



CGSSM

A CELERIAN GROUP COMPANY

ANNUAL REPORT 2013



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Our History

Inception of Medicare

The first Title XVIII contracts began. CGS's original Part B contract included DME and covered three states (TN, NC, ID). By FY 2009, the contract serviced over 60,000 Medicare providers, processing 59 million claims, handling over 2 million inquiries, and making benefit payments of \$4.6 billion.

Electronic Data Interchange (EDI)/ Data Center Services: DME MAC Jurisdiction D

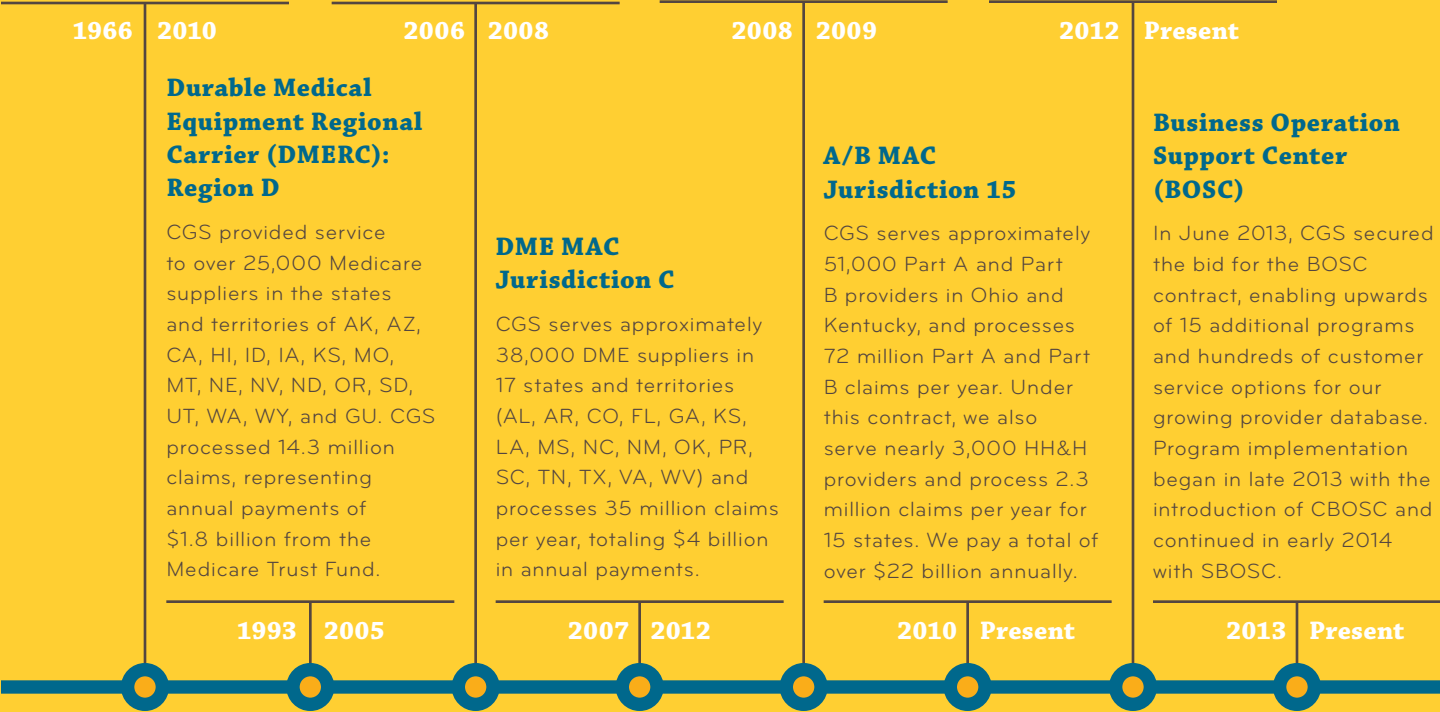
CGS provided all the necessary services, personnel, material, equipment, and facilities for Medicare front-end processing and data center services for CMS in support of the Noridian Administrative Services DME MAC Jurisdiction D contract from July 2006 to May 2008.

Provider Enrollment (PE) Services: Part B – Virginia

CGS served as a subcontractor to TrailBlazer Health Enterprises, LLC, to process Part B PE applications for the State of Virginia, processing approximately 6,200 applications and electronic fund transfer (EFT) forms.

DME MAC Jurisdiction C

CGS serves approximately 38,000 DME suppliers in 17 states and territories (AL, AR, CO, FL, GA, KS, LA, MS, NC, NM, OK, PR, SC, TN, TX, VA, WV) and processes 35 million claims per year, totaling \$4 billion in annual payments.



Past Performance

Our past performance is a strong measure of how we as a company will perform in the future. At CGS, our goal is to be the premier administrator of federal government healthcare programs, based on a firm foundation of expertise, integrity, and value-driven solutions. The government carefully reviews past performance when determining who should be awarded future contracts. Therefore, strong past performance is crucial for our future success.

For Jurisdiction 15 Option Period 2 that ended on November 1, 2013, CGS received some of the highest possible Contractor Performance Assessment Reporting System (CPARS) scores in our review. The Jurisdiction 15 team worked tirelessly over the past year and accomplished so much to include the Part A transition

and other improvements to performance. The review highlighted many of the actions that the J15 team and support areas have taken to exceed expectations throughout the year. This exceptional review reflects the premier performance that CGS has provided and continues to provide for our J15 contract. Additionally, the DME MAC Jurisdiction C team exceeded 91% of the metrics in which a MAC contractor can exceed during the most recent contract extension.

Premier performance happens as a result of us working together as a company, JC, J15, BOSCO, and the support teams all working together, and reflects the efforts of all 1,300 CGS staff. We look forward to continued exceptional results in 2014.



“ What’s ‘best’ is always changing, so we’re always going to have to change to continue to be ‘best in class.’ ”

Mission

We IMPACT Lives!

Vision

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

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.

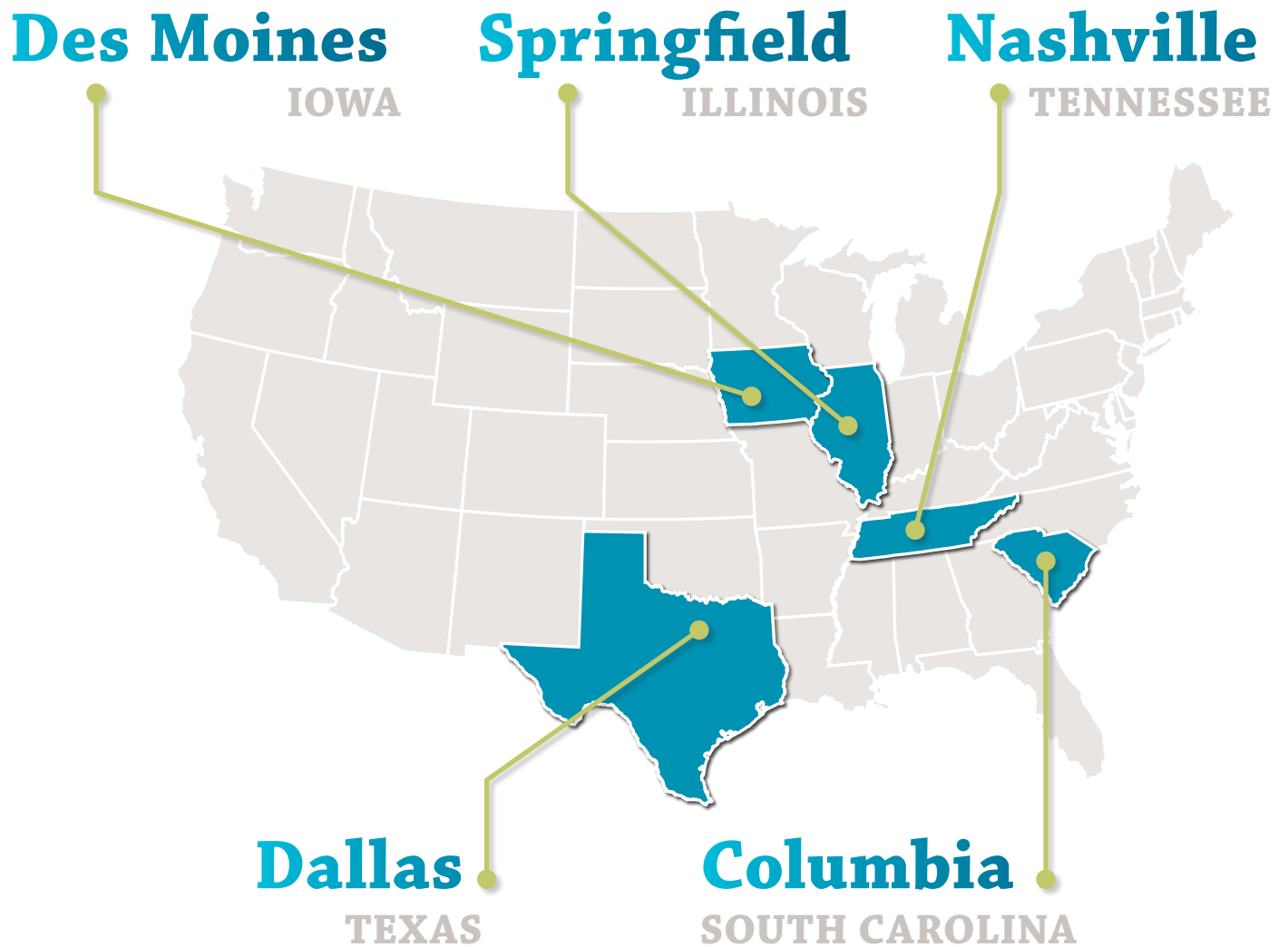
CUSTOMER FOCUSED - Our customer is our priority. We understand our customer's needs and surpass expectations.

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



“ We’re always making sure that we put our customer first. ”

Locations



Additional employees working from home, all over the nation.

Letter from the President



Our vision statement communicates our desire to be The Premier Administrator of government healthcare benefits. In 2013, we can point to any number of examples of our company operating in this premier mode. Not only did we achieve significant improvements in overall performance across all contracts, we were recognized by our customers as providing premier service. More importantly, we positioned ourselves for even greater success in 2014.

Being premier requires a daily commitment from each of us. I see that commitment in the actions of our teams as they accomplish project after project and put in the effort to ensure success. 2013 was a year of big projects and accomplishments that will be outlined in this report. On the strength of these accomplishments, we have already identified even more projects for 2014, counting on those same dedicated associates who helped to make 2013 such a successful year.

Always improving, always looking towards the future, and building on the successes of the past: these will move us closer to achieving our vision as a company. We will continue to build relationships with our customers, coming alongside them as the positive partner they need to ensure their success. We will continue to generate new ideas and new, innovative ways of doing our business in order to increase our value proposition to our customers. These things happen—and will continue to happen—because of each of our associates and the dedication they have to distinguishing CGS as The Premier Administrator.

Steven B. Smith, President and COO

Northrop Grumman

Throughout 2013, CGS focused on a number of key objectives designed to strengthen us across several areas. Among these was an aggressive approach to seeking new business, as well as establishing a record of exceptional performance that would assist us in securing that business. The results of these steps were both measurable and impressive—and nowhere was that more apparent than in our relationship with Northrop Grumman.

Northrop Grumman's Information Systems (NGIS) sector selected CGS as a recipient of the NGIS Annual Supplier Recognition Program Award for 2013. The Supplier Recognition Program recognizes and incentivizes suppliers to continuously provide outstanding support to the company and the sector. CGS was one of 24 selected from more than 5,000 suppliers in the information systems sector on the basis of schedule, management, technical, financial, and quality performance.

In spring 2013, CGS was awarded the contract for the Physicians Value Help Desk (PV-HD)—a subcontract from

Northrop Grumman. The PV-HD is designed to help providers analyze service costs and seek pricing reductions while not compromising service quality. CGS' presence in this market allows us to enhance our track record in the areas of information resources and statistical analysis.

Immediately following the launch of the PV-HD, CGS successfully bid for the Business Operation Support Center (BOSC) contract. The award of this contract not only formalized and extended our current contracts with Northrop Grumman, it also included up to 15 additional programs for which CGS would perform services.

These results clearly demonstrate CGS' investment in securing new business—to expanding and diversifying our role in both the government administration and business services marketplaces. They also validate our ongoing commitment to focus on results—to establishing a record of exceptional past performance that positions us well as we target even better results in 2014.



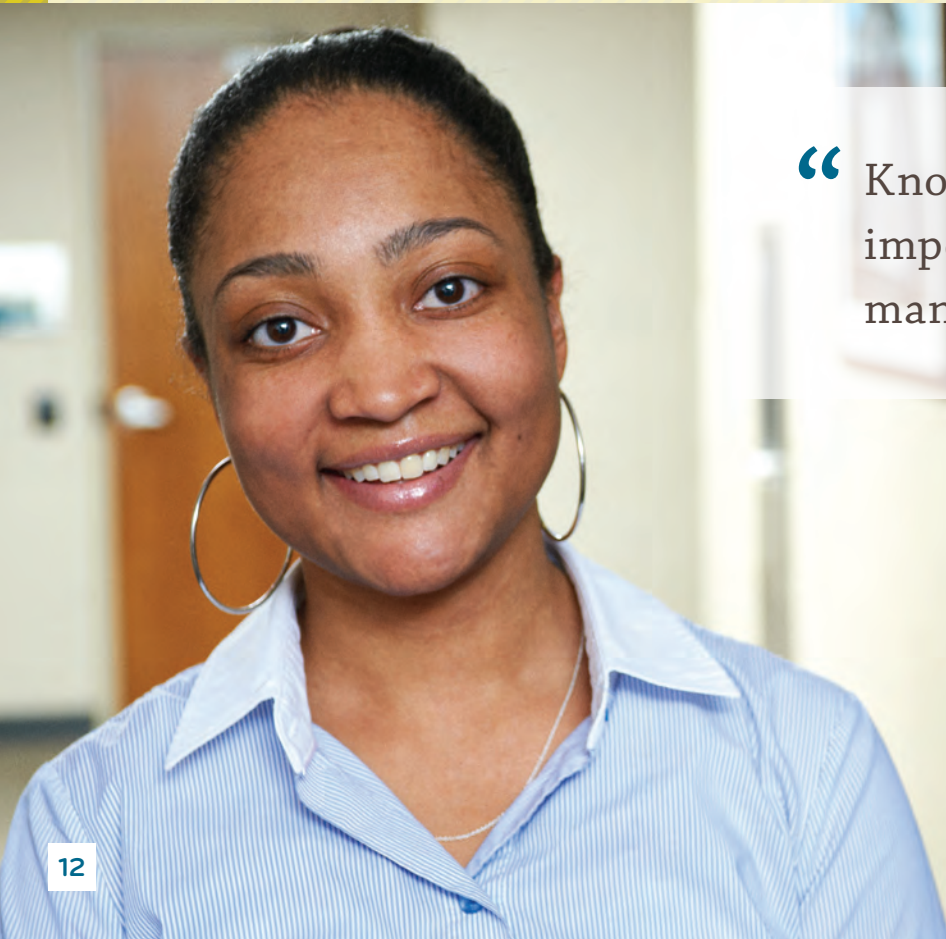
Compliance

One of CGS' Strategic Objectives is to be recognized as the premier government benefits administrator. Having ethical and compliant business practices is critical to achieving that objective. Compliance is embedded in our culture; it's intrinsic to everything we do—an undercurrent to our day-to-day activities. Compliance is part of who we are and runs beneath every service we provide to our customers.

On their first day, CGS employees and contractors are introduced to our wide-ranging requirements and expectations as they relate to compliance. Access

to data and facilities are contingent upon successful completion and certification of understanding that compliance with Our Values is owned by each employee within the organization.

Fundamental to maintaining a successful compliance program is the existence of strong internal controls. Our controls are well documented, reviewed regularly, and tested frequently by both external and internal auditors. Internal controls such as work instructions, policies, and procedures are easily accessible by all staff. Our document management



“Knowing that we play an important role in the lives of so many people really means a lot.”

system is the repository for all work instructions, and there are requirements for review and approval of all documents at least annually. Our aggressive education program with instructor-led training helps to ensure that our employees know how to address issues or concerns. They may do so anonymously and are encouraged to work with their first-line management team when they have questions or concerns. Our compliance officer is also accessible and available to meet with staff wanting to discuss compliance-related matters.

Compliance metrics are not solely the responsibility of the compliance department. Each of our business units has ownership of compliance-related Balanced Score Card metrics, including our goal to have zero high-risk external audit findings. This shared ownership helps to facilitate our commitment to maintaining a dynamic compliance program.

This focus on compliance paid off in 2013, when CGS received a “Best Practices” award for our management of Conflict of Interest processes. The award was presented during the 2013 Health Ethics Trust Healthcare Best Practices Forum and demonstrates CGS’ commitment to having a robust culture of compliance.

“ I have a commitment to really embrace every opportunity to serve all internal and external customers. ”



Operational Excellence

Delivering on the Promise – Our Mission and Vision Statements

As we reflect on 2013, it's evident that CGS took significant strides as a company—not just in certain areas, but as a whole. Our 2012 DME MAC Jurisdiction C win and strong performance entering Option Period 2 for A/B MAC Jurisdiction 15 situated us well for a strong year—one highlighted by some milestone accomplishments.

In the fall of 2013, CGS achieved the long-term goal of becoming a standalone A/B MAC. For many years, CGS had to rely on other companies to provide expertise and solutions to perform the Part A Medicare workload. However, with the support of Palmetto GBA—our sister company under the BlueCross BlueShield of South Carolina Celerian Group—CGS was able to complete the transition of the J15 Part A operation to CGS. The transition was a highlight of 2013 and the result of countless hours of planning, design, development, testing, and execution. The completion of the transition plan positions CGS as one of only two MACs that are able to process Part A, Part B, HH&H, and DME Medicare workloads.

Throughout 2013, a number of projects, initiatives, and activities demonstrated CGS' mission—that “We IMPACT Lives” in the actions, services, and support we provide to our programs and customers. CGS not only continued to deliver these services with the highest performance and quality, but also focused on enhancing the services and solutions that we offer. Evolution of our customer-facing websites, internal operational systems, web portals, and processes and further refinement of our core workload management system were just a few of our accomplishments in 2013. We also grew our relationships with our customers and operational partners to not only provide new ideas, solutions, and support but to better position all parties for greater success in 2014 and beyond.

In 2013, CGS also provided many opportunities for employees to continue to grow and expand their skills and capabilities. These opportunities allow for greater bench

strength, even as they encourage employees to think in terms of careers rather than just jobs. Investment in functional cross-training, skill knowledge training, Lean Six Sigma, and other development programs continues to position our employees to support our current and future customers.

In summary, our success in 2013 comes down to the strength of our employees, the efficiency of our processes, and the robustness of our systems. Without any one of these elements, we could not succeed as a company. As we saw in 2013, all three factors worked well together to allow us to have a great year. As we progress into 2014, we continue to look at improving—at taking those actions that are necessary in order to be the premier provider of healthcare services in government contracts and to continue to make a very positive IMPACT in the lives of those we support. Thank you for making 2013 a great year.

“ We are the contractor that everyone else wants to be like. We have quality products and quality people. ”

Volunteer Efforts

From local food banks to national fundraising organizations affecting lives on a global scale, CGS employees are consistently engaged in volunteering. By volunteering time, money, work, and care, the 1,300 members of the CGS family strive to “IMPACT Lives!” That same quality support CGS provides its customers on a daily basis extends to an interest in charitable activities—whether helping in times of natural disaster or trying to make the holiday season a little brighter for families in need. The Nashville, Tennessee; Columbia, South Carolina; Dallas, Texas; Des Moines, Iowa; and Springfield, Illinois offices ensure that CGS is available to provide relief for friends, neighbors, and thousands of citizens across the nation.

In 2013, CGS employees donated nearly \$135,000 to numerous programs serving our communities!



United Way envisions a world where all individuals and families achieve their human potential through education, income stability and healthy lives. United Way improves lives by mobilizing the caring power of communities around the world to advance the common good.



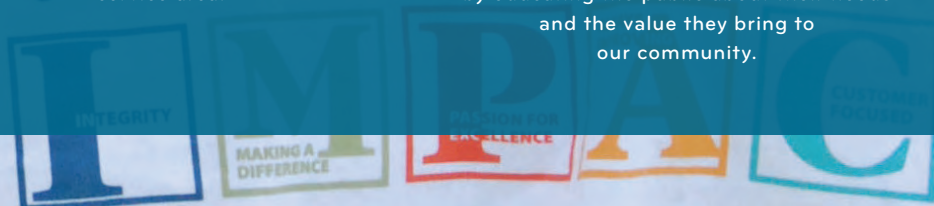
When you walk in March for Babies, you give hope to nearly half a million babies born too soon each year. The money you raise supports programs in your community that help moms have healthy, full-term pregnancies. And it funds research to find answers to the problems that threaten our babies. We've been walking since 1970 and have raised an incredible \$2.3 billion to benefit all babies.



Second Harvest Food Bank of Middle Tennessee is one of the largest and most comprehensive of over 200 food banks and food distribution centers nationwide. During the 2012-2013 fiscal year, Second Harvest distributed 23,955,957 pounds of food to over 450 Partner Agencies providing close to 20 million meals of food to hungry children, families and seniors throughout our 46-county service area.

Fifty Forward

FiftyForward enriches the lives of adults 50+ by providing pathways to health, well-being and lifelong learning. We assure that older adults through their interaction and participation in centers and programs access needed services, remain active and involved and experience the highest quality of life. FiftyForward influences the delivery of services for older adults and caregivers by educating the public about their needs and the value they bring to our community.



Live

Board of Directors



Bruce Hughes

President, Government Services
Division, BlueCross BlueShield
of South Carolina

Louis McElveen

Vice President, Corporate Finance
& Controller, BlueCross BlueShield
of South Carolina

David Pankau

President & CEO, BlueCross
BlueShield of South Carolina

Steve Smith

President & COO,
CGS

David Butler

Retired President & Chief
Operating Officer of Strategic
Management Systems

Brian Rubin

Retired, Department of Defense,
TRICARE Management Activity

Harvey Yampolsky

Retired Partner, Arent Fox, Former
Chief Counsel to the Inspector General
at the Department of Health and
Human Services

Mike Skarupa

President & COO,
PGBA, LLC

Elizabeth Cusick

Independent Consultant, Former
Deputy Director, Center for Medicare
Management, Centers for Medicare &
Medicaid Services (not pictured)

Tom Grissom

Senior Health Policy Specialist,
Foley Hoag LLP, Former Director,
Center for Medicare Management,
Centers for Medicare & Medicaid
Services (not pictured)

Jeff Littlefield

Vice President, Operations,
PGBA, LLC (not pictured)

Executive Leadership Team



Roc Via

Director, Business Excellence

Melissa Lamb

Assistant Vice President, Medicare Operations,
A/B MAC Jurisdiction 15 Program Manager

Mike Logan

Vice President, Chief Financial Officer

Robert Stansell

Vice President, Systems & Support

Melissa Kirchenbauer

Assistant Vice President, Medicare Operations,
DME MAC Jurisdiction C Program Manager

Jim Doane

Vice President, Business Development
& Shared Services

Linda Martin

Vice President, Compliance Officer

John Kimball

Vice President, Medicare Operations

Steve Smith

President & COO, CGS

Financial Highlights

Our successes in 2013 were the direct result of our strategic plans to enhance operational efficiencies and to generate positive results. As a business, effective financial management is critical to our ability to reduce costs for our government customer and to generate profit, which keeps us in business.

By the
Numbers

89+ Million Claims

25+ Billion Dollars

50+ Thousand Providers

47+ Thousand DME Suppliers

Balance Sheet (in thousands)

		December 31	2013	2012
ASSETS	CURRENT ASSETS	Cash and cash equivalents	\$ 11,513	\$ 8,027
		Government contract receivables	22,610	25,463
		Other receivables	1,916	-
		Current deferred tax asset	476	332
		Prepaid expenses	451	182
		Total current assets	36,966	34,004
	LONG TERM ASSETS	Property and equipment, net of accumulated depreciation of \$14,467 and \$15,768 in 2013 and 2012, respectively	941	1,554
		Non-current deferred tax asset	-	163
		Total long term assets	941	1,717
	Total Assets		\$ 37,907	\$ 35,721

LIABILITIES & MEMBER'S EQUITY

LIABILITIES	Current liabilities:		
	Accrued expenses and accounts payable	\$ 9,432	\$ 8,258
	Payable to parent	4,688	5,731
	Amounts due to affiliate	2,471	1,890
	Current deferred tax liability	111	63
	Total current liabilities	16,702	15,942
	Non-current liabilities:		
	Non-current deferred tax liability	14	-
	Total non-current liabilities	14	-
	Total liabilities	16,716	15,942
MEMBER'S EQUITY	Additional paid-in capital	18,709	18,709
	Retained earnings	2,482	1,070
	Total member's equity	21,191	19,779
Total Liabilities & Member's Equity		\$ 37,907	\$ 35,721

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 are comprised of the balance sheets as of December 31, 2013 and 2012, 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 audit 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, 2013 and 2012, 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.

Derrick Stubbs & Stith, L.L.P.

February 19, 2014

UT Lean/Six Sigma

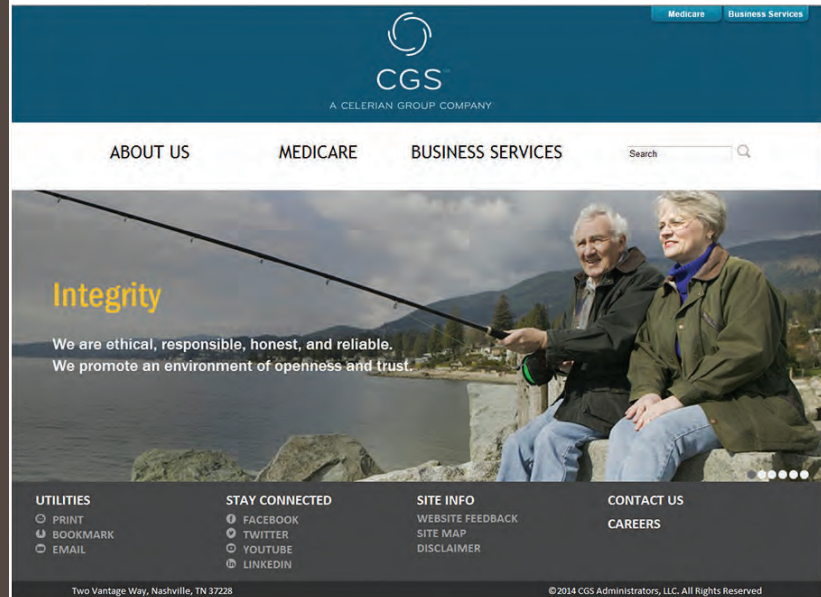
CGS has a long history of utilizing Lean/Six Sigma principles to ensure we provide top-level service to our customers. In 2013, CGS partnered with the University of Tennessee—Graduate & Executive Education department to provide Lean training to our management team and other key resources engaged in our process improvement efforts. The focus of the partnership was to ensure that every manager at CGS has a solid baseline understanding of key Lean principles and techniques and that select individuals have the appropriate knowledge to lead Lean Events in our various production and support areas.

While Lean training frequently focuses on the manufacturing industry, UT has created training specifically tailored to business transactional processes similar to those administered by CGS. Training focuses on reducing waste, solid root cause analysis, maximizing throughput, and providing the appropriate service at the point in time the customer expects the service to be delivered. As a result of the training and the subsequent Lean projects that originated from it, CGS has been able to implement numerous process enhancements that are improving efficiency, reducing costs, and improving the satisfaction of both our internal staff, and our customer.

“ Our employees do the right thing, at the right time, for the right reason. ”



Website Redesign



Very often, the CGS website is the first point of contact that providers have with CGS. Because of this, we work hard to provide them with everything they need to operate their businesses efficiently. Providing our visitors with the best user experience possible by maintaining a robust and interactive Web presence is an important part of how we demonstrate superior customer service. Toward that end, we initiated a series of significant updates to the CGS Web presence, with the goal of improving upon our already positive user experience.

CMS requires that Medicare Administrative Contractors (MACs) utilize a survey tool (ForeSee) to gauge customer website satisfaction. Customers are invited to complete the ForeSee website survey at the conclusion of their visit to our website. Questions cover a variety of areas including: content, functionality, look and feel, navigation, search, and site performance. The 300 most recently completed surveys are compiled and an average score is generated. The first phase of the Web redesign project was our DME MAC Jurisdiction C site. From the October 7 launch of the new DME site to the end of 2013, our ForeSee scores for that contract increased from 69 to 73. The overall MAC average was 57.

Those positive results prompted us to take a look at the other sections of our website and develop plans to revise and expand our Web presence.



Phase two development, which began in late 2013, included a complete redesign of our corporate website: www.cgsadmin.com. Our Jurisdiction 15 Home Health & Hospice website was also redesigned in phase two.

Phase three will include our Medicaid/Business Process Outsourcing and Jurisdiction 15 Part A websites. The former has historically focused on our Medicaid offerings. The new site will focus on all the business process outsourcing/services that we offer.

All redesign work is scheduled to be completed by June 30, 2014.

A/B MAC J15 and DME JC Web Portals



Customer focus is a core value at CGS. Understanding our customers' needs is a charge we take seriously. One important need providers have is for information, so we strive to exceed those expectations by giving them tools to access that information 24 hours a day, 7 days a week.

Toward that goal, CGS has developed a web-based application that specifically serves the needs of our DME MAC JC suppliers and our A/B MAC J15 providers. The myCGS Web portals provide seamless access to a variety of Medicare claim-based information, including beneficiary eligibility, claim status, claim denial information, and much more.

While sharing similar functionality, these two Web portals travelled down very different development paths. The myCGS DME portal was a collaborative effort among CGS, CMS, and the HP VDC (Hewlett Packard Virtual Data Center). We wanted to build a secure portal that would be a model for other MACs. The myCGS DME portal uses the CMS IACS (Individuals Authorized Access to the CMS Computer Services) verification system to register users. In late 2014, CMS will phase out the IACS system and replace it with a similar system called Enterprise Identity Management (EIDM). CGS is already actively engaged with CMS to transition to the new system, which will ensure we meet the high level of security CMS requires. The DME portal went into production in May 2013 and has already received over 350,000

requests for information, ending the year with a significant number of registered users.

The myCGS J15 Web portal was another collaborative effort—this time between CGS and Palmetto. Palmetto already had a successful portal serving the needs of their customer base. When some of that customer base transitioned to CGS, it made sense to continue using the Palmetto portal. CGS worked with Palmetto to customize branding and functionality. The end result was a portal that provides instant information and allows providers to submit secure forms and transactions, including beneficiary eligibility, claims status, financial information, and redetermination status. One difference from the DME portal is that the J15

portal requires registration in the Electronic Data Interchange (EDI). Another significant difference relates to usage. In 2013, the J15 portal managed a large number of active users submitting over 1.5 million eligibility, remit, and claim status requests.

Both of these Web portals continue to evolve and improve over time. As more interactive functionality is added to both portals, CGS will continue to see cost savings and a higher rate of self-service utilization from both suppliers and providers. We believe that users from both contracts will find their respective myCGS portals to be a fast and user-friendly application that will help everyone save time and money.



“ It’s really commitment and teamwork that helps us become such an excellent company. ”



Photo & Quote Credits

PAGE 5

- John Vann, *DME Claims Team Leader*
- Donna Turnbo, *Executive Assistant to Steve Smith*
- Andaleah Silka, *Marketing Proposal Analyst II*
- Carrie Hochstrasser, *Sr. Marketing Communications Coordinator*
- **Quote:** Gray Lunsford, *Contract Oversight Administrator*

PAGE 6

- Staci Kimball, *Compliance Senior Administrative Assistant*
- Bill Reed, *Systems & Support Security Manager*
- **Quote:** Angie McKinney, *A/B Data Analyst III*

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- Angie McKinney, *A/B Data Analyst III*
- Shelley Vantrease, *A/B Overpayment Recovery Manager*
- Denise Jones, *DME Technical Team Business Analyst II*

PAGE 10

- Markial Ribbins, *A/B Provider Enrollment Senior Analyst/Team Lead*
- **Quote:** Carrie Hochstrasser, *Sr. Marketing Communications Coordinator*

PAGE 11

- Raquel Chaney, RN, *DME Medical Reviewer III*
- **Quote:** Phyllis White, *Provider Enrollment Manager*

PAGE 13

- Travis Davis-Johnson, *Front End Records Clerk, II*
- **Quote:** Karen King, *Front End & Legacy Subcontract Operations Manager*

PAGE 23

- Emily Sloan, *Human Resources Recruiter*
- **Quote:** Francis Burgess, *IS Security Analyst*

PAGE 25

- Don Hoesel, *Web Business Specialist*
- **Quote:** Gary Warczak, *Director, Electronic Health Record Information Center, ACO Information Center, PV, Customer Service Helpdesk, Salesforce Helpdesk*

PAGE 26

- Caroline Skarupa, *Graphics Specialist*
- Jim Stelluto, *Web Content Specialist*

