

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

**NORIDIAN HEALTHCARE
SOLUTIONS, LLC,
UNDERSTATED ITS MEDICARE
SEGMENT PENSION ASSETS**

*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
for Audit Services

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Office of Inspector General

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

Report in Brief

Date: November 2019

Report No. A-07-18-00547

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



Why OIG Did This Review

Medicare contractors are required to separately account for the Medicare segment pension plan assets based on the requirements of their Medicare contracts and Cost Accounting Standards (CAS) 412 and 413.

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

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

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 NHS Medicare segment pension assets as of January 1, 2011, and (2) updating the NHS Medicare segment pension assets from January 1, 2011, to January 1, 2016.

How OIG Did This Review

We reviewed NHS's implementation of the prior audit recommendation; identification of its Medicare segment; and its update of the Medicare segment pension assets from January 1, 2011, to January 1, 2016.

Noridian Healthcare Solutions, LLC, Understated Its Medicare Segment Pension Assets

What OIG Found

NHS implemented our prior audit recommendation to increase the Medicare segment pension assets by \$2.4 million as of January 1, 2011. Regarding our second objective, NHS did not correctly update the Medicare segment pension assets from January 1, 2011, to January 1, 2016, in accordance with Federal requirements and the Medicare contracts' pension segmentation requirements. NHS identified \$28.65 million as the Medicare segment pension assets as of January 1, 2016; however, we determined that the Medicare segment pension assets were \$30.22 million as of that date. Therefore, NHS understated the Medicare segment pension assets as of January 1, 2016, by \$1.57 million. NHS understated its Medicare segment's pension assets because it did not have policies and procedures 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, 2011, to January 1, 2016.

What OIG Recommends and Auditee Comments

We recommend that NHS increase the Medicare segment pension assets by \$1.57 million and recognize \$30.22 million as the Medicare segment pension assets as of January 1, 2016, and establish policies and procedures to ensure compliance with Federal requirements and the pension segmentation language of the Medicare contracts.

NHS concurred with our recommendations. NHS stated that it would make the recommended asset adjustments and carry those adjustments forward to the plan termination date of December 31, 2018.

TABLE OF CONTENTS

INTRODUCTION.....	1
Why We Did This Review	1
Objectives.....	1
Background	1
Noridian Healthcare Solutions, LLC.....	1
Prior Pension Segmentation Audit.....	2
How We Conducted This Review	3
FINDINGS.....	3
Prior Audit Recommendation	4
Update of Unallowable Unfunded Pension Costs.....	4
Update of Medicare Segment Pension Assets.....	4
Contributions and Transferred Prepayment Credits Understated	5
Net Transfers Out Overstated.....	5
Benefit Payments Understated.....	6
Earnings, Net of Expenses, Understated	6
RECOMMENDATIONS	7
AUDITEE COMMENTS	7
APPENDICES	
A: Audit Scope and Methodology	8
B: Noridian Healthcare Solutions, LLC, Statement of Medicare Segment Pension Assets for the Period January 1, 2011, to January 1, 2016.....	10
C: Federal Requirements Related to Pension Segmentation.....	13
D: Noridian Healthcare Solutions, LLC, Cost Accounting Standards Balance Equation as of January 1, 2016	14
E: Auditee Comments	16

INTRODUCTION

WHY WE DID THIS REVIEW

Medicare contractors are required to separately account for the Medicare segment pension plan assets based on the requirements of their Medicare contracts and Cost Accounting Standards (CAS) 412 and 413. The Centers for Medicare & Medicaid Services (CMS) incorporated this requirement into the Medicare contracts beginning with fiscal year 1988. Previous Office of Inspector General (OIG) reviews found that Medicare contractors did not always correctly identify and update the segmented pension assets.

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

For this review, we focused on one entity, Noridian Healthcare Solutions, LLC (NHS). In particular, we examined the Other segment and Medicare segment pension assets that NHS updated from January 1, 2011, to January 1, 2016.

OBJECTIVES

Our objectives were to determine whether NHS complied with Federal requirements and the Medicare contracts' pension segmentation requirements when (1) implementing the prior audit recommendation to increase the NHS Medicare segment pension assets as of January 1, 2011, and (2) updating the NHS Medicare segment pension assets from January 1, 2011, to January 1, 2016.

BACKGROUND

Noridian Healthcare Solutions, LLC

NHS is a subsidiary of Blue Cross Blue Shield of North Dakota (formerly Noridian Mutual Insurance Company), whose home office is in Fargo, North Dakota. NHS administered Medicare Part A fiscal intermediary, Medicare Part B carrier, and Medicare Durable Medical Equipment (DME) contract operations under cost reimbursement contracts with CMS until its contractual relationships ended on August 10, 2013, February 24, 2012, and March 31, 2011, respectively.

With the implementation of Medicare contracting reform,¹ NHS continued to perform Medicare work after being awarded the MAC contracts for Medicare DME Jurisdiction D² and Medicare Parts A and B Jurisdiction 3,³ effective June 30, 2006, and July 31, 2006, respectively. Currently, NHS is the Medicare Parts A and B MAC contractor for Jurisdictions E⁴ and F⁵ and the Medicare DME contractor for Jurisdictions A⁶ and D.⁷ During our audit period, NHS administered both fiscal intermediary and carrier contracts and MAC-related contracts.

This report addresses NHS's compliance with the pension segmentation language under the provisions of its Medicare contracts. We are addressing NHS's compliance with Federal regulations for the pension costs it claimed through its FACPs and ICPs in separate reviews.

Prior Pension Segmentation Audit

We performed a prior pension segmentation audit for NHS (A-07-13-00417, Dec. 16, 2013), which brought the NHS Medicare segment pension assets to January 1, 2011. We recommended that NHS increase the Medicare segment pension assets by \$2,403,373, and, as a result, recognize \$19,572,006 as the Medicare segment pension assets as of January 1, 2011.

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 term "Medicare contractor" means the fiscal intermediary, carrier, or MAC, whichever is applicable.

² The original Medicare DME Jurisdiction D included the States of Alaska, Arizona, California, Hawaii, Idaho, Iowa, Kansas, Missouri, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, and Wyoming, and the U.S. Territories of American Samoa, Guam, and the Northern Mariana Islands.

³ The original Medicare Parts A and B Jurisdiction 3 included the States of Arizona, Montana, North Dakota, South Dakota, Utah, and Wyoming.

⁴ Medicare Parts A and B Jurisdiction E includes the States of California, Hawaii, and Nevada, and the U.S. Territories of American Samoa, Guam, and the Northern Mariana Islands.

⁵ Medicare Parts A and B Jurisdiction F includes the States of Alaska, Arizona, Idaho, Montana, North Dakota, Oregon, South Dakota, Utah, Washington, and Wyoming.

⁶ Medicare DME Jurisdiction A includes the States of Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont, and the District of Columbia.

⁷ Medicare DME Jurisdiction D includes the States of Alaska, Arizona, California, Hawaii, Idaho, Iowa, Kansas, Missouri, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, and Wyoming, and the U.S. Territories of American Samoa, Guam, and the Northern Mariana Islands.

HOW WE CONDUCTED THIS REVIEW

We reviewed NHS's implementation of the prior audit recommendation, its identification of its Medicare segment, and its update of the Medicare segment pension assets from January 1, 2011, to January 1, 2016.

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

NHS implemented our prior audit recommendation to increase the Medicare segment pension assets by \$2,403,373 as of January 1, 2011. Regarding our second objective, NHS did not correctly update the Medicare segment pension assets from January 1, 2011, to January 1, 2016, in accordance with Federal requirements and the Medicare contracts' pension segmentation requirements. NHS identified \$28,651,656 as the Medicare segment pension assets as of January 1, 2016; however, we determined that the Medicare segment pension assets were \$30,224,354 as of that date. Therefore, NHS understated the Medicare segment pension assets as of January 1, 2016, by \$1,572,698. NHS understated its Medicare segment's pension assets because it did not have policies and procedures 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, 2011, to January 1, 2016.

Appendix B identifies the details of NHS's Medicare segment pension assets from January 1, 2011, to January 1, 2016, as determined during our audit. Table 1 on the following page summarizes the audit adjustments required to update NHS's Medicare segment pension assets in accordance with Federal requirements.

Table 1: Summary of Audit Adjustments

	Per Audit	Per NHS	Difference
Prior Audit Recommendation	\$19,572,006	\$19,572,006	\$0
Update of Medicare Segment Assets			
Contributions and Prepayment Credits	15,438,700	14,676,649	762,051
Net Transfers	(5,639,034)	(6,443,349)	804,315
Benefit Payments	(7,881,202)	(7,818,538)	(62,664)
Earnings, Net of Expenses	8,733,884	8,664,888	68,996
Understatement of Medicare Segment Assets			\$1,572,698

PRIOR AUDIT RECOMMENDATION

NHS implemented the prior audit recommendation (A-07-13-00417, Dec. 16, 2013), which recommended that NHS increase its Medicare segment pension assets by \$2,403,373 and recognize \$19,572,006 as the Medicare segment pension assets as of January 1, 2011.

UPDATE OF UNALLOWABLE UNFUNDED PENSION COSTS

CAS 412 requires NHS to properly identify, track, and update with interest, the unallowable unfunded pension costs. During our review, we determined that NHS properly identified \$3,637,350 of accumulated unallowable unfunded pension costs (\$1,047,471 as an unallowable component of Medicare segment pension costs and \$2,589,879 as an unallowable component of the Other segment pension costs) as of January 1, 2016. Therefore, NHS properly identified, tracked, and updated the unallowable unfunded pension cost as of January 1, 2016.

UPDATE OF MEDICARE SEGMENT PENSION ASSETS

The Medicare contracts require Medicare contractors to update the Medicare segment pension assets yearly in accordance with the CAS. The CAS requires that the asset base be adjusted by contributions, income, benefit payments, and expenses. For details on the Federal requirements and the relevant language of the Medicare contracts, see Appendix C.

NHS did not correctly update the Medicare segment pension assets from January 1, 2011, to January 1, 2016, in accordance with Federal requirements and the Medicare contracts' pension segmentation requirements. NHS identified \$28,651,656 as the Medicare segment pension assets as of January 1, 2016; however, we determined that the Medicare segment pension assets were \$30,224,354 as of that date. Therefore, NHS understated the Medicare segment pension assets as of January 1, 2016, by \$1,572,698. The following are our findings regarding

the update of the Medicare segment pension assets from January 1, 2011, to January 1, 2016. Appendix D identifies NHS's CAS balance equation as of January 1, 2016.⁸

Contributions and Transferred Prepayment Credits Understated

The audited contributions and transferred prepayment credits⁹ are based on the assignable pension costs.¹⁰ In compliance with the CAS, 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 additional details on these Federal requirements, see Appendix C.

NHS understated contributions and transferred prepayment credits by \$762,051 for its Medicare segment. The understatement occurred primarily because of differences in the asset base used to compute the assignable pension costs. Table 2 shows the differences between the contributions and prepayment credits proposed by NHS and the contributions and prepayment credits that we calculated during our review.

Table 2: Contributions and Transferred Prepayment Credits

Calendar Year (CY)	Per Audit	Per NHS	Difference
2011	\$3,951,205	\$3,963,729	(\$12,524)
2012	3,315,176	3,337,440	(22,264)
2013	3,468,052	3,905,613	(437,561)
2014	3,193,961	3,109,915	84,046
2015	1,510,306	359,952	1,150,354
Total	\$15,438,700	\$14,676,649	\$762,051

Net Transfers Out Overstated

NHS overstated net transfers out of its Medicare segment by \$804,315. The overstatement occurred because NHS incorrectly identified the participants who transferred into or out of its Medicare segment. This overstatement of the net transfers out resulted in an understatement of the NHS Medicare segment pension assets by \$804,315. Table 3 on the following page

⁸ The CAS balance equation identifies the market value of assets, actuarial accrued liability, actuarial value of assets, accumulated value of prepayment credits, and the unfunded actuarial liability in accordance with CAS 412.40(c).

⁹ 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.

¹⁰ These are assigned to a specific cost accounting period.

shows the differences between the net transfers proposed by NHS and the net transfers that we calculated during our review.

Table 3: Net Transfers out of the Medicare Segment

CY	Per Audit	Per NHS	Difference
2011	(\$3,996,370)	(\$3,996,370)	\$0
2012	(998,942)	(1,096,238)	97,296
2013	677,496	(458,205)	1,135,701
2014	(495,675)	551,037	(1,046,712)
2015	(825,543)	(1,443,573)	618,030
Total	(\$5,639,034)	(\$6,443,349)	\$804,315

Benefit Payments Understated

NHS understated benefit payments by \$62,664 for the Medicare segment. This understatement occurred because NHS incorrectly identified two Medicare segment benefit payments during our audit period. This understatement of benefit payments resulted in an overstatement of the NHS Medicare segment pension assets by \$62,664. A comparison of NHS's and our calculations of benefit payments for the Medicare segment appears in Table 4.

Table 4: Benefit Payments

CY	Per Audit	Per NHS	Difference
2011	(\$1,817,942)	(\$1,771,460)	(\$46,482)
2012	(1,645,804)	(1,645,804)	0
2013	(721,796)	(721,796)	0
2014	(1,708,069)	(1,691,887)	(16,182)
2015	(1,987,591)	(1,987,591)	0
Total	(\$7,881,202)	(\$7,818,538)	(\$62,664)

Earnings, Net of Expenses, Understated

NHS understated investment earnings, less administrative expenses, by \$68,996 for its Medicare segment, because it used incorrect contributions and transferred prepayment credits, incorrect benefit payments, and incorrect net transfers (all discussed above) to develop the Medicare segment pension asset base. In our audited update, we allocated earnings, net of expenses, based on the applicable CAS requirements. For details on applicable Federal requirements, see Appendix C.

RECOMMENDATIONS

We recommend that Noridian Healthcare Solutions, LLC:

- increase the Medicare segment pension assets by \$1,572,698 and recognize \$30,224,354 as the Medicare segment pension assets as of January 1, 2016, and
- establish policies and procedures to ensure compliance with Federal requirements and the pension segmentation language of the Medicare contracts.

AUDITEE COMMENTS

In written comments on our draft report, NHS concurred with our recommendations. NHS stated that it would make the recommended asset adjustments and carry those adjustments forward to the plan termination date of December 31, 2018.

NHS's comments appear in their entirety as Appendix E.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed NHS's implementation of the prior audit recommendation, its identification of its Medicare segment, and its update of the Medicare segment pension assets from January 1, 2011, to January 1, 2016.

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

We performed fieldwork at NHS in Fargo, North Dakota.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- reviewed the annual actuarial valuation reports prepared by NHS's actuarial consulting firm, which included the pension plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses, and used this information to calculate the NHS Medicare segment assets;
- obtained and reviewed the pension plan documents and Department of Labor/Internal Revenue Service Forms 5500 used in calculating the NHS Medicare segment assets;
- interviewed NHS staff responsible for identifying the Medicare segments to determine whether the segments were properly identified in accordance with the Medicare contracts;
- reviewed NHS's accounting records to verify the segments' identifications as well as the benefit payments made to the Medicare segments;
- reviewed the prior segmentation audit performed at NHS (A-07-13-00417) to determine the beginning market value of assets;
- provided the CMS Office of the Actuary, which provides technical actuarial advice, with the actuarial information necessary for it to calculate the Medicare segments' pension assets from January 1, 2011, to January 1, 2016;

- reviewed the CMS actuaries' methodology and calculations; and
- provided the results of the review to NHS officials on July 26, 2019.

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

- *Noridian Healthcare Solutions, LLC, Claimed Some Unallowable Medicare Pension Costs (A-07-18-00548)* and
- *Noridian Healthcare Solutions, LLC, Claimed Some Unallowable Medicare Pension Costs Through Its Incurred Cost Proposals (A-07-18-00550)*.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

**APPENDIX B: NORIDIAN HEALTHCARE SOLUTIONS, LLC,
STATEMENT OF MEDICARE SEGMENT PENSION ASSETS
FOR THE PERIOD JANUARY 1, 2011, TO JANUARY 1, 2016**

Description		Total Company	Other Segment	Medicare Segment
Assets January 1, 2011	<u>1/</u>	\$120,117,668	\$100,545,662	\$19,572,006
Prepayment Credits	<u>2/</u>	0	(3,951,205)	3,951,205
Contributions	<u>3/</u>	15,200,000	15,200,000	0
Earnings	<u>4/</u>	2,348,349	1,877,877	470,472
Benefit Payments	<u>5/</u>	(14,478,737)	(12,660,795)	(1,817,942)
Administrative Expenses	<u>6/</u>	(286,007)	(228,708)	(57,299)
Transfers	<u>7/</u>	0	3,996,370	(3,996,370)
Assets January 1, 2012		\$122,901,273	\$104,779,201	\$18,122,072
Prepayment Credits		0	(3,315,176)	3,315,176
Contributions		12,000,000	12,000,000	0
Earnings		16,816,574	13,890,215	2,926,359
Benefit Payments		(8,878,345)	(7,232,541)	(1,645,804)
Administrative Expenses		(359,622)	(297,042)	(62,580)
Transfers		0	998,942	(998,942)
Discount on Accrued Contributions	<u>8/</u>	(266,573)	(266,573)	0
Assets January 1, 2013		\$142,213,307	\$120,557,026	\$21,656,281
Prepayment Credits		0	(3,468,052)	3,468,052
Contributions		0	0	0
Earnings		15,848,127	12,929,972	2,918,155
Benefit Payments		(15,452,485)	(14,730,689)	(721,796)
Administrative Expenses		(332,354)	(271,157)	(61,197)
Transfers		0	(677,496)	677,496
Assets January 1, 2014		\$142,276,595	\$114,339,604	\$27,936,991

Description		Total Company	Other Segment	Medicare Segment
Assets January 1, 2014		142,276,595	114,339,604	27,936,991
Prepayment Credits		0	(3,193,961)	3,193,961
Contributions		8,000,000	8,000,000	0
Earnings		11,160,057	8,696,918	2,463,139
Benefit Payments		(10,722,274)	(9,014,205)	(1,708,069)
Administrative Expenses		(101,989)	(79,479)	(22,510)
Transfers		0	495,675	(495,675)
Assets January 1, 2015		\$150,612,389	\$119,244,552	\$31,367,837
Prepayment Credits		0	(1,510,306)	1,510,306
Contributions		0	0	0
Earnings		891,717	694,471	197,246
Benefit Payments		(12,937,635)	(10,950,044)	(1,987,591)
Administrative Expenses		(171,343)	(133,442)	(37,901)
Transfers		0	825,543	(825,543)
Assets January 1, 2016		\$138,395,128	\$108,170,774	\$30,224,354
Per NHS	9/	\$138,395,128	\$109,743,472	\$28,651,656
Asset Variance	10/	\$0	(\$1,572,698)	\$1,572,698

ENDNOTES

1/ We determined the Medicare segment pension assets as of January 1, 2011, based on our prior segmentation audit of NHS (A-07-13-00417; Dec. 16, 2013). 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/ Transferred 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 net investment earnings from the actuarial valuation reports. We allocated net investment earnings based on the ratio of each segment's weighted average value (WAV) of assets to Total Company WAV of assets as required by the CAS.
- 5/ We 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 each 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/ In accordance with the CAS Harmonization rule, effective CY 2013, actual contributions are discounted, at the effective interest rate, from the date of each contribution to the beginning of the program year.
- 9/ We obtained segment asset amounts from documents prepared by NHS's actuarial consulting firm.
- 10/ The asset variance represents the difference between our calculation of the 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 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 contracts state that “. . . the pension assets allocated to each Medicare Segment shall be adjusted in accordance with CAS 413.50(c)(7).”

**APPENDIX D: NORIDIAN HEALTHCARE SOLUTIONS, LLC,
COST ACCOUNTING STANDARDS BALANCE EQUATION
AS OF JANUARY 1, 2016**

Description		Total Company	Other Segment	Medicare Segment
Actuarial Accrued Liability	<u>1/</u>	\$ 115,618,980	\$ 85,853,102	\$ 29,765,878
Less: Actuarial Value of Assets	<u>2/</u>	(139,102,152)	(108,723,390)	(30,378,762)
Unfunded Actuarial Liability	<u>3/</u>	\$ (23,483,172)	\$ (22,870,288)	\$ (612,884)
9904.412-50(a)(2) Unallowable	<u>4/</u>	\$ 3,637,350	2,589,879	\$ 1,047,471
Prepayment Credit	<u>5/</u>	(54,997,669)	(54,997,669)	-
Adjustments to UAL	<u>6/</u>	\$ (51,360,319)	\$ (52,407,790)	\$ 1,047,471
Net Unamortized Balance	<u>7/</u>	\$ 27,877,147	\$ 29,537,502	\$ (1,660,355)
Market Value of Assets	<u>8/</u>	\$ 138,395,128	\$ 108,170,774	\$ 30,224,354

ENDNOTES

- 1/ Actuarial accrued liability (AAL) represents the pension cost attributable, under the actuarial cost method in use, to years prior to January 1, 2016. We obtained the total company AAL from the January 1, 2016, NHS actuarial valuation report. The AALs for the Other Segment and the Medicare segment were determined as a result of our audit.
- 2/ The actuarial value of assets (AVA) is the value of cash, investments, and other property belonging to a pension plan, as used by the actuary for the purpose of an actuarial valuation. The AVA shown here was computed by the CMS Office of the Actuary based on audited values as of January 1, 2016.
- 3/ The unfunded actuarial liability (UAL) is the AAL less the AVA as of January 1, 2016. An actuarial surplus, or negative UAL, is created whenever the AVA exceeds the AAL.
- 4/ The 9904.412-50(a)(2) Unallowable represents the prior-period pension costs determined to be unallowable in accordance with Government contractual provisions in effect at the time or pension costs assigned to a cost accounting period that were not funded in that period. This is an adjustment to the UAL required by CAS 412-50(a)(2).
- 5/ The prepayment credit represents funds available to satisfy future funding requirements. This is an adjustment to the AVA for premature funding of future pension costs required by CAS 412-50(a)(4).

- 6/ The sum of the Unallowable and Prepayment balances as of January 1, 2016.
- 7/ The net unamortized balance is the UAL less the adjustments to the UAL. It is the remaining balance yet to be amortized in accordance with CAS 412-50(a)(1) and CAS 413-50(a)(2).
- 8/ The market value of assets represents the current value of assets as of January 1, 2016, plus the current value of any accrued contributions used to fund pension costs assigned to periods prior to January 1, 2016.

APPENDIX E: AUDITEE COMMENTS



Office of Audit Services, Region VII
601 East 12th Street, Room 0429
Kansas City, MO 64106

Mr. David Breuer
Executive Vice President and Chief Financial Officer
Blue Cross Blue Shield of North Dakota
4510 13th Avenue South
Fargo, ND 58121

Report Number: A-07-18-00547

Report Title: Noridian Healthcare Solutions, LLC, Understated Its Medicare Segment Pension Assets

Recommendation – From Report

We recommend that Noridian Healthcare Solutions, LLC:

- increase the Medicare segment pension assets by \$1,572,698 and recognize \$30,224,354 as the Medicare segment pension assets as of January 1, 2016, and
- establish policies and procedures to ensure compliance with Federal requirements and the pension segmentation language of the Medicare contracts.

Statement of concurrence or non-concurrence:

Noridian Healthcare Solutions, LLC concurs with the above recommendation.

- For a concurrence, please include a statement describing the nature of the corrective action taken or planned.
- For a nonconcurrence, please include specific reasons for the nonconcurrence and a statement of any alternative corrective action taken or planned.

Noridian will make the recommended pension asset adjustments and carry them forward to the plan termination which occurred on December 31, 2018.

Signed: _____/David Breuer/_____ Date: ____10/15/2019_____
David Breuer, Executive Vice President and Chief Financial Officer
Blue Cross Blue Shield of North Dakota