

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**CGS ADMINISTRATORS, LLC,
GENERALLY CLAIMED ALLOWABLE
MEDICARE PENSION COSTS**

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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.

EXECUTIVE SUMMARY

CGS Administrators, LLC, claimed unallowable pension costs of \$1,242 for Medicare reimbursement for fiscal years 2008 through 2011.

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, Cost Accounting Standards (CAS), and Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors have not always complied with Federal requirements when claiming pension 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, postretirement benefit, 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 Medicare contractor, CGS Administrators, LLC (CGS). In particular, we examined the Medicare segment and Other segment costs that CGS claimed for Medicare reimbursement on its FACPs.

The objective of this review was to determine whether the fiscal years (FYs) 2008 through 2011 pension costs that CGS claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACPs, were allowable and correctly claimed.

BACKGROUND

During our audit period, CGS (formerly CIGNA Government Services, LLC) administered Medicare Part B and Durable Medical Equipment (DME) operations for Connecticut General Life Insurance Company (CGLIC), the legal entity that entered into these cost reimbursement contracts with CMS. In addition, CGS administered Medicare operations under a MAC contract with CMS. CGS and CGLIC were wholly owned subsidiaries of CIGNA Corporation.

With the implementation of Medicare contracting reform, CGS continued to perform Medicare work after being awarded the MAC contracts for DME Jurisdiction C, effective September 27, 2006, and Medicare Parts A and B Jurisdiction 15, effective July 8, 2010.

Effective June 1, 2011, the CGS Medicare segment was sold to Blue Cross Blue Shield of South Carolina for the continued performance of Medicare operations.

During the audit period, CGS participated in CIGNA Corporation's two pension plans: the CIGNA Pension Plan and the CIGNA Pension Plan for Former Employees. The latter was established on January 1, 2009, as a spinoff of the CIGNA Pension Plan. The CIGNA Pension Plan was frozen on July 1, 2009. This report addresses the pension costs claimed for both pension plans.

WHAT WE FOUND

CGS claimed pension costs of \$1,253,585 for Medicare reimbursement for FYs 2008 through 2011; however, we determined that the allowable CAS-based pension costs during this period were \$1,252,343. The difference, \$1,242, represented unallowable Medicare pension costs that CGS claimed on its FACPs for FYs 2008 through 2011. CGS claimed these unallowable Medicare pension costs primarily because it based its claim for Medicare reimbursement on incorrectly calculated CAS pension costs.

WHAT WE RECOMMEND

We recommend that CGS revise its FACPs for FYs 2008 through 2011 to reduce its claimed Medicare pension costs by \$1,242.

AUDITEE COMMENTS

In written comments on our draft report, CGS said that it accepted our recommendations.

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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), Cost Accounting Standards (CAS), and Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors have not always complied with Federal requirements when claiming pension 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, postretirement benefit, 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 Medicare contractor, CGS Administrators, LLC (CGS). In particular, we examined the Medicare segment and Other segment costs that CGS claimed for Medicare reimbursement on its FACPs.

OBJECTIVE

Our objective was to determine whether the fiscal years (FYs) 2008 through 2011 pension costs that CGS claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACPs, were allowable and correctly claimed.

BACKGROUND

CGS Administrators, LLC

During our audit period, CGS (formerly CIGNA Government Services, LLC) administered Medicare Part B and Durable Medical Equipment (DME) operations for Connecticut General Life Insurance Company (CGLIC), the legal entity that entered into these cost reimbursement contracts with CMS.¹ In addition, CGS administered Medicare operations under a MAC contract with CMS. CGS and CGLIC were wholly owned subsidiaries of CIGNA Corporation.

With the implementation of Medicare contracting reform, CGS continued to perform Medicare work after being awarded the MAC contracts for DME Jurisdiction C, effective September 27, 2006, and Medicare Parts A and B Jurisdiction 15, effective July 8, 2010.

¹ For this audit, we reviewed the pension costs that CGS claimed under cost reimbursement contracts with CMS. In a companion audit (A-07-16-00490), we reviewed the pension costs that CGS claimed under its MAC contract with CMS.

Effective June 1, 2011, the CGS Medicare segment was sold to Blue Cross Blue Shield of South Carolina (BCBS South Carolina) for the continued performance of Medicare operations.

During the audit period, CGS participated in CIGNA Corporation's two pension plans: the CIGNA Pension Plan and the CIGNA Pension Plan for Former Employees. The latter was established on January 1, 2009, as a spinoff of the CIGNA Pension Plan. The CIGNA Pension Plan was frozen on July 1, 2009. This report addresses the pension costs claimed for both pension plans.

Medicare Reimbursement of Pension Costs

CMS reimburses a portion of the Medicare contractors' annual pension costs, which are funded by contributions that these contractors make to their pension plans. 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.

Beginning with FY 1988, CMS incorporated specific segmentation language into Medicare contracts that requires contractors to use either an allocation method or a separate calculation method to identify and claim pension costs for Medicare reimbursement. Under the allocation method, the contractor determines total plan CAS-based pension costs and allocates a share to Medicare. Under the separate calculation method, the contractor separately identifies the pension cost components for the Medicare segment. The contractor must use the separate calculation method if its result is materially different from that of the allocation method.

HOW WE CONDUCTED THIS REVIEW

We reviewed \$1,253,585 of pension costs claimed by CGS for Medicare reimbursement on its FACPs for FYs 2008 through 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 finding and conclusions based on our audit objectives.

Appendix A contains details of our audit scope and methodology.

FINDING

CGS claimed pension costs of \$1,253,585 for Medicare reimbursement for FYs 2008 through 2011; however, we determined that the allowable CAS-based pension costs during this period were \$1,252,343. The difference, \$1,242, represented unallowable fiscal intermediary and carrier contract Medicare pension costs that CGS claimed on its FACPs for FYs 2008 through 2011. CGS claimed these unallowable Medicare pension costs primarily because it based its claim for Medicare reimbursement on incorrectly calculated CAS pension costs.

CLAIMED PENSION COSTS

CGS claimed Medicare pension costs of \$1,253,585 for Medicare reimbursement, under the provisions of its Medicare contracts, on its FACPs for FYs 2008 through 2011. We calculated the allowable Medicare pension costs based on separately computed CAS-based pension costs for the Medicare segment and the Other segment in accordance with CAS 412 and 413. For details on the Federal requirements, see Appendix B.

UNALLOWABLE PENSION COSTS CLAIMED

We determined that the allowable CAS-based pension costs for FYs 2008 through 2011 were \$1,252,343. Thus, CGS claimed \$1,242 of unallowable Medicare pension costs on its FACPs for FYs 2008 through 2011. This overclaim occurred primarily because CGS based its claim for Medicare reimbursement on incorrectly calculated CAS pension costs.

The table below shows the differences between the allowable CAS-based pension costs and the pension costs claimed on CGS's FACPs and reflected in its accounting documents. Appendixes C, D, and E contain additional details on allowable pension costs.

Table: Comparison of Allowable Pension Costs and Claimed Pension Costs

	<u>Medicare Pension Costs</u>		
Fiscal Year	Allowable Per Audit	Claimed by CGS	Difference
2008	\$580,372	\$572,507	\$7,865
2009	451,588	462,768	(11,180)
2010	163,214	157,861	5,353
2011	57,169	60,449	(3,280)
Total	\$1,252,343	\$1,253,585	(\$1,242)

RECOMMENDATION

We recommend that CGS revise its FACPs for FYs 2008 through 2011 to reduce its claimed Medicare pension costs by \$1,242.

AUDITEE COMMENTS

In written comments on our draft report, CGS said that it accepted our recommendations and that it did not have any additional comments or questions. CGS stated that it assumed that the repayment would be negotiated and settled with CMS at the appropriate time and added that it would make any necessary adjustments to its FACPs as requested by CMS.

CGS's comments are included in their entirety as Appendix F.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$1,253,585 of pension costs that CGS claimed for Medicare reimbursement on its FACPs for FYs 2008 through 2011.

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

We performed our fieldwork at CGS in Nashville, Tennessee.

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 amount of pension costs claimed for Medicare reimbursement for FYs 2008 through 2011;
- used information that CGS's actuarial consulting firms provided, including information on assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses;
- examined CGS's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Forms 5500;
- determined the extent to which CGS funded CAS-based pension costs with contributions to the pension trust fund and accumulated prepayment credits;
- engaged the CMS Office of the Actuary 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 this review to CGS officials on February 13, 2017.

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

- *CGS Administrators, LLC, Overstated Its CIGNA Pension Plan Medicare Segment Pension Assets and Understated Medicare's Share of Excess Pension Liabilities (A-07-16-00470), and*
- *CGS Administrators, LLC, Understated Its CIGNA Pension Plan for Certain Former Employees Medicare Segment Pension Assets and Understated Medicare's Share of Excess Pension Assets (A-07-16-00491).*

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 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 (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 address the determination and allocation of pension costs. The contracts state: “The calculation of and accounting for pension costs charged to this agreement/contract are governed by the Federal Acquisition Regulation and Cost Accounting Standards 412 and 413.”

**APPENDIX C: ALLOCABLE MEDICARE PENSION COSTS FOR
CGS ADMINISTRATORS, LLC, FOR THE CIGNA PENSION PLAN
FOR FISCAL YEARS 2008 THROUGH 2011**

Date	Description	Total Company	Other Segment	Medicare Segment
2007	Allocable pension cost <u>1/</u>		\$89,340,065	\$638,290
2008	Contributions <u>2/</u>	\$0	\$0	\$0
	Discount for interest <u>3/</u>	\$0	\$0	\$0
January 1, 2008	Present value contributions <u>4/</u>	\$0	\$0	\$0
	Prepayment credit applied <u>5/</u>	\$101,075,907	\$99,948,041	\$1,127,866
	Present value of funding <u>6/</u>	\$101,075,907	\$99,948,041	\$1,127,866
January 1, 2008	CAS funding target <u>7/</u>	\$101,075,907	\$99,948,041	\$1,127,866
	Percentage funded <u>8/</u>		100.00%	100.00%
	Funded pension cost <u>9/</u>		\$99,948,041	\$1,127,866
	Allowable interest <u>10/</u>		\$0	\$0
	Allocable pension cost		\$99,948,041	\$1,127,866
	FY Allocable pension cost <u>11/</u>		\$97,296,047	\$1,005,472

Date	Description	Total Company	Other Segment	Medicare Segment
2009	Contributions	\$407,347,000	\$407,347,000	\$0
	Discount for interest	(\$10,570,204)	(\$10,570,204)	\$0
January 1, 2009	Present value contributions	\$396,776,796	\$396,776,796	\$0
	Prepayment credit applied	\$109,667,903	\$108,982,993	\$684,910
	Present value of funding	\$506,444,699	\$505,759,789	\$684,910
January 1, 2009	CAS funding target	\$109,667,903	\$108,982,993	\$684,910
	Percentage funded		100.00%	100.00%
	Funded pension cost		\$108,982,993	\$684,910
	Allowable interest		\$0	\$0
	Allocable pension cost		\$108,982,993	\$684,910
	FY Allocable pension cost		\$106,724,255	\$795,649

Date	Description	Total Company	Other Segment	Medicare Segment
2010	Contributions	\$143,000,000	\$143,000,000	\$0
	Discount for interest	(\$4,025,153)	(\$4,025,153)	\$0
January 1, 2010	Present value contributions	\$138,974,847	\$138,974,847	\$0
	Prepayment credit applied	\$100,317,916	\$100,098,327	\$219,589
	Present value of funding	\$239,292,763	\$239,073,174	\$219,589
January 1, 2010	CAS funding target	\$100,317,916	\$100,098,327	\$219,589
	Percentage funded		100.00%	100.00%
	Funded pension cost		\$100,098,327	\$219,589
	Allowable interest		\$0	\$0
	Allocable pension cost		\$100,098,327	\$219,589
	FY Allocable pension cost		\$102,319,494	\$335,919

Date	Description	Total Company	Other Segment	Medicare Segment
2011	Contributions	\$125,000,000	\$125,000,000	\$0
	Discount for interest	(\$7,912,442)	(\$7,912,442)	\$0
January 1, 2011	Present value contributions	\$117,087,558	\$117,087,558	\$0
	Prepayment credit applied	\$42,149,526	\$42,067,727	\$81,799
	Present value of funding	\$159,237,084	\$159,155,285	\$81,799
January 1, 2011	CAS funding target	\$42,149,526	\$42,067,727	\$81,799
	Percentage funded		100.00%	100.00%
	Funded pension cost		\$42,067,727	\$81,799
	Allowable interest		\$0	\$0
	Allocable pension cost		\$42,067,727	\$81,799
	FY Allocable pension cost <u>12/</u>		\$67,092,309	\$136,696

ENDNOTES

1/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes. We obtained the calendar year (CY) 2007 allocable pension cost from our prior CGS review (A-07-10-00327), issued June 2, 2010.

2/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the CY and accrued contributions deposited after the end of the CY but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segments during the pension segmentation review (A-07-16-00470). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare segments.

3/ 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.

- 4/ 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. For purposes of this Appendix, we deemed deposits made after the end of the CY to have been made on the final day of the CY, consistent with the method established by the Employee Retirement Income Security Act prior to the implementation of the Pension Protection Act.
- 5/ 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.
- 6/ 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.
- 7/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of the FAR 31.205-6(j)(2)(i).
- 8/ 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 of funding has been rounded to four decimal places.
- 9/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.
- 10/ 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.
- 11/ The FY allocable pension cost is 1/4 of the prior year allocable pension costs plus 3/4 of the current year allocable pension costs.
- 12/ Effective June 1, 2011, the CGS Medicare segment was sold to Blue Cross Blue Shield of South Carolina. Therefore, the FY 2011 allocable pension cost represents the allocable pension costs for January 1, 2011, to June 1, 2011.

**APPENDIX D: ALLOCABLE MEDICARE PENSION COSTS FOR
CGS ADMINISTRATORS, LLC, FOR THE CIGNA PENSION PLAN
FOR CERTAIN FORMER EMPLOYEES
FOR FISCAL YEARS 2009 THROUGH 2011**

Date	Description	Total Company	Other Segment	Medicare Segment
2009	Contributions <u>1/</u>	\$2,695,000	\$2,692,848	\$2,152
	Discount for interest <u>2/</u>	(\$166,623)	(\$166,490)	(\$133)
January 1, 2009	Present value contributions <u>3/</u>	\$2,528,377	\$2,526,358	\$2,019
	Prepayment credit applied <u>4/</u>	\$0	\$0	\$0
	Present value of funding <u>5/</u>	\$2,528,377	\$2,526,358	\$2,019
January 1, 2009	CAS funding target <u>6/</u>	\$21,026,099	\$21,009,308	\$16,791
	Percentage funded <u>7/</u>		12.02%	12.02%
	Funded pension cost <u>8/</u>		\$2,525,319	\$2,018
	Allowable interest <u>9/</u>		\$152,045	\$122
	Allocable pension cost <u>10/</u>		\$2,677,364	\$2,140
2009	FY Allocable pension cost <u>11/</u>		\$2,008,023	\$1,605

Date	Description	Total Company	Other Segment	Medicare Segment
2010	Contributions	\$68,884,168	\$68,866,238	\$17,930
	Discount for interest	(\$1,934,090)	(\$1,933,587)	(\$503)
January 1, 2010	Present value contributions	\$66,950,078	\$66,932,651	\$17,427
	Prepayment credit applied	\$0	\$0	\$0
	Present value of funding	\$66,950,078	\$66,932,651	\$17,427
January 1, 2010	CAS funding target	\$22,938,782	\$22,921,355	\$17,427
	Percentage funded		100.00%	100.00%
	Funded pension cost		\$22,921,355	\$17,427
	Allowable interest		\$662,165	\$503
	Allocable pension cost		\$23,583,520	\$17,930
2010	FY Allocable pension cost		\$18,356,981	\$13,983

Date	Description	Total Company	Other Segment	Medicare Segment
2011	Contributions	\$35,213,128	\$35,213,128	\$0
	Discount for interest	(\$2,101,802)	(\$2,101,802)	\$0
January 1, 2011	Present value contributions	\$33,111,326	\$33,111,326	\$0
	Prepayment credit applied	\$9,650,648	\$9,645,779	\$4,869
	Present value of funding	\$42,761,974	\$42,757,105	\$4,869
January 1, 2011	CAS funding target	\$9,650,648	\$9,645,779	\$4,869
	Percentage funded		100.00%	100.00%
	Funded pension cost		\$9,645,779	\$4,869
	Allowable interest		\$0	\$0
	Allocable pension cost		\$9,645,779	\$4,869
2011	FY Allocable pension cost <u>12/</u>		\$15,541,659	\$9,352

ENDNOTES

- 1/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the CY and accrued contributions deposited after the end of the CY but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segments during the pension segmentation review (A-07-16-00491). The amounts shown for the Other segment represent the difference between the Total Company and the 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. For purposes of this Appendix, we deemed deposits made after the end of the CY to have been made on the final day of the CY, consistent with the method established by the Employee Retirement Income Security Act prior to the implementation of the Pension Protection Act.
- 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 current 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 of funding 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 allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.
- 11/ The FY allocable pension cost is 1/4 of the prior year allocable pension costs plus 3/4 of the current year allocable pension costs.
- 12/ Effective June 1, 2011, the CGS Medicare segment was sold to Blue Cross Blue Shield of South Carolina. Therefore, the FY 2011 allocable pension cost represents the allocable pension costs for January 1, 2011, to June 1, 2011.

**APPENDIX E: ALLOWABLE MEDICARE PENSION COSTS FOR
CGS ADMINISTRATORS, LLC,
FOR FISCAL YEARS 2008 THROUGH 2011**

Date	Description	Other Segment	Medicare Segment
2008	FY Allocable Pension Cost-CIGNA Pension Plan <u>1/</u>	\$97,296,047	\$1,005,472
	Medicare LOB* Percentage <u>2/</u>	0.08%	49.98%
2008	Total FY Allowable Pension Cost <u>3/</u>	\$77,837	\$502,535
2009	FY Allocable Pension Cost-CIGNA Pension Plan	\$106,724,255	\$795,649
	FY Allocable pension cost-CIGNA Pension Plan for Certain Former Employees <u>4/</u>	\$2,008,023	\$1,605
	Total FY Allocable pension cost <u>5/</u>	\$108,732,278	\$797,254
	Medicare LOB* Percentage	0.06%	48.46%
2009	Total FY Allowable Pension Cost	\$65,239	\$386,349
2010	FY Allocable Pension Cost-CIGNA Pension Plan	\$102,319,494	\$335,919
	FY Allocable pension cost-CIGNA Pension Plan for Certain Former Employees	\$18,356,981	\$13,983
	Total FY Allocable pension cost	\$120,676,475	\$349,902
	Medicare LOB* Percentage	0.04%	32.85%
2010	Total FY Allowable Pension Cost	\$48,271	\$114,943
2011	FY Allocable Pension Cost-CIGNA Pension Plan	\$67,092,309	\$136,696
	FY Allocable pension cost-CIGNA Pension Plan for Certain Former Employees	\$15,541,659	\$9,352
	Total FY Allocable pension cost	\$82,633,968	\$146,048
	Medicare LOB* Percentage	0.03%	22.17%
2011	Total FY Allowable Pension Cost	\$24,790	\$32,379

* Line of business.

ENDNOTES

- 1/ The FY allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes for the specific FY. The calculation of the CIGNA Pension Plan FY allocable pension costs appears in Appendix C.
- 2/ We calculated the CGS line of business (LOB) percentages based on information provided by CGS.
- 3/ Total FY allowable pension cost is the total allocable pension costs times the Medicare LOB percentage.
- 4/ The FY allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes for the specific FY. The calculation of the CIGNA Pension Plan for Certain Former Employees FY allocable pension costs appears in Appendix D.
- 5/ Total FY allocable pension cost is the sum of the allocable pension costs for the two CGS pension plans: the CIGNA Pension Plan and the CIGNA Pension Plan for Certain Former Employees.

APPENDIX F: AUDITEE COMMENTS

TWO VANTAGE WAY | NASHVILLE, TN 37228-1504 | CGSMEDICARE.COM



A CELERIAN GROUP COMPANY

March 27, 2017

We IMPACT lives.

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-07-16-00489

Dear Mr. Cogley:

We are responding to the U.S. Department of Health and Human Services, Office of Inspector General, draft report dated March 6, 2017 and entitled *CGS Administrators, LLC, Generally Claimed Allowable Medicare Pension Costs*.

The report contains the following recommendation:

We recommend that CGS revise its FACPs for FYs 2008 through 2011 to reduce its claimed Medicare pension costs by \$1,242.

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 FACP'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
Ryan Loyd, CIGNA
Diane Lastinec, CIGNA