

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**CAHABA GOVERNMENT BENEFITS
ADMINISTRATORS, LLC,
OVERSTATED ITS MEDICARE
SEGMENT PENSION ASSETS AS OF
JANUARY 1, 2017**

*Inquiries about this report may be addressed to the Office of Public Affairs at
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Gloria L. Jarmon
Deputy Inspector General
for Audit Services

November 2019
A-07-19-00570

Office of Inspector General

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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.

Report in Brief

Date: November 2019

Report No. A-07-19-00570

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 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 objectives were to determine whether Cahaba Government Benefits Administrators, LLC (Cahaba GBA), complied with Federal requirements when (1) implementing the prior audit recommendation to decrease the Medicare segment pension assets as of January 1, 2014, and (2) updating the Medicare segment pension assets from January 1, 2014, to January 1, 2017.

How OIG Did This Audit

We reviewed Cahaba GBA's implementation of the prior audit recommendation, its identification of its Medicare segment, and its update of the Medicare segment pension assets from January 1, 2014, to January 1, 2017.

Cahaba Government Benefits Administrators, LLC, Overstated Its Medicare Segment Pension Assets as of January 1, 2017

What OIG Found

Cahaba GBA implemented our prior audit recommendation to decrease the Medicare segment pension assets by \$622,074 as of January 1, 2014. Regarding our second objective, Cahaba GBA did not correctly update the Medicare segment pension assets from January 1, 2014, to January 1, 2017, in accordance with Federal requirements. Cahaba GBA identified \$14.774 million as the Medicare segment pension assets as of January 1, 2017; however, we determined that those assets were \$14.771 million as of that date. Therefore, Cahaba GBA overstated the Medicare segment pension assets as of January 1, 2017, by \$2,724. Cahaba GBA overstated those pension assets because it did not have policies and procedures to ensure that it calculated those assets in accordance with Federal requirements when updating the Medicare segment's pension assets from January 1, 2014, to January 1, 2017.

What OIG Recommends and Auditee Comments

We recommend that Cahaba GBA decrease the Medicare segment pension assets by \$2,724 and recognize \$14.771 million as the Medicare segment pension assets as of January 1, 2017.

Healthcare Business Solutions, LLC (HBS), of which Cahaba GBA is a subsidiary, agreed with our recommendation to decrease the Medicare segment pension assets as of January 1, 2014, by \$2,724 and recognize \$14.771 million as the Medicare segment's pension assets. In addition, HBS stated that it would strengthen controls to ensure that the Medicare segment's assets are updated in accordance with the Medicare contracts.

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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 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 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 administrative contractors (MACs) and other CAS-covered and Federal Acquisition Regulation (FAR)-covered contracts through Incurred Cost Proposals.

For this audit, we focused on one entity, Cahaba Government Benefits Administrators, LLC (Cahaba GBA). In particular, we examined the Other segment and Medicare segment pension assets that Cahaba GBA updated from January 1, 2014, to January 1, 2017.

OBJECTIVES

Our objectives were to determine whether Cahaba GBA complied with Federal requirements when (1) implementing the prior audit recommendation to decrease the Medicare segment pension assets as of January 1, 2014, and (2) updating the Medicare segment pension assets from January 1, 2014, to January 1, 2017.

BACKGROUND

Cahaba Government Benefits Administrators, LLC

During our audit period, Cahaba GBA was a subsidiary of Blue Cross and Blue Shield of Alabama (BCBS Alabama), whose home office is in Birmingham, Alabama. Cahaba GBA administered the Medicare Parts A and B Jurisdiction 10¹ MAC contract under cost reimbursement contracts with CMS. The Jurisdiction 10 MAC contract ended² on January 11, 2014. Cahaba GBA continued to perform Medicare work after being awarded the MAC contract for Medicare Parts A and B Jurisdiction J (formerly Jurisdiction 10) effective September 17, 2014.

¹ Medicare Parts A and B Jurisdiction 10 consists of the States of Alabama, Georgia, and Tennessee.

² The original Jurisdiction 10 MAC contract ended on January 11, 2014, but Cahaba GBA completed a Jurisdiction 10 Bridge Contract through June 30, 2015.

BCBS Alabama has two Medicare segments that participate in its qualified defined-benefit pension plan: (1) Cahaba GBA and (2) Cahaba Safeguard Administrators, LLC (Cahaba CSA). On January 1, 2013, BCBS Alabama created the Healthcare Business Solutions, LLC (HBS), intermediate home office segment (HBS segment) by transferring assets into it from the Cahaba GBA and Cahaba CSA segments.³ This report addresses Cahaba GBA's compliance with Federal requirements in identifying its Medicare segment pension assets. Although we are addressing this report to HBS, we will associate the term Cahaba GBA with our discussions of the results of this audit. We are addressing Cahaba CSA's compliance with Federal requirements in a separate audit.

Prior Pension Segmentation Audit

We performed a prior pension segmentation audit for Cahaba GBA (A-07-17-00522, Apr. 25, 2018), which brought the Medicare segment pension assets to January 1, 2014. We recommended that Cahaba GBA decrease the Medicare segment pension assets by \$622,074 and, as a result, recognize \$25,526,227 as the Medicare segment pension assets as of January 1, 2014.

HOW WE CONDUCTED THIS AUDIT

We reviewed Cahaba GBA's implementation of the prior audit recommendation, its identification of its Medicare segment, and its update of the Medicare segment pension assets from January 1, 2014, 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 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

Cahaba GBA implemented our prior audit recommendation to decrease the Medicare segment pension assets by \$622,074 as of January 1, 2014. Regarding our second objective, Cahaba GBA did not correctly update the Medicare segment pension assets from January 1, 2014, to January 1, 2017, in accordance with Federal requirements. Cahaba GBA identified \$14,773,944 as the Medicare segment pension assets as of January 1, 2017; however, we determined that

³ Although BCBS Alabama created the HBS segment, we determined that this segment was not a Medicare segment. However, we include the asset variances related to the HBS segment assets as part of Appendix B. Because HBS is not a Medicare segment, we do not opine on the variances noted in the HBS segment pension assets.

those assets were \$14,771,220 as of that date. Therefore, Cahaba GBA overstated the Medicare segment pension assets as of January 1, 2017, by \$2,724. Cahaba GBA overstated those pension assets because it did not have policies and procedures to ensure that it calculated those assets in accordance with Federal requirements when updating the Medicare segment’s pension assets from January 1, 2014, to January 1, 2017.

Appendix B identifies the details of Cahaba GBA’s Medicare segment pension assets from January 1, 2014, to January 1, 2017, as determined during our audit. Table 1 below summarizes the audit adjustments required to update Cahaba GBA’s Medicare segment pension assets in accordance with Federal requirements.

Table 1: Summary of Audit Adjustments

	Per Audit	Per Cahaba GBA	Difference
Prior Audit Recommendation	\$25,526,227	\$25,526,227	\$0
Update of Medicare Segment Assets			
Net Transfers	(6,222,265)	(6,218,852)	(3,413)
Contributions and Prepayment Credits	10,426,894	10,426,021	873
Earnings, Net of Expenses	2,857,223	2,857,407	(184)
Overstatement of Medicare Segment Assets			(\$2,724)

PRIOR AUDIT RECOMMENDATION

Cahaba GBA implemented our prior audit recommendation (A-07-17-00522, Apr. 25, 2018) that Cahaba GBA decrease its Medicare segment pension assets by \$622,074 and recognize \$25,526,227 as the Medicare segment pension assets as of January 1, 2014.

UPDATE OF MEDICARE SEGMENT PENSION ASSETS

The CAS requires that the Medicare segment asset base be adjusted by contributions, income, benefit payments, and expenses. For details on the Federal requirements, see Appendix C.

Cahaba GBA did not correctly update the Medicare segment pension assets from January 1, 2014, to January 1, 2017, in accordance with Federal requirements. Cahaba GBA identified \$14,773,944 as the Medicare segment pension assets as of January 1, 2017; however, we determined that those assets were \$14,771,220 as of that date. Therefore, Cahaba GBA overstated the Medicare segment pension assets as of January 1, 2017, by \$2,724. The following are our findings regarding the update of the Medicare segment pension assets from

January 1, 2014, to January 1, 2017. Appendix D identifies Cahaba GBA’s CAS balance equation as of January 1, 2017.⁴

Net Transfers Out Understated

Cahaba GBA understated net transfers out of its Medicare segment by \$3,413. The understatement occurred because Cahaba GBA incorrectly identified the participants who transferred in or out of its Medicare segment. This understatement of the net transfer adjustment resulted in an overstatement of the Medicare segment pension assets by \$3,413. Table 2 below shows the differences between the net transfers proposed by Cahaba GBA and the net transfers that we calculated during our audit.

Table 2: Net Transfers Out

Calendar Year (CY)	Per Audit	Per Cahaba GBA	Difference
2014	(\$3,056,139)	(\$3,052,726)	(\$3,413)
2015	(1,301,922)	(1,301,922)	0
2016	(1,864,204)	(1,864,204)	0
Total	(\$6,222,265)	(\$6,218,852)	(\$3,413)

Contributions and Transferred Prepayment Credits Understated

The audited contributions and transferred prepayment credits⁵ are based on the assignable pension costs.⁶ In compliance with the CAS, we applied prepayment credits first to current-year assignable pension costs (because the credits were available at the beginning of the year) and then updated any remaining credits with interest to the next measurement (valuation) date. We then allocated contributions to assigned pension costs, as needed, as of the date of deposit. For additional details on these Federal requirements, see Appendix C.

Cahaba GBA understated contributions and transferred prepayment credits by \$873 for its Medicare segment. The understatement occurred primarily because of differences in the asset base used to compute the assignable pension costs. Table 3 on the following page shows the differences between the contributions and prepayment credits proposed by Cahaba GBA and the contributions and prepayment credits that we calculated during our audit.

⁴ The CAS balance equation identifies the market value of assets, actuarial accrued liability, actuarial value of assets, accumulated value of prepayment credits, and the unfunded actuarial liability in accordance with CAS 412-40(c).

⁵ 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.

⁶ These are assigned to a specific cost accounting period.

Table 3: Contributions and Transferred Prepayment Credits

CY	Per Audit	Per Cahaba GBA	Difference
2014	\$4,420,339	\$4,420,339	\$0
2015	3,277,133	3,276,693	440
2016	2,729,422	2,728,989	433
Total	\$10,426,894	\$10,426,021	\$873

Earnings, Net of Expenses, Overstated

Cahaba GBA overstated investment earnings, less administrative expenses, by \$184 for its Medicare segment, because it used incorrect net transfers and incorrect contributions and transferred prepayment credits (discussed above) to develop the Medicare segment pension asset base. In our audited update, we allocated earnings, net of expenses, based on the applicable CAS requirements. For details on applicable Federal requirements, see Appendix C.

RECOMMENDATION

We recommend that Cahaba GBA decrease the Medicare segment pension assets by \$2,724 and recognize \$14,771,220 as the Medicare segment pension assets as of January 1, 2017.

AUDITEE COMMENTS

In written comments on our draft report, HBS agreed with our recommendation to decrease the Medicare segment pension assets as of January 1, 2014, by \$2,724 and recognize \$14,771,220 as the Medicare segment's pension assets. In addition, HBS stated that it would strengthen controls to ensure that the Medicare segment's assets are updated in accordance with the Medicare contracts.

HBS's comments appear in their entirety as Appendix E.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed Cahaba GBA's implementation of the prior audit recommendation, its identification of its Medicare segment, and its update of the Medicare segment pension assets from January 1, 2014, to January 1, 2017.

Achieving our objective did not require that we review Cahaba GBA's overall internal control structures. We reviewed controls relating to the identification of the Medicare segment and to the update of the Medicare segment pension assets to ensure adherence to CAS 412 and CAS 413.

We performed fieldwork at our office located in Jefferson City, Missouri.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR and the CAS applicable to this audit;
- reviewed the annual actuarial valuation reports prepared by BCBS Alabama's actuarial consulting firms, which included the pension plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses, and used this information to calculate the Medicare segment assets;
- obtained and reviewed the pension plan documents and Department of Labor/Internal Revenue Service Forms 5500 used in calculating the Medicare segment assets;
- interviewed BCBS Alabama and Cahaba GBA staff responsible for identifying the Medicare segment to determine whether the segment was properly identified;
- reviewed Cahaba GBA's accounting records to verify the Medicare segment's identification as well as the benefit payments made from the Medicare segment;
- reviewed the prior segmentation audit performed at Cahaba GBA (A-07-17-00522) to determine the beginning market value of assets for the Medicare segment;
- provided the CMS Office of the Actuary, which provides technical actuarial advice, with the actuarial information necessary for it to calculate the Medicare segment pension assets from January 1, 2014, to January 1, 2017;
- reviewed the CMS actuaries' methodology and calculations; and

- provided the results of our audit to Cahaba GBA officials on August 1, 2019.

We performed this audit in conjunction with the following audit and used the information obtained during it: *Cahaba Safeguard Administrators, LLC, Properly Updated the Medicare Segment Pension Assets as of January 1, 2017* (A-07-19-00571).

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

**APPENDIX B: CAHABA GOVERNMENT BENEFITS ADMINISTRATORS, LLC,
STATEMENT OF MEDICARE SEGMENT PENSION ASSETS
FOR THE PERIOD JANUARY 1, 2014, TO JANUARY 1, 2017**

Description		Total Company	Other Segments	HBS Segment	Cahaba GBA Medicare Segment	Cahaba CSA Medicare Segment
Assets January 1, 2014	1/	\$546,329,888	\$509,871,247	\$3,278,845	\$25,526,227	\$7,653,569
Prepayment Credits	2/	0	(5,703,624)	432,233	4,420,339	851,052
Contributions	3/	83,500,000	83,500,000	0	0	0
Other Transaction		0	0	0	0	0
Earnings	4/	31,587,741	29,225,758	191,786	1,679,079	491,118
Benefit Payments	5/	(21,754,666)	(19,234,417)	(779,898)	(1,740,351)	0
Administrative Expenses	6/	(2,062,425)	(1,908,207)	(12,522)	(109,630)	(32,066)
Transfers	7/	0	1,573,126	1,625,909	(3,056,139)	(142,896)
Assets January 1, 2015		\$637,600,538	\$597,323,883	\$4,736,353	\$26,719,525	\$8,820,777
Prepayment Credits		0	(4,351,102)	470,197	3,277,133	603,772
Contributions		23,000,000	23,000,000	0	0	0
Other Transaction		0	0	0	0	0
Earnings		3,520,757	3,299,238	30,673	142,561	48,285
Benefit Payments		(80,210,723)	(66,157,716)	0	(11,596,086)	(2,456,921)
Administrative Expenses		(1,676,246)	(1,570,779)	(14,604)	(67,874)	(22,989)
Transfers		0	2,448,942	1,917,435	(1,301,922)	(3,064,455)
Assets January 1, 2016		\$582,234,326	\$553,992,466	\$7,140,054	\$17,173,337	\$3,928,469
Prepayment Credits		0	(3,679,132)	496,347	2,729,422	453,363
Contributions		42,000,000	42,000,000	0	0	0
Other Transactions		0	0	0	0	0
Earnings		40,591,043	38,472,432	545,085	1,260,751	312,775
Benefit Payments		(29,210,557)	(24,730,135)	0	(4,480,422)	0
Administrative Expenses		(1,534,581)	(1,454,485)	(20,607)	(47,664)	(11,825)
Transfers		0	1,694,589	(119,719)	(1,864,204)	289,334
Assets January 1, 2017		\$634,080,231	\$606,295,735	\$8,041,160	\$14,771,220	\$4,972,116
Per Cahaba GBA	8/	\$634,080,231	\$606,293,011	\$8,041,160	\$14,773,944	\$4,972,116
Asset Variance	9/	\$0	\$2,724	\$0	(\$2,724)	\$0

ENDNOTES

- 1/ We determined the Medicare segment pension assets as of January 1, 2014, based on our prior segmentation audit of Cahaba GBA (A-07-17-00522; Apr. 25, 2018). The amounts shown for the Other segment represent the difference between the Total Company, HBS segment, and the Medicare segments. All pension assets are shown at market value.
- 2/ Transferred prepayment credits represent funds available to satisfy future funding requirements and are applied to future funding requirements before current-year contributions in order to avoid incurring unallowable interest. Prepayment credits are transferred to the Medicare segment as needed to cover funding requirements.
- 3/ We obtained Total Company contribution amounts from the actuarial valuation reports and Department of Labor/Internal Revenue Service Forms 5500. We allocated Total Company contributions to the Medicare segment based on the ratio of the Medicare segment funding target divided by the Total Company funding target. Contributions in excess of the funding targets were treated as prepayment credits and accounted for in the Other segment until needed to fund pension costs in the future.
- 4/ We obtained net investment earnings from the actuarial valuation reports. We allocated net investment earnings based on the ratio of each segment's weighted average value (WAV) of assets to Total Company WAV of assets as required by the CAS.
- 5/ We based the Medicare segment's benefit payments on actual payments to Medicare retirees. We obtained the benefit payments from documents provided by Cahaba GBA.
- 6/ In accordance with the CAS, we allocated administrative expenses to each Medicare segment in proportion to investment earnings.
- 7/ We identified participant transfers between segments by comparing valuation data files provided by Cahaba GBA. Asset transfers were equal to the actuarial liability determined under the accrued benefit cost method in accordance with the CAS.
- 8/ We obtained segment asset amounts from documents prepared by Cahaba GBA's actuarial consulting firm.
- 9/ The asset variance represents the difference between our calculation and Cahaba GBA's calculation of the Cahaba GBA Medicare segment, Cahaba CSA Medicare segment, and HBS segment pension assets. We discuss Cahaba CSA's Medicare segment asset variance in a separate audit (A-07-19-00571). The HBS segment is not a Medicare segment; therefore, we do not opine on the variances noted in that segment's pension assets.

APPENDIX C: FEDERAL REQUIREMENTS RELATED TO PENSION SEGMENTATION

FEDERAL REGULATIONS

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 412.64-1(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.⁷ 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.

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.

⁷ 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.”

**APPENDIX D: CAHABA GOVERNMENT BENEFITS ADMINISTRATORS, LLC,
COST ACCOUNTING STANDARDS BALANCE EQUATION
AS OF JANUARY 1, 2017**

Description		Total Company	All Other Segments	Cahaba GBA Segment	HBS Segment	Cahaba CSA Segment
Actuarial Accrued Liability	<u>1/</u>	\$ 469,133,911	\$ 433,003,617	\$ 21,306,703	\$ 9,356,311	\$ 5,467,280
Less: Actuarial Value of Assets	<u>2/</u>	(655,245,226)	(626,533,310)	(15,264,269)	(8,309,566)	(5,138,081)
Unfunded Actuarial Liability	<u>3/</u>	\$ (186,111,315)	\$ (193,529,693)	\$ 6,042,434	\$ 1,046,745	\$ 329,199
9904.412-50(a)(2) Unallowable	<u>4/</u>	\$ 12,019,488	10,001,336	\$ 1,797,629	\$ 138,809	\$ 81,714
Prepayment Credit	<u>5/</u>	(275,147,862)	(275,147,862)	-	-	-
Adjustments to UAL	<u>6/</u>	\$ (263,128,374)	\$ (265,146,526)	\$ 1,797,629	\$ 138,809	\$ 81,714
Net Unamortized Balance	<u>7/</u>	\$ 77,017,059	\$ 71,616,833	\$ 4,244,805	\$ 907,936	\$ 247,485
Market Value of Assets	<u>8/</u>	\$ 634,080,231	\$ 606,295,735	\$ 14,771,220	\$ 8,041,160	\$ 4,972,116

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, Cahaba actuarial valuation report. The AAL for the Other segment, Medicare segments, and HBS segment was determined as a result of our audit.
- 2/ The actuarial value of assets (AVA) is the value of cash, investments, and other property belonging to a pension plan, as used by the actuary for the purpose of an actuarial valuation. The AVA shown here was computed by the CMS Office of the Actuary based on audited values as of January 1, 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 unallowable and prepayment balances as of January 1, 2017.
- 7/ 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).
- 8/ 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.

APPENDIX E: AUDITEE COMMENTS

Scott McGlaun
Interim President
Healthcare Business Services, LLC



October 28, 2019

Department of Health and Human Services
Office of Inspector General
Office of Audit Services, Region VII
Attention: Patrick J. Cogley, Regional Inspector General for Audit Services
601 East 12th Street, Room 0429
Kansas City, Missouri 64106

RE: Report Number A-07-19-00570 Cahaba Government Benefit Administrators, LLC, Overstated Its Medicare Segment Pension Assets as of January 1, 2017.

Dear Mr. Cogley,

This letter is in response to the draft report issued to Cahaba Government Benefit Administrators, LLC (Cahaba) for the above mentioned audit. We agree with the recommendation to decrease the Medicare segment pension assets as of January 1, 2014, by \$2,724 and recognize \$14.771 million as the Medicare segment's pension assets. In addition, Cahaba will strengthen controls to ensure that the Medicare segment's assets are updated in accordance with the Medicare contracts.

If you should have questions regarding this letter, please feel free to contact Bobby Frye, Senior Accountant, at (205)-220-1433 or via e-mail at robert.frye@bcbsal.org.

Sincerely,

/Scott McGlaun/
Scott McGlaun
Interim President
Healthcare Business Services, LLC

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