

Department of Health and Human Services
Office of Inspector General



Office of Audit Services

August 2025 | OAS-25-07-049

CGS Administrators, LLC, Claimed Some Unallowable Medicare Supplemental Executive Retirement Plan III Costs Through Its Incurred Cost Proposals

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REPORT HIGHLIGHTS



August 2025 | OAS-25-07-049

CGS Administrators, LLC, Claimed Some Unallowable Medicare Supplemental Executive Retirement Plan III Costs Through Its Incurred Cost Proposals

Why OIG Did This Audit

- CMS reimburses Medicare contractors for a portion of their nonqualified plan costs, which are funded by the annual contributions that these contractors make to their nonqualified plans. A nonqualified plan is a type of tax-deferred, employer-sponsored retirement plan.
- 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 correctly identify and claim nonqualified plan costs.
- This audit examined whether the calendar years (CYs) 2017 through 2021 Supplemental Executive Retirement Plan III (SERP III) costs that CGS claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

What OIG Found

- CGS claimed SERP III costs of \$84,579 for Medicare reimbursement, through its ICPs, for CYs 2017 through 2021; however, we determined that the allowable SERP III costs during this period were \$82,666. The difference, \$1,913, represented unallowable Medicare SERP III costs that CGS claimed on its ICPs for CYs 2017 through 2021.
- CGS claimed these unallowable Medicare SERP III costs primarily because it used incorrect indirect costs rates when claiming those costs for Medicare reimbursement.

What OIG Recommends

We recommend that CGS work with CMS to ensure that its final settlement of contract costs reflects a decrease in Medicare SERP III costs of \$1,913 for CYs 2017 through 2021.

CGS did not specifically indicate concurrence or nonconcurrence with our finding or recommendation. CGS said that it would work with CMS to ensure that the final cost settlements are accurate.

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INTRODUCTION

WHY WE DID THIS AUDIT

The Centers for Medicare & Medicaid Services (CMS) reimburses a portion of its contractors' nonqualified plan costs.¹ In claiming nonqualified plan costs, contractors must follow 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 correctly identify and claim nonqualified plan costs.

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 Supplemental Executive Retirement Plan III (SERP III) costs that CGS claimed for Medicare reimbursement, under the provisions of its MAC contracts and CAS- and FAR-covered contracts, and reported on its ICPs.

OBJECTIVE

Our objective was to determine whether the calendar years (CYs) 2017 through 2021 SERP III 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 A nonqualified plan is a tax-deferred, employer-sponsored retirement plan that does not meet the standards of the Employee Retirement Income Security Act of 1974, P.L. No 93-406 (Sept. 2, 1974).

services), effective August 31, 2012, and September 17, 2015, respectively.^{2, 3} 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, SERP 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.⁴

Supplemental Executive Retirement Plan III

BCBS South Carolina sponsors a SERP III plan. The purpose of this deferred compensation plan is to supplement participants' benefits payable under BCBS South Carolina's retirement plans. This plan is provided to a limited group of management employees who are responsible for earnings and long-term growth of the company.

Accounting Methodologies

The Medicare contracts require CGS to calculate the SERP III costs in accordance with the FAR and CAS 412 and 413. The FAR and the CAS require that the costs for nonqualified plans be measured under either the accrual method or the pay-as-you-go method. Under the accrual method, the allowable costs are based on the annual contributions that the employer deposits into its trust fund. For nonqualified plans that are not funded through the use of a funding agency, costs are to be accounted for under the pay-as-you-go method. This method is based on the actual benefits paid to participants, which are comprised of lump-sum payments and annuity payments. CGS claimed SERP III costs on an accrual basis.

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

² 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.

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.

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.

these ICP audits were to determine whether costs were allowable in accordance with applicable Federal regulations.

For our current audit, we relied on the CohnReznick and Kearney ICP audit findings and recommendations when computing the allowable SERP III 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 SERP III costs claimed, for the contracts subject to the FAR. CMS will use our report on allowable SERP III 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.⁵

HOW WE CONDUCTED THIS AUDIT

We reviewed \$84,579 of SERP III 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 SERP III costs of \$84,579 for Medicare reimbursement, through its ICPs, for CYs 2017 through 2021; however, we determined that the allowable SERP III costs during this period were \$82,666. The difference, \$1,913, represented unallowable Medicare SERP III costs that CGS claimed on its ICPs for CYs 2017 through 2021. CGS claimed these unallowable Medicare SERP III costs primarily because it used incorrect indirect cost rates when claiming those costs for Medicare reimbursement.

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 allowable or disallowed in the final settlement,” respectively.

ALLOCABLE MEDICARE SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN III COSTS OVERSTATED

During this audit, we calculated the allocable SERP III Medicare costs for CYs 2017 through 2021 in accordance with Federal requirements. We determined that the allocable SERP III Medicare costs for CYs 2017 through 2021 totaled \$1,294,557. CGS reported that its allocable SERP III Medicare costs, as identified in its actuarial computations, totaled \$1,331,087. Therefore, CGS overstated the allocable SERP III Medicare costs by \$36,530. This overstatement occurred because of differences in the calculations of the assignable SERP III costs. More specifically, the differences in the calculation of the amortization caused the differences in the assignable SERP III costs.

Table 1 shows the differences between the allocable SERP III Medicare costs that we determined for CYs 2017 through 2021 and the allocable SERP III Medicare costs that CGS calculated for the same time period.

Table 1: Allocable SERP III Medicare Costs

Calendar Year	Allocable Per Audit	Per CGS	Difference
2017	\$257,628	\$256,688	\$940
2018	252,745	259,271	(6,526)
2019	257,459	275,429	(17,970)
2020	260,527	267,787	(7,260)
2021	266,198	271,912	(5,714)
Total	\$1,294,557	\$1,331,087	(\$36,530)

CALCULATION OF ALLOWABLE SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN III COSTS

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

CGS claimed Medicare SERP III costs of \$84,579 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 Medicare SERP III costs for CYs 2017 through 2021 were \$82,666. Thus, CGS claimed \$1,913 of unallowable Medicare SERP III costs on its ICPs for CYs 2017 through 2021. This overclaim occurred specifically because CGS based its claim for Medicare reimbursement on incorrect allocable SERP III costs, and ultimately used incorrect indirect cost rates on the ICPs it used to calculate the allowable SERP III costs.

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

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

Table 2: Comparison of Allowable SERP III Costs and Claimed SERP III Costs⁶

Calendar Year	Per Audit	Per CGS	Difference
2017	\$20,800	\$20,648	\$152
2018	16,370	16,698	(328)
2019	16,748	17,884	(1,136)
2020	15,293	15,623	(330)
2021	13,455	13,726	(271)
Total	\$82,666	\$84,579	(\$1,913)

RECOMMENDATION

We recommend that CGS Administrators, LLC, work with CMS to ensure that its final settlement of contract costs reflects a decrease in Medicare SERP III costs of \$1,913 for CYs 2017 through 2021.

AUDITEE COMMENTS

In written comments on our draft report, CGS, through its parent company, BCBS South Carolina, did not specifically indicate concurrence or nonconcurrence with our finding or recommendation. CGS said that it would work with CMS to ensure that the final cost settlements are accurate. CGS's comments appear in their entirety as Appendix D.⁷

⁶ 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.

⁷ 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 \$84,579 of SERP III 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 SERP III 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 SERP III costs used in CGS's calculation of indirect cost rates for CYs 2017 through 2021;
- used information that CGS's actuarial consulting firms provided, including information on the SERP III plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses;
- examined CGS's accounting records, SERP III plan documents, and annual actuarial valuation reports;
- determined the extent to which CGS funded CAS-based SERP III costs with contributions to the trust and accumulated prepayment credits;
- reviewed the results of the CohnReznick and Kearney ICP audits and incorporated those results into our calculations of allowable SERP III costs;
- engaged the CMS Office of the Actuary, which provides technical actuarial advice, to calculate the allocable SERP III Medicare costs based on the CAS;
- reviewed and verified the CMS actuaries' methodology and calculations and used this information to calculate the SERP III costs for the CGS Medicare segment for CYs 2017 through 2021; 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, Did Not Claim Some Allowable Medicare Pension Costs Through Its Incurred Cost Proposals* (OAS-25-07-051); 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 NONQUALIFIED PLAN 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 SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN III COSTS
FOR CGS ADMINISTRATORS, LLC,
FOR CALENDAR YEARS 2017 THROUGH 2021**

Date	Description		Total Company	Other Segment	Medicare
2017	Contributions	<u>1/</u>	\$0	\$0	\$0
	Discount for Interest	<u>2/</u>	\$0	\$0	\$0
January 1, 2017	Present Value Contributions	<u>3/</u>	\$0	\$0	\$0
	Prepayment Credit Applied	<u>4/</u>	\$772,644	\$515,016	\$257,628
	Present Value of Funding	<u>5/</u>	\$772,644	\$515,016	\$257,628
January 1, 2017	CAS Funding Target	<u>6/</u>	\$772,644	\$515,016	\$257,628
	Percentage Funded	<u>7/</u>		100.00%	100.00%
	Funded Pension Cost	<u>8/</u>		\$515,016	\$257,628
	Allowable Interest	<u>9/</u>		\$0	\$0
2017	CY Allocable Pension Cost	<u>10/</u>		\$515,016	\$257,628

Date	Description		Total Company	Other Segment	Medicare
2018	Contributions		\$0	\$0	\$0
	Discount for Interest		\$0	\$0	\$0
January 1, 2018	Present Value Contributions		\$0	\$0	\$0
	Prepayment Credit Applied		\$772,011	\$519,266	\$252,745
	Present Value of Funding		\$772,011	\$519,266	\$252,745
January 1, 2018	CAS Funding Target		\$772,011	\$519,266	\$252,745
	Percentage Funded			100.00%	100.00%
	Funded Pension Cost			\$519,266	\$252,745
	Allowable Interest			\$0	\$0
2018	CY Allocable Pension Cost			\$519,266	\$252,745

Date	Description	Total Company	Other Segment	Medicare
2019	Contributions Accrued	\$0	\$0	\$0
	Discount for Interest	\$0	\$0	\$0
January 1, 2019	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$926,908	\$669,449	\$257,459
	Present Value of Funding	\$926,908	\$669,449	\$257,459
January 1, 2019	CAS Funding Target	\$926,908	\$669,449	\$257,459
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$669,449	\$257,459
	Allowable Interest		\$0	\$0
2019	CY Allocable Pension Cost		\$669,449	\$257,459

Date	Description	Total Company	Other Segment	Medicare
2020	Contributions Accrued	\$0	\$0	\$0
	Discount for Interest	\$0	\$0	\$0
January 1, 2020	Present Value Contributions	\$0	\$0	\$0
	Prepayment Credit Applied	\$1,018,619	\$758,092	\$260,527
	Present Value of Funding	\$1,018,619	\$758,092	\$260,527
January 1, 2020	CAS Funding Target	\$1,018,619	\$758,092	\$260,527
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$758,092	\$260,527
	Allowable Interest		\$0	\$0
2020	CY Allocable Pension Cost		\$758,092	\$260,527

Date	Description	Total Company	Other Segment	Medicare
2021	Contributions Accrued	\$1,000,000	\$1,000,000	\$0
	Discount for Interest	(\$40,511)	(\$40,511)	\$0
January 1, 2021	Present Value Contributions	\$959,489	\$959,489	\$0
	Prepayment Credit Applied	\$1,092,403	\$826,205	\$266,198
	Present Value of Funding	\$2,051,892	\$1,785,694	\$266,198
January 1, 2021	CAS Funding Target	\$1,092,403	\$826,205	\$266,198
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$826,205	\$266,198
	Allowable Interest		\$0	\$0
2021	CY Allocable Pension Cost		\$826,205	\$266,198

ENDNOTES

- 1/ We obtained these Total Company contribution amounts from actuarial valuation reports. These contributions include deposits made during the CY. We determined the contributions allocated to the Medicare during the SERP III segmentation review (A-07-24-00647). The amounts shown for the Other segment represent the difference between the Total Company and Medicare segments. The Medicare portion is made up of eligible participants, for which BCBS South Carolina allocated costs to the Medicare segments (Palmetto Government Benefits Administrator, LLC; Companion Data Services, LLC; and CGS).
- 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

James I. Korn
Regional Inspector General for Audit Services
Office of Audit Services, Region VII
1201 Walnut Street, Suite 1309
Kansas City, MO 64106

Report Numbers:

A-07-24-00647

A-07-24-00644

OAS-25-07-049

OAS-25-07-048

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 Supplemental Executive Retirement Plan III.

As recommended 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. Additionally, while none of the findings individually or collectively resulted in material overstatement of costs, we will work with CMS to ensure final cost settlements are accurate.

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
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Michael Logan, CGS Administrators, LLC
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