Department of Health and Human Services

**OFFICE OF INSPECTOR GENERAL**

# TRAILBLAZER HEALTH ENTERPRISES, LLC, CLAIMED SOME UNALLOWABLE MEDICARE PENSION COSTS FOR FISCAL YEARS 2003 AND 2004

*Inquiries about this report may be addressed to the Office of Public Affairs at [Public.Affairs@oig.hhs.gov](mailto:Public.Affairs@oig.hhs.gov)*


Brian P. Ritchie
Assistant Inspector General
for Audit Services



April 2016
A-07-16-00478

# *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 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 http://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 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

***TrailBlazer Health Enterprises, LLC, claimed unallowable pension costs of $341,000 for Medicare reimbursement for fiscal years 2003 and 2004.***

### WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their pension costs, which are funded by the annual contributions that these contractors make to their pension plans. The amount of pension costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the cost reimbursement principles contained in the Federal Acquisition Regulation, Cost Accounting Standards (CAS), and Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors did not always comply with Federal requirements when claiming pension costs for Medicare reimbursement.

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 and Medicare administrative contractors through Final Administrative Cost Proposals (FACPs) and/or Incurred Cost Proposals.

For this review, we focused on one Medicare contractor, TrailBlazer Health Enterprises, LLC (TrailBlazer). In particular, we examined the Medicare segment costs that TrailBlazer claimed for Medicare reimbursement on its FACPs.

The objective of this review was to determine whether the fiscal years (FYs) 2003 and 2004 pension costs that TrailBlazer claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACPs, were allowable and correctly claimed.

### BACKGROUND

During our audit period, TrailBlazer was a subsidiary of Blue Cross Blue Shield of South Carolina (BCBS South Carolina), whose home office is in Columbia, South Carolina. TrailBlazer administered Medicare Part A fiscal intermediary and Medicare Part B carrier operations under cost reimbursement contracts with CMS until the contractual relationship ended on March 21, 2011.

During our audit period (FYs 2003 and 2004), BCBS South Carolina's qualified defined-benefit pension plan contained two Medicare segments: the TrailBlazer segment and the Palmetto Government Benefits Administrator, LLC (Palmetto), segment. This report addresses TrailBlazer's compliance with the Federal regulations and the fiscal intermediary and carrier contracts when claiming pension costs for Medicare reimbursement. We are addressing the pension costs claimed by Palmetto in a separate review.

## WHAT WE FOUND

TrailBlazer claimed pension costs of $9,793,934 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs during this period were $9,453,410. The difference, $340,524, represented unallowable Medicare pension costs that TrailBlazer claimed on its FACPs for FYs 2003 and 2004. TrailBlazer claimed these unallowable Medicare pension costs primarily because it allocated an incorrect CAS pension cost to its Medicare segment.

## WHAT WE RECOMMEND

We recommend that TrailBlazer revise its FACPs for FYs 2003 and 2004 to reduce its claimed Medicare pension costs by $340,524.

## AUDITEE COMMENTS

In written comments on our draft report, Palmetto concurred with our recommendation and said that it would reduce the Medicare pension costs claimed by TrailBlazer for FYs 2003 and 2004 by $340,524. The TrailBlazer Medicare segment closed effective April 30, 2013; therefore, Palmetto responded to our draft report.

## TABLE OF CONTENTS

# INTRODUCTION

## WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their pension costs, which are funded by the annual contributions that these contractors make to their pension plans. The amount of pension costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the cost reimbursement principles contained in the Federal Acquisition Regulation (FAR), Cost Accounting Standards (CAS), and Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors did not always comply with Federal requirements when claiming pension costs for Medicare reimbursement.

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 and Medicare administrative contractors through Final Administrative Cost Proposals (FACPs) and/or Incurred Cost Proposals.

For this review, we focused on one Medicare contractor, TrailBlazer Health Enterprises, LLC (TrailBlazer). In particular, we examined the Medicare segment costs that TrailBlazer claimed for Medicare reimbursement on its FACPs.

## OBJECTIVE

Our objective was to determine whether the fiscal years (FYs) 2003 and 2004 pension costs that TrailBlazer claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACPs, were allowable and correctly claimed.

## BACKGROUND

### TrailBlazer Health Enterprises, LLC

During our audit period, TrailBlazer was a subsidiary of Blue Cross Blue Shield of South Carolina (BCBS South Carolina), whose home office is in Columbia, South Carolina. TrailBlazer administered Medicare Part A fiscal intermediary and Medicare Part B carrier operations under cost reimbursement contracts with CMS until the contractual relationship ended on March 21, 2011.

During our audit period (FYs 2003 and 2004), BCBS South Carolina's qualified defined-benefit pension plan contained two Medicare segments: the TrailBlazer segment and the Palmetto Government Benefits Administrator, LLC (Palmetto), segment. This report addresses TrailBlazer's compliance with the Federal regulations and the fiscal intermediary and carrier contracts when claiming pension costs for Medicare reimbursement. We are addressing the pension costs claimed by Palmetto in a separate review.

### Medicare Reimbursement of Pension Costs

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

Beginning with 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-based 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.

## HOW WE CONDUCTED THIS REVIEW

We reviewed $9,793,934 of pension costs claimed by TrailBlazer for Medicare reimbursement on its FACPs for FYs 2003 and 2004.

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

Appendix A contains details of our audit scope and methodology.

# FINDING

TrailBlazer claimed pension costs of $9,793,934 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs during this period were $9,453,410. The difference, $340,524, represented unallowable Medicare pension costs that TrailBlazer claimed on its FACPs for FYs 2003 and 2004. TrailBlazer claimed these unallowable Medicare pension costs primarily because it allocated an incorrect CAS pension cost to its Medicare segment.

## CLAIMED PENSION COSTS

TrailBlazer claimed Medicare pension costs of $9,793,934 for Medicare reimbursement, under the provisions of its fiscal intermediary and carrier contracts, on its FACPs for FYs 2003 and 2004. We calculated the allowable Medicare pension costs based on separately computed CAS-based pension costs for the Medicare segment and the Other segment in accordance with CAS 412 and 413. For details on the Federal requirements, see Appendix B.

## UNALLOWABLE PENSION COSTS CLAIMED

We determined that the allowable CAS-based pension costs for FYs 2003 and 2004 were $9,453,410.[1] Thus, TrailBlazer claimed $340,524 of unallowable Medicare pension costs on its FACPs for FYs 2003 and 2004. TrailBlazer claimed these unallowable Medicare pension costs primarily because it allocated an incorrect CAS pension cost to its Medicare segment.

The table below shows the differences between the allowable CAS-based pension costs and the pension costs that TrailBlazer claimed on its FACPs and that were reflected in its accounting documents. Appendix C contains additional details on allowable pension costs.

**Table: Comparison of Allowable Pension Costs and Claimed Pension Costs**

| | Medicare Pension Costs | | |
|---|---|---|---|
| **Fiscal Year** | **Allowable Per Audit** | **Claimed by TrailBlazer** | **Difference** |
| 2003 | $4,623,325 | $4,970,850 | ($347,525) |
| 2004 | 4,830,085 | 4,823,084 | 7,001 |
| **Total** | **$9,453,410** | **$9,793,934** | **($340,524)** |

## RECOMMENDATION

We recommend that TrailBlazer revise its FACPs for FYs 2003 and 2004 to reduce its claimed Medicare pension costs by $340,524.

## AUDITEE COMMENTS

In written comments on our draft report, Palmetto concurred with our recommendation and said that it would reduce the Medicare pension costs claimed by TrailBlazer for FYs 2003 and 2004 by $340,524. The TrailBlazer Medicare segment closed effective April 30, 2013; therefore, Palmetto responded to our draft report.

Palmetto's comments are included in their entirety as Appendix D.

[1] Consistent with our methodology in previous audits, we compared our calendar year (CY) audited pension costs to TrailBlazer's FY costs claimed.

## APPENDIX A: AUDIT SCOPE AND METHODOLOGY

### SCOPE

We reviewed $9,793,934 of pension costs that TrailBlazer claimed for Medicare reimbursement on its FACPs for FYs 2003 and 2004.

Achieving our objective did not require that we review TrailBlazer's overall internal control structure. 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.

We performed our fieldwork at TrailBlazer in Dallas, Texas.

### METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;

- reviewed information provided by TrailBlazer to identify the amount of pension costs claimed for Medicare reimbursement for FYs 2003 and 2004;

- used information that BCBS South Carolina's actuarial consulting firms provided, including information on assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses;

- examined BCBS South Carolina's and TrailBlazer's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Forms 5500;

- determined the extent to which BCBS South Carolina funded CAS-based pension costs with contributions to the pension trust fund and accumulated prepayment credits;

- engaged the CMS Office of the Actuary to calculate the allocable pension costs based on the CAS (the calculations were based on separately computed CAS-based pension costs for the Medicare segment and the Other segment);

- reviewed the CMS actuaries' methodology and calculations; and

- provided the results of the review to Palmetto officials on January 7, 2016.

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

- *Palmetto Government Benefits Administrator, LLC, and TrailBlazer Health Enterprises, LLC, Understated Their Medicare Segments' Pension Assets as of January 1, 2005* (A-07-16-00476) and

- *Palmetto Government Benefits Administrator, LLC, Claimed Some Unallowable Medicare Pension Costs for Fiscal Years 2003 and 2004* (A-07-16-00477).

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

## APPENDIX B: FEDERAL REQUIREMENTS RELATED TO REIMBURSEMENT OF PENSION COSTS

### FEDERAL REGULATIONS

Federal regulations (FAR 31.205-6(j)) address allowability of pension costs and require that contractors fund the pension costs assigned to contract periods by making contributions to the pension plan.

Federal regulations (CAS 412) (as amended) address the determination and measurement of pension cost components. This regulation also addresses the assignment of pension costs to appropriate accounting periods.

Federal regulations (CAS 413) (as amended) address 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.

### MEDICARE CONTRACTS

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."

**APPENDIX C: ALLOWABLE MEDICARE PENSION COSTS FOR TRAILBLAZER HEALTH ENTERPRISES, LLC, FOR FISCAL YEARS 2003 AND 2004**

| Date | Description | | Total Company | Other Segment | Palmetto Segment | TrailBlazer Segment | Total Medicare |
|---|---|---|---|---|---|---|---|
| 2003 | Contributions | 1/ | $80,263,260 | $76,398,477 | $1,900,088 | $1,964,695 | |
| | Discount for interest | 2/ | ($6,043,306) | ($5,752,313) | ($143,064) | ($147,929) | |
| January 1, 2003 | Present value contributions | 3/ | $74,219,954 | $70,646,164 | $1,757,024 | $1,816,766 | |
| | Prepayment credit applied | 4/ | $19,481,817 | $14,176,160 | $2,608,482 | $2,697,175 | |
| | Present value of funding | 5/ | $93,701,771 | $84,822,324 | $4,365,506 | $4,513,941 | |
| | | | | | | | |
| January 1, 2003 | CAS funding target | 6/ | $32,604,400 | $23,724,953 | $4,365,506 | $4,513,941 | |
| | Percentage funded | 7/ | | 100.00% | 100.00% | 100.00% | |
| | Funded pension cost | 8/ | | $23,724,953 | $4,365,506 | $4,513,941 | |
| | Allowable interest | 9/ | | $574,917 | $105,787 | $109,384 | |
| | Allocable pension cost | 10/ | | $24,299,870 | $4,471,293 | $4,623,325 | |
| | TrailBlazer LOB* percentage | 11/ | | 0.00% | 0.00% | 100.00% | |
| | | | | | | | |
| 2003 | Allowable CY pension cost | 12/ | | $0 | $0 | $4,623,325 | $4,623,325 |

| Date | Description | Total Company | Other Segment | Palmetto Segment | TrailBlazer Segment | Total Medicare |
|---|---|---|---|---|---|---|
| 2004 | Contributions | $49,000,000 | $49,000,000 | $0 | $0 | |
| | Discount for interest | ($3,838,710) | ($3,838,710) | $0 | $0 | |
| January 1, 2004 | Present value contributions | $45,161,290 | $45,161,290 | $0 | $0 | |
| | Prepayment credit applied | $36,342,986 | $26,820,074 | $4,664,160 | $4,858,752 | |
| | Present value of funding | $81,504,276 | $71,981,364 | $4,664,160 | $4,858,752 | |
| | | | | | | |
| January 1, 2004 | CAS funding target | $36,342,986 | $26,820,074 | $4,664,160 | $4,858,752 | |
| | Percentage funded | | 100.00% | 100.00% | 100.00% | |
| | Funded pension cost | | $26,820,074 | $4,664,160 | $4,858,752 | |
| | Allowable interest | | $0 | $0 | $0 | |
| | Allocable pension cost | | $26,820,074 | $4,664,160 | $4,858,752 | |
| | TrailBlazer LOB* percentage | | 0.00% | 0.00% | 99.41% | |
| | | | | | | |
| 2004 | Allowable CY pension cost | | $0 | $0 | $4,830,085 | $4,830,085 |

* Line of business.

**ENDNOTES**

1/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the CY and accrued contributions deposited after the end of the CY but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segments during the pension segmentation review (A-07-16-00476). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare segments.

2/ 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 CAS valuation interest rate) and actual contribution amounts.

3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the CY. For purposes of this Appendix, we deemed deposits made after the end of the CY to have been made on the final day of the CY, consistent with the method established by the Employee Retirement Income Security Act prior to the implementation of the Pension Protection Act.

4/ 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 CAS funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.

5/ 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 CY.

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

7/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the CY. Because any funding in excess of the CAS funding target is accounted for as a prepayment in accordance with CAS 412.50(c)(1), 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 decimal places.

8/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.

9/ We assumed that interest on the funded CAS-based 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.

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

11/ We calculated the TrailBlazer LOB percentages based on information provided by TrailBlazer.

12/ We computed the allowable Medicare pension cost as the CY allocable pension cost mulitplied by the Medicare LOB percentage.

# APPENDIX D: AUDITEE COMMENTS

PALMETTO GBA®
A CELERIAN GROUP COMPANY

PO BOX 100134 | COLUMBIA, SC 29202-3134 | PALMETTOGBA.COM | ISO 9001

**KENNETH LEWIS**
*Vice President & CFO*

March 22, 2016

RE: Audit Report Number A-07-16-00478

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

Dear Mr. Cogley:

We are responding to the draft audit report dated February 25, 2016 entitled *TrailBlazer Health Enterprises, LLC, Claimed Some Unallowable Medicare Pension Costs for Fiscal Years 2003 and 2004.*

The audit contained the following recommendation with which we concur.

Recommendation:

We recommend that TrailBlazer:

- revise its Final Administrative Cost Proposals (FACPs) for FYs 2003 and 2004 to reduce its claimed Medicare pension costs by $340,524.

Comment:

We concur with the recommendation and will reduce our claimed Medicare pension costs for FY 2003 and 2004 by $340,524.

If you have any questions, please feel free to contact me at 803-763-7982. I am handing these matters for TrailBlazer Health Enterprises, LLC since the company has discontinued operations.

Sincerely,

Kenneth Lewis

cc: Bruce Hughes, BCBSSC
cc: Louis McElveen, BCBSSC