

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**PALMETTO GOVERNMENT
BENEFITS ADMINISTRATOR, LLC,
AND TRAILBLAZER HEALTH
ENTERPRISES, LLC,
UNDERSTATED THEIR
MEDICARE SEGMENTS'
PENSION ASSETS AS OF
JANUARY 1, 2005**

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Office of Inspector General

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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EXECUTIVE SUMMARY

Palmetto Government Benefits Administrator, LLC, understated its Medicare segment pension assets by \$2.2 million and TrailBlazer Health Enterprises, LLC, understated its Medicare segment pension assets by \$180,000 as of January 1, 2005. Both Palmetto and TrailBlazer were subsidiaries of Blue Cross Blue Shield of South Carolina during our audit period.

WHY WE DID THIS REVIEW

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 reviews found that Medicare contractors did not always correctly identify and update the segmented pension assets.

At CMS's request, the Office of Inspector General, Office of Audit Services, Region VII pension audit team reviews the cost elements related to qualified defined-benefit, nonqualified defined-benefit, postretirement benefit, and any other pension-related cost elements claimed by Medicare fiscal intermediaries and carrier contractors and Medicare administrative contractors through Final Administrative Cost Proposals and/or Incurred Cost Proposals.

The objectives of this review were to determine whether Blue Cross Blue Shield of South Carolina (BCBS South Carolina), through its subsidiaries Palmetto Government Benefits Administrator, LLC (Palmetto), and TrailBlazer Health Enterprises, LLC (TrailBlazer), complied with Federal requirements and the Medicare contracts' pension segmentation requirements when (1) implementing the prior audit recommendations to increase the Palmetto Medicare segment pension assets and decrease the TrailBlazer Medicare segment assets as of January 1, 2002; and (2) updating the Palmetto and TrailBlazer Medicare segments' pension assets from January 1, 2002, to January 1, 2005.

BACKGROUND

During our audit period, Palmetto and TrailBlazer were subsidiaries of BCBS South Carolina, whose home office is in Columbia, South Carolina. Palmetto and TrailBlazer administered Medicare Part A fiscal intermediary and Medicare Part B carrier contract operations under cost reimbursement contracts with CMS.

We performed a prior pension segmentation audit at BCBS South Carolina (A-07-03-03042, issued February 18, 2005), which brought the Palmetto and TrailBlazer Medicare segments' pension assets to January 1, 2002. We recommended that BCBS South Carolina increase Palmetto's Medicare segment pension assets by \$1,106,482 and, as a result, recognize \$14,995,657 as the Medicare segment pension assets as of January 1, 2002. We also recommended that BCBS South Carolina decrease TrailBlazer's Medicare segment pension

assets by \$345,006 and, as a result, recognize \$4,965,834 as the Medicare segment pension assets as of January 1, 2002.

The TrailBlazer Medicare segment closed effective April 30, 2013, but the Palmetto Medicare segment continues to administer Medicare operations. Our findings and recommendations relate to both Palmetto's and TrailBlazer's Medicare segment pension assets. At the request of BCBS South Carolina, we are addressing our recommendations to Palmetto, and we asked Palmetto to respond to our draft report.

WHAT WE FOUND

BCBS South Carolina implemented the prior audit recommendations; however, Palmetto and TrailBlazer did not correctly update their Medicare segments' pension assets from January 1, 2002, to January 1, 2005, in accordance with Federal regulations and the Medicare contracts' pension segmentation requirements. Specifically:

- Palmetto identified Medicare segment pension assets of \$27,222,811 as of January 1, 2005; however, we determined that the Medicare segment pension assets were \$29,470,518. Therefore, Palmetto understated its Medicare segment pension assets by \$2,247,707.
- TrailBlazer identified Medicare segment pension assets of \$21,068,456 as of January 1, 2005; however, we determined that the Medicare segment pension assets were \$21,248,511. Therefore, TrailBlazer understated its Medicare segment pension assets by \$180,055.

Palmetto and TrailBlazer understated their Medicare segments' pension assets because they did not have controls to ensure that they calculated those assets in accordance with Federal regulations and the pension segmentation language of their Medicare contracts when updating the Medicare segments' pension assets from January 1, 2002, through January 1, 2005.

WHAT WE RECOMMEND

We recommend that Palmetto:

- increase its Medicare segment pension assets by \$2,247,707 as of January 1, 2005,
- increase TrailBlazer's Medicare segment pension assets by \$180,055 as of January 1, 2005, and
- implement controls to ensure that Medicare segments are identified in accordance with the Medicare contracts and updated in accordance with CAS 412 and 413.

AUDITEE COMMENTS

In written comments on our draft report, Palmetto concurred with our recommendations and said that it would increase the Palmetto and TrailBlazer Medicare segment pension assets by \$2,247,707 and \$180,055, respectively, as of January 1, 2005. In addition, Palmetto stated that controls would be implemented to ensure that the Medicare segments are identified in accordance with the Medicare contracts and CAS 412 and 413.

TABLE OF CONTENTS

INTRODUCTION	1
Why We Did This Review	1
Objectives	1
Background	1
Blue Cross Blue Shield of South Carolina’s Medicare Contracts	1
Prior Pension Segmentation Audit.....	1
How We Conducted This Review.....	2
FINDINGS.....	2
Prior Audit Recommendations.....	3
Update of Medicare Segment Pension Assets	3
Palmetto Government Benefits Administrator, LLC	3
TrailBlazer Health Enterprises, LLC	5
RECOMMENDATIONS	7
AUDITEE COMMENTS.....	7
APPENDIXES	
A: Audit Scope and Methodology	8
B: Blue Cross Blue Shield of South Carolina Statement of Medicare Segment Pension Assets for the Period January 1, 2002 through January 1, 2005	10
C: Federal Requirements Related to Pension Segmentation	11
D: Auditee Comments.....	12

INTRODUCTION

WHY WE DID THIS REVIEW

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 reviews found that Medicare contractors did not always correctly identify and update the segmented pension assets.

At CMS's request, the Office of Inspector General, Office of Audit Services, Region VII pension audit team reviews the cost elements related to qualified defined-benefit, nonqualified defined-benefit, postretirement benefit, and any other pension-related cost elements claimed by Medicare fiscal intermediaries and carrier contractors and Medicare administrative contractors through Final Administrative Cost Proposals and/or Incurred Cost Proposals.

OBJECTIVES

Our objectives were to determine whether Blue Cross Blue Shield of South Carolina (BCBS South Carolina), through its subsidiaries Palmetto Government Benefits Administrator, LLC (Palmetto), and TrailBlazer Health Enterprises, LLC (TrailBlazer), complied with Federal regulations and the Medicare contracts' pension segmentation requirements when (1) implementing the prior audit recommendations to increase the Palmetto Medicare segment pension assets and decrease the TrailBlazer Medicare segment assets as of January 1, 2002; and (2) updating the Palmetto and TrailBlazer Medicare segments' pension assets from January 1, 2002, to January 1, 2005.

BACKGROUND

Blue Cross Blue Shield of South Carolina's Medicare Contracts

During our audit period, Palmetto and TrailBlazer were subsidiaries of BCBS South Carolina, whose home office is in Columbia, South Carolina. Palmetto and TrailBlazer administered Medicare Part A fiscal intermediary and Medicare Part B carrier contract operations under cost reimbursement contracts with CMS.

This report addresses the Palmetto and TrailBlazer Medicare segments' pension assets and their compliance with Federal regulations and the Medicare contracts' pension segmentation language. We are addressing the pension costs claimed by the Palmetto and TrailBlazer Medicare segments in separate reports.

Prior Pension Segmentation Audit

We performed a prior pension segmentation audit at BCBS South Carolina (A-07-03-03042, issued February 18, 2005), which brought the Palmetto and TrailBlazer Medicare segments'

pension assets to January 1, 2002. We recommended that BCBS South Carolina increase Palmetto's Medicare segment pension assets by \$1,106,482 and, as a result, recognize \$14,995,657 as the Medicare segment pension assets as of January 1, 2002. We also recommended that BCBS South Carolina decrease TrailBlazer's Medicare segment pension assets by \$345,006 and, as a result, recognize \$4,965,834 as the Medicare segment pension assets as of January 1, 2002.

The TrailBlazer Medicare segment closed effective April 30, 2013, but the Palmetto Medicare segment continues to administer Medicare operations. Our findings and recommendations relate to both Palmetto's and TrailBlazer's Medicare segment pension assets. At the request of BCBS South Carolina, we are addressing our recommendations to Palmetto, and we asked Palmetto to respond to our draft report.

HOW WE CONDUCTED THIS REVIEW

We reviewed BCBS South Carolina's implementation of the prior audit recommendations; Palmetto's and TrailBlazer's identification of their Medicare segments; and the updates of the Palmetto and TrailBlazer Medicare segments' pension assets from January 1, 2002, to January 1, 2005.

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

BCBS South Carolina implemented the prior audit recommendations; however, Palmetto and TrailBlazer did not correctly update their Medicare segments' pension assets from January 1, 2002, to January 1, 2005, in accordance with Federal regulations and the Medicare contracts' pension segmentation requirements. Specifically:

- Palmetto identified Medicare segment pension assets of \$27,222,811 as of January 1, 2005; however, we determined that the Medicare segment pension assets were \$29,470,518. Therefore, Palmetto understated its Medicare segment pension assets by \$2,247,707.
- TrailBlazer identified Medicare segment pension assets of \$21,068,456 as of January 1, 2005; however, we determined that the Medicare segment pension assets were \$21,248,511. Therefore, TrailBlazer understated its Medicare segment pension assets by \$180,055.

Palmetto and TrailBlazer understated their Medicare segments' pension assets because they did not have controls to ensure that they calculated those assets in accordance with Federal regulations and the pension segmentation language of their Medicare contracts when updating the Medicare segments' pension assets from January 1, 2002, through January 1, 2005.

Appendix B identifies the details of the Palmetto and TrailBlazer Medicare segments' pension assets from January 1, 2002, to January 1, 2005, as determined during our audit. Table 1 below summarizes the audit adjustments required to update the Palmetto and TrailBlazer Medicare segments' pension assets in accordance with Federal requirements.

Table 1: Summary of Audit Adjustments			
	Palmetto	TrailBlazer	Total
Update of Medicare Segments' Assets			
Contributions and Prepayment Credits	\$509,720	\$173,805	
Net Transfers Out	1,729,903	4,916	
Earnings, Net of Expenses	8,084	1,334	
Benefits Payments	0	0	
Understatement of Medicare Segments' Assets	\$2,247,707	\$180,055	\$2,427,762

PRIOR AUDIT RECOMMENDATIONS

BCBS South Carolina implemented the prior audit recommendations (A-07-03-03042, issued February 18, 2005), which recommended that BCBS South Carolina increase Palmetto's Medicare segment pension assets by \$1,106,482 and decrease TrailBlazer's Medicare segment pension assets by \$345,006 as of January 1, 2002.

UPDATE OF MEDICARE SEGMENT PENSION ASSETS

The Medicare contracts 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, permitted unfunded accruals, income, benefit payments, and expenses.

For details on the Federal requirements and the relevant language of the Medicare contracts, see Appendix C.

Palmetto Government Benefits Administrator, LLC

Palmetto did not correctly update its Medicare segment pension assets from January 1, 2002, to January 1, 2005, in accordance with Federal regulations and the Medicare contracts' pension segmentation requirements. Palmetto identified Medicare segment pension assets of \$27,222,811 as of January 1, 2005; however, we determined that the Medicare segment pension assets were \$29,470,518. Therefore, Palmetto understated its Medicare segment pension assets by \$2,247,707. Palmetto understated these pension assets because it did not have controls to ensure that it calculated them in accordance with Federal regulations and the pension segmentation

language of its Medicare contracts when updating the Medicare segment pension assets from January 1, 2002, through January 1, 2005. Table 2 below summarizes the audit adjustments required to update the Palmetto Medicare segment pension assets in accordance with Federal regulations and the Medicare contracts' pension segmentation requirements.

Table 2: Summary of Palmetto Audit Adjustments			
	Per Audit	Per Palmetto	Difference
Prior Audit Recommendation	\$14,995,657	\$14,995,657	\$0
Update of Medicare Segment Assets			
Contributions and Prepayment Credits	13,352,985	12,843,265	\$509,720
Net Transfers Out	(279,229)	(2,009,132)	1,729,903
Earnings, Net of Expenses	4,868,645	4,860,561	8,084
Benefits Payments	(3,467,540)	(3,467,540)	0
Understatement of Medicare Segment Assets			\$2,247,707

Contributions and Transferred Prepayment Credits Understated

The audited contributions and transferred prepayment credits¹ are based on the assignable pension costs.² 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.

Palmetto understated contributions and transferred prepayment credits by \$509,720 for its Medicare segment. The understatement occurred primarily because of differences in the asset base used to compute the assignable pension costs. Table 3 below shows the differences between the contributions and prepayment credits proposed by Palmetto and the contributions and prepayment credits that we calculated during our review.

Table 3: Contributions and Transferred Prepayment Credits			
	Per Audit	Per Palmetto	Difference
2002	\$4,180,255	\$4,126,065	\$54,190
2003	4,508,570	4,079,100	429,470
2004	4,664,160	4,638,100	26,060
Total	\$13,352,985	\$12,843,265	\$509,720

¹ 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.

² These are assigned to a specific cost accounting period.

Net Transfers Out Overstated

Palmetto overstated net transfers out of its Medicare segment by \$1,729,903. The overstatement occurred because Palmetto incorrectly transferred Medicare segment participants out of its Medicare segment. This overstatement of the net transfer adjustment resulted in an understatement of the Palmetto Medicare segment pension assets by \$1,729,903. Table 4 below shows the differences between the net transfers proposed by Palmetto and the net transfers that we calculated during our review.

Table 4: Net Transfers			
	Per Audit	Per Palmetto	Difference
2002	(\$709,942)	(\$647,234)	(\$62,708)
2003	(147,938)	283,117	(431,055)
2004	578,651	(1,645,015)	2,223,666
Total	(\$279,229)	(\$2,009,132)	\$1,729,903

Earnings, Net of Expenses Understated

Palmetto understated investment earnings, less administrative expenses, by \$8,084 for its Medicare segment, because it used incorrect contributions and transferred prepayment credits and incorrect net transfers (discussed above) to develop the Medicare segment pension asset base. In our audited update, we allocated earnings, net of expenses based on the applicable CAS requirements. For details on applicable Federal requirements, see Appendix C.

TrailBlazer Health Enterprises, LLC

TrailBlazer did not correctly update its Medicare segment pension assets from January 1, 2002, to January 1, 2005, in accordance with Federal regulations and the Medicare contracts' pension segmentation requirements. TrailBlazer identified Medicare segment pension assets of \$21,068,456 as of January 1, 2005; however, we determined that the Medicare segment pension assets were \$21,248,511. Therefore, TrailBlazer understated its Medicare segment pension assets by \$180,055. TrailBlazer understated these pension assets because it did not have controls to ensure that it calculated them in accordance with Federal regulations and the pension segmentation language of its Medicare contracts when updating the Medicare segment pension assets from January 1, 2002, through January 1, 2005.

Table 5 on the following page summarizes the audit adjustments required to update the TrailBlazer Medicare segment pension assets in accordance with Federal regulations and the Medicare contracts' pension segmentation requirements.

	Per Audit	Per TrailBlazer	Difference
Prior Audit Recommendation	\$4,965,834	\$4,965,834	\$0
Update of Medicare Segment Assets			
Contributions and Prepayment Credits	14,011,062	13,837,257	\$173,805
Net Transfers Out	(499,382)	(504,298)	4,916
Earnings, Net of Expenses	3,670,872	3,669,538	1,334
Benefits Payments	(899,875)	(899,875)	0
Understatement of Medicare Segment Assets			\$180,055

Contributions and Transferred Prepayment Credits Understated

The audited contributions and transferred prepayment credits are based on the assignable pension costs. 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.

TrailBlazer understated contributions and transferred prepayment credits by \$173,805 for its Medicare segment. The understatement occurred primarily because of differences in the asset base used to compute the assignable pension costs. Table 6 below shows the differences between the contributions and prepayment credits proposed by TrailBlazer and the contributions and prepayment credits that we calculated during our review.

	Per Audit	Per TrailBlazer	Difference
2002	\$4,490,440	\$4,487,857	\$2,583
2003	4,661,870	4,466,594	195,276
2004	4,858,752	4,882,806	(24,054)
Total	\$14,011,062	\$13,837,257	\$173,805

Net Transfers Out Overstated

TrailBlazer overstated net transfers out of its Medicare segment by \$4,916. The overstatement occurred because TrailBlazer incorrectly transferred Medicare segment participants out of its Medicare segment. This overstatement of the net transfer adjustment resulted in an understatement of the TrailBlazer Medicare segment pension assets by \$4,916. Table 7 on the following page shows the differences between the net transfers proposed by TrailBlazer and the net transfers that we calculated during our review.

Table 7: Net Transfers			
	Per Audit	Per TrailBlazer	Difference
2002	(\$59,917)	(\$87,714)	\$27,797
2003	(195,522)	(195,996)	474
2004	(243,943)	(220,588)	(23,355)
Total	(\$499,382)	(\$504,298)	\$4,916

Earnings, Net of Expenses Understated

TrailBlazer understated investment earnings, less administrative expenses, by \$1,334 for its Medicare segment, because it used incorrect contributions and transferred prepayment credits and incorrect net transfers (discussed above) to develop the Medicare segment pension asset base. In our audited update, we allocated earnings, net of expenses based on the applicable CAS requirements. For details on applicable Federal requirements, see Appendix C.

RECOMMENDATIONS

We recommend that Palmetto:

- increase its Medicare segment pension assets by \$2,247,707 as of January 1, 2005,
- increase TrailBlazer’s Medicare segment pension assets by \$180,055 as of January 1, 2005, and
- implement controls to ensure that Medicare segments are identified in accordance with the Medicare contracts and updated in accordance with CAS 412 and 413.

AUDITEE COMMENTS

In written comments on our draft report, Palmetto concurred with our recommendations and said that it would increase the Palmetto and TrailBlazer Medicare segment pension assets by \$2,247,707 and \$180,055, respectively, as of January 1, 2005. In addition, Palmetto stated that controls would be implemented to ensure that the Medicare segments are identified in accordance with the Medicare contracts and CAS 412 and 413.

Palmetto’s comments are included in their entirety as Appendix D.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed BCBS South Carolina's implementation of the prior audit recommendations; Palmetto's and TrailBlazer's identification of their Medicare segments; and the updates of the Palmetto and TrailBlazer Medicare segments' pension assets from January 1, 2002, to January 1, 2005.

Achieving our objective did not require that we review Palmetto's and TrailBlazer's overall internal control structures. We reviewed controls relating to the identification of the Medicare segments and to the updates of the Medicare segments' assets to ensure adherence to the Medicare contracts, CAS 412, and CAS 413.

We performed fieldwork at BCBS South Carolina and Palmetto in Columbia, South Carolina, and at TrailBlazer in Dallas, Texas.

METHODOLOGY

To accomplish our objectives, we took the following steps:

- We reviewed the portions of the Federal Acquisition Regulation, CAS, and the Medicare contracts applicable to this audit.
- We 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. We used this information to calculate the Palmetto and TrailBlazer Medicare segments' assets.
- We obtained and reviewed the pension plan documents and Department of Labor/Internal Revenue Service Forms 5500 used in calculating the Palmetto and TrailBlazer Medicare segments' assets.
- We interviewed BCBS South Carolina, Palmetto, and former TrailBlazer staff responsible for identifying the Medicare segments to determine whether the segments were properly identified in accordance with the Medicare contracts.
- We reviewed Palmetto's and TrailBlazer's accounting records to verify the segments' identifications and benefit payments made to the Medicare segments.
- We reviewed the prior segmentation audit performed at BCBS South Carolina (A-07-03-03042) to determine the beginning market value of assets for the Palmetto and TrailBlazer Medicare segments.

- We provided the CMS Office of the Actuary with the actuarial information necessary for it to calculate the Medicare segments' pension assets from January 1, 2002, to January 1, 2005.
- We reviewed the CMS actuaries' methodology and calculations.
- We provided the results of the review to Palmetto officials on January 7, 2016.

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

- *Palmetto Government Benefits Administrator, LLC, Claimed Some Unallowable Medicare Pension Costs for Fiscal Years 2003 Through 2004 (A-07-16-00477)* and
- *TrailBlazer Health Enterprises, LLC, Claimed Some Unallowable Medicare Pension Costs for Fiscal Years 2003 Through 2004 (A-07-16-00478)*.

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 objectives.

**APPENDIX B: BLUE CROSS BLUE SHIELD OF SOUTH CAROLINA
STATEMENT OF MEDICARE SEGMENT PENSION ASSETS
FOR THE PERIOD JANUARY 1, 2002, TO JANUARY 1, 2005**

Description		Total Company	Other Segments	Palmetto Medicare Segment	TrailBlazer Medicare Segment
Assets January 1, 2002	<u>1/</u>	\$113,512,399	\$93,550,908	\$14,995,657	\$4,965,834
Prepayment Credits	<u>2/</u>	0	(3,073,469)	1,481,759	1,591,710
Contributions	<u>3/</u>	37,587,514	31,990,288	2,698,496	2,898,730
Earnings	<u>4/</u>	(9,625,516)	(7,708,874)	(1,354,985)	(561,657)
Benefit Payments	<u>5/</u>	(5,287,291)	(3,755,346)	(1,211,383)	(320,562)
Administrative Expenses	<u>6/</u>	(475,461)	(380,786)	(66,931)	(27,744)
Transfers	<u>7/</u>	0	769,859	(709,942)	(59,917)
Assets January 1, 2003		\$135,711,645	\$111,392,580	\$15,832,671	\$8,486,394
Prepayment Credits		0	(5,305,657)	2,608,482	2,697,175
Contributions		80,263,260	76,398,477	1,900,088	1,964,695
Earnings		28,937,997	22,790,266	3,770,811	2,376,920
Benefit Payments		(8,504,823)	(6,137,007)	(1,956,435)	(411,381)
Administrative Expenses		(771,254)	(607,405)	(100,499)	(63,350)
Transfers		0	343,460	(147,938)	(195,522)
Assets January 1, 2004		\$235,636,825	\$198,874,714	\$21,907,180	\$14,854,931
Prepayment Credits		0	(9,522,912)	4,664,160	4,858,752
Contributions		49,000,000	49,000,000	0	0
Earnings		23,972,047	19,206,583	2,734,144	2,031,320
Benefit Payments		(7,964,471)	(7,496,817)	(299,722)	(167,932)
Administrative Expenses		(998,589)	(800,077)	(113,895)	(84,617)
Transfers		0	(334,708)	578,651	(243,943)
Assets January 1, 2005		\$299,645,812	\$248,926,783	\$29,470,518	\$21,248,511
Per BCBS South Carolina	<u>8/</u>	299,645,812	251,354,545	27,222,811	21,068,456
Asset Variance	<u>9/</u>	0	2,427,762	(2,247,707)	(180,055)

ENDNOTES

- 1/ We determined the Palmetto and TrailBlazer Medicare segment pension assets as of January 1, 2002, based on our prior segmentation audit of BCBS South Carolina (A-07-03-03042). The amounts shown for the Other segments 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 segment as needed to cover funding requirements.
- 3/ We obtained Total Company contribution amounts from the actuarial valuation reports and Department of Labor/Internal Revenue Service Forms 5500. We allocated Total Company contributions to the Medicare segment based on the ratio of the Medicare segment 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 the actuarial valuation reports. 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 each Medicare segment's benefit payments on actual payments to Medicare retirees. We obtained the benefit payments from documents provided by BCBS South Carolina, Palmetto, and TrailBlazer.
- 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 BCBS South Carolina. Asset transfers were equal to the actuarial liability determined under the accrued benefit cost method in accordance with the CAS.
- 8/ We obtained total asset amounts from documents prepared by BCBS South Carolina's actuarial consulting firm.
- 9/ The asset variance represents the difference between our calculation of Medicare segment pension assets and BCBS South Carolina's calculation of the Palmetto and TrailBlazer Medicare segment pension assets.

APPENDIX C: FEDERAL REQUIREMENTS RELATED TO PENSION SEGMENTATION

FEDERAL REGULATIONS

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 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.

MEDICARE CONTRACTS

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)."

APPENDIX D: AUDITEE COMMENTS



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A CELERIAN GROUP COMPANY

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KENNETH LEWIS
Vice President & CFO

March 22, 2016

RE: Audit Report Number A-07-16-00476

Patrick J. Cogley
Regional Inspector General for Audit Services
Office of Audit Services, Region VII
601 East 12th Street
Room 0429
Kansas City, Missouri 64106

Dear Mr. Cogley:

We are responding to the draft audit report dated February 25, 2016 entitled *Palmetto Government Benefits Administrator, LLC, and TrailBlazer Health Enterprises, LLC, Understated Their Medicare Segments' Pension Assets as of January 1, 2005*.

The audit contained the following recommendation with which we concur.

Recommendation:

We recommend that Palmetto:

- increase its Medicare segment pension assets by \$2,247,707 as of January 1, 2005,
- increase TrailBlazer's Medicare segment pension assets by \$180,055 as of January 1, 2005, and
- implement controls to ensure that Medicare segments are identified in accordance with the Medicare contracts and updated in accordance with CAS 412 and 413.

Comment:

We concur with the recommendation and will increase the Medicare segment pension assets of Palmetto by \$2,247,707 and increase TrailBlazer's Medicare segment pension assets by \$180,055 as of January 1, 2005. In addition, controls will be implemented to ensure that Medicare segments are identified in accordance with Medicare contracts and CAS 412 and 413.

If you have any questions, please feel free to contact me at 803-763-7982. I am handing these matters for TrailBlazer Health Enterprises, LLC since the company has discontinued operations.

Sincerely,

Kenneth Lewis
cc: Bruce Hughes, BCBSSC
cc: Louis McElveen, BCBSSC

*Palmetto Government Benefits Administrator, LLC, and TrailBlazer Health Enterprises, LLC,
Pension Segmentation (A-07-16-00476)*