

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**PALMETTO GOVERNMENT BENEFITS
ADMINISTRATOR, LLC, DID NOT
CLAIM SOME ALLOWABLE
MEDICARE PENSION COSTS
THROUGH ITS
INCURRED COST PROPOSALS**

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Office of Inspector General

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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: August 2021

Report No. A-07-20-00592

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL



Why OIG Did This Audit

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.

The HHS, OIG, Office of Audit Services, Region VII pension audit team reviews the cost elements related to qualified defined-benefit, postretirement benefit, and any other pension-related cost elements claimed by Medicare contractors through Incurred Cost Proposals (ICPs).

Previous OIG audits found that Medicare contractors did not always comply with Federal requirements when claiming pension costs for Medicare reimbursement.

Our objective was to determine whether the calendar years (CYs) 2012 through 2016 qualified defined-benefit plan pension costs (herein referred to as “pension costs”) that Palmetto Government Benefits Administrator, LLC (Palmetto), claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

How OIG Did This Audit

We reviewed \$26.7 million of pension costs that Palmetto claimed for Medicare reimbursement on its ICPs for CYs 2012 through 2016.

Palmetto Government Benefits Administrator, LLC, Did Not Claim Some Allowable Medicare Pension Costs Through Its Incurred Cost Proposals

What OIG Found

Palmetto claimed pension costs of \$26.7 million for Medicare reimbursement, through its ICPs, for CYs 2012 through 2016; however, we determined that the allowable Cost Accounting Standards-based pension costs during this period were \$27.7 million. The difference, \$998,912, represented allowable Medicare pension costs that Palmetto did not claim on its ICPs for CYs 2012 through 2016. Palmetto did not claim these allowable Medicare pension costs primarily because it used incorrect indirect cost rates when claiming pension costs for Medicare reimbursement. Specifically, Palmetto used an incorrect allocable pension cost when calculating the indirect cost rates.

What OIG Recommends and Auditee Comments

We recommend that Palmetto work with CMS to ensure that its final settlement of contract costs reflects an increase in Medicare pension costs of \$998,912 for CYs 2012 through 2016.

In its formal written comments, Palmetto did not directly refer to the monetary amount in our recommendation but did say that it would work with CMS to ensure that its final settlement of contract costs is appropriate. However, information Palmetto provided to us after issuance of our draft report caused us to decrease our recommended pension cost adjustment from \$1,000,941 to \$998,912 (a \$2,029 change).

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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, 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) and CAS- and FAR-covered contracts through Final Administrative Cost Proposals, Incurred Cost Proposals (ICPs), or both.

For this audit, we focused on one Medicare contractor, Palmetto Government Benefits Administrator, LLC (Palmetto). In particular, we examined the Palmetto Medicare segment and Other segment¹ pension costs that Palmetto claimed for Medicare reimbursement and reported on its ICPs.

OBJECTIVE

Our objective was to determine whether the calendar years (CYs) 2012 through 2016 qualified defined-benefit plan pension costs (herein referred to as "pension costs") that Palmetto claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

BACKGROUND

Palmetto Government Benefits Administrator, LLC, and Medicare

During our audit period, Palmetto was a subsidiary of Blue Cross Blue Shield of South Carolina (BCBS South Carolina), whose home office is in Columbia, South Carolina. Palmetto administers Medicare operations under the MAC contracts for Medicare Parts A and B Jurisdiction 1² and

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

² Medicare Parts A and B Jurisdiction 1 consisted of the States of California, Hawaii, and Nevada, and the U.S. Territories of American Samoa, Guam, and the Northern Mariana Islands.

Jurisdiction 11³ effective October 25, 2007, and May 21, 2010, respectively, as well as other CAS-covered and FAR-covered contracts. Currently, Palmetto is the Medicare Parts A and B contractor for Jurisdictions J⁴ and M (formerly Jurisdiction 11). Palmetto also continues to perform Railroad Retirement Board contract operations under a specialty MAC contract awarded on November 27, 2012.

The disclosure statement that Palmetto submits to CMS states that Palmetto 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 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

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.

Previous Audits of Allocable Pension Costs

We previously reviewed Palmetto's allocable pension costs (A-07-17-00505, Jul. 6, 2017) and the BCBS South Carolina's allocable pension costs (A-07-17-00509, Aug. 28, 2017). Our Palmetto audit report identified allocable pension costs that Palmetto should have used when calculating its indirect cost rates for CYs 2006 through 2012. We recommended that Palmetto increase the Medicare segment pension costs used to calculate its indirect cost rates by \$143,261 for CYs 2006 through 2012. Our BCBS South Carolina audit report identified Other segment allocable pension costs that BCBS South Carolina's subsidiaries' Medicare segments should have used when calculating the indirect cost rates for CYs 2006 through 2012. We

³ Medicare Parts A and B Jurisdiction 11 consisted of the States of North Carolina, South Carolina, Virginia, and West Virginia (but excluded Part B for the counties of Arlington and Fairfax in Virginia and the city of Alexandria in Virginia). Jurisdiction 11 also included home health and hospice services provided in the States of Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Kentucky, Louisiana, Mississippi, New Mexico, North Carolina, Ohio, Oklahoma, South Carolina, Tennessee, and Texas. Service areas for Jurisdiction M (mentioned in the next sentence of this section) are the same as those for Jurisdiction 11.

⁴ Medicare Parts A and B Jurisdiction J consists of the states of Alabama, Georgia, and Tennessee.

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.

recommended that BCBS South Carolina decrease the Medicare segment pension costs used to calculate its indirect cost rates by \$6,193,748 for CYs 2006 through 2012.

Incurred Cost Proposal Audits

At CMS's request, Figliozi & Company CPAs P.C. (Figliozi), the Defense Contract Audit Agency (DCAA), and CliftonLarsonAllen, LLP (Allen), performed audits of the ICPs that Palmetto submitted for CYs 2012 through 2016. The objectives of these ICP audits were to determine whether costs were allowable in accordance with applicable Federal regulations.

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

We incorporated the results of the Figliozi, DCAA, and Allen 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 Figliozi, DCAA, and Allen ICP audit reports, to determine the final indirect cost rates and the total allowable contract costs for Palmetto for CYs 2012 through 2016. 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 \$26,672,980 of pension costs that Palmetto claimed for Medicare reimbursement on its ICPs for CYs 2012 through 2016.

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

Palmetto claimed pension costs of \$26,672,980 for Medicare reimbursement, through its ICPs, for CYs 2012 through 2016; however, we determined that the allowable CAS-based pension

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 allowed or disallowed in the final settlement," respectively.

costs during this period were \$27,671,892.⁷ The difference, \$998,912, represented allowable Medicare pension costs that Palmetto did not claim on its ICPs for CYs 2012 through 2016. Palmetto did not claim these allowable Medicare pension costs primarily because it used incorrect indirect cost rates when claiming pension costs for Medicare reimbursement. Specifically, Palmetto used an incorrect allocable pension cost when calculating the indirect cost rates.

ALLOCABLE MEDICARE SEGMENT PENSION COSTS UNDERSTATED

During this audit, we calculated the allocable Medicare segment pension costs for CYs 2012 through 2016 in accordance with Federal requirements.⁸ We determined that the allocable Medicare segment pension costs for CYs 2012 through 2016 totaled \$25,849,846. Palmetto reported that its allocable pension costs, as identified in its actuarial computations, totaled \$24,828,568. Therefore, Palmetto understated the Medicare segment allocable pension costs by \$1,021,278. 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 below shows the differences between the allocable Medicare segment CAS-based pension costs that we determined for CYs 2012 through 2016 and the Medicare segment allocable pension costs that Palmetto calculated for the same time period.

Table 1: Allocable Medicare Segment Pension Costs

CY	Allocable Per Audit	Per Palmetto	Difference
2012	\$5,115,107	\$5,291,462	(\$176,355)
2013	5,321,905	5,535,136	(213,231)
2014	5,233,789	4,780,076	453,713
2015	5,354,797	4,839,315	515,482
2016	4,824,248	4,382,579	441,669
Total	\$25,849,846	\$24,828,568	\$1,021,278

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

⁸ We identified the allocable Medicare segment pension cost for CY 2012 in our previous audit (A-07-17-00505, Jul. 6, 2017). For the current audit, we incorporated these allocable pension costs into the indirect cost rates to determine the allowable pension costs.

ALLOCABLE OTHER SEGMENT PENSION COSTS OVERSTATED

During the current audit, we calculated the allocable Other segment pension costs for CYs 2012 through 2016 in accordance with Federal requirements.⁹ We determined that the allocable Other segment pension costs for CYs 2012 through 2016 totaled \$246,970,412. Palmetto reported that its Other segment allocable pension costs, as identified in its actuarial computations, totaled \$252,926,615. Therefore, Palmetto overstated the allocable Other segment pension costs by \$5,956,203. This overstatement 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 2 below shows the differences between the allocable Other segment CAS-based pension costs that we determined for CYs 2012 through 2016 and the Other segment allocable pension costs that Palmetto calculated for the same time period.

Table 2: Allocable Other Segment Pension Costs

CY	Allocable Per Audit	Per Palmetto	Difference
2012	\$46,652,450	\$47,196,542	(\$544,092)
2013	50,540,842	51,688,048	(1,147,206)
2014	50,183,151	52,031,033	(1,847,882)
2015	51,837,830	52,894,784	(1,056,954)
2016	47,756,139	49,116,208	(1,360,069)
Total	\$246,970,412	\$252,926,615	(\$5,956,203)

CALCULATION OF ALLOWABLE PENSION COSTS

We used both the Medicare segment and 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 2012 through 2016.

Palmetto claimed Medicare pension costs of \$26,672,980 on its ICPs for CYs 2012 through 2016. After incorporating the results of the Figliozzi, DCAA, and Allen ICP audits and our adjustments to the indirect cost rates, we determined that the allowable CAS-based pension costs for CYs 2012 through 2016 were \$27,671,892. Thus, Palmetto did not claim \$998,912 of allowable Medicare pension costs on its ICPs for CYs 2012 through 2016. This underclaim occurred specifically because Palmetto based its claim for Medicare reimbursement on incorrect allocable pension costs included in the indirect cost rates on the ICPs.

⁹ We identified the allocable Other segment pension cost for CY 2012 in our previous audit (A-07-17-00509, Aug. 28, 2017). For the current audit, we incorporated these allocable pension costs into the indirect cost rates to determine 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 3 below compares the Medicare pension costs that we calculated (using our adjusted indirect cost rates) to the pension costs that Palmetto claimed for Medicare reimbursement for CYs 2012 through 2016.

Table 3: Comparison of Allowable Pension Costs and Claimed Pension Costs¹⁰

CY	Allowable Per Audit	Per Palmetto	Difference
2012	\$4,013,476	\$4,005,296	\$8,180
2013	6,275,272	6,406,004	(130,732)
2014	6,121,497	5,728,190	393,307
2015	5,907,201	5,475,895	431,306
2016	5,354,446	5,057,595	296,851
Total	\$27,671,892	\$26,672,980	\$998,912

RECOMMENDATION

We recommend that Palmetto Government Benefits Administrator, LLC, work with CMS to ensure that its final settlement of contract costs reflects an increase in Medicare pension costs of \$998,912 for CYs 2012 through 2016.

AUDITEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, Palmetto did not directly refer to the monetary amount in our recommendation but did say that it would work with CMS to ensure that its final settlement of contract costs is appropriate. Palmetto’s comments appear in their entirety as Appendix D.¹¹

After issuance of our draft report, we engaged in discussions with Palmetto that caused us to revise the monetary aspect of our finding and recommendation. This revision resulted in a decrease of \$2,029 in the calculation of the pension costs, of which we made Palmetto aware on July 13, 2021. Palmetto based its comments on our draft report on that revised dollar amount. Therefore, we continue to recommend that Palmetto work with CMS to ensure that

¹⁰ Our calculation of allowable costs does not appear in this report because those indirect cost rate computations that Palmetto used in its ICPs, and to which we referred as part of our audit, are proprietary information.

¹¹ Although BCBS South Carolina, of which Palmetto is a subsidiary, provided written comments on this draft report, for consistency we associate these comments with Palmetto.

its final settlement of contract costs reflects an increase in Medicare pension costs of \$998,912 (\$1,000,941 - \$2,029) for CYs 2012 through 2016.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$26,672,980 of pension costs that Palmetto claimed for Medicare reimbursement on its ICPs for CYs 2012 through 2016.

Achieving our objective did not require that we review Palmetto's overall internal control structures. We reviewed the internal controls related to the pension costs that were included in Palmetto'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 fieldwork at BCBS South Carolina and Palmetto located 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 Palmetto to identify the amounts of pension costs used in Palmetto's calculation of indirect cost rates for CYs 2012 through 2016;
- used information that Palmetto's actuarial consulting firm provided, including information on the pension plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses;
- reviewed the results of the Figliozzi, DCAA, and Allen 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 Palmetto officials on April 2, 2021.

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

- *Palmetto Government Benefits Administrator, LLC, Claimed Some Unallowable Medicare Postretirement Costs Through Its Incurred Cost Proposals (A-07-21-00614);*
- *Palmetto Government Benefits Administrator, LLC, Claimed Some Unallowable Medicare Supplemental Executive Retirement Plan III Costs Through Its Incurred Cost Proposals (A-07-21-00615); and*
- *Palmetto Government Benefits Administrator, LLC, Claimed Some Unallowable Excess Plan Costs Through Its Incurred Cost Proposals (A-07-21-00616).*

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 objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

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 Palmetto 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
PALMETTO GOVERNMENT BENEFITS ADMINISTRATOR, LLC,
FOR CALENDAR YEARS 2013 THROUGH 2016**

Date	Description	Total Company	"Other" Segment	Palmetto Segment	CDS Segment
2013	Contributions <u>1/</u>	\$70,000,000	\$70,000,000	\$0	\$0
	Discount for Interest <u>2/</u>	(\$7,396,984)	(\$7,396,984)	\$0	\$0
January 1, 2013	Present Value Contributions <u>3/</u>	\$62,603,016	\$62,603,016	\$0	\$0
	Prepayment Credit Applied <u>4/</u>	\$57,696,653	\$50,540,842	\$5,321,905	\$1,833,906
	Present Value of Funding <u>5/</u>	\$120,299,669	\$113,143,858	\$5,321,905	\$1,833,906
January 1, 2013	CAS Funding Target <u>6/</u>	\$57,696,653	\$50,540,842	\$5,321,905	\$1,833,906
	Percentage Funded <u>7/</u>		100.00%	100.00%	100.00%
	Funded Pension Cost <u>8/</u>		\$50,540,842	\$5,321,905	\$1,833,906
	Allowable Interest <u>9/</u>		\$0	\$0	\$0
2013	Allocable Pension Cost <u>10/</u>		\$50,540,842	\$5,321,905	\$1,833,906

Date	Description	Total Company	"Other" Segment	Palmetto Segment	CDS Segment
2014	Contributions	\$65,000,000	\$65,000,000	\$0	\$0
	Discount for Interest	(\$6,510,961)	(\$6,510,961)	\$0	\$0
January 1, 2014	Present Value Contributions	\$58,489,039	\$58,489,039	\$0	\$0
	Prepayment Credit Applied	\$57,221,738	\$50,183,151	\$5,233,789	\$1,804,798
	Present Value of Funding	\$115,710,777	\$108,672,190	\$5,233,789	\$1,804,798
January 1, 2014	CAS Funding Target	\$57,221,738	\$50,183,151	\$5,233,789	\$1,804,798
	Percentage Funded		100.00%	100.00%	100.00%
	Funded Pension Cost		\$50,183,151	\$5,233,789	\$1,804,798
	Allowable Interest		\$0	\$0	\$0
2014	Allocable Pension Cost		\$50,183,151	\$5,233,789	\$1,804,798

Date	Description	Total Company	"Other" Segment	Palmetto Segment	CDS Segment
2015	Contributions	\$45,000,000	\$45,000,000	\$0	\$0
	Discount for Interest	(\$4,275,631)	(\$4,275,631)	\$0	\$0
January 1, 2015	Present Value Contributions	\$40,724,369	\$40,724,369	\$0	\$0
	Prepayment Credit Applied	\$58,854,179	\$51,837,830	\$5,354,797	\$1,661,552
	Present Value of Funding	\$99,578,548	\$92,562,199	\$5,354,797	\$1,661,552
January 1, 2015	CAS Funding Target	\$58,854,179	\$51,837,830	\$5,354,797	\$1,661,552
	Percentage Funded		100.00%	100.00%	100.00%
	Funded Pension Cost		\$51,837,830	\$5,354,797	\$1,661,552
	Allowable Interest		\$0	\$0	\$0
2015	Allocable Pension Cost		\$51,837,830	\$5,354,797	\$1,661,552

Date	Description	Total Company	"Other" Segment	Palmetto Segment	CDS Segment
2016	Contributions	\$50,000,000	\$50,000,000	\$0	\$0
	Discount for Interest	(\$4,649,079)	(\$4,649,079)	\$0	\$0
January 1, 2016	Present Value Contributions	\$45,350,921	\$45,350,921	\$0	\$0
	Prepayment Credit Applied	\$54,236,476	\$47,756,139	\$4,824,248	\$1,656,089
	Present Value of Funding	\$99,587,397	\$93,107,060	\$4,824,248	\$1,656,089
January 1, 2016	CAS Funding Target	\$54,236,476	\$47,756,139	\$4,824,248	\$1,656,089
	Percentage Funded		100.00%	100.00%	100.00%
	Funded Pension Cost		\$47,756,139	\$4,824,248	\$1,656,089
	Allowable Interest		\$0	\$0	\$0
2016	Allocable Pension Cost		\$47,756,139	\$4,824,248	\$1,656,089

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 segment during the pension segmentation review (A-07-20-00586). 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.
- 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 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.



July 16, 2021

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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

Report Numbers:

A-07-20-00592

A-07-20-00593

A-07-20-00594

A-07-21-00608

A-07-21-00609

A-07-21-00610

A-07-21-00611

A-07-21-00612

A-07-21-00613

A-07-21-00614

A-07-21-00615

A-07-21-00616

Dear Mr. Cogley:

We are in receipt of the draft reports referenced above.

As recommended in each report, we will work with CMS to ensure costs are appropriate upon final settlement of the Incurred Cost Proposal reports.

Sincerely,

/Lori Hair/

Lori Hair
Vice President, Controller and Assistant Treasurer
Blue Cross and Blue Shield of South Carolina

Cc: Bruce Hughes, Celerian Group
Michael Mizeur, Chief Financial Officer