

Department of Health and Human Services
**OFFICE OF
INSPECTOR GENERAL**

**NORIDIAN HEALTHCARE
SOLUTIONS, LLC, UNDERSTATED ITS
MEDICARE SEGMENT
POSTRETIREMENT BENEFIT ASSETS AS
OF JANUARY 1, 2017**

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



Amy J. Frontz
Deputy Inspector General
for Audit Services

January 2022
A-07-21-00604

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.

Report in Brief

Date: January 2022

Report No. A-07-21-00604

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL



Why OIG Did This Audit

The Centers for Medicare & Medicaid Services (CMS) reimburses Medicare contractors for a portion of their postretirement benefit (PRB) costs.

The HHS, OIG, Office of Audit Services, Region VII pension audit team reviews the Medicare segment PRB assets to ensure compliance with Federal regulations.

Previous OIG audits found that Medicare contractors did not always correctly identify and update the segmented PRB assets.

Our objectives were to determine whether Noridian Healthcare Solutions, LLC (NHS), complied with Federal requirements when:

(1) implementing the prior audit recommendation to increase the NHS Medicare segment PRB assets as of January 1, 2016, and (2) updating the Medicare segment PRB assets with contributions, permitted unfunded accruals, income, claims paid, participant transfers, and administrative expenses in its Cost Accounting Standards exhibits from January 1, 2016, to January 1, 2017.

How OIG Did This Audit

We reviewed NHS's implementation of the prior audit recommendation, its identification of its PRB Medicare segment, and its update of the Medicare segment PRB assets from January 1, 2016, to January 1, 2017.

Noridian Healthcare Solutions, LLC, Understated Its Medicare Segment Postretirement Benefit Assets as of January 1, 2017

What OIG Found

NHS concurred with our prior audit recommendation to increase the Medicare segment PRB assets by \$203,100 as of January 1, 2016. NHS did not implement our prior audit recommendation to upgrade the Medicare segment PRB assets. Regarding our second objective, NHS did not fully comply with Federal requirements when updating the Medicare segment PRB assets from January 1, 2016, to January 1, 2017. NHS identified Medicare segment PRB assets of \$9.5 million as of January 1, 2017; however, we determined that the Medicare segment PRB assets were \$9.7 million as of that date. Therefore, NHS understated the Medicare segment PRB assets as of January 1, 2017, by \$197,098. NHS understated the Medicare segment PRB assets because it did not have policies and procedures to ensure that it calculated those assets in accordance with Federal regulations and its established cost accounting practice when updating the Medicare segment's PRB assets from January 1, 2016, to January 1, 2017.

What OIG Recommends and Auditee Comments

We recommend that NHS increase the Medicare segment PRB assets by \$197,098 as of January 1, 2017.

NHS agreed with our finding that the Medicare segment PRB assets were understated and added that it would make the necessary adjustments to reflect the findings in future valuation reports issued. In addition, NHS stated that our report "improperly criticizes" NHS for "failing to implement" our recommendation from our prior pension segmentation audit (A-07-19-00567). NHS attributed the delay in updating the Medicare segment PRB assets to our delay in issuing that prior report, and not to any improper action or omission by NHS.

We agree that the delay in updating the Medicare segment PRB assets was not the result of an improper action or omission by NHS. Our current report addresses our prior audit recommendation as one of the audit adjustments required to update NHS's Medicare segment PRB assets. However, we recognize that the delay in issuance of our prior report affected the findings for this current audit and was the cause of NHS's delay in updating those assets. We note that NHS agreed with our current report's finding that the PRB assets were understated.

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INTRODUCTION

WHY WE DID THIS AUDIT

The Centers for Medicare & Medicaid Services (CMS) reimburses a portion of Medicare contractors' costs for postretirement benefit (PRB) plans. In claiming these costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation (FAR) and applicable Cost Accounting Standards (CAS). Noridian Healthcare Solutions, LLC (NHS), elected to use segmented accrual accounting for its PRB plan.

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

We used the Medicare contracts' pension segmentation requirements as authoritative guidance. The fiscal intermediary and carrier contracts require that the pension assets be allocated to each Medicare segment and adjusted in accordance with CAS 413. In turn, CAS 413 requires these contractors to update the pension assets with contributions, permitted unfunded accruals, income, benefit payments (claims paid), participant transfers, and administrative expenses. These PRB assets are calculated by the contractors' actuarial consulting firm and are usually included as CAS exhibits (that is, the update of the PRB assets as of January 1 of each year under review) in the contractors' PRB plan actuarial valuation reports. The Medicare segment PRB assets are integral to calculating the allowable Medicare PRB costs.

Previous Office of Inspector General audits found that Medicare contractors did not always correctly identify and update the Medicare segment PRB assets. Specifically, our prior PRB segmentation audit report of NHS (A-07-19-00567, Nov. 6, 2019) found that NHS did not correctly identify and update its Medicare segment PRB assets.

OBJECTIVES

Our objectives were to determine whether NHS complied with Federal requirements when: (1) implementing the prior audit recommendation to increase the NHS Medicare segment PRB assets as of January 1, 2016, and (2) updating the Medicare segment PRB assets with contributions, permitted unfunded accruals, income, claims paid, participant transfers, and administrative expenses in its CAS exhibits from January 1, 2016, to January 1, 2017.

BACKGROUND

Noridian Healthcare Solutions, LLC

NHS is a subsidiary of Blue Cross Blue Shield of North Dakota (BCBS North Dakota) (formerly Noridian Mutual Insurance Company), whose home office is in Fargo, North Dakota. NHS administered Medicare Part A, Medicare Part B, and Medicare Durable Medical Equipment (DME) contract operations under MAC contracts for Medicare Parts A and B Jurisdictions E¹ and F² and Medicare DME Jurisdictions A³ and D.⁴ In addition, NHS held the Pricing, Data Analysis and Coding contract.

NHS participates in a voluntary employee benefit association (VEBA) trust for the purpose of funding annual PRB accruals. Furthermore, NHS's accounting practice, approved by CMS, uses segmented accrual accounting for its PRB plans.

Prior Postretirement Benefit Segmentation Audit

We performed a prior PRB segmentation audit of NHS (A-07-19-00567, Nov. 6, 2019), which brought the NHS Medicare segment PRB assets to January 1, 2016. We recommended that NHS increase the Medicare segment PRB assets by \$203,100, and, as a result, recognize \$14,024,342 as the Medicare segment PRB assets as of January 1, 2016.

HOW WE CONDUCTED THIS AUDIT

We reviewed NHS's implementation of the prior audit recommendation, its identification of its PRB Medicare segment, and its update of the Medicare segment PRB assets from January 1, 2016, to January 1, 2017.

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.

¹ 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.

² Medicare Parts A and B Jurisdiction F includes the States of Alaska, Arizona, Idaho, Montana, North Dakota, Oregon, South Dakota, Utah, Washington, and Wyoming.

³ 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.

⁴ 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.

Appendix A contains details of our audit scope and methodology.

FINDINGS

NHS concurred with our prior audit recommendation to increase the Medicare segment PRB assets by \$203,100 as of January 1, 2016. However, NHS did not implement our prior audit recommendation to update the Medicare segment PRB assets.⁵ Regarding our second objective, NHS did not fully comply with Federal requirements when updating the Medicare segment PRB assets from January 1, 2016, to January 1, 2017. NHS identified Medicare segment PRB assets of \$9,457,766 as of January 1, 2017; however, we determined that the Medicare segment PRB assets were \$9,654,864 as of that date. Therefore, NHS understated the Medicare segment PRB assets as of January 1, 2017, by \$197,098. NHS understated the Medicare segment PRB assets because it did not have policies and procedures to ensure that it calculated those assets in accordance with Federal regulations and its established cost accounting practice when updating the Medicare segment's PRB assets from January 1, 2016, to January 1, 2017.

Appendix B identifies the details of NHS's Medicare segment PRB assets from January 1, 2016, to January 1, 2017, as determined during our audit. Table 1 summarizes the audit adjustments required to update NHS's Medicare segment PRB assets in accordance with Federal requirements.

Table 1: Summary of Audit Adjustments

	Per Audit	Per NHS	Difference
Prior Audit Recommendation	\$14,024,342	\$13,821,242	\$203,100
Update of Medicare Segment Assets			
Prepayment Credits	\$(4,589,022)	\$(4,573,539)	(15,483)
Claims Paid	\$(167,487)	\$(167,487)	0
Earnings, Net of Expenses	\$387,031	\$377,550	9,481
Understatement of Medicare Segment Assets			\$197,098

PRIOR AUDIT RECOMMENDATION

We performed a prior pension segmentation audit of NHS's Medicare segment PRB assets (A-07-19-00567, Nov. 6, 2019), which recommended that NHS increase its Medicare segment PRB assets by \$203,100 and, as a result, recognize \$14,024,342 as the Medicare segment PRB

⁵ Implementation of our prior audit recommendation would have required the restatement of NHS's annual valuation report. NHS concurred with our prior findings and recommendation but chose not to restate its 2017 report. NHS indicated that it would update the next valuation report to include the prior recommendation.

assets as of January 1, 2016.⁶ NHS concurred with our prior audit recommendation; however, NHS had not updated the Medicare segment PRB CAS rollup (footnote 5). Without that information, we were unable to determine whether NHS had implemented our prior recommendation. Therefore, we continue to identify the prior audit recommendation as an adjustment to the Medicare segment PRB assets, as shown in Table 1.

UPDATE OF MEDICARE SEGMENT POSTRETIREMENT BENEFIT ASSETS

NHS elected to use segmented accrual accounting for its PRB plan. In accordance with NHS's established cost accounting practice, we used CAS 413 pension segmentation requirements as authoritative guidance. CAS 413.50(c)(7) states that "the contractor shall maintain a record of the portion of subsequent contributions, permitted unfunded accruals, income, benefit payments, and expenses attributable to the segment." For details on the Federal requirements, see Appendix C.

NHS did not correctly update the Medicare segment PRB assets from January 1, 2016, to January 1, 2017, in accordance with Federal requirements. NHS identified \$9,457,766 as the Medicare segment PRB assets as of January 1, 2017; however, we determined that those assets were \$9,654,864 as of that date. Therefore, NHS understated the Medicare segment PRB assets as of January 1, 2017, by \$197,098. The following are our findings regarding the update of the Medicare segment PRB assets from January 1, 2016, to January 1, 2017.⁷

Transferred Prepayment Credits Understated

NHS understated prepayment credits for the Medicare segment by \$15,483. The understatement occurred because NHS incorrectly calculated the PRB cost on which the prepayment credits were based. The understatement of prepayment credits resulted primarily from differences in the amortization calculations. Therefore, NHS overstated the Medicare segment PRB assets by \$15,483.

Earnings, Net of Expenses, Understated

NHS understated investment earnings, less administrative expenses, by \$9,481 for its Medicare segment, because it used incorrect transferred prepayment credits (discussed above) to develop the Medicare segment PRB asset base. In our calculation of the Medicare segment PRB assets as of January 1, 2017, we allocated earnings, net of expenses, based on the applicable CAS requirements. For details on applicable Federal requirements, see Appendix C.

⁶ The HHS action official, an official CMS designates to resolve Medicare pension matters, will make a final determination as to actions taken on our prior audit recommendation, as well as any recommendations stemming from this audit.

⁷ As shown in Table 1, our calculation of NHS's benefit payments (claims paid) agreed with NHS's calculations. For that reason, we do not convey a finding on those assets.

RECOMMENDATION

We recommend that Noridian Healthcare Solutions, LLC, increase the Medicare segment PRB assets by \$197,098 as of January 1, 2017.

AUDITEE COMMENTS

In written comments on our draft report, NHS agreed with our finding that the Medicare segment PRB assets were understated and added that it would make the necessary adjustments to reflect the findings in future valuation reports issued. In addition, NHS stated that our report “improperly criticizes” NHS for “failing to implement” our recommendation from our prior pension segmentation audit (A-07-19-00567, Nov. 6, 2019). NHS said that it submitted a valuation report for the period covered by our prior audit before we issued that prior report. NHS thus attributed this “disconnect” to our delay in issuing our prior report, and not to any improper action or omission by NHS.

NHS’s comments appear in their entirety as Appendix D.⁸

OFFICE OF INSPECTOR GENERAL RESPONSE

We agree that the delay in updating the Medicare segment PRB assets was not the result of an improper action or omission by NHS. Our current report addresses our prior audit recommendation as one of the audit adjustments required to update NHS’s Medicare segment PRB assets (Table 1). However, we recognize that the delay in issuance of our prior report affected the findings for this current audit and was the cause of NHS’s delay in updating those assets. Because our finding for the current report incorporates the difference in the prior audit assets, we had to address the difference with reference to the prior audit’s findings and recommendation. We note that in its written comments on our current audit’s draft report, NHS agreed with our finding that the PRB assets were understated.

⁸ Although BCBS North Dakota, of which NHS is a subsidiary, provided written comments on this draft report, for consistency we associate these comments with NHS.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed NHS's implementation of the prior audit recommendation; its identification of its PRB Medicare segment; and its update of the Medicare segment PRB assets with contributions, permitted unfunded accruals, income, benefit payments (claims paid), participant transfers, and administrative expenses in its CAS exhibits from January 1, 2016, to January 1, 2017.

Achieving our objective did not require that we review NHS's overall internal control structures. We reviewed controls relating to the identification of the PRB Medicare segment and to the update of the Medicare segment PRB assets.

We performed audit work at our office in Jefferson City, Missouri.

METHODOLOGY

To accomplish our objectives, we:

- reviewed the portions of the FAR and CAS applicable to this audit;
- reviewed the annual actuarial valuation reports prepared by NHS's actuarial consulting firm, which included the PRB plan's assets, PRB obligations, service costs, contributions, claims paid, investment earnings, and administrative expenses, and used this information to calculate the Medicare segment PRB assets;
- obtained and reviewed the PRB plan documents;
- interviewed NHS staff responsible for determining and implementing the methodology that NHS used in its identification of the PRB Medicare segment;
- reviewed NHS's accounting records to verify the PRB Medicare segment identification;
- reviewed the prior segmentation audit performed of NHS (A-07-19-00567) to determine the beginning market value of assets;
- provided the CMS Office of the Actuary, which provides technical actuarial advice, with the actuarial information necessary for it to calculate the Medicare segment's PRB assets from January 1, 2016, to January 1, 2017;
- reviewed the CMS actuaries' methodology and calculations; and
- provided the results of our audit to NHS officials on August 5, 2021.

We performed this audit in conjunction with the following audit and used the information obtained during this audit: *Noridian Healthcare Solutions, LLC, Did Not Claim Some Allowable Medicare Postretirement Benefit Costs Through Its Incurred Cost Proposals for Calendar Years 2014 Through 2016 (A-07-21-00605)*.

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: NORIDIAN HEALTHCARE SOLUTIONS, LLC,
STATEMENT OF MEDICARE SEGMENT POSTRETIREMENT BENEFIT ASSETS
FOR THE PERIOD JANUARY 1, 2016, TO JANUARY 1, 2017**

Description		Total Company	Other Segment	Medicare Segment
Assets January 1, 2016	<u>1/</u>	\$43,302,194	\$29,277,852	\$14,024,342
Prepayment Credits	<u>2/</u>	0	4,589,022	(4,589,022)
Claims Paid	<u>3/</u>	(1,172,387)	(1,004,900)	(167,487)
Investment Return	<u>4/</u>	1,767,873	1,380,842	387,031
Assets January 1, 2017		\$43,897,680	\$34,242,816	\$9,654,864
Per NHS	<u>5/</u>	\$43,897,680	\$34,439,914	\$9,457,766
Asset Variance	<u>6/</u>	\$0	(\$197,098)	\$197,098

ENDNOTES

- 1/ We determined the Medicare segment PRB assets as of January 1, 2016, based on our prior segmentation audit of NHS (A-07-19-00567; Nov. 6, 2019). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare segment. All PRB assets are shown at market value.
- 2/ Prepayment credits represent funds available to satisfy future funding requirements and are applied to future funding requirements before current-year contributions to avoid incurring unallowable interest. Prepayment credits are transferred to the Medicare segment as needed to cover funding requirements.
- 3/ Claims paid represent benefit reimbursements from the trust fund for claims paid. We obtained Medicare segment claims paid amounts from documents prepared by NHS's actuarial consulting firm.
- 4/ We obtained investment returns from the PRB actuarial valuation reports. We allocated net investment returns based on the ratio of each segment's weighted average value (WAV) of assets to Total Company WAV of assets as required by the CAS.
- 5/ We obtained the asset amount as of January 1, 2017, from NHS's actuarial valuation report.
- 6/ The asset variance represents the difference between our calculation of the Medicare segment PRB assets and NHS's calculation of the Medicare segment PRB assets.

APPENDIX C: FEDERAL REQUIREMENTS RELATED TO POSTRETIREMENT BENEFIT SEGMENTATION

FEDERAL REGULATIONS

Federal regulations (FAR 31.205-6(o)) require that, to be allowable for Medicare reimbursement, PRB accrual costs be: (1) measured and assigned in accordance with generally accepted accounting principles, (2) funded in a dedicated trust fund, such as a VEBA trust, and (3) calculated in accordance with generally accepted actuarial principles and practices as promulgated by the Actuarial Standards Board.

Federal regulations (CAS 412.50(a)(4)) require that contributions in excess of the pension cost assigned to the period be recognized as prepayment credits and accumulated at the assumed valuation interest rate until applied to future-period costs. Prepayment credits that have not been applied to fund pension costs are excluded from the value of assets used to compute pension costs.

Federal regulations (CAS 413.50(c)(7)) require that the asset base be updated by contributions, permitted unfunded accruals, income, benefit payments, and expenses. For plan years beginning after March 30, 1995, the CAS requires investment income and expenses to be allocated among segments based on the ratio of the segment's WAV of assets to the Total Company WAV of assets.

Blue Cross Blue Shield of North Dakota
4510 13th Avenue South • Fargo, ND 58121



November 12, 2021

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

re: HHS OIG Draft Report No. A-07-21-00604

Mr. Cogley:

Per your September 13, 2021 request, Noridian Healthcare Solutions, LLC (“Noridian”) provides the following response to Draft Report No. A-07-21-00604 entitled, *Noridian Healthcare Solutions, LLC, Understated its Medicare Segment Postretirement Benefit Assets as of January 1, 2017*. Based on the information that your office provided to Noridian to support the findings in Draft Report No. A-07-21-00604, Noridian agrees with the finding that the postretirement benefits were understated.¹

Noridian will make the necessary adjustments to reflect the findings in future valuation reports issued.

Thank you for the opportunity to comment, please contact me at 701-282-1106 or e-mail me at dave.breuer@bcbsnd.com if you have any questions.

Sincerely,

/David Breuer/

David Breuer
Executive Vice President and Chief Financial Officer
Blue Cross and Blue Shield of North Dakota

¹ The Draft Report improperly criticizes Noridian for failing to implement HHS OIG’s recommendations from Report No. A-07-19-00567, which was issued in November 2019 and addressed the value of Medicare segment PRB assets through January 1, 2016. Draft Report No. A-07-21-00604 addresses the value of Medicare segment PRB assets through December 31, 2016, and Noridian submitted a valuation report for this period before HHS OIG issued Report No. A-07-19-00567. Accordingly, any disconnect between Noridian’s valuation report for 2016 and Report No. A-07-19-00567 is attributable to HHS OIG’s delays in issuing that report, and not any improper action or omission by Noridian.