



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General  
Offices of Audit Services

AUG 17 2004

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

Report Number A-07-04-00170

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 Pension Costs Claimed by Veritus, Inc. of Pennsylvania" for fiscal years 1993 through 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](mailto:Jenenne.Tambke@oig.hhs.gov). To facilitate identification, please refer to report number A-07-04-00170 in all correspondence.

Sincerely yours,

James P. Aasmundstad  
Regional Inspector General  
for Audit Services

Enclosures -- 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**

**REVIEW OF PENSION COSTS  
CLAIMED BY VERITUS, INC. OF  
PENNSYLVANIA**



**AUGUST 2004  
A-07-04-00170**

# *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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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.

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# Notices

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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**

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 costs for fiscal years (FY) 1993 through 1997.

Medicare reimburses its portion of contractors' annual pension costs. In claiming costs, contractors are to follow cost reimbursement principles contained in Federal Acquisition Regulations (FAR), Cost Accounting Standards (CAS) and the Medicare contracts.

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

### **OBJECTIVE**

The objective of our review was to determine the allowability of pension costs claimed for Medicare reimbursement for Fiscal Years (FYs) 1993 through 1997.

### **FINDING**

Veritus over claimed allowable Medicare pension costs for FY 1993 through FY 1997. During this period, the allowable Medicare pension costs were \$1,120,483. However, Veritus claimed pension costs of \$1,715,289 for Medicare reimbursement. The over claim occurred because Veritus did not allocate pension costs to the Medicare segment in accordance with CAS requirements. As a result, Veritus claimed \$594,806 of unallowable pension costs.

### **RECOMMENDATION**

Veritus should revise its Final Administrative Cost Proposals (FACPs) for FYs 1993 through 1997 to eliminate unallowable CAS pension costs of \$594,806.

### **AUDITEE'S COMMENTS**

Veritus stated that the OIG inappropriately included subcontractor costs in Veritus' calculation of pension costs and therefore overstated unallowable CAS pension costs by \$281,432. Veritus' comments are included in their entirety in this report at Appendix B.

## **OIG RESPONSE**

We agree with Veritus' determination that \$281,432 of subcontractor costs should not have been included in the computation of Veritus' costs claimed for FY 1993 through FY 1997. Additionally, we found \$63,553 of FY 1996 qualified plan pension costs that had been disallowed by an Administrative Cost Audit Report. We therefore removed these previously disallowed costs from our draft report finding and now recommend that Veritus revise its FACPs for FY 1993 through FY 1997 to eliminate unallowable pension costs of \$594,806.

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## **Glossary of Abbreviations and Acronyms**

CAS	Cost Accounting Standards
CMS	Centers for Medicare and Medicaid Services
FACP	Final Administrative Cost Proposal
FAR	Federal Acquisition Regulations
FY	Fiscal Year
HHS	Health and Human Services
OIG	Office of Inspector General
PBS	Pennsylvania Blue Shield

## **INTRODUCTION**

### **BACKGROUND**

#### **Veritus**

Veritus administered Medicare Part A operations under a cost reimbursement contract with 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 costs for FYs 1993 through 1997.

#### **Medicare**

Medicare reimburses its portion of contractors' annual pension costs. 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 FAR.

Additionally, CMS incorporated specific segmentation language into Medicare contracts starting with FY 1988. The contracts provide for either 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 Regulations and Cost Accounting Standards 412 and 413.”

FAR addresses allowability of pension costs and requires that pension costs assigned to contract periods be substantiated by funding.

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, 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**

The objective of our review was to determine the allowability of pension costs claimed by Veritus for Medicare reimbursement for FYs 1993 through 1997.

### **Scope**

We reviewed pension costs claimed on Veritus' FACP's for Medicare reimbursement for FY 1993 through FY 1997. Achieving the objective did not require a review of Veritus' internal control structure. However, we did review those controls with regard to pension costs to ensure the pension costs claimed for Medicare reimbursement were allowable in accordance with FAR and CAS.

We performed site work at Veritus' corporate office in Camp Hill, Pennsylvania.

### **Methodology**

We identified Veritus' CAS pension costs for the total company and for the Medicare segment. We also determined the extent to which Veritus funded CAS pension costs with contributions to the pension trust fund and accumulated prepayment credits. Using this information, we calculated CAS pension costs that are allowable for Medicare reimbursement for FY 1993 through FY 1997. 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 Veritus' historical practices. Appendix A contains the details on the pension costs and contributions.

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.

This review was done in conjunction with our review of Veritus' pension segmentation (Report Number: A-07-04-00168). The information obtained and reviewed during that audit was also used in performing this review.

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

## **FINDINGS AND RECOMMENDATIONS**

Veritus over claimed allowable Medicare pension costs for FY 1993 through FY 1997. During this period, the allowable Medicare pension costs were \$1,120,483. However, Veritus claimed pension costs of \$1,715,289 for Medicare reimbursement. The over claim occurred because Veritus did not allocate pension costs to the Medicare segment in accordance with CAS requirements. As a result, Veritus claimed \$594,806 of unallowable pension costs.

## CRITERIA: MEDICARE CONTRACT

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.”

## CONDITION: OVER CLAIM OF \$594,806

Veritus over claimed \$594,806. For FYs 1993 through 1997, Veritus claimed \$1,715,289 of pension costs to Medicare. However, the allowable CAS Pension costs for the period were \$1,120,483.

We compared our calculated allowable CAS pension costs to the pension costs claimed on Veritus' FACPs and found:

<b>Pension Cost Claimed Variance</b>			
<b>FISCAL YEAR</b>	<b>PER OIG</b>	<b>PER VERITUS</b>	<b>DIFFERENCE</b>
<b>1993</b>	\$196,334	\$497,275	\$300,941
<b>1994</b>	161,060	366,936	205,876
<b>1995</b>	169,773	721,237	551,464
<b>1996</b>	126,491	0	(126,491)
<b>1997</b>	<u>466,825</u>	<u>129,841</u>	<u>(336,984)</u>
<b>Total</b>	<b><u>\$1,120,483</u></b>	<b><u>\$1,715,289</u></b>	<b><u>\$594,806</u></b>

## CAUSE: INCORRECT VALUATION METHODOLOGIES

The primary cause for the over claim was due to Veritus using an incorrect valuation methodology to compute the claimed pension costs. Veritus used the Frozen Initial Liability methodology for plan years 1993, 1994, and 1995. This methodology is a spread-gain valuation methodology. However, Veritus used an immediate-gain methodology for financial accounting purposes during those plan years. The original CAS (covering plan years prior to March 30, 1995) requires the use of the same methodology for computing pension costs as the methodology used for financial accounting purposes. Therefore, Veritus' use of a spread-gain methodology for the years 1993 to 1995 does not meet CAS requirements.

Also, for FYs 1996 and 1997, Veritus recomputed its pension costs using an immediate-gain methodology. However, the funded pension costs exceeded the actual costs claimed by Veritus. Therefore, Veritus under claimed pension costs for these years.

## EFFECT: UNALLOWABLE COSTS OF \$594,806

Veritus claimed \$594,806 of unallowable CAS pension costs.

## **RECOMMENDATION**

Veritus should revise its FACPs for FYs 1993 through 1997 to eliminate the unallowable CAS pension costs of \$594,806.

## **AUDITEE'S COMMENTS**

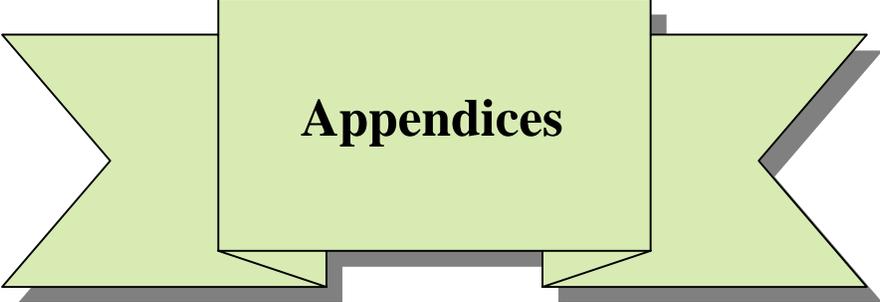
Veritus stated that the OIG inappropriately included subcontractor costs in Veritus' calculation of pension costs and therefore overstated unallowable CAS pension costs by \$281,432. Thus, Veritus determined that the unallowable pension costs were \$658,359 for FYs 1993 through 1997.

## **OIG'S RESPONSE**

After reviewing Veritus' comments and the Administrative Cost Audit Reports supplied by Veritus for this time period<sup>1</sup>, we agree that the subcontractor costs of \$281,432 should have been excluded from Veritus' computation of pension costs. Additionally, after reviewing the Administrative Cost Audit Reports, we found that all pension costs for FY 1996 had been disallowed per Veritus' Closing Agreement with CMS. This included \$63,553 of qualified plan pension costs Veritus claimed for its Medicare operations. Therefore, our findings were further reduced by the \$63,553 of pension costs that were disallowed due to the closing agreement. Thus, we have adjusted our prior audit findings and now recommend that Veritus revise its FACPs to eliminate unallowable pension costs of \$594,806 for FYs 1993 through 1997.

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<sup>1</sup> Report Number: A-03-94-00029 for FYs 1990 through 1993 and Report Number A-03-01-00005 for FYs 1995 through 1997.



**Appendices**

**Veritus, Inc.**  
**Statement of Allowable CAS Pension Costs**  
**For Fiscal Years 1993 Through 1997**

Date	Description	Total Company	Other Segment	Medicare Segment
1993	Contributions	<u>1/</u> \$5,520,788	\$5,437,986	\$82,802
8.50%	Discount For Interest	<u>2/</u> (317,718)	(312,953)	(4,765)
1/1/93	Present Value	<u>3/</u> 5,203,070	5,125,033	78,037
1/1/93	Prepayment Credit	<u>4/</u> 0	0	0
1/1/93	Present Value Of Funding	<u>5/</u> 5,203,070	5,125,033	78,037
1/1/93	Assigned Pension Costs	<u>6/</u> 4,470,990	4,392,953	78,037
1/1/93	Absorbed Credit	<u>7/</u> 0	0	0
1/1/93	CAS Funding Target	<u>8/</u> 4,470,990	4,392,953	78,037
1/1/93	Percentage Funded	<u>9/</u>	100.00%	100.00%
1/1/93	Funded Pension Cost	<u>10/</u>	4,392,953	78,037
	Allowable Interest	<u>11/</u>	264,492	4,698
	Allocable Pension Cost	<u>12/</u>	4,657,445	82,735
	Fiscal Year Pension Cost	<u>13/</u>	3,493,084	62,051
	Medicare LOB Percentage	<u>14/</u>	4.04%	88.98%
	Allowable Pension Cost	<u>14/</u> <u>\$196,334</u>	<u>\$141,121</u>	<u>\$55,213</u>

1994	Contributions	\$5,039,147	\$5,039,147	\$0
8.50%	Discount For Interest	<u>(276,222)</u>	(276,222)	0
1/1/94	Present Value	4,762,925	4,762,925	0
1/1/94	Prepayment Credit	<u>794,307</u>	794,307	0
1/1/94	Present Value Of Funding	5,557,232	5,557,232	0
1/1/94	Assigned Pension Costs	3,969,362	3,969,362	0
1/1/94	Absorbed Credit	<u>0</u>	0	0
1/1/94	CAS Funding Target	3,969,362	3,969,362	0
1/1/94	Percentage Funded		100.00%	0.00%
1/1/94	Funded Pension Cost		3,969,362	0
	Allowable Interest		<u>184,135</u>	0
	Allocable Pension Cost		4,153,497	0
	Fiscal Year Pension Cost		4,279,484	20,684
	Medicare LOB Percentage		3.32%	91.77%
	Allowable Pension Cost	<u>\$161,060</u>	<u>\$142,079</u>	<u>\$18,981</u>

**Veritus, Inc.**  
**Statement of Allowable CAS Pension Costs**  
**For Fiscal Years 1993 Through 1997**

Date	Description	Total Company	Other Segment	Medicare Segment
1995	Contributions	\$5,221,157	\$5,141,813	\$79,344
8.50%	Discount For Interest	<u>(268,856)</u>	<u>(264,770)</u>	<u>(4,086)</u>
1/1/95	Present Value	4,952,301	4,877,043	75,258
1/1/95	Prepayment Credit	<u>1,722,839</u>	<u>1,676,225</u>	<u>46,614</u>
1/1/95	Present Value Of Funding	6,675,140	6,553,268	121,872
1/1/95	Assigned Pension Costs	4,504,329	4,382,457	121,872
1/1/95	Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
1/1/95	CAS Funding Target	4,504,329	4,382,457	121,872
1/1/95	Percentage Funded		100.00%	100.00%
1/1/95	Funded Pension Cost		4,382,457	121,872
	Allowable Interest		<u>146,919</u>	<u>4,086</u>
	Allocable Pension Cost		4,529,376	125,958
	Fiscal Year Pension Cost		3,454,294	94,469
	Medicare LOB Percentage		2.18%	100.00%
	Allowable Pension Cost	<u>\$169,773</u>	<u>\$75,304</u>	<u>\$94,469</u>

1996	Contributions	\$679,898	\$665,261	\$14,637
8.50%	Discount For Interest	<u>(40,672)</u>	<u>(39,796)</u>	<u>(876)</u>
1/1/96	Present Value	639,226	625,465	13,761
1/1/96	Prepayment Credit	<u>2,355,330</u>	<u>2,303,606</u>	<u>51,724</u>
1/1/96	Present Value Of Funding	2,994,556	2,929,071	65,485
1/1/96	Assigned Pension Costs	2,981,964	2,916,479	65,485
	Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
	CAS Funding Target	2,981,964	2,916,479	65,485
1/1/96	Percentage Funded		100.00%	100.00%
1/1/96	Funded Pension Cost		2,916,479	65,485
	Allowable Interest		<u>36,900</u>	<u>829</u>
	Allocable Pension Cost		2,953,379	66,314
	Fiscal Year Pension Cost		3,347,378	81,225
	Medicare LOB Percentage		1.37%	99.27%
	Allowable Pension Cost	<u>\$126,491</u>	<u>\$45,859</u>	<u>\$80,632</u>

**Veritus, Inc.**  
**Statement of Allowable CAS Pension Costs**  
**For Fiscal Years 1993 Through 1997**

Date	Description	Total Company	Other Segment	Medicare Segment
1997	Contributions	\$8,779,513	\$8,398,633	\$380,880
8.50%	Discount For Interest	(457,453)	(437,607)	(19,846)
1/1/97	Present Value	8,322,060	7,961,026	361,034
1/1/97	Prepayment Credit	13,662	13,043	619
1/1/97	Present Value Of Funding	8,335,722	7,974,069	361,653
1/1/97	Assigned Pension Costs	7,980,102	7,618,449	361,653
	Absorbed Credit	0	0	0
	CAS Funding Target	7,980,102	7,618,449	361,653
1/1/97	Percentage Funded		100.00%	100.00%
1/1/97	Funded Pension Cost		7,618,449	361,653
	Allowable Interest		418,059	19,846
	Allocable Pension Cost		8,036,508	381,499
	Fiscal Year Pension Cost		6,765,726	302,703
	Medicare LOB Percentage		2.56%	97.00%
	Allowable Pension Cost	<u>\$466,825</u>	<u>\$173,203</u>	<u>\$293,622</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.

**Veritus, Inc.**  
**Statement of Allowable CAS Pension Costs**  
**For Fiscal Years 1993 Through 1997**

- 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 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 allowable pension costs of the Medicare and other segments based on the Medicare line-of-business (LOB) percentage of each segment. We obtained the percentages from documents provided by Veritus.
- 14/ We computed the allowable Medicare pension cost as the fiscal year pension cost multiplied by the Medicare LOB percentage.



July 30, 2004

Mr. James P. Aasmundstad  
Regional Inspector General for Audit Services  
DHHS, OIG  
601 East 12<sup>th</sup> 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.

<b>Fiscal Year</b>	<b>Pension Reported by Veritus</b>	<b>Pension For BCNEPA, CBC and SSC</b>	<b>Pension For Veritus Only</b>	<b>Allowable Pension Per OIG</b>	<b>Revised Finding</b>
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
<b>Total</b>	<b>\$ 2,060,274</b>	<b>\$ 281,432</b>	<b>\$ 1,778,842</b>	<b>\$ 1,120,483</b>	<b>\$ 658,359</b>

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.