



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

February 18, 2004

Report Number: A-07-03-03038

Mr. Charles R. Hartsell
President and Chief Operating Officer
Cahaba Government Benefit Administrators
P.O. Box 830139
Birmingham, Alabama 35283-0130

Dear Mr. Hartsell:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General draft report entitled "*Review of Medicare Contractor's Pension Segment, Cahaba Government Benefit Administrators.*" A copy of this report will be forwarded to the action official noted below for her review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

If you have any questions or comments about this report, do not hesitate to call me or Gregory Tambke, Audit Manager at (573) 893-8338, ext. 30 or through e-mail at gtambke@oig.hhs.gov. To facilitate identification, please refer to Report Number A-07-03-03038 in all correspondence relating to this report.

Sincerely,

A handwritten signature in black ink, appearing to read "James P. Aasmundstad".

James P. Aasmundstad
Regional Inspector General
for Audit Services

Enclosures – as stated

Page 2 - Mr. Hartsell

Directly Reply to HHS Action Official:

Rose Crum-Johnson
Regional Administrator
Centers for Medicare & Medicaid Services
Atlanta Federal Center
61 Forsyth Street, S.W., Suite 4T20
Atlanta, Georgia 30303-8909

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF MEDICARE
CONTRACTOR'S PENSION SEGMENT,
CAHABA GOVERNMENT BENEFIT
ADMINISTRATORS**



**FEBRUARY 2004
A-07-03-03038**

Office of Inspector General

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

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OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the awarding agency will make final determination on these matters.



EXECUTIVE SUMMARY

OBJECTIVE

The purpose of our review was to determine whether Cahaba Government Benefit Administrators (Cahaba) complied with the pension segmentation requirements of the Medicare contract from January 1, 1993 through January 1, 2002.

FINDINGS

We found that Cahaba overstated Medicare segment pension assets by \$4,727,525 as of January 1, 2002. The overstatement occurred because:

- Cahaba included a prepayment credit of \$2,872,185 in the Medicare segment. This prepayment credit should be reassigned to the “Other” segment (\$2,872,185 overstatement).
- Cahaba overstated net transfers of assets into the Medicare segment (\$2,806,555 overstatement).
- Cahaba understated net earnings allocable to the segment (\$1,220,261 understatement).
- Cahaba overstated benefit payments (\$231,456 understatement). Since benefit payments reduce segment assets, the effect was an understatement of segment assets.
- Cahaba overstated contributions allocable to the segment (\$401,674 overstatement).
- Cahaba acquired the Medicare segment of Wellmark, Inc.(Wellmark) effective June 1, 2000. Cahaba overstated Wellmark assets transferred to the Medicare segment (\$98,828 overstatement).

RECOMMENDATIONS

We recommend that Cahaba decrease the Medicare segment pension assets by \$4,727,525 as of January 1, 2002. We also recommend that Cahaba reassign the prepayment credit of \$2,872,185 to the other segment.

AUDITEE COMMENTS

Cahaba agreed with our report except for the allocation of net investment earnings for plan year 2001. Cahaba stated that the adjustment for Wellmark Medicare segment assets should not have been included in total company assets for allocation of investment earnings. Cahaba's comments are shown in their entirety as Appendix B.

OIG RESPONSE

We agree with Cahaba's comments and have adjusted our report accordingly.

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Glossary of Abbreviations and Acronyms

FAR	Federal Acquisition Regulations
CAS	Cost Accounting Standards
FPR	Federal Procurement Regulations
OIG	Office of Inspector General
OAS	Office of Audit Services
CMS	Centers for Medicare and Medicaid Services
ABCM	Accrued Benefit Cost Method
WAV	Weighted Average Value

INTRODUCTION

BACKGROUND

Medicare

Cahaba administers Medicare Part A and Part B operations under cost reimbursement contracts. In claiming costs, contractors were to follow cost reimbursement principles contained in the Federal Procurement Regulations (FPR), which were superseded by the Federal Acquisition Regulations (FAR), the Cost Accounting Standards (CAS), and the Medicare contract. Since its inception, Medicare has paid a portion of the annual contributions made by contractors to their pension plans. These payments represented allowable pension costs under the FPR and/or the FAR. In 1980, both the FPR and Medicare contracts incorporated CAS 412 and 413.

The Centers for Medicare & Medicaid Services (CMS), formerly the Health Care Financing Administration, incorporated segmentation requirements into Medicare contracts starting with Fiscal Year 1988. The contractual language specifies segmentation requirements and also provides for the separate identification of the pension assets for a Medicare segment.

The Medicare contract defines a segment, and specifies the methodology for the identification and initial allocation of pension assets to the Medicare segment. Furthermore, the contract requires that the Medicare segment assets be updated for each year after the initial allocation in accordance with CAS 413.

Our previous segmentation review (Report Number: A-07-94-00818) addressed the computation of the asset fraction, the identification of the segment's assets as of January 1, 1986, and the update of the segment's assets to January 1, 1993. In that report, we recommended that Cahaba increase Medicare pension assets from \$3,520,683 to \$4,063,823 (an increase of \$543,140) as of January 1, 1993. Cahaba neither agreed nor disagreed to the report. However, Cahaba increased its Medicare pension assets to \$4,063,823 as of January 1, 1993, as we had recommended.

Regulations

The CAS 412 regulates the determination and measurement of the components of pension costs. It also regulates the assignment of pension costs to appropriate accounting periods. The CAS 413 regulates the valuation of pension assets, allocation of pension costs to segments of an organization, adjustment of pension costs or actuarial gains and losses, and assignment of gains and losses to cost accounting periods.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

Our objectives were to determine Cahaba's compliance with pension segmentation requirements of its Medicare contract and to determine the amount of Medicare segment pension assets as of January 1, 2002.

Scope

Achieving our objectives did not require a review of Cahaba's internal control structure. We reviewed Cahaba's identification of the Medicare segment, and its update of Medicare assets from January 1, 1993 through January 1, 2002.

We performed this review in conjunction with our audits of unfunded pension costs (Report Number: A-07-04-03053) and pension costs claimed for Medicare reimbursement (Report Number: A-07-04-03048). The information obtained and reviewed during those audits was also used in performing this review.

Methodology

In performing the review, we used information provided by Cahaba's actuarial consulting firm. The information included liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We reviewed Cahaba's accounting records, pension plan documents, annual actuarial valuation reports, and the Department of Labor/Internal Revenue Service Form 5500s. Using these documents, CMS pension actuarial staff calculated Medicare segment assets as of January 1, 2002. We reviewed the methodology and calculations.

Details for the updated pension assets of the Medicare segment from January 1, 1993 through January 1, 2002 are presented in Appendix A.

We performed site work at Cahaba's corporate office in Birmingham, Alabama during March of 2003. We also performed audit work in our Office of Inspector General offices in Kansas City and Jefferson City, Missouri.

Our audit was performed in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

UPDATE OF MEDICARE SEGMENT ASSETS FROM JANUARY 1, 1993 THROUGH JANUARY 1, 2002

We updated Medicare segment pension assets from January 1, 1993 through January 1, 2002. We found that Cahaba overstated Medicare segment pension assets by \$4,727,525 as of January 1, 2002. The overstatement occurred because:

- Cahaba included a prepayment credit of \$2,872,185 in the Medicare segment. This prepayment credit should be reassigned to the “Other” segment (\$2,872,185 overstatement).
- Cahaba overstated net transfers of assets into the Medicare segment (\$2,806,555 overstatement).
- Cahaba understated net earnings allocable to the segment (\$1,220,261 understatement).
- Cahaba overstated benefit payments (\$231,456 understatement). Since benefit payments reduce segment assets, the effect was an understatement of segment assets.
- Cahaba overstated contributions allocable to the segment (\$401,674 overstatement).
- Cahaba acquired the Medicare segment of Wellmark, Inc. (Wellmark) effective June 1, 2000. Cahaba overstated Wellmark assets transferred to the Medicare segment (\$98,828 overstatement).

CRITERIA

The Medicare contracts identify a Medicare segment as:

...an organizational component of the contractor, such as a division, department, or other similar subdivision, having a significant degree of responsibility and accountability for the Medicare contract/agreement, in which:

- 1. The majority of the salary dollars is allocated to the Medicare agreement/contract; or,*
- 2. Less than a majority of the salary dollars is allocated to the Medicare agreement/contract, and these salary dollars represent 40 percent or more of the total salary dollars allocated to the Medicare agreement/contract.”*

Determining segment assets is addressed by the Medicare contract, which states: “...*the pension assets allocated to each Medicare segment shall be adjusted in accordance with CAS 413.50(c)(7).*” Specifically, CAS 413.50(c)(7) requires that the asset base be adjusted by contributions, income, benefit payments, and expenses. In addition, an adjustment should also be made for transfers (participants who enter or leave the segment) if the transfer materially affects the segment’s ratio of pension plan assets to actuarial accrued liabilities.

For contractors that have prepayment credits, these credits represent funds available to the contractors at the beginning of Plan Years. These funds should be applied first to satisfy funding requirements in order to reduce interest costs to the Government.

CONDITION AND CAUSE

Prepayment Credit

Cahaba assigned a prepayment credit of \$2,872,185 to the Medicare segment. This prepayment credit should be reassigned to the other segment. Cahaba’s methodology was to first apply current year contributions to meet CAS funding requirements, then to use accumulated prepayments to cover the shortfall. CMS’ methodology first applies existing prepayment credits towards any funding requirement, then allocates current year contributions to cover the shortfall, if any. Additionally, all current year contributions in excess of the amount needed to satisfy the CAS funding requirement are allocated to the other segment as prepayment credits. Then, transfers are made to the Medicare segment in subsequent years as needed to cover CAS funding requirements.

As of January 1, 2002, Cahaba’s total pension assets included a prepayment credit of \$12,810,458. This total prepayment credit included \$9,938,273 other segment, and \$2,872,185 allocated to the Medicare segment. CMS determined the total prepayment credit as of January 1, 2002 was \$12,675,767, and should be assigned to the other segment. The prepayment credit should be used to satisfy funding requirements of the other and Medicare segments in subsequent periods.

Transfers

Cahaba made adjustments for transfers (representing the movement of participants in and out of the segment each year) in its update of segment assets from January 1, 1993 to January 1, 2002. We determined that Cahaba overstated Medicare segment assets by \$2,806,555 that resulted from Cahaba’s (i) incorrect identification of participants that transferred in and out of the segment; (ii) omission of transfers out of the segment during 1999; and, (iii) use of an incorrect valuation methodology for Plan years beginning in 1999.

Cahaba incorrectly identified cost centers that were part of the Medicare segment during the audited period. Consequently, we adjusted the transfers based on our revisions to the Medicare segment. Cahaba had overstated net transfers into the segment by \$788,015.

As part of its January 1, 2000 asset valuation, Cahaba omitted calendar year 1999 transfers out of the Medicare segment. As a result, Cahaba overstated Medicare segment assets by \$422,763.

Throughout the audited period, Cahaba made asset transfer adjustments based on the accrued actuarial liability determined under the actuarial method for cost purposes. For years starting after March 31, 1995, the amended CAS 413 requires that asset adjustments for transfers be based on the liability determined using the accrued benefit cost method (ABCM).

From Plan years beginning in 1996, we used the ABCM to determine asset transfers. We compared the asset transfers using the ABCM, to amounts calculated using the actuarial method, for the period January 1, 1996 through December 31, 2001. We found that Cahaba overstated Medicare segment assets by \$1,595,777 that resulted from the use of the improper valuation method.

A comparison of OIG and Cahaba net asset transfers into the Medicare segment is shown in the schedule below.

Net Asset Transfers into the Medicare Segment

Year	OIG	Cahaba	Difference
1993	\$ 376,732	\$ 126,465	\$ 250,267
1994	(361,349)	(45,150)	(316,199)
1995	(472,207)	735,365	(1,207,572)
1996	(482,631)	(2,856,219)	2,373,588
1997	404,265	1,274,528	(870,263)
1998	476,205	558,835	(82,630)
1999	855,189	0	855,189
2000	358,439	3,410,594	(3,052,155)
2001	<u>662,311</u>	<u>1,419,091</u>	<u>(756,780)</u>
Totals	<u>\$1,816,954</u>	<u>\$4,623,509</u>	<u>(\$2,806,555)</u>

Net Investment Earnings and Administrative Expenses

Cahaba's net investment earnings, less administrative expenses, were understated by \$1,220,261. The understatement was due to (i) our treatment of prepayment transfers as a beginning of the year asset, and (ii) the timing of OIG and Cahaba Medicare asset differences.

As stated earlier, we first applied accumulated prepayments to meet CAS funding requirements, then we used contributions to cover any shortfall. In contrast, Cahaba first used contributions to meet CAS funding requirements, then Cahaba applied accumulated prepayments to cover any shortfall. Prepayment credits are treated as a beginning of the year asset, but contributions are considered as made evenly throughout the year.

Consequently, our methodology resulted in a higher weighted average value (WAV) of assets. Since investment income is calculated on the WAV, our methodology resulted in increased investment income credited to the Medicare segment.

For most of the audited period, we determined that Cahaba’s Medicare segment asset values were understated. For most of these years, Cahaba’s pension plan had investment income, so Cahaba understated investment income. During calendar year 2000, Cahaba overstated asset transfers into the Medicare segment by \$3,052,155. As a result, Cahaba’s January 1, 2001 Medicare segment assets were overstated. During calendar year 2001, the pension plan had investment losses, so Cahaba overstated investment losses. The net effect of the timing of asset differences resulted in Cahaba’s material understatement of net investment income.

Benefit Payments

Cahaba overstated benefit payments by \$231,456. Since benefit payments reduce segment assets, the effect was an understatement of segment assets. Cahaba overstated benefit payments because Cahaba incorrectly identified retirement benefit payments made to Medicare segment participants.

We identified the actual retirement benefits paid to Medicare segment participants through December 31, 2001 and assigned these payments to the Medicare segment. A comparison of OIG and Cahaba benefit payment amounts are shown on the following schedule:

Benefit Payments to Medicare Participants

Year	OIG	Cahaba	Difference
1993	\$ 128,007	\$313,162	(\$185,155)
1994	339,263	133,062	206,201
1995	58,295	53,580	4,715
1996	47,640	22,038	25,602
1997	3,352	214,830	(211,478)
1998	39,330	119,518	(80,188)
1999	183,500	183,500	0
2000	97,232	88,385	8,847
2001	<u>436,313</u>	<u>436,313</u>	<u>0</u>
Totals	<u>\$1,332,932</u>	<u>\$1,564,388</u>	<u>(\$231,456)</u>

Contributions

Cahaba overstated employer contributions, less prepayment transfers, into the Medicare segment by \$3,273,859. However, most of this difference resulted from Cahaba's carryover of prepayment credits totaling \$2,872,185. Since we recommended the removal of the prepayment credit balance in the Medicare segment, the net overstatement from contributions is \$401,674. This net difference resulted from differences in contributions allocable to the Medicare segment.

Wellmark Medicare Segment Assets

Cahaba acquired the Medicare segment of Wellmark, Inc. (Wellmark) effective June 1, 2000. Wellmark's Medicare segment assets, determined as of the transfer date, were segregated and subsequently transferred into the Cahaba plan. As of December 31, 2000, Cahaba increased its Medicare segment assets by \$3,772,254 to reflect the acquisition of Wellmark's Medicare operations. This amount was based on a preliminary estimate of the December 31, 2000 assets attributable to the Wellmark Medicare segment. The transfer amount was later revised and the amount actually transferred into the Cahaba plan during 2001 was \$3,673,426. However, there was no adjustment to Medicare segment assets to reflect the revised transfer. Therefore, Cahaba overstated Medicare segment assets by \$98,828 ($\$3,772,254 - \$3,673,426$).

EFFECT

As of January 1, 2002, Cahaba overstated Medicare segment pension assets by \$4,727,525.

RECOMMENDATIONS

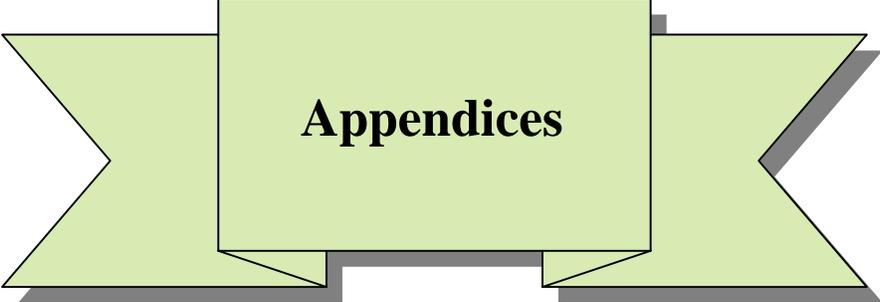
We recommend that Cahaba decrease the Medicare segment pension assets by \$4,727,525 as of January 1, 2002. We also recommend that Cahaba reassign the prepayment credit of \$2,872,185 to the other segment.

AUDITEE COMMENTS

Cahaba agreed with the draft report findings except for the allocation of net investment earnings for plan year 2001. Cahaba stated that the adjustment for Wellmark Medicare segment assets should not have been included in total company assets for allocation of investment earnings. Cahaba's comments are shown in their entirety as Appendix B.

OIG RESPONSE

We agree with Cahaba's comments and have adjusted our report accordingly.



Appendices

CAHABA

STATEMENT OF MEDICARE PENSION ASSETS

FOR THE YEARS 1993 TO 2002

Description	Total Company	Other Segment	Medicare
Assets January 1, 1993 ^{1/}	\$ 53,242,735	\$49,178,912	\$4,063,823
Prepayment Transfers	^{2/} 0	(771,800)	771,800
Contributions	^{3/} 4,310,795	3,580,747	730,048
Earnings	^{4/} 8,324,120	7,568,105	756,015
Benefits	^{5/} (2,985,553)	(2,857,546)	(128,007)
Expenses	^{6/} (261,767)	(237,993)	(23,774)
Transfers	^{7/} 0	(376,732)	376,732
Assets January 1, 1994	\$62,630,330	\$56,083,693	\$6,546,637
Prepayment Transfers	0	(50,938)	50,938
Contributions	4,708,702	4,708,702	0
Earnings	(733,425)	(656,165)	(77,260)
Benefits	(2,761,360)	(2,422,097)	(339,263)
Expenses	(287,458)	(257,177)	(30,281)
Transfers	0	361,349	(361,349)
Assets January 1, 1995	\$63,556,789	\$57,767,367	\$5,789,422
Prepayment Transfers	0	(760,070)	760,070
Contributions	5,782,247	5,782,247	0
Earnings	16,966,454	15,218,070	1,748,384
Benefits	(2,264,070)	(2,205,775)	(58,295)
Expenses	(297,089)	(266,474)	(30,615)
Transfers	0	472,207	(472,207)
Assets January 1, 1996	\$83,744,331	\$76,007,572	\$7,736,759

CAHABA

STATEMENT OF MEDICARE PENSION ASSETS
FOR THE YEARS 1993 TO 2002

Description	Total Company	Other Segment	Medicare
Assets January 1, 1996	\$ 83,744,331	\$76,007,572	\$7,736,759
Prepayment Transfers	0	(1,150,282)	1,150,282
Contributions	3,096,380	3,096,380	0
Earnings	9,346,024	8,361,776	984,248
Benefits	(3,165,399)	(3,117,759)	(47,640)
Expenses	(416,263)	(372,426)	(43,837)
Transfers	0	482,631	(482,631)
Assets January 1, 1997	\$92,605,073	\$83,307,892	\$9,297,181
Prepayment Transfers	0	(767,922)	767,922
Contributions	7,094,000	6,960,904	133,096
Earnings	17,145,790	15,295,868	1,849,922
Benefits	(2,737,356)	(2,734,004)	(3,352)
Expenses	(384,192)	(342,740)	(41,452)
Transfers	0	(404,265)	404,265
Assets January 1, 1998	\$113,723,315	\$101,315,733	\$12,407,582
Prepayment Transfers	0	(752,205)	752,205
Contributions	4,284,360	4,051,402	232,958
Earnings	16,646,852	14,696,143	1,950,709
Benefits	(4,975,356)	(4,936,026)	(39,330)
Expenses	(456,770)	(403,245)	(53,525)
Transfers	0	(476,205)	476,205
Assets January 1, 1999	\$129,222,401	\$113,495,597	\$15,726,804

CAHABA

**STATEMENT OF MEDICARE PENSION ASSETS
FOR THE YEARS 1993 TO 2002**

Description	Total Company	Other Segment	Medicare
Assets January 1, 1999	\$129,222,401	\$113,495,597	\$15,726,804
Prepayment Transfers	0	(1,067,892)	1,067,892
Contributions	3,396,170	2,328,058	1,068,112
Earnings	3,524,495	3,054,450	470,045
Benefits	(3,983,120)	(3,799,620)	(183,500)
Expenses	(623,772)	(540,583)	(83,189)
Transfers	0	(855,189)	855,189
Assets January 1, 2000	\$131,536,174	\$112,614,82	\$18,921,353
Prepayment Transfers	0	(215,232)	215,232
Contributions		8,473,815	2,449,371
Earnings	9,340,744	7,931,855	1,408,889
Other Transactions	3,772,254	0	3,772,254
Benefits	(6,643,245)	(6,546,013)	(97,232)
Expenses	(611,821)	(519,538)	(92,283)
Transfers	0	(358,439)	358,439
Assets January 1, 2001	148,317,292	\$121,381,269	\$26,936,023
Prepayment Transfers	0	(104,140)	104,140
Contributions	27,432,495	23,770,662	3,661,833
Earnings	(1,880,792)	(1,537,609)	(343,183)
Other Transactions	(98,828)	0	(98,828)
Benefits	(6,394,801)	(5,958,488)	(436,313)
Expenses	(467,899)	(382,523)	(85,376)
Transfers	0	(662,311)	662,311
Assets January 1, 2002	\$166,907,467	\$136,506,860	\$30,400,607
Per Cahaba	166,907,467	131,779,335	35,128,132
Asset Variance	\$ 0	\$4,727,525	(\$4,727,525)

CAHABA

STATEMENT OF MEDICARE PENSION ASSETS

FOR THE YEARS 1993 TO 2002

FOOTNOTES

1. We determined the Medicare segment assets as of January 1, 1993 in our prior review of Cahaba's pension segmentation (Report Number: A-07-95-00818). 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. We obtained total company contribution amounts from the actuarial valuation reports. 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. We obtained investment earnings from actuarial valuation reports. Cahaba allocated its investment earnings based on a ratio of segment assets to total company assets. We used the same methodology.
3. We based the Medicare segment's benefit payments on actual payments to Medicare retirees.
4. Cahaba provided us with a schedule of Medicare participants benefit payments. We obtained supporting documentation from Cahaba to verify payment dates and amounts.
5. We calculated the total Medicare segment administrative expenses based on a ratio of segment assets to total company assets. Cahaba used the same methodology.
6. We identified participant transfers between segments by comparing annual data files provided by Cahaba.
7. We obtained total asset amounts as of January 1, 2002 from Cahaba's actuarial valuation report.
8. The asset variance represents the difference between the OIG calculation of Medicare segment assets and Cahaba's actuarially reported Medicare segment assets.



January 29, 2004

Mr. James P. Aasmundstad
Regional Inspector General for Audit Services, Region VII
601 East 12th Street
Room 284A
Kansas City, MO 64106

RE: Report Number(s) A-07-04-03053
A-07-03-03038
A-07-04-03048

Dear Mr. Aasmundstad:

We have received and reviewed the draft reports for the following audits conducted at Cahaba Government Benefit Administrators:

- a) *Review Of Cahaba Government Benefit Administrators Unfunded Pension Costs*
- b) *Review Of Medicare Contractor's Pension Segment, Cahaba Government Benefit Administrators*
- c) *Review Of Pension Costs Claimed By Cahaba Government Benefit Administrators*

We appreciate the opportunity to respond to the draft reports and have provided our written comments in the attached report.

If you should have any questions regarding our responses, please contact Chris Smith, at 205-220-5789.

Sincerely,

Mrs. Lynda Northcutt
Senior Vice President
Cahaba Government Benefit Administrators

cc: **Greg Tambke, HHS, OIG OAS**
Norma Jo Bales, CMS – Atlanta Regional Office
Genise Huey, CMS – Atlanta Regional Office
Cindi Vice, Blue Cross and Blue Shield of Alabama
Ron Whitehead, Cahaba Government Benefit Administrators
David Brown, Cahaba Government Benefit Administrators

Report Number: A-07-04-03053

Review of Cahaba Government Benefit Administrators Unfunded Pension Costs

Recommendation(s):

1. Identify \$672,724 as an unallowable component of Medicare segment pension costs as of January 1, 2002.
2. Identify \$3,333,817 as an unallowable component of the "Other" segment's pension cost as of January 1, 2002.
3. Update annually the unallowable components of pension costs for the Medicare and "Other" segments.

Cahaba GBA comment:

In the "Findings" section of this report, the OIG comments "...Cahaba did not properly account for the accumulated unfunded pension costs that were identified in our prior review. Cahaba should have brought the accumulated unfunded pension costs forward, with interest, to January 1, 1996." However, we did properly account for the accumulated unfunded pension costs in the 1996 report (please see Exhibit II – Section 412.50(a)(2) Base). This issue was discussed with the CMS actuary, who was in agreement that these costs were properly brought forward. Please note that the CMS actuary did not agree with the dollar amount of the bases established in the 1996 report and did modify our calculations slightly. In our opinion, the final report should reflect the agreed upon modifications.

Cahaba has made the changes suggested by the CMS actuary.

Report Number: A-07-03-03038

Review of Medicare Contractor's Pension Segment, Cahaba Government Benefit Administrators

Recommendations(s):

1. We recommend that Cahaba decrease the Medicare segment pension assets by \$4,745,558 as of January 1, 2002. We also recommend that Cahaba reassign the prepayment credit of \$2,872,185 to the other segment.

Cahaba GBA comment:

We agree with all but one issue noted in the report. The calculation methodology used by the OIG has changed since the last audit to apply the prepayment credit before contributions are allocated. This change impacts the allocation of net earnings, expenses and contributions. The OIG auditors restated the net transfer amounts and benefit payments and also made a correction to the Wellmark asset transfer. However, in our opinion, the assets were incorrectly adjusted for the Wellmark transfer amount. Adjustments were made to both the total company asset figure and the Medicare segment asset figure. In our opinion, the adjustment should have only been made to the Medicare segment asset figure.

We recommend the adjustment made to the total company asset calculation be combined with the earnings component, and the January 1, 2002 asset calculation, as identified in Appendix A of the above noted report, should be the same as reported by Cahaba (resulting in no asset variance for the total company).

Report Number: A-07-04-03048

Review Of Pension Costs Claimed By Cahaba Government Benefit Administrators

Recommendations(s):

1. We recommend that Cahaba revise its FACPs for the FYs 1994 through 2002 to claim additional allowable CAS pension costs of \$7,085,493.

Cahaba GBA comment:

We agree with this finding that Cahaba under claimed allowable pension cost by \$7,085,493 for fiscal years 1994 through 2002. Cahaba will revise its FACPs to claim these additional costs.