



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services, Region VII  
601 East 12<sup>th</sup> Street, Room 0429  
Kansas City, MO 64106

April 7, 2011

Report Number: A-07-11-00360

Ms. Sherrie LeMier  
President  
Cahaba Government Benefit Administrators, LLC  
300 Corporate Parkway  
Birmingham, AL 35242

Dear Ms. LeMier:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of Medicare Contractor's Pension Segmentation Requirements at Cahaba Government Benefit Administrators, LLC, for the Period January 1, 2002, to January 1, 2009*. We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

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If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, or contact Jenenne Tambke, Audit Manager, at (573) 893-8338, extension 21, or through email at [Jenenne.Tambke@oig.hhs.gov](mailto:Jenenne.Tambke@oig.hhs.gov). Please refer to report number A-07-11-00360 in all correspondence.

Sincerely,

/Patrick J. Cogley/  
Regional Inspector General  
for Audit Services

Enclosure

**Direct Reply to HHS Action Official:**

Ms. Deborah Taylor  
Acting Director & Chief Financial Officer  
Office of Financial Management  
Centers for Medicare & Medicaid Services  
Mail Stop C3-01-24  
7500 Security Boulevard  
Baltimore, MD 21244-1850

Department of Health & Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF MEDICARE CONTRACTOR'S  
PENSION SEGMENTATION  
REQUIREMENTS AT CAHABA  
GOVERNMENT BENEFIT  
ADMINISTRATORS, LLC, FOR  
THE PERIOD JANUARY 1, 2002, TO  
JANUARY 1, 2009**



Daniel R. Levinson  
Inspector General

April 2011  
A-07-11-00360

# *Office of Inspector General*

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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**

### **BACKGROUND**

During our audit period, Cahaba Government Benefit Administrators, LLC (Cahaba), administered Medicare Part A and Part B operations for Blue Cross Blue Shield of Alabama (BCBS Alabama), the legal entity that entered into these cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS). Cahaba Safeguard Administrators, LLC, administered program safeguard functions under a contract with CMS. Cahaba and Cahaba Safeguard Administrators, LLC, are wholly owned subsidiaries of BCBS Alabama.

Cahaba participates in a defined benefit pension plan, which is a deferred compensation plan in which an employer makes actuarially determined contributions to fund an employee's retirement benefit as defined by the plan's terms.

Since its inception, Medicare has paid a portion of contractors' contributions to their pension plans. These contributions are allowable Medicare costs subject to the criteria set forth in the Federal Acquisition Regulation, Cost Accounting Standards (CAS), and Medicare contracts.

### **Pension Segmentation**

Beginning with fiscal year 1988, CMS incorporated segmentation requirements into the Medicare contracts. The Medicare contracts define a segment and specify the methodology for the identification and initial allocation of pension assets to the segment. Accordingly, the contracts require Medicare segment assets to be updated for each year after the initial allocation in accordance with CAS 412 and 413.

### **Pension Closing Agreement**

Cahaba executed a pension closing agreement with CMS to establish a final settlement of the January 1, 2002, Medicare segment asset base. Cahaba used the January 1, 2002, Medicare segment asset base, established by the executed pension closing agreement with CMS, in its computations.

### **OBJECTIVE**

Our objective was to determine whether Cahaba complied with Federal requirements and the Medicare contracts' pension segmentation requirements when:

- implementing the January 1, 2002, Medicare segment asset base established by the executed pension closing agreement between Cahaba and CMS, and
- updating the Medicare segment's pension assets from January 1, 2002, to January 1, 2009.

## **SUMMARY OF FINDINGS**

Cahaba properly implemented the January 1, 2002, Medicare segment asset base established by the executed pension closing agreement between Cahaba and CMS. However, Cahaba did not always comply with Federal requirements and the Medicare contracts' pension segmentation requirements when updating Medicare segment assets from January 1, 2002, to January 1, 2009. Cahaba identified Medicare segment pension assets of \$29,467,557; however, we determined that the Medicare segment pension assets were \$29,441,001 as of January 1, 2009. Thus, Cahaba overstated the Medicare segment pension assets by \$26,556 as of January 1, 2009. The overstatement occurred primarily because Cahaba overstated the net transfer amounts associated with participant transfers to and from the Medicare segment.

## **RECOMMENDATIONS**

We recommend that Cahaba:

- decrease the Medicare segment pension assets as of January 1, 2009, by \$26,556 and recognize \$29,441,001 as the Medicare segment's pension assets; and
- strengthen controls to ensure that the Medicare segment's assets are updated in accordance with the Medicare contracts.

## **AUDITEE COMMENTS**

In written comments on our draft report, Cahaba agreed with our recommendations. Cahaba's comments are included in their entirety as Appendix B.

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## **Glossary of Abbreviations and Acronyms**

|              |   |
|--------------|---|
| BCBS Alabama | Blue Cross Blue Shield of Alabama             |
| Cahaba       | Cahaba Government Benefit Administrators, LLC |
| CAS          | Cost Accounting Standards                     |
| CMS          | Centers for Medicare & Medicaid Services      |
| FAR          | Federal Acquisition Regulation                |
| WAV          | weighted average value                        |

## **INTRODUCTION**

### **BACKGROUND**

#### **Cahaba Government Benefit Administrators, LLC, and Medicare**

During our audit period, Cahaba Government Benefit Administrators, LLC (Cahaba), administered Medicare Part A and Part B operations for Blue Cross Blue Shield of Alabama (BCBS Alabama), the legal entity that entered into these cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS). Cahaba Safeguard Administrators, LLC, administered program safeguard functions under a contract with CMS. Cahaba and Cahaba Safeguard Administrators, LLC, are wholly owned subsidiaries of BCBS Alabama.

Cahaba participates in a defined benefit pension plan, which is a deferred compensation plan in which an employer makes actuarially determined contributions to fund an employee's retirement benefit as defined by the plan's terms.

Since its inception, Medicare has paid a portion of contractors' contributions to their pension plans. These contributions are allowable Medicare costs subject to the criteria set forth in the Federal Acquisition Regulation (FAR), Cost Accounting Standards (CAS), and Medicare contracts.

#### **Federal Requirements**

CAS 412 addresses the determination and measurement of pension cost components. It also addresses the assignment of pension costs to appropriate accounting periods.

CAS 413 addresses 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.

#### **Pension Segmentation**

Beginning with fiscal year 1988, CMS incorporated segmentation requirements into the Medicare contracts. The Medicare contracts define a segment and specify the methodology for the identification and initial allocation of pension assets to the segment. Additionally, the contracts require Medicare segment assets to be updated for each year after the initial allocation in accordance with CAS 412 and 413. In claiming costs, contractors must follow cost reimbursement principles contained in the FAR, CAS, and the Medicare contracts.

#### **Pension Closing Agreement**

Cahaba executed a pension closing agreement with CMS to establish a final settlement of the January 1, 2002, Medicare segment asset base. Cahaba used the January 1, 2002, Medicare segment asset base, established by the executed pension closing agreement with CMS, in its computations.

## **OBJECTIVE, SCOPE AND METHODOLOGY**

### **Objective**

Our objective was to determine whether Cahaba complied with Federal requirements and the Medicare contracts' pension segmentation requirements when:

- implementing the January 1, 2002, Medicare segment asset base established by the executed pension closing agreement between Cahaba and CMS, and
- updating the Medicare segment's pension assets from January 1, 2002, to January 1, 2009.

### **Scope**

We reviewed Cahaba's implementation of the pension closing agreement, identification of its Medicare segment, and update of Medicare segment assets from January 1, 2002, to January 1, 2009.

Achieving our objective did not require us to review Cahaba's overall internal control structure. We reviewed controls relating to the identification of the Medicare segment and the update of the segment's assets.

We performed fieldwork at Cahaba's office in Birmingham, Alabama, during May 2010.

### **Methodology**

To accomplish our objective, we did the following:

- We reviewed the applicable portions of the FAR, CAS, and the Medicare contracts.
- We reviewed the annual actuarial CAS Medicare reports prepared by Cahaba's actuarial consulting firm, which included the pension plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We used this information to calculate the Medicare segment assets.
- We obtained and reviewed the pension plan documents and Department of Labor/Internal Revenue Service Forms 5500 used in calculating the Medicare segment assets.
- We interviewed Cahaba staff responsible for identifying the Medicare segment to determine whether the segment was properly identified in accordance with the Medicare contracts.
- We reviewed Cahaba's accounting records to verify the segment identification and benefit payments made to the Medicare segment.

- We reviewed Closing Agreement PEN-01 executed between CMS, Blue Cross Blue Shield Association, and Cahaba. We used this information to identify assets as of January 1, 2002.
- We provided the CMS Office of the Actuary with the actuarial information necessary for it to calculate the Medicare segment pension assets from January 1, 2002, to January 1, 2009.
- We reviewed the CMS actuaries' methodology and calculations.

We performed this review in conjunction with our audit of Cahaba's pension costs claimed for Medicare reimbursement (A-07-11-00361) and used the information obtained during that audit in this review.

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 findings and conclusions based on our audit objective.

### **FINDINGS AND RECOMMENDATIONS**

Cahaba properly implemented the January 1, 2002, Medicare segment asset base established by the executed pension closing agreement between Cahaba and CMS. However, Cahaba did not always comply with Federal requirements and the Medicare contracts' pension segmentation requirements when updating Medicare segment assets from January 1, 2002, to January 1, 2009. Cahaba identified Medicare segment pension assets of \$29,467,557; however, we determined that the Medicare segment pension assets were \$29,441,001 as of January 1, 2009. Thus, Cahaba overstated the Medicare segment pension assets by \$26,556 as of January 1, 2009. The overstatement occurred primarily because Cahaba overstated the net transfer amounts associated with participant transfers to and from the Medicare segment.

Appendix A presents details on the Medicare segment's pension assets from January 1, 2002, to January 1, 2009, as determined during our audit. Table 1 summarizes the audit adjustment required to update Medicare segment pension assets in accordance with Federal requirements.

| <b>Table 1: Summary of Audit Adjustments</b>                    |                  |                   |                   |
|---|------------------|-------------------|-------------------|
|   | <b>Per Audit</b> | <b>Per Cahaba</b> | <b>Difference</b> |
| <b>Update of Medicare Segment Assets</b>                        |                  |                   |                   |
| Transfers   | (\$19,455,122)   | (\$19,412,962)    | (\$42,160)        |
| Contributions and Prepayment Credits                            | 35,608,074       | 35,589,012        | 19,062            |
| Earnings, Net Expenses  | 5,065,478        | 5,068,936         | (3,458)           |
| <b>Under/(Over)statement of Medicare Pension Segment Assets</b> |                  |                   | <b>(\$26,556)</b> |

## **PENSION CLOSING AGREEMENT**

Cahaba executed a pension closing agreement with CMS to establish a final settlement of the January 1, 2002, Medicare segment asset base. Cahaba properly used the January 1, 2002, Medicare segment asset base, established by the executed pension closing agreement with CMS, in its computations.

## **UPDATE OF MEDICARE SEGMENT PENSION ASSETS**

Cahaba did not always comply with Federal requirements and the Medicare contracts' pension segmentation requirements when updating Medicare segment assets to January 1, 2009.

### **Federal Requirements**

The Medicare contracts identify a Medicare segment as:

... any organizational component of the contractor, such as a division, department, or other similar subdivision, having a significant degree of responsibility and accountability for the Medicare contract/agreement, in which:

1. The majority of the salary dollars is allocated to the Medicare agreement/contract; or,
2. Less than a majority of the salary dollars are charged to the Medicare agreement/contract, and these salary dollars represent 40% or more of the total salary dollars charged to the Medicare agreement/contract.

Furthermore, the Medicare contracts state that "... the pension assets allocated to each Medicare segment shall be adjusted in accordance with CAS 413.50(c)(7)." CAS 413.50(c)(7) requires 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 weighted average value (WAV) of assets to total company WAV of assets.

In addition, CAS 413.50(c)(8) requires 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.

Furthermore, CAS 412.50(a)(4) requires 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.

## Net Transfers Overstated

Cahaba overstated transfers out of the Medicare segment by \$42,160. The overstatement was due to an inconsistent methodology used by Cahaba to determine the liabilities of participants who transferred out of the segment. This overstatement of the net transfer adjustment resulted in an overstatement of the Medicare segment assets by \$42,160.

A comparison of Cahaba's and our calculations of net asset transfers from the Medicare segment appears in Table 2.

|              | <b>Per Audit</b>      | <b>Per Cahaba</b>     | <b>Difference</b> |
|--------------|-----------------------|-----------------------|-------------------|
| 2003         | (\$5,462,085)         | (\$5,462,085)         | \$0               |
| 2004         | (918,600)             | (884,901)             | (33,699)          |
| 2005         | (855,670)             | (855,670)             | 0                 |
| 2006         | (4,062,746)           | (4,062,746)           | 0                 |
| 2007         | (3,429,597)           | (3,429,597)           | 0                 |
| 2008         | (4,283,086)           | (4,274,625)           | (8,461)           |
| 2009         | (443,338)             | (443,338)             | 0                 |
| <b>Total</b> | <b>(\$19,455,122)</b> | <b>(\$19,412,962)</b> | <b>(\$42,160)</b> |

## Contributions and Transferred Prepayment Credits Understated

Cahaba understated contributions and transferred prepayment credits by \$19,062 for the Medicare segment because it used incorrect net transfer amounts (as discussed above) to develop the Medicare segment pension asset base. As a result, Cahaba understated the Medicare segment pension assets by \$19,160.

## Earnings, Net Expenses Overstated

Cahaba overstated investment earnings, less administrative expenses, by \$3,458 for the Medicare segment because it used incorrect contributions and transferred prepayment credits and incorrect net transfer amounts (all discussed above) to develop the Medicare segment pension asset base. In our audited update, we allocated earnings, net expenses based on the applicable CAS requirements.

## RECOMMENDATIONS

We recommend that Cahaba:

- decrease the Medicare segment pension assets as of January 1, 2009, by \$26,556 and recognize \$29,441,001 as the Medicare segment's pension assets; and
- strengthen controls to ensure that the Medicare segment's assets are updated in accordance with the Medicare contracts.

## **AUDITEE COMMENTS**

In written comments on our draft report, Cahaba agreed with our recommendations. Cahaba's comments are included in their entirety as Appendix B.

## **OTHER MATTER**

During our review, we determined that Cahaba properly identified \$6,866,506 of accumulated unallowable unfunded pension costs (\$1,100,492 as an unallowable component of Government Benefit Administrators, LLC, Medicare segment pension costs, \$52,440 as an unallowable component of Cahaba Safeguard Administrators, LLC, Medicare segment pension costs, and \$5,713,574 as an unallowable component of the "Other" segment pension costs) as of January 1, 2009.

# **APPENDIXES**

**APPENDIX A: STATEMENT OF MARKET VALUE OF PENSION ASSETS FOR  
CAHABA GOVERNMENT BENEFIT ADMINISTRATORS, LLC,  
FOR THE PERIOD JANUARY 1, 2002, TO JANUARY 1, 2009**

| Description                    |           | Total Company | “Other” Segment | GBA Medicare Segment | CSA Medicare Segment |
|--------------------------------|-----------|---------------|-----------------|----------------------|----------------------|
|                                |           |               |                 | <u>1/</u>            | <u>2/</u>            |
| Assets January 1, 2002         | <u>3/</u> | \$166,907,467 | \$136,506,860   | \$30,400,607         | \$0                  |
| Transferred Prepayment Credits | <u>4/</u> | 0             | (3,154,678)     | 3,154,678            | 0                    |
| Contributions                  | <u>5/</u> | 26,910,000    | 25,565,552      | 1,344,448            | 0                    |
| Earnings                       | <u>6/</u> | (20,817,389)  | (16,780,091)    | (4,037,298)          | 0                    |
| Benefit Payments               | <u>7/</u> | (12,915,644)  | (10,321,194)    | (2,594,450)          | 0                    |
| Expenses                       | <u>8/</u> | (542,897)     | (437,608)       | (105,289)            | 0                    |
| Transfers                      | <u>9/</u> | 0             | 4,380,363       | (5,462,085)          | 1,081,722            |
| Assets January 1, 2003         |           | 159,541,537   | 135,759,204     | 22,700,611           | 1,081,722            |
| Transferred Prepayment Credits |           | 0             | (5,431,009)     | 5,065,629            | 365,380              |
| Contributions                  |           | 48,000,000    | 48,000,000      | 0                    | 0                    |
| Earnings                       |           | 33,128,534    | 27,192,205      | 5,640,317            | 296,012              |
| Benefit Payments               |           | (19,942,925)  | (19,557,611)    | (385,314)            | 0                    |
| Expenses                       |           | (444,775)     | (365,076)       | (75,725)             | (3,974)              |
| Transfers                      |           | 0             | 829,345         | (918,600)            | 89,255               |
| Assets January 1, 2004         |           | 220,282,371   | 186,427,058     | 32,026,918           | 1,828,395            |
| Transferred Prepayment Credits |           | 0             | (5,773,352)     | 5,240,693            | 532,659              |
| Contributions                  |           | 29,432,764    | 29,432,764      | 0                    | 0                    |
| Earnings                       |           | 20,095,620    | 16,614,611      | 3,269,428            | 211,581              |
| Benefit Payments               |           | (16,277,732)  | (14,669,519)    | (1,605,729)          | (2,484)              |
| Expenses                       |           | (421,044)     | (348,110)       | (68,501)             | (4,433)              |
| Transfers                      |           | 0             | 571,225         | (855,670)            | 284,445              |
| Assets January 1, 2005         |           | 253,111,979   | 212,254,677     | 38,007,139           | 2,850,163            |
| Transferred Prepayment Credits |           | 0             | (6,111,708)     | 5,437,943            | 673,765              |
| Contributions                  |           | 37,500,000    | 37,500,000      | 0                    | 0                    |
| Earnings                       |           | 14,962,111    | 12,333,194      | 2,422,117            | 206,800              |
| Benefit Payments               |           | (19,310,157)  | (14,615,091)    | (4,667,380)          | (27,686)             |
| Expenses                       |           | (570,142)     | (469,965)       | (92,297)             | (7,880)              |
| Transfers                      |           | 0             | 4,477,817       | (4,062,746)          | (415,071)            |
| Assets January 1, 2006         |           | 285,693,791   | 245,368,924     | 37,044,776           | 3,280,091            |
| Transferred Prepayment Credits |           | 0             | (6,166,176)     | 5,494,099            | 672,077              |
| Contributions                  |           | 44,787,098    | 44,787,098      | 0                    | 0                    |
| Earnings                       |           | 31,565,962    | 26,654,423      | 4,491,856            | 419,683              |
| Benefit Payments               |           | (12,425,923)  | (10,615,403)    | (1,696,642)          | (113,878)            |
| Expenses                       |           | (1,098,832)   | (927,859)       | (156,364)            | (14,609)             |
| Transfers                      |           | 0             | 3,524,398       | (3,429,597)          | (94,801)             |
| Assets January 1, 2007         |           | \$348,522,096 | \$302,625,405   | \$41,748,128         | \$4,148,563          |

| Description                    | Total Company     | "Other" Segment | GBA Medicare Segment | CSA Medicare Segment |
|--------------------------------|-------------------|-----------------|----------------------|----------------------|
| Assets January 1, 2007         | \$348,522,096     | \$302,625,405   | \$41,748,128         | \$4,148,563          |
| Transferred Prepayment Credits | 0                 | (5,568,630)     | 4,851,778            | 716,852              |
| Contributions                  | 41,134,159        | 41,134,159      | 0                    | 0                    |
| Earnings                       | 23,131,917        | 19,964,999      | 2,843,114            | 323,804              |
| Benefit Payments               | (31,905,952)      | (24,013,159)    | (7,879,170)          | (13,623)             |
| Expenses                       | (1,079,879)       | (932,036)       | (132,727)            | (15,116)             |
| Transfers                      | 0                 | 4,206,691       | (4,283,086)          | 76,395               |
| Assets January 1, 2008         | 379,802,341       | 337,417,429     | 37,148,037           | 5,236,875            |
| Transferred Prepayment Credits | 0                 | (5,779,670)     | 5,018,806            | 760,864              |
| Contributions                  | 35,000,000        | 35,000,000      | 0                    | 0                    |
| Earnings                       | (81,095,415)      | (70,985,002)    | (8,810,266)          | (1,300,147)          |
| Benefit Payments               | (34,682,221)      | (31,288,395)    | (3,349,351)          | (44,475)             |
| Expenses                       | (1,131,131)       | (990,109)       | (122,887)            | (18,135)             |
| Transfers                      | 0                 | 668,944         | (443,338)            | (225,606)            |
| Assets January 1, 2009         | \$297,893,574     | \$264,043,197   | \$29,441,001         | \$4,409,376          |
| Per Cahaba                     | 10/ \$297,893,574 | \$264,016,354   | \$29,467,557         | \$4,409,663          |
| Asset Variance                 | 11/ \$0           | \$26,843        | (\$26,556)           | (\$287)              |

## FOOTNOTES

1/ Government Benefit Administrators, LLC

2/ Cahaba Safeguard Administrators, LLC

3/ We obtained the GBA Medicare segment assets as of January 1, 2002, from Closing Agreement No. PEN-01. The Centers for Medicare & Medicaid Services and Cahaba Government Benefit Administrators, LLC (Cahaba), entered into and executed this closing agreement in order to establish a final settlement of the January 1, 2002, GBA Medicare segment asset base. The amounts shown for the "Other" segment represent the difference between the Total Company, the GBA Medicare segment, and the CSA Medicare segment. All pension assets are shown at market value.

4/ Prepayment credits represent funds available to satisfy future funding requirements, and are applied to future funding requirements before current year contributions in order to reduce interest costs to the Federal Government. Prepayment credits are transferred to the Medicare segment(s) as needed to cover funding requirements.

5/ We obtained Total Company contribution amounts from the Department of Labor/Internal Revenue Service Forms 5500. We allocated Total Company contributions to the Medicare segment(s) 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.

6/ We obtained investment earnings from documents prepared by Cahaba's actuarial consulting firm. We allocated net investment earnings based on the ratio of the segment's weighted average value (WAV) of assets to Total Company WAV of assets as required by the Cost Accounting Standards (CAS).

7/ We accepted the Medicare segment(s) benefit payments presented by Cahaba.

8/ We allocated administrative expenses to the Medicare segment(s) in proportion to investment earnings.

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

The 2002 transfer adjustment includes an asset transfer from the GBA Medicare segment to the CSA Medicare segment to account for the CSA Medicare segment spinoff. We accepted the spinoff transfer adjustment presented by Cahaba.

10/ We obtained total asset amounts as of January 1, 2009, from documents prepared by Cahaba's actuarial consulting firm.

11/ The asset variance represents the difference between our calculation of Medicare segment(s) pension assets and Cahaba's calculation of the Medicare segment(s) pension assets.

## APPENDIX B: AUDITEE COMMENTS



CAHABA  
GOVERNMENT  
BENEFIT  
ADMINISTRATORS, LLC

Sherrie D. LeMier  
President and Chief Operating Officer  
Cahaba Government Benefit Administrators<sup>®</sup>, LLC

March 30, 2011

Department of Health and Human Services  
Office of Inspector General  
Office of Audit Services  
Attention: Jenenne Tambke, Audit Manager  
Region VII  
601 East 12<sup>th</sup> Street, Room 0429  
Kansas City, Missouri 64106

RE: Report Number: A-07-11-00360 Review of Medicare Contractor's Pension Segmentation Requirements at Cahaba Government Benefit Administrators, LLC, for the Period January 1, 2002, to January 1, 2009.

Dear Ms. Tambke,

This report is in response to the draft report issued to Cahaba Government Benefit Administrations<sup>®</sup>, LLC's (Cahaba GBA) for the above mentioned audit. We agree with the recommendation to decrease the Medicare segment pension assets as of January 1, 2009, by \$26,556 and recognize \$29,441,001 as the Medicare segment's pension assets. In addition, Cahaba will strengthen controls to ensure that the Medicare segment's assets are updated in accordance with the Medicare contracts.

If you should have any questions regarding this report, please contact Molly Echols, Manager Risk and Compliance at (205) 220-1587 or via email at [Mechols@cahabagba.com](mailto:Mechols@cahabagba.com).

Sincerely,

Sherrie LeMier  
President  
Cahaba Government Benefit Administrators<sup>®</sup>, LLC

CC: Brandon Ward, Vice President, Cahaba GBA Operations  
David Brown, Chief Strategy Officer, Cahaba GBA Administration  
Lane Bell, Divisional Manager, Cahaba GBA