

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**NORIDIAN HEALTHCARE
SOLUTIONS, LLC, CLAIMED
SOME UNALLOWABLE MEDICARE
POSTRETIREMENT BENEFIT
COSTS FOR FISCAL 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

March 2014
A-07-13-00421

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, claimed unallowable postretirement benefit plan costs of \$200,000 for Medicare reimbursement for fiscal years 2006 through 2010.

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their postretirement benefit (PRB) costs, which are funded by the contributions that these contractors make to their dedicated trust fund. The amount of PRB 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 as required by the Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors have not always complied with Federal requirements when claiming PRB costs for Medicare reimbursement.

For this review, we focused on one Medicare contractor, Noridian Healthcare Solutions, LLC (NHS). In particular, we examined the Medicare segment and Other segment allowable PRB costs (which for this report we will refer to as “PRB costs”) that NHS claimed for Medicare reimbursement on its Final Administrative Cost Proposals (FACPs).

The objective of this review was to determine whether the fiscal years (FYs) 2006 through 2010 PRB costs that NHS claimed for reimbursement under fiscal intermediary and carrier contracts were allowable and correctly claimed.

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 (DME) 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. This report addresses the PRB costs claimed by NHS under the provisions of its fiscal intermediary and carrier contracts. We reviewed the PRB costs that NHS used in the calculation of its indirect cost rates under the provisions of its MAC-related contracts and are reporting those findings in *Noridian Healthcare Solutions, LLC, Understated Its Medicare Segment Allocable Postretirement Benefit Costs and Overstated Its Other Segment Allocable Postretirement Benefit Costs for Calendar Years 2006 Through 2010* (A-07-13-00422).

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 finding and recommendation regarding PRB costs claimed under the fiscal intermediary and carrier contracts.

We reviewed \$7,990,856 of Medicare Part A, Part B, and DME PRB costs that NHS claimed for Medicare reimbursement under the provisions of its fiscal intermediary and carrier contracts, and reported on its FACPs, for FYs 2006 through 2010.

WHAT WE FOUND

NHS claimed PRB costs of \$7,990,856 for Medicare reimbursement; however, we determined that the allowable PRB costs during this period were \$7,790,883. The difference, \$199,973, represented unallowable fiscal intermediary and carrier contract PRB costs that NHS claimed on its FACPs for FYs 2006 through 2010. NHS claimed these unallowable Medicare PRB costs because it incorrectly calculated the assignable PRB costs for this time period.

WHAT WE RECOMMEND

We recommend that NHS revise its FACPs for FYs 2006 through 2010 to reduce PRB costs by \$199,973.

AUDITEE COMMENTS

In written comments on our draft report, NHS concurred with our recommendation and said that it would revise its FACPs.

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INTRODUCTION

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their postretirement benefit (PRB) costs, which are funded by the contributions that these contractors make to their dedicated trust fund. The amount of PRB 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) as required by the Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors have not always complied with Federal requirements when claiming PRB costs for Medicare reimbursement.

For this review, we focused on one Medicare contractor, Noridian Healthcare Solutions, LLC (NHS). In particular, we examined the Medicare segment and Other segment allowable PRB costs (which for this report we will refer to as “PRB costs”) that NHS claimed for Medicare reimbursement on its Final Administrative Cost Proposals (FACPs).

OBJECTIVE

Our objective was to determine whether the fiscal years (FYs) 2006 through 2010 PRB costs that NHS claimed for reimbursement under fiscal intermediary and carrier contracts were allowable and correctly claimed.

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, NHS continued administering these Medicare operations after receiving the Medicare administrators contractor (MAC) contracts¹ 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 the States of 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 PRB costs claimed by NHS under the provisions of the fiscal intermediary and carrier contracts. We reviewed the PRB costs that NHS used in the calculation of its indirect cost rates under the provisions of its MAC-related contracts and are reporting those findings in *Noridian Healthcare Solutions, LLC, Understated Its Medicare Segment Allocable Postretirement Benefit Costs and Overstated Its Other Segment Allocable Postretirement Benefit Costs for Calendar Years 2006 Through 2010* (A-07-13-00422).

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 finding and recommendation regarding PRB costs claimed under the fiscal intermediary and carrier contracts.

Medicare Reimbursement of Postretirement Benefit Costs

CMS reimburses a portion of the funded accruals that contractors charge for their PRB plans. To be allowable for Medicare reimbursement, FAR 31.205-6(o) requires that PRB accrual costs be (1) determined in accordance with Statement of Financial Accounting Standards (SFAS) 106 and (2) funded into a dedicated trust fund, such as a voluntary employee benefit association (VEBA) trust.

HOW WE CONDUCTED THIS REVIEW

We reviewed \$7,990,856 of Medicare Part A, Part B, and DME PRB costs that NHS claimed for Medicare reimbursement under the provisions of its fiscal intermediary and carrier contracts, and reported on its FACPs, for FYs 2006 through 2010.

NHS participates in a 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.

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 PRB costs of \$7,990,856 for Medicare reimbursement; however, we determined that the allowable PRB costs during this period were \$7,790,883. The difference, \$199,973, represented unallowable fiscal intermediary and carrier contract PRB costs that NHS claimed on its FACPs for FYs 2006 through 2010. NHS claimed these unallowable Medicare PRB costs because it incorrectly calculated the assignable PRB costs for this time period.

CLAIMED POSTRETIREMENT BENEFIT COSTS

NHS submitted Medicare PRB costs of \$7,990,856 for Medicare reimbursement, under the provisions of its fiscal intermediary and carrier contracts, on its FACPs for FYs 2006 through 2010. We calculated the allowable Medicare PRB costs based on separately computed PRB costs for the Medicare segment and the Other segment in accordance with the FAR. For details on the Federal requirements, see Appendix B.

UNALLOWABLE POSTRETIREMENT BENEFIT COSTS CLAIMED

We determined that the allowable PRB costs for FYs 2006 through 2010 were \$7,790,883. Thus, NHS claimed \$199,973 of unallowable fiscal intermediary and carrier contract PRB costs on its FACPs for FYs 2006 through 2010. This overclaim occurred because NHS based its claim for Medicare reimbursement on incorrectly calculated assignable PRB costs for FYs 2006 through 2010. More specifically, this overclaim occurred primarily because of differences in the identification of the Medicare segment participants.

The table below compares allowable PRB costs with the PRB costs claimed on NHS's FACPs and reflected in its accounting documents. Appendix C contains additional details on allowable PRB costs.

Table: Comparison of Allowable PRB Costs and Claimed PRB Costs

Fiscal Year	Medicare PRB Costs		
	Allowable Per Audit	Claimed by NHS	Difference
2006	\$3,714,093	\$3,897,308	(\$183,215)
2007	2,227,231	2,258,611	(31,380)
2008	1,323,363	1,337,344	(13,981)
2009	454,051	430,778	23,273
2010	72,145	66,815	5,330
Total	\$7,790,883	\$7,990,856	(\$199,973)

RECOMMENDATION

We recommend that NHS revise its FACPs for FYs 2006 through 2010 to reduce PRB costs by \$199,973.

AUDITEE COMMENTS

In written comments on our draft report, NHS concurred with our recommendation and said that it would revise its FACPs. NHS's comments are included in their entirety as Appendix D.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$7,990,856 of Medicare Part A, Part B, and DME PRB costs that NHS claimed for Medicare reimbursement under the provisions of its fiscal intermediary and carrier contracts, and reported on its FACPs, for FYs 2006 through 2010.

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

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 and Medicare contracts applicable to this audit;
- reviewed accounting records and FACP information provided by NHS to identify the amount of PRB costs claimed for Medicare reimbursement for FYs 2006 through 2010;
- used information that NMIC's actuarial consulting firms provided, including information on VEBA assets, PRB obligations, service costs, contributions, claims paid, claims reimbursed, investment earnings, and administrative expenses;
- examined NHS's PRB plan documents and annual actuarial valuation reports, which included SFAS 106 information;
- determined the extent to which NHS funded PRB costs with contributions to the VEBA trust, accumulated prepayment credits, and direct payments;
- engaged the CMS Office of the Actuary to calculate the PRB costs based on the SFAS 106 methodology applied in accordance with FAR 31.205-6(o); and
- reviewed and verified the CMS actuaries' methodology and calculations and used this information to calculate the PRB costs for the Medicare segment and the Other segment for the period FYs 2006 through 2010.

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 Postretirement Benefit Assets as of January 1, 2011 (A-07-13-00420)* and

- *Noridian Healthcare Solutions, LLC, Understated Its Medicare Segment Allocable Postretirement Benefit Costs and Overstated Its Other Segment Allocable Postretirement Benefit Costs for Calendar Years 2006 Through 2010 (A-07-13-00422).*

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 REGULATIONS RELATED TO MEDICARE
REIMBURSEMENT OF POSTRETIREMENT BENEFITS COSTS**

Federal regulations (FAR 31.205-6(o)) require that PRB accrual costs be determined in accordance with SFAS 106 and funded into a dedicated trust fund, such as a VEBA trust. The FAR states that accrual accounting may be used to determine the allowable PRB costs if the cost is measured and assigned (actuarially determined) according to generally accepted accounting principles based on amortization of any transition obligation. Costs attributable to past service (transition obligation) must be assigned under the delayed recognition methodology described in paragraphs 112 and 113 of SFAS 106. The FAR also states that allowable costs must be funded by the time set for filing the Federal income tax return or any extension thereof, and must comply with the applicable standards promulgated by the Cost Accounting Standards (CAS) Board.

**APPENDIX C: ALLOWABLE MEDICARE POSTRETIREMENT BENEFIT
COSTS FOR NORIDIAN HEALTHCARE SOLUTIONS, LLC,
FOR FISCAL YEARS 2006 THROUGH 2010**

Date	Description		Total Company	Other Segment	Medicare Segment	Total Medicare
2005	CY Allocable PRB Cost	1/		\$2,931,984	\$3,170,485	
2006	Contributions	2/	\$7,559,069	\$4,550,308	\$3,008,761	
	Discount for Interest	3/	(\$247,879)	(\$149,029)	(\$98,850)	
January 1, 2006	Present Value Contributions	4/	\$7,311,190	\$4,401,279	\$2,909,911	
	Prepayment Credit Applied	5/	\$1,685,599	\$1,014,446	\$671,153	
	Present Value of Funding	6/	\$8,996,789	\$5,415,725	\$3,581,064	
January 1, 2006	CAS Funding Target	7/	\$9,389,140	\$5,650,678	\$3,738,462	
	Percentage Funded	8/		95.84%	95.79%	
	Funded PRB Cost	9/		\$5,415,610	\$3,581,073	
	Allowable Interest	10/		\$149,025	\$98,850	
2006	CY Allocable PRB Cost			\$5,564,635	\$3,679,923	
	FY Allocable PRB Cost	11/		\$4,906,472	\$3,552,564	
	FY Medicare LOB*	12/				
	Percentage			13.19%	86.33%	
2006	FY Allowable PRB Costs	13/		\$647,164	\$3,066,929	\$3,714,093

Date	Description		Total Company	Other Segment	Medicare Segment	Total Medicare
2007	Contributions		\$8,177,157	\$5,193,360	\$2,983,797	
	Discount for Interest		(\$288,178)	(\$182,731)	(\$105,447)	
January 1, 2007	Present Value Contributions		\$7,888,979	\$5,010,629	\$2,878,350	
	Prepayment Credit Applied		\$0	\$0	\$0	
	Present Value of Funding		\$7,888,979	\$5,010,629	\$2,878,350	
January 1, 2007	CAS Funding Target		\$8,039,499	\$5,105,702	\$2,933,797	
	Percentage Funded			98.14%	98.11%	
	Funded PRB Cost			\$5,010,736	\$2,878,348	
	Allowable Interest			\$182,735	\$105,447	
2007	CY Allocable PRB Cost			\$5,193,471	\$2,983,795	
	FY Allocable PRB Cost			\$5,286,262	\$3,157,827	
	FY Medicare LOB*					
	Percentage			15.03%	45.37%	
2007	FY Allowable PRB Costs			\$794,525	\$1,432,706	\$2,227,231

Date	Description	Total Company	Other Segment	Medicare Segment	Total Medicare
2008	Contributions	\$7,123,390	\$4,626,839	\$2,496,551	
	Discount for Interest	(\$152,172)	(\$98,998)	(\$53,174)	
January 1, 2008	Present Value Contributions	\$6,971,218	\$4,527,841	\$2,443,377	
	Prepayment Credit Applied	\$0	\$0	\$0	
	Present Value of Funding	\$6,971,218	\$4,527,841	\$2,443,377	
January 1, 2008	CAS Funding Target	\$6,836,222	\$4,392,845	\$2,443,377	
	Percentage Funded		100.00%	100.00%	
	Funded PRB Cost		\$4,392,845	\$2,443,377	
	Allowable Interest		\$96,046	\$53,174	
2008	CY Allocable PRB Cost		\$4,488,891	\$2,496,551	
	FY Allocable PRB Cost		\$4,665,036	\$2,618,362	
	FY Medicare LOB* Percentage		13.00%	27.38%	
2008	FY Allowable PRB Costs		\$606,455	\$716,908	\$1,323,363

Date	Description	Total Company	Other Segment	Medicare Segment	Total Medicare
2009	Contributions	\$3,070,032	\$2,075,408	\$994,624	
	Discount for Interest	(\$88,496)	(\$59,735)	(\$28,761)	
January 1, 2009	Present Value Contributions	\$2,981,536	\$2,015,673	\$965,863	
	Prepayment Credit Applied	\$142,083	\$95,613	\$46,470	
	Present Value of Funding	\$3,123,619	\$2,111,286	\$1,012,333	
January 1, 2009	CAS Funding Target	\$5,200,172	\$3,499,375	\$1,700,797	
	Percentage Funded		60.33%	59.52%	
	Funded PRB Cost		\$2,111,173	\$1,012,314	
	Allowable Interest		\$59,732	\$28,760	
2009	CY Allocable PRB Cost		\$2,170,905	\$1,041,074	
	FY Allocable PRB Cost		\$2,750,402	\$1,404,943	
	FY Medicare LOB* Percentage		9.02%	14.66%	
2009	FY Allowable PRB Costs		\$248,086	\$205,965	\$454,051

Date	Description	Total Company	Other Segment	Medicare Segment	Total Medicare
2010	Contributions	\$95,029	\$95,029	\$0	
	Discount for Interest	(\$2,370)	(\$2,370)	\$0	
January 1, 2010	Present Value Contributions	\$92,659	\$92,659	\$0	
	Prepayment Credit Applied	\$0	\$0	\$0	
	Present Value of Funding	\$92,659	\$92,659	\$0	
January 1, 2010	CAS Funding Target	\$127,942	\$127,942	\$0	
	Percentage Funded		72.42%	0.00%	
	Funded PRB Cost		\$92,656	\$0	
	Allowable Interest		\$2,370	\$0	
2010	CY Allocable PRB Cost		\$95,026	\$0	
	FY Allocable PRB Cost		\$613,996	\$260,269	
	FY Medicare LOB* Percentage		11.75%	0.00%	
2010	FY Allowable PRB Costs		\$72,145	\$0	\$72,145

* Line of business.

ENDNOTES

1/ The calendar year (CY) allocable PRB cost is the amount of PRB cost that may be allocated for contract cost purposes. We obtained the CY 2005 allocable PRB cost from our prior NMIC review (A-07-08-00281), issued August 28, 2009.

2/ We calculated Total Company contributions by taking the contributions amounts from the PRB actuarial valuation reports plus any direct benefit payments that were not reimbursed by the VEBA trust, as provided by NHS. Direct benefit payments for each year are considered to be funded en masse in the middle of each CY. Such contributions can be used to satisfy the funding requirement of FAR 31.205-6(o)(2)(iii). The contributions included deposits made during the plan year (PY) and the discounted value of accrued contributions, if any, deposited after the end of the PY but within the time allowed for filing tax returns.

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 and actual contribution amounts. Interest is determined using the expected long-term rate of return assumption as reported in the PRB actuarial valuation report.

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.

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 PRB costs.

6/ The present value of funding represents the present value of contributions plus prepayment credits plus direct benefit payments. 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 is based on the assignable PRB costs computed during our review. The CAS funding target must be funded by accumulated prepayment credits or current year contributions or direct benefit payments to satisfy the funding requirements contained in the FAR.

- 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, 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 PRB cost as the CAS funding target multiplied by the percent funded.
- 10/ We assumed that interest on the funded PRB 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(o)(4), which provides that interest costs are unallowable if caused by a delay in funding beyond 30 days after the end of each quarter to which they are assigned.
- 11/ We converted the CY allocable PRB cost to an FY basis (October 1 through September 30). We calculated the FY PRB costs as 1/4 of the prior year's costs plus 3/4 of the current year's costs.
- 12/ We determined the Medicare LOB percentages based on information provided by NHS.
- 13/ We computed the FY allowable PRB costs as the FY allocable PRB cost multiplied by the Medicare LOB percentage.

APPENDIX D: AUDITEE COMMENTS



February 6, 2014

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-07-13-00421

Dear Mr. Cogley,

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

Recommendation:

- Recommend that Noridian Healthcare Solutions revise its FACPs for FYs 2006 through 2010 to reduce PRB costs by \$199,973.
 - We concur with this recommendation and will revise the Final Administrative Cost Proposals.

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