Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

CGS ADMINISTRATORS, LLC'S POSTRETIREMENT BENEFIT COSTS FOR FISCAL YEAR 2011 WERE REASONABLE AND ALLOWABLE

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Office of Inspector General

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EXECUTIVE SUMMARY

Postretirement benefit costs that CGS Administrators, LLC, claimed for Medicare reimbursement for fiscal year 2011 were reasonable and allowable.

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their postretirement benefit (PRB) costs, which are funded by direct payments to beneficiaries or contributions to a dedicated trust fund. 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 reviews found that Medicare contractors have not always complied with Federal requirements when claiming PRB costs for Medicare reimbursement.

At CMS's request, the Office of Inspector General, 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 (FACPs) and/or Incurred Cost Proposals.

For this review, we focused on one MAC, CGS Administrators, LLC (CGS). In particular, we examined the Medicare segment allowable PRB costs (referred to in this report as "PRB costs") that CGS claimed for Medicare reimbursement on its FACP for fiscal year (FY) 2011.

The objective of this review was to determine whether the FY 2011 PRB costs that CGS claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACP, were reasonable and allowable and pursuant to Federal requirements.

BACKGROUND

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. BCBS South Carolina acquired CGS effective June 1, 2011 (and for that reason, we limited our review to PRB costs claimed for the period June 1 through September 30, 2011). CGS administered Medicare Part B carrier operations under cost reimbursement contracts with CMS. With the implementation of Medicare contracting reform, CGS continued to perform Medicare work after being awarded the MAC contracts for Medicare Parts A and B Jurisdiction 15 (including home health and hospice services), effective July 8, 2010.

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.

This report addresses the PRB costs claimed by CGS under the provisions of its fiscal intermediary and carrier contracts. We are addressing the PRB costs claimed by CGS under the provisions of its MAC contracts in a separate review.

We reviewed $3,541 of Medicare Part A and Part B PRB costs that CGS claimed for Medicare reimbursement under the provisions of its fiscal intermediary and carrier contracts, and reported on its FACP, for FY 2011.

RESULTS OF REVIEW

The PRB costs that CGS claimed for Medicare reimbursement for FY 2011 were allowable and reasonable. Federal regulations (FAR 31.205-6(o)) require that, to be allowable for Medicare reimbursement, PRB accrual costs be (1) determined in accordance with Statement of Financial Accounting Standards 106 and (2) funded by payments to an insurer or into a dedicated trust fund, such as a VEBA trust. After reviewing CGS's methodology for claiming PRB costs, we determined that the PRB costs for FY 2011 materially complied with Federal requirements. This report therefore makes no recommendations.

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INTRODUCTION

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their postretirement benefit (PRB) costs, which are funded by direct payments to beneficiaries or contributions to a dedicated trust fund. 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 reviews found that Medicare contractors have not always complied with Federal requirements when claiming PRB costs for Medicare reimbursement.

At CMS's request, the Office of Inspector General, 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 (FACPs) and/or Incurred Cost Proposals.

For this review, we focused on one MAC, CGS Administrators, LLC (CGS). In particular, we examined the Medicare segment allowable PRB costs (referred to in this report as "PRB costs") that CGS claimed for Medicare reimbursement on its FACP for fiscal year (FY) 2011.

OBJECTIVE

Our objective was to determine whether the FY 2011 PRB costs that CGS claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACP, were reasonable and allowable pursuant to Federal requirements.[1]

BACKGROUND

CGS Administrators, LLC

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. BCBS South Carolina acquired CGS effective June 1, 2011 (and for that reason, we limited our review to PRB costs claimed for the period June 1 through September 30, 2011). CGS administered Medicare Part B carrier operations under cost reimbursement contracts with CMS. With the implementation of Medicare contracting reform,[2] CGS continued to perform Medicare work

[1] In light of CGS's acquisition by another entity (discussed below), we limited our review of the FY 2011 PRB costs to the period June 1 through September 30, 2011.

[2] Section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P.L. No. 108-173, required CMS to transfer the functions of fiscal intermediaries and carriers to MACs between October 2005 and October 2011. Most, but not all, of the MACs are fully operational; for jurisdictions where the MACs are not fully operational, the fiscal intermediaries and carriers continue to process claims.

after being awarded the MAC contracts for Medicare Parts A and B Jurisdiction 15 (including home health and hospice services), effective July 8, 2010.[3]

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.

This report addresses the PRB costs claimed by CGS under the provisions of its fiscal intermediary and carrier contracts. We are addressing the PRB costs claimed by CGS under the provisions of its MAC contracts in a separate review.

Medicare Reimbursement of Postretirement Benefit Costs

CMS reimburses a portion of the funded accruals that contractors charge for their PRB plans. FAR 31.205-6(o) requires that, to be allowable for Medicare reimbursement, PRB accrual costs be (1) determined in accordance with Statement of Financial Accounting Standards (SFAS) 106 and (2) funded by payments to an insurer or into a dedicated trust fund, such as a VEBA trust.

HOW WE CONDUCTED THIS REVIEW

We reviewed $3,541 of Medicare Part A and Part B PRB costs that CGS claimed (for the period June 1 through September 30, 2011) for Medicare reimbursement under the provisions of its fiscal intermediary and carrier contracts, and reported on its FACP, for FY 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 findings and conclusions based on our audit objectives.

The Appendix contains details of our audit scope and methodology.

RESULTS OF REVIEW

The PRB costs that CGS claimed for Medicare reimbursement for FY 2011 were allowable and reasonable. Federal regulations (FAR 31.205-6(o)) require that, to be allowable for Medicare reimbursement, PRB accrual costs be (1) determined in accordance with SFAS 106 and (2) funded by payments to an insurer or into a dedicated trust fund, such as a VEBA trust. After reviewing CGS's methodology for claiming PRB costs, we determined that the PRB costs for FY

[3] 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.

2011 materially complied with Federal requirements. This report therefore makes no recommendations.

APPENDIX: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed $3,541 of Medicare Part A and Part B PRB costs that CGS claimed (for the period June 1 through September 30, 2011) for Medicare reimbursement under the provisions of its fiscal intermediary and carrier contracts, and reported on its FACP, for FY 2011.

Achieving our objective did not require that we review CGS's overall internal control structure. We reviewed the internal controls related to the PRB costs claimed for Medicare reimbursement to ensure that those costs were allocable in accordance with the Cost Accounting Standards (CAS) and allowable in accordance with the FAR.

We performed our audit work at CGS's office in Nashville, Tennessee, and at BCBS South Carolina's office in Columbia, South Carolina.

METHODOLOGY

To accomplish our objective, we:

- reviewed the provisions of the FAR, CAS, and Medicare contracts applicable to this audit;
- used information that BCBS South Carolina's actuarial consulting firms provided, including information on VEBA assets, PRB obligations, service costs, contributions, claims paid, claims reimbursed, investment earnings, and administrative expenses;
- reviewed accounting records and information provided by CGS to identify the amount of PRB costs claimed for Medicare reimbursement for FY 2011;
- examined BCBS South Carolina's and CGS's accounting records, PRB plan documents, and annual actuarial valuation reports;
- determined the extent to which BCBS South Carolina funded PRB costs with contributions to the VEBA trust fund, accumulated prepayment credits, and direct benefit payments;
- engaged the CMS Office of the Actuary to calculate the PRB costs on the basis of 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 the Medicare segment during FY 2011; and
- provided the results of our review to CGS officials on June 13, 2016.

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

- *Palmetto Government Benefits Administrator, LLC, Claimed Some Unallowable Medicare Postretirement Benefit Costs for Fiscal Years 2005 Through 2011* (A-07-16-00483) and

- *Blue Cross Blue Shield of South Carolina Overstated Its Allocable Medicare Postretirement Benefit Costs for Calendar Years 2006 Through 2011* (A-07-16-00485).

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 findings and conclusions based on our audit objectives.