



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

JUN 06 2005

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

Report Number A-07-05-00185

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

Dear Mr. Fisher:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) report entitled "Review of Postretirement Benefit Costs Claimed by Pennsylvania Blue Shield" for the period covering fiscal years 1994 through 1997. A copy of this report will be forwarded to the HHS action official noted on the next page for her review and any action deemed necessary.

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

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

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, ext. 225, or Jenenne Tambke, Audit Manager, at (573) 893-8338, ext. 21, or through email at Jenenne.Tambke@oig.hhs.gov. Please refer to report number A-07-05-00185 in all correspondence.

Sincerely yours,

A handwritten signature in black ink, appearing to read "James P. Aasmundstad".

James P. Aasmundstad
Regional Inspector General
for Audit Services

Enclosures

Page 2 - Donald L. Fisher

Direct Reply to HHS Action Official:

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

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF POSTRETIREMENT
BENEFIT COSTS CLAIMED BY
PENNSYLVANIA BLUE SHIELD**



**JUNE 2005
A-07-05-00185**

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:

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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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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 a cost reimbursement contract with the Centers for Medicare & Medicaid Services (CMS) until it merged with Veritus, Inc. (Veritus) on December 6, 1996, to form Highmark, Inc. (Highmark). This report will address findings related to PBS.

Before 1994, PBS accounted for and claimed postretirement benefit (PRB) costs under a pay-as-you-go method. However, beginning January 1, 1994, PBS began to account for and claim PRB costs using accrual accounting, and it established a Voluntary Employee Benefit Association (VEBA) trust for the purpose of funding the accrued costs pursuant to Federal regulations.

CMS reimburses a portion of its contractors' PRB costs. In claiming PRB costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulations (FAR) and applicable Cost Accounting Standards (CAS) as required by their Medicare contracts. Furthermore, the Medicare contract and the Budget Performance Requirements require that any change in accounting practice for PRB costs be submitted to CMS in advance for approval.

OBJECTIVE

Our objective was to determine the allowability of the PRB costs PBS claimed for Medicare reimbursement on an accrual basis for fiscal years (FY) 1994 through 1997.

SUMMARY OF FINDINGS

PBS did not include in its Final Administrative Cost Proposals (FACPs) all of the PRB costs that were allowable pursuant to Federal regulations. As a result, for FYs 1994 through 1997, PBS did not claim \$153,675 of PRB costs that were allowable for Medicare reimbursement.

In addition, PBS did not receive CMS approval for its change in accounting practice for PRB costs.

RECOMMENDATIONS

PBS should revise its FACPs for FYs 1994 through 1997 or submit a claim for additional allowable PRB costs of \$153,675.

After addressing the issues raised under Other Matters, PBS should seek approval for its change in accounting practice.

AUDITEE'S COMMENTS

PBS's comments are summarized in the following paragraphs and presented in their entirety as Appendix D.

PBS disagreed with our report and stated that: "The cost allocation method used by PBS differed from the one used by the auditors in preparing this report. In addition, several of the data input numbers used by the auditors are not consistent with PBS data."

PBS stated that OIG:

- did not exclude subsidiary data in performing the PBS cost allocation, and
- incorrectly assumed that ¼ of the PRB cost provided for the January-September 1994 period was applicable to October-December 1993 and excluded it in calculating a difference.

PBS also stated that it did seek CMS approval for its change in accounting practice for PRB costs.

Additionally, PBS disagreed with our statement in the Other Matters section that PBS should be precluded from including unfunded PRB costs in any future claims to the Federal Government. PBS believed that by requiring contractors to use SFAS 106 in calculating PRB costs, the FAR irreconcilably conflicts with the Internal Revenue Service limitations on VEBA funding.

OFFICE OF INSPECTOR GENERAL RESPONSE

We agree with PBS's assertions that we incorrectly excluded subsidiary data in performing the PBS cost allocation and that we incorrectly assumed that ¼ of the PRB cost provided for the January-September 1994 period was applicable to October-December 1993 and excluded it in calculating a difference. Therefore, we revised our report to reflect those changes.

Although PBS sought approval for its change in accounting practice for PRB costs, CMS had not granted approval.

Additionally, we are aware that PBS and CMS are engaged in discussions concerning the unfunded PRB costs addressed in the Other Matters section. However, PBS did not calculate the PRB costs to be assigned to the cost accounting period pursuant to the accrual accounting guidelines in FAR 31.205-6(o)(2)(iii).

Therefore, we recommend that PBS revise its FACPs for FYs 1994 through 1997 or submit a claim for additional allowable PRB costs of \$153,675. After addressing the issues raised under Other Matters, PBS should seek approval for its change in accounting practice.

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Glossary of Abbreviations and Acronyms

CAS	Cost Accounting Standards
CMS	Centers for Medicare & Medicaid Services
FACP	Final Administrative Cost Proposal
FAR	Federal Acquisition Regulations
FY	fiscal year
HHS	U.S. Department of Health and Human Services
Highmark	Highmark, Inc.
LOB	Line of Business
OIG	Office of the Inspector General
PBS	Pennsylvania Blue Shield
PRB	Postretirement Benefit
SFAS	Statement of the Financial Accounting Standards Board
VEBA	Voluntary Employee Benefit Association
Veritus	Veritus, Inc. of Pennsylvania

INTRODUCTION

BACKGROUND

Medicare

Pennsylvania Blue Shield (PBS) administered Medicare Part B operations under a cost reimbursement contract with the Centers for Medicare & Medicaid Services (CMS) until it merged with Veritus, Inc. (Veritus) on December 6, 1996, to form Highmark, Inc. (Highmark). CMS reimburses a portion of its contractors' postretirement benefit (PRB) costs. In claiming PRB costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulations (FAR) and applicable Cost Accounting Standards (CAS) as required by their Medicare contracts.

Before 1994, PBS accounted for and claimed PRB costs under a pay-as-you-go method. However, beginning January 1, 1994, PBS began to account for and claim PRB costs using accrual accounting, and it established a Voluntary Employee Benefit Association (VEBA) trust for the purpose of funding the accrued costs pursuant to Federal regulations.

Regulations

The FAR sets forth the allowability requirements and applicable methods of accounting for PRB costs under a government contract. PRB costs can include, but are not limited to postretirement health care, life insurance provided outside a pension plan, and other welfare benefits, such as tuition assistance, day care, legal services, and housing subsidies provided after retirement. PRBs do not cover retirement income and ancillary benefits, such as life insurance, paid by pension plans during the period following employees' retirement.

The FAR 31 requires contractors to choose one of three accounting practices (pay-as-you-go, accrual, or terminal) for measuring and assigning PRB costs to accounting periods. However, the Medicare contract and the Budget Performance Requirements require that any change in accounting practice for such pension and/or PRB costs must be submitted to CMS in advance for approval.

The FAR further states that to be allowable, costs must be funded by the time set for filing the Federal income tax return or any extension thereof. Furthermore, costs of retiree insurance must comply with the standards promulgated by the CAS Board. The CAS requires that the allocation of PRB costs to cost objectives be based on the beneficial or causal relationship between the PRB costs and the corresponding cost objectives.

In 1990, the issuance of the Statement of Financial Accounting Standards (SFAS) 106 required contractors to report in their financial statements the accrued liability for PRBs for current and retired employees, and set forth specific guidance on the accrual methodology to be used. However, the FAR allows contractors the option of electing accrual accounting following SFAS 106 methodology for funded PRBs, or of continuing to recognize PRB costs on a cash basis for government contract purposes if that had been their practice.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine the allowability of the PRB costs PBS claimed for Medicare reimbursement on an accrual accounting basis for fiscal years (FY) 1994 through 1997.

Scope

We reviewed PRB costs claimed for Medicare reimbursement on PBS's Final Administrative Cost Proposals (FACPs) for FYs 1994 through 1997. Achieving the objective did not require that we review PBS's overall internal control structure. However, we did review the controls relating to the PRB costs claimed for Medicare reimbursement to ensure that costs were allowable pursuant to the FAR.

We conducted fieldwork at Highmark's corporate office in Camp Hill, PA.

Methodology

We identified PBS's PRB costs for the total company and the portion allocable to the Medicare segment. We also determined the extent to which PBS funded the PRB costs with contributions to the VEBA trust fund or with direct payment of benefits. In performing our review, we used information provided by PBS's actuarial consulting firm. Because PBS had not followed SFAS 106 to develop PRB costs as required by the FAR, the CMS Office of the Actuary developed PRB costs for PBS based on SFAS 106 methodology pursuant to the FAR. Using this information, we calculated the PRB costs that were allowable for Medicare reimbursement for FYs 1994 through 1997. Appendix A contains the details of the PRB costs and contributions.

We performed this review in conjunction with our audits of pension segmentation (A-07-04-00169), pension costs claimed for reimbursement (A-07-04-00171), and unfunded pension costs (A-07-04-00173). We used the information obtained and reviewed during those audits in performing this review.

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

FINDINGS AND RECOMMENDATIONS

PBS did not include in its FACPs all of the PRB costs that were allowable pursuant to Federal regulations. As a result, for FYs 1994 through 1997, PBS did not claim \$153,675 of PRB costs that were allowable for Medicare reimbursement.

In addition, PBS did not receive CMS approval for its change in accounting practice for PRB costs.

FEDERAL ACQUISITION REGULATIONS & COST ACCOUNTING STANDARDS

The FAR states that to be allowable, costs must be funded by the time set for filing the Federal income tax return or any extension thereof, and must comply with the applicable standards promulgated by the CAS Board. Additionally, the CAS requires that the allocation of PRB costs to cost objectives be based on the beneficial or causal relationship between the PRB costs and corresponding cost objectives.

MEDICARE CONTRACT & BUDGET AND PERFORMANCE REQUIREMENTS

Since 1993, the Budget and Performance Requirements instructions sent to Medicare contractors by CMS have included a reminder of the special provisions regarding costs of PRB plans. The Budget Performance Requirements specified that any change in accounting practice for PRB costs must be submitted to CMS in advance for approval.

ALLOWABLE POSTRETIREMENT BENEFIT COSTS

For FYs 1994 through 1997, PBS did not claim PRB costs that were allowable for Medicare reimbursement. PBS failed to claim all of the accrued PRB costs that had been funded through deposits to the VEBA trust. Our calculation showed that PBS underclaimed PRB costs by \$153,675. The following schedule provides a comparison of allowable PRB costs as calculated by PBS and OIG. Details underlying this schedule may be found in the appendixes to this report.

PBS PRB Costs Claimed Variance			
FY	Per OIG	Per PBS¹	Difference
1994	\$ 785,528	\$ 782,353	\$ 3,175
1995	923,756	911,129	12,627
1996	829,259	814,490	14,769
1997	897,964	774,860	123,104
Total	\$ 3,436,507	\$ 3,282,832	\$ 153,675

ACCOUNTING PRACTICE CHANGE

Beginning January 1, 1994, PBS switched from accounting for PRB costs on a pay-as-you-go basis to accounting for costs on an accrual basis without CMS approval.

RECOMMENDATIONS

PBS should revise its FACPs for FYs 1994 through 1997 or submit a claim for additional allowable PRB costs of \$153,675.

After addressing the issues raised under Other Matters, PBS should seek approval for its change in accounting practice.

¹PBS's response included a claim for PRB expense contained in an occupancy charge, and the costs for an early retirement option for 1998. We did not audit these costs and therefore are not commenting on the allowability.

OTHER MATTERS

PBS based its claim for PRB costs on the amount accrued and funded for the cost accounting period with the tax-deductible contribution to its VEBA. PBS did not calculate the PRB cost to be assigned to the cost accounting period pursuant to the accrual accounting guidelines in FAR 31.205-6(o)(2)(iii). There was no accounting for the unfunded portion of the PRB cost assigned to the cost accounting period.

We compared the PRB costs calculated by the CMS Office of the Actuary to actual contributions. We found that PBS accumulated unfunded PRB costs, plus interest, of \$11,426,121 as of January 1, 1997. The following table shows the unfunded amounts and interest, which are unallowable on a cumulative basis. (Details of amounts that were not funded and the accumulation of such unfunded costs may be found in the appendixes to this report.)

Unfunded PRB Costs and Interest			
Plan Year	Unfunded PRB Costs	Interest to 12/31/1997	Total as of 12/31/1997
1994	\$2,883,331	\$825,978	\$3,709,309
1995	1,867,564	388,359	2,255,923
1996	2,605,365	349,705	2,955,070
1997	2,352,882	152,937	2,505,819
Total	\$9,709,142	\$1,716,979	\$11,426,121

PBS should track this amount and ensure that the unfunded PRB costs are not included in any future claims.

AUDITEE'S COMMENTS

PBS's comments are summarized in the following paragraphs and presented in their entirety as Appendix D.

PBS disagreed with our report and stated that: "The cost allocation method used by PBS differed from the one used by the auditors in preparing this report. In addition, several of the data input numbers used by the auditors are not consistent with PBS data."

PBS stated that OIG:

- did not exclude subsidiary data in performing the PBS cost allocation, and
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Additionally, PBS disagreed with our statement in the Other Matters section that PBS should be precluded from including unfunded PRB costs in any future claims to the Federal Government. PBS believed that by requiring contractors to use SFAS 106 in calculating PRB costs, the FAR irreconcilably conflicts with the Internal Revenue Service limitations on VEBA funding.

OFFICE OF INSPECTOR GENERAL RESPONSE

We agree with PBS's assertions that we incorrectly excluded subsidiary data in performing the PBS cost allocation and that we incorrectly assumed that ¼ of the PRB cost provided for the January-September 1994 period was applicable to October-December 1993 and excluded it in calculating a difference. Therefore, we revised our report to reflect those changes.

Although PBS sought approval for its change in accounting practice for PRB costs, CMS had not granted approval.

Additionally, we are aware that PBS and CMS are engaged in discussions concerning the unfunded PRB costs addressed in the Other Matters section. However, PBS did not calculate the PRB costs to be assigned to the cost accounting period pursuant to the accrual accounting guidelines in FAR 31.205-6(o)(2)(iii).

Therefore, we recommend that PBS revise its FACPs for FYs 1994 through 1997 or submit a claim for additional allowable PRB costs of \$153,675. After addressing the issues raised under Other Matters, PBS should seek approval for its change in accounting practice.

**PENNSYLVANIA BLUE SHIELD
STATEMENT OF ALLOWABLE POSTRETIREMENT BENEFIT COSTS
FOR FISCAL YEARS 1994 THROUGH 1997
REPORT NUMBER A-07-05-00185**

Date	Description		Total Company	PBS Indirect	Medicare Segment	Subsidiary Companies
1994	Total Contributions to Trust Fund	<u>1/</u>	\$ 3,143,284	\$ 2,712,680		\$ 430,604
6.50%	Discount for Interest	<u>2/</u>	(118,902)	(102,613)		(16,289)
01/01/1994	Present Value of Trust Fund Contributions	<u>3/</u>	\$ 3,024,382	\$ 2,610,067		\$ 414,315
1994	Total Direct Benefit Payments	<u>4/</u>	\$ 36,492	\$ 17,132		\$ 19,360
6.50%	Discount for Interest	<u>5/</u>	(1,149)	(539)		(610)
01/01/1994	Present Value of Direct Benefit Payments	<u>6/</u>	\$ 35,343	\$ 16,593		\$ 18,750
01/01/1994	Prepayment Credit Applied	<u>7/</u>	\$ -	\$ -		\$ -
01/01/1994	PV of Direct Benefit Payments Applied	<u>8/</u>	35,343	16,593		18,750
01/01/1994	PV of Trust Fund Contributions Applied	<u>9/</u>	3,024,382	2,610,067		414,315
01/01/1994	Funded Net Postretirement Benefit Cost	<u>10/</u>	\$ 3,059,725	\$ 2,626,660		\$ 433,065
1994	Allowable Interest on Direct Benefit Payments	<u>11/</u>	1,149	539		610
1994	Allowable Interest on Contributions	<u>12/</u>	118,902	102,613		16,289
1994	Total Allowable & Allocable PRB Cost	<u>13/</u>	\$ 3,179,776	\$ 2,729,812		\$ 449,964
1994	Headcount Percentages of PBS Cost	<u>14/</u>		66.8000%	33.2000%	
1994	Allocable PRB Costs	<u>15/</u>	\$ 2,729,812	\$ 1,823,514	\$ 906,298	\$ 449,964
1994	Medicare LOB Percentage	<u>16/</u>		9.62%	96.21%	0.00%
1994	Calendar Year Medicare PRB Costs			\$ 175,422	\$ 871,949	0
1994	Fiscal Year PRB Costs 19/	<u>17/</u>		131,567	653,962	0
1994	Medicare Allowable FY PRB Costs	<u>18/</u>	\$ 785,528	\$ 131,567	\$ 653,962	0

PENNSYLVANIA BLUE SHIELD
STATEMENT OF ALLOWABLE POSTRETIREMENT BENEFIT COSTS
FOR FISCAL YEARS 1994 THROUGH 1997
REPORT NUMBER A-07-05-00185

Date	Description	Total Company	Other Segment	Medicare Segment	Subsidiary Companies
1995	Total Contributions to Trust Fund	\$ 2,748,348	\$ 2,244,656		\$ 503,692
6.50%	Discount for Interest	(114,458)	(93,481)		(20,977)
01/01/1995	Present Value of Trust Fund Contributions	\$ 2,633,890	\$ 2,151,175		\$ 482,715
1995	Total Direct Benefit Payments	\$ 35,783	\$ 17,623		\$ 18,160
6.50%	Discount for Interest	(1,126)	(555)		(571)
01/01/1995	Present Value of Direct Benefit Payments	\$ 34,657	\$ 17,068		\$ 17,589
01/01/1995	Prepayment Credit Applied	\$ -	\$ -		\$ -
01/01/1995	PV of Direct Benefit Payments Applied	34,657	17,068		17,589
01/01/1995	PV of Trust Fund Contributions Applied	2,633,890	2,151,175		482,715
01/01/1995	Funded Net Postretirement Benefit Cost	\$ 2,668,547	\$ 2,168,243		\$ 500,304
1995	Allowable Interest on Direct Benefit Payments	1,126	555		571
1995	Allowable Interest on Contributions	114,458	93,481		20,977
1995	Total Allowable & Allocable PRB Cost	\$ 2,784,131	\$ 2,262,279		\$ 521,852
1995	Headcount Percentages of PBS Cost		67.4800%	32.5200%	
1995	Allocable PRB Costs	\$ 2,262,279	\$ 1,526,586	\$ 735,693	\$ 521,852
1994	Medicare LOB Percentage		9.62%	100.00%	0.00%
	Calendar Year Medicare PRB Costs		\$ 146,858	\$ 735,693	0
1995	Fiscal Year PRB Costs 19/		153,999	769,757	0
1995	Medicare Allowable FY PRB Costs	\$ 923,756	\$ 153,999	\$ 769,757	0

**PENNSYLVANIA BLUE SHIELD
STATEMENT OF ALLOWABLE POSTRETIREMENT BENEFIT COSTS
FOR FISCAL YEARS 1994 THROUGH 1997
REPORT NUMBER A-07-05-00185**

Date	Description	Total Company	Other Segment	Medicare Segment	Subsidiary Companies
1996	Total Contributions to Trust Fund	\$ 2,827,144	\$ 2,234,320		\$ 592,824
6.50%	Discount for Interest	(118,803)	(93,891)		(24,912)
01/01/1996	Present Value of Trust Fund Contributions	\$ 2,708,341	\$ 2,140,429		\$ 567,912
1996	Total Direct Benefit Payments	\$ 34,200	\$ 16,624		\$ 17,576
6.50%	Discount for Interest	(1,077)	(524)		(553)
01/01/1996	Present Value of Direct Benefit Payments	\$ 33,123	\$ 16,100		\$ 17,023
01/01/1996	Prepayment Credit Applied	\$ -	\$ -		\$ -
01/01/1996	PV of Direct Benefit Payments Applied	33,123	16,100		17,023
01/01/1996	PV of Trust Fund Contributions Applied	2,708,341	2,140,429		567,912
01/01/1996	Funded Net Postretirement Benefit Cost	\$ 2,741,464	\$ 2,156,529		\$ 584,935
1996	Allowable Interest on Direct Benefit Payments	1,077	523		554
1996	Allowable Interest on Contributions	118,803	93,891		24,912
1996	Total Allowable & Allocable PRB Cost	\$ 2,861,344	\$ 2,250,943		\$ 610,401
1996	Headcount Percentages of PBS Cost		70.0500%	29.9500%	
1996	Allocable PRB Costs	\$ 2,250,943	\$ 1,576,786	\$ 674,157	\$ 610,401
1994	Medicare LOB Percentage		8.71%	100.00%	0.00%
	Calendar Year Medicare PRB Costs		\$ 137,338	\$ 674,157	0
1996	Fiscal Year PRB Costs 19/		139,718	689,541	0
1996	Medicare Allowable FY PRB Costs	\$ 829,259	\$ 139,718	\$ 689,541	0

PENNSYLVANIA BLUE SHIELD
STATEMENT OF ALLOWABLE POSTRETIREMENT BENEFIT COSTS
FOR FISCAL YEARS 1994 THROUGH 1997
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Date	Description	Total Company	Other Segment	Medicare Segment	Subsidiary Companies
1997	Total Contributions to Trust Fund	\$ 3,564,784	\$ 2,687,968		\$ 876,816
6.50%	Discount for Interest	(148,097)	(111,670)		(36,427)
01/01/1997	Present Value of Trust Fund Contributions	\$ 3,416,687	\$ 2,576,298		\$ 840,389
1997	Total Direct Benefit Payments	\$ 32,060	\$ 20,294		\$ 11,766
6.50%	Discount for Interest	(1,009)	(639)		(370)
01/01/1997	Present Value of Direct Benefit Payments	\$ 31,051	\$ 19,655		\$ 11,396
01/01/1997	Prepayment Credit Applied	\$ -	\$ -		\$ -
01/01/1997	PV of Direct Benefit Payments Applied	31,051	19,655		11,396
01/01/1997	PV of Trust Fund Contributions Applied	3,416,687	2,576,298		840,389
01/01/1997	Funded Net Postretirement Benefit Cost	\$ 3,447,738	\$ 2,595,953		\$ 851,785
1997	Allowable Interest on Direct Benefit Payments	1,009	639		370
1997	Allowable Interest on Contributions	148,097	111,670		36,427
1997	Total Allowable & Allocable PRB Cost	\$ 3,596,844	\$ 2,708,262		\$ 888,582
1997	Headcount Percentages of PBS Cost		71.8000%	28.2000%	
1997	Allocable PRB Costs	\$ 2,708,262	\$ 1,944,532	\$ 763,730	\$ 888,582
1997	Medicare LOB Percentage		8.46%	99.81%	0.00%
1997	Calendar Year Medicare PRB Costs		\$ 164,507	\$ 762,279	0
1997	Fiscal Year PRB Costs 19/		157,715	740,248	0
	Medicare Allowable FY PRB Costs	\$ 897,964	\$ 157,715	\$ 740,248	0

**PENNSYLVANIA BLUE SHIELD
STATEMENT OF ALLOWABLE POSTRETIREMENT BENEFIT COSTS
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FOOTNOTES

1/ Total contributions to the trust fund are the net deposits made to the Voluntary Employee Benefit Association (VEBA) trust fund. Such contributions can be used to satisfy the funding requirements of Federal Acquisition Regulations (FAR) 31.205-6(o)(2)(iii) and Cost Accounting Standards (CAS) 416-50(a)(1)(v)(A).

2/ Interest is determined using the Statement of Financial Accounting Standards (SFAS) 106 expected long-term rate of return. For 1995, there were no assets at the beginning of 1995 and no assumption made for the expected long-term rate of return for SFAS 106 purposes. Therefore, the expected long-term rate was set equal to 8.00 percent, which was the 1995 SFAS 106 discount rate.

3/ The present value of trust fund contributions is the value of the contributions discounted from the date of deposit into the VEBA back to the first day of the plan year.

4/ Direct benefit payments are amounts paid directly to or on behalf of plan beneficiaries. Direct benefit payment must be considered towards the funding the of PRB cost assigned to the period before considering the amount funded by contributions to the trust fund in accordance with CAS 416-50(a)(1)(iv)(C). In effect, the benefit payments that reduce the recognized accumulated postretirement benefit obligation are deemed liquidated on a cash accounting basis in accordance with FAR 31.205-6(o)(2)(i).

5/ Interest is determined using the SFAS 106 expected long-term rate of return.

6/ Direct benefit payments are discounted to the first day of the plan year at the expected long-term rate of return assuming the benefit payments are made evenly throughout the year, that is, on average all payment are assumed to occur in the middle of the year.

7/ Any accumulated value of prepayment credits are applied towards the funding the accrued current net postretirement benefit cost, as developed in Appendix C, immediately. The accumulated value of prepayments credits is available as of the first day of the plan year to the cost assigned to the period and FAR 31.205-6(o)(4) states that any increased cost interest due to delayed funded is unallowable. For the period 1995 through 1997, there are the accumulated value of prepayment credits is zero. (see Appendix C)

PENNSYLVANIA BLUE SHIELD
STATEMENT OF ALLOWABLE POSTRETIREMENT BENEFIT COSTS
FOR FISCAL YEARS 1994 THROUGH 1997
REPORT NUMBER A-07-05-00185

FOOTNOTES (Continued)

8/ Present value of direct benefit payments are applied towards current period funding up to the amount of the accrued current net postretirement benefit cost assigned to the period reduced for any prepayment credits that have been applied. Such direct payments are considered as funding of the cost assigned to the period before considering the amount funded by contributions (fund deposits) in accordance with CAS 416-50(a)(1)(iv)(C).

9/ Present value of trust fund contributions are applied towards current period funding up to the amount of the accrued current net postretirement benefit cost reduced for any prepayment credits and present value of direct benefit payments that have been applied. Such contributions can be used to satisfy the funding requirements of FAR 31.205-6(o)(2)(iii) and CAS 416-50(a)(1)(v)(A).

10/ The allowable and allocable postretirement benefit (PRB) cost is the sum of the prepayment credits, present value of direct benefit payments, and present value of trust fund contributions that have been applied. This is the value of the allowable and allocable PRB cost for the period as of the first day of the plan year before considering any allowable interest on the direct benefit payments and trust fund contributions. The allowable and allocable PRB cost can not exceed the accrued net PRB cost for the period.

11/ Direct benefit payments are deemed to be paid as the costs are incurred by and behalf of plan beneficiaries, and therefore, no adjustment for delayed funding is necessary. The allowable interest on direct benefit payments is the amount of the discount for interest prorated by the present value of direct benefit payments applied to the present value of direct benefit payments.

12/ The allowable interest on trust fund contributions is the lesser of the actual interest incurred or the maximum allowable interest. The actual interest incurred for trust fund contributions applied is the amount of the discount for interest prorated by the present value of trust fund contributions applied to the present value of total trust fund contributions. FAR 31.205-6(o)(4) disallows interest caused by not funding within 30 days of the end of each quarter. Therefore, the maximum allowable interest is the amount of interest that would be incurred if the total contribution were made in four installments 4 months, 7 months, 10 months, and 13 months after the first day of the plan year.

13/ The total allowable and allocable PRB cost is the allowable and allocable PRB cost as of the first day of the plan year plus allowable interest on direct benefit payments and trust fund contributions. This is the amount of PRB costs that may be allocated to final cost objectives, such as Medicare contracts, as an allowable cost.

**PENNSYLVANIA BLUE SHIELD
STATEMENT OF ALLOWABLE POSTRETIREMENT BENEFIT COSTS
FOR FISCAL YEARS 1994 THROUGH 1997
REPORT NUMBER A-07-05-00185**

FOOTNOTES (Continued)

14/ The headcount percentages used to allocate the total allowable PRB costs were developed by PBS in its response to the draft report.

15/ Total allocable PRB costs are allocated to the Medicare and other segments based on the headcount percentage of the intermediate cost objectives.

16/ The Medicare line-of-business (LOB) is the portion of each segment's allowable PRB costs that can be allocated to the Medicare contract as a final cost objective. We obtained the percentages from PBS response to the draft report.

17/ We converted the PRB Costs determined on a plan year basis to a Federal fiscal year (FY) basis (October 1 through September 30). We calculated the fiscal year PRB costs as 1/4 of the prior plan year's costs plus 3/4 of the current plan year's costs. Costs charged to the Medicare contract should consist of the Medicare segment's direct PRB costs plus PRB costs attributable to indirect Medicare operations.

18/ PRB costs for FY 1995 only cover period from 01/01 to 09/30/1995. The amounts shown as claimed by Veritus in the audit report also only cover the period from 01/01 to 09/30/1995. PRB costs claimed on a pay-as-you-go basis for the first quarter of FY 1995 (10/01/1994 - 12/31/1995) are outside the scope of this audit.

PENNSYLVANIA BLUE SHIELD
 STATEMENT OF ACCUMULATED VALUES OF UNFUNDED ACCRUALS
 FOR PLAN YEARS 1994 THROUGH 1997
 REPORT NUMBER A-07-05-00185

Date	Description	Total Company
01/01/1994	Prior Accumulated Value of Unfunded Accruals	<u>1/</u> \$0
01/01/1994	Value of Current Year Underfunding	<u>2/</u> 2,883,331
01/01/1994	Accumulated Value of Unfunded Accruals	2,883,331
1994	Expected Long-Term Rate of Return	<u>3/</u> 6.50%
	Interest to End of Year at Expected Rate	187,417
12/31/1994	Accumulated Value of Unfunded Accruals	<u>4/</u> <u>\$3,070,748</u>

Date	Description	Total Company
01/01/1995	Prior Accumulated Value of Unfunded Accruals	<u>5/</u> \$3,070,748
01/01/1995	Value of Current Year Underfunding	<u>1,867,564</u>
01/01/1995	Accumulated Value of Unfunded Accruals	4,938,312
1995	Expected Long-Term Rate of Return	<u>6/</u> 6.50%
	Interest to End of Year at Expected Rate	<u>320,990</u>
12/31/1995	Accumulated Value of Unfunded Accruals	<u><u>\$5,259,302</u></u>

Date	Description	Total Company
01/01/1996	Prior Accumulated Value of Unfunded Accruals	\$5,259,302
01/01/1996	Value of Current Year Underfunding	<u>2,605,365</u>
01/01/1996	Accumulated Value of Unfunded Accruals	7,864,667
1996	Expected Long-Term Rate of Return	6.50%
	Interest to End of Year at Expected Rate	<u>511,203</u>
12/31/1996	Accumulated Value of Unfunded Accruals	<u><u>\$8,375,870</u></u>

**PENNSYLVANIA BLUE SHIELD
STATEMENT OF ACCUMULATED VALUES OF UNFUNDED ACCRUALS
FOR PLAN YEARS 1994 THROUGH 1997
REPORT NUMBER A-07-05-00185**

**APPENDIX B
Page 2 of 2**

Date	Description	Total Company
01/01/1997	Prior Accumulated Value of Unfunded Accruals	\$8,375,870
01/01/1997	Value of Current Year Underfunding	2,352,882
01/01/1997	Accumulated Value of Unfunded Accruals	10,728,752
1997	Expected Long-Term Rate of Return	6.50%
	Interest to End of Year at Expected Rate	697,369
12/31/1997	Accumulated Value of Unfunded Accruals	\$11,426,121

FOOTNOTES

1/ Because accrual accounting was not used for prior accounting periods, the accumulated value of prior unfunded accruals is zero.

2/ See Appendix C

3/ Because there were no assets at the beginning of 1995, there was no assumption made for the expected long-term rate of return for SFAS 106 purposes. Therefore, the expected long-term rate was set equal to the SFAS 106 discount rate.

4/ Accumulated value of unfunded accruals is adjusted for interest at the expected long-term rate of return to the end of the plan year. Unfunded accruals, which are unallowable in future periods in accordance with FAR 31.205-6(o)(3), are adjusted for interest to eliminate the unallowable increased cost due to delayed funding as required by FAR 31.205-6(o)(4).

5/ The prior accumulated value of unfunded accruals as of the first day of the current year is the accumulated value of unfunded accruals as of the last day of the prior year.

6/ Source: SFAS 106 Valuation reports

**PENNSYLVANIA BLUE SHIELD
STATEMENT OF PRB COST FUNDING
FOR PLAN YEARS 1994 THROUGH 1997
REPORT NUMBER A-07-05-00185**

Date	Description	Total Company
12/31/1994	Service Cost	<u>1/</u> \$2,483,578
12/31/1994	Interest Cost	<u>2/</u> 2,268,738
	Net Return on Adjusted Assets Value	
1994	Expected Return on Plan Assets	<u>3/</u> 0
1994	Expected Return on Prior Unfunded Accruals	<u>4/</u> 0
1994	Expected Return on Prepayment Credits	<u>5/</u> 0
	Amortization of Unrecognized Balances	
1994	Amortization of Initial Transition Obligation	<u>6/</u> 1,577,039
1994	Amortization of Past Service Cost	<u>7/</u> 0
1994	Amortization of (Gains) or Losses	<u>8/</u> 0
12/31/1994	Accrued Current Net Postretirement Benefit Cost	<u>9/</u> 6,329,355
1994	Expected Long-Term Rate of Return	<u>10/</u> 6.50%
	Interest Adjustment to the Beginning of the Year	(386,299)
01/01/1994	Accrued Current Net Postretirement Benefit Cost	<u>11/</u> 5,943,056
01/01/1994	Prepayment Credit Applied	<u>12/</u> 0
01/01/1994	Current Period Funding Requirement	<u>13/</u> 5,943,056
01/01/1994	Present Value of Current Year Direct Benefit Payments	<u>14/</u> (35,343)
01/01/1994	Present Value of Current Year Trust Fund Contributions	<u>15/</u> (3,024,382)
01/01/1994	Value of Current Year Underfunding (Prepayment)	<u>16/</u> \$2,883,331

Date	Description	Total Company
12/31/1995	Service Cost	\$1,810,335
12/31/1995	Interest Cost	2,216,286
	Net Return on Adjusted Assets Value	
1995	Expected Return on Plan Assets	(194,005)
1995	Expected Return on Prior Unfunded Accruals	(199,599)
1995	Expected Return on Prepayment Credits	0
	Amortization of Unrecognized Balances	
1995	Amortization of Initial Transition Obligation	1,577,039
1995	Amortization of Past Service Cost	<u>17/</u> 0
1995	Amortization of (Gains) or Losses	<u>18/</u> (379,098)
12/31/1995	Accrued Current Net Postretirement Benefit Cost	4,830,958
1995	Expected Long-Term Rate of Return	<u>19/</u> 6.50%
	Interest Adjustment to the Beginning of the Year	(294,847)
01/01/1995	Accrued Current Net Postretirement Benefit Cost	4,536,111
01/01/1995	Prepayment Credit Applied	0
01/01/1995	Current Period Funding Requirement	4,536,111
01/01/1995	Present Value of Current Year Direct Benefit Payments	(34,657)
01/01/1995	Present Value of Current Year Trust Fund Contributions	(2,633,890)
01/01/1995	Value of Current Year Underfunding (Prepayment)	\$1,867,564

**PENNSYLVANIA BLUE SHIELD
STATEMENT OF PRB COST FUNDING
FOR PLAN YEARS 1994 THROUGH 1997
REPORT NUMBER A-07-05-00185**

Date	Description	Total Company
12/31/1996	Service Cost	\$2,454,394
12/31/1996	Interest Cost	2,478,593
	Net Return on Adjusted Assets Value	
1996	Expected Return on Plan Assets	(334,882)
1996	Expected Return on Prior Unfunded Accruals	(341,855)
1996	Expected Return on Prepayment Credits	0
	Amortization of Unrecognized Balances	
1996	Amortization of Initial Transition Obligation	<u>20/</u> 1,577,039
1996	Amortization of Past Service Cost	<u>21/</u> 2,225
1996	Amortization of (Gains) or Losses	(141,141)
12/31/1996	Accrued Current Net Postretirement Benefit Cost	<u>5,694,373</u>
1996	Expected Long-Term Rate of Return	6.50%
	Interest Adjustment to the Beginning of the Year	(347,544)
01/01/1996	Accrued Current Net Postretirement Benefit Cost	5,346,829
01/01/1996	Prepayment Credit Applied	0
01/01/1996	Current Period Funding Requirement	5,346,829
01/01/1996	Present Value of Current Year Direct Benefit Payments	(33,123)
01/01/1996	Present Value of Current Year Trust Fund Contributions	(2,708,341)
01/01/1996	Value of Current Year Underfunding (Prepayment)	<u><u>\$2,605,365</u></u>

Date	Description	Total Company
12/31/1997	Service Cost	\$2,593,716
12/31/1997	Interest Cost	3,068,948
	Net Return on Adjusted Assets Value	
1997	Expected Return on Plan Assets	(491,593)
1997	Expected Return on Prior Unfunded Accruals	(544,432)
1997	Expected Return on Prepayment Credits	0
	Amortization of Unrecognized Balances	
1997	Amortization of Initial Transition Obligation	1,577,039
1997	Amortization of Past Service Cost	<u>22/, 23/</u> 134,355
1997	Amortization of (Gains) or Losses	(160,373)
12/31/1997	Accrued Current Net Postretirement Benefit Cost	<u>6,177,660</u>
1997	Expected Long-Term Rate of Return	6.50%
	Interest Adjustment to the Beginning of the Year	(377,040)
01/01/1997	Accrued Current Net Postretirement Benefit Cost	5,800,620
01/01/1997	Prepayment Credit Applied	0
01/01/1997	Current Period Funding Requirement	5,800,620
01/01/1997	Present Value of Current Year Direct Benefit Payments	(31,051)
01/01/1997	Present Value of Current Year Trust Fund Contributions	(3,416,687)
01/01/1997	Value of Current Year Underfunding (Prepayment)	<u><u>\$2,352,882</u></u>

**PENNSYLVANIA BLUE SHIELD
STATEMENT OF PRB COST FUNDING
FOR PLAN YEARS 1994 THROUGH 1997
REPORT NUMBER A-07-05-00185**

FOOTNOTES

1/ Source: SFAS 106 valuation reports. SFAS 106 describes the service cost component of net PRB cost as "the portion of expected PRB obligation attributed to employee service during that period."

2/ Source: SFAS 106 valuation reports. SFAS 106 measures the interest cost component of net PRB cost as the accumulated PRB obligation, adjusted for expected benefit payments, multiplied by the discount rate "to recognize the passage of time."

3/ Source: SFAS 106 valuation reports. SFAS 106, as modified by SFAS 132, measures the expected return on plan assets component of net PRB cost by applying the expected long-range rate return to the fair value of plan assets at the beginning of the period, adjusted for expected benefit payments and contributions.

4/ Interest due to delayed funding is unallowable under FAR 31.205-6(o)(4). The expected return on plan assets is increased by interest at the assumed expected long-term rate of return on the accumulated value of unfunded accruals to eliminate the effect of the underfunding

5/ The expected return on plan assets is decreased by interest at the assumed expected long-term rate of return on the accumulated value of prepayment credits to adjust for the effect of the premature funding. This accounting recognition treats prepaid and unfunded PRB costs on a consistent basis.

6/ This is the amortization of the transition obligation component of net PRB cost. The transition obligation is the unfunded accumulated PRB obligation existing at the date SFAS 106 accrual accounting methodology is first adopted for Government contract costing purposes. The transition obligation is amortized in accordance the delayed recognition provisions of paragraphs 112 and 113 of SFAS 106 as required by FAR 31.205-6(o)(5) and consistent with CAS 416-50(a)(1)(v)(C). Paragraph 112 of SFAS 106 permits the transition obligation to be amortized over 20 years instead of the average future years of service, if the average future service is less than 20 years. We use the longer amortization period to minimize the occurrences of unallowable unfunded PRB costs.

7/ This is the initial period for which accrual accounting is adopted for Government contract costing purposes and the transition obligation is based on the current plan provisions. Therefore, there is no past service cost recognized for the current period, and the amortization of past service cost component of net PRB obligation cost is zero.

8/ This is the initial period for which accrual accounting is adopted for government contract costing purposes. The transition obligation is based on the current assets and plan provisions and there is no gain and loss from prior periods. The amortization of gains and losses component of net postretirement benefit obligation cost is zero.

9/ The accrued current net postretirement benefit cost is the sum of the various components of net postretirement benefit cost, including the expected returns on unfunded accruals and prepayment credits. This is the amount of cost assigned to the period and measured as of the last day of the plan year.

10/ Because there were no plan assets at the beginning of 1994, there was no assumption made for the expected long-term rate of return for SFAS 106 purposes. Therefore, the expected long-term rate is set equal to 8.00 percent, which is the SFAS 106 discount rate for 1994.

**PENNSYLVANIA BLUE SHIELD
STATEMENT OF PRB COST FUNDING
FOR PLAN YEARS 1994 THROUGH 1997
REPORT NUMBER A-07-05-00185**

FOOTNOTES (Continued)

11/ The accrued current net PRB cost as of the last day of the plan year is discounted to the first day of the plan year at the expected long-term rate of return.

12/ Since the accumulated value of prepayments credits is available as of the first day of the plan year to the cost assigned to the period, any prepayment credits are applied immediately towards the funding the accrued current net PRB cost. FAR 31.205-6(o)(4) states that any increased cost due to delayed funded is unallowable.

13/ Because FAR 31.205-6(o)(3) requires the cost assigned to the period be funded within the tax-filing deadline for the period to be allowable, any accrued current net postretirement benefit cost remaining after application of the accumulated value of prepayments credits must be funded by deposits to the plan assets or direct payments to plan beneficiaries.

14/ Benefit payments made directly to or on behalf of plan beneficiaries are discounted to the first day of the plan year at the expected long-term rate of return assuming the benefit payments are made evenly throughout the year. Direct benefit payments that reduce the recognized accumulated postretirement benefit obligation are deemed liquidated on a cash accounting basis in accordance with FAR 31.205-6(o)(2)(i).

15/ Contributions to the plan assets are discounted from the date of deposit to the first day of the plan year at the

16/ The portion of the accrued current net postretirement benefit cost assigned to the period that is not funded within the tax-filing deadline as required by FAR 31.205-6(o)(3) is unallowable. Unfunded PRB costs are accumulated with interest and are not allowable in any subsequent periods. Underfunding is shown as a positive value. A prepayment credit is created when the funding by prepayment credits, direct benefit payments, and contributions exceeds the cost assigned to the current period. Prepayment credit may accumulate and be carried forward, with interest, to fund future PRB costs in future periods. Prepayments are shown with a negative sign.

17/ For 1995, there is no past service cost recognized for SFAS 106 purposes.

18/ As required by FAR 31.205-6(o)(2)(iii), the SFAS 106 methodology for determining the gains or losses is followed. The value of gains and losses are determined based on the unrecognized transition obligation, unrecognized past service cost, and plan assets, adjusted for the accumulated values of unfunded accruals and prepayments, determined for government contract costing purposes.

19/ Source: SFAS 106 Valuation reports.

20/ SFAS 106 requires that when years of future service are eliminated by an early retirement window, a proportionate share of the unrecognized transition obligation be immediately recognized and offset with a corresponding gain or loss. However, for government contract costing purposes, FAR 31.205-6(j)(o)(4) does not provide for any change in the amortization of the transition obligation. Similarly, CAS 416-50(a)(1)(v)(C) requires the cost of retiree insurance programs to be spread over the future years of service, without exception. Therefore, for government contract costing purposes, neither the unrecognized transition obligation nor its remaining amortization period is adjusted.

21/ A past service cost was recognized for only one of the sponsoring companies, DMC. The amortization of past service cost component was developed on the data for this company only.

PENNSYLVANIA BLUE SHIELD
STATEMENT OF PRB COST FUNDING
FOR PLAN YEARS 1994 THROUGH 1997
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FOOTNOTES (Continued)

22/ The 1997 past service cost recognized for for SFAS 106 purposes was attributable to two of the sponsoring companies, Mida and OHS. The amortization of 1997 SFAS 106 past service cost component was developed on the data for these two companies only.

23/ The increase in the accumulated PRB obligation due to the 03/01/1997 early retirement window available to PBS participants was recognized as past service cost. The amortization of the early retirement window was developed on the data for PBS participants only.



May 13, 2005

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

RE: A-07-05-00185 "Review of Postretirement Benefit Costs Claimed by Pennsylvania Blue Shield"

Dear Mr. Aasmundstad:

Attached is our response to your letter dated March 8, 2005, requesting comments on your draft report A-07-05-00185 entitled, "Review of Postretirement Benefit Costs Claimed by Pennsylvania Blue Shield," for the period covering fiscal years 1994 through 1997.

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

Sincerely,

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

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

DLF/per

Enclosures:

cc: Elizabeth Farbacher
Patrick Kiley
Gayeta Porter

Corporate Offices:

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www.highmark.com

A-07-05-00185

Review of Postretirement Benefit Costs Claimed by Pennsylvania Blue Shield

Fiscal Years 1994 through 1997

Highmark's Comments to OIG Draft Report A07-05-00185

A-07-05-00185

HIGHMARK'S COMMENTS ON REPORT NUMBER A-07-05-00185

The draft audit report states that PBS did not include in its FACPs all of the PRB costs that were allowable pursuant to Federal regulations and did not claim \$1,876,094 of PRB costs that were allowable for Medicare reimbursement. PBS reviewed the allowable PRB cost table listed on page 3 of the draft audit report, as well as the calculation steps listed in the tables and corresponding notes on pages 1-4 of Appendix A. The cost allocation method used by PBS differed from the one used by the auditors in preparing this report. In addition, several of the data input numbers used by the auditors are not consistent with PBS data.

PBS prepared separate PRB valuations for the parent company and each of its subsidiaries, and identified separate contributions to the trust fund needed for each subsidiary. As such, subsidiary data was excluded in performing the PBS (parent company) cost allocation process. The PBS PRB funded amount (exclusive of subsidiary contributions to the trust fund) was allocated to PBS cost centers using PBS (parent company) cost center FTEs (full time equivalents) as the basis of allocation. Once allocated to cost centers, the PRB funded amount was allocated to product (line of business) using the cost allocation methodology of each cost center. Enclosed are Schedules A through E that provide a step-by-step approach to demonstrate this process. These schedules show:

- the portion of the trust fund contribution attributable to the subsidiaries and therefore excluded from the PBS cost allocation process,
- the details of the application of the PBS PRB cost allocation methodology and the resulting cost allocation to Medicare Part B for calendar year 1994,
- a summary of results of applying this allocation methodology for calendar years 1994, 1995, 1996 and 1997 and a comparison to costs included in each of the FACPs.

While the results in the schedules show minor differences to the amount of PRB cost included in the FACPs, we believe those differences are immaterial and are the result of using summary calendar year data for estimating the ratio split used to assign PRB cost to Medicare versus other segment cost centers, as well as using a slightly different PRB funding number for key employee premiums. Please note that the PRB expense included in each FYs 1994-1997 FACP (shown on schedule E) differs somewhat from the previous information provided to the auditors due to our attempt to include an estimate of PRB expense contained in the occupancy charge and to include a memorandum adjustment made to the FY 1997 FACP for additional PRB expense related to the early retirement option. Overall, we believe the PRB costs included in the FACPs accurately include reasonable, allowable, and allocable PRB costs incurred during these periods and allocated to the Medicare Part B product, as demonstrated in the enclosed schedules.

In the PBS PRB Costs Claimed schedule on page 3 of the draft audit report, we noted that the amount in the "Per PBS" column for fiscal year 1994 is understated. For fiscal year 1994, Highmark provided the auditors with PBS PRB cost claimed for the period January through September 1994, since the accrual method of accounting for PRB was implemented in January 1, 1994. During the 1993 calendar year, PBS accounted for PRB cost on a pay as you go basis. It

A-07-05-00185

appears the auditors assumed that $\frac{1}{4}$ of the PRB cost provided for the January-September 1994 period was applicable to the October-December period of 1993 and excluded it in calculating a difference.

Another finding stated in the draft audit report notes that PBS did not receive CMS approval for its change in accounting methodology for PRB costs. Attached is a copy of a cover letter from PBS dated August 18, 1994 that was sent with a package of PRB information and data notifying CMS of PBS' change in accounting method for PRB. The package of information was sent to Patricia Britt Volk, Chief, Financial Management and Program Safeguards Branch within the Division of Medicare of CMS. Also included is another cover letter dated October 25, 1995, responding to a follow-up request by CMS for additional PRB data.

In the "Other Matters" section of the draft audit report, OIG identifies \$11,426,121 in unfunded PRB costs and interest as of January 1, 1997, that PBS did not calculate in accordance with the "accrual accounting guidelines in FAR 31.205-6(o)(2)(iii)" (i.e., FAS 106). OIG recommends that PBS should be precluded from including these unfunded PRB costs in any future claims to the Government.

Highmark disagrees with OIG's recommendation on the ground that by requiring contractors to use FAS 106 in calculating PRB costs, the FAR irreconcilably conflicts with the IRS limitations on VEBA funding. This FAR provision, therefore, is inconsistent with the fundamental principle underlying cost-reimbursement contracts generally and Medicare contracts specifically – full reimbursement of a contractor's reasonable, allowable and allocable costs.

Highmark and CMS currently are engaged in discussions concerning this issue, and Highmark will provide a written submission directly to CMS, setting forth its position and its recommendations to mitigate or resolve the conflict.

**Pennsylvania Blue Shield
Medicare Part B
OIG Post Retirement Benefit (PRB) Audit
PBS PRB Cost Allocation Methodology
Overview Summary**

Overview	Overview Summary
Schedule A	Actuarial Valuation Report for 1994 - VEBA Contribution
Schedule B	1994 - 1997 VEBA Funding This schedule lists the VEBA funding in total for each calendar year as well as the portion of the VEBA funding associated with the PBS parent company only (exclusive of subsidiaries).
Schedule C	1994 Analysis This schedule depicts the Pennsylvania Blue Shield (PBS) PRB cost allocation process using 1994 actual data. This data excluded any data related to PBS subsidiaries as PBS prepared separate PRB valuations for the parent company and each of its subsidiaries. As such, PBS identified separate contributions to the trust fund needed for each subsidiary. There are immaterial differences in the PRB cost allocated to the Medicare Part B product shown in this analysis versus the amount of PRB cost included in the FACPs. This is due to using summary calendar year data for estimating the ratio split used to assign PRB costs to the Xact Medicare Segment versus Other Segment cost centers, as well as estimating the portion of PRB cost assigned to occupancy cost centers and subsequently allocated to Medicare Part B.

**Schedule C Column
Headings / Footnotes:**

- (A) Column A represents the average 1994 Full Time Equivalent (FTE) staff in each PBS cost center, excluding subsidiaries.
- (B) Column B represents the ratio of each cost center's FTEs (Col. A) to total PBS FTEs.
- (C) Column C represents the allocation of PBS PRB funded expenses (\$2,728,485.24) to each PBS cost center, based on that cost center's FTE ratio (Col. B)
- (D) Column D represents the actual journalized system allocation results of PRB funded expense allocated to PBS cost centers, as extracted from the PBS Walker General Ledger system. Account 764201 includes the lesser of the CAS PRB expense or the VEBA funding.
- (E) Column E represents the PRB expense allocated to Medicare Part B as extracted from the PBS Walker General Ledger system.
- (F) Column F identifies each cost center's Medicare Part B allocation ratio.
- * Denotes Xact Medicare Part B Segment cost centers
- ** Occupancy Cost Center comment:
PRB expense was allocated to occupancy cost centers. All costs (salaries, PRB expense, facilities expense, etc.) in the occupancy cost centers were aggregated and allocated to PBS cost centers based on cost center square footage, and at this point recorded in the cost ledger as occupancy cost. Occupancy cost in each of the cost centers was subsequently allocated to products (Medicare Part B) based on the cost allocation methodology of each cost center. As a result, we cannot directly query the PBS Walker cost system to identify the PRB expense allocated to occupancy cost centers and subsequently allocated to the Medicare Part B product. We approximated the occupancy PRB expense allocated to Medicare Part B by using the aggregate of the monthly FTE ratios for the Xact segment versus the other segment and the Medicare Part B allocation ratio for each of these segments.

Schedule D **1994 - 1997 Summary of Allocation Ratios**
For each of the years 1994, 1995, 1996 and 1997, we identified the FTEs in summary for the Xact Medicare Segment and the Other Segment and developed an aggregate of the monthly FTE to total ratio for each segment. In addition, we identified the summary allocation ratio to the Medicare Part B product for each of these two segments.

Schedule E **1994 - 1997 PRB Expense Allocated to Medicare Part B**
For each of the years 1994, 1995, 1996 and 1997, we applied the Xact Medicare Segment and the Other Segment FTE and Medicare Part B allocation ratios to the PRB funded amount and compared the results to the PRB expense included in the FACPs.

**Pennsylvania Blue Shield
Medicare Part B
OIG Post Retirement Benefit (PRB) Audit
PBS PRB Cost Allocation Methodology
Actuarial Valuation Report for 1994 - VEBA Contribution**

B: Development of 1994 VEBA Contribution

The 1994 VEBA funding contribution is as follows:

	PBS	KHPC	KHP Services	CERT	KVI	Health Guard	HC & BMA
1. Actuarial Present Value of Expected Benefits							
a. Actives and Disabled	\$ 17,794,250	\$ 330,313	\$ 1,072,778	\$ 162,037	\$ 29,694	\$ 134,953	\$ 762,184
b. Post-January 1, 1994 Retirees	0	0	0	0	0	0	0
c. Total (a. + b.)	\$ 17,794,250	\$ 330,313	\$ 1,072,778	\$ 162,037	\$ 29,694	\$ 134,953	\$ 762,184
2. Actuarial Value of Assets	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
3. Actuarial Present Value of Future Costs (1.c. - 2.)	\$ 17,794,250	\$ 330,313	\$ 1,072,778	\$ 162,037	\$ 29,694	\$ 134,953	\$ 762,184
4. Average Actuarial Present Value of Future Service	8.6221	8.4434	8.6323	7.5185	7.5000	8.3250	8.4803
5. Normal Cost at Beginning of Year (3. ÷ 4.)	\$ 2,063,792	\$ 39,121	\$ 124,275	\$ 21,552	\$ 3,959	\$ 16,211	\$ 89,877
6. Expected Benefits for Pre-January 1, 1994 Retirees	\$ 535,603	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 117,627
7. Interest to End of Year							
a. Interest Rate	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%
b. Interest [(5. + 6.) x 7.a.]	\$ 168,961	\$ 2,543	\$ 8,078	\$ 1,401	\$ 257	\$ 1,054	\$ 13,488
8. VEBA Contribution (5. + 6. + 7.)	\$ 2,768,356	\$ 41,664	\$ 132,353	\$ 22,953	\$ 4,216	\$ 17,265	\$ 220,992
9. Quarterly Contribution X 4	\$ 678,170	\$ 10,206	\$ 32,423	\$ 5,623	\$ 1,033	\$ 4,229	\$ 54,137

* Quarterly Contribution X 4 2,712,680 40,824 129,692 22,492 4,132 16,916 216,548
 Total 3,143,294 ✓

* Plus Medical Premium for Retired Officers.

**Pennsylvania Blue Shield
 Medicare Part B
 OIG Post Retirement Benefit (PRB) Audit
 PBS PRB Cost Allocation Methodology
 1994 - 1997 VEBA Funding**

	1994		1995		1996		1997	
	Total	PBS	Total	PBS	Total	PBS	Total	PBS
Actual Per Valuations:								
VEBA Funding	\$ 3,143,284	\$ 2,712,680	\$ 2,748,348	\$ 2,244,656	\$ 2,827,144	\$ 2,234,320	\$ 3,564,784	\$ 2,687,968
Key Employee Premiums (Direct Benefit Payment)	36,492	17,132	35,783	17,623	34,200	16,624	32,061	20,294
Prior Adjustments	-	-	-	-	-	-	-	-
Total Funding	\$ 3,179,776	\$ 2,729,812	\$ 2,784,131	\$ 2,262,279	\$ 2,861,344	\$ 2,250,944	\$ 3,596,845	\$ 2,708,262
Service Costs / FAS 106 Expense	\$ 5,130,265	\$ 4,342,372	\$ 3,941,452	\$ 3,126,229	\$ 4,739,879	\$ 3,610,882	\$ 5,325,833	\$ 3,817,631
Current Year Underfunding	<u>\$ 1,950,489</u>		<u>\$ 1,157,321</u>		<u>\$ 1,878,535</u>		<u>\$ 1,728,988</u>	

Note: CAS was greater than or equal to VEBA funding

Schedule C

Pennsylvania Blue Shield							
Medicare Part B							
OIG Post Retirement Benefit (PRB) Audit							
PBS PRB Cost Allocation Methodology							
1994 Analysis				(C = B x PRB \$)			(F = E / D)
		(A)	(B)	(C)	(D)	(E)	(F)
		Cost	FTE's	FTE Pct x	PRB Funding	Medicare	Medicare
		Center	Percent	PRB Funding	per Walker	Part B	Part B
CC	CC Description	FTE'S	to Total	(\$2,728,485.24)	System	Allocated	Allocation
						PRB \$	Ratio
110001	Office of the President	2.99	0.05%	1,411.65	1,411.43	356.46	25.26%
120075	PA Institute	2.00	0.03%	943.72	943.52	-	0.00%
120087	Public Affairs Director	0.31	0.01%	145.49	141.98	-	0.00%
120092	Media Relations Mgr. I	1.00	0.02%	471.86	471.76	90.99	19.29%
120098	VP Corporate Affairs	2.92	0.05%	1,376.26	1,377.83	134.77	9.78%
120111	Creative Services	7.00	0.12%	3,303.02	3,302.36	530.18	16.05%
120155	VP Executive Communications	3.00	0.05%	1,415.58	1,415.30	71.47	5.05%
120156	Community Affairs	3.00	0.05%	1,415.58	1,415.30	-	0.00%
120157	Corporate Communications	6.18	0.11%	2,913.74	2,921.64	322.03	11.02%
120158	VP Government & Regulatory Affairs	3.88	0.07%	1,832.39	1,832.93	-	0.00%
120340	Issues Analysis	1.00	0.02%	471.86	471.76	-	0.00%
120416	Sr. VP Corporate Affairs	1.99	0.03%	939.79	938.29	104.03	11.09%
120660	Media Relations Manager II	1.00	0.02%	471.86	471.76	41.22	8.74%
130002	Sr. VP Professional Affairs	2.00	0.03%	943.72	943.52	174.20	18.46%
130006	VP Medical Affairs	1.00	0.02%	471.86	471.76	106.64	22.60%
130007	Director Medical Programs	2.76	0.05%	1,301.55	1,289.95	642.04	49.77%
130009	Procedure Review	10.12	0.17%	4,773.65	4,779.76	2,861.94	59.88%
130010	Medical Policy	14.59	0.25%	6,885.23	6,890.46	2,948.32	42.79%
130019	Provider Data Services	21.93	0.38%	10,345.54	10,328.84	6,289.92	60.90%
130028	Director Benefits Management	1.87	0.03%	880.81	870.64	-	0.00%
130034	Benefits Utilization Management	27.31	0.47%	12,885.72	12,899.70	-	0.00%
130037	Provider Information Mgmt.	5.00	0.09%	2,359.30	2,358.83	101.89	4.32%
130118	Director, Provider Information Mgmt	2.00	0.03%	943.72	943.52	223.41	23.68%
130378	Benefits Cost Management	8.98	0.16%	4,238.88	4,238.17	-	0.00%
130492	SR Director, Provider Programs	3.78	0.07%	1,781.27	1,770.42	142.48	8.05%
130493	Health Service Research	1.93	0.03%	908.33	909.26	-	0.00%
130499	Managed Care Programs	9.44	0.16%	4,455.15	4,455.01	92.15	2.07%
130502	Health Systems Analysis	4.00	0.07%	1,887.44	1,887.10	7.86	0.42%
130668	Mgr. - Health Systems Analysis	1.99	0.03%	939.79	939.71	40.40	4.30%
130909	Professional Affairs Director	1.45	0.03%	684.20	691.13	-	0.00%
130948	Regional Point of Service Activities	1.48	0.03%	695.99	720.39	-	0.00%
130984	IPSO	0.15	0.00%	70.78	70.02	-	0.00%
140003	Corporate Secretary	1.91	0.03%	900.47	939.77	237.36	25.26%
140321	Legal Services	10.76	0.19%	5,076.43	5,077.31	1,241.16	24.45%
140411	Sr. VP Inter-Plan Relations	1.99	0.03%	939.79	939.77	231.51	24.63%
150004	Treasury Office	3.53	0.06%	1,663.31	1,670.41	306.95	18.38%
150039	Financial Analysis	2.00	0.03%	943.72	943.52	153.02	16.22%
150040	Director Corp. Audit	2.00	0.03%	943.72	943.52	266.36	28.23%
150097	Financial & Operational Audit	12.34	0.21%	5,823.54	5,831.59	1,560.33	26.76%
150115	Corp. VP & Treasurer	1.99	0.03%	939.79	939.76	282.54	30.07%
150117	Financial Reporting	10.13	0.18%	4,777.59	4,788.13	1,034.19	21.60%
150122	Financial Accounting Services	29.23	0.51%	13,794.05	13,794.50	6,663.72	48.31%
150128	Audit Services	10.53	0.18%	4,966.33	4,954.54	54.42	1.10%
150129	Cost Allocation	18.68	0.32%	8,811.99	8,839.75	2,639.81	29.86%
150130	Payroll	8.69	0.15%	4,101.25	4,107.11	1,469.02	35.77%
150131	Asst. Controller Financial Analysis & Taxes	1.48	0.03%	699.93	694.77	252.11	36.29%
150132	Corp. Fin. Plng. and Control	6.86	0.12%	3,236.18	3,236.30	1,212.93	37.48%
150133	Systems Audit & Support	10.18	0.18%	4,801.18	4,795.02	1,429.97	29.82%
150134	Sr. VP Finance	2.00	0.03%	943.72	943.52	230.17	24.39%
150319	Project Director	10.49	0.18%	4,950.60	4,931.58	-	0.00%
150348	Insurance and Risk Management	2.83	0.05%	1,336.94	1,338.56	413.70	30.91%
150406	Dir. Cost Accounting & Profiles	3.00	0.05%	1,415.58	1,415.30	315.95	22.32%
150407	Mgr. Corp. Fin. Plng. and Control	2.00	0.03%	943.72	943.52	196.51	20.83%
150408	Private Business Profiles	6.92	0.12%	3,263.70	3,263.98	0.88	0.03%
150409	Cost Analysis and Support	6.28	0.11%	2,960.92	2,954.96	1,000.39	33.85%
150414	Corporate Taxes	5.34	0.09%	2,520.52	2,516.69	507.20	20.15%
150985	Corporate Investment	-	0.00%	-	50.49	-	0.00%
160054	Corporate Training & Development	7.92	0.14%	3,735.56	5,170.96	1,767.34	34.18%
160063	Job Linked Skills Program	3.36	0.06%	1,584.66	88.16	-	0.00%
160076	Vice President Personnel	3.00	0.05%	1,415.58	1,415.30	604.16	42.69%
160077	Manager Employee Relations	9.30	0.16%	4,388.30	4,385.14	1,634.19	37.27%
160079	Occupational Health	5.13	0.09%	2,418.28	2,418.15	676.75	27.99%
160080	Manager Employment	10.03	0.17%	4,734.33	4,730.76	1,682.94	35.57%
160082	Salary Admin.	3.99	0.07%	1,883.51	1,883.26	673.56	35.77%

Schedule C

Pennsylvania Blue Shield							
Medicare Part B							
OIG Post Retirement Benefit (PRB) Audit							
PBS PRB Cost Allocation Methodology							
1994 Analysis							
				(C = B x PRB \$)			(F = E / D)
		(A)	(B)	(C)	(D)	(E)	(F)
		Cost	FTE's	FTE Pct x	PRB Funding	Medicare	Medicare
		Center	Percent	PRB Funding	per Walker	Part B	Part B
CC	CC Description	FTE'S	to Total	(\$2,728,485.24)	System	Allocated	Allocation
						PRB \$	Ratio
160083	Benefits Admin.	6.37	0.11%	3,004.18	3,014.49	1,075.52	35.68%
160084	Director Compensation	2.00	0.03%	943.72	943.52	331.16	35.10%
160102	Information Research Services	0.24	0.00%	114.03	112.69	26.20	23.25%
160103	Field Operations - East Park	2.82	0.05%	1,329.07	1,335.00	1,258.34	94.26%
160114	Personal Skills Training & Education	7.73	0.13%	3,645.12	3,649.64	1,262.54	34.59%
160135	Director Personnel	2.07	0.04%	975.18	974.55	547.81	56.21%
160148	Human Resources Info. Systems	9.82	0.17%	4,632.10	4,634.85	1,588.94	34.28%
160276	Sr. VP Administration	2.28	0.04%	1,077.41	1,071.86	412.97	38.53%
160374	HR Mgt. Dev. & Research	1.00	0.02%	471.86	471.76	170.97	36.24%
160472	Director Training & Development	2.00	0.03%	943.72	943.52	310.56	32.92%
160491	Field Operations - WPT	1.77	0.03%	833.62	821.89	727.96	88.57%
160705	Learning Center	6.92	0.12%	3,263.70	3,257.18	1,038.46	31.88%
160706	Personal Skills Education	1.33	0.02%	629.15	640.78	221.42	34.55%
160707	Continuing Education Dir	0.78	0.01%	365.69	368.54	121.59	32.99%
160981	Mgr Corp Training & Development	0.22	0.00%	102.24	101.00	32.98	32.65%
170051	Sr. VP Operations	2.58	0.04%	1,218.97	1,208.85	203.11	16.80%
170052	Purchasing & Contracts	9.89	0.17%	4,667.49	4,654.13	1,630.57	35.03%
170056	Employee Services	4.99	0.09%	2,355.37	2,354.95	852.86	36.22%
170057	Corporate Print Shop	16.88	0.29%	7,962.64	7,951.96	3,097.46	38.95%
170060	Inventory Management	13.61	0.24%	6,421.23	6,419.02	2,291.18	35.69%
170061	Transportation	8.00	0.14%	3,774.88	3,774.15	1,366.70	36.21%
170065	Manual Outgoing Mail	17.18	0.30%	8,108.13	8,103.01	2,635.29	32.52%
170081	Internal Mail	15.16	0.26%	7,152.62	7,122.98	2,446.63	34.35%
170101	CAR - Unit 1 Center St.	22.28	0.39%	10,514.62	10,505.32	3,861.06	36.75%
170123	CAR - Satellite	20.37	0.35%	9,610.22	9,596.74	3,029.62	31.57%
170230	Corporate Data Entry	15.82	0.27%	7,463.26	7,462.86	1,990.98	26.68%
170244	Dental Postpayment Review	1.00	0.02%	471.86	471.76	119.13	25.25%
170245	CAR - Unit 2 Center St.	13.88	0.24%	6,547.06	6,556.72	2,220.59	33.87%
170278	Manager Admin Services	4.12	0.07%	1,942.49	1,940.58	664.20	34.23%
170306	VP Administrative Services	2.68	0.05%	1,262.23	1,266.32	438.19	34.60%
170312	Corporate Copier Support	2.80	0.05%	1,321.21	1,289.86	466.27	36.15%
170325	Dental Director	4.00	0.07%	1,887.44	1,887.10	693.67	36.76%
170369	Autos - Dental	2.00	0.03%	943.72	943.52	238.29	25.26%
170370	Corporate Real Estate & Properties Director	1.00	0.02%	471.86	471.76	185.35	39.29%
170380	V.P. Corporate Planning & Performance	2.00	0.03%	943.72	943.52	319.68	33.88%
170400	Mgr, Office Systems Support	3.00	0.05%	1,415.58	1,415.30	460.74	32.55%
170486	Mgr, Dental Claims	2.00	0.03%	943.72	943.52	344.81	36.55%
170621	Bldg. Occupancy - WMT	1.00	0.02%	471.86	471.76	163.09	34.57%
170982	Dental Benefits	-	0.00%	-	140.04	140.04	100.00%
180069	Com/Microfilm Processing	2.88	0.05%	1,360.53	1,680.64	678.73	40.39%
180085	Information Service Management	6.95	0.12%	3,279.43	4,180.16	1,302.18	31.15%
180088	Director - Information Technology	3.58	0.06%	1,690.83	300.69	89.70	29.83%
180090	B/C Operational Services	11.62	0.20%	5,481.44	5,541.94	682.10	12.31%
180091	Data Center	21.33	0.37%	10,066.35	10,048.00	4,128.26	41.09%
180093	Input/Output Services	29.68	0.51%	14,002.46	13,998.80	6,216.61	44.41%
180094	Financial Production Services	2.76	0.05%	1,301.55	1,263.44	-	0.00%
180095	Enrollment Systems Services	17.53	0.30%	8,273.28	8,276.37	0.77	0.01%
180106	Medicare System Support & Development	27.66	0.48%	13,050.87	13,235.44	13,231.83	99.97%
180107	Regional Account Services	11.03	0.19%	5,202.26	5,210.88	2.39	0.05%
180108	IMAGE Systems	7.30	0.13%	3,444.58	3,447.76	-	0.00%
180113	Quality Assurance	10.27	0.18%	4,844.43	4,844.48	1,249.67	25.80%
180136	Receivable Enhancement Svcs.	5.80	0.10%	2,736.79	2,736.36	-	0.00%
180138	Corporate Financial Systems Support	11.31	0.20%	5,335.95	5,342.30	1,229.87	23.02%
180139	Group Systems Services	16.83	0.29%	7,942.98	7,929.84	-	0.00%
180143	Financial Systems Services	13.89	0.24%	6,554.93	6,544.50	6.72	0.10%
180147	Financial Customer Computing	1.59	0.03%	751.04	729.33	-	0.00%
180175	DBC Customer Support	19.13	0.33%	9,028.26	9,015.20	6.20	0.07%
180192	Director - Private Business Info.	4.32	0.07%	2,036.86	2,045.63	0.86	0.04%
180194	Corp. VP - Information Systems	1.47	0.03%	692.06	684.67	167.41	24.45%
180226	Professional Services Support	11.76	0.20%	5,548.29	5,535.64	1,540.59	27.83%
180227	Systems Software	10.10	0.17%	4,765.79	4,762.79	1,970.60	41.37%
180228	Network Services	7.28	0.13%	3,432.78	3,458.35	479.70	13.87%
180229	Hardware Svcs.	1.11	0.02%	522.98	508.59	187.38	36.84%
180240	Automation Services	2.45	0.04%	1,156.06	1,122.06	18.53	1.65%

Pennsylvania Blue Shield							
Medicare Part B							
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PBS PRB Cost Allocation Methodology							
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				(C = B x PRB \$)			(F = E / D)
		(A)	(B)	(C)	(D)	(E)	(F)
		Cost	FTE's	FTE Pct x	PRB Funding	Medicare	Medicare
		Center	Percent	PRB Funding	per Walker	Part B	Part B
CC	CC Description	FTE'S	to Total	(\$2,728,485.24)	System	Allocated	Allocation
						PRB \$	Ratio
180248	Data Administration	11.08	0.19%	5,229.79	5,211.01	725.46	13.92%
180249	DAS Business Operations	3.26	0.06%	1,537.48	1,555.70	-	0.00%
180252	Processing Control	23.25	0.40%	10,970.75	10,941.94	4,460.00	40.76%
180258	Professional Affairs Support	10.00	0.17%	4,718.60	4,717.68	1,312.27	27.82%
180259	Communications Software Services	2.70	0.05%	1,274.02	1,235.04	417.19	33.78%
180264	Dental System Services	15.92	0.28%	7,510.44	7,506.90	0.58	0.01%
180266	Communication Software Services	14.53	0.25%	6,857.70	6,900.10	2,210.76	32.04%
180272	Automated Mailing	37.55	0.65%	17,718.36	17,731.99	10,356.21	58.40%
180277	Dir - Information Processing	2.33	0.04%	1,101.01	1,096.28	388.85	35.47%
180279	A/d Operational Services	6.00	0.10%	2,831.16	2,830.61	1,984.12	70.10%
180281	Dir - Distributed Computing	1.35	0.02%	637.01	632.05	351.84	55.67%
180282	Workstation Technologies	7.16	0.12%	3,377.73	3,389.76	1,325.38	39.10%
180284	Mgr., Data Center OPS	0.74	0.01%	349.96	339.42	119.36	35.17%
180285	IMS Data Base Services	12.31	0.21%	5,807.81	5,803.16	757.31	13.05%
180286	Security	9.39	0.16%	4,431.56	4,420.49	1,231.32	27.85%
180287	Relational Data Base Services	11.28	0.19%	5,320.23	5,330.43	1,937.45	36.35%
180288	Corporate Administrative Systems	9.28	0.16%	4,380.44	4,403.32	1,736.81	39.44%
180291	Operational Services	3.38	0.06%	1,592.53	1,506.88	0.57	0.04%
180297	Telephone and Workstation Svcs.	10.33	0.18%	4,871.96	4,873.09	1,692.69	34.74%
180298	Design Management	26.68	0.46%	12,586.87	12,607.85	0.15	0.00%
180313	PC Services	15.05	0.26%	7,101.50	7,137.85	2,773.07	38.85%
180315	Enhancement Services	15.27	0.26%	7,203.73	7,223.73	1.14	0.02%
180331	Corporate Customer Computing Services	4.10	0.07%	1,934.63	1,881.23	478.30	25.42%
180332	Information Systems Support	10.91	0.19%	5,147.21	5,134.80	1,632.41	31.79%
180334	Review Services Support	8.81	0.15%	4,156.30	4,159.76	1,993.01	47.91%
180336	Dir. Systems Resource Management	0.99	0.02%	467.93	468.00	180.96	38.67%
180337	Manager - Electronic Output Services	0.95	0.02%	448.27	449.07	244.30	54.40%
180368	Storage Management	7.99	0.14%	3,770.95	3,770.34	1,439.92	38.19%
180405	Director - Financial Info. Services	2.34	0.04%	1,104.94	1,100.05	115.84	10.53%
180417	IS Staff Development	5.26	0.09%	2,481.20	2,477.58	492.80	19.89%
180480	DAS Enabling and Support	3.27	0.06%	1,541.41	1,320.43	-	0.00%
180484	EDI Systems	9.38	0.16%	4,423.69	4,416.56	1,879.91	42.57%
180631	EMC Tech Support	3.71	0.06%	1,749.82	1,752.79	1,124.88	64.18%
180638	EDI Product Development	4.48	0.08%	2,111.58	1,817.60	-	0.00%
180639	Mgr, EDI Product Development	0.87	0.01%	408.95	353.37	-	0.00%
180663	Application Support Development	10.95	0.19%	5,166.87	5,197.54	565.12	10.87%
180670	Budget Admin	4.34	0.08%	2,048.66	2,043.54	656.57	32.13%
180713	Agent Information Services	4.58	0.08%	2,158.76	2,174.07	-	0.00%
180718	Networking	1.40	0.02%	660.60	641.18	236.09	36.82%
180913	Resource & Devel Svcs II	4.82	0.08%	2,272.79	2,354.54	-	0.00%
180919	Systems integration services	0.64	0.01%	302.78	307.70	-	0.00%
180920	Information Business Development	1.18	0.02%	554.44	566.56	-	0.00%
180921	Information Business Marketing	0.63	0.01%	294.91	300.17	-	0.00%
180926	VP Application Services	1.42	0.02%	668.47	679.32	-	0.00%
180927	Director, HSII Implementation	8.11	0.14%	3,826.00	3,953.55	-	0.00%
180928	Director, Cust Bus Appl Support	0.49	0.01%	232.00	237.68	-	0.00%
180929	CBAS-Financials & EOM	5.98	0.10%	2,823.30	2,909.99	-	0.00%
180930	CBAS-Claims, Benefits, & Auth	3.69	0.06%	1,741.95	1,743.02	-	0.00%
180931	CBAS - Enrollment	6.34	0.11%	2,992.38	3,052.94	-	0.00%
180932	CBAS - Data Access	4.42	0.08%	2,084.05	2,135.30	-	0.00%
180933	CBAS - New Business	0.73	0.01%	342.10	326.38	-	0.00%
180934	Director, Customer Systems Support	0.98	0.02%	464.00	475.37	-	0.00%
180935	CSS - Operations	8.80	0.15%	4,152.37	4,274.79	-	0.00%
180936	CSS-Systems Administration	7.82	0.14%	3,688.38	3,798.44	-	0.00%
180937	CSS-Planning & Development	4.25	0.07%	2,005.41	2,043.93	-	0.00%
180939	Director, DAS	2.53	0.04%	1,191.45	1,212.02	259.42	21.40%
180940	MINDS	1.26	0.02%	593.76	604.15	-	0.00%
180941	Director, Development Services	1.58	0.03%	747.11	769.17	117.94	15.33%
180942	Local Area Network	1.24	0.02%	585.89	596.58	201.81	33.83%
180943	Customer Support Center/Security	3.13	0.05%	1,478.50	1,504.81	669.74	44.51%
180959	Resource & Development Svcs IV	0.65	0.01%	306.71	325.93	63.39	19.45%
* 300005	Sr VP Xact Medicare Services	2.95	0.05%	1,391.99	1,379.96	1,275.10	92.40%
* 300015	Corporate VP GBU	0.80	0.01%	377.49	367.21	349.88	95.28%
* 300947	Xact Medicare Services Initiatives Director	2.51	0.04%	1,183.58	1,242.31	1,242.31	100.00%

Pennsylvania Blue Shield							
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PBS PRB Cost Allocation Methodology							
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				(C = B x PRB \$)			(F = E / D)
		(A)	(B)	(C)	(D)	(E)	(F)
		Cost	FTE's	FTE Pct x	PRB Funding	Medicare	Medicare
		Center	Percent	PRB Funding	per Walker	Part B	Part B
		FTE'S	to Total	(\$2,728,485.24)	System	Allocated	Allocation
CC	CC Description					PRB \$	Ratio
* 310020	Medicare Incoming Mail	29.42	0.51%	13,880.56	13,864.57	11,734.00	84.63%
* 310021	Supervisor, Medicare Prep	4.12	0.07%	1,942.49	1,939.63	1,709.10	88.11%
* 310023	Medicare Micro Retrieval	24.76	0.43%	11,682.48	11,659.40	11,656.05	99.97%
* 310073	Manager, DME Dedicated Unit	1.28	0.02%	605.55	588.37	532.03	90.42%
* 310104	Xact Medicare Policy Application	7.73	0.13%	3,649.05	3,652.06	3,215.76	88.05%
* 310105	ICR	23.66	0.41%	11,163.43	11,126.45	9,716.44	87.33%
* 310119	Medicare Micro Development	4.88	0.08%	2,300.32	2,301.28	1,958.64	85.11%
* 310120	DME B	5.68	0.10%	2,681.74	2,597.01	2,328.50	89.66%
* 310121	Medicare Micro Numbering	22.98	0.40%	10,840.99	10,814.65	9,350.14	86.46%
* 310159	VP - Xact Medicare Operations	2.58	0.04%	1,218.97	1,208.85	1,130.90	93.55%
* 310161	Director Medicare Analysis	0.60	0.01%	283.12	288.84	282.22	97.71%
* 310162	Manager Xact Suspense Processing	2.83	0.05%	1,336.94	1,337.92	1,222.42	91.37%
* 310164	Development/Sel Claims. Adjudication	36.97	0.64%	17,443.10	17,494.70	15,176.99	86.75%
* 310165	Non-Assigned Claims. Adjudication	29.26	0.51%	13,805.85	13,892.53	12,475.68	89.80%
* 310166	DME A	15.50	0.27%	7,313.84	7,117.34	6,387.27	89.74%
* 310171	Medicare Inquiry Control	20.76	0.36%	9,795.03	9,791.42	8,390.34	85.69%
* 310173	Medicare Permanent Files	3.03	0.05%	1,431.31	1,392.87	1,110.90	79.76%
* 310174	Medicare Claims Control	4.06	0.07%	1,914.97	1,862.79	1,488.37	79.90%
* 310179	Indep. Lab/Sel. Claims. Adjudication	19.00	0.33%	8,965.35	8,649.02	7,584.09	87.69%
* 310184	Mgr. Xact Medicare Review	3.78	0.07%	1,785.20	1,788.18	1,768.67	98.91%
* 310185	Medicare Medical Review - Section A	26.09	0.45%	12,311.62	12,270.48	12,270.48	100.00%
* 310186	Medical Director	4.50	0.08%	2,123.37	2,122.95	1,963.85	92.51%
* 310187	Medicare Medical Review - Section B	30.53	0.53%	14,407.47	14,404.22	14,404.22	100.00%
* 310196	EMC/Nonassigned Claim Entry	34.47	0.60%	16,263.45	16,234.59	16,052.24	98.88%
* 310301	Medicare Medical Records	2.92	0.05%	1,376.26	1,336.79	1,338.79	100.00%
* 310303	Claims Adjudication - Section B	27.19	0.47%	12,830.67	12,786.56	11,283.07	88.24%
* 310339	Assistant to Medical Director	3.43	0.06%	1,616.12	1,568.05	1,568.05	100.00%
* 310372	Mgr, Xact Medicare Claims Preparation	1.95	0.03%	920.13	921.05	812.35	88.20%
* 310393	Medicare Medical Review - Section B	2.27	0.04%	1,069.55	1,040.48	1,040.48	100.00%
* 310420	Mgr, Xact Medicare Suspense Processing II	3.92	0.07%	1,848.12	1,850.19	1,841.19	99.51%
* 310422	Mgr, Medicare Claims Prep. - NJ	1.73	0.03%	813.96	817.59	817.59	100.00%
* 310425	Mgr, Medicare Admin. Review	3.11	0.05%	1,466.70	1,515.01	1,514.36	99.96%
* 310430	Director Medicare Processing	1.99	0.03%	939.79	939.76	864.29	91.97%
* 310434	Claims Adjudication Analysis - NJ	29.81	0.52%	14,065.37	14,159.22	13,992.89	98.83%
* 310436	Select Claims Adjudication - Sect. D	27.73	0.48%	13,086.26	13,371.77	13,308.79	99.53%
* 310437	Select Claims Adjudication - Sect. E	23.37	0.40%	11,025.80	10,655.35	10,655.35	100.00%
* 310438	Select Claims Adjudication - Sect. F	29.06	0.50%	13,711.48	13,774.96	13,774.96	100.00%
* 310439	Select Claims Adjudication - Develop.	7.73	0.13%	3,649.05	3,516.08	3,516.08	100.00%
* 310440	Asst. To Medical Director	17.28	0.30%	8,155.32	8,202.17	8,202.17	100.00%
* 310441	Quality Control	12.13	0.21%	5,721.31	5,700.75	5,700.75	100.00%
* 310442	Claims Control	25.03	0.43%	11,808.31	11,868.17	11,868.17	100.00%
* 310443	Medical Records & Correspondence	10.04	0.17%	4,738.26	4,668.07	4,668.07	100.00%
* 310444	Mailroom - NJ	8.61	0.15%	4,061.93	4,084.30	4,084.30	100.00%
* 310445	Claims Preparation - NJ	1.26	0.02%	593.76	579.17	579.17	100.00%
* 310446	Microfilm - NJ	6.61	0.11%	3,118.21	3,117.49	3,117.49	100.00%
* 310447	Microfilm Reader/Printer - NJ	8.28	0.14%	3,908.58	3,907.81	3,907.81	100.00%
* 310449	Microfilm Development - NJ	2.13	0.04%	1,006.64	984.91	984.91	100.00%
* 310450	Inquiry Control - NJ	7.35	0.13%	3,468.17	3,460.05	3,460.05	100.00%
* 310455	Provider/Beneficiary Research - NJ	4.08	0.07%	1,926.76	1,833.72	1,833.72	100.00%
* 310576	Gen. Mgr, Medicare Proc. - WMT	13.47	0.23%	6,354.39	8,458.79	7,453.06	88.11%
* 310581	Claims Adjud. - Sect. 1 - WMT	56.33	0.97%	26,581.47	26,523.42	23,352.21	88.04%
* 310582	Claims Adjud. - Sect. 2 - WMT	58.35	1.01%	27,533.05	25,173.10	22,251.26	88.39%
* 310586	Claims Adjud. - Sect. 3 - WMT	59.58	1.03%	28,111.08	28,090.84	24,703.86	87.94%
* 310587	Claims Adjud. - Sect. 4 - WMT	13.79	0.24%	6,507.74	6,639.87	6,476.92	97.55%
* 310625	Aging Unit	1.92	0.03%	904.40	879.03	879.03	100.00%
* 310697	Mgr, - Xact MSP Prepayment	1.53	0.03%	719.59	711.09	706.72	99.39%
* 310698	MSP - Pricing	34.82	0.60%	16,428.60	16,443.09	16,393.35	99.70%
* 310701	ICR Processing	13.57	0.23%	6,401.57	6,399.78	5,521.87	86.28%
* 320029	Mgr., - Xact Medicare Utilization Review	4.00	0.07%	1,887.44	1,887.10	1,887.07	100.00%
* 320030	Provider Monitoring	29.64	0.51%	13,986.73	14,000.78	14,000.78	100.00%
* 320168	Provider Audit Unit	22.62	0.39%	10,671.91	10,652.06	10,652.06	100.00%
* 320195	Director Beneficiary/Physician Services	0.17	0.00%	78.64	76.74	76.74	100.00%
* 320211	Xact Medicare Accounts Receivable	27.08	0.47%	12,775.62	12,763.45	12,746.00	99.86%
* 320379	Director Post Pay Review	2.00	0.03%	943.72	943.52	929.39	98.50%

Schedule C

Pennsylvania Blue Shield								
Medicare Part B								
OIG Post Retirement Benefit (PRB) Audit								
PBS PRB Cost Allocation Methodology								
1994 Analysis								
						(C = B x PRB \$)	(F = E / D)	
			(A)	(B)	(C)	(D)	(E)	
			Cost	FTE's	FTE Pct x	PRB Funding	Medicare	
			Center	Percent	PRB Funding	per Walker	Part B	
			FTE'S	to Total	(\$2,728,485.24)	System	Allocated	
	CC	CC Description					PRB \$	
							Ratio	
*	320397	Mgr, Xact Medicare Beneficiary/Phys. Servi	11.08	0.19%	5,229.79	5,227.24	5,227.24	100.00%
*	320398	Beneficiary Telephone Services	135.92	2.35%	64,133.68	64,179.79	64,179.79	100.00%
*	320399	Special Correspondence	15.50	0.27%	7,313.84	7,319.91	7,319.91	100.00%
*	320402	Congressional/Administration	10.27	0.18%	4,844.43	4,844.93	4,844.93	100.00%
*	320424	Mgr, Xact Medicare Provider Services	2.88	0.05%	1,356.60	1,352.99	1,352.99	100.00%
*	320426	Fraud Investigations Unit 1	17.06	0.30%	8,049.15	8,041.58	8,041.58	100.00%
*	320429	Fraud Investigations Unit 2	16.90	0.29%	7,974.44	7,980.73	7,980.73	100.00%
*	320431	Beneficiary Telephone - NJ	37.41	0.65%	17,651.51	17,667.32	17,667.32	100.00%
*	320432	Provider Telephone - NJ	31.98	0.55%	15,091.67	15,090.67	15,090.67	100.00%
*	320433	General Information	35.18	0.61%	16,597.69	16,582.48	16,582.48	100.00%
*	320454	VP Post Pay Services	2.00	0.03%	943.72	943.52	933.72	98.96%
*	320677	Mgr, Xact Medicare Post Pay Review	4.11	0.07%	1,938.56	1,924.26	1,923.60	99.97%
*	320678	UNIT 1 MSP	29.47	0.51%	13,904.15	13,823.52	13,823.52	100.00%
*	320679	UNIT 2 MSP	49.04	0.85%	23,140.82	23,149.93	23,149.93	100.00%
*	320680	UNIT 3 MSP	70.67	1.22%	33,344.80	33,345.17	33,345.17	100.00%
*	320681	Mgr, Xact Med Telephone Appeals	3.06	0.05%	1,443.11	1,454.05	1,380.23	94.92%
*	320682	Mgr, Xact Med Bene Correspondence	38.38	0.66%	18,111.57	18,045.33	17,116.32	94.85%
*	320683	Lab Correspondence	41.99	0.73%	19,814.20	19,722.12	18,710.07	94.87%
*	320684	QC / Specialties	46.44	0.80%	21,913.98	21,877.34	20,748.61	94.84%
*	320685	Mgr, Xact Med Provider Correspondence	2.00	0.03%	943.72	943.52	943.52	100.00%
*	320686	Clerical / Specialties	31.71	0.55%	14,961.91	14,882.65	14,882.65	100.00%
*	320687	Medical Unit A	46.26	0.80%	21,827.47	21,941.73	21,941.73	100.00%
*	320688	MED/MSP	40.03	0.69%	18,890.14	18,973.43	18,973.43	100.00%
*	320720	Mgr, Xact Medicare Fraud Investigations	1.90	0.03%	896.53	883.73	883.73	100.00%
*	320910	Med Policy Appl & Integrity Postpay	6.09	0.11%	2,874.42	2,929.72	2,929.72	100.00%
*	320914	Telephone Appeals Program Unit 1	22.99	0.40%	10,848.86	10,980.61	10,596.75	96.50%
*	330106	Medicare Provider Reimbursement Inquiry &	14.72	0.25%	6,944.21	6,745.15	6,745.15	100.00%
*	330322	Project Director	2.00	0.03%	943.72	943.52	937.62	99.37%
*	330410	Mgr., XACT Medicare Provider Reimburseme	10.19	0.18%	4,809.04	4,811.40	4,811.37	100.00%
*	330473	Xact Medicare Staff Svc - Operations	20.79	0.36%	9,810.76	9,868.22	9,757.82	98.88%
*	330474	Xact Medicare Staff Svc - Projects	15.63	0.27%	7,376.75	7,370.64	7,316.11	99.26%
*	330477	Xact Medicare Training Unit	13.69	0.24%	6,460.55	6,450.53	6,450.53	100.00%
*	330690	Systems Testing	1.90	0.03%	896.53	869.16	869.16	100.00%
*	340160	Xact Medicare Fair Hearings	24.63	0.43%	11,619.56	11,608.55	11,608.55	100.00%
*	340265	Prof. Service - Washington DC	4.00	0.07%	1,887.44	1,887.10	1,887.10	100.00%
*	340273	Prof. Service - Delaware	1.99	0.03%	939.79	939.78	939.78	100.00%
*	340274	Xact Medicare EMC Support	33.99	0.59%	16,039.32	16,038.86	14,302.55	89.17%
*	340289	Medicare Representatives - PA	5.38	0.09%	2,540.18	2,522.11	2,522.11	100.00%
*	340365	Xact Med Bene Outreach	1.00	0.02%	471.86	471.76	471.76	100.00%
*	340367	Mgr, Xact Medicare Professional Services -	6.88	0.12%	3,244.04	3,244.80	3,244.80	100.00%
*	340423	Professional Services - Eastern District	11.23	0.19%	5,296.63	5,298.85	5,298.85	100.00%
*	340460	VP Medicare Customer Services	1.65	0.03%	778.57	767.09	729.60	95.11%
*	350294	Medicare Controller	3.30	0.06%	1,557.14	1,557.47	1,494.72	95.97%
*	350375	Director Medicare Financial Operations	2.00	0.03%	943.72	943.52	842.60	89.30%
*	350376	Medicare Quality Control	15.17	0.26%	7,156.55	7,168.66	7,168.66	100.00%
*	350384	Manager Medicare Financial Services	9.82	0.17%	4,632.10	4,633.32	4,052.76	87.47%
	500038	Sr. VP & Chief Operating Officer	2.41	0.04%	1,136.40	1,144.74	387.52	33.85%
	500693	Sr VP & COO Other	0.53	0.01%	247.73	255.64	-	0.00%
	500923	Sr VP Corporate Business Strategies	1.03	0.02%	483.66	480.81	166.94	34.72%
	510032	Mgr. Managed Care Processing	3.91	0.07%	1,844.19	1,841.40	-	0.00%
	510041	Bell Atlantic Unit	15.18	0.26%	7,160.48	7,156.53	-	0.00%
	510064	Private Business Incoming Mail	24.45	0.42%	11,536.99	11,549.28	1,511.16	13.08%
	510067	Microfilm Services	39.19	0.68%	18,492.99	18,466.43	-	0.00%
	510068	PB Microfilm Retrieval	26.95	0.47%	12,716.64	12,724.39	-	0.00%
	510071	OSCAR Basic	40.27	0.70%	19,000.24	19,040.39	-	0.00%
	510072	Service Bureau Image Processing	30.42	0.53%	14,352.42	14,329.12	-	0.00%
	510086	Boeing Dedicated Unit	10.68	0.18%	5,041.04	5,043.22	-	0.00%
	510109	Claims Services III	35.76	0.62%	16,872.94	16,867.10	-	0.00%
	510110	Claims Services I	43.87	0.76%	20,698.94	20,685.59	23.34	0.11%
	510125	Manager Other Party Liability	2.88	0.05%	1,360.53	1,362.68	-	0.00%
	510126	C.O.B.	34.67	0.60%	16,357.83	16,351.43	-	0.00%
	510127	Liability	23.63	0.41%	11,147.70	11,153.23	-	0.00%
	510140	OSCAR Analysis	30.47	0.53%	14,376.01	14,349.60	-	0.00%
	510151	Claims Benefit Administration	24.53	0.42%	11,576.31	11,573.93	-	0.00%

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		(A)	(B)	(C)	(D)	(E)	(F)	
		Cost	FTE's	FTE Pct x	PRB Funding	Medicare	Medicare	
		Center	Percent	PRB Funding	per Walker	Part B	Part B	
		FTE'S	to Total	(\$2,728,485.24)	System	Allocated	Allocation	
CC	CC Description					PRB \$	Ratio	
510163	VP Claims & Customer Service	1.50	0.03%	707.79	699.65	0.73	0.10%	
510169	Other Party Liability Dedicated Processing	21.88	0.38%	10,321.94	10,301.07	-	0.00%	
510170	Director Private Business Staff Support	2.00	0.03%	943.72	943.52	0.13	0.01%	
510193	Point of Service - Claims	25.49	0.44%	12,028.51	12,066.18	-	0.00%	
510197	Staff Support - Customer Service	19.03	0.33%	8,981.08	8,996.61	9.20	0.10%	
510198	Director, PB Claims Special Programs	1.00	0.02%	471.86	471.76	-	0.00%	
510199	Manager PB Claims Analysis Day	6.72	0.12%	3,169.33	3,173.13	-	0.00%	
510200	FEP Support	36.88	0.64%	17,403.78	17,345.93	-	0.00%	
510203	Subscriber Payable Med./Surg claims	29.07	0.50%	13,715.41	13,694.30	-	0.00%	
510213	Claim Form/Claim Postage	2.22	0.04%	1,045.96	1,044.50	8.78	0.84%	
510214	Private Business Claims Scanning	51.47	0.89%	24,285.08	24,293.39	-	0.00%	
510215	Private Business Central Files	26.33	0.46%	12,421.72	12,424.05	-	0.00%	
510216	Manager PB Med/Surg Review	6.96	0.12%	3,283.36	3,284.20	-	0.00%	
510218	Staging	14.60	0.25%	6,889.16	6,840.96	-	0.00%	
510219	Medical/Surgical Review	15.89	0.27%	7,498.65	7,526.38	-	0.00%	
510220	GE Dedicated Unit	13.94	0.24%	6,578.52	6,572.56	-	0.00%	
510221	Complementary Claims	25.83	0.45%	12,189.73	12,159.68	-	0.00%	
510222	Vision Claims Processing	9.93	0.17%	4,687.15	4,686.99	-	0.00%	
510234	Point of Service Unit 1	14.09	0.24%	6,649.30	6,620.48	-	0.00%	
510237	Med/Surg Advisor Assistants	8.83	0.15%	4,168.10	4,169.41	-	0.00%	
510250	Central Site Empire	27.21	0.47%	12,838.53	12,752.13	-	0.00%	
510255	Med/Surg Support	4.03	0.07%	1,899.24	1,894.86	-	0.00%	
510283	OCR Unit	18.12	0.31%	8,548.54	8,537.65	-	0.00%	
510308	OSCAR QC/Specialties	33.70	0.58%	15,901.69	15,902.03	-	0.00%	
510323	OCR Processing Night	11.91	0.21%	5,619.07	5,585.75	-	0.00%	
510330	Director - PB Claims Systems	1.23	0.02%	578.03	576.76	0.32	0.06%	
510341	Steel Admin. Unit	24.42	0.42%	11,521.26	11,494.20	-	0.00%	
510354	Central Site Michigan	24.73	0.43%	11,666.75	11,590.79	-	0.00%	
510355	IBC Major Medical- Claims Processing	39.68	0.69%	18,724.99	18,829.35	-	0.00%	
510356	PPG Unit	6.86	0.12%	3,236.18	3,231.16	-	0.00%	
510357	Comp IV - National	20.48	0.35%	9,661.34	9,663.93	-	0.00%	
510360	Mgr, FEP Claims/Customer Service	2.89	0.05%	1,364.46	1,359.14	-	0.00%	
510362	Comp IV - Commercial	22.58	0.39%	10,652.25	10,610.83	-	0.00%	
510363	Staff Support - Special Programs	26.71	0.46%	12,602.60	12,622.03	-	0.00%	
510377	OSCAR ALG/Special Entry	30.61	0.53%	14,442.86	14,390.36	-	0.00%	
510382	Private Business Claims Analysis Night	90.97	1.57%	42,923.56	42,884.24	-	0.00%	
510401	Mgr, Special Processing	3.62	0.06%	1,706.56	1,679.85	-	0.00%	
510403	Concurrent Processing	21.22	0.37%	10,011.30	10,030.92	-	0.00%	
510418	Westinghouse Dedicated Unit	18.51	0.32%	8,733.35	8,716.98	-	0.00%	
510463	Staff Support - ITS	34.02	0.59%	16,051.12	16,064.67	-	0.00%	
510475	FEP Processing	36.74	0.64%	17,336.94	17,342.56	-	0.00%	
510480	PB Claims Electronic Services	4.38	0.08%	2,068.32	1,993.09	-	0.00%	
510487	Comp Select Accounts	28.44	0.49%	13,420.49	13,446.73	-	0.00%	
510622	Training Support	3.05	0.05%	1,439.17	1,424.83	-	0.00%	
510626	National Claims System Support	16.50	0.29%	7,785.70	7,796.59	-	0.00%	
510627	CMM Point of Service - PNC	12.43	0.22%	5,866.80	5,851.80	-	0.00%	
510628	Director Interplan Services	1.00	0.02%	471.86	455.78	-	0.00%	
510630	Interplan Marketing & Support	3.49	0.06%	1,647.58	1,589.54	-	0.00%	
510632	PB Staff Support - Claims Operations	19.98	0.35%	9,429.34	9,437.38	-	0.00%	
510633	Central Site Support	7.56	0.13%	3,566.48	3,559.34	-	0.00%	
510634	Employee Development Training	4.33	0.07%	2,044.73	2,032.22	-	0.00%	
510637	SR Director, PB Claims & Staff Support	1.00	0.02%	471.86	471.76	0.94	0.20%	
510638	Marketing PB Elect Claims	5.74	0.10%	2,709.26	2,610.57	-	0.00%	
510639	Mgr., PB Claims Elec Svcs	1.17	0.02%	550.50	530.63	-	0.00%	
510664	Operational Enhancements Training	1.23	0.02%	578.03	560.78	-	0.00%	
510665	Claims Processing Training	7.38	0.13%	3,483.90	3,494.39	-	0.00%	
510667	Mgr., Staff Development	3.33	0.06%	1,572.87	1,566.76	-	0.00%	
510674	Mgr, PB Claims Analysis Night	2.00	0.03%	943.72	943.52	-	0.00%	
510700	Mgr., Central Site	2.53	0.04%	1,195.38	1,186.04	-	0.00%	
510703	COMPLETECare	9.26	0.16%	4,368.64	4,409.75	-	0.00%	
510714	Personal Choice II Claims	42.91	0.74%	20,246.74	20,271.71	-	0.00%	
510901	CMM / POS Heinz	11.94	0.21%	5,634.80	5,223.72	-	0.00%	
510902	CMM / POS Mellon	13.98	0.24%	6,598.18	6,224.11	-	0.00%	
510906	Oscar Documentation	3.33	0.06%	1,568.94	1,609.52	-	0.00%	

Pennsylvania Blue Shield							
Medicare Part B							
OIG Post Retirement Benefit (PRB) Audit							
PBS PRB Cost Allocation Methodology							
1994 Analysis							
				(C = B x PRB \$)			(F = E / D)
		(A)	(B)	(C)	(D)	(E)	(F)
		Cost	FTE's	FTE Pct x	PRB Funding	Medicare	Medicare
		Center	Percent	PRB Funding	per Walker	Allocated	Part B
CC	CC Description	FTE'S	to Total	(\$2,728,485.24)	System	PRB \$	Allocation
							Ratio
510912	AGING Claim Review	3.25	0.06%	1,533.55	1,544.25	-	0.00%
510922	Central Site Kentucky	13.20	0.23%	6,228.56	6,327.67	-	0.00%
510925	Concurrent Migration Project	1.88	0.03%	888.67	904.30	-	0.00%
510944	Concurrent/ALG Unit	13.73	0.24%	6,476.28	6,745.14	-	0.00%
510953	Commercial POS	4.39	0.08%	2,072.25	1,854.82	-	0.00%
510954	Comp IV Coder Section	2.51	0.04%	1,183.58	1,246.14	-	0.00%
530017	Professional Svc - Field Reps East	10.31	0.18%	4,864.09	4,862.21	-	0.00%
530025	Professional Svc - Field Reps West	10.27	0.18%	4,844.43	4,841.51	-	0.00%
530050	Professional Svc - Field Reps Capital	9.70	0.17%	4,577.05	4,570.49	-	0.00%
530152	Telephone - Central	32.83	0.57%	15,488.82	15,510.57	-	0.00%
530190	FEP Customer Service Unit 1	38.78	0.67%	18,300.32	18,261.08	-	0.00%
530205	Manager Customer Service - Central	9.19	0.16%	4,337.18	4,343.93	-	0.00%
530206	Telephone - West	33.79	0.58%	15,944.95	15,960.18	-	0.00%
530208	Customer Service Support	36.57	0.63%	17,254.36	17,214.69	-	0.00%
530210	Correspondence - East	26.66	0.46%	12,579.01	12,662.34	-	0.00%
530235	Correspondence - Central	41.55	0.72%	19,605.80	19,493.83	-	0.00%
530236	Correspondence - West	36.86	0.64%	17,391.99	17,353.15	-	0.00%
530238	Vital Accounts - Central	19.35	0.33%	9,130.50	9,286.30	-	0.00%
530290	65 Special Customer Service	40.18	0.69%	18,956.99	18,949.87	-	0.00%
530361	Commonwealth of PA - Central	5.50	0.10%	2,595.23	2,512.16	-	0.00%
530381	IBC Support	6.30	0.11%	2,972.72	3,044.49	-	0.00%
530419	VP Claims & Customer Service	1.84	0.03%	869.01	871.88	-	0.00%
530461	Vital Accounts - West	20.95	0.36%	9,885.47	9,859.36	-	0.00%
530462	Mgr, Customer Svc Support	6.10	0.11%	2,878.35	2,879.94	-	0.00%
530468	Mgr, Customer Service - East	7.75	0.13%	3,656.92	3,679.38	-	0.00%
530469	Telephone - East	31.26	0.54%	14,749.57	14,770.33	-	0.00%
530470	Concurrent & Bell Atlantic Cust Svc	27.07	0.47%	12,771.69	12,752.41	-	0.00%
530471	Mgr, Customer Service - West	6.45	0.11%	3,043.50	3,051.41	-	0.00%
530623	Central Site Servicing	19.26	0.33%	9,087.24	9,020.25	-	0.00%
530629	GPPPN	3.88	0.07%	1,828.46	1,829.88	-	0.00%
530635	FEP Customer Service Unit 2	0.27	0.00%	125.83	122.40	-	0.00%
530636	Security 65 Status	14.27	0.25%	6,731.87	6,727.59	-	0.00%
530673	OASIS Inquiries	1.00	0.02%	471.86	471.76	-	0.00%
530691	Special Groups	20.10	0.35%	9,484.39	9,585.51	-	0.00%
530695	PSR Tele Reps - West	8.54	0.15%	4,030.47	4,036.97	-	0.00%
530696	PSR Tele Reps - East	8.83	0.15%	4,164.17	4,169.59	-	0.00%
530995	Director of Customer & Professional Services	0.03	0.00%	15.73	15.51	-	0.00%
530996	Mgr, Professional Svcs - West	0.03	0.00%	15.73	15.51	-	0.00%
530997	Mgr, Professional Svcs - East/Central	0.07	0.00%	31.46	31.03	-	0.00%
550031	Benefits Consulting Director	1.00	0.02%	471.86	471.76	-	0.00%
550043	PB Prod. Quality Control	8.45	0.15%	3,987.22	3,980.71	-	0.00%
550045	Manager Membership Accounting	1.00	0.02%	471.86	471.76	-	0.00%
550047	Rating and Settlement - West	11.17	0.19%	5,269.11	5,234.69	-	0.00%
550048	Cost Mgmt Services - West	6.62	0.11%	3,122.14	3,126.36	-	0.00%
550137	Group & Enrollment	8.35	0.14%	3,940.03	3,944.28	-	0.00%
550141	Subscriber Accounting	15.73	0.27%	7,423.94	7,423.91	-	0.00%
550144	Cost Mgmt Services - Central	5.64	0.10%	2,662.08	2,670.09	-	0.00%
550146	Cost Mgmt Services - East	5.15	0.09%	2,430.08	2,427.26	-	0.00%
550150	Director Actuarial Services - East	1.49	0.03%	703.86	711.89	-	0.00%
550167	Actuarial - Financial	2.70	0.05%	1,274.02	1,262.13	-	0.00%
550189	Director Actuarial Services - Central	3.21	0.06%	1,513.89	1,508.96	-	0.00%
550191	Rating and Settlement - East	8.61	0.15%	4,061.93	4,063.39	-	0.00%
550224	PB Credit & Collections	4.80	0.08%	2,264.93	2,265.47	-	0.00%
550257	Actuarial - Underwriting	2.85	0.05%	1,344.80	1,338.77	-	0.00%
550261	Rating and Settlement - Central	11.55	0.20%	5,449.99	5,452.15	-	0.00%
550275	VP Business Development - PB	1.37	0.02%	644.88	626.58	-	0.00%
550305	Manager - Account Information Mgt.	3.73	0.06%	1,757.68	1,748.55	-	0.00%
550309	Controller, PB Financial Operations	2.05	0.04%	967.31	972.06	-	0.00%
550343	Actuarial - Product Development	2.69	0.05%	1,270.09	1,263.44	-	0.00%
550366	Syndicate Accounting	10.89	0.19%	5,139.35	5,139.72	-	0.00%
550383	Regulatory Affairs Liaison	1.00	0.02%	471.86	471.76	-	0.00%
550385	Director Membership & Syndicate Acctg.	1.88	0.03%	884.74	885.96	-	0.00%
550395	PB Financial Reporting & Analysis	8.00	0.14%	3,774.88	3,774.15	-	0.00%
550485	Private Business Cost and Pricing	4.29	0.07%	2,025.07	2,035.21	0.17	0.01%

Pennsylvania Blue Shield							
Medicare Part B							
OIG Post Retirement Benefit (PRB) Audit							
PBS PRB Cost Allocation Methodology							
1994 Analysis							
				(C = B x PRB \$)		(F = E / D)	
		(A)	(B)	(C)	(D)	(E)	(F)
		Cost	FTE's	FTE Pct x	PRB Funding	Medicare	Medicare
		Center	Percent	PRB Funding	per Walker	Part B	Part B
CC	CC Description	FTE'S	to Total	(\$2,728,485.24)	System	Allocated	Allocation
						PRB \$	Ratio
550643	Director Reg Aff & Mrkt Svcs	1.58	0.03%	747.11	753.34	-	0.00%
550644	Special Markets	2.00	0.03%	943.72	943.52	-	0.00%
550652	Corporate VP Finance	2.00	0.03%	943.72	943.52	-	0.00%
550676	VP PB Financial Operation	1.00	0.02%	471.86	471.76	-	0.00%
550692	Director PB Finance	3.80	0.07%	1,793.07	1,793.94	0.09	0.01%
550715	Billing & Collections	1.00	0.02%	471.86	471.76	-	0.00%
550716	Billing	9.96	0.17%	4,698.94	4,697.27	-	0.00%
550717	Subscriber	14.45	0.25%	6,818.38	6,807.74	-	0.00%
550938	NE Billing & Collection	0.33	0.01%	157.29	164.97	-	0.00%
570145	PB Product Mgmt - East	4.73	0.08%	2,233.47	2,237.12	-	0.00%
570153	Sales Support - Central Region	9.42	0.16%	4,443.35	4,451.35	-	0.00%
570154	Priv. Bus. Sales - Central Region	7.61	0.13%	3,590.07	3,595.26	-	0.00%
570246	Director PB Marketing - West	1.83	0.03%	861.15	846.62	-	0.00%
570247	Mgr., PB Sales-National Acct.	3.86	0.07%	1,820.59	1,815.46	-	0.00%
570292	PB Product Mgmt & Sales Support - West	8.17	0.14%	3,853.53	3,840.67	-	0.00%
570320	PB Product Management - Central	5.42	0.09%	2,555.91	2,557.58	-	0.00%
570387	PB Sales - West	5.71	0.10%	2,693.54	2,689.35	-	0.00%
570388	PB Sales Support - Western Region	5.21	0.09%	2,457.61	2,452.48	-	0.00%
570389	Director PB Marketing - Central	1.85	0.03%	872.94	873.50	-	0.00%
570390	Director PB Marketing - East	2.00	0.03%	943.72	943.52	-	0.00%
570391	PB Sales - East	7.50	0.13%	3,538.95	3,513.77	-	0.00%
570392	Sales Support - Eastern Region	8.48	0.15%	3,999.02	4,005.37	-	0.00%
570476	PB Sales - East Field Office	4.00	0.07%	1,887.44	1,887.10	-	0.00%
570653	VP Private Business Marketing	2.00	0.03%	943.72	943.52	-	0.00%
590012	Manager Dental Utilization	3.36	0.06%	1,584.66	1,593.95	-	0.00%
590013	VP Dental	2.00	0.03%	943.72	943.52	0.12	0.01%
590014	Dental Policy	3.76	0.06%	1,773.41	1,770.66	1.52	0.09%
590188	Manager Dental Cust. Svcs.	6.00	0.10%	2,831.16	2,830.61	-	0.00%
590201	Dental Payment	22.47	0.39%	10,601.13	10,622.56	-	0.00%
590209	Telephone - Dental	30.19	0.52%	14,246.25	14,247.54	-	0.00%
590212	Correspondence - Dental	32.28	0.56%	15,229.29	15,224.66	-	0.00%
590217	Dental - Review	42.85	0.74%	20,219.22	20,222.69	-	0.00%
590232	Dental X-rays	14.17	0.24%	6,684.69	6,646.23	-	0.00%
590241	Dental Review Administrator	0.88	0.02%	412.88	414.20	-	0.00%
590242	Dental Prepayment Review	15.68	0.27%	7,396.41	7,401.36	-	0.00%
590243	Dental Postpayment Review	5.45	0.09%	2,571.64	2,579.45	-	0.00%
590253	Dental Advisor Assistant	14.99	0.26%	7,073.97	7,070.93	-	0.00%
590324	Dental Director	1.00	0.02%	471.86	471.76	-	0.00%
590464	Mgr, Dental Claims	7.18	0.12%	3,385.60	3,393.64	-	0.00%
590640	DentalPlus Customer Service	7.22	0.12%	3,405.26	3,401.92	-	0.00%
590641	Dental COB	9.34	0.16%	4,407.96	4,397.45	-	0.00%
590642	DentalPlus Claims	13.53	0.23%	6,381.91	6,401.69	-	0.00%
590645	Prof Relation Dental Programs	10.29	0.18%	4,856.23	4,852.51	-	0.00%
590650	VP Dental Marketing	0.85	0.01%	401.08	402.69	-	0.00%
590651	Corp. VP Dental	1.00	0.02%	471.86	471.76	0.01	0.00%
590654	Dental Marketing - East	3.22	0.06%	1,517.82	1,531.12	-	0.00%
590655	Dental Marketing - Central	2.60	0.04%	1,226.84	1,237.42	-	0.00%
590656	Dental Marketing - West	2.00	0.03%	943.72	943.52	-	0.00%
590657	Dental Sales Support	9.12	0.16%	4,301.79	4,307.25	-	0.00%
590658	Product Mgr. - DentalPlus	4.79	0.08%	2,261.00	2,262.00	-	0.00%
590672	Dental Electronic Services	3.28	0.06%	1,549.27	1,560.41	-	0.00%
590702	Dental Dedicated Unit	6.66	0.12%	3,141.80	3,159.02	-	0.00%
590723	VP Select Accounts - Dental	1.00	0.02%	471.86	471.76	-	0.00%
590960	Dental Benefits	0.43	0.01%	204.47	202.10	-	0.00%
900078	Carefree Learning Center	-	0.00%	-	2,267.93	-	0.00%
**	OCCUPANCY CC'S						
**	170062 Bldg. Operations & Engineering	20.18	0.35%	9,523.71	9,517.75	3,739.52	
**	170099 Manager Facilities Plan. & Design	2.00	0.03%	943.72	943.52	370.71	
**	170100 Facilities Planning	4.81	0.08%	2,268.86	2,264.14	889.58	
**	170346 Manager, Building Oper. & Engin.	2.93	0.05%	1,380.19	1,381.54	542.81	
**	170347 Building Automated Systems	4.00	0.07%	1,887.44	1,887.10	741.44	
**	160223 Security	25.05	0.43%	11,820.10	11,825.51	4,646.24	
	Totals	5,782.40	100.00%	2,728,485.24	2,728,485.24	1,046,938.49	

Pennsylvania Blue Shield							
Medicare Part B							
OIG Post Retirement Benefit (PRB) Audit							
PBS PRB Cost Allocation Methodology							
1994 Analysis							
				(C = B x PRB \$)		(F = E / D)	
		(A)	(B)	(C)	(D)	(E)	(F)
		Cost Center	FTE's Percent to Total	FTE Pct x PRB Funding (\$2,728,485.24)	PRB Funding per Walker System	Medicare Part B Allocated PRB \$	Medicare Part B Allocation Ratio
CC	CC Description	FTE'S					
Summary Information:							
*	Xact Segment	1,922.82	33.25%		905,942.49	871,563.70	96.21%
	Other Segment	3,859.58	66.75%		1,822,542.75	175,374.79	9.62%
	Total	5,782.40	100.00%		2,728,485.24	1,046,938.49	
				Xact Segment portion of PRB \$	33.20%		
				Other Segment portion of PRB \$	66.80%		
					100.00%		
Notes:							
-	Xact Medicare Segment cost centers are denoted with an *						
-	Occupancy cost centers are denoted with **						
-	Expanded footnotes are attached						

**Pennsylvania Blue Shield
Medicare Part B
OIG Post Retirement Benefit (PRB) Audit
PBS PRB Cost Allocation Methodology
1994 - 1997 Summary of Allocation Ratios**

	<u>Percent to Total</u>	<u>Medicare Part B Allocation Percent</u>
1994 Data		
Xact Segment	33.20%	96.21%
Other Segment	66.80%	9.62%
Total	<u>100.00%</u>	
1995 Data		
Xact Segment	32.52%	100.00%
Other Segment	67.48%	9.62%
Total	<u>100.00%</u>	
1996 Data		
Xact Segment	29.95%	100.00%
Other Segment	70.05%	8.71%
Total	<u>100.00%</u>	
1997 Data		
Xact Segment	28.20%	99.81%
Other Segment	71.80%	8.46%
Total	<u>100.00%</u>	

Notes: Ratios were developed based on calendar year VEBA funding allocated to PBS lines of business, which includes Medicare Part B. These ratios were subsequently applied in Schedule E.

Pennsylvania Blue Shield
Medicare Part B
OIG Post Retirement Benefit (PRB) Audit
PBS PRB Cost Allocation Methodology
1994 - 1997 PRB Expense Allocated to Medicare Part B

Schedule E

1994

Description	Total Company	Other Segment	Xact Medicare Segment
Total Contributions to Trust Fund	\$ 2,712,680		
Total Direct Benefit Payments	<u>17,132</u>		
Total Allowable & Allocable PRB Cost	2,729,812		
Headcount Percentages	100.00%	66.80%	33.20%
Allocable PRB Costs	2,729,812	1,823,514	906,298
Medicare LOB Percentage		9.62%	96.21%
Calendar Year 1994 Medicare PRB Costs	1,047,371	<u>175,422</u>	<u>871,949</u>
(1) & (2) FY 1994 Part B Allowable PRB Costs	<u>\$ 785,528</u>	<u>\$ 131,567</u>	<u>\$ 653,962</u>

FY 1994 Part B FACP PRB Costs (Jan - Sept 94) (2)	\$ 782,353
Plus Estimated Occupancy PRB Costs in FACP (J - S 94)	<u>10,930</u>
FY 1994 Part B FACP, including PRB \$ in occupancy	<u>\$ 793,283</u>

1995

Description	Total Company	Other Segment	Xact Medicare Segment
Total Contributions to Trust Fund	\$ 2,244,656		
Total Direct Benefit Payments	<u>17,623</u>		
Total Allowable & Allocable PRB Cost	2,262,279		
Headcount Percentages	100.00%	67.48%	32.52%
Allocable PRB Costs	2,262,279	1,526,586	735,693
Medicare LOB Percentage		9.62%	100.00%
Calendar Year 1995 Medicare PRB Costs	882,551	<u>146,858</u>	<u>735,693</u>
(1) FY 1995 Part B Allowable PRB Costs	<u>\$ 923,756</u>	<u>\$ 153,999</u>	<u>\$ 769,757</u>

FY 1995 Part B FACP PRB Costs	\$ 911,129
Plus Estimated Occupancy PRB Costs in FACP	<u>8,679</u>
FY 1995 Part B FACP, including PRB \$ in occupancy	<u>\$ 919,808</u>

Pennsylvania Blue Shield
Medicare Part B
OIG Post Retirement Benefit (PRB) Audit
PBS PRB Cost Allocation Methodology
1994 - 1997 PRB Expense Allocated to Medicare Part B

Schedule E

1996

Description	Total Company	Other Segment	Xact Medicare Segment
Total Contributions to Trust Fund	\$ 2,234,320		
Total Direct Benefit Payments	<u>16,624</u>		
Total Allowable & Allocable PRB Cost	2,250,944		
Headcount Percentages	100.00%	70.05%	29.95%
Allocable PRB Costs	2,250,944	1,576,786	674,158
Medicare LOB Percentage		8.71%	100.00%
Calendar Year 1996 Medicare PRB Costs	811,496	<u>137,338</u>	<u>674,158</u>
(1) FY 1996 Part B Allowable PRB Costs	<u>\$ 829,260</u>	<u>\$ 139,718</u>	<u>\$ 689,542</u>

FY 1996 Part B FACP PRB Costs	\$ 826,253
Plus Estimated Occupancy PRB Costs in FACP	<u>11,763</u>
FY 1996 Part B FACP, including PRB \$ in occupancy	<u>\$ 838,016</u>

1997

Description	Total Company	Other Segment	Xact Medicare Segment
Total Contributions to Trust Fund	\$ 2,687,968		
Total Direct Benefit Payments	<u>20,294</u>		
Total Allowable & Allocable PRB Cost	2,708,262		
Headcount Percentages	100.00%	71.80%	28.20%
Allocable PRB Costs	2,708,262	1,944,532	763,730
Medicare LOB Percentage		8.46%	99.81%
Calendar Year 1997 Medicare PRB Costs	926,786	<u>164,507</u>	<u>762,279</u>
(1) FY 1997 Part B Allowable PRB Costs	<u>\$ 897,964</u>	<u>\$ 157,715</u>	<u>\$ 740,249</u>

FY 1997 Part B FACP PRB Costs	\$ 773,916
Plus Early Retirement Option (3)	112,729
Plus Estimated Occupancy PRB Costs in FACP	<u>8,353</u>
FY 1997 Part B FACP, including PRB \$ in occupancy	<u>\$ 894,998</u>

Footnotes:

- (1) Fiscal year calculation is based on 75% of costs from current CY and 25% of costs from prior CY.
- (2) During CY 1993, Highmark used a "pay as you go" basis, with no PRB costs. All FY 1994 PRB costs are for the January - September, 1994 period.
- (3) Subsequent memorandum adjustment for Early Retirement Option (ERO).



Pennsylvania
BlueShield

Medicare

APPENDIX D

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August 18, 1994

Ms. Patricia Britt Volk, Chief
Financial Management and Program Safeguards Branch
Division of Medicare
Health Care Financing Administration
P.O. Box 7760
3535 Market Street
Philadelphia, PA 19101

Dear Ms. Volk:

In accordance with the Budget Performance Requirements (BPR), we are notifying you that effective January 1, 1994 Pennsylvania Blue Shield (PBS) began funding its post-retirement medical benefits through a VEBA Trust. Enclosed for your information are:

- (1) Plan Document for Retiree Medical Plan for Pennsylvania Blue Shield and Affiliated Companies;
- (2) Pennsylvania Blue Shield VEBA Trust Agreement;
- (3) January 1, 1994 Actuarial Valuation of the Pennsylvania Blue Shield Post-retirement Medical Plan; and,
- (4) January 1, 1994 VEBA Funding Report for the Plan.

Post-retirement medical expenses and funding calculated in the valuations will be assigned to cost centers based on full-time employee counts and then allocated to all lines of business based on the appropriate allocation of each cost center. Medicare will be charged only to the extent of funding.

The BPR referenced five (5) sections of the FAR. After researching sections 31.205-6(j), 31.205-6(o), 31.205-19, 28.307-1 and 28.308 it is not clear that PBS is required to seek HCFA approval for our post-retirement benefits program. These benefits are provided through Blue Cross and PBS. The majority of the premium expense for these benefits is/or will be paid to Blue Cross for covered hospital services. The Blue Cross companies in Pennsylvania are separate and independent companies from Blue Shield. Therefore, the majority of the post-retirement benefit

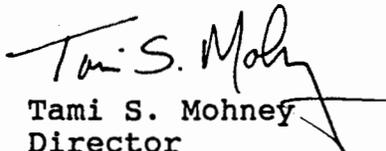
Ms. Patricia Britt Volk, Chief
August 18, 1994
Page -2-

expense does not fit the definition of "self-insurance" in FAR 31.001. Blue Cross and PBS are captive insurers as per FAR 31.205-19(c) and as such the PBS portion of the premiums for health care professionals could be considered purchased insurance. If one concludes that the PBS portion of the post-retirement benefits premiums meets the definition of "self-insurance", then the Two Hundred Thousand (\$200,000.00) Dollar threshold specified in FAR 28-308 comes into play. The expense included in our fiscal year 1995 budget request is based on "actuarial assumptions". At this time, we are not certain the PBS portion of this expense will exceed the Two Hundred Thousand (\$200,000.00) Dollar threshold for the Government Business Unit segment.

As previously noted, our research into the appropriate sections of the FAR did not disclose that we are required to request prior approval. We are, however, providing you with information regarding the post-retirement benefits program in the event our conclusion differs from that reached by HCFA on this issue.

Please contact Ray Eichelberger at (717) 763-3167 if you need additional information or have any questions.

Sincerely,



Tami S. Mohney
Director
Medicare Support Services
Government Business Unit

Enclosures

bcc: T.E. Bowling
D.L. Fisher
R.R. Eichelberger



Medicare

APPENDIX D
Page 22 of 22

October 25, 1995

Mr. Eric Shipley
HCFA OACT
PO Box 7520
Mail Stop N301-21
Baltimore, MD 21244

Dear Mr. Shipley:

Mr. Chosed, of the HCFA Regional Office in Philadelphia, asked that I submit the attached post-retirement medical benefits information to you. Should you have any questions, please feel free to contact me at (717) 763-3931.

Sincerely,

A handwritten signature in cursive script that reads "James W. Chiado".

James W. Chiado
Manager, Xact Medicare Financial Services
Pennsylvania Blue Shield
1800 Center Street
Camp Hill, Pennsylvania 17089

Attachment

cc: Larry Chosed (HCFA RO)

Exact. Distinct. Responsive.

Committed to providing quality service to Medicare Beneficiaries and Health Care Professionals in Pennsylvania, New Jersey, Delaware and the District of Columbia Metropolitan Area.