

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**NORIDIAN HEALTHCARE
SOLUTIONS, LLC, CLAIMED
SOME UNALLOWABLE
MEDICARE PENSION COSTS**

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



Gloria L. Jarmon
Deputy Inspector General
for Audit Services

November 2019
A-07-18-00548

Office of Inspector General

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

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

Report in Brief

Date: November 2019

Report No. A-07-18-00548

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



Why OIG Did This Review

The Centers for Medicare & Medicaid Services (CMS) reimburses contractors for a portion of their pension costs, which are funded by the annual contributions that contractors make to their pension plans.

At CMS's request, the HHS, OIG, Office of Audit Services, Region VII pension audit team reviews the cost elements related to qualified defined-benefit plans and any other pension-related cost elements claimed by Medicare contractors through Final Administrative Cost Proposals (FACPs).

Previous OIG reviews found that Medicare contractors did not always comply with Federal requirements when claiming pension costs for Medicare reimbursement.

Our objective was to determine whether the fiscal years (FYs) 2011 through 2013 qualified defined-benefit plan pension costs (pension costs) that Noridian Healthcare Solutions, LLC (NHS), claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACPs, were allowable and correctly claimed.

How OIG Did This Review

We reviewed \$2.88 million of Medicare pension costs that NHS claimed for Medicare reimbursement on its FACPs for FYs 2011 through 2013.

Noridian Healthcare Solutions, LLC, Claimed Some Unallowable Medicare Pension Costs

What OIG Found

NHS claimed FYs 2011 through 2013 pension costs of \$2.88 million for Medicare reimbursement; however, we determined that the allowable Cost Accounting Standards (CAS)-based pension costs during this period were \$2.69 million. The difference, \$190,799, represented unallowable Medicare pension costs that NHS claimed on its FACPs for FYs 2011 through 2013. NHS claimed these unallowable Medicare pension costs primarily because it based its claim for Medicare reimbursement on incorrectly calculated CAS pension costs.

What OIG Recommends and Auditee Comments

We recommend that NHS revise its FACPs for FYs 2011 through 2013 to reduce its claimed Medicare pension costs by \$190,799.

NHS concurred with our recommendation. NHS stated that it would work with CMS to reduce its claimed Medicare pension costs by \$190,799 in the closeout agreements for FYs 2011 through 2013.

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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 allocability and cost reimbursement principles contained in the Federal Acquisition Regulation (FAR), the Cost Accounting Standards (CAS), and the Medicare contracts. Previous Office of Inspector General (OIG) reviews found that Medicare contractors did not always comply with Federal requirements when claiming pension 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 (MACs) through Final Administrative Cost Proposals (FACPs), Incurred Cost Proposals, or both.

OBJECTIVE

Our objective was to determine whether the fiscal years (FYs) 2011 through 2013 qualified defined-benefit plan pension costs (herein referred to as "pension costs") that Noridian Healthcare Solutions, LLC (NHS), claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACPs, were allowable and correctly claimed.

BACKGROUND

Noridian Healthcare Solutions, LLC, and Medicare

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

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

This report addresses the allowable pension costs claimed by NHS under the provisions of its fiscal intermediary and carrier contracts.

Medicare Reimbursement of Pension Costs

CMS reimburses a portion of the Medicare contractors' annual pension costs, which are funded by the annual 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 indirect allocation method or a separate calculation method to identify and claim pension costs for Medicare reimbursement. Under the indirect allocation method, the contractor determines total plan CAS-based pension costs and allocates a share to Medicare. Under the separate calculation method, the contractor

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

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

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

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

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

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

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

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 \$2,882,721 of pension costs claimed by NHS for Medicare reimbursement on its FACPs for FYs 2011 through 2013.

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 FYs 2011 through 2013 pension costs of \$2,882,721 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs during this period were \$2,691,922. The difference, \$190,799, represented unallowable Medicare pension costs that NHS claimed on its FACPs for FYs 2011 through 2013. NHS claimed these unallowable Medicare pension costs primarily because it based its claim for Medicare reimbursement on incorrectly calculated CAS pension costs.

CLAIMED MEDICARE PENSION COSTS

NHS claimed Medicare pension costs of \$2,882,721 for Medicare reimbursement, under the provisions of its fiscal intermediary and carrier contracts, on its FACPs for FYs 2011 through 2013. 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 2011 through 2013 were \$2,691,922. Thus, NHS claimed \$190,799 of unallowable Medicare pension costs on its FACPs for FYs 2011 through 2013. NHS claimed these unallowable Medicare pension costs primarily because it based its claim for Medicare reimbursement on incorrectly calculated CAS pension costs. Specifically, there were differences in the amortization that NHS used to calculate the assignable pension costs.

The table below shows the differences between the allowable CAS-based pension costs and the pension costs that NHS claimed on its FACPs and reflected in its accounting documents. Appendix C shows the development of the allowable pension costs.

Table: Comparison of Allowable Pension Costs and Claimed Pension Costs

	Medicare Pension Costs		
FY	Allowable Per Audit	Claimed by NHS	Difference
2011	\$1,641,644	\$1,758,483	(\$116,839)
2012	739,484	828,553	(89,069)
2013	310,794	295,685	15,109
Total	\$2,691,922	\$2,882,721	(\$190,799)

RECOMMENDATION

We recommend that Noridian Healthcare Solutions, LLC, revise its FACPs for FYs 2011 through 2013 to reduce its claimed Medicare pension costs by \$190,799.

AUDITEE COMMENTS

In written comments on our draft report, NHS concurred with our recommendation. NHS stated that it would work with CMS to reduce its claimed Medicare pension costs by \$190,799 in the closeout agreements for FYs 2011 through 2013.

NHS’s comments appear in their entirety as Appendix D.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$2,882,721 of pension costs that NHS claimed for Medicare reimbursement on its FACPs for FYs 2011 through 2013.

Achieving our objective did not require that we review NHS's overall internal control structures. 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 located 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 claimed for Medicare reimbursement for FYs 2011 through 2013;
- used information that NHS's actuarial consulting firm provided, including information on the pension plans' 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, which provides technical actuarial advice, 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);
- reviewed the CMS actuaries' methodology and calculations; and
- provided the results of our review to NHS officials on July 26, 2019.

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

- *Noridian Healthcare Solutions, LLC, Understated Its Medicare Segment Pension Assets (A-07-18-00547)* and
- *Noridian Healthcare Solutions, LLC, Claimed Some Unallowable Medicare Pension Costs Through Its Incurred Cost Proposals (A-07-18-00550).*

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

APPENDIX B: 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 plan.

Federal regulations (CAS 412) (as amended) address the determination and measurement of pension cost components. These regulations also address 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 2011 THROUGH 2013**

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2010	CY Allocable Pension Cost <u>1/</u>		\$11,218,460	\$4,380,499	
2011	Contributions <u>2/</u>	\$0	\$0	\$0	
	Contributions Accrued <u>3/</u>	\$15,200,000	\$15,200,000	\$0	
	Discount for Interest <u>4/</u>	(\$1,093,271)	(\$1,093,271)	\$0	
January 1, 2011	Present Value Contributions <u>5/</u>	\$14,106,729	\$14,106,729	\$0	
	Prepayment Credit Applied <u>6/</u>	\$15,160,383	\$11,209,178	\$3,951,205	
	Present Value of Funding <u>7/</u>	\$29,267,112	\$25,315,907	\$3,951,205	
January 1, 2011	CAS Funding Target <u>8/</u>	\$15,160,383	\$11,209,178	\$3,951,205	
	Percentage Funded <u>9/</u>		100.00%	100.00%	
	Funded Pension Cost <u>10/</u>		\$11,209,178	\$3,951,205	
	Allowable Interest <u>11/</u>		\$0	\$0	
	CY Allocable Pension Cost		\$11,209,178	\$3,951,205	
2011	FY Allocable Pension Cost <u>12/</u>		\$11,211,499	\$4,058,529	
	FY Medicare LOB* Percentage <u>13/</u>		2.95%	32.30%	
2011	FY Allowable Pension Costs <u>14/</u>		\$330,739	\$1,310,905	\$1,641,644

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2012	Contributions	\$0	\$0	\$0	
	Contributions Accrued	\$12,000,000	\$12,000,000	\$0	
	Discount for Interest	(\$837,209)	(\$837,209)	\$0	
January 1, 2012	Present Value Contributions	\$11,162,791	\$11,162,791	\$0	
	Prepayment Credit Applied	\$14,830,613	\$11,515,437	\$3,315,176	
	Present Value of Funding	\$25,993,404	\$22,678,228	\$3,315,176	
January 1, 2012	CAS Funding Target	\$14,830,613	\$11,515,437	\$3,315,176	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$11,515,437	\$3,315,176	
	Allowable Interest		\$0	\$0	
	CY Allocable Pension Cost		\$11,515,437	\$3,315,176	
2012	FY Allocable Pension Cost		\$11,438,872	\$3,474,183	
	FY Medicare LOB*		1.59%	16.05%	
2012	FY Allowable Pension Costs		\$181,878	\$557,606	\$739,484

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2013	Contributions	\$0	\$0	\$0	
	Contributions Accrued	\$0	\$0	\$0	
	Discount for Interest	\$0	\$0	\$0	
January 1, 2013	Present Value Contributions	\$0	\$0	\$0	
	Prepayment Credit Applied	\$15,643,928	\$12,175,876	\$3,468,052	
	Present Value of Funding	\$15,643,928	\$12,175,876	\$3,468,052	
January 1, 2013	CAS Funding Target	\$15,643,928	\$12,175,876	\$3,468,052	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$12,175,876	\$3,468,052	
	Allowable Interest		\$0	\$0	
	CY Allocable Pension Cost		\$12,175,876	\$3,468,052	
2013	FY Allocable Pension Cost		\$12,010,766	\$3,429,833	
	FY Medicare LOB*		0.80%	6.26%	
2013	FY Allowable Pension Costs		\$96,086	\$214,708	\$310,794

ENDNOTES

- 1/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes. We obtained the 2010 calendar year (CY) allocable pension cost from our prior NHS review (A-07-13-00418; Dec. 16, 2013).
- 2/ We obtained these Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. These contributions include deposits made during the CY. We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-18-00547).
- 3/ We obtained these Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. These contributions include 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 pension segmentation review (A-07-18-00547).
- 4/ 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.
- 5/ 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.
- 6/ 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.
- 7/ 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 calendar year (CY).
- 8/ The CAS funding target must be funded by contributions made during the current accounting period or prepaid contributions to satisfy the funding requirement of the FAR 31.205-6(j)(2)(i).

- 9/ 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.
- 10/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.
- 11/ 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 four equal installments deposited within 30 days after the end of the quarter.
- 12/ We converted the CY allocable pension costs to an FY basis. We calculated the FY pension costs as 1/4 of the prior year's costs plus 3/4 of the current year's costs.
- 13/ We calculated the line of business (LOB) percentages based on information provided by NHS.
- 14/ We computed the FY allowable Medicare pension cost as the FY allocable pension cost multiplied by the Medicare LOB percentage.

APPENDIX D: AUDITEE COMMENTS



ND

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

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

Report Number: A-07-18-00548

Report Title: Noridian Healthcare Solutions, LLC, Claimed Some Unallowable Medicare Pension Costs

Recommendation – From Report

We recommend that Noridian Healthcare Solutions, LLC, revise its FACPs for FYs 2011 through 2013 to reduce its claimed Medicare pension costs by \$190,799.

Statement of concurrence or non-concurrence:

Noridian Healthcare Solutions, LLC concurs with the above recommendation.

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

Noridian will work with CMS to reduce its claimed Medicare pension costs by \$190,799 in the close out agreement for FYs 2011 through 2013.

Signed: _____/David Breuer/_____ Date: 10/15/2019
David Breuer, Executive Vice President and Chief Financial Officer
Blue Cross Blue Shield of North Dakota