

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**CAHABA SAFEGUARD
ADMINISTRATORS, LLC, PROPERLY
UPDATED THE 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.*



Gloria L. Jarmon
Deputy Inspector General
for Audit Services

November 2019
A-07-19-00571

Office of Inspector General

<https://oig.hhs.gov/>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <https://oig.hhs.gov>

Section 8M of the Inspector General Act, 5 U.S.C. App., requires that
OIG post its publicly available reports on the OIG website.

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-07-19-00571

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 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 Safeguard Administrators, LLC (Cahaba CSA), complied with Federal requirements when (1) implementing the prior audit recommendation to increase 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 CSA'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 Safeguard Administrators, LLC, Properly Updated the Medicare Segment Pension Assets as of January 1, 2017

What OIG Found

Cahaba CSA implemented the prior audit recommendation to recognize \$7.654 million as the Medicare segment pension assets as of January 1, 2014. In addition, Cahaba CSA properly updated the Medicare segment pension assets from January 1, 2014, to January 1, 2017. Therefore, the \$4.972 million in Medicare segment pension assets that Cahaba CSA identified as of January 1, 2017, were reasonable and correct.

What OIG Recommends and Auditee Comments

Because the \$4.972 million in Medicare segment pension assets that Cahaba CSA identified were reasonable and correct, this report contains no recommendations.

Cahaba CSA acknowledged that there were no recommendations in the report and concurred with it.

TABLE OF CONTENTS

INTRODUCTION..... 1

 Why We Did This Audit..... 1

 Objectives..... 1

 Background 1

 Cahaba Safeguard Administrators, LLC..... 1

 Prior Pension Segmentation Audit..... 2

 How We Conducted This Audit..... 2

RESULTS OF AUDIT 3

AUDITEE COMMENTS 3

APPENDICES

 A: Audit Scope and Methodology 4

 B: Cahaba Safeguard Administrators, LLC,
 Statement of Medicare Segment Pension Assets
 for the Period January 1, 2014, to January 1, 2017 6

 C: Cahaba Safeguard Administrators, LLC,
 Cost Accounting Standards Balance Equation as of January 1, 2017 7

 D: Auditee Comments 8

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 Safeguard Administrators, LLC (Cahaba CSA). In particular, we examined the Medicare segment pension assets that Cahaba CSA updated from January 1, 2014, to January 1, 2017.

OBJECTIVES

Our objectives were to determine whether Cahaba CSA complied with Federal requirements when (1) implementing the prior audit recommendation to increase 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 Safeguard Administrators, LLC

During our audit period, Cahaba CSA was a subsidiary of Blue Cross and Blue Shield of Alabama (BCBS Alabama), whose home office is in Birmingham, Alabama. The Cahaba CSA Medicare segment administered program safeguard functions under a contract with CMS. With the implementation of the Health Insurance Portability and Accountability Act of 1996 and the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), CMS established the Medicare Integrity Program zones.¹ CMS created seven program integrity zones based on the newly-established MAC jurisdictions. CMS awarded Zone Program Integrity

¹ The Health Insurance Portability and Accountability Act of 1996, P.L. No. 104-191 (Aug. 21, 1996), and the MMA, P.L. No. 108-173 (Dec. 8, 2003). Section 911 of the MMA required CMS to transfer the functions of fiscal intermediaries and carriers to MACs between October 2005 and October 2011.

Contactors (ZPIC)² contracts for Zone 3³ and Zone 6⁴ to Cahaba CSA effective April 8, 2011, and September 30, 2011, respectively.

BCBS Alabama has two Medicare segments that participate in its qualified defined-benefit pension plan: (1) Cahaba Government Benefits Administrators, LLC (Cahaba GBA), and (2) Cahaba CSA. 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.⁵ This report addresses the Medicare segment pension assets for the Cahaba CSA pension plan for the period January 1, 2014, to January 1, 2017. Although we are addressing this report to HBS, we will associate the term Cahaba CSA with our discussions of the results of this audit. We are addressing Cahaba GBA's compliance with Federal requirements in separate audits.

Cahaba CSA identified \$4,972,116 as the Medicare segment pension assets as of January 1, 2017.

Prior Pension Segmentation Audit

We performed a prior pension segmentation audit at Cahaba CSA (A-07-17-00523, Apr. 25, 2018), which brought the Medicare segment pension assets to January 1, 2014. We recommended that Cahaba CSA increase its Medicare segment pension assets by \$290,831 and, as a result, recognize \$7,653,570 as the Medicare segment pension assets as of January 1, 2014.

HOW WE CONDUCTED THIS AUDIT

We reviewed Cahaba CSA'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

² CMS created ZPICs to perform, in each designated zone, program integrity functions for Medicare Part A; Part B; Durable Medical Equipment Prosthetics, Orthotics, and Supplies; Home Health and Hospice; and Medicare-Medicaid data matching.

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

⁴ ZPIC Zone 6 includes the States of Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont, as well as the District of Columbia.

⁵ 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.

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.

RESULTS OF AUDIT

Cahaba CSA implemented the prior audit recommendation to recognize \$7,653,570 as the Medicare segment pension assets as of January 1, 2014. In addition, Cahaba CSA properly updated the Medicare segment pension assets from January 1, 2014, to January 1, 2017. Therefore, the \$4,972,116 in Medicare segment pension assets that Cahaba CSA identified as of January 1, 2017, were reasonable and correct. Accordingly, this report contains no recommendations.

AUDITEE COMMENTS

In written comments on our draft report, Cahaba CSA acknowledged that there were no recommendations in the report and concurred with it. Cahaba CSA's comments appear in their entirety as Appendix D.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed Cahaba CSA'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 CSA'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 audit work 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 CSA staff responsible for identifying the Medicare segment to determine whether the segment was properly identified;
- reviewed Cahaba CSA'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 CSA (A-07-17-00523) to determine the beginning market value of assets for the Medicare segment;
- provided the CMS Office of the Actuary, which provides technical actuarial advice, 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 CSA officials on August 1, 2019.

We performed this audit in conjunction with the following audit and used the information obtained during it: *Cahaba Government Benefits Administrators, LLC, Overstated Its Medicare Segment Pension Assets as of January 1, 2017* (A-07-19-00570).

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 SAFEGUARD 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	<u>1/</u>	\$546,329,888	\$509,871,247	\$3,278,845	\$25,526,227	\$7,653,569
Prepayment Credits	<u>2/</u>	0	(5,703,624)	432,233	4,420,339	851,052
Contributions	<u>3/</u>	83,500,000	83,500,000	0	0	0
Other Transaction		0	0	0	0	0
Earnings	<u>4/</u>	31,587,741	29,225,758	191,786	1,679,079	491,118
Benefit Payments	<u>5/</u>	(21,754,666)	(19,234,417)	(779,898)	(1,740,351)	0
Administrative Expenses	<u>6/</u>	(2,062,425)	(1,908,207)	(12,522)	(109,630)	(32,066)
Transfers	<u>7/</u>	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 CSA	<u>8/</u>	\$634,080,231	\$606,293,011	\$8,041,160	\$14,773,944	\$4,972,116
Asset Variance	<u>9/</u>	\$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 CSA (A-07-17-00523; 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 CSA.
- 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 CSA. 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 CSA's actuarial consulting firm.
- 9/ The asset variance represents the difference between our calculation and Cahaba CSA's calculation of the Cahaba GBA Medicare segment, Cahaba CSA Medicare segment, and HBS segment pension assets. We discuss Cahaba GBA's Medicare segment asset variance in a separate audit (A-07-19-00570). 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: CAHABA SAFEGUARD 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	1/ \$ 469,133,911	\$ 433,003,617	\$ 21,306,703	\$ 9,356,311	\$ 5,467,280
Less: Actuarial Value of Assets	2/ (655,245,226)	\$ (626,533,310)	(15,264,269)	(8,309,566)	(5,138,081)
Unfunded Actuarial Liability	3/ \$ (186,111,315)	\$ (193,529,693)	\$ 6,042,434	\$ 1,046,745	\$ 329,199
9904.412-50(a)(2) Unallowable	4/ \$ 12,019,488	10,001,336	\$ 1,797,629	\$ 138,809	\$ 81,714
Prepayment Credit	5/ (275,147,862)	(275,147,862)	-	-	-
Adjustments to UAL	6/ \$ (263,128,374)	\$ (265,146,526)	\$ 1,797,629	\$ 138,809	\$ 81,714
Net Unamortized Balance	7/ \$ 77,017,059	\$ 71,616,833	\$ 4,244,805	\$ 907,936	\$ 247,485
Market Value of Assets	8/ \$ 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.

Jon Michael Ogletree
Chief Financial Officer
Cahaba Safeguard Administrators, LLC



csaSM

October 25, 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-07-19-00571 Cahaba Safeguard Administrators, LLC, Properly Updated the Medicare Segment Pension Assets as of January 1, 2017

Dear Mr. Cogley,

This letter is in response to the draft report issued to Cahaba Safeguard Administrators, LLC (Cahaba CSA) for the above mentioned audit. CSA acknowledges that there were no recommendations in the report and concurs.

If you should have questions regarding this letter, please contact Jon Michael Ogletree, Chief Financial Officer, at (205)-820-6012 or via e-mail at jogletree@csallc.com.

Sincerely,

/Jon Michael Ogletree/
Jon Michael Ogletree
Chief Financial Officer
Cahaba Safeguard Administrators, LLC

CC: Randy Heal, President, Cahaba Safeguard Administrators, LLC
Jon Michael Ogletree, Chief Financial Officer, Cahaba Safeguard Administrators, LLC
Monique Houser, Compliance Officer, Cahaba Safeguard Administrators, LLC