



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

AUG 17 2004

Report Number A-07-04-00168

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 U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) report entitled "Review of Medicare Contractor's Pension Segmentation Requirements, Veritus, Inc. of Pennsylvania for the period covering January 1, 1993 to December 31, 1997." A copy of this report will be forwarded to the action official noted below for her review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. 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 issued to the department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions of the Act which 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. To facilitate identification, please refer to report number A-07-04-00168 in all correspondence.

Sincerely yours,

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 MEDICARE
CONTRACTOR'S PENSION
SEGMENTATION REQUIREMENTS,
VERITUS, INC. OF PENNSYLVANIA**



**AUGUST 2004
A-07-04-00168**

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

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

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 retirement plan for Highmark. For the purposes of this report, the term Veritus will be used to address the findings concerning the Part A pension plan segment assets for the period January 1, 1993 to December 31, 1997.

The Medicare contract specifies the methodology for the initial allocation of pension assets to the Medicare segment. Additionally, the Medicare contract requires that the Medicare segment assets be updated for each year after the initial allocation in accordance with Cost Accounting Standards (CAS) 413.

OBJECTIVE

The objective of our review was to update Medicare segment assets from January 1, 1993 to December 31, 1997.

SUMMARY OF FINDING

Veritus determined Medicare segment assets of \$12,201,254 as of December 31, 1997. However, Veritus did not perform segment accounting prior to merging with PBS as required per Government regulations. We agreed to update segment assets from January 1, 1993 to December 31, 1997. We determined Medicare segment assets of \$9,821,687 as of December 31, 1997. Therefore, Veritus overstated Medicare segment assets by \$2,379,567.

RECOMMENDATION

Veritus should reduce Medicare segment pension assets by \$2,379,567 and recognize segment assets of \$9,821,687 as of December 31, 1997.

AUDITEE'S COMMENTS

Veritus agreed with the draft report recommendation to reduce Medicare segment assets by \$2,379,567. Veritus' comments are included in this report at Appendix B.

TABLE OF CONTENTS

INTRODUCTION	1
BACKGROUND	1
Medicare	1
Regulations	1
OBJECTIVE, SCOPE AND METHODOLOGY	1
Objective	1
Scope	1
Methodology	2
FINDING AND RECOMMENDATION	3
UPDATE OF MEDICARE SEGMENT ASSETS FROM JANUARY 1, 1993 TO DECEMBER 31, 1997	3
CRITERIA: MEDICARE CONTRACT & CAS	3
CONDITION: VERITUS DID NOT UPDATE MEDICARE SEGMENT ASSETS FOR ENTIRE AUDIT PERIOD	3
CAUSE: LACK OF ADEQUATE CONTROLS	3
EFFECT: OVERSTATEMENT OF MEDICARE SEGMENT ASSETS	4
RECOMMENDATION	4
AUDITEE'S COMMENTS	4

APPENDICES

STATEMENT OF MEDICARE SEGMENT ASSETS	A
VERITUS' COMMENTS	B

Glossary of Abbreviations and Acronyms

CAS	Cost Accounting Standards
CMS	Centers for Medicare and Medicaid Services
FAR	Federal Acquisition Regulations
HHS	Health and Human Services
OIG	Office of Inspector General
OAS	Office of Audit Services
PBS	Pennsylvania Blue Shield

INTRODUCTION

BACKGROUND

Medicare

Veritus administered Medicare Part A operations under a cost reimbursement contract with CMS from the inception of Medicare until it consolidated with PBS on December 6, 1996 to form Highmark, Inc. In claiming costs, contractors are to follow cost reimbursement principles contained in Federal Acquisition Regulations (FAR), CAS, and the Medicare contract.

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 retirement plan for Highmark. For the purposes of this report, the term Veritus will be used to address the findings concerning the Part A pension plan segment assets for the period January 1, 1993 to December 31, 1997.

CMS incorporated segmentation requirements into the Medicare contracts starting with fiscal year 1988. The contractual language specifies segmentation requirements and also provides for the separate identification of the pension assets for a Medicare segment.

The Medicare contract specifies the methodology for the initial allocation of pension assets to the Medicare segment. Additionally, the Medicare contract requires that the Medicare segment assets be updated for each year after the initial allocation in accordance with CAS 412 and 413.

Regulations

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

CAS 413 regulates the valuation of pension assets, the allocation of pension costs to segments of an organization, the adjustment of pension costs for actuarial gains and losses, and the assignment of gains and losses to cost accounting periods.

OBJECTIVE, SCOPE AND METHODOLOGY

Objective

The objective of our review was to update Medicare segment assets from January 1, 1993 to December 31, 1997.

Scope

We reviewed Veritus' identification of the Medicare segment and updated the segment assets from January 1, 1993 through December 31, 1997. Achieving our objective did not require a review of Veritus' internal control structure.

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

Methodology

Veritus used January 1, 1996 as the date to initially allocate pension plan assets to the Medicare segment after it merged with PBS. Veritus then updated segment assets to January 1, 1998. We determined January 1, 1996 to be inappropriate as the date of initial allocation and requested documentation to determine the assets as of January 1, 1986. However, valuation data was not available for dates prior to January 1, 1993. We, therefore, agreed to use January 1, 1993 as the date to compute the initial allocation of pension assets to the Medicare segment.

Prior to the completion of our audit work, Veritus presented documentation that computed an asset fraction of 5.7771 percent and initial segment assets of \$5,598,493 as of January 1, 1993. This documentation was reviewed and determined to be materially correct by CMS actuaries. We therefore accepted Veritus' calculation of the asset fraction and the initial allocation of assets to the Medicare segment.

However, Veritus had not performed segment accounting prior to its merger with PBS. We gave Veritus the option of updating its Medicare segment assets from January 1, 1993 to December 31, 1997 or having it done as a function of our review. Veritus declined to update its Medicare assets, and instead we updated segment assets from January 1, 1993 to December 31, 1997.

In performing our review, we used information provided by Veritus' actuarial consulting firm. The information included assets, liabilities, normal costs, contributions, benefit payments, investment earnings, administrative expenses, and the initial segment assets computation of \$5,598,493. We examined Veritus' accounting records, pension plan documents, annual actuarial valuation reports, and the Department of Labor/Internal Revenue Service Form 5500s. Using these documents, CMS pension actuarial staff updated Medicare segment assets from January 1, 1993 to December 31, 1997. We reviewed the methodology and calculations.

We performed this review in conjunction with our audit of pension costs claimed for Medicare reimbursement (Report Number: A-07-04-00170). The information obtained and reviewed during that audit was also used in performing this review.

Details for the initial allocation and update of pension assets to the Medicare segment from January 1, 1993 to December 31, 1997 are presented in Appendix A.

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

FINDING AND RECOMMENDATION

Veritus overstated Medicare segment assets by \$2,379,567 as of December 31, 1997. The overstatement occurred because Veritus did not update its Medicare segment from January 1, 1993 to December 31, 1997 in accordance with CAS 413. As a result, Veritus overstated Medicare segment pension assets by \$2,379,567 as of December 31, 1997.

UPDATE OF SEGMENT ASSETS FOR THE PERIOD JANUARY 1, 1993 TO DECEMBER 31, 1997

CRITERIA – MEDICARE CONTRACT & CAS

Medicare Contract

According to the Medicare contract:

“...the pension assets allocated to each Medicare Segment shall be adjusted in accordance with CAS 413.50(c)(7).”

CAS

Specifically, CAS 413.50(c)(7) requires that the asset base be adjusted by contributions, income, benefit payments, and expenses. In addition, an adjustment should also be made for transfers (participants who move between the segments) if the transfer materially affects the segment's ratio of pension plan assets to actuarial accrued liabilities.

For contractors that have prepayment credits, these credits represent funds available to the contractors at the beginning of plan years. These funds should be applied first to fund pension costs in future years.

CONDITION: VERITUS DID NOT UPDATE MEDICARE SEGMENT ASSETS FOR ENTIRE AUDIT PERIOD

Veritus did not update the Medicare segment assets for the period of January 1, 1993 through January 1, 1996 prior to merging with PBS pension plan. Veritus did update segment assets from January 1, 1996 to December 31, 1997 and determined Medicare segment assets of \$12,201,254. We agreed to update the segment assets from January 1, 1993 to December 31, 1997 and determined Medicare segment assets of \$9,821,687. (See Appendix A.)

CAUSE: LACK OF ADEQUATE CONTROLS

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

EFFECT: OVERSTATEMENT OF MEDICARE SEGMENT ASSETS

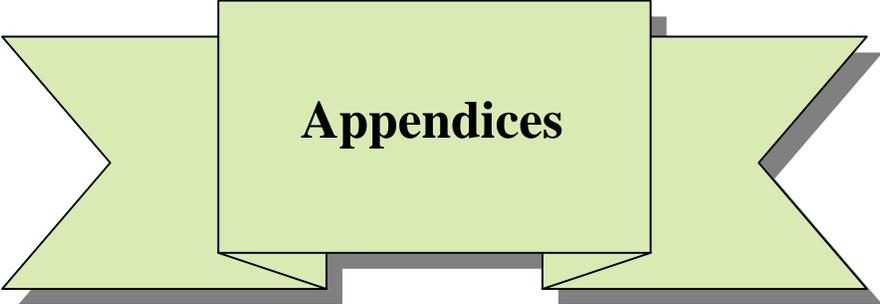
Veritus overstated Medicare segment assets by \$2,379,567 as of December 31, 1997.

RECOMMENDATION

Veritus should reduce Medicare segment pension assets by \$2,379,567 and recognize Medicare segment assets of \$9,821,687 as of December 31, 1997.

AUDITEE'S COMMENTS

Veritus agreed with our report. (See Appendix B)



Appendices

VERITUS, INC.

STATEMENT OF MEDICARE PENSION ASSETS

FOR JANUARY 1, 1993 TO DECEMBER 31, 1997

Description		Total Company	Other Segment	Medicare
Assets January 1, 1993	<u>1/</u>	\$96,908,369	\$91,309,876	\$5,598,493
Contributions	<u>2/</u>	5,520,788	5,437,986	82,802
Asset Transfer In	<u>3/</u>	20,516	20,516	0
Earnings	<u>4/</u>	9,770,793	9,206,325	564,468
Benefits	<u>5/</u>	(2,490,144)	(2,478,353)	(11,791)
Expenses	<u>6/</u>	(65,412)	(61,633)	(3,779)
Transfers	<u>7/</u>	0	26,481	(26,481)
Assets January 1, 1994		\$109,664,910	\$103,461,198	\$6,203,712
Contributions		5,039,147	5,039,147	0
Keystone Transfer	<u>8/</u>	7,886	7,886	0
Earnings		(852,251)	(804,039)	(48,212)
Benefits		(2,728,467)	(2,713,803)	(14,664)
Expenses		(246,274)	(232,342)	(13,932)
Transfers		0	(83,871)	83,871
Assets January 1, 1995		\$110,884,951	\$104,674,176	\$6,210,775
Prepayment Transfers	<u>9/</u>	0	(46,614)	46,614
Contributions		5,221,157	5,141,813	79,344
Keystone Transfer		7,834,951	7,834,951	0
Earnings		26,875,424	25,358,807	1,516,617
Benefits		(2,972,470)	(2,951,437)	(21,033)
Expenses		(526,172)	(496,479)	(29,693)
Transfers		0	(24,746)	24,746
Assets January 1, 1996		\$147,317,841	\$139,490,471	\$7,827,370

VERITUS, INC.

STATEMENT OF MEDICARE PENSION ASSETS

FOR JANUARY 1, 1993 TO DECEMBER 31, 1997

Description	Total Company	Other Segment	Medicare
Assets January 1, 1996	\$147,317,841	\$139,490,471	\$7,827,370
Prepayment Transfers		(51,724)	51,724
Contributions	679,898	665,261	14,637
Earnings	15,652,976	14,808,870	844,106
Benefits	(3,837,414)	(3,771,292)	(66,122)
Expenses	(679,992)	(643,323)	(36,669)
Transfers	0	135,118	(135,118)
Assets January 1, 1997	\$159,133,309	\$150,633,381	\$8,499,928
Prepayment Transfer		(619)	619
Contributions	8,779,513	8,398,633	380,880
Earnings	26,986,863	25,549,523	1,437,340
Benefits	(8,622,284)	(8,171,158)	(451,126)
Expenses	(862,812)	(816,858)	(45,954)
Transfers	<u>10/</u> 0	0	0
Assets December 31, 1997	\$185,414,589	\$175,592,902	\$9,821,687
Per Veritus	<u>11/</u> 185,414,589	<u>173,213,335</u>	<u>12,201,254</u>
Asset Variance	<u>12/</u> \$0	<u>(\$2,379,567)</u>	<u>\$2,379,567</u>

VERITUS, INC.

STATEMENT OF MEDICARE PENSION ASSETS

FOR JANUARY 1, 1993 TO DECEMBER 31, 1997

FOOTNOTES

- 1/ Veritus supplied information for the January 1, 1993 initial allocation of assets to the Medicare segment. We reviewed and accepted Veritus' determination of this allocation. The amounts shown for the other segment represent the difference between the total company and the Medicare segment. All pension assets are shown at market value.
- 2/ We obtained total company contribution amounts from the actuarial valuation reports. We allocated total company contributions to the Medicare segment based on the ratio of the actual funding for the Medicare segment divided by the actual funding for the total company.
- 3/ Veritus transferred in \$20,516 from another plan. The plan was not part of the Medicare operations and we did not allocate any of its plan assets to the Medicare segment.
- 4/ We obtained investment earnings from actuarial valuation reports. We allocated investment earnings based on the weighted average value of company assets.
- 5/ We based the Medicare segment's benefit payments on actual payments to Medicare retirees. Veritus provided us with a schedule of Medicare participants' benefit payments. We obtained supporting documentation from Veritus to verify payment dates and amounts.
- 6/ We calculated the total Medicare segment administrative expenses based on a ratio of segment earnings to total company earnings.
- 7/ We identified participant transfers between segments by comparing annual participant valuation listings provided by Veritus. The listings contained the actuarial liability of each participant. Our transfer adjustment considered each participant's actuarial liability and the funding level of the segment from which the participant transferred. We adjusted the January 1, 1996 and January 1, 1997 actuarial liability amounts to the Accrued Benefit Cost Method as required by CAS.

VERITUS, INC.

STATEMENT OF MEDICARE PENSION ASSETS

FOR JANUARY 1, 1993 TO DECEMBER 31, 1997

- 8/ Veritus purchased Keystone Health Plan West during plan year 1994 and merged Keystone's plan with the Veritus plan as of January 1, 1996. Keystone was not part of the Medicare operations and we did not allocate any of its plan assets to the Medicare segment.
- 9/ The prepayment credit is created when the contributions made to the pension fund exceed CAS pension costs. The prepayment remains unassigned and accumulates interest in the trust fund until needed to fund future CAS pension costs. We allocated the prepayment in proportion to CAS pension costs.
- 10/ Veritus' participant transfers included transfers between the Part A and Part B segments as well as the corporate segments. Our update is to December 31, 1997 and we have deferred these transfers until after the merger of the pension plans. The transfers between the Veritus and PBS Medicare segments are more accurately reflected post-merger and will be included in the Highmark segmentation report.
- 11/ Veritus computed Medicare segment assets of \$12,264,454 as of January 1, 1998. As discussed in the previous footnote, we deferred transfers of \$63,200 as identified by Veritus. Thus, for purposes of this report, we are recognizing as computed by Veritus, Medicare segment assets of \$12,201,254 (\$12,264,454 less \$63,200) as of December 31, 1997.
- 12/ The asset variance represents the difference between the OIG calculations of Medicare segment assets as of December 31, 1997 and the segment assets calculated by Veritus as of the same date.



July 30, 2004

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

Re: A-07-04-00168 (Review of Medicare Contractor's Pension Segmentation Requirements, Veritus Inc.)

A-07-04-00170 (Review of Pension Costs Claimed by Veritus Inc.)

Dear Mr. Aasmundstad:

Attached is our response to your letters dated July 1, 2004 requesting comments on your draft Reports A-07-04-00168 entitled "Review of Medicare Contractor's Pension Segmentation Requirements, Veritus, Inc. of Pennsylvania" and A-07-04-00170 entitled "Review of Pension Costs Claimed by Veritus, Inc. of Pennsylvania." These reports cover the period of January 1, 1993 through December 31, 1997, and fiscal years 1993 through 1997, respectively.

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

Sincerely,

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

Cc: James Chiado
Elizabeth Farbacher
Anthony Lobato
Gayeta Porter

Corporate Offices:

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

**Review of Medicare Contractor's
Pension Segmentation Requirements,
Veritus, Inc. of Pennsylvania**

January 1, 1993 – December 31, 1997

**Highmark Comments to OIG Draft Report
A-07-04-00168**

Highmark Comments on the OIG Draft Report Dated July 1, 2004

Highmark agrees with the recommendation to reduce the Veritus Medicare segment pension assets by \$2,379,567 and recognize segment assets of \$9,821,687 as of December 31, 1997.

It is our understanding that OIG is in the process of auditing Highmark's segmentation of assets from January 1, 1998 to December 31, 2003 and will be updating segment assets as part of that review. Therefore, to avoid duplication and minimize confusion, Highmark will delay final adjustment to segment assets until that audit is finalized.

**Review of Pension Costs Claimed by
Veritus, Inc. of Pennsylvania**

Fiscal Year 1993 – 1997

**Highmark Comments to OIG Draft Report
A-07-04-00170**

Highmark Comments on the OIG Draft Report Dated July 1, 2004

Highmark believes the OIG finding of \$939,791 is overstated by \$281,432 due to the inappropriate inclusion of pension costs of Blue Cross of Northeastern Pennsylvania (BCNEPA), Capital Blue Cross (CBC), and the Shared Service Center (SSC) who provided services to Veritus in delivering the services under the Medicare Part A contract through Purchase Service Agreements. In supporting documentation provided to the OIG, Highmark indicated that pension cost claimed on the Veritus FACPs included costs from Veritus, BCNEPA, CBC, and SSC. These costs were not excluded from the pension expense claimed for the comparison of pension cost claims and allowable pension. None of these entities are covered by the pension plan maintained by Veritus. The following table summarizes the adjustments that Highmark believes are necessary to accurately determine the finding, based on documentation that has previously been provided to the OIG.

Fiscal Year	Pension Reported by Veritus	Pension For BCNEPA, CBC and SSC	Pension For Veritus Only	Allowable Pension Per OIG	Revised Finding
1993	\$ 591,811	\$ 94,536	\$ 497,275	\$ 196,334	300,941
1994	474,711	107,775	366,936	161,060	205,876
1995	747,759	26,522	721,237	169,773	551,464
1996	116,152	52,599	63,553	126,491	-62,938
1997	129,841	0	129,841	466,825	-336,984
Total	\$ 2,060,274	\$ 281,432	\$ 1,778,842	\$ 1,120,483	\$ 658,359

Highmark agrees that the amounts shown in the "Revised Finding" should be removed from Veritus's claimed costs and, for the identified fiscal years, will coordinate the resolution of this adjustment with CMS.