Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

CGS Administrators, LLC, Claimed Some Unallowable Medicare Administrative Contract Pension Costs

Inquiries about this report may be addressed to the Office of Public Affairs at [Public.Affairs@oig.hhs.gov.](mailto:Public.Affairs@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.

EXECUTIVE SUMMARY

CGS Administrators, LLC, claimed unallowable Medicare administrative contract pension costs of $22,656 for Medicare reimbursement for calendar years 2010 and 2011.

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 (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, CGS Administrators, LLC (CGS). In particular, we examined the CGS Medicare segment and Other segment MAC pension costs (herein referred to as "pension costs") that CGS claimed for Medicare reimbursement and reported on its ICPs.

The objective of this review was to determine whether the calendar years (CYs) 2010 and 2011 pension costs that CGS claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

BACKGROUND

During our audit period, CGS (formerly CIGNA Government Services, LLC) administered Medicare Part B and Durable Medical Equipment (DME) operations for Connecticut General Life Insurance Company (CGLIC), the legal entity that entered into these cost reimbursement contracts with the CMS. In addition, CGS administered Medicare operations under a MAC contract with CMS. CGS and CGLIC were wholly owned subsidiaries of CIGNA Corporation.

With the implementation of Medicare contracting reform, CGS continued to perform Medicare work after being awarded the MAC contracts for DME Jurisdiction C, effective September 27, 2006, and Medicare Parts A and B Jurisdiction 15, effective July 8, 2010.

Effective June 1, 2011, the CGS Medicare segment was sold to Blue Cross Blue Shield of South Carolina for the continued performance of Medicare operations.

During the audit period, CGS participated in CIGNA Corporation's two pension plans: the CIGNA Pension Plan and the CIGNA Pension Plan for Former Employees. The latter was established on January 1, 2009, as a spinoff of the CIGNA Pension Plan. The CIGNA Pension Plan was frozen on July 1, 2009. This report addresses the pension costs claimed for both pension plans.

CGS's disclosure statement indicates that CGS uses pooled costing. Medicare contractors use pooled costing to calculate the indirect cost rates that they submit on their ICPs. The pension costs are included in the computations of the indirect cost rates reported on the ICPs. CMS uses these indirect cost rates when reimbursing costs for cost-plus-award-fee type contracts.

CMS reimburses a portion of the annual contributions that contractors make to their pension plans. The pension costs are included in the computation of the indirect cost rates reported on the ICPs. In turn, CMS uses indirect cost rates in reimbursing costs under cost reimbursement contracts. 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. In claiming costs, contractors must follow cost reimbursement principles contained in the FAR, the CAS, and the Medicare contracts. The cognizant Contracting Officer will perform a final settlement with the contractor to determine the final indirect cost rates. The final indirect cost rates ultimately determine the final costs of each contract.

At CMS's request, Kearney & Company and Watkins Meegan performed audits of the ICPs that CGS submitted for CYs 2010 and 2011. CMS will use this OIG report and the ICP audit reports to determine the final indirect cost rates and the total allowable contract costs for CGS for CYs 2010 and 2011.

We reviewed $187,885 of pension costs that CGS claimed for Medicare reimbursement on its ICPs for CYs 2010 and 2011.

WHAT WE FOUND

CGS claimed pension costs of $187,885 for Medicare reimbursement for CYs 2010 and 2011; however, we determined that the allowable CAS-based pension costs during this period were $165,229. The difference, $22,656, represented unallowable Medicare pension costs that CGS claimed on its ICPs for CYs 2010 and 2011. CGS claimed these unallowable Medicare pension costs primarily because it (1) did not allocate the correct CAS-based pension to CGS and (2) used incorrect indirect cost rates when claiming pension costs for Medicare reimbursement.

WHAT WE RECOMMEND

We recommend that CGS work with CMS to ensure that CGS's final settlement of contract costs reflects a decrease in Medicare pension costs of $22,656 for CYs 2010 and 2011.

AUDITEE COMMENTS

In written comments on our draft report, CGS said that it accepted our recommendations.

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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 (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, CGS Administrators, LLC (CGS). In particular, we examined the CGS Medicare segment and Other segment MAC pension costs (herein referred to as "pension costs") that CGS claimed for Medicare reimbursement and reported on its ICPs.

OBJECTIVE

Our objective was to determine whether the calendar years (CYs) 2010 and 2011 pension costs that CGS claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

BACKGROUND

CGS Administrators, LLC

During our audit period, CGS (formerly CIGNA Government Services, LLC) administered Medicare Part B and Durable Medical Equipment (DME) operations for Connecticut General Life Insurance Company (CGLIC), the legal entity that entered into these cost reimbursement contracts with CMS. In addition, CGS administered Medicare operations under a MAC contract with CMS.[1] CGS and CGLIC were wholly owned subsidiaries of CIGNA Corporation.

With the implementation of Medicare contracting reform, CGS continued to perform Medicare work after being awarded the MAC contracts for DME Jurisdiction C, effective September 27, 2006, and Medicare Parts A and B Jurisdiction 15, effective July 8, 2010.

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[1] For this audit, we reviewed the pension costs that CGS claimed under its MAC contract with CMS. In a companion audit (A-07-16-00489), we reviewed the pension costs that CGS claimed under cost reimbursement contracts with CMS.

Effective June 1, 2011, the CGS Medicare segment was sold to Blue Cross Blue Shield of South Carolina for the continued performance of Medicare operations.

During the audit period, CGS participated in CIGNA Corporation's two pension plans: the CIGNA Pension Plan and the CIGNA Pension Plan for Former Employees. The latter was established on January 1, 2009, as a spinoff of the CIGNA Pension Plan. The CIGNA Pension Plan was frozen on July 1, 2009. This report addresses the pension costs claimed for both pension plans.

CGS's disclosure statement indicates that CGS uses pooled costing. Medicare contractors use pooled costing to calculate the indirect cost rates that they submit on their ICPs. The pension costs are included in the computations of the indirect cost rates reported on the ICPs. CMS uses these indirect cost rates when reimbursing costs for cost-plus-award-fee type contracts.[2, 3]

Medicare Reimbursement of Pension Costs

CMS reimburses a portion of the annual contributions that contractors make to their pension plans. The pension costs are included in the computation of the indirect cost rates reported on the ICPs. In turn, CMS uses indirect cost rates in reimbursing costs under cost reimbursement contracts. 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. In claiming costs, contractors must follow cost reimbursement principles contained in the FAR, the CAS, and the Medicare contracts. The cognizant Contracting Officer will perform a final settlement with the contractor to determine the final indirect cost rates. The final indirect cost rates ultimately determine the final costs of each contract.[4]

Incurred Cost Proposal Audits and Our and CMS's Use of Their Results

At CMS's request, Kearney & Company (Kearney) and Watkins Meegan (Watkins) performed audits of the ICPs that CGS submitted for CYs 2010 and 2011. The objective of the Kearney ICP audit was to determine whether costs included in the ICPs were allowable in accordance with the FAR. Watkins' ICP audit examined the ICPs to determine whether CGS was in compliance with the applicable requirements of the FAR, the CAS, the U.S. Department of Health and Human Services Acquisition Regulation System, the Social Security Handbook, and relevant contract provisions and guidelines issued by the Defense Contract Audit Agency. We

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[2] A cost-plus-award-fee contract is a cost reimbursement contract that provides for a fee consisting of (a) a base amount fixed at inception of the contract and (b) an award amount, based upon a judgmental evaluation by the Federal Government.

[3] At the end of each CY, each MAC submits to CMS an ICP which reports the Medicare direct and indirect costs that the contractor incurred during that year. The ICP and supporting data provide the basis for the CMS Contracting Officer and the Medicare contractor to determine the final billing rates for allowable Medicare costs.

[4] In accordance with FAR 42.705-1(5)(ii) and FAR 42.705-1(5)(iii)(B), the cognizant Contracting Officer shall "[p]repare a written indirect cost rate agreement conforming to the requirements of the contract" and perform a "[r]econciliation of all costs questioned, with identification of items and amounts allowed or disallowed in the final settlement," respectively.

incorporated the results of these audits into the computation of the indirect cost rates, and ultimately the pension costs claimed, for the MAC contracts.

CMS Settlement of Durable Medical Equipment Contract

CMS performed a settlement, on July 15, 2013, of certain contract line item numbers (CLINs) for DME contracts.[5] This settlement included the period June 1, 2007, through November 30, 2010; therefore, no adjustments could be made as these costs were finalized.[6]

HOW WE CONDUCTED THIS REVIEW

We reviewed $187,885 of pension costs that CGS claimed for Medicare reimbursement on its ICPs for CYs 2010 and 2011.

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

CGS claimed pension costs of $187,885 for Medicare reimbursement for CYs 2010 and 2011; however, we determined that the allowable CAS-based pension costs during this period were $165,229. The difference, $22,656, represented unallowable Medicare pension costs that CGS claimed on its ICPs for CYs 2010 and 2011. CGS claimed these unallowable Medicare pension costs primarily because it (1) did not allocate the correct CAS-based pension to CGS and (2) used incorrect indirect cost rates when claiming pension costs for Medicare reimbursement.

CLAIMED PENSION COSTS

CGS claimed Medicare pension costs of $187,885 for CYs 2010 and 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.

UNALLOWABLE PENSION COSTS CLAIMED

After incorporating the results of the Kearney and Watkins ICP audits and the allocable costs from our current report, we determined that the allowable CAS-based pension costs for CYs 2010 and 2011 were $165,229. Thus, CGS claimed $22,656 of unallowable Medicare pension costs on its ICPs for CYs 2010 and 2011. This overclaim occurred primarily because CGS based

[5] The CLIN corresponds to a certain period of performance as identified in the contract.

[6] Therefore, we are reporting on one CLIN from the DME Jurisdiction C contract and the Jurisdiction 15 contract.

its claim for Medicare reimbursement on incorrectly calculated CAS pension costs. In addition, according to Kearney's report, CGS's ICP submissions for CYs 2008 through 2011 did not comply with part 31 of the FAR.

During this audit, we determined the allocable pension costs for the Medicare segment and the Other segment. We used these allocable pension costs to determine the allowable pension costs for Medicare reimbursement. Tables 1 and 2 below show the allocable CAS-based pension costs that we determined for CYs 2010 and 2011.

Table 1: Medicare Segment Allocable Pension Costs

Calendar Year	Allocable Per Audit	Per CGS	Difference
2010	$237,519	$222,212	15,307
2011	86,668	115,200	(28,532)
Total	**$324,187**	**$337,412**	**($13,225)**

Table 2: Other Segment Allocable Pension Costs[7]

Calendar Year	Allocable Per Audit	Per CGS	Difference
2010	$123,681,847	$124,728,555	($1,046,708)
2011	124,112,414	123,940,801	171,613
Total	**$247,794,261**	**$248,669,356**	**($875,095)**

We then used this information to adjust the indirect cost rates (i.e., fringe benefit and general and administrative rates) and, in turn, to calculate the information presented in Table 3 on the following page. Our calculation will not be presented in this report because those rate calculations that CGS used in its ICPs, and to which we referred as part of our review, are proprietary information.

Accordingly, Table 3 on the following page compares, for both of the contracts (DME and Medicare Parts A and B), the Medicare segment pension costs that we calculated (using our adjusted indirect cost rates) and the pension costs that CGS claimed for Medicare reimbursement for CYs 2010 and 2011.

[7] The CY 2011 audited Other segment allocable pension costs represent the allocable pension costs for January 1, 2011, through December 31, 2011. While we used the 12-month allocable pension costs when computing the allowable Other segment pension costs reflected in the ICP, we reduced the allowable pension costs for the Other segment to reflect the period January 1, 2011, through May 31, 2011, the period that CGS was owned by CIGNA Corporation. See Appendix E for this calculation.

Table 3: Comparison of Allowable Pension Costs and Claimed Pension Costs[8]

	Per Audit	Per ICP Audit	Difference
CY 2010			
DME Contract	$16,983	$16,331	$652
Parts A/B Contract	1,513	1,455	58
Total CY 2010	**$18,496**	**$17,786**	**$710**
CY 2011			
DME Contract	$86,078	$100,921	$(14,843)
Parts A/B Contract	60,655	69,178	(8,523)
Total CY 2011	**$146,733**	**$170,099**	**($23,366)**
Total Overclaim of Pension Costs	**$165,229**	**$187,885**	**($22,656)**

RECOMMENDATION

We recommend that CGS work with CMS to ensure that CGS's final settlement of contract costs reflects a decrease in Medicare pension costs of $22,656 for CYs 2010 and 2011.

AUDITEE COMMENTS

In written comments on our draft report, CGS said that it accepted our recommendations and that it did not have any additional comments or questions. CGS stated that it assumed that the repayment would be negotiated and settled with CMS at the appropriate time and added that it would make any necessary adjustments to its ICPs as requested by CMS.

CGS's comments are included in their entirety as Appendix F.

[8] Our calculations incorporated the rate ceiling associated with the Medicare Parts A and B and DME contracts. We applied the indirect costs rates associated with these contracts when computing the allowable pension costs for the Medicare Parts A and B and DME contracts. The amounts identified in this table represent the allowable Medicare pension costs during our audit period; and do not represent the total allowable costs on the ICP.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed $187,885 of pension costs that CGS claimed for Medicare reimbursement on its ICPs for CYs 2010 and 2011.

Achieving our objective did not require that we review CGS'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 CGS in Nashville, Tennessee.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- reviewed information provided by CGS to identify the amount of pension costs claimed for Medicare reimbursement for CYs 2010 and 2011;
- used information that CGS's actuarial consulting firms provided, including information on assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses;
- examined CGS's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Forms 5500;
- determined the extent to which CGS 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;
- reviewed the results of the Kearney and Watkins ICP audits and incorporated those results into our calculations of allowable pension costs; and
- provided the results of this review to CGS officials on February 13, 2017.

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

- *CGS Administrators, LLC, Overstated Its CIGNA Pension Plan Medicare Segment Pension Assets and Understated Medicare's Share of Excess Pension Liabilities* (A-07-16-00470), and

- *CGS Administrators, LLC, Understated Its CIGNA Pension Plan for Certain Former Employees Medicare Segment Pension Assets and Understated Medicare's Share of Excess Pension Assets* (A-07-16-00491).

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. These regulations also 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 403) address the allocation of the expenses of a home office to the segments of the organization based on beneficial or causal relationship. These regulations also address the allocation of residual home office expenses to segments.

Federal regulations (CAS 412) (as amended) address the determination and measurement of pension cost components. These regulations also address 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 require CGS to submit invoices in accordance with FAR 52.216-7, "Allowable Cost & Payment." (See our citation to FAR 52.216-7(a)(1) in "Federal Regulations" above.)

APPENDIX C: ALLOCABLE MEDICARE PENSION COSTS FOR CGS ADMINISTRATORS, LLC, FOR THE CIGNA PENSION PLAN FOR CALENDAR YEARS 2010 AND 2011

Date	Description		Total Company	Other Segment	Medicare Segment
2010	Contributions	1/	$143,000,000	$143,000,000	$0
	Discount for interest	2/	($4,025,153)	($4,025,153)	$0
January 1, 2010	Present value contributions	3/	$138,974,847	$138,974,847	$0
	Prepayment credit applied	4/	$100,317,916	$100,098,327	$219,589
	Present value of funding	5/	$239,292,763	$239,073,174	$219,589
January 1, 2010	CAS funding target	6/	$100,317,916	$100,098,327	$219,589
	Percentage funded	7/		100.00%	100.00%
	Funded pension cost	8/		$100,098,327	$219,589
	Allowable interest	9/		$0	$0
	Allocable pension cost	10/		$100,098,327	$219,589

Date	Description		Total Company	Other Segment	Medicare Segment
2011	Contributions		$125,000,000	$125,000,000	$0
	Discount for interest		($7,912,442)	($7,912,442)	$0
January 1, 2011	Present value contributions		$117,087,558	$117,087,558	$0
	Prepayment credit applied		$42,149,526	$42,067,727	$81,799
	Present value of funding		$159,237,084	$159,155,285	$81,799
January 1, 2011	CAS funding target		$42,149,526	$42,067,727	$81,799
	Percentage funded			100.00%	100.00%
	Funded pension cost			$42,067,727	$81,799
	Allowable interest			$0	$0
	Allocable pension cost	11/		$42,067,727	$81,799

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-07-16-00470). 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 current 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/ Effective June 1, 2011, the CGS Medicare segment was sold to Blue Cross Blue Shield of South Carolina. Therefore, the CY 2011 allocable pension cost represents the allocable pension costs for January 1, 2011, to June 1, 2011.

APPENDIX D: ALLOCABLE MEDICARE PENSION COSTS FOR CGS ADMINISTRATORS, LLC, FOR THE CIGNA PENSION PLAN FOR CERTAIN FORMER EMPLOYEES FOR CALENDAR YEARS 2010 AND 2011

Date	Description		Total Company	Other Segment	Medicare Segment
2010	Contributions	1/	$68,884,168	$68,866,238	$17,930
	Discount for interest	2/	($1,934,090)	($1,933,587)	($503)
January 1, 2010	Present value contributions	3/	$66,950,078	$66,932,651	$17,427
	Prepayment credit applied	4/	$0	$0	$0
	Present value of funding	5/	$66,950,078	$66,932,651	$17,427
January 1, 2010	CAS funding target	6/	$22,938,782	$22,921,355	$17,427
	Percentage funded	7/		100.00%	100.00%
	Funded pension cost	8/		$22,921,355	$17,427
	Allowable interest	9/		$662,165	$503
	Allocable pension cost	10/		$23,583,520	$17,930

Date	Description		Total Company	Other Segment	Medicare Segment
2011	Contributions		$35,213,128	$35,213,128	$0
	Discount for interest		($2,101,802)	($2,101,802)	$0
January 1, 2011	Present value contributions		$33,111,326	$33,111,326	$0
	Prepayment credit applied		$9,650,648	$9,645,779	$4,869
	Present value of funding		$42,761,974	$42,757,105	$4,869
January 1, 2011	CAS funding target		$9,650,648	$9,645,779	$4,869
	Percentage funded			100.00%	100.00%
	Funded pension cost			$9,645,779	$4,869
	Allowable interest			$0	$0
	Allocable pension cost	11/		$9,645,779	$4,869

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-07-16-00491). 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 current 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/ Effective June 1, 2011, the CGS Medicare segment was sold to Blue Cross Blue Shield of South Carolina. Therefore, the CY 2011 allocable pension cost represents the allocable pension costs for January 1, 2011, to June 1, 2011.

APPENDIX E: TOTAL ALLOCABLE MEDICARE PENSION COSTS FOR CGS ADMINISTRATORS, LLC, FOR CALENDAR YEARS 2010 AND 2011

Date	Description		Other Segment	Medicare Segment
2010	CY Allocable Pension Cost-CIGNA Pension Plan	1/	$100,098,327	$219,589
	CY Allocable pension cost-CIGNA Pension Plan for Certain Former Employees	2/	23,583,520	17,930
	Total CY Allocable Pension Cost	3/	$123,681,847	$237,519
2011	CY Allocable Pension Cost-CIGNA Pension Plan		$42,067,727	$81,799
	CY Allocable pension cost-CIGNA Pension Plan for Certain Former Employees		9,645,779	4,869
	Total CY Allocable Pension Cost		$51,713,506	$86,668

ENDNOTES

1/ The CY allocable pension cost-CIGNA Pension Plan (Appendix C) is the amount of pension cost that may be allocated for contract cost purposes for the specific CY.

2/ The CY allocable pension cost-CIGNA Pension Plan for Certain Former Employees (Appendix D) is the amount of pension cost that may be allocated for contract cost purposes for the specific CY.

3/ Total CY allocable pension cost is the sum of the allocable pension costs for the two CGS pension plans: the CIGNA Pension Plan and the CIGNA Pension Plan for Certain Former Employees. This total will be used in the computation of the indirect cost rates on the incurred cost proposals.

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March 27, 2017

Mr. 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-07-16-00490

Dear Mr. Cogley:

We are responding to the U.S. Department of Health and Human Services, Office of Inspector General, draft report dated March 6, 2017 and entitled *CGS Administrators, LLC, Claimed Some Unallowable Medicare Administrative Contract Pension Costs*.

The report contains the following recommendation:

> We recommend that CGS work with CMS to ensure that CGS's final settlement of contract costs reflects a decrease in Medicare pension costs of $22,656 for CYs 2010 and 2011.

CGS accepts the OIG recommendations and does not have any additional comments or questions. CGS' assumption is that the repayment will be negotiated and settled with CMS at the appropriate time. CGS will make any necessary adjustments to the ICP's as requested by CMS

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,

/Michael Logan/

Michael Logan
Vice President and CFO

Cc: Steve Bishop, CGS
Larry Kennedy, CGS
Dedee Rowe, BCBSSC
Ryan Loyd, CIGNA
Diane Lastinec, CIGNA