Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

HIGHMARK MEDICARE SERVICES, INC., UNDERSTATED ITS ALLOCABLE NONQUALIFIED DEFINED-BENEFIT PLAN PENSION COSTS FOR CALENDAR YEARS 2008 THROUGH 2011

Inquiries about this report may be addressed to the Office of Public Affairs at Public.Affairs@oig.hhs.gov.

Patrick J. Cogley
Regional Inspector General

April 2014
A-07-13-00431

Office of Inspector General

https://oig.hhs.gov/

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

Highmark Medicare Services, Inc., understated its allocable nonqualified defined-benefit plan pension costs for the Medicare and Other segments by approximately $12,000 and $140,000, respectively, for calendar years 2008 through 2011.

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their nonqualified defined-benefit plan (NQDBP) pension costs, which are funded by the annual contributions that these contractors make to their pension plans. The amount of pension costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the cost reimbursement principles contained in the Federal Acquisition Regulation (FAR) and Cost Accounting Standards (CAS) as required by the Medicare contracts.

For this review, we focused on one Medicare contractor, Highmark Medicare Services, Inc. (Highmark). In particular, we examined the Medicare segment and Other segment allocable NQDBP pension costs (which for this report we refer to as "NQDBP costs") that Highmark used to calculate the indirect cost rates in its incurred cost proposals (ICPs).

The objective of this review was to determine whether the NQDBP costs that Highmark used to calculate the indirect cost rates in its ICPs for calendar years (CYs) 2008 through 2011 complied with Federal requirements.

BACKGROUND

During our audit period, Highmark was a wholly owned subsidiary of Highmark, Inc., whose home office was in Camp Hill, Pennsylvania. Highmark administered Medicare Parts A and B operations under cost reimbursement contracts with CMS until the Medicare segment was sold to Diversified Services Options, Inc. (DSO), effective January 1, 2012.

With the implementation of Medicare contracting reform, Highmark continued to perform Medicare work after being awarded the Medicare administrative contractor (MAC) (Jurisdiction 12) contract on October 24, 2007. While performing its MAC work, Highmark also functioned as a Medicare Part A fiscal intermediary and Part B carrier, with those contracts terminating in July 2008 and December 2008, respectively. Highmark continued to work as the Jurisdiction 12 MAC until January 1, 2012, when Highmark, Inc., sold its wholly owned subsidiary, Highmark, to DSO.

Effective January 1, 1998, Highmark amended its disclosure statement to implement pooled costing. Medicare contractors use pooled costing to calculate the indirect cost rates that they submit on their ICPs. The pension costs are included in the computation of the indirect cost rates reported on the ICPs.

Under the provisions of Medicare contracting reform, CMS transitioned the functions of the fiscal intermediaries and carriers, which had executed the Medicare fiscal intermediary and carrier contracts, to Medicare contractors. As part of this transition, the method by which Medicare reimbursed pension costs to the contractor changed from a cost reimbursement basis to an indirect cost basis. In accordance with the FAR and the Medicare contract, reimbursement of indirect costs was now based on indirect cost rates that met the negotiated indirect cost rates determined by the contract.

Highmark sponsors the Highmark Executive Retirement Restoration Plan (HERRP), whose primary purpose is to provide deferred compensation to a select group of management or highly compensated employees. The HERRP is an NQDBP designed to restore pension accruals that were not provided through the qualified defined-benefit pension plan as a result of elective deferrals of compensation or the statutory limits imposed by the Internal Revenue Code sections 401(a)(17) and 415.

We reviewed $325,116 of Medicare segment NQDBP costs used by Highmark in the calculation of its indirect cost rates for CYs 2008 through 2011. We also reviewed $17,614,567 of Other segment NQDBP costs used by Highmark in the calculation of its indirect cost rates for this same time period.

WHAT WE FOUND

Neither the Medicare segment nor the Other segment allocable NQDBP costs that Highmark used to calculate indirect cost rates fully complied with Federal requirements. Specifically, for CYs 2008 through 2011:

- Highmark used Medicare segment NQDBP costs of $325,116 to calculate its indirect cost rates; however, we determined that the Medicare segment NQDBP costs that Highmark should have used to calculate the indirect cost rates were $336,632. Thus, Highmark understated the Medicare segment NQDBP costs used to calculate its indirect cost rates by $11,516.

- Highmark used Other segment NQDBP costs of $17,614,567 to calculate its indirect cost rates; however, we determined that the Other segment NQDBP costs that Highmark should have used to calculate the indirect cost rates were $17,754,963. Thus, Highmark understated the Other segment NQDBP costs used to calculate its indirect cost rates by $140,396.

These understatements occurred primarily because Highmark used incorrect CAS pension costs to calculate its indirect cost rates for CYs 2008 through 2011.

WHAT WE RECOMMEND

We recommend that Highmark:

- increase the Medicare segment NQDBP costs used to calculate the indirect cost rates by $11,516 for CYs 2008 through 2011 and

- increase the Other segment NQDBP costs used to calculate the indirect cost rates by $140,396 for CYs 2008 through 2011.

AUDITEE COMMENTS

In written comments on our draft report, Highmark concurred with our recommendations.

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INTRODUCTION

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their nonqualified defined-benefit plan (NQDBP) pension costs, which are funded by the annual contributions that these contractors make to their pension plans. The amount of pension costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the cost reimbursement principles contained in the Federal Acquisition Regulation (FAR) and Cost Accounting Standards (CAS) as required by the Medicare contracts.

For this review, we focused on one Medicare contractor, Highmark Medicare Services, Inc. (Highmark). In particular, we examined the Medicare segment and Other segment allocable NQDBP pension costs (which for this report we refer to as "NQDBP costs") that Highmark used to calculate the indirect cost rates in its incurred cost proposals (ICPs).

OBJECTIVE

Our objective was to determine whether the NQDBP costs that Highmark used to calculate the indirect cost rates in its ICPs for calendar years (CYs) 2008 through 2011 complied with Federal requirements.

BACKGROUND

Highmark Medicare Services, Inc.

During our audit period, Highmark was a wholly owned subsidiary of Highmark, Inc., whose home office was in Camp Hill, Pennsylvania. Highmark administered Medicare Parts A and B operations under cost reimbursement contracts with CMS until the Medicare segment was sold to Diversified Services Options, Inc. (DSO), effective January 1, 2012.

With the implementation of Medicare contracting reform,[1] Highmark continued to perform Medicare work after being awarded the MAC (Jurisdiction 12) contract on October 24, 2007.[2] While performing its MAC work, Highmark also functioned as a Medicare Part A fiscal intermediary and Part B carrier, with those contracts terminating in July 2008 and December 2008, respectively. Highmark continued to work as the Jurisdiction 12 MAC until January 1, 2012, when Highmark, Inc., sold its wholly owned subsidiary, Highmark, to DSO.

[1] Section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P.L. No. 108-173 (MMA), required CMS to transfer the functions of fiscal intermediaries and carriers to Medicare administrative contractors (MACs) between October 2005 and October 2011. Most, but not all, of the MACs are fully operational; for jurisdictions where the MACs are not fully operational, the fiscal intermediaries and carriers continue to process claims. For purposes of this report, the terms "Medicare contractor" and "MAC" mean the fiscal intermediary, carrier, or MAC, whichever is applicable.

[2] Medicare Parts A and B Jurisdiction 12 consists of the States of Delaware, Maryland, New Jersey, and Pennsylvania, and the District of Columbia.

Effective January 1, 1998, Highmark amended its disclosure statement to implement pooled costing. Medicare contractors use pooled costing to calculate the indirect cost rates that they submit on their ICPs. The pension costs are included in the computation of the indirect cost rates reported on the ICPs. The FAR requires Medicare contractors to file final indirect cost rates on their ICPs 6 months after the year end. In turn, CMS uses the indirect cost rates in reimbursing costs under cost-reimbursement contracts.

Highmark sponsors the Highmark Executive Retirement Restoration Plan (HERRP), whose primary purpose is to provide deferred compensation to a select group of management or highly compensated employees. The HERRP is an NQDBP designed to restore pension accruals that were not provided through the qualified defined-benefit pension plan as a result of elective deferrals of compensation or the statutory limits imposed by the Internal Revenue Code sections 401(a)(17) and 415.

Medicare Reimbursement of Pension Costs

CMS reimburses a portion of the Medicare contractors' annual NQDBP costs, which are funded by the annual contributions that these contractors make to their NQDBP plans. To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with CAS 412 and 413 and (2) funded as specified by part 31 of the FAR.

Under the provisions of the contracts that CMS developed with the Medicare contractors as part of the implementation of the MMA, the method by which Medicare reimbursed NQDBP costs to the contractor changed from a cost reimbursement basis to an indirect cost basis. In accordance with the FAR and the MAC contract, reimbursement of indirect costs was now based on indirect cost rates that met the negotiated indirect cost rates determined by the contract.

HOW WE CONDUCTED THIS REVIEW

We reviewed $325,116 of Medicare segment NQDBP costs used by Highmark in the calculation of its indirect cost rates for CYs 2008 through 2011. We also reviewed $17,614,457 of Other segment NQDBP costs used by Highmark in the calculation of its indirect cost rates for this same time period.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

Appendix A contains details of our audit scope and methodology.

FINDINGS

Neither the Medicare segment nor the Other segment allocable NQDBP costs that Highmark used to calculate its indirect cost rates fully complied with Federal requirements. Specifically, for CYs 2008 through 2011:

- Highmark used Medicare segment NQDBP costs of $325,116 to calculate its indirect cost rates; however, we determined that the Medicare segment NQDBP costs that Highmark should have used to calculate the indirect cost rates were $336,632. Thus, Highmark understated the Medicare segment NQDBP costs used to calculate its indirect cost rates by $11,516.

- Highmark used Other segment NQDBP costs of $17,614,567 to calculate its indirect cost rates; however, we determined that the Other segment NQDBP costs that Highmark should have used to calculate the indirect cost rates were $17,754,963. Thus, Highmark understated the Other segment NQDBP costs used to calculate its indirect cost rates by $140,396.

These understatements occurred primarily because Highmark used incorrect CAS pension costs to calculate its indirect cost rates for CYs 2008 through 2011.

UNDERSTATEMENT OF MEDICARE SEGMENT PENSION COSTS

Highmark used NQDBP costs of $325,116 to calculate its indirect cost rates for the Medicare segment. We calculated CAS-based NQDBP costs for CYs 2008 through 2011 for the Medicare segment in accordance with CAS 412 and 413. For details on the Federal requirements, see Appendix B.

We determined that the CAS-based NQDBP costs for the Medicare segment were $336,632 for CYs 2008 through 2011. Thus, Highmark understated the Medicare segment NQDBP costs used to calculate its indirect cost rates for CYs 2008 through 2011 by $11,516. This understatement occurred because Highmark used incorrect CAS-based NQDBP costs when calculating its indirect cost rates for this time period.

Table 1 on the following page shows the differences between the Medicare segment CAS-based NQDBP costs that we calculated and the NQDBP costs that Highmark used to calculate its indirect cost rates for CYs 2008 through 2011. Appendix C contains additional details on pension costs.

Table 1: Comparison of Pension Costs for the Medicare Segment

Calendar Year	Medicare Segment Pension Costs Per Audit	Per Highmark	Difference
2008	$137,643	$126,428	$11,215
2009	198,989	198,688	301
2010	0	0	0
2011	0	0	0
Total	**$336,632**	**$325,116**	**$11,516**

UNDERSTATEMENT OF OTHER SEGMENT PENSION COSTS

Highmark used NQDBP costs of $17,614,567 to calculate its indirect cost rates for the Other segment. We calculated CAS-based NQDBP costs for CYs 2008 through 2011 for the Other segment in accordance with CAS 412 and 413. For details on the Federal requirements, see Appendix B.

We determined that the CAS-based NQDBP costs for the Other segment were $17,754,963 for CYs 2008 through 2011. Thus, Highmark understated the Other segment NQDBP costs used to calculate its indirect cost rates for CYs 2008 through 2011 by $140,396. This understatement occurred because Highmark used incorrect CAS-based NQDBP costs when calculating its indirect cost rates for this time period.

Table 2 below shows the differences between the Other segment CAS-based NQDBP costs that we calculated and the NQDBP costs that Highmark used to calculate its indirect cost rates for CYs 2008 through 2011. Appendix C contains additional details on pension costs.

Table 2: Comparison of Pension Costs for the Other Segment

Calendar Year	Other Segment Pension Costs Per Audit	Per Highmark	Difference
2008	$6,913,243	$6,540,590	$372,653
2009	8,136,907	8,294,528	(157,621)
2010	0	0	0
2011	2,704,813	2,779,449	(74,636)
Total	**$17,754,963**	**$17,614,567**	**$140,396**

RECOMMENDATIONS

We recommend that Highmark:

- increase the Medicare segment NQDBP costs used to calculate the indirect cost rates by $11,516 for CYs 2008 through 2011 and

- increase the Other segment NQDBP costs used to calculate the indirect cost rates by $140,396 for CYs 2008 through 2011.

AUDITEE COMMENTS

In written comments on our draft report, Highmark concurred with our recommendations. Specifically, Highmark agreed that the Medicare segment NQDBP costs used to calculate the indirect cost rates should be increased by $11,516 for CYs 2008 through 2011. Highmark also agreed that the Other segment NQDBP costs used to calculate the indirect cost rates should be increased by $140,396 for CYs 2008 through 2011.

Highmark's comments are included in their entirety as Appendix D.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed $325,116 of Medicare segment NQDBP costs used by Highmark in the calculation of its indirect cost rates for CYs 2008 through 2011. We also reviewed $17,614,567 of Other segment NQDBP costs used by Highmark in the calculation of its indirect cost rates for this same time period.

Achieving our objective did not require that we review Highmark's overall internal control structure. We reviewed the internal controls related to the NQDBP costs claimed for Medicare reimbursement to ensure that these costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

We performed our fieldwork at Highmark in Camp Hill, Pennsylvania, in September 2012.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and the Medicare contracts applicable to this audit;

- reviewed information provided by Highmark to identify the amount of NQDBP costs used in Highmark's calculation of its indirect cost rates for CYs 2008 through 2011;

- used information that Highmark's actuarial consulting firm provided, including information on assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses;

- examined Highmark's accounting records, NQDBP plan documents, and annual actuarial valuation reports;

- determined the extent to which Highmark funded CAS-based NQDBP costs with contributions to the pension trust fund and accumulated prepayment credits;

- engaged the CMS Office of the Actuary to calculate the NQDBP costs based on the CAS (the calculations were based on separately computed CAS-based NQDBP costs for the Medicare segment and the Other segment); and

- reviewed the CMS actuaries' methodology and calculations.

We performed this review in conjunction with the following audits and used the information obtained during this review:

- *Highmark Medicare Services, Inc., Overstated Its Nonqualified Defined-Benefit Plan Medicare Segment Pension Assets and Overstated the Medicare Segment Excess Pension Liabilities as of January 1, 2012* (A-07-13-00429) and

- *Highmark Medicare Services, Inc., Did Not Claim Some Allowable Nonqualified Defined-Benefit Plan Pension Costs for Fiscal Years 2003 Through 2009* (A-07-13-00430).

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

APPENDIX B: FEDERAL REQUIREMENTS RELATED TO REIMBURSEMENT OF NONQUALIFIED DEFINED-BENEFIT PLAN COSTS

FEDERAL REGULATIONS

Federal regulations (FAR 52.216-7(a)(1)) address the invoicing requirements and the allowability of payments as determined by the Contracting Officer in accordance with FAR subpart 31.2.

Federal regulations (FAR 31.205-6(j)) require Medicare contractors to measure, assign, and allocate the costs of all defined-benefit pension plans in accordance with CAS 412 and 413. Federal regulations (FAR 31.205-6(j)) also address allowability of pension costs and require that Medicare contractors fund the pension costs assigned to contract periods by making contributions to the pension plan.

Federal regulations (CAS 412) (as amended) address the determination and measurement of pension cost components. This regulation also addresses the assignment of pension costs to appropriate accounting periods.

Federal regulations (CAS 412.50(c)(3)) state that the cost of NQDBP plans shall be assigned to cost accounting periods in the same manner as qualified plans under the following conditions:

- the contractor, in disclosing or establishing cost accounting practices, elects to have a plan so accounted for;
- the plan is funded through the use of a funding agency; and
- the right to a pension benefit is nonforfeitable and is communicated to the participants.

Federal regulations (CAS 413) (as amended) address the valuation of pension assets, allocation of pension costs to segments of an organization, adjustment of pension costs for actuarial gains and losses, and assignment of gains and losses to cost accounting periods.

MEDICARE CONTRACTS

The contracts state: “Once each month following the effective date of this contract, the Contractor may submit to the Government an invoice for payment, in accordance with FAR clause 52.216-7, ‘Allowable Cost & Payment.’”

APPENDIX C: ALLOCABLE NONQUALIFIED DEFINED-BENEFIT PLAN COSTS FOR HIGHMARK MEDICARE SERVICES, INC., FOR CALENDAR YEARS 2008 THROUGH 2011

Date	Description		Total Company	Other Segment	Medicare Segment	Gateway Segment
2008	Contributions	1/	$7,709,587	$7,657,934	$22,102	$29,551
	Discount for Interest	2/	($206,826)	($205,440)	($593)	($793)
January 1, 2008	Present Value Contributions	3/	$7,502,761	$7,452,494	$21,509	$28,758
	Prepayment Credit Applied	4/	$6,073,156	$5,803,136	$115,541	$154,479
	Present Value of Funding	5/	$13,575,917	$13,255,630	$137,050	$183,237
January 1, 2008	CAS Funding Target	6/	$7,203,749	$6,883,462	$137,050	$183,237
	Percentage Funded	7/		100.00%	100.00%	100.00%
	Funded Pension Cost	8/		$6,883,462	$137,050	$183,237
	Allowable Interest	9/		$29,781	$593	$793
2008	CY Allocable Pension Cost	10/		$6,913,243	$137,643	$184,030

Date	Description		Total Company	Other Segment	Medicare Segment	Gateway Segment
2009	Contributions		$9,059,068	$8,976,607	$38,971	$43,490
	Discount for Interest		($220,407)	($218,401)	($948)	($1,058)
January 1, 2009	Present Value Contributions		$8,838,661	$8,758,206	$38,023	$42,432
	Prepayment Credit Applied		$6,881,942	$6,543,349	$160,018	$178,575
	Present Value of Funding		$15,720,603	$15,301,555	$198,041	$221,007
January 1, 2009	CAS Funding Target		$8,517,184	$8,098,136	$198,041	$221,007
	Percentage Funded			100.00%	100.00%	100.00%
	Funded Pension Cost			$8,098,136	$198,041	$221,007
	Allowable Interest			$38,771	$948	$1,058
2009	CY Allocable Pension Cost			$8,136,907	$198,989	$222,065

Date	Description		Total Company	Other Segment	Medicare Segment	Gateway Segment
2010	Contributions		$0	$0	$0	$0
	Discount for Interest		$0	$0	$0	$0
January 1, 2010	Present Value Contributions		$0	$0	$0	$0
	Prepayment Credit Applied		$0	$0	$0	$0
	Present Value of Funding		$0	$0	$0	$0
January 1, 2010	CAS Funding Target		$0	$0	$0	$0
	Percentage Funded			0.00%	0.00%	0.00%
	Funded Pension Cost			$0	$0	$0
	Allowable Interest			$0	$0	$0
2010	CY Allocable Pension Cost			$0	$0	$0

Date	Description		Total Company	Other Segment	Medicare Segment	Gateway Segment	Highmark West Virginia
2011	Contributions		$3,130,301	$3,130,301	$0	$0	
	Discount for Interest		($75,633)	($75,633)	$0	$0	
January 1, 2011	Present Value Contributions		$3,054,668	$3,054,668	$0	$0	$0
	Prepayment Credit Applied		$2,769,074	$2,704,813	$0	$0	$64,261
	Present Value of Funding		$5,823,742	$5,759,481	$0	$0	$64,261
January 1, 2011	CAS Funding Target		$2,769,074	$2,704,813	$0	$0	$64,261
	Percentage Funded			100.00%	0.00%	0.00%	100.00%
	Funded Pension Cost			$2,704,813	$0	$0	$64,261
	Allowable Interest			$0	$0	$0	$0
2011	CY Allocable Pension Cost			$2,704,813	$0	$0	$64,261

ENDNOTES

1/ We obtained Total Company contribution amounts and dates of deposit from actuarial valuation reports and trust statements. The contributions included deposits made during the CY and accrued contributions deposited after the end of the CY but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segment during the NQDBP segmentation review (A-07-13-00429) and NQDBP costs claimed for Medicare reimbursement review (A-07-13-00430). Therefore, the amounts shown for the Other segment represent the difference between the Total Company, the Medicare segments, Gateway Segment, and the Highmark West Virginia segment.

2/ We subtracted the interest that was included in the contributions deposited after the beginning of the valuation year to discount the contributions back to their beginning-of-the-year value. For purposes of this Appendix, we computed the interest as the difference between the present value of contributions (at the CAS valuation interest rate) and actual contribution amounts.

3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the CY.

4/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year CAS funding target. A prepayment credit is carried forward, with interest, to fund future CAS

5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at the first day of the CY.

6/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of the FAR 31.205-6(j)(2)(i).

7/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the CY. Because any funding in excess of the CAS funding target is accounted for as a prepayment in accordance with CAS 412.50(c)(1), the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimal places.

8/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.

9/ We assumed that interest on the funded CAS-based pension cost, less the prepayment credit, accrues in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target were funded in 4 equal installments deposited within 30 days after the end of the quarter.

10/ The CY allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.

APPENDIX D: AUDITEE COMMENTS

HIGHMARK

April 11, 2014

Mr. Patrick Cogley
Regional Inspector General for Audit Services
Office of Audit Services, Region VII
Department of Health and Human Services
601 East 12th Street, Room 0429
Kansas City, MO 64106

Subject: OIG Report Number A-07-13-00431

Dear Mr. Cogley:

Thank you for affording Highmark Inc. ("Highmark") this opportunity to comment on the U.S. Department of Health and Human Services, Office of Inspector General ("OIG"), draft report entitled *Highmark Medicare Services, Inc., Understated Its Allocable Nonqualified Defined-Benefit Plan Pension Costs for Calendar Years 2008 Through 2011.*

We have carefully reviewed both the draft audit report and the additional detailed supplemental information received from the audit team. Our comments on the recommendations specific to this report are provided below:

1. Highmark agrees that the Medicare segment nonqualified pension costs used to calculate the indirect cost rates should be increased $11,516 for calendar years 2008 through 2011.

2. Highmark agrees that the other or indirect segment nonqualified pension costs used to calculate the indirect cost rates should be increased $140,396 for calendar years 2008 through 2011, of which only $2,050 should be allocated to the Medicare segment.

While we concur with the overall recommendations in this report, Highmark's detailed examination of the individual data elements identified various minor transpositions, CAS application and other differences that Highmark does not contest because the net impact of these items is immaterial to the overall pension and nonqualified pension audit findings.

Thank you again for affording Highmark the opportunity to comment on this report. Please do not hesitate to contact me if you have any questions regarding this response.

Sincerely,

Janine K. Colinear

Janine K. Colinear
Chief Accounting Officer

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