

Department of Health and Human Services
**OFFICE OF
INSPECTOR GENERAL**

**CAHABA GOVERNMENT BENEFITS
ADMINISTRATORS, LLC,
OVERSTATED ITS MEDICARE
SEGMENT PENSION ASSETS**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



Gloria L. Jarmon
Deputy Inspector General
for Audit Services

April 2018
A-07-17-00522

Office of Inspector General

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

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <https://oig.hhs.gov>

Section 8M of the Inspector General Act, 5 U.S.C. App., requires that
OIG post its publicly available reports on the OIG website.

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

Report in Brief

Date: April 2018

Report No. A-07-17-00522

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



Why OIG Did This Review

Certain 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 HHS, OIG, Office of Audit Services, Region VII pension audit team reviews the Medicare segment pension assets to ensure compliance with Federal regulations.

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

Our objectives were to determine whether Cahaba Government Benefits Administrators, LLC (Cahaba GBA), complied with Federal requirements, the Medicare contracts' pension segmentation requirements, and its established cost accounting practice when (1) implementing the prior audit recommendation to decrease the Cahaba GBA Medicare segment pension assets as of January 1, 2009, and (2) updating the Cahaba GBA Medicare segment pension assets from January 1, 2009, to January 1, 2014.

How OIG Did This Review

We reviewed Cahaba GBA'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, 2009, to January 1, 2014.

Cahaba Government Benefits Administrators, LLC, Overstated Its Medicare Segment Pension Assets

What OIG Found

Cahaba GBA implemented our prior audit recommendation to decrease the Medicare segment pension assets by \$26,556 as of January 1, 2009. Regarding our second objective, Cahaba GBA did not correctly update the Medicare segment pension assets from January 1, 2009, to January 1, 2014, in accordance with Federal requirements and the Medicare contracts' pension segmentation requirements. Cahaba GBA identified \$26.148 million as the Medicare segment pension assets as of January 1, 2014; however, we determined that the Medicare segment pension assets were \$25.526 million as of that date. Therefore, Cahaba GBA overstated the Medicare segment pension assets as of January 1, 2014, by \$622,074. Cahaba GBA overstated its Medicare segment's pension assets because it did not have policies and procedures to ensure that it calculated those assets in accordance with Federal requirements, the pension segmentation language of its Medicare contracts, and its established cost accounting practice when updating the Medicare segments' pension assets from January 1, 2009, to January 1, 2014.

What OIG Recommends and Auditee Comments

We recommend that Cahaba GBA decrease the Medicare segment pension assets by \$622,074 and recognize \$25.526 million as the Medicare segment pension assets as of January 1, 2014, and establish policies and procedures to ensure compliance with Federal requirements and the pension segmentation language of the Medicare contracts.

Cahaba GBA agreed with our recommendation to decrease the Medicare segment pension assets as of January 1, 2014, by \$622,074 and recognize \$25.526 million as the Medicare segment pension assets. In addition, Cahaba GBA stated that it would strengthen controls to ensure that the Medicare segment's assets are updated in accordance with the Medicare contracts.

TABLE OF CONTENTS

INTRODUCTION.....	1
Why We Did This Review	1
Objectives.....	1
Background	1
Cahaba Government Benefits Administrators, LLC	1
Prior Pension Segmentation Audit.....	2
How We Conducted This Review	2
FINDINGS.....	3
Prior Audit Recommendation	3
Update of Medicare Segment Pension Assets.....	4
Contributions and Transferred Prepayment Credits Understated.....	4
Benefit Payments Understated.....	5
Net Transfers Out Overstated.....	5
Earnings, Net of Expenses Overstated.....	6
Healthcare Business Solutions, LLC, Segment Assets as of January 1, 2013	6
RECOMMENDATIONS	6
AUDITEE COMMENTS	7
APPENDICES	
A: Audit Scope and Methodology	8
B: Cahaba Government Benefits Administrators, LLC, Statement of Medicare Segment Pension Assets for the Period January 1, 2009, to January 1, 2014.....	10
C: Federal Requirements Related to Pension Segmentation.....	12
D: Cahaba Government Benefits Administrators, LLC, Cost Accounting Standards Balance Equation as of January 1, 2014	13
E: Auditee Comments.....	14

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, Medicare administrative contractors (MACs), and other CAS-covered and Federal Acquisition Regulation (FAR)-covered contracts through Final Administrative Cost Proposals and/or Incurred Cost Proposals.

For this review, we focused on one entity, Cahaba Government Benefits Administrators, LLC (Cahaba GBA). In particular, we examined the Other segment and Medicare segment pension assets that Cahaba GBA updated from January 1, 2009, to January 1, 2014.

OBJECTIVES

Our objectives were to determine whether Cahaba GBA complied with Federal requirements, the Medicare contracts' pension segmentation requirements, and its established cost accounting practice when (1) implementing the prior audit recommendation to decrease the Cahaba GBA Medicare segment pension assets as of January 1, 2009, and (2) updating the Cahaba GBA Medicare segment pension assets from January 1, 2009, to January 1, 2014.

BACKGROUND

Cahaba Government Benefits Administrators, LLC

During our audit period, Cahaba GBA was a subsidiary of Blue Cross Blue Shield of Alabama (BCBS Alabama), whose home office is in Birmingham, Alabama. Cahaba GBA administered Medicare Part A fiscal intermediary and Medicare Part B carrier contract operations under cost reimbursement contracts with CMS. The Medicare Part A fiscal intermediary and Medicare Part B carrier contracts ended on June 8, 2011, and October 20, 2012, respectively.

With the implementation of Medicare contracting reform,¹ Cahaba GBA continued to perform Medicare work after being awarded the MAC contracts for Medicare Parts A and B Jurisdiction 10² effective January 9, 2009.

BCBS Alabama has two Medicare segments that participate in its qualified defined-benefit pension plan: (1) Cahaba GBA and (2) Cahaba Safeguard Administrators, LLC (Cahaba CSA). On January 1, 2013, BCBS Alabama created the Healthcare Business Solutions, LLC (HBS), intermediate home office segment (HBS segment) by transferring assets into it from the Cahaba GBA and Cahaba CSA segments.³ This report addresses Cahaba GBA's compliance with the pension segmentation language under the provisions of its Medicare contracts. We are addressing Cahaba CSA's compliance with Federal regulations and the pension segmentation requirements in separate reviews.

Prior Pension Segmentation Audit

We performed a prior pension segmentation audit for Cahaba GBA (A-07-11-00360, Apr. 7, 2011), which brought the Cahaba GBA Medicare segment pension assets to January 1, 2009. We recommended that Cahaba GBA decrease the Medicare segment pension assets by \$26,556, and, as a result, recognize \$29,441,001 as the Medicare segment pension assets as of January 1, 2009.

HOW WE CONDUCTED THIS REVIEW

We reviewed Cahaba GBA'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, 2009, to January 1, 2014.

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.

¹ Section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P.L. No. 108-173, required CMS to transfer the functions of fiscal intermediaries and carriers to MACs between October 2005 and October 2011. Most, but not all, of the MACs are fully operational; for jurisdictions where the MACs are not fully operational, the fiscal intermediaries and carriers continue to process claims. For purposes of this report, the term "Medicare contractor" means the fiscal intermediary, carrier, or MAC, whichever is applicable.

² Medicare Parts A and B Jurisdiction 10 consists of the States of Alabama, Georgia, and Tennessee.

³ Although BCBS Alabama created the HBS segment, we determined that this segment was not a Medicare segment. However, the asset variances related to the HBS segment assets are presented in Appendix B. Because HBS is not a Medicare segment, we do not opine on the variances noted in the HBS segment pension assets.

FINDINGS

Cahaba GBA implemented our prior audit recommendation to decrease the Medicare segment pension assets by \$26,556 as of January 1, 2009. Regarding our second objective, Cahaba GBA did not correctly update the Medicare segment pension assets from January 1, 2009, to January 1, 2014, in accordance with Federal requirements and the Medicare contracts' pension segmentation requirements. Cahaba GBA identified \$26,148,301 as the Medicare segment pension assets as of January 1, 2014; however, we determined that the Medicare segment pension assets were \$25,526,227 as of that date. Therefore, Cahaba GBA overstated the Medicare segment pension assets as of January 1, 2014, by \$622,074. Cahaba GBA overstated its Medicare segment's pension assets because it did not have policies and procedures to ensure that it calculated those assets in accordance with Federal requirements, the pension segmentation language of its Medicare contracts, and its established cost accounting practice when updating the Medicare segments' pension assets from January 1, 2009, to January 1, 2014.

Appendix B identifies the details of Cahaba GBA's Medicare segment pension assets from January 1, 2009, to January 1, 2014, as determined during our audit. Table 1 below summarizes the audit adjustments required to update Cahaba GBA's Medicare segment pension assets in accordance with Federal requirements.

Table 1: Summary of Audit Adjustments

	Per Audit	Per Cahaba GBA	Difference
Prior Audit Recommendation	\$29,441,001	\$29,441,001	\$0
Update of Medicare Segment Assets			
Contributions and Prepayment Credits	26,477,751	25,279,466	1,198,285
Benefit Payments	(31,434,593)	(25,576,981)	(5,857,612)
Net Transfers	(15,361,734)	(20,421,806)	5,060,072
Earnings, Net of Expenses	18,024,856	19,020,357	(995,501)
Assets Transferred to HBS Medicare Segment Assets as of January 1, 2013	(1,621,054)	(1,593,736)	(27,318)
Overstatement of Medicare Segment Assets			(\$622,074)

PRIOR AUDIT RECOMMENDATION

Cahaba GBA implemented the prior audit recommendation (A-07-11-00360, Apr. 7, 2011), which recommended that Cahaba GBA decrease its Medicare segment pension assets by \$26,556 and recognize \$29,441,001 as the Medicare segment pension assets as of January 1, 2009.

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

Cahaba GBA did not correctly update the Medicare segment pension assets from January 1, 2009, to January 1, 2014, in accordance with Federal requirements and the Medicare contracts' pension segmentation requirements. Cahaba GBA identified \$26,148,301 as the Medicare segment pension assets as of January 1, 2014; however, we determined that the Medicare segment pension assets were \$25,526,227 as of that date. Therefore, Cahaba GBA overstated the Medicare segment pension assets as of January 1, 2014, by \$622,074. The following are our findings regarding the update of the Medicare segment pension assets from January 1, 2009, to January 1, 2014. Appendix D identifies Cahaba GBA's CAS balance equation as of January 1, 2014.⁴

Contributions and Transferred Prepayment Credits Understated

The audited contributions and transferred prepayment credits⁵ are based on the assignable pension costs.⁶ 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.

Cahaba GBA understated contributions and transferred prepayment credits by \$1,198,285 for its Medicare segment. The understatement occurred primarily because of differences in the asset base used to compute the assignable pension costs. Table 2 on the following page shows the differences between the contributions and prepayment credits proposed by Cahaba GBA and the contributions and prepayment credits that we calculated during our review.

⁴ 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).

⁵ 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.

⁶ These are assigned to a specific cost accounting period.

Table 2: Contributions and Transferred Prepayment Credits

Calendar Year (CY)	Per Audit	Per Cahaba GBA	Difference
2009	\$6,066,226	\$6,066,226	\$0
2010	5,210,634	4,552,051	658,583
2011	5,212,995	4,630,047	582,948
2012	5,008,726	5,009,101	(375)
2013	4,979,170	5,022,041	(42,871)
Total	\$26,477,751	\$25,279,466	\$1,198,285

Benefit Payments Understated

Cahaba GBA understated benefit payments by \$5,857,612 for the Medicare segment. This understatement occurred primarily because Cahaba GBA incorrectly identified benefit payments for Medicare segment participants during 2009. This understatement of benefit payments resulted in an overstatement of the Cahaba GBA Medicare segment pension assets by \$5,857,612. A comparison of Cahaba GBA's and our calculations of benefit payments for the Medicare segment appears in Table 3 below.

Table 3: Benefit Payments

CY	Per Audit	Per Cahaba GBA	Difference
2009	(\$7,991,273)	(\$3,027,161)	(\$4,964,112)
2010	(5,157,400)	(5,157,400)	0
2011	(7,576,731)	(6,646,360)	(930,371)
2012	(6,195,435)	(6,232,306)	36,871
2013	(4,513,754)	(4,513,754)	0
Total	(\$31,434,593)	(\$25,576,981)	(\$5,857,612)

Net Transfers Out Overstated

Cahaba GBA overstated net transfers out of its Medicare segment by \$5,060,072. The overstatement occurred because Cahaba GBA incorrectly identified the participants who transferred in or out of its Medicare segment. This overstatement of the net transfer adjustment resulted in an understatement of the Cahaba GBA Medicare segment pension assets by \$5,060,072. Table 4 on the following page shows the differences between the net transfers proposed by Cahaba GBA and the net transfers that we calculated during our review.

Table 4: Net Transfers Out of the Medicare Segment

CY	Per Audit	Per Cahaba GBA	Difference
2009	\$507,485	\$507,485	\$0
2010	(2,960,093)	(2,964,307)	4,214
2011	(4,849,525)	(10,911,019)	6,061,494
2012	(6,149,216)	(6,162,139)	12,923
2013	(1,910,385)	(891,826)	(1,018,559)
Total	(\$15,361,734)	(\$20,421,806)	\$5,060,072

Earnings, Net of Expenses Overstated

Cahaba GBA overstated investment earnings, less administrative expenses, by \$995,501 for its Medicare segment, because it used incorrect contributions and transferred prepayment credits, incorrect benefit payments, and incorrect net transfers (all 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.

Healthcare Business Solutions, LLC, Segment Assets as of January 1, 2013

BCBS Alabama incorrectly computed the HBS segment pension assets as of January 1, 2013. Effective that date, BCBS Alabama created the HBS segment and transferred Medicare segment pension assets to that plan from the Cahaba GBA segment. Cahaba GBA identified HBS segment assets of \$1,593,736 as of January 1, 2013. However, we determined that the segment assets as of this date were \$1,621,054. Therefore, Cahaba GBA overstated the January 1, 2013, HBS pension assets by \$27,318. This overstatement occurred because Cahaba GBA used incorrect contributions and transferred prepayment credits, incorrect benefit payments, incorrect net transfers, and incorrect earnings net of expenses (all discussed above) to develop the Cahaba GBA Medicare segment pension asset base. The asset variances that we calculated appear in Appendix B; see also footnote 3.

RECOMMENDATIONS

We recommend that Cahaba GBA:

- decrease the Medicare segment pension assets by \$622,074 and recognize \$25,526,227 as the Medicare segment pension assets as of January 1, 2014, and
- establish policies and procedures to ensure compliance with Federal requirements and the pension segmentation language of the Medicare contracts.

AUDITEE COMMENTS

In written comments on our draft report, Cahaba GBA agreed with our first recommendation and added that it would strengthen controls to ensure that the Medicare segment's assets are updated in accordance with the Medicare contracts.

Cahaba GBA's comments appear in their entirety as Appendix E.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed Cahaba GBA'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, 2009, to January 1, 2014.

Achieving our objective did not require that we review Cahaba GBA'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 the Medicare contracts, CAS 412, and CAS 413.

We performed fieldwork at Cahaba GBA in Birmingham, Alabama.

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 Alabama'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 Cahaba GBA Medicare segment assets;
- obtained and reviewed the pension plan documents and Department of Labor/Internal Revenue Service Forms 5500 used in calculating the Cahaba GBA Medicare segment assets;
- interviewed BCBS Alabama and Cahaba GBA staff responsible for identifying the Medicare segments to determine whether the segments were properly identified in accordance with the Medicare contracts;
- reviewed Cahaba GBA's accounting records to verify the segments' identifications as well as the benefit payments made to the Medicare segments;
- reviewed the prior segmentation audit performed at Cahaba GBA (A-07-11-00360) to determine the beginning market value of assets;
- provided the CMS Office of the Actuary with the actuarial information necessary for it to calculate the Medicare segments' pension assets from January 1, 2009, to January 1, 2014;

- reviewed the CMS actuaries' methodology and calculations; and
- provided the results of the review to Cahaba GBA officials on December 22, 2017.

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

- *Cahaba Safeguard Administrators, LLC, Understated Its Medicare Segment Pension Assets (A-07-17-00523)* and
- *Cahaba Government Benefits Administrators, LLC, Generally Claimed Allowable Medicare Pension Costs (A-07-17-00524)*.

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: CAHABA GOVERNMENT BENEFITS ADMINISTRATORS, LLC,
STATEMENT OF MEDICARE SEGMENT PENSION ASSETS
FOR THE PERIOD JANUARY 1, 2009, TO JANUARY 1, 2014**

Description		Total Company	Other Segments	HBS Segment	Cahaba GBA Medicare Segment	Cahaba CSA Medicare Segment
Assets January 1, 2009	1/	\$297,893,574	\$264,043,197	\$0	\$29,441,001	\$4,409,376
Prepayment Credits	2/	0	(7,223,996)	0	6,066,226	1,157,770
Contributions	3/	75,000,000	75,000,000	0	0	0
Other Transaction		0	0	0	0	0
Earnings	4/	55,073,088	48,024,475	0	6,002,854	1,045,759
Benefit Payments	5/	(109,247,026)	(101,100,750)	0	(7,991,273)	(155,003)
Administrative Expenses	6/	(1,056,412)	(921,205)	0	(115,147)	(20,060)
Transfers	7/	0	(386,594)	0	507,485	(120,891)
Assets January 1, 2010		\$317,663,224	\$277,435,127	\$0	\$33,911,146	\$6,316,951
Prepayment Credits		0	(6,048,034)	0	5,210,634	837,400
Contributions		30,000,000	30,000,000	0	0	0
Other Transaction		0	0	0	0	0
Earnings		36,017,501	31,080,342	0	4,132,834	804,325
Benefit Payments		(20,919,217)	(15,677,020)	0	(5,157,400)	(84,797)
Administrative Expenses		(1,004,567)	(866,865)	0	(115,269)	(22,433)
Transfers		0	4,695,240	0	(2,960,093)	(1,735,147)
Assets January 1, 2011		\$361,756,941	\$320,618,790	\$0	\$35,021,852	\$6,116,299
Prepayment Credits		0	(6,034,250)	0	5,212,995	821,255
Contributions		110,000,000	110,000,000	0	0	0
Other Transactions		0	0	0	0	0
Earnings		8,575,135	7,622,184	0	819,822	133,129
Benefit Payments		(36,553,181)	(26,938,265)	0	(7,576,731)	(2,038,185)
Administrative Expenses		(1,204,763)	(1,070,878)	0	(115,181)	(18,704)
Transfers		0	4,855,302	0	(4,849,525)	(5,777)
Assets January 1, 2012		\$442,574,132	\$409,052,883	\$0	\$28,513,232	\$5,008,017
Prepayment Credits		0	(5,759,864)	0	5,008,726	751,138
Contributions		31,900,000	31,900,000	0	0	0
Other Transactions	8/	0	0	2,367,746	(1,621,054)	(746,692)
Earnings		45,184,588	41,390,939	0	3,190,056	603,593
Benefit Payments		(42,143,875)	(35,943,321)	0	(6,195,435)	(5,119)
Administrative Expenses		(1,544,118)	(1,414,475)	0	(109,016)	(20,627)
Transfers		0	5,686,588	0	(6,149,216)	462,628
Assets January 1, 2013		\$475,970,727	\$444,912,750	\$2,367,746	\$22,637,293	\$6,052,938
Prepayment Credits		0	(6,213,549)	421,552	4,979,170	812,827
Contributions		40,000,000	40,000,000	0	0	0
Other Transactions		0	0	0	0	0
Earnings		81,560,993	75,451,471	486,816	4,426,004	1,196,702
Benefit Payments		(49,504,618)	(44,972,768)	0	(4,513,754)	(18,096)
Administrative Expenses		(1,697,214)	(1,570,081)	(10,130)	(92,101)	(24,902)
Transfers		0	2,263,423	12,861	(1,910,385)	(365,899)
Assets January 1, 2014		\$546,329,888	\$509,871,246	\$3,278,845	\$25,526,227	\$7,653,570
Per Cahaba GBA	9/	\$546,329,888	\$509,609,104	\$3,209,744	\$26,148,301	\$7,362,739
Asset Variance	10/	\$0	\$262,142	\$69,101	(\$622,074)	\$290,831

ENDNOTES

1/ We determined the Medicare segment pension assets as of January 1, 2009, based on our prior segmentation audit of Cahaba GBA (A-07-11-00360). The amounts shown for the Other segment represent the difference between the Total Company, HBS segment, 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 the Medicare segment's benefit payments on actual payments to Medicare retirees. We obtained the benefit payments from documents provided by Cahaba GBA.
- 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 Cahaba GBA. Asset transfers were equal to the actuarial liability determined under the accrued benefit cost method in accordance with the CAS.
- 8/ These Other transactions represent the transfer of assets from the Cahaba GBA and Cahaba CSA Medicare segments to the HBS segment, which was created on January 1, 2013.
- 9/ We obtained segment asset amounts from documents prepared by Cahaba GBA's actuarial consulting firm.
- 10/ The asset variance represents the difference between our calculation of the Cahaba GBA Medicare segment, the Cahaba CSA Medicare segment, and the HBS segment pension assets and Cahaba GBA's calculation of the segments' pension assets. Cahaba CSA's Medicare segment asset variance is discussed in a separate review. The HBS segment is not a Medicare segment; therefore, we do not opine on the variances noted in the HBS 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: CAHABA GOVERNMENT BENEFITS ADMINISTRATORS, LLC,
COST ACCOUNTING STANDARDS BALANCE EQUATION
AS OF JANUARY 1, 2014**

Description		Total Company	All Other Segments	Cahaba GBA Segment	HBS Segment	Cahaba CSA Segment
Actuarial Accrued Liability	<u>1/</u>	\$ 432,604,764	\$ 383,737,117	\$ 36,014,821	\$ 4,181,980	\$ 8,670,846
Less: Actuarial Value of Assets	<u>2/</u>	(507,377,778)	(473,518,556)	(23,706,264)	(3,045,070)	(7,107,888)
Unfunded Actuarial Liability	<u>3/</u>	\$ (74,773,014)	\$ (89,781,439)	\$ 12,308,557	\$ 1,136,910	\$ 1,562,958
9904.412-50(a)(2) Unallowable	<u>4/</u>	\$ 9,811,482	8,164,069	\$ 1,467,401	\$ 113,309	\$ 66,703
Prepayment Credit	<u>5/</u>	(238,009,816)	(238,009,816)	-	-	-
Adjustments to UAL	<u>6/</u>	\$ (228,198,334)	\$ (229,845,747)	\$ 1,467,401	\$ 113,309	\$ 66,703
Net Unamortized Balance	<u>7/</u>	\$ 153,425,320	\$ 140,064,308	\$ 10,841,156	\$ 1,023,601	\$ 1,496,255
Market Value of Assets	<u>8/</u>	\$ 546,329,888	\$ 509,871,246	\$ 25,526,227	\$ 3,278,845	\$ 7,653,570

ENDNOTES

- 1/ Actuarial accrued liability (AAL) represents the pension cost attributable, under the actuarial cost method in use, to years prior to January 1, 2014. We obtained the total company AAL from the January 1, 2014, Cahaba actuarial valuation report. The AAL for the Other Segment, Medicare segments, and HBS Segment was 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, 2014.
- 3/ The unfunded actuarial liability (UAL) is the AAL less the AVA as of January 1, 2014. 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/ The sum of the adjustments to the UAL.
- 7/ The net unamortized balance is the UAL less the adjustments to the UAL. It is the remaining balance 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, 2014, plus the current value of any accrued contributions used to fund pension costs assigned to periods prior to January 1, 2014.

APPENDIX E: AUDITEE COMMENTS

David Brown
President

Cahaba Government Benefit Administrators, LLC



March 20, 2018

Department of Health and Human Services
Office of Inspector General
Office of Audit Services
Attention: Jenenne Tambke, Assistant Regional Inspector General for Audit Services
Region VII
601 East 12th Street, Room 0429
Kansas City, Missouri 64106

RE: Report Number A-07-17-00522 Cahaba Government Benefit Administrators, LLC, Overstated Its Medicare Segment Pension Assets for the period from January 1, 2009, to January 1, 2014.

Dear Ms. Tambke,

This report is in response to the draft report issued to Cahaba Government Benefit Administrators, LLC (Cahaba) for the above mentioned audit. We agree with the recommendation to decrease the Medicare segment pension assets as of January 1, 2014, by \$622,074 and recognize \$25.526 million 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 questions regarding this report, please contact Emma Barclay, Manager Corporate Compliance, at (205)-220-1454 or via e-mail at ebarclay@cahabagba.com.

Sincerely,

David Brown
President
Cahaba Government Benefit Administrators, LLC