

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**BLUE CROSS BLUE SHIELD OF
SOUTH CAROLINA OVERSTATED
ITS ALLOCABLE QUALIFIED
PENSION PLAN 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**

**August 2017
A-07-17-00509**

Office of Inspector General

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

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <https://oig.hhs.gov>

Section 8M of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG website.

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: August 2017

Report No. A-07-17-00509

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



Why OIG Did This Review

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

At CMS's request, the HHS, OIG, Office of Audit Services, Region VII pension audit team reviews the cost elements related to qualified defined-benefit plans, and any other pension-related cost elements claimed by Medicare contractors through Incurred Cost Proposals (ICPs).

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

Our objective was to determine whether the allocable pension costs that Blue Cross Blue Shield of South Carolina (BCBS South Carolina) calculated, under the provisions of its subsidiaries' MAC-related contracts, for calendar years (CYs) 2006 through 2012 complied with Federal requirements.

How OIG Did This Review

We reviewed \$300.7 million of Other segment pension costs used by BCBS South Carolina in the calculation of its indirect cost rates, under the provisions of its subsidiaries' MAC-related contracts, for CYs 2006 through 2012.

Blue Cross Blue Shield of South Carolina Overstated Its Allocable Qualified Pension Plan Costs

What OIG Found

The Other segment allocable pension costs that BCBS South Carolina used to calculate the indirect cost rates in its subsidiaries' Medicare segments' ICPs did not comply with Federal requirements. Specifically, for CYs 2006 through 2012, BCBS South Carolina identified allocable pension costs of \$300.7 million; however, we determined that the allocable pension costs during this audit period were \$294.5 million. Thus, BCBS South Carolina overstated its allocable pension costs by \$6.2 million. This overstatement occurred because BCBS South Carolina used incorrect Cost Accounting Standards pension costs to calculate its subsidiaries' indirect cost rates for CYs 2006 through 2012.

What OIG Recommends

We recommend that BCBS South Carolina decrease the allocable pension costs used to calculate its Medicare segments' indirect cost rates for CYs 2006 through 2012 by \$6.2 million.

BCBS South Carolina Comments

BCBS South Carolina accepted our recommendation. BCBS South Carolina added that the adjustment referred to in our recommendation reflected a corporate-wide basis, only a portion of which was allocated to the Medicare subsidiaries that contracted with CMS.

We acknowledge that this report identifies the BCBS South Carolina corporate-wide pension costs, of which a portion will be allocated to BCBS South Carolina's Medicare segments.

TABLE OF CONTENTS

INTRODUCTION.....	1
Why We Did This Review	1
Objective	1
Background	1
Blue Cross Blue Shield of South Carolina and Medicare	1
Medicare Reimbursement of Pension Costs	3
How We Conducted This Review	3
FINDING.....	3
Overstatement of Other Segment Pension Costs.....	3
Allocable Other Segment Pension Costs.....	3
Overstated Other Segment Allocable Pension Costs.....	4
RECOMMENDATION	4
AUDITEE COMMENTS	5
OFFICE OF INSPECTOR GENERAL RESPONSE	5
APPENDIXES	
A: Audit Scope and Methodology	6
B: Federal Requirements Related to Reimbursement of Pension Costs	8
C: Allocable Pension Costs for Blue Cross Blue Shield of South Carolina, LLC, for Calendar Years 2006 Through 2012	9
D: Auditee Comments	12

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 did not always comply 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 entity, Blue Cross Blue Shield of South Carolina (BCBS South Carolina). In particular, we examined the costs that BCBS South Carolina calculated for its pension plan. BCBS South Carolina calculated Total Company pension costs (which for this report we will refer to as "allocable costs") and allocated these costs to its subsidiaries (including its Medicare segments of Palmetto Government Benefits Administrator, LLC (Palmetto), CGS Administrators, LLC (CGS), and Companion Data Services, LLC (CDS)). In turn, Palmetto, CGS, and CDS used their allocated pension costs to calculate the indirect cost rates on each Medicare segment's ICPs.

OBJECTIVE

Our objective was to determine whether the allocable pension costs that BCBS South Carolina calculated, under the provisions of Palmetto's, CGS's, and CDS's MAC-related contracts, for calendar years (CYs) 2006 through 2012 complied with Federal requirements.

BACKGROUND

Blue Cross Blue Shield of South Carolina and Medicare

During our audit period, Palmetto, CGS, and CDS were subsidiaries of BCBS South Carolina and administered Medicare functions for CMS. Specifically, Palmetto administered Medicare Part A fiscal intermediary and Medicare Part B carrier contract operations under cost reimbursement contracts with CMS. CGS administered Medicare Part B carrier contract operations under cost

reimbursement contracts with CMS and continued to do so after its acquisition by BCBS South Carolina in June 2011.

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 11³ effective October 25, 2007, and May 21, 2010, respectively. CGS continued to perform Medicare work after being awarded the MAC contract for Medicare Parts A and B Jurisdiction 15⁴ effective July 8, 2010. CDS began performing Medicare functions after being awarded the enterprise data centers contract with CMS effective March 10, 2006.

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.

BCBS South Carolina sponsored a qualified defined-benefit pension plan. Palmetto; TrailBlazer Health Enterprises, LLC (TrailBlazer); and CDS participated in this pension plan. CGS, another Medicare segment under BCBS South Carolina, was not eligible for participation in the pension plan but received cost allocations from BCBS South Carolina.

This report addresses the Other segment (costs allocable from BCBS South Carolina) allocable pension costs calculated by BCBS South Carolina under the provisions of Palmetto's, CGS's, and CDS's MAC-related contracts. We are addressing the pension costs claimed by Palmetto and CDS under the provisions of their fiscal intermediary and carrier contracts in separate reviews.

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 this 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. For purposes of this report, the term "Medicare contractor" means the fiscal intermediary, carrier, or MAC, whichever is applicable.

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.

⁴ Medicare Parts A and B Jurisdiction 15 consists of the States of Kentucky and Ohio. Jurisdiction 15 also includes home health and hospice services provided in the States of Colorado, Delaware, Iowa, Kansas, Maryland, Missouri, Montana, Nebraska, North Dakota, Pennsylvania, South Dakota, Utah, Virginia, West Virginia, and Wyoming, and in the District of Columbia.

Medicare Reimbursement of Pension Costs

CMS reimburses a portion of the Medicare contractors' 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 \$300,697,644 of Other segment pension costs used by BCBS South Carolina in the calculation of its indirect cost rates for Palmetto, CGS, and CDS, under the provisions of their MAC-related contracts, 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 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 Other segment allocable pension costs that BCBS South Carolina used to calculate the indirect cost rates in the Palmetto, CGS, and CDS Medicare segments' ICPs did not comply with Federal requirements. Specifically, for CYs 2006 through 2012, BCBS South Carolina identified allocable pension costs of \$300,697,644; however, we determined that the allocable pension costs during this audit period were \$294,503,896. Thus, BCBS South Carolina overstated its allocable pension costs by \$6,193,748. This overstatement occurred because BCBS South Carolina used incorrect CAS pension costs to calculate Palmetto's, CGS's, and CDS's indirect cost rates for CYs 2006 through 2012.

OVERSTATEMENT OF OTHER SEGMENT PENSION COSTS

Allocable Other Segment Pension Costs

BCBS South Carolina calculated allocable Other segment costs of \$300,697,644 for CYs 2006 through 2012. We calculated CAS-based pension costs for CYs 2006 through 2012 for the Other

segment in accordance with CAS 412 and 413. For details on the Federal requirements, see Appendix B.

Overstated Other Segment Allocable Pension Costs

We determined that the CAS-based pension costs for the Other segment for CYs 2006 through 2012 were \$294,503,896. Thus, BCBS South Carolina overstated the Other segment pension costs used to calculate indirect cost rates in the Medicare segments' ICPs for CYs 2006 through 2012 by \$6,193,748. This overstatement occurred because BCBS South Carolina used incorrect CAS pension costs when calculating its indirect cost rates for this time period.

The table below shows the differences between the Other segment CAS-based pension costs that we calculated and the Other segment pension costs that BCBS South Carolina used to calculate Palmetto's, CGS's, and CDS's indirect cost rates for CYs 2006 through 2012.

Table: Comparison of Pension Costs for the Other Segment

Calendar Year	Allocable Per Audit	Per South Carolina	Difference
2006	\$31,827,132	\$32,613,777	(\$786,645)
2007	32,402,967	34,466,301	(2,063,334)
2008	34,654,231	35,284,389	(630,158)
2009	48,168,674	48,839,050	(670,376)
2010	50,736,124	51,580,283	(844,159)
2011	50,062,318	50,717,302	(654,984)
2012	46,652,450	47,196,542	(544,092)
Total	\$294,503,896	\$300,697,644	(\$6,193,748)

The OIG will use the information contained in this report, the related fiscal intermediary and carrier contract reports, and the allocable cost reports for Palmetto and CDS (Appendix A) to determine the allowable Medicare segment pension costs for Palmetto, CGS, and CDS.⁵

RECOMMENDATION

We recommend that BCBS South Carolina decrease the allocable pension costs used to calculate its Medicare segments' indirect cost rates for CYs 2006 through 2012 by \$6,193,748.

⁵ Our review of the allocable pension costs for BCBS South Carolina identified the amount of pension costs that should have been used to allocate pension costs to Palmetto, CGS, and CDS. OIG will use the information in this report, as well as the information from our reviews of the fiscal intermediary and carrier contract pension costs claimed by Palmetto (A-07-17-00505) and CGS (A-07-17-00513), to determine the allowable pension costs for Palmetto, CGS, and CDS. In addition, CMS will use the information provided by the audit organization that reviews the ICPs (regarding their compliance with the CAS) to determine the final indirect cost rates for Palmetto, CGS, and CDS.

AUDITEE COMMENTS

In written comments on our draft report, BCBS South Carolina said that it accepted our recommendation. BCBS South Carolina added that the adjustment referred to in our recommendation reflected a corporate-wide basis, only a portion of which was allocated to the Medicare subsidiaries that contracted with CMS. BCBS South Carolina's comments appear in their entirety as Appendix D.

OFFICE OF INSPECTOR GENERAL RESPONSE

We acknowledge that this report identifies the BCBS South Carolina corporate-wide pension costs, of which a portion will be allocated to BCBS South Carolina's Medicare segments.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$300,697,644 of Other segment pension costs used by BCBS South Carolina in the calculation of its indirect cost rates for Palmetto, CGS, and CDS, under the provisions of their MAC-related contracts, for CYs 2006 through 2012.

Achieving our objective did not require that we review BCBS South Carolina'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 its Medicare segments to identify the amount of pension costs used to calculate its indirect cost rates for CYs 2006 through 2012;
- 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 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);
- reviewed the CMS actuaries' methodology and calculations; and

- provided the results of the review to BCBS South Carolina officials on April 11, 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 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),*
- *Palmetto Government Benefits Administrator, LLC, Understated Its Medicare Segment Allocable Pension Costs (A-07-17-00505),*
- *Companion Data Services, LLC, Understated Its Allocable Pension Costs (A-07-17-00511),*
and
- *Companion Data Services, LLC, Overstated Its Medicare Segment Pension Assets (A-07-17-00512).*

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 Medicare contracts require Palmetto, CGS, and CDS to submit invoices in accordance with FAR 52.216-7, "Allowable Cost & Payment." Furthermore, FAR 52.216-7(a)(1) addresses the invoicing requirements and the allowability of payments as determined by the Contracting Officer in accordance with FAR subpart 31.2.

**APPENDIX C: ALLOCABLE PENSION COSTS FOR
BLUE CROSS BLUE SHIELD OF SOUTH CAROLINA, 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	<u>1/</u>	\$30,000,000	\$30,000,000	\$0	\$0	\$0
	Discount for Interest	<u>2/</u>	(\$2,222,222)	(\$2,222,222)	\$0	\$0	\$0
January 1, 2007	Present Value Contributions	<u>3/</u>	\$27,777,778	\$27,777,778	\$0	\$0	\$0
	Prepayment Credit Applied	<u>4/</u>	\$44,260,248	\$32,402,967	\$6,557,001	\$5,300,280	\$0
	Present Value of Funding	<u>5/</u>	\$72,038,026	\$60,180,745	\$6,557,001	\$5,300,280	\$0
January 1, 2007	CAS Funding Target	<u>6/</u>	\$44,260,248	\$32,402,967	\$6,557,001	\$5,300,280	\$0
	Percentage Funded	<u>7/</u>		100.00%	100.00%	100.00%	0.00%
	Funded Pension Cost	<u>8/</u>		\$32,402,967	\$6,557,001	\$5,300,280	\$0
	Allowable Interest	<u>9/</u>		\$0	\$0	\$0	\$0
2007	CY Allocable Pension Cost	<u>10/</u>		\$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%	100.00%	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 Palmetto, TrailBlazer, and CDS Medicare segments during the pension segmentation reviews (A-07-17-00503, A-07-17-00507, A-07-17-00512). 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



BlueCross BlueShield of South Carolina
I-20 East at Alpine Road
Columbia, SC 29219-0001
803.788.0222

SouthCarolinaBlues.com

June 13, 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-07-17-00509

Dear Mr. Cogley:

We are responding to the U.S. Department of Health and Human Services, Office of Inspector General, draft report dated May 16, 2017 and entitled *Blue Cross Blue Shield of South Carolina Overstated Its Allocable Qualified Pension Plan Costs*. The report recommends that BCBS South Carolina decrease the allocable pension costs used to calculate its Medicare segments' indirect cost rates for CYs 2006-2012 by \$6.2 million.

BCBS South Carolina accepts the OIG recommendations. As you are aware, the adjustment referred to above is reflected on a corporate-wide basis, only a portion of which is allocated to our Medicare subsidiaries that contract with CMS.

Please let me know if you have questions or need additional information regarding our response.

Sincerely,

/Louis M. McElveen/

Louis M. McElveen
VP Corporate Finance
BCBS South Carolina