

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**GROUP HEALTH INCORPORATED
OVERSTATED ITS LOCAL 153 PENSION
PLAN MEDICARE SEGMENT ASSETS AND
UNDERSTATED MEDICARE'S SHARE OF
THE MEDICARE SEGMENT PENSION
ASSETS AS OF AUGUST 31, 2016**

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Office of Inspector General

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Report in Brief

Date: September 2020
Report No. A-07-19-00580

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



Why OIG Did This Audit

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 412 and 413.

Our objectives were to determine whether Group Health Incorporated (GHI) complied with Federal requirements and its established cost accounting practice when (1) implementing the prior audit recommendation to decrease the Local 153 Plan Medicare segment pension assets as of January 1, 2015, (2) updating the Local 153 Plan Medicare segment pension assets from January 1, 2015, to August 31, 2016, and (3) determining Medicare's share of the Medicare segment excess pension assets or liabilities as a result of its benefit curtailment.

How OIG Did This Audit

We reviewed GHI's implementation of the prior audit recommendation, its identification of its Local 153 Plan Medicare segment, its update of the Local 153 Plan Medicare segment pension assets from January 1, 2015, to August 31, 2016, and its calculation of Medicare's share of its Medicare segment's excess pension liabilities as of August 31, 2015, as a result of its benefit curtailment.

Group Health Incorporated Overstated Its Local 153 Pension Plan Medicare Segment Assets and Understated Medicare's Share of the Medicare Segment Pension Assets as of August 31, 2016

What OIG Found

GHI did not concur with or implement our prior audit recommendation to decrease the Local 153 Medicare segment pension assets by \$2.4 million and recognize \$31.8 million as the Local 153 Medicare pension asset values as of January 1, 2015.

GHI did not correctly update the Local 153 Plan Medicare segment pension assets from January 1, 2015, to August 31, 2016, in accordance with Federal requirements. GHI identified \$41.8 million as the Local 153 Plan Medicare segment pension assets as of August 31, 2016; however, we determined that those assets were \$36.9 million as of that date. Therefore, GHI overstated the Local 153 Plan Medicare segment pension assets as of August 31, 2016, by \$4.9 million.

GHI calculated \$6.1 million as Medicare's share of the Local 153 Plan Medicare segment excess pension liabilities as of August 31, 2016; however, we calculated that Medicare's share of the surplus of the Local 153 Plan Medicare segment pension assets was \$855,827 as of that date. The difference, \$7 million, constituted allowable Local 153 Plan Medicare segment pension assets that GHI did not include in its curtailment adjustment.

What OIG Recommends and Auditee Comments

We recommend that GHI decrease the Local 153 Plan Medicare segment pension assets by \$4.9 million and recognize \$36.9 million as the Local 153 Plan Medicare segment pension assets as of August 31, 2016; and increase Medicare's share of the Local 153 Plan Medicare segment excess pension assets as of August 31, 2016, by \$7 million and recognize \$855,827 as Medicare's share of the pension assets as a result of the benefit curtailment.

GHI did not directly address our recommendations. However, GHI's comments disagreeing with our findings suggested that it disagreed with both of our recommendations. We maintain that all of our calculations remain valid and that all of our findings and recommendations remain valid as well.

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INTRODUCTION

WHY WE DID THIS AUDIT

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. In addition, in situations such as contract terminations or benefit curtailments, CAS 413 requires contractors to identify the difference between Medicare pension assets and liabilities allocated to the Medicare segment. Previous Office of Inspector General audits found that Medicare contractors did not always correctly identify and update the segmented pension assets.

At CMS's request, the U.S. Department of Health and Human Services, 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 (ICPS).

For this audit, we focused on one entity, Group Health Incorporated (GHI). In particular, we examined the Other segment and Local 153 Pension Plan (Local 153 Plan) Medicare segment pension assets that GHI updated from January 1, 2015, to August 31, 2016, and Medicare's share of the Medicare segment pension liabilities that GHI determined as a result of its benefit curtailment.

OBJECTIVES

Our objectives were to determine whether GHI complied with Federal requirements and its established cost accounting practice when (1) implementing the prior audit recommendation to decrease the Local 153 Plan Medicare segment pension assets as of January 1, 2015, (2) updating the Local 153 Plan Medicare segment pension assets from January 1, 2015, to August 31, 2016, and (3) determining Medicare's share of the Medicare segment excess pension assets or liabilities as a result of its benefit curtailment.

BACKGROUND

Group Health Incorporated and Medicare

GHI, a subsidiary of EmblemHealth Services Company, LLC, administered Medicare operations under a Coordination of Benefits contract with CMS. During our audit period, GHI also performed Medicare work on the Medicare Secondary Payer Recovery and Benefit

Coordination and Recovery contracts.¹ GHI also performed work as a subcontractor on the Retiree Drug Subsidy contract.

During our audit period, GHI had two defined benefit pension plans: the Local 153 Plan and the EmblemHealth Services Company, LLC, Employees' Retirement Plan.

This report addresses the Medicare segment pension assets for the Local 153 Plan for the period of January 1, 2015, through August 31, 2016. We are addressing the Medicare segment pension assets for the EmblemHealth Services Company, LLC, Employees' Retirement Plan in a separate audit.

Upon the curtailment of its pension plan, GHI identified Medicare's share of the Local 153 Plan Medicare segment excess pension liabilities to be \$6,131,699 as of August 31, 2016.

Prior Pension Segmentation Audit

We performed a prior pension segmentation audit of GHI (A-07-19-00562, July 25, 2019), which brought the Local 153 Plan Medicare segment pension assets to January 1, 2015. We recommended that GHI recognize \$31,821,914 as the Local 153 Plan Medicare segment pension assets as of January 1, 2015.

HOW WE CONDUCTED THIS AUDIT

We reviewed GHI's implementation of the prior audit recommendation, its identification of its Local 153 Plan Medicare segment, its update of the Local 153 Plan Medicare segment pension assets from January 1, 2015, to August 31, 2016, and its calculation of Medicare's share of its Medicare segment's excess pension liabilities as of August 31, 2015, as a result of its benefit curtailment.

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 Before September 2011, GHI performed Medicare work as a subcontractor on the Medicare Secondary Payer Recovery contract and the Retiree Drug Subsidy contract. From September 2011 through February 2014, GHI performed Medicare work as the prime contractor on the Medicare Secondary Payer Recovery and Benefit Coordination and Recovery contracts.

FINDINGS

GHI did not concur with our recommendation in the prior Local 153 Plan segmentation audit to decrease the Local 153 Plan Medicare segment pension assets by \$2,421,309 as of January 1, 2015. Consequently, GHI did not implement our recommendation when updating the Medicare segment pension assets as of August 31, 2016, or when computing the excess Medicare segment pension assets or liabilities at that same date. However, we maintain that our prior audit's findings remain valid as stated. Therefore, we used \$31,821,914 as the Local 153 Plan Medicare pension asset values as of January 1, 2015.

Regarding our second objective, GHI did not correctly update the Local 153 Plan Medicare segment pension assets from January 1, 2015, to August 31, 2016, in accordance with Federal requirements. GHI identified \$41,786,991 as the Local 153 Plan Medicare segment pension assets as of August 31, 2016; however, we determined that those assets were \$36,888,234 as of that date. Therefore, GHI overstated the Local 153 Plan Medicare segment pension assets as of August 31, 2016, by \$4,898,757.

In regard to our third objective, GHI calculated \$6,131,699 as Medicare's share of the Local 153 Plan Medicare segment excess pension liabilities as of August 31, 2016; however, we calculated that Medicare's share of the surplus of the Local 153 Plan Medicare segment pension assets was \$855,827 as of that date. The difference, \$6,987,526, constituted allowable Local 153 Plan Medicare segment pension assets that GHI did not include in its curtailment adjustment.

Appendix B identifies the details of GHI's Local 153 Plan Medicare segment pension assets from January 1, 2015, to August 31, 2016, as determined during our audit. Table 1 below summarizes the audit adjustments required to update GHI's Local 153 Plan Medicare segment pension assets in accordance with Federal requirements.

Table 1: Summary of Audit Adjustments

	Per Audit	Per GHI	Difference
Prior Audit Recommendation	\$31,821,914	\$34,243,223	(\$2,421,309)
Update of Local 153 Medicare Segment Assets			
Beginning Assets at January 1, 2015	0	(1,674,792)	1,674,792
Contributions and Prepayment Credits	2,237,765	5,216,416	(2,978,651)
Benefit Payments	(2,249,964)	(1,807,509)	(442,455)
Net Transfers	0	31,902	(31,902)
Earnings, Net of Expenses	5,078,519	5,777,751	(699,232)
Overstatement of Local 153 Medicare Segment Assets			(\$4,898,757)

PRIOR AUDIT RECOMMENDATION

GHI did not concur with our recommendation in the prior Local 153 Plan segmentation audit (A-07-19-00562, July 25, 2019) to decrease the Local 153 Plan Medicare segment pension assets by \$2,421,309 as of January 1, 2015.² In written comments on our prior audit draft report, GHI disagreed with some of the determinations we made in developing some of our findings and, consequently, it did not concur with our draft report's recommendations. After reviewing GHI's comments on our prior audit's draft report, we maintain that those recommendation remain valid as stated. Therefore, we used \$31,821,914 as the Local 153 Plan Medicare pension asset values as of January 1, 2015.

UPDATE OF LOCAL 153 PENSION PLAN MEDICARE SEGMENT PENSION ASSETS

Federal requirements 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.

GHI did not correctly update the Local 153 Plan Medicare segment pension assets from January 1, 2015, to August 31, 2016, in accordance with Federal requirements. GHI identified \$41,786,991 as the Local 153 Plan Medicare segment pension assets as of August 31, 2016; however, we determined that those assets were \$36,888,234 as of that date. Therefore, GHI overstated the Local 153 Plan Medicare segment pension assets as of August 31, 2016, by \$4,898,757. The following are our findings regarding the update of the Local 153 Plan Medicare segment pension assets from January 1, 2015, to August 31, 2016.

Beginning Assets at January 1, 2015, Understated

GHI understated its Local 153 Plan Medicare segment pension assets by \$1,674,792 as of January 1, 2015. This understatement occurred because GHI adjusted its Local 153 Plan Medicare segment assets as of January 1, 2015, for Medicare segment benefit payments that GHI did not claim during calendar years (CYs) 2012 and 2013. We reviewed the Medicare segment benefit payment for this time period during our prior Local 153 Plan segmentation audit (A-07-19-00562, July 25, 2019) and included the Medicare segment benefit payment amounts for this time period in our audited Medicare segment pension asset amount at January 1, 2015. This resulted in our determination that GHI understated the January 1, 2015, asset amount.

² The HHS action official, an official CMS designates to resolve Medicare pension matters, will make a final determination as to actions taken on our prior audit recommendation, as well as any recommendations stemming from this audit.

Contributions and Transferred Prepayment Credits Overstated

The audited contributions and transferred prepayment credits³ are based on the assignable pension costs.⁴ 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.

GHI overstated contributions and transferred prepayment credits by \$2,978,651 for its Local 153 Plan Medicare segment. The overstatement occurred primarily because of differences in the long-term interest rates that GHI used to compute its accrued liabilities. Specifically, GHI used unreasonable long-term interest rates during CYs 2015 and 2016 to compute its accrued liabilities. Table 2 below identifies the long-term interest rates used by GHI during CY 2015 and CY 2016.

Table 2: Long-Term Interest Rates Used by GHI

CY	2015	2016
Long-Term Interest Rate (%)	4.00	4.00

At our request, GHI provided its justification for the long-term interest rates used in the calculations of its accrued liabilities. This justification attributed the decrease in the interest rates (during CYs 2015 and 2016) to (1) GHI's pension plans' asset allocations and (2) general market conditions. We forwarded that justification to the CMS Office of the Actuary (CMS OACT) (with which we routinely consult on CAS requirements pertaining to Medicare segment pension audits) for review. After reviewing GHI's justification, CMS OACT determined that the long-term interest rates did not comply with the CAS.

Accordingly, CMS OACT recommended that we request that GHI recalculate the accrued liabilities for CYs 2015 and 2016 using the historical long-term interest rate of 7.00 percent. We used these recalculated accrued liabilities when computing our audited CAS pension costs.

Table 3 on the following page shows the differences between the contributions and transferred prepayment credits proposed by GHI and the contributions and transferred prepayment credits that we calculated during our audit.

³ 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.

⁴ These are assigned to a specific cost accounting period.

Table 3: Contributions and Transferred Prepayment Credits

CY	Per Audit	Per GHI	Difference
2015	\$1,309,629	\$3,115,549	(\$1,805,920)
2016	928,136	2,100,867	(1,172,731)
Total	\$2,237,765	\$5,216,416	(\$2,978,651)

Benefit Payments Understated

GHI understated benefit payments by \$442,455 for the Local 153 Plan Medicare segment. This understatement occurred because GHI incorrectly identified the Local 153 Plan benefit payments for the Medicare segment participants. This understatement of benefit payments resulted in an overstatement of the GHI Local 153 Plan Medicare segment pension assets by \$442,455. Table 4 below shows a comparison of GHI's and our audit calculations of the Local 153 benefit payments for the Medicare segment.

Table 4: Benefit Payments

CY	Per Audit	Per GHI	Difference
2015	(\$1,248,273)	(\$1,023,066)	(\$225,207)
2016	(1,001,691)	(784,443)	(217,248)
Total	(\$2,249,964)	(\$1,807,509)	(\$442,455)

Net Transfers Overstated

GHI overstated net transfers of its Local 153 Plan Medicare segment by \$31,902. The overstatement occurred because GHI incorrectly identified a participant who transferred in to the Local 153 Plan Medicare segment during CY 2015. This overstatement of the net transfer adjustment resulted in an overstatement of the GHI Local 153 Plan Medicare segment pension assets by \$31,902.

Earnings, Net of Expenses, Overstated

GHI overstated investment earnings, less administrative expenses, by \$699,232 for its Local 153 Plan Medicare segment, because it used incorrect contributions and transferred prepayment credits, incorrect benefits payments, and incorrect net transfers (all discussed above) to develop the Local 153 Plan 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. Table 5 on the following page shows the difference in the earnings, net of expenses, proposed by GHI and the earnings, net of expenses, that we calculated during our audit.

Table 5: Earnings, Net of Expenses

CY	Per Audit	Per GHI	Difference
2015	(\$1,053,288)	(\$1,139,638)	\$86,350
2016	6,131,807	6,917,389	(785,582)
Total	\$5,078,519	\$5,777,751	(\$699,232)

LOCAL 153 PENSION PLAN MEDICARE SEGMENT CURTAILMENT ADJUSTMENT

**Surplus of the Local 153 Pension Plan Medicare Segment Excess
Pension Assets as of August 31, 2016**

GHI did not comply with Federal requirements when calculating the Local 153 Plan Medicare segment excess pension assets as of its benefit curtailment date. Federal regulations (Appendix C) require GHI to compute a Medicare segment curtailment adjustment as a result of the benefit curtailment. Accordingly, GHI identified \$6,131,699 in Local 153 Plan Medicare segment excess pension liabilities as of August 31, 2016. However, we calculated a surplus of the Local 153 Plan Medicare segment excess pension assets totaling \$877,231 as of that date. (It is necessary to calculate the pension assets and liabilities as well as any adjustment for the Medicare segment before calculating Medicare's share. See Table 6 later in this report for details regarding the calculation of Medicare's share.) Therefore, GHI understated the Local 153 Plan excess Medicare segment pension assets by \$7,008,930. This amount was a surplus, consisting of the \$6,131,699 in Local 153 Plan Medicare segment excess pension liabilities that GHI identified added to the \$877,231 of Local 153 Plan excess Medicare segment pension assets that we calculated.

As discussed above, GHI understated these excess assets because its calculation used an unreasonable long-term interest rate that did not comply with CAS 413. Specifically, GHI used a 4.00 percent long-term interest rate during CYs 2015 and 2016 to compute its accrued liabilities; however, in consultation with CMS OACT we maintained the historical rate of 7.00 percent, which complies with CAS 413.50(c)(12)(i) (Appendix C).

We used the surplus of the Local 153 Plan Medicare segment pension assets that we calculated to identify Medicare's share of the surplus of the Local 153 Plan Medicare segment's pension assets, as discussed just below.

**Medicare's Share of the Surplus of the Local 153 Pension Plan
Medicare Segment Excess Pension Assets**

GHI calculated the aggregate Medicare percentage (that is, the percentage that reflects Medicare's share of the Local 153 Plan Medicare segment excess pension liabilities) as of August 31, 2016, to be 100 percent. We calculated the aggregate Medicare percentage to be 97.56 percent (Appendix D) using the Medicare segment pension costs developed during the

prior pension costs claimed audits (A-07-12-00379 and A-07-12-00380, both issued April 4, 2012, and A-07-16-00475, issued March 23, 2016) and current pension costs claimed audit (Appendix F of A-07-19-00581; see also Appendix A of this report) as required by the CAS. For details on the Federal requirements regarding the aggregate Medicare percentage, see Appendix C.

Having calculated the aggregate Medicare percentage as of August 31, 2016, to be 100 percent, GHI thus calculated \$6,131,699 as Medicare's share of the Local 153 Plan Medicare segment excess pension liabilities as of August 31, 2016. However, we calculated that Medicare's share of the surplus of the Local 153 Plan Medicare segment pension assets was \$855,827 as of that date. The difference, \$6,987,526, constituted allowable Local 153 Plan Medicare segment pension assets that GHI did not include in its curtailment adjustment. GHI understated Medicare's share of the surplus of the Local 153 Plan Medicare segment pension assets by \$6,987,526 primarily because it understated the Local 153 Plan Medicare segment's pension assets (as discussed above).

Table 6 below shows our calculation of Medicare's share of the surplus of pension assets.

Table 6: Medicare's Share of Excess Pension Assets/(Liabilities)

	Per Audit	Per GHI	Difference
Medicare Segment Assets as of August 31, 2016	\$36,888,234	\$41,786,991	(\$4,898,757)
Less Unallowable as of August 31, 2016	156,444	139,982	16,462
Adjusted Medicare Segment Assets as of August 31, 2016	37,044,678	41,926,973	(4,882,295)
Medicare Segment Liabilities as of August 31, 2016	36,167,447	48,058,672	(11,891,225)
Excess Medicare Segment Assets/(Liabilities)	877,231	(6,131,699)	7,008,930
Aggregate Medicare Percentage	97.56%	100%	(2.44%)
Excess Assets/(Liabilities) Attributable to Medicare	\$855,827	(\$6,131,699)	\$6,987,526

RECOMMENDATIONS

We recommend that Group Health Incorporated:

- decrease the Local 153 Plan Medicare segment pension assets by \$4,898,757 and recognize \$36,888,234 as the Local 153 Plan Medicare segment pension assets as of August 31, 2016, and
- increase Medicare's share of the Local 153 Plan Medicare segment excess pension assets as of August 31, 2016, by \$6,987,526 and recognize \$855,827 as Medicare's share of the pension assets as a result of the benefit curtailment.

AUDITEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, GHI did not directly address our recommendations. However, GHI's comments disagreeing with our findings suggested that it disagreed with both of our recommendations. GHI's comments addressed our findings associated with the update of the Local 153 Plan Medicare segment pension assets and Medicare's share of the pension assets as a result of the benefit curtailment.

A summary of GHI's main points and our responses follows. GHI referred to its disagreement with the findings in our prior audit report and said that for that reason, it was not required to implement them. GHI referred to our disagreement with the long-term interest rate assumption that it used to compute accrued liabilities and normal costs and cited this disagreement as a reason for the difference between GHI's and our calculation of the contributions and transferred prepayment credits. With respect to our findings on participants who transferred in or out of the Local 153 Plan Medicare segment and on benefits payments for Medicare segment participants, GHI said that we did not provide supporting documentation for our calculations. Finally, GHI stated that we did not calculate the Government's share of the adjustment of previously determined pension costs in accordance with CAS 413-50(c)(12).

GHI's comments (which also apply to our two related reports cited in Appendix A as well as other current audit reports) appear in their entirety as Appendix E.

After reviewing GHI's comments, we maintain that all of our calculations of the Medicare segment pension assets and Medicare's share of the Local 153 Plan Medicare segment excess pension assets remain valid and that all of our findings and recommendations remain valid as well.

IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS

Auditee Comments

GHI referred to its disagreement with the findings in our prior audit report (A-07-19-00562, Jul. 25, 2019) and said that for that reason, it was not required to implement them.

Office of Inspector General Response

GHI did disagree with the findings in our prior audit report. We maintained then and maintain now that our calculations of the Medicare segment pension assets remain valid and that our prior findings and the associated recommendations remain valid as well.

CONTRIBUTIONS AND TRANSFERRED PREPAYMENT CREDITS

Auditee Comments

GHI referred to our disagreement with the long-term interest rate assumption that GHI used to compute its accrued liabilities, which affect GHI's calculation of contributions and prepayment credits and ultimately, its allowable pension cost. GHI said that we have provided no support for the 7.00 percent long-term interest rate assumption that we used and that our draft report contained no discussion regarding GHI's plan asset allocation or the expected return on plan assets during the audit period. GHI described our 7.00 percent long-term interest rate assumption as an "arbitrary number" chosen by us "apparently for the sole purpose of artificially lowering the adjustment of previously determined pension costs required by CAS 413." GHI added that our use of that long-term interest rate "therefore cannot be a reasonable actuarial assumption" under CAS 412-30(3) and CAS 413-50(c)(12). GHI further stated that CAS 413-50(c)(i) requires that the actuarial assumptions used to calculate an adjustment of previously determined costs required by CAS 413 be "consistent with the prior and long term assumptions used in the measurement of pension costs."

GHI also stated that its position regarding the appropriate long-term interest rate assumption is set forth in a legal complaint that it has filed and that is pending before the United States Court of Federal Claims. GHI added that in this filing, GHI has argued that the CAS 413 requirement states only that different actuarial assumptions be reconcilable with one another, not that assumptions in one period be arbitrarily pegged to the assumptions in prior periods.

Office of Inspector General Response

GHI is correct that we disagreed with the long-term interest rate that it used during CY 2015. In turn, we agree with GHI that our use of a different long-term interest rate assumption affected the contributions and transferred prepayment credits that we calculated as part of our audit. Because GHI has not provided us with any information regarding the complaint it has filed with the United States Court of Federal Claims, we cannot comment on it. Our evaluation of GHI's position, though, remains unchanged from the judgment offered earlier in this report and in our prior audit report (A-07-19-00562, Jul. 25, 2019). Accordingly, we maintain that our calculations of the contributions and transferred prepayment credits remain valid.

As discussed in our finding earlier in this report, after coordinating with CMS OACT we asked GHI to recalculate the accrued liabilities and normal costs for CYs 2012 through 2015 using the historical long-term interest rate of 7.00 percent. In our request, we explained that the fluctuations in the long-term interest rates that GHI used from CYs 2012 through 2015 appeared extreme insofar as long-term interest rates were concerned. In our judgment, therefore, the assumptions that GHI used to compute its accrued liabilities were unreasonable.

CAS 412-50(b)(4) states: "Actuarial assumptions shall reflect long-term trends so as to avoid distortions caused by short-term fluctuations." GHI's recalculated accrued liabilities, using the

historical long-term interest rate of 7.00 percent as we requested, created a particularly noticeable difference in the asset base, as GHI's continued decrease in the interest rates it used—from 6.50 percent in CYs 2012 and 2013 to 4.00 percent by CY 2015—brought its accrued liabilities and normal costs farther and farther from what they would have been had GHI used the 7.00 percent rate. We therefore agree with CMS OACT that the long-term interest rates that GHI used did not comply with the CAS.

BENEFIT PAYMENTS

Auditee Comments

GHI stated that it had requested that we provide support for our benefit payment calculation, but that we declined. GHI added that for that reason, it was unable to respond to this finding.

Office of Inspector General Response

Contrary to GHI's assertion, we provided support for our benefit payment calculation on May 15, 2020—after issuance of our draft report but 40 days before the date of GHI's written comments. We also gave GHI other opportunities to request any additional information related to the differences between GHI's and our calculations of the Medicare segment pension assets. This finding remains valid because GHI incorrectly identified the Local 153 Plan benefit payments for Medicare segment participants.

NET TRANSFERS

Auditee Comments

GHI stated that it had requested that we identify the plan participants who transferred into the Medicare segment, but that we declined. GHI added that for that reason, it was unable to respond to this finding.

Office of Inspector General Response

Contrary to GHI's assertion, we provided support for our net transfers calculation on May 15, 2020—after issuance of our draft report but 40 days before the date of GHI's written comments. We also gave GHI other opportunities to request any additional information related to the differences between GHI's and our calculations of the Medicare segment pension assets. This finding remains valid because GHI incorrectly identified a participant who transferred in to its Local 153 Plan Medicare segment during CY 2015.

EARNINGS, NET OF EXPENSES

Auditee Comments

GHI said that it regards our finding on investment earnings, net of expenses, to have derived from our other findings. GHI stated that accordingly, its comments on our other findings apply to this one.

Office of Inspector General Response

Our report identifies differences between GHI's and our calculations of contributions and prepayment credits, benefit payments, and participant transfers, as the bases for the difference between GHI's and our calculations of earnings, net of expenses. Our responses to GHI's comments on our other findings thus apply as well to this finding, which in our view remains valid.

MEDICARE'S SHARE OF EXCESS PENSION ASSETS AND LIABILITIES

Auditee Comments

GHI stated that we did not calculate the Government's share of the adjustment of previously determined pension costs in accordance with CAS 413-50(c)(12). According to GHI, the CAS requires that the numerator include all pension costs allocated to CAS-covered contracts. GHI added that it did not allocate Medicare segment pension costs to any cost objectives that were not CAS-covered contracts. GHI stated that because 100 percent of the Medicare segment pension costs were allocable to CAS-covered contracts, Medicare's share of the adjustment of previously determined pension costs was 100 percent.

Office of Inspector General Response

We disagree with GHI's assertion that we did not calculate the Government's share of the adjustment of previously determined pension costs in accordance with CAS 413-50(c)(12). We calculated the aggregate Medicare percentage by dividing the total of the Medicare segment's pension costs charged to Medicare (the numerator) by the total allocable Medicare segment pension costs (the denominator) pursuant to CAS 413-50(c)(12)(vi) (as quoted at length in Appendix C). We took the total allocable Medicare pension costs and entered them into GHI's ICP. Based on GHI's calculated rates and the ceiling rates, the allowable costs were less than 100 percent, as shown in Table 6 earlier in this report.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed GHI's implementation of the prior audit recommendation, its identification of its Local 153 Plan Medicare segment, its update of the Local 153 Plan Medicare segment pension assets from January 1, 2015, to August 31, 2016, and its calculation of Medicare's share of its Medicare segment's excess pension liabilities as of August 31, 2016, as a result of its benefit curtailment.

Achieving our objective did not require that we review GHI'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 GHI located in New York, New York.

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 GHI's and EmblemHealth Services Company, LLC'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 Local 153 Plan Medicare segment assets;
- obtained and reviewed the pension plan documents and Department of Labor/Internal Revenue Service Forms 5500 used in calculating the Local 153 Plan Medicare segment assets;
- interviewed EmblemHealth Services Company, LLC, and GHI staff responsible for identifying the Local 153 Plan Medicare segment to determine whether the segment was properly identified in accordance with its established cost accounting practice;
- reviewed GHI's accounting records to verify the Local 153 Plan Medicare segment identification as well as the benefit payments made from the Local 153 Medicare segment;
- reviewed the prior segmentation audit performed at GHI (A-07-19-00562), to determine the beginning market value of assets;

- provided the CMS OACT, which provides technical actuarial advice, with the actuarial information necessary for it to calculate the Local 153 Plan Medicare segment pension assets from January 1, 2015, to August 31, 2016;
- reviewed the CMS actuaries' methodology and calculations;
- reviewed the curtailment calculation prepared by GHI's actuarial consulting firm; and
- provided the results of our audit to GHI officials on April 23, 2020; and
- provided support for our net transfers calculation and our benefit payment calculation to GHI officials on May 15, 2020.

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

- *Group Health Incorporated Overstated Its EmblemHealth Services Company, LLC, Employees' Retirement Plan Medicare Segment Pension Assets and Understated Medicare's Share of the Medicare Segment Pension Assets as of December 31, 2015 (A-07-19-00579) and*
- *Group Health Incorporated Did Not Claim Some Allowable Medicare Pension Costs for Calendar Years 2009 Through 2016 (A-07-19-00581).*

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: STATEMENT OF MARKET VALUE OF PENSION ASSETS
FOR THE LOCAL 153 PENSION PLAN FOR THE PERIOD
JANUARY 1, 2015, TO AUGUST 31, 2016**

Description		Total Company	Other Segments	Medicare Segment
Assets January 1, 2015	<u>1/</u>	\$427,797,372	\$395,975,458	\$31,821,914
Prepayment credits	<u>2/</u>	0	(1,309,629)	1,309,629
Earnings	<u>3/</u>	(13,003,446)	(11,999,639)	(1,003,807)
Benefit payments	<u>4/</u>	(13,384,047)	(12,135,774)	(1,248,273)
Administrative expenses	<u>5/</u>	(640,978)	(591,497)	(49,481)
Assets December 31, 2015		\$400,768,901	\$369,938,919	\$30,829,982
Prepayment credits		0	(928,136)	928,136
Earnings		77,912,745	71,761,374	6,151,371
Benefit payments		(9,733,816)	(8,732,125)	(1,001,691)
Administrative expenses		(247,791)	(228,227)	(19,564)
Assets August 31, 2016		\$468,700,039	\$431,811,805	\$36,888,234
Per GHI	<u>6/</u>	468,700,039	\$426,913,048	41,786,991
Asset variance	<u>7/</u>	0	4,898,757	(4,898,757)

ENDNOTES

- 1/ We determined the Local 153 Plan Medicare segment pension assets as of January 1, 2015, based on our prior segmentation audit of GHI (A-07-19-00562). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare segment. 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 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.
- 4/ We based the Medicare segment's benefit payments on actual payments to Medicare retirees. We obtained the benefit payments from documents provided by GHI.
- 5/ In accordance with the CAS, we allocated administrative expenses to each Medicare segment in proportion to investment earnings.
- 6/ We obtained total asset amounts from documents prepared by GHI's actuarial consulting firm.
- 7/ The asset variance represents the difference between our calculation of the EmblemHealth Retirement Plan Medicare segment pension assets and GHI's calculation of the EmblemHealth Retirement Plan Medicare segment pension assets.

APPENDIX C: FEDERAL REQUIREMENTS RELATED TO PENSION SEGMENTATION AND MEDICARE SEGMENT CLOSING ADJUSTMENT

PENSION SEGMENTATION

Federal regulations (CAS 412.40(b)(2)) require that each actuarial assumption used to measure pension cost be separately identified and shall represent the contractor's best estimates of anticipated experience under the plan, taking into account past experience and reasonable expectations.

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 412.50(b)(4)) require that actuarial assumptions reflect long-term trends so as to avoid distortions caused by short-term fluctuations.

Federal regulations (CAS 412.64-1(b)) require contractors or subcontractors that become subject to the CAS, as amended, during the Pension Harmonization Rule Transition Period to phase in the minimum actuarial liability and minimum normal cost.⁵ During each successive accounting period of the Pension Harmonization Rule Transition Period, the contractor shall recognize on a scheduled basis the amount by which the minimum actuarial liability differs from the actuarial accrued liability and the amount by which the sum of the minimum normal cost plus any expense load differs from the sum of the normal cost plus any expense load.

Federal regulations (CAS 412.64-1(b)(3)) require that the scheduled applicable percentages for each successive accounting period of the Pension Harmonization Rule Transition Period are as follows: 0 percent for the first cost accounting period, 25 percent for the second cost accounting period, 50 percent for the third cost accounting period, 75 percent for the fourth cost accounting period, and 100 percent for the fifth cost accounting period.

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.

⁵ Explanatory language in the CAS Harmonization Rule states: "[t]o promote equity and fairness in achieving an orderly change in the contract cost accounting for pension costs, this final rule retains the transition period consisting of five cost accounting periods, the Pension Harmonization Rule Transition Period, that will phase in recognition of any adjustment of the actuarial accrued liability and normal cost. This transition method will apply to all contractors with contracts subject to CAS 412 and 413."

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 SEGMENT CLOSING ADJUSTMENT

Federal regulations (CAS 413.50(c)(12)) state, in part:

If a segment is closed, if there is a pension plan termination, or if there is a curtailment of benefits, the contractor shall determine the difference between the actuarial liability for the segment and the market value of the assets allocated to the segment, irrespective of whether or not the pension plan is terminated. The difference between the market value of the assets and the actuarial accrued liability for the segment represents an adjustment of previously-determined pension costs.

- i. The determination of the actuarial accrued liability shall be made using the accrued benefit cost method. The actuarial assumptions employed shall be consistent with the current and prior long term assumptions used in the measurement of pension costs. . . .
- ii. . . . The market value of the assets shall be reduced by the accumulated value of prepayment credits, if any. Conversely, the market value of assets shall be increased by the current value of any unfunded actuarial liability separately identified and maintained in accordance with 9904.412-50(a)(2).
- iii. The calculation of the difference between the market value of the assets and actuarial liability shall be made as of the date of the event (e.g, contract termination, plan amendment, plant closure) that caused the closing of the segment, pension plan termination, or curtailment of benefits. If such a date is not readily determinable, or its use can result in an inequitable calculation, the contracting parties shall agree on an appropriate date.
- iv. Pension plan improvements adopted within 60 months of the date of the event which increase the actuarial accrued liability shall be recognized on a prorata basis using the number of months the date of adoption preceded the event date. Plan improvements mandated by law or collective bargaining agreement are not subject to this phase-in.

The methodology for determining the Federal Government's share of excess pension assets and liabilities is addressed by CAS 413.50(c)(12)(vi), which states:

The Government's share of the adjustment amount determined for a segment shall be the product of the adjustment amount and a fraction. The adjustment amount shall be reduced for any excise tax imposed upon assets withdrawn from the funding agency of a qualified pension plan. The numerator of such fraction shall be the *sum of the pension plan costs* allocated to all contracts and subcontracts (including Foreign Military Sales) subject to this Standard during a period of years representative of the Government's participation in the pension plan. The denominator of such fraction shall be the *total pension costs* assigned to cost accounting periods during those same years. This amount shall represent an adjustment of contract prices or cost allowance as appropriate. The adjustment may be recognized by modifying a single contract, several but not all contracts, or all contracts, or by use of any other suitable technique. [Emphasis added.]

APPENDIX D: CALCULATION OF AGGREGATE MEDICARE PERCENTAGE

Calendar Year	Allowable Medicare Segment Pension Costs from FACP's	Allowable Medicare Segment Pension Costs From ICP's	Total Allocable Medicare Segment Pension Costs	Medicare Aggregate Percentage
1/	(A) 2/	(B) 3/	(C) 4/	((A+B)/C) 5/
1987	\$0	\$0	\$0	
1988	0	0	0	
1989	0	0	0	
1990	0	0	0	
1991	0	0	0	
1992	0	0	0	
1993	0	0	0	
1994	0	0	0	
1995	171,828	0	171,828	
1996	0	0	0	
1997	0	0	0	
1998	0	0	0	
1999	0	0	0	
2000	0	0	0	
2001	0	0	0	
2002	0	0	0	
2003	27,020	72,026	99,046	
2004	224,866	504,981	729,847	
2005	226,390	634,407	860,797	
2006	344,520	910,894	1,255,539	
2007	344,303	1,014,509	1,411,656	
2008	239,709	1,408,891	1,846,876	
2009	0	2,037,155	2,223,035	
2010	0	2,749,472	2,822,476	
2011	0	2,234,763	2,259,144	
2012	0	2,125,536	2,131,333	
2013	0	2,008,158	2,014,178	
2014	0	2,214,205	2,214,205	
2015	0	1,407,813	1,407,906	
2016		928,136	928,136	
Total	\$1,578,636	\$20,250,946	\$22,376,002	97.56%

ENDNOTES

- 1/ We based the aggregate percentage on the audited pension costs developed during the previous pension costs claimed audits (A-07-12-00379, Apr. 4, 2012; A-07-12-00380, Apr. 4, 2012; and A-07-16-00475, Mar. 23, 2016) and the current pension costs claimed audit (A-07-00581) as required by the CAS.

- 2/ This column identifies the allowable Medicare segment pension costs that related to the Legacy Medicare contract.
- 3/ This column identifies the allowable Coordination of Benefits contract, segment pension costs that relate to the MAC contracts. In some instances, we limited the allowable pension costs from the ICP to equal 100 percent of the allocable pension costs. This was necessary because when using the actual allowable pension costs claimed from the ICPs, the line of business percentage exceeded 100 percent.
- 4/ This column identifies the total allocable Medicare segment pension costs during the contract period.
- 5/ In accordance with 9904.413-50(c)(12)(vi), we calculated the aggregate Medicare percentage by dividing the total of the Medicare segment's pension costs charged to Medicare (that is, the combined amounts from the two columns to the right of the "Calendar Year" column) by the total allocable Medicare segment pension costs pursuant to CAS 413.



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June 25, 2020

By Email

Mr. Patrick Cogley
Regional Inspector General for Audit Services
Office of Audit Services, Region VII
Office of the Inspector General
Department of Health & Human Services
601 East 12th Street, Room 0429
Kansas City, MO 64106

Re: GHI Response to Draft Report Nos. A-07-19-00579-00583

Dear Mr. Cogley:

Group Health Inc. (“GHI”) respectfully provides the following responses to the above-referenced Office of the Inspector General (“OIG”) draft reports regarding GHI’s Medicare Segment Pension Assets for its Employees’ Retirement Plan as of December 31, 2015 (Report No. -00579), Medicare Segment Pension Assets for its Local 153 Pension Plan as of August 31, 2016 (Report No. -00580), Medicare Pension Costs for 2009-2016 (Report No. -00581), Medicare Supplemental Executive Retirement Plan Costs for 2009-2016 (Report No. -00582), and Medicare Postretirement benefit costs for 2009-2016 (Report No. -00583). GHI welcomes OIG’s completion of these audits, and looks forward to the prompt completion of OIG’s audits of GHI’s pension and post-retirement benefit costs for the periods covered in these reports.

The above-referenced draft reports make findings in several broad categories. GHI’s responses to each category of findings is set forth below:

Implementation of Prior Audit Reports (Report Nos. -00579 and -00580). GHI disagrees with the findings in OIG Audit Report Nos. A-07-19-00561 and -00562, for the reasons that GHI identified in response to the drafts of those reports. GHI therefore disagrees that it was required to implement the findings of those reports in subsequent periods, including the periods covered by draft Report Nos. -00579 and -00580.

Contributions and Transferred Prepayment Credits (Report Nos. -00579 to -00581). OIG disagrees with the long-term interest rate assumptions that GHI employed to compute accrued liabilities, which affect GHI’s calculation of contributions and prepayment credits, and, ultimately, allowable pension cost. GHI’s position regarding the appropriate long-term interest rate assumptions is set forth in

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the Complaint that GHI filed in *Group Health Inc. v. United States*, No. 19-499, which is pending before the United States Court of Federal Claims, and the submissions that GHI has made to the Court and the Government in that case. OIG has provided no support for the 7.00% long term interest rate assumption that it has employed. OIG claims that this is the “historical long-term interest rate,” but provides no support for that statement. Regardless, a “historical” assumption necessarily would not reflect an “estimate of future conditions affecting pension costs” that considers the actual investment strategy and asset allocation of the plans at any time during the period being reviewed by the draft Reports. Indeed, OIG’s draft reports contain no discussion whatsoever regarding the plans’ asset allocation or the expected return on plan assets during the relevant periods. OIG’s 7.00% long term interest rate assumption is therefore an arbitrary number chosen by OIG, apparently for the sole purpose of artificially lowering the adjustment of previously determined pension costs required by CAS 413. It therefore cannot be a reasonable actuarial assumption under 48 C.F.R. §§ 9904.412-30(3) and 9904.413-50(c)(12). 48 C.F.R. § 9904.413-50(c)(i) requires that the actuarial assumptions used to calculate an adjustment of previously determined costs required by CAS 413 be “consistent with the prior and long term assumptions used in the measurement of pension cost.” But as GHI has explained in the certified claim that is the subject of Case No. 19-499 and in our submissions in that case, this requirement only states that different assumptions be reconcilable with one another, not that assumptions in one period be arbitrarily pegged to the assumptions in prior periods.

Net Transfers (Report Nos. -00579 to -00581). We requested that OIG identify the plan participants that OIG claims transferred into the Medicare segment during the periods in question, but OIG declined to do so. GHI is therefore unable to respond to OIG’s findings, which also impact OIG’s calculation of allowable pension cost.

Benefit Payments (Report Nos. -00579 to -00581). We requested that OIG provide support for its calculation of benefit payments, but OIG declined to do so. GHI is therefore unable to respond to OIG’s findings, which also impact OIG’s calculation of allowable pension cost.

Earnings, Net of Expenses (Report Nos. -00579 to -00581). GHI understands OIG’s position regarding investment earnings, net of expenses, to be derivative of OIG’s other findings. Accordingly, GHI incorporates its responses to OIG’s other findings here. If OIG’s position regarding earnings, net of expenses, is based on additional concerns not captured within OIG’s other findings, please identify those concerns.

Medicare’s Share of Excess Pension Assets/(Liabilities) (Report Nos. -00579 to -00581). OIG did not calculate the Government’s share of the adjustment of previously determined pension costs in accordance with 48 C.F.R. § 9904.413-50(c)(12). OIG divided allowable Medicare segment pension costs by allocable Medicare segment pension costs. CAS requires that the numerator include all pension costs allocated to CAS covered contracts. GHI did not allocate Medicare segment pension costs to any cost

objectives that were not CAS-covered contracts. Allowable costs could only have been lower than allocable costs in a given year because of indirect rate ceilings or other cost limitations applicable to specific CAS-covered contracts, but this does not change the fact that 100% of Medicare segment pension costs were allocable to CAS-covered contracts and therefore Medicare's share of the adjustment of previously determined pension costs is 100%.

Calculation of Interest on Prepayment Credits (Report No. -00581). OIG improperly disallowed quarterly interest because of the existence of prepayment credits. Draft Report No. -00581 explains OIG's rationale for disallowing quarterly interest in Appendix F, endnote 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.

FAR 31.205-6(j)(2)(iii) does not support OIG's position that quarterly interest cannot accrue if the contractor has prepayment credits. FAR 31.205-6(j)(2)(iii) does not even reference prepayment credits. Instead, FAR 31.205-6(j)(2)(iii) simply provides that "[i]ncreased pension costs are unallowable if the increase is caused by a delay in funding beyond 30 days after each quarter of the year to which they are assignable." Accordingly, interest is only unallowable if payment is made 30 days after the end of each quarter. EmblemHealth submitted quarterly cash contributions within 30 days after the end of each quarter. The accrued interest on EmblemHealth's quarterly pension payments is therefore allowable in accordance with the plain language of FAR 31.205-6(j)(2)(iii).

Calculations of GHI's Indirect Cost Rates and Allowable and Unallowable Costs (Report Nos. -00581 to -00583). OIG states that it "incorporated the rate ceilings associated with the Coordination of Benefits contracts" in determining GHI's final indirect cost rates for 2009-2016. In reviewing OIG's calculations, it appears that OIG imposed the following ceilings for GHI's fringe and overhead rates in 2010 and 2011:

	Fringe	Overhead
2010 COB	64.93%	
2010 RDS	65.93%	
2011 COB	68.37%	34.15%
2011 RDS		35.15%
2011 MSPRC		35.15%

GHI agrees that the Medicare Secondary Payer Recovery Contractor (“MSPRC”) prime contract imposed a 35.15% ceiling on GHI’s overhead rate for 2011; however, GHI disagrees with the other rate ceilings identified by OIG. Under the Coordination of Benefits (“COB”) Contract, indirect rate ceilings were established for 2008 by Modification 66, but indirect rate ceilings were not established for any other years. No indirect rate ceilings were established for the Retiree Drug Subsidy (“RDS”) subcontract.

Postretirement (“PRB”) costs (Report No. -00583). GHI disagrees with OIG’s finding that GHI claimed \$1.6 million in unallowable Medicare PRB costs. Although OIG’s draft report identifies the amounts that it determined were unallowable in each year between 2009 and 2016, OIG’s draft report does not disclose how OIG calculated this amount, and OIG did not provide support for its calculation in response to GHI’s request. During 2009-2016, GHI accounted for PRB costs using the same accounting practices that GHI used, and OIG accepted, for years prior to 2009.

Please let me know if you have any questions regarding GHI’s response to your draft reports.

Sincerely,

/Daniel P. Graham/

Daniel P. Graham

cc: Daniel Byrne
Tony Angi