



Christian Brothers Services

A Catholic Church Organization Serving the Church

## Drug Reimportation: A Bad Idea Whose Time Has Come

By Fran Dyer OP, Managing Director, Health Management Services for Religious

For some time now, some US citizens have been traveling over the borders to Canada and Mexico to buy prescription drugs at prices considerably below what they would spend on the same drugs in the United States. Some congresspersons have led such expeditions, taking busloads of seniors to buy their medications. Internet sources have sprung up, offering pharmaceuticals by mail. And now, at the time of this writing, the House of Representatives has passed a bill, now in the Senate, allowing pharmacy outlets in the United States to import drugs manufactured in the United States but available in foreign countries at lower prices than charged in the US. Why is all this happening?

The cost of prescription drugs for members of the Religious Comprehensive Trust so far in 2003 constitutes 31% of the total medical expenses, including dental expenses, paid by the Trust. That is an astounding number! So far this year, the Comprehensive Trust has paid over \$8 million for drugs for

its members. What could the Religious Institutes participating in the Comprehensive Trust do with \$8 million? Wouldn't each Institute like to have some of that money for its other needs?

The pharmacy manufacturers are receiving major criticism. There are many complaints about the cost of medications, and the profits of the drug industry:

- Huge profits result from "outrageously" high prices.
- Drug expenditures are rising faster than other health-care costs.
- Drug prices are much higher in the US than in other countries.
- Direct-to-consumer advertising is creating a market for new medications.
- Some new medications cost more but are not much more effective than those they replace.

Many believe that price controls should be imposed on pharmaceuticals. However, since price controls have never been wildly acceptable in the United

States, people are seeking rules allowing the "reimportation" of drugs. This bill has been passed by Congress before, but always with a proviso that the Food and Drug Administration and the Department of Health and Human Services can stop the implementation if they cannot certify the safety of the medications. This time, Congress has left out that certification! This effectively eliminates the role of the FDA in protecting the safety of the US pharmacy supply.

*Continued on page 6*

### Inside

**"More on Long Term Care..."**

~Br. William Walz

**New CBS Website Design**

~Dave Pipitone

**Introduction to Forensic Accounting**

~Mona M. Clayton, CFE, CPA

**Don't Mess with HIPAA!**

~John Airola

**Welcome Aboard!**

**Sarbanes-Oxley and Non-profits Converge**

~John Bagdzis

**Consider Lifestyle Funds for Your Retirement Savings Allocation**

~Jim Ceplecha

**Fall 2003**

## From the President

### **“More on Long Term Care....”**

Last Spring I wrote about growing interest in Long Term Care (LTC) insurance. Recognizing this growing interest, over a year ago the Christian Brothers Employee Benefit Trust arranged for a large group LTC plan through CNA, one of the nation's leading providers of LTC insurance. Through this plan Catholic Church employers can offer LTC insurance to their employees as a “voluntary benefit”, that is, the total premium would be paid by electing employees through payroll deductions.

It seems we were correct about the growing need to offer employees access to the benefits of a large group LTC insurance plan. The August 2003 issue of Employee Benefit News had this to say about LTC insurance.

“Long-term care insurance appears finally to have taken off. A recent study by Prudential Financial found that workers value LTC, a relatively new product, as much as they do such mainstays as life and disability insurance. Almost two-thirds of those surveyed said they would consider buying it if it was offered by their employers as a voluntary benefit.”

“People who are living longer will be entering nursing homes and requiring professional care at home. According to the Health Insurance Association of America, about 7 million people over 65 were expected to need long-term care last year alone. That number is expected to increase to 9 million in 2005 and 12 million by 2020.”

“Moreover, the Department of Health and Human Services projects that 65-year-olds face a 40% lifetime risk of entering a nursing home, and 10% will stay at least 5 years. Twenty-two percent of 85-year-olds and older, the fastest growing segment of the American population, are in a nursing home at any given time. Since nursing home care costs \$50,000 a year on average, and 3-times-a week home health care can cost as much as \$12,000 annually, long-term care can be a very expensive proposition.”

As I said last Spring, if you are not already offering a LTC voluntary benefit to your employees, I once again encourage you to call John Airola, Managing Director of our Employee Benefit Services Division. By joining with the other Catholic Church employers participating in this group plan through CNA, you and your employees benefit from the economies of scale that are available to a very large LTC group plan. While providing LTC would not be a significant budgetary item for you as an employer, it could ultimately turn out to be one of the most important benefits you provide for yourself and your employees.



**William L. Walz, FSC**  
President

## New CBS Website Design



**We are proud to announce that we've upgraded our website**

**design, based upon your comments and suggestions.**

**The new design unites simpler navigation with a modern look. Administrators will be able to login directly from the home page.**

**Participants will access direct links to personal health and retirement information as well. Visitors can identify and go to each program and Trust offered through Christian Brothers Services.**

**The CBS Website Development team, comprised of Jason Langs, Jill Morscheiser and Greg Hays, have used their expertise to create an attractive layout and design. To review this new design, visit us at [www.cbsecurities.org](http://www.cbsecurities.org). We look forward to serving you online!**

# Introduction to Forensic Accounting

by Mona M. Clayton, CFE, CPA, Partner, PriceWaterhousecoopers, Chicago, IL



The cost of fraud and abuse is a problem in businesses, government agencies, and especially in nonprofit organizations. Fraud has accelerated the need for a specialist trained specifically in investigation and detection. Forensic accounting, however, is often different from simple fraud auditing. Fraud auditing tends to be more proactive, detecting and preventing fraud and abuse, whereas a Forensic Accountant (hereon FA) may be hired after there is evidence or suspicion of fraud and abuse.<sup>[1]</sup>

With the recent press regarding high-profile frauds, many practitioners believe that it is only a matter of time before the nonprofit community has its own Enron-type disaster. This belief stems from the fact that they are vulnerable to embezzlement due to their trusting nature, absence of oversight by owners, inadequate internal controls, and compensation packages<sup>[2]</sup>. Although they are not as large as SEC companies, grants or donor restricted funds put not-for-profits in the public eye.<sup>[3]</sup>

## Growth of Forensic Accounting Profession

Nearly 40% of the top 100 accounting firms are expanding their forensic and fraud services, according to *Accounting Today*, and the Association of Certified Fraud Examiners' membership has grown

from 5,500 members in 1992 to 25,000 in 2002.<sup>[4]</sup>

## Did you know...?

- It is estimated that 6% of revenues were lost in 2002 as a result of occupational fraud and abuse. Applied to the U.S. Gross Domestic Product, this translates to losses of approximately \$600 billion, or about \$4,500 per employee.
- Most common method for detecting fraud is through tips from employees, customers, vendors, and anonymous sources. The second common method is discovery by accident.
- Perpetrators over 60 are 27 times more likely to commit fraud than employees under 25.
- The average fraud scheme lasts 18 months before it is detected.

Indeed statistics show that fraudsters do not discriminate. They hit small, medium, and large businesses in almost equal proportions.<sup>[5]</sup>

## Why is Fraud Committed?

All occupational frauds fall into one of three categories: asset misappropriations, corruption, or fraudulent statements<sup>[6]</sup>. There are three main factors that control the risk of fraud: pressure, opportunity and attitude. By understanding and applying the three elements of what has

become known as the "fraud triangle," FA's can start developing a complete picture of the causes and cures for fraud. Accountants have an important role in preventing fraud, but they cannot do it alone.<sup>[7]</sup>

## Prevention and Detection of Fraud

FA's are generally not responsible for the initial detection of fraud; instead, they become involved after sufficient possible allegations exists.

They supervise or direct the fraud examination or investigation. Their education, experience, and training uniquely qualifies them to assist companies with fraud prevention or detection programs.<sup>[8]</sup>

## Responsibilities:

- Help resolve the allegations of fraud
  - Obtain evidence
  - Take statements using their interviewing skills
  - Write reports and testify to findings
  - Assist in the detection/prevention of fraud
- FA's utilize accounting, auditing, and investigative skills when conducting a investigation. Equally as critical is their ability to respond immediately, and to

*Continued on Page 7*

# Don't Mess with HIPAA!



By John Airola, Managing Director, Employee Benefit Services

Phase One, the privacy rule, of the Health Insurance Portability and Accountability Act (HIPAA) has been in effect since April 14, 2003. The requirements of Phase One include the protection of all individual health information, also known as protected health information (PHI). The application of HIPAA is broad, indeed, covering employers, health plans, and medical professionals. This includes self-insured medical plans, prescription drug information, and flexible spending accounts.

Privacy is a right assured by federal and state legislation. Under HIPAA, PHI is any health information, whether oral, written, or recorded in any form or medium that:

- is individually identifiable, AND
  - is created or received by a health care provider, health plan, health care clearing house AND
  - relates to the past, present or future physical or mental health or condition of an individual, or the provision or payment for health care for an individual.
- HIPAA does not cover personnel records, disability, death benefits, or workers compensation.

Violations of HIPAA regulations can lead to severe fines and even imprisonment. Identifiable information includes data such as name, address, phone or fax

## DO:

- Obtain a written authorization to release PHI.
- Ask why someone needs to see the PHI.
- Share PHI with proper business associates on a “need to know basis”.
- Limit sharing PHI to only what is needed.
- Shred documents with PHI that are to be discarded.



## DON'T:

- Rely on a verbal authorization to release PHI.
- Give out PHI - no questions asked.
- Share PHI with unqualified people.
- Give the entire file containing all PHI documents even if they are not all needed.
- Reveal PHI without permission.
- Share PHI with those who are “curious”.
- Discard readable PHI documents in open receptacles.

number, e-mail address, social security number, photos, date of birth, employer, insurance account numbers or other ID numbers. PHI can be disclosed only at the individual's request with the written authorization of the individual. No written authorization is needed for use of PHI for treatment, payment or health care operations. Since those who administer benefit plans may handle PHI, it is helpful to know

the scope of HIPAA.

A short list of “Do's and Don'ts” that serve as a guideline can be seen in the above illustration. For a more extensive explanation of HIPAA requirements, make sure to check with your legal counsel. Visit the Department of Health and Human Services Centers for Medicare & Medicaid Services HIPAA website at: [www.cms.gov/hipaa](http://www.cms.gov/hipaa).



# Welcome Aboard!

## Employee Benefit Trust

Archdiocese of Seattle, WA  
 Augustinian Volunteers, PA  
 Carmelite Monastery, KY  
 Carroll Children's Center, WA  
 Catholic Family Service, TX  
 Congregation of the Sacred  
 Hearts, CA  
 Diocese of Beaumont, TX  
 Diocese of Fort Worth, TX  
 Diocese of Grand Island, NE  
 Holy Family Catholic Church, NC  
 Jesuit House, Woodlawn  
 Jesuit Community, IL  
 LaSalle Academy, PA  
 Missionary Benedictine Sisters, NE  
 National Catholic Young Adult  
 Ministry Assoc., DC  
 National Coalition of Church  
 Vocations, IL  
 St. Raphael Early Childhood  
 Center, NC  
 Servite Center for Life, WI

## Employee Retirement Plan

Dominican Earth Center, KY  
 San Miguel High School, AZ  
 Society of Mt. Carmel, IL  
 St. Susan Church, KY  
 Providence Health Care, IN  
 Whitefriars Hall, DC

## Prescription Drug Program

Sisters of Our Lady of Charity, TX

## Religious Community Deductible Trust

Croatian Dominican Sisters, IL

## Religious Comprehensive Trust

Sisters of St. Benedict, IL

## Retirement Savings Plan (403b)

Comboni Lay Missionaries, IL  
 Diocese of Dodge City, KS  
 Diocese of Ogdensburg, NY  
 Franciscan Sisters, MO  
 Good Shepherd Gracenter, CA  
 The Marist Brothers, IL  
 Providence Health Care, Inc., IN  
 St. Michael's Prep School, CA

## Risk Pooling Trust

Augustinian Recollects of NJ  
 Inc., NJ  
 Community of Poor Clares of  
 Alexandria, VA  
 Institute for Spiritual  
 Leadership, IL  
 La Salle Academy, PA  
 La Salle Sisters, CA  
 Missionary Catechists Divine  
 Providence, TX  
 Providence High School, CA  
 San Miguel Middle School of  
 Minneapolis, MN  
 St. John Baptist De La Salle, NY  
 St. Vincent DePaul Stores, Inc., CO  
 Sisters of Notre Dame of  
 Covington, KY  
 Sisters of Providence, WA  
 Sisters of St. Francis of  
 Perpetual Adoration, Inc., IN  
 Sisters of the Holy Names of  
 Jesus and Mary of the New  
 York Province, Inc., NY  
 University Place, IN

## Student Accident Plan

Missionaries of Charity, AR  
 Missionaries of Charity, IL  
 Missionaries of Charity, IN  
 Missionaries of Charity, KY  
 Missionaries of Charity, LA  
 Missionaries of Charity, TX  
 St. Rita High School, IL  
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## Website Hosting & Design

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## Drug Reimportation: A Bad Idea Whose Time Has Come

*Cont'd from page 1*

Opponents of the "reimportation" legislation fear that prescription drugs purchased from outside the country might be of lesser quality: date-expired, contaminated, counterfeit or even produced by terrorists. Supporters say the legislation will cause the importation of foreign price controls, not the importation of suspect medications. They maintain that the threat of price competition from abroad will cause manufacturers to lower their prices in the US, making the importation of medications from foreign sources unnecessary.

Opponents say the opposite will happen: the manufacturers will raise prices outside the United States, or simply stop selling the medications outside the US. If foreign governments want the medications available to their own citizens, they will have to raise the caps on the prices the manufacturers can charge in their countries, bringing them more in line with US prices.

So, in summary, what are the possible advantages of the "reimportation" law?

- Lower prices for medications.
- And what are the possible disadvantages?
- Lower profits to manufacturers for research & development of innovative drugs.
  - Less control by the Food and Drug Administration of the safety of the drug supply.
  - The possible introduction of date-expired, contaminated, counterfeit or even terrorist-produced medications.

I believe that lower prices are a worthy goal in the pharmaceutical area, but that reimportation might not be the answer. Possibly our efforts should be directed at:

- A healthy dose of consumerism, or shopping-for-price by buyers of medications.
- Large purchasing cooperatives, which can offer substantial discounts.
- A ban on direct-to-consumer advertising that creates a need that might not exist.

Read more online by visiting these noteworthy sources: *American Enterprise Institute for Public Policy Research*, [www.aei.org](http://www.aei.org) (July 14, 2003); *National Center for Policy Analysis*, [www.ncpa.org](http://www.ncpa.org) (July 24, 2003); *Galen Institute*, [www.galen.org](http://www.galen.org) (July 18, 2003); *American Medical Association*, [www.ama-assn.org](http://www.ama-assn.org) (July 23, 2003).

**Hear Mona Clayton speak  
at our pre-Natri seminar:  
Safeguarding Hidden Treasures: An Introduction to  
Forensic Accounting to Prevent Fraud  
9:00 a.m. - 4:00 p.m.  
Tuesday, September 23, 2003  
Marriott Albuquerque Hotel  
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To register: call Karen McGuire at (800) 807-0100,  
ext.2935, or visit [www.cbsecurities.org/treasure](http://www.cbsecurities.org/treasure)

### **Christian Brothers Services and Christian Brothers Investment Services, Inc.**

cordially invite you  
to stop by and visit us  
at our Hospitality Gathering  
at this year's

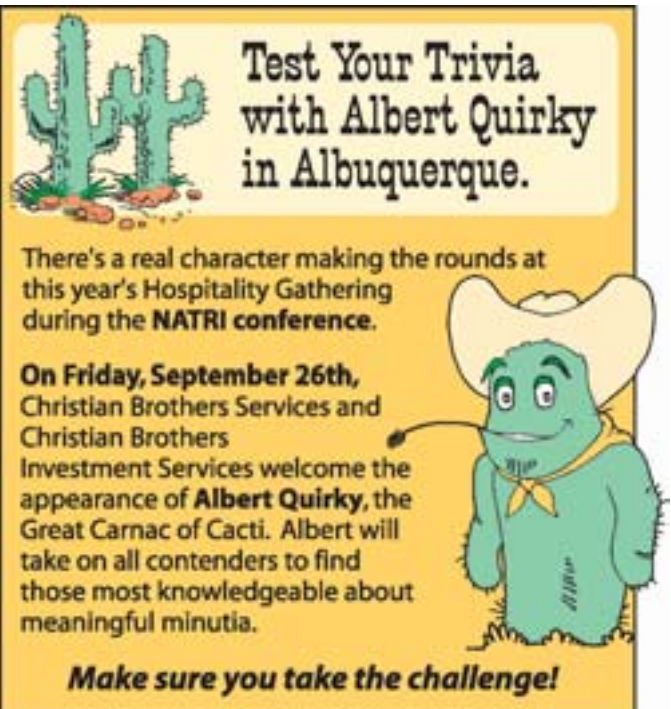
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**Test Your Trivia  
with Albert Quirky  
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There's a real character making the rounds at this year's Hospitality Gathering during the **NATRI** conference.

**On Friday, September 26th,** Christian Brothers Services and Christian Brothers Investment Services welcome the appearance of **Albert Quirky**, the Great Carnac of Cacti. Albert will take on all contenders to find those most knowledgeable about meaningful minutia.

**Make sure you take the challenge!**

communicate financial information clearly and concisely in a courtroom setting. They are trained to look beyond the numbers.<sup>[9]</sup>

## Conclusion

You may ask yourself, “My organization has never had problems before so why make everyone nervous over nothing?”

However, what you should ask yourself is, “Can I afford not to address this potential problem at my organization? Can I afford for fraud to have a material direct impact on my company’s bottom line and threaten its reputation?”

Remember that a fraudster can be the CEO, the mail room clerk, or anyone in between. All it takes is opportunity, need, and rationalization. In addition, the higher up in the organization and the older the individual is, the greater the loss is likely to be.<sup>[10]</sup>

Concepts footnoted were taken from the following sources:

[1] American College of Certified Fraud Examiners International;

[http://www.acfei.com/certification\\_programs-crfa\\_details.php](http://www.acfei.com/certification_programs-crfa_details.php).

[2] “In Preventing Fraud: How to Safeguard your Organization”, Andrew S. Lang and Tammy Ciciardella.

[3]<http://www.loscalzo.com/miscellaneous/FNPO.htm>.

[4] US News, Career Guide; Careers to Count On; published 2/18/2002,

<http://www.usnews.com/usnews/work/articles/020218/18tracks.htm>.

[5] Legal Times, Protect your Firm against Fraud; Bruce G. Dubinisky, February 7, 2000, Vol. 23, No. 6.

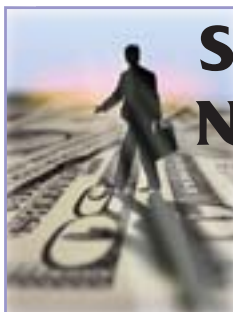
[6] Association of Certified Fraud Examiners, 2002 Report to the Nation Occupational Fraud and Abuse.

[7]<http://www.aicpa.org/pubs/cpaltr/jan2003/sups/busind1.htm>.

[8] Association of Certified Fraud Examiners, Financial Statement Fraud, 2003.

[9]<http://www.forensicaccounting.com/one.htm#start>.

[10][www.dartmouth.edu/~msimmons/fraud-investigation/fraudstr.htm](http://www.dartmouth.edu/~msimmons/fraud-investigation/fraudstr.htm).



# Sarbanes–Oxley and Nonprofits Converge

by John Bagdzius, Chief Financial Officer,  
Christian Brothers Services

“Sarbanes-Oxley only affects public companies and since we’re nonprofit we won’t be affected. Correct?”

**Of course you’ll be affected.** After plowing through the 65 pages of H.R. 3763 (Sarbanes-Oxley Act of 2002) and reading various articles commenting on impacts of the Act, I’ve come to the conclusion we’ll all be affected. Donors, grant issuers and funders will demand tighter financial controls and accountability. Audit fees will increase for both profit and nonprofit companies.

Technically, the Act applies to companies that have registered equity or debt securities with the SEC in order for these securities to be publically traded. Even though most nonprofits will not be in this position, the public will demand that if the provisions of the Act are meant to enhance integrity, corporate responsibility, financial disclosure, and accountability in the for-profit public sectors, why not adopt these enhancements in the nonprofit sector since they are sound business practices?

Time will tell if this plays out. As we know, nonprofits will continue to be scrutinized for the horror stories that have been endured. . . fraud, mismanagement, conflicts of interest, and donor persuasion to name a few. With our ministries on the line in today’s economic environment and challenges, why not do everything we can as a nonprofit to make certain we are treating financial stewardship with the utmost care?

Ask yourself, are your internal controls as good as they can be? Are there relationships that your organization has that you would not want to read about in the newspaper? Are you sacrificing financial integrity for the sake of select controlled governance?

Perhaps it’s time to consider the spirit of Sarbanes-Oxley in your organization. Contact your accountant for more information. At the time of this printing, the Act is not listed in the Library of Congress, however, a copy can be found at: <http://news.find-law.com/hdocs/docs/gwbush/sarbanesoxley072302.pdf>. Concepts were taken from the following sources: BDO Seidman, LLP, April 2003, Nonprofit Alert; Chicago Tribune, Law’s Effects Pile up on Firms, July 20, 2003.



**Christian Brothers Services**  
1205 Windham Parkway  
Romeoville, IL 60446-1679

phone: 800-807-0100  
fax: 630-378-2501  
e-mail: info@cbservices.org  
web: www.cbservices.org

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Editor: Dave Pipitone, Communication Services Manager  
Graphic Arts Coordinator: Jason Langs  
Designer: Julie Hutchison

## Consider Lifestyle Funds for Your Retirement Savings Allocation



*by Jim Cephlecha, Managing Director,  
Retirement Planning Services*

We all know that it is wise to diversify the assets in our retirement account. We also agree that as we get closer to retirement age our asset allocation should change. Unfortunately, many employees are unsure about how to determine an asset allocation and therefore tend to be over or under weighted in certain asset categories or decide not to participate at all.

One solution to this problem

is to offer lifestyle funds, where the investment is allocated among different asset classes within the one fund. The Christian Brothers 403(b) and 401(k) Plans offer these lifestyle funds through The Vanguard. For those employees comfortable with determining their own asset allocation, the Plans also offer that option. Remember, when it comes to investment vehicles, you need to research the funds and review all expenses and costs.