

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**NORIDIAN HEALTHCARE
SOLUTIONS, LLC,
UNDERSTATED ITS
MEDICARE SEGMENT PENSION
ASSETS AS OF JANUARY 1, 2011**

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



Gloria L. Jarmon
Deputy Inspector General

December 2013
A-07-13-00417

Office of Inspector General

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

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

Noridian Healthcare Solutions, LLC, a Medicare contractor, understated the Medicare segment pension assets by approximately \$2.4 million as of January 1, 2011.

The Centers for Medicare & Medicaid Services (CMS) reimburses a portion of the annual contributions that Medicare contractors make to their pension plans. These contributions are allowable Medicare costs subject to the criteria set forth in the Federal Acquisition Regulation, Cost Accounting Standards (CAS), and Medicare contracts. The Medicare contracts require contractors to separately account for Medicare segment pension plan assets and update them 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, participant transfers, and administrative expenses. These assets are calculated by the contractors' actuarial consulting firms and are usually included as CAS exhibits in the contractors' pension plan actuarial valuation reports. The Medicare segment pension assets are integral to calculating the allowable Medicare pension costs.

CMS incorporated pension segmentation requirements into Medicare contracts beginning with fiscal year 1988. Previous Office of Inspector General reviews found that Medicare contractors did not always correctly identify and update the segmented pension assets. Specifically, our prior pension segmentation audit of Noridian Mutual Insurance Company (NMIC) (A-07-08-00258) found that NMIC did not correctly identify and update its Medicare segment pension assets.

The objectives of this review were to determine whether Noridian Healthcare Solutions, LLC (NHS), complied with Federal requirements and the Medicare contracts' pension segmentation requirements when (1) implementing the prior audit recommendation to increase Medicare segment pension assets as of January 1, 2006, and (2) updating the Medicare segment's pension assets with contributions, income, benefit payments, participant transfers, and administrative expenses in its CAS exhibits from January 1, 2006, to January 1, 2011.

BACKGROUND

During our audit period, NHS, formerly called Noridian Administrative Services, LLC (NAS), was a subsidiary of 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 Medicare administrative contractor (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.

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.

Our prior pension segmentation audit (A-07-08-00258, issued November 4, 2008) updated the Medicare segment pension assets as of January 1, 2006. We recommended that NMIC increase its Medicare segment pension assets by \$158,261 and, as a result, recognize \$13,652,703 as the Medicare segment pension assets as of January 1, 2006, in its CAS exhibit.

WHAT WE FOUND

NHS did not implement the prior audit recommendation to recognize \$13,652,703 as the Medicare segment pension assets as of January 1, 2006, in its CAS exhibit. Therefore, NHS understated the Medicare segment pension assets by \$158,261 as of January 1, 2006.

Regarding our second objective, NHS identified Medicare segment pension assets of \$17,168,633 as of January 1, 2011; however, we determined that the Medicare segment pension assets were \$19,572,006. Therefore, NHS understated the Medicare segment pension assets by \$2,403,373. NHS understated the Medicare segment pension assets primarily because it incorrectly identified Medicare segment participants and, therefore, incorrectly identified the Medicare segment benefit payments and participants who transferred out of the Medicare segment. In addition, NHS lacked controls to ensure that it calculated those assets in accordance with Federal requirements and the pension segmentation language of its Medicare contracts when updating the Medicare segment pension assets from January 1, 2006, through January 1, 2011.

WHAT WE RECOMMEND

We recommend that NHS:

- increase its Medicare segment pension assets as of January 1, 2011, by \$2,403,373 and recognize \$19,572,006 as the Medicare segment pension assets and
- establish controls to ensure compliance with Federal regulations and the Medicare contracts' pension segmentation requirements when allocating contributions and transferred prepayment credits, benefit payments, participant transfers, and investment earnings and expenses.

AUDITEE COMMENTS

In written comments on our draft report, NHS concurred with our recommendations and said that it would increase and recognize the Medicare segment assets as of January 1, 2011. NHS also said that it would ensure that individuals are properly identified to the Medicare segments, that individuals are properly accounted for in transfers and benefit payments, and that the Medicare segment's assets are updated.

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INTRODUCTION

WHY WE DID THIS REVIEW

The Centers for Medicare & Medicaid Services (CMS) reimburses a portion of the annual contributions that Medicare contractors make to their pension plans. These contributions are allowable Medicare costs subject to the criteria set forth in the Federal Acquisition Regulation (FAR), Cost Accounting Standards (CAS), and Medicare contracts. The Medicare contracts require contractors to separately account for Medicare segment pension plan assets and update them 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, participant transfers, and administrative expenses. These assets are calculated by the contractors' actuarial consulting firms and are usually included as CAS exhibits in the contractors' pension plan actuarial valuation reports. The Medicare segment pension assets are integral to calculating the allowable Medicare pension costs.

CMS incorporated pension segmentation requirements into Medicare contracts beginning with fiscal year 1988. Previous Office of Inspector General reviews found that Medicare contractors did not always correctly identify and update the segmented pension assets. Specifically, our prior pension segmentation audit of Noridian Mutual Insurance Company (NMIC) (A-07-08-00258) found that NMIC did not correctly identify and update its Medicare segment pension assets.

OBJECTIVES

Our objectives were to determine whether Noridian Healthcare Solutions, LLC (NHS), complied with Federal requirements and the Medicare contracts' pension segmentation requirements when (1) implementing the prior audit recommendation to increase the Medicare segment pension assets as of January 1, 2006, and (2) updating the Medicare segment's pension assets with contributions, income, benefit payments, participant transfers, and administrative expenses in its CAS exhibits from January 1, 2006, to January 1, 2011.

BACKGROUND

During our audit period, NHS, formerly called Noridian Administrative Services, LLC (NAS), was a subsidiary of 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

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 Medicare administrative contractors (MACs) between October 2005 and October 2011. Most, but not all, of the MACs are fully operational; for jurisdictions where the MACs are not fully operational, the fiscal intermediaries and carriers continue to process claims. For purposes of this report, the terms "Medicare contractor" and "MAC" mean the fiscal intermediary, carrier, or Medicare administrative contractor, whichever is applicable.

contracts for Jurisdictions D and 3, effective June 30, 2006, and July 31, 2006, respectively.^{2, 3} During our audit period, NHS administered both fiscal intermediary and carrier contracts and MAC-related contracts.

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.

Our prior pension segmentation audit (A-07-08-00258, issued November 4, 2008) updated the Medicare segment pension assets as of January 1, 2006. We recommended that NMIC increase its Medicare segment pension assets by \$158,261 and, as a result, recognize \$13,652,703 as the Medicare segment pension assets as of January 1, 2006, in its CAS exhibit.

HOW WE CONDUCTED THIS REVIEW

We reviewed NHS's implementation of the prior audit recommendation; identification of its Medicare segment; and update of the Medicare segment assets with contributions, permitted unfunded accruals, income, benefit payments, participant transfers, and administrative expenses in its CAS exhibit from January 1, 2006, to January 1, 2011.

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 findings and conclusions based on our audit objectives.

Appendix A contains details of our audit scope and methodology.

FINDINGS

NHS did not implement the prior audit recommendation to recognize \$13,652,703 as the Medicare segment pension assets as of January 1, 2006, in its CAS exhibit. Therefore, NHS understated the Medicare segment pension assets by \$158,261 as of January 1, 2006.

Regarding our second objective, NHS identified Medicare segment pension assets of \$17,168,633 as of January 1, 2011; however, we determined that the Medicare segment pension assets were \$19,572,006. Therefore, NHS understated the Medicare segment pension assets by \$2,403,373. NHS understated the Medicare segment pension assets primarily because it incorrectly identified Medicare segment participants and, therefore, incorrectly identified the Medicare segment benefit payments and participants who transferred out of the Medicare

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.

segment. In addition, NHS lacked controls to ensure that it calculated those assets in accordance with Federal requirements and the pension segmentation language of its Medicare contracts when updating the Medicare segment pension assets from January 1, 2006, through January 1, 2011.

Appendix B presents details of NHS's pension plan assets from January 1, 2006, to January 1, 2011, as determined during our audit. Table 1 below summarizes the audit adjustments required to update NHS's Medicare segment pension assets in accordance with Federal requirements and the terms of its Medicare contract.

Table 1: Summary of Audit Adjustments			
	Per Audit	Per NHS	Difference
Prior Audit Recommendation	\$13,652,703	\$13,494,442	\$158,261
Update of Medicare Segment Assets			
Contributions and prepayment credits	21,558,854	21,507,206	51,648
Benefit payments	(13,074,973)	(15,424,771)	2,349,798
Net transfers out	(5,767,295)	(5,487,748)	(279,547)
Investment earnings (net of expenses)	3,202,717	3,079,504	123,213
Understatement of Medicare Segment Assets as of January 1, 2011			\$2,403,373

NORIDIAN HEALTHCARE SOLUTIONS, LLC, DID NOT IMPLEMENT OUR PRIOR AUDIT RECOMMENDATION

NHS did not implement our prior audit recommendation that it increase its Medicare segment pension assets by \$158,261 and recognize \$13,652,703 of Medicare segment pension assets as of January 1, 2006, in its CAS exhibit. Therefore, NHS understated its Medicare segment pension assets by \$158,261 as of January 1, 2006. For the current audit, we used \$13,652,703 as the beginning market value of assets as of January 1, 2006.

UPDATE OF MEDICARE SEGMENT PENSION ASSETS

The Medicare contract requires that Medicare contractors update the Medicare segment pension assets yearly in accordance with the CAS. The CAS requires that the assets base be adjusted by contributions, permitted unfunded accruals, income, benefit payments, and expenses.

For details on the Federal requirements and the Medicare contract, see Appendix C.

The following are our findings regarding the update of the NHS Medicare segment pension assets from January 1, 2006, to January 1, 2011.

Contributions and Transferred Prepayment Credits Understated

The audited contributions and transferred prepayment credits⁴ are based on the assignable pension costs.⁵ We applied prepayment credits first to current-year assignable pension costs (because the credits were available at the beginning of the year) and then updated any remaining credits with interest to the next measurement (valuation) date. We then allocated contributions to assigned pension costs, as needed, as of the date of deposit. For details on these Federal requirements, see Appendix C.

NHS understated contributions and transferred prepayment credits by \$51,648 for the Medicare segment because NHS incorrectly calculated the assignable pension costs upon which the contributions and prepayment credits were based. These incorrect calculations primarily resulted from differences in the identification of Medicare segment participants. Therefore, NHS understated the Medicare segment pension assets by \$51,648.

Benefit Payments Overstated

NHS overstated benefit payments by \$2,349,798 for the Medicare segment. This overstatement occurred primarily because in 2009, NHS incorrectly identified a single benefit payment of \$1,808,261 as a Medicare segment benefit payment. This overstatement of benefit payments resulted in an understatement of the NHS Medicare segment pension assets by \$2,349,798.

A comparison of NHS's and our calculations of benefit payments for the Medicare segment appears in Table 2 below.

	Per Audit	Per NHS	Difference
2006	(\$742,992)	(\$742,992)	\$0
2007	(1,571,965)	(1,745,158)	173,193
2008	(6,834,739)	(6,834,739)	0
2009	(463,165)	(463,165)	0
2010	(3,462,112)	(5,638,717)	2,176,605
Total	(\$13,074,973)	(\$15,424,771)	\$2,349,798

Net Transfers Out Understated

NHS understated net transfers out of the Medicare segment by \$279,547. The understatement occurred primarily because NHS incorrectly identified the assets of the Medicare segment participants who transferred out of the Medicare segment. We identified the Medicare segment participant transfers in accordance with CAS 413.50(c)(8). This understatement of the net transfer adjustment resulted in an overstatement of the Medicare segment pension assets by \$279,547.

⁴ A prepayment credit is the amount funded in excess of the pension costs assigned to a cost accounting period that is carried forward for future recognition.

⁵ These are assigned to a specific cost accounting period.

Table 3 below provides a comparison of NHS's and our calculations of net asset transfers into the Medicare segment.

Table 3: Net Assets Transfers Into the Medicare Segment			
	Per Audit	Per NHS	Difference
2006	(\$263,819)	(\$188,483)	(\$75,336)
2007	(381,506)	(329,001)	(52,505)
2008	(1,706,258)	(1,547,634)	(158,624)
2009	(2,725,093)	(2,724,264)	(829)
2010	(690,619)	(698,366)	7,747
Total	(\$5,767,295)	(\$5,487,748)	(\$279,547)

Investment Earnings (Net of Expenses) Understated

NHS understated investment earnings, less administrative expenses, by \$123,213 for the Medicare segment because it (1) used an incorrect beginning market value of assets and (2) used incorrect contributions and transferred prepayment credits, benefit payments, and net transfers (all discussed above) to develop the Medicare segment pension asset base. In our calculation of the Medicare segment pension assets as of January 1, 2011, we allocated investment earnings and administrative expenses based on the applicable CAS requirements. For details on applicable Federal requirements, see Appendix C.

RECOMMENDATIONS

We recommend that NHS:

- increase its Medicare segment pension assets as of January 1, 2011, by \$2,403,373 and recognize \$19,572,006 as the Medicare segment pension assets and
- establish controls to ensure compliance with Federal regulations and the Medicare contracts' pension segmentation requirements when allocating contributions and transferred prepayment credits, benefit payments, participant transfers, and investment earnings and expenses.

AUDITEE COMMENTS

In written comments on our draft report, NHS concurred with our recommendations and said that it would increase and recognize the Medicare segment assets as of January 1, 2011. NHS also said that it would ensure that individuals are properly identified to the Medicare segments, that individuals are properly accounted for in transfers and benefit payments, and that the Medicare segment's assets are updated. NHS's comments are included in their entirety as Appendix D.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed NHS's implementation of the prior audit recommendation; identification of its Medicare segment; and update of the Medicare segment assets with contributions, permitted unfunded accruals, income, benefit payments, participant transfers, and administrative expenses in its CAS exhibit from January 1, 2006, to January 1, 2011.

Achieving our objectives did not require us to review NHS's overall internal control structure. We reviewed controls relating to the identification of the Medicare segment and the update of the Medicare segment's assets to ensure adherence to the Medicare contracts, CAS 412, and CAS 413.

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

METHODOLOGY

To accomplish our objectives, we took the following steps:

- We reviewed the portions of the FAR, CAS, and the Medicare contracts applicable to this audit.
- We reviewed the annual actuarial valuation reports prepared by NMIC's actuarial consulting firm, which included the pension plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We used this information to calculate the Medicare segment assets.
- We obtained and reviewed the pension plan documents and Department of Labor/Internal Revenue Service Forms 5500 used in calculating the Medicare segment assets.
- We interviewed NHS staff responsible for identifying the Medicare segment to determine whether the segment was properly identified in accordance with the Medicare contracts.
- We reviewed NHS's accounting records to verify the segment identification and benefit payments made to the Medicare segment.
- We reviewed the prior segmentation audit performed at NMIC (A-07-08-00258) to determine the beginning market value of assets.
- We provided the CMS Office of the Actuary with the actuarial information necessary for it to calculate the Medicare segment pension assets from January 1, 2006, to January 1, 2011.

- We reviewed the CMS actuaries' methodology and calculations.

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

- *Noridian Healthcare Solutions, LLC, Claimed Some Unallowable Medicare Pension Costs for Fiscal Years 2006 Through 2010 (A-07-13-00418)* and
- *Noridian Healthcare Solutions, LLC, Overstated Its Allocable Pension Costs for Calendar Years 2006 Through 2010 (A-07-13-00419)*.

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 findings and conclusions based on our audit objectives.

**APPENDIX B: NORIDIAN HEALTHCARE SOLUTIONS, LLC,
STATEMENT OF MARKET VALUE OF PENSION ASSETS
FOR THE PERIOD JANUARY 1, 2006, TO JANUARY 1, 2011**

Description		Total Company	Other Segment	Medicare Segment
Assets January 1, 2006	<u>1/</u>	\$92,217,436	\$78,564,733	\$13,652,703
Prepayment credits	<u>2/</u>	0	(3,996,718)	3,996,718
Contributions	<u>3/</u>	17,000,000	17,000,000	0
Investment earnings	<u>4/</u>	11,427,680	9,226,583	2,201,097
Benefit payments	<u>5/</u>	(6,193,628)	(5,450,636)	(742,992)
Administrative expenses	<u>6/</u>	(353,114)	(285,100)	(68,014)
Transfers	<u>7/</u>	0	263,819	(263,819)
Assets January 1, 2007		\$114,098,374	\$95,322,681	\$18,775,693
Prepayment credits		0	(4,308,674)	4,308,674
Contributions		9,500,000	9,500,000	0
Investment earnings		8,288,685	6,617,490	1,671,195
Benefit payments		(7,008,568)	(5,436,603)	(1,571,965)
Administrative expenses		(490,823)	(391,861)	(98,962)
Transfers		0	381,506	(381,506)
Assets January 1, 2008		\$124,387,668	\$101,684,539	\$22,703,129
Prepayment credits		0	(4,473,781)	4,473,781
Contributions		12,000,000	12,000,000	0
Investment earnings		(29,527,390)	(23,498,532)	(6,028,858)
Benefit payments		(16,807,912)	(9,973,173)	(6,834,739)
Administrative expenses		(432,890)	(344,503)	(88,387)
Transfers		0	1,706,258	(1,706,258)
Assets January 1, 2009		\$89,619,476	\$77,100,808	\$12,518,668
Prepayment credits		0	(4,399,182)	4,399,182
Contributions		17,000,000	17,000,000	0
Investment earnings		15,702,169	12,546,303	3,155,866
Benefit payments		(13,549,223)	(13,086,058)	(463,165)
Administrative expenses		(397,233)	(317,396)	(79,837)
Transfers		0	2,725,093	(2,725,093)
Assets January 1, 2010		\$108,375,189	\$91,569,568	\$16,805,621

Description		Total Company	Other Segment	Medicare Segment
Assets January 1, 2010		\$108,375,189	\$91,569,568	\$16,805,621
Prepayment credits		0	(4,380,499)	4,380,499
Contributions		12,000,000	12,000,000	0
Investment earnings		13,596,775	10,993,598	2,603,177
Benefit payments		(13,517,089)	(10,054,977)	(3,462,112)
Administrative expenses		(337,207)	(272,647)	(64,560)
Transfers		0	690,619	(690,619)
Assets January 1, 2011		\$120,117,668	\$100,545,662	\$19,572,006
Per NHS	<u>8/</u>	120,117,668	102,949,035	17,168,633
Asset variance	<u>9/</u>	0	2,403,373	(2,403,373)

ENDNOTES

- 1/ We determined the Medicare segment pension assets as of January 1, 2006, based on our prior segmentation audit of NMIC (A-07-08-00258). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare segment. All pension 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 in order to avoid incurring unallowable interest. Prepayment credits are transferred to the Medicare segment as needed to cover funding requirements.
- 3/ We obtained Total Company contribution amounts from the actuarial valuation reports and Department of Labor/Internal Revenue Service Forms 5500. We allocated Total Company contributions to the Medicare segment based on the ratio of the Medicare segment funding target divided by the Total Company funding target. Contributions in excess of the funding targets were treated as prepayment credits and accounted for in the Other segment until needed to fund pension costs in the future.
- 4/ We obtained investment earnings from the actuarial valuation reports. We allocated investment earnings based on the ratio of the segment's weighted average value (WAV) of assets to Total Company WAV of assets as required by the CAS.
- 5/ We based the Medicare segment's benefit payments on actual payments to Medicare retirees. We obtained the benefit payments from documents provided by NHS.

6/ In accordance with the CAS, we allocated administrative expenses to the Medicare segment in proportion to investment earnings.

7/ We identified participant transfers between segments by comparing valuation data files provided by NHS. Asset transfers were equal to the actuarial liability determined under the accrued benefit cost method in accordance with the CAS.

8/ We obtained the asset amount as of January 1, 2011, from NHS's actuarial consulting firm.

9/ The asset variance represents the difference between our calculation of Medicare segment pension assets and NHS's calculation of the Medicare segment pension assets.

APPENDIX C: FEDERAL REQUIREMENTS RELATED TO PENSION SEGMENTATION

FEDERAL REGULATIONS

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 adjusted 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 Total Company WAV of assets.

Federal regulations (CAS 413.50(c)(8)) require an adjustment to be made for transfers (participants who enter or leave the segment) if the transfers materially affect the segment's ratio of pension plan assets to actuarial accrued liabilities.

MEDICARE CONTRACTS

The Medicare fiscal intermediary and carrier contracts identify a Medicare segment as:

... any organizational component of the contractor, such as a division, department, or other similar subdivision, having a significant degree of responsibility and accountability for the Medicare contract/agreement, in which:

1. The majority of the salary dollars is allocated to the Medicare agreement/contract; or,
2. Less than a majority of the salary dollars are charged to the Medicare agreement/contract, and these salary dollars represent 40% or more of the total salary dollars charged to the Medicare agreement/contract.

Furthermore, the Medicare fiscal intermediary and carrier contracts state that "... the pension assets allocated to each Medicare Segment shall be adjusted in accordance with CAS 413.50(c)(7)."

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-07-13-00417

Dear Mr. Cogley,

We have reviewed your draft report entitled *Noridian Healthcare Solutions, LLC, Understated Its Medicare Segment Pension Assets of January 1, 2011* and offer the following comments:

Recommendations:

- Increase Medicare segment assets as of January 1, 2011 by \$2,403,373 and recognize \$19,572,006 as the Medicare segment pension assets.
 - We concur with this recommendation and will increase the Medicare segment assets as of January 1, 2011 and recognize the Medicare segment pension assets.

- Establish controls to ensure compliance with Federal regulations and the Medicare contracts' pension segmentation requirements when allocating contributions and transferred prepayments credits, benefit payments, participant transfers, and investment earnings and expenses.
 - We concur with this recommendation and will ensure that individuals are properly identified to the Medicare segment, individuals are properly accounted for on transfer and benefit payment schedules, and Medicare segment's assets are updated.

Sincerely,

A handwritten signature in black ink, appearing to read "B. Fellner", is written over a horizontal line.

Brian Fellner
Enterprise Vice President and Chief Financial Officer