

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**CAHABA SAFEGUARD
ADMINISTRATORS, LLC,
UNDERSTATED MEDICARE
ADMINISTRATIVE CONTRACT
ALLOWABLE PENSION COSTS**

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Office of Inspector General

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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-07-17-00526

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, nonqualified defined-benefit, postretirement benefit, and any other pension-related cost elements claimed by Medicare fiscal intermediaries and carrier contractors and Medicare administrative contractors through Final Administrative Cost Proposals and/or Incurred Cost Proposals (ICPs).

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

Our objective for this review was to determine whether the calendar years (CYs) 2008 through 2013 pension costs that Cahaba Safeguard Administrators, LLC (Cahaba CSA), claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

How OIG Did This Review

We reviewed \$4.5 million of pension costs that Cahaba CSA reported on its ICPs for CYs 2008 through 2013.

Cahaba Safeguard Administrators, LLC, Understated Medicare Administrative Contract Allowable Pension Costs

What OIG Found

Cahaba CSA claimed Medicare pension costs of \$4.5 million for Medicare reimbursement, through its ICPs, for CYs 2008 through 2013; however, we determined that the allowable Cost Accounting Standards-based pension costs during this period were \$4.6 million. The difference, \$104,958, represented allowable Medicare pension costs that Cahaba CSA did not claim on its ICPs for CYs 2008 through 2013. Cahaba CSA did not claim these allowable Medicare pension costs primarily because it based its claim for Medicare reimbursement on incorrectly computed assignable pension costs.

What OIG Recommends and Auditee Comments

We recommend that Cahaba CSA work with CMS to ensure that its final settlement of contract costs reflects an increase in Medicare pension costs of \$104,958 for CYs 2008 through 2013.

Cahaba CSA agreed with our recommendation to work with CMS to ensure that its final settlement of contract costs reflects an increase in Medicare pension costs of \$104,958 for CYs 2008 through 2013. In addition, Cahaba CSA stated that it would ensure that future pension costs are claimed in accordance with Medicare contracts.

TABLE OF CONTENTS

| | |
|--|----|
| INTRODUCTION..... | 1 |
| Why We Did This Review | 1 |
| Objective | 1 |
| Background | 1 |
| Cahaba Safeguard Administrators, LLC..... | 1 |
| Medicare Reimbursement of Pension Costs | 2 |
| Incurred Cost Proposal Audits | 3 |
| How We Conducted This Review | 3 |
| FINDING..... | 3 |
| Claimed Medicare Pension Costs..... | 4 |
| Allowable Medicare Pension Costs Not Claimed | 4 |
| RECOMMENDATION | 5 |
| AUDITEE COMMENTS | 6 |
| APPENDICES | |
| A: Audit Scope and Methodology | 7 |
| B: Federal Requirements Related to Reimbursement of Pension Costs | 8 |
| C: Allocable Medicare Pension Costs for Cahaba Safeguard Administrators, LLC, for Fiscal Years 2008 Through 2013 | 9 |
| D: Auditee Comments..... | 12 |

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 have not always complied with Federal requirements when claiming pension costs for Medicare reimbursement.

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, 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 and/or Incurred Cost Proposals (ICPs).

For this review, we focused on one entity, Cahaba Safeguard Administrators, LLC (Cahaba CSA). In particular, we examined the Cahaba CSA Medicare segment pension costs that Cahaba CSA claimed for Medicare reimbursement and reported on its ICPs.

OBJECTIVE

Our objective for this review was to determine whether the calendar years (CYs) 2008 through 2013 pension costs that Cahaba CSA claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

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 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.¹ Seven program integrity zones were created based on the newly-established MAC jurisdictions. Cahaba CSA was

¹The 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.

awarded Zone Program Integrity Contactor (ZPIC)² contracts for Zone 3³ and Zone 6⁴ effective April 8, 2011, and September 30, 2011, respectively.

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.⁵ This report addresses Cahaba CSA's compliance with the MAC contracts when claiming Medicare pension costs for Medicare reimbursement. We are addressing Cahaba GBA's compliance with the MAC contracts in a separate review.

The disclosure statement that Cahaba CSA submits to CMS indicates that Cahaba CSA uses pooled cost accounting. Medicare contractors use pooled costing to calculate the indirect cost rates that they submit on their ICPs. The pension costs are included in the computations of the indirect cost rates reported on the ICPs. CMS uses these indirect cost rates when reimbursing costs for cost-plus-award-fee type contracts.^{6, 7}

Medicare Reimbursement of Pension Costs

CMS reimburses a portion of the annual contributions that contractors make to their pension plans. The pension costs are included in the computation of the indirect cost rates reported on the ICPs. In turn, CMS uses indirect cost rates in reimbursing costs under cost-reimbursement contracts. 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. In claiming costs, contractors must follow cost reimbursement principles contained in the FAR, the CAS, and the Medicare contracts. The cognizant Contracting Officer will perform a final settlement with the contractor to determine the final indirect cost rates.

² 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.

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

⁴ ZPIC 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.

⁵ BCBS Alabama also created the Healthcare Business Solutions, LLC (HBS), intermediate home office segment (HBS segment), which we determined is not a Medicare segment. However, we identify the allocable pension costs related to the HBS segment in Appendix C. Because HBS is not a Medicare segment and did not allocate any pension costs to the Medicare segments, we do not opine on the HBS allocable pension costs.

⁶ A cost-plus-award-fee contract is a cost reimbursement contract that provides a fee consisting of (1) a base amount fixed at inception of the contract and (2) an award amount, based on a judgmental evaluation by the Federal Government.

⁷ At the end of each CY, each MAC submits to CMS an ICP that reports the Medicare direct and indirect costs that the contractor incurred during that year. The ICP and supporting data provide the basis for the CMS Contracting Office and the Medicare contractor to determine the final billing rates for allowable Medicare costs.

These rates ultimately determine the final costs of each contract.⁸

Incurred Cost Proposal Audits

At CMS's request, CohnReznick, LLC (CohnReznick), and CliftonLarsonAllen, LLC (CliftonLarsonAllen), performed audits of the ICPs that Cahaba CSA submitted for CYs 2008 through 2013. The objectives of the CohnReznick and the CliftonLarsonAllen audits were to determine whether the costs were allowable in accordance with the FAR and the U.S. Department of Health and Human Services Acquisition Regulation. We incorporated the results of these audits into our audit's computation of the indirect cost rates, and ultimately of the pension costs claimed, for the MAC contracts.

HOW WE CONDUCTED THIS REVIEW

We reviewed \$4,542,564 of pension costs that Cahaba CSA reported on its ICPs for CYs 2008 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 findings and conclusions based on our audit objective.

Appendix A contains details of our audit scope and methodology.

FINDING

Cahaba CSA claimed Medicare pension costs of \$4,542,564 for Medicare reimbursement, through its ICPs, for CYs 2008 through 2013; however, we determined that the allowable CAS-based pension costs during this period were \$4,647,522. The difference, \$104,958, represented allowable Medicare pension costs that Cahaba CSA did not claim on its ICPs for CYs 2008 through 2013. Cahaba CSA did not claim these allowable Medicare pension costs primarily because it based its claim for Medicare reimbursement on incorrectly computed assignable pension costs.

⁸ In accordance with FAR 42.705-1(5)(ii) and FAR 42.705-1(5)(iii)(B), the cognizant Contracting Officer shall "[p]repare a written indirect cost rate agreement conforming to the requirements of the contracts" and perform a "[r]econciliation of all costs questioned, with identification of items and amounts allowed or disallowed in the final settlement," respectively.

CLAIMED MEDICARE PENSION COSTS

Cahaba CSA claimed pension costs of \$4,542,564 for CYs 2008 through 2013. We calculated the allowable Medicare pension costs based on separately computed CAS-based pension costs for the Medicare segment in accordance with CAS 412 and 413.

ALLOWABLE MEDICARE PENSION COSTS NOT CLAIMED

After incorporating the results of the CohnReznick and CliftonLarsonAllen ICP audits, we determined that the allowable CAS-based pension costs for CYs 2008 through 2013 were \$4,647,522. Thus, Cahaba CSA did not claim \$104,958 of allowable Medicare pension costs on its ICPs for CYs 2008 through 2013. This underclaim occurred primarily because Cahaba CSA based its claim for Medicare reimbursement on incorrectly computed assignable pension costs.

During this audit, we determined the allocable pension costs for the Medicare segment and the Other segment. We used the allocable pension costs to determine the allowable pension costs for Medicare reimbursement. Table 1 below and Table 2 on the following page show the allocable CAS-based pension costs that we determined for the Medicare segment and the Other segment, respectively, for CYs 2008 through 2013.⁹

Table 1: Comparison of Pension Costs for the Medicare Segment

| Calendar Year | Allocable Per Audit | Per Cahaba CSA | Difference |
|---------------|---------------------|--------------------|------------------|
| 2008 | \$760,864 | \$760,874 | (\$10) |
| 2009 | 1,157,770 | 1,157,770 | 0 |
| 2010 | 837,400 | 789,000 | 48,400 |
| 2011 | 821,255 | 791,000 | 30,255 |
| 2012 | 751,138 | 748,000 | 3,138 |
| 2013 | 812,827 | 900,000 | (87,173) |
| Total | \$5,141,254 | \$5,146,644 | (\$5,390) |

⁹ Although we did not issue an allocable pension costs report on Cahaba CSA, we did identify the CYs 2008 and 2009 allocable pension costs in *Review of Pension Costs Claimed for Medicare Reimbursement by Cahaba Government Benefit Administrators, LLC, for Fiscal Years 2003 Through 2009* (A-07-11-00361; Apr. 7, 2011).

Table 2: Comparison of Pension Costs for the Other Segment

| Calendar Year | Allocable Per Audit | Per Cahaba CSA | Difference |
|----------------------|----------------------------|-----------------------|----------------------|
| 2008 | \$28,538,752 | \$28,544,222 | (\$5,470) |
| 2009 | 40,853,858 | 40,853,858 | 0 |
| 2010 | 34,644,389 | 34,902,000 | (257,611) |
| 2011 | 38,303,721 | 39,255,000 | (951,279) |
| 2012 | 36,408,058 | 36,460,000 | (51,942) |
| 2013 | 41,088,878 | 41,599,000 | (510,122) |
| Total | \$219,837,656 | \$221,614,080 | (\$1,776,424) |

We then used this information to adjust the indirect cost rates (i.e., fringe, general and administrative, and overhead rates) and, in turn, to calculate the information presented in Table 3 below. Our calculation will not be presented in this report because those rate calculations that Cahaba CSA used in its ICPs, and to which we referred as part of our review, are proprietary information.

Accordingly, Table 3 below compares the Medicare segment pension costs that we calculated (using our adjusted indirect cost rates) to the pension costs that Cahaba CSA claimed for Medicare reimbursement for CYs 2008 through 2013.

Table 3: Medicare Pension Costs¹⁰

| Calendar Year | Per Audit | Per Cahaba CSA | Difference |
|--|--------------------|-----------------------|-------------------|
| 2008 | \$485,541 | \$528,385 | (\$42,844) |
| 2009 | 1,207,775 | 1,177,299 | 30,476 |
| 2010 | 805,107 | 762,017 | 43,090 |
| 2011 | 901,624 | 810,670 | 90,954 |
| 2012 | 790,874 | 780,550 | 10,324 |
| 2013 | 456,601 | 483,643 | (27,042) |
| Total Underclaim of Pension Costs | \$4,647,522 | \$4,542,564 | \$104,958 |

RECOMMENDATION

We recommend that Cahaba CSA work with CMS to ensure that its final settlement of contract costs reflects an increase in Medicare pension costs of \$104,958 for CYs 2008 through 2013.

¹⁰ Our calculations incorporated the rate ceiling associated with the ZPIC contracts. We applied the indirect cost rates associated with these contracts when computing the allowable pension costs for the ZPIC contracts. The amounts identified in this table represent the allowable Medicare pension costs during our audit period and do not represent the total allowable costs on the ICPs.

AUDITEE COMMENTS

In written comments on our draft report, Cahaba CSA agreed with our recommendation to work with CMS to ensure that its final settlement of contract costs reflects an increase in Medicare pension costs of \$104,958 for the calendar years 2008 through 2013. In addition, Cahaba CSA stated that it would ensure that future pension costs are claimed in accordance with Medicare contracts.

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

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$4,542,564 of pension costs that Cahaba CSA reported on its ICPs for CYs 2008 through 2013.

Achieving our objective did not require that we review Cahaba CSA's overall internal control structure. We limited our review to the internal controls related to the pension costs that were included in Cahaba CSA's ICPs and ultimately used as the basis 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 Cahaba CSA to identify the amount of pension costs claimed for Medicare reimbursement for CYs 2008 through 2013;
- reviewed the results of the CohnReznick and CliftonLarsonAllen ICP audits and incorporated those results into our calculations of allowable pension costs;
- incorporated information into this report from our previous audit report (A-07-11-00361; Apr. 7, 2011); and
- provided the results of our review to Cahaba CSA officials on December 22, 2017.

We performed this review in conjunction with the following audit and used the information obtained during that audit for this review: *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 52.216-7(a)(1)) address the invoicing requirements and the allowability of payments as determined by the Contracting Officer in accordance with FAR subpart 31.2.

Federal regulations (FAR 31.205-6(j)) require Medicare contractors to measure, assign, and allocate the costs of all defined-benefit pension plans in accordance with CAS 412 and 413. This regulation also addresses the allowability of pension costs and requires 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 require Cahaba CSA to submit invoices in accordance with FAR 52.216-7, "Allowable Cost & Payment." (See our citation to FAR 52.216-7(a)(1) in "Federal Regulations" above.)

**APPENDIX C: ALLOCABLE MEDICARE PENSION COSTS FOR
CAHABA SAFEGUARD ADMINISTRATORS, LLC,
FOR FISCAL YEARS 2008 THROUGH 2013**

| Date | Description | Total Company | Other Segment | HBS Segment | Cahaba GBA <u>1/</u> | Cahaba CSA |
|-----------------|-----------------------------|------------------|---------------|-------------|----------------------|------------|
| 2008 | Contributions | 2/ \$35,000,000 | \$35,000,000 | \$0 | \$0 | \$0 |
| | Discount for interest | 3/ (\$1,832,963) | (\$1,832,963) | \$0 | \$0 | \$0 |
| January 1, 2008 | Present value contributions | 4/ \$33,167,037 | \$33,167,037 | \$0 | \$0 | \$0 |
| | Prepayment credit applied | 5/ 34,318,422 | 28,538,752 | \$0 | \$5,018,806 | \$760,864 |
| | Present value of funding | 6/ \$67,485,459 | \$61,705,789 | \$0 | \$5,018,806 | \$760,864 |
| January 1, 2008 | CAS funding target | 7/ \$34,318,422 | \$28,538,752 | \$0 | \$5,018,806 | \$760,864 |
| | Percentage funded | 8/ | 100.00% | 100.00% | 100.00% | 100.00% |
| | Funded pension cost | 9/ | \$28,538,752 | \$0 | \$5,018,806 | \$760,864 |
| | Allowable interest | 10/ | \$0 | \$0 | \$0 | \$0 |
| | Allocable pension cost | 11/ | \$28,538,752 | \$0 | \$5,018,806 | \$760,864 |

| Date | Description | Total Company | Other Segment | HBS Segment | Cahaba GBA | Cahaba CSA |
|-----------------|-----------------------------|---------------|---------------|-------------|-------------|-------------|
| 2009 | Contributions | \$0 | \$0 | \$0 | \$0 | \$0 |
| | Discount for interest | \$0 | \$0 | \$0 | \$0 | \$0 |
| January 1, 2009 | Present value contributions | \$0 | \$0 | \$0 | \$0 | \$0 |
| | Prepayment credit applied | 48,077,854 | 40,853,858 | \$0 | \$6,066,226 | \$1,157,770 |
| | Present value of funding | \$48,077,854 | \$40,853,858 | \$0 | \$6,066,226 | \$1,157,770 |
| January 1, 2009 | CAS funding target | \$48,077,854 | \$40,853,858 | \$0 | \$6,066,226 | \$1,157,770 |
| | Percentage funded | | 100.00% | 100.00% | 100.00% | 100.00% |
| | Funded pension cost | | \$40,853,858 | \$0 | \$6,066,226 | \$1,157,770 |
| | Allowable interest | | \$0 | \$0 | \$0 | \$0 |
| | Allocable pension cost | | \$40,853,858 | \$0 | \$6,066,226 | \$1,157,770 |

| Date | Description | Total Company | Other Segment | HBS Segment | Cahaba GBA | Cahaba CSA |
|-----------------|-----------------------------|---------------|---------------|-------------|-------------|------------|
| 2010 | Contributions | \$30,000,000 | \$30,000,000 | \$0 | \$0 | \$0 |
| | Discount for interest | (\$1,407,304) | (\$1,407,304) | \$0 | \$0 | \$0 |
| January 1, 2010 | Present value contributions | \$28,592,696 | \$28,592,696 | \$0 | \$0 | \$0 |
| | Prepayment credit applied | 40,692,423 | 34,644,389 | \$0 | \$5,210,634 | \$837,400 |
| | Present value of funding | \$69,285,119 | \$63,237,085 | \$0 | \$5,210,634 | \$837,400 |
| January 1, 2010 | CAS funding target | \$40,692,423 | \$34,644,389 | \$0 | \$5,210,634 | \$837,400 |
| | Percentage funded | | 100.00% | 100.00% | 100.00% | 100.00% |
| | Funded pension cost | | \$34,644,389 | \$0 | \$5,210,634 | \$837,400 |
| | Allowable interest | | \$0 | \$0 | \$0 | \$0 |
| | Allocable pension cost | | \$34,644,389 | \$0 | \$5,210,634 | \$837,400 |

| Date | Description | Total Company | Other Segment | HBS Segment | Cahaba GBA | Cahaba CSA |
|-----------------|-----------------------------|---------------|---------------|-------------|-------------|------------|
| 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% | 100.00% | 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 |

| Date | Description | Total Company | Other Segment | HBS Segment | Cahaba GBA | Cahaba CSA |
|-----------------|-----------------------------|---------------|---------------|-------------|-------------|------------|
| 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 | \$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% | 100.00% | 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 |

| Date | Description | Total Company | Other Segment | HBS Segment | Cahaba GBA | Cahaba CSA |
|-----------------|-----------------------------|---------------|---------------|-------------|-------------|------------|
| 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 |

ENDNOTES

- 1/ The Cahaba CSA allocable costs for FYs 2008 and 2009 were calculated during our previous audit (*Review of Pension Costs Claimed for Medicare Reimbursement by Cahaba Government Benefit Administrators, LLC, for Fiscal Years 2003 Through 2009*; A-07-11-00361, Apr. 7, 2011).
- 2/ 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-07-17-00523). The amounts shown for the Other segment represent the difference between the Total Company, HBS segment, and the Medicare segments.
- 3/ 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.
- 4/ 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.
- 5/ 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.
- 6/ 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.
- 7/ 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).
- 8/ 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.
- 9/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.

10/ 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.

11/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.

APPENDIX D: AUDITEE COMMENTS

Randy Heal
President
Cahaba Safeguard Administrators, LLC



csaSM

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-07-17-00526 Cahaba Safeguard Administrators, LLC, Understated Medicare Administrative Contract Allowable Pension Costs for the calendar years 2008 through 2013.

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 work with CMS to ensure that its final settlement of contract costs reflects an increase in Medicare pension costs of \$104,958 for the calendar years 2008 through 2013, to the extent that funding is available. In addition, Cahaba CSA will ensure that future pension costs are claimed in accordance with 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.

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

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