Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

NORIDIAN HEALTHCARE SOLUTIONS, LLC, UNDERSTATED ITS MEDICARE SEGMENT PENSION ASSETS AND UNDERSTATED MEDICARE'S SHARE OF THE MEDICARE SEGMENT EXCESS PENSION ASSETS AS OF DECEMBER 31, 2016

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January 2022
A-07-21-00603

Office of Inspector General

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Report in Brief
Date: January 2022
Report No. A-07-21-00603

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

Noridian Healthcare Solutions, LLC, Understated Its Medicare Segment Pension Assets and Understated Medicare's Share of the Medicare Segment Excess Pension Assets as of December 31, 2016

Why OIG Did This Audit

Medicare contractors are required to separately account for the Medicare segment pension plan assets based on the requirements of 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 audits 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 its established cost accounting practice when: (1) implementing the prior audit recommendation, (2) updating the Medicare segment pension assets to December 31, 2016, and (3) determining Medicare's share of the Medicare segment excess pension assets or liabilities as a result of NHS's benefit curtailment.

How OIG Did This Audit

We reviewed NHS's implementation of the prior audit recommendation; its identification of the Medicare segment; its update of the Medicare segment pension assets from January 1, 2016, to December 31, 2016; and its calculation of Medicare's share of its Medicare segment's excess pension liabilities as of December 31, 2016.

What OIG Found

NHS concurred with our prior audit recommendation to increase the NHS segment pension assets by $1.6 million as of January 1, 2016. NHS did not implement our prior recommendation to update the NHS segment pension assets.

For our second objective, NHS did not correctly update the Medicare segment pension assets from January 1, 2016, to December 31, 2016, in accordance with Federal regulations and its established cost accounting practice. NHS identified Medicare segment pension assets of $30.2 million as of December 31, 2016; however, we determined that the Medicare segment pension assets were $31.5 million as of that date. Therefore, NHS understated the Medicare segment pension assets by $1.2 million. NHS did not have policies and procedures to ensure that it calculated those assets in accordance with Federal regulations and its established cost accounting practice when updating the Medicare segment's pension assets.

For our third objective, NHS calculated $1.6 million as Medicare's share of the Medicare segment excess pension liabilities as of December 31, 2016; however, we calculated that Medicare's share of the surplus of the Medicare segment excess pension assets was $703,387 as of that date. The difference, $2.3 million, constituted Medicare's share of allowable Medicare segment pension assets that NHS did not include in its curtailment adjustment.

What OIG Recommends and Auditee Comments

We recommend that NHS: (1) increase the Medicare segment pension assets by $1.2 million and recognize $31.5 million as the Medicare segment pension assets as of December 31, 2016, and (2) increase Medicare's share of the Medicare segment excess pension assets as of December 31, 2016, by $2.3 million and recognize $703,387 as Medicare's share of the pension assets as a result of the benefit curtailment.

NHS did not agree with either of our findings. After reviewing NHS's comments on our draft report, we maintain that our calculations of the Medicare segment pension assets and Medicare's share of the Medicare segment excess pension assets remain valid and that all of our findings and recommendations remain valid as well.

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INTRODUCTION

WHY WE DID THIS AUDIT

Medicare contractors are required to separately account for the Medicare segment pension plan assets based on the requirements 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. In addition, in situations such as contract terminations or benefit curtailments, CAS 413 requires contractors to identify the difference between Medicare pension assets and liabilities allocated to the Medicare segment. Previous Office of Inspector General audits found that Medicare contractors did not always correctly identify and update the segmented pension assets.

At CMS's request, the Department of Health and Human Services, Office of Inspector General, 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 and Medicare administrative contractors (MACs) through Final Administrative Cost Proposals (FACPs), Incurred Cost Proposals (ICPs), or both.

For this audit, we focused on one Medicare contractor, Noridian Healthcare Solutions, LLC (NHS). In particular, we examined the Medicare segment pension assets that NHS updated from January 1, 2016, to December 31, 2016, and Medicare's share of the Medicare segment pension liabilities that NHS determined as a result of its benefit curtailment.

OBJECTIVES

Our objectives were to determine whether NHS complied with Federal requirements and its established cost accounting practice when: (1) implementing the prior audit recommendation to increase the Medicare segment pension assets as of January 1, 2016, (2) updating the Medicare segment pension assets from January 1, 2016, to December 31, 2016, and (3) determining Medicare's share of the Medicare segment excess pension assets or liabilities as a result of NHS's benefit curtailment.

BACKGROUND

Noridian Healthcare Solutions, LLC, and Medicare

NHS is a subsidiary of Blue Cross Blue Shield of North Dakota (BCBS North Dakota) (formerly Noridian Mutual Insurance Company), whose home office is in Fargo, North Dakota. NHS administered Medicare Part A, Medicare Part B, and Medicare Durable Medical Equipment (DME) contract operations under MAC contracts for Medicare Parts A and B

Jurisdictions E[1] and F[2] and Medicare DME Jurisdictions A[3] and D.[4] In addition, NHS held the Pricing, Data Analysis and Coding contract.

BCBS North Dakota sponsors the Non-Contributory Retirement Program for Certain Employees of Mutual Insurance Company. NHS participated in this plan. Effective December 31, 2016, BCBS North Dakota froze its pension plan, which triggered a curtailment of benefits under CAS 413. This report addresses NHS's calculation of Medicare's share of the Medicare segment excess pension assets or liabilities as a result of its benefit curtailment.

Upon the curtailment of its pension plan, NHS identified Medicare's share of the Medicare segment excess pension liabilities to be $1,557,710 as of December 31, 2016.

Prior Pension Segmentation Audit

We performed a prior pension segmentation audit of NHS (A-07-18-00547, Nov. 6, 2019), which brought the Medicare segment pension assets to January 1, 2016. We recommended that NHS increase the Medicare segment pension assets by $1,572,698 and, as a result, recognize $30,224,354 as the Medicare segment pension assets as of January 1, 2016.

HOW WE CONDUCTED THIS AUDIT

We reviewed NHS's implementation of the prior audit recommendation; its identification of the Medicare segment; its update of the Medicare segment pension assets from January 1, 2016, to December 31, 2016; and its calculation of Medicare's share of its Medicare segment's excess pension liabilities as of December 31, 2016, as a result of its benefit curtailment.

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.

[1] 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.

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

[3] 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.

[4] 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.

FINDINGS

NHS concurred with our prior audit recommendation to increase the NHS segment pension assets by $1,572,698 as of January 1, 2016. However, NHS did not implement our prior audit recommendation to update the NHS segment pension assets.[5]

Regarding our second objective, NHS did not correctly update the Medicare segment pension assets from January 1, 2016, to December 31, 2016, in accordance with Federal regulations and its established cost accounting practice. NHS identified Medicare segment pension assets of $30,243,304 as of December 31, 2016; however, we determined that the Medicare segment pension assets were $31,451,287 as of that date. Therefore, NHS understated the Medicare segment pension assets by $1,207,983. NHS understated those pension assets because it did not have policies and procedures to ensure that it calculated those assets in accordance with Federal regulations and its established cost accounting practice when updating the Medicare segment's pension assets from January 1, 2016, to December 31, 2016.

With respect to our third objective, NHS calculated $1,557,710 as Medicare's share of the Medicare segment excess pension *liabilities* as of December 31, 2016; however, we calculated that Medicare's share of the surplus of the Medicare segment excess pension *assets* was $703,387 as of that date. The difference, $2,261,097, constituted Medicare's share of allowable Medicare segment pension assets that NHS did not include in its curtailment adjustment.

Appendix B identifies the details of the NHS Medicare segment's pension assets from January 1, 2016, to December 31, 2016, as determined during our audit. Table 1 summarizes the audit adjustments required to update the NHS Medicare segment's pension assets in accordance with Federal requirements.

Table 1: Summary of Audit Adjustments

	Per Audit	Per NHS	Difference
Prior Audit Recommendation	$30,224,354	$28,651,656	$1,572,698
Update of Medicare Segment Assets			
Contributions and Prepayment Credits	174,254	730,963	(556,709)
Benefit Payments	(2,227,421)	(2,143,066)	(84,355)
Net Transfers	(106,427)	(270,162)	163,735
Earnings, Net of Expenses	3,386,527	3,273,913	112,614
Understatement of Medicare Segment Assets			**$1,207,983**

[5] Implementation of our prior audit recommendation would have required the restatement of NHS's annual valuation report. NHS concurred with our prior findings and recommendation but chose not to restate its report. The prior recommendation is included as an adjustment in the current update of the Medicare segment assets.

PRIOR AUDIT RECOMMENDATION

We performed a prior pension segmentation audit of NHS's Medicare segment pension assets (A-07-18-00547, Nov. 6, 2019), which recommended that NHS 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.[6] NHS concurred with our prior audit recommendation; however, NHS did not update the Medicare segment CAS rollup (footnote 5). Therefore, we continue to identify the prior audit recommendation as an adjustment to the Medicare segment pension assets, as shown in Table 1.

UPDATE OF MEDICARE SEGMENT PENSION ASSETS

Federal requirements 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, 2016, to December 31, 2016, in accordance with Federal requirements. NHS identified $30,243,304 as the Medicare segment pension assets as of December 31, 2016; however, we determined that those assets were $31,451,287 as of that date. Therefore, NHS understated the Medicare segment pension assets as of December 31, 2016, by $1,207,983. The following are our findings regarding the update of the Medicare segment pension assets from January 1, 2016, to December 31, 2016.

Contributions and Transferred Prepayment Credits Overstated

The audited contributions and transferred prepayment credits[7] are based on the assignable pension costs.[8] 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.

[6] The HHS action official, an official CMS designates to resolve Medicare pension matters, will make a final determination as to actions taken on our prior audit recommendation, as well as any recommendations stemming from this audit.

[7] 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.

[8] These are assigned to a specific cost accounting period.

NHS overstated contributions and transferred prepayment credits by $556,709 for its Medicare segment. The overstatement occurred primarily because of the asset base used to calculate the assignable pension costs.

Benefit Payments Understated

NHS understated benefit payments by $84,355 for the Medicare segment. This understatement occurred because NHS incorrectly identified the benefit payments for the Medicare segment participants. Specifically, NHS excluded two benefit payments from the Medicare segment. This understatement of benefit payments resulted in an overstatement of the NHS Medicare segment pension assets by $84,355.

Net Transfers Out Overstated

NHS overstated net transfers out of its Medicare segment by $163,735. The overstatement occurred because NHS incorrectly excluded the transfers into the Medicare segment during CY 2016. This overstatement of the net transfer adjustment resulted in an understatement of the Medicare segment pension assets by $163,735.

Earnings, Net of Expenses, Understated

NHS understated investment earnings, less administrative expenses, by $112,613 for its Medicare segment, because it used incorrect contributions and transferred prepayment credits, incorrect benefits 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.

MEDICARE SEGMENT CURTAILMENT ADJUSTMENT

Update of Unallowable Unfunded Pension Cost

Federal regulations (CAS 412) require Medicare contractors like NHS to properly identify, track, and update with interest, the unallowable unfunded pension cost. During our audit, we determined that NHS did not identify an accumulated unallowable unfunded pension cost as of December 31, 2016. We determined that the Medicare segment accumulated unallowable unfunded pension cost as of December 31, 2016, was $1,105,082. Therefore, NHS did not properly identify, track, or update the Medicare segment's accumulated unallowable unfunded pension cost as of December 31, 2016.

Surplus of the Medicare Segment Excess Pension Assets as of December 31, 2016

NHS did not comply with Federal requirements when calculating the Medicare segment excess pension assets as of its benefit curtailment date. Federal regulations (Appendix C) require NHS

to compute a Medicare segment curtailment adjustment as a result of the benefit curtailment. Accordingly, NHS identified $1,557,710 in Medicare segment excess pension *liabilities* as of December 31, 2016. However, we calculated a surplus of the Medicare segment excess pension *assets* totaling $755,355 as of that date. (It is necessary to calculate the pension assets and liabilities as well as any adjustment for the Medicare segment before calculating Medicare's share. See Table 2 later in this report for details regarding the calculation of Medicare's share.) Therefore, NHS understated the excess Medicare segment pension assets by $2,313,065. This amount was a surplus, consisting of the $1,557,710 in Medicare segment excess pension liabilities that NHS identified added to the $755,355 of excess Medicare segment pension assets that we calculated. NHS understated these excess assets because NHS did not properly update the Medicare segment assets in accordance with Federal requirements.

We used the surplus of the Medicare segment pension assets that we calculated to identify Medicare's share of the surplus of the Medicare segment's pension assets, as discussed in the next section.

Medicare's Share of the Surplus of the Medicare Segment Excess Pension Assets

NHS calculated the aggregate Medicare percentage (that is, the percentage that reflects Medicare's share of the Medicare segment excess pension liabilities) as of December 31, 2016, to be 100 percent. We calculated the aggregate Medicare percentage to be 93.12 percent (Appendix D) using the Medicare segment pension costs developed during the prior pension costs claimed audits (A-07-00-00117, Feb. 1, 2001; A-07-08-00259, Nov. 4, 2008; A-07-13-00418, Dec. 16, 2013; A-07-18-00548, Nov. 6, 2019; and A-07-18-00550, Nov. 6, 2019) and current pension costs claimed audit (A-07-21-00602; Appendix A) as required by the CAS. For details on the Federal requirements regarding the aggregate Medicare percentage, see Appendix C.

Having calculated the aggregate Medicare percentage as of December 31, 2016, to be 100 percent, NHS thus calculated $1,557,710 as Medicare's share of the Medicare segment excess pension liabilities as of December 31, 2016. However, we calculated that Medicare's share of the surplus of the Medicare segment pension assets was $703,387 as of that date. The difference, $2,261,097, constituted Medicare's share of allowable Medicare segment pension assets that NHS did not include in its curtailment adjustment. NHS therefore understated Medicare's share of the surplus of the Medicare segment pension assets by $2,261,097. This understatement occurred because: (1) NHS understated the Medicare segment's pension assets and (2) it did not include an unallowable unfunded pension cost in its calculation (as discussed above).

Table 2 on the following page shows our calculation of Medicare's share of the surplus of pension assets.

Table 2: Medicare's Share of Excess Pension Assets and (Liabilities)

	Per Audit	Per NHS	Difference
Medicare Segment Assets as of December 31, 2016	$31,451,287	$30,243,304	$1,207,983
Medicare Segment Liabilities as of December 31, 2016	31,801,014	31,801,014	0
Unallowable Unfunded Liability as of December 31, 2016	1,105,082	0	1,105,082
Excess Medicare Segment Assets/(Liabilities)	755,355	(1,557,710)	2,313,065
Aggregate Medicare Percentage	93.12%	100.00%	
Excess Assets Attributable to Medicare	$703,387	($1,557,710)	$2,261,097

RECOMMENDATIONS

We recommend that Noridian Healthcare Solutions, LLC:

- increase the Medicare segment pension assets by $1,207,983 and recognize $31,451,287 as the Medicare segment pension assets as of December 31, 2016, and

- increase Medicare's share of the Medicare segment excess pension assets as of December 31, 2016, by $2,261,097 and recognize $703,387 as Medicare's share of the pension assets as a result of the benefit curtailment.

AUDITEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, NHS did not agree with either of our findings and added that it could not effectively respond to certain aspects of the report. A summary of NHS's main points and our responses follows.

NHS's comments appear in their entirety as Appendix E.[9]

After reviewing NHS's comments, we maintain that our calculations of the Medicare segment pension assets and Medicare's share of the Medicare segment excess pension assets remain valid and that all of our findings and recommendations remain valid as well.

MEDICARE SEGMENT CURTAILMENT CALCULATION

Auditee Comments

NHS disagreed with our finding that it did not properly identify, track, or update the Medicare segment's accumulated unallowable unfunded pension cost as of December 31, 2016. Specifically, NHS said that BCBS North Dakota, its parent organization, froze the pension plan,

[9] Although BCBS North Dakota, of which NHS is a subsidiary, provided written comments on this draft report, for consistency we associate these comments with NHS.

which caused a curtailment of benefits under CAS 413. NHS stated that CAS 413.50(c)(12) requires that the calculation of the market value of assets reflect both the accumulated value of prepayment credits and the current value of any unfunded actuarial liability. NHS also said that we have recognized that the plan's prepayment credits are available to offset costs at the segment level and added that we have applied a portion of the plan's prepayment credits toward Medicare segment costs for years. Furthermore, NHS stated that it had sufficient prepayment credits to eliminate the unfunded liability that occurred in 1993.

Office of Inspector General Response

We were aware when we conducted this audit that BCBS North Dakota had frozen its pension plan, effective December 31, 2016, which triggered a curtailment of benefits under CAS 413.[10] In NHS's presentation of the CAS 413 curtailment calculation, NHS did not exercise the option to fund all or part of its unfunded actuarial liability. In accordance with CAS 412.50(a)(2)(ii), "the contractor *may elect* to fund, and thereby reduce, such portions of unfunded actuarial liability" (emphasis added). This provision of the CAS makes clear that the contractor *may elect* to eliminate the unallowable unfunded pension cost, but it is not required. In addition to eliminating the unallowable balance, these funds transfer into the segment assets to reduce the unfunded actuarial liability.

CMS, Office of the Actuary (OACT), computes costs using the contractor's methods so long as those methods are allowable in accordance with CAS. NHS provided us with the curtailment calculation that included a prepayment balance, which did not reflect that NHS elected to transfer prepayment credits to eliminate the unallowable unfunded pension cost. CMS OACT included the unfunded unallowable pension cost when it computed the curtailment calculation because NHS did not exercise the option to eliminate it. If NHS had intended to use the prepayment credits to offset the unfunded unallowable pension cost, NHS should have transferred the prepayment credits to the unallowable balance and to the Medicare segment assets to maintain the proper balance. Because NHS elected to not apply the prepayment credits, we followed the same methodology in developing this finding. Therefore, our finding and recommendation remain valid.

OTHER SEGMENT ADJUSTMENT

Auditee Comments

NHS stated that our report does not calculate the adjustment of previously determined pension costs required by CAS 413 with respect to the "Other" segment; NHS added that it assumes that this calculation was outside the scope of our audit.

[10] See also our discussions in "Noridian Healthcare Solutions, LLC, and Medicare" and "Medicare Segment Curtailment Adjustment" earlier in this report.

Office of Inspector General Response

We agree that we did not calculate an adjustment of the previously determined pension costs with respect to the "Other" segment. It is our opinion and practice, along with the opinion of the CMS OACT, that an adjustment of previously determined pension costs to the "Other" segment is not performed. We and the CMS OACT have always associated the segment adjustment calculations, which we perform in accordance with CAS 413, with only the Medicare segment. Specifically, the historical cost applies only to segments. CAS 413.50(c)(12) states: "the contractor shall determine the difference between the actuarial accrued liability for the segment and the market value of the assets allocated to the segment" (Appendix C). CAS 413.30(a)(19) defines a segment as "one of two or more divisions, product departments, plants, or other subdivision of an organization reporting directly to a home office, usually identified with responsibility for profit and/or producing a product or service." In addition, the Medicare contracts identify the Medicare segment as "an organizational component, such as a division, department, or other similar subdivision, having a significant degree of responsibility and accountability for the Medicare contract/agreement."

NHS only has one Medicare segment whose associated employees work on Medicare contracts. Although the Other segment is referred to as a "segment," that is done to identify those employees who are not part of the Medicare segment. The terminology "Other Segment" is thus used as a mathematical tool, representing the difference between the pension totals and the Medicare segment. This approach helps to account for the transfers and balances and the maintenance of the pension balance equation. The indirect costs are only allowed in support of the Medicare segment performing contractual obligations. Without a Government contract, NHS would not be required to comply with the CAS.

PRIOR AUDIT FINDING

Auditee Comments

NHS stated (in a footnote in its written comments) that our report "improperly criticizes" NHS for "failing to implement" our recommendation from our prior pension segmentation audit of NHS (A-07-18-00547, Nov. 6, 2019). NHS said that it submitted a valuation report for the period covered by our prior audit before we issued that prior report. NHS thus attributed this "disconnect" to our delay in issuing our prior report, and not to any improper action or omission by NHS.

Office of Inspector General Response

We agree that the delay in updating the Medicare segment pension assets was not the result of an improper action or omission by NHS. Our current report addresses our prior audit recommendation as one of the audit adjustments required to update NHS's Medicare segment pension assets (Table 1). However, we recognize that the delay in issuance of our prior report affected the findings for this current audit and was the cause of NHS's delay in updating those

assets. Because our finding for the current report incorporates the difference in the prior audit assets, we had to address the difference with reference to the prior audit's findings and recommendation.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed NHS's implementation of the prior audit recommendation; its identification of its Medicare segment; its update of the Medicare segment pension assets from January 1, 2016, to December 31, 2016; and its calculation of Medicare's share of its Medicare segment's excess pension liabilities as of December 31, 2016, as a result of its benefit curtailment.

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 CAS 412 and CAS 413.

We performed audit work at our office in Jefferson City, Missouri.

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 firms, 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 Medicare segment assets;
- obtained and reviewed the pension plan documents and Department of Labor/Internal Revenue Service Forms 5500 used in calculating the Medicare segment assets;
- interviewed NHS staff responsible for identifying the Medicare segment to determine whether the segment was properly identified in accordance with NHS's established cost accounting practice;
- reviewed NHS's accounting records to verify the Medicare segment identification as well as the benefit payments made from the Medicare segment;
- reviewed the prior segmentation audit performed of NHS (A-07-18-00547, Nov. 6, 2019), to determine the beginning market value of assets;
- provided the CMS OACT, which provides technical actuarial advice, with the actuarial information necessary for it to calculate the Medicare segment pension assets from January 1, 2016, to December 31, 2016;

- reviewed the CMS actuaries' methodology and calculations; and

- provided the results of our audit to NHS officials on August 5, 2021.

We performed this audit in conjunction with the following audit and used the information obtained during this audit: *Noridian Healthcare Solutions, LLC, Did Not Claim Some Allowable Medicare Pension Costs for Calendar Years 2014 Through 2016* (A-07-21-00602).

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, 2016, TO DECEMBER 31, 2016

Description		Total Company	Other Segments	Medicare Segment
Assets January 1, 2016	1/	$138,395,128	$108,170,774	$30,224,354
Prepayment Credits	2/	0	(174,254)	174,254
Contributions	3/	0	0	0
Investment Earnings	4/	15,688,332	12,254,940	3,433,392
Benefit Payments	5/	(9,164,975)	(6,937,554)	(2,227,421)
Administrative Expenses	6/	(214,144)	(167,279)	(46,865)
Transfers	7/	0	106,427	(106,427)
Assets January 1, 2017		$144,704,341	$113,253,054	$31,451,287
Per NHS	8/	$144,704,341	$114,461,037	$30,243,304
Asset Variance	9/	$0	($1,207,983)	$1,207,983

ENDNOTES

1/ We determined the Medicare segment pension assets as of January 1, 2016, based on our prior segmentation audit of NHS (A-07-18-00547; Nov. 6, 2019). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare segments. 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 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 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/ We obtained segment asset amounts from documents prepared by NHS's actuarial consulting firm.

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

APPENDIX C: FEDERAL REQUIREMENTS RELATED TO PENSION SEGMENTATION AND MEDICARE SEGMENT CURTAILMENT ADJUSTMENT

PENSION SEGMENTATION

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 412.64-1(b)) require contractors or subcontractors that become subject to the CAS, as amended, during the Pension Harmonization Rule Transition Period to phase in the minimum actuarial liability and minimum normal cost.[11] During each successive accounting period of the Pension Harmonization Rule Transition Period, the contractor shall recognize on a scheduled basis the amount by which the minimum actuarial liability differs from the actuarial accrued liability and the amount by which the sum of the minimum normal cost plus any expense load differs from the sum of the normal cost plus any expense load.

Federal regulations (CAS 412.64-1(b)(3)) require that the scheduled applicable percentages for each successive accounting period of the Pension Harmonization Rule Transition Period are as follows: 0 percent for the first cost accounting period, 25 percent for the second cost accounting period, 50 percent for the third cost accounting period, 75 percent for the fourth cost accounting period, and 100 percent for the fifth cost accounting period.

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.

[11] Explanatory language in the CAS Harmonization Rule states: "To promote equity and fairness in achieving an orderly change in the contract cost accounting for pension costs, this final rule retains the transition period consisting of five cost accounting periods, the Pension Harmonization Rule Transition Period, that will phase in recognition of any adjustment of the actuarial accrued liability and normal cost. This transition method will apply to all contractors with contracts subject to CAS 412 and 413."

MEDICARE SEGMENT CURTAILMENT ADJUSTMENT

Federal regulations (CAS 412.50(a)(2)) state, in part:

i. Except as provided in 9904.412-50(d)(2), any portion of unfunded actuarial liability attributable to either pension costs applicable to prior years that were specifically unallowable in accordance with then existing Government contractual provisions or pension costs assigned to a cost accounting period that were not funded in that period, shall be separately identified and eliminated from any unfunded actuarial liability being amortized pursuant to paragraph (a)(1) of this sub section.

ii. Such portions of unfunded actuarial liability shall be adjusted for interest based on the interest assumption established in accordance with 9904.412-50(b)(4) without regard to 9904.412-50(b)(7). . . .

Federal regulations (CAS 413.50(c)(12)) state, in part:

> If a segment is closed, if there is a pension plan termination, or if there is a curtailment of benefits, the contractor shall determine the difference between the actuarial accrued liability for the segment and the market value of the assets allocated to the segment, irrespective of whether or not the pension plan is terminated. The difference between the market value of the assets and the actuarial accrued liability for the segment represents an adjustment of previously-determined pension costs.
>
> i. The determination of the actuarial accrued liability shall be made using the accrued benefit cost method. The actuarial assumptions employed shall be consistent with the current and prior long term assumptions used in the measurement of pension costs. . . .
>
> ii. . . . . The market value of the assets shall be reduced by the accumulated value of prepayment credits, if any. Conversely, the market value of assets shall be increased by the current value of any unfunded actuarial liability separately identified and maintained in accordance with 9904.412-50(a)(2).
>
> iii. The calculation of the difference between the market value of the assets and actuarial liability shall be made as of the date of the event (e.g, contract termination, plan amendment, plant closure) that caused the closing of the segment, pension plan termination, or curtailment of benefits. If such a date is not readily determinable, or it its use can result in an inequitable calculation, the contracting parties shall agree on an appropriate date.

iv. Pension plan improvements adopted within 60 months of the date of the event which increase the actuarial accrued liability shall be recognized on a prorata basis using the number of months the date of adoption preceded the event date. Plan improvements mandated by law or collective bargaining agreement are not subject to this phase-in.

The methodology for determining the Federal Government's share of excess pension assets and liabilities is addressed by CAS 413.50(c)(12)(vi), which states:

> The Government's share of the adjustment amount determined for a segment shall be the product of the adjustment amount and a fraction. The adjustment amount shall be reduced for any excise tax imposed upon assets withdrawn from the funding agency of a qualified pension plan. The numerator of such fraction shall be the *sum of the pension plan costs* allocated to all contracts and subcontracts (including Foreign Military Sales) subject to this Standard during a period of years representative of the Government's participation in the pension plan. The denominator of such fraction shall be the *total pension costs* assigned to cost accounting periods during those same years. This amount shall represent an adjustment of contract prices or cost allowance as appropriate. The adjustment may be recognized by modifying a single contract, several but not all contracts, or all contracts, or by use of any other suitable technique. [Emphasis added.]

APPENDIX D: CALCULATION OF AGGREGATE MEDICARE PERCENTAGE

Calendar Year	Allowable Medicare Segment Pension Costs from FACPs	Allowable Medicare Segment Pension Costs from ICPs	Total Allocable Medicare Segment Pension Costs	Medicare Aggregate Percentage
1/	(A) 2/	(B) 3/	(C) 4/	((A+B)/C) 5/
1992	$0	$0	$0	
1993	188,608	0	230,235	
1994	235,367	0	254,077	
1995	198,075	0	215,012	
1996	710,507	0	748,667	
1997	709,820	0	731,638	
1998	698,584	0	703,863	
1999	815,587	0	860,687	
2000	1,187,746	0	1,233,894	
2001	1,465,609	0	1,533,385	
2002	1,881,465	0	1,909,729	
2003	2,849,687	0	3,014,266	
2004	2,847,180	0	3,026,983	
2005	3,186,229	0	3,393,577	
2006	3,366,900	629,818	3,996,718	
2007	1,149,860	3,102,779	4,308,674	
2008	1,252,603	2,697,967	4,473,781	
2009	718,732	2,904,224	4,399,182	
2010	801,169	2,794,456	4,380,499	
2011	1,480,817	2,387,741	3,951,205	
2012	249,869	2,827,845	3,315,176	
2013	202,988	3,265,064	3,468,052	
2014		2,747,453	3,193,961	
2015		1,510,306	1,510,306	
2016		174,254	174,254	
Total	**$26,197,402**	**$25,041,907**	**$55,027,821**	**93.12%**

ENDNOTES

1/ We based the aggregate percentage on the audited pension costs developed during the previous pension costs claimed audits (A-07-00-00117, Feb. 1, 2001; A-07-08-00259, Nov. 4, 2008; A-07-13-00418, Dec. 16, 2013; A-07-18-00548, Nov. 6, 2019; and A-07-18-00550, Nov. 6, 2019) and the current pension costs claimed audit (A-07-21-00602) as required by the CAS.

2/ This column identifies the allowable Medicare segment pension costs that related to the Legacy Medicare contract.

3/ This column identifies the allowable MAC contracts. In some instances, we limited the allowable pension costs from the ICP to equal 100 percent of the allocable pension costs. This was necessary because when using the actual allowable pension costs claimed from the ICPs, the line business percentage exceeded 100 percent.

4/ This column identifies the total allocable Medicare segment pension costs during the contract period.

5/ In accordance with 9904.413-50(c)(12)(vi), we calculated the aggregate Medicare percentage by dividing the total of the Medicare segment's pension costs charged to Medicare (i.e., the combined amounts from the two columns to the right of the "Calendar Year" column) by the total allocable Medicare segment pension costs pursuant to CAS 413.

Blue Cross Blue Shield of North Dakota
4510 13th Avenue South • Fargo, ND 58121

November 12, 2021

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

re: HHS OIG Draft Report No. A-07-21-00603

Mr. Cogley:

Per your September 13, 2021 request, Noridian Healthcare Solutions, LLC ("Noridian") provides the following response to Draft Report No. A-07-21-00603 entitled, *Noridian Healthcare Solutions, LLC, Understated its Medicare Segment Pension Assets and Understated Medicare's Share of the Medicare Segment Excess Pension Assets as of December 31, 2016*. Based on the information that your office provided to Noridian to support the findings in Draft Report No. A-07-21-00603, Noridian is unable to effectively respond to several aspects of the Report, including the findings that Noridian understated Medicare segment assets and overstated Medicare's share of the adjustment of previously determined pension costs.[1] Noridian therefore does not agree with either finding.

Noridian can effectively respond to the finding in Draft Report No. A-07-21-00603 that Noridian did not properly identify, track, or update the Medicare segment's accumulated unallowable unfunded pension cost as of December 31, 2016. As the report recognizes, effective December 31, 2016, Noridian's parent, Blue Cross Blue Shield of North Dakota, froze the pension plan at issue. This freeze triggered a curtailment of benefits under Cost Accounting Standard ("CAS") 413. The CAS Board's regulations implementing CAS 413 require that a contractor calculate an adjustment of previously determined pension costs as follows when it undergoes a curtailment:

> (12) If a segment is closed, if there is a pension plan termination, or if there is a curtailment of benefits, the contractor shall determine the difference between the actuarial accrued liability for the segment and the market value of the assets allocated to the segment, irrespective of whether or not the pension plan is terminated. The difference between the market value of the assets and the actuarial accrued liability for the segment represents an adjustment of previously-determined pension costs.
>
> > . . . (ii) In computing the market value of assets for the segment, if the contractor has not already allocated assets to the segment, such an allocation shall be made in accordance with the requirements of paragraphs (c)(5) (i) and (ii) of this subsection. The market value of the assets shall be reduced by the accumulated value of

[1] The Draft Report improperly criticizes Noridian for failing to implement HHS OIG's recommendations from Report No. A-07-18-00547, which was issued in November 2019 and addressed the value of Medicare segment pension assets through January 1, 2016. Draft Report No. A-07-21-00603 addresses the value of Medicare segment pension assets through December 31, 2016, and Noridian submitted a valuation report for this period before HHS OIG issued Report No. A-07-18-00547. Accordingly, any disconnect between Noridian's valuation report for 2016 and Report No. A-07-18-00547 is attributable to HHS OIG's delays in issuing that report, and not any improper action or omission by Noridian.

> prepayment credits, if any. Conversely, the market value of the assets shall be increased by the current value of any unfunded actuarial liability separately identified and maintained in accordance with 9904.412-50(a)(2).

48 C.F.R. 9904.413-50(c)(12).

Draft Report No. A-07-21-00603 finds that Noridian failed to increase the market value of assets for the Medicare segment by the current value of an unfunded liability that occurred in 1993. The above-quoted regulation, however, requires that the calculation of the market value of assets reflect both the accumulated value of pre-payment credits and the current value of any unfunded actuarial liability. Noridian and HHS OIG have tracked accumulated pre-payment credits for the plan at issue at the plan level, and have not calculated accumulated pre-payment credits at the segment level. Throughout the period since 1993, however, HHS OIG has recognized that the plan's prepayment credits are available to offset costs at the segment level, and HHS OIG has applied a portion of the plan's prepayment credits towards Medicare segment costs for years.

CAS 412 specifically recognizes that contractors can reduce unfunded liabilities in future accounting periods. 48 C.F.R. 9904.412-50(a)(2)(ii). There is no question that Noridian had sufficient prepayment credits to eliminate the unfunded liability that occurred in 1993. Accordingly, for purposes of calculating the adjustment of previously determined pension cost under CAS 413, any unfunded actuarial liability is entirely offset by pre-payment credits, and that unfunded actuarial liability should have no impact on the adjustment required by CAS 413.

Finally, Noridian notes that Draft Report No. A-07-21-00603 does not calculate the adjustment of previously determined pension costs required by CAS 413 with respect to the "Other" segment. Noridian assumes that this calculation was outside the scope of HHS OIG's audit.

Thank you for the opportunity to comment, please contact me at 701-282-1106 or e-mail me at dave.breuer@bcbsnd.com if you have any questions.

Sincerely,

/David Breuer/

David Breuer
Executive Vice President and Chief Financial Officer
Blue Cross and Blue Shield of North Dakota