

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**NORIDIAN HEALTHCARE  
SOLUTIONS, LLC, CLAIMED  
SOME UNALLOWABLE  
MEDICARE PENSION COSTS  
THROUGH ITS INCURRED COST  
PROPOSALS**

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# *Office of Inspector General*

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## Report in Brief

Date: November 2019

Report No. A-07-18-00550



### Why OIG Did This Review

The Centers for Medicare & Medicaid Services (CMS) reimburses Medicare contractors for a portion of their pension costs, which are funded by the annual contributions that these contractors make to their pension plans.

At CMS's request, the HHS, OIG, Office of Audit Services, Region VII pension audit team reviews the cost elements related to qualified defined-benefit, postretirement benefit, and any other pension-related cost elements claimed by Medicare contractors through Incurred Cost Proposals (ICPs).

Previous OIG reviews found that Medicare contractors did not always correctly identify and claim pension costs.

Our objective was to determine whether the calendar years (CYs) 2009 through 2013 qualified defined-benefit plan pension costs that Noridian Healthcare Solutions, LLC (NHS), claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

### How OIG Did This Review

We reviewed \$19.5 million of Medicare pension costs that NHS claimed for Medicare reimbursement on its ICPs for CYs 2009 through 2013.

## Noridian Healthcare Solutions, LLC, Claimed Some Unallowable Medicare Pension Costs Through Its Incurred Cost Proposals

### What OIG Found

NHS claimed pension costs of \$19.5 million for Medicare reimbursement, through its ICPs, for CYs 2009 through 2013; however, we determined that the allowable Cost Accounting Standards-based pension costs during this period were \$18.6 million. The difference, \$826,668, represented unallowable Medicare pension costs that NHS claimed on its ICPs for CYs 2009 through 2013. NHS claimed these unallowable Medicare pension costs primarily because it used incorrect indirect cost rates when claiming pension costs for Medicare reimbursement.

### What OIG Recommends and Auditee Comments

We recommend that NHS work with CMS to ensure that its final settlement of contract costs reflects a decrease in Medicare pension costs of \$826,668 for CYs 2009 through 2013.

NHS concurred with our recommendation. NHS stated that it would ensure that the final settlement reflected a decrease in Medicare pension costs of \$826,668 for CYs 2009 through 2013.

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## **INTRODUCTION**

### **WHY WE DID THIS REVIEW**

Medicare contractors are eligible to be reimbursed a portion of their 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 allocability and cost reimbursement principles contained in the Federal Acquisition Regulation (FAR), the Cost Accounting Standards (CAS), and the Medicare contracts. Previous Office of Inspector General (OIG) reviews found that Medicare contractors did not always comply with Federal requirements when claiming pension costs for Medicare reimbursement.

At CMS's request, the OIG, Office of Audit Services, Region VII pension audit team reviews the cost elements related to qualified defined-benefit, nonqualified defined-benefit, postretirement benefit (PRB), and any other pension-related cost elements claimed by Medicare fiscal intermediaries and carrier contractors and Medicare administrative contractors (MACs) and CAS- and FAR-covered contracts through Final Administrative Cost Proposals, Incurred Cost Proposals (ICPs), or both.

For this review, we focused on one Medicare contractor, Noridian Healthcare Solutions, LLC (NHS). In particular, we examined the NHS Medicare segment and Other segment pension costs that NHS claimed for Medicare reimbursement and reported on its ICPs.

### **OBJECTIVE**

Our objective was to determine whether the calendar years (CYs) 2009 through 2013 qualified defined-benefit plan pension costs (herein referred to as "pension costs") that NHS claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

### **BACKGROUND**

#### **Noridian Healthcare Solutions, LLC, and Medicare**

NHS is a subsidiary of Blue Cross Blue Shield of North Dakota (formerly Noridian Mutual Insurance Company), whose home office is in Fargo, North Dakota. NHS administered Medicare Part A fiscal intermediary, Medicare Part B carrier, and Medicare Durable Medical Equipment (DME) contract operations under cost reimbursement contracts with CMS until its contractual relationships ended on August 10, 2013, February 24, 2012, and March 31, 2011, respectively.

With the implementation of Medicare contracting reform,<sup>1</sup> NHS continued to perform Medicare work after being awarded the MAC contracts for Medicare DME Jurisdiction D<sup>2</sup> and Medicare Parts A and B Jurisdiction 3,<sup>3</sup> effective June 30, 2006, and July 31, 2006, respectively. Currently, NHS is the Medicare Parts A and B MAC contractor for Jurisdictions E<sup>4</sup> and F<sup>5</sup> and the Medicare DME contractor for Jurisdictions A<sup>6</sup> and D.<sup>7</sup> During our audit period, NHS administered both fiscal intermediary and carrier contracts and MAC-related contracts.

This report addresses the allowable pension costs claimed by NHS under the provisions of its MAC contracts and CAS- and FAR-covered contracts.

The disclosure statement that NHS submits to CMS states that NHS uses pooled cost accounting. Medicare contractors use pooled cost accounting to calculate the indirect cost rates (whose computations include pension, PRB, and Supplemental Executive Retirement Plan costs) that they submit on their ICPs. Medicare contractors use the indirect cost rates to calculate the contract costs that they report on their ICPs. In turn, CMS uses these indirect cost rates in determining the final indirect cost rates for each contract.<sup>8</sup>

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<sup>1</sup> Section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P.L. No. 108-173, required CMS to transfer the functions of fiscal intermediaries and carriers to 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 term “Medicare contractor” means the fiscal intermediary, carrier, or MAC, whichever is applicable.

<sup>2</sup> The original Medicare DME Jurisdiction D included the States of Alaska, Arizona, California, Hawaii, Idaho, Iowa, Kansas, Missouri, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, and Wyoming, and the U.S. Territories of American Samoa, Guam, and the Northern Mariana Islands.

<sup>3</sup> The original Medicare Parts A and B Jurisdiction 3 included the States of Arizona, Montana, North Dakota, South Dakota, Utah, and Wyoming.

<sup>4</sup> Medicare Parts A and B Jurisdiction E includes the States of California, Hawaii, and Nevada, and the U.S. Territories of American Samoa, Guam, and the Northern Mariana Islands.

<sup>5</sup> Medicare Parts A and B Jurisdiction F includes the States of Alaska, Arizona, Idaho, Montana, North Dakota, Oregon, South Dakota, Utah, Washington, and Wyoming.

<sup>6</sup> Medicare DME Jurisdiction A includes the States of Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont, and the District of Columbia.

<sup>7</sup> Medicare DME Jurisdiction D includes the States of Alaska, Arizona, California, Hawaii, Idaho, Iowa, Kansas, Missouri, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, and Wyoming, and the U.S. Territories of American Samoa, Guam, and the Northern Mariana Islands.

<sup>8</sup> For each CY, each Medicare contractor submits to CMS an ICP that reports the Medicare direct and indirect costs that the contractor incurred during that year. The ICP and supporting data provide the basis for the CMS Contracting Officer and the Medicare contractor to determine the final billing rates for allowable Medicare costs.

## **Medicare Reimbursement of Pension Costs**

CMS reimburses a portion of the annual contributions that contractors make to their pension plans. The pension costs are included in the computation of the indirect cost rates reported on the ICPs. In turn, CMS uses indirect cost rates in reimbursing costs under cost-reimbursement contracts. 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. In claiming costs, contractors must follow cost reimbursement principles contained in the FAR, the CAS, and the Medicare contracts.

## **Previous Audit of Allocable Pension Costs**

We previously reviewed NHS's allocable pension costs (A-07-13-00419; Dec. 16, 2013). This audit report identified allocable pension costs that NHS should have used when calculating its indirect cost rates for CYs 2006 through 2010. We recommended that NHS (1) decrease the Medicare segment pension costs used to calculate the indirect cost rates by \$36,588 for CYs 2006 through 2010 and (2) decrease the Other segment pension costs used to calculate the indirect cost rates by \$1,110,101 for CYs 2006 through 2010.

## **Incurred Cost Proposal Audits**

At CMS's request, the Defense Contracting Audit Agency (DCAA) and CliftonLarsonAllen LLP (CLA) performed audits of the ICPs that NHS submitted for CYs 2009 through 2013. The objectives of the DCAA and CLA reviews were to determine whether costs were allowable in accordance with the FAR, the U.S. Department of Health and Human Services Acquisition Regulation, and the CAS.

For our current audit, we relied on the DCAA and CLA audit findings and recommendations when computing the allowable pension costs discussed in this report.

We incorporated the results of the DCAA and CLA audits into our computations of the audited indirect cost rates, and ultimately the pension costs claimed, for the contracts subject to the FAR. CMS will use our report on allowable pension costs, as well as the DCAA and CLA audit reports, to determine the final indirect cost rates and the total allowable contract costs for NHS for CYs 2009 through 2013. The cognizant Contracting Officer will perform a final settlement with the contractor to determine the final indirect cost rates. These rates ultimately determine the final costs of each contract.<sup>9</sup>

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<sup>9</sup> In accordance with FAR 42.705-1(b)(5)(ii) and FAR 42.705-1(b)(5)(iii)(B), the cognizant Contracting Officer shall "[p]repare a written indirect cost rate agreement conforming to the requirements of the contracts" and perform a "[r]econciliation of all costs questioned, with identification of items and amounts allowed or disallowed in the final settlement," respectively.

## HOW WE CONDUCTED THIS REVIEW

We reviewed \$19,457,345 of Medicare pension costs that NHS claimed for Medicare reimbursement on its ICPs for CYs 2009 through 2013.

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.

## FINDING

NHS claimed pension costs of \$19,457,345 for Medicare reimbursement, through its ICPs, for CYs 2009 through 2013; however, we determined that the allowable CAS-based pension costs during this period were \$18,630,677. The difference, \$826,668, represented unallowable Medicare pension costs that NHS claimed on its ICPs for CYs 2009 through 2013. NHS claimed these unallowable Medicare pension costs primarily because it used incorrect indirect cost rates when claiming pension costs for Medicare reimbursement. Specifically, NHS used incorrect allocable pension costs when calculating the indirect cost rates.

### ALLOCABLE MEDICARE SEGMENT PENSION COSTS OVERSTATED

During this audit, we calculated the allocable Medicare segment pension costs for CYs 2011 through 2016 in accordance with Federal requirements.<sup>10</sup> We determined that the allocable Medicare segment pension costs for CYs 2009 through 2016 totaled \$24,392,635. NHS reported that its allocable pension costs, as identified in its actuarial computations, totaled \$24,972,329. Therefore, NHS overstated the Medicare segment allocable pension costs by \$579,694. This overstatement occurred because of differences in the calculations of the assignable pension costs. More specifically, differences in the amortization calculations resulted in different assignable pension cost calculations.

Table 1 on the following page shows the differences between the allocable Medicare segment CAS-based pension costs that we determined for CYs 2009 through 2016 and the Medicare segment pension costs that NHS calculated for the same time period.

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<sup>10</sup> We identified the allocable pension costs for CYs 2009 and 2010 in our previous audit (A-07-13-00419; Dec. 16, 2013). For the current audit, we incorporated these allocable pension costs into the indirect cost rates to determine the allowable pension costs.

**Table 1: Allocable Medicare Segment Pension Costs**

| <b>CY</b>    | <b>Allocable Per Audit<sup>11</sup></b> | <b>Per NHS</b>      | <b>Difference</b>  |
|--------------|-----------------------------------------|---------------------|--------------------|
| 2009         | \$4,399,182                             | \$4,442,285         | (\$43,103)         |
| 2010         | 4,380,499                               | 4,398,185           | (17,686)           |
| 2011         | 3,951,205                               | 4,220,451           | (269,246)          |
| 2012         | 3,315,176                               | 3,583,677           | (268,501)          |
| 2013         | 3,468,052                               | 4,194,667           | (726,615)          |
| 2014         | 3,193,961                               | 3,042,149           | 151,812            |
| 2015         | 1,510,306                               | 359,952             | 1,150,354          |
| 2016         | 174,254                                 | 730,963             | (556,709)          |
| <b>Total</b> | <b>\$24,392,635</b>                     | <b>\$24,972,329</b> | <b>(\$579,694)</b> |

**ALLOCABLE OTHER SEGMENT PENSION COSTS UNDERSTATED**

During the current audit, we calculated the allocable Other segment pension costs for CYs 2011 through 2016 in accordance with Federal requirements. We determined that the allocable Other segment pension costs for CYs 2009 through 2016 totaled \$88,009,634. NHS reported that its allocable pension costs, as identified in its actuarial computations, totaled \$86,316,668. Therefore, NHS understated the allocable Other segment pension costs by \$1,692,966. This understatement occurred because of differences in the assignable pension costs. More specifically, differences in the amortization calculations resulted in different assignable pension cost calculations.

Table 2 on the following page shows the allocable Other segment pension costs that we determined for CYs 2009 through 2016.

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<sup>11</sup> The allocable pension costs for CYs 2009 and 2010 were identified in our previous audit (A-07-13-00419; Dec. 16, 2013). We incorporated these allocable pension costs into the indirect cost rates to determine the allowable pension costs for CYs 2009 and 2010. During our current audit, we identified the allocable pension costs for CYs 2011 through 2016; however, we will not opine on the pension costs for CYs 2014 through 2016 because the ICP audits for these years have not been issued.

**Table 2: Allocable Other Segment Pension Costs**

| <b>CY</b>    | <b>Allocable Per Audit<sup>12</sup></b> | <b>Per NHS</b>      | <b>Difference</b>  |
|--------------|-----------------------------------------|---------------------|--------------------|
| 2009         | \$10,824,487                            | \$11,011,043        | (\$186,556)        |
| 2010         | 11,218,460                              | 11,428,362          | (209,902)          |
| 2011         | 11,209,178                              | 11,167,521          | 41,657             |
| 2012         | 11,515,437                              | 11,472,931          | 42,506             |
| 2013         | 12,175,876                              | 11,637,032          | 538,844            |
| 2014         | 12,714,749                              | 11,159,761          | 1,554,988          |
| 2015         | 9,635,647                               | 9,798,574           | (162,927)          |
| 2016         | 8,715,800                               | 8,641,444           | 74,356             |
| <b>Total</b> | <b>\$88,009,634</b>                     | <b>\$86,316,668</b> | <b>\$1,692,966</b> |

### **CALCULATION OF ALLOWABLE PENSION COSTS**

We used both the Medicare segment and the Other segment (Appendix C) allocable pension costs to adjust the indirect cost rates (i.e., the fringe benefit and general and administrative rates) to determine the allowable pension costs for Medicare reimbursement for CYs 2009 through 2013.<sup>13</sup>

NHS claimed Medicare pension costs of \$19,457,345 on its ICPs for CYs 2009 through 2013. After incorporating the results of the ICP audits and our adjustments to the indirect cost rates, we determined that the allowable CAS-based pension costs for CYs 2009 through 2013 were \$18,630,677. Thus, NHS claimed \$826,668 of unallowable Medicare pension costs on its ICPs for CYs 2009 through 2013. This overclaim occurred specifically because NHS based its claim for Medicare reimbursement on incorrect pension costs included in the indirect cost rates on the ICPs.

We calculated the allowable Medicare pension costs based on separately computed CAS-based pension costs in accordance with CAS 412 and 413. (Our calculation does not appear in this report because those indirect cost rate computations that NHS used in its ICPs, and to which we referred as part of our review, are proprietary information.) For details on the Federal requirements, see Appendix B.

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<sup>12</sup> The allocable pension costs for CYs 2009 and 2010 were identified in our previous audit (A-07-13-00419; Dec. 16, 2013). We incorporated these allocable pension costs into the indirect cost rates to determine the allowable pension costs for CYs 2009 and 2010. During our current audit, we identified the allocable pension costs for CYs 2011 through 2016; however, we will not opine on the pension costs for CYs 2014 through 2016 because the ICP audits for these years have not been issued.

<sup>13</sup> We incorporated the results of the ICP audits into our computation of the allowable pension costs. Because the ICP audits for CYs 2014 through 2016 have not been issued, our report opines only on the claimed pension costs for CYs 2009 through 2013.

Table 3 below compares the Medicare pension costs that we calculated (using our adjusted indirect cost rates) to the pension costs that NHS claimed for Medicare reimbursement for CYs 2009 through 2013.

**Table 3: Comparison of Allowable Pension Costs and Claimed Pension Costs**

| <b>CY</b>    | <b>Allowable Per Audit</b> | <b>Per NHS</b>      | <b>Difference</b>  |
|--------------|----------------------------|---------------------|--------------------|
| 2009         | \$3,807,971                | \$3,859,918         | (\$51,947)         |
| 2010         | 3,277,842                  | 3,234,929           | 42,913             |
| 2011         | 2,948,017                  | 3,084,162           | (136,145)          |
| 2012         | 3,931,720                  | 4,131,318           | (199,598)          |
| 2013         | 4,665,127                  | 5,147,018           | (481,891)          |
| <b>Total</b> | <b>\$18,630,677</b>        | <b>\$19,457,345</b> | <b>(\$826,668)</b> |

**RECOMMENDATION**

We recommend that Noridian Healthcare Solutions, LLC, work with CMS to ensure that its final settlement of contract costs reflects a decrease in Medicare pension costs of \$826,668 for CYs 2009 through 2013.

**AUDITEE COMMENTS**

In written comments on our draft report, NHS concurred with our recommendation. NHS stated that it would ensure that the final settlement reflected a decrease in Medicare pension costs of \$826,668 for CYs 2009 through 2013.

NHS’s comments are included in their entirety as Appendix D.

## APPENDIX A: AUDIT SCOPE AND METHODOLOGY

### SCOPE

We reviewed \$19,457,345 of Medicare pension costs that NHS claimed for Medicare reimbursement on its ICPs for CYs 2009 through 2013 (footnote 10).

Achieving our objective did not require that we review NHS's overall internal control structures. We reviewed the internal controls related to the pension costs that were included in NHS's ICPs and ultimately used as the basis for Medicare reimbursement, to ensure that these costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

We performed fieldwork at NHS in Fargo, North Dakota.

### METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- reviewed information provided by NHS to identify the amounts of pension costs used in NHS's calculation of indirect cost rates for CYs 2009 through 2013;
- reviewed the results of DCAA's and CLA's ICP audits and incorporated those results into our calculations of allowable pension costs;
- incorporated information from our previous report (A-07-13-00419; see below);
- engaged the CMS Office of the Actuary, which provides technical actuarial advice, to calculate the allocable pension costs based on the CAS (the calculations were based on separately computed CAS-based pension costs for the Medicare segment and the Other segment);
- reviewed the CMS actuaries' methodology and calculations; and
- provided the results of our review to NHS officials on July 26, 2019.

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

- *Noridian Healthcare Solutions, LLC, Overstated Its Allocable Pension Costs for Calendar Years 2006 Through 2010 (A-07-13-00419, Dec. 16, 2013);*

- *Noridian Healthcare Solutions, LLC, Understated Its Medicare Segment Pension Assets (A-07-18-00547); and*
- *Noridian Healthcare Solutions, LLC, Claimed Some Unallowable Medicare Pension Costs (A-07-18-00548).*

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 PENSION COSTS**

### **FEDERAL REGULATIONS**

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

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 Medicare contracts require NHS to submit invoices in accordance with FAR 52.216-7, "Allowable Cost & Payment." (See our citation to FAR 52.216-7(a)(1) in "Federal Regulations" above.)

**APPENDIX C: ALLOCABLE MEDICARE PENSION COSTS  
FOR NORIDIAN HEALTHCARE SOLUTIONS, LLC,  
FOR CALENDAR YEARS 2011 THROUGH 2016**

| <b>Date</b>     | <b>Description</b>                    | <b>Total Company</b> | <b>Other Segment</b> | <b>Medicare Segment</b> |
|-----------------|---------------------------------------|----------------------|----------------------|-------------------------|
| 2011            | Contributions <u>1/</u>               | \$0                  | \$0                  | \$0                     |
|                 | Contributions Accrued <u>2/</u>       | \$15,200,000         | \$15,200,000         | \$0                     |
|                 | Discount for Interest <u>3/</u>       | (\$1,093,271)        | (\$1,093,271)        | \$0                     |
| January 1, 2011 | Present Value Contributions <u>4/</u> | \$14,106,729         | \$14,106,729         | \$0                     |
|                 | Prepayment Credit Applied <u>5/</u>   | \$15,160,383         | \$11,209,178         | \$3,951,205             |
|                 | Present Value of Funding <u>6/</u>    | \$29,267,112         | \$25,315,907         | \$3,951,205             |
| January 1, 2011 | CAS Funding Target <u>7/</u>          | \$15,160,383         | \$11,209,178         | \$3,951,205             |
|                 | Percentage Funded <u>8/</u>           |                      | 100.00%              | 100.00%                 |
|                 | Funded Pension Cost <u>9/</u>         |                      | \$11,209,178         | \$3,951,205             |
|                 | Allowable Interest <u>10/</u>         |                      | \$0                  | \$0                     |
| 2011            | CY Allocable Pension Cost <u>11/</u>  |                      | \$11,209,178         | \$3,951,205             |

| <b>Date</b>     | <b>Description</b>          | <b>Total Company</b> | <b>Other Segment</b> | <b>Medicare Segment</b> |
|-----------------|-----------------------------|----------------------|----------------------|-------------------------|
| 2012            | Contributions               | \$0                  | \$0                  | \$0                     |
|                 | Contributions Accrued       | \$12,000,000         | \$12,000,000         | \$0                     |
|                 | Discount for Interest       | (\$837,209)          | (\$837,209)          | \$0                     |
| January 1, 2012 | Present Value Contributions | \$11,162,791         | \$11,162,791         | \$0                     |
|                 | Prepayment Credit Applied   | \$14,830,613         | \$11,515,437         | \$3,315,176             |
|                 | Present Value of Funding    | \$25,993,404         | \$22,678,228         | \$3,315,176             |
| January 1, 2012 | CAS Funding Target          | \$14,830,613         | \$11,515,437         | \$3,315,176             |
|                 | Percentage Funded           |                      | 100.00%              | 100.00%                 |
|                 | Funded Pension Cost         |                      | \$11,515,437         | \$3,315,176             |
|                 | Allowable Interest          |                      | \$0                  | \$0                     |
| 2012            | CY Allocable Pension Cost   |                      | \$11,515,437         | \$3,315,176             |

| Date            | Description                 | Total Company | Other Segment | Medicare Segment |
|-----------------|-----------------------------|---------------|---------------|------------------|
| 2013            | Contributions               | \$0           | \$0           | \$0              |
|                 | Contributions Accrued       | \$0           | \$0           | \$0              |
|                 | Discount for Interest       | \$0           | \$0           | \$0              |
| January 1, 2013 | Present Value Contributions | \$0           | \$0           | \$0              |
|                 | Prepayment Credit Applied   | \$15,643,928  | \$12,175,876  | \$3,468,052      |
|                 | Present Value of Funding    | \$15,643,928  | \$12,175,876  | \$3,468,052      |
| January 1, 2013 | CAS Funding Target          | \$15,643,928  | \$12,175,876  | \$3,468,052      |
|                 | Percentage Funded           |               | 100.00%       | 100.00%          |
|                 | Funded Pension Cost         |               | \$12,175,876  | \$3,468,052      |
|                 | Allowable Interest          |               | \$0           | \$0              |
| 2013            | CY Allocable Pension Cost   |               | \$12,175,876  | \$3,468,052      |

| Date            | Description                 | Total Company | Other Segment | Medicare Segment |
|-----------------|-----------------------------|---------------|---------------|------------------|
| 2014            | Contributions               | \$8,000,000   | \$8,000,000   | \$0              |
|                 | Contributions Accrued       | \$0           | \$0           | \$0              |
|                 | Discount for Interest       | (\$505,326)   | (\$505,326)   | \$0              |
| January 1, 2014 | Present Value Contributions | \$7,494,674   | \$7,494,674   | \$0              |
|                 | Prepayment Credit Applied   | \$15,908,710  | \$12,714,749  | \$3,193,961      |
|                 | Present Value of Funding    | \$23,403,384  | \$20,209,423  | \$3,193,961      |
| January 1, 2014 | CAS Funding Target          | \$15,908,710  | \$12,714,749  | \$3,193,961      |
|                 | Percentage Funded           |               | 100.00%       | 100.00%          |
|                 | Funded Pension Cost         |               | \$12,714,749  | \$3,193,961      |
|                 | Allowable Interest          |               | \$0           | \$0              |
| 2014            | CY Allocable Pension Cost   |               | \$12,714,749  | \$3,193,961      |

| Date            | Description                 | Total Company | Other Segment | Medicare Segment |
|-----------------|-----------------------------|---------------|---------------|------------------|
| 2015            | Contributions               | \$0           | \$0           | \$0              |
|                 | Contributions Accrued       | \$0           | \$0           | \$0              |
|                 | Discount for Interest       | \$0           | \$0           | \$0              |
| January 1, 2015 | Present Value Contributions | \$0           | \$0           | \$0              |
|                 | Prepayment Credit Applied   | \$11,145,953  | \$9,635,647   | \$1,510,306      |
|                 | Present Value of Funding    | \$11,145,953  | \$9,635,647   | \$1,510,306      |
| January 1, 2015 | CAS Funding Target          | \$11,145,953  | \$9,635,647   | \$1,510,306      |
|                 | Percentage Funded           |               | 100.00%       | 100.00%          |
|                 | Funded Pension Cost         |               | \$9,635,647   | \$1,510,306      |
|                 | Allowable Interest          |               | \$0           | \$0              |
| 2015            | CY Allocable Pension Cost   |               | \$9,635,647   | \$1,510,306      |

| Date            | Description                 | Total Company | Other Segment | Medicare Segment |
|-----------------|-----------------------------|---------------|---------------|------------------|
| 2016            | Contributions               | \$0           | \$0           | \$0              |
|                 | Contributions Accrued       | \$0           | \$0           | \$0              |
|                 | Discount for Interest       | \$0           | \$0           | \$0              |
| January 1, 2016 | Present Value Contributions | \$0           | \$0           | \$0              |
|                 | Prepayment Credit Applied   | \$8,890,054   | \$8,715,800   | \$174,254        |
|                 | Present Value of Funding    | \$8,890,054   | \$8,715,800   | \$174,254        |
| January 1, 2016 | CAS Funding Target          | \$8,890,054   | \$8,715,800   | \$174,254        |
|                 | Percentage Funded           |               | 100.00%       | 100.00%          |
|                 | Funded Pension Cost         |               | \$8,715,800   | \$174,254        |
|                 | Allowable Interest          |               | \$0           | \$0              |
| 2016            | CY Allocable Pension Cost   |               | \$8,715,800   | \$174,254        |

## **ENDNOTES**

1/ We obtained these Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. These contributions include deposits made during the CY. We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-18-00547).

2/ We obtained these Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. These contributions include 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 pension segmentation review (A-07-18-00547).

- 3/ 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.
- 4/ 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. For purposes of this Appendix, we deemed deposits made after the end of the CY to have been made on the final day of the CY, consistent with the method established by the Employee Retirement Income Security Act prior to the implementation of the Pension Protection Act.
- 5/ 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 pension costs.
- 6/ 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.
- 7/ The CAS funding target must be funded by contributions made during the current accounting period or prepaid contributions to satisfy the funding requirement of the FAR 31.205-6(j)(2)(i).
- 8/ 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.
- 9/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.
- 10/ 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, less the prepayment credit, were funded in four equal installments deposited within 30 days after the end of the quarter.
- 11/ The CY allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.

APPENDIX D: AUDITEE COMMENTS



Office of Audit Services, Region VII  
601 East 12<sup>th</sup> Street, Room 0429  
Kansas City, MO 64106

Mr. David Breuer  
Executive Vice President and Chief Financial Officer  
Blue Cross Blue Shield of North Dakota  
4510 13<sup>th</sup> Avenue South  
Fargo, ND 58121

**Report Number:** A-07-18-00550

**Report Title:** Noridian Healthcare Solutions, LLC, Claimed Some Unallowable Medicare Pension Costs Through Its Incurred Cost Proposals

**Recommendation – From Report**

We recommend that Noridian Healthcare Solutions, LLC, work with CMS to ensure that its final settlement of contract costs reflects a decrease in Medicare pension costs of \$826,668 for CYs 2009 through 2013.

**Statement of concurrence or non-concurrence:**

Noridian Healthcare Solutions, LLC concurs with the above recommendation.

- For a concurrence, please include a statement describing the nature of the corrective action taken or planned.
- For a nonconcurrence, please include specific reasons for the nonconcurrence and a statement of any alternative corrective action taken or planned.

Noridian will ensure that its final settlement of contract costs reflects a decrease in Medicare pension costs of \$826,668 for CYs 2009 through 2013.

Signed: \_\_\_\_\_/David Breuer/\_\_\_\_\_ Date: 10/15/2019  
David Breuer, Executive Vice President and Chief Financial Officer  
Blue Cross Blue Shield of North Dakota