Department of Health and Human Services

OFFICE OF
INSPECTOR GENERAL

TRAILBLAZER HEALTH ENTERPRISES, LLC, DID NOT CLAIM SOME ALLOWABLE MEDICARE POSTRETIREMENT BENEFIT COSTS FOR FISCAL YEARS 2005 THROUGH 2011

Inquiries about this report may be addressed to the Office of Public Affairs at Public.Affairs@oig.hhs.gov.

Patrick J. Cogley
Regional Inspector General
for Audit Services

September 2015
A-07-15-00461

Office of Inspector General

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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EXECUTIVE SUMMARY

TrailBlazer Health Enterprises, LLC, did not claim allowable postretirement benefit costs of $264,000 for Medicare reimbursement for fiscal years 2005 through 2011.

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their postretirement benefit (PRB) costs, which are funded by direct payments to beneficiaries or contributions to a dedicated trust fund. The amount of PRB 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 as required by the Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors have not always complied with Federal requirements when claiming PRB 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, PRB, and any other pension-related cost elements claimed by Medicare fiscal intermediaries and carrier contractors and Medicare administrative contractors (MACs) 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 allowable PRB costs (referred to in this report as "PRB costs") that TrailBlazer claimed for Medicare reimbursement on its FACPs.

The objective of this review was to determine whether the fiscal years (FYs) 2005 through 2011 PRB 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 and Palmetto Government Benefits Administrator, LLC (Palmetto), were subsidiaries of Blue Cross Blue Shield of South Carolina (BCBS South Carolina). TrailBlazer, whose office was located in Dallas, Texas, administered Medicare Part A and Part B operations under cost reimbursement contracts with CMS until the segment closed on April 30, 2013.

With the implementation of Medicare contracting reform, TrailBlazer continued to perform Medicare work after being awarded the MAC contracts for Medicare Parts A and B (Jurisdiction 4), effective August 2, 2007. While performing its MAC work, TrailBlazer also functioned as the Medicare Part A fiscal intermediary and Medicare Part B carrier, with those contracts terminating on March 21, 2011, and July 15, 2008, respectively. TrailBlazer continued to work as the Jurisdiction 4 MAC until April 30, 2013, when the TrailBlazer segment closed.

BCBS South Carolina sponsors a PRB plan called the BCBS South Carolina Postretirement Health and Life Insurance Programs, which is offered to TrailBlazer employees. The purpose of this PRB plan is to provide retiree health and life insurance benefits to eligible retirees and their dependents. TrailBlazer claimed PRB costs using the accrual basis of accounting and funded those accrual costs through a Voluntary Employee Benefit Association trust.

During our audit period, TrailBlazer administered both fiscal intermediary and carrier contracts and MAC-related contracts. This report will address the PRB costs that TrailBlazer claimed under the provisions of its fiscal intermediary and carrier contracts. We are addressing the PRB costs that TrailBlazer claimed under the provisions of its MAC contracts in a separate review. Although our report is addressed to Palmetto, we will associate the term TrailBlazer with our finding and recommendation.

We reviewed $661,873 of Medicare Part A and Part B PRB costs that TrailBlazer claimed for Medicare reimbursement under the provisions of its fiscal intermediary and carrier contracts, and reported on its FACPs, for FYs 2005 through 2011.

WHAT WE FOUND

TrailBlazer claimed PRB costs of $661,873 for Medicare reimbursement for FYs 2005 through 2011; however, we determined that the allowable PRB costs during this period were $925,490. The difference, $263,617, represented allowable fiscal intermediary and carrier contract PRB costs that TrailBlazer did not claim on its FACPs for FYs 2005 through 2011. TrailBlazer did not claim these allowable PRB costs because it based its claims for Medicare reimbursement on incorrectly calculated PRB costs.

WHAT WE RECOMMEND

We recommend that TrailBlazer revise its FACPs for FYs 2005 through 2011 to claim additional PRB costs of $263,617.

AUDITEE COMMENTS

In written comments on our draft report, Palmetto concurred with our recommendation and stated that it would work with CMS to adjust the costs claimed on the TrailBlazer FACPs. The TrailBlazer Medicare segment closed effective April 30, 2013; therefore, Palmetto responded to our report.

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INTRODUCTION

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their postretirement benefit (PRB) costs, which are funded by direct payments to beneficiaries or contributions to a dedicated trust fund. The amount of PRB 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) as required by the Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors have not always complied with Federal requirements when claiming PRB 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, PRB, and any other pension-related cost elements claimed by Medicare fiscal intermediaries and carrier contractors and Medicare administrative contractors (MACs) 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 allowable PRB costs (referred to in this report as "PRB costs") that TrailBlazer claimed for Medicare reimbursement on its FACPs.

OBJECTIVE

Our objective was to determine whether the fiscal years (FYs) 2005 through 2011 PRB 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 and Palmetto Government Benefits Administrator, LLC (Palmetto), were subsidiaries of Blue Cross Blue Shield of South Carolina (BCBS South Carolina). TrailBlazer, whose office was located in Dallas, Texas, administered Medicare Part A and Part B operations under cost reimbursement contracts with CMS until the segment closed on April 30, 2013.

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

[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.

(Jurisdiction 4),[2] effective August 2, 2007. While performing its MAC work, TrailBlazer also functioned as the Medicare Part A fiscal intermediary and Medicare Part B carrier, with those contracts terminating on March 21, 2011, and July 15, 2008, respectively. TrailBlazer continued to work as the Jurisdiction 4 MAC until April 30, 2013, when the TrailBlazer segment closed.

BCBS South Carolina sponsors a PRB plan called the BCBS South Carolina Postretirement Health and Life Insurance Programs. Because TrailBlazer was a subsidiary of BCBS South Carolina during our audit period, TrailBlazer employees were eligible to participant in this PRB plan.[3] The purpose of this PRB plan is to provide retiree health and life insurance benefits to eligible retirees and their dependents. TrailBlazer claimed PRB costs using the accrual basis of accounting and funded those accrual costs through a Voluntary Employee Benefit Association (VEBA) trust.

During our audit period, TrailBlazer administered both fiscal intermediary and carrier contracts and MAC-related contracts. This report will address the PRB costs that TrailBlazer claimed under the provisions of its fiscal intermediary and carrier contracts. We are addressing the PRB costs that TrailBlazer claimed under the provisions of its MAC contracts in a separate review. Although our report is addressed to Palmetto GBA, we will associate the term TrailBlazer with our finding and recommendation.

Medicare Reimbursement of Postretirement Benefit Costs

CMS reimburses a portion of the funded accruals that contractors charge for their PRB plans. FAR 31.205-6(o) requires that, to be allowable for Medicare reimbursement, PRB accrual costs be (1) determined in accordance with Statement of Financial Accounting Standards (SFAS) 106 and (2) funded by payments to an insurer or into a dedicated trust fund, such as a VEBA trust.

HOW WE CONDUCTED THIS REVIEW

We reviewed $661,873 of Medicare Part A and Part B PRB costs that TrailBlazer claimed for Medicare reimbursement under the provisions of its fiscal intermediary and carrier contracts, and reported on its FACPs, for FYs 2005 through 2011.[4]

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

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

[3] BCBS South Carolina acquired TrailBlazer from Blue Cross Blue Shield of Texas in October 1999 after the latter merged with Health Care Services Enterprises (HCSC). As part of the sales agreement between HCSC and BCBS South Carolina, HCSC funded TrailBlazer PRB liabilities in a grantor trust and transferred the PRB trust and liabilities to BCBS South Carolina. BCBS South Carolina has computed the PRB costs for the TrailBlazer segment separately from the PRB costs that it has computed for the rest of the BCBS South Carolina employees.

[4] The FY 2011 PRB cost is calculated for the period October 2010 through March 2011 to reflect TrailBlazer's Medicare Part A fiscal intermediary and carrier contract termination on March 21, 2011.

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 PRB costs of $661,873 for Medicare reimbursement for FYs 2005 through 2011; however, we determined that the allowable PRB costs during this period were $925,490. The difference, $263,617, represented allowable fiscal intermediary and carrier contract PRB costs that TrailBlazer did not claim on its FACPs for FYs 2005 through 2011. TrailBlazer did not claim these allowable PRB costs because it based its claims for Medicare reimbursement on incorrectly calculated PRB costs.

CLAIMED POSTRETIREMENT BENEFIT COSTS

TrailBlazer claimed PRB costs of $661,873 for Medicare reimbursement, under the provisions of its fiscal intermediary and carrier contracts, on its FACPs for FYs 2005 through 2011. We calculated the allowable Medicare PRB costs in accordance with the FAR. For details on the Federal requirements, see Appendix B.

ALLOWABLE POSTRETIREMENT BENEFIT COSTS NOT CLAIMED

We determined that the allowable PRB costs for FYs 2005 through 2011 were $925,490. Thus, TrailBlazer did not claim $263,617 of allowable fiscal intermediary and carrier contract PRB costs on its FACPs for FYs 2005 through 2011. This underclaim occurred primarily because TrailBlazer incorrectly calculated the allocable PRB costs for this time period. More specifically, the amounts of PRB costs that TrailBlazer allocated to its fiscal intermediary and carrier contracts were incorrect, with the most significant errors occurring in FYs 2005 and 2006.

The table on the following page shows the differences between the allowable PRB costs and the PRB costs that TrailBlazer claimed on its FACPs and that were reflected in its accounting documents. Appendix C contains additional details on allowable PRB costs.

Table: Comparison of Allowable PRB Costs and Claimed PRB Costs

PRB Costs			
Fiscal Year	**Allowable Per Audit**	**Claimed by TrailBlazer**	**Difference**
2005	$657,423	$566,883	$90,540
2006	316,356	115,461	200,895
2007	26,810	62,464	(35,654)
2008	(69,867)	(103,427)	33,560
2009	(29)	20,112	(20,141)
2010	(4,565)	(6,064)	1,499
2011	(638)	6,444	(7,082)
Total	**$925,490**	**$661,873**	**$263,617**

RECOMMENDATION

We recommend that TrailBlazer revise its FACPs for FYs 2005 through 2011 to claim additional PRB costs of $263,617.

AUDITEE COMMENTS

In written comments on our draft report, Palmetto concurred with our recommendation and stated that it would work with CMS to adjust the costs claimed on the TrailBlazer FACPs. The TrailBlazer Medicare segment closed effective April 30, 2013; therefore, Palmetto responded to our report.

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

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed $661,873 of Medicare Part A and Part B PRB costs that TrailBlazer claimed for Medicare reimbursement under the provisions of its fiscal intermediary and carrier contracts, and reported on its FACPs, for FYs 2005 through 2011 (footnote 4).

Achieving our objective did not require that we review BCBS South Carolina's or TrailBlazer's overall internal control structure. We reviewed the internal controls related to the PRB costs claimed for Medicare reimbursement to ensure that these costs were allocable in accordance with the FAR.

We performed our fieldwork at BCBS South Carolina in Columbia, South Carolina, and at TrailBlazer in Dallas, Texas.

METHODOLOGY

To accomplish our objective, we:

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

- reviewed accounting records and FACP information provided by TrailBlazer to identify the amount of PRB costs claimed for Medicare reimbursement for FYs 2005 through 2011;

- used information that BCBS South Carolina's actuarial consulting firms provided, including information on VEBA assets, PRB obligations, service costs, contributions, claims paid, claims reimbursed, investment earnings, and administrative expenses;

- examined BCBS South Carolina and TrailBlazer's accounting records, pension plan documents, and annual actuarial valuation reports, which included SFAS 106 information;

- determined the extent to which BCBS South Carolina funded PRB costs with contributions to the VEBA trust fund, accumulated prepayment credits, and direct benefit payments;

- engaged the CMS Office of the Actuary to calculate the PRB costs on the basis of the SFAS 106 methodology applied in accordance with FAR 31.205-6(o);

- reviewed and verified the CMS actuaries' methodology and calculations and used this information to calculate the PRB costs for the Medicare segment during FYs 2005 through 2011; and

- provided the results of our review to Palmetto officials on June 5, 2015.

We performed this review in conjunction with the following audit and used the information obtained during that audit: *TrailBlazer Health Enterprises, LLC, Understated Its Allocable Medicare Postretirement Benefit Plan Costs for Calendar Years 2008 Through 2013* (A-07-15-00462).

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 REGULATIONS RELATED TO MEDICARE REIMBURSEMENT OF POSTRETIREMENT BENEFIT COSTS

Federal regulations (FAR 31.205-6(o)) require that PRB accrual costs be determined in accordance with SFAS 106 and funded by payments to an insurer or into a dedicated trust fund, such as a VEBA trust. The FAR states that accrual accounting may be used to determine the allowable PRB costs if the cost is measured and assigned (actuarially determined) according to generally accepted accounting principles based on amortization of any transition obligation. Costs attributable to past service (transition obligation) must be assigned under the delayed recognition methodology described in paragraphs 112 and 113 of SFAS 106. The FAR also states that allowable costs must be funded by the time set for filing the Federal income tax return or any extension thereof and must comply with the applicable standards promulgated by the Cost Accounting Standards (CAS) Board.

APPENDIX C: ALLOWABLE POSTRETIREMENT BENEFIT PLAN COSTS FOR TRAILBLAZER HEALTH ENTERPRISES, LLC, FOR FISCAL YEARS 2005 THROUGH 2011

Date	Description		Total Company	Health	Life
2004	Allocable PRB cost	1/	$589,005	$461,961	$127,044
2005	Contributions	2/	1,457,082	1,449,254	7,828
	Discount for interest	3/	(71,620)	(71,424)	(196)
January 1, 2005	Present value contributions	4/	1,385,462	1,377,830	7,632
	Prepayment credit applied	5/	681,369	522,337	159,032
	Present value of funding	6/	2,066,831	1,900,167	166,664
January 1, 2005	CAS funding target	7/	681,369	522,337	159,032
	Percentage funded	8/		100%	100%
	Funded PRB cost	9/		522,337	159,032
	Unallowable interest	10/		0	0
	Allowable interest	11/		0	0
2005	Total allocable PRB cost			522,337	159,032
	FY PRB costs	12/		507,243	151,035
	Medicare LOB* percentage	13/		99.87%	99.87%
2005	Allowable FY PRB cost	14/	$657,423	$506,584	$150,839

Date	Description		Total Company	Health	Life
2006	Contributions		388,635	384,221	4,414
	Discount for interest		($23,797)	($23,687)	($110)
January 1, 2006	Present value contributions		364,838	360,534	4,304
	Prepayment credit applied		219,660	56,852	162,808
	Present value of funding		584,498	417,386	167,112
January 1, 2006	CAS funding target		219,660	56,852	162,808
	Percentage funded			100%	100%
	Funded PRB cost			56,852	162,808
	Unallowable interest			0	0
	Allowable interest			0	0
2006	Total allocable PRB cost			56,852	162,808
	FY PRB costs			173,223	161,864
	Medicare LOB* percentage			94.41%	94.41%
2006	Allowable FY PRB cost		$316,356	$163,540	$152,816

Date	Description	Total Company	Health	Life
2007	Contributions	61,444	61,444	-
	Discount for interest	($1,532)	($1,532)	$0
January 1, 2007	Present value contributions	59,912	59,912	-
	Prepayment credit applied	103,041	0	103,041
	Present value of funding	162,953	59,912	103,041
January 1, 2007	CAS funding target	(18,235)	(121,276)	103,041
	Percentage funded		100%	100%
	Funded PRB cost		(121,276)	103,041
	Unallowable interest		0	0
	Allowable interest		0	0
2007	Total allocable PRB cost		(121,276)	103,041
	FY PRB costs		(76,744)	117,983
	Medicare LOB* percentage		65.01%	65.01%
2007	Allowable FY PRB cost	$26,810	($49,891)	$76,701

Date	Description	Total Company	Health	Life
2008	Contributions	123,002	94,986	28,016
	Discount for interest	($3,068)	($2,369)	($699)
January 1, 2008	Present value contributions	119,934	92,617	27,317
	Prepayment credit applied	43,641	0	43,641
	Present value of funding	163,575	92,617	70,958
January 1, 2008	CAS funding target	(247,546)	(291,187)	43,641
	Percentage funded		100%	100%
	Funded PRB cost		(291,187)	43,641
	Unallowable interest		0	0
	Allowable interest		0	0
2008	Total allocable PRB cost		(291,187)	43,641
	FY PRB costs		(248,709)	58,491
	Medicare LOB* percentage		36.73%	36.73%
2008	Allowable FY PRB cost	($69,867)	($91,351)	$21,484

Date	Description	Total Company	Health	Life
2009	Contributions	(873,443)	(864,951)	(8,492)
	Discount for interest	$21,784	$21,572	$212
January 1, 2009	Present value contributions	(851,659)	(843,379)	(8,280)
	Prepayment credit applied	933,957	862,263	71,694
	Present value of funding	82,298	18,884	63,414
January 1, 2009	CAS funding target	82,298	18,884	63,414
	Percentage funded		100%	100%
	Funded PRB cost		18,884	63,414
	Unallowable interest		0	0
	Allowable interest		0	0
2009	Total allocable PRB cost		18,884	63,414
	FY PRB costs		(58,634)	58,471
	Medicare LOB* percentage		17.53%	17.53%
2009	Allowable FY PRB cost	($29)	($10,279)	$10,250

Date	Description		Total Company	Health	Life
2010	Contributions		(16,566)	(11,637)	(4,929)
	Discount for interest		$413	$290	$123
January 1, 2010	Present value contributions		(16,153)	(11,347)	(4,806)
	Prepayment credit applied		48,686	0	48,686
	Present value of funding		32,533	(11,347)	43,880
January 1, 2010	CAS funding target		(84,053)	(127,933)	43,880
	Percentage funded			100%	100%
	Funded PRB cost			(127,933)	43,880
	Unallowable interest			0	0
	Allowable interest			0	0
2010	Total allocable PRB cost			(127,933)	43,880
	FY PRB costs			(91,229)	48,764
	Medicare LOB* percentage			10.75%	10.75%
2010	Allowable FY PRB cost		($4,565)	($9,807)	$5,242

Date	Description		Total Company	Health	Life
2011	Contributions		(111,185)	(112,429)	1,244
	Discount for interest		$2,773	$2,804	($31)
January 1, 2011	Present value contributions		(108,412)	(109,625)	1,213
	Prepayment credit applied		142,605	57,402	85,203
	Present value of funding		34,193	(52,223)	86,416
January 1, 2011	CAS funding target		32,980	(52,223)	85,203
	Percentage funded			100%	100%
	Funded PRB cost			(52,223)	85,203
	Unallowable interest			0	0
	Allowable interest			0	0
2011	Total allocable PRB cost	15/		(13,056)	21,301
	FY PRB costs	16/		(45,039)	32,271
	Medicare LOB* percentage			5.00%	5.00%
2011	Allowable FY PRB cost		($638)	($2,252)	$1,614

* Line of Business.

ENDNOTES

1/ The calendar year (CY) allocable PRB cost is the amount of PRB cost that may be allocated for contract cost purposes. We obtained the CY 2004 Total Company allocable PRB cost from our prior TrailBlazer PRB review (A-07-07-00229), issued December 27, 2007.

2/ We obtained the contributions from TrailBlazer's trust statements. The contributions included deposits made during the plan year (PY) and the discounted value of accrued contributions, if any, deposited after the end of the PY but within the time allowed for filing tax returns.

3/ 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 and actual contribution amounts. Interest is determined using the expected long-term rate of return assumption as reported in the PRB actuarial valuation report.

4/ 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.

5/ 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 PRB costs.

6/ The present value of funding represents the present value of contributions plus prepayment credits plus direct benefit payments. This is the amount of funding that is available to cover the CAS funding target measured at the first day of the CY.

7/ The CAS funding target is based on the assignable PRB cost computed during our review. The CAS funding target must be funded by accumulated prepayment credits, current year contributions, or direct benefit payments to satisfy the funding requirement contained in the FAR.

8/ 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, 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 costs funded has been rounded to four decimal places.

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

10/ Unallowable interest represents the interest cost attributable to the unallowable unfunded costs that are included in the current-period PRB cost (as determined in accordance with SFAS 106), discounted to the beginning of the year at the long-term interest rate.

11/ We assumed that interest on the funded PRB 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(o)(4), which provides that interest costs are unallowable if caused by a delay in funding beyond 30 days after the end of each quarter to which they are assignable.

12/ We converted the allowable PRB cost to an FY basis (October 1 through September 30). We calculated the FY PRB costs as 1/4 of the prior year's costs plus 3/4 of the current year's costs.

13/ We calculated the Medicare line of business (LOB) percentages based on information provided by TrailBlazer.

14/ We computed the allowable PRB cost as the FY PRB cost multiplied by the Medicare LOB percentage.

15/ TrailBlazer's fiscal intermediary and carrier contract was terminated on March 21, 2011. Therefore, we calculated the CY 2011 pension cost as 1/4 of the CY cost.

16/ The FY 2011 PRB cost is calculated for the period October 2010 through March 2011 to reflect TrailBlazer's fiscal intermediary and contract carrier contract termination on March 21, 2011.

PALMETTO GBA
A CELERIAN GROUP COMPANY

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JOE WRIGHT
Vice President and CFO

August 21, 2015

RE: Audit Report Number A-07-15-00461

Patrick J. Cogley
Regional Inspector General for 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 July 23, 2015 entitled *TrailBlazer Health Enterprises, LLC, Did Not Claim Some Allowable Medicare Postretirement Benefit Costs for Fiscal Years 2005 Through 2011*.

The audit contained the following recommendation with which we concur.

Recommendation:

We recommend that TrailBlazer revise its FACPs for FYs 2005 through 2011 to claim additional PRB costs of $263,617.

Comment:

We concur with the recommendation and will work with CMS to adjust the costs claimed on the TrailBlazer FACPs.

If you have any questions, please feel free to contact me at 803-763-5544. I am handling these matters for TrailBlazer Health Enterprises, LLC since the company has discontinued operations.

Sincerely,

Joe Wright

Joe Wright

cc: Eric Shipley, OACT-CMS
Bruce Hughes, BCBSSC