Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

TRAILBLAZER HEALTH ENTERPRISES, LLC, UNDERSTATED ITS ALLOCABLE MEDICARE POSTRETIREMENT BENEFIT PLAN COSTS FOR CALENDAR YEARS 2008 THROUGH 2013

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-07-15-00462

Office of Inspector General

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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, understated its allocable postretirement benefit plan costs by $1.1 million for calendar years 2008 through 2013.

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 and/or Incurred Cost Proposals (ICPs).

For this review, we focused on one Medicare contractor, TrailBlazer Health Enterprises, LLC (TrailBlazer). In particular, we examined the allocable PRB costs (referred to in this report as "PRB costs") that TrailBlazer used to calculate the indirect cost rates in its ICPs.

The objective of this review was to determine whether the allocable PRB costs that TrailBlazer used to calculate the indirect cost rates in its ICPs, under the provisions of its MAC contracts, for calendar years (CYs) 2008 through 2013 complied with Federal requirements.

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 MAC contracts. We are addressing the PRB costs that TrailBlazer claimed under the provisions of its fiscal intermediary and carrier contracts in a separate review. Although our report is addressed to Palmetto, we will associate the term TrailBlazer with our finding and recommendations.

We reviewed negative $4,809,637 of PRB costs used by TrailBlazer in the calculation of its indirect cost rates, under the provisions of its MAC contracts, for CYs 2008 through 2013.

WHAT WE FOUND

TrailBlazer used allocable PRB costs of negative $4,809,637 to calculate the indirect cost rates in its ICPs; however, we determined that the PRB costs that TrailBlazer should have used to calculate the indirect cost rates during this period were negative $3,684,869. Thus, TrailBlazer understated the PRB costs used to calculate its indirect cost rates for CYs 2008 through 2013 by $1,124,768. These understatements occurred primarily because TrailBlazer used incorrect PRB costs to calculate its indirect cost rates for CYs 2008 through 2013.

WHAT WE RECOMMEND

We recommend that TrailBlazer:

- increase the allocable PRB costs used to calculate the indirect cost rates by $1,124,768 for CYs 2008 through 2013 and

- work with CMS to determine the allowable PRB costs related to the MAC contracts.

AUDITEE COMMENTS

In written comments on our draft report, Palmetto concurred with our recommendations and stated that it would work with CMS to determine the allowable PRB costs related to the MAC contracts. 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 and/or Incurred Cost Proposals (ICPs).

For this review, we focused on one Medicare contractor, TrailBlazer Health Enterprises, LLC (TrailBlazer). In particular, we examined the allocable PRB costs (referred to in this report as "PRB costs") that TrailBlazer used to calculate the indirect cost rates in its ICPs.

OBJECTIVE

Our objective was to determine whether the allocable PRB costs that TrailBlazer used to calculate the indirect cost rates in its ICPs, under the provisions of its MAC contracts, for calendar years (CYs) 2008 through 2013 complied with Federal requirements.

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.[3] 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.[4] 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 MAC contracts. We are addressing the PRB costs that TrailBlazer claimed under the provisions of its fiscal intermediary and carrier contracts in a separate review. Although our report is addressed to Palmetto, we will associate the term TrailBlazer with our finding and recommendations.

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, such as a VEBA trust.

Under the provisions of Medicare contracting reform, CMS transferred the functions of the fiscal intermediaries and contract carriers, which had executed the fiscal intermediary and carrier contracts, to MACs. Under the MAC contracts, the method by which Medicare reimbursed PRB costs to the contractor changed from a cost reimbursement basis to an indirect cost basis. In accordance with the FAR and the MAC contracts, reimbursement of indirect costs was now based on indirect cost rates that met the negotiated indirect cost rates determined in the contracts.

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

[3] The National Institutes of Health issued a final indirect rate agreement for TrailBlazer for CY 2007. As a result, TrailBlazer's indirect cost rates for CY 2007 are final and no longer subject to audit. Therefore, the scope of our review is CYs 2008 through 2013.

[4] 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.

HOW WE CONDUCTED THIS REVIEW

We reviewed negative $4,809,637 of PRB costs used by TrailBlazer in the calculation of its indirect cost rates, under the provisions of its MAC contracts, for CYs 2008 through 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 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 used allocable PRB costs of negative $4,809,637 to calculate the indirect cost rates in its ICPs; however, we determined that the PRB costs that TrailBlazer should have used to calculate the indirect cost rates during this period were negative $3,684,869. Thus, TrailBlazer understated the PRB costs used to calculate its indirect cost rates for CYs 2008 through 2013 by $1,124,768. These understatements occurred primarily because TrailBlazer used incorrect PRB costs to calculate its indirect cost rates for CYs 2008 through 2013.

CMS should use the information contained in this report and the related report (A-07-15-00461) when determining the allowable Medicare segment PRB cost for TrailBlazer.[5]

TRAILBLAZER POSTRETIREMENT BENEFIT COSTS

TrailBlazer used Total Company PRB costs of negative $4,809,637 to calculate its indirect cost rates for CYs 2008 through 2013. We calculated PRB costs for this period in accordance with the FAR. For details on the Federal requirements, see Appendix B.

We determined that the accrued PRB costs for the Total Company were negative $3,684,869 for CYs 2008 through 2013. Thus, TrailBlazer understated the Total Company PRB costs used to calculate its indirect cost rates for this period by $1,124,768. These understatements occurred primarily because TrailBlazer used incorrect PRB costs to calculate its indirect cost rates for CYs 2008 through 2013.

[5] Our review of the allocable PRB costs for TrailBlazer identified the amount of PRB costs that should have been used to allocate PRB costs to the TrailBlazer Medicare segment. CMS should use the information in this report, as well as the information from our review of the fiscal intermediary and carrier contract PRB costs claimed by TrailBlazer (A-07-15-00461), to determine the allowable PRB costs for TrailBlazer. In addition, CMS will use the information provided by the audit organization that reviews the ICPs (regarding their compliance with the Cost Accounting Standards (CAS)) to determine the final indirect cost rates for TrailBlazer.

COMPARISON OF TRAILBLAZER POSTRETIREMENT BENEFIT COSTS

The table below shows the differences between the Total Company PRB costs that we calculated and the PRB costs that TrailBlazer used to calculate its indirect cost rates for CYs 2008 through 2013. Appendix C contains additional details on PRB costs.

Table: Comparison of TrailBlazer Postretirement Benefit Costs

TrailBlazer Postretirement Benefit Costs			
Calendar Year	**Per Audit**	**Per TrailBlazer**	**Difference**
2008	($247,546)	($249,314)	$1,768
2009	82,298	350,001	(267,703)
2010	(84,053)	(195,431)	111,378
2011	32,980	110,002	(77,022)
2012	(3,262,255)	(4,381,794)	1,119,539
2013	(206,293)	(443,101)	236,808
Total	**($3,684,869)**	**($4,809,637)**	**$1,124,768**

RECOMMENDATIONS

We recommend that TrailBlazer:

- increase the allocable PRB costs used to calculate the indirect cost rates by $1,124,768 for CYs 2008 through 2013 and

- work with CMS to determine the allowable PRB costs related to the MAC contracts.

AUDITEE COMMENTS

In written comments on our draft report, Palmetto concurred with our recommendations and stated that it would work with CMS to determine the allowable PRB costs related to the MAC contracts. 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 negative $4,809,637 of PRB costs used by TrailBlazer in the calculation of its indirect cost rates, under the provisions of its MAC contracts, for CYs 2008 through 2013.

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 to ensure that these costs were allocable in accordance with the FAR and the MAC contract.

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 MAC contracts applicable to this audit;

- reviewed accounting records and ICP information provided by TrailBlazer to identify the amount of PRB costs used to calculate TrailBlazer's indirect cost rates for CYs 2008 through 2013;

- 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 payment;

- 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 during CYs 2008 through 2013; 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, Did Not Claim Some Allowable Medicare Postretirement Benefit Costs for Fiscal Years 2005 Through 2011* (A-07-15-00461).

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 POSTRETIREMENT BENEFIT COSTS

FEDERAL REGULATIONS

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 CAS Board.

Federal regulations (FAR 52.216-7(a)(1)) address the invoicing requirements and the allowability of payments as determined by the Contracting Officer in accordance with FAR subpart 31.2.

MEDICARE CONTRACTS

The contracts state: "Once each month following the effective date of this contract, the Contractor may submit to the Government an invoice for payment, in accordance with FAR clause 52.216-7, 'Allowable Cost & Payment.'"

APPENDIX C: ALLOCABLE POSTRETIREMENT BENEFIT PLAN COSTS FOR TRAILBLAZER HEALTH ENTERPRISES, LLC, FOR CALENDAR YEARS 2007 THROUGH 2013

Date	Description		Total Company	Health	Life
2007	Contributions	1/	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	CY Allocable PRB Cost		($18,235)	(121,276)	103,041

Date	Description		Total Company	Health	Life
2008	Contributions	2/	123,002	94,986	28,016
	Discount for interest	3/	($3,068)	($2,369)	($699)
January 1, 2008	Present value contributions	4/	119,934	92,617	27,317
	Prepayment credit applied	5/	43,641	0	43,641
	Present value of funding		163,575	92,617	70,958
		6/			
January 1, 2008	CAS funding target	7/	(247,546)	(291,187)	43,641
	Percentage funded	8/		100%	100%
	Funded PRB cost	9/		(291,187)	43,641
	Unallowable interest	10/		0	0
	Allowable interest	11/		0	0
2008	CY Allocable PRB Cost	12/	($247,546)	(291,187)	43,641

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	CY Allocable PRB cost		$82,298	18,884	63,414

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	CY Allocable PRB cost	($84,053)	(127,933)	43,880

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	CY Allocable PRB cost	32,980	(52,223)	85,203

Date	Description	Total Company	Health	Life
2012	Contributions	300,453	266,245	34,208
	Discount for interest	($7,493)	($6,640)	($853)
January 1, 2012	Present value contributions	292,960	259,605	33,355
	Prepayment credit applied	0	0	0
	Present value of funding	292,960	259,605	33,355
January 1, 2012	CAS funding target	(3,262,255)	(2,392,179)	(870,076)
	Percentage funded		100%	100%
	Funded PRB cost		(2,392,179)	(870,076)
	Unallowable interest		0	0
	Allowable interest		0	0
2012	CY Allocable PRB cost	($3,262,255)	($2,392,179)	($870,076)

Date	Description		Total Company		Health		Life
2013	Contributions		-		-		-
	Discount for interest		$0		$0		$0
January 1, 2013	Present value contributions		-		-		-
	Prepayment credit applied		0		0		0
	Present value of funding		-		-		-
January 1, 2013	CAS funding target		(206,293)		(187,964)		(18,329)
	Percentage funded				100%		100%
	Funded PRB cost				(187,964)		(18,329)
	Unallowable interest				0		0
	Allowable interest				0		0
2013	CY Allocable PRB cost	13/	($206,293)		($187,964)		($18,329)

* Line of Business.

ENDNOTES

1/ The National Institutes of Health issued a final indirect rate agreement for TrailBlazer for CY 2007. As a result, TrailBlazer's indirect cost rates for CY 2007 are final and no longer subject to audit. Therefore, the scope of our review is CYs 2008 through 2013. We have included the 2007 allocable cost calculations for informational purposes only, as requested by CMS.

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/ The CY allocable PRB cost is the amount of PRB costs that may be allocated for contract purposes.

13/ TrailBlazer closed its Medicare segment effective April 30, 2013. Therefore, we calculated the CY 2013 pension cost as 4/12 of the CY cost.

PALMETTO GBA
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JOE WRIGHT
Vice President and CFO

August 21, 2015

RE: Audit Report Number A-07-15-00462

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, Understated Its Allocable Medicare Postretirement Benefit Plan Costs for Calendar Years 2008 Through 2013.*

The audit contained the following recommendation with which we concur.

Recommendation:

We recommend that TrailBlazer:

- increase the allocable PRB costs used to calculate the indirect rates by $1,124,768 for CYs 2008 through 2013
- work with CMS to determine the allowable PRB costs related to the MAC contracts.

Comment:

We concur with the recommendation and will increase the allocable PRB costs used to calculate the indirect rates and work with CMS to determine the allowable PRB costs related to the MAC contracts.

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