

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**COMPANION DATA SERVICES, LLC,
DID NOT CLAIM SOME ALLOWABLE
PENSION COSTS THROUGH ITS
INCURRED COST PROPOSALS**

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June 2018
A-07-17-00528

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: June 2018

Report No. A-07-17-00528



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).

Our objective of this review was to determine whether the calendar years (CYs) 2008 through 2011 pension costs that Companion Data Services, LLC (CDS), claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

How OIG Did This Review

We reviewed \$3.03 million of Medicare pension costs that CDS claimed for Medicare reimbursement on its ICPs for CYs 2008 through 2011.

Companion Data Services, LLC, Did Not Claim Some Allowable Pension Costs Through Its Incurred Cost Proposals

What OIG Found

CDS claimed pension costs of \$3.03 million for Medicare reimbursement, through its ICPs, for CYs 2008 through 2011. However, we determined that the allowable pension costs during this period were \$3.05 million. The difference, \$17,943, represented allowable Medicare pension costs that CDS did not claim on its ICPs for CYs 2008 through 2011. CDS did not claim these allowable Medicare pension costs primarily because it (1) did not allocate the correct pension costs as stated in our previous audit reports of CDS's and Blue Cross Blue Shield of South Carolina's (of which CDS is a subsidiary) allocable pension costs and (2) used incorrect indirect cost rates when claiming pension costs for Medicare reimbursement.

What OIG Recommends

We recommend that CDS work with CMS to ensure that its final settlement of contract costs reflects an increase in Medicare pension costs of \$17,943 for CYs 2008 through 2011.

CDS concurred with our recommendation and stated that it would work with CMS to ensure that its final settlement of contract costs reflects an increase in Medicare pension costs of \$17,943.

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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, Companion Data Services, LLC (CDS). In particular, we examined the CDS pension costs that CDS claimed for Medicare reimbursement and reported on its ICPs.

OBJECTIVE

Our objective of this review was to determine whether the calendar years (CYs) 2008 through 2011 pension costs that CDS claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

BACKGROUND

Companion Data Services, LLC

During our audit period, CDS was a subsidiary of Blue Cross Blue Shield of South Carolina (BCBS South Carolina), whose home office is in Columbia, South Carolina. CDS began performing Medicare functions after being awarded the Enterprise Data Center (EDC) contract with CMS effective March 10, 2006.¹

¹ CDS's EDC contract is an indefinite-delivery, indefinite-quantity (IDIQ) contract. IDIQ contracts provide for an indefinite quantity of services for a fixed time. These contracts are used when the precise quantities of supplies or services that the Government will require during the contract period is unknown. CDS's EDC contract addresses activities necessary to provide efficient, effective, and responsive application hosting services, datacenter infrastructure services, and seat management services to support CMS requirements.

The disclosure statement that CDS submits to CMS indicates that CDS uses pooled cost accounting. Medicare contractors use pooled cost accounting to calculate the indirect cost rates (whose computations include pension and PRB costs²) that they submit on their ICPs. The indirect cost rates are used to calculate contract costs reported on the ICPs. CMS uses these indirect cost rates in determining the final indirect cost rates for each contract.³

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.⁴

Previous Audits of Allocable Pension Costs

We previously reviewed CDS's and BCBS South Carolina's allocable pension costs (A-07-17-00511, Aug. 28, 2011, and A-07-17-00509, Aug. 31, 2017). Those audit reports identified the allocable pension costs that CDS should have used when calculating its indirect cost rates for CYs 2008 through 2011. We recommended in the first of these reports that CDS increase the allocable pension costs for CYs 2008 through 2012 by \$30,436, and in the second of these reports 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 Audit

At CMS's request, Figliozzi & Company (Figliozzi) performed an audit of the ICPs that CDS submitted for CYs 2008 through 2011. The objective of the Figliozzi ICP audit was to determine

² 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 did not opine on the PRB costs, but we incorporated the CY 2011 costs from that advance agreement into our own calculations to determine the indirect cost rates for that year.

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.

⁴ 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.

whether costs included in the ICPs were reasonable, allocable to the contract, and allowable in accordance with the FAR and the Health and Human Services Acquisition Regulations.

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

We incorporated the results of Figliozi's audit into our computations of the audited indirect cost rates, and ultimately the pension costs claimed, for the contracts subject to the FAR. CMS will use our report on allowable pension costs, as well as the Figliozi audit report, to determine the final indirect cost rates and the total allowable contract costs for CDS for CYs 2008 through 2011.

In addition to incorporating our allocable pension reports (mentioned above) and Figliozi's audit, we also incorporated the South Carolina PRB advance agreement (signed on September 21, 2017; footnote 2) to determine the final indirect cost rates and the total allowable contract costs for CDS for CYs 2008 through 2011.

HOW WE CONDUCTED THIS REVIEW

We reviewed \$3,034,313 of Medicare pension costs that CDS claimed for Medicare reimbursement on its ICPs for CYs 2008 through 2011.

Achieving our objective did not require that we review CDS's overall internal control structure. We limited our review to the internal controls related to the pension costs that were included in CDS'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

CDS claimed pension costs of \$3,034,313 for Medicare reimbursement, through its ICPs, for CYs 2008 through 2011. However, we determined that the allowable pension costs during this period were \$3,052,256. The difference, \$17,943, represented allowable Medicare pension costs that CDS did not claim on its ICPs for CYs 2008 through 2011. CDS did not claim these allowable Medicare pension costs primarily because it (1) did not allocate the correct pension costs (as stated in "Previous Audits of Allocable Pension Costs" above) and (2) used incorrect indirect cost rates when claiming pension costs for Medicare reimbursement.

CLAIMED MEDICARE PENSION COSTS

CDS claimed Medicare pension costs of \$3,034,313 on its ICPs for CYs 2008 through 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 Medicare and Other segments allocable costs from our previous allocable pension costs reports, we determined that the allowable CAS-based pension costs for CYs 2008 through 2011 were \$3,052,256. Thus, CDS did not claim \$17,943 of allowable Medicare pension costs on its ICPs for CYs 2008 through 2011. This underclaim occurred primarily because CDS based its claim for Medicare reimbursement on incorrectly calculated CAS pension costs. Specifically, CDS did not allocate the correct pension costs as stated in our previous audit reports of CDS's and BCBS South Carolina's allocable pension costs, and it used incorrect indirect cost rates when claiming pension costs for Medicare reimbursement.

During our previous audits, we determined the allocable pension costs for the Medicare segment and the Other segment. We used these allocable pension costs to determine the allowable pension costs for Medicare reimbursement. Tables 1 and 2 below show the allocable CAS-based pension costs that we determined for CYs 2008 through 2011.

Table 1: Medicare Segment Allocable Pension Costs

Calendar Year	Allocable Per Previous Audit	Per CDS	Difference
2008	\$996,234	\$953,755	\$42,479
2009	1,330,442	1,333,549	(3,107)
2010	1,694,256	1,692,441	1,815
2011	1,860,392	1,858,549	1,843
Total	\$5,881,324	\$5,838,294	\$43,030

Table 2: Other Segment Allocable Pension Costs

Calendar Year	Allocable Per Previous Audit	Per BCBS South Carolina	Difference
2008	\$34,654,231	\$35,284,389	(\$630,158)
2009	48,168,674	48,839,050	(670,376)
2010	50,736,124	51,580,283	(844,159)
2011	50,062,318	50,717,302	(654,984)
Total	\$183,621,347	\$186,421,024	(\$2,799,677)

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 3 below. Our calculation is not presented in this report because those rate calculations that CDS used in its ICPs, and to which we referred as part of our review, are proprietary information.

Accordingly, Table 3 below compares the Medicare segment pension costs that we calculated (using our adjusted indirect cost rates) to the pension costs that CDS claimed for Medicare reimbursement for CYs 2008 through 2011.

Table 3: Comparison of Allowable Pension Costs to Claimed Pension Costs

Calendar Year	Per Audit	Per CDS	Difference
2008	\$626,934	\$606,306	\$20,628
2009	703,703	707,279	(3,576)
2010	865,127	865,710	(583)
2011	856,492	855,018	1,474
Total Underclaim	\$3,052,256	\$3,034,313	\$17,943

RECOMMENDATION

We recommend that CDS work with CMS to ensure that its final settlement of contract costs reflects an increase in Medicare pension costs of \$17,943 for CYs 2008 through 2011.

AUDITEE COMMENTS

In written comments on our draft report, CDS concurred with our recommendation and stated that it would work with CMS to ensure that its final settlement of contract costs reflects an increase in Medicare pension costs of \$17,943.

CDS's comments appear in their entirety as Appendix C.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$3,034,313 of Medicare pension costs that CDS claimed for Medicare reimbursement on its ICPs for CYs 2008 through 2011.

Achieving our objective did not require that we review CDS's overall internal control structure. We limited our review to the internal controls related to the pension costs that were included in CDS'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 Palmetto 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 CDS to identify the amount of pension used in CDS's calculation of its indirect cost rates for CYs 2008 through 2011;
- reviewed the results of Figliozzi's ICP audit and incorporated those results into our calculations of allowable pension costs;
- incorporated information from our previous audit reports (A-07-17-00511 and A-07-17-00509; see below) and the PRB advance agreement that CMS executed with BCBS South Carolina (footnote 2); and
- provided the results of this review to CDS officials on February 28, 2018.

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

- *Companion Data Services, LLC, Understated Its Allocable Pension Costs* (A-07-17-00511, Aug. 28, 2017) and
- *Blue Cross Blue Shield of South Carolina Overstated Its Allocable Qualified Pension Plan Costs* (A-07-17-00509, Aug. 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 31.205-6(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 CDS 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.)



May 7, 2018

Patrick J. Cogley
Office of Inspector General
601 East 12th Street, Room 0429
Kansas City, MO 064106

Subject: CDS Pension Audit – Report A-07-17-00528

Mr. Cogley,

Please accept this as CDS response to your report dated April 2, 2018. CDS is in concurrence with your findings whereby we understated our pension costs by \$17,943 for the calendar years 2008 through 2011. As per your recommendation, CDS will work with CMS to ensure that its final settlement of contract costs reflects an increase in Medicare pension costs of said amount.

If you have any questions, or need anything further, please let me know.

Lane Dundee

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