

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**COMPANION DATA SERVICES, LLC,
SUPPLEMENTAL EXECUTIVE
RETIREMENT PLAN III COSTS
CLAIMED THROUGH
INCURRED COST PROPOSALS WERE
ALLOWABLE AND REASONABLE**

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**Amy J. Frontz
Deputy Inspector General
for Audit Services**

**August 2021
A-07-21-00611**

Office of Inspector General

<https://oig.hhs.gov/>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

Report in Brief

Date: August 2021

Report No. A-07-21-00611

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 Supplemental Executive Retirement Plan (SERP) costs.

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 SERP costs for Medicare reimbursement.

Our objective was to determine whether the calendar years (CYs) 2015 and 2016 SERP III costs that Companion Data Services, LLC (CDS), claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

How OIG Did This Audit

We reviewed \$958 of Medicare SERP III costs that CDS claimed for Medicare reimbursement on its ICPs for CYs 2015 and 2016.

We performed this audit in conjunction with three other pension and postretirement benefit audits of CDS. In these four audits, we reviewed more than \$4.3 million in Medicare costs claimed by CDS.

Companion Data Services, LLC, Supplemental Executive Retirement Plan III Costs Claimed Through Incurred Cost Proposals Were Allowable and Reasonable

What OIG Found

The SERP III costs that CDS claimed for Medicare reimbursement on its ICPs for CYs 2015 and 2016 were allowable and reasonable, and thus were correctly claimed. Therefore, this report makes no recommendations.

Auditee Comments

CDS said that it would work with CMS to ensure that its final settlement of contract costs is appropriate.

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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. 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, 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) 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, Companion Data Services, LLC (CDS). In particular, we examined the Supplemental Executive Retirement Plan III (SERP III) costs that CDS 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) 2015 and 2016 SERP III costs that CDS claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

BACKGROUND

Companion Data Services, LLC, and Medicare

During our audit period, CDS was a subsidiary of Blue Cross Blue Shield of South Carolina (BCBS South Carolina), whose home office is in Columbia, South Carolina. CDS was created after being awarded the Enterprise Data Center (EDC) contract effective March 10, 2006. The EDC contract was replaced by a Virtual Data Center contract on November 15, 2012, which is still in effect. Upon creation of the CDS Medicare segment, BCBS South Carolina and CDS elected to follow CAS regulations regarding segmented accounting.

During our audit period, CMS and BCBS South Carolina entered into an agreement called the "Advance Agreement On the Computation of Nonqualified Defined-Benefit Pension Plan Costs for Periods Beginning January 1, 2015" (agreement). This agreement allowed BCBS South Carolina to change its accounting methodology from a pay-as-you-go to an accrual method.

This agreement also closed costs prior to January 1, 2015. Starting with January 1, 2015, the SERP III plan would, under the terms of the agreement, identify its segments by individual participant. These segments allocate to each of the BCBS South Carolina's Medicare subsidiaries: Palmetto Government Benefits Administrator, LLC; CDS; and CGS Administrators, LLC. This report addresses CDS's compliance with the provisions of the Federal requirements and its Medicare contracts in claiming SERP III costs.

The disclosure statement that CDS submits to CMS states that CDS uses pooled cost accounting. Medicare contractors use pooled cost accounting to calculate the indirect cost rates (whose computations include pension, postretirement benefit, SERP III, and Blue Cross Blue Shield of South Carolina 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.¹

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 CDS 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. CDS claimed SERP III costs on an accrual basis.

Incurred Cost Proposal Audits

At CMS's request, the Defense Contract Audit Agency (DCAA) and CohnReznick (Reznick) performed audits of the ICPs that CDS submitted for CYs 2015 and 2016. The objectives of these ICP audits were to determine whether costs were allowable in accordance with applicable government regulations.

¹ 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 DCAA and Reznick ICP audit findings and recommendations when computing the allowable SERP III costs discussed in this report.

We incorporated the results of the DCAA and Reznick 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 DCAA and Reznick ICP audit reports, to determine the final indirect cost rates and the total allowable contract costs for CDS for CYs 2015 and 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.²

HOW WE CONDUCTED THIS AUDIT

We reviewed \$958 of SERP III costs that CDS claimed for Medicare reimbursement on its ICPs for CYs 2015 and 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.

RESULTS OF AUDIT

The SERP III costs that CDS claimed for Medicare reimbursement on its ICPs for CYs 2015 and 2016 were allowable and reasonable, and thus were correctly claimed. 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. After reviewing CDS's methodology for claiming SERP III costs, we determined that the SERP III costs that CDS reported on its ICPs for CYs 2015 and 2016 materially complied with Federal requirements. Therefore, this report makes no recommendations.

² 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.

AUDITEE COMMENTS

In written comments on our draft report, CDS said that it would work with CMS to ensure that its final settlement of contract costs is appropriate. CDS's comments appear in their entirety as Appendix D.³

³ Although BCBS South Carolina, of which CDS is a subsidiary, provided written comments on this draft report, for consistency we associate these comments with CDS.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$958 of SERP III costs claimed by CDS for Medicare reimbursement on its ICPs for CYs 2015 and 2016.

Achieving our objective did not require that we review CDS's overall internal control structures. We reviewed the internal controls related to the SERP III costs that were included in CDS's ICP and ultimately used as the basis for Medicare reimbursement to ensure that those costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

We performed fieldwork at BCBS South Carolina and CDS located in Columbia, South Carolina.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and the Medicare contracts applicable to this audit;
- reviewed information provided by CDS to identify the amounts of SERP III costs used in CDS's calculation of indirect cost rates for CYs 2015 and 2016;
- used information that CDS's actuarial consulting firm provided, including information on the SERP III plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses;
- examined CDS's accounting records, SERP III plan documents, and annual actuarial valuation reports;
- determined the extent to which CDS funded CAS-based SERP III costs with contributions to the trust and accumulated prepayment credits;
- reviewed the results of the DCAA and Reznick 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 (the calculations were based on separately computed CAS-based pension costs for the SERP III Medicare segment and the Other segment);

- reviewed and verified the CMS actuaries' methodology and calculations and used this information to calculate the SERP III costs for the CDS Medicare segment for CYs 2015 and 2016; and
- provided the results of our audit to CDS officials on March 15, 2021.

We performed this audit in conjunction with the following audits and used the information obtained during those audits:⁴

- *Almost All of the Medicare Pension Costs That Companion Data Services, LLC, Claimed Through Its Incurred Cost Proposals Were Allowable (A-07-20-00594);*
- *Companion Data Services, LLC, Claimed Some Unallowable Medicare Postretirement Benefit Costs Through Its Incurred Cost Proposals (A-07-21-00609); and*
- *Companion Data Services, LLC, Claimed Some Unallowable Medicare Excess Plan Costs Through Its Incurred Cost Proposals (A-07-21-00610).*

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.

⁴ In these four audits, we reviewed more than \$4.3 million in Medicare costs claimed by CDS.

**APPENDIX B: ALLOCABLE SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN III
COSTS FOR COMPANION DATA SERVICES, LLC,
FOR CALENDAR YEARS 2015 AND 2016**

Date	Description		Total Company	"Other" Segment	Medicare Allowable Segment
2015	Contributions	<u>1/</u>	\$7,264,000	\$7,264,000	\$0
	Discount for Interest	<u>2/</u>	(\$339,315)	(\$339,315)	\$0
January 1, 2015	Present Value Contributions	<u>3/</u>	\$6,924,685	\$6,924,685	\$0
	Prepayment Credit Applied	<u>4/</u>	\$938,380	\$651,693	\$286,687
	Present Value of Funding	<u>5/</u>	\$7,863,065	\$7,576,378	\$286,687
January 1, 2015	CAS Funding Target	<u>6/</u>	\$938,380	\$651,693	\$286,687
	Percentage Funded	<u>7/</u>		100.00%	100.00%
	Funded Pension Cost	<u>8/</u>		\$651,693	\$286,687
	Allowable Interest	<u>9/</u>		\$0	\$0
2015	Allocable Pension Cost	<u>10/</u>		\$651,693	\$286,687

Date	Description		Total Company	"Other" Segment	Medicare Allowable Segment
2016	Contributions		\$6,336,017	\$5,826,443	\$509,574
	Discount for Interest		(\$294)	(\$270)	(\$24)
January 1, 2016	Present Value Contributions		\$6,335,723	\$5,826,173	\$509,550
	Prepayment Credit Applied		\$911,927	\$639,788	\$272,139
	Present Value of Funding		\$7,247,650	\$6,465,961	\$781,689
January 1, 2016	CAS Funding Target		\$911,927	\$639,788	\$272,139
	Percentage Funded			100.00%	100.00%
	Funded Pension Cost			\$639,788	\$272,139
	Allowable Interest			\$0	\$0
2016	Allocable Pension Cost			\$639,788	\$272,139

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 Allowable segment during the SERP III segmentation review (A-07-20-00600). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare Allowable 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.



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July 16, 2021

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Report Numbers:

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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