



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

NOV 04 2008

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

Report Number: A-07-08-00259

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

Dear Mr. Breuer:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Pension Costs Claimed for Medicare Reimbursement by Noridian Mutual Insurance Company for Fiscal Years 1999 Through 2005." We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

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

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

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, or contact Jenenne Tambke, Audit Manager, at (573) 893-8338, extension 21 or through e-mail at Jenenne.Tambke@oig.hhs.gov. Please refer to report number A-07-08-00259 in all correspondence.

Sincerely,

Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

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

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS
CLAIMED FOR MEDICARE
REIMBURSEMENT BY NORIDIAN
MUTUAL INSURANCE COMPANY
FOR FISCAL YEARS 1999
THROUGH 2005**



Daniel R. Levinson
Inspector General

November 2008
A-07-08-00258

Office of Inspector General

<http://oig.hhs.gov>

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

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

BACKGROUND

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

Medicare reimburses a portion of the annual contributions that contractors make to their pension plans. In claiming costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation, Cost Accounting Standards (CAS), and Medicare contracts.

The Medicare contracts require contractors to allocate or separately calculate pension costs. Contractors must use the separate calculation method if there is a material difference between the results of the two methods.

OBJECTIVE

Our objective was to determine the allowability of pension costs that Noridian claimed for Medicare reimbursement for fiscal years (FY) 1999 through 2005.

SUMMARY OF FINDING

Noridian did not claim all pension costs that were allowable for Medicare reimbursement for FYs 1999 through 2005 because it based its claim for Medicare reimbursement on improperly computed CAS pension costs. Therefore, Noridian underclaimed \$38,645 of allowable pension costs.

RECOMMENDATIONS

We recommend that Noridian revise its Final Administrative Cost Proposals (FACP) to claim allowable CAS pension costs of \$38,645 for FYs 1999 through 2005. We also recommend that Noridian claim future pension costs in accordance with Federal requirements and the Medicare contracts.

AUDITEE COMMENTS

In written comments on our draft report, Noridian concurred with our recommendations and stated that it will revise its FACPs.

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

INTRODUCTION

BACKGROUND

Noridian

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

Medicare Reimbursement of Pension Costs

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

Beginning with fiscal year (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 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.

Federal Requirements

The Medicare contracts address the determination and allocation of pension costs. Appendix B, section XVI of the contracts states: "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."

FAR 31.205-6(j) addresses allowability of pension costs and requires that plan contributions substantiate pension costs assigned to contract periods.

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

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

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine the allowability of pension costs that Noridian claimed for Medicare reimbursement for FYs 1999 through 2005.

Scope

We reviewed pension costs that Noridian claimed for Medicare reimbursement on its Final Administrative Cost Proposals (FACP) for FYs 1999 through 2005. Achieving the objective did not require that we review Noridian's overall internal control structure. However, we did review 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 Noridian in Fargo, North Dakota, during August 2007.

Methodology

We identified Noridian's CAS pension costs for the total company and the Medicare segment. We also determined the extent to which Noridian funded CAS pension costs with contributions to the pension trust fund and accumulated prepayment credits. We based the calculations on separately computed CAS pension costs for the Medicare segment and total company CAS pension costs. The CMS Office of the Actuary calculated the allocable CAS pension costs based on Noridian's historical practices and on the results of our segmentation review, "Review of Medicare Contractor's Pension Segmentation Requirements at Noridian Mutual Insurance Company for the Period January 1, 1998, to January 1, 2006" (A-07-08-00258). Appendix A contains details on the pension costs and contributions.

In performing this review, we used information that Noridian's actuarial consulting firm provided. The information included assets, actuarial liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We examined Noridian's accounting records, pension plan documents, annual pension plan actuarial valuation reports, and Department of Labor/Internal Revenue Service Form 5500s.

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

FINDING AND RECOMMENDATION

ALLOWABLE PENSION COSTS NOT CLAIMED

Noridian did not claim all pension costs that were allowable for Medicare reimbursement for FYs 1999 through 2005 because it based its claim for Medicare reimbursement on improperly computed CAS pension costs. Specifically, Noridian did not claim \$38,645 of pension costs that were allowable for Medicare reimbursement for FYs 1999 through 2005.

For FYs 1999 through 2005, Noridian claimed pension costs of \$16,230,921 for Medicare reimbursement. We calculated the allowable costs based on separately computed CAS pension costs for the Medicare segment and the total company. We determined that the allowable CAS pension costs totaled \$16,269,566. We compared allowable CAS pension costs with the pension costs claimed on Noridian's FACPs, as shown in the table below.

Pension Cost Claimed Variance			
Fiscal Year	Per Audit	Per Noridian	Difference
1999	\$925,535	\$873,990	\$51,545
2000	1,231,977	1,081,801	150,176
2001	1,553,609	1,275,537	278,072
2002	2,019,921	2,062,281	(42,360)
2003	3,122,531	3,541,839	(419,308)
2004	3,495,166	3,491,485	3,681
2005	3,920,827	3,903,988	16,839
Total	\$16,269,566	\$16,230,921	\$38,645

The Medicare contracts required Noridian to allocate or separately calculate CAS pension costs for Medicare reimbursement. Noridian based its claim for Medicare reimbursement on separately computed CAS pension costs. However, Noridian improperly computed those CAS pension costs because Noridian misidentified the Medicare segment. As a result, Noridian underclaimed \$38,645 of allowable pension costs.

RECOMMENDATIONS

We recommend that Noridian revise its FACPs to claim allowable CAS pension costs of \$38,645 for FYs 1999 through 2005. We also recommend that Noridian claim future pension costs in accordance with Federal requirements and the Medicare contracts.

AUDITEE COMMENTS

In written comments on our draft report, Noridian concurred with our recommendations and stated that it will revise its FACPs.

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

APPENDIXES

**NORIDIAN MUTUAL INSURANCE COMPANY
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1999 THROUGH 2005**

APPENDIX A
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Date	Description		Total Company	Other Segment	Medicare Segment
1998	CY Allowable Pension Cost	1/		\$129,741	\$698,584
1999	Contributions	2/	\$3,728,000	\$3,728,000	\$0
9.00%	Discount for Interest	3/	(306,647)	(306,647)	0
1/1/99	Present Value Contributions	4/	3,421,353	3,421,353	0
	Prepayment Credit	5/	2,947,938	2,087,251	860,687
	Present Value of Funding	6/	6,369,291	5,508,604	860,687
1/1/99	CAS Funding Target	7/	2,947,938	2,087,251	860,687
	Percentage Funded	8/		100.00%	100.00%
	Funded Pension Cost	9/		2,087,251	860,687
	Allowable Interest	10/		0	0
	Allocable Pension Cost	11/		2,087,251	860,687
	Medicare LOB* Percentage	12/		6.82%	94.76%
	CY Allowable Pension Cost	13/		142,351	815,587
1999	FY Allowable Pension Cost	14/	<u>\$925,535</u>	<u>\$139,199</u>	<u>\$786,336</u>

2000	Contributions		\$2,440,000	\$2,440,000	\$0
9.00%	Discount for Interest		(200,219)	(200,219)	0
1/1/00	Present Value Contributions		2,239,781	2,239,781	0
	Prepayment Credit		3,034,379	1,800,485	1,233,894
	Present Value of Funding		5,274,160	4,040,266	1,233,894
1/1/00	CAS Funding Target		3,034,379	1,800,485	1,233,894
	Percentage Funded			100.00%	100.00%
	Funded Pension Cost			1,800,485	1,233,894
	Allowable Interest			0	0
	Allocable Pension Cost			1,800,485	1,233,894
	Medicare LOB* Percentage			7.53%	96.26%
	CY Allowable Pension Cost			135,577	1,187,746
2000	FY Allowable Pension Cost		<u>\$1,231,977</u>	<u>\$137,271</u>	<u>\$1,094,706</u>

**NORIDIAN MUTUAL INSURANCE COMPANY
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1999 THROUGH 2005**

Date	Description	Total Company	Other Segment	Medicare Segment
2001	Contributions	\$10,307,301	\$10,307,301	\$0
9.00%	Discount for Interest	(825,785)	(825,785)	0
1/1/01	Present Value Contributions	9,481,516	9,481,516	0
	Prepayment Credit	3,809,109	2,275,724	1,533,385
	Present Value of Funding	13,290,625	11,757,240	1,533,385
1/1/01	CAS Funding Target	3,809,109	2,275,724	1,533,385
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		2,275,724	1,533,385
	Allowable Interest		0	0
	Allocable Pension Cost		2,275,724	1,533,385
	Medicare LOB* Percentage		7.24%	95.58%
	CY Allowable Pension Cost		164,762	1,465,609
2001	FY Allowable Pension Cost	<u>\$1,553,609</u>	<u>\$157,466</u>	<u>\$1,396,143</u>

2002	Contributions	\$9,100,000	\$9,100,000	\$0
9.00%	Discount for Interest	(751,376)	(751,376)	0
1/1/02	Present Value Contributions	8,348,624	8,348,624	0
	Prepayment Credit	4,904,220	2,994,491	1,909,729
	Present Value of Funding	13,252,844	11,343,115	1,909,729
1/1/02	CAS Funding Target	4,904,220	2,994,491	1,909,729
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		2,994,491	1,909,729
	Allowable Interest		0	0
	Allocable Pension Cost		2,994,491	1,909,729
	Medicare LOB* Percentage		8.96%	98.52%
	CY Allowable Pension Cost		268,306	1,881,465
2002	FY Allowable Pension Cost	<u>\$2,019,921</u>	<u>\$242,420</u>	<u>\$1,777,501</u>

**NORIDIAN MUTUAL INSURANCE COMPANY
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1999 THROUGH 2005**

Date	Description	Total Company	Other Segment	Medicare Segment
2003	Contributions	\$23,900,000	\$23,900,000	\$0
8.50%	Discount for Interest	<u>(1,732,111)</u>	<u>(1,732,111)</u>	<u>0</u>
1/1/03	Present Value Contributions	22,167,889	22,167,889	0
	Prepayment Credit	<u>8,641,948</u>	<u>5,627,682</u>	<u>3,014,266</u>
	Present Value of Funding	30,809,837	27,795,571	3,014,266
1/1/03	CAS Funding Target	8,641,948	5,627,682	3,014,266
	Percentage Funded		<u>100.00%</u>	<u>100.00%</u>
	Funded Pension Cost		<u>5,627,682</u>	<u>3,014,266</u>
	Allowable Interest		<u>0</u>	<u>0</u>
	Allocable Pension Cost		<u>5,627,682</u>	<u>3,014,266</u>
	Medicare LOB* Percentage		<u>10.61%</u>	<u>94.54%</u>
	CY Allowable Pension Cost		<u>597,097</u>	<u>2,849,687</u>
2003	FY Allowable Pension Cost	<u>\$3,122,531</u>	<u>\$514,899</u>	<u>\$2,607,632</u>

2004	Contributions	\$13,000,000	\$13,000,000	\$0
8.50%	Discount for Interest	<u>(1,018,433)</u>	<u>(1,018,433)</u>	<u>0</u>
1/1/04	Present Value Contributions	11,981,567	11,981,567	0
	Prepayment Credit	<u>9,216,294</u>	<u>6,189,311</u>	<u>3,026,983</u>
	Present Value of Funding	21,197,861	18,170,878	3,026,983
1/1/04	CAS Funding Target	9,216,294	6,189,311	3,026,983
	Percentage Funded		<u>100.00%</u>	<u>100.00%</u>
	Funded Pension Cost		<u>6,189,311</u>	<u>3,026,983</u>
	Allowable Interest		<u>0</u>	<u>0</u>
	Allocable Pension Cost		<u>6,189,311</u>	<u>3,026,983</u>
	Medicare LOB* Percentage		<u>10.73%</u>	<u>94.06%</u>
	CY Allowable Pension Cost		<u>664,113</u>	<u>2,847,180</u>
2004	FY Allowable Pension Cost	<u>\$3,495,166</u>	<u>\$647,359</u>	<u>\$2,847,807</u>

**NORIDIAN MUTUAL INSURANCE COMPANY
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1999 THROUGH 2005**

Date	Description	Total Company	Other Segment	Medicare Segment
2005	Contributions	\$18,000,000	\$18,000,000	\$0
8.00%	Discount for Interest	(1,331,333)	(1,331,333)	0
1/1/05	Present Value Contributions	16,668,667	16,668,667	0
	Prepayment Credit	11,061,794	7,668,217	3,393,577
	Present Value of Funding	27,730,461	24,336,884	3,393,577
1/1/05	CAS Funding Target	11,061,794	7,668,217	3,393,577
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		7,668,217	3,393,577
	Allowable Interest		0	0
	Allocable Pension Cost		7,668,217	3,393,577
	Medicare LOB* Percentage		11.36%	93.89%
	CY Allowable Pension Cost		871,109	3,186,229
2005	FY Allowable Pension Cost	<u>\$3,920,827</u>	<u>\$819,360</u>	<u>\$3,101,467</u>

* Line of business.

FOOTNOTES

- 1/ We developed the 1998 calendar year (CY) allowable pension cost using information from our prior audit (report number A-07-00-00117).
- 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 plan year and accrued contributions deposited after the end of the plan year but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-08-00258). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare segment.
- 3/ We subtracted the interest that is included in the contributions deposited after January 1 of each 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 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 January 1. For purposes of this Appendix, we deemed deposits made after the end of the plan year to have been made on the final day of the plan year, consistent with the method mandated by the Employee Retirement Income Security Act.

**NORIDIAN MUTUAL INSURANCE COMPANY
STATEMENT OF ALLOWABLE PENSION COSTS
FOR FISCAL YEARS 1999 THROUGH 2005**

APPENDIX A
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- 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 Cost Accounting Standards (CAS) funding target. A prepayment credit may be 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 January 1 of each year.
- 7/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of the Federal Acquisition Regulation (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 plan year. Because any funding in excess of the CAS funding target is considered premature funding in accordance with CAS 412.50(c)(1) (as amended), 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 decimals.
- 9/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.
- 10/ We assumed that interest on the funded CAS 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 of the end of the quarter.
- 11/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.
- 12/ We calculated allowable pension costs of the Medicare and Other Segments based on the Medicare line of business (LOB) percentage of each segment. We determined the LOB percentages based upon documents provided by Noridian.
- 13/ We computed the CY allowable Medicare pension cost as the allocable pension cost multiplied by the Medicare LOB percentage.
- 14/ We converted the CY (January 1 through December 31) allowable pension costs to a fiscal year (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. Costs charged to the Medicare contract should consist of the Medicare segment's direct pension costs plus pension costs attributable to indirect Medicare operations.



October 17, 2008

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

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

Dear Mr. Cogley:

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

Recommendations - "Review of Pension Segmentation Requirements"

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

Recommendations - "Review of Pension Costs Claimed"

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

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Sincerely,



David Breuer
Senior Vice President of Finance and CFO