

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

**CAHABA SAFEGUARD  
ADMINISTRATORS, LLC,  
UNDERSTATED ITS MEDICARE  
SEGMENT PENSION ASSETS**

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# *Office of Inspector General*

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## Report in Brief

Date: April 2018

Report No. A-07-17-00523

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 objective was to determine whether Cahaba Safeguard Administrators, LLC (Cahaba CSA), complied with Federal requirements and its established cost accounting practice when updating the Cahaba CSA Medicare segment pension assets from January 1, 2009, to January 1, 2014.

### How OIG Did This Review

We reviewed Cahaba CSA's update of the Medicare segment pension assets from January 1, 2009, to January 1, 2014.

## Cahaba Safeguard Administrators, LLC, Understated Its Medicare Segment Pension Assets

### What OIG Found

Cahaba CSA did not correctly update the Medicare segment pension assets from January 1, 2009, to January 1, 2014, in accordance with Federal requirements and its established cost accounting practice. Cahaba CSA identified \$7.363 million as the Medicare segment pension assets as of January 1, 2014; however, we determined that the Medicare segment pension assets were \$7.654 million as of that date. Therefore, Cahaba CSA understated the Medicare segment pension assets as of January 1, 2014, by \$290,831. Cahaba CSA understated 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 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 CSA increase the Medicare segment pension assets by \$290,831 and recognize \$7.654 million as the Medicare segment pension assets as of January 1, 2014, and establish policies and procedures to ensure compliance with Federal requirements.

Cahaba CSA agreed with our recommendation to increase the Medicare segment pension assets as of January 1, 2014, by \$290,831 and recognize \$7.654 million as the Medicare segment pension assets. In addition, Cahaba CSA 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 Safeguard Administrators, LLC.....	1
Qualified Defined-Benefit Pension Plans.....	2
How We Conducted This Review .....	2
FINDING.....	2
Cost Accounting Standards Requirements .....	3
Update of Medicare Segment Pension Assets.....	3
Contributions and Transferred Prepayment Credits Overstated .....	4
Benefit Payments Understated.....	4
Net Transfers Out Overstated.....	5
Earnings, Net of Expenses Understated .....	5
Healthcare Business Solutions, LLC, Segment Assets as of January 1, 2013 .....	6
RECOMMENDATIONS .....	6
AUDITEE COMMENTS .....	6
APPENDICES	
A: Audit Scope and Methodology .....	7
B: Cahaba Safeguard Administrators, LLC, Statement of Medicare Segment Pension Assets for the Period January 1, 2009, to January 1, 2014 .....	9
C: Federal Requirements Related to Pension Segmentation.....	11
D: Cahaba Safeguard Administrators, LLC, Cost Accounting Standards Balance Equation as of January 1, 2014 .....	12
E: Auditee Comments.....	13

## 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. Previous Office of Inspector General reviews found that Medicare contractors did not always correctly identify and update the segmented pension assets.

At the Centers for Medicare & Medicaid Services' (CMS) 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 Safeguard Administrators, LLC (Cahaba CSA). In particular, we examined the Other segment and Medicare segment pension assets that Cahaba CSA updated from January 1, 2009, to January 1, 2014.

### OBJECTIVES

Our objectives were to determine whether Cahaba CSA complied with Federal requirements and its established cost accounting practice when updating the Cahaba CSA Medicare segment pension assets from January 1, 2009, to January 1, 2014.

### BACKGROUND

#### **Cahaba Safeguard Administrators, LLC**

During our audit period, Cahaba CSA was a subsidiary of Blue Cross Blue Shield of Alabama (BCBS Alabama), whose home office is in Birmingham, Alabama. The Cahaba CSA Medicare segment, created in calendar year (CY) 2002, administered program safeguard functions under a contract with CMS. With the implementation of The Health Insurance Portability and Accountability Act of 1996 and the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), CMS established the Medicare Integrity Program zones.<sup>1</sup> Seven program integrity zones were created based on the newly-established MAC jurisdictions.

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<sup>1</sup> The Health Insurance Portability and Accountability Act of 1996, P.L. No. 104-191 (Aug. 21, 1996), and the MMA, P.L. No. 108-173 (Dec. 8, 2003). Section 911 of the MMA required CMS to transfer the functions of fiscal intermediaries and carriers to Medicare administrative contractors (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.

Cahaba CSA was awarded Zone Program Integrity Contactor (ZPIC)<sup>2</sup> contracts for Zone 3<sup>3</sup> and Zone 6<sup>4</sup> effective April 8, 2011, and September 30, 2011, respectively.

## **Qualified Defined-Benefit Pension Plans**

BCBS Alabama has two Medicare segments that participate in its qualified defined-benefit pension plan: (1) Cahaba Government Benefits Administrators, LLC (Cahaba GBA), and (2) 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.<sup>5</sup> This report addresses Cahaba CSA's compliance with Federal requirements. We are addressing Cahaba GBA's compliance with Federal requirements and the pension segmentation requirements in separate reviews.

## **HOW WE CONDUCTED THIS REVIEW**

We reviewed Cahaba CSA's 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.

## **FINDING**

Cahaba CSA did not correctly update the Medicare segment pension assets from January 1, 2009, to January 1, 2014, in accordance with Federal requirements and its established cost accounting practice. Cahaba CSA identified \$7,362,739 as the Medicare segment pension assets as of January 1, 2014; however, we determined that the Medicare segment pension assets were \$7,653,570 as of that date. Therefore, Cahaba CSA understated the Medicare

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<sup>2</sup> CMS created ZPICs to perform program integrity functions in these zones for Medicare Part A; Part B; Durable Medical Equipment Prosthetics, Orthotics, and Supplies; Home Health and Hospice; and Medicare-Medicaid data matching.

<sup>3</sup> ZPIC Zone 3 includes the States of Illinois, Indiana, Kentucky, Michigan, Minnesota, Ohio, and Wisconsin.

<sup>4</sup> ZPICs Zone 6 includes the States of Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont, as well as the District of Columbia.

<sup>5</sup> 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.

segment pension assets as of January 1, 2014, by \$290,831. Cahaba CSA understated 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 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 CSA’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 CSA’s Medicare segment pension assets in accordance with Federal requirements.

**Table 1: Summary of Audit Adjustments**

	<b>Per Audit</b>	<b>Per Cahaba CSA</b>	<b>Difference</b>
<b>Medicare Segment Pension Assets as of January 1, 2009</b>	<b>\$4,409,376</b>	<b>\$4,409,376</b>	<b>\$0</b>
<b>Update of Medicare Segment Assets</b>			
Contributions and Prepayment Credits	4,380,390	4,418,939	(38,549)
Benefit Payments	(2,301,200)	(2,069,687)	(231,513)
Net Transfers	(1,765,086)	(2,337,109)	572,023
Earnings, Net of Expenses	3,676,782	3,635,213	41,569
Assets Transferred to HBS Segment as of January 1, 2013	(746,692)	(693,993)	(52,699)
<b>Understatement of Medicare Segment Assets</b>			<b>\$290,831</b>

### **COST ACCOUNTING STANDARDS REQUIREMENTS**

Cahaba CSA’s established cost accounting practice requires it to update the Medicare segment pension assets yearly in accordance with the CAS. The CAS requires that the asset base be adjusted by contributions, income, benefit payments, and expenses. For details on the Federal requirements, see Appendix C.

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

Cahaba CSA did not correctly update the Medicare segment pension assets from January 1, 2009, to January 1, 2014, in accordance with Federal requirements and its established cost accounting practice. Cahaba CSA identified \$7,362,739 as the Medicare segment pension assets as of January 1, 2014; however, we determined that the Medicare segment pension assets were \$7,653,570 as of that date. Therefore, Cahaba CSA understated the Medicare segment pension assets as of January 1, 2014, by \$290,831. 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 CSA's CAS balance equation as of January 1, 2014.<sup>6</sup>

### Contributions and Transferred Prepayment Credits Overstated

The audited contributions and transferred prepayment credits<sup>7</sup> are based on the assignable pension costs.<sup>8</sup> 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 CSA overstated contributions and transferred prepayment credits by \$38,549 for its Medicare segment. The overstatement occurred primarily because of differences in the asset base used to compute the assignable pension costs. Table 2 below shows the differences between the contributions and prepayment credits proposed by Cahaba CSA and the contributions and prepayment credits that we calculated during our review.

**Table 2: Contributions and Transferred Prepayment Credits**

<b>CY</b>	<b>Per Audit</b>	<b>Per Cahaba CSA</b>	<b>Difference</b>
2009	\$1,157,770	\$1,157,770	\$0
2010	837,400	826,567	10,833
2011	821,255	811,660	9,595
2012	751,138	748,672	2,466
2013	812,827	874,270	(61,443)
<b>Total</b>	<b>\$4,380,390</b>	<b>\$4,418,939</b>	<b>(\$38,549)</b>

### Benefit Payments Understated

Cahaba CSA understated benefit payments by \$231,513 for the Medicare segment. This understatement occurred primarily because Cahaba CSA incorrectly identified benefit payments for Medicare segment participants during CY 2009 and CY 2011. This understatement of benefit payments resulted in an overstatement of the Cahaba CSA Medicare

<sup>6</sup> 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).

<sup>7</sup> 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.

<sup>8</sup> These are assigned to a specific cost accounting period.

segment pension assets by \$231,513. A comparison of Cahaba CSA's and our calculations of benefit payments for the Medicare segment appears in Table 3 below.

**Table 3: Benefit Payments**

<b>CY</b>	<b>Per Audit</b>	<b>Per Cahaba CSA</b>	<b>Difference</b>
2009	(\$155,003)	(\$73,355)	(\$81,648)
2010	(84,797)	(84,797)	0
2011	(2,038,185)	(1,888,320)	(149,865)
2012	(5,119)	(5,119)	0
2013	(18,096)	(18,096)	0
<b>Total</b>	<b>(\$ 2,301,200)</b>	<b>(\$2,069,687)</b>	<b>(\$231,513)</b>

### **Net Transfers Out Overstated**

Cahaba CSA overstated net transfers out of its Medicare segment by \$572,023. The overstatement occurred because Cahaba CSA 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 CSA Medicare segment pension assets by \$572,023. Table 4 below shows the differences between the net transfers proposed by Cahaba CSA and the net transfers that we calculated during our review.

**Table 4: Net Transfers Out of the Medicare Segment**

<b>CY</b>	<b>Per Audit</b>	<b>Per Cahaba CSA</b>	<b>Difference</b>
2009	(\$120,891)	(\$120,891)	\$0
2010	(1,735,147)	(1,735,147)	0
2011	(5,777)	(216,418)	210,641
2012	462,628	(36,181)	498,809
2013	(365,899)	(228,472)	(137,427)
<b>Total</b>	<b>(\$1,765,086)</b>	<b>(\$2,337,109)</b>	<b>\$572,023</b>

### **Earnings, Net of Expenses Understated**

Cahaba CSA understated investment earnings, less administrative expenses, by \$41,569 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 CSA segment. Cahaba CSA identified HBS segment assets of \$693,993 as of January 1, 2013. However, we determined that the segment assets as of this date were \$746,692. Therefore, Cahaba CSA overstated the January 1, 2013, HBS pension assets by \$52,699. This overstatement occurred because Cahaba CSA 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 CSA segment pension asset base. The asset variances that we calculated appear in Appendix B; see also footnote 5.

### **RECOMMENDATIONS**

We recommend that Cahaba CSA:

- increase the Medicare segment pension assets by \$290,831 and recognize \$7,653,570 as the Medicare segment pension assets as of January 1, 2014, and
- establish policies and procedures to ensure compliance with Federal requirements.

### **AUDITEE COMMENTS**

In written comments on our draft report, Cahaba CSA agreed with our 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 CSA's comments appear in their entirety as Appendix E.

## **APPENDIX A: AUDIT SCOPE AND METHODOLOGY**

### **SCOPE**

We reviewed Cahaba CSA's 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 CSA's overall internal control structures. We reviewed controls relating to the identification of the Medicare segment and to the update of the Medicare segment pension assets to ensure adherence to CAS 412 and CAS 413.

We performed 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 CSA Medicare segment assets;
- obtained and reviewed the pension plan documents and Department of Labor/Internal Revenue Service Forms 5500 used in calculating the Cahaba CSA Medicare segment assets;
- interviewed BCBS Alabama and Cahaba CSA staff responsible for identifying the Medicare segments to determine whether the segments were properly identified in accordance with its established cost accounting practice;
- reviewed Cahaba CSA's accounting records to verify the segments' identifications as well as the benefit payments made to the Medicare segments;
- 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 CSA officials on December 22, 2017.

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

- *Cahaba Government Benefits Administrators, LLC, Overstated Its Medicare Segment Pension Assets (A-07-17-00522) 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 SAFEGUARD 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 CSA	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 CSA.
- 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 CSA. 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 CSA and Cahaba GBA Medicare segments to the HBS segment, which was created on January 1, 2013.
- 9/ We obtained segment asset amounts from documents prepared by Cahaba CSA's actuarial consulting firm.
- 10/ The asset variance represents the difference between our calculation of the Cahaba CSA Medicare segment, the Cahaba GBA Medicare segment, and the HBS segment pension assets and Cahaba CSA's calculation of the segments' pension assets. Cahaba GBA'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 (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.

**APPENDIX D: CAHABA SAFEGUARD 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	1/ \$ 432,604,764	\$ 383,737,117	\$ 36,014,821	\$ 4,181,980	\$ 8,670,846
Less: Actuarial Value of Assets	2/ (507,377,778)	\$ (473,518,556)	(23,706,264)	(3,045,070)	(7,107,888)
Unfunded Actuarial Liability	3/ \$ (74,773,014)	\$ (89,781,439)	\$ 12,308,557	\$ 1,136,910	\$ 1,562,958
9904.412-50(a)(2) Unallowable	4/ \$ 9,811,482	8,164,069	\$ 1,467,401	\$ 113,309	\$ 66,703
Prepayment Credit	5/ (238,009,816)	(238,009,816)	-	-	-
Adjustments to UAL	6/ \$ (228,198,334)	\$ (229,845,747)	\$ 1,467,401	\$ 113,309	\$ 66,703
Net Unamortized Balance	7/ \$ 153,425,320	\$ 140,064,308	\$ 10,841,156	\$ 1,023,601	\$ 1,496,255
Market Value of Assets	8/ \$ 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

Randy Heal  
President  
Cahaba Safeguard Administrators, LLC



csa<sup>SM</sup>

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 12<sup>th</sup> Street, Room 0429  
Kansas City, Missouri 64106

RE: Report Number A-07-17-00523 Cahaba Safeguard Administrators, LLC, Understated Its Medicare Segment Pension Assets for the Period January 1, 2009, to January 1, 2014.

Dear Ms. Tambke,

This report is in response to the draft report issued to Cahaba Safeguard Administrators, LLC (Cahaba CSA) for the above mentioned audit. We agree with the recommendation to increase the Medicare segment pension assets as of January 1, 2014, by \$290,831 and recognize \$7.654 million as the Medicare segment's pension assets. In addition, Cahaba CSA 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 Jon Michael Ogletree, Chief Financial Officer, at (205)-820-6012 or via e-mail at [jogletree@csallc.com](mailto:jogletree@csallc.com).

Sincerely,

Randy Heal  
President  
Cahaba Safeguard Administrators, LLC

CC: Randy Heal, President, Cahaba Safeguard Administrators, LLC  
Jon Michael Ogletree, Chief Financial Officer, Cahaba Safeguard Administrators, LLC  
Monique Houser, Compliance Officer, Cahaba Safeguard Administrators, LLC  
Brian Edwards, VP Controller, Blue Cross and Blue Shield of Alabama