

2018

CGS ADMINISTRATORS, LLC

ANNUAL REPORT



CGS[®]

A CELERIAN GROUP COMPANY



PRESIDENT'S LETTER

As we review 2018 in our annual report, it will become clear that exceptional performance is the standard at CGS Administrators, LLC (CGS). Our people, processes, and systems have driven the highest performance ever, and it is attributable to the commitment of each of the employees of CGS. This commitment to excellence is conveyed in our mission statement and demonstrated on a daily basis by our employees.

Our relentless drive toward excellence is seen in our overall performance, but it is also seen in our approach to innovation through the hundreds of recommended improvements provided by our employees on huddle boards, the interactions we have with providers and suppliers as well as our customers, our collaborative engagements with other companies, and our commitment to our communities. Excellence isn't just represented by our achievement of metrics; excellence is represented by each and every effort we make to IMPACT Lives.

I am excited to share the excellence achieved by members of the CGS team.

Warmest regards,

A handwritten signature in cursive script that reads "Steven B. Smith". The signature is written in black ink on a white background.

Steven B. Smith, *President & Chief Operating Officer*

MISSION

We IMPACT Lives!

VISION

To IMPACT the future of our communities and nation by being the premier administrator of government healthcare programs.

CORE VALUES



INTEGRITY: We are ethical, responsible, honest, and reliable. We promote an environment of openness and trust.

MAKING A DIFFERENCE: We are empowered to make change for the better in our business, our communities, and our lives. We inspire each other.

PASSION FOR EXCELLENCE: Our goal is to be the best at all we do. We are optimistic and expect to succeed.

ALWAYS IMPROVING: We continuously improve and we never stop learning.

CUSTOMER FOCUSED: Our customers are our priority. We understand our customers' needs and surpass expectations.

TAKING RISKS: We are courageous and embrace change. We see challenges as opportunities.



LINDA MARTIN, COMPLIANCE OFFICER

COMPLIANCE

The definition of "culture" in the Merriam-Webster Dictionary is: "the set of shared attitudes, values, goals, and practices that characterizes an institution or organization." This definition describes the compliance culture at CGS. We understand that having a strong compliance culture is critically important to the ongoing success of CGS; it is at the forefront of the work that we perform on a daily basis as a Medicare Administrative Contractor (MAC). The work that is performed by our staff at every level of the organization is intertwined within our compliance culture. CGS staff are empowered to ask questions and challenge directives that do not seem right. We continuously serve our customers through compliant business practices, and the support of our compliance program by our staff is overwhelming. This was evidenced by our most recent leading compliance survey scores. CGS's shared attitudes, values, goals, and practices help sustain our status as a premier MAC.

CGS staff are empowered to ask questions and challenge directives that don't seem right.

- Linda Martin, Compliance Director

DME COLLABORATION: WHEN WORKING TOGETHER WORKS!



MELISSA KIRCHENBAUER, ASSISTANT VICE PRESIDENT,
MEDICARE OPERATIONS DME MAC JC &
ROC VIA, ASSISTANT VICE PRESIDENT, MEDICARE
OPERATIONS DME MAC JB

CGS is a trusted and established leader in identifying opportunities to collaborate with stakeholders within the Medicare industry. CGS has a well-documented record of success in our collaborative efforts, confirming the belief that working together works! Through these initiatives, we have accomplished many milestones and continue to drive even greater success.

One of our greatest accomplishments is the continued reduction in our Durable Medical Equipment (DME) Comprehensive Error Rate Testing (CERT) improper payment rates. Over a seven year period, we reduced the improper payment amount by over 59%. This was not a milestone CGS could have achieved on our own. Through our concerted efforts, CGS has strengthened our relationships with national and state associations and is a trusted resource for our Durable Medical Equipment, Prosthetics, Orthotics, and Supplies suppliers. Collaboration for CGS means an "all hands on deck" approach to the task at hand. By doing so, we have been afforded the opportunity to share ideas between Medicare contractors in order to review at-risk entities that pose a risk and look for opportunities for consistency across contracts.

DME CERT Outreach & Education Taskforce: The DME CERT Taskforce was established in 2011. This workgroup includes representatives from the DME Provider Outreach & Education (POE) team, DME CERT coordinators, DME Medical Review (MR), a representative from the Part A/Part B (A/B) MAC CERT Taskforce, and the CMS liaisons. The taskforce continues to develop national education strategies tied to the DME MAC MR and national CERT data trends for the top DME policies and their documentation requirements.

From the inception of the CERT taskforce, its momentum has continued to increase, and it has kept CERT in the forefront of the suppliers' day-to-day operations. The steady decrease in the CERT improper payment rates speaks volumes to the benefits of our collaborative efforts. Some of CGS's results include:

- Increased education to targeted audiences, addressing the top CERT errors and providing resolutions
- A significant decrease (9.1%) in the CERT error rate from 2017 to 2018

DME MEDICAL DIRECTOR WORKGROUP (DMDWG)

The DME MAC Medical Director Workgroup (DMDWG) is a collaboration that is often used by CMS as an example to other contractors. Since 1993, with the creation of the DME contractor type, the four DME jurisdictions have met via scheduled conference call for two hours, three times per week, for over two decades. With the CME requirement to develop word-for-word local coverage policies in each jurisdiction, collaboration is essential to accomplishing this task.

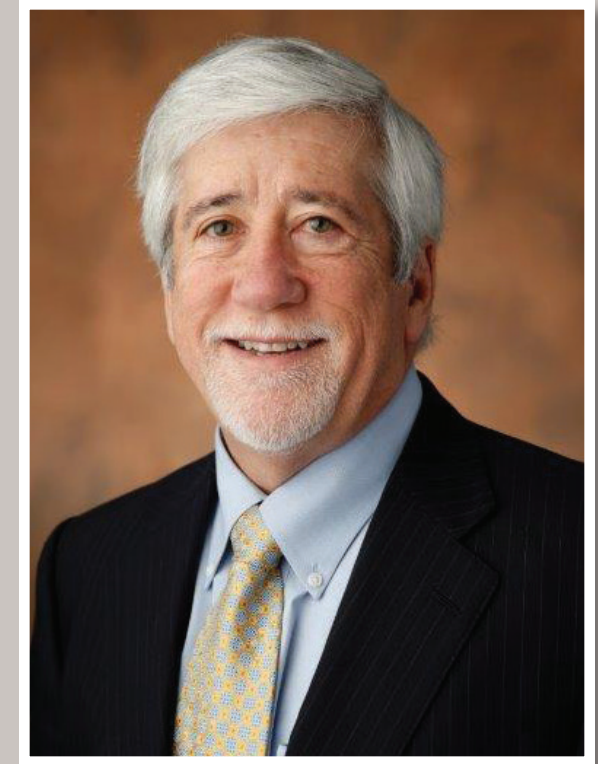
While the DMDWG participants have changed over time, one constant is the lead medical director from each jurisdiction. The duties of developing the agenda, taking call notes, leading the discussions, and coordinating calls with CMS and other entities rotates each month. Despite what sounds like a rigid assignment of duties, all the medical directors recognize that our individual workloads, travel schedules, and personal vacation days can vary; consequently, everyone is flexible and willing to step in to "shoulder the load" for their colleagues from time to time. The DMDWG is truly an example of collaboration to our customer.



DR. ROBERT HOOVER,
JURISDICTION C DME MAC MEDICAL DIRECTOR



DR. STACEY BRENNAN,
ADMINISTRATIVE LAW JUDGE,
JURISDICTION B DME MAC MEDICAL DIRECTOR



DR. MICHAEL MONTIJO,
ASSOCIATE JURISDICTION C
DME MAC MEDICAL DIRECTOR

J15 COLLABORATION: PROVIDER ENROLLMENT COLLABORATION EFFORTS

The CGS Jurisdiction 15 Provider Enrollment team continues to participate in multiple collaborative efforts across CMS and the MACs to promote consistency and improvement initiatives in the Medicare program. Efforts over the past year have focused on:

- Leading the Provider Enrollment A/B MAC Collaborative workgroup, this group has submitted recommendations to CMS on policy issues, processing exceptions, and application revisions
- Participating in several Lean groups focused on streamlining processes, which led CMS to implement key updates to its requirements
- Providing feedback on cost and workload impacts on multiple Draft Change Requests that are changing current processes
- Continuing support to the Provider Enrollment Operations Group on issues dealing with Change of Ownership, stock transfer, and claims-only providers
- Improving the Medicare program by submitting a process improvement to standardize the 36-month rule decision process across all A/B MACs

CGS's leadership, expertise, and collaboration produce tangible benefits to CMS through reduced provider burden and reduced processing efforts. CGS continues to add value to CMS and its providers.



CRAIG DOMANIK, PAM ANDERSON, MANDY GREEN, MARKIAL RIBBINS,
JACKIE GUERRERO, YOLANDA MITCHELL, KAREN HUGHES

NOT PICTURED: DIANE GORDON, SUSAN SCHWENK



SUPPORT OF LAW ENFORCEMENT ACTIVITIES

CGS supported law enforcement in 2018 through witness testimony in trials and supplying supporting documentation through our Compliance department and as part of our collaboration with the United Program Integrity Contractors (UPICs). CGS's Compliance Officer works closely with BlueCross BlueShield of South Carolina's General Counsel to respond to subpoenas and requests for documentation, interviews, or testimony and to provide written declarations from CGS employees. CGS provided documentation in support of four of the government's false claims cases against providers during 2018. CGS offered testimony in multiple litigations to assist the Department of Justice with the prosecution of cases of fraud. Dr. Earl Berman participated in four healthcare fraud cases during 2018, resulting in 11 convictions and over \$750,000 in monetary judgments, with the defendant in one case deciding to offer a plea of guilty prior to the start of the trial, in part due to Dr. Berman's acting expert witness testimony for the prosecution. Additionally, in our support of UPIC activities, three cases were prepared for in 2018, with all cases either entering a guilty plea or reaching a plea agreement before going to trial.

Protecting the Medicare Trust Fund is always at the forefront of everything we do at CGS.

- Dr. Earl Berman

FPS2 SUCCESS

CGS has been a critical part of the Fraud Prevention System 2 (FPS2) team since the program was awarded to Northrop Grumman in 2016. CGS reviews and tests each pre-pay claim edit prior to it going into production. We initially assisted with the transition of all existing edits from the FPS1 program to the newly designed FPS2 solution. Since the launch of FPS2 in the fall of 2016, CGS evaluates and tests edits each quarter. We maintain a team of Business Analysts to support Part A, Part B, and DME edits. This group closely collaborates with Northrop Grumman, CMS, and the two FPS2 modeling contractors that design and develop new edits.

Each newly designed edit is subjected to beta testing (validating the edit logic in a test environment), mirror testing (validating the edit logic in a mirrored production environment), User Acceptance Testing (UAT) by all affected MACs, and post-production validation testing (sample

testing following production release). The CGS team performs all the above testing, except UAT, for which we are the coordinator for all MAC UAT testing, tracking their results and handling questions and issues.

In addition to testing new FPS2 edits, our team monitors all in-production edits by performing monthly sampling testing to ensure each edit is performing as intended. We also review all new Change Requests (CRs), Local Coverage Determinations (LCDs), and National Coverage Determinations (NCDs) to check for any potential impact to FPS2 edits and/or the FPS2 program.

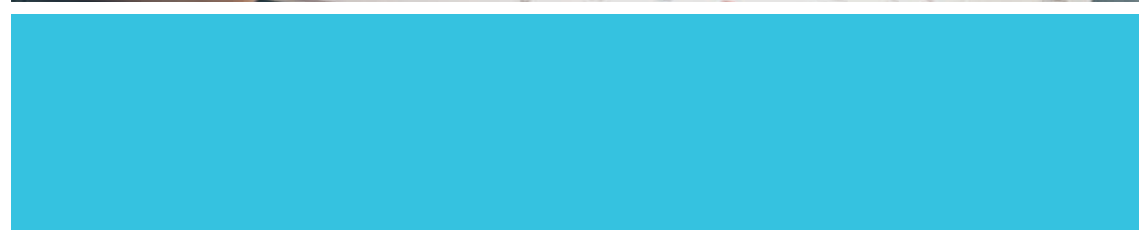
The FPS2 testing team consists of 10 assigned individuals, with some fully dedicated and some as a shared resource. Everyone on this team continues to be fully committed to doing the absolute best job they can while ensuring excellent customer support to Northrop Grumman and CMS. Our team has never missed a metric in the three years we've held this contract, which is a testament to their level of integrity, character, and desire for FPS2 and CGS to ensure future success.



CBR & PEPPER

In September 2018, CGS was notified by its prime of a win on the Comparative Billing Report/Programs to Evaluate Payment Patterns Electronic Report (CBR/PEPPER) contract. CMS combined two previous contracts (CBR and PEPPER) due to the similarities in the work being performed. The CBR provides data on Medicare billing trends, allowing a healthcare provider to compare their billing practices to those of their peers in the same state and across the nation. The PEPPER includes provider-specific Medicare data statistics for discharges/ services vulnerable to improper payments and is sent to hospitals, inpatient facilities, and home health agencies, to name a few.

We are part of the team (subcontractor to RELI Group, Inc.) that generates the CBRs, providing research on improper payments, data analytics, and clinical expertise. CBRs are sent monthly, and our first official CBR was released on January 11, 2019. Customer feedback has been very positive and we look forward to continuing our work on this important contract.





INNOVATIONS: ONBASE LETTER WRITING SOLUTION (OWLS)

2018 was the beginning of the end for several things at CGS. CMS announced plans in May 2018 to decommission the DME MAC shared letter writing system and replaced it with a MAC specific letter writing system. To ensure the best-value product was selected, CGS conducted a detailed vendor search. Following the review, we selected OnBase, a product that compared favorably to other products and added the most value to CMS. Lessons learned from previous large-scale projects led us to conduct a Lean event prior to beginning detailed programming. The Lean event resulted in 75% of the verbiage being eliminated, as it was rarely used or could be combined with other verbiage.

CGS implemented OWLS two weeks ahead of the November 30, 2018, due date. We were able to implement a system that contained features not available in the legacy system with our initial implementation. These features included adding more detail into the Medicare Redetermination Notices that had been requested by the Qualified Independent Contractor and the supplier community, as well as reducing the amount of manual entry into the letters for all operational departments. OWLS provides a more agile and flexible system that not only meets CMS requirements but enhances letters to meet suppliers' needs. The entire project was on time, within budget, and exceeded the expectations of DME stakeholders. Call it a **Passion for Excellence** or **Always Improving**... either way, the DME team made an IMPACT.

CGS WALL OF FAME

The CGS Wall of Fame Recognition Program was established in 2012 to publicly acknowledge CGS employees who have gone above and beyond the call of duty. The program allows all employees the opportunity to nominate coworkers who exemplify The CGS Way and demonstrate the core essence of how We IMPACT Lives at CGS.

Each quarter, the Wall of Fame Committee selects one nominee from each of the following four categories: Associate, Leader, Team, and Compliance Idol. Each quarterly award recipient is then eligible for the CGS Annual Wall of Fame Awards in their respective category.

The Wall of Fame just completed its seventh season – a total of 338 nominations have been received.

In 2018 alone, CGS leaders and employees nominated 55 of their peers, which resulted in a total of 12 individual and 4 team awards. We are proud to showcase the 4 annual awardees, representing the best of CGS in 2018.



YOLANDA MITCHELL, 2018 LEADER OF THE YEAR

2018 Leader of the Year:

Yolanda Mitchell, Manager, J15 Provider Enrollment

Yolanda consistently reaches across functional areas to ensure a one-time, seamless resolution in her provider interactions, which exemplifies her commitment to **Customer Focus**. Yolanda continues to exhibit leadership and a **Passion for Excellence** every day. Yolanda does a wonderful job of interacting and corresponding with her staff – knowing when to reinforce the right behavior and when to challenge her team to do better – and encourages staff to take ownership of their performance. As a result, her team's performance results improved significantly during the second quarter of 2018 – their productivity improved by 11 percent, while still meeting and/or exceeding established quality standards. Yolanda successfully led the implementation of the PE Huddle Board effort and consistently championed this effort with the PE staff. PE realized four improvements in the short time it has existed [**Always Improving**].



CRYSTAL CARBY, 2018 ASSOCIATE OF THE YEAR

2018 Associate of the Year: Crystal Carby, Appeals Analyst, J15 Part B Appeals

Crystal assisted the DME Part B Appeals Team as a Team Lead. She made a positive IMPACT and truly Made a Difference by serving as a Part B SME. Her supervisor, Kyle Dedman, shared: "Without being directed to, she observed the training in such a way that she could find opportunity to help others **[Always Improving]**. She provided pointed and helpful insight. Her attitude was great **[Passion for Excellence]**! Crystal looked to understand how everything worked and thought about how those processes could potentially impact and improve processes at CGS **[Taking Risks]**. Her awareness was amazing. She completely understood her role and exactly what she needed to do to excel.



JOHN PURDOM, 2018 COMPLIANCE IDOL OF THE YEAR

2018 Compliance Idol of the Year: John Purdom, Business Analyst III, J15 PMO

While John is no longer on the Change Management team in Compliance, he continued to Make a Difference by supporting their efforts to meet CMS's deliverables in a timely fashion. John trained his replacement and supported efforts to replace our current system **[Always Improving]**. This entailed attending systems demonstrations, reviewing documents, attending meetings to discuss systems requirements, and providing recommendations for transitioning historical data. On several occasions, John was asked to help with new work. John never declined a request for his assistance, even though he was quite busy learning his new responsibilities **[Integrity]**. Several requests for John's assistance were made at the last minute, and his response was always positive. John was (and is) gracious with his time and made it clear that he will do whatever is needed of him to ensure CGS continues to operate at the high level to which our customer is accustomed **[Passion for Excellence]**. John exemplifies what it means to make an IMPACT.

2018 Team of the Year: Fraud Prevention System 2 (FPS2) Team

The FPS2 team is located in four different states, performs coordination and testing on Part A/B and DME FPS edits, and supports prime contractor Northrop Grumman, and stakeholders CMS, modeling contractors, and all MACs. Since starting this program in 2016, the FPS team has received excellent subcontractor performance ratings from Northrop Grumman each quarter. They are a highly motivated, **Customer Focused** group that supports each other's activities and ensures they meet all customer expectations. This team has met all deliverables and milestone dates including meeting the FPS2 release schedule each quarter. In the first quarter of 2018, they kicked off a very large release package consisting of 10 unique FPS2 edits, their largest release package to date. They always find a way to make it work to keep our customers satisfied. This team displays a **Passion for Excellence** and they all perform at an extremely high level. There are never any shortcuts or quality risks, as all of them are experienced in their roles and understand the importance of quality. Each team member follows strict processes for testing each edit and ensuring the validity of the outcome.

This team has developed an excellent rapport with and reputation at Northrop Grumman and CMS. They trust our team, opinions, and processes. The team worked hard to



SANDRA EDMOND AND LAURETTA ROBINSON

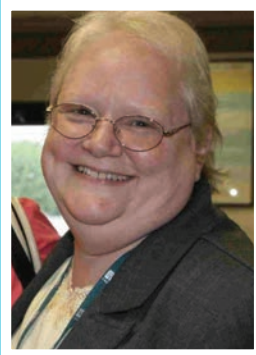
ensure reliability and honesty with transparency **[Integrity]** in all activities, deliverables, and interactions with all FPS2 stakeholders. This effort continues to pay dividends, evidenced by Northrop Grumman's desire to grow our contract by adding more scope **[Making a Difference]**.

Ric Bush stated that he is 100% confident that this contract team would not be as successful as it is, nor have the positive feedback from Northrop Grumman and CMS, without the amazing individuals with whom he has the privilege of working.

Not pictured: Steven Lee and Nick Manson



STEPHANIE ALLEN



DONNA HELTON



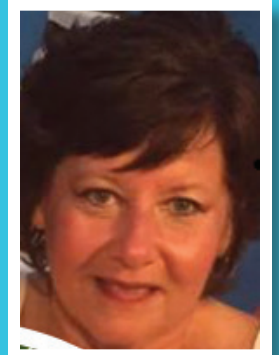
SANDRA HICKS



WENDY MAYFIELD



TRACI NAPIER

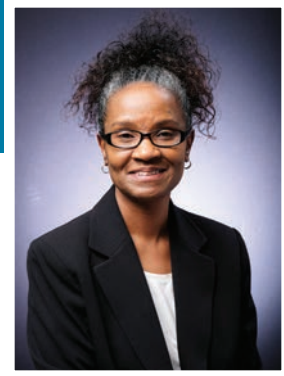


KIMBERLY SHIPLEY

VOLUNTEER EFFORTS



JACKIE
YARBROUGH



SAM
ODOM-COLEMAN



MICHELLE
WALDREP

FiftyForward

CGS supports FiftyForward and their cause to "enrich the lives of those 50+ by providing pathways to health, well-being, and lifelong learning." During 2018, CGS supported FiftyForward by volunteering time to plant vegetables used in meals by the seniors, donating gifts for 30 seniors who were shut in, and raising funds to support the Bordeaux Center in their annual Hat's Off Bordeaux event. We also raised over \$1,000 during our second annual gift card raffle.



March of Dimes

CGS employees raised over \$17,000 for the March of Dimes in 2018, finishing in second place for the Non-Family Team in Nashville. The walk was a great success, with several employees participating. Our fundraising success was achieved through several events, including the final event of our annual Spring Fling, in which the MOD representatives were able to participate. Through our support of the MOD, we are supporting moms and babies as we help fight premature birth and birth defects.



United Way

Our 2018 United Way campaign brought in the largest dollar amount (over \$144,000) ever pledged, making it the most successful in CGS history. In addition to our regular fundraising activities, the CGS Nashville office participated in the United Way of Metropolitan Nashville's Stuff the Bus event. This annual event provides school supplies for every student at 14 of Nashville's most at-risk elementary schools. CGS was tasked with providing 500 boxes of crayons for this effort. In true CGS style, we donated more than double this amount, for a grand total of 1,188 boxes of crayons! Several other activities, including Penny Wars and Movie Trivia, were held to raise awareness of and add excitement to our United Way campaign. The fun we had throughout the campaign was an added bonus, as our most important IMPACT is our continued support of local United Way agencies and the valuable services they provide.





INDEPENDENT AUDITOR'S REPORT

Board of Directors
CGS Administrators, LLC

Report on the Financial Statements

We have audited the accompanying financial statements of CGS Administrators, LLC which comprise the balance sheet as of December 31, 2018 and 2017, and the related statements of operations, changes in member's equity, and cash flows for the years ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CGS Administrators, LLC at December 31, 2018 and 2017, and the results of its operations and its cash flows for the years ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the 2018 financial statements, CGS Administrators, LLC changed its presentation of the financial statements as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2015-17, *Balance Sheet Classification of Deferred Taxes*. Our opinion is not modified with respect to this matter.

Mauldin & Jenkins, LLC

Columbia, South Carolina
March 2, 2019

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39M DME TOTAL CLAIMS PROCESSED

64M J15 TOTAL CLAIMS PROCESSED

63K J15 PROVIDERS

49K DME SUPPLIERS

\$29B MEDICARE CLAIM TOTAL PAYMENTS

FINANCIAL INFORMATION

(Balance Sheet in Thousands)

ASSETS	Years ended December 31	
	2017	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 28,514	\$ 31,713
Restricted cash	550	1,324
Government contract receivables	20,052	20,549
Other receivables	1,239	729
Amounts due from affiliate	410	-
Current deferred tax asset	385	-
Prepaid expenses	214	834
Total Current Assets	\$ 51,364	\$ 55,149
LONG-TERM ASSETS	2017	2018
Equipment and leasehold improvements, net of accumulated depreciation of \$12,795 and \$12,921 in 2017 and 2018, respectively	408	282
Non-current deferred tax asset	-	383
Total Long-Term Assets	408	665
Total Assets	\$ 51,772	\$ 55,814

LIABILITIES & MEMBER'S EQUITY	Years ended December 31	
	2017	2018
CURRENT LIABILITIES		
Accrued expenses and accounts payable	\$ 10,822	\$ 11,253
Restricted cash liability	550	1,324
Payable to parent	5,701	5,381
Amounts due to affiliate	722	543
Current deferred tax liability	12	-
Total Current Liabilities	\$ 17,807	\$ 18,501
NON-CURRENT LIABILITIES	2017	2018
Non-current deferred tax liability	46	99
Total Non-Current Liabilities	46	99
MEMBERS' EQUITY	2017	2018
Additional paid-in capital	22,209	22,209
Retained earnings	11,710	15,005
Total Member's Equity	33,919	37,214
Total Liabilities and Member's Equity	\$ 51,772	\$ 55,814

CGS ADMINISTRATORS, LLC

CGSMEDICARE.COM

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