DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

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

November 5, 2004

Report Number: A-07-04-00173

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 "Audit of Pennsylvania Blue Shield's Unfunded Pension Costs for the period covering 1992 Through 1996." A copy of this report will be forwarded to the HHS action official noted 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 HHS 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. Please refer to report number A-07-04-00173 in all correspondence.

Sincerely yours,

James P. Aasmundstad
Regional Inspector General
for Audit Services

Enclosure - as stated

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**

AUDIT OF PENNSYLVANIA BLUE SHIELD'S UNFUNDED PENSION COSTS FOR THE PERIOD COVERING 1992 THROUGH 1996

NOVEMBER 2004
A-07-04-00173

Office of Inspector General

http://oig.hhs.gov

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:

Office of Audit Services

The OIG's Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the department.

Office of Evaluation and Inspections

The OIG's Office of Evaluation and Inspections (OEI) conducts short-term management and program evaluations (called inspections) that focus on issues of concern to the department, the Congress, and the public. The findings and recommendations contained in the inspections reports generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs. The OEI also oversees State Medicaid fraud control units, which investigate and prosecute fraud and patient abuse in the Medicaid program.

Office of Investigations

The OIG's Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops model compliance plans, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at http://oig.hhs.gov/

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

Pennsylvania Blue Shield (PBS) administered Medicare Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until it merged with Veritus, Inc. (Veritus) on December 6, 1996, to form Highmark, Inc.

On December 31, 1997, Highmark, Inc. 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, Inc. For purposes of this report, PBS will be used to address the findings concerning the pension plan segment assets of the Part B segment.

OBJECTIVES

The objectives of our review were to:

- determine if the accumulated unfunded pension costs identified in our prior review (A-07-93-00713) have been accounted for properly

- determine if pension costs for plan years 1992 through 1996 were funded in accordance with Federal Acquisition Regulations (FAR) and the Cost Accounting Standards (CAS)

- identify and properly account for any additional accumulated unfunded pension costs, including the identification of the unallowable and reassignable portions of the accumulated unfunded pension costs

SUMMARY OF FINDINGS

The PBS properly accounted for the accumulated unfunded pension costs identified in our prior review and properly executed its Advance Agreement. Additionally, PBS funded the pension costs for plan years 1992 through 1996 in accordance with FAR and CAS. However, PBS did not correctly identify nor properly account for the additional accumulated unfunded pension costs due to the lack of adequate policies and procedures.

The accumulated unfunded pension costs consist of two components, the accumulated unallowable pension costs and the accumulated reassignable pension costs. The PBS correctly identified and properly accounted for the accumulated unallowable pension costs.

As of December 31, 1996, PBS determined its accumulated reassignable pension costs to be $8,639,984. However, the audited accumulated reassignable pension costs for the Medicare segment is $6,485,503. Thus, PBS overstated the accumulated reassignable pension costs by $2,154,481.

The overstatement occurred because PBS did not have adequate controls in place to ensure that reassignable pension costs were identified and properly accounted for in accordance with CAS requirements.

RECOMMENDATION

We recommend that PBS decrease the accumulated reassignable pension costs of the Medicare segment by $2,154,481 as of December 31, 1996.

AUDITEE'S COMMENTS

The PBS's comments are summarized in the following paragraphs and its redacted comments are presented in its entirety on appendix A.

The PBS disagreed with our report and stated that it:

> ". . .does not concur that PBS should decrease the accumulated reassignable pension costs of the Medicare segment by $2,154,481 as of December 31, 1996, because PBS did not have adequate controls in place to ensure that reassignable pension costs were identified and properly accounted for in accordance with CAS requirements."

The PBS contends that:

- OIG assigned certain participants to incorrect segments
- most of OIG's findings concerning the understatement of 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 incorrectly identified PBS's Medicare segment cost centers

OIG RESPONSE

We partially disagree with PBS's assertion concerning the identification of accumulated reassignable pension costs.

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 PBS and obtained their concurrence. The findings and recommendation of this report are based upon that identification. Therefore, our position has not changed, and we recommend that PBS decrease the accumulated reassignable pension costs of the Medicare segment by $2,154,481 as of December 31, 1996.

However, we acknowledge that a recent decision by the U.S. Court of Appeals affected the method used by PBS 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

Glossary of Abbreviations and Acronyms

CAS	Cost Accounting Standards
CFR	Code of Federal Regulations
CMS	Centers for Medicare & Medicaid Services
ERISA	Employees Retirement Income Security Act of 1974
FAR	Federal Acquisition Regulations
HHS	U.S. Department of Health and Human Services
OBRA 87	Omnibus Budget Reconciliation Act of 1987
OIG	Office of Inspector General
PBS	Pennsylvania Blue Shield
TRA 86	Tax Reform Act of 1986

INTRODUCTION

BACKGROUND

PBS and Medicare

The PBS administered Medicare Part B operations under cost reimbursement contracts. In claiming costs, contractors were to follow cost reimbursement principles contained in FAR, CAS, and the Medicare contracts.

Since its inception, Medicare has paid a portion of the annual contributions made by contractors to their pension plans. The payments represented allowable pension costs under FAR and its predecessor, the Federal Procurement Regulation (FPR). In 1980, the Medicare contracts and the FPR incorporated CAS 412 and 413.

The PBS and CMS executed an advance agreement regarding the identification and accounting for accumulated unfunded pension costs. The amount of accumulated unfunded pension cost was based upon our prior audit (A-07-93-00713).

CAS

The CAS deals with stability between contract periods and requires that pension costs be measured consistently, assigned to contract periods, and allocated to cost objectives, including Federal contracts. The Office of Federal Procurement Policy, Cost Accounting Standards Board, revised CAS relating to accounting for pension costs on March 30, 1995. Unless otherwise noted, the following CAS citations refer to the standards that were in effect before the revision. For purposes of clarity, we will refer to the post revision standards as the "revised" CAS. Applicable portions of the revised CAS are discussed in a later section.

The CAS within 48 CFR 9904.412-50(a)(7) stated:

> "If any portion of the pension costs computed for a cost accounting period is not funded in that period, no amount for interest on the portion not funded in that period shall be a component of pension cost of any future cost accounting period."

In addition, CAS within 48 CFR 9904.412-50(a)(2) stated:

> "Pension costs applicable to prior years that were specifically unallowable in accordance with then existing Government contractual provisions. . .shall be separately identified and eliminated from any unfunded actuarial liability being amortized. . . ."

The CAS within 48 CFR 9904.412-40(c) imposes the following fundamental requirement:

> "Assignment of pension cost. Except costs assigned to future periods by 9904.412-50(c)(2) and (5), the amount of pension cost computed for a cost accounting period is assignable only to that period. . . ."

FAR

The FAR addresses the allowability of pension costs and requires that pension costs assigned to contract periods be substantiated by funding. FAR, 48 CFR 31.205-6(j)(3)(i) and (iii), states:

> ". . .costs of pension plans not funded in the year incurred, and all other components of pension costs. . .assignable to the current accounting period but not funded during it, shall not be allowable in subsequent years. . . . Increased pension costs caused by delay in funding beyond 30 days after each quarter of the year to which they are assignable are unallowable."

Conflict between FAR Funding Requirement and Tax Limits

Pension costs computed in accordance with CAS typically will differ from the contribution amount otherwise determined in accordance with the Employees Retirement Income Security Act of 1974 (ERISA), which added minimum funding requirements and amended the tax-deductible limits in the Internal Revenue Code.

Under tax laws in effect prior to 1986, employers could fund the CAS contribution in excess of the tax-deductible limit and any the excess could be carried forward to future years for future tax deductibility without penalty. Similarly, if contribution deposits exceeded the CAS computed amounts, the excess funding could be carried forward as a prepayment credit to fund allowable contract costs for future years.

The Tax Reform Act of 1986 (TRA 86) changed the effect of making pension plan contributions in excess of the tax-deductible limit. TRA 86 imposed an excise tax of 10 percent on contributions in excess of the tax-deductible limit. The excise tax is cumulative from year to year and applied on a first-in/first-out basis considering carry-forwards and current year contributions.

The Omnibus Budget Reconciliation Act of 1987 (OBRA 87) added a new "current liability" full funding limitation that lowered the tax-deductible limit for many plans, further increasing the conflict between the FAR funding requirement and the excise tax on nondeductible contributions. Many employers could not fund the CAS pension cost without incurring excise tax penalties, yet the FAR provided that unfunded CAS costs could not be carried forward to future years.

However, no conflict existed when the tax-deductible maximum equaled or exceeded the CAS pension cost. In that case, the full CAS pension cost could be funded without incurring a penalty, and any decision to fund less than the CAS cost was a voluntary financial action.

Revised CAS

As previously noted, CAS relating to accounting for pension costs was revised on March 30, 1995, and became applicable to contractors with the start of the first accounting period thereafter. The revised CAS removed the regulatory conflict between the funding limits of ERISA and the period assignment provisions of CAS. The transition provisions of the new rule (48 CFR 9904.412-64) allow the reassignment of prior period pension costs, with interest, which were not funded because they lacked tax deductibility. Furthermore, the contracting officer must approve the method or methods used to reassign the unfunded pension costs.

The revision to CAS does not remove the requirement to fund pension costs with contributions that are not in conflict with ERISA. If a contractor could have funded pension costs and chose not to, then those costs and any accrued interest on those costs are unallowable in future periods. The unallowable portion of pension costs must be updated, with interest, per FAR and CAS regulations.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our objectives were to:

- determine if the accumulated unfunded pension costs identified in our prior review and the advance agreement had been accounted for properly

- determine if pension costs for plan years 1992 through 1996 were funded in accordance with FAR and CAS

- identify and properly account for any additional accumulated unfunded pension costs, including the identification of the unallowable and reassignable portions of the accumulated unfunded pension costs

Scope

Our review covered the period January 1, 1992, through December 31, 1996. However, certain information obtained during our prior audit covering 1986 through 1991 was used in the conduct of this review. Achieving our objectives did not require that we review the overall internal control structure of PBS. However, we did review the controls with regard to the funding of pension costs to ensure that the pension costs had been funded in accordance with CAS and FAR.

We performed this review in conjunction with our audits of Medicare segmentation (A-07-04-00169) and pension costs claimed for Medicare reimbursement (A-07-04-00171). The information obtained and reviewed during those audits also was used in performing this review.

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

Methodology

The CMS Office of the Actuary developed the methodology used for computing CAS pension costs based on PBS's historical practices.

In performing the review, we used information provided by PBS's actuarial consulting firm. The information included assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We reviewed PBS's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Form 5500s. Using the documents, CMS pension actuarial staff calculated the assignable CAS pension costs for each year 1992 through 1996 for both the Medicare segment and the business units comprising the rest of the company, which are aggregated and identified as the "Other" segment. Additionally, CMS pension actuarial staff determined the extent to which PBS funded those costs with contributions to the pension trust fund.

The CMS pension actuarial staff also determined the unallowable and reassignable portions of unfunded pension costs. We reviewed the methodology for the calculations and updated PBS's unfunded pension costs for the years 1992 through 1996 for both the Medicare segment and the Other segment.

We performed our review in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATION

The PBS properly accounted for the accumulated unfunded pension costs identified in our prior review, and pursuant with the transition provisions of the revised CAS, signed an Advance Agreement with CMS. Additionally, PBS funded the pension costs allocable to the Medicare contracts for plan years 1992 through 1996 in accordance with FAR. However, PBS did not correctly identify nor properly account for the additional accumulated unfunded pension costs.

The revised CAS requires the identification of the two components of the accumulated unfunded pension costs - the accumulated unallowable pension costs and the accumulated reassignable pension costs. The PBS correctly identified and properly accounted for the accumulated unallowable pension costs. As of December 31, 1996, PBS determined its accumulated reassignable pension costs to be $8,639,984. However, the audited accumulated reassignable pension costs for the Medicare segment are $6,485,503. Thus, PBS overstated the accumulated reassignable pension costs by $2,154,481.

ADDITIONAL ACCUMULATED UNFUNDED PENSION COSTS

CRITERIA - CAS AND FAR

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 FAR. The Medicare contract 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."

Effective January 1, 1996, the revised CAS allows the assignment of prior period pension costs, with interest, which were not funded because they lacked tax deductibility as accumulated reassignable pension costs. However, the revision to the CAS does not remove the requirement to fund pension costs when contributions are tax deductible. If a contractor could have funded pension costs and chose not to, then those costs and any accrued interest on those costs are unallowable in future periods. The unallowable portion of pension costs must be updated, with interest, per FAR and CAS regulations.

CONDITION - INCORRECT COMPUTATION OF THE ACCUMULATED REASSIGNABLE PENSION COSTS

Accumulated Reassignable Pension Costs

The PBS correctly identified and properly accounted for the accumulated reassignable pension costs for the Other segment. However, as of December 31, 1996, PBS determined its accumulated reassignable pension costs for the Medicare segment to be $8,639,984. The audited accumulated reassignable pension costs for the Medicare segment are $6,485,503. Thus, PBS overstated the accumulated reassignable pension costs by $2,154,481.

CAUSE - LACK OF ADEQUATE CONTROLS

The PBS did not have adequate controls in place to ensure that reassignable pension costs were identified and properly accounted for in accordance with CAS requirements.

EFFECT

As of December 31, 1996, PBS overstated the accumulated reassignable pension costs for the Medicare segment by $2,154,481.

RECOMMENDATION

We recommend that PBS decrease the accumulated reassignable pension costs of the Medicare segment by $2,154,481 as of December 31, 1996.

AUDITEE’S COMMENTS

The PBS’s comments are summarized in the following paragraphs, and its redacted comments are presented in its entirety on the appendix to this report.

The PBS disagreed with our report and stated that it:

> “. . .does not concur that PBS should decrease the accumulated reassignable pension costs of the Medicare segment by $2,154,481 as of December 31, 1996, because PBS did not have adequate controls in place to ensure that reassignable pension costs were identified and properly accounted for in accordance with CAS requirements.”

The PBS contends that:

- OIG assigned certain participants to incorrect segments

- most of the OIG’s findings concerning the understatement of segment assets was due to a retroactive application of a recent decision handed down by the U.S. Court of Appeals concerning reassignable pension costs

- OIG incorrectly identified PBS’s Medicare segment cost centers

OIG RESPONSE

We partially disagree with PBS’s assertion concerning the identification of accumulated reassignable pension costs.

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 PBS and obtained their concurrence. The findings and recommendation of this report are based upon that identification. Therefore, our position has not changed, and we recommend that PBS decrease the accumulated reassignable pension costs of the Medicare segment by $2,154,481 as of December 31, 1996.

However, we acknowledge that a recent decision by the U.S. Court of Appeals affected the method used by PBS 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.

Appendix

HIGHMARK.

October 14, 2004

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

RE: A-07-04-00169 ("Review of Medicare Contractor's Pension Segmentation Requirements, Pennsylvania Blue Shield")
A-07-04-00171 ("Review of Pension Costs Claimed for Medicare Reimbursement by Pennsylvania Blue Shield for Fiscal Year 1992 through 1997)
A-07-04-00173 ("Audit of Pennsylvania Blue Shield's Unfunded Pension Costs for the Period covering 1992 through 1996)

Dear Mr. Aasmundstad:

Attached is our response to your letters dated August 18, 2004, requesting comments on your draft reports A-07-04-00169 entitled, "Review of Medicare Contractor's Pension Segmentation Requirements, Pennsylvania Blue Shield" for the period covering January 1, 1992 to December 31, 1997; A-07-04-00171 entitled, "Review of Pension Costs Claimed for Medicare Reimbursement by Pennsylvania Blue Shield for Fiscal Year 1992 through 1997;" and A-07-04-00173 entitled, "Audit of Pennsylvania Blue Shield's Unfunded Pension Costs for the period covering 1992 through 1996."

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

Sincerely,

Donald L. Fisher

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

cc: James Chiado
Elizabeth Farbacher
Patrick Kiley
Anthony Lobato
Gayeta Porter

Audit of Pennsylvania Blue Shield's Unfunded Pension Costs

1992 through 1996

Highmark Comments to OIG Draft Report A-07-04-00173

Highmark's Comments on Report Number A-07-04-00173

Highmark does not concur that PBS should decrease the accumulated reassignable pension costs of the Medicare segment by $2,154,481 as of December 31, 1996, because PBS did not have adequate controls in place to ensure that reassignable pension costs were identified and properly accounted for in accordance with CAS requirements. Highmark disagrees with OIG's segment assignment of certain participants identified in the attached Exhibits I and II and also believes that a significant portion of the overstatement of accumulated reassignable pension costs of the Medicare segment was the result of OIG's retroactive application of a recent decision of the United States Court of Appeals for the Federal Circuit (Eastman Kodak Company vs. Donald H. Rumsfeld, Secretary of Defense). Highmark suggests that OIG's audit report should separately identify the amount due to the retroactive application of the recent Kodak "full funding limit" that was not a part of the measurement and assignment practices that were previously followed by either OIG or Highmark's pension actuary, and the amount due to the incorrect assignment of cost centers to the Medicare segment, after revising their calculations for the participants identified in Exhibits I and II.

Highmark agrees that several cost centers were incorrectly assigned. Of 58 cost centers that OIG did not include in their identification of the Medicare segment, only 2 (cost centers 129 and 623) were inappropriately assigned to the Medicare segment by PBS. These two cost centers were identified by OIG during their previous pension audit that was completed in 1994. Following receipt of the audit reports in 1994, these cost centers were correctly assigned to the Indirect segment for future valuations.

In addition, OIG inappropriately excluded cost center 106, Medicare Systems Support and Development, from the Medicare segment for 1996 and 1997. This cost center was moved from Xact Medicare Services (Medicare B Business Unit) to the Information Services Group (Corporate Unit) in 1995, but continued to perform anywhere from 90-100% in support of Medicare B activity. The cost center was assigned to the Indirect segment in 1995 in error by Pennsylvania Blue Shield, but reassigned to the Medicare B segment in 1996 and 1997. OIG correctly reassigned the participants in cost center 106 to the Medicare B segment in 1995, but transferred them to the Indirect segment in 1996 and 1997 in error. The other cost centers, which were originally assigned to the Medicare segment, had not been closed in the Financial system, but were excluded by the PBS pension actuary prior to completing the pension valuation, because there were no participants in those cost centers.

There were 32 cost centers that OIG included in the identification of the Medicare segment that were missing for one or more years from the cost center listing that Highmark provided. Of the 32 cost centers identified by OIG, only 4 cost centers (031, 163, 250 and 384) that contained participants, were not appropriately assigned to the Medicare segment by Highmark's actuary. Cost center 005, SVP, Government Business, was transferred from the Medicare B segment during 1996 to the Indirect segment. Prior to August 1996, the cost center supported Medicare B but, after the transfer, no cost was allocated to the Medicare B line of business. Therefore, this cost center was appropriately assigned to the Indirect segment by Highmark's actuary for 1997. In addition, Highmark's pension actuary utilizes a segment indicator on all participants (actives, retirees and vested terms); therefore, it is not necessary to continue to identify cost centers for retirees or terminated participants. The segment indicator for retirees and vested terms doesn't change following termination. Most of the remaining cost centers, which were not assigned to the Medicare segment, had no active employees, or the employees were correctly assigned by Highmark's pension actuary.

In order to identify differences between OIG's and Pennsylvania Blue Shield's assignment of participants to the Medicare B segment, Highmark's pension actuary compared OIG participant listings for each year with their valuation files. Any differences were researched to determine the correct segment assignment, using the Medicare definition of segment as: "any organizational component of the contractor, such as, division, department, or other similar subdivision, having a significant degree of responsibility and accountability for the Medicare contract/agreement in which the majority of the salary dollars is allocated to the Medicare agreement/contract." Based on Highmark's research, Highmark believes that OIG was incorrect on the segment assignment for the participants listed on the attached Exhibits I and II. The exhibits identify the participants, the participant's cost center, the valuation years impacted, and an explanation for why Highmark believes that OIG should change their segment assignment and recalculate the impact on the accumulated reassignable pension costs of the Medicare segment.

Participants **not** included in the Medicare B Segment by OIG that **should be**

Data Redacted by OAS Auditors.

Segment	Cost Center		Valuation Impacted	Explanation
	Number	Name		
Medicare B	186	Medicare Medical Director	1994 1995	Based on provisions of Pennsylvania Blue Shield's pension plan, became 100% vested when he reached age 65 in 1979, with 5 years of credited service from 1970-1975. He is an eligible retiree who terminated from a cost center that allocated more than 50% to Medicare B. was not considered an eligible participant prior to 1994 but, upon research, Pennsylvania Blue Shield determined that he was entitled to a benefit under the Plan. He was credited with 5 years of service, and a liability was established for his benefit in 1994.
Medicare B	020	Medicare Incoming Mail	1995 1996 1997	Participant is a retiree who terminated in 1986 from a cost center that allocated more than 50% to Medicare. Because participant was not identified as an exception during OIG's initial audit of Pennsylvania Blue Shield pension costs and segmentation, Highmark believes that Participant's assignment to the Medicare segment was appropriate.
Medicare B	399	Provider Telephone and General Inquiry Services	1995 1996 1997	Participant is a retiree who terminated in 1988 from a cost center that allocated more than 50% to Medicare. Because participant was not identified as an exception during OIG's initial audit of Pennsylvania Blue Shield pension costs and segmentation, Highmark believes that Participant's assignment to the Medicare segment was appropriate. Participant returned to work in a part-time position in 1995, but didn't accrue any additional service.
Medicare B	020	Medicare Incoming Mail	1995 1996	Participant is a retiree who terminated in 1979 from a cost center that allocated more than 50% to Medicare. Because participant was not identified as an exception during OIG's initial audit of Pennsylvania Blue Shield pension costs and segmentation, Highmark believes that Participant's assignment to the Medicare segment was appropriate.
Medicare B	398	Medicare Beneficiary Telephone Services	1996	Participant is a vested termination who terminated in 1995 from a cost center that allocated more than 50% to Medicare.

Participants **not** included in the Medicare B Segment by OIG that **should be**

Data Redacted by OAS Auditors.

Segment	Cost Center		Valuation Impacted	Explanation
	Number	Name		
Medicare B	914	Medicare Appeals	1996	Participant is a vested termination who terminated in 1995 from a cost center that allocated more than 50% to Medicare.
Medicare B	121	Medicare Microfilming	1996	Participant is a vested termination who terminated in 1995 from a cost center that allocated more than 50% to Medicare.
Medicare B	687	Medicare Medical Unit A	1996	Participant is a vested termination who terminated in 1995 from a cost center that allocated more than 50% to Medicare.
Medicare B	398	Medicare Beneficiary Telephone Services	1996	Participant is a vested termination who terminated in 1995 from a cost center that allocated more than 50% to Medicare.
Medicare B	185	Medicare Medical Review	1996	Participant is a vested termination who terminated in 1995 from a cost center that allocated more than 50% to Medicare.
Medicare B	211	Medicare Accounts Receivable	1996	Participant is a vested termination who terminated in 1995 from a cost center that allocated more than 50% to Medicare.
Medicare B	398	Medicare Beneficiary Telephone Services	1996	Participant is a vested termination who terminated in 1995 from a cost center that allocated more than 50% to Medicare.
Medicare B	431	Medicare Provider Telephone Services	1996	Participant is a vested termination who terminated in 1995 from a cost center that allocated more than 50% to Medicare.
Medicare B	686	Xact Medicare Clerical Specialties	1996	Participant is a vested termination who terminated in 1995 from a cost center that allocated more than 50% to Medicare.
Medicare B	431	Medicare Provider Telephone Services	1996	Participant is a vested termination who terminated in 1995 from a cost center that allocated more than 50% to Medicare.

Participants **not** included in the Medicare B Segment by OIG that **should be**

	Segment	Cost Center		Valuation Impacted	Explanation
		Number	Name		
Data Redacted by OAS Auditors.	Medicare B	164	Xact Development Select Claims Adjudication	1996	Participant is a vested termination who terminated in 1995 from a cost center that allocated more than 50% to Medicare.
	Medicare B	1049	Medical Unit B	1996	Participant is a vested termination who terminated in 1995 from a cost center that allocated more than 50% to Medicare.
	Medicare B	020	Medicare Incoming Mail (Spouse)	1997	Surviving spouse of who retired from cost center 020 in the Medicare B segment.
	Medicare B	433	General Information	1997	Participant is a vested termination who terminated 1996 from a cost center that allocated more than 50% to Medicare.

Participants **not** included in the Medicare B Segment by OIG that **should be**

	Segment	Cost Center		Valuation	
		Number	Name	Impacted	Explanation
Data Redacted by OAS Auditors.	Medicare B	106	Medicare Systems Support and Development	1996	This cost center was moved from HGSA (Government Business Unit) to ISG (Corporate Unit) in 1995, but continued to perform anywhere from 90-100% in support of Medicare B activity. This cost center should be included in the Medicare B segment for 1996 and 1997. In 1998, it was moved to the Indirect segment as a consequence of the new cost allocation system, where it became part of the allocation of centralized services.
	Medicare B	106		1996 & 1997	
	Medicare B	106		1996 & 1997	
	Medicare B	106		1996 & 1997	
	Medicare B	106		1996 & 1997	
	Medicare B	106		1996 & 1997	
	Medicare B	106		1997	
	Medicare B	106		1996	
	Medicare B	106		1996	
	Medicare B	106		1996	
	Medicare B	106		1996 & 1997	
	Medicare B	106		1996	
	Medicare B	106		1996 & 1997	
	Medicare B	106		1996 & 1997	
	Medicare B	106		1996	
	Medicare B	106		1996	
	Medicare B	106		1996	
	Medicare B	106		1996 & 1997	
	Medicare B	106		1996	
	Medicare B	106		1996 & 1997	
	Medicare B	106		1996 & 1997	
	Medicare B	106		1996 & 1997	
	Medicare B	106		1996 & 1997	
	Medicare B	106		1996 & 1997	
	Medicare B	106		1996 & 1997	
	Medicare B	106		1996	
	Medicare B	106		1996 & 1997	
	Medicare B	106		1996 & 1997	
	Medicare B	106		1996 & 1997	
	Medicare B	106		1996 & 1997	
	Medicare B	106		1997	
	Medicare B	106		1996	
	Medicare B	106		1996	
	Medicare B	106		1996-1997	
	Medicare B	106		1996	

Participants included in the Medicare B Segment by OIG that **should not be**

Data Redacted by OAS Auditors.

Segment	Cost Center		Valuation	
	Number	Name	Impacted	Explanation
Indirect	005	SVP, Govt Business, thru July 1996. Name changed to SVP, Middle Atlantic Region, during August 1996.	1997	Cost center was transferred from Medicare B segment during 1996 to the Indirect Segment. Through July 1996, the cost center supported Medicare B, but after transfer, no cost was allocated to the Medicare B line of business. As of 12/31/96, the cost center should be assigned to the Indirect segment.
Indirect	005	SVP, Govt Business, thru July 1996. Name changed to SVP, Middle Atlantic Region, during August 1996.	1997	Cost center was transferred from Medicare B segment during 1996 to the Indirect Segment. Through July 1996, the cost center supported Medicare B, but after transfer, no cost was allocated to the Medicare B line of business. As of 12/31/96, the cost center should be assigned to the Indirect segment.
Indirect	189	PA/DE Champus	1994 1995 1996 1997	Participant is a retiree who terminated in 1981 from a cost center that allocated less than 50% to Medicare B. Because participant was not identified as an exception during OIG's initial audit of Pennsylvania Blue Shield pension cost and segmentation, Highmark believes that Participant's assignment to the Indirect segment was appropriate.
Indirect	077	Employee Relations	1994 1995 1996 1997	Participant is a retiree who terminated in 1984 from a cost center that allocated less than 50% to Medicare B. Because participant was not identified as an exception during OIG's initial audit of Pennsylvania Blue Shield pension cost and segmentation, Highmark believes that Participant's assignment to the Indirect segment was appropriate.
Indirect	375	Assistant Controller Cost Accounting	1996	The cost center moved in February 1996 from Xact (Director Medicare Financial Services) to Corporate Finance and supported the entire corporation. In 1996, less than 50% of this cost center was allocated to Medicare B.