

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**NORIDIAN HEALTHCARE SOLUTIONS,
LLC, DID NOT CLAIM ALLOWABLE
MEDICARE PENSION COSTS OR
POSTRETIREMENT BENEFIT COSTS FOR
FISCAL YEARS 2006 THROUGH 2008**

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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, did not claim allowable pension and postretirement benefit costs of \$144,000 for Medicare reimbursement during fiscal years 2006 through 2008.

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

At CMS's request, the OIG, Office of Audit Services, Region VII pension audit team reviews the cost elements related to qualified defined-benefit, nonqualified defined-benefit, PRB, and any other pension-related cost elements claimed by Medicare fiscal intermediaries and carrier contractors and Medicare administrative contractors through Final Administrative Cost Proposals and/or Incurred Cost Proposals (ICPs).

For this review, we focused on one Medicare contractor, Noridian Healthcare Solutions, LLC (NHS). In particular, we examined the NHS Medicare segment and Other segment pension and PRB costs that NHS claimed for Medicare reimbursement and reported on its ICPs.

The objective of this review was to determine whether the fiscal years (FYs) 2006 through 2008 pension and PRB costs that NHS claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

BACKGROUND

During our audit period, NHS, formerly Noridian Administrative Services, LLC (NAS), was a subsidiary of Noridian Mutual Insurance Company (NMIC), whose home office was and is in Fargo, North Dakota. NHS administered Medicare Parts A and B and Durable Medical Equipment operations under cost reimbursement contracts with CMS. With the implementation of Medicare contracting reform, NHS continued administering these Medicare operations after receiving the MAC contracts for Jurisdictions D and 3, effective June 30, 2006, and July 31, 2006, respectively. In addition, NHS was awarded the Pricing, Data Analysis and Coding contract effective June 16, 2008.

During calendar year (CY) 2006, NHS amended its disclosure statement to implement pooled costing. Medicare contractors use pooled costing to calculate the indirect cost rates that they

submit on their ICPs. The pension and PRB costs are included in the computation of the indirect cost rates reported on the ICPs. CMS uses these indirect cost rates when reimbursing costs for cost-plus-award-fee type contracts.

CMS reimburses a portion of the annual contributions that contractors make to their pension plans. The pension costs are included in the computation of the indirect cost rates reported on the ICPs. In turn, CMS uses indirect cost rates in reimbursing costs under cost reimbursement contracts. 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. In claiming costs, contractors must follow cost reimbursement principles contained in the FAR, the CAS, and the Medicare contracts. The cognizant contracting officer will perform a final settlement with the contractor to determine the final indirect cost rates. The final indirect cost rates ultimately determine the final costs of each contract.

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

We previously reviewed NHS's allocable pension costs (A-07-13-00419, issued December 16, 2013), and its PRB costs (A-07-13-00422, issued March 18, 2014). Those audit reports identified the allocable pension costs and PRB costs that NHS should have used when calculating its indirect cost rates for CYs 2006 through 2010.

At the request of CMS, the Defense Contract Audit Agency (DCAA) performed audits of the ICPs that NHS submitted for FYs 2006 through 2008. CMS will use this OIG report and DCAA's audit reports to determine the final indirect cost rates and the total allowable contract costs for NHS for FYs 2006 through 2008.

We reviewed \$18,600,172 of Medicare pension and PRB costs (\$10,847,785 of pension costs and \$7,752,387 of PRB costs) that NHS reported on its ICPs for FYs 2006 through 2008.

WHAT WE FOUND

NHS claimed Medicare pension and PRB costs of \$18,600,172 (\$10,847,785 for pension costs and \$7,752,387 for PRB costs) for Medicare reimbursement, through its ICPs, for FYs 2006 through 2008. However, we determined that the allowable pension and PRB costs during this period were \$18,744,423 (\$10,932,652 for pension costs and \$7,811,771 for PRB costs). The difference, \$144,251 (\$84,867 for pension costs and \$59,384 for PRB costs), represented allowable Medicare pension costs and PRB costs that NHS did not claim on its ICPs for FYs 2006 through 2008. NHS did not claim these allowable pension and PRB costs because it (1) did not allocate the correct pension and PRB costs to NHS and (2) used incorrect cost rates when claiming pension and PRB costs for Medicare reimbursement.

WHAT WE RECOMMEND

We recommend that NHS work with CMS to ensure that its final settlement of contract costs reflects the following:

- an increase in Medicare pension costs of \$84,867 for FYs 2006 through 2008 and
- an increase in Medicare PRB costs of \$59,384 for FYs 2006 through 2008.

AUDITEE COMMENTS

In written comments on our draft report, NMIC concurred with our recommendations and said that it would work with CMS to ensure that the increases in Medicare segment pension costs and Medicare segment PRB costs would be reflected in NHS's final settlement of contract costs.

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

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

For this review, we focused on one Medicare contractor, Noridian Healthcare Solutions, LLC (NHS). In particular, we examined the NHS Medicare segment and Other segment pension and PRB costs that NHS claimed for Medicare reimbursement and reported on its ICPs.

OBJECTIVE

Our objective was to determine whether the fiscal years (FYs)¹ 2006 through 2008 pension and PRB costs that NHS claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

BACKGROUND

Noridian Healthcare Solutions, LLC

During our audit period, NHS, formerly Noridian Administrative Services, LLC (NAS), was a subsidiary of Noridian Mutual Insurance Company (NMIC), whose home office was and is in Fargo, North Dakota. NHS administered Medicare Parts A and B and Durable Medical Equipment (DME) operations under cost reimbursement contracts with CMS. With the implementation of Medicare contracting reform, NHS continued administering these Medicare operations after receiving the MAC contracts for Jurisdictions D and 3, effective June 30, 2006, and July 31, 2006, respectively. In addition, NHS was awarded the Pricing, Data Analysis and Coding (PDAC) contract effective June 16, 2008.

¹ NHS's FY is January 1 to December 31.

During calendar year (CY) 2006, NHS amended its disclosure statement to implement pooled costing. Medicare contractors use pooled costing to calculate the indirect cost rates that they submit on their ICPs. The pension and PRB costs are included in the computation of the indirect cost rates reported on the ICPs. CMS uses these indirect cost rates when reimbursing costs for cost-plus-award-fee type contracts.^{2, 3}

Medicare Reimbursement of Pension Costs

CMS reimburses a portion of the annual contributions that contractors make to their pension plans. The pension costs are included in the computation of the indirect cost rates reported on the ICPs. In turn, CMS uses indirect cost rates in reimbursing costs under cost reimbursement contracts. 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. In claiming costs, contractors must follow cost reimbursement principles contained in the FAR, the CAS, and the Medicare contracts. The cognizant Contracting Officer will perform a final settlement with the contractor to determine the final indirect cost rates. The final indirect cost rates ultimately determine the final costs of each contract.⁴

Previous Audit of Allocable Pension Costs

We previously reviewed NHS's allocable pension costs (A-07-13-00419, issued December 16, 2013; also see Appendix A for additional details). That audit report identified the allocable pension costs that NHS should have used when calculating its indirect cost rates for CYs 2006 through 2010. We recommended that NHS:

- decrease the Medicare segment pension costs used to calculate the indirect cost rates by \$36,588 for CYs 2006 through 2010 and
- decrease the Other segment pension costs used to calculate the indirect cost rates by \$1,110,101 for CYs 2006 through 2010.

Medicare Reimbursement of Postretirement Benefit Costs

CMS reimburses a portion of the funded accruals that contractors charge for their PRB plans. FAR 31.205-6(o) requires that, to be allowable for Medicare reimbursement, PRB accrual costs

² A cost-plus-award-fee contract is a cost reimbursement contract that provides for a fee consisting of (a) a base amount fixed at inception of the contract and (b) an award amount, based upon a judgmental evaluation by the Federal Government.

³ At the end of each CY, each Medicare contractor submits to CMS an ICP which reports the Medicare direct and indirect costs that the contractor incurred during that year. The ICP and supporting data provide the basis for the CMS Contracting Officer and the Medicare contractor to determine the final billing rates for allowable Medicare costs.

⁴ In accordance with FAR 42.705-1(5)(ii) and FAR 42.705-1(5)(iii)(B), the cognizant Contracting Officer shall “[p]repare a written indirect cost rate agreement conforming to the requirements of the contracts” and perform a “[r]econciliation of all costs questioned, with identification of items and amounts allowed or disallowed in the final settlement,” respectively.

be (1) determined in accordance with generally accepted accounting principles and (2) funded into a dedicated trust, such as a voluntary employee benefit association (VEBA) trust.

Previous Audit of Allocable Postretirement Benefit Costs

We previously reviewed NHS's allocable PRB costs (A-07-13-00422, issued March 18, 2014; also see Appendix A for additional details). That audit report identified the allocable PRB costs that NHS should have used when calculating its indirect cost rates for CYs 2006 through 2010. We recommended that NHS:

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

Incurred Cost Proposal Audits and Our and CMS's Use of Their Results

At CMS's request, the Defense Contracting Audit Agency (DCAA) performed audits of the ICPs that NMIC and NHS submitted for FYs 2006 through 2008. The objectives of DCAA's audits were to determine the allowability of the direct and indirect costs and to recommend indirect cost rates in accordance with applicable requirements of the FAR, the CAS, the U.S. Department of Health and Human Services Acquisition Regulation (HHSAR), and the respective contracts. DCAA also reviewed the adequacy of NHS's accounting system as it related to the costs claimed on its ICPs.

For this current audit, we relied on DCAA's findings and recommendations when computing the allowable pension and PRB costs discussed in this report.

CMS will use this OIG report on allowable pension and PRB costs, as well as the DCAA audit reports, to determine the final indirect cost rates and the total allowable contract costs for NHS for FYs 2006 through 2008.

HOW WE CONDUCTED THIS REVIEW

We reviewed \$18,600,172 of Medicare pension and PRB costs (\$10,847,785 of pension costs and \$7,752,387 of PRB costs) that NHS reported on its ICPs for FYs 2006 through 2008.

Achieving our objective did not require that we review NHS's overall internal control structure. We limited our review to the internal controls related to the pension and PRB costs that were included in NHS's ICPs and ultimately used as the basis for Medicare reimbursement, to ensure that these costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

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 objective.

Appendix A contains details of our audit scope and methodology.

FINDINGS

NHS claimed Medicare pension and PRB costs of \$18,600,172 (\$10,847,785 for pension costs and \$7,752,387 for PRB costs) for Medicare reimbursement, through its ICPs, for FYs 2006 through 2008. However, we determined that the allowable pension and PRB costs during this period were \$18,744,423 (\$10,932,652 for pension costs and \$7,811,771 for PRB costs). The difference, \$144,251 (\$84,867 for pension costs and \$59,384 for PRB costs), represented allowable Medicare pension costs and PRB costs that NHS did not claim on its ICPs for FYs 2006 through 2008. NHS did not claim these allowable pension and PRB costs because it (1) did not allocate the correct pension and PRB costs to NHS (as described in “Previous Audit of Allocable Pension Costs” and “Previous Audit of Allocable Postretirement Benefit Costs” above) and (2) used incorrect cost rates when claiming pension and PRB costs for Medicare reimbursement.

The discussion that follows will address, first, the Medicare pension costs and then the Medicare PRB costs.

MEDICARE PENSION COSTS

Claimed Medicare Pension Costs

NHS claimed Medicare pension costs of \$10,847,785 for FYs 2006 through 2008. 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.

Allowable Medicare Pension Costs Not Claimed

After incorporating the results from both DCAA’s NMIC and NHS ICP audits and our previous allocable pension costs audit report, we determined that the allowable Medicare pension costs for FYs 2006 through 2008 were \$10,932,652. Thus, NHS understated the allowable pension costs for these FYs by \$84,867. This underclaim occurred because NHS based its allowable pension costs on calculations that did not comply with CAS 412 and 413. In addition, according to DCAA’s audit reports, NHS’s ICP submissions for FYs 2006 through 2008 did not comply with part 31 of the FAR.

As mentioned earlier in this report, we found in our previous audit of allocable pension costs that NHS overstated the Medicare segment pension costs used in the calculation of the indirect cost rates for CYs 2006 through 2010 by \$36,588. In addition, NHS overstated the Other segment

pension costs used in the calculation of the indirect cost rates for CYs 2006 through 2010 by \$1,110,101.

Our computations of the audited indirect cost rates for the current audit incorporated the adjustments mentioned above. Tables 1 and 2 below show the allocable CAS-based pension costs that our previous audit of NHS's CYs 2006 through 2010 pension costs identified, for the Medicare segment and for the Other segment, and compare those amounts to the amounts that NHS had identified during that audit.

Table 1: Previous Medicare Segment Allocable Pension Costs Audit Findings

Plan Year	Allocable Per Previous Audit	Per NHS	Difference
2006	\$3,996,718	\$4,007,523	(\$10,805)
2007	4,308,674	4,245,048	63,626
2008	4,473,781	4,502,401	(28,620)
2009	4,399,182	4,442,285	(43,103)
2010	4,380,499	4,398,185	(17,686)
Total	\$21,558,854	\$21,595,442	(\$36,588)

Table 2: Previous Other Segment Allocable Pension Costs Audit Findings

Plan Year	Allocable Per Previous Audit	Per NHS	Difference
2006	\$ 7,905,494	\$8,124,578	(\$219,084)
2007	8,094,779	8,388,185	(293,406)
2008	8,997,387	9,198,540	(201,153)
2009	10,824,487	11,011,043	(186,556)
2010	11,218,460	11,428,362	(209,902)
Total	\$47,040,607	\$48,150,708	(\$1,110,101)

We then used this information to adjust the indirect cost rates (i.e., fringe benefit costs, overhead costs, service centers' costs, and G&A rates) and, in turn, to calculate the information presented in Table 3 on the following page. We are not showing our calculations in this report because the rate calculations that NHS used in its ICPs are proprietary information.

Accordingly, Table 3 on the following page compares, for each of the three contracts (DME, Medicare Parts A and B, and PDAC), the Medicare segment pension costs that we calculated (using our adjusted indirect cost rates) and the pension costs that NHS claimed for Medicare reimbursement for FYs 2006 through 2008.

Table 3: Medicare Pension Costs⁵

	Per Audit	Per DCAA	Difference
FY 2006			
DME Contract	\$498,812	\$501,409	(\$2,597)
Parts A/B Contract	309,102	316,508	(7,406)
Total FY 2006	\$807,914	\$817,917	(\$10,003)
FY 2007			
DME Contract	\$1,463,711	\$1,458,296	\$5,415
Parts A/B Contract	3,406,588	3,359,001	47,587
Total FY 2007	\$4,870,299	\$4,817,297	\$53,002
FY 2008			
DME Contract	\$2,132,091	\$2,118,069	\$14,022
Parts A/B Contract	2,919,765	2,892,877	26,888
PDAC Contract	202,583	201,625	958
Total FY 2008	\$5,254,439	\$5,212,571	\$41,868
Total Underclaim of Pension Costs	\$10,932,652	\$10,847,785	\$84,867

MEDICARE POSTRETIREMENT BENEFIT COSTS

Claimed Medicare Postretirement Benefit Costs

NHS claimed Medicare PRB costs of \$7,752,387 for FYs 2006 through 2008. We calculated the allowable Medicare PRB costs in accordance with the FAR.

Allowable Medicare Postretirement Benefit Costs Not Claimed

After incorporating the results from both DCAA's NMIC and NHS ICP audits and our previous allocable PRB costs audit report, we determined that the allowable Medicare PRB costs for FYs 2006 through 2008 were \$7,811,771. Thus, NHS understated the allowable PRB costs for these FYs by \$59,384. This underclaim occurred because NHS based its allowable PRB costs on calculations that did not comply with the FAR. In addition, according to DCAA's audit reports, NHS's ICP submissions for FYs 2006 through 2008 did not comply with part 31 of the FAR.

As mentioned earlier in this report, we found in our previous audit of allocable PRB costs that NHS understated the Medicare segment PRB costs used in the calculation of the indirect cost rates for CYs 2006 through 2010 by \$540,439. In addition, NHS overstated the Other segment pension costs used in the calculation of the indirect cost rates for CYs 2006 through 2010 by \$1,531,063.

⁵ Our calculations incorporated the rate ceilings associated with the DME, Parts A and B, and PDAC contracts. We applied the indirect cost rates associated with the respective contracts when computing the allowable pension and PRB costs.

Our computations of the audited indirect cost rates for the current audit incorporated the adjustments mentioned above. Tables 4 and 5 below show the allocable PRB costs that our previous audit of NHS's CYs 2006 through 2010 PRB costs identified, for the Medicare segment and for the Other segment, and compare those amounts to the amounts that NHS had identified during that audit.

Table 4: Previous Medicare Segment Allocable Postretirement Benefit Costs Audit Findings

Plan Year	Allocable Per Previous Audit	Per NHS	Difference
2006	\$3,679,923	\$3,868,917	(\$188,994)
2007	2,983,795	2,776,806	206,989
2008	2,496,551	2,290,116	206,435
2009	1,041,074	725,065	316,009
2010	0	0	0
Total	\$10,201,343	\$9,660,904	\$540,439

Table 5: Previous Other Segment Allocable Postretirement Benefit Costs Audit Findings

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

We then used this information to adjust the indirect cost rates (i.e., fringe benefit costs, overhead costs, service centers' costs, and G&A rates) and, in turn, to calculate the information presented in Table 6 on the following page. We are not showing our calculations in this report because the rate calculations that NHS used in its ICPs are proprietary information.

Accordingly, Table 6 on the following page compares, for each of the three contracts (DME, Medicare Parts A and B, and PDAC), the Medicare segment PRB costs that we calculated (using our adjusted indirect cost rates) and the PRB costs that NHS claimed for Medicare reimbursement for FYs 2006 through 2008.

Table 6: Medicare Postretirement Benefit Costs⁶

	Per Audit	Per DCAA	Difference
FY 2006			
DME Contract	\$452,335	\$454,690	(\$2,355)
Parts A/B Contract	280,303	287,016	(6,713)
Total FY 2006	\$732,638	\$741,706	(\$9,068)
FY 2007			
DME Contract	\$1,242,354	\$1,237,759	\$4,595
Parts A/B Contract	2,891,407	2,851,017	40,390
Total FY 2007	\$4,133,761	\$4,088,776	\$44,985
FY 2008			
DME Contract	\$1,195,141	\$1,187,281	\$7,860
Parts A/B Contract	1,636,673	1,621,604	15,069
PDAC Contract	113,558	113,020	538
Total FY 2008	\$2,945,372	\$2,921,905	\$23,467
Total Underclaim of Postretirement Benefit Costs	\$7,811,771	\$7,752,387	\$59,384

RECOMMENDATIONS

We recommend that NHS work with CMS to ensure that its final settlement of contract costs reflects the following:

- an increase in Medicare pension costs of \$84,867 for FYs 2006 through 2008 and
- an increase in Medicare PRB costs of \$59,384 for FYs 2006 through 2008.

AUDITEE COMMENTS

In written comments on our draft reports, NMIC concurred with our recommendations and said that it would work with CMS to ensure that the increases in Medicare segment pension costs and Medicare segment PRB costs would be reflected in NHS's final settlement of contract costs.

NMIC's comments are included in their entirety as Appendix C.

⁶ See footnote 5.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$18,600,172 of Medicare pension and PRB costs (\$10,847,785 of pension costs and \$7,752,387 of PRB costs) that NHS reported on its ICPs for FYs 2006 through 2008.

Achieving our objective did not require that we review NHS's overall internal control structure. We limited our review to the internal controls related to the pension and PRB costs that were included in NHS's ICPs and ultimately used as the basis for Medicare reimbursement, to ensure that these costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

We performed our fieldwork at NHS's office in Fargo, North Dakota.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- reviewed information provided by NHS to identify the amount of pension costs used in NHS's calculation of its indirect cost rates for FYs 2006 through 2008;
- reviewed the results of DCAA's ICP audits and incorporated those results into our calculations of allowable pension costs and PRB costs; and
- incorporated the information from our previous audit reports (A-07-13-00419, issued December 16, 2013, and A-07-13-00422, issued March 18, 2014) into our work for this audit.

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

- *Noridian Healthcare Solutions, LLC, Overstated Its Allocable Pension Costs for Calendar Years 2006 Through 2010* (A-07-13-00419, issued December 16, 2013); and
- *Noridian Healthcare Solutions, LLC, Understated Its Medicare Segment Allocable Postretirement Benefit Costs and Overstated Its Other Segment Allocable Postretirement Benefit Costs for Calendar Years 2006 Through 2010* (A-07-13-00422, issued March 18, 2014).

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 the allowability of pension costs and require that contractors fund the pension costs assigned to contract periods by making contributions to the pension plan.

Federal regulations (FAR 31.205-6(o)) require that PRB accrual costs be determined in accordance with Statement of Financial Accounting Standards (SFAS) 106 and funded into a dedicated trust fund, such as a VEBA trust. The FAR states that accrual accounting may be used to determine the allowable PRB costs if the cost is measured and assigned (actuarially determined) according to generally accepted accounting principles based on amortization of any transition obligation. Costs attributable to past service (transition obligation) must be assigned under the delayed recognition methodology described in paragraphs 112 and 113 of SFAS 106. The FAR also states that allowable costs must be funded by the time set for filing the Federal income tax return or any extension thereof, and must comply with the applicable standards promulgated by the CAS Board.

Federal regulations (FAR 52.216-7(a)(1)) address the invoicing requirements and the allowability of payments as determined by the Contracting Officer in accordance with FAR subpart 31.2.

Federal regulations (CAS 403) address the allocation of the expenses of a home office to the segments of the organization based on beneficial or casual relationship. This regulation also addresses the allocation of residual home office expenses to segments.

Federal regulations (CAS 412) (as amended) address the determination and measurement of pension cost components. CAS 412 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 require NHS to submit invoices in accordance with FAR 52.216-7, "Allowable Cost & Payment." Furthermore, FAR 52.216-7(a)(1) addresses the invoicing requirements and the allowability of payments as determined by the Contracting Officer in accordance with FAR subpart 31.2.

APPENDIX C: AUDITEE COMMENTS



August 25, 2016

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-07-16-00481

Dear Mr. Cogley,

We have reviewed your draft report entitled *Noridian Healthcare Solutions, LLC, Did Not Claim Allowable Medicare Pension Costs or Postretirement Benefit Costs for Fiscal Years 2006 Through 2008* and offer the following comments:

Recommendations:

- Increase in Medicare segment pension costs used to calculate the indirect cost rates by \$84,867 for FYs 2006 through 2008.
 - We concur with this recommendation and will work with CMS to ensure NHS's final settlement of contracts costs reflect the increase in Medicare segment pension costs used to calculate the indirect cost rates by \$84,867 for FYs 2006 through 2008.
- Increase in Medicare segment PRB costs used to calculate the indirect cost rates by \$59,384 for FYs 2006 through 2008.
 - We concur with this recommendation and will work with CMS to ensure NHS's final settlement of contracts costs reflect the increase in Medicare segment PRB costs used to calculate the indirect cost rates by \$59,384 for FYs 2006 through 2008.

Sincerely,

 Recoverable Signature

 David Breuer

Dave Breuer
Chief Financial Officer
Signed by: dave.breuer@bcbsnd.com