

Department of Health and Human Services
Office of Inspector General



Office of Audit Services

August 2025 | OAS-25-07-051

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

REPORT HIGHLIGHTS



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

Why OIG Did This Audit

- 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.
- HHS, OIG, Office of Audit Services, 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 audits found that Medicare contractors did not always comply with Federal requirements when claiming pension costs for Medicare reimbursement.
- This audit examined whether the calendar years (CYs) 2017 through 2021 pension costs that CGS claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

What OIG Found

- CGS claimed pension costs of \$5.02 million for Medicare reimbursement, through its ICPs, for CYs 2017 through 2021; however, we determined that the allowable Cost Accounting Standards-based pension costs during this period were \$5.07 million. The difference, \$51,297, represented allowable Medicare pension costs that CGS did not claim on its ICPs for CYs 2017 through 2021.
- CGS did not claim these allowable Medicare pension costs primarily because it used incorrect indirect cost rates when claiming pension costs for Medicare reimbursement. Specifically, CGS used incorrect allocable pension costs when calculating the indirect cost rates.

What OIG Recommends

We recommend that CGS work with CMS to ensure that its final settlement of contract costs reflects an increase in Medicare pension costs of \$51,297 for CYs 2017 through 2021.

CGS concurred with our finding but did not specifically indicate concurrence or nonconcurrence with our recommendation. CGS said that it would work with CMS to ensure the final settlement and collection of contract costs.

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INTRODUCTION

WHY WE DID THIS AUDIT

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 allocability and cost reimbursement principles contained in the Federal Acquisition Regulation (FAR), the Cost Accounting Standards (CAS), and the Medicare contracts. Previous Office of Inspector General (OIG) audits found that Medicare contractors did not always comply with Federal requirements when claiming pension costs for Medicare reimbursement.

At CMS's request, the Department of Health and Human Services, OIG, Office of Audit Services, 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 administrative contractors (MACs), and other CAS-covered and Federal Acquisition Regulation (FAR)-covered contracts through Incurred Cost Proposals (ICPs).

For this audit of CGS Administrators, LLC (CGS), a Medicare contractor, we examined the Other segment pension costs that CGS claimed for Medicare reimbursement and reported on its ICPs.^{1, 2}

OBJECTIVE

Our objective was to determine whether the calendar years (CYs) 2017 through 2021 qualified defined-benefit plan pension costs (herein referred to as "pension 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

¹ The Other segment represents the difference between the Total Company and the Medicare segments as detailed in Appendix C.

² CGS did not participate in the qualified defined-benefit pension plan; however, CGS received home office allocations (allocated from the Other segment) from Blue Cross Blue Shield of South Carolina's (BCBS South Carolina's) participation in the qualified defined-benefit pension plan. During our audit period, CGS was a subsidiary of BCBS South Carolina.

services), effective August 31, 2012, and September 17, 2015, respectively.^{3, 4} CGS continues to perform Medicare work for DME Jurisdiction C (re-awarded August 20, 2020) and Medicare Parts A and B Jurisdiction 15 (re-awarded November 30, 2023).

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, PRB, Supplemental Executive Retirement Plan III, and Excess Plan 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.⁵

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

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.

Incurred Cost Proposal Audits

At CMS's request, CohnReznick, LLP (CohnReznick), and Kearney & Company, P.C. (Kearney), performed audits of the ICPs that CGS submitted for CYs 2017 through 2021. The objectives of these ICP audits were to determine whether costs were allowable in accordance with applicable Federal regulations.

³ 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.

⁴ 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.

⁵ 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.

For our current audit, we relied on the CohnReznick and Kearney ICP audit findings and recommendations when computing the allowable pension costs discussed in this report.

We incorporated the results of the CohnReznick and Kearney ICP audits 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 CohnReznick and Kearney ICP audit reports, to determine the final indirect cost rates and the total allowable contract costs for CGS for CYs 2017 through 2021. 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.⁶

HOW WE CONDUCTED THIS AUDIT

We reviewed \$5,017,396 of pension costs that CGS claimed for Medicare reimbursement on its ICPs for CYs 2017 through 2021.

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 \$5,017,396 for Medicare reimbursement, through its ICPs, for CYs 2017 through 2021; however, we determined that the allowable CAS-based pension costs during this period were \$5,068,693.⁷ The difference, \$51,297, represented allowable Medicare pension costs that CGS did not claim on its ICPs for CYs 2017 through 2021. CGS did not claim these allowable Medicare pension costs primarily because it used incorrect indirect cost rates when claiming pension costs for Medicare reimbursement. More specifically, CGS used incorrect allocable pension costs when calculating the indirect cost rates.

⁶ 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 allowable or disallowed in the final settlement,” respectively.

⁷ These claimed and allowable pension costs were associated with the cost reimbursement and variable time and material portions of the contracts.

ALLOCABLE OTHER SEGMENT PENSION COSTS UNDERSTATED

During the current audit, we calculated the allocable Other segment pension costs for CYs 2017 through 2021 in accordance with Federal requirements. We determined that the allocable Other segment pension costs for CYs 2017 through 2021 totaled \$234,102,537. CGS reported that its Other segment allocable pension costs, as identified in its actuarial computations, totaled \$231,507,397. Therefore, CGS understated the allocable Other segment pension costs by \$2,595,140. This understatement occurred because of differences in the calculations of the assignable pension costs. More specifically, differences in the amortization calculations resulted in different assignable pension cost calculations.

Table 1 shows the differences between the allocable Other segment CAS-based pension costs that we determined for CYs 2017 through 2021 and the Other segment allocable pension costs that CGS calculated for the same time period.

Table 1: Allocable Other Segment Pension Costs

Calendar Year	Allocable Per Audit	Per CGS	Difference
2017	\$41,307,380	\$43,081,757	(\$1,774,377)
2018	44,986,872	45,037,427	(50,555)
2019	33,451,825	33,490,176	(38,351)
2020	50,058,959	48,509,789	1,549,170
2021	64,297,501	61,388,248	2,909,253
Total	\$234,102,537	\$231,507,397	\$2,595,140

CALCULATION OF ALLOWABLE PENSION COSTS

We used the Other segment (Appendix C) allocable pension costs to adjust the indirect cost rates (i.e., the fringe benefit and general and administrative rates) to determine the allowable pension costs for Medicare reimbursement for CYs 2017 through 2021.

CGS claimed Medicare pension costs of \$5,017,396 on its ICPs for CYs 2017 through 2021. After incorporating the results of the CohnReznick and Kearney ICP audits and our adjustments to the indirect cost rates, we determined that the allowable CAS-based pension costs for CYs 2017 through 2021 were \$5,068,693. Thus, CGS did not claim \$51,297 of allowable Medicare pension costs on its ICPs for CYs 2017 through 2021. This underclaim occurred specifically because CGS based its claim for Medicare reimbursement on incorrect allocable pension costs and thus calculated incorrect indirect cost rates on the ICPs it used to calculate the allowable pension costs.

We calculated the allowable Medicare pension costs based on separately computed CAS-based pension costs in accordance with CAS 412 and 413. For details on the Federal requirements, see Appendix B.

Table 2 compares the Medicare pension costs that we calculated (using our adjusted indirect cost rates) to the pension costs that CGS claimed for Medicare reimbursement for CYs 2017 through 2021.

Table 2: Comparison of Allowable Pension Costs and Claimed Pension Costs⁸

Calendar Year	Per Audit	Per CGS	Difference
2017	\$871,486	\$909,076	(\$37,590)
2018	1,100,964	1,102,268	(1,304)
2019	735,594	736,472	(878)
2020	1,099,005	1,064,964	34,041
2021	1,261,644	1,204,616	57,028
Total	\$5,068,693	\$5,017,396	\$51,297

RECOMMENDATION

We recommend that CGS Administrators, LLC, work with CMS to ensure that its final settlement of contract costs reflects an increase in Medicare pension costs of \$51,297 for CYs 2017 through 2021.

AUDITEE COMMENTS

In written comments on our draft report, CGS, through its parent company, BCBS South Carolina, concurred with our finding but did not specifically indicate concurrence or nonconcurrence with our recommendation. CGS said that it would work with CMS to ensure the final settlement and collection of contract costs.

CGS's comments appear in their entirety as Appendix D.⁹

⁸ 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.

⁹ 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.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$5,017,396 of pension costs that CGS claimed for Medicare reimbursement on its ICPs for CYs 2017 through 2021.

Achieving our objective did not require that we review CGS's overall internal control structures. We reviewed the internal controls related to the pension 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 our audit work from August 2023 to June 2025.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- reviewed information provided by CGS to identify the amounts of pension costs used in CGS's calculation of indirect cost rates for CYs 2017 through 2021;
- reviewed the results of the CohnReznick and Kearney ICP audits and incorporated those results into our calculations of allowable pension costs;
- engaged the CMS Office of the Actuary, which provides technical actuarial advice, to calculate the allocable pension costs based on the CAS (the calculations were based on separately computed CAS-based pension costs for the Medicare segment and the Other segment);
- reviewed the CMS actuaries' methodology and calculations; and
- provided the results of our audit to CGS officials.

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

- *CGS Administrators, LLC, Claimed Some Unallowable Medicare Supplemental Executive Retirement Plan III Costs Through Its Incurred Cost Proposals (OAS-25-07-049); and*
- *CGS Administrators, LLC, Did Not Claim Some Allowable Medicare Excess Plan Costs Through Its Incurred Cost Proposals (OAS-25-07-052).*

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)) require Medicare contractors to measure, assign, and allocate the costs of all defined-benefit pension plans in accordance with CAS 412 and 413.

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 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: ALLOCABLE MEDICARE PENSION COSTS
FOR CGS ADMINISTRATORS, LLC,
FOR CALENDAR YEARS 2017 THROUGH 2021**

Date	Description		Total Company	Other Segment	Palmetto	CDS
2017	Contributions Accrued	<u>1/</u>	\$50,000,000	\$50,000,000	\$0	\$0
	Discount for Interest	<u>2/</u>	(\$4,556,093)	(\$4,556,093)	\$0	\$0
January 1, 2017	Present Value Contributions	<u>3/</u>	\$45,443,907	\$45,443,907	\$0	\$0
	Prepayment Credit Applied	<u>4/</u>	\$43,394,170	\$41,307,380	\$912,518	\$1,174,272
	Present Value of Funding	<u>5/</u>	\$88,838,077	\$86,751,287	\$912,518	\$1,174,272
January 1, 2017	CAS Funding Target	<u>6/</u>	\$43,394,170	\$41,307,380	\$912,518	\$1,174,272
	Percentage Funded	<u>7/</u>		100.00%	100.00%	100.00%
	Funded Pension Cost	<u>8/</u>		\$41,307,380	\$912,518	\$1,174,272
	Allowable Interest	<u>9/</u>		\$0	\$0	\$0
2017	CY Allocable Pension Cost	<u>10/</u>		\$41,307,380	\$912,518	\$1,174,272

Date	Description		Total Company	Other Segment	Palmetto	CDS
2018	Contributions Accrued		\$70,000,000	\$70,000,000	\$0	\$0
	Discount for Interest		(\$6,426,438)	(\$6,426,438)	\$0	\$0
January 1, 2018	Present Value Contributions		\$63,573,562	\$63,573,562	\$0	\$0
	Prepayment Credit Applied		\$48,026,741	\$44,986,872	\$1,806,323	\$1,233,546
	Present Value of Funding		\$111,600,303	\$108,560,434	\$1,806,323	\$1,233,546
January 1, 2018	CAS Funding Target		\$48,026,741	\$44,986,872	\$1,806,323	\$1,233,546
	Percentage Funded			100.00%	100.00%	100.00%
	Funded Pension Cost			\$44,986,872	\$1,806,323	\$1,233,546
	Allowable Interest			\$0	\$0	\$0
2018	CY Allocable Pension Cost			\$44,986,872	\$1,806,323	\$1,233,546

Date	Description	Total Company	Other Segment	Palmetto	CDS
2019	Contributions Accrued	\$70,000,000	\$70,000,000	\$0	\$0
	Discount for Interest	(\$6,512,962)	(\$6,512,962)	\$0	\$0
January 1, 2019	Present Value Contributions	\$63,487,038	\$63,487,038	\$0	\$0
	Prepayment Credit Applied	\$36,676,203	\$33,451,825	\$2,254,175	\$970,203
	Present Value of Funding	\$100,163,241	\$96,938,863	\$2,254,175	\$970,203
January 1, 2019	CAS Funding Target	\$36,676,203	\$33,451,825	\$2,254,175	\$970,203
	Percentage Funded		100.00%	100.00%	100.00%
	Funded Pension Cost		\$33,451,825	\$2,254,175	\$970,203
	Allowable Interest		\$0	\$0	\$0
2019	CY Allocable Pension Cost		\$33,451,825	\$2,254,175	\$970,203

Date	Description	Total Company	Other Segment	Palmetto	CDS
2020	Contributions Accrued	\$75,000,000	\$75,000,000	\$0	\$0
	Discount for Interest	(\$5,503,753)	(\$5,503,753)	\$0	\$0
January 1, 2020	Present Value Contributions	\$69,496,247	\$69,496,247	\$0	\$0
	Prepayment Credit Applied	\$54,936,089	\$50,058,959	\$3,695,230	\$1,181,900
	Present Value of Funding	\$124,432,336	\$119,555,206	\$3,695,230	\$1,181,900
January 1, 2020	CAS Funding Target	\$54,936,089	\$50,058,959	\$3,695,230	\$1,181,900
	Percentage Funded		100.00%	100.00%	100.00%
	Funded Pension Cost		\$50,058,959	\$3,695,230	\$1,181,900
	Allowable Interest		\$0	\$0	\$0
2020	CY Allocable Pension Cost		\$50,058,959	\$3,695,230	\$1,181,900

Date	Description	Total Company	Other Segment	Palmetto	CDS
2021	Contributions Accrued	\$55,000,000	\$55,000,000	\$0	\$0
	Discount for Interest	(\$3,963,018)	(\$3,963,018)	\$0	\$0
January 1, 2021	Present Value Contributions	\$51,036,982	\$51,036,982	\$0	\$0
	Prepayment Credit Applied	\$71,573,022	\$64,297,501	\$5,813,387	\$1,462,134
	Present Value of Funding	\$122,610,004	\$115,334,483	\$5,813,387	\$1,462,134
January 1, 2021	CAS Funding Target	\$71,573,022	\$64,297,501	\$5,813,387	\$1,462,134
	Percentage Funded		100.00%	100.00%	100.00%
	Funded Pension Cost		\$64,297,501	\$5,813,387	\$1,462,134
	Allowable Interest		\$0	\$0	\$0
2021	CY Allocable Pension Cost		\$64,297,501	\$5,813,387	\$1,462,134

ENDNOTES

- 1/ We obtained these Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. These contributions include deposits made during the CY. We determined the contributions allocated to the Medicare segments during the pension segmentation reviews (A-07-23-00638 and OAS-25-07-023). The amounts shown for the Other segment represent the difference between the Total Company and Medicare segments.
- 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 (at the CAS valuation interest rate) and actual contribution amounts.
- 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 CAS funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.

- 5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at the first day of the CY.
- 6/ The CAS funding target must be funded by contributions made during the current accounting period or prepaid contributions to satisfy the funding requirement of the FAR 31.205-6(j)(2)(i).
- 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 in accordance with CAS 412.50(c)(1), 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 funded has been rounded to four decimal places.
- 8/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.
- 9/ We assumed that interest on the funded CAS-based pension 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(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in four equal installments deposited within 30 days after the end of the quarter.
- 10/ The CY allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.



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July 8, 2025

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Report Numbers:

A-07-23-00638	OAS-25-07-020	OAS-25-07-022
OAS-25-07-023	OAS-25-07-026	OAS-25-07-027
OAS-25-07-028	OAS-25-07-046	OAS-25-07-047
OAS-25-07-052	OAS-25-07-051	

Dear Mr. Korn:

We are responding to the U.S. Department of Health and Human Services, Office of Inspector General, draft reports referenced above which pertain to the BlueCross BlueShield South Carolina sponsored qualified-defined benefit pension plan and excess plan.

We concur with findings in each report, we will work with our actuarial firm to ensure we implement the recommendations prospectively beginning with calendar year 2025, consistent with the timing of receipt of reports referenced above. The findings collectively resulted in underbilling costs for each of our companies for calendar years 2017-2021. We will work with CMS to ensure final settlement and collection of these costs.

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

Sincerely,

/Jennifer Capell/

Jennifer Capell
Vice President, Corporate Controller
BlueCross BlueShield South Carolina

Cc: Bruce Hughes, Celerian Group
Lori Hair, BlueCross BlueShield South Carolina
Jamie Keller, Companion Data Services, LLC
Michael Logan, CGS Administrators, LLC
Nancy Lybrand, Palmetto GBA, LLC

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