

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**CAHABA GOVERNMENT BENEFITS
ADMINISTRATORS, LLC,
GENERALLY CLAIMED ALLOWABLE
MEDICARE PENSION COSTS**

*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-07-17-00524**

Office of Inspector General

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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-07-17-00524

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



Why OIG Did This Review

The Centers for Medicare & Medicaid Services (CMS) reimburses contractors for a portion of their pension costs, which are funded by the annual contributions that contractors make to their pension plans.

At CMS's request, the HHS, OIG, Office of Audit Services, Region VII pension audit team reviews the cost elements related to qualified defined-benefit plans and any other pension-related cost elements claimed by Medicare contractors through Final Administrative Cost Proposals (FACPs).

Previous OIG reviews found that Medicare contractors did not always comply with Federal requirements when claiming pension costs for Medicare reimbursement.

Our objective was to determine whether the fiscal years (FYs) 2010 through 2013 pension costs that Cahaba Government Benefits Administrators, LLC (Cahaba GBA), claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACPs, were allowable and correctly claimed.

How OIG Did This Review

We reviewed \$1.56 million of pension costs claimed by Cahaba GBA for Medicare reimbursement on its FACPs for FYs 2010 through 2013.

Cahaba Government Benefits Administrators, LLC, Generally Claimed Allowable Medicare Pension Costs

What OIG Found

The FYs 2010 through 2013 pension costs that Cahaba GBA claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACPs, were generally allowable. Cahaba GBA claimed pension costs of \$1.56 million for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs during this period were \$1.47 million. The difference, \$92,392, represented unallowable Medicare fiscal intermediary and carrier contract pension costs that Cahaba GBA claimed on its FACPs for FYs 2010 through 2013. Cahaba GBA claimed these unallowable Medicare pension costs primarily because it based its claim for Medicare reimbursement on incorrectly calculated CAS pension costs.

What OIG Recommends and Auditee Comments

We recommend that Cahaba GBA revise its FACPs for FYs 2010 through 2013 to reduce its claimed Medicare pension costs by \$92,392.

Cahaba GBA agreed with our recommendation to revise the FACPs for fiscal years 2010 through 2013 to reduce the claimed Medicare pension costs by \$92,392. In addition, Cahaba GBA stated that it would ensure that future pension costs are claimed in accordance with the Medicare contracts.

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INTRODUCTION

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their pension costs, which are funded by the annual contributions that these contractors make to their pension plans. The amount of pension costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the cost reimbursement principles contained in the Federal Acquisition Regulation (FAR), Cost Accounting Standards (CAS), and Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors did not always comply with Federal requirements when claiming pension costs for Medicare reimbursement.

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 (MACs) through Final Administrative Cost Proposals (FACPs) and/or Incurred Cost Proposals.

For this review, we focused on one Medicare contractor, Cahaba Government Benefits Administrators, LLC (Cahaba GBA). In particular, we examined the Cahaba GBA Medicare segment and Other segment costs that Cahaba GBA claimed for Medicare reimbursement on its FACPs.

OBJECTIVE

Our objective was to determine whether the fiscal years (FYs) 2010 through 2013 pension costs that Cahaba GBA claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACPs, were allowable and correctly claimed.

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.

During our audit period (FYs 2010 through 2013), BCBS Alabama's qualified defined-benefit pension plan contained two Medicare segments: (1) Cahaba GBA and (2) Cahaba Safeguard Administrators, LLC (Cahaba CSA). This report addresses Cahaba GBA's compliance with Federal regulations and the fiscal intermediary and carrier contracts when claiming Medicare pension costs for Medicare reimbursement. We are addressing the pension costs claimed by Cahaba CSA in a separate review.

Medicare Reimbursement of Pension Costs

CMS reimburses a portion of the Medicare contractors' annual pension costs, which are funded by the annual contributions that these contractors make to their pension plans. To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with CAS 412 and 413 and (2) funded as specified by part 31 of the FAR.

Beginning with FY 1988, CMS incorporated specific segmentation language into Medicare contracts that requires contractors to use either an allocation method or a separate calculation method to identify and claim pension costs for Medicare reimbursement. Under the allocation method, the contractor determines total plan CAS-based pension costs and allocates a share to Medicare. Under the separate calculation method, the contractor separately identifies the pension cost components for the Medicare segment. The contractor must use the separate calculation method if its result is materially different from that of the allocation method.

HOW WE CONDUCTED THIS REVIEW

We reviewed \$1,564,296 of pension costs that Cahaba GBA claimed for Medicare reimbursement on its FACPs for FYs 2010 through 2013.

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.

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.

Appendix A contains details of our audit scope and methodology.

FINDING

The FYs 2010 through 2013 pension costs that Cahaba GBA claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACPs, were generally allowable. Cahaba GBA claimed pension costs of \$1,564,296 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs during this period were \$1,471,904. The difference, \$92,392, represented unallowable Medicare fiscal intermediary and carrier contract pension costs that Cahaba GBA claimed on its FACPs for FYs 2010 through 2013. Cahaba GBA claimed these unallowable Medicare pension costs primarily because it based its claim for Medicare reimbursement on incorrectly calculated CAS pension costs.

CLAIMED PENSION COSTS

Cahaba GBA claimed Medicare pension costs of \$1,564,296 for Medicare reimbursement, under the provisions of its fiscal intermediary and carrier contracts, on its FACPs for FYs 2010 through 2013. We calculated the allowable Medicare pension costs based on separately computed CAS-based pension costs for the Medicare segment and the Other segment in accordance with CAS 412 and 413. For details on the Federal requirements, see Appendix B.

UNALLOWABLE PENSION COSTS CLAIMED

We determined that the allowable CAS-based pension costs for FYs 2010 through 2013 were \$1,471,904.³ Thus, Cahaba GBA claimed \$92,392 of unallowable fiscal intermediary and carrier contract Medicare pension costs on its FACPs for FYs 2010 through 2013. This overclaim occurred primarily because Cahaba GBA based its claim for Medicare reimbursement on incorrectly calculated CAS pension costs.

The table on the following page shows the differences between the allowable CAS-based pension costs and the pension costs that Cahaba GBA claimed on its FACPs and reflected in its accounting documents. Appendix C contains additional details on allowable pension costs.

³ Consistent with our methodology in previous audits, we computed the Cahaba GBA allowable Medicare pension costs by multiplying the calendar year (CY) allocable pension costs to an FY line-of-business percentage.

Table: Comparison of Allowable Pension Costs and Claimed Pension Costs

	Medicare Pension Costs		
Fiscal Year	Allowable Per Audit	Claimed by Cahaba GBA	Difference
2010	\$861,489	\$755,000	\$106,489
2011	437,133	590,000	(152,867)
2012	173,282	207,000	(33,718)
2013	0	12,296	(12,296)
Total	\$1,471,904	\$1,564,296	(\$92,392)

RECOMMENDATION

We recommend that Cahaba GBA revise its FACPs for FYs 2010 through 2013 to reduce its claimed Medicare pension costs by \$92,392.

AUDITEE COMMENTS

In written comments on our draft report, Cahaba GBA agreed with our recommendation to revise the FACPs for fiscal years 2010 through 2013 to reduce the claimed Medicare pension costs by \$92,392. In addition, Cahaba GBA stated that it would ensure that future pension costs are claimed in accordance with the Medicare contracts.

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

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$1,564,296 of pension costs that Cahaba GBA claimed for Medicare reimbursement on its FACPs for FYs 2010 through 2013.

Achieving our objective did not require that we review Cahaba GBA's overall internal control structure. We reviewed the internal controls related to the pension costs claimed for Medicare reimbursement to ensure that the pension costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

We performed our 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 information provided by BCBS Alabama to identify the amount of pension costs claimed for Medicare reimbursement for FYs 2010 through 2013;
- used information that BCBS Alabama's actuarial consulting firms provided, including information on the pension plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses;
- examined BCBS Alabama's and Cahaba GBA's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Forms 5500;
- determined the extent to which BCBS Alabama funded CAS-based pension costs with contributions to the pension trust fund and accumulated prepayment credits;
- engaged the CMS Office of the Actuary to calculate the allocable pension costs based on the CAS (the calculations were based on separately computed CAS-based pension costs for the Medicare segment and the Other segment);
- 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 these audits:

- *Cahaba Government Benefits Administrators, LLC, Overstated Its Medicare Segment Pension Assets (A-07-17-00522)* and
- *Cahaba Safeguard Administrators, LLC, Understated Its Medicare Segment Pension Assets (A-07-17-00523)*.

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: FEDERAL REQUIREMENTS RELATED TO REIMBURSEMENT OF PENSION COSTS

FEDERAL REGULATIONS

Federal regulations (FAR 31.205-6(j)) address allowability of pension costs and require that contractors fund the pension costs assigned to contract periods by making contributions to the pension plan.

Federal regulations (CAS 412) (as amended) address the determination and measurement of pension cost components. This regulation also addresses the assignment of pension costs to appropriate accounting periods.

Federal regulations (CAS 413) (as amended) address the valuation of pension assets, allocation of pension costs to segments of an organization, adjustment of pension costs for actuarial gains and losses, and assignment of gains and losses to cost accounting periods.

MEDICARE CONTRACTS

The Medicare contracts address the determination and allocation of pension costs. The contracts state: "The calculation of and accounting for pension costs charged to this agreement/contract are governed by the Federal Acquisition Regulation and Cost Accounting Standards 412 and 413."

**APPENDIX C: ALLOWABLE MEDICARE PENSION COSTS FOR
CAHABA GOVERNMENT BENEFITS ADMINISTRATORS, LLC,
FOR FISCAL YEARS 2010 THROUGH 2013**

Date	Description		Total Company	Other Segment	HBS Segment	Cahaba GBA	Cahaba CSA	Total Medicare
2010	Contributions	<u>1/</u>	\$30,000,000	\$30,000,000	\$0	\$0	\$0	
	Discount for interest	<u>2/</u>	(\$1,407,304)	(\$1,407,304)	\$0	\$0	\$0	
January 1, 2010	Present value contributions	<u>3/</u>	\$28,592,696	\$28,592,696	\$0	\$0	\$0	
	Prepayment credit applied	<u>4/</u>	40,692,423	34,644,389	\$0	\$5,210,634	\$837,400	
	Present value of funding	<u>5/</u>	\$69,285,119	\$63,237,085	\$0	\$5,210,634	\$837,400	
January 1, 2010	CAS funding target	<u>6/</u>	\$40,692,423	\$34,644,389	\$0	\$5,210,634	\$837,400	
	Percentage funded	<u>7/</u>		100.00%	0.00%	100.00%	100.00%	
	Funded pension cost	<u>8/</u>		\$34,644,389	\$0	\$5,210,634	\$837,400	
	Allowable interest	<u>9/</u>		\$0	\$0	\$0	\$0	
	Allocable pension cost	<u>10/</u>		\$34,644,389	\$0	\$5,210,634	\$837,400	
	Part A LOB* percentage	<u>11/</u>		0.13%	n/a	10.05%	n/a	
	Part B LOB* percentage	<u>12/</u>		0.06%	n/a	5.22%	n/a	
	Part A Allowable Pension Costs	<u>13/</u>		\$45,038	n/a	\$523,669	n/a	
	Part B Allowable Pension Costs	<u>14/</u>		\$20,787	n/a	\$271,995	n/a	
2010	Total allowable pension cost	<u>15/</u>		\$65,825	n/a	\$795,664	n/a	\$861,489

Date	Description	Total Company	Other Segment	HBS Segment	Cahaba GBA	Cahaba CSA	Total Medicare
2011	Contributions	\$110,000,000	\$110,000,000	\$0	\$0	\$0	
	Discount for interest	(\$4,781,776)	(\$4,781,776)	\$0	\$0	\$0	
January 1, 2011	Present value contributions	\$105,218,224	\$105,218,224	\$0	\$0	\$0	
	Prepayment credit applied	44,337,971	38,303,721	\$0	\$5,212,995	\$821,255	
	Present value of funding	\$149,556,195	\$143,521,945	\$0	\$5,212,995	\$821,255	
January 1, 2011	CAS funding target	\$44,337,971	\$38,303,721	\$0	\$5,212,995	\$821,255	
	Percentage funded		100.00%	0.00%	100.00%	100.00%	
	Funded pension cost		\$38,303,721	\$0	\$5,212,995	\$821,255	
	Allowable interest		\$0	\$0	\$0	\$0	
	Allocable pension cost		\$38,303,721	\$0	\$5,212,995	\$821,255	
	Part A LOB* percentage		0.15%	n/a	7.18%	n/a	
	Part B LOB* percentage		0.07%	n/a	3.73%	n/a	
	Part A Allowable Pension Costs	<u>16/</u>	\$28,728	n/a	\$187,147	n/a	
	Part B Allowable Pension Costs		\$26,813	n/a	\$194,445	n/a	
2011	Total allowable pension cost		\$55,541	n/a	\$381,592	n/a	\$437,133

Date	Description	Total Company	Other Segment	HBS Segment	Cahaba GBA	Cahaba CSA	Total Medicare
2012	Contributions	\$31,900,000	\$31,900,000	\$0	\$0	\$0	
	Discount for interest	(\$1,484,474)	(\$1,484,474)	\$0	\$0	\$0	
January 1, 2012	Present value contributions	\$30,415,526	\$30,415,526	\$0	\$0		
	Prepayment credit applied	42,167,922	36,408,058	\$0	\$5,008,726	\$751,138	
	Present value of funding	\$72,583,448	\$66,823,584	\$0	\$5,008,726	\$751,138	
January 1, 2012	CAS funding target	42,167,922	36,408,058	\$0	\$5,008,726	\$751,138	
	Percentage funded		100.00%	0.00%	100.00%	100.00%	
	Funded pension cost		\$36,408,058	\$0	\$5,008,726	\$751,138	
	Allowable interest		\$0	\$0	\$0	\$0	
	Allocable pension cost		\$36,408,058	\$0	\$5,008,726	\$751,138	
	Cahaba GBA LOB* percentage		0.08%	n/a	3.57%	n/a	
2012	Total allowable pension cost	<u>17/</u>	\$24,272	n/a	\$149,010	n/a	\$173,282

Date	Description	Total Company	Other Segment	HBS Segment	Cahaba GBA	Cahaba CSA	Total Medicare
2013	Contributions	\$40,000,000	\$40,000,000	\$0	\$0	\$0	
	Discount for interest	(\$1,581,656)	(\$1,581,656)	\$0	\$0	\$0	
January 1, 2013	Present value contributions	\$38,418,344	\$38,418,344	\$0	\$0	\$0	
	Prepayment credit applied	47,302,427	41,088,878	\$421,552	\$4,979,170	\$812,827	
	Present value of funding	\$85,720,771	\$79,507,222	\$421,552	\$4,979,170	\$812,827	
January 1, 2013	CAS funding target	47,302,427	41,088,878	\$421,552	\$4,979,170	\$812,827	
	Percentage funded		100.00%	100.00%	100.00%	100.00%	
	Funded pension cost		\$41,088,878	\$421,552	\$4,979,170	\$812,827	
	Allowable interest		\$0	\$0	\$0	\$0	
	Allocable pension cost		\$41,088,878	\$421,552	\$4,979,170	\$812,827	
	Cahaba GBA LOB* percentage		0.00%	n/a	0.00%	n/a	
2013	Total allowable pension cost		\$0	n/a	\$0	n/a	\$0

*Line of Business

ENDNOTES

- 1/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the CY and accrued contributions deposited after the end of the CY but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segments during the pension segmentation review (A-07-17-00522). The amounts shown for the Other segment represent the difference between the Total Company, Healthcare Business Solutions, LLC. (HBS) segment, and the Medicare segments.
- 2/ We subtracted the interest that was included in the contributions deposited after the beginning of the valuation year to discount the contributions back to their beginning-of-the-year value. For purposes of this Appendix, we computed the interest as the difference between the present value of contributions (at the CAS valuation interest rate) and actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the CY. For purposes of this Appendix, we deemed deposits made after the end of the CY to have been made on the final day of the CY, consistent with the method established by the Employee Retirement Income Security Act prior to the implementation of the Pension Protection Act.
- 4/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year CAS funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.
- 5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at the first day of the CY.
- 6/ The CAS funding target must be funded by contributions made during the current accounting period or prepaid contributions to satisfy the funding requirement of the FAR 31.205-6(j)(2)(i).
- 7/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the CY. Because any funding in excess of the CAS funding target is accounted for as a prepayment in accordance with CAS 412.50(c)(1), the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimal places.
- 8/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.
- 9/ We assumed that interest on the funded CAS-based pension cost, less the prepayment credit, accrues in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in four equal installments deposited within 30 days after the end of the quarter.
- 10/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.
- 11/ We calculated the Cahaba GBA Part A line of business (LOB) percentages based on information provided by Cahaba GBA.
- 12/ We calculated the Cahaba GBA Part B LOB percentages based on information provided by Cahaba GBA.

13/ Cahaba GBA did not convert its plan year (January 1 through December 31, i.e., its CY) pension costs to an FY basis. Instead, it used the plan year/CY allocable pension costs as the FY allocable pension costs. We accepted this methodology and computed the FY allowable Medicare Part A pension costs as the CY allocable pension costs multiplied by the FY Medicare Part A LOB percentage.

14/ Cahaba GBA did not convert its plan year (January 1 through December 31, i.e., its CY) pension costs to an FY basis. Instead, it used the plan year/CY allocable pension costs as the FY allocable pension costs. We accepted this methodology and computed the FY allowable Medicare Part B pension costs as the CY allocable pension costs multiplied by the FY Medicare Part B LOB percentage.

15/ We computed the total allowable Medicare pension cost as the sum of the Medicare Part A and Medicare Part B CY allowable pension costs.

16/ The Cahaba GBA Medicare Part A fiscal intermediary contract ended on June 8, 2011. Therefore, we prorated the allowable Medicare Part A pension costs for CY 2011 to reflect the date of the Medicare contract termination.

17/ The Cahaba GBA Medicare Part B carrier contract ended on October 20, 2012. Therefore, we prorated the allowable Medicare Part B pension costs for CY 2012 to reflect the date of the Medicare contract termination.

APPENDIX D: 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-07-17-00524 Cahaba Government Benefit Administrators, LLC, Generally Claimed Allowable Medicare Pension Costs for the fiscal years 2010 through 2013.

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 revise the FACPs for fiscal years 2010 through 2013 to reduce the claimed Medicare pension costs by \$92,392. In addition, Cahaba will ensure that future pension costs are claimed 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