



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services, Region VII
601 East 12th Street, Room 0429
Kansas City, MO 64106

April 7, 2011

Report Number: A-07-11-00361

Ms. Sherrie LeMier
President
Cahaba Government Benefit Administrators, LLC
300 Corporate Parkway
Birmingham, AL 35242

Dear Ms. LeMier:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of Pension Costs Claimed for Medicare Reimbursement by Cahaba Government Benefit Administrators, LLC, for Fiscal Years 2003 Through 2009*. We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this 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.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, or contact Jenenne Tambke, Audit Manager, at (573) 893-8338, extension 21, or through email at Jenenne.Tambke@oig.hhs.gov. Please refer to report number A-07-11-00361 in all correspondence.

Sincerely,

/Patrick J. Cogley/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Deborah Taylor
Acting Director & Chief Financial Officer
Office of Financial Management
Centers for Medicare & Medicaid Services
Mail Stop C3-01-24
7500 Security Boulevard
Baltimore, MD 21244-1850

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS CLAIMED
FOR MEDICARE REIMBURSEMENT BY
CAHABA GOVERNMENT BENEFIT
ADMINISTRATORS, LLC, FOR
FISCAL YEARS 2003 THROUGH 2009**



Daniel R. Levinson
Inspector General

April 2011
A-07-11-00361

Office of Inspector General

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

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

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.

EXECUTIVE SUMMARY

BACKGROUND

During our audit period, Cahaba Government Benefit Administrators, LLC (Cahaba), administered Medicare Part A and Part B operations for Blue Cross Blue Shield of Alabama (BCBS Alabama), the legal entity that entered into these cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS). Cahaba Safeguard Administrators, LLC, administered program safeguard functions under a contract with CMS. Cahaba and Cahaba Safeguard Administrators, LLC, are wholly owned subsidiaries of BCBS Alabama.

CMS reimburses a portion of the annual contributions that contractors make to their pension plans. In claiming costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation, Cost Accounting Standards (CAS), and Medicare contracts.

The Medicare contracts require contractors to allocate or separately calculate pension costs. Contractors must use the separate calculation method if there is a material difference between the results of the two methods.

OBJECTIVE

Our objective was to determine the allowability of pension costs that Cahaba claimed for Medicare reimbursement for fiscal years (FY) 2003 through 2009.

SUMMARY OF FINDINGS

Cahaba did not claim \$373,992 of allowable Medicare pension costs on its Final Administrative Cost Proposals (FACP) for FYs 2003 through 2009, primarily because Cahaba incorrectly allocated its CAS pension cost to Medicare operations. Cahaba claimed pension costs of \$38,359,971 for Medicare reimbursement; however, we determined that the allowable CAS pension costs were \$38,733,963.

RECOMMENDATIONS

We recommend that Cahaba:

- revise its FACP for FYs 2003 through 2009 to claim the additional allowable pension costs of \$373,992 and
- ensure that future pension costs are claimed in accordance with the Medicare contracts.

AUDITEE COMMENTS

In written comments on our draft report, Cahaba agreed with our recommendations. Cahaba's comments are included in their entirety as Appendix B.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
Cahaba Government Benefit Administrators, LLC	1
Medicare Reimbursement of Pension Costs	1
OBJECTIVE, SCOPE, AND METHODOLOGY	1
Objective	1
Scope.....	1
Methodology	2
FINDINGS AND RECOMMENDATIONS	2
FEDERAL REQUIREMENTS	2
ALLOWABLE PENSION COSTS NOT CLAIMED	3
RECOMMENDATIONS	3
AUDITEE COMMENTS	4
OTHER MATTER	4
APPENDIXES	
A: ALLOWABLE MEDICARE PENSION COSTS FOR CAHABA GOVERNMENT BENEFIT ADMINISTRATORS, LLC, FOR FISCAL YEARS 2003 THROUGH 2009	
B: AUDITEE COMMENTS	

INTRODUCTION

BACKGROUND

Cahaba Government Benefit Administrators, LLC

During our audit period, Cahaba Government Benefit Administrators, LLC (Cahaba), administered Medicare Part A and Part B operations for Blue Cross Blue Shield of Alabama (BCBS Alabama), the legal entity that entered into these cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS).¹ Cahaba Safeguard Administrators, LLC, administered program safeguard functions under a contract with CMS. Cahaba and Cahaba Safeguard Administrators, LLC, are wholly owned subsidiaries of BCBS Alabama.

Medicare Reimbursement of Pension Costs

CMS reimburses a portion of the annual contributions that contractors make to their pension plans. To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with Cost Accounting Standards (CAS) 412 and 413 and (2) funded as specified by part 31 of the Federal Acquisition Regulation (FAR).

Beginning with fiscal year (FY) 1988, CMS incorporated specific segmentation language into Medicare contracts that requires contractors to use either an allocation method or a separate calculation method to identify and claim pension costs for Medicare reimbursement. Under the allocation method, the contractor determines total plan CAS pension costs and allocates a share to Medicare. Under the separate calculation method, the contractor separately identifies the pension cost components for the Medicare segment. The contractor must use the separate calculation method if its result is materially different from that of the allocation method.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine the allowability of pension costs that Cahaba claimed for Medicare reimbursement for FYs 2003 through 2009.

Scope

We reviewed \$38,359,971 of pension costs that Cahaba claimed for Medicare reimbursement on its Final Administrative Cost Proposals (FACP) for FYs 2003 through 2009. Achieving our objective did not require that we review Cahaba's overall internal control structure. However, we reviewed the internal controls related to the pension costs claimed for Medicare reimbursement to ensure that the pension costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

¹ Cahaba administered Medicare operations under a Medicare administrative contractor's (MAC) contract with CMS. Cahaba was awarded full Medicare Part A and Part B Jurisdiction 10 MAC operations on January 7, 2009, and assumed full operations in September 2009.

We performed fieldwork at Cahaba's office in Birmingham, Alabama, during May 2010.

Methodology

We reviewed the applicable portions of the FAR, CAS, and Medicare contracts. Additionally, we reviewed Cahaba's FACPs to identify the amount of pension costs claimed for Medicare reimbursement for FYs 2003 through 2009. We also determined the extent to which Cahaba funded CAS pension costs with contributions to the pension trust fund and accumulated prepayment credits. We based our calculations on separately computed CAS pension costs for the Medicare segment and the "Other" segment. The CMS Office of the Actuary calculated the allocable CAS pension costs based on Cahaba's historical practices and on the results of our segmentation review, *Review of Medicare Contractor's Pension Segmentation Requirements at Cahaba Government Benefit Administrators, LLC, for the Period January 1, 2002, to January 1, 2009* (A-07-11-00360).

In performing our review, we used information that Cahaba's actuarial consulting firm provided. The information included assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We examined Cahaba's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Forms 5500.

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 objective.

FINDINGS AND RECOMMENDATIONS

Cahaba did not claim \$373,992 of allowable Medicare pension costs on its FACPs for FYs 2003 through 2009, primarily because Cahaba incorrectly allocated its CAS pension cost to Medicare operations. Cahaba claimed pension costs of \$38,359,971 for Medicare reimbursement; however, we determined that the allowable CAS pension costs were \$38,733,963.

FEDERAL REQUIREMENTS

The Medicare contracts address the determination and allocation of pension costs. The contracts state: "The calculation of and accounting for pension costs charged to this agreement/contract are governed by the Federal Acquisition Regulation and Cost Accounting Standards 412 and 413."

FAR 31.205-6(j) addresses allowability of pension costs and requires that plan contributions substantiate pension costs assigned to contract periods.

CAS 412 addresses the determination and measurement of pension cost components. It also addresses the assignment of pension costs to appropriate accounting periods.

CAS 413 addresses the valuation of pension assets, allocation of pension costs to segments of an organization, adjustment of pension costs for actuarial gains and losses, and assignment of gains and losses to cost accounting periods.

ALLOWABLE PENSION COSTS NOT CLAIMED

Cahaba did not claim \$373,992 of pension costs that were allowable for Medicare reimbursement for FYs 2003 through 2009. During that period, Cahaba claimed pension costs of \$38,359,971 for Medicare reimbursement. We calculated allowable pension costs based on separately computed CAS pension costs for the Medicare segment and the “Other” segment in accordance with CAS 412 and 413. Based on the terms of the Medicare contracts, the allowable CAS pension costs for this period were \$38,733,963.

The following table compares allowable CAS pension costs with the pension costs claimed on Cahaba’s FACPs. Appendix A contains details on allowable pension costs and contributions.

Comparison of Allowable Pension Costs and Claimed Pension Costs

<u>Medicare Pension Costs</u>			
Fiscal Year	Allowable Per Audit	Claimed by Cahaba	Difference
2003	\$6,035,589	\$5,917,240	\$118,349
2004	6,119,146	6,085,570	33,576
2005	6,219,128	6,061,582	157,546
2006	5,755,344	5,799,999	(44,655)
2007	4,805,994	5,031,700	(225,706)
2008	5,154,982	4,862,000	292,982
2009	4,643,780	4,601,880	41,900
Total	\$38,733,963	\$38,359,971	\$373,992

This underclaim occurred primarily because Cahaba incorrectly allocated its CAS pension cost to its Medicare operations. Cahaba computed a CAS-based pension cost; however, Cahaba used an incorrect methodology in assigning those pension costs to Medicare operations. As a result, Cahaba did not claim \$373,992 of allowable pension costs.

RECOMMENDATIONS

We recommend that Cahaba:

- revise its FACPs for FYs 2003 through 2009 to claim the additional allowable pension costs of \$373,992 and
- ensure that future pension costs are claimed in accordance with the Medicare contracts.

AUDITEE COMMENTS

In written comments on our draft report, Cahaba agreed with our recommendations. Cahaba's comments are included in their entirety as Appendix B.

OTHER MATTER

Information from this review is needed for Cahaba to develop the appropriate pension costs incurred under the Medicare Part A and Part B Jurisdiction 10 MAC contract. As shown in Appendix A, we determined that the plan year (January 1 through December 31) 2009 allocable CAS pension costs were \$6,066,226 for the Cahaba Government Benefit Administrators, LLC, Medicare segment, \$1,157,770 for the Cahaba Safeguard Administrators, LLC, Medicare segment, and \$40,853,858 for the "Other" segment.

APPENDIXES

**APPENDIX A: ALLOWABLE MEDICARE PENSION COSTS FOR
CAHABA GOVERNMENT BENEFIT ADMINISTRATORS, LLC,
FOR FISCAL YEARS 2003 THROUGH 2009**

Date	Description	Total Company	"Other" Segment	GBA Medicare Segment	CSA Medicare Segment	Total Medicare
2003	Contributions	3/ \$48,000,000	\$48,000,000	1/ \$0	2/ \$0	
8.00%	Discount for Interest	4/ (\$2,638,222)	(\$2,638,222)	\$0	\$0	
January 1, 2003	Present Value Contributions	5/ \$45,361,778	\$45,361,778	\$0	\$0	
	Prepayment Credit Applied	6/ \$21,066,649	\$15,635,640	\$5,065,629	\$365,380	
	Present Value of Funding	7/ \$66,428,427	\$60,997,418	\$5,065,629	\$365,380	
January 1, 2003	CAS Funding Target	8/ \$21,066,649	\$15,635,640	\$5,065,629	\$365,380	
	Percentage Funded	9/	100.00%	100.00%	100.00%	
	Funded Pension Cost	10/	\$15,635,640	\$5,065,629	\$365,380	
	Allowable Interest	11/	\$0	\$0	\$0	
	Allocable Pension Cost	12/	\$15,635,640	\$5,065,629	\$365,380	
	Medicare LOB* Percentage	13/	7.48%	96.06%	0.00%	
	Allowable Pension Cost	14/	\$1,169,546	\$4,866,043	\$0	\$6,035,589
2004	Contributions	\$29,432,764	\$29,432,764	\$0	\$0	
8.00%	Discount for Interest	(\$1,292,207)	(\$1,292,207)	\$0	\$0	
January 1, 2004	Present Value Contributions	\$28,140,557	\$28,140,557	\$0	\$0	
	Prepayment Credit Applied	\$23,921,105	\$18,147,753	\$5,240,693	\$532,659	
	Present Value of Funding	\$52,061,662	\$46,288,310	\$5,240,693	\$532,659	
January 1, 2004	CAS Funding Target	\$23,921,105	\$18,147,753	\$5,240,693	\$532,659	
	Percentage Funded		100.00%	100.00%	100.00%	
	Funded Pension Cost		\$18,147,753	\$5,240,693	\$532,659	
	Allowable Interest		\$0	\$0	\$0	
	Allocable Pension Cost		\$18,147,753	\$5,240,693	\$532,659	
	Medicare LOB* Percentage		5.73%	96.92%	0.00%	
	Allowable Pension Cost		\$1,039,866	\$5,079,280	\$0	\$6,119,146
2005	Contributions	\$37,500,000	\$37,500,000	\$0	\$0	
8.00%	Discount for Interest	(\$2,000,000)	(\$2,000,000)	\$0	\$0	
January 1, 2005	Present Value Contributions	\$35,500,000	\$35,500,000	\$0	\$0	
	Prepayment Credit Applied	\$25,419,152	\$19,307,444	\$5,437,943	\$673,765	
	Present Value of Funding	\$60,919,152	\$54,807,444	\$5,437,943	\$673,765	
January 1, 2005	CAS Funding Target	\$25,419,152	\$19,307,444	\$5,437,943	\$673,765	
	Percentage Funded		100.00%	100.00%	100.00%	
	Funded Pension Cost		\$19,307,444	\$5,437,943	\$673,765	
	Allowable Interest		\$0	\$0	\$0	
	Allocable Pension Cost		\$19,307,444	\$5,437,943	\$673,765	
	Medicare LOB* Percentage		4.86%	97.11%	0.00%	
	Allowable Pension Cost		\$938,342	\$5,280,786	\$0	\$6,219,128

Date	Description	Total Company	"Other" Segment	GBA Medicare Segment	CSA Medicare Segment	Total Medicare
2006	Contributions	\$44,787,098	\$44,787,098	\$0	\$0	
8.00%	Discount for Interest	(\$2,317,981)	(\$2,317,981)	\$0	\$0	
January 1, 2006	Present Value Contributions	\$42,469,117	\$42,469,117	\$0	\$0	
	Prepayment Credit Applied	\$30,051,722	\$23,885,546	\$5,494,099	\$672,077	
	Present Value of Funding	\$72,520,839	\$66,354,663	\$5,494,099	\$672,077	
January 1, 2006	CAS Funding Target	\$30,051,722	\$23,885,546	\$5,494,099	\$672,077	
	Percentage Funded		100.00%	100.00%	100.00%	
	Funded Pension Cost		\$23,885,546	\$5,494,099	\$672,077	
	Allowable Interest		\$0	\$0	\$0	
	Allocable Pension Cost		\$23,885,546	\$5,494,099	\$672,077	
	Medicare LOB* Percentage		3.18%	90.93%	0.00%	
	Allowable Pension Cost		\$759,560	\$4,995,784	\$0	\$5,755,344
2007	Contributions	\$41,134,159	\$41,134,159	\$0	\$0	
8.00%	Discount for Interest	(\$1,971,393)	(\$1,971,393)	\$0	\$0	
January 1, 2007	Present Value Contributions	\$39,162,766	\$39,162,766	\$0	\$0	
	Prepayment Credit Applied	\$31,451,394	\$25,882,764	\$4,851,778	\$716,852	
	Present Value of Funding	\$70,614,160	\$65,045,530	\$4,851,778	\$716,852	
January 1, 2007	CAS Funding Target	\$31,451,394	\$25,882,764	\$4,851,778	\$716,852	
	Percentage Funded		100.00%	100.00%	100.00%	
	Funded Pension Cost		\$25,882,764	\$4,851,778	\$716,852	
	Allowable Interest		\$0	\$0	\$0	
	Allocable Pension Cost		\$25,882,764	\$4,851,778	\$716,852	
	Medicare LOB* Percentage		2.20%	87.32%	0.00%	
	Allowable Pension Cost		\$569,421	\$4,236,573	\$0	\$4,805,994
2008	Contributions	\$35,000,000	\$35,000,000	\$0	\$0	
8.00%	Discount for Interest	(\$1,832,963)	(\$1,832,963)	\$0	\$0	
January 1, 2008	Present Value Contributions	\$33,167,037	\$33,167,037	\$0	\$0	
	Prepayment Credit Applied	\$34,318,422	\$28,538,752	\$5,018,806	\$760,864	
	Present Value of Funding	\$67,485,459	\$61,705,789	\$5,018,806	\$760,864	
January 1, 2008	CAS Funding Target	\$34,318,422	\$28,538,752	\$5,018,806	\$760,864	
	Percentage Funded		100.00%	100.00%	100.00%	
	Funded Pension Cost		\$28,538,752	\$5,018,806	\$760,864	
	Allowable Interest		\$0	\$0	\$0	
	Allocable Pension Cost		\$28,538,752	\$5,018,806	\$760,864	
	Medicare LOB* Percentage		2.03%	91.17%	0.00%	
	Allowable Pension Cost		\$579,337	\$4,575,645	\$0	\$5,154,982

Date	Description	Total Company	"Other" Segment	GBA Medicare Segment	CSA Medicare Segment	Total Medicare
2009	Contributions	\$0	\$0	\$0	\$0	
8.00%	Discount for Interest	\$0	\$0	\$0	\$0	
January 1, 2009	Present Value Contributions	\$0	\$0	\$0	\$0	
	Prepayment Credit Applied	\$48,077,854	\$40,853,858	\$6,066,226	\$1,157,770	
	Present Value of Funding	\$48,077,854	\$40,853,858	\$6,066,226	\$1,157,770	
January 1, 2009	CAS Funding Target	\$48,077,854	\$40,853,858	\$6,066,226	\$1,157,770	
	Percentage Funded		100.00%	100.00%	100.00%	
	Funded Pension Cost		\$40,853,858	\$6,066,226	\$1,157,770	
	Allowable Interest		\$0	\$0	\$0	
	Allocable Pension Cost		\$40,853,858	\$6,066,226	\$1,157,770	
	Medicare LOB* Percentage		1.05%	69.48%	0.00%	
	Allowable Pension Cost		\$428,966	\$4,214,814	\$0	\$4,643,780

* Line of business.

FOOTNOTES

1/ Government Benefit Administrators, LLC

2/ Cahaba Safeguard Administrators, LLC

3/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the plan year and accrued contributions deposited after the end of the plan year but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segments during the pension segmentation review (A-07-11-00360). The amounts shown for the "Other" segment represent the difference between the Total Company and the GBA and CSA Medicare segments.

4/ We subtracted the interest that was included in the contributions deposited after the beginning of the valuation year to discount the contributions back to their beginning-of-the-year value. For purposes of this Appendix, we computed the interest as the difference between the present value of contributions (at the valuation interest rate) and actual contribution amounts.

5/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the plan year. For purposes of this Appendix, we deemed deposits made after the end of the plan year to have been made on the final day of the plan year, consistent with the method mandated by the Employee Retirement Income Security Act.

6/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year Cost Accounting Standards (CAS) funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.

7/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at the first day of the plan year.

8/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of the Federal Acquisition Regulation (FAR) 31.205-6(j)(2)(i).

9/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the plan year. Because any funding in excess of the CAS funding target is accounted for as a prepayment in accordance with CAS 412.50(c)(1) (as amended), the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimals.

10/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.

11/ We assumed that interest on the funded CAS pension cost, less the prepayment credit, accrues in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in four equal installments deposited within 30 days after the end of the quarter.

12/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.

- 13/ We calculated allowable pension costs of the Medicare and "Other" segments based on the Medicare line of business (LOB) percentage of each segment. We determined the LOB percentages based upon information provided by GBA. Our LOB percentages are determined by segment for costs allocated to the Medicare Title 18 contracts. The CSA Medicare segment did not allocate any costs to the Medicare Title 18 contracts; therefore, its applicable LOB percentage is zero percent.
- 14/ GBA did not convert its plan year (January 1 - December 31, i.e., calendar year (CY)) pension costs to a fiscal year (FY) basis. Instead, it used the plan year/CY allocable pension cost as the FY allocable pension cost. We accepted this methodology and computed the FY allowable Medicare pension costs as the CY allocable pension cost multiplied by the FY Medicare LOB percentage. Pursuant to CAS 412 and 413, the total Medicare allowable pension costs charged to the Medicare contract consisted of the Medicare segment's direct pension costs plus "Other" segment pension costs attributable to indirect Medicare operations.

APPENDIX B: AUDITEE COMMENTS



CAHABA
GOVERNMENT
BENEFIT
ADMINISTRATORS, LLC

Sherrie D. LeMier
President and Chief Operating Officer
Cahaba Government Benefit Administrators[®], LLC

March 30, 2011

Department of Health and Human Services
Office of Inspector General
Office of Audit Services
Attention: Jenenne Tambke, Audit Manager
Region VII
601 East 12th Street, Room 0429
Kansas City, Missouri 64106

RE: Report Number: A-07-11-00361 Review of Pension Costs Claimed for Medicare Reimbursement by Cahaba Government Benefit Administrators, LLC, for Fiscal Years 2003 Through 2009.

Dear Ms. Tambke,

This report is in response to the draft report issued to Cahaba Government Benefit Administrators[®], LLC's (Cahaba GBA) for the above mentioned audit. We agree with the recommendation to revise Cahaba's FACP for the fiscal years 2003 through 2009 to claim additional allowable pension cost of \$373,992. We will also revise Cahaba's FACPs to claim these additional costs to the allowable CAS pension amount. In addition, Cahaba will ensure that future pension costs are claimed in accordance with the Medicare contracts.

If you should have any questions regarding this report, please contact Molly Echols, Manager Risk and Compliance at (205) 220-1587 or via email at Mechols@cahabagba.com.

Sincerely,

Sherrie LeMier
President
Cahaba Government Benefit Administrators[®], LLC

CC: Brandon Ward, Vice President, Cahaba GBA Operations
David Brown, Chief Strategy Officer, Cahaba GBA Administration
Lane Bell, Divisional Manager, Cahaba GBA