

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**PALMETTO GOVERNMENT BENEFITS
ADMINISTRATOR, LLC,
GENERALLY CLAIMED ALLOWABLE
MEDICARE PENSION COSTS**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



Gloria L. Jarmon
Deputy Inspector General
for Audit Services

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A-07-17-00504

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-07-17-00504

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 Final Administrative Cost Proposals (FACPs).

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 fiscal years (FYs) 2005 through 2011 pension costs that Palmetto Government Benefits Administrator, LLC (Palmetto), claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACPs, were allowable and correctly claimed.

How OIG Did This Review

We reviewed \$26.7 million of pension costs claimed by Palmetto for Medicare reimbursement on its FACPs for FYs 2005 through 2011.

Palmetto Government Benefits Administrator, LLC, Generally Claimed Allowable Medicare Pension Costs

What OIG Found

Palmetto claimed FYs 2005 through 2011 pension costs of \$26.7 million for Medicare reimbursement; however, we determined that the allowable Cost Accounting Standards (CAS)-based pension costs during this period were \$27.4 million. The difference, \$686,000, represented allowable Medicare pension costs that Palmetto should have claimed on its FACPs for FYs 2005 through 2011. Palmetto did not claim these allowable Medicare pension costs primarily because it allocated an incorrect CAS pension cost to its Medicare segment.

What OIG Recommends and Palmetto Comments

We recommend that Palmetto revise its FACPs for FYs 2005 and 2011 to claim additional Medicare pension costs of \$686,000.

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), Cost Accounting Standards (CAS), and Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors did not always comply with Federal requirements when claiming pension costs for Medicare reimbursement.

At CMS's request, the Office of Inspector General, 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 (FACPs) and/or Incurred Cost Proposals.

For this review, we focused on one Medicare contractor, Palmetto Government Benefits Administrator, LLC (Palmetto). In particular, we examined the Palmetto Medicare segment and Other segment costs that Palmetto claimed for Medicare reimbursement on its FACPs.

OBJECTIVE

Our objective was to determine whether the fiscal years (FYs) 2005 through 2011 pension costs that Palmetto claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACPs, were allowable and correctly claimed.

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, Medicare Part B carrier, and Railroad Retirement Board contract operations under cost reimbursement contracts with CMS until the Medicare Part A fiscal intermediary and Medicare carrier Part B contracts ended on January 24, 2011, and June 20, 2011, respectively.

With the implementation of Medicare contracting reform,¹ Palmetto continued to perform Medicare work after being awarded the MAC contracts for Medicare Parts A and B Jurisdiction 1² and Jurisdiction 11³ effective October 25, 2007, and May 21, 2010, respectively.

During our audit period (FYs 2005 through 2011), BCBS South Carolina's qualified defined-benefit pension plan contained three Medicare segments: (1) Palmetto; (2) TrailBlazer Health Enterprises, LLC (TrailBlazer); and (3) Companion Data Services, LLC (CDS). This report addresses Palmetto's compliance with the Federal regulations and the fiscal intermediary and carrier contracts when claiming Medicare pension costs for Medicare reimbursement. We are addressing the pension costs claimed by TrailBlazer and CDS in separate reviews.

Medicare Reimbursement of Pension Costs

CMS reimburses a portion of the Medicare contractors' annual pension costs, which are funded by 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.

Beginning with FY 1988, CMS incorporated specific segmentation language into Medicare contracts that requires contractors to use either an allocation method or a separate calculation method to identify and claim pension costs for Medicare reimbursement. Under the allocation method, the contractor determines total plan CAS-based pension costs and allocates a share to Medicare. Under the separate calculation method, the contractor separately identifies the pension cost components for the Medicare segment. The contractor must use the separate calculation method if its result is materially different from that of the allocation method.

HOW WE CONDUCTED THIS REVIEW

We reviewed \$26,674,141 of pension costs claimed by Palmetto for Medicare reimbursement on its FACP for FYs 2005 through 2011.

¹ Section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, 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.

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 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.

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.

FINDING

Palmetto claimed FYs 2005 through 2011 pension costs of \$26,674,141 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs during this period were \$27,359,730. The difference, \$685,589, represented allowable Medicare pension costs that Palmetto should have claimed on its FACPs for FYs 2005 through 2011. Palmetto did not claim these allowable Medicare pension costs primarily because it allocated an incorrect CAS pension cost to its Medicare segment.

CLAIMED PENSION COSTS

Palmetto claimed Medicare pension costs of \$26,674,141 for Medicare reimbursement, under the provisions of its fiscal intermediary and carrier contracts, on its FACPs for FYs 2005 through 2011. We calculated the allowable Medicare pension costs based on separately computed CAS-based pension costs for the Medicare segment and the Other segment in accordance with CAS 412 and 413. For details on the Federal requirements, see Appendix B.

ALLOWABLE PENSION COSTS NOT CLAIMED

We determined that the allowable CAS-based pension costs for FYs 2005 through 2011 were \$27,359,730.⁴ Thus, Palmetto did not claim \$685,589 of allowable Medicare pension costs on its FACPs for FYs 2005 through 2011. Palmetto did not claim these allowable Medicare pension costs primarily because it allocated an incorrect CAS pension cost to its Medicare segment.

The table on the following page shows the differences between the allowable CAS-based pension costs and the pension costs that Palmetto claimed on its FACPs and reflected in its accounting documents. Appendix C contains additional details on allowable pension costs.

⁴ Consistent with our methodology in previous audits, we compared our calendar year (CY) audited pension costs to Palmetto's FY costs claimed.

Table: Comparison of Allowable Pension Costs and Claimed Pension Costs

	Medicare Pension Costs		
Fiscal Year	Allowable Per Audit	Claimed by Palmetto	Difference
2005	\$6,532,301	\$6,023,967	\$508,334
2006	5,329,205	6,335,142	(1,005,937)
2007	3,525,099	4,805,969	(1,280,870)
2008	3,301,342	3,718,545	(417,203)
2009	3,465,872	2,274,417	1,191,455
2010	3,564,605	2,482,621	1,081,984
2011	1,641,306	1,033,480	607,826
Total	\$27,359,730	\$26,674,141	\$685,589

RECOMMENDATION

We recommend that Palmetto revise its FACPs for FYs 2005 through 2011 to claim additional Medicare pension costs of \$685,589.

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 \$26,674,141 of pension costs that Palmetto claimed for Medicare reimbursement on its FACPs for FYs 2005 through 2011.

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 Palmetto to identify the amount of pension costs claimed for Medicare reimbursement for FYs 2005 through 2011;
- used information that BCBS South Carolina'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 BCBS South Carolina's and 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 BCBS South Carolina 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 and the Other segment);
- reviewed the CMS actuaries' methodology and calculations; and
- provided the results of the review to Palmetto officials on April 7, 2017.

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

- *Palmetto Government Benefits Administrator, LLC, Understated Its Medicare Segment Pension Assets (A-07-17-00503)* and
- *Palmetto Government Benefits Administrator, LLC, Understated Its Medicare Segment Allocable Pension Costs (A-07-17-00505)*.

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 31.205-6(j)) address allowability of pension costs and require 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 Medicare contracts address the determination and allocation of pension costs. The contracts state: “The calculation of and accounting for pension costs charged to this agreement/contract are governed by the Federal Acquisition Regulation and Cost Accounting Standards 412 and 413.”

**APPENDIX C: ALLOWABLE MEDICARE PENSION COSTS FOR
PALMETTO GOVERNMENT BENEFITS ADMINISTRATOR, LLC,
FOR FISCAL YEARS 2005 THROUGH 2011**

Date	Description	Total Company	Other Segment	Palmetto Segment	TrailBlazer Segment	CDS Segment	Total Medicare
2005	Contributions <u>1/</u>	\$82,491,519	\$82,491,519	\$0	\$0	\$0	
	Discount for interest <u>2/</u>	(\$6,042,045)	(\$6,042,045)	\$0	\$0	\$0	
January 1, 2005	Present value contributions <u>3/</u>	\$76,449,474	\$76,449,474	\$0	\$0	\$0	
	Prepayment credit applied <u>4/</u>	45,149,854	\$32,916,823	\$6,611,978	\$5,621,053	\$0	
	Present value of funding <u>5/</u>	\$121,599,328	\$109,366,297	\$6,611,978	\$5,621,053	\$0	
January 1, 2005	CAS funding target <u>6/</u>	\$45,149,854	\$32,916,823	\$6,611,978	\$5,621,053	\$0	
	Percentage funded <u>7/</u>		100.00%	100.00%	100.00%	0.00%	
	Funded pension cost <u>8/</u>		\$32,916,823	\$6,611,978	\$5,621,053	\$0	
	Allowable interest <u>9/</u>		\$0	\$0	\$0	\$0	
	Allocable pension cost <u>10/</u>		\$32,916,823	\$6,611,978	\$5,621,053	\$0	
	Palmetto LOB* percentage <u>11/</u>		3.93%	79.23%	n/a	n/a	
2005	Total Palmetto allowable pension cost <u>12/</u>		\$1,293,631	\$5,238,670	n/a	n/a	\$6,532,301

Date	Description	Total Company	Other Segment	Palmetto Segment	TrailBlazer Segment	CDS Segment	Total Medicare
2006	Contributions	\$80,000,000	\$80,000,000	\$0	\$0		
	Discount for interest	(\$5,818,667)	(\$5,818,667)	\$0	\$0		
January 1, 2006	Present value contributions	\$74,181,333	\$74,181,333	\$0	\$0		
	Prepayment credit applied	44,897,533	\$31,827,132	\$7,161,326	\$5,909,075		
	Present value of funding	\$119,078,866	\$106,008,465	\$7,161,326	\$5,909,075		
January 1, 2006	CAS funding target	\$44,897,533	\$31,827,132	\$7,161,326	\$5,909,075		
	Percentage funded		100.00%	100.00%	100.00%		
	Funded pension cost		\$31,827,132	\$7,161,326	\$5,909,075		
	Allowable interest		\$0	\$0	\$0		
	Allocable pension cost		\$31,827,132	\$7,161,326	\$5,909,075		
	Palmetto LOB* percentage		1.50%	67.75%	n/a	n/a	
2006	Total Palmetto allowable pension cost		\$477,407	\$4,851,798	n/a	n/a	\$5,329,205

Date	Description	Total Company	Other Segment	Palmetto Segment	TrailBlazer Segment	CDS Segment	Total Medicare
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		
	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	
	Allocable pension cost		\$32,402,967	\$6,557,001	\$5,300,280	\$0	
	Palmetto LOB* percentage		1.53%	46.20%	n/a	n/a	
2007	Total Palmetto allowable pension cost		\$495,765	\$3,029,334	n/a	n/a	\$3,525,099

Date	Description	Total Company	Other Segment	Palmetto Segment	TrailBlazer Segment	CDS Segment	Total Medicare
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	
	Allocable pension cost		\$34,654,231	\$4,985,138	\$4,196,561	\$996,234	
	Palmetto LOB* percentage		1.78%	53.85%	n/a	n/a	
2008	Total Palmetto allowable pension cost		\$616,845	\$2,684,497	n/a	n/a	\$3,301,342

Date	Description	Total Company	Other Segment	Palmetto Segment	TrailBlazer Segment	CDS Segment	Total Medicare
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	
	Allocable pension cost		\$48,168,674	\$5,031,604	\$5,021,589	\$1,330,442	
	Palmetto LOB* percentage		1.94%	50.31%	n/a	n/a	
2009	Total Palmetto allowable pension cost		\$934,472	\$2,531,400	n/a	n/a	\$3,465,872

Date	Description	Total Company	Other Segment	Palmetto Segment	TrailBlazer Segment	CDS Segment	Total Medicare
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	
	Allocable pension cost		\$50,736,124	\$5,650,955	\$5,244,885	\$1,694,256	
	Palmetto LOB* percentage		1.86%	46.38%	n/a	n/a	
2010	Total Palmetto allowable pension cost		\$943,692	\$2,620,913	n/a	n/a	\$3,564,605

Date	Description	Total Company	Other Segment	Palmetto Segment	TrailBlazer Segment	CDS Segment	Total Medicare
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	
	Allocable pension cost		\$50,062,318	\$5,334,690	\$5,195,739	\$1,860,392	
	Palmetto LOB* percentage		0.85%	22.79%	n/a	n/a	
2011	Total Palmetto allowable pension cost		\$425,530	\$1,215,776	n/a	n/a	\$1,641,306

*Line of Business

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 segments during the pension segmentation review (A-07-17-00503). The amounts shown for the Other segment represent the difference between the Total Company and 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 allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.
- 11/ We calculated the Palmetto line of business (LOB) percentages based on information provided by Palmetto.
- 12/ We computed the allowable Medicare pension cost as the CY allocable pension cost multiplied by the Medicare LOB percentage.

APPENDIX D: AUDITEE COMMENTS



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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-07-17-00504

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, Generally Claimed Allowable Medicare Pension Costs*.

The report contains the following recommendation:

- We recommend that Palmetto revise its FACP for FYs 2005 through 2011 to claim additional Medicare pension costs of \$685,589.

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

We appreciate the opportunity to comment on the recommendations. 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: Louis McElveen, BCBSSC
Bruce Hughes, Celerian Group
Joe Johnson, Palmetto GBA