

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**WISCONSIN PHYSICIANS SERVICE
INSURANCE CORPORATION
UNDERSTATED ITS MEDICARE
SEGMENT PENSION ASSETS FOR
ITS MANAGERIAL PENSION PLAN**

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Office of Inspector General

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Report in Brief

Date: January 2018

Report No. A-07-17-00518

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



Why OIG Did This Review

Medicare contractors are required to separately account for the Medicare segment pension plan assets based on the requirements of their Medicare contracts and Cost Accounting Standards 412 and 413.

The HHS, OIG, Office of Audit Services, Region VII pension audit team reviews the Medicare segment pension assets to ensure compliance with Federal regulations.

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

Our objectives were to determine whether Wisconsin Physicians Service Insurance Corporation (WPS) complied with Federal requirements and the Medicare contracts' pension segmentation requirements when (1) implementing the prior audit recommendation and (2) updating the Medicare segment pension assets for the Managerial Pension Plan from January 1, 2008, to December 31, 2013.

How OIG Did This Review

We reviewed WPS's update of the Medicare segment pension assets as of December 31, 2013, to ensure compliance with Federal regulations.

Wisconsin Physicians Service Insurance Corporation Understated Its Medicare Segment Pension Assets for Its Managerial Pension Plan

What OIG Found

WPS implemented our prior audit recommendation. However, WPS did not correctly update the Medicare segment pension assets from January 1, 2008, to December 31, 2013. WPS identified \$65.6 million as the Medicare segment pension assets as of December 31, 2013; however, we determined that the Medicare segment pension assets were \$68.8 million as of that date. Therefore, WPS understated the Medicare segment pension assets as of December 31, 2013, by \$3.2 million. WPS understated its Medicare segment pension assets because it did not have controls to ensure that it calculated them in accordance with Federal regulations and the pension segmentation language of its Medicare contracts when updating the Medicare segment's pension assets from January 1, 2008, to December 31, 2013.

What OIG Recommends and Auditee Comments

We recommend that WPS increase the Medicare segment pension assets by \$3.2 million and recognize \$68.8 million as the Medicare segment pension assets as of December 31, 2013, and implement controls, including policies and procedures, to ensure compliance with Federal regulations and the pension segmentation language of the Medicare contracts.

WPS disagreed with some of the determinations we made in developing some of our findings and, consequently, it did not concur with our recommendations. WPS stated that over \$1.4 million of the difference between its calculations and our own was because it amortized the impact of a 2012 plan change over 1 year (instead of 10 years). Furthermore, WPS noted four instances in which it disagreed with our calculations associated with our identification of participant transfers and Medicare cost centers. WPS also stated that it believes it has established policies and procedures to ensure compliance with Federal regulations and the pension segmentation language of the Medicare contracts.

We disagree with WPS's comments regarding the amortization of the 2012 plan change, participant transfers, and cost center identification. The 10-year amortization requirement appears in CAS 413. However, we revised some of our findings and the associated dollar amount in our first recommendation based on WPS's comments on a related report (A-07-17-00517). We maintain that our findings and recommendations, as modified, are valid.

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INTRODUCTION

WHY WE DID THIS REVIEW

Medicare contractors are required to separately account for the Medicare segment pension plan assets based on the requirements of their Medicare contracts and Cost Accounting Standards (CAS) 412 and 413. The Centers for Medicare & Medicaid Services (CMS) incorporated this requirement into the Medicare contracts beginning with fiscal year 1988. Previous Office of Inspector General reviews found that Medicare contractors did not always correctly identify and update the segmented pension assets.

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, postretirement benefit, and any other pension-related cost elements claimed by Medicare fiscal intermediaries and carrier contractors, Medicare administrative contractors (MACs), and other CAS-covered and Federal Acquisition Regulation (FAR)-covered contracts through Final Administrative Cost Proposals and/or Incurred Cost Proposals.

For this review, we focused on one qualified defined-benefit plan, called the Managerial Pension Plan (MPP), at Wisconsin Physicians Service Insurance Corporation (WPS). In particular, we examined the Medicare segment pension assets that WPS updated for the MPP from January 1, 2008, to December 31, 2013.

OBJECTIVES

Our objectives were to determine whether WPS complied with Federal requirements and the Medicare contracts' pension segmentation requirements when (1) implementing the prior audit recommendation to decrease the Medicare segment pension assets as of January 1, 2008, and (2) updating the Medicare segment pension assets from January 1, 2008, to December 31, 2013.

BACKGROUND

Wisconsin Physicians Service Insurance Corporation and Medicare

During our audit period, WPS administered Medicare Part A fiscal intermediary and Part B carrier operations under cost reimbursement contracts with CMS until its contractual relationships ended on July 1, 2013, and September 7, 2013, respectively.

With the implementation of Medicare contracting reform,¹ WPS continued to perform Medicare work after being awarded the MAC contracts for Medicare Parts A and B Jurisdiction 5² and Jurisdiction 8³ effective September 5, 2007, and September 30, 2011, respectively.

During the audit period, WPS had three defined-benefit pension plans: (1) the Managerial Retirement Program for Selected Locations (MRPSL), (2) the MPP, and (3) the Employees' Pension Plan (EPP). The MRPSL and the EPP merged into the MPP effective December 31, 2009, and December 31, 2012, respectively. This report addresses the Medicare segment pension assets for the MPP for the period January 1, 2008, to December 31, 2013. We are addressing WPS's compliance with Federal regulations and the pension segmentation requirements for the MRPSL and the EPP in separate reviews.

Prior Pension Segmentation Audit

We performed a prior pension segmentation audit at WPS for the MPP (A-07-10-00336, issued February 28, 2011), which brought the Medicare segment pension assets to January 1, 2008. We recommended that WPS decrease its Medicare segment pension assets by \$2,344,896 and, as a result, recognize \$11,078,559 as the Medicare segment pension assets.

HOW WE CONDUCTED THIS REVIEW

We reviewed WPS's implementation of the prior audit recommendation; identification of its Medicare segment; and its update of the MPP Medicare segment pension assets from January 1, 2008, to December 31, 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.

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 Medicare Parts A and B Jurisdiction 5 consists of the States of Iowa, Kansas, Missouri, and Nebraska.

³ Medicare Parts A and B Jurisdiction 8 consists of the States of Indiana and Michigan.

FINDINGS

WPS implemented our prior audit recommendation to recognize \$11,078,559 as the Medicare segment pension assets as of January 1, 2008. Regarding our second objective, WPS did not correctly update the Medicare segment pension assets from January 1, 2008, to December 31, 2013, in accordance with Federal regulations and the Medicare contracts' pension segmentation requirements. WPS identified \$65,599,536 as the Medicare segment pension assets as of December 31, 2013; however, we determined that the Medicare segment pension assets were \$68,813,688 as of that date. Therefore, WPS understated the Medicare segment pension assets as of December 31, 2013, by \$3,214,152. WPS understated its Medicare segment's pension assets because it did not have controls to ensure that it calculated those assets in accordance with Federal regulations and the pension segmentation language of its Medicare contracts when updating the Medicare segment's pension assets from January 1, 2008, to December 31, 2013.

Appendix B identifies the details of WPS's Medicare segment pension assets from January 1, 2008, to December 31, 2013, as determined during our audit. Table 1 below summarizes the audit adjustments required to update the Medicare segment pension assets in accordance with Federal requirements.

Table 1: Summary of Audit Adjustments

	Per Audit	Per WPS	Difference
Prior Audit Recommendation	\$11,078,559	\$11,078,559	\$0
Update of Medicare Segment Assets			
Contributions and Prepayment Credits	9,725,414	8,257,009	1,468,405
Net Transfers	1,817,118	539,201	1,277,917
Benefit Payments	(10,841,706)	(10,832,493)	(9,213)
Earnings, Net of Expenses	15,851,345	15,640,208	211,137
MRPSL Plan Merger	24,857,342	24,823,879	33,463
EPP Merger	16,325,616	16,093,173	232,443
Understatement of Medicare Segment Assets	\$68,813,688	\$65,599,536	\$3,214,152

PRIOR AUDIT RECOMMENDATION

WPS implemented our prior audit recommendation (A-07-10-00336), which recommended that WPS decrease its Medicare segment pension assets by \$2,344,896 and, as a result, recognize \$11,078,559 as the Medicare segment pension assets.

UPDATE OF MEDICARE SEGMENT PENSION ASSETS

The Medicare contracts require Medicare contractors to update the Medicare segment pension assets yearly in accordance with the CAS. The CAS requires that the asset base be adjusted by contributions, income, benefit payments, and expenses. For details on the Federal requirements and the relevant language of the Medicare contracts, see Appendix C.

WPS did not correctly update the Medicare segment pension assets from January 1, 2008, to December 31, 2013, in accordance with Federal regulations and the Medicare contracts' pension segmentation requirements. WPS identified \$65,599,536 as the Medicare segment pension assets as of December 31, 2013; however, we determined that the Medicare segment pension assets were \$68,813,688 as of that date. Therefore, WPS understated the Medicare segment pension assets as of December 31, 2013, by \$3,214,152.

WPS understated its Medicare segment's pension assets because it did not have controls to ensure that it calculated those assets in accordance with Federal regulations and the pension segmentation language of its Medicare contracts when updating the Medicare segment's pension assets from January 1, 2008, to December 31, 2013.

The following are our findings regarding the update of the Medicare segment pension assets from January 1, 2008, to December 31, 2013.

Contributions and Transferred Prepayment Credits Understated

The audited contributions and transferred prepayment credits⁴ are based on the assignable pension costs.⁵ In compliance with the CAS, we applied prepayment credits first to current-year assignable pension costs (because the credits were available at the beginning of the year) and then updated any remaining credits with interest to the next measurement (valuation) date. We then allocated contributions to assigned pension costs, as needed, as of the date of deposit. For additional details on these Federal requirements, see Appendix C.

WPS understated contributions and transferred prepayment credits by \$1,468,405 for its Medicare segment. The understatement occurred primarily because WPS incorrectly computed the assignable pension cost for calendar year (CY) 2013, and therefore did not transfer prepayment credits to the Medicare segment to fund the assignable pension costs. Table 2 on the following page shows the differences between the contributions and prepayment credits proposed by WPS and the contributions and prepayment credits that we calculated during our review.

⁴ A prepayment credit is the amount funded in excess of the pension costs assigned to a cost accounting period that is carried forward for future recognition.

⁵ These are assigned to a specific cost accounting period.

Table 2: Contributions and Transferred Prepayment Credits

CY	Per Audit	Per WPS	Difference
2008	\$825,792	\$825,792	\$0
2009	656,907	661,284	(4,377)
2010	1,672,188	1,680,228	(8,040)
2011	1,857,405	1,867,064	(9,659)
2012	3,294,696	3,206,973	87,723
2013	1,418,426	15,668	1,402,758
Total	\$9,725,414	\$8,257,009	\$1,468,405

Net Transfers In Understated

WPS understated net transfers into its Medicare segment by \$1,277,917. The understatement occurred because WPS incorrectly identified the participants who transferred in or out of its Medicare segment. This understatement of the net transfer adjustment resulted in an understatement of the Medicare segment pension assets by \$1,277,917. Table 3 below shows the differences between the net transfers proposed by WPS and the net transfers that we calculated during our review.

Table 3: Net Transfers Into the Medicare Segment

CY	Per Audit	Per WPS	Difference
2008	\$43,893	\$10,049	\$33,844
2009	464,620	463,945	675
2010	4,219	11,583	(7,364)
2011	(114,490)	(416,510)	302,020
2012	(91,565)	(91,565)	0
2013	1,510,441	561,699	948,742
Total	\$1,817,118	\$539,201	\$1,277,917

Benefit Payments Understated

WPS understated benefit payments by \$9,213 for the Medicare segment. This understatement occurred primarily because WPS incorrectly identified the Medicare segment benefit payments. This understatement of benefit payments resulted in an overstatement of the Medicare segment pension assets by \$9,213.

Earnings, Net of Expenses, Understated

WPS understated investment earnings, less administrative expenses, by \$211,137 for its Medicare segment, because it used incorrect contributions and transferred prepayment credits, incorrect net transfers, and incorrect benefit payments (all discussed above), as well as incorrect amounts when it merged the MRPSL and the EPP into the MPP (discussed below), to develop the Medicare segment pension asset base. In our audited update, we allocated earnings, net of expenses based on the applicable CAS requirements. For details on applicable Federal requirements, see Appendix C.

Managerial Retirement Program for Selected Locations Assets Transferred Through Plan Merger Understated

Effective December 31, 2009, WPS merged the MRPSL into the MPP. WPS transferred assets totaling \$24,823,879 into the MPP. In our separate review of the MRPSL (A-07-17-00517), we determined that WPS understated the MRPSL Medicare segment assets by \$33,463. Therefore, the assets transferred from the MRPSL to the Medicare segment were overstated by \$33,463.

Employees' Pension Plan Assets Transferred Through Plan Merger Understated

Effective December 31, 2012, WPS merged the EPP into the MPP. WPS transferred assets totaling \$16,093,173 into the MPP. In our separate review of the EPP (A-07-17-00516), we determined that WPS understated the EPP Medicare segment assets by \$232,443. Therefore, the assets transferred from the EPP to the Medicare segment were understated by \$232,443.

RECOMMENDATIONS

We recommend that WPS:

- increase the Medicare segment pension assets by \$3,214,152 and recognize \$68,813,688 as the Medicare segment pension assets as of December 31, 2013, and
- implement controls, including policies and procedures, to ensure compliance with Federal regulations and the pension segmentation language of the Medicare contracts.

AUDITEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, WPS disagreed with some of the determinations we made in developing some of our findings and, consequently, it did not concur with our draft report's first recommendation. In the context of our second recommendation, WPS said that it believes that it has established and implemented controls, policies, and procedures to ensure compliance with Federal regulations and the pension segmentation language of the Medicare contracts. WPS stated that it merely disagrees with our draft report's interpretation of those regulations and contracts.

A summary of WPS's main points and our responses follows. Other than the main points summarized and addressed below, WPS concurred with all other differences between its calculations and ours as identified in our draft report.

WPS's comments appear in their entirety as Appendix D.

After reviewing WPS's comments, we revised some of our findings and the associated dollar amounts.⁶ Our revised first recommendation is that WPS increase the Medicare segment pension assets by \$3,214,152 and recognize \$68,813,688 as the Medicare segment pension assets as of December 31, 2013. We maintain that our findings and recommendations, as modified, are valid.

COST ACCOUNTING STANDARDS 412 PENSION COST FOR CALENDAR YEAR 2013

Auditee Comments

WPS stated that over \$1.4 million of the difference between its calculations of the Medicare segment pension assets and our calculations was due to the calculation of the CAS cost in CY 2013. WPS said that it amortized the impact of a plan change in CY 2012 over 1 year. WPS added that this amortization period was consistent with informal guidance provided by CMS, and with WPS's curtailment of benefits under the plan, which ended the Federal Government's participation in the MPP effective December 31, 2013.

WPS also said that our draft audit report recommended that the impact of the CY 2012 plan change be amortized over 10 years. This recommendation would, according to WPS, have the effect of increasing allowable pension costs in CY 2013 (because the cost savings of the plan change would be spread out over a longer period of time). WPS stated, "It appears that the Draft Audit Report assumes that WPS will continue to measure and assign pension costs following the effective date of the curtailment. WPS believes that this assumption is inconsistent with CAS 413."

Office of Inspector General Response

We maintain that our calculations of the Medicare segment pension assets are correct insofar as the \$1.4 million difference that WPS mentioned is concerned. WPS cannot amortize the

⁶ After reviewing WPS's comments on this series of pension reports, we revised our finding and recommendation for the Medicare segment pension assets in this report. The Medicare segment pension assets identified in this final report are \$31,858 more than the amount conveyed in the draft report.

impact of the CY 2012 plan change over a 1-year period. WPS's reference to 10-year amortization is not explicitly stated in our report;⁷ however, this requirement appears in CAS 413.50(a)(2)(ii), which requires that actuarial gains and losses be amortized over a 10-year period in equal annual installments, beginning with the date as of which the actuarial valuation is made. Regardless of whether or not CMS provided any informal guidance to WPS (and if CMS did so, WPS did not share that information with us, either during our audit work or thereafter), the CAS is clear that the gains and losses must be amortized over a 10-year period.

Additionally, we disagree with WPS's assumption (implicit in its reference to CAS 413 in the quoted passage just above) that it does not have to continue accounting for the Medicare segment pension assets and costs after curtailment of the MPP. We have obtained guidance from the Office of Counsel to the Inspector General to the effect that a plan curtailment does not constitute the end of the Federal Government's participation in a qualified defined-benefit pension plan. Therefore, we expect WPS to continue to identify the Medicare segment pension assets and related pension costs after December 31, 2013.

TREATMENT OF INTER-SEGMENT TRANSFERS

WPS stated that an additional \$1.4 million of the difference between its calculations of the Medicare segment pension assets and our calculations was due to four separate issues, summarized below, involving differing calculations associated with transfers between the Other segment and the Medicare segment. For one of those four issues—the treatment of cost centers 512411 and 512412, discussed below—WPS's comments (on a related report) caused us to revise some of our findings and associated dollar amounts (footnote 6). Otherwise, though, we maintain that our finding and recommendations involving inter-segment transfers remain valid.

Treatment of Cost Centers 350055 and 350056

Auditee Comments

WPS stated that during CY 2014 it treated two cost centers (350055 and 350056) as transfers out of the Medicare segment while our audit treated these cost centers as remaining in the Medicare segment.⁸

⁷ This report does not specifically address 10-year amortization or cite to the relevant criteria in the CAS, because the effect of this requirement on pension assets, when compared to the Medicare segment assets, is relatively minor. This requirement has a more significant effect on pension costs, about which we are reporting separately (Appendix A).

⁸ WPS identified its Medicare segment participants using cost centers that allocated primarily to Medicare operations. We reviewed WPS's listing of its proposed Medicare cost centers and identified any differences between WPS's listing and our own determinations. We then used our audited Medicare cost centers to identify the Medicare segment participants.

Office of Inspector General Response

We disagree with WPS's comments regarding our treatment of these cost centers. As part of our Medicare segment identification process, we provided a listing of the audited Medicare segment cost centers (footnote 8) to WPS for review. WPS concurred with all of the cost centers that we identified as the Medicare segment cost centers, including cost centers 350055 and 350056. Our identification of Medicare segment participants and any respective transfers thus rested on an identification of Medicare segment cost centers with which WPS concurred.

Misclassified Retiree

Auditee Comments

WPS stated that during CY 2008, it had identified one retiree as always having been part of the Medicare segment while our audit treated the retiree as a transfer into the Medicare segment.

Office of Inspector General Response

We disagree with WPS's assertion that this individual was always part of the Medicare segment. During our prior audit (A-07-10-00336), WPS could not provide sufficient evidence to identify this employee as part of the Medicare segment, and for that reason, our prior audit identified the employee as an Other segment participant. In its written comments on our prior audit's draft report, WPS provided information that caused us to revise some of our findings (related to terminated vested employees, and therefore a separate issue from the individual retiree in question for our current review) for that audit's final report. With those revisions, WPS agreed with the findings and recommendations in our prior audit as well as the audited Medicare segment asset value as of January 1, 2008.

During our current review, WPS provided sufficient evidence to support that the retiree in question was a Medicare segment employee during CY 2009 (though not, in our analysis, during CY 2008). Therefore, we transferred the participant from the Other segment (where the individual had been assigned in our prior audit) into the Medicare segment during CY 2009. It was necessary to transfer the participant from the Other segment to properly move assets equal to the individual's accrued liability from the Other segment to the Medicare segment.

Treatment of Cost Centers 512411 and 512412

Auditee Comments

WPS stated that during CYs 2010 and 2011, it treated cost centers 512412 and 512411 as part of the Medicare segment. WPS added that we treated these two cost centers as part of the Medicare segment in CY 2011, but as part of the Other segment in CY 2010. (See footnote 8.)

Office of Inspector General Response

We revised our findings related to these two cost centers, and the associated dollar amounts, for this final report, though not as a direct result of WPS's comments on this audit's draft report. In fact, WPS's comment regarding our treatment of cost centers 512411 and 512412 is not accurate. We included cost centers 512411 and 512412 as Medicare cost centers for both CYs 2010 and 2011. WPS's CY 2010 participant file identified only one participant associated with cost center 512411 and none associated with cost center 512412. Accordingly, we identified one participant in CY 2010 (cost center 512411) as a Medicare segment participant. Thereafter, we transferred 10 employees who were associated with cost center 512411 and 512412 into the Medicare segment in CY 2011.

However, on further review of these participants, based on WPS's comments on our related MRPSL audit report (A-07-17-00517; Appendix A), we determined that the employees of these two cost centers were included as Medicare segment participants in the MRPSL in CY 2009. Because those employees were Medicare segment participants when the MRPSL merged into the MPP, they should have been identified as Medicare segment participants in the MPP. Therefore, we have revised this report's calculations to identify these participants as Medicare segment participants for both CYs 2010 and 2011. As a result of these revisions, there are now no differences between WPS's and our treatment of the participants assigned to these cost centers.

Treatment of Cost Centers 20051 and 20052

Auditee Comments

WPS said that during CY 2011, it reclassified cost centers 20051 and 20052 from the Medicare segment to the Other segment while we left the two cost centers in the Medicare segment.

Office of Inspector General Response

We disagree with WPS's comments regarding our treatment of these cost centers. As part of our Medicare segment identification process, we provided a listing of the audited Medicare segment cost centers (footnote 8) to WPS for review. WPS concurred with all of the cost centers that we identified as the Medicare segment cost centers, including cost centers 20051 and 20052. Our identification of Medicare segment participants and any respective transfers thus rested on an identification of Medicare segment cost centers with which WPS concurred.

Companion Segmentation Audit Reports

Auditee Comments

WPS also referred to its written comments on the draft reports of our related audits of the WPS EPP and MRPSL (A-07-17-00516 and A-07-17-00517, respectively; Appendix A). The differences

between WPS's and our calculations of Medicare segment pension assets in those two reports totaled \$163,832. WPS did not concur with these differences.

Office of Inspector General Response

We reviewed WPS's comments on those related reports and, in our report on the MRPSL, revised some of our findings (with respect to our treatment of cost centers 512411 and 512412) and the dollar amount in the associated recommendation. Those revisions, in turn, caused us to revise the corresponding findings in this report, as discussed above. WPS's comments on our EPP draft report did not cause us to make any changes in that final report.

Implementation of Controls and Policies and Procedures

Auditee Comments

In the context of our second recommendation, WPS said that it believes that it has established and implemented controls, policies, and procedures to ensure compliance with Federal regulations and the pension segmentation language of the Medicare contracts. WPS stated that it merely disagrees with our draft report's interpretation of those regulations and contracts.

Office of Inspector General Response

WPS said that it disagrees with our interpretation of the Federal regulations and the pension segmentation language in the Medicare contracts, but it did not specify which regulation(s) it believes we interpreted incorrectly. We have discussed above the differences between WPS's and our calculations of participant transfers for this report and the differences in calculations for the companion segmentation reports. Beyond those points, this audit determined that WPS's calculations also differed from ours with respect to the Medicare segment benefit payments, the contributions and transferred prepayment credits, and the investment earnings, net of expenses. WPS said in its written comments that it concurred with these other differences that we had identified. In light of the information we provide just above regarding the participant transfers and the companion segmentation reports, as well as WPS's concurrence with the other differences, we continue to support our recommendation that WPS implement controls, including policies and procedures, to ensure compliance with Federal regulations and the pension segmentation language of the Medicare contracts.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed WPS's implementation of the prior audit recommendation; identification of its Medicare segment; and its update of Medicare segment pension assets from January 1, 2008, to December 31, 2013.

Achieving our objective did not require that we review WPS's overall internal control structures. We reviewed controls relating to the identification of the Medicare segment and to the update of the Medicare segment pension assets to ensure adherence to the Medicare contracts, CAS 412, and CAS 413.

We performed fieldwork at WPS in Madison, Wisconsin.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- reviewed the annual actuarial valuation reports prepared by WPS's actuarial consulting firms, which included the pension plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses, and used this information to calculate the Medicare segment assets;
- obtained and reviewed the pension plan documents and Department of Labor/Internal Revenue Service Forms 5500 used in calculating the Medicare segment assets;
- interviewed WPS staff responsible for identifying the Medicare segment to determine whether the segment was properly identified in accordance with the Medicare contracts;
- reviewed WPS's accounting records to verify the Medicare segment's identification as well as the benefit payments made to the Medicare segment;
- reviewed the prior segmentation audit performed at WPS (A-07-10-00336) to determine the beginning market value of assets for the Medicare segment;
- gave the CMS Office of the Actuary, which provides technical actuarial advice, the actuarial information necessary for it to calculate the Medicare segment pension assets from January 1, 2008, to December 31, 2013;

- reviewed the CMS actuaries' methodology and calculations; and
- provided the results of the review to WPS officials on June 7, 2017.

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

- *Wisconsin Physicians Service Insurance Corporation Understated Its Medicare Segment Pension Assets for Its Employees' Pension Plan (A-07-17-00516),*
- *Wisconsin Physicians Service Insurance Corporation Understated Its Medicare Segment Pension Assets for Its Managerial Retirement Program for Selected Locations (A-07-17-00517),*
- *Wisconsin Physicians Service Insurance Corporation Did Not Claim Some Allowable Medicare Pension Costs (A-07-17-00519), and*
- *Wisconsin Physicians Service Insurance Corporation Understated Its Allocable Pension Costs (A-07-17-00520).*

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: WISCONSIN PHYSICIANS SERVICE INSURANCE CORPORATION
STATEMENT OF MEDICARE SEGMENT PENSION ASSETS
FOR THE MANAGERIAL PENSION PLAN FOR THE PERIOD
JANUARY 1, 2008, TO DECEMBER 31, 2013**

Description		Total Company	Other Segment	Medicare Segment
Assets January 1, 2008	<u>1/</u>	\$153,423,468	\$142,344,909	\$11,078,559
Prepayment Credits	<u>2/</u>	0	(825,792)	825,792
Contributions	<u>3/</u>	22,196,619	22,196,619	0
Earnings	<u>4/</u>	(41,074,077)	(38,078,902)	(2,995,175)
Benefit Payments	<u>5/</u>	(3,237,043)	(2,971,952)	(265,091)
Administrative Expenses	<u>6/</u>	(959,225)	(889,277)	(69,948)
Transfers	<u>7/</u>	0	(43,893)	43,893
Assets January 1, 2009		\$130,349,742	\$121,731,712	\$8,618,030
Prepayment Credits		0	(656,907)	656,907
Contributions		14,881,667	14,881,667	0
Earnings		35,646,278	33,126,620	2,519,658
Benefit Payments		(3,516,599)	(3,242,792)	(273,807)
Administrative Expenses		(959,541)	(891,716)	(67,825)
Transfers		0	(464,620)	464,620
Transfer from MRPSL	<u>8/</u>	28,737,736	3,880,394	24,857,342
Assets January 1, 2010		\$205,139,283	\$168,364,358	\$36,774,925
Prepayment Credits		0	(1,672,188)	1,672,188
Contributions		7,000,000	7,000,000	0
Earnings		23,972,396	19,486,012	4,486,384
Benefit Payments		(4,968,338)	(3,927,071)	(1,041,267)
Administrative Expenses		(1,154,206)	(938,199)	(216,007)
Transfers		0	(4,219)	4,219
Assets January 1, 2011		\$229,989,135	\$188,308,693	\$41,680,442
Prepayment Credits		0	(1,857,405)	1,857,405
Contributions		9,800,000	9,800,000	0
Earnings		11,917,258	9,667,403	2,249,855
Benefit Payments		(5,693,644)	(4,555,069)	(1,138,575)
Administrative Expenses		(1,276,979)	(1,035,899)	(241,080)
Transfers		0	114,490	(114,490)
Assets January 1, 2012		\$244,735,770	\$200,442,213	\$44,293,557

Description		Total Company	Other Segment	Medicare Segment
Assets January 1, 2012		\$244,735,770	\$200,442,213	\$44,293,557
Prepayment Credits		0	(3,294,696)	3,294,696
Contributions		0	0	0
Earnings		29,775,503	23,993,722	5,781,781
Benefit Payments		(30,480,706)	(24,430,630)	(6,050,076)
Administrative Expenses		(1,014,120)	(817,199)	(196,921)
Transfers		0	91,565	(91,565)
Transfer from EPP	<u>9/</u>	85,483,622	69,158,006	16,325,616
Assets January 1, 2013		\$328,500,069	\$265,142,981	\$63,357,088
Prepayment Credits		0	(1,402,758)	1,402,758
Contributions		78,199	62,531	15,668
Earnings		24,660,624	19,793,117	4,867,507
Benefit Payments		(11,305,430)	(9,232,540)	(2,072,890)
Administrative Expenses		(1,352,135)	(1,085,251)	(266,884)
Transfers		0	(1,510,441)	1,510,441
Assets December 31, 2013		\$340,581,327	\$271,767,639	\$68,813,688
Per WPS	<u>10/</u>	\$340,581,327	\$274,981,791	\$65,599,536
Asset Variance	<u>11/</u>	\$0	(\$3,214,152)	\$3,214,152

ENDNOTES

- 1/ We determined the Medicare segment pension assets as of January 1, 2008, based on our prior segmentation audit of WPS (A-07-10-00336). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare segment. All pension assets are shown at market value.
- 2/ Transferred prepayment credits represent funds available to satisfy future funding requirements and are applied to future funding requirements before current-year contributions in order to avoid incurring unallowable interest. Prepayment credits are transferred to the Medicare segment as needed to cover funding requirements.
- 3/ We obtained Total Company contribution amounts from the actuarial valuation reports and Department of Labor/Internal Revenue Service Forms 5500. We allocated Total Company contributions to the Medicare segment based on the ratio of the Medicare segment funding target divided by the Total Company funding target. Contributions in excess of the funding targets were treated as prepayment credits and accounted for in the Other segment until needed to fund pension costs in the future.

- 4/ We obtained net investment earnings from the actuarial valuation reports. We allocated net investment earnings 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 based the Medicare segment's benefit payments on actual payments to Medicare retirees. We obtained the benefit payments from documents provided by WPS.
- 6/ In accordance with the CAS, we allocated administrative expenses to each Medicare segment in proportion to investment earnings.
- 7/ We identified participant transfers between segments by comparing valuation data files provided by WPS. Asset transfers were equal to the actuarial liability determined under the accrued benefit cost method in accordance with the CAS.
- 8/ The Other transaction represents the merger of the assets from the MRPSL as of December 31, 2009.
- 9/ The Other transaction represents the merger of the assets from the EPP as of December 31, 2012.
- 10/ We obtained total asset amounts from documents prepared by WPS's actuarial consulting firm.
- 11/ The asset variance represents the difference between our calculation of Medicare segment pension assets and WPS's calculation of the Medicare segment pension assets.

APPENDIX C: FEDERAL REQUIREMENTS RELATED TO PENSION SEGMENTATION

FEDERAL REGULATIONS

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 adjusted 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 Total Company WAV of assets.

Federal regulations (CAS 413.50(c)(8)) require an adjustment to be made for transfers (participants who enter or leave the segment) if the transfers materially affect the segment's ratio of pension plan assets to actuarial accrued liabilities.

MEDICARE CONTRACTS

The Medicare 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)."

November 8, 2017

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

RE: OIG Report Number A-07-17-00518

Dear Mr. Cogley:

This letter is in response to Draft Report Number A-07-17-00518, *Wisconsin Physicians Service Insurance Corporation Understated Its Medicare Segment Pension Assets for Its Managerial Pension Plan*. You requested that WPS provide you with a written comment including a statement of concurrence or nonconcurrence with each recommendation.

WPS does not concur with the Draft Report's recommendation to decrease the Medicare segment assets by \$3,182,294 and recognize Medicare segment assets of \$68,781,830. WPS believes that it has established and implemented controls, policies and procedures to ensure compliance with Federal regulations and the pension segmentation language of the Medicare contracts. WPS merely disagrees with the Draft Report's interpretation of those regulations and contracts.

The differences between WPS's segmented assets and those recommended by the OIG audit report are due to the reasons described below and not due to any deficiencies in WPS's controls, policies or procedures:

- **Calculation of CAS 412 Pension Cost for 2013:** Over \$1.4M of the difference in segmented assets is due to the calculation of CAS cost for 2013. WPS amortized the impact of a plan change in 2012 over one year. This amortization period was consistent with informal guidance provided by CMS, and with WPS's curtailment of benefits under the plan, which ended the Government's participation in the plan effective December 31, 2013. The Draft Audit report recommends that the impact of the 2012 plan change be amortized over 10 years. This recommendation has the effect of increasing allowable pension costs in 2013 (because the cost savings of the plan change are spread out over a longer period). It appears that the Draft Audit Report assumes that WPS will continue to measure and assign pension costs following the effective date of the curtailment. WPS believes that this assumption is inconsistent with CAS 413.

- **Treatment of inter-segment transfers:** Another \$1.4M of the difference is due to the treatment of transfers between segments. This is a result of 4 separate issues, identified below:
 - During 2014, WPS treated two cost centers (350055 and 350056) as transfers out of the Medicare segment while OIG treated these cost centers as remaining in the Medicare segment. This caused \$0.9M of the difference.
 - During 2008, WPS has one retiree identified as always part of the Medicare segment while OIG treats the retiree as a transfer into the Medicare segment. This caused a \$0.35M difference in the asset segmentation.
 - During 2010 and 2011, WPS treated cost centers “512412” and “512411” as part of the Medicare segment. However, OIG treated these as part of the Medicare segment in 2011, but as part of the Other segment in 2010. This results in about \$0.1M in difference.
 - During 2011, WPS reclassified cost centers 20051 and 20052 as moving from the Medicare segment to the Other segment while OIG left this in the Medicare segment. This had a significant difference on the asset segmentation \$0.2M.
- The OIG audit reports of the WPS Employees Plan (report 00516) and the Selected Locations Plan (report 00517) resulted in combined difference of \$163,832. WPS did not concur with these differences.
- WPS concurs with all other differences.

Thank you for the opportunity to comment, please contact me at (402) 995-0361 or e-mail me at Janet.Kyle@wpsic.com if you have any questions.

Sincerely,

Janet L. Kyle
Executive Vice President
GHA Division