

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**TRAILBLAZER HEALTH ENTERPRISES,
LLC, UNDERSTATED ITS MEDICARE
SEGMENT PENSION ASSETS AND
UNDERSTATED MEDICARE'S SHARE OF
THE MEDICARE SEGMENT EXCESS
PENSION ASSETS**

*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

August 2017
A-07-17-00507

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: August 2017

Report No. A-07-17-00507

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL



Why OIG Did This Review

Medicare contractors are required to separately account for the Medicare segment pension plan assets based on the requirements of their Medicare contracts and 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.

Our objectives were to determine whether TrailBlazer Health Enterprises, LLC (TrailBlazer), complied with Federal requirements, the Medicare contracts' pension segmentation requirements, and its established cost accounting practice when (1) implementing the prior audit recommendations, (2) updating the TrailBlazer Medicare segment pension assets from January 1, 2005, to April 30, 2013, and (3) determining Medicare's share of the Medicare segment excess pension assets or liabilities as a result of the Medicare segment closing.

How OIG Did This Review

We reviewed TrailBlazer's update of the Medicare segment pension assets from January 1, 2005, to April 30, 2013. The TrailBlazer Medicare segment closed effective April 30, 2013; therefore, the auditee requested that we address our recommendations to Palmetto Government Benefits Administrator (Palmetto).

TrailBlazer Health Enterprises, LLC, Understated Its Medicare Segment Pension Assets and Understated Medicare's Share of the Medicare Segment Excess Pension Assets

What OIG Found

We were unable to verify whether our prior audit recommendation had been implemented because Palmetto did not give us an updated Medicare segment CAS rollup. Without that information, we were unable to determine whether Palmetto had implemented the recommendation. Therefore, we continue to identify the prior audit recommendation as an adjustment to the Medicare segment pension assets. For our second objective, TrailBlazer did not correctly update the Medicare segment pension assets from January 1, 2005, to April 30, 2013. TrailBlazer identified Medicare segment pension assets of \$2.2 million as of April 30, 2013; however, we determined that the Medicare segment pension assets were \$3.4 million. Therefore, TrailBlazer understated the Medicare segment pension assets by \$1.2 million.

TrailBlazer understated its Medicare segment's pension assets because it did not have policies and procedures to ensure that it calculated those assets in accordance with Federal regulations and the pension segmentation language of its Medicare contracts when updating the Medicare segment's pension assets from January 1, 2005, to April 30, 2013.

For our third objective, TrailBlazer calculated Medicare's share of the Medicare segment excess pension assets to be \$141,764 as of April 30, 2013; however, we determined that Medicare's share of the Medicare segment excess pension assets were \$1.4 million as of that date. The difference, about \$1.2 million, constituted allowable Medicare segment excess pension assets that TrailBlazer did not include in its closing adjustment.

What OIG Recommends and Auditee Comments

We recommend that Palmetto increase TrailBlazer's Medicare segment pension assets by \$1.2 million as of April 30, 2013, and increase Medicare's share of the Medicare segment excess pension assets as of April 30, 2013, by \$1.2 million and recognize \$1.4 million as Medicare's share of the Medicare segment excess pension assets due to the segment closing calculation.

Palmetto concurred with our recommendations.

TABLE OF CONTENTS

INTRODUCTION.....	1
Why We Did This Review	1
Objectives.....	1
Background	1
TrailBlazer Health Enterprises, LLC's, Medicare Contracts.....	1
Prior Pension Segmentation Audit.....	2
How We Conducted This Review	2
FINDINGS.....	3
Prior Audit Recommendation	4
Update of Medicare Segment Pension Assets.....	4
Contributions and Transferred Prepayment Credits Overstated	4
Benefit Payments Understated.....	5
Net Transfers Out Overstated.....	5
Earnings, Net of Expenses Understated	6
Medicare Segment Closing Adjustment	6
Medicare Segment Excess Pension Assets as of April 30, 2013	6
Medicare's Share of the Medicare Segment Excess Pension Assets.....	6
RECOMMENDATIONS	7
AUDITEE COMMENTS	7
OTHER MATTER.....	8
APPENDIXES	
A: Audit Scope and Methodology	9
B: TrailBlazer Health Enterprises, LLC, Statement of Medicare Segment Pension Assets for the Period January 1, 2005, to April 30, 2013	11
C: Federal Requirements Related to Pension Segmentation and Segment Closing Adjustment	13

D: Calculation of Aggregate Medicare Percentage	16
E: Auditee Comments	17

INTRODUCTION

WHY WE DID THIS REVIEW

Medicare contractors are required to separately account for the Medicare segment pension plan assets based on the requirements of their Medicare contracts and Cost Accounting Standards (CAS) 412 and 413. The Centers for Medicare & Medicaid Services (CMS) incorporated this requirement into the Medicare contracts beginning with fiscal year 1988. In addition, in situations such as contract terminations or benefit curtailments, CAS 413 requires contractors to identify excess Medicare pension assets and liabilities allocated to the Medicare segment. Previous Office of Inspector General reviews 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 fiscal intermediaries and carrier contractors, Medicare administrative contractors (MACs) and other CAS-covered and Federal Acquisition Regulation (FAR)-covered contracts through Final Administrative Cost Proposals (FACPs) and/or Incurred Cost Proposals (ICPs).

For this review, we focused on one entity, TrailBlazer Health Enterprises, LLC (TrailBlazer). In particular, we examined the Medicare segment pension assets that TrailBlazer updated from January 1, 2005, to April 30, 2013.

OBJECTIVES

Our objectives were to determine whether TrailBlazer complied with Federal requirements, the Medicare contracts' pension segmentation requirements, and its established cost accounting practice when (1) implementing the prior audit recommendations to increase Medicare segment assets as of January 1, 2005, (2) updating those Medicare segment pension assets from January 1, 2005, to April 30, 2013, and (3) determining Medicare's share of the Medicare segment excess pension assets or liabilities as a result of the Medicare segment closing.

BACKGROUND

TrailBlazer Health Enterprises, LLC's, Medicare Contracts

During our audit period, TrailBlazer, whose home office was located in Dallas, Texas, was a subsidiary of Blue Cross Blue Shield of South Carolina (BCBS South Carolina). TrailBlazer administered Medicare Part A fiscal intermediary and Medicare Part B carrier contract operations under cost reimbursement contracts with CMS. The Part A fiscal intermediary and Part B carrier contracts terminated on June 13, 2008, and March 21, 2011, respectively.

With the implementation of Medicare contracting reform,¹ TrailBlazer continued to perform Medicare work after being awarded the MAC contracts for Medicare Parts A and B Jurisdiction 4² effective August 2, 2007, until the TrailBlazer Medicare segment closed on April 30, 2013.

During our audit period, BCBS South Carolina had three Medicare segments that participated in its qualified defined-benefit pension plan: (1) Palmetto Government Benefits Administrator, LLC (Palmetto); (2) TrailBlazer; and (3) Companion Data Services, LLC (CDS). This report addresses TrailBlazer's compliance with the pension segmentation language under the provisions of its Medicare contracts. We are addressing Palmetto's and CDS's compliance with Federal regulations and the pension segmentation requirements in separate reviews. The TrailBlazer Medicare segment closed effective April 30, 2013; therefore, BCBS South Carolina requested that we address our recommendations to Palmetto (as we did in the prior audit discussed just below). Although we are addressing our report to Palmetto, we will associate the term TrailBlazer with our findings and recommendations.

Upon the closing of its Medicare segment, TrailBlazer identified Medicare's share of the Medicare segment excess pension assets to be \$141,764.

Prior Pension Segmentation Audit

We performed a prior pension segmentation audit at BCBS South Carolina (A-07-16-00476, issued April 15, 2016), which brought the TrailBlazer Medicare segment pension assets to January 1, 2005. We recommended that Palmetto increase TrailBlazer's Medicare segment pension assets by \$180,055, and, as a result, recognize \$21,248,511 as the Medicare segment pension assets as of January 1, 2005.

HOW WE CONDUCTED THIS REVIEW

We reviewed TrailBlazer's implementation of the prior audit recommendation; identification of its Medicare segment; update of Medicare segment assets from January 1, 2005, to April 30, 2013; and the Medicare segment's closing calculation as of April 30, 2013.

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

¹ Section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P.L. No. 108-173, required CMS to transfer the functions of fiscal intermediaries and carriers to MACs between October 2005 and October 2011. Most, but not all, of the MACs are fully operational; for jurisdictions where the MACs are not fully operational, the fiscal intermediaries and carriers continue to process claims. For purposes of this report, the term "Medicare contractor" means the fiscal intermediary, carrier, or MAC, whichever is applicable.

² Medicare Parts A and B Jurisdiction 4 consists of the States of Colorado, New Mexico, Oklahoma, and Texas.

based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

Appendix A contains details of our audit scope and methodology.

FINDINGS

Palmetto concurred with our prior audit recommendation to increase the TrailBlazer Medicare segment pension assets by \$180,055 as of January 1, 2005. We were, however, unable to determine whether Palmetto had actually implemented this recommendation. Regarding our second objective, TrailBlazer did not correctly update the Medicare segment pension assets from January 1, 2005, to April 30, 2013, in accordance with Federal regulations and the Medicare contracts' pension segmentation requirements. TrailBlazer identified Medicare segment pension assets of \$2,230,722 as of April 30, 2013; however, we determined that the Medicare segment pension assets were \$3,449,780 as of that date. Therefore, TrailBlazer understated the Medicare segment pension assets by \$1,219,058. TrailBlazer understated the Medicare segment's pension assets because it did not have policies and procedures to ensure that it calculated those assets in accordance with Federal regulations and the pension segmentation language of its Medicare contracts when updating the Medicare segment's pension assets from January 1, 2005, to April 30, 2013.

Appendix B identifies the details of the TrailBlazer Medicare segment's pension assets from January 1, 2005, to April 30, 2013, as determined during our audit. Table 1 below summarizes the audit adjustments required to update the TrailBlazer Medicare segment's pension assets in accordance with Federal requirements.

Table 1: Summary of Audit Adjustments

	Per Audit	Per TrailBlazer	Difference
Prior Audit Recommendation	\$21,248,511	\$21,068,456	\$180,055
Update of Medicare Segment Assets			
Contributions and Prepayment Credits	36,489,182	36,677,756	(188,574)
Benefit Payments	(20,969,938)	(20,931,538)	(38,400)
Net Transfers	(47,615,571)	(48,630,037)	1,014,466
Earnings, Net of Expenses	14,297,596	14,046,085	251,511
Understatement of Medicare Segment Assets			\$1,219,058

Regarding our third objective, TrailBlazer calculated Medicare's share of the Medicare segment excess pension assets to be \$141,764 as of April 30, 2013; however, we determined that Medicare's share of the Medicare segment excess pension assets was \$1,381,678 as of that date. The difference, \$1,239,914, constituted allowable Medicare segment excess pension assets that TrailBlazer did not include in its closing adjustment. TrailBlazer understated

Medicare's share of the Medicare segment excess pension assets by \$1,239,914 primarily because it understated the Medicare segment's excess pension assets.

PRIOR AUDIT RECOMMENDATION

We performed a prior pension segmentation audit at BCBS South Carolina (A-07-16-00476, issued April 15, 2016), which brought the TrailBlazer Medicare segment pension assets to January 1, 2005. We recommended that Palmetto increase TrailBlazer's Medicare segment pension assets by \$180,055 as of January 1, 2005. Palmetto concurred with our recommendation but did not give us an updated Medicare segment CAS rollup. Without that information, we were unable to determine whether Palmetto had implemented the recommendation. Therefore, we continue to identify the prior audit recommendation as an adjustment to the Medicare segment pension assets, as shown in Table 1, and have incorporated the dollar amounts from that prior adjustment into our current review of the update of those pension assets.

UPDATE OF MEDICARE SEGMENT PENSION ASSETS

The Medicare contracts require Medicare contractors to update the Medicare segment pension assets yearly in accordance with the CAS. The CAS requires that the asset base be adjusted by contributions, income, benefit payments, and expenses. For details on the Federal requirements and the relevant language of the Medicare contracts, see Appendix C.

TrailBlazer did not correctly update the Medicare segment pension assets from January 1, 2005, to April 30, 2013, in accordance with Federal regulations and the Medicare contracts' pension segmentation requirements. TrailBlazer identified Medicare segment pension assets of \$2,230,722 as of April 30, 2013; however, we determined that the Medicare segment pension assets were \$3,449,780 as of that date. Therefore, TrailBlazer understated the Medicare segment pension assets by \$1,219,058. The following are our findings regarding the update of the Medicare segment pension assets from January 1, 2005, to April 30, 2013.

Contributions and Transferred Prepayment Credits Overstated

The audited contributions and transferred prepayment credits³ are based on the assignable pension costs.⁴ 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.

³ 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.

⁴ These are assigned to a specific cost accounting period.

TrailBlazer overstated contributions and transferred prepayment credits by \$188,574 for its Medicare segment. The overstatement occurred primarily because of differences in the asset base used to compute the assignable pension costs. Table 2 below shows the differences between the contributions and prepayment credits proposed by TrailBlazer and the contributions and prepayment credits that we calculated during our review.

Table 2: Contributions and Transferred Prepayment Credits

	Per Audit	Per TrailBlazer	Difference
2005	\$5,621,053	\$5,654,294	(\$33,241)
2006	5,909,075	5,917,215	(8,140)
2007	5,300,280	5,382,715	(82,435)
2008	4,196,561	4,214,728	(18,167)
2009	5,021,589	5,040,085	(18,496)
2010	5,244,885	5,260,499	(15,614)
2011	5,195,739	5,208,220	(12,481)
2012	0	0	0
2013	0	0	0
Total	\$36,489,182	\$36,677,756	(\$188,574)

Benefit Payments Understated

TrailBlazer understated benefit payments by \$38,400 for the Medicare segment. This understatement occurred primarily because TrailBlazer incorrectly identified a benefit payment related to one Medicare segment employee as a non-Medicare segment benefit payment in 2007. Therefore, the Medicare segment pension assets were overstated by \$38,400.

Net Transfers Out Overstated

TrailBlazer overstated net transfers out of its Medicare segment by \$1,014,466. The overstatement occurred primarily because in 2012, TrailBlazer changed its transfer methodology by using the lump sum liability of transferred participants rather than the accrued benefit cost method, which is the method required by CAS 413.50(c) (Appendix C). This overstatement of the net transfer adjustment resulted in an understatement of the TrailBlazer Medicare segment pension assets by \$1,014,466. Table 3 on the following page shows the differences between the net transfers proposed by TrailBlazer and the net transfers that we calculated during our review.

Table 3: Net Transfers

	Per Audit	Per TrailBlazer	Difference
2005	(\$524,180)	(\$460,157)	(\$64,023)
2006	(1,467,225)	(1,602,218)	134,993
2007	(4,960,345)	(4,707,579)	(252,766)
2008	(3,191,786)	(3,187,826)	(3,960)
2009	(967,245)	(963,743)	(3,502)
2010	(1,411,540)	(1,426,048)	14,508
2011	(1,174,954)	(1,245,113)	70,159
2012	(29,044,880)	(30,163,937)	1,119,057
2013	(4,873,416)	(4,873,416)	0
Total	(\$47,615,571)	(\$48,630,037)	\$1,014,466

Earnings, Net of Expenses Understated

TrailBlazer understated investment earnings, less administrative expenses, by \$251,511 for its Medicare segment, because it used incorrect contributions and transferred prepayment credits, incorrect benefit payments, and incorrect net transfers (all 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.

MEDICARE SEGMENT CLOSING ADJUSTMENT**Medicare Segment Excess Pension Assets as of April 30, 2013**

Federal regulations (Appendix C) require TrailBlazer to have computed a Medicare segment closing adjustment as a result of the termination of its Medicare contract. TrailBlazer identified \$141,764 in Medicare segment excess pension liabilities as of April 30, 2013. However, we calculated the Medicare segment excess pension assets to be \$1,382,369 as of that date. (It is necessary to calculate the pension assets and liabilities as well as any adjustments for the Medicare segment before calculating Medicare's share.) Therefore, TrailBlazer understated the excess pension assets by \$1,240,605. The understatement primarily occurred because TrailBlazer understated the Medicare segment's final market value of pension assets as of April 30, 2013. The development of excess assets was used to identify Medicare's share of Medicare segment's excess pension assets, as discussed just below.

Medicare's Share of the Medicare Segment Excess Pension Assets

TrailBlazer had not calculated the aggregate Medicare percentage (that is, the percentage that reflects Medicare's share of the Medicare segment excess pension liabilities). We calculated the aggregate Medicare percentage to be 99.95 percent (Appendix D) using the Medicare segment pension costs developed during the prior pension costs claimed reports (A-07-04-00176 and

A-07-16-00478, issued on February 18, 2005, and April 15, 2016, respectively) and current pension costs claimed (A-07-17-00508 and A-07-17-00510; Appendix A) audits as required by the CAS. Table 4 below shows our calculations of Medicare’s share of the Medicare segment excess pension assets. For details on the Federal requirements regarding the aggregate Medicare percentage, see Appendix C.

TrailBlazer calculated \$141,764 as Medicare’s share of the Medicare segment excess pension assets as of April 30, 2013; however, we determined that Medicare’s share of the Medicare segment excess pension assets was \$1,381,678 as of that date. The difference, \$1,239,914, constituted allowable Medicare segment excess pension assets that TrailBlazer did not include in its closing adjustment. TrailBlazer understated Medicare’s share of the Medicare segment excess pension assets by \$1,239,914 primarily because it understated the Medicare segment’s excess pension assets (as discussed above).

Table 4 below shows our calculation of Medicare’s share of the excess pension assets.

Table 4: Medicare’s Share of Excess Pension Assets

	Excess Medicare Segment Assets (A)	Aggregate Medicare Percentage (B)	Excess Assets Attributable to Medicare (A x B)
Per Audit	\$1,382,369	99.95%	\$1,381,678
Per TrailBlazer	141,764	100%	141,764
Difference			\$1,239,914

RECOMMENDATIONS

We recommend that Palmetto:

- increase TrailBlazer’s Medicare segment pension assets by \$1,219,058 as of April 30, 2013, and
- increase TrailBlazer’s Medicare share of the Medicare segment excess pension assets as of April 30, 2013, by \$1,239,914 and recognize \$1,381,678 as Medicare’s share of the Medicare segment excess pension assets due to the segment closing calculation.

AUDITEE COMMENTS

In written comments on our draft report, Palmetto concurred with our recommendations. Palmetto’s comments appear in their entirety as Appendix E.

OTHER MATTER

During our review, we noted that the lump sum conversion rate used by BCBS South Carolina's actuaries appeared to be based on current market interest rates. This could be inconsistent with the CAS requirement to use long-term interest assumptions. Accordingly, it is appropriate that BCBS South Carolina discuss with CMS the impact of noncompliant interest assumptions when settling contract costs.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed TrailBlazer's implementation of the prior audit recommendation; identification of its Medicare segment; update of Medicare segment assets from January 1, 2005, to April 30, 2013; and the Medicare segment's closing calculation as of April 30, 2013.

Achieving our objective did not require that we review TrailBlazer's overall internal control structure. We reviewed controls relating to the identification of the Medicare segment and to the updates of the Medicare segment's assets to ensure adherence to the Medicare contracts, CAS 412, and CAS 413.

We performed fieldwork at TrailBlazer in Dallas, Texas.

METHODOLOGY

To accomplish our objectives, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- reviewed the annual actuarial valuation reports prepared by TrailBlazer'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's assets;
- obtained and reviewed the pension plan documents and Department of Labor/Internal Revenue Service Forms 5500 used in calculating the Medicare segment's assets;
- interviewed TrailBlazer staff responsible for identifying the Medicare segment to determine whether the segment was properly identified in accordance with the Medicare contracts;
- reviewed TrailBlazer's accounting records to verify the segment's identifications as well as the benefit payments made to the Medicare segment;
- reviewed the prior segmentation audit performed at TrailBlazer (A-07-16-00476) to determine the beginning market value of assets for the Medicare segment;
- provided the CMS Office of the Actuary with the actuarial information necessary for it to calculate the Medicare segment's pension assets from January 1, 2005, to April 30, 2013;

- reviewed the CMS actuaries' methodology and calculations; and
- provided the results of the review to Palmetto officials on May 11, 2017.

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

- *Palmetto Government Benefits Administrator, LLC, Understated Its Medicare Segment Pension Assets (A-07-17-00503);*
- *Companion Data Services, LLC, Overstated Its Medicare Segment Pension Assets (A-07-17-00512);*
- *TrailBlazer Health Enterprises, LLC, Did Not Claim Some Allowable Medicare Pension Costs (A-07-17-00508); and*
- *TrailBlazer Health Enterprises, LLC, Claimed Some Unallowable Medicare Administrative Contract Pension Costs (A-07-17-00510).*

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 findings and conclusions based on our audit objectives.

**APPENDIX B: TRAILBLAZER HEALTH ENTERPRISES, LLC,
STATEMENT OF MEDICARE SEGMENT PENSION ASSETS
FOR THE PERIOD JANUARY 1, 2005, TO APRIL 30, 2013**

Description		Total Company	Other Segments	Palmetto Medicare Segment	TrailBlazer Medicare Segment	CDS Medicare Segment
Assets January 1, 2005	1/	\$299,645,812	\$248,926,783	\$29,470,518	\$21,248,511	\$0
Prepayment Credits	2/	0	(12,233,031)	6,611,978	5,621,053	0
Contributions	3/	82,491,519	82,491,519	0	0	0
Earnings	4/	23,070,997	18,242,393	2,745,667	2,082,937	0
Benefit Payments	5/	(11,885,572)	(9,308,314)	(2,038,213)	(539,045)	0
Administrative Expenses	6/	(1,199,715)	(948,623)	(142,777)	(108,315)	0
Transfers	7/	0	(317,101)	841,281	(524,180)	0
Assets January 1, 2006		\$392,123,041	\$326,853,626	\$37,488,454	\$27,780,961	\$0
Prepayment Credits		0	(13,070,401)	7,161,326	5,909,075	0
Contributions		80,000,000	80,000,000	0	0	0
Earnings		47,893,044	38,300,446	5,440,572	4,152,026	0
Benefit Payments		(16,503,981)	(14,177,081)	(1,756,316)	(570,584)	0
Administrative Expenses		(1,472,006)	(1,177,175)	(167,217)	(127,614)	0
Transfers		0	4,772,334	(3,305,109)	(1,467,225)	0
Assets January 1, 2007		\$502,040,098	\$421,501,749	\$44,861,710	\$35,676,639	\$0
Prepayment Credits		0	(11,857,281)	6,557,001	5,300,280	0
Contributions		30,000,000	30,000,000	0	0	0
Earnings		36,810,082	30,040,521	3,738,425	3,031,136	0
Benefit Payments		(22,412,122)	(18,154,606)	(3,139,402)	(1,118,114)	0
Administrative Expenses		(2,134,523)	(1,741,973)	(216,782)	(175,768)	0
Transfers		0	6,272,405	(5,209,821)	(4,960,345)	3,897,761
Assets January 1, 2008		\$544,303,535	\$456,060,815	\$46,591,131	\$37,753,828	\$3,897,761
Prepayment Credits		0	(10,177,933)	4,985,138	4,196,561	996,234
Contributions		55,000,000	55,000,000	0	0	0
Earnings		(139,128,389)	(114,147,505)	(13,335,545)	(10,360,405)	(1,284,934)
Benefit Payments		(28,796,394)	(22,247,008)	(1,569,007)	(4,980,379)	0
Administrative Expenses		(1,919,561)	(1,574,899)	(183,991)	(142,943)	(17,728)
Transfers		0	4,869,606	(1,377,920)	(3,191,786)	(299,900)
Assets January 1, 2009		\$429,459,191	\$367,783,076	\$35,109,806	\$23,274,876	\$3,291,433
Prepayment Credits		0	(11,383,635)	5,031,604	5,021,589	1,330,442
Contributions		50,000,000	50,000,000	0	0	0
Earnings		70,849,880	58,827,624	6,543,601	4,696,430	782,225
Benefit Payments		(23,417,842)	(19,368,321)	(2,955,469)	(1,094,052)	0
Administrative Expenses		(1,616,076)	(1,341,850)	(149,259)	(107,125)	(17,842)
Transfers		0	1,954,512	(1,267,574)	(967,245)	280,307
Assets January 1, 2010		\$525,275,153	\$446,471,406	\$42,312,709	\$30,824,473	\$5,666,565
Prepayment Credits		0	(12,590,096)	5,650,955	5,244,885	1,694,256
Contributions		80,000,000	80,000,000	0	0	0
Earnings		77,320,884	63,718,906	7,172,774	5,384,228	1,044,976
Benefit Payments		(23,100,379)	(21,367,151)	(451,311)	(469,841)	(812,076)
Administrative Expenses		(1,668,474)	(1,374,963)	(154,778)	(116,184)	(22,549)
Transfers		0	2,807,363	(1,266,012)	(1,411,540)	(129,811)
Assets January 1, 2011		\$657,827,184	\$557,665,465	\$53,264,337	\$39,456,021	\$7,441,361

Description		Total Company	Other Segments	Palmetto Medicare Segment	TrailBlazer Medicare Segment	CDS Medicare Segment
Assets January 1, 2011		\$657,827,184	\$557,665,465	\$53,264,337	\$39,456,021	\$7,441,361
Prepayment Credits		0	(12,390,821)	5,334,690	5,195,739	1,860,392
Contributions		55,000,000	55,000,000	0	0	0
Earnings		(2,100,856)	(1,736,442)	(190,248)	(144,367)	(29,799)
Benefit Payments		(38,031,699)	(34,903,698)	(1,311,443)	(1,364,593)	(451,965)
Administrative Expenses		(1,491,803)	(1,233,035)	(135,094)	(102,514)	(21,160)
Transfers		0	2,497,237	(988,765)	(1,174,954)	(333,518)
Assets January 1, 2012		\$671,202,826	\$564,898,706	\$55,973,477	\$41,865,332	\$8,465,311
Prepayment Credits		0	(6,932,126)	5,115,107	0	1,817,019
Contributions		45,000,000	45,000,000	0	0	0
Earnings		100,064,563	83,487,724	9,224,707	5,776,947	1,575,185
Benefit Payments		(44,963,025)	(33,426,739)	(2,569,104)	(8,826,455)	(140,727)
Administrative Expenses		(1,850,498)	(1,543,942)	(170,593)	(106,833)	(29,130)
Transfers		0	33,240,969	(2,938,679)	(29,044,880)	(1,257,410)
Discount on Accrued Contributions	8/	(1,380,956)	(1,380,956)	0	0	0
Assets January 1, 2013		\$768,072,910	\$683,343,636	\$64,634,915	\$9,664,111	\$10,430,248
Prepayment Credits		NA	NA	NA	0	NA
Contributions		NA	NA	NA	0	NA
Earnings		NA	NA	NA	671,100	NA
Benefit Payments		NA	NA	NA	(2,006,875)	NA
Administrative Expenses		NA	NA	NA	(5,140)	NA
Transfers		NA	NA	NA	(4,873,416)	NA
Assets April 30, 2013		NA	NA	NA	\$3,449,780	NA
Per BCBS South Carolina	9/	NA	NA	NA	\$2,230,722	NA
Asset Variance	10/				\$1,219,058	

ENDNOTES

- 1/ We determined the Medicare segment pension assets as of January 1, 2005, based on our prior segmentation audit of TrailBlazer (A-07-16-00476). The amounts shown for the Other segment represent the difference between the Total Company 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 TrailBlazer.
- 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 TrailBlazer. Asset transfers were equal to the actuarial liability determined under the accrued benefit cost method in accordance with the CAS.
- 8/ In accordance with the CAS Harmonization Rule, effective 2013, accrued contributions are discounted, at the effective interest rate, from the date of each contribution to the beginning of the program year.
- 9/ We obtained segment asset amounts from documents prepared by TrailBlazer's actuarial consulting firm.
- 10/ The asset variance represents the difference between our calculation of Medicare segment pension assets and TrailBlazer's calculation of the Medicare segment pension assets.

APPENDIX C: FEDERAL REQUIREMENTS RELATED TO PENSION SEGMENTATION AND SEGMENT CLOSING ADJUSTMENT

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 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 determined using the accrued benefit cost method and the long-term interest assumption.

Federal regulations (CAS 413.50(c)(9)) require an adjustment to be made for retired and terminated participants who transfer to an inactive segment if the contractor has elected to value only active participants in the Medicare segment. The transfer amount shall be based on the actuarial accrued liabilities of the transferee determined using the accrued benefit cost method and the long-term interest assumption.

MEDICARE CONTRACTS

The Medicare contracts identify a Medicare segment as:

... any 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 are charged to the Medicare agreement/contract, and these salary dollars represent 40% or more of the total salary dollars charged to the Medicare agreement/contract.

Furthermore, the Medicare contracts state that “... the pension assets allocated to each Medicare Segment shall be adjusted in accordance with CAS 413.50(c)(7).”

SEGMENT CLOSING ADJUSTMENT

Federal Regulations

Federal regulations (CAS 413.50(c)(12)) state:

If a segment is closed, if there is a pension plan termination, or if there is a curtailment of benefits, the contractor shall determine the difference between the actuarial liability for the segment and the market value of the assets allocated to the segment, irrespective of whether or not the pension plan is terminated. The difference between the market value of the assets and the actuarial accrued liability for the segment represents an adjustment of previously-determined pension costs.

- i. The determination of the actuarial accrued liability shall be made using the accrued benefit cost method. The actuarial assumptions employed shall be consistent with the current and prior long term assumptions used in the measurement of pension costs....
- ii. ... The market value of the assets shall be reduced by the accumulated value of prepayment credits, if any. Conversely, the market value of assets shall be increased by the current value of any unfunded actuarial liability separately identified and maintained in accordance with 9904.412-50(a)(2).
- iii. The calculation of the difference between the market value of the assets and the actuarial accrued liability shall be made as of the date of the event (e.g., contract termination, plan amendment, plant closure) that caused the closing of the segment, pension plan termination, or curtailment of benefits. If such a date is not readily determinable, or if its use can result in an inequitable calculation, the contracting parties shall agree on an appropriate date.
- iv. Pension plan improvements adopted within 60 months of the date of the event which increase the actuarial accrued liability shall be recognized on a prorata basis using the number of months the date of adoption preceded the event date. Plan improvements mandated by law or collective bargaining agreement are not subject to this phase-in.

The methodology for determining the Federal Government’s share of excess pension assets and liabilities is addressed by CAS 413.50(c)(12)(vi), which states:

The Government's share of the adjustment amount determined for a segment shall be the product of the adjustment amount and a fraction. The adjustment amount shall be reduced for any excise tax imposed upon assets withdrawn from the funding agency of a qualified pension plan. The numerator of such fraction shall be the **sum of the pension plan costs** allocated to all contracts and subcontracts (including Foreign Military Sales) subject to this Standard during a period of years representative of the Government's participation in the pension plan. The denominator of such fraction shall be the **total pension costs** assigned to cost accounting periods during those same years. This amount shall represent an adjustment of contract prices or cost allowance as appropriate. The adjustment may be recognized by modifying a single contract, several but not all contracts, or all contracts, or by use of any other suitable technique. [Emphasis added.]

Medicare Contracts

In the event of a contract termination, the Medicare contracts require contractors to follow the segment closing provision of the CAS. Furthermore, in situations such as contract terminations, the Medicare contracts require contractors to identify excess Medicare pension assets and liabilities in accordance with CAS 413.

APPENDIX D: CALCULATION OF AGGREGATE MEDICARE PERCENTAGE

Calendar Year	Allowable Medicare Segment Pension Costs From FACPs	Allowable Medicare Segment Pension Costs From ICPs	Total Allocable Medicare Segment Pension Costs	Medicare Aggregate Percentage
1/	(A) 2/	(B) 3/	(C) 4/	((A+B)/C) 5/
2000	\$3,009,763	\$0	\$3,009,763	
2001	2,562,554	0	2,562,554	
2002	4,448,786	0	4,448,786	
2003	4,623,325	0	4,623,325	
2004	4,830,085	0	4,858,752	
2005	5,619,929	0	5,621,053	
2006	5,908,484	0	5,909,075	
2007	5,029,436	270,844	5,300,280	
2008	2,311,046	1,885,515	4,196,561	
2009	894,847	4,126,742	5,021,589	
2010	483,054	4,761,831	5,244,885	
2011	218,741	4,976,998	5,195,739	
2012	0	0	0	
2013	0	0	0	
Total	\$39,940,050	\$16,021,930	\$55,992,362	99.95%

ENDNOTES

- 1/ The aggregate percentage was based on the audited pension costs developed during the prior pension costs claimed (A-07-04-00176 and A-07-16-00478, issued on February 18, 2005, and April 15, 2016, respectively) and current pension costs claimed (A-07-17-00508 and A-07-17-00510) audits.
- 2/ This column identifies the allowable Medicare segment pension costs that relate to the Legacy Medicare contract.
- 3/ This column identifies the allowable Medicare Parts A/B contract, Jurisdiction 4, segment pension costs that relate to the MAC contracts.
- 4/ This column identified the total allocable Medicare segment pension costs during the contract period.
- 5/ We calculated the aggregate Medicare percentage by dividing the total of the Medicare segment's pension costs charged to Medicare (that is, the combined amounts from the two columns to the right of the "Calendar Year" column) by the total allocable Medicare segment pension costs pursuant to CAS 413.

APPENDIX E: AUDITEE COMMENTS



PALMETTO GBA[®]
A CELERIAN GROUP COMPANY

PO BOX 100134 | COLUMBIA, SC 29202-3134 | PALMETTOGBA.COM | ISO 9001
KENNETH LEWIS
Vice President and CFO

June 28, 2017

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

Re: Report Number A-07-17-00507

Dear Mr. Cogley:

We are responding to the U.S. Department of Health and Human Services, Office of Inspector General, draft report dated June 20, 2017 and entitled *TrailBlazer Health Enterprises, LLC, Understated Its Medicare Segment Pension Assets and Understated Medicare's Share of the Medicare Segment Excess Pension Assets*.

The report contains the following recommendations that Palmetto:

- increase TrailBlazer's Medicare segment pension assets by \$1,219,058 as of April 30, 2013, and
- Increase TrailBlazer's Medicare share of the Medicare segment excess pension assets as of April 30, 2013, by \$1,239,914 and recognize \$1,381,678 as Medicare's share of the Medicare segment excess pension assets due to the segment closing calculation.

Palmetto concurs with the OIG recommendations and does not have any additional comments or questions.

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

Sincerely,

/Kenneth Lewis/

Kenneth Lewis
Vice President and CFO

Cc: Louis McElveen, BCBSSC
Bruce Hughes, Celerian Group
Joe Johnson, Palmetto GBA