Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

PALMETTO GOVERNMENT BENEFITS ADMINISTRATOR, LLC, OVERSTATED ITS EXCESS PLAN MEDICARE SEGMENT PENSION ASSETS AS OF JANUARY 1, 2017

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

Amy J. Frontz
Deputy Inspector General for Audit Services

April 2021
A-07-20-00598
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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.
Why OIG Did This Audit
Medicare contractors are required to separately account for the Medicare segment pension plan assets based on the requirements of Cost Accounting Standards (CAS) 412 and 413.

The HHS, OIG, Office of Audit Services, Region VII pension audit team reviews the Medicare segment pension assets to ensure compliance with Federal regulations. Previous OIG audits found that Medicare contractors did not always correctly identify and update the segmented pension assets.

Our objective was to determine whether Palmetto Government Benefits Administrator, LLC (Palmetto), complied with Federal requirements and its established cost accounting practice when updating its Excess Plan Medicare segment pension assets from January 1, 2015, to January 1, 2017.

How OIG Did This Audit
We reviewed Palmetto’s identification of its Excess Plan Medicare segment and its update of the Excess Plan Medicare segment pension assets from January 1, 2015, to January 1, 2017.

Palmetto Government Benefits Administrator, LLC, Overstated Its Excess Plan Medicare Segment Pension Assets as of January 1, 2017

What OIG Found
Palmetto did not correctly update its Excess Plan Medicare segment pension assets from January 1, 2015, to January 1, 2017, in accordance with Federal requirements. Palmetto identified $746,467 as its Excess Plan Medicare segment pension assets as of January 1, 2017; however, we determined that those assets were $737,271 as of that date. Therefore, Palmetto overstated its Excess Plan Medicare segment pension assets as of January 1, 2017, by $9,196. Palmetto overstated those Excess Plan pension assets because its policies and procedures did not always ensure that it calculated those assets in accordance with Federal requirements when updating its Excess Plan Medicare segment’s pension assets from January 1, 2015, to January 1, 2017.

What OIG Recommends and Auditee Comments
We recommend that Palmetto decrease its Excess Plan Medicare segment pension assets by $9,196 and recognize $737,271 as the Excess Plan Palmetto Medicare segment pension assets as of January 1, 2017, and improve policies and procedures to ensure that going forward, it calculates Medicare segment pension assets in accordance with Federal requirements.

Palmetto stated that it did not object to our findings and recommendations and added that it did not believe our findings had a material impact on its submitted Incurred Cost Proposals.

The full report can be found at https://oig.hhs.gov/oas/reports/region7/72000598.asp.
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INTRODUCTION

WHY WE DID THIS AUDIT

Medicare contractors are required to separately account for Medicare segment pension plan assets based on the requirements of their Medicare contracts and Cost Accounting Standards (CAS) 412 and 413. The Centers for Medicare & Medicaid Services (CMS) incorporated this requirement into the Medicare contracts beginning with fiscal year 1988. Previous Office of Inspector General audits found that Medicare contractors did not always correctly identify and update the segmented pension assets.

At CMS’s request, the 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, Incurred Cost Proposals (ICPs), or both.

For this audit, we focused on one entity, Palmetto Government Benefits Administrator, LLC (Palmetto). In particular, we examined the Blue Cross Blue Shield of South Carolina Excess Plan (Excess Plan) Palmetto Medicare segment pension assets that were updated from January 1, 2015, to January 1, 2017.

OBJECTIVE

Our objective was to determine whether Palmetto complied with Federal requirements and its established cost accounting practice when updating its Excess Plan Medicare segment pension assets from January 1, 2015, to January 1, 2017.

BACKGROUND

Palmetto Government Benefits Administrator, LLC, and Medicare

During our audit period, Palmetto was a subsidiary of Blue Cross Blue Shield of South Carolina (BCBS South Carolina), whose home office is in Columbia, South Carolina. Palmetto administers Medicare operations under the MAC contracts for Medicare Parts A and B Jurisdiction 1 and

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1 Medicare Parts A and B Jurisdiction 1 consisted of the States of California, Hawaii, and Nevada, and the U.S. Territories of American Samoa, Guam, and the Northern Mariana Islands.
Jurisdiction 11\textsuperscript{2} effective October 25, 2007, and May 21, 2010, respectively, as well as other CAS-covered and FAR-covered contracts. Currently, Palmetto is the Medicare Parts A and B contractor for Jurisdictions J\textsuperscript{3} and M (formerly Jurisdiction 11). Palmetto also continues to perform Railroad Retirement Board contract operations under a specialty MAC contract awarded on November 27, 2012.

During our audit period, CMS and BCBS South Carolina entered into an agreement called the “Advance Agreement Regarding the Computation of Nonqualified Defined Benefit Pension Plan Costs for the Periods Beginning January 1, 2015” (agreement). This agreement allowed BCBS South Carolina to change its accounting methodology from a pay-as-you to an accrual method. This agreement also closed costs prior to January 1, 2015. Starting with January 1, 2015, the Excess Plan would, under the terms of this agreement, have three Medicare segments: (1) Palmetto, (2) Companion Data Services, LLC (CDS), and (3) Partial Medicare.\textsuperscript{4} This report addresses Palmetto’s compliance with the pension segmentation language under the provisions of Federal requirements and its Medicare contracts. We are addressing the Excess Plan Medicare segment pension assets for the CDS and Partial Medicare segments in separate audits.

**Blue Cross Blue Shield of South Carolina Excess Plan**

BCBS South Carolina sponsors the Excess Plan. The purpose of the Excess Plan is to provide benefits in excess of the limits imposed by the Employee Retirement Income Security Act of 1974 for participants in BCBS South Carolina’s qualified defined-benefit plan.\textsuperscript{5}

**HOW WE CONDUCTED THIS AUDIT**

We reviewed Palmetto’s identification of its Excess Plan Medicare segment and its update of the Excess Plan Medicare segment pension assets from January 1, 2015, to January 1, 2017.

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.

\textsuperscript{2} Medicare Parts A and B Jurisdiction 11 consisted of the States of North Carolina, South Carolina, Virginia, and West Virginia (but excluded Part B for the counties of Arlington and Fairfax in Virginia and the city of Alexandria in Virginia). Jurisdiction 11 also included home health and hospice services provided in the States of Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Kentucky, Louisiana, Mississippi, New Mexico, North Carolina, Ohio, Oklahoma, South Carolina, Tennessee, and Texas. Service areas for Jurisdiction M (mentioned in the next sentence of this section) are the same as those for Jurisdiction 11.

\textsuperscript{3} Medicare Parts A and B Jurisdiction J consists of the states of Alabama, Georgia, and Tennessee.

\textsuperscript{4} The Partial Medicare segment allocates costs to three Medicare segments: (1) Palmetto, (2) CDS, and (3) CGS Administrators, LLC.

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.

**FINDINGS**

Palmetto did not correctly update its Excess Plan Medicare segment pension assets from January 1, 2015, to January 1, 2017, in accordance with Federal requirements. Palmetto identified $746,467 as its Excess Plan Medicare segment pension assets as of January 1, 2017; however, we determined that those assets were $737,271 as of that date. Therefore, Palmetto overstated its Excess Plan Medicare segment pension assets as of January 1, 2017, by $9,196. Palmetto overstated those Excess Plan pension assets because its policies and procedures did not always ensure that it calculated those assets in accordance with Federal requirements when updating its Excess Plan Medicare segment’s pension assets from January 1, 2015, to January 1, 2017.

Appendix B identifies the details of the Excess Plan Palmetto Medicare segment pension assets from January 1, 2015, to January 1, 2017, as determined during our audit. Table 1 below summarizes the audit adjustments required to update the Excess Plan Palmetto Medicare segment pension assets in accordance with Federal requirements.

**Table 1: Summary of Audit Adjustments**

<table>
<thead>
<tr>
<th></th>
<th>Per Audit</th>
<th>Per Palmetto</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Update of Excess Plan Palmetto Medicare Segment Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions and Prepayment Credits</td>
<td>$710,257</td>
<td>$719,049</td>
<td>($8,792)</td>
</tr>
<tr>
<td>Earnings, Net of Expenses</td>
<td>27,014</td>
<td>27,418</td>
<td>(404)</td>
</tr>
<tr>
<td><strong>Overstatement of Excess Plan Palmetto Medicare Segment Assets</strong></td>
<td></td>
<td></td>
<td>($9,196)</td>
</tr>
</tbody>
</table>

**UPDATE OF EXCESS PLAN PALMETTO 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, see Appendix C.

Palmetto did not correctly update its Excess Plan Medicare segment pension assets from January 1, 2015, to January 1, 2017, in accordance with Federal requirements. Palmetto identified $746,467 as its Excess Plan Medicare segment pension assets as of January 1, 2017; however, we determined that those assets were $737,271 as of that date. Therefore, Palmetto overstated its Excess Plan Medicare segment pension assets as of January 1, 2017, by $9,196. The following are our findings regarding the update of the Excess Plan Palmetto Medicare
segment pension assets from January 1, 2015, to January 1, 2017. Appendix D identifies the Excess Plan’s CAS balance equation as of January 1, 2017.\(^6\)

**Contributions and Transferred Prepayment Credits Overstated**

The audited contributions and transferred prepayment credits\(^7\) are based on the assignable pension costs.\(^8\) 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.

Palmetto overstated contributions and transferred prepayment credits by $8,792 for its Excess Plan Medicare segment for 2016. The overstatement occurred primarily because of differences in the asset base used to compute the assignable pension costs.

**Earnings, Net of Expenses, Overstated**

Palmetto overstated investment earnings, less administrative expenses, by $404 for its Excess Plan Medicare segment, because it used incorrect contributions and transferred prepayment credits (discussed above) to develop its Excess 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 2 below shows the difference in the earnings, net of expenses, proposed by Palmetto and the earnings, net of expenses, that we calculated during our audit.

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Per Audit</th>
<th>Per Palmetto</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>($2,705)</td>
<td>($2,670)</td>
<td>($35)</td>
</tr>
<tr>
<td>2016</td>
<td>29,719</td>
<td>30,088</td>
<td>(369)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$27,014</strong></td>
<td><strong>$27,418</strong></td>
<td><strong>($404)</strong></td>
</tr>
</tbody>
</table>

\(^6\) The CAS balance equation identifies the market value of assets, actuarial accrued liability, actuarial value of assets, accumulated value of prepayment credits, and unfunded actuarial liability in accordance with CAS 412-40(c).

\(^7\) 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.

\(^8\) These are assigned to a specific cost accounting period.
RECOMMENDATIONS

We recommend that Palmetto Government Benefits Administrator, LLC:

- decrease its Excess Plan Medicare segment pension assets by $9,196 and recognize $737,271 as the Excess Plan Palmetto Medicare segment pension assets as of January 1, 2017, and

- improve policies and procedures to ensure that going forward, it calculates Medicare segment pension assets in accordance with Federal requirements.

AUDITEE COMMENTS

In written comments on our draft report, Palmetto stated that it did not object to our findings and recommendations and added that it did not believe our findings had a material impact on its submitted ICPs.

Palmetto’s comments appear in their entirety as Appendix E.
APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed Palmetto’s identification of its Excess Plan Medicare segment and its update of the Excess Plan Medicare segment pension assets from January 1, 2015, to January 1, 2017.

Achieving our objective did not require that we review Palmetto’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 BCBS South Carolina and Palmetto located in Columbia, South Carolina.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- reviewed the annual actuarial valuation reports prepared by BCBS South Carolina’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 Excess Plan Palmetto Medicare segment assets;
- obtained and reviewed the pension plan documents used in calculating the Excess Plan Palmetto Medicare segment assets;
- interviewed BCBS South Carolina staff responsible for identifying the Excess Plan Palmetto Medicare segment to determine whether the segment was properly identified in accordance with its established cost accounting practice;
- reviewed BCBS South Carolina’s accounting records to verify the Excess Plan Palmetto Medicare segment identification as well as the benefit payments made from the Excess Plan Palmetto Medicare segment;
- provided the CMS Office of the Actuary, which provides technical actuarial advice, with the actuarial information necessary for it to calculate the Excess Plan Palmetto Medicare segment pension assets from January 1, 2015, to January 1, 2017;
- reviewed the CMS actuaries’ methodology and calculations; and
• provided the results of our audit to Palmetto officials on December 17, 2020.

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

• *Companion Data Services, LLC, Properly Updated Its Excess Plan Medicare Segment Pension Assets as of January 1, 2017 (A-07-21-00606)* and

• *Blue Cross Blue Shield of South Carolina Overstated Its Excess Plan Partial Medicare Segment Pension Assets as of January 1, 2017 (A-07-21-00607).*

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: PALMETTO GOVERNMENT BENEFITS ADMINISTRATOR, LLC,
STATEMENT OF MEDICARE SEGMENT EXCESS PLAN ASSETS
FOR THE PERIOD JANUARY 1, 2015, TO JANUARY 1, 2017

<table>
<thead>
<tr>
<th>Description</th>
<th>Total Company</th>
<th>Other Segments</th>
<th>100% Palmetto Medicare Segment</th>
<th>100% CDS Medicare Segment</th>
<th>Partial Medicare Segment</th>
<th>Non Medicare Segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets January 1, 2015</td>
<td>1/ $60,983,838</td>
<td>$60,983,838</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Prepayment Credits</td>
<td>2/ 0</td>
<td>(6,224,332)</td>
<td>370,809</td>
<td>135,068</td>
<td>1,863,236</td>
<td>3,855,219</td>
</tr>
<tr>
<td>Contributions</td>
<td>3/ 3,048,002</td>
<td>3,048,002</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Earnings</td>
<td>4/ (448,333)</td>
<td>(408,277)</td>
<td>(2,705)</td>
<td>(972)</td>
<td>(9,985)</td>
<td>(26,394)</td>
</tr>
<tr>
<td>Benefit Payments</td>
<td>5/ (1,460,763)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Assets January 1, 2016</td>
<td>$62,122,744</td>
<td>$57,399,231</td>
<td>$368,104</td>
<td>$134,096</td>
<td>$864,932</td>
<td>$3,356,381</td>
</tr>
<tr>
<td>Prepayment Credits</td>
<td>0</td>
<td>(6,819,542)</td>
<td>339,448</td>
<td>118,402</td>
<td>1,811,402</td>
<td>4,550,290</td>
</tr>
<tr>
<td>Contributions</td>
<td>17,450,949</td>
<td>17,450,949</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Earnings</td>
<td>2,693,217</td>
<td>2,378,532</td>
<td>29,719</td>
<td>10,605</td>
<td>54,817</td>
<td>219,544</td>
</tr>
<tr>
<td>Benefit Payments</td>
<td>(10,759,765)</td>
<td>(2,660,757)</td>
<td>0</td>
<td>0</td>
<td>(2,741,901)</td>
<td>(5,357,107)</td>
</tr>
<tr>
<td>Assets January 1, 2017</td>
<td>$71,507,145</td>
<td>$67,748,413</td>
<td>$737,271</td>
<td>$263,103</td>
<td>($10,750)</td>
<td>$2,769,108</td>
</tr>
<tr>
<td>Per Palmetto</td>
<td>6/ $71,507,145</td>
<td>$59,796,506</td>
<td>$746,467</td>
<td>$263,103</td>
<td>$2,786,127</td>
<td>$7,914,942</td>
</tr>
<tr>
<td>Asset Variance</td>
<td>7/ 0</td>
<td>$7,951,907</td>
<td>($9,196)</td>
<td>0</td>
<td>($2,796,877)</td>
<td>($5,145,834)</td>
</tr>
</tbody>
</table>

**ENDNOTES**

1/ We determined the Total Company, Medicare, and non-Medicare segments' pension assets as of January 1, 2015, based on BCBS South Carolina’s actuarial valuation report. The amounts shown for the Other segment represent the difference between the Total Company and the Medicare and non-Medicare segments. All pension assets are shown at market value.

2/ Transferred prepayment credits represent funds available to satisfy future funding requirements and are applied to future funding requirements before current-year contributions in order to avoid incurring unallowable interest. Prepayment credits are transferred to the Medicare and non-Medicare segments as needed to cover funding requirements.

3/ We obtained Total Company contribution amounts from the actuarial valuation reports. We allocated Total Company contributions to the Medicare and non-Medicare segments based on the ratio of the segment’s funding target divided by the Total Company funding target. Contributions in excess of the funding targets were treated as prepayment credits and accounted for in the Other segment until needed to fund pension costs in the future.

4/ We obtained investment earnings from the actuarial valuation reports. We allocated net investment earnings based on the ratio of each segment’s weighted average value (WAV) of assets to Total Company WAV of assets as required by the CAS.

5/ We based the Medicare segment’s benefit payments on actual payments to Medicare retirees. We obtained the benefit payments from documents provided by BCBS South Carolina.
6/ We obtained segment asset amounts from documents prepared by BCBS South Carolina’s actuarial consulting firm.

7/ The asset variance represents the difference between our calculation of the Excess Plan Palmetto Medicare segment assets and Palmetto’s calculation of its Excess Plan Medicare segment assets.
APPENDIX C: FEDERAL REQUIREMENTS RELATED TO PENSION SEGMENTATION

PENSION SEGMENTATION

Federal regulations (CAS 412.50(a)(4)) require that contributions in excess of the pension cost assigned to the period be recognized as prepayment credits and accumulated at the assumed valuation interest rate until applied to future period costs. Prepayment credits that have not been applied to fund pension costs are excluded from the value of assets used to compute pension costs.

Federal regulations (CAS 413.50(c)(7)) require that the asset base be adjusted by contributions, permitted unfunded accruals, income, benefit payments, and expenses. For plan years beginning after March 30, 1995, the CAS requires investment income and expenses to be allocated among segments based on the ratio of the segment’s WAV of assets to Total Company WAV of assets.
<table>
<thead>
<tr>
<th>Description</th>
<th>Total Company</th>
<th>Other Segments</th>
<th>100% Palmetto Medicare Segment</th>
<th>100% CDS Mediare Segment</th>
<th>Partial Medicare Segment</th>
<th>Non Medicare Segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial Accrued Liability</td>
<td>$82,356,640</td>
<td>$41,758,094</td>
<td>$2,057,142</td>
<td>$948,225</td>
<td>$10,895,926</td>
<td>$26,697,253</td>
</tr>
<tr>
<td>Less: Actuarial Value of Assets</td>
<td>(75,822,822)</td>
<td>(71,838,740)</td>
<td>(781,768)</td>
<td>(278,982)</td>
<td>12,900</td>
<td>(2,936,232)</td>
</tr>
<tr>
<td>Unfunded Actuarial Liability</td>
<td>$6,533,818</td>
<td>(30,080,646)</td>
<td>$1,275,374</td>
<td>$669,243</td>
<td>$10,908,826</td>
<td>$23,761,021</td>
</tr>
<tr>
<td>9904.412-50(a)(2) Unallowable</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Prepayment Credit</td>
<td>(56,247,479)</td>
<td>(56,247,479)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Adjustments to UAL</td>
<td>(56,247,479)</td>
<td>(56,247,479)</td>
<td>$1,275,374</td>
<td>$669,243</td>
<td>$10,908,826</td>
<td>$23,761,021</td>
</tr>
<tr>
<td>Net Unamortized Balance</td>
<td>$62,781,297</td>
<td>$26,166,833</td>
<td>$1,275,374</td>
<td>$669,243</td>
<td>$10,908,826</td>
<td>$23,761,021</td>
</tr>
<tr>
<td>Market Value of Assets</td>
<td>$71,507,145</td>
<td>$67,748,413</td>
<td>$737,271</td>
<td>$263,103</td>
<td>(10,750)</td>
<td>$2,769,108</td>
</tr>
</tbody>
</table>

**ENDNOTES**

1/ Actuarial accrued liability (AAL) represents the pension cost attributable, under the actuarial cost method in use, to years prior to January 1, 2017. We obtained the total company AAL from the January 1, 2017, BCBS South Carolina Excess Plan actuarial valuation report. The AALs for the Other Segment, Medicare, and non-Medicare segments were determined as a result of our audit.

2/ The actuarial value of assets (AVA) is the value of cash, investments, and other property belonging to a pension plan, as used by the actuary for the purpose of an actuarial valuation. The AVA shown here was computed by the CMS Office of the Actuary based on audited values as of January 1, 2017.

3/ The unfunded actuarial liability (UAL) is the AAL less the AVA as of January 1, 2017. An actuarial surplus, or negative UAL, is created whenever the AVA exceeds the AAL.

4/ The 9904.412-50(a)(2) Unallowable represents the prior-period pension costs determined to be unallowable in accordance with Government contractual provisions in effect at the time or pension costs assigned to a cost accounting period that were not funded in that period. This is an adjustment to the UAL required by CAS 412-50(a)(2).

5/ The prepayment credit represents funds available to satisfy future funding requirements. This is an adjustment to the AVA for premature funding of future pension costs required by CAS 412-50(a)(4).

6/ Adjustments to the UAL represent the sum of the unfunded and prepayment balances as of January 1, 2017.
The net unamortized balance is the UAL less the adjustments to the UAL. It is the portion of the UAL yet to be amortized in accordance with CAS 412-50(a)(1) and CAS 413-50(a)(2).

The market value of assets represents the current value of assets as of January 1, 2017, plus the current value of any accrued contributions used to fund pension costs assigned to periods prior to January 1, 2017.
March 9, 2021

Patrick J. Cogley
Regional Inspector General for Audit Services
Office of Audit Services, Region VII
601 East 12th Street, Room 0429
Kansas City, MO 64106

Report Number: A-07-20-00598

Dear Mr. Cogley:


We do not object to the findings and recommendations in the above referenced report and do not believe that any findings contained therein had a material impact on Incurred Cost Proposal submissions.

We appreciate the opportunity to comment on the recommendations. Please let me know if you have any questions or need additional information regarding our response.

Sincerely,

/Kenneth Lewis/
Kenneth Lewis
Vice President and CFO

Cc: Lori Hair, BCBSSC
    Bruce Hughes, Celerian Group
    Joe Johnson, Palmetto GBA