

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**CGS ADMINISTRATORS, LLC, CLAIMED
SOME UNALLOWABLE MEDICARE
SUPPLEMENTAL EXECUTIVE
RETIREMENT PLAN III COSTS THROUGH
ITS INCURRED COST PROPOSALS**

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Amy J. Frontz
Deputy Inspector General
for Audit Services

August 2021
A-07-21-00608

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: August 2021

Report No. A-07-21-00608

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



Why OIG Did This Audit

The Centers for Medicare & Medicaid Services (CMS) reimburses Medicare contractors for a portion of their nonqualified plan costs.

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

Previous OIG audits found that Medicare contractors did not always correctly identify and claim nonqualified plan costs, including Supplemental Executive Retirement Plan (SERP) costs, for Medicare reimbursement.

Our objective was to determine whether the calendar years (CYs) 2015 and 2016 SERP III costs that CGS Administrators, LLC (CGS), claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

How OIG Did This Audit

We reviewed \$59,695 of SERP III costs that CGS claimed for Medicare reimbursement on its ICPs for CYs 2015 and 2016.

CGS Administrators, LLC, Claimed Some Unallowable Medicare Supplemental Executive Retirement Plan III Costs Through Its Incurred Cost Proposals

What OIG Found

CGS claimed SERP III costs of \$59,695 for Medicare reimbursement, through its ICPs, for CYs 2015 and 2016; however, we determined that the allowable SERP III costs during this period were \$52,990. The difference, \$6,705, represented unallowable Medicare SERP III costs that CGS claimed on its ICPs for CYs 2015 and 2016. CGS claimed these unallowable Medicare SERP III costs primarily because it used incorrect indirect cost rates when claiming those costs for Medicare reimbursement. Specifically, CGS used an incorrect allocable SERP III cost when calculating the indirect cost rates.

What OIG Recommends and Auditee Comments

We recommend that CGS work with CMS to ensure that its final settlement of contract costs reflects a decrease in Medicare SERP III costs of \$6,705 for CYs 2015 and 2016.

In its formal written comments, CGS did not directly refer to the monetary amount in our recommendation but did say that it would work with CMS to ensure that its final settlement of contract costs is appropriate. However, information CGS provided to us after issuance of our draft report caused us to increase our recommended SERP III cost adjustment from \$6,613 to \$6,705 (a \$92 change).

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INTRODUCTION

WHY WE DID THIS AUDIT

The Centers for Medicare & Medicaid Services (CMS) reimburses a portion of its contractors' nonqualified plan costs. In claiming nonqualified plan costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation (FAR), the Cost Accounting Standards (CAS), and the Medicare contracts. Previous Office of Inspector General (OIG) audits found that Medicare contractors did not always correctly identify and claim nonqualified plan costs.

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

For this audit, we focused on one Medicare contractor, CGS Administrators, LLC (CGS). In particular, we examined the Supplemental Executive Retirement Plan III (SERP III) costs that CGS claimed for Medicare reimbursement, under the provisions of its MAC contracts and CAS- and FAR-covered contracts, and reported on its ICPs.

OBJECTIVE

Our objective was to determine whether the calendar years (CYs) 2015 and 2016 SERP III costs that CGS claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

BACKGROUND

CGS Administrators, LLC, and Medicare

During our audit period, CGS was a subsidiary of Blue Cross Blue Shield of South Carolina (BCBS South Carolina), whose home office is in Columbia, South Carolina. CGS performed Medicare work upon being awarded the MAC contracts for Medicare Durable Medical Equipment (DME) Jurisdiction C and Medicare Parts A and B Jurisdiction 15 (including home health and hospice

services), effective September 27, 2006, and July 8, 2010, respectively.^{1, 2} CGS continues to perform Medicare work for DME Jurisdiction C (re-awarded August 31, 2012) and Medicare Parts A and B Jurisdiction 15.

During our audit period, CMS and BCBS South Carolina entered into an agreement called the “Advance Agreement on the Computation of Nonqualified Defined-Benefit Pension Plan Costs for Periods Beginning January 1, 2015” (agreement). This agreement allowed BCBS South Carolina to change its accounting methodology from a pay-as-you-go to an accrual method. This agreement also closed costs prior to January 1, 2015. Starting with January 1, 2015, the SERP III plan would, under the terms of the agreement, identify its segments by individual participant. These segments allocate to each of the BCBS South Carolina’s Medicare subsidiaries: Palmetto Government Benefits Administrator, LLC; Companion Data Services, LLC; and CGS. This report addresses CGS’s compliance with the provisions of the Federal requirements and its Medicare contracts in claiming SERP III costs.

The disclosure statement that CGS submits to CMS states that CGS uses pooled cost accounting. Medicare contractors use pooled cost accounting to calculate the indirect cost rates (whose computations include pension plan, PRB plan, SERP III, and Excess Plan costs) that they submit on their ICPs. Medicare contractors use the indirect cost rates to calculate the contract costs that they report on their ICPs. In turn, CMS uses these indirect cost rates in determining the final indirect cost rates for each contract.³

Supplemental Executive Retirement Plan III

BCBS South Carolina sponsors a SERP III plan. The purpose of this deferred compensation plan is to supplement participants’ benefits payable under BCBS South Carolina’s retirement plans. This plan is provided to a limited group of management employees who are responsible for earnings and long-term growth of the company. BCBS South Carolina allocated costs to the CGS Medicare segment.

¹ Medicare DME Jurisdiction C consists of the States of Alabama, Arkansas, Colorado, Florida, Georgia, Louisiana, Mississippi, New Mexico, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia, and the U.S. Territories of Puerto Rico and the U.S. Virgin Islands.

² 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, West Virginia, and Wyoming, and in the District of Columbia.

³ For each CY, each Medicare contractor submits to CMS an ICP that 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.

Accounting Methodologies

The Medicare contracts require CGS to calculate the SERP III costs in accordance with the FAR and CAS 412 and 413. The FAR and the CAS require that the costs for nonqualified plans be measured under either the accrual method or the pay-as-you-go method. Under the accrual method, the allowable costs are based on the annual contributions that the employer deposits into its trust fund. For nonqualified plans that are not funded through the use of a funding agency, costs are to be accounted for under the pay-as-you-go method. This method is based on the actual benefits paid to participants, which are comprised of lump-sum payments and annuity payments. CGS claimed SERP III costs on an accrual basis.

Incurred Cost Proposal Audits

At CMS's request, CliftonLarsonAllen, LLP (Allen), performed audits of the ICPs that CGS submitted for CYs 2015 and 2016. The objectives of these ICP audits were to determine whether costs were allowable in accordance with the FAR, the CAS, and the Department of Health and Human Services Acquisition Regulation System.

For our current audit, we relied on the Allen ICP audit findings and recommendations when computing the allowable SERP III costs discussed in this report.

We incorporated the results of the Allen ICP audits into our computations of the audited indirect cost rates, and ultimately the SERP III costs claimed, for the contracts subject to the FAR. CMS will use our report on allowable SERP III costs, as well as the Allen ICP audit reports, to determine the final indirect cost rates and the total allowable contract costs for CGS for CYs 2015 and 2016. The cognizant Contracting Officer will perform a final settlement with the contractor to determine the final indirect cost rates. These rates ultimately determine the final costs of each contract.⁴

HOW WE CONDUCTED THIS AUDIT

We reviewed \$59,695 of SERP III costs claimed by CGS for Medicare reimbursement on its ICPs for CYs 2015 and 2016.

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.

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

Appendix A contains details of our audit scope and methodology.

FINDING

CGS claimed SERP III costs of \$59,695 for Medicare reimbursement, through its ICPs, for CYs 2015 and 2016; however, we determined that the allowable SERP III costs during this period were \$52,990.⁵ The difference, \$6,705, represented unallowable Medicare SERP III costs that CGS claimed on its ICPs for CYs 2015 and 2016. CGS claimed these unallowable Medicare SERP III costs primarily because it used incorrect indirect cost rates when claiming those costs for Medicare reimbursement. Specifically, CGS used an incorrect allocable SERP III cost when calculating the indirect cost rates.

ALLOCABLE MEDICARE SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN III COSTS UNDERSTATED

During this audit, we calculated the allocable SERP III Medicare costs for CYs 2015 and 2016 in accordance with Federal requirements. We determined that the allocable SERP III Medicare costs for CYs 2015 and 2016 totaled \$558,826. CGS reported that its allocable SERP III Medicare costs, as identified in its actuarial calculations, totaled \$557,048. Therefore, CGS understated the allocable SERP III Medicare costs by \$1,778. This understatement occurred because of differences in the assignable pension costs. More specifically, the differences in the calculation of the amortization caused the differences in the assignable pension costs.

Table 1 below shows the differences between the allocable SERP III Medicare costs that we determined for CYs 2015 and 2016 and the allocable SERP III Medicare costs that CGS calculated for the same time period.

Table 1: Allocable SERP III Medicare Costs

CY	Allocable Per Audit	Per CGS	Difference
2015	\$286,687	\$286,687	\$0
2016	272,139	270,361	1,778
Total	\$558,826	\$557,048	\$1,778

CALCULATION OF ALLOWABLE SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN III COSTS CLAIMED

We used the SERP III Medicare Allowable allocable costs (Appendix C) to adjust the indirect cost rate (i.e., the general and administrative rate) to determine the allowable SERP III costs for Medicare reimbursement for CYs 2015 and 2016.

⁵ These claimed and allowable SERP III costs were associated with the cost reimbursement and variable time and material portions of the contracts.

CGS claimed Medicare SERP III costs of \$59,695 on its ICPs for CYs 2015 and 2016. After incorporating the results of the Allen ICP audits and our adjustments to the indirect cost rates, we determined that the allowable Medicare SERP III costs for CYs 2015 and 2016 were \$52,990. Thus, CGS claimed \$6,705 of unallowable Medicare SERP III costs on its ICPs for CYs 2015 and 2016. This overclaim occurred primarily because CGS based its claim for Medicare reimbursement on incorrect allocable SERP III Medicare costs.

We calculated the Medicare SERP III costs based on separately computed CAS-based costs in accordance with CAS 412 and 413. For details on the Federal requirements, see Appendix B.

Table 2 below compares the Medicare SERP III costs that we calculated (using our adjusted indirect cost rates) to the SERP III costs that CGS claimed for Medicare reimbursement for CYs 2015 and 2016.

Table 2: Comparison of Allowable SERP III Costs and Claimed SERP III Costs⁶

CY	Allowable Per Audit	Per CGS	Difference
2015	\$21,794	\$15,591	\$6,203
2016	31,196	44,104	(12,908)
Total	\$52,990	\$59,695	(\$6,705)

RECOMMENDATION

We recommend that CGS Administrators, LLC, work with CMS to ensure that its final settlement of contract costs reflects a decrease in Medicare SERP III costs of \$6,705 for CYs 2015 and 2016.

AUDITEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, CGS did not directly refer to the monetary amount in our recommendation but did say that it would work with CMS to ensure that its final settlement of contract costs is appropriate. CGS's comments appear in their entirety as Appendix D.⁷

After issuance of our draft report, we engaged in discussions with CGS that caused us to revise the monetary aspect of our finding and recommendation. This revision resulted in an increase of \$92 in the calculation of the SERP III costs, of which we made CGS aware on May 19, 2021. CGS based its comments on our draft report on that revised dollar amount. Therefore, we continue to recommend that CGS work with CMS to ensure that its final settlement of

⁶ Our calculation of allowable costs does not appear in this report because those indirect cost rate computations that CGS used in its ICPs, and to which referred as part of our audit, are proprietary information.

⁷ Although BCBS South Carolina, of which CGS is a subsidiary, provided written comments on this draft report, for consistency we associate these comments with CGS.

contract costs reflects a decrease in Medicare SERP III costs of \$6,705 ($\$6,613 + \92) for CYs 2015 and 2016.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$59,695 of SERP III costs claimed by CGS for Medicare reimbursement on its ICPs for CYs 2015 and 2016.

Achieving our objective did not require that we review CGS's overall internal control structure. We reviewed the internal controls related to the SERP III costs that were included in CGS's ICPs and ultimately used as the basis for Medicare reimbursement, to ensure that those costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

We performed fieldwork at BCBS South Carolina located 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 CGS to identify the amounts of SERP III costs used in CGS's calculation of indirect cost rates for CYs 2015 and 2016;
- used information that CGS's actuarial consulting firm provided, including information on the SERP III plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses;
- examined CGS's accounting records, SERP III plan documents, and annual actuarial valuation reports;
- determined the extent to which CGS funded CAS-based SERP III costs with contributions to the trust and accumulated prepayment credits;
- reviewed the results of the Allen ICP audits and incorporated those results into our calculations of allowable SERP III costs;
- engaged the CMS Office of the Actuary, which provides technical actuarial advice, to calculate the allocable SERP III Medicare 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 and verified the CMS actuaries' methodology and calculations and used this information to calculate the SERP III costs for the CGS Medicare segment for CYs 2015 and 2016; and
- provided the results of our audit to CGS officials on March 25, 2021.

We performed this audit in conjunction with the following audits and used the information obtained during those audits:

- *CGS Administrators, LLC, Claimed Some Unallowable Medicare Pension Costs Through Its Incurred Cost Proposals (A-07-20-00593);*
- *CGS Administrators, LLC, Claimed Some Unallowable Medicare Excess Plan Costs Through Its Incurred Cost Proposals (A-07-21-00612); and*
- *CGS Administrators, LLC, Claimed Some Unallowable Medicare Postretirement Benefit Costs Through Its Incurred Cost Proposals (A-07-21-00613).*

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

APPENDIX B: FEDERAL REQUIREMENTS RELATED TO REIMBURSEMENT OF SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN COSTS

FEDERAL REGULATIONS

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.

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 (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 SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN III
COSTS FOR CGS ADMINISTRATORS, LLC,
FOR CALENDAR YEARS 2015 AND 2016**

Date	Description		Total Company	"Other" Segment	Medicare Allowable Segment
2015	Contributions	<u>1/</u>	\$7,264,000	\$7,264,000	\$0
	Discount for Interest	<u>2/</u>	(\$339,315)	(\$339,315)	\$0
January 1, 2015	Present Value Contributions	<u>3/</u>	\$6,924,685	\$6,924,685	\$0
	Prepayment Credit Applied	<u>4/</u>	\$938,380	\$651,693	\$286,687
	Present Value of Funding	<u>5/</u>	\$7,863,065	\$7,576,378	\$286,687
January 1, 2015	CAS Funding Target	<u>6/</u>	\$938,380	\$651,693	\$286,687
	Percentage Funded	<u>7/</u>		100.00%	100.00%
	Funded Pension Cost	<u>8/</u>		\$651,693	\$286,687
	Allowable Interest	<u>9/</u>		\$0	\$0
2015	Allocable Pension Cost	<u>10/</u>		\$651,693	\$286,687

Date	Description		Total Company	"Other" Segment	Medicare Allowable Segment
2016	Contributions		\$6,336,017	\$5,826,443	\$509,574
	Discount for Interest		(\$294)	(\$270)	(\$24)
January 1, 2016	Present Value Contributions		\$6,335,723	\$5,826,173	\$509,550
	Prepayment Credit Applied		\$911,927	\$639,788	\$272,139
	Present Value of Funding		\$7,247,650	\$6,465,961	\$781,689
January 1, 2016	CAS Funding Target		\$911,927	\$639,788	\$272,139
	Percentage Funded			100.00%	100.00%
	Funded Pension Cost			\$639,788	\$272,139
	Allowable Interest			\$0	\$0
2016	Allocable Pension Cost			\$639,788	\$272,139

ENDNOTES

- 1/ We obtained these Total Company contribution amounts from actuarial valuation reports. These contributions include deposits made during the CY. We determined the contributions allocated to the Medicare Allowable segment during the SERP III segmentation review (A-07-20-00600). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare Allowable segment.
- 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.
- 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.



July 16, 2021

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A-07-21-00611

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A-07-21-00613

A-07-21-00614

A-07-21-00615

A-07-21-00616

Dear Mr. Cogley:

We are in receipt of the draft reports referenced above.

As recommended in each report, we will work with CMS to ensure costs are appropriate upon final settlement of the Incurred Cost Proposal reports.

Sincerely,

/Lori Hair/

Lori Hair
Vice President, Controller and Assistant Treasurer
Blue Cross and Blue Shield of South Carolina

Cc: Bruce Hughes, Celerian Group
Michael Mizeur, Chief Financial Officer