



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General  
Offices of Audit Services

JAN 21 2005

Report Number: A-07-04-00163

Region VII  
601 East 12th Street  
Room 284A  
Kansas City, Missouri 64106

Donald L. Fisher  
Vice President  
Compensation, Benefits, HRIS, and Risk Management  
Highmark, Inc.  
1800 Center Street  
P.O. Box 890089  
Camp Hill, Pennsylvania 17089-0089

Dear Mr. Fisher:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) report entitled "Review of Pension Costs Claimed for Medicare Reimbursement by Highmark, Inc. for Fiscal Years 1998 Through 2002." A copy of this report will be forwarded to the HHS action official noted on the following page for her review and any action deemed necessary.

The action official will make final determination regarding actions taken on all matters in the report. We request that you respond to the action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. § 552, as amended by Public Law 104-231), OIG reports are made available publicly to the extent information contained therein is not subject to exemptions of the Act that the Department chooses to exercise. (See 45 CFR part 5.)

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, ext. 225, or Jenenne Tambke, Audit Manager, at (573) 893-8338, ext. 21, or through email at [Jenenne.Tambke@oig.hhs.gov](mailto:Jenenne.Tambke@oig.hhs.gov). Please refer to report number A-07-04-00163 in all correspondence.

Sincerely,

James P. Aasmundstad  
Regional Inspector General  
for Audit Services

Enclosures – as stated

**Page 2 - Mr. Donald L. Fisher**

**Direct Reply to HHS Action Official:**

Nancy B. O'Connor  
Acting Regional Administrator, Region III  
Centers for Medicare & Medicaid Services  
Public Ledger Building, Suite 216  
150 South Independence Mall West  
Philadelphia, Pennsylvania 19106

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS  
CLAIMED FOR MEDICARE  
REIMBURSEMENT BY HIGHMARK,  
INC. FOR FISCAL YEARS 1998  
THROUGH 2002**



**JANUARY 2005  
A-07-04-00163**

# *Office of Inspector General*

<http://oig.hhs.gov>

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The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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**THIS REPORT IS AVAILABLE TO THE PUBLIC  
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In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services, reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.)

## **OAS FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the awarding agency will make final determination on these matters.



## **EXECUTIVE SUMMARY**

### **BACKGROUND**

Highmark, Inc. (Highmark) administers Medicare Part A and B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS). Highmark was formed with the merger of Veritus, Inc. (Veritus) and Pennsylvania Blue Shield (PBS) on December 6, 1996.

On December 31, 1997, Highmark merged the Veritus pension plan into the PBS pension plan. Effective January 1, 1998, the PBS plan was amended and restated, and became the pension plan for Highmark. For the purposes of this report, the term Highmark will be used to address the findings concerning Parts A and B pension costs claimed for fiscal years (FY) 1998–2002.

Medicare reimburses a portion of annual pension contributions made by contractors to their pension plans. In claiming costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulations (FAR), the Cost Accounting Standards (CAS), and the Medicare contracts.

The Medicare contracts provide for either an allocation or a separate calculation of pension costs. The separate calculation method must be used if there is a material difference between the two methods.

### **OBJECTIVE**

Our objective was to determine the allowability of pension costs claimed for Medicare reimbursement for FY 1998 through 2002.

### **SUMMARY OF FINDING**

Highmark underclaimed \$1,637,414 in allowable Medicare pension costs for FY 1998 through 2002 because it did not identify its Medicare segments in accordance with its Medicare contract and did not update its Medicare segment assets in accordance with CAS 412 and CAS 413. Highmark claimed pension costs of \$4,813,234 for Medicare reimbursement; however, the allowable Medicare pension costs were \$6,450,648.

### **RECOMMENDATIONS**

We recommend that Highmark:

- revise its Final Administrative Cost Proposals (FACP) to claim allowable CAS pension costs of \$1,637,414 for FY 1998 through 2002 and
- implement controls to ensure that the Medicare segments are identified in accordance with the Medicare contract and updated in accordance with CAS 412 and 413.

## **AUDITEE'S COMMENTS**

Highmark's comments are summarized in the following paragraphs, and its redacted comments are presented in their entirety on Appendix B.

Highmark disagreed with our report, and stated:

“. . . nor does Highmark concur with the conclusion that the underclaimed costs occurred because it did not identify its Medicare segments in accordance with its Medicare contracts and did not update its Medicare segment assets in accordance with CAS 412 and CAS 413.”

Highmark contends that:

- the Office of Inspector General (OIG) assigned certain participants to incorrect segments,
- OIG identified the incorrect amount of cost claimed on the Final Administrative Cost Proposal (FACP) by Highmark,
- most of OIG's findings concerning the understatement of Medicare Part B segment assets were due to a retroactive application of a recent decision handed down by the U.S. Court of Appeals concerning reassignable pension costs.

## **OIG RESPONSE**

We partially disagree with Highmark's assertion concerning the understatement of the pension costs claimed.

Our identification of the Medicare segment assets was in accordance with the Medicare contract, and the update of assets was in accordance with CAS 412 and 413. During the course of the audit, we reviewed our identification of the participants and cost centers comprising the Medicare segment with representatives of Highmark and obtained their concurrence. The findings and recommendations of this report are based upon that identification. In its response, Highmark provided revised cost center information for several participants. Although Highmark did not provide us with supporting documentation necessary to accept these revisions, we did compute the impact of such revisions on our report. We determined that including the revised participants did not materially impact the findings of the report, and we will not require Highmark to provide us with the supporting documentation necessary to accept these revisions. OIG used the pension costs as identified by Highmark during our audit. Highmark did not provide sufficient supporting detail to support Highmark's assertion for the change in claimed pension costs. Thus, our position has not changed, and we recommend that Highmark revise its FACP to claim allowable CAS pension costs of \$1,637,414 for FY 1998 through 2002.

However, we acknowledge that a recent decision by the U.S. Court of Appeals affected the method used by Highmark to measure and assign pension costs to periods. The method employed by CMS actuaries reflected this decision and did have a material impact upon the difference between claimed and allowable pension costs used to update the Medicare assets.



## TABLE OF CONTENTS

|  | <b><u>Page</u></b> |
|--|--------------------|
| <b>INTRODUCTION</b>  | 1                  |
| BACKGROUND   | 1                  |
| Highmark   | 1                  |
| Medicare   | 1                  |
| Regulations  | 1                  |
| OBJECTIVE, SCOPE, AND METHODOLOGY  | 2                  |
| Objective  | 2                  |
| Scope  | 2                  |
| Methodology  | 2                  |
| <b>FINDING AND RECOMMENDATIONS</b>   | 3                  |
| CRITERIA - MEDICARE CONTRACT   | 3                  |
| CONDITION - UNDERCLAIM OF \$1,637,414  | 3                  |
| CAUSE - LACK OF ADEQUATE CONTROLS  | 4                  |
| EFFECT - UNDERCLAIMED COSTS OF \$1,637,414   | 4                  |
| RECOMMENDATIONS  | 4                  |
| AUDITEE'S COMMENTS   | 4                  |
| OIG RESPONSE   | 5                  |
| <b>APPENDIXES</b>  |                    |
| <b>A STATEMENT OF ALLOWABLE CAS PENSION COSTS<br/>        FOR FY 1998 THROUGH 2002</b> |                    |
| <b>B HIGHMARK'S RESPONSE</b>   |                    |

## **Glossary of Abbreviations and Acronyms**

|      |  |
|------|--|
| CAS  | Cost Accounting Standards                |
| CMS  | Centers for Medicare & Medicaid Services |
| FACP | Final Administrative Cost Proposal       |
| FAR  | Federal Acquisition Regulations          |
| FY   | fiscal year                              |
| OIG  | Office of Inspector General              |
| PBS  | Pennsylvania Blue Shield                 |

## INTRODUCTION

### BACKGROUND

#### Highmark

Highmark administered Medicare Part A and B operations under cost reimbursement contracts with CMS. On December 31, 1997, Highmark merged the Veritus pension plan into the PBS pension plan. Effective January 1, 1998, the PBS plan was amended and restated, and became the pension plan for Highmark. For the purposes of this report, the term Highmark will be used to address the findings concerning Part A and B pension costs claimed for FY 1998 through 2002.

#### Medicare

Medicare reimburses a portion of annual contributions made by contractors to their pension plans. 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.

Additionally, CMS incorporated specific segmentation language into Medicare contracts starting in FY 1988. Contracts provide for an allocation or a separate calculation of pension costs. Under an allocation method, a contractor determines total plan CAS costs and allocates a share to Medicare. Under the separate calculation method, a contractor separately identifies the normal costs and amortization for the Medicare segment. The separate calculation method must be used if there is a material difference between the two methods.

#### Regulations

The determination and allocation of pension costs are addressed by the Medicare contract, which states:

“The calculation of and accounting for pension costs charged to this agreement/contract are governed by the Federal Acquisition Regulation and Cost Accounting Standards 412 and 413.”

The FAR addresses allowability of pension costs and requires that funding substantiate pension costs assigned to contract periods.

The CAS 412 regulates the determination and measurement of pension cost components. It also regulates the assignment of pension costs to appropriate accounting periods.

The CAS 413 regulates 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.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

Our objective was to determine the allowability of pension costs claimed by Highmark for Medicare reimbursement for FY 1998 through 2002.

### **Scope**

We reviewed pension costs claimed for Medicare reimbursement on Highmark's FACP's for Medicare reimbursement for FY 1998 through 2002. Achieving the objective did not require that we review Highmark's overall internal control structure. However, we did review the controls relating to the pension costs claimed for Medicare reimbursement to ensure that costs were allowable in accordance with the CAS and funded in accordance with the FAR.

We performed onsite audit work at Highmark's corporate office in Camp Hill, PA.

### **Methodology**

We identified Highmark's CAS pension costs for the total company and for the Medicare segments. We also determined the extent to which Highmark funded CAS pension costs with contributions to the pension trust fund and accumulated prepayment credits. Using this information, we calculated the CAS pension costs that were allowable for Medicare reimbursement for FYs 1998 through 2002. The calculations were based on separately computed CAS pension costs for the Medicare segment and total company CAS pension costs. The CMS Office of the Actuary developed the methodology used for computing allowable CAS pension costs based on Highmark's historical practices. Appendix A to this report contains details on the pension costs and contributions.

In performing our review, we used information provided by Highmark's actuarial consulting firm. The information included assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We examined Highmark's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Form 5500s.

This review was done in conjunction with our review of Highmark's pension segmentation (A-07-04-03050) and unfunded costs (A-07-04-00177). The information obtained and reviewed during the audits also was used in performing this review.

Our review was performed in accordance with generally accepted government auditing standards.

## FINDING AND RECOMMENDATIONS

Highmark underclaimed \$1,637,414 in allowable Medicare pension costs for FY 1998 through 2002 because it did not identify its Medicare segments in accordance with its Medicare contract and did not update its Medicare segment assets in accordance with CAS 412 and CAS 413. Highmark claimed pension costs of \$4,813,234 for Medicare reimbursement; however, the allowable Medicare pension costs were \$6,450,648.

### CRITERIA - MEDICARE CONTRACT

The Medicare contract states:

“The term “Medicare Segment” shall mean any organizational component of the contractor, such as a division, department, or other similar subdivision, having a significant degree of responsibility and accountability for the Medicare contract/agreement, in which:

1. The majority of the salary dollars is allocated to the Medicare agreement/contract; or
2. Less than a majority of the salary dollars is allocated to the Medicare agreement/contract, and these salary dollars represent 40 percent or more of the total salary dollars allocated to the Medicare agreement/contract.”

### CONDITION - UNDERCLAIM OF \$1,637,414

Highmark underclaimed \$1,637,414 of allowable pension costs. For FY 1998 through 2002, Highmark charged \$4,813,234 of pension costs to Medicare; however, the allowable CAS pension costs for the period were \$6,450,648.

We compared our calculated allowable CAS pension costs to the pension costs claimed on Highmark’s FACP’s and found:

| <b>Pension Cost Claimed Variance</b> |                           |                           |                           |
|--------------------------------------|---------------------------|---------------------------|---------------------------|
| <b>FISCAL YEAR</b>                   | <b>PER OIG</b>            | <b>PER HIGHMARK</b>       | <b>DIFFERENCE</b>         |
| <b>1998</b>                          | \$2,618,022               | \$2,003,330               | \$614,692                 |
| <b>1999</b>                          | 1,823,522                 | 2,278,253                 | (454,731)                 |
| <b>2000</b>                          | 442,311                   | 420,552                   | 21,759                    |
| <b>2001</b>                          | 70,458                    | 2,131                     | 68,327                    |
| <b>2002</b>                          | <u>1,496,335</u>          | <u>108,968</u>            | <u>1,387,367</u>          |
| <b>Total</b>                         | <u><b>\$6,450,648</b></u> | <u><b>\$4,813,234</b></u> | <u><b>\$1,637,414</b></u> |

## **CAUSE - LACK OF ADEQUATE CONTROLS**

Highmark did not have adequate controls to ensure that the Medicare segments were identified in accordance with the Medicare contract and that Medicare segment pension assets were updated in accordance with CAS 412 and 413.

## **EFFECT - UNDERCLAIMED COSTS OF \$1,637,414**

Highmark underclaimed \$1,637,414 of allowable CAS pension costs.

## **RECOMMENDATIONS**

We recommend that Highmark:

- revise its FACP to claim allowable CAS pension costs of \$1,637,414 for FY 1998 through 2002 and
- implement controls to ensure that the Medicare segments are identified in accordance with the Medicare contract and updated in accordance with CAS 412 and 413.

## **AUDITEE'S COMMENTS**

Highmark's comments are summarized in the following paragraphs, and its redacted comments are presented in their entirety on Appendix B.

Highmark disagreed with our report and stated that it:

“... nor does Highmark concur with the conclusion that the underclaimed costs occurred because it did not identify its Medicare segments in accordance with its Medicare contracts and did not update its Medicare segment assets in accordance with CAS 412 and CAS 413.”

Highmark contends that:

- OIG assigned certain participants to incorrect segments,
- OIG identified the incorrect amount of cost claimed on the FACP by Highmark, and
- most of OIG's findings concerning the understatement of Medicare Part B segment assets were due to a retroactive application of a recent decision handed down by the U.S. Court of Appeals concerning reassignable pension costs.

## OIG RESPONSE

We partially disagree with Highmark's assertion concerning the understatement of the pension costs claimed.

Our identification of the Medicare segment assets was in accordance with the Medicare contract, and the update of assets was in accordance with CAS 412 and 413. During the course of the audit, we reviewed our identification of the participants and cost centers comprising the Medicare segment with representatives of Highmark and obtained their concurrence. The findings and recommendations of this report are based upon that identification. In its response, Highmark provided revised cost center information for several participants. Although Highmark did not provide us with supporting documentation necessary to accept these revisions, we did compute the impact of such revisions on our report. We determined that including the revised participants did not materially impact the findings of the report, and we will not require Highmark to provide us with the supporting documentation necessary to accept these revisions. OIG used the pension costs as identified by Highmark during our audit. Highmark did not provide sufficient supporting detail to support Highmark's assertion for the change in claimed pension costs. In addition, the change would not create a material difference, as Highmark pointed out in its response the change in pension costs claimed by Highmark would be a 1.4% difference. Thus, our position has not changed, and we recommend that Highmark revise its FACP to claim allowable CAS pension costs of \$1,637,414 for FY 1998 through 2002.

However, we acknowledge that a recent decision by the U.S. Court of Appeals affected the method used by Highmark to measure and assign pension costs to periods. The method employed by CMS actuaries reflected this decision and did have a material impact upon the difference between claimed and allowable pension costs used to update the Medicare assets.

# **APPENDIXES**



**Highmark**  
**Statement of Allowable CAS Pension Costs**  
**For Fiscal Years 1998 Through 2002**

| Date   | Description              | Total Company                | Other Segment    | Medicare Segment A | Medicare Segment B |
|--------|--------------------------|------------------------------|------------------|--------------------|--------------------|
| 1998   | Contributions            | <u>1/</u> \$9,933,000        | \$9,760,018      | \$0                | \$172,982          |
| 8.50%  | Discount For Interest    | <u>2/</u> (531,406)          | (522,152)        | 0                  | (9,254)            |
| 1/1/98 | Present Value            | <u>3/</u> 9,401,594          | 9,237,866        | 0                  | 163,728            |
| 1/1/98 | Prepayment Credit        | <u>4/</u> 1,738,743          | 0                | 0                  | 1,738,743          |
| 1/1/98 | Present Value Of Funding | <u>5/</u> 11,140,337         | 9,237,866        | 0                  | 1,902,471          |
| 1/1/98 | Assigned Pension Costs   | <u>6/</u> 1,932,215          | 29,745           | 0                  | 1,902,470          |
| 1/1/98 | Absorbed Credit          | 0                            | 0                | 0                  | 0                  |
| 1/1/98 | CAS Funding Target       | <u>7/</u> 1,932,215          | 29,745           | 0                  | 1,902,470          |
| 1/1/98 | Percentage Funded        | <u>8/</u>                    | 0.00%            | 0.00%              | 100.00%            |
| 1/1/98 | Funded Pension Cost      | <u>9/</u>                    | 0                | 0                  | 1,902,470          |
|        | Allowable Interest       | <u>10</u>                    | 0                | 0                  | 9,254              |
|        | Allocable Pension Cost   | <u>11</u>                    | 0                | 0                  | 1,911,724          |
|        | Fiscal Year Pension Cost | <u>12</u>                    | 4,091,647        | 95,375             | 1,972,476          |
|        | Medicare LOB Percentage  | <u>13</u>                    | 13.54%           | 97.00%             | 99.96%             |
|        | Allowable Pension Cost   | <u>14</u> <u>\$2,618,022</u> | <u>\$553,849</u> | <u>\$92,511</u>    | <u>\$1,971,662</u> |

|        |                          |                    |            |            |                    |
|--------|--------------------------|--------------------|------------|------------|--------------------|
| 1999   | Contributions            | \$0                | \$0        | \$0        | \$0                |
| 8.50%  | Discount For Interest    | 0                  | 0          | 0          | 0                  |
| 1/1/99 | Present Value            | 0                  | 0          | 0          | 0                  |
| 1/1/99 | Prepayment Credit        | 1,794,365          | 0          | 0          | 1,794,365          |
| 1/1/99 | Present Value Of Funding | 1,794,365          | 0          | 0          | 1,794,365          |
| 1/1/99 | Assigned Pension Costs   | 1,794,365          | 0          | 0          | 1,794,365          |
| 1/1/99 | Absorbed Credit          | 0                  | 0          | 0          | 0                  |
| 1/1/99 | CAS Funding Target       | 1,794,365          | 0          | 0          | 1,794,365          |
| 1/1/99 | Percentage Funded        |                    | 0.00%      | 0.00%      | 100.00%            |
| 1/1/99 | Funded Pension Cost      |                    | 0          | 0          | 1,794,365          |
|        | Allowable Interest       |                    | 0          | 0          | 0                  |
|        | Allocable Pension Cost   |                    | 0          | 0          | 1,794,365          |
|        | Fiscal Year Pension Cost |                    | 0          | 0          | 1,823,705          |
|        | Medicare LOB Percentage  |                    | 12.27%     | 100.00%    | 99.99%             |
|        | Allowable Pension Cost   | <u>\$1,823,522</u> | <u>\$0</u> | <u>\$0</u> | <u>\$1,823,522</u> |

**Highmark**  
**Statement of Allowable CAS Pension Costs**  
**For Fiscal Years 1998 Through 2002**

| Date   | Description              | Total Company    | Other Segment | Medicare Segment A | Medicare Segment |
|--------|--------------------------|------------------|---------------|--------------------|------------------|
| 2000   | Contributions            | \$0              | \$0           | \$0                | \$0              |
| 8.50%  | Discount For Interest    | 0                | 0             | 0                  | 0                |
| 1/1/00 | Present Value            | 0                | 0             | 0                  | 0                |
| 1/1/00 | Prepayment Credit        | 0                | 0             | 0                  | 0                |
| 1/1/00 | Present Value Of Funding | 0                | 0             | 0                  | 0                |
| 1/1/00 | Assigned Pension Costs   | 0                | 0             | 0                  | 0                |
| 1/1/00 | Absorbed Credit          | 0                | 0             | 0                  | 0                |
| 1/1/00 | CAS Funding Target       | 0                | 0             | 0                  | 0                |
| 1/1/00 | Percentage Funded        |                  | 0.00%         | 0.00%              | 0.00%            |
| 1/1/00 | Funded Pension Cost      |                  | 0             | 0                  | 0                |
|        | Allowable Interest       |                  | 0             | 0                  | 0                |
|        | Allocable Pension Cost   |                  | 0             | 0                  | 0                |
|        | Fiscal Year Pension Cost |                  | 0             | 0                  | 448,591          |
|        | Medicare LOB Percentage  |                  | 9.66%         | 100.00%            | 98.60%           |
|        | Allowable Pension Cost   | <u>\$442,311</u> | <u>\$0</u>    | <u>\$0</u>         | <u>\$442,311</u> |

|        |                          |                 |            |                 |            |
|--------|--------------------------|-----------------|------------|-----------------|------------|
| 2001   | Contributions            | \$0             | \$0        | \$0             | \$0        |
| 8.50%  | Discount For Interest    | 0               | 0          | 0               | 0          |
| 1/1/01 | Present Value            | 0               | 0          | 0               | 0          |
| 1/1/01 | Prepayment Credit        | 93,994          | 0          | 93,994          | 0          |
| 1/1/01 | Present Value Of Funding | 93,994          | 0          | 93,994          | 0          |
| 1/1/01 | Assigned Pension Costs   | 93,994          | 0          | 93,994          | 0          |
| 1/1/01 | Absorbed Credit          | 0               | 0          | 0               | 0          |
| 1/1/01 | CAS Funding Target       | 93,994          | 0          | 93,994          | 0          |
| 1/1/01 | Percentage Funded        |                 | 0.00%      | 100.00%         | 0.00%      |
| 1/1/01 | Funded Pension Cost      |                 | 0          | 93,994          | 0          |
|        | Allowable Interest       |                 | 0          | 0               | 0          |
|        | Allocable Pension Cost   |                 | 0          | 93,994          | 0          |
|        | Fiscal Year Pension Cost |                 | 0          | 70,458          | 0          |
|        | Medicare LOB Percentage  |                 | 8.77%      | 100.00%         | 99.66%     |
|        | Allowable Pension Cost   | <u>\$70,458</u> | <u>\$0</u> | <u>\$70,458</u> | <u>\$0</u> |

**Highmark**  
**Statement of Allowable CAS Pension Costs**  
**For Fiscal Years 1998 Through 2002**

| Date   | Description              | Total Company      | Other Segment      | Medicare Segment A | Medicare Segment |
|--------|--------------------------|--------------------|--------------------|--------------------|------------------|
| 2002   | Contributions            | \$59,915,212       | \$59,670,498       | \$244,714          | \$0              |
| 8.50%  | Discount For Interest    | (4,151,682)        | (4,134,725)        | (16,957)           | 0                |
| 1/1/02 | Present Value            | 55,763,530         | 55,535,773         | 227,757            | 0                |
| 1/1/02 | Prepayment Credit        | 10,408,471         | 10,136,399         | 272,072            | 0                |
| 1/1/02 | Present Value Of Funding | 66,172,001         | 65,672,172         | 499,829            | 0                |
| 1/1/02 | Assigned Pension Costs   | 19,121,601         | 18,621,772         | 499,829            | 0                |
| 1/1/02 | Absorbed Credit          | 0                  | 0                  | 0                  | 0                |
| 1/1/02 | CAS Funding Target       | 19,121,601         | 18,621,772         | 499,829            | 0                |
| 1/1/02 | Percentage Funded        |                    | 100.00%            | 100.00%            | 0.00%            |
| 1/1/02 | Funded Pension Cost      |                    | 18,621,772         | 499,829            | 0                |
|        | Allowable Interest       |                    | 510,890            | 13,713             | 0                |
|        | Allocable Pension Cost   |                    | 19,132,662         | 513,542            | 0                |
|        | Fiscal Year Pension Cost |                    | 14,349,497         | 408,643            | 0                |
|        | Medicare LOB Percentage  |                    | 7.58%              | 100.00%            | 97.74%           |
|        | Allowable Pension Cost   | <u>\$1,496,335</u> | <u>\$1,087,692</u> | <u>\$408,643</u>   | <u>\$0</u>       |

**FOOTNOTES**

- 1/ We obtained total company contribution amounts and dates of deposit from IRS Form 5500 Reports. The contributions included deposits made during the plan year and accrued contributions deposited after the end of the plan year but within the time allowed for filing tax returns.
- 2/ We subtracted interest that is included in the contributions deposited after January 1 of each 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 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 January 1. For purposes of this appendix, we deemed deposits made after the end of the plan year to have been made on the final day of the plan year.
- 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 may be carried forward, with interest, to fund future CAS pension costs.

**Highmark**  
**Statement of Allowable CAS Pension Costs**  
**For Fiscal Years 1998 Through 2002**

- 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 January 1 of each year.
- 6/ The assigned pension costs, computed at January 1 of each year, provides the basis to compute the allowable pension cost that can be charged to Medicare.
- 7/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of FAR 31.205-6(j)(3)(I).
- 8/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the plan year. Since any funding in excess of the CAS funding target is considered premature funding in accordance with CAS 412.50(a)(7), 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 decimals.
- 9/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.
- 10/ We assumed interest on the funded CAS pension cost is to accrue in the same proportion as the interest on contributions bears to the present value of funding. However, we limited the interest by FAR 31.205-6(j)(3)(iii) which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target were funded in four equal installments deposited within 30 days of the end of the quarter.
- 11/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.
- 12/ We converted the plan year allocable CAS pension costs to a Federal fiscal year basis (October 1 through September 30). We calculated the fiscal year pension costs as 1/4 of the prior year's costs plus 3/4 of the current year's costs. Costs charged to the Medicare contract should consist of the Medicare segment's direct pension costs plus pension costs attributable to indirect Medicare operations.
- 13/ We calculated the Medicare line of business (LOB), for the segment and indirect operations, based on individual cost center LOB percentages provided by Highmark.
- 14/ We computed the allowable Medicare pension cost as the fiscal year pension cost multiplied by the Medicare LOB percentage.



January 6, 2005

Mr. James P. Aasmundstad  
Regional Inspector General for Audit Services  
DHHS, OIG  
601 East 12<sup>th</sup> Street  
Room 284A  
Kansas City, Missouri 64106

**RE: A-07-04-03050 ("Pension Segmentation Review at Highmark, Inc. of Pennsylvania")**  
**A-07-04-00163 ("Review of Pension Costs Claimed for Medicare Reimbursement**  
**by Highmark Inc. for Fiscal Years 1998 through 2002")**  
**A-07-04-00177 ("Audit of Highmark's Unfunded Pension Costs for the period**  
**covering 1997 Through 2001")**

Dear Mr. Aasmundstad:

Attached is our response to your letters dated November 4, 2004, requesting comments on your draft reports A-07-04-03050 entitled, "Pension Segmentation Review at Highmark, Inc. of Pennsylvania" for the period covering December 31, 1997 to January 1, 2002; A-07-04-00163 entitled, "Review of Pension Costs Claimed for Medicare Reimbursement by Highmark, Inc. for Fiscal Years 1998 through 2002;" and A-07-04-00177 entitled, "Audit of Highmark's Unfunded Pension Costs for the period covering 1997 through 2001."

If you have any questions, please feel free to contact me at 717-302-4175.

Sincerely,

A handwritten signature in black ink that reads "Donald L. Fisher".

Donald L. Fisher, Vice President  
Compensation, Benefits, HRIS &  
Risk Management

cc: James Chiado  
Elizabeth Farbacher  
Patrick Kiley  
Anthony Lobato  
Gayeta Porter  
J. Richard Little  
Stephen Walker

**Corporate Offices:**

Camp Hill PA 17089  
Fifth Avenue Place ••120 Fifth Avenue ••Pittsburgh PA 15222-3099  
www.highmark.com

***Review of Pension Costs Claimed***  
**For Medicare Reimbursement by**  
**Highmark Inc.**

**Fiscal Years 1998 through 2002**

**Highmark Comments to OIG Draft Report**  
**A-07-04-00163**

## Highmark's Comments on Report Number A-07-04-00163

Highmark does not concur with the OIG's finding that it underclaimed \$1,637,414 in allowable Medicare pension costs for FY 1998 through 2002, nor does Highmark concur with the conclusion that the underclaimed costs occurred because it did not identify its Medicare segments in accordance with its Medicare contracts and did not update its Medicare segment assets in accordance with CAS 412 and CAS 413. Highmark also disagrees with the OIG's segment assignment of certain participants identified in the attached Exhibits I, II, III and IV, and also believes that a portion of the amount described as underclaimed costs by the OIG occurred as a result of the OIG's retroactive application of a recent decision of the United States Court of Appeals for the Federal Circuit (*Eastman Kodak Company v. Donald H. Rumsfeld, Secretary of Defense*).

Highmark agrees that several cost centers were incorrectly assigned to segments, but believes it was due to human error rather than an inherent lack of adequate controls. Some of the errors occurred as Highmark merged two distinct corporate pension plans (i.e., the Veritus Inc. pension plan with the Pennsylvania Blue Shield pension plan), and moved to a single Highmark Inc. human resource and financial system in 1998, following the statutory consolidation that created Highmark Inc.

As noted in the attachments, the cost center numbers shown for some participants in the listings provided to the OIG were in error; consequently, the segment assignment by the OIG is incorrect for those participants. The error occurred when participant listings with cost centers were recreated from several source documents for the audit. In some cases, a participant terminated and was subsequently rehired, but the listing included the original termination cost center rather than the employee's last active cost center. In other cases, the first digit of some Veritus Inc. cost center numbers were inadvertently omitted. When cost centers were transferred from Veritus Inc. to Highmark's system, they only had three digits and some were duplicates of Pennsylvania Blue Shield (PBS) cost center numbers. In early 1998, a fourth digit was added to the beginning of all Veritus Inc. cost center numbers to avoid duplicate numbers and provide clear distinction between a former Veritus Inc. versus PBS cost center number. Highmark's pension actuary doesn't use or maintain cost center numbers, but rather utilizes a segment indicator to assign participants to a segment. Although these old Veritus Inc. cost center

numbers created some confusion during the audit, Highmark's pension actuary for the most part assigned participants correctly even though a source document provided to the auditors may have contained some old Veritus Inc. cost center numbers. In addition, since the segment indicator doesn't change upon an employee's termination, it is not necessary to continue to identify the segment assignment for cost centers for retirees and terminated-vested participants who terminated in prior years – only the segment indicator.

In addition to the above issues, there are other participant assignments made by the OIG that Highmark believes are incorrect, as noted in Exhibits I, II, III and IV.

Highmark does not concur with the data presented in the "Per Highmark" column contained in the "Pension Cost Claimed Variance" chart located on page 3 of the OIG report. Included below is a comparison of the qualified pension amounts Highmark provided to the OIG and included in the final FACPs filed, versus the amounts the OIG included in the audit report. The total difference is approximately 1.4% of the OIG reported total amount, however several of the fiscal years vary significantly.

**Comparison Schedule for Pension Cost Claimed Variance**

|              | <u>Qualified Pension as Reported by Highmark</u> |                     |                     | <u>OIG Report</u>            | <u>Difference</u> |
|--------------|--|---------------------|---------------------|------------------------------|-------------------|
|              | <u>Part A</u>                                    | <u>Part B</u>       | <u>Total</u>        | <u>"Per Highmark" Amount</u> |                   |
| FY 1998      | \$ 38,694  | \$ 2,148,103        | \$ 2,186,797        | \$ 2,003,330                 | \$ 183,467        |
| FY 1999      | 5,994  | 2,073,860           | 2,079,854           | 2,278,253                    | (198,399)         |
| FY 2000      | -  | 420,552             | 420,552             | 420,552                      | -                 |
| FY 2001      | 532  | 1,441               | 1,973               | 2,131                        | (158)             |
| FY 2002      | 55,149   | 135,645             | 190,794             | 108,968                      | 81,826            |
| <b>Total</b> | <b>\$ 100,369</b>                                | <b>\$ 4,779,601</b> | <b>\$ 4,879,970</b> | <b>\$ 4,813,234</b>          | <b>\$ 66,736</b>  |

Percentage Difference 1.4%

We believe the data in the "Reported by Highmark" columns above should be used in determining the over/under statement of expense in comparison to the OIG findings.

Accordingly, Highmark requests that the OIG's audit report should separately identify: 1) the amount of the finding attributable to the retroactive application of the recent Kodak "full funding limit" decision that was not a part of the measurement and assignment practices that were previously followed by either the OIG, Highmark's predecessor corporations, or



Highmark's pension actuary; and, 2) the amounts of the findings due to the incorrect assignment of cost centers to the Medicare Part A and Part B segments, after revising their calculations for the participants identified in Exhibits I, II, III and IV. In addition, when determining the over/under statement of expenses charged, Highmark requests the OIG audit report should use the qualified pension amounts included on Highmark's FACPs and provided to the OIG auditors.

Participants not included in the Medicare B Segment by OIG that Should Be

| Participant                            | Segment    | Cost Center |  | Valuation Impacted                   | Explanation  |
|--|------------|-------------|--|--------------------------------------|--|
|  |            | Number      | Name   |                                      |  |
| <i>"Data Redacted by OAS Auditors"</i> | Medicare B | 399         | Special Correspondence (In 1988 it was titled Provider Telephone & General Inquiry Services) | 1998<br>1999<br>2000<br>2001<br>2002 | This participant retired in 1988 from Cost Center 399 and began collecting her retirement benefit. Cost Center 399 was a Medicare Part B cost center at that time. She later worked part-time in Cost Center 398, which is also a Medicare B cost center according to information provided to OIG by Highmark. She did not accrue any additional service after commencing retirement benefit payments. |
|  | Medicare B | 020         | Medicare Incoming Mail   | 1998<br>1999                         | This Cost Center was in Medicare Part B when the employee terminated in 1979 with a vested benefit. The cost center is listed as Medicare B on the information provided to OIG by Highmark.  |
|  | Medicare B | 20          | Medicare Incoming Mail   | 1998<br>1999<br>2000<br>2001<br>2002 | This Cost Center was in Medicare Part B when the employee terminated in 1986 with a vested benefit. The cost center is listed as Medicare B on the information provided to OIG by Highmark.  |
|  | Medicare B | 185         | Medicare Medical Review - Sect. A  | 1999<br>2000<br>2001<br>2002         | This Cost Center was in Medicare Part B when the employee terminated in 1988 with a vested benefit. The cost center is listed as Medicare B on the information provided to OIG by Highmark.  |
|  | Medicare B | 185         | XACT Medicare Medical Review   | 2000<br>2001<br>2002                 | This Cost Center was in Medicare Part B when the employee terminated in 1999 with a vested benefit. The cost center is listed as Medicare B on the information provided to OIG by Highmark.  |
|  | Medicare B | 431         | XACT Medicare Telephone Services   | 2000<br>2001<br>2002                 | This employee terminated with a vested benefit from Cost Center 431 in 1999. Prior to termination she had been on leave of absence for an extended period of time. At the time of her termination Cost Center 431 was in the Medicare B segment. The cost center is listed as a Medicare B cost center on the list provided to the auditors.   |
|  | Medicare B | 105         | XACT Medicare EMC Edit/Suspensions   | 2000<br>2001<br>2002                 | This employee terminated with a vested benefit from Cost Center 105 in 1999. Prior to termination she had been on leave of absence for an extended period of time. At the time of her termination Cost Center 105 was in the Medicare B segment. The cost center is listed as a Medicare B cost center on the list provided to the auditors.   |
|  |            |             |  |                                      |  |

Participants not included in the Medicare B Segment by OIG that Should Be

| Participant                            | Segment    | Cost Center |   | Valuation Impacted   | Explanation  |
|--|------------|-------------|---|----------------------|--|
|  |            | Number      | Name  |                      |  |
| <i>"Data Redacted by OAS Auditors"</i> | Medicare B | 105         | XACT Medicare EMC Edit/Suspensions              | 2000<br>2001<br>2002 | This employee terminated with a vested benefit from Cost Center 105 in 1999. Prior to termination she had been on leave of absence for an extended period of time. At the time of her termination Cost Center 105 was in the Medicare B segment. The cost center is listed as a Medicare B cost center on the list provided to the auditors. |
|  | Medicare B | 474         | XACT Medicare Core Svc. Post Payment Processing | 2000<br>2001         | This employee terminated with a vested benefit from Cost Center 474 in 1999. Prior to termination she had been on leave of absence for an extended period of time. At the time of her termination Cost Center 474 was in the Medicare B segment. The cost center is listed as a Medicare B cost center on the list provided to the auditors. |
|  | Medicare B | 171         | Xact Medicare Inquiry Control                   | 2001<br>2002         | This employee terminated with a vested benefit from Cost Center 171 in 1999. Her Social Security number differs by one digit from the actuary's record for that year. Cost Center 171 was a Medicare B cost center in 1999 and is listed as a Medicare B cost center on the information provided to the auditors.                            |
|  | Medicare B | 185         | Medicare Claims Review                          | 2001<br>2002         | This employee terminated with a vested benefit from Cost Center 185 in 1983. Cost Center 185 was a Medicare B cost center in 1983.   |
|  | Medicare B | 399         | Provider Telephone & General Inquiry Services   | 2002                 | This employee terminated in 1990 with a vested benefit from Cost Center 399. This cost center was in the Medicare B segment in 1990.   |
|  |            |             |   |                      |  |

Participants included in the Medicare B Segment by OIG that **Should Not Be**

| Participant                            | Segment    | Cost Center |   | Valuation Impacted                   | Explanation   |
|--|------------|-------------|---|--------------------------------------|---|
|  |            | Number      | Name                                    |                                      |   |
| <i>"Data Redacted by OAS Auditors"</i> | Indirect   | 189         | PA/DEL Champus                          | 1998<br>1999<br>2000<br>2001<br>2002 | This participant terminated with a vested benefit in 1980 from Cost Center 189. Based on the cost center review dated November 1980, cost center 189 was called PA/DEL Champus. Based on the name and the fact the CC was in the Corporate area (not in the GBU), cost center 189 should NOT have been in the Medicare segment. CC 189 was not on the Medicare B list provided to the auditors.   |
|  | Indirect   | 5           | Sr, VP Mid-Atlantic Region              | 1998<br>1999<br>2000<br>2001<br>2002 | This participant terminated with a vested benefit from Cost Center 05 in 1997. Cost center 005 was not in the Medicare segment in 1997 when this participant terminated. The last year it was included in the Medicare B segment was 1996.  |
|  | Indirect   | 77          | Employee Relations                      | 1998<br>1999<br>2000<br>2001<br>2002 | This participant retired from Cost Center 077 in 1984. Cost center 077 was not included on the list of Medicare B cost centers provided to the auditors. It was not in the Medicare segment in 1984 when this person terminated.  |
|  | Medicare A | 4372        | Medicare A - Provider Field Audit, West | 1998<br>1999<br>2000<br>2001<br>2002 | The participant information provided to OIG was in error. This participant terminated from Cost Center 4372 with a vested benefit in 1998. The first digit of this cost center was missing. When cost centers were transferred from Veritus to Highmark's system, they only had three digits. In early 1998 a fourth digit was added to the beginning of the three digit cost center number. This Cost Center 4372, was determined to have been in the Medicare A segment when this employee terminated employment.     |
|  | Indirect   | 4441        | Provider Data Services                  | 1998<br>1999<br>2000<br>2001<br>2002 | The participant information provided to OIG was in error. This participant terminated from Cost Center 4441 with a vested benefit in 1998. The first digit of this cost center was missing. When cost centers were transferred from Veritus to Highmark's system, they only had three digits. In early 1998 a fourth digit was added to the beginning of the three digit cost center number. This Cost Center 4441, was determined NOT to have been in the Medicare B segment when this employee terminated employment. |
|  |            |             |   |                                      |   |

Participants included in the Medicare B Segment by OIG that **Should Not Be**

| Participant                            | Segment    | Cost Center |                                      | Valuation Impacted           | Explanation  |
|--|------------|-------------|--------------------------------------|------------------------------|--|
|  |            | Number      | Name                                 |                              |  |
| <i>"Data Redacted by OAS Auditors"</i> | Indirect   | 4426        | Director, Training & Development     | 1998                         | The participant information provided to OIG was in error. This participant was active in Cost Center 4426 on 1/1/98. The first digit of this cost center was missing. When cost centers were transferred from Veritus to Highmark's system, they only had three digits. In early 1998 a fourth digit was added to the beginning of the three digit cost center number. This Cost Center 4426, was determined NOT to have been in the Medicare B segment in 1998. |
|  | Indirect   | 4685        | Executive Inquiry & Grievance Admin. | 1998                         | The participant information provided to OIG was in error. This participant was active in Cost Center 4685 on 1/1/98. The first digit of this cost center was missing. When cost centers were transferred from Veritus to Highmark's system, they only had three digits. In early 1998 a fourth digit was added to the beginning of the three digit cost center number. This Cost Center 4685, was determined NOT to have been in the Medicare B segment in 1998. |
|  | Indirect   | 4196        | Government & Public Affairs          | 1998                         | The participant information provided to OIG was in error. This participant was active in Cost Center 4196 on 1/1/98. The first digit of this cost center was missing. When cost centers were transferred from Veritus to Highmark's system, they only had three digits. In early 1998 a fourth digit was added to the beginning of the three digit cost center number. This Cost Center 4196, was determined NOT to have been in the Medicare B segment in 1998. |
|  | Indirect   | 158         | VP, Govt. Affairs                    | 1999<br>2000<br>2001<br>2002 | This participant terminated from Cost Center 158 in 1998 with a vested benefit. Cost Center 158 was determined NOT to have been in the Medicare segment when this person terminated  |
|  | Indirect   | 4473        | AVI, Subsidiary Accounting           | 1998                         | The participant information provided to OIG was in error. This participant was active in Cost Center 4473 on 1/1/98. The first digit of this cost center was missing. When cost centers were transferred from Veritus to Highmark's system, they only had three digits. In early 1998 a fourth digit was added to the beginning of the three digit cost center number. This Cost Center 4473, was determined NOT to have been in the Medicare B segment in 1998. |
|  | Medicare A | 4372        | Medicare A - Provider Field Audit    | 1998                         | The participant information provided to OIG was in error. This participant was active in Cost Center 4372 on 1/1/98. The first digit of this cost center was missing. When cost centers were transferred from Veritus to Highmark's system, they only had three digits. In early 1998 a fourth digit was added to the beginning of the three digit cost center number. This Cost Center 4372, was determined to have been in the Medicare A segment in 1998.     |

Participants included in the Medicare B Segment by OIG that **Should Not Be**

| Participant                            | Segment  | Cost Center |                                  | Valuation Impacted | Explanation  |
|--|----------|-------------|----------------------------------|--------------------|--|
|  |          | Number      | Name                             |                    |  |
| <i>"Data Redacted by OAS Auditors"</i> | Indirect | 4426        | Director, Training & Development | 1998               | The participant information provided to OIG was in error. This participant was active in Cost Center 4426 on 1/1/98. The first digit of this cost center was missing. When cost centers were transferred from Veritus to Highmark's system, they only had three digits. In early 1998 a fourth digit was added to the beginning. This Cost Center 4426, was determined NOT to have been in the Medicare B segment in 1998. |
|  | Indirect | 4426        | Director, Training & Development | 1998               | The participant information provided to OIG was in error. This participant was active in Cost Center 4426 on 1/1/98. The first digit of this cost center was missing. When cost centers were transferred from Veritus to Highmark's system, they only had three digits. In early 1998 a fourth digit was added to the beginning. This Cost Center 4426, was determined NOT to have been in the Medicare B segment in 1998. |
|  | Indirect | 140         | OSCAR Analysis                   | 1999               | Participant information provided to auditors indicates this employee was in cost center 166. She was in that cost center up through 1993. However, on 1/1/99, she was in cost center 140. Cost center 140 was not a Part B cost center in 1999. The cost center information provided was from a prior record, before a transfer of the employee.   |
|  | Indirect | 763         | KHPC Int/Prog Ded Unit           | 1999               | Participant information provided to auditors indicates this employee was in cost center 680. She was in that cost center up through 1994. However, on 1/1/99, she was in cost center 763. Cost center 763 was not a Medicare Part B cost center in 1999. The cost center information provided was from a prior record, before a transfer of the employee from one company to another. She terminated from 763 in 2001.     |
|  | Indirect | 2193        | TFMDP Customer Service           | 1999               | Participant information provided to auditors indicates this employee was in cost center 274. She was in that cost center into 1996. However, on 1/1/99, she was in cost center 2193. Cost center 2193 was not a Medicare Part B cost center in 1999. The cost center information provided was from a prior record before a transfer of the employee from one company to another. She terminated from 274 in 2002.          |
|  |          |             |                                  |                    |  |

Participants included in the Medicare B Segment by OIG that **Should Not Be**

| Participant                            | Segment  | Cost Center |                                   | Valuation Impacted | Explanation   |
|--|----------|-------------|-----------------------------------|--------------------|---|
|  |          | Number      | Name                              |                    |   |
| <i>"Data Redacted by OAS Auditors"</i> | Indirect | 84          | Director, Compensation & Benefits | 1999               | Participant information provided to auditors indicates this employee was in cost center 106. She was in that cost center until 1989, when she terminated. She was later re-hired. On 1/1/99, she was in cost center 084. Cost center 084 was not a Medicare Part B cost center in 1999. The cost center information provided was from a prior record before the termination and rehire of the employee. |
|  |          |             |                                   |                    |   |

Participants **not** included in the Medicare A Segment by OIG that **Should Be**

| Participant                            | Segment    | Cost Center |   | Valuation Impacted                   | Explanation   |
|--|------------|-------------|---|--------------------------------------|---|
|  |            | Number      | Name                                    |                                      |   |
| <i>"Data Redacted by OAS Auditors"</i> | Medicare A | 4372        | Medicare A - Provider Field Audit, West | 1998<br>1999<br>2000<br>2001<br>2002 | Research indicates this employee terminated with a vested benefit in 1996 from Cost Center 4372, which was determined to be in the Medicare A segment.  |
|  | Medicare A | 4372        | Medicare A - Provider Field Audit, West | 1998<br>1999<br>2000<br>2001<br>2002 | The participant information provided to OIG was in error. The first digit of this cost center was missing. When cost centers were transferred from Veritus to Highmark's system, they only had three digits. In early 1998 a fourth digit was added to the beginning. This participant was in Cost Center 4372 all of 1998. This cost center was determined to have been in the Medicare A segment in 1998 when this employee terminated employment with a vested benefit.                                |
|  | Medicare A | 4372        | Medicare A - Provider Field Audit, West | 1998                                 | Participant information provided to OIG was in error. The first digit of this cost center was missing. When cost centers were transferred from Veritus to Highmark's system, they only had three digits. In early 1998 a fourth digit was added to the beginning. This participant was active in Cost Center 4372 on 1/1/98. This cost center was determined to have been in the Medicare A segment in 1998. This employee was not vested when he terminated employment in 1998.                          |
|  | Medicare A | 4546        | Medicare A - Determination II           | 1998<br>1999<br>2000<br>2001<br>2002 | Participant information provided to OIG was in error. The first digit of this cost center was missing. When cost centers were transferred from Veritus to Highmark's system, they only had three digits. In early 1998 a fourth digit was added to the beginning of the three digit cost center number. This employee terminated with a vested benefit from Cost Center 4546 in 1997. This cost center was determined to have been in the Medicare A segment when this employee terminated employment.    |
|  | Medicare A | 4443        | Medicare A - Medical Review             | 1998<br>1999                         | Participant information provided to OIG was in error. The first digit of this cost center was missing. When cost centers were transferred from Veritus to Highmark's system, they only had three digits. In early 1998 a fourth digit was added to the beginning of the three digit cost center number. This employee was active in Cost Center 4443 on 1/1/98. This cost center was determined to have been in the Medicare A segment on 1/1/98. It is included on the listing provided to the auditors. |
|  |            |             |   |                                      |   |



Participants not included in the Medicare A Segment by OIG that **Should Be**

| Participant                            | Segment    | Cost Center |  | Valuation Impacted | Explanation   |
|--|------------|-------------|--|--------------------|---|
|  |            | Number      | Name   |                    |   |
| <i>"Data Redacted by OAS Auditors"</i> | Medicare A | 1322        | Medicare A - Chief Financial Officer & Contract Management | 2002               | This employee was active employee in Cost Center 1322 on 1/1/02. This cost center first became part of the Medicare A segment in 2001. It is on the list that was provided to the auditors as a Medicare A cost center. |
|  | Medicare A | 1322        | Medicare A - Chief Financial Officer & Contract Management | 2002               | This employee was active employee in Cost Center 1322 on 1/1/02. This cost center first became part of the Medicare A segment in 2001. It is on the list that was provided to the auditors as a Medicare A cost center. |
|  | Medicare A | 1322        | Medicare A - Chief Financial Officer & Contract Management | 2002               | This employee was active employee in Cost Center 1322 on 1/1/02. This cost center first became part of the Medicare A segment in 2001. It is on the list that was provided to the auditors as a Medicare A cost center. |
|  | Medicare A | 1322        | Medicare A - Chief Financial Officer & Contract Management | 2002               | This employee was active employee in Cost Center 1322 on 1/1/02. This cost center first became part of the Medicare A segment in 2001. It is on the list that was provided to the auditors as a Medicare A cost center. |
|  | Medicare A | 1322        | Medicare A - Chief Financial Officer & Contract Management | 2002               | This employee was active employee in Cost Center 1322 on 1/1/02. This cost center first became part of the Medicare A segment in 2001. It is on the list that was provided to the auditors as a Medicare A cost center. |
|  | Medicare A | 1322        | Medicare A - Chief Financial Officer & Contract Management | 2002               | This employee was active employee in Cost Center 1322 on 1/1/02. This cost center first became part of the Medicare A segment in 2001. It is on the list that was provided to the auditors as a Medicare A cost center. |
|  | Medicare A | 1322        | Medicare A - Chief Financial Officer & Contract Management | 2002               | This employee was active employee in Cost Center 1322 on 1/1/02. This cost center first became part of the Medicare A segment in 2001. It is on the list that was provided to the auditors as a Medicare A cost center. |
|  | Medicare A | 1322        | Medicare A - Chief Financial Officer & Contract Management | 2002               | This employee was active employee in Cost Center 1322 on 1/1/02. This cost center first became part of the Medicare A segment in 2001. It is on the list that was provided to the auditors as a Medicare A cost center. |

Participants included in the Medicare A Segment by OIG that Should Not Be

| Participant                            | Segment  | Cost Center |                                  | Valuation Impacted                   | Explanation  |
|--|----------|-------------|----------------------------------|--------------------------------------|--|
|  |          | Number      | Name                             |                                      |  |
| <i>"Data Redacted by OAS Auditors"</i> | Indirect | 366         | Inter-plan Processsing           | 1998<br>1999<br>2000<br>2001<br>2002 | This employee was in PBS Cost Center 366 as of 1/1/98 and terminated with a vested benefit in 1998. Cost center 366 was on the list as a Veritus Part A Medicare cost center in 1997. In 1998 it became cost center 4366. This employee was in 366, a PBS indirect segment cost center. Auditors probably thought this was the Veritus Part A cost center - 366 that was on the list in 1997.                |
|  | Indirect | 363         | Staff Support - Special Programs | 1998                                 | This employee was in PBS Cost Center 363 as of 1/1/98 and terminated with a vested benefit in 1998. Cost center 363 was on the list as a Veritus Part A Medicare cost center in 1997. In 1998 it was no longer on that list. This employee was in 363, a PBS Indirect segment cost center. Auditors probably thought this was the Veritus Part A cost center - 363 that was on the list in 1997.             |
|  | Indirect | 363         | Staff Support - Special Programs | 1998                                 | This employee was active in PBS Cost Center 363 as of 1/1/98. Cost center 363 was on the list as a Veritus Part A Medicare cost center in 1997. In 1998 it is no longer on that list. This employee was in 363, a PBS indirect segment cost center. Auditors probably thought this was the Veritus Part A cost center - 363 - that was on the list in 1997. (Termed with a vested benefit from 363 in 2000.) |
|  | Indirect | 363         | Staff Support - Special Programs | 1998                                 | This employee was in PBS Cost Center 363 as of 1/1/98 and upon termination in 1998. Cost center 363 was on the list of Veritus Part A Medicare cost centers in 1997. In 1998 it is not on the list. This employee was in 363, a PBS indirect segment cost center. Auditors probably thought this was the Veritus Medicare A cost center - 363-that was on the list in 1997.                                  |
|  |          |             |                                  |                                      |  |