

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**CGS ADMINISTRATORS, LLC,
DID NOT CLAIM SOME
ALLOWABLE PENSION COSTS
THROUGH ITS
INCURRED COST PROPOSALS**

*Inquiries about this report may be addressed to the Office of Public Affairs at
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Gloria L. Jarmon
Deputy Inspector General
for Audit Services

January 2018
A-07-17-00513

Office of Inspector General

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the findings and opinions of OAS. Authorized officials of the HHS
operating divisions will make final determination on these matters.

Report in Brief

Date: January 2018

Report No. A-07-17-00513

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, postretirement benefit, and any other pension-related cost elements claimed by Medicare contractors through Incurred Cost Proposals (ICPs).

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

Our objective was to determine whether the June 1 through December 31, 2011 (hereafter referred to as calendar year (CY) 2011), pension costs that CGS Administrators, LLC (CGS), claimed for Medicare reimbursement, and reported on its ICP, were allowable and correctly claimed.

How OIG Did This Review

We reviewed \$71,287 of Medicare pension costs that CGS claimed for Medicare reimbursement on its CY 2011 ICP.

CGS Administrators, LLC, Did Not Claim Some Allowable Pension Costs Through Its Incurred Cost Proposals

What OIG Found

CGS claimed pension costs of \$71,287 for Medicare reimbursement, through its ICP, for CY 2011. However, we determined that the allowable pension costs during this period were \$83,762. The difference, \$12,475, represented allowable Medicare pension costs that CGS did not claim on its ICP for CY 2011. CGS did not claim these allowable Medicare pension costs primarily because it (1) did not allocate the correct pension costs to CGS and (2) used incorrect indirect cost rates when claiming pension costs for Medicare reimbursement.

What OIG Recommends and Auditee Comments

We recommend that CGS work with CMS to ensure that its final settlement of contract costs reflects an increase in Medicare pension costs of \$12,475 for CY 2011.

CGS accepted our recommendation and said that it assumed that the repayment would be negotiated and settled with CMS. CGS added that it would make the necessary adjustments to the ICP.

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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), the Cost Accounting Standards (CAS), where applicable, and the Medicare contracts. Previous Office of Inspector General (OIG) reviews found that Medicare contractors have not always complied 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 (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 and/or Incurred Cost Proposals (ICPs).

For this review, we focused on one Medicare contractor, CGS Administrators, LLC (CGS). In particular, we examined the CGS pension costs that CGS claimed for Medicare reimbursement and reported on its ICPs.¹

OBJECTIVE

Our objective of this review was to determine whether the calendar year (CY) 2011 pension costs that CGS claimed for Medicare reimbursement, and reported on its ICP, were allowable and correctly claimed.²

¹ CGS did not participate in the qualified defined-benefit plan; however, CGS received home office allocations (allocated from the Other segment) from Blue Cross Blue Shield of South Carolina's (BCBS South Carolina) participation in the qualified defined-benefit pension plan. During our audit period, CGS (formerly CIGNA Government Services, LLC (CIGNA)) was a subsidiary of BCBS South Carolina.

² Although the CGS Medicare segment was sold to BCBS South Carolina on June 1, 2011, CGS filed one ICP for CY 2011 that covered both CIGNA's and CGS's claimed costs for that year. We previously identified the allowable MAC pension costs and PRB costs for the period of January 1 through June 1, 2011 (A-07-16-00490 and A-07-17-00498, both issued on May 8, 2017). This review will identify the allowable CGS MAC pension costs (as a subsidiary of BCBS South Carolina) for the period of June 1 through December 31, 2011.

BACKGROUND

CGS Administrators, LLC

BCBS South Carolina, whose home office is in Columbia, South Carolina, acquired CGS effective June 1, 2011 (and for that reason, we limited our review to pension costs claimed for the period June 1 through December 31, 2011). CGS administered Medicare Part B carrier operations under cost reimbursement contracts with CMS.³ With the implementation of Medicare contracting reform, CGS continued to perform Medicare work after 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.^{4, 5}

The disclosure statement that CGS submits to CMS indicates that CGS uses pooled cost accounting. Medicare contractors use pooled cost accounting to calculate the indirect cost rates that they submit on their ICPs. The pension and PRB⁶ costs are included in the computations of the indirect cost rates reported on the ICPs. CMS uses these indirect cost rates when reimbursing costs for cost-plus-award-fee type contracts.^{7, 8}

Although CGS employees did not participate in BCBS South Carolina's qualified-defined benefit plan, certain costs from BCBS South Carolina home office were allocated to the CGS Medicare segment.

³ We reviewed the Medicare Part B costs that were claimed under cost reimbursement contracts with CMS in our prior review of CIGNA and CGS (A-07-16-00489, issued on May 8, 2017).

⁴ 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 Territories of Puerto Rico and the U.S. Virgin Islands.

⁵ 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.

⁶ On September 21, 2017, CMS executed an advance agreement with BCBS South Carolina that closed PRB costs for the period prior to January 1, 2012. Therefore, we do not opine on the PRB costs, but we incorporated the CY 2011 costs from that agreement into our own calculations to determine the indirect cost rates for that year.

⁷ A cost-plus-award-fee contract is a cost reimbursement contract that provides a fee consisting of (a) a base amount fixed at inception of the contract and (b) an award amount, based on a judgmental evaluation by the Federal Government.

⁸ For each CY, each MAC 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 Office and the Medicare contractor to determine the final billing rates for allowable Medicare costs.

Medicare Reimbursement of Pension Costs

CMS reimburses a portion of the annual contributions that contractors make to their pension plans. The pension costs are included in the computation of the indirect cost rates reported on the ICPs. In turn, CMS uses indirect cost rates in reimbursing costs under cost reimbursement contracts. 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. In claiming costs, contractors must follow cost reimbursement principles contained in the FAR, the CAS, and the Medicare contracts. The cognizant Contracting Officer will perform a final settlement with the contractor to determine the final indirect cost rates. The final indirect cost rates ultimately determine the final costs of each contract.⁹

Previous Audit of Allocable Pension Costs

We previously reviewed BCBS South Carolina's allocable pension costs (A-07-17-00509, issued on August 31, 2017). That audit report identified the allocable pension costs that CGS should have used when calculating its indirect cost rates for CY 2011.¹⁰ We recommended 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.

Incurred Cost Proposal Audits

At CMS's request, Kearney & Company (Kearney) and Watkins Meegan (Watkins) performed audits of the ICP that CGS submitted for CY 2011. The objective of the Kearney ICP audit was to determine whether costs included in the ICPs were allowable in accordance with the FAR. Watkins's ICP audit examined the ICPs to determine whether CGS was in compliance with the applicable requirements of the FAR, the CAS, the U.S. Department of Health and Human Services Acquisition Regulation System, the Social Security Handbook, and relevant contract provisions and guidelines issued by the Defense Contract Audit Agency. The results of that audit were incorporated into the ICPs under the prior audit reviews cited earlier in footnote 2.

For this audit, we relied on Kearney's findings and recommendations when computing the allowable pension costs discussed in this report.

We also incorporated the results from the BCBS South Carolina allocable pension report (A-07-17-00509, issued on August 31, 2017) and the South Carolina PRB advance agreement

⁹ In accordance with FAR 42.705-1(5)(ii) and FAR 42.705-1(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.

¹⁰ CGS employees did not participate in BCBS South Carolina's qualified-defined benefit plan. However, certain costs from BCBS South Carolina home office were allocated to CGS and used in the computation of its indirect cost rates.

(signed on September 21, 2017) to determine the final indirect cost rates and the total allowable contract costs for CGS for June 1 through December 31, 2011.

HOW WE CONDUCTED THIS REVIEW

We reviewed \$71,287 of Medicare pension costs that CGS claimed for Medicare reimbursement on its ICP for CY 2011.

Achieving our objective did not require that we review CGS's overall internal control structure. We limited our review to the internal controls related to the pension costs that were included in CGS's ICP 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 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 pension costs of \$71,287 for Medicare reimbursement, through its ICP, for CY 2011. However, we determined that the allowable pension costs during this period were \$83,762. The difference, \$12,475, represented allowable Medicare pension costs that CGS did not claim on its ICP for CY 2011. CGS did not claim these allowable Medicare pension costs primarily because it (1) did not allocate the correct pension costs to CGS (as described in "Previous Audit of Allocable Pension Costs" above) and (2) used incorrect indirect cost rates when claiming pension costs for Medicare reimbursement.

CLAIMED MEDICARE PENSION COSTS

CGS claimed Medicare pension costs of \$71,287 on its ICP for CY 2011. We calculated the allowable Medicare pension costs based on separately computed CAS-based pension costs for the Other segment in accordance with CAS 412 and 413.

ALLOWABLE MEDICARE PENSION COSTS NOT CLAIMED

After incorporating the results of the Other segment allocable costs from our prior allocable pension costs report, we determined that the allowable CAS-based pension costs for CY 2011 were \$83,762. Thus, CGS did not claim \$12,475 of allowable Medicare pension costs on its ICP for CY 2011. This underclaim occurred primarily because CGS based its claim for Medicare reimbursement on incorrectly calculated CAS pension costs.

During our prior audit, we determined the allocable pension costs for the Other segment. We used these allocable pension costs to determine the allowable pension costs for Medicare reimbursement. Table 1 below shows the allocable CAS-based pension costs that we determined for CY 2011.

Table 1: Other Segment Allocable Pension Costs

Calendar Year	Allocable Per Previous Audit	Per BCBS South Carolina	Difference
2011	\$50,062,318	\$50,717,302	(\$654,984)

We then used this information to adjust the indirect cost rates (i.e., fringe benefit and general and administrative rates) and, in turn, to calculate the information presented in Table 2 below. Our calculation is not presented in this report because those rate calculations that CGS used in its ICPs, and to which we referred as part of our review, are proprietary information.

Accordingly, Table 2 below compares, for both of the contracts (Medicare DME Jurisdiction C and Medicare Parts A and B Jurisdiction 15), the Medicare segment pension costs that we calculated (using our adjusted indirect cost rates) to the pension costs that CGS claimed for Medicare reimbursement for CY 2011.

Table 2: Comparison of Allowable Pension Costs to Claimed Pension Costs¹¹

Calendar Year	Per Audit	Per CGS	Difference
2011—Total Underclaim	\$83,762	\$71,287	\$12,475

RECOMMENDATION

We recommend that CGS work with CMS to ensure that its final settlement of contract costs reflects an increase in Medicare pension costs of \$12,475 for CY 2011.

AUDITEE COMMENTS

In written comments on our draft report, CGS accepted our recommendation and said that it assumed that the repayment would be negotiated and settled with CMS. CGS added that it would make necessary adjustments to the ICP.

CGS’s comments appear in their entirety as Appendix C.

¹¹ Our calculations incorporated the rate ceiling associated with the Medicare Parts A and B contracts. We applied the indirect cost rates associated with these contracts when computing the allowable pension costs for the Medicare Parts A and B contracts. The amounts identified in this table represent the allowable Medicare pension costs during our audit period; they do not represent the total allowable costs on the ICP.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$71,287 of Medicare pension costs that CGS claimed for Medicare reimbursement on its ICP for CY 2011.

Achieving our objective did not require that we review CGS's overall internal control structure. We limited our review to the internal controls related to the pension costs that were included in CGS's ICP 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 our fieldwork at BCBS South Carolina 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 to identify the amount of pension costs used in CGS's calculation of its indirect cost rates for CY 2011;
- reviewed the results of Kearney's and Watkins's ICP audits and incorporated those results into our calculations of allowable pension costs;
- incorporated information from our previous audit report (A-07-17-00509, issued on August 31, 2017) and the PRB advance agreement that CMS executed with BCBS South Carolina (footnote 6); and
- provided the results of this review to CGS officials on October 17, 2017.

We performed this review in conjunction with the following audit and used the information obtained during these audits for this review: *Blue Cross Blue Shield of South Carolina Overstated Its Allocable Qualified Pension Plan Costs* (A-07-17-00509, issued on August 31, 2017).

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 311.205-6(j)) address the allowability of pension costs and require that contractors fund the pension costs assigned to contract periods by making contributions to the pension plan.

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 403) address the allocation of the expenses of a home office to the segments of the organization based on beneficial or causal relationship. These regulations also address the allocation of residual home office expenses to segments.

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: AUDITEE COMMENTS

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January 4, 2018

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-07-17-00513

Dear Mr. Cogley:

We are responding to the U.S. Department of Health and Human Services, Office of Inspector General, draft report dated November, 2017 and entitled *CGS Administrators, LLC, Did Not Claim Some Allowable Pension Costs Through Its Incurred Cost Proposals*.

The report contains the following recommendation:

We recommend that CGS work with CMS to ensure that its final settlement of contract costs reflects an increase in Medicare pension costs of \$12,475 for CY 2011.

CGS accepts the OIG recommendations and does not have any additional comments or questions. CGS' assumption is that the repayment will be negotiated and settled with CMS at the appropriate time. CGS will make any necessary adjustments to the ICP's as requested by CMS

We appreciate the opportunity to comment on the recommendation. Please let me know if you have questions or need additional information regarding our response.

Sincerely,

/Michael Logan/

Michael Logan
Vice President and CFO

Cc: Steve Bishop, CGS
Larry Kennedy, CGS
Dedee Rowe, BCBSSC