Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

TRAILBLAZER HEALTH ENTERPRISES, LLC, CLAIMED SOME UNALLOWABLE MEDICARE ADMINISTRATIVE CONTRACT PENSION COSTS

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-07-17-00510

Office of Inspector General

https://oig.hhs.gov/

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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.

Report in Brief
Date: August 2017
Report No. A-07-17-00510

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

Why OIG Did This Review

The Centers for Medicare & Medicaid Services (CMS) reimburses a portion of the annual contributions that contractors make to their pension plans.

The HHS, OIG, Office of Audit Services, Region VII pension audit team reviews the cost elements related to qualified defined-benefit, and any other pension-related cost elements claimed by Medicare contractors through Incurred Cost Proposals (ICPs).

Our objective was to determine whether the calendar years (CYs) 2008 through 2013 pension costs that TrailBlazer Health Enterprises, LLC (TrailBlazer), claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

How OIG Did This Review

We reviewed $17.6 million of pension costs that TrailBlazer reported on its ICPs for CYs 2008 through 2013. The TrailBlazer Medicare segment closed effective April 30, 2013; therefore, the auditee requested that we address our recommendation to Palmetto Government Benefits Administrator (Palmetto).

TrailBlazer Health Enterprises, LLC, Claimed Some Unallowable Medicare Administrative Contract Pension Costs

What OIG Found

TrailBlazer claimed Medicare pension costs of $17.6 million for Medicare reimbursement, through its ICPs, for CYs 2008 through 2013; however, we determined that the allowable Cost Accounting Standards (CAS)-based pension costs during this period were $17.4 million. The difference, $227,671, represented unallowable Medicare pension costs that TrailBlazer claimed on its ICPs for CYs 2008 through 2013. TrailBlazer claimed these unallowable Medicare pension costs primarily because it based its claim for Medicare reimbursement on incorrectly calculated CAS-based pension costs.

What OIG Recommends and Auditee Comments

We recommend that Palmetto work with CMS to ensure that TrailBlazer's final settlement of contract costs reflects a decrease in Medicare pension costs of $227,671 for CYs 2008 through 2013.

Palmetto concurred with our recommendation.

The full report can be found at https://oig.hhs.gov/oas/reports/region7/71700510.asp.

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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 have not always complied with Federal requirements when claiming pension costs for Medicare reimbursement.

At CMS's request, the HHS, 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 (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 TrailBlazer Medicare segment pension costs that TrailBlazer claimed for Medicare reimbursement and reported on its ICPs.

OBJECTIVE

Our objective was to determine whether the calendar years (CYs) 2008 through 2013 pension costs that TrailBlazer claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

BACKGROUND

TrailBlazer Health Enterprises, LLC

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 Part A and Part B Jurisdiction 4[2] 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 MAC contracts when claiming Medicare pension costs for Medicare reimbursement. We are addressing, in separate reviews, the pension costs claimed by Palmetto and CDS. The TrailBlazer Medicare segment closed effective April 30, 2013; therefore, BCBS South Carolina requested that we address our recommendations to Palmetto. Although we are addressing our report to Palmetto, we will associate the term TrailBlazer with our finding and recommendation.

TrailBlazer's disclosure statement indicates that TrailBlazer uses pooled costing. Medicare contractors use pooled costing to calculate the indirect cost rates that they submit on their ICPs. The pension costs are included in the computations of the indirect cost rates reported on the ICPs. CMS uses these indirect cost rates when reimbursing costs for cost-plus-award-fee type contracts.[3, 4]

Medicare Reimbursement of Pension Costs

CMS reimburses a portion of the annual contributions that contractors make to their pension plans. The pension costs are included in the computation of the indirect cost rates reported on the ICPs. In turn, CMS uses indirect cost rates in reimbursing costs under cost-reimbursement contracts. 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. In claiming costs, contractors must follow cost reimbursement principles contained in the FAR, the CAS, and the Medicare contracts. The cognizant Contracting Officer

[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.

[3] A cost-plus-award-fee contract is a cost reimbursement contract that provides a fee consisting of (a) a base amount fixed at inception of the contract and (b) an award amount, based on a judgmental evaluation by the Federal Government.

[4] At the end of each CY, each MAC submits to CMS an ICP that reports the Medicare direct and indirect cost that the contractor incurred during that year. The ICP and supporting data provide the basis for the CMS Contracting Office and the Medicare contractor to determine the final billing rates for allowable Medicare costs.

will perform a final settlement with the contractor to determine the final indirect cost rates. These rates ultimately determine the final costs of each contract.[5]

Incurred Cost Proposal Audit

At CMS's request, Mayer Hoffman McCann P.C. (Mayer) and Figliozzi & Company CPAs P.C. (Figliozzi) performed audits of the ICPs that TrailBlazer submitted for CYs 2008 through 2013. The objective of the Mayer ICP audit was to determine the allowability of direct and indirect costs claimed by the contractor for its Federal Government contracts; this audit then recommended indirect cost rates to the CMS Contracting Officer. Figliozzi's ICP audit examined TrailBlazer's ICPs and rendered an opinion on whether the incurred costs claimed by TrailBlazer were reasonable, allocable to the contract, and allowable under the contract, part 31 of the FAR, and the U.S. Department of Health and Human Services Acquisition Regulation System. We incorporated the results of these audits into the computation of the indirect cost rates, and ultimately the pension costs claimed, for the MAC contracts.

HOW WE CONDUCTED THIS REVIEW

We reviewed $17,579,020 of pension costs that TrailBlazer reported on its ICPs for CYs 2008 through 2013.[6]

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

Appendix A contains details of our audit scope and methodology.

FINDING

TrailBlazer claimed Medicare pension costs of $17,579,020 for Medicare reimbursement, through its ICPs, for CYs 2008 through 2013; however, we determined that the allowable CAS-based pension costs during this period were $17,351,349. The difference, $227,671, represented unallowable Medicare pension costs that TrailBlazer claimed on its ICPs for CYs 2008 through 2013. TrailBlazer claimed these unallowable Medicare pension costs primarily

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[5] In accordance with FAR 42.705-1(5)(ii) and FAR 42.705-1(5)(iii)(B), the cognizant Contracting Officer shall "[p]repare a written indirect cost rate agreement conforming to the requirements of the contracts" and perform a "[r]econciliation of all costs questioned, with identification of items and amounts allowed or disallowed in the final settlement," respectively.

[6] TrailBlazer's ICPs included only direct costs related to the Medicare segment. We followed TrailBlazer's methodology, and for that reason, our audited costs include only direct costs related to the TrailBlazer Medicare segment.

because it based its claim for Medicare reimbursement on incorrectly calculated CAS-based pension costs.

Claimed Medicare Pension Costs

TrailBlazer claimed pension costs of $17,579,020 for CYs 2008 through 2013. We calculated the allowable Medicare pension costs based on separately computed CAS-based pension costs for the Medicare segment in accordance with CAS 412 and 413.

Unallowable Medicare Pension Costs Claimed

After incorporating the results of the Mayer and Figliozzi ICP audits, we determined that the allowable CAS-based pension costs for CYs 2008 through 2013 were $17,351,349. Thus, TrailBlazer claimed $227,671 of unallowable Medicare pension costs on its ICPs for CYs 2008 through 2013. This overclaim occurred because TrailBlazer based its allowable pension costs on calculations that did not comply with CAS 412 and 413.

During this audit, we determined the allocable pension costs for the Medicare segment. We used the allocable pension costs to determine the allowable pension costs for Medicare reimbursement. Table 1 below shows the allocable CAS-based pension costs that we determined for CYs 2008 through 2013. Appendix C contains additional details on allowable pension costs.

Table 1: Medicare Segment Allocable Pension Costs

Calendar Year	Allocable Per Audit	Per TrailBlazer	Difference
2008	$4,196,561	$4,463,026	($266,465)
2009	5,021,589	5,040,126	(18,537)
2010	5,244,885	5,260,546	(15,661)
2011	5,195,739	5,228,548	(32,809)
2012	0	25,244	(25,244)
2013	0	15,507	(15,507)
Total	**$19,658,774**	**$20,032,997**	**($374,223)**

We then used this information to adjust the indirect cost rates (i.e, overhead and general and administrative rates) and, in turn, to calculate the information presented in Table 2 on the following page. Our calculation will not be presented in the report because those rate calculations that TrailBlazer used in its ICPs, and to which we referred as part of our review, are proprietary information.

Accordingly, Table 2 on the following page compares the Medicare segment pension costs that we calculated (using our adjusted indirect cost rates) to the pension costs that TrailBlazer claimed for Medicare reimbursement for CYs 2008 through 2013.

Table 2: Medicare Pension Costs[7]

Calendar Year	Per Audit	Per TrailBlazer	Difference
2008	$2,126,375	$2,261,373	($134,998)
2009	4,763,351	4,772,692	(9,341)
2010	5,378,984	5,395,085	(16,101)
2011	5,082,639	5,114,732	(32,093)
2012	0	28,502	(28,502)
2013	0	6,636	(6,636)
Total Overclaim of Pension Costs	**$17,351,349**	**$17,579,020**	**($227,671)**

RECOMMENDATION

We recommend that Palmetto work with CMS to ensure that TrailBlazer's final settlement of contract costs reflects a decrease in Medicare pension costs of $227,671 for CYs 2008 through 2013.

AUDITEE COMMENTS

In written comments on our draft report, Palmetto concurred with our recommendation. Palmetto's comments appear in their entirety as Appendix D.

[7] Our calculations incorporated the rate ceiling associated with the Medicare Parts A and B contracts. We applied the indirect cost rates associated with these contracts when computing the allowable pension costs for the Medicare Parts A and B contracts. The amounts identified in this table represent the allowable Medicare pension costs during our audit period and do not represent the total allowable costs on the ICPs.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed $17,579,020 of Medicare pension costs that TrailBlazer reported on its ICPs for CYs 2008 through 2013 (footnote 6).

Achieving our objective did not require that we review TrailBlazer's overall internal control structure. We limited our review to the internal controls related to the pension costs that were included in TrailBlazer's ICPs and ultimately used as the basis 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 CYs 2008 through 2013;
- used information that TrailBlazer's actuarial consulting firm provided, including information on the pension plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses;
- examined 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 TrailBlazer 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);
- reviewed the CMS actuaries' methodology and calculations;
- reviewed the results of the Mayer and Figliozzi ICP audits and incorporated those results into our calculations of allowable pension costs; and

- provided the results of our review to Palmetto officials on May 11, 2017.

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

- *TrailBlazer Health Enterprises, LLC, Understated Its Medicare Segment Pension Assets and Understated Medicare's Share of the Medicare Segment Excess Pension Assets* (A-07-17-00507) and

- *TrailBlazer Health Enterprises, LLC, Did Not Claim Some Allowable Medicare Pension Costs* (A-07-17-00508).

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 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.

Federal regulations (FAR 31.205-6(j)) require Medicare contractors to measure, assign, and allocate the costs of all defined-benefit pension plans in accordance with CAS 412 and 413. This regulation also addresses the 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 require TrailBlazer to submit invoices in accordance with FAR 52.216-7, “Allowable Cost & Payment.” (See our citation to FAR 52.216-7(a)(1) in “Federal Regulations” above.)

APPENDIX C: ALLOWABLE MEDICARE PENSION COSTS FOR TRAILBLAZER HEALTH ENTERPRISES, LLC, FOR FISCAL YEARS 2008 THROUGH 2013

Date	Description		Total Company	Other Segment	Palmetto Segment	TrailBlazer Segment	CDS Segment
2008	Contributions	1/	$55,000,000	$55,000,000	$0	$0	$0
	Discount for interest	2/	($4,074,074)	($4,074,074)	$0	$0	$0
January 1, 2008	Present value contributions	3/	$50,925,926	$50,925,926	$0	$0	$0
	Prepayment credit applied	4/	44,832,164	34,654,231	$4,985,138	$4,196,561	$996,234
	Present value of funding	5/	$95,758,090	$85,580,157	$4,985,138	$4,196,561	$996,234
January 1, 2008	CAS funding target	6/	44,832,164	34,654,231	$4,985,138	$4,196,561	$996,234
	Percentage funded	7/		100.00%	100.00%	100.00%	100.00%
	Funded pension cost	8/		$34,654,231	$4,985,138	$4,196,561	$996,234
	Allowable interest	9/		$0	$0	$0	$0
	Allocable pension cost	10/		$34,654,231	$4,985,138	$4,196,561	$996,234

Date	Description	Total Company	Other Segment	Palmetto Segment	TrailBlazer Segment	CDS Segment
2009	Contributions	$50,000,000	$50,000,000	$0	$0	$0
	Discount for interest	($3,638,889)	($3,638,889)	$0	$0	$0
January 1, 2009	Present value contributions	$46,361,111	$46,361,111	$0	$0	$0
	Prepayment credit applied	$59,552,309	$48,168,674	$5,031,604	$5,021,589	$1,330,442
	Present value of funding	$105,913,420	$94,529,785	$5,031,604	$5,021,589	$1,330,442
January 1, 2009	CAS funding target	$59,552,309	$48,168,674	$5,031,604	$5,021,589	$1,330,442
	Percentage funded		100.00%	100.00%	100.00%	100.00%
	Funded pension cost		$48,168,674	$5,031,604	$5,021,589	$1,330,442
	Allowable interest		$0	$0	$0	$0
	Allocable pension cost		$48,168,674	$5,031,604	$5,021,589	$1,330,442

Date	Description	Total Company	Other Segment	Palmetto Segment	TrailBlazer Segment	CDS Segment
2010	Contributions	$80,000,000	$80,000,000	$0	$0	$0
	Discount for interest	($5,860,741)	($5,860,741)	$0	$0	$0
January 1, 2010	Present value contributions	$74,139,259	$74,139,259	$0	$0	$0
	Prepayment credit applied	63,326,220	50,736,124	$5,650,955	$5,244,885	$1,694,256
	Present value of funding	$137,465,479	$124,875,383	$5,650,955	$5,244,885	$1,694,256
January 1, 2010	CAS funding target	$63,326,220	$50,736,124	$5,650,955	$5,244,885	$1,694,256
	Percentage funded		100.00%	100.00%	100.00%	100.00%
	Funded pension cost		$50,736,124	$5,650,955	$5,244,885	$1,694,256
	Allowable interest		$0	$0	$0	$0
	Allocable pension cost		$50,736,124	$5,650,955	$5,244,885	$1,694,256

Date	Description	Total Company	Other Segment	Palmetto Segment	TrailBlazer Segment	CDS Segment
2011	Contributions	$55,000,000	$55,000,000	$0	$0	$0
	Discount for interest	($3,997,074)	($3,997,074)	$0	$0	$0
January 1, 2011	Present value contributions	$51,002,926	$51,002,926	$0	$0	$0
	Prepayment credit applied	62,453,139	50,062,318	$5,334,690	$5,195,739	$1,860,392
	Present value of funding	$113,456,065	$101,065,244	$5,334,690	$5,195,739	$1,860,392
January 1, 2011	CAS funding target	$62,453,139	$50,062,318	$5,334,690	$5,195,739	$1,860,392
	Percentage funded		100.00%	100.00%	100.00%	100.00%
	Funded pension cost		$50,062,318	$5,334,690	$5,195,739	$1,860,392
	Allowable interest		$0	$0	$0	$0
	Allocable pension cost		$50,062,318	$5,334,690	$5,195,739	$1,860,392

Date	Description	Total Company	Other Segment	Palmetto Segment	TrailBlazer Segment	CDS Segment
2012	Contributions	$45,000,000	$45,000,000	$0	$0	$0
	Discount for interest	($3,333,333)	($3,333,333)	$0	$0	$0
January 1, 2012	Present value contributions	$41,666,667	$41,666,667	$0	$0	$0
	Prepayment credit applied	53,584,576	46,652,450	$5,115,107	$0	$1,817,019
	Present value of funding	$95,251,243	$88,319,117	$5,115,107	$0	$1,817,019
January 1, 2012	CAS funding target	$53,584,576	$46,652,450	$5,115,107	$0	$1,817,019
	Percentage funded		100.00%	100.00%	0.00%	100.00%
	Funded pension cost		$46,652,450	$5,115,107	$0	$1,817,019
	Allowable interest		$0	$0	$0	$0
	Allocable pension cost		$46,652,450	$5,115,107	$0	$1,817,019

Date	Description	Total Company	Other Segment	Palmetto Segment	TrailBlazer Segment	CDS Segment
2013	Contributions	NA	NA	NA	$0	NA
	Discount for interest	NA	NA	NA	$0	NA
January 1, 2013	Present value contributions	NA	NA	NA	$0	NA
	Prepayment credit applied	NA	NA	NA	$0	NA
	Present value of funding	NA	NA	NA	$0	NA
January 1, 2013	CAS funding target	NA	NA	NA	$0	NA
	Percentage funded		NA	NA	0.00%	NA
	Funded pension cost		NA	NA	$0	NA
	Allowable interest		NA	NA	$0	NA
	Allocable pension cost		NA	NA	$0	NA

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-07-17-00507).

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 contributions made during the current accounting period 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.

APPENDIX D: AUDITEE COMMENTS

PALMETTO GBA®
A CELERIAN GROUP COMPANY

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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-07-17-00510

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, Claimed Some Unallowable Medicare Administrative Contract Pension Costs.*

The report contains the following recommendation that Palmetto:

- work with CMS to ensure that TrailBlazer's final settlement of contract costs reflects a decrease in Medicare Pension costs of $227,671 for CY 2008-2013.

Palmetto concurs with the OIG recommendation 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