

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**NORIDIAN HEALTHCARE SOLUTIONS,
LLC, CLAIMED SOME
UNALLOWABLE MEDICARE
PENSION COSTS FOR FISCAL YEARS
2006 THROUGH 2010**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



**Patrick J. Cogley
Regional Inspector General**

**December 2013
A-07-13-00418**

Office of Inspector General

<https://oig.hhs.gov/>

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The designation of financial or management practices as questionable,
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operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

Noridian Healthcare Solutions, LLC, claimed unallowable pension costs of \$137,000 for Medicare reimbursement for fiscal years 2006 through 2010.

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their pension costs, which are funded by the annual contributions that these contractors make to their pension plans. The amount of pension costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the cost reimbursement principles contained in the Federal Acquisition Regulation, Cost Accounting Standards (CAS), and Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors have not always complied with Federal requirements when claiming pension costs for Medicare reimbursement.

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

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

BACKGROUND

During our audit period, NHS, formerly called Noridian Administrative Services, LLC (NAS), was a subsidiary of Noridian Mutual Insurance Company (NMIC), whose home office was and is in Fargo, North Dakota. NHS administered Medicare Parts A and B and Durable Medical Equipment (DME) operations under cost reimbursement contracts with CMS. With the implementation of Medicare contracting reform, NHS continued administering these Medicare operations after receiving the Medicare administrative contractor (MAC) contracts for Jurisdictions D and 3, effective June 30, 2006, and July 31, 2006, respectively.

During our audit period, NHS administered both fiscal intermediary and carrier contracts and MAC-related contracts. This report addresses the pension costs claimed by NHS under the provisions of its fiscal intermediary and carrier contracts. We reviewed the pension costs that NHS used in its calculation of its indirect rates under the provisions of its MAC-related contracts and are reporting those findings in *Noridian Healthcare Solutions, LLC, Overstated Its Allocable Pension Costs for Calendar Years 2006 Through 2010* (A-07-13-00419).

Also, effective May 13, 2013, NAS changed its name to NHS. Although we have addressed our report to NMIC, we will associate the term NHS with our finding and recommendation regarding the fiscal intermediary and carrier contracts’ pension costs claimed.

We reviewed \$12,594,556 of Medicare Part A, Part B, and DME pension costs that NHS claimed for Medicare reimbursement under the provisions of its fiscal intermediary and carrier contracts, and reported on its FACPs, for FYs 2006 through 2010.

WHAT WE FOUND

NHS claimed pension costs of \$12,594,556 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs during this period were \$12,457,080. The difference, \$137,476, represented unallowable fiscal intermediary and carrier contracts' pension costs that NHS claimed on its FACPs for FYs 2006 through 2010. NHS claimed these unallowable Medicare pension costs primarily because it based its claim for Medicare reimbursement on incorrectly calculated CAS pension costs for FYs 2006 through 2010.

WHAT WE RECOMMEND

We recommend that NHS revise its FACPs for FYs 2006 through 2010 to reduce its fiscal intermediary and carrier contracts' pension costs by \$137,476.

AUDITEE COMMENTS

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

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INTRODUCTION

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their pension costs, which are funded by the annual contributions that these contractors make to their pension plans. The amount of pension costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the cost reimbursement principles contained in the Federal Acquisition Regulation (FAR), Cost Accounting Standards (CAS), and Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors have not always complied with Federal requirements when claiming pension costs for Medicare reimbursement.

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

OBJECTIVE

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

BACKGROUND

Noridian Healthcare Solutions, LLC

During our audit period, NHS, formerly called Noridian Administrative Services, LLC (NAS), was a subsidiary of Noridian Mutual Insurance Company (NMIC), whose home office was and is in Fargo, North Dakota. NHS administered Medicare Parts A and B and Durable Medical Equipment (DME) operations under cost reimbursement contracts with CMS. With the implementation of Medicare contracting reform,¹ NHS continued administering these Medicare operations after receiving the MAC contracts for Jurisdictions D and 3, effective June 30, 2006, and July 31, 2006, respectively.^{2, 3}

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

² DME Jurisdiction D comprises the States of Alaska, Arizona, Hawaii, Idaho, Iowa, Kansas, Missouri, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, and Wyoming, and the territories of American Samoa, Guam, and the Northern Mariana Islands.

³ Medicare Parts A and B Jurisdiction 3 comprises Arizona, Montana, North Dakota, South Dakota, Utah, and Wyoming.

During our audit period, NHS administered both fiscal intermediary and carrier contracts and MAC-related contracts. This report addresses the pension costs claimed by NHS under the provisions of its fiscal intermediary and carrier contracts. We reviewed the pension costs that NHS used in its calculation of its indirect rates under the provisions of its MAC-related contracts and are reporting those findings in *Noridian Healthcare Solutions, LLC, Overstated Its Allocable Pension Costs for Calendar Years 2006 Through 2010* (A-07-13-00419).

Also, effective May 13, 2013, NAS changed its name to NHS. Although we have addressed our report to NMIC, we will associate the term NHS with our finding and recommendation regarding the fiscal intermediary and carrier contracts' pension costs claimed.

Medicare Reimbursement of Pension Costs

CMS reimburses a portion of the Medicare contractors' annual pension costs, which are funded by the contributions that these contractors make to their pension plans. To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with CAS 412 and 413 and (2) funded as specified by part 31 of the FAR.

Beginning with FY 1988, CMS incorporated specific segmentation language into Medicare contracts that requires contractors to use either an allocation method or a separate calculation method to identify and claim pension costs for Medicare reimbursement. Under the allocation method, the contractor determines total plan CAS-based pension costs and allocates a share to Medicare. Under the separate calculation method, the contractor separately identifies the pension cost components for the Medicare segment. The contractor must use the separate calculation method if its result is materially different from that of the allocation method.

HOW WE CONDUCTED THIS REVIEW

We reviewed \$12,594,556 of Medicare Part A, Part B, and DME pension costs that NHS claimed for Medicare reimbursement under the provisions of its fiscal intermediary and carrier contracts, and reported on its FACPs, for FYs 2006 through 2010.

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

Appendix A contains details of our audit scope and methodology.

FINDING

NHS claimed pension costs of \$12,594,556 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs during this period were \$12,457,080. The difference, \$137,476, represented unallowable fiscal intermediary and carrier contracts' pension costs that NHS claimed on its FACPs for FYs 2006 through 2010. NHS claimed these

unallowable Medicare pension costs primarily because it based its claim for Medicare reimbursement on incorrectly calculated CAS pension costs for FYs 2006 through 2010.

CLAIMED PENSION COSTS

NHS submitted Medicare pension costs of \$12,594,556 for reimbursement, under the provisions of its fiscal intermediary and carrier contracts, on its FACPs for FYs 2006 through 2010. We calculated the allowable Medicare pension costs based on separately computed CAS-based pension costs for the Medicare segment and the Other segment in accordance with CAS 412 and 413. For details on the Federal requirements, see Appendix B.

UNALLOWABLE PENSION COSTS CLAIMED

We determined that the allowable CAS-based pension costs for FYs 2006 through 2010 were \$12,457,080. Thus, NHS claimed \$137,476 of unallowable fiscal intermediary and carrier contracts’ pension costs on its FACPs for FYs 2006 through 2010. This overclaim occurred primarily because NHS based its claim for Medicare reimbursement on incorrectly calculated CAS pension costs for FYs 2006 through 2010. More specifically, this overclaim occurred because of differences in the identification of the Medicare segment participants.

The table below compares allowable CAS-based pension costs with the pension costs claimed on NHS’s FACPs and reflected in its accounting documents. Appendix C contains additional details on allowable pension costs.

Table: Comparison of Allowable Pension Costs and Claimed Pension Costs

Fiscal Year	Medicare Pension Costs		Difference
	Allowable Per Audit	Claimed by NHS	
2006	\$4,293,873	\$3,920,508	\$373,365
2007	2,731,780	2,628,012	103,768
2008	2,246,193	2,396,505	(150,312)
2009	1,647,404	1,892,572	(245,168)
2010	1,537,830	1,756,959	(219,129)
Total	\$12,457,080	\$12,594,556	(\$137,476)

RECOMMENDATION

We recommend that NHS revise its FACPs for FYs 2006 through 2010 to reduce its fiscal intermediary and carrier contracts’ pension costs by \$137,476.

AUDITEE COMMENTS

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

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$12,594,556 of Medicare Part A, Part B, and DME pension costs that NHS claimed for Medicare reimbursement under the provisions of its fiscal intermediary and carrier contracts, and reported on its FACPs, for FYs 2006 through 2010.

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

We performed fieldwork at NHS's office in Fargo, North Dakota, during April and May 2012.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and the Medicare contracts applicable to this audit;
- reviewed information provided by NHS to identify the amount of pension costs claimed for Medicare reimbursement for FYs 2006 through 2010;
- used information that NMIC's actuarial consulting firms provided, including information on assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses;
- examined NHS's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Forms 5500;
- determined the extent to which NHS funded CAS-based pension costs with contributions to the pension trust fund and accumulated prepayment credits;
- engaged the CMS Office of the Actuary to calculate the allocable pension costs based on the CAS (the calculations were based on separately computed CAS-based pension costs for the Medicare segment and the Other segment); and
- reviewed the CMS actuaries' methodology and calculations.

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

- *Noridian Healthcare Solutions, LLC, Understated Its Medicare Segment Pension Assets as of January 1, 2011 (A-07-13-00417)* and

- *Noridian Healthcare Solutions, LLC, Overstated Its Allocable Pension Costs for Calendar Years 2006 Through 2010 (A-07-13-00419).*

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

APPENDIX B: FEDERAL REQUIREMENTS RELATED TO REIMBURSEMENT OF PENSION COSTS

FEDERAL REGULATIONS

Federal regulations (FAR 31.205-6(j)) address allowability of pension costs and require that contractors fund the pension costs assigned to contract periods by making contributions to the pension plans.

Federal regulations (CAS 412) (as amended) address the determination and measurement of pension cost components. This regulation also addresses the assignment of pension costs to appropriate accounting periods.

Federal regulations (CAS 413) (as amended) address 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.

MEDICARE CONTRACTS

The Medicare contracts address the determination and allocation of pension costs. The contracts state: “The calculation of and accounting for pension costs charged to this agreement/contract are governed by the Federal Acquisition Regulation and Cost Accounting Standards 412 and 413.”

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

Date	Description	Total Company	Other Segment	Medicare Segment	Total Medicare
2005	CY Allocable Pension Costs <u>1/</u>		\$7,668,217	\$3,393,577	
2006	Contributions <u>2/</u>	\$17,000,000	\$17,000,000	\$0	
	Discount for Interest <u>3/</u>	(\$1,216,067)	(\$1,216,067)	\$0	
January 1, 2006	Present Value Contributions <u>4/</u>	\$15,783,933	\$15,783,933	\$0	
	Prepayment Credit Applied <u>5/</u>	\$11,902,212	\$7,905,494	\$3,996,718	
	Present Value of Funding <u>6/</u>	\$27,686,145	\$23,689,427	\$3,996,718	
January 1, 2006	CAS Funding Target <u>7/</u>	\$11,902,212	\$7,905,494	\$3,996,718	
	Percentage Funded <u>8/</u>		100.00%	100.00%	
	Funded Pension Cost <u>9/</u>		\$7,905,494	\$3,996,718	
	Allowable Interest <u>10/</u>		\$0	\$0	
	Allocable Pension Cost		\$7,905,494	\$3,996,718	
2006	FY Allocable Pension Cost <u>11/</u>		7,846,175	3,845,933	
	FY Medicare LOB* <u>12/</u>				
	Percentage		12.39%	86.37%	
2006	FY Allowable Pension Costs <u>13/</u>		\$972,141	\$3,321,732	\$4,293,873

Date	Description	Total Company	Other Segment	Medicare Segment	Total Medicare
2007	Contributions	\$9,500,000	\$9,500,000	\$0	
	Discount for Interest	(\$703,704)	(\$703,704)	\$0	
January 1, 2007	Present Value Contributions	\$8,796,296	\$8,796,296	\$0	
	Prepayment Credit Applied	\$12,403,453	\$8,094,779	\$4,308,674	
	Present Value of Funding	\$21,199,749	\$16,891,075	\$4,308,674	
January 1, 2007	CAS Funding Target	\$12,403,453	\$8,094,779	\$4,308,674	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$8,094,779	\$4,308,674	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$8,094,779	\$4,308,674	
2007	FY Allocable Pension Costs		\$8,047,458	\$4,230,685	
	FY Medicare LOB*				
	Percentage		12.77%	40.28%	
2007	FY Allowable Pension Costs		\$1,027,660	\$1,704,120	\$2,731,780

Date	Description	Total Company	Other Segment	Medicare Segment	Total Medicare
2008	Contributions	\$12,000,000	\$12,000,000	\$0	
	Discount for Interest	(\$860,533)	(\$860,533)	\$0	
January 1, 2008	Present Value Contributions	\$11,139,467	\$11,139,467	\$0	
	Prepayment Credit Applied	\$13,471,168	\$8,997,387	\$4,473,781	
	Present Value of Funding	\$24,610,635	\$20,136,854	\$4,473,781	
January 1, 2008	CAS Funding Target	\$13,471,168	\$8,997,387	\$4,473,781	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$8,997,387	\$4,473,781	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$8,997,387	\$4,473,781	
2008	FY Allocable Pension Costs		\$8,771,735	\$4,432,504	
	FY Medicare LOB* Percentage		11.62%	27.68%	
2008	FY Allowable Pension Costs		\$1,019,276	\$1,226,917	\$2,246,193

Date	Description	Total Company	Other Segment	Medicare Segment	Total Medicare
2009	Contributions	\$17,000,000	\$17,000,000	\$0	
	Discount for Interest	(\$1,246,037)	(\$1,246,037)	\$0	
January 1, 2009	Present Value Contributions	\$15,753,963	\$15,753,963	\$0	
	Prepayment Credit Applied	\$15,223,669	\$10,824,487	\$4,399,182	
	Present Value of Funding	\$30,977,632	\$26,578,450	\$4,399,182	
January 1, 2009	CAS Funding Target	\$15,223,669	\$10,824,487	\$4,399,182	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$10,824,487	\$4,399,182	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$10,824,487	\$4,399,182	
2009	FY Allocable Pension Costs		\$10,367,712	\$4,417,832	
	FY Medicare LOB* Percentage		7.67%	19.29%	
2009	FY Allowable Pension Costs		\$795,204	\$852,200	\$1,647,404

Date	Description	Total Company	Other Segment	Medicare Segment	Total Medicare
2010	Contributions	\$12,000,000	\$12,000,000	\$0	
	Discount for Interest	(\$863,109)	(\$863,109)	\$0	
January 1, 2010	Present Value Contributions	\$11,136,891	\$11,136,891	\$0	
	Prepayment Credit Applied	\$15,598,959	\$11,218,460	\$4,380,499	
	Present Value of Funding	\$26,735,850	\$22,355,351	\$4,380,499	
January 1, 2010	CAS Funding Target	\$15,598,959	\$11,218,460	\$4,380,499	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$11,218,460	\$4,380,499	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$11,218,460	\$4,380,499	
2010	FY Allocable Pension Cost		\$11,119,967	\$4,385,170	
	FY Medicare LOB* Percentage		6.81%	17.80%	
2010	FY Allowable Pension Costs		\$757,270	\$780,560	\$1,537,830

* Line of business.

ENDNOTES

- 1/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes. We obtained the 2005 calendar year (CY) allocable pension cost from our prior NMIC review (A-07-08-00259), issued November 4, 2008.
- 2/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the CY and accrued contributions deposited after the end of the CY but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segment during the NHS pension segmentation review (A-07-13-00417). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare segment.
- 3/ We subtracted the interest that was included in the contributions deposited after the beginning of the valuation year to discount the contributions back to their beginning-of-the-year value. For purposes of this Appendix, we computed the interest as the difference between the present value of contributions (at the CAS valuation interest rate) and actual contribution amounts.
- 4/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the CY. For purposes of this Appendix, we deemed deposits made after the end of the CY to have been made on the final day of the CY, consistent with the method established by the Employee Retirement Income Security Act prior to the implementation of the Pension Protection Act.
- 5/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year CAS funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.
- 6/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at the first day of the CY.
- 7/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of the FAR 31.205-6(j)(2)(i).

8/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the CY. Because any funding in excess of the CAS funding target is accounted for as a prepayment in accordance with CAS 412.50(c)(1), the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimal places.

9/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.

10/ We assumed that interest on the funded CAS-based pension cost, less the prepayment credit, accrues in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in 4 equal installments deposited within 30 days after the end of the quarter.

11/ We converted the CY allocable pension cost to an FY basis (October 1 through September 30). We calculated the FY pension costs as 1/4 of the prior year's costs plus 3/4 of the current year's costs.

12/ We determined the Medicare LOB percentages based on information provided by NHS.

13/ We computed the allowable Medicare pension cost as an FY pension cost multiplied by the Medicare LOB percentage. In accordance with CAS 412 and 413, the total Medicare allowable pension costs charged to the Medicare contract consisted of the NHS Medicare segment's direct pension costs plus Other segment pension costs attributable to indirect NHS Medicare operations.

APPENDIX D: AUDITEE COMMENTS



October 31, 2013

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

Re: Report A-07-13-00418

Dear Mr. Cogley,

We have reviewed your draft report entitled *Noridian Healthcare Solutions, LLC, Claimed Some Unallowable Medicare Pension Costs for Fiscal Years 2006 Through 2010*, and offer the following comments:

Recommendation:

- Recommend that Noridian Healthcare Solutions revise its FACPs for FYs 2006 through 2010 to reduce its fiscal intermediary and carrier contracts' pension costs by \$137,476.
 - We concur with this recommendation and will revise the Final Administrative Cost Proposals.

Sincerely,

A handwritten signature in black ink that reads "B. S. Fellner".

Brian Fellner
Enterprise Vice President and Chief Financial Officer