

Department of Health and Human Services
Office of Inspector General



Office of Audit Services

August 2025 | OAS-25-07-023

Companion Data Services, LLC, Understated Its Medicare Segment Pension Assets as of January 1, 2022

REPORT HIGHLIGHTS



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Why OIG Did This Audit

- Medicare contractors are required to separately account for the Medicare segment pension plan assets based on the requirements of their Medicare contracts and Cost Accounting Standards 412 and 413.
- HHS, OIG, Office of Audit Services, reviews the Medicare segment pension assets to ensure compliance with Federal regulations.
- Previous OIG audits found that Medicare contractors did not always correctly identify and update the segmented pension assets.
- This audit examined whether Companion Data Services, LLC (CDS), complied with Federal requirements when (1) implementing the prior audit recommendation to decrease the Medicare segment assets as of January 1, 2017, and (2) updating its Medicare segment pension assets from January 1, 2017, to January 1, 2022.

What OIG Found

- CDS concurred with and implemented our prior audit recommendation to decrease the Medicare segment pension assets by \$777,081 as of January 1, 2017.
- CDS did not correctly update its Medicare segment pension assets from January 1, 2017, to January 1, 2022. CDS identified \$16.3 million as its Medicare segment pension assets as of January 1, 2022; however, we determined that those assets were \$16.5 million as of that date. Therefore, CDS understated its Medicare segment pension assets as of January 1, 2022, by \$269,643.
- CDS's policies and procedures did not always ensure that it calculated those pension assets in accordance with Federal requirements when updating its Medicare segment pension assets from January 1, 2017, to January 1, 2022.

What OIG Recommends

We recommend that CDS increase its Medicare segment pension assets by \$269,643 and recognize \$16.5 million as the Medicare segment pension assets as of January 1, 2022, and improve policies and procedures to ensure that going forward, it calculates Medicare segment pension assets in accordance with Federal requirements.

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

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INTRODUCTION

WHY WE DID THIS AUDIT

Medicare contractors are required to separately account for the Medicare segment pension plan assets based on the requirements of their Medicare contracts and Cost Accounting Standards (CAS) 412 and 413. The Centers for Medicare & Medicaid Services (CMS) incorporated this requirement into the Medicare contracts beginning with fiscal year 1988. Previous Office of Inspector General audits found that Medicare contractors did not always correctly identify and update the segmented pension assets.

At CMS's request, the Department of Health and Human Services, Office of Inspector General, Office of Audit Services, reviews the cost elements related to qualified defined-benefit, nonqualified defined-benefit, postretirement benefit, 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 Companion Data Services, LLC (CDS), a Medicare contractor, we examined the Other segment and Medicare segment pension assets that CDS updated from January 1, 2017, to January 1, 2022.

OBJECTIVES

Our objectives were to determine whether CDS complied with Federal requirements when (1) implementing the prior audit recommendation to decrease the Medicare segment assets as of January 1, 2017, and (2) updating its Medicare segment pension assets from January 1, 2017, to January 1, 2022.

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 administers the Virtual Data Center contract, effective November 15, 2012. Upon creation of the CDS Medicare segment, BCBS South Carolina and CDS elected to follow CAS regulations regarding segmented accounting.

During our audit period, BCBS South Carolina had two Medicare segments that participated in its qualified defined-benefit pension plan: Palmetto Government Benefits Administrator, LLC (Palmetto), and CDS. This report addresses CDS's compliance with the pension segmentation language under the provisions of Federal requirements and its Medicare contracts. We are addressing Palmetto's compliance with Federal requirements in a separate audit.

Prior Pension Segmentation Audit

We performed a prior pension segmentation audit of CDS's Medicare segment (A-07-20-00587, Apr. 17, 2020), which brought the CDS Medicare segment pension assets to January 1, 2017. We recommended that CDS decrease the Medicare segment pension assets by \$777,081 and, as a result, recognize \$17,276,454 as the Medicare segment pension assets as of January 1, 2017.

HOW WE CONDUCTED THIS AUDIT

We reviewed CDS's implementation of the prior audit recommendation, its identification of its Medicare segment, and its update of the Medicare segment pension assets from January 1, 2017, to January 1, 2022.

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.

FINDINGS

CDS implemented our prior audit recommendation to decrease the Medicare segment pension assets by \$777,081 as of January 1, 2017.¹ Regarding our second objective, CDS did not correctly update its Medicare segment pension assets from January 1, 2017, to January 1, 2022, in accordance with Federal requirements. CDS identified \$16,250,420 as its Medicare segment pension assets as of January 1, 2022; however, we determined that those assets were \$16,520,063 as of that date. Therefore, CDS understated its Medicare segment pension assets as of January 1, 2022, by \$269,643. CDS understated those pension assets because its policies and procedures did not always ensure that it calculated those assets in accordance with Federal requirements when updating its Medicare segment pension assets from January 1, 2017, to January 1, 2022.

Appendix B identifies the details of CDS's Medicare segment pension assets from January 1, 2017, to January 1, 2022, as determined during our audit.

Table 1 on the following page summarizes the audit adjustments required to update CDS's Medicare segment pension assets in accordance with Federal requirements.

¹ Implementation of our prior audit recommendation required the restatement of CDS's annual valuation report. CDS concurred with our prior audit recommendation and chose to update the assets in its January 1, 2021, valuation report.

Table 1: Summary of Audit Adjustments

	Per Audit	Per CDS	Difference
Prior Audit Recommendation	\$17,276,454	\$18,053,535	(\$777,081)
Update of Medicare Segment Assets			
Prior Audit Adjustment—2021 Valuation Report ²	0	(1,078,163)	1,078,163
Contributions and Prepayment Credits	6,022,055	5,865,868	156,187
Participant Transfers	(6,753,377)	(6,765,023)	11,646
Benefit Payments	(6,968,572)	(7,042,627)	74,055
Earnings, Net of Expenses	6,943,503	7,216,830	(273,327)
Understatement of Medicare Segment Assets			\$269,643

PRIOR AUDIT RECOMMENDATION

We performed a prior pension segmentation audit of CDS's Medicare segment pension assets (A-07-20-00587, Apr. 17, 2020), which recommended that CDS decrease its Medicare segment pension assets by \$777,081 and, as a result, recognize \$17,276,454 as the Medicare segment assets as of January 1, 2017. CDS concurred with our prior audit recommendation.

CDS implemented the prior audit recommendation during 2020 in its January 1, 2021, valuation report (footnotes 1 and 2). To do so, CDS made an adjustment of \$1,078,163 (*i.e.*, \$777,081 for the prior audit recommendation plus \$301,082 that reflected the cumulative assets' impacts of the prior audit recommendation).

UPDATE OF MEDICARE SEGMENT PENSION ASSETS

Federal requirements require Medicare contractors to update the Medicare segment pension assets yearly in accordance with the CAS. The CAS requires that the asset base be adjusted by contributions, income, benefit payments, and expenses. For details on the Federal requirements, see Appendix C.

CDS did not correctly update its Medicare segment pension assets from January 1, 2017, to January 1, 2022, in accordance with Federal requirements and its established cost accounting practice. CDS identified \$16,250,420 as its Medicare segment pension assets as of January 1, 2022; however, we determined that those assets were \$16,520,063 as of that date. Therefore, CDS understated its Medicare segment pension assets as of January 1, 2022, by \$269,643. The

² The prior audit adjustment is the adjustment for the prior audit recommendation. This adjustment was made in the January 1, 2021, valuation. The adjustment incorporated the prior audit finding plus the cumulative assets' impacts of the prior audit recommendation. See also "Prior Audit Recommendation" just below for additional details.

following are our findings regarding the update of the CDS Medicare segment pension assets from January 1, 2017, to January 1, 2022. Appendix D identifies CDS's CAS balance equation for the pension assets as of January 1, 2022.³

Contributions and Transferred Prepayment Credits Understated

The audited contributions and transferred prepayment credits are based on the assignable pension costs.^{4, 5} In compliance with the CAS, we applied prepayment credits first to current-year assignable pension costs (because the credits were available at the beginning of the year) and then updated any remaining credits with interest to the next measurement (valuation) date. We then allocated contributions to assigned pension costs, as needed, as of the date of deposit. For additional details on these Federal requirements, see Appendix C.

CDS understated contributions and transferred prepayment credits by \$156,187 for its Medicare segment. The understatement occurred primarily because of differences in the asset base used to compute the assignable pension costs.

Table 2 shows the differences between the contributions and transferred prepayment credits proposed by CDS and the contributions and transferred prepayment credits that we calculated during our audit.

Table 2: Contributions and Transferred Prepayment Credits

Calendar Year	Per Audit	Per CDS	Difference
2017	\$1,174,272	\$1,097,853	\$76,419
2018	1,233,546	1,101,418	132,128
2019	970,203	880,812	89,391
2020	1,181,900	1,241,338	(59,438)
2021	1,462,134	1,544,447	(82,313)
Total	\$6,022,055	\$5,865,868	\$156,187

Net Transfers Out Overstated

CDS overstated net transfers out of its Medicare segment by \$11,646. The overstatement occurred because CDS incorrectly identified the participants who transferred in or out of its

³ The CAS balance equation identifies the market value of assets, actuarial accrued liability, actuarial value of assets, accumulated value of prepayment credits, and the unfunded actuarial liability in accordance with CAS 412-40(c).

⁴ A prepayment credit is the amount funded in excess of the pension costs assigned to a cost accounting period that is carried forward for future recognition.

⁵ These are assigned to a specific cost accounting period.

Medicare segment. This overstatement of the net transfer adjustment resulted in an understatement of the Medicare segment pension assets by \$11,646. Table 3 shows the differences between the net transfers proposed by CDS and the net transfers that we calculated during our audit.

Table 3: Net Transfers

Calendar Year	Per Audit	Per CDS	Difference
2017	(\$1,594,217)	(\$1,562,314)	(\$31,903)
2018	(3,472,714)	(3,350,838)	(121,876)
2019	(152,456)	(317,881)	165,425
2020	(584,904)	(584,904)	0
2021	(949,086)	(949,086)	0
Total	(\$6,753,377)	(\$6,765,023)	\$11,646

Benefit Payments Overstated

CDS overstated benefit payments by \$74,055. The overstatement occurred because CDS did not correctly identified benefit payments. This overstatement of benefit payments resulted in an understatement of the Medicare segment pension assets by \$74,055. A comparison of CDS's and our calculations of benefit payments for the Medicare segment appears in Table 4.

Table 4: Benefit Payments

Calendar Year	Per Audit	Per CDS	Difference
2017	(\$1,714,872)	(\$1,709,037)	(\$5,835)
2018	(3,288,126)	(3,346,006)	57,880
2019	(505,399)	(508,820)	3,421
2020	(694,529)	(701,116)	6,587
2021	(765,646)	(777,648)	12,002
Total	(\$6,968,572)	(\$7,042,627)	\$74,055

Earnings, Net of Expenses, Overstated

CDS overstated investment earnings, less administrative expenses, by \$273,327, because it used incorrect contributions and transferred prepayment credits, incorrect net transfers, and incorrect benefit payments (all discussed above) to develop the Medicare segment pension asset base. We allocated earnings, net of expenses, based on the applicable CAS requirements when we audited the update of the Medicare segment assets.

For details on applicable Federal requirements, see Appendix C. Table 5 shows the differences between the earnings, net of expenses, proposed by CDS and the earnings, net of expenses, that we calculated during our audit.

Table 5: Earnings, Net of Expenses

Calendar Year	Per Audit	Per CDS	Difference
2017	\$3,462,655	\$3,644,168	(\$181,513)
2018	(1,416,065)	(1,524,704)	108,639
2019	3,127,194	3,364,950	(237,756)
2020	1,022,421	999,359	23,062
2021	747,298	733,057	14,241
Total	\$6,943,503	\$7,216,830	(\$273,327)

RECOMMENDATIONS

We recommend that Companion Data Services, LLC:

- increase its Medicare segment pension assets by \$269,643 and recognize \$16,520,063 as the Medicare segment pension assets as of January 1, 2022, and
- improve policies and procedures to ensure that going forward, it calculates Medicare segment pension assets in accordance with Federal requirements.

AUDITEE COMMENTS

In written comments on our draft report, CDS, through its parent company, BCBS South Carolina, concurred with our findings but did not specifically indicate concurrence or nonconcurrence with our recommendations. CDS said that it would work with its actuarial firm to ensure that the recommendations are implemented prospectively, beginning with calendar year 2025. CDS also stated that it would work with CMS to ensure the final settlement and collection of contract costs.

CDS's comments appear in their entirety as Appendix E.⁶

⁶ 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 CDS's implementation of the prior audit recommendation, its identification of its Medicare segment, and its update of the Medicare segment pension assets from January 1, 2017, to January 1, 2022.

Achieving our objective did not require that we review CDS's overall internal control structures. We reviewed controls relating to the identification of the Medicare segment and to the update of the Medicare segment pension assets to ensure adherence to CAS 412 and CAS 413.

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 the annual actuarial valuation reports prepared by BCBS South Carolina's actuarial consulting firms, which included the pension plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses, and used this information to calculate the Medicare segment assets;
- obtained and reviewed the pension plan documents and Department of Labor/Internal Revenue Service Forms 5500 used in calculating the Medicare segment assets;
- interviewed BCBS South Carolina and CDS staff responsible for identifying the Medicare segment to determine whether the segment was properly identified;
- reviewed CDS's accounting records to verify the Medicare segment's identification as well as the benefit payments made from the Medicare segment;
- reviewed the prior segmentation audit performed at CDS (A-07-20-00587, Apr. 17, 2020) to determine the beginning market value of assets for the Medicare segment;
- provided the CMS Office of the Actuary, which provides technical actuarial advice, with the actuarial information necessary for it to calculate the Medicare segment pension assets from January 1, 2017, to January 1, 2022;
- reviewed the CMS actuaries' methodology and calculations; and

- provided the results of our audit to CDS officials.

We performed this audit in conjunction with the following audit and used the information obtained during it: *Palmetto Government Benefits Administrator, LLC, Overstated Its Medicare Segment Pension Assets as of January 1, 2022* (A-07-23-00638).

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: COMPANION DATA SERVICES, LLC,
STATEMENT OF MEDICARE SEGMENT PENSION ASSETS
FOR THE PERIOD JANUARY 1, 2017, TO JANUARY 1, 2022**

[illegible]

Description		Total Company	Other Segments	Palmetto Medicare Segment	CDS Medicare Segment
Assets January 1, 2021		\$1,433,899,561	\$1,327,610,168	\$90,264,030	\$16,025,363
Prepayment credits		0	(7,275,521)	5,813,387	1,462,134
Contributions		55,000,000	55,000,000	0	0
Earnings		61,221,233	56,411,826	4,059,497	749,910
Benefit payments		(75,011,818)	(67,277,262)	(6,968,910)	(765,646)
Administrative Expenses		(213,253)	(196,500)	(14,141)	(2,612)
Transfers		0	6,074,497	(5,125,411)	(949,086)
Discount on Accrued Contributions		(1,028,392)	(1,028,392)	0	0
Assets January 1, 2022		\$1,473,867,331	\$1,369,318,816	\$88,028,452	\$16,520,063
Per BCBS South Carolina	9/	\$1,444,888,066	\$1,338,780,030	\$89,857,616	\$16,250,420
Asset variance	10/	\$28,979,265	\$30,538,786	(\$1,829,164)	\$269,643

ENDNOTES

1/ We determined the Medicare segment pension assets as of January 1, 2017, based on our prior segmentation audit of CDS (A-07-20-00587; Apr. 17, 2020). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare segments. All pension assets are shown at market value.

2/ Transferred prepayment credits represent funds available to satisfy future funding requirements and are applied to future funding requirements before current-year contributions in order to avoid incurring unallowable interest. Prepayment credits are transferred to the Medicare segments as needed to cover funding requirements.

3/ We obtained Total Company contribution amounts from documents provided by BCBS South Carolina. We allocated Total Company contributions to the Medicare segment based on the ratio of the Medicare segment's funding target divided by the Total Company funding target. Contributions in excess of the funding targets were treated as prepayment credits and accounted for in the Other segment until needed to fund pension costs in the future.

4/ We obtained net investment earnings from documents provided by BCBS South Carolina. We allocated net investment earnings based on the ratio of each segment's weighted average value (WAV) of assets to Total Company WAV of assets as required by the CAS.

5/ We based the Medicare segments' benefit payments on actual payments to Medicare segment retirees. We obtained the benefit payments from documents provided by CDS.

6/ In accordance with the CAS, we allocated administrative expenses to each Medicare segment in proportion to investment earnings.

7/ We identified participant transfers between segments by comparing valuation data files provided by CDS. Asset transfers were equal to the actuarial liability determined under the accrued benefit cost method in accordance with the CAS.

8/ In accordance with the CAS, actual contributions are discounted, at the effective interest rate, from the date of each contribution to the beginning of the program year.

9/ We obtained total asset amounts from documents prepared by CDS's actuarial consulting firm.

10/ The asset variance represents the difference between our calculation of the CDS Medicare segment pension assets and CDS's calculation of the Medicare segment pension assets.

APPENDIX C: FEDERAL REQUIREMENTS RELATED TO PENSION SEGMENTATION

Federal regulations (CAS 412.50(a)(4)) require that contributions in excess of the pension cost assigned to the period be recognized as prepayment credits and accumulated at the assumed valuation interest rate until applied to future period costs. Prepayment credits that have not been applied to fund pension costs are excluded from the value of assets used to compute pension costs.

Federal regulations (CAS 412.50(b)(7)(i)) require that in any period for which the sum of the minimum actuarial liability and the minimum normal cost exceeds the sum of the actuarial accrued liability and the normal cost, the contractor shall measure and assign the pension cost for the period in accordance with CAS 412 and 413 by using the minimum actuarial liability and minimum normal cost as the actuarial accrued liability and normal cost, respectively, for all purposes unless otherwise excepted.

Federal regulations (CAS 413.50(c)(7)) require that the asset base be adjusted by contributions, permitted unfunded accruals, income, benefit payments, and expenses. For plan years beginning after March 30, 1995, the CAS requires investment income and expenses to be allocated among segments based on the ratio of the segment's WAV of assets to Total Company WAV of assets.

Federal regulations (CAS 413.50(c)(8)) require an adjustment to be made for transfers (participants who enter or leave the segment) if the transfers materially affect the segment's ratio of pension plan assets to actuarial accrued liabilities.

**APPENDIX D: COMPANION DATA SERVICES, LLC,
COST ACCOUNTING STANDARDS BALANCE EQUATION
AS OF JANUARY 1, 2022**

Description		Total Company	Other Segment	Palmetto Medicare Segment	CDS Medicare Segment
Actuarial Accrued Liability	<u>1/</u>	\$ 1,129,893,775	\$ 1,003,017,291	\$ 108,205,016	\$ 18,671,468
Less: Actuarial Value of Assets	<u>2/</u>	(1,443,697,306)	(1,341,288,897)	(86,226,512)	(16,181,897)
Unfunded Actuarial Liability	<u>3/</u>	\$ (313,803,531)	\$ (338,271,606)	\$ 21,978,504	\$ 2,489,571
9904.412-50(a)(2) Unallowable	<u>4/</u>	\$ -	\$ -	\$ -	\$ -
Prepayment Credit	<u>5/</u>	(462,729,134)	(462,729,134)	\$ -	-
Adjustments to UAL	<u>6/</u>	\$ (462,729,134)	\$ (462,729,134)	\$ -	\$ -
Net Unamortized Balance	<u>7/</u>	\$ 148,925,603	\$ 124,457,528	\$ 21,978,504	\$ 2,489,571
Market Value of Assets	<u>8/</u>	\$ 1,473,867,331	\$ 1,369,318,816	\$ 88,028,452	\$ 16,520,063

ENDNOTES

- 1/ Actuarial accrued liability (AAL) represents the pension cost attributable, under the actuarial cost method in use, to years prior to January 1, 2022. We obtained the total company AAL from the January 1, 2022, BCBS South Carolina actuarial valuation report. The AALs for the Other Segment and Medicare segment were determined as a result of our audit.
- 2/ The actuarial value of assets (AVA) is the value of cash, investments, and other property belonging to a pension plan, as used by the actuary for the purpose of an actuarial valuation. The AVA shown here was computed by the CMS Office of the Actuary based on audited values as of January 1, 2022.
- 3/ The unfunded actuarial liability (UAL) is the AAL less the AVA as of January 1, 2022. An actuarial surplus, or negative UAL, is created whenever the AVA exceeds the AAL.
- 4/ The 9904.412-50(a)(2) Unallowable represents the prior-period pension costs determined to be unallowable in accordance with Government contractual provisions in effect at the time or pension costs assigned to a cost accounting period that were not funded in that period. This is an adjustment to the UAL required by CAS 412-50(a)(2).
- 5/ The prepayment credit represents funds available to satisfy future funding requirements. This is an adjustment to the AVA for premature funding of future pension costs required by CAS 412-50(a)(4).
- 6/ Adjustments to the UAL represent the sum of the unallowable and prepayment balances as of January 1, 2022.
- 7/ The net unamortized balance is the UAL less the adjustments to the UAL. It is the portion of the UAL yet to be amortized in accordance with CAS 412-50(a)(1) and CAS 413-50(a)(2).
- 8/ The market value of assets represents the current value of assets as of January 1, 2022, plus the current value of any accrued contributions used to fund pension costs assigned to periods prior to January 1, 2022.



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July 8, 2025

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Report Numbers:

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

Dear Mr. Korn:

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

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

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

Sincerely,

/Jennifer Capell/

Jennifer Capell
 Vice President, Corporate Controller
 BlueCross BlueShield South Carolina

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

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