

Department of Health and Human Services
**OFFICE OF
INSPECTOR GENERAL**

**NORIDIAN HEALTHCARE
SOLUTIONS, LLC,
UNDERSTATED ITS MEDICARE
SEGMENT POSTRETIREMENT
BENEFIT ASSETS**

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Office of Inspector General

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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-07-19-00567

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



Why OIG Did This Review

The Centers for Medicare & Medicaid Services (CMS) reimburses a portion of Medicare contractors' costs for postretirement benefit (PRB) plans. At CMS's request, the OIG, Office of Audit Services, Region VII pension audit team reviews the Medicare segment PRB assets to ensure compliance with Federal requirements.

Previous OIG reviews found that Medicare contractors did not always correctly identify and update the Medicare segment PRB assets.

Our objectives were to determine whether Noridian Healthcare Solutions, LLC (NHS), complied with Federal requirements when (1) implementing the prior audit recommendation to increase the NHS Medicare segment PRB assets as of January 1, 2011, and (2) updating the Medicare segment PRB assets with contributions, permitted unfunded accruals, income, claims paid, participant transfers, and administrative expenses in its Cost Accounting Standards exhibits from January 1, 2011, to January 1, 2016.

How OIG Did This Review

We reviewed NHS's implementation of the prior audit recommendation; identification of its PRB Medicare segment; and its update of the Medicare segment PRB assets from January 1, 2011, to January 1, 2016.

Noridian Healthcare Solutions, LLC, Understated Its Medicare Segment Postretirement Benefit Assets

What OIG Found

NHS implemented our prior audit recommendation to increase the Medicare segment PRB assets by \$1.1 million as of January 1, 2011.

Regarding our second objective, NHS did not fully comply with Federal requirements when updating the Medicare segment PRB assets from January 1, 2011, to January 1, 2016. NHS identified Medicare segment PRB assets of \$13.8 million as of January 1, 2016; however, we determined that the Medicare segment PRB assets were \$14 million as of that date. Therefore, NHS understated the Medicare segment PRB assets as of January 1, 2016, by \$203,100. NHS understated the Medicare segment PRB assets because it incorrectly identified Medicare segment participants and, therefore, incorrectly identified the Medicare segment prepayment credits. In addition, NHS lacked controls to ensure that it calculated those assets in accordance with Federal requirements and the pension segmentation language of its Medicare contracts when updating the Medicare segment PRB assets from January 1, 2011, to January 1, 2016.

What OIG Recommends and Auditee Comments

We recommend that NHS increase the Medicare segment PRB assets by \$203,100 as of January 1, 2016.

NHS concurred with our recommendation. NHS stated that it would increase the Medicare segment PRB assets as of January 1, 2016, by \$203,100.

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INTRODUCTION

WHY WE DID THIS REVIEW

The Centers for Medicare & Medicaid Services (CMS) reimburses a portion of Medicare contractors' costs for postretirement benefit (PRB) plans. In claiming these costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation (FAR) and applicable Cost Accounting Standards (CAS). Noridian Healthcare Solutions, LLC (NHS), elected to use segmented accrual accounting for its PRB plans.

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

We used the Medicare contracts' pension segmentation requirements as authoritative guidance. The fiscal intermediary and carrier contracts require that the pension assets be allocated to each Medicare segment and adjusted in accordance with CAS 413. In turn, CAS 413 requires these contractors to update the pension assets with contributions, permitted unfunded accruals, income, benefit payments (claims paid), participant transfers, and administrative expenses. These PRB assets are calculated by the contractors' actuarial consulting firm and are usually included as CAS exhibits (that is, the update of the PRB assets as of January 1 of each year under review) in the contractors' PRB plan actuarial valuation reports. The Medicare segment PRB assets are integral to calculating the allowable Medicare PRB costs.

Previous Office of Inspector General reviews found that Medicare contractors did not always correctly identify and update the Medicare segment PRB assets. Specifically, our prior PRB segmentation audit report of NHS (A-07-13-00420, Mar. 18, 2014) found that NHS did not correctly identify and update its Medicare segment PRB assets.

OBJECTIVES

Our objectives were to determine whether NHS complied with Federal requirements when (1) implementing the prior audit recommendation to increase the NHS Medicare segment PRB assets as of January 1, 2011, and (2) updating the Medicare segment PRB assets with contributions, permitted unfunded accruals, income, claims paid, participant transfers, and administrative expenses in its CAS exhibits from January 1, 2011, to January 1, 2016.

BACKGROUND

Noridian Healthcare Solutions, LLC

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.

NHS participates in a voluntary employee benefit association (VEBA) trust for the purpose of funding annual PRB accruals. Furthermore, NHS's accounting practice, approved by CMS, uses segmented accrual accounting for its PRB plans.

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.

Prior Postretirement Benefit Segmentation Audit

We performed a prior PRB segmentation audit for NHS (A-07-13-00420, Mar. 18, 2014), which brought the NHS Medicare segment PRB assets to January 1, 2011. We recommended that NHS increase the Medicare segment PRB assets by \$1,087,008, and, as a result, recognize \$20,096,041 as the Medicare segment PRB assets as of January 1, 2011.

HOW WE CONDUCTED THIS REVIEW

We reviewed NHS's implementation of the prior audit recommendation, its identification of its PRB Medicare segment, and its update of the Medicare segment PRB assets from January 1, 2011, to January 1, 2016.

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.

FINDINGS

NHS implemented our prior audit recommendation to increase the Medicare segment PRB assets by \$1,087,008 as of January 1, 2011. Regarding our second objective, NHS did not fully comply with Federal requirements when updating the Medicare segment PRB assets from January 1, 2011, to January 1, 2016. NHS identified Medicare segment PRB assets of \$13,821,242 as of January 1, 2016; however, we determined that the Medicare segment PRB assets were \$14,024,342 as of that date. Therefore, NHS understated the Medicare segment PRB assets as of January 1, 2016, by \$203,100. NHS understated the Medicare segment PRB assets because it incorrectly identified Medicare segment participants and, therefore, incorrectly identified the Medicare segment prepayment credits. In addition, NHS lacked controls to ensure that it calculated those assets in accordance with Federal requirements and the pension segmentation language of its Medicare contracts when updating the Medicare segment PRB assets from January 1, 2011, to January 1, 2016.

Appendix B identifies the details of NHS's Medicare segment PRB assets from January 1, 2011, to January 1, 2016, as determined during our audit. Table 1 on the following page summarizes the audit adjustments required to update NHS's Medicare segment PRB assets in accordance with Federal requirements.

Table 1: Summary of Audit Adjustments

	Per Audit	Per NHS	Difference
Prior Audit Recommendation	\$20,096,041	\$20,096,041	\$0
Update of Medicare Segment Assets			
Prepayment Credits	(8,597,059)	(8,713,873)	116,814
Claims Paid	(1,032,311)	(1,032,311)	0
Earnings, Net of Expenses	3,557,671	3,471,385	86,286
Understatement of Medicare Segment Assets			\$203,100

PRIOR AUDIT RECOMMENDATION

NHS implemented the prior audit recommendation (A-07-13-00420, Mar. 18, 2014), which recommended that NHS increase its Medicare segment PRB assets by \$1,087,008 and recognize \$20,096,041 as the Medicare segment PRB assets as of January 1, 2011.

UPDATE OF MEDICARE SEGMENT POSTRETIREMENT BENEFIT ASSETS

NHS elected to use segmented accrual accounting for its PRB plan. We used the Medicare contracts' pension segmentation requirements as authoritative guidance. The Medicare contracts state that “. . . the pension assets allocated to each Medicare Segment shall be adjusted in accordance with CAS 413.50(c)(7).” For details on the Federal requirements, see Appendix C.

NHS did not fully comply with Federal requirements when updating the Medicare segment PRB assets in its CAS exhibits from January 1, 2011, to January 1, 2016. The following are our findings regarding the update of the Medicare segment PRB assets from January 1, 2011, to January 1, 2016.

Transferred Prepayment Credits Understated

NHS understated prepayment credits that were transferred out of the Medicare segment by \$116,814. The understatement occurred because NHS incorrectly calculated the assignable PRB cost on which the prepayment credits were based. These incorrect calculations resulted primarily from differences in the identification of Medicare segment participants. Therefore, NHS overstated the Medicare segment PRB assets by \$116,814.

A comparison of NHS's and our calculations of transferred prepayment credits for the Medicare segment appears in Table 2 on the following page.

Table 2: Transferred Prepayment Credits

Calendar Year (CY)	Per Audit	Per NHS	Difference
2011	(\$39,878)	(\$108,348)	\$68,470
2012	(907,054)	(1,125,108)	218,054
2013	(1,266,538)	(1,358,698)	92,160
2014	(1,115,026)	(913,754)	(201,272)
2015	(5,268,563)	(5,207,965)	(60,598)
Total	(\$8,597,059)	(\$8,713,873)	\$116,814

Earnings, Net of Expenses, Understated

NHS understated investment earnings, less administrative expenses, by \$86,286 for its Medicare segment, because it used incorrect transferred prepayment credits (discussed above) to develop the Medicare segment PRB asset base. In our calculation of the Medicare segment PRB assets as of January 1, 2016, we allocated earnings, net of expenses, based on the applicable CAS requirements. For details on applicable Federal requirements, see Appendix C.

A comparison of NHS's and our calculations of net investment earnings for the Medicare segment appears in Table 3 below.

Table 3: Earnings, Net of Expenses

CY	Per Audit	Per NHS	Difference
2011	(\$578,694)	(\$569,362)	(\$9,332)
2012	2,136,358	2,100,479	35,879
2013	1,728,197	1,675,534	52,663
2014	662,346	646,603	15,743
2015	(390,536)	(381,869)	(8,667)
Total	\$3,557,671	\$3,471,385	\$86,286

RECOMMENDATION

We recommend that Noridian Healthcare Solutions, LLC, increase the Medicare segment PRB assets by \$203,100 as of January 1, 2016.

AUDITEE COMMENTS

In written comments on our draft report, NHS concurred with our recommendation. NHS stated that it would increase the Medicare segment PRB assets as of January 1, 2016, by \$203,100.

NHS's comments are included in their entirety as Appendix D.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed NHS's implementation of the prior audit recommendation, its identification of its PRB Medicare segment, and its update of the Medicare segment PRB assets with contributions, permitted unfunded accruals, income, benefit payments (claims paid), participant transfers, and administrative expenses in its CAS exhibits from January 1, 2011, to January 1, 2016.

Achieving our objective did not require that we review NHS's overall internal control structures. We reviewed controls relating to the identification of the PRB Medicare segment and to the update of the Medicare segment PRB assets.

We performed fieldwork at NHS in Fargo, North Dakota.

METHODOLOGY

To accomplish our objectives, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- reviewed the annual actuarial valuation reports prepared by NHS's actuarial consulting firm, which included the PRB plan's assets, PRB obligations, service costs, contributions, claims paid, investment earnings, and administrative expenses, and used this information to calculate the Medicare segment PRB assets;
- obtained and reviewed the PRB plan documents;
- interviewed NHS staff responsible for determining and implementing the methodology that NHS used in its identification of the PRB Medicare segment;
- reviewed NHS's accounting records to verify the PRB Medicare segment identification;
- reviewed the prior segmentation audit performed at NHS (A-07-13-00420) to determine the beginning market value of assets;
- provided the CMS Office of the Actuary, which provides technical actuarial advice, with the actuarial information necessary for it to calculate the Medicare segment's PRB assets from January 1, 2011, to January 1, 2016;
- reviewed the CMS actuaries' methodology and calculations; and
- provided the results of the review to NHS officials on August 1, 2019.

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

- *Noridian Healthcare Solutions, LLC, Did Not Claim Some Allowable Medicare Postretirement Benefit Costs Through Its Incurred Cost Proposals (A-07-19-00568) and*
- *Noridian Healthcare Solutions, LLC, Claimed Some Unallowable Medicare Postretirement Benefit Costs (A-07-19-00569).*

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

**APPENDIX B: NORIDIAN HEALTHCARE SOLUTIONS, LLC,
STATEMENT OF MEDICARE SEGMENT POSTRETIREMENT BENEFIT ASSETS
FOR THE PERIOD JANUARY 1, 2011, TO JANUARY 1, 2016**

Description		Total Company	Other Segment	Medicare Segment
Assets January 1, 2011	<u>1/</u>	\$43,061,031	\$22,964,990	\$20,096,041
Prepayment Credits	<u>2/</u>	0	39,878	(39,878)
Claims Paid	<u>3/</u>	(1,441,815)	(1,279,916)	(161,899)
Investment Return	<u>4/</u>	(1,226,620)	(647,926)	(578,694)
Assets January 1, 2012		\$40,392,596	\$21,077,026	\$19,315,570
Prepayment Transfers		0	907,054	(907,054)
Claims Paid from Trust		(1,617,958)	(1,445,935)	(172,023)
Investment Return		4,615,351	2,478,993	2,136,358
Assets January 1, 2013		\$43,389,989	\$23,017,138	\$20,372,851
Prepayment Transfers		0	1,266,538	(1,266,538)
Claims Paid from Trust		(1,345,614)	(1,112,541)	(233,073)
Investment Return		3,887,550	2,159,353	1,728,197
Assets January 1, 2014		\$45,931,925	\$25,330,488	\$20,601,437
Prepayment Transfers		0	1,115,026	(1,115,026)
Claims Paid from Trust		(1,570,997)	(1,320,395)	(250,602)
Investment Return		1,544,464	882,118	662,346
Assets January 1, 2015		\$45,905,392	\$26,007,237	\$19,898,155
Prepayment Transfers		0	5,268,563	(5,268,563)
Claims Paid from Trust		(1,387,353)	(1,172,639)	(214,714)
Investment Return		(1,215,845)	(825,309)	(390,536)
Assets January 1, 2016		\$43,302,194	\$29,277,852	\$14,024,342
Per NHS	<u>5/</u>	\$43,302,194	\$29,480,952	\$13,821,242
Asset Variance	<u>6/</u>	\$0	(\$203,100)	\$203,100

ENDNOTES

- 1/ We determined the Medicare segment PRB assets as of January 1, 2011, based on our prior segmentation audit of NHS (A-07-13-00420; Mar. 18, 2014). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare segment. All PRB 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 to avoid incurring unallowable interest. Prepayment credits are transferred to the Medicare segment as needed to cover funding requirements.
- 3/ Claims paid represent benefit reimbursements from the trust fund for claims paid. We obtained Medicare segment claims paid amounts from documents prepared by NHS's actuarial consulting firm.
- 4/ We obtained investment returns from the PRB actuarial valuation reports. We allocated net investment returns based on the ratio of each segment's weighted average value (WAV) of assets to Total Company WAV of assets as required by the CAS.
- 5/ We obtained the asset amount as of January 1, 2016, from NHS's actuarial valuation report.
- 6/ The asset variance represents the difference between our calculation of the Medicare segment PRB assets and NHS's calculation of the Medicare segment PRB assets.

APPENDIX C: FEDERAL REQUIREMENTS RELATED TO POSTRETIREMENT BENEFIT SEGMENTATION

FEDERAL REGULATIONS

Federal regulations (FAR 31.205-6(o)) require that, to be allowable for Medicare reimbursement, PRB accrual costs be (1) measured and assigned in accordance with generally accepted accounting principles, (2) funded in a dedicated trust fund, such as a VEBA trust, and (3) calculated in accordance with generally accepted actuarial principles and practices as promulgated by the Actuarial Standards Board.

Federal regulations (CAS 412.50(a)(4)) require that contributions in excess of the pension cost assigned to the period be recognized as prepayment credits and accumulated at the assumed valuation interest rate until applied to future-period costs. Prepayment credits that have not been applied to fund pension costs are excluded from the value of assets used to compute pension costs.

Federal regulations (CAS 413.50(c)(7)) require that the asset base be updated by contributions, permitted unfunded accruals, income, benefit payments, and expenses. For plan years beginning after March 30, 1995, the CAS requires investment income and expenses to be allocated among segments based on the ratio of the segment's WAV of assets to the Total Company WAV of assets.

MEDICARE CONTRACTS

The fiscal intermediary and carrier contracts identify a Medicare segment as:

. . . any organizational component of the contractor, such as a division, department, or other similar subdivision, having a significant degree of responsibility and accountability for the Medicare contract/agreement, in which:

1. The majority of the salary dollars is allocated to the Medicare agreement/contract; or,
2. Less than a majority of the salary dollars are charged to the Medicare agreement/contract, and these salary dollars represent 40% or more of the total salary dollars charged to the Medicare agreement/contract.

Furthermore, the Medicare contracts state that “. . . the pension assets allocated to each Medicare Segment shall be adjusted in accordance with CAS 413.50(c)(7).”

APPENDIX D: AUDITEE COMMENTS



ND

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Report Number: A-07-19-00567

Report Title: Noridian Healthcare Solutions, LLC, Understated Its Medicare Segment Postretirement Benefit Assets

Recommendation – From Report

We recommend that NHS increase the Medicare segment PRB assets by \$203,100 as of January 1, 2016.

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 make the necessary adjustments to the Medicare segment PRB assets to increase the balance by \$203,100 as of January 1, 2016.

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