

## 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.