014
A-04-13-00089

Office of Inspector General

http://oig.hhs.gov

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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.

INTRODUCTION

Cahaba Government Benefit Administrators, LLC, applied the senior executive compensation benchmark in accordance with Federal requirements. Our application of the existing benchmark to all employees resulted in no additional cost savings. However, applying a benchmark equaling the salaries of the President and Vice President of the United States to all employees would have resulted in cost savings of $1.1 million and $2.5 million, respectively.

WHY WE DID THIS REVIEW

The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program through contracts with private organizations that process and pay Medicare claims. The contracts with CMS provide for the reimbursement of allowable administrative costs incurred in processing Medicare claims, including allowable compensation to executives. After the close of each fiscal year (FY), contractors submit to CMS an Incurred Cost Proposal (ICP) reporting Medicare costs. After CMS accepts the ICP, the contractor and CMS negotiate a final settlement of allowable administrative costs.

The senior executive compensation benchmark increased to $952,308 at the beginning of 2012. Some lawmakers advocate setting it at the President's salary of $400,000, while others support the Vice President's salary of $230,700 as a more appropriate benchmark.

OBJECTIVE

The objective of this review was to determine whether Cahaba Government Benefit Administrators, LLC (Cahaba), complied with Federal requirements to apply the senior executive compensation benchmark and to identify cost savings if Cahaba had applied to all employees the existing benchmark or a benchmark equaling the salaries of the President and Vice President of the United States.

BACKGROUND

The Medicare Program

Title XVIII of the Social Security Act established the Medicare program. CMS administers the Medicare program through contractors that process and pay Medicare claims. Contracts between CMS and the Medicare contractors define the functions performed by the contractors and provide for the reimbursement of allowable administrative costs incurred in the processing of Medicare claims, including allowable compensation to executives.

Incurred Cost Proposals

Following the close of each FY, contractors submit to CMS an ICP that reports the Medicare administrative costs incurred during the year. The ICP provides the basis for the CMS contracting officer and contractor to negotiate a final settlement of allowable administrative costs. When claiming costs, Medicare contractors must follow cost reimbursement principles contained in part 31 of the Federal Acquisition Regulation (FAR) and other applicable criteria.

Federal Requirements

Federal regulations state, "The total compensation for individual employees or job classes of employees must be reasonable for the work performed..." (48 CFR § 31.205-6(a)(2)). Additionally, 48 CFR § 31.205-6(p) states that costs incurred after January 1, 1998, for senior executive[1] compensation[2] in excess of the benchmark compensation amount determined applicable for the contractor fiscal year by the Administrator, Office of Federal Procurement Policy, are unallowable. For calendar years (CYs) 2009 through 2011, the senior executive compensation benchmark was $684,181; $693,951; and $763,029; respectively. For all executive agency contracts awarded on or after June 24, 2014, the Department of Defense, General Services Administration, and National Aeronautics and Space Administration amended 48 CFR § 31.205-6(p) to change the applicability of the benchmark to include all employees, not just senior executives.

Cahaba Government Benefit Administrators, LLC

For CYs 2009 through 2011, CMS contracted with Cahaba to serve as the Medicare Administrative Contractor for Alabama, Georgia, and Tennessee. For this period, Cahaba submitted ICPs to CMS claiming senior executive compensation totaling $5,699,502. Of this amount, $5,625,613 related to Cahaba employees, and $73,889 related to Blue Cross and Blue Shield of Alabama (Blue Cross) employees.

Cahaba, headquartered in Birmingham, Alabama, is a wholly owned subsidiary of Blue Cross. Blue Cross provided certain management and other operational support services for Cahaba, including general corporate administration. Accordingly, Blue Cross allocated to Cahaba $73,889 in senior executive compensation costs, which Cahaba claimed on its ICPs to CMS.

HOW WE CONDUCTED THIS REVIEW

Our audit covered the period January 1, 2009, through December 31, 2011 (audit period), and $5,699,502 in senior executive compensation claimed on Cahaba's ICPs submitted to CMS.

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

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[1] Effective January 2, 1999, senior executive is defined as "the five most highly compensated employees in management positions at each home office and each segment of the contractor, whether or not the home office or segment reports directly to the contractor's headquarters."

[2] Compensation is defined as "total amount of wages, salary, bonuses, deferred compensation, and employer contributions to defined contribution pension plans."

based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

See the Appendix for the details of our scope and methodology.

RESULTS OF AUDIT

Cahaba applied the senior executive compensation benchmark in accordance with Federal requirements. Our application of the existing benchmark to all employees resulted in no additional cost savings. However, applying a benchmark equaling the salaries of the President and Vice President of the United States to all employees would have resulted in cost savings of $1.1 million and $2.5 million, respectively.

For the audit period, Cahaba had applied the benchmark to senior executives and to certain others, thus appropriately reducing costs on its ICPs to exclude $960,150 in unallowable compensation in excess of the benchmark. Of this amount, Cahaba reduced direct expenses of $914,534 related to its employees. For the remaining $45,616 related to Blue Cross employees, Cahaba reduced indirect allocations from Blue Cross to Cahaba.

Following Federal requirements in effect during our audit period, Cahaba did not apply the benchmark to all employees. Cahaba did not have any nonsenior executives who received total compensation more than the existing benchmark. Thirteen Blue Cross nonsenior executives, with compensation totaling more than $19 million, received total compensation more than the existing benchmark. However, because Cahaba only claimed a minimal portion of this compensation as allocated from Blue Cross, our application of the existing benchmark to all employees did not result in any excess compensation claimed or additional cost savings.

Cahaba did not have any nonsenior executives who received compensation less than the existing benchmark but more than the $230,700 salary of the Vice President of the United States. However, we identified thirty-three such Blue Cross employees with compensation totaling more than $21 million.

Had the benchmark equaled the $400,000 salary of the President of the United States, applying it to all employees would have resulted in $1,127,815 in cost savings. Moreover, had the benchmark equaled the $230,700 salary of the Vice President of the United States, applying it to all employees would have resulted in $2,539,912 in cost savings.

APPENDIX: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit covered the period January 1, 2009, through December 31, 2011 (audit period), and $5,699,502 in executive compensation claimed on Cahaba's ICPs submitted to CMS.

In planning and performing this audit, we reviewed Cahaba's internal controls for allocating costs to cost objectives in accordance with the FAR and the Medicare contract. Our objective did not require us to review Cahaba's overall internal control structure. We limited our review to obtaining an understanding of Cahaba's procedures for identifying and reporting cost claims to CMS. We used the latest ICPs that Cahaba gave us for each year of our audit period as the source for the amount of allowable executive compensation.

We conducted our audit work from May 2013 through March 2014.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance, including part 31 of the FAR and Cahaba's contract with CMS;
- reconciled executive compensation reported on the ICPs from CY 2009 through 2011 to Cahaba's accounting records;
- selected and reviewed compensation for each employee earning a salary of $230,700 or more;
- interviewed Cahaba officials about Cahaba's cost allocation systems;
- reviewed payroll journals, corporate bonus plans, and personnel records;
- tested costs for allowability, allocability, and reasonableness;
- calculated cost savings when we applied the existing benchmark to all employees; and
- calculated cost savings when we applied to all employees a benchmark equaling the $400,000 and $230,700 salaries of the President and Vice President of the United States.

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 findings and conclusions based on our audit objectives.