

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**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**

*Inquiries about this report may be addressed to the Office of Public Affairs at  
[Public.Affairs@oig.hhs.gov](mailto:Public.Affairs@oig.hhs.gov).*



**Patrick J. Cogley  
Regional Inspector General**

**March 2014  
A-07-13-00422**

# *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, understated its allocable postretirement benefit (PRB) costs for the Medicare segment by \$540,000 and overstated its allocable PRB costs for the Other segment by \$1.5 million for calendar 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 (FAR) 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 PRB costs (which for this report we will refer to as “PRB 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 PRB costs that NHS used to calculate the indirect cost rates in its ICPs, under the provision 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 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 PRB cost that NHS used in its calculation of its indirect cost rates under the provisions of its MAC-related contracts. We reviewed the PRB 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 Postretirement Benefit Costs for Fiscal Years 2006 Through 2010 (A-07-13-00421)*.

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 allocable PRB costs.

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 PRB costs to the contractors changed from a cost reimbursement basis to an indirect cost basis. In accordance with the FAR and the MAC contract, reimbursement of indirect costs was now based on indirect cost rates that met the negotiated indirect cost rates determined in the contracts.

We reviewed \$9,660,904 of Medicare segment PRB costs used by NHS in the calculation of its indirect cost rates, under the provision of its MAC contracts, for CYs 2006 through 2010. We also reviewed \$19,043,991 of Other segment PRB 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 PRB 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 PRB costs of \$9,660,904 to calculate its indirect cost rates in its ICPs; however, we determined that the Medicare segment PRB costs that should have been used to calculate the indirect cost rates were \$10,201,343. Thus, NHS understated the Medicare segment PRB costs used to calculate its indirect cost rates by \$540,439.
- NHS used Other segment PRB costs of \$19,043,991 to calculate its indirect cost rates in its ICPs; however, we determined that the Other segment PRB costs that should have been used to calculate the indirect cost rates were \$17,512,928. Thus, NHS overstated the Other segment PRB costs used to calculate its indirect cost rates by \$1,531,063.

These overstatements occurred because NHS used incorrect PRB 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-07-13-00421) when determining the allowable Medicare segment PRB costs for NHS.

## **WHAT WE RECOMMEND**

We recommend that NHS:

- increase the Medicare segment PRB costs used to calculate its indirect cost rates by \$540,439 for CYs 2006 through 2010,
- decrease the Other segment PRB costs used to calculate its indirect cost rates by \$1,531,063 for CYs 2006 through 2010, and

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

## **AUDITEE COMMENTS**

In written comments on our draft report, NHS concurred with our recommendations and said that it would increase the Medicare segment pension costs and decrease the 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 Postretirement Benefit Costs.....	2
How We Conducted This Review.....	2
FINDINGS .....	3
Medicare Segment Postretirement Benefit Costs. ....	3
Other Segment Postretirement Benefit Costs .....	4
RECOMMENDATIONS .....	5
AUDITEE COMMENTS.....	5
APPENDIXES	
A: Audit Scope and Methodology .....	6
B: Federal Requirements Related to Reimbursement of Postretirement Benefit Costs .....	8
C: Allocable Medicare Postretirement Benefit 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 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.

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 PRB costs (which for this report we will refer to as “PRB 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 PRB 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 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 MAC contracts<sup>1</sup> for Jurisdictions D and 3, effective June 30, 2006, and July 31, 2006, respectively.<sup>2, 3</sup>

---

<sup>1</sup> Section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P. L. No. 108-173, required CMS to transfer the functions of fiscal intermediaries and carriers to MACs between October 2005 and October 2011. Most, but not all, of the MACs are fully operational; for jurisdictions where the MACs are not fully operational, the fiscal intermediaries and carriers continue to process claims. For purposes of this report, the terms “Medicare contractor” and “MAC” mean the fiscal intermediary, carrier, or MAC, whichever is applicable.

<sup>2</sup> 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.

<sup>3</sup> Medicare Part 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 that NHS used in its calculation of its indirect cost rates under the provisions of its MAC-related contracts. We reviewed the PRB 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 Postretirement Benefit Costs for Fiscal Years 2006 Through 2010* (A-07-13-00421).

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 allocable PRB costs.

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.

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 PRB 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.<sup>4</sup>

## **Medicare Reimbursement of Postretirement Benefit Costs**

CMS reimburses a portion of the funded accruals that contractors charge for their PRB plans. FAR 31.205-6(o) requires that, to be allowable for Medicare reimbursement, PRB accrual costs be (1) determined in accordance with generally accepted accounting principles and (2) funded into a dedicated trust, such as a VEBA trust.

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 PRB costs to the contractors changed from a cost reimbursement basis to an indirect cost basis. In accordance with the FAR and the MAC contract, 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 \$9,660,904 of Medicare segment PRB 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 \$19,043,991 of Other segment PRB costs used by NHS in the calculation of its indirect cost rates for this same time period.

---

<sup>4</sup> 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 upon a judgmental evaluation by the Federal Government.

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.

## FINDINGS

Neither the Medicare segment nor the Other segment allocable PRB 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 PRB costs of \$9,660,904 to calculate its indirect cost rates in its ICPs; however, we determined that the Medicare segment PRB costs that should have been used to calculate the indirect cost rates were \$10,201,343. Thus, NHS understated the Medicare segment PRB costs used to calculate its indirect cost rates by \$540,439.
- NHS used Other segment PRB costs of \$19,043,991 to calculate its indirect cost rates in its ICPs; however, we determined that the Other segment PRB costs that should have been used to calculate the indirect cost rates were \$17,512,928. Thus, NHS overstated the Other segment PRB costs used to calculate its indirect cost rates by \$1,531,063.

These overstatements occurred because NHS used incorrect PRB 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-07-13-00421) when determining the allowable Medicare segment PRB costs for NHS.<sup>5</sup>

## MEDICARE SEGMENT POSTRETIREMENT BENEFIT COSTS

NHS used accrued PRB costs of \$9,660,904 to calculate its indirect cost rates for the Medicare segment. We calculated the accrued PRB costs for CYs 2006 through 2010 for the Medicare segment in accordance with the FAR. For details on the Federal requirements, see Appendix B.

We determined that the accrued PRB costs for the Medicare segment were \$10,201,343 for CYs 2006 through 2010. Thus, NHS understated the Medicare segment PRB costs, used to calculate its indirect cost rates for this time period, by \$540,439. This understatement occurred because

---

<sup>5</sup> Our review of the allocable PRB costs for NHS identified the amount of PRB costs that should have been used to allocate PRB 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 contract PRB costs claimed by NHS (A-07-13-00421), to determine the allowable PRB costs for 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 for NHS.

NHS used incorrect PRB costs when calculating the indirect cost rates for this time period. More specifically, this understatement of the PRB costs occurred primarily because of differences in the identification of the Medicare segment participants.

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

**Table 1: Comparison of Postretirement Benefit Costs for the Medicare segment**

<b>Medicare Segment Postretirement Benefit Costs</b>			
<b>Calendar Year</b>	<b>Per Audit</b>	<b>Per NHS</b>	<b>Difference</b>
2006	\$3,679,923	\$3,868,917	(\$188,994)
2007	2,983,795	2,776,806	206,989
2008	2,496,551	2,290,116	206,435
2009	1,041,074	725,065	316,009
2010	0	0	0
<b>Total</b>	<b>\$10,201,343</b>	<b>\$9,660,904</b>	<b>\$540,439</b>

#### **OTHER SEGMENT POSTRETIREMENT BENEFIT COSTS**

NHS used accrued PRB costs of \$19,043,991 to calculate its indirect cost rates for the Other segment. We calculated the accrued PRB costs for CYs 2006 through 2010 for the Other segment in accordance with the FAR. For details on the Federal requirements, see Appendix B.

We determined that the accrued PRB costs for the Other segment were \$17,512,928 for CYs 2006 through 2010. Thus, NHS overstated the Other segment PRB costs, used to calculate its indirect cost rates for this time period, by \$1,531,063. This overstatement occurred because NHS used incorrect PRB costs when calculating the indirect cost rates for this time period. More specifically, this overstatement of the PRB costs occurred primarily because of differences in the identification of the Medicare segment participants.

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

**Table 2: Comparison of Postretirement Benefit Costs for the Other Segment**

<b>Other Segment Postretirement Benefit Costs</b>			
<b>Calendar Year</b>	<b>Per Audit</b>	<b>Per NHS</b>	<b>Difference</b>
2006	\$5,564,635	\$5,977,953	(\$413,318)
2007	5,193,471	5,769,690	(576,219)
2008	4,488,891	5,021,413	(532,522)
2009	2,170,905	2,274,935	(104,030)
2010	95,026	0	95,026
<b>Total</b>	<b>\$17,512,928</b>	<b>\$19,043,991</b>	<b>(\$1,531,063)</b>

### **RECOMMENDATIONS**

We recommend that NHS:

- increase the Medicare segment PRB costs used to calculate its indirect cost rates by \$540,439 for CYs 2006 through 2010,
- decrease the Other segment PRB costs used to calculate its indirect cost rates by \$1,531,063 for CYs 2006 through 2010, and
- work with CMS to determine the allowable Medicare segment PRB costs related to the MAC contract.

### **AUDITEE COMMENTS**

In written comments on our draft report, NHS concurred with our recommendations and said that it would increase the Medicare segment pension costs and decrease the 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 \$9,660,904 of Medicare segment PRB 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 \$19,043,991 of Other segment PRB costs used by NHS in the calculation of its indirect cost rates for this same period.

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, in 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 ICP information provided by NHS to identify the amount of PRB costs used to calculate NHS's indirect cost rates for CYs 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 Statement of Financial Accounting Standards (SFAS) 106 information;
- determined the extent to which NHS funded PRB costs with contributions to the VEBA trust, accumulated prepayment credits, and direct payment;
- 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 of CYs 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, Claimed Some Unallowable Medicare Postretirement Benefit Costs for Fiscal Years 2006 Through 2010 (A-07-13-00421).*

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 POSTRETIREMENT BENEFIT COSTS**

### **FEDERAL REGULATIONS**

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.

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.

### **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 POSTRETIREMENT BENEFIT 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>	\$7,559,069	\$4,550,308	\$3,008,761
	Discount for Interest	<u>2/</u>	(\$247,879)	(\$149,029)	(\$98,850)
January 1, 2006	Present Value Contributions	<u>3/</u>	\$7,311,190	\$4,401,279	\$2,909,911
	Prepayment Credit Applied	<u>4/</u>	\$1,685,599	\$1,014,446	\$671,153
	Present Value of Funding	<u>5/</u>	\$8,996,789	\$5,415,725	\$3,581,064
January 1, 2006	CAS Funding Target	<u>6/</u>	\$9,389,140	\$5,650,678	\$3,738,462
	Percentage Funded	<u>7/</u>		95.84%	95.79%
	Funded PRB Cost	<u>8/</u>		\$5,415,610	\$3,581,073
	Allowable Interest	<u>9/</u>		\$149,025	\$98,850
2006	CY Allocable PRB Cost	<u>10/</u>		\$5,564,635	\$3,679,923

Date	Description		Total Company	Other Segment	Medicare Segment
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

Date	Description		Total Company	Other Segment	Medicare Segment
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

Date	Description	Total Company	Other Segment	Medicare Segment
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

Date	Description	Total Company	Other Segment	Medicare Segment
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

## **ENDNOTES**

1/ 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 calendar year (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.

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

- 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.
- 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 PRB costs.
- 5/ 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.
- 6/ 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 for the FAR.
- 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, 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.
- 8/ We computed the funded PRB cost as the CAS funding target multiplied by the percent funded.
- 9/ 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.
- 10/ The CY allocable PRB cost is the amount of PRB cost that may be allocated for contract cost purposes.

## 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-07-13-00422

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:

- Increase the Medicare segment PRB costs used to calculate its indirect cost rates by \$540,439 for CYs 2006 through 2010,
  - We concur with this recommendation and will increase the Medicare segment PRB costs for CYs 2006 through 2010.
  
- Decrease the Other segment PRB costs used to calculate its indirect cost rates by \$1,531,063 for CYs 2006 through 2010, and
  - We concur with this recommendation and will decrease the Other segment PRB 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 "Brian Fellner".

Brian Fellner  
Enterprise Vice President and Chief Financial Officer