Department of Health and Human Services

OFFICE OF
INSPECTOR GENERAL

CGS ADMINISTRATORS, LLC, CLAIMED SOME UNALLOWABLE MEDICARE POSTRETIREMENT BENEFIT COSTS THROUGH ITS INCURRED COST PROPOSALS

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Office of Inspector General

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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.

Why OIG Did This Audit

The Centers for Medicare & Medicaid Services (CMS) reimburses Medicare contractors for a portion of their postretirement benefit (PRB) costs, which are funded by the contributions that these contractors make to their dedicated trust funds.

The HHS, OIG, Office of Audit Services, Region VII pension audit team reviews the cost elements related to qualified defined-benefit, PRB, 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 comply with Federal requirements when claiming PRB costs for Medicare reimbursement.

Our objective was to determine whether the calendar years (CYs) 2012 through 2016 PRB 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 $3.8 million of PRB costs that CGS claimed for Medicare reimbursement on its ICPs for CYs 2012 through 2016.

CGS Administrators, LLC, Claimed Some Unallowable Medicare Postretirement Benefit Costs Through Its Incurred Cost Proposals

What OIG Found

CGS claimed PRB costs of $3.8 million for Medicare reimbursement, through its ICPs, for CYs 2012 through 2016; however, we determined that the allowable PRB costs during this period were $1.6 million. The difference, $2.2 million, represented unallowable Medicare PRB costs that CGS claimed on its ICPs for CYs 2012 through 2016. CGS claimed these unallowable Medicare PRB costs primarily because it used incorrect indirect cost rates when claiming PRB costs for Medicare reimbursement. Specifically, CGS used an incorrect allocable PRB 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 PRB costs of $2.2 million for CYs 2012 through 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 decrease our recommended PRB cost adjustment from $2,523,206 to $2,239,967 (a $283,239 change).

The full report can be found at https://oig.hhs.gov/oas/reports/region7/72100613.asp.

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INTRODUCTION

WHY WE DID THIS AUDIT

Medicare contractors are eligible to be reimbursed a portion of their postretirement benefit (PRB) costs, which are funded by the contributions that these contractors make to their dedicated trust funds. The amount of PRB 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) as required by the Medicare contracts. Previous Office of Inspector General (OIG) audits found that Medicare contractors did not always comply with Federal requirements when claiming PRB costs for Medicare reimbursement.

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, PRB, 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, Incurred Cost Proposals (ICPs), or both.

For this audit, we focused on one Medicare contractor, CGS Administrators, LLC (CGS). In particular, we examined the Medicare PRB costs that CGS claimed for Medicare reimbursement and reported on its ICPs.

OBJECTIVE

Our objective was to determine whether the calendar years (CYs) 2012 through 2016 PRB 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.

BCBS South Carolina sponsors a PRB plan, called the BCBS South Carolina Postretirement Health and Life Insurance Programs, which is offered to CGS employees. The purpose of this PRB plan is to provide retiree health and life insurance benefits to eligible retirees and their dependents. CGS claimed PRB costs using the accrual basis of accounting and funded those accrual costs through a Voluntary Employee Benefit Association (VEBA) trust in conjunction with a 401(h) account.[3]

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 and PRB 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.[4]

Medicare Reimbursement of Postretirement Benefit Costs

CMS reimburses a portion of the Medicare contractors' annual PRB costs, which are funded by contributions that contractors make to their dedicated trust funds. The PRB costs are included in the computation of the indirect cost rates and reported on the ICPs. In turn, CMS uses indirect cost rates in reimbursing costs under cost-reimbursement contracts.

Federal regulations (FAR 31.205-6(o)) require that to be allowable for Medicare reimbursement, PRB costs must be (1) measured, assigned, and allocated in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 715-60 (formerly Statement of Financial Accounting Standards (SFAS) 106) and (2) funded as specified

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[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] A 401(h) account funds retiree health benefits, such as medical expenses for retired employees, their spouses, and their dependents under the provisions of Internal Revenue Code Section 401(h).

[4] 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.

by part 31 of the FAR. In claiming costs, contractors must follow cost reimbursement principles contained in the FAR and the Medicare contracts.

Incurred Cost Proposal Audits

At CMS's request, WatkinsMeegan, LLC (Meegan), Kearney & Company, P.C. (Kearney), Mayer Hoffman McCann P.C. (McCann), and CliftonLarsonAllen, LLP (Allen), performed audits of the ICPs that CGS submitted for CYs 2012 through 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 Meegan, Kearney, McCann, and Allen ICP audit findings and recommendations when computing the allowable PRB costs discussed in this report.

We incorporated the results of the Meegan, Kearney, McCann, and Allen ICP audits into our computations of the audited indirect cost rates, and ultimately the PRB costs claimed, for the contracts subject to the FAR. CMS will use our report on allowable PRB costs, as well as the Meegan, Kearney, McCann, and Allen ICP audit reports, to determine the final indirect cost rates and the total allowable contract costs for CGS for CYs 2012 through 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.[5]

HOW WE CONDUCTED THIS AUDIT

We reviewed $3,848,288 of PRB costs that CGS claimed for Medicare reimbursement on its ICPs for CYs 2012 through 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.

Appendix A contains details of our audit scope and methodology.

FINDING

CGS claimed PRB costs of $3,848,288 for Medicare reimbursement, through its ICPs, for CYs 2012 through 2016; however, we determined that the allowable PRB costs during this period

[5] 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.

were $1,608,321.[6] The difference, $2,239,967, represented unallowable Medicare PRB costs that CGS claimed on its ICPs for CYs 2012 through 2016. CGS claimed these unallowable Medicare PRB costs primarily because it used incorrect indirect cost rates when claiming PRB costs for Medicare reimbursement. Specifically, CGS used an incorrect allocable PRB cost when calculating the indirect cost rates.

ALLOCABLE POSTRETIREMENT BENEFIT COSTS OVERSTATED

During the current audit, we calculated the allocable PRB costs for CYs 2012 through 2016 in accordance with Federal requirements. We determined that the allocable PRB costs for CYs 2012 through 2016 totaled $16,037,019. CGS reported that its allocable PRB costs, as identified in its actuarial computations, totaled $35,576,694. Therefore, CGS overstated the allocable PRB costs by $19,539,675. This overstatement occurred because CGS based its claims for Medicare reimbursement on incorrectly calculated PRB costs. More specifically, CGS did not measure, assign, and allocate its claims in accordance with SFAS 106 as required by the FAR.

Table 1 below shows the differences between the allocable PRB costs that we determined for CYs 2012 through 2016 and the allocable PRB costs that CGS calculated for the same period.

Table 1: Allocable Postretirement Benefit Costs

CY	Allocable Per Audit	Per CGS	Difference
2012	$2,726,968	$4,200,085	($1,473,117)
2013	3,749,102	6,932,751	(3,183,649)
2014	3,100,255	5,865,034	(2,764,779)
2015	3,389,142	6,440,742	(3,051,600)
2016	3,071,552	12,138,082	(9,066,530)
Total	**$16,037,019**	**$35,576,694**	**($19,539,675)**

CALCULATION OF ALLOWABLE POSTRETIREMENT BENEFIT COSTS

We used the Total Company (Appendix C) allocable PRB costs to adjust the indirect cost rates (i.e., the fringe benefit and general and administrative rates) to determine the allowable PRB costs for Medicare reimbursement for CYs 2012 through 2016.

CGS claimed Medicare PRB costs of $3,848,288 on its ICPs for CYs 2012 through 2016. After incorporating the results of the Meegan, Kearney, McCann, and Allen ICP audits and our adjustments to the indirect cost rates, we determined that the allowable PRB costs for CYs 2012 through 2016 were $1,608,321. Thus, CGS claimed $2,239,967 of unallowable Medicare PRB costs on its ICPs for CYs 2012 through 2016. This overclaim occurred specifically because CGS

[6] These claimed and allowable PRB costs were associated with the cost reimbursement and variable time and material portions of the contract.

based its claim for Medicare reimbursement on incorrect PRB costs included in the indirect cost rates on the ICPs.

We calculated the allowable Medicare PRB costs in accordance with the FAR. For details on the Federal requirements, see Appendix B.

Table 2 below compares the Medicare PRB costs that we calculated (using our adjusted indirect cost rates) to the PRB costs that CGS claimed for Medicare reimbursement for CYs 2012 through 2016.

Table 2: Comparison of Allowable Postretirement Benefit Costs and Claimed Postretirement Benefit Costs[7]

CY	Allowable Per Audit	Per CGS	Difference
2012	$210,855	$380,555	($169,700)
2013	381,550	729,647	(348,097)
2014	333,015	648,453	(315,438)
2015	346,306	676,631	(330,325)
2016	336,595	1,413,002	(1,076,407)
Total	**$1,608,321**	**$3,848,288**	**($2,239,967)**

RECOMMENDATION

We recommend that CGS Administrators, LLC, work with CMS to ensure that its final settlement of contract costs reflects a decrease in Medicare PRB costs of $2,239,967 for CYs 2012 through 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.[8]

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 a decrease of $283,239 in the calculation of the PRB 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,

[7] 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 we referred as part of our audit, are proprietary information.

[8] 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.

we continue to recommend that CGS work with CMS to ensure that its final settlement of contract costs reflects a decrease in Medicare PRB costs of $2,239,967 ($2,523,206 - $283,239) for CYs 2012 through 2016.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed $3,848,288 of Medicare PRB costs that CGS claimed for Medicare reimbursement on its ICPs for CYs 2012 through 2016.

Achieving our objective did not require that we review CGS's overall internal control structures. We reviewed the internal controls related to the PRB costs that were included in CGS's ICPs and ultimately used as the basis for Medicare reimbursement, to ensure that these 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 and Medicare contracts applicable to this audit;

- reviewed information provided by CGS to identify the amounts of PRB costs used in CGS's calculation of indirect cost rates for CYs 2012 through 2016;

- used information that BCBS South Carolina's actuarial consulting firm provided, including information on VEBA assets, PRB obligations, service costs, contributions, claims paid, claims reimbursed, investment earnings, and administrative expenses;

- examined BCBS South Carolina's PRB plan documents and annual actuarial valuation reports, which included SFAS 106 information;

- determined the extent to which BCBS South Carolina funded PRB costs with contributions to the VEBA trust, accumulated prepayment credits, and direct payments;

- reviewed the results of the Meegan, Kearney, McCann, and Allen ICP audits and incorporated those results into our calculations of allowable PRB costs;

- engaged the CMS Office of the Actuary, which provides technical actuarial advice, to calculate the PRB costs based on the SFAS 106 methodology applied in accordance with FAR 31.205-6(o);

- reviewed and verified the CMS actuaries' methodology and calculations and used this information to calculate the PRB costs for CGS for CYs 2012 through 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 Supplemental Executive Retirement Plan III Costs Through Its Incurred Cost Proposals* (A-07-21-00608); and

- *CGS Administrators, LLC, Claimed Some Unallowable Medicare Excess Plan Costs Through Its Incurred Cost Proposals* (A-07-21-00612).

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 POSTRETIREMENT BENEFIT COSTS

FEDERAL REGULATIONS

Federal regulations (FAR 31.205-6(o)) require that PRB accrual costs be determined in accordance with SFAS 106 and funded into a dedicated trust fund, such as a VEBA trust. The FAR states that accrual accounting may be used to determine the allowable PRB costs if the cost is measured and assigned (actuarially determined) according to generally accepted accounting principles based on amortization of any transition obligation. Costs attributable to past service (transition obligation) must be assigned under the delayed recognition methodology described in paragraphs 112 and 113 of SFAS 106. The FAR also states that allowable costs must be funded by the time set for filing the Federal income tax return or any extension thereof, and must comply with the applicable standards promulgated by the Actuarial Standards Board.

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.

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 POSTRETIREMENT BENEFIT COSTS FOR CGS ADMINISTRATORS, LLC, FOR CALENDAR YEARS 2012 THROUGH 2016

Date	Description		Total Company	Other Segment	Medicare Segment
2012	Contributions	1/	$4,050,362	$4,050,362	$0
	Discount for Interest	2/	($202,037)	($202,037)	$0
January 1, 2012	Present Value Contributions	3/	$3,848,325	$3,848,325	$0
	Prepayment Credit Applied	4/	$0	$0	$0
	Present Value of Funding	5/	$3,848,325	$3,848,325	$0
January 1, 2012	CAS Funding Target	6/	$4,950,606	$4,950,606	$0
	Percentage Funded	7/		77.73%	0.00%
	Funded PRB Cost	8/		$3,848,106	$0
	Unallowable Interest	9/		($1,218,911)	$0
	Allowable Interest	10/		$97,773	$0
	CY Allocable PRB Cost	11/		$2,726,968	$0

Date	Description		Total Company	Other Segment	Medicare Segment
2013	Contributions		$6,574,021	$6,574,021	$0
	Discount for Interest		($327,920)	($327,920)	$0
January 1, 2013	Present Value Contributions		$6,246,101	$6,246,101	$0
	Prepayment Credit Applied		$0	$0	$0
	Present Value of Funding		$6,246,101	$6,246,101	$0
January 1, 2013	CAS Funding Target		$4,891,462	$4,891,462	$0
	Percentage Funded			100.00%	0.00%
	Funded PRB Cost			$4,891,462	$0
	Unallowable Interest			($1,276,781)	$0
	Allowable Interest			$134,421	$0
	CY Allocable PRB Cost			$3,749,102	$0

Date	Description		Total Company	Other Segment	Medicare Segment
2014	Contributions		$6,098,906	$6,098,906	$0
	Discount for Interest		($304,221)	($304,221)	$0
January 1, 2014	Present Value Contributions		$5,794,685	$5,794,685	$0
	Prepayment Credit Applied		$0	$0	$0
	Present Value of Funding		$5,794,685	$5,794,685	$0
January 1, 2014	CAS Funding Target		$4,194,761	$4,194,761	$0
	Percentage Funded			100.00%	0.00%
	Funded PRB Cost			$4,194,761	$0
	Unallowable Interest			($1,205,663)	$0
	Allowable Interest			$111,157	$0
	CY Allocable PRB Cost			$3,100,255	$0

Date	Description		Total Company	Other Segment	Medicare Segment
2015	Contributions		$6,137,881	$6,137,881	$0
	Discount for Interest		($278,329)	($278,329)	$0
January 1, 2015	Present Value Contributions		$5,859,552	$5,859,552	$0
	Prepayment Credit Applied		$0	$0	$0
	Present Value of Funding		$5,859,552	$5,859,552	$0
January 1, 2015	CAS Funding Target		$4,298,509	$4,298,509	$0
	Percentage Funded			100.00%	0.00%
	Funded PRB Cost			$4,298,509	$0
	Unallowable Interest			($1,019,686)	$0
	Allowable Interest			$110,319	$0
	CY Allocable PRB Cost			$3,389,142	$0

Date	Description		Total Company	Other Segment	Medicare Segment
2016	Contributions		$4,103,277	$4,103,277	$0
	Discount for Interest		($186,067)	($186,067)	$0
January 1, 2016	Present Value Contributions		$3,917,210	$3,917,210	$0
	Prepayment Credit Applied		$0	$0	$0
	Present Value of Funding		$3,917,210	$3,917,210	$0
January 1, 2016	CAS Funding Target		$4,099,107	$4,099,107	$0
	Percentage Funded			95.56%	0.00%
	Funded PRB Cost			$3,917,107	$0
	Unallowable Interest			($945,536)	$0
	Allowable Interest			$99,981	$0
	CY Allocable PRB Cost			$3,071,552	$0

ENDNOTES

1/ We obtained the contributions from BCBS South Carolina's trust statements. The contributions included deposits made during the plan year (PY) and the discounted value of accrued contributions, if any, deposited after the end of the PY but within the time allowed for filing tax returns.

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 and actual contribution amounts. Interest is determined using the expected long-term rate of return assumption as reported in the PRB actuarial valuation report.

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 funding target. A prepayment credit is carried forward, with interest, to fund future PRB costs.

5/ The present value of funding represents the present value of contributions plus prepayment credits plus direct benefit payments. This is the amount of funding that is available to cover the funding target measured at the first day of the CY.

6/ The CAS funding target is based on the assignable PRB costs computed during our review. The CAS funding target must be funded by accumulated prepayment credits or current-year contributions or direct benefit payments to satisfy the funding requirements contained in the FAR.

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, 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 costs funded has been rounded to four decimal places.

8/ We computed the funded PRB cost as the CAS funding target multiplied by the percent funded.

9/ Unallowable interest represents the interest cost attributable to the unallowable unfunded costs that are included in the current-period PRB cost, discounted to the beginning of the year at the long-term interest rate.

10/ We assumed that interest on the funded PRB 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(o)(4), which provides that interest costs are unallowable if caused by a delay in funding beyond 30 days after the end of each quarter to which they are assignable.

11/ The CY allocable PRB cost is the amount of PRB cost that may be allocated for contract cost purposes.