

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**NORIDIAN HEALTHCARE
SOLUTIONS, LLC, OVERSTATED
ITS ALLOCABLE PENSION
COSTS FOR CALENDAR
YEARS 2006 THROUGH 2010**

*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**

**December 2013
A-07-13-00419**

Office of Inspector General

<https://oig.hhs.gov/>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC

at <https://oig.hhs.gov/>

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

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

Noridian Healthcare Solutions, LLC, overstated its allocable pension costs for the Medicare and Other segments by approximately \$37,000 and \$1.1 million, respectively, for calendar years 2006 through 2010.

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 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, Noridian Healthcare Solutions, LLC (NHS). In particular, we examined the Medicare segment and Other segment allocable pension costs (which for this report we will refer to as “pension costs”) that NHS used to calculate the indirect cost rates in its incurred cost proposals (ICPs).

The objective of this review was to determine whether the allocable pension costs that NHS used to calculate the indirect cost rates in its ICPs, under the provisions of its Medicare administrative contractor (MAC) contracts, for calendar years (CYs) 2006 through 2010 complied with Federal requirements.

BACKGROUND

During our audit period, NHS, formerly called Noridian Administrative Services, LLC (NAS), was a subsidiary of Noridian Mutual Insurance Company (NMIC), whose home office was and is in Fargo, North Dakota. NHS administered Medicare Parts A and B and Durable Medical Equipment operations under cost reimbursement contracts with CMS. With the implementation of Medicare contracting reform, NHS continued administering these Medicare operations after receiving the MAC contracts for Jurisdictions D and 3, effective June 30, 2006, and July 31, 2006, respectively.

During our audit period, NHS administered both fiscal intermediary and carrier contracts and MAC-related contracts. This report addresses the pension costs that NHS used in its calculation of its indirect cost rates under the provisions of its MAC-related contracts. We reviewed the pension costs claimed by NHS under the provisions of its fiscal intermediary and carrier contracts and are reporting those findings in *Noridian Healthcare Solutions, LLC, Claimed Some Unallowable Medicare Pension Costs for Fiscal Years 2006 Through 2010 (A-07-13-00418)*.

Also, effective May 13, 2013, NAS changed its name to NHS. Although we have addressed our report to NMIC, we will associate the term NHS with our findings and recommendations regarding the Medicare segment pension assets.

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

We reviewed \$21,595,442 of Medicare segment pension costs used by NHS in the calculation of its indirect cost rates, under the provisions of its MAC contracts, for CYs 2006 through 2010. We also reviewed \$48,150,708 of Other segment pension costs used by NHS 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 pension costs that NHS used to calculate the indirect cost rates in its ICPs complied with Federal requirements. Specifically, for CYs 2006 through 2010:

- NHS used Medicare segment pension costs of \$21,595,442 to calculate the indirect cost rates in its ICPs; however, we determined that the Medicare segment pension costs that should have been used to calculate the indirect cost rates were \$21,558,854. Thus, NHS overstated the Medicare segment pension costs used to calculate the indirect cost rates by \$36,588.
- NHS used Other segment pension costs of \$48,150,708 to calculate the indirect cost rates in its ICPs; however, we determined that the Other segment pension costs that should have been used to calculate the indirect cost rates were \$47,040,607. Thus, NHS overstated the Other segment pension costs used to calculate the indirect cost rates by \$1,110,101.

These overstatements occurred primarily because NHS used incorrect CAS pension costs to calculate its indirect cost rates for CYs 2006 through 2010.

CMS should use the information contained in this report and the related report (A-07-13-00418) when determining the allowable Medicare segment pension costs at NHS.

WHAT WE RECOMMEND

We recommend that NHS:

- decrease the Medicare segment pension costs used to calculate the indirect cost rates by \$36,588 for CYs 2006 through 2010,
- decrease the Other segment pension costs used to calculate the indirect cost rates by \$1,110,101 for CYs 2006 through 2010, and

- work with CMS to determine the allowable Medicare segment pension costs related to the MAC contract.

AUDITEE COMMENTS

In written comments on our draft report, NHS concurred with our recommendations. NHS said that it would decrease both the Medicare segment and Other segment pension costs for CYs 2006 through 2010. NHS also said that it would work with CMS to determine the allowable Medicare segment pension costs related to the MAC contract.

TABLE OF CONTENTS

INTRODUCTION	1
Why We Did This Review	1
Objective	1
Background	1
Noridian Healthcare Solutions, LLC	1
Medicare Reimbursement of Pension Costs	2
How We Conducted This Review	2
FINDINGS	3
Overstatement of Medicare Segment Pension Costs	3
Overstatement of Other Segment Pension Costs	4
RECOMMENDATIONS	5
AUDITEE COMMENTS	5
APPENDIXES	
A: Audit Scope and Methodology	6
B: Federal Requirements Related to Reimbursement of Pension Costs	8
C: Allocable Medicare Pension Costs for Noridian Healthcare Solutions, LLC, for Calendar Years 2006 Through 2010	9
D: Auditee Comments	12

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 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, Noridian Healthcare Solutions, LLC (NHS). In particular, we examined the Medicare segment and Other segment allocable pension costs (which for this report we will refer to as “pension costs”) that NHS used to calculate the indirect cost rates in its incurred cost proposals (ICPs).

OBJECTIVE

Our objective was to determine whether the allocable pension costs that NHS used to calculate the indirect cost rates in its ICPs, under the provisions of its Medicare administrative contractor (MAC) contracts, for calendar years (CYs) 2006 through 2010 complied with Federal requirements.

BACKGROUND

Noridian Healthcare Solutions, LLC

During our audit period, NHS, formerly called Noridian Administrative Services, LLC (NAS), was a subsidiary of Noridian Mutual Insurance Company (NMIC), whose home office was and is in Fargo, North Dakota. NHS administered Medicare Parts A and B and Durable Medical Equipment (DME) operations under cost reimbursement contracts with CMS. With the implementation of Medicare contracting reform,¹ NHS continued administering these Medicare operations after receiving the MAC contracts for Jurisdictions D and 3, effective June 30, 2006, and July 31, 2006, respectively.^{2, 3}

¹ 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 terms “Medicare contractor” and “MAC” mean the fiscal intermediary, carrier, or MAC, whichever is applicable.

² DME Jurisdiction D comprises the States of Alaska, Arizona, Hawaii, Idaho, Iowa, Kansas, Missouri, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, and Wyoming, and the territories of American Samoa, Guam, and the Northern Mariana Islands.

³ Medicare Parts A and B Jurisdiction 3 comprises Arizona, Montana, North Dakota, South Dakota, Utah, and Wyoming.

During our audit period, NHS administered both fiscal intermediary and carrier contracts and MAC-related contracts. This report addresses the pension costs that NHS used in its calculation of its indirect cost rates under the provisions of its MAC-related contracts. We reviewed the pension costs claimed by NHS under the provisions of its fiscal intermediary and carrier contracts and are reporting those findings in *Noridian Healthcare Solutions, LLC, Claimed Some Unallowable Medicare Pension Costs for Fiscal Years 2006 Through 2010 (A-07-13-00418)*.

Also, effective May 13, 2013, NAS changed its name to NHS. Although we have addressed our report to NMIC, we will associate the term NHS with our findings and recommendations regarding the Medicare segment allocable pension costs.

During 2006, NHS 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 these indirect cost rates when reimbursing costs for cost-plus-award-fee type contracts.⁴

Medicare Reimbursement of Pension Costs

CMS reimburses a portion of the Medicare contractors' annual pension costs, which are funded by the annual contributions that these contractors make to their pension 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 Medicare contracting reform, CMS transferred the functions of the fiscal intermediaries and carriers, that had executed the fiscal intermediary and carrier contracts, to MACs. Under the MAC contracts, the method by which Medicare reimbursed pension costs to the contractors changed from a cost reimbursement basis to an indirect cost basis. In accordance with the FAR and the MAC contracts, reimbursement of indirect costs was now based on indirect cost rates that met the negotiated indirect cost rates determined in the contracts.

HOW WE CONDUCTED THIS REVIEW

We reviewed \$21,595,442 of Medicare segment pension costs used by NHS in the calculation of its indirect cost rates, under the provisions of its MAC contracts, for CYs 2006 through 2010. We also reviewed \$48,150,708 of Other segment pension costs used by NHS 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

⁴ A cost-plus-award-fee contract is a cost-reimbursement contract that provides for a fee consisting of (a) a base amount fixed at inception of the contract and (b) an award amount, based on a judgmental evaluation by the Government.

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 pension costs that NHS used to calculate the indirect cost rates in its ICPs complied with Federal requirements. Specifically, for CYs 2006 through 2010:

- NHS used Medicare segment pension costs of \$21,595,442 to calculate the indirect cost rates in its ICPs; however, we determined that the Medicare segment pension costs that should have been used to calculate the indirect cost rates were \$21,558,854. Thus, NHS overstated the Medicare segment pension costs used to calculate the indirect cost rates by \$36,588.
- NHS used Other segment pension costs of \$48,150,708 to calculate the indirect cost rates in its ICPs; however, we determined that the Other segment pension costs that should have been used to calculate the indirect cost rates were \$47,040,607. Thus, NHS overstated the Other segment pension costs used to calculate the indirect cost rates by \$1,110,101.

These overstatements occurred primarily because NHS used incorrect CAS pension costs to calculate its indirect cost rates for CYs 2006 through 2010.

CMS should use the information contained in this report and the related report (A-07-13-00418) when determining the allowable Medicare segment pension costs at NHS.⁵

OVERSTATEMENT OF MEDICARE SEGMENT PENSION COSTS

NHS used pension costs of \$21,595,442 to calculate the indirect cost rates for the Medicare segment. We calculated the CAS-based pension costs for CYs 2006 through 2010 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 pension costs for the Medicare segment were \$21,558,854 for CYs 2006 through 2010. Thus, NHS overstated the Medicare segment pension costs used to calculate the indirect cost rates for this time period by \$36,588. This overstatement occurred because NHS used incorrect CAS pension costs when calculating the indirect cost rates for this

⁵ Our review of the allocable pension costs at NHS identifies the amount of pension costs that should be used to allocate pension costs to the Medicare and Other segments. CMS should use the information in this report, as well as the information from our review of the fiscal intermediary and carrier contracts' pension costs claimed by NHS (A-07-13-00418), to determine the allowable pension costs at NHS. In addition, CMS will use the information provided by the audit organization that reviews the ICPs (regarding their compliance with the CAS) to determine the final indirect cost rates at NHS.

time period. More specifically, this overstatement of the CAS-based pension costs occurred because of differences in the identification of the Medicare segment participants.

Table 1 below shows the difference between the Medicare segment CAS-based pension costs that we calculated and the pension costs that NHS used to calculate its indirect cost rates for CYs 2006 through 2010. Appendix C contains additional details on pension costs.

Table 1: Comparison of Pension Costs for the Medicare Segment

Calendar Year	<u>Medicare Segment Pension Costs</u>		Difference
	Per Audit	Per NHS	
2006	\$3,996,718	\$4,007,523	(\$10,805)
2007	4,308,674	4,245,048	63,626
2008	4,473,781	4,502,401	(28,620)
2009	4,399,182	4,442,285	(43,103)
2010	4,380,499	4,398,185	(17,686)
Total	\$21,558,854	\$21,595,442	(\$36,588)

OVERSTATEMENT OF OTHER SEGMENT PENSION COSTS

NHS used pension costs of \$48,150,708 to calculate the indirect cost rates for the Other segment. We calculated the CAS-based pension costs for CYs 2006 through 2010 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 pension costs for the Other segment were \$47,040,607 for CYs 2006 through 2010. Thus, NHS overstated the Other segment pension costs used to calculate the indirect cost rates for this time period by \$1,110,101. This overstatement occurred because NHS used incorrect CAS pension costs when calculating the indirect cost rates for this time period.

Table 2 on the following page shows the difference between the Other segment CAS-based pension costs that we calculated and the pension costs that NHS used to calculate the indirect cost rates for CYs 2006 through 2010. Appendix C contains additional details on pension costs.

Table 2: Comparison of Pension Costs for the Other Segment

<u>Other Segment Pension Costs</u>			
Calendar Year	Per Audit	Per NHS	Difference
2006	\$7,905,494	\$8,124,578	(\$219,084)
2007	8,094,779	8,388,185	(293,406)
2008	8,997,387	9,198,540	(201,153)
2009	10,824,487	11,011,043	(186,556)
2010	11,218,460	11,428,362	(209,902)
Total	\$47,040,607	\$48,150,708	(\$1,110,101)

RECOMMENDATIONS

We recommend that NHS:

- decrease the Medicare segment pension costs used to calculate the indirect cost rates by \$36,588 for CYs 2006 through 2010,
- decrease the Other segment pension costs used to calculate the indirect cost rates by \$1,110,101 for CYs 2006 through 2010, and
- work with CMS to determine the allowable Medicare segment pension costs related to the MAC contract.

AUDITEE COMMENTS

In written comments on our draft report, NHS concurred with our recommendations. NHS said that it would decrease both the Medicare segment and Other segment pension costs for CYs 2006 through 2010. NHS also said that it would work with CMS to determine the allowable Medicare segment pension costs related to the MAC contract. NHS's comments are included in their entirety as Appendix D.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$21,595,442 of Medicare segment pension costs used by NHS in the calculation of its indirect cost rates, under the provisions of its MAC contracts, for CYs 2006 through 2010. We also reviewed \$48,150,708 of Other segment pension costs used by NHS in the calculation of its indirect cost rates for this same time period.

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

We performed fieldwork at NHS's office in Fargo, North Dakota, during April and May 2012.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and the Medicare contracts applicable to this audit;
- reviewed NHS's ICPs to identify the amount of pension costs included in the indirect cost rates calculations for CYs 2006 through 2010;
- used information that NMIC's actuarial consulting firms provided, including information on assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses;
- examined NHS's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Forms 5500;
- determined the extent to which NHS funded CAS-based pension costs with contributions to the pension trust fund and accumulated prepayment credits;
- engaged the CMS Office of the Actuary to calculate the 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); 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:

- *Noridian Healthcare Solutions, LLC, Understated Its Medicare Segment Pension Assets as of January 1, 2011 (A-07-13-00417) and*
- *Noridian Healthcare Solutions, LLC, Claimed Some Unallowable Medicare Pension Costs for Fiscal Years 2006 Through 2010 (A-07-13-00418).*

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 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 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 contractors fund the pension costs assigned to contract periods by making contributions to the pension plans.

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 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 MEDICARE PENSION COSTS
FOR NORIDIAN HEALTHCARE SOLUTIONS, LLC,
FOR CALENDAR YEARS 2006 THROUGH 2010**

Date	Description		Total Company	Other Segment	Medicare Segment
2006	Contributions	<u>1/</u>	\$17,000,000	\$17,000,000	\$0
	Discount for Interest	<u>2/</u>	(\$1,216,067)	(\$1,216,067)	\$0
January 1, 2006	Present Value Contributions	<u>3/</u>	\$15,783,933	\$15,783,933	\$0
	Prepayment Credit Applied	<u>4/</u>	\$11,902,212	\$7,905,494	\$3,996,718
	Present Value of Funding	<u>5/</u>	\$27,686,145	\$23,689,427	\$3,996,718
January 1, 2006	CAS Funding Target	<u>6/</u>	\$11,902,212	\$7,905,494	\$3,996,718
	Percentage Funded	<u>7/</u>		100.00%	100.00%
	Funded Pension Cost	<u>8/</u>		\$7,905,494	\$3,996,718
	Allowable Interest	<u>9/</u>		\$0	\$0
2006	CY Allocable Pension Cost	<u>10/</u>		\$7,905,494	\$3,996,718

Date	Description		Total Company	Other Segment	Medicare Segment
2007	Contributions		\$9,500,000	\$9,500,000	\$0
	Discount for Interest		(\$703,704)	(\$703,704)	\$0
January 1, 2007	Present Value Contributions		\$8,796,296	\$8,796,296	\$0
	Prepayment Credit Applied		\$12,403,453	\$8,094,779	\$4,308,674
	Present Value of Funding		\$21,199,749	\$16,891,075	\$4,308,674
January 1, 2007	CAS Funding Target		\$12,403,453	\$8,094,779	\$4,308,674
	Percentage Funded			100.00%	100.00%
	Funded Pension Cost			\$8,094,779	\$4,308,674
	Allowable Interest			\$0	\$0
2007	CY Allocable Pension Cost			\$8,094,779	\$4,308,674

Date	Description		Total Company	Other Segment	Medicare Segment
2008	Contributions		\$12,000,000	\$12,000,000	\$0
	Discount for Interest		(\$860,533)	(\$860,533)	\$0
January 1, 2008	Present Value Contributions		\$11,139,467	\$11,139,467	\$0
	Prepayment Credit Applied		\$13,471,168	\$8,997,387	\$4,473,781
	Present Value of Funding		\$24,610,635	\$20,136,854	\$4,473,781
January 1, 2008	CAS Funding Target		\$13,471,168	\$8,997,387	\$4,473,781
	Percentage Funded			100.00%	100.00%
	Funded Pension Cost			\$8,997,387	\$4,473,781
	Allowable Interest			\$0	\$0
2008	CY Allocable Pension Cost			\$8,997,387	\$4,473,781

Date	Description	Total Company	Other Segment	Medicare Segment
2009	Contributions	\$17,000,000	\$17,000,000	\$0
	Discount for Interest	(\$1,246,037)	(\$1,246,037)	\$0
January 1, 2009	Present Value Contributions	\$15,753,963	\$15,753,963	\$0
	Prepayment Credit Applied	\$15,223,669	\$10,824,487	\$4,399,182
	Present Value of Funding	\$30,977,632	\$26,578,450	\$4,399,182
January 1, 2009	CAS Funding Target	\$15,223,669	\$10,824,487	\$4,399,182
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$10,824,487	\$4,399,182
	Allowable Interest		\$0	\$0
2009	CY Allocable Pension Cost		\$10,824,487	\$4,399,182

Date	Description	Total Company	Other Segment	Medicare Segment
2010	Contributions	\$12,000,000	\$12,000,000	\$0
	Discount for Interest	(\$863,109)	(\$863,109)	\$0
January 1, 2010	Present Value Contributions	\$11,136,891	\$11,136,891	\$0
	Prepayment Credit Applied	\$15,598,959	\$11,218,460	\$4,380,499
	Present Value of Funding	\$26,735,850	\$22,355,351	\$4,380,499
January 1, 2010	CAS Funding Target	\$15,598,959	\$11,218,460	\$4,380,499
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		\$11,218,460	\$4,380,499
	Allowable Interest		\$0	\$0
2010	CY Allocable Pension Cost		\$11,218,460	\$4,380,499

* Line of business.

ENDNOTES

- 1/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. 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 pension segmentation review (A-07-13-00417). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare 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. 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 used prior to the implementation of the Pension Protection Act.

- 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 pension costs.
- 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 4 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, less the prepayment credit, 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



October 31, 2013

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

Re: Report A-07-13-00419

Dear Mr. Cogley,

We have reviewed your draft report entitled *Noridian Healthcare Solutions, LLC, Understated Its Allocable Pension Costs for Calendar Years 2006 Through 2010* and offer the following comments:

Recommendations:

- Decrease Medicare segment pension costs used to calculate the indirect cost rates by \$36,388 for CYs 2006 through 2010.
 - We concur with this recommendation and will decrease the Medicare segment pension costs for CYs 2006 through 2010.
- Decrease the Other segment pension costs used to calculate the indirect cost rates by \$1,110,101 for CYs 2006 through 2010.
 - We concur with this recommendation and will decrease the Other segment pension costs for CYs 2006 through 2010.
- Work with CMS to determine the allowable Medicare segment pensions costs related to the MAC contract.
 - We concur with this recommendation and will work with CMS to determine the allowable Medicare segment pension costs related to the MAC contract.

Sincerely,

A handwritten signature in black ink, appearing to read "B. Fellner".

Brian Fellner
Enterprise Vice President and Chief Financial Officer

4510 13th Avenue S.W. • Fargo, North Dakota 58121-0001

29305038

® Registered mark of Noridian Mutual Insurance Company

9-01