



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

NOV 04 2008

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

Report Number: A-07-08-00258

Mr. David Breuer
Senior Vice President of Finance and Chief Financial Officer
Noridian Mutual Insurance Company
4510 13th Avenue S.
Fargo, North Dakota 58121-0001

Dear Mr. Breuer:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Medicare Contractor's Pension Segmentation Requirements at Noridian Mutual Insurance Company for the Period January 1, 1998, to January 1, 2006." We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, this report will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, or contact Jenenne Tambke, Audit Manager, at (573) 893-8338, extension 21 or through e-mail at Jenenne.Tambke@oig.hhs.gov. Please refer to report number A-07-08-00258 in all correspondence.

Sincerely,

Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Nanette Foster Reilly, Consortium Administrator
Consortium for Financial Management & Fee for Service Operations
Centers for Medicare & Medicaid Services
601 East 12th Street, Room 235
Kansas City, Missouri 64106

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF MEDICARE
CONTRACTOR'S PENSION
SEGMENTATION REQUIREMENTS
AT NORIDIAN MUTUAL INSURANCE
COMPANY FOR THE PERIOD
JANUARY 1, 1998, TO
JANUARY 1, 2006**



Daniel R. Levinson
Inspector General

November 2008
A-07-08-00258

Office of Inspector General

<http://oig.hhs.gov>

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Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, Office of Inspector General reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5).

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

BACKGROUND

During our audit period, Noridian Mutual Insurance Company (Noridian) administered Medicare Part A and Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS).

Pension Plan

Noridian sponsors a defined benefit pension plan, which is a deferred compensation plan in which an employer makes actuarially determined contributions to fund an employee's retirement benefit as defined by the plan's terms.

Since its inception, Medicare has paid a portion of contractors' contributions to their pension plans. These contributions are allowable Medicare costs subject to the criteria set forth in the Medicare contracts, the Federal Acquisition Regulation, and Cost Accounting Standards (CAS).

Pension Segmentation

Beginning with fiscal year 1988, CMS incorporated segmentation requirements into the Medicare contracts. The Medicare contracts define a segment and specify the methodology for the identification and initial allocation of pension assets to the segment. Additionally, the contracts require Medicare segment assets to be updated for each year after the initial allocation in accordance with CAS 412 and 413.

We previously reviewed Noridian's Medicare pension segmentation requirements (A-07-99-02560) and recommended that Noridian identify \$2,766,742 of Medicare segment assets as of January 1, 1998.

OBJECTIVE

Our objective was to determine whether Noridian complied with Federal requirements and the Medicare contracts' pension segmentation requirements when:

- implementing the prior audit recommendation, and
- updating the Medicare segment's assets from January 1, 1998, to January 1, 2006.

SUMMARY OF FINDINGS

Noridian properly implemented the prior audit recommendation; however, it did not always comply with Federal requirements and the Medicare contracts' pension segmentation requirements while updating the Medicare segment assets from January 1, 1998, to January 1, 2006. As a result, Noridian understated the Medicare segment assets by \$158,261.

RECOMMENDATIONS

We recommend that Noridian:

- increase Medicare segment assets by \$158,261 as of January 1, 2006, and
- implement controls to ensure that the Medicare segment's assets are updated in accordance with the Medicare contracts.

AUDITEE COMMENTS

In written comments on our draft report, Noridian concurred with our recommendations. Noridian stated that it will properly identify Medicare segment individuals and update the Medicare segment's assets.

Noridian's comments are included in their entirety as Appendix B.

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Glossary of Abbreviations and Acronyms

| | |
|----------|--|
| CAS | Cost Accounting Standards |
| CMS | Centers for Medicare & Medicaid Services |
| FAR | Federal Acquisition Regulation |
| Noridian | Noridian Mutual Insurance Company |
| WAV | weighted average value |

INTRODUCTION

BACKGROUND

During our audit period, Noridian Mutual Insurance Company (Noridian) administered Medicare Part A and Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS).

Pension Plan

Noridian sponsors a defined benefit pension plan, which is a deferred compensation plan in which an employer makes actuarially determined contributions to fund an employee's benefit as defined by the plan's terms. Once an employee satisfies the plan's age and service requirements and retires, he or she is eligible to receive payment(s) from the plan. The plan accumulates assets from employer contributions and net investment earnings to fund the actuarial liability for both earned and projected future benefits. The amount of required annual employer contributions may decrease or increase each year based on the annual determination of gain or loss (when actual results differ from what is expected).

Since its inception, Medicare has paid a portion of contractors' contributions to their pension plans. These contributions are allowable Medicare costs subject to the criteria set forth in the Medicare contracts, the Federal Acquisition Regulation (FAR), and Cost Accounting Standards (CAS).

Federal Requirements

CAS 412 regulates the determination and measurement of pension cost components. It also regulates the assignment of pension costs to appropriate accounting periods.

CAS 413 regulates the valuation of pension assets, allocation of pension costs to segments of an organization, adjustment of pension costs for actuarial gains and losses, and assignment of gains and losses to cost accounting periods.

Pension Segmentation

CMS incorporated CAS 412 and 413 into the Medicare contracts effective October 1, 1980. Beginning with fiscal year 1988, CMS incorporated segmentation requirements into Medicare contracts. The Medicare contracts identify the criteria used to identify the Medicare segment and specify the methodology for the identification and initial allocation of pension assets to the segment. For each year after the initial allocation, the contracts require Medicare segment assets to be updated in accordance with CAS 412 and 413. In claiming costs, contractors must follow cost reimbursement principles contained in the FAR, CAS, and the Medicare contracts.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether Noridian complied with Federal requirements and the Medicare contracts' pension segmentation requirements when:

- implementing the prior audit recommendation, and
- updating the Medicare segment's assets from January 1, 1998, to January 1, 2006.

Scope

We reviewed Noridian's implementation of the prior audit recommendation identification of its Medicare segment; and update of Medicare segment's assets from January 1, 1998, to January 1, 2006.

Achieving our objectives did not require us to review Noridian's overall internal control structure. However, we reviewed controls relating to the implementation of the prior audit recommendation, identification of the Medicare segment, and the update of the Medicare segment's assets.

We performed fieldwork at Noridian in Fargo, North Dakota, during August 2007.

Methodology

To accomplish our objective:

- We reviewed the applicable portions of the FAR, CAS, and the Medicare contracts.
- We reviewed the information provided by Noridian's actuarial consulting firm, which included the pension plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We used this information to calculate the Medicare segment assets.
- We obtained and reviewed the pension plan documents, actuarial valuation reports, and Department of Labor/Internal Revenue Service Form 5500s which provide information used in calculating the Medicare segment assets.
- We reviewed the findings and recommendation contained in our prior audit report (A-07-99-02560) of Noridian's Medicare pension segmentation requirements.
- We interviewed Noridian staff responsible for identifying the Medicare segment to determine whether the segment was properly identified in accordance with the Medicare contracts.
- We reviewed Noridian's accounting records to verify the segment identification and benefit payments made to the Medicare segment.

- We provided the CMS Office of the Actuary with the actuarial information necessary for it to calculate the Medicare segment assets as of January 1, 2006.
- We reviewed the CMS actuaries' methodology and calculations.

We performed this review in conjunction with our audit of Noridian's pension costs claimed for Medicare reimbursement (A-07-08-00259) and used the information obtained during that audit in this review.

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

FINDINGS AND RECOMMENDATIONS

Noridian properly implemented the prior audit recommendation; however, it did not always comply with Federal requirements and the Medicare contracts' pension segmentation requirements while updating the Medicare segment assets from January 1, 1998, to January 1, 2006. As a result, Noridian understated the Medicare segment assets by \$158,261.

Appendix A presents details on the Medicare segment's pension assets from January 1, 1998, to January 1, 2006, as determined during our audit. Table 1 summarizes the audit adjustments required to update Medicare segment pension assets in accordance with Federal requirements.

| Table 1: Summary of Audit Adjustments | | | |
|--|----------------|---------------------|-------------------|
| | Per OIG | Per Noridian | Difference |
| Prior Audit Recommendation | \$2,766,742 | \$2,766,742 | \$0 |
| Update of Medicare Segment Assets | | | |
| Contributions and Transferred Prepayment Credits | 15,676,384 | 15,776,348 | (99,964) |
| Benefit payments | (5,921,024) | (5,880,859) | (40,165) |
| Transfers | (1,758,811) | (2,285,675) | 526,864 |
| Earnings, net expenses | 2,889,412 | 3,117,886 | (228,474) |
| Understatement of Medicare segment assets | | | \$158,261 |

PRIOR AUDIT RECOMMENDATION

Noridian properly implemented the recommendation from the prior segmentation report (A-07-99-02560), which recommended that Noridian identify \$2,766,742 of Medicare segment pension assets as of January 1, 1998.

UPDATE OF MEDICARE SEGMENT ASSETS

Federal Requirements

The Medicare contract states that “. . . the pension assets allocated to each Medicare Segment shall be adjusted in accordance with CAS 413.50(c)(7).” CAS 413.50(c)(7) requires 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 weighted average value (WAV) of assets to total company WAV of assets.

In addition, CAS 413.50(c)(8) requires 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. For plan years beginning after March 30, 1995, the CAS requires that the amount of assets transferred equal the actuarial accrued liabilities as determined using the accrued benefit cost method.

Contributions and Transferred Prepayment Credits Overstated

Noridian overstated contributions and transferred prepayment credits for the Medicare segment by \$99,964. Noridian’s update methodology did not equitably assign pension contributions and transferred prepayment credits to the Medicare segment. Primarily, this was due to Noridian’s misidentification of the Medicare segment, which led to differences in assignable pension costs. As a result, Noridian overstated the Medicare segment assets by \$99,964.

The audited contributions and prepayment credits are based on the assignable pension costs. In compliance with CAS 412.50(a)(4) and FAR 31.201-1(a), 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 as needed to assigned pension costs as of the date of deposit.

Table 2 compares Noridian’s and our calculations of contributions and transferred prepayment credits for the Medicare segment.

| Year | Per OIG | Per Noridian | Difference |
|--------------|---------------------|---------------------|-------------------|
| 1998 | \$703,863 | \$703,863 | \$0 |
| 1999 | 860,687 | 898,122 | (37,435) |
| 2000 | 1,233,894 | 1,255,324 | (21,430) |
| 2001 | 1,533,385 | 1,560,881 | (27,496) |
| 2002 | 1,909,729 | 1,937,089 | (27,360) |
| 2003 | 3,014,266 | 3,006,442 | 7,824 |
| 2004 | 3,026,983 | 3,012,358 | 14,625 |
| 2005 | 3,393,577 | 3,402,269 | (8,692) |
| Total | \$15,676,384 | \$15,776,348 | (\$99,964) |

Benefit Payments Understated

Noridian understated benefit payments by \$40,165 for the Medicare segment because it did not include all lump sum and annuity payments made to Medicare segment participants. This understatement of benefit payments resulted in an overstatement of the Medicare segment assets.

Table 3 compares Noridian's and our calculations of benefit payments for the Medicare segment.

| Year | Per OIG | Per Noridian | Difference |
|--------------|----------------------|----------------------|-------------------|
| 1998 | (\$1,138,382) | (\$1,178,600) | \$40,218 |
| 1999 | (128,832) | (83,502) | (45,330) |
| 2000 | (137,702) | (118,119) | (19,583) |
| 2001 | (57,116) | (42,684) | (14,432) |
| 2002 | (1,548,325) | (1,548,325) | 0 |
| 2003 | (1,519,399) | (1,518,361) | (1,038) |
| 2004 | (1,012,332) | (1,012,332) | 0 |
| 2005 | (378,936) | (378,936) | 0 |
| Total | (\$5,921,024) | (\$5,880,859) | (\$40,165) |

Net Transfers Understated

Noridian understated the net participant transfer adjustment in its update of Medicare segment assets by \$526,864. The understatement occurred primarily because Noridian misidentified the Medicare segment, which resulted in—among other things—the incorrect identification of participants who transferred in and out of the segment. Transfers for the audited update were adjusted based on our revisions to the Medicare segment. This understatement of the net transfer adjustment resulted in an understatement of the Medicare segment assets.

Table 4 compares Noridian's and our asset adjustments associated with Medicare segment participant transfers.

| Year | Per OIG | Per Noridian | Difference |
|--------------|----------------------|----------------------|-------------------|
| 1998 | (\$1,416,169) | (\$1,065,828) | (\$350,341) |
| 1999 | 7,916 | (35,341) | 43,257 |
| 2000 | 68,487 | (374,382) | 442,869 |
| 2001 | (37,826) | (117,439) | 79,613 |
| 2002 | (350,298) | (449,581) | 99,283 |
| 2003 | (156,222) | (137,599) | (18,623) |
| 2004 | (51,912) | (155,970) | 104,058 |
| 2005 | 177,213 | 50,465 | 126,748 |
| Total | (\$1,758,811) | (\$2,285,675) | \$526,864 |

Earnings, Net Expenses Overstated

Noridian overstated investment earnings, less administrative expenses, by \$228,474 for the Medicare segment primarily because it used incorrect contribution and transferred prepayment credit amounts, benefit payment amounts, and transfer adjustment amounts (all discussed above) to develop the Medicare asset base. In our audited update, we allocated earnings and expenses, based on the applicable CAS requirements. The overstatement in earnings (less administrative expenses) led to a \$228,474 overstatement in Medicare segment assets.

RECOMMENDATIONS

We recommend that Noridian:

- increase Medicare segment assets by \$158,261 as of January 1, 2006, and
- implement controls to ensure that the Medicare segment's assets are updated in accordance with the Medicare contracts.

AUDITEE COMMENTS

In written comments on our draft report, Noridian concurred with our recommendations. Noridian stated that it will properly identify Medicare segment individuals and update the Medicare segment's assets.

Noridian's comments are included in their entirety as Appendix B.

APPENDIXES

NORIDIAN MUTUAL INSURANCE COMPANY
MARKET VALUE OF PENSION ASSETS
FOR THE PERIOD
JANUARY 1, 1998, TO JANUARY 1, 2006

APPENDIX A
Page 1 of 3

| Description | Total Company | Other Segment | Medicare Segment |
|--------------------------------|------------------------|---------------|------------------|
| Assets January 1, 1998 | <u>1/</u> \$40,527,946 | \$37,761,204 | \$2,766,742 |
| Transferred Prepayment Credits | <u>2/</u> 0 | (703,863) | 703,863 |
| Contributions | <u>3/</u> 4,416,000 | 4,416,000 | 0 |
| Earnings | <u>4/</u> 6,279,699 | 5,820,823 | 458,876 |
| Benefit Payments | <u>5/</u> (1,843,975) | (705,593) | (1,138,382) |
| Expenses | <u>6/</u> (213,182) | (197,604) | (15,578) |
| Transfers | <u>7/</u> 0 | 1,416,169 | (1,416,169) |
| Assets January 1, 1999 | 49,166,488 | 47,807,136 | 1,359,352 |
| Transferred Prepayment Credits | 0 | (860,687) | 860,687 |
| Contributions | 3,728,000 | 3,728,000 | 0 |
| Earnings | 6,374,488 | 6,058,383 | 316,105 |
| Benefit Payments | (11,421,839) | (11,293,007) | (128,832) |
| Expenses | (189,207) | (179,824) | (9,383) |
| Transfers | 0 | (7,916) | 7,916 |
| Assets January 1, 2000 | 47,657,930 | 45,252,085 | 2,405,845 |
| Transferred Prepayment Credits | 0 | (1,233,894) | 1,233,894 |
| Contributions | 2,440,000 | 2,440,000 | 0 |
| Earnings | (2,458,153) | (2,265,168) | (192,985) |
| Benefit Payments | (4,377,285) | (4,239,583) | (137,702) |
| Expenses | 269,339 | 248,194 | 21,145 |
| Transfers | 0 | (68,487) | 68,487 |
| Assets January 1, 2001 | 43,531,831 | 40,133,147 | 3,398,684 |
| Transferred Prepayment Credits | 0 | (1,533,385) | 1,533,385 |
| Contributions | 10,307,301 | 10,307,301 | 0 |
| Earnings | (2,116,846) | (1,870,942) | (245,904) |
| Benefit Payments | (3,252,738) | (3,195,622) | (57,116) |
| Expenses | (236,106) | (208,679) | (27,427) |
| Transfers | 0 | 37,826 | (37,826) |
| Assets January 1, 2002 | \$48,233,442 | \$43,669,646 | \$4,563,796 |

NORIDIAN MUTUAL INSURANCE COMPANY
MARKET VALUE OF PENSION ASSETS
FOR THE PERIOD
JANUARY 1, 1998, TO JANUARY 1, 2006

APPENDIX A
Page 2 of 3

| Description | Total Company | Other Segment | Medicare Segment |
|--------------------------------|---------------|---------------|------------------|
| Assets January 1, 2002 | \$48,233,442 | \$43,669,646 | \$4,563,796 |
| Transferred Prepayment Credits | 0 | (1,909,729) | 1,909,729 |
| Contributions | 9,100,000 | 9,100,000 | 0 |
| Earnings | (3,740,609) | (3,249,461) | (491,148) |
| Benefit Payments | (9,653,609) | (8,105,284) | (1,548,325) |
| Expenses | (247,063) | (214,623) | (32,440) |
| Transfers | 0 | 350,298 | (350,298) |
| Assets January 1, 2003 | 43,692,161 | 39,640,847 | 4,051,314 |
| Transferred Prepayment Credits | 0 | (3,014,266) | 3,014,266 |
| Contributions | 23,900,000 | 23,900,000 | 0 |
| Earnings | 8,097,350 | 6,803,528 | 1,293,822 |
| Benefit Payments | (12,034,176) | (10,514,777) | (1,519,399) |
| Expenses | (221,031) | (185,714) | (35,317) |
| Transfers | 0 | 156,222 | (156,222) |
| Assets January 1, 2004 | 63,434,304 | 56,785,840 | 6,648,464 |
| Transferred Prepayment Credits | 0 | (3,026,983) | 3,026,983 |
| Contributions | 13,000,000 | 13,000,000 | 0 |
| Earnings | 6,089,537 | 5,157,922 | 931,615 |
| Benefit Payments | (6,997,890) | (5,985,558) | (1,012,332) |
| Expenses | (271,013) | (229,552) | (41,461) |
| Transfers | 0 | 51,912 | (51,912) |
| Assets January 1, 2005 | 75,254,938 | 65,753,581 | 9,501,357 |
| Transferred Prepayment Credits | 0 | (3,393,577) | 3,393,577 |
| Contributions | 18,000,000 | 18,000,000 | 0 |
| Earnings | 5,740,726 | 4,728,293 | 1,012,433 |
| Benefit Payments | (6,478,041) | (6,099,105) | (378,936) |
| Expenses | (300,187) | (247,246) | (52,941) |
| Transfers | 0 | (177,213) | 177,213 |
| Assets January 1, 2006 | \$92,217,436 | \$78,564,733 | \$13,652,703 |

NORIDIAN MUTUAL INSURANCE COMPANY
MARKET VALUE OF PENSION ASSETS
FOR THE PERIOD
JANUARY 1, 1998, TO JANUARY 1, 2006

| Description | Total Company | Other Segment | Medicare Segment |
|------------------------|------------------------|---------------|------------------|
| Assets January 1, 2006 | \$92,217,436 | \$78,564,733 | \$13,652,703 |
| Per Noridian | <u>8/</u> \$92,217,436 | \$78,722,994 | \$13,494,442 |
| Asset Variance | <u>9/</u> \$0 | \$158,261 | (\$158,261) |

FOOTNOTES

- 1/ We determined the Medicare segment assets as of January 1, 1998, based upon our prior segmentation audit of Noridian (A-07-99-02560). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare segment. All pension assets are shown at market value.
- 2/ Prepayment credits represent funds available to satisfy future funding requirements, and are applied to future funding requirements before current year contributions in order to reduce interest costs to the Federal Government. 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 Form 5500s. We allocated Total Company contributions to the Medicare segment based on the ratio of the Medicare segment funding target divided by the Total Company funding target. Contributions in excess of the funding targets were treated as prepayment credits and accounted for in the Other segment until needed to fund pension costs in the future.
- 4/ We obtained investment earnings from actuarial valuation reports. We allocated investment earnings based on the ratio of the segment's weighted average value (WAV) of assets to total company WAV of assets as required by the Cost Accounting Standards (CAS).
- 5/ We calculated the Medicare segment's benefit payments based on actual payments to Medicare retirees. We obtained information on the benefit payments from documents prepared by Noridian's actuarial consulting firm. We used actual benefit payments for Medicare segment retirees.
- 6/ We allocated administrative expenses to the Medicare segment in proportion to investment earnings.
- 7/ We identified participant transfers between segments by comparing valuation data files provided by Noridian. Asset transfers were equal to the actuarial liability determined under the accrued benefit cost method in accordance with the CAS.
- 8/ We obtained total asset amounts as of January 1, 2006, from documents prepared by Noridian's actuarial consulting firm.
- 9/ The asset variance represents the difference between our calculation of Medicare segment assets and Noridian's market value of assets.



October 17, 2008

Mr. Patrick J. Cogley
Regional Inspector General for Audit Services
Department of Health & Human Services
601 East 12th Street
Room 284A
Kansas City, MO 64106

RE: Report Number A-07-08-00258 and A-07-08-00259

Dear Mr. Cogley:

We have reviewed your draft reports entitled "Review of Medicare Contractor's Pension Segmentation Requirements at Noridian Mutual Insurance Company for the Period January 1, 1998, to January 1, 2006" and "Review of Pension Costs Claimed for Medicare Reimbursement by Noridian Mutual Insurance Company for Fiscal Years 1999 Through 2005" and offer the following comments:

Recommendations - "Review of Pension Segmentation Requirements"

- Increase Medicare segment assets by \$158,261 as of January 1, 2006
 - We concur with this recommendation.
- Implement controls to ensure that the Medicare segment's assets are updated in accordance with the Medicare contracts.
 - We concur with this recommendation and will ensure that individuals are properly identified to the Medicare segment and that the Medicare segment's assets are updated.

Recommendations - "Review of Pension Costs Claimed"

- Revise the Final Administrative Cost Proposals to claim allowable CAS pension costs of \$38,645 for FYs 1999 through 2005 and claim future pension costs in accordance with Federal requirements and the Medicare contracts.
 - We concur with this recommendation and will revise the Final Administrative Cost Proposals.

Sincerely,



David Breuer
Senior Vice President of Finance and CFO