Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

WISCONSIN PHYSICIANS SERVICE INSURANCE CORPORATION CLAIMED UNALLOWABLE MEDICARE PART B ADMINISTRATIVE COSTS FOR FISCAL YEAR 2012

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Office of Inspector General

https://oig.hhs.gov

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EXECUTIVE SUMMARY

edicare Part B administrative costs for Federal fiscal year 2012.

WHY WE DID THIS REVIEW

The Centers for Medicare & Medicaid Services (CMS) contracted with Wisconsin Physicians Service Insurance Corporation (WPS) to process Part B claims as a carrier under Medicare Contract HCFA 87-032-2 (Medicare contract). CMS requested that we audit WPS's Medicare Part B final administrative cost proposal (FACP) for Federal fiscal year (FY) 2012.

The objective of this review was to determine whether the administrative costs WPS claimed on its FACP for FY 2012 were allowable and in accordance with its Medicare contract and applicable Federal regulations.

BACKGROUND

Title XVIII of the Social Security Act established the Medicare program. CMS administers the Medicare program through contractors, including Part B carriers that process and pay Medicare claims submitted by health care providers. Contracts between CMS and the Medicare contractors define the functions performed by the contractors and provide for the reimbursement of allowable administrative costs incurred in the processing of Medicare claims.

Following the close of each FY, contractors submit to CMS an FACP that reports the Medicare administrative costs incurred during the year. The FACP and supporting data provide the basis for the CMS contracting officer and contractor to negotiate a final settlement of allowable administrative costs. When claiming costs, Medicare contractors must follow cost reimbursement principles contained in part 31 of the Federal Acquisition Regulation (FAR) and other applicable criteria.

During FY 2012, WPS processed Part B claims as a carrier for Illinois, Michigan, Minnesota, and Wisconsin under its Medicare Part B contract. WPS reported Medicare Part B administrative costs totaling $38,041,741 in its FY 2012 FACP.

WHAT WE FOUND

Administrative costs WPS claimed on its FY 2012 FACP were generally allowable and in accordance with its Medicare contract and applicable Federal regulations. WPS claimed $38,041,741 in Medicare Part B administrative costs for FY 2012, including $1,525,175 in pension costs that were not reviewed. The pension costs will be the subject of a separate review. Of the $36,516,566 reviewed, we accepted $35,170,540 as allowable, allocable, and reasonable and questioned the remaining $1,346,026 as unallowable costs.

WHAT WE RECOMMEND

We recommend that WPS:

- reduce its FACP for FY 2012 by $1,346,026 to eliminate the unallowable costs identified in this report; and

- improve procedures to identify allowable and unallowable costs in accordance with applicable Medicare contract, Cost Accounting Standards (CAS), and FAR provisions, specifically:

    - ensure that when an unallowable cost is incurred, its directly associated costs are properly identified and excluded;

    - ensure that revenue, payroll, and net-book-value of assets percentages used in developing three-factor formula rates are consistent with guidance defined in the CAS and the FAR provisions defining reasonableness; and

    - maintain complete accounting detail to support Medicare costs claimed, including detailed support of residual home office expense pools and subsequent allocations to WPS's Medicare business segment and Medicare contracts.

WISCONSIN PHYSICIANS SERVICE INSURANCE CORPORATION COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, WPS did not concur with the majority of our findings related to our recommendation to reduce its FACP by $1,346,026. WPS did not concur with $1,337,742 in recommended reductions related to unallowable residual home office expenses, employee incentive program bonuses and related Federal Insurance Contributions Act (FICA) taxes, and salary allocations. WPS concurred with our findings on unallowable lobbying salaries, dues and donations totaling $8,284. Also, WPS provided limited comments to our recommendation for procedural improvements.

We maintain that all our findings and recommendations are valid.

TABLE OF CONTENTS

INTRODUCTION

WHY WE DID THIS REVIEW

The Centers for Medicare & Medicaid Services (CMS) contracted with Wisconsin Physicians Service Insurance Corporation (WPS) to process Part B claims as a carrier[1] under Medicare Contract HCFA 87-032-2 (Medicare contract). CMS requested that we audit WPS's Medicare Part B final administrative cost proposal (FACP) for Federal fiscal year (FY) 2012.

OBJECTIVE

Our objective was to determine whether the administrative costs WPS claimed on its FACP for FY 2012 were allowable and in accordance with its Medicare contract and applicable Federal regulations.

BACKGROUND

Title XVIII of the Social Security Act established the Medicare program. CMS administers the Medicare program through contractors, including Part B carriers that process and pay Medicare claims submitted by health care providers. Contracts between CMS and the Medicare contractors define the functions to be performed and provide for the reimbursement of allowable administrative costs incurred processing Medicare claims.

Following the close of each FY, contractors submit to CMS an FACP that reports the Medicare administrative costs incurred during the year. The cost proposal and supporting data provide the basis for the CMS contracting officer and contractor to negotiate a final settlement of allowable administrative costs. When claiming costs, Medicare contractors must follow cost reimbursement principles contained in part 31 of the Federal Acquisition Regulation (FAR) and other applicable criteria.

During FY 2012, WPS processed Part B claims as a carrier for Illinois, Michigan, Minnesota, and Wisconsin under its Medicare contract. WPS reported Medicare Part B administrative costs totaling $38,041,741 in its FY 2012 FACP.

HOW WE CONDUCTED THIS REVIEW

We limited our review to the high risk areas identified in prior Office of Inspector General (OIG) audit reports.[2] Specifically, we reviewed the allocation of residual home office (RHO) expenses, employee incentive program (EIP) bonuses and related Federal Insurance Contributions Act (FICA) taxes, select salary allocations, lobbying salaries, dues, and donation expenses. We

[1] Under section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, CMS was required to transfer the Medicare Part A and Part B workloads to Medicare administrative contractors within a 6-year period starting in October 2005. Due to delays in the implementation of some of these transitions, CMS authorized WPS to continue operating as a carrier for Illinois, Michigan, Minnesota, and Wisconsin.

[2] Appendix A – Related Office of Inspector General Reports.

determined whether these claimed costs were reasonable, allowable, and allocable and in compliance with WPS's Medicare contract and applicable Federal regulations. We limited our internal control review to those controls related to the recording and reporting of costs on the 2012 FACP.

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 objectives.

See Appendix B for details of the audit scope and methodology. Appendix C contains the contract provisions and regulations applied to determine allowable costs. Appendixes D and E outline the FACP reviewed and OIG's recommended cost adjustments.

FINDINGS

Administrative costs WPS claimed on its FY 2012 FACP were generally allowable and in accordance with its Medicare contract and applicable Federal regulations. WPS claimed $38,041,741 in Medicare Part B administrative costs for FY 2012, including $1,525,175 in pension costs that were not reviewed. The pension costs will be the subject of a separate review. Of the $36,516,566 reviewed, we accepted $35,170,540 as allowable, allocable, and reasonable and questioned the remaining $1,346,026 as unallowable costs, as follows:

Recommended Cost Adjustments	Unallowable Costs
RHO Expenses	$727,422
EIP Bonuses	546,703
FICA Taxes	40,128
Salary Allocations	23,489
Lobbying Salaries	5,655
Dues and Donations	2,629

The unallowable costs did not comply with applicable regulations, including part 31 of the FAR, the Cost Accounting Standards (CAS), WPS's Medicare contract, and CMS's *Medicare Financial Management Manual* (the Manual).

WISCONSIN PHYSICIANS SERVICE INSURANCE COPRORATION CLAIMED SOME UNALLOWABLE EXPENSES

Residual Home Office Expenses Were Overstated

WPS overstated the allocation of RHO expenses on its Medicare Part B FACP by $727,422. The RHO expenses allocated to WPS's Medicare business segment were overstated because an overstated Medicare three-factor formula (3FF) rate was applied to its RHO expense pool and then allocated to specific Medicare contracts. Exhibit 1 (next page) shows how the $727,422 in overstated RHO expenses claimed on its Medicare Part B FACP was calculated.

Exhibit 1: Calculation of Overstated Medicare Part B Residual Home Office Expenses Claimed

Description	FY 2012
RHO adjusted expense pools[3]	$10,500,697
Overstated Medicare 3FF rate	22.84%
Overstated Medicare RHO expenses	$2,398,359
Percent allocated to Medicare contract[4]	30.33%
Overstated Part B RHO expenses	$727,422

WPS allocates RHO expenses to its lines of business, including Medicare, using the 3FF as described in the CAS.[5] The 3FF is the average of three percentages: revenue, payroll, and net-book-value (NBV) of assets. Each percentage compares specific performance in one business segment, such as Medicare, to the total of all WPS business segments, including subsidiaries. WPS's calculation of these percentage factors contains errors or unjustified omissions from the guidance described in CAS[6] in developing its 3FF rate for allocating RHO expenses. These errors and unjustified omissions resulted in WPS's Medicare business segment 3FF rate for allocating RHO expenses to be overstated by 22.84 percentage points (the WPS average Medicare 3FF rate of 43.63 percent less the OIG average Medicare 3FF rate of 20.79 percent, as shown in Exhibit 2 (next page)). The most significant error was how WPS calculated the Medicare revenue segment percentage, which was caused by WPS including Medicare benefit claims paid to providers and beneficiaries (claims paid) as Medicare operating revenue. Exhibit 2 illustrates the impact these errors and unjustified omissions had in overstating WPS's Medicare 3FF rate.

[3] OIG developed the adjusted RHO expense pools to avoid possible duplications in determining unallowable costs. OIG reduced the RHO pool to reflect the impact of RHO pool expenses determined to be unallowable in OIG's findings on EIP bonuses, FICA taxes, salaries, dues, and donations.

[4] Percentage represents how WPS allocated RHO expenses within its Medicare segment to specific CMS Medicare contracts, such as WPS's Medicare contract HCFA 87-032-2.

[5] Codified in 48 CFR § 9904.403.

[6] Codified in 48 CFR § 9904.403-50(c)(1).

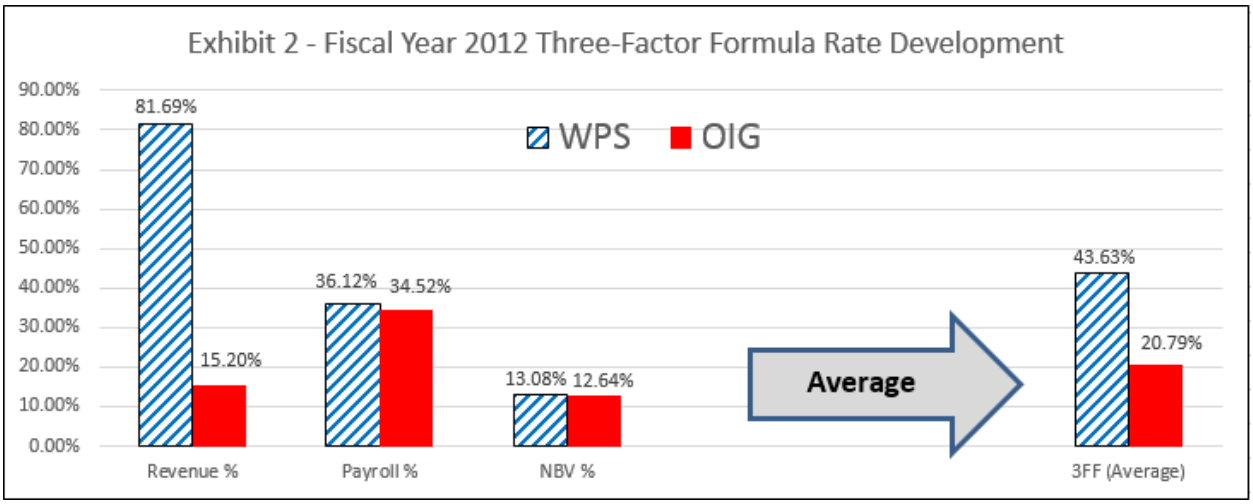

Exhibit 2 Notes

Note 1 – The WPS percentages presented are an average of WPS's 12 monthly Medicare 3FF rates applied from October 1, 2011, through September 30, 2012.

Note 2 – The OIG percentages presented were calculated using WPS's general ledger account information for FY 2012, October 1, 2011, through September 30, 2012.

Revenue Percentage Factors Were Calculated Incorrectly

WPS incorrectly included $40.0 billion in Federal funds received for Medicare benefit claims paid to providers and beneficiaries as Medicare operating revenue in developing its Medicare revenue segment percentages. These benefit claims are fully paid with Federal funds, which is evidenced on WPS's general ledger.[7] Therefore, the funds received for these benefit claims paid do not constitute operating revenue in accordance with the CAS[8] and the Medicare contract.[9] Also, WPS's treatment of the Medicare benefit claims paid as operating revenue for developing its 3FF revenue percentage factors is inconsistent with the $164.0 million in Medicare revenues reported on its consolidated financial statements,[10] and is contrary to the CAS and the Federal regulations concerning allowability and reasonableness (the FAR, 48 CFR §§ 31.201-2(a) and 31.201-3(b)).

[7] WPS records these benefit claims paid in 4XXXXX general ledger revenue accounts as well as in offsetting 5XXXXX general ledger contra-revenue accounts when the Federal funds are received to pay providers and beneficiaries for allowable Medicare services.

[8] Codified in 48 CFR § 9904.403-30(a)(3).

[9] Medicare contract HCFA 87-032-2, Article II, paragraph A; Article III, paragraph A; and Article XV, paragraph D.

[10] Notes to the consolidated financial statements prepared by Grant Thornton, LLP, reported WPS's calendar years 2011 and 2012 Medicare revenues of $153.0 million and $164.0 million, respectively. Also, the notes explained that the claims paid under WPS's Medicare administrative service contracts are excluded from operations because they are paid, or fully reimbursed, with Government funds.

Our analysis properly excluded the $40.0 billion in benefit claims paid, which resulted in a reasonable Medicare operating revenue total of $155.4 million for FY 2012 that is comparable to WPS's financial statements. Exhibit 2 illustrates that WPS overstated its average revenue percentage by 66.49 percentage points (the calculated WPS rate of 81.69 percent less the calculated OIG rate of 15.20 percent). The overstatement increased the 3FF rate and overstated the allocated RHO expenses claimed on the FACP.

Payroll Percentage Factors Were Calculated Incorrectly

WPS calculated its Medicare payroll percentages by excluding select payroll costs, without sufficient justification, thereby inappropriately increasing these percentages. The payroll costs WPS excluded were:

- capitalized payroll costs related to developing internal use software and
- select staff payroll costs from one subsidiary.

Excluding these payroll costs is contrary to the CAS and the Federal regulations on determining allowability and reasonableness (the FAR, 48 CFR §§ 31.201-2(a) and 31.201-3(b)). Our analysis included the payroll costs that WPS excluded as well as recommended adjustments for unallowable employee incentive program bonus payments allocated to Medicare and salary costs already allocated by the 3FF. Exhibit 2 illustrates that WPS overstated its average payroll percentage by 1.60 percentage points (the calculated WPS rate of 36.12 percent less the calculated OIG rate of 34.52 percent). The overstatement increased the 3FF rate and overstated the allocated RHO expenses claimed on the FACP.

Net-Book-Value of Assets Percentage Factors Were Calculated Improperly

WPS did not follow CAS[11] in computing the NBV of assets percentage because it used cumulative asset totals rather than the average of actual values on two specific dates. In comments on prior OIG findings, WPS indicated that using cumulative asset totals was a "reasonable alternative" because the CAS standard cannot be used. The CAS[12] states that the NBV is the average of the NBV at the beginning of the organization's fiscal year and the NBV at the end of the year. Even though WPS's fiscal year is a calendar year and is therefore different from the FY in which the FACPs are prepared, WPS can determine a reasonable average that is consistent with the timeframes established in the CAS. WPS did not provide justification for its assertion that using cumulative totals is a "reasonable alternative" to the CAS standard, such as whether the methodology had been discussed with, or approved by, CMS.

We calculated the NBV of asset percentages based on beginning and ending FY NBV of assets values, net of assets already allocated by 3FF allocation rates. Exhibit 2 illustrates that WPS overstated its estimated NBV of assets percentage by 0.44 percentage points (the calculated WPS

[11] Codified in 48 CFR § 9904.403-50(c)(1)(iii).

[12] Codified in 48 CFR § 9904.403-50(c)(1)(iii).

rate of 13.08 percent less the calculated OIG rate of 12.64 percent). The overstatement increased the 3FF rate.

Employee Incentive Program Bonuses and Related Federal Insurance Contribution Act Taxes Claimed Were Unallowable

WPS claimed $546,703 in unallowable EIP bonuses and $40,128 in directly associated unallowable FICA taxes. WPS based its EIP bonuses on achieving specified corporate profits. The creation of costs on the basis of reaching specified profits contradicts the Medicare Part B contract's intent that WPS be paid under the principle of neither profit nor loss.[13] Claiming costs on FACPs that are dependent on reaching specified corporate profits is inconsistent with the principle that costs are allocable on the basis of relative benefits received or other equitable relationship (the FAR, 48 CFR § 31.201-4).

The FICA taxes related to the unallowable EIP bonuses were unallowable because costs directly associated with unallowable costs are also unallowable (the FAR, 48 CFR § 31.201-6(a)).

Select Salaries Were Incorrectly Included in the Residual Home Office Expense Pools

WPS claimed $23,489 in inappropriately allocated salaries because select salaries were incorrectly included in the RHO expense pools allocated to Medicare using the 3FF. We identified these salaries by reviewing the one cost center that included the majority of salaries and fringe benefits in the RHO expense pools allocated by the 3FF. Federal regulations specify that costs are allocable if assignable or chargeable on the basis of benefits received or other equitable relationship (the FAR, 48 CFR § 31.201-4). Costs allocated from the RHO expense pools to Medicare using the 3FF are those that have a beneficial relationship to Medicare although the benefit is not readily quantifiable. The RHO expense pools should exclude:

- costs that have no benefit to the Medicare program and should be allocated only to other business segments, such as salaries and fringe benefit costs for WPS's Senior Vice Presidents for Commercial Business and for Tricare (the FAR, 48 CFR § 31.201-4), and

- costs that benefit only the Medicare program and should be directly expensed to the Medicare business segment, such as salaries and fringe benefit costs for WPS's Senior Vice President of Medicare (the FAR, 48 CFR § 31.202).

We determined that select salaries should have been excluded from the RHO expense pools because these costs either provided no benefit to Medicare or should have been directly expensed to Medicare. WPS could not justify including these salaries in the RHO expense pools for allocation to all business segments. After reallocating 100 percent of the Senior Vice President of Medicare's salary to WPS's Medicare division, WPS still claimed $23,489 in inappropriately allocated salaries.

[13] The Medicare contract HCFA 87-032-2, Article XV, paragraph A.

Unallowable Lobbying Salaries Were Claimed

WPS claimed a total of $5,655 in salaries and benefits directly related to unallowable lobbying costs. Lobbying costs are prohibited under the Medicare contract and Federal regulations (the FAR, 48 CFR § 31.205-22). Further, when an unallowable cost is incurred, directly associated costs are also unallowable (the FAR, 48 CFR § 31.201-6). WPS identified unallowable lobbying salaries based on an estimate of time spent by the employee performing the lobbying activities. We accepted the estimate and determined the unallowable salaries and related fringe benefits.

Select Unallowable Dues and Donations Were Claimed

WPS claimed $2,629 in unallowable membership dues and donations. WPS claimed $362 for dues related to unallowable lobbying activities and $145 for a donation to a local organization. Both are considered unallowable under Federal regulations (the FAR, 48 CFR §§ 31.205-22 and 31.205-8). Additionally, WPS claimed $2,122 in chamber of commerce dues that exceeded the base dues of the organizations, which provided WPS additional public relations and advertising benefits. These additional payments were unallowable because they were neither necessary nor specifically required for the performance of the Medicare contract and expressly unallowable under Federal regulations (the FAR, 48 CFR § 31.205-1).

RECOMMENDATIONS

We recommend that WPS:

- reduce its FACP for FY 2012 by $1,346,026 to eliminate the unallowable costs identified in this report; and

- improve procedures to identify allowable and unallowable costs in accordance with applicable Medicare contract, CAS, and FAR provisions, specifically:

    - ensure that when an unallowable cost is incurred, its directly associated costs are properly identified and excluded;

    - ensure that revenue, payroll, and NBV of assets percentages used in developing 3FF rates are consistent with guidance defined in the CAS and the FAR provisions defining reasonableness; and

    - maintain complete accounting detail to support Medicare costs claimed, including detailed support of RHO expense pools and subsequent allocations to WPS's Medicare business segment and Medicare contracts.

WISCONSIN PHYSICIANS SERVICE INSURANCE CORPORATION COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, WPS did not concur with the majority of our findings related to our recommendation to reduce its FACP by $1,346,026. WPS did not concur with $1,337,742 in recommended reductions related to unallowable RHO expenses, EIP bonuses and related FICA taxes, and salary allocations. WPS concurred with our findings on unallowable lobbying salaries, dues and donations totaling $8,284. Also, WPS provided limited comments to our recommendation for procedural improvements. WPS's comments are summarized below and included in their entirety as Appendix F.

We maintain that all our findings and recommendations are valid.

OVERSTATED RESIDUAL HOME OFFICE EXPENSES

Applicability of Cost Accounting Standards 403

WPS Comments

WPS did not concur that its FACPs should be reduced by $727,422 in overstated RHO expenses. WPS says that it did not overstate the allocation of its RHO expenses to Medicare and that the OIG applied the wrong standard because the Medicare contract is not subject to CAS 403. Rather, the contract requires only that WPS's method of allocating indirect costs be "equitable, reasonable, and in accord with the general accepted accounting principles."

Office of Inspector General Response

We applied CAS 403 correctly in determining the $727,422 in overstated RHO expenses. WPS's home office disclosure statements since 2007 have disclosed that RHO expenses are allocated using the 3FF, which is a methodology specific to CAS 403. Furthermore, WPS is acknowledging they are following CAS by disclosing that the 3FF is used to allocate RHO expenses and meeting the "consistency" in accounting practice requirements stated in its Medicare contract and other Government CAS contracts such as its Tricare contracts. WPS is required to have accounting practices that are consistent in: (1) estimating, accumulating, and reporting costs and (2) allocating costs incurred for the same purpose. WPS's 3FF rates are overstated and not compliant with CAS 403 because their allocated costs are not equitable, reasonable, or in accord with generally accepted accounting principles (GAAP). In February 2017, before we issued our draft report, CMS sent a determination of noncompliance with CAS 403 to WPS (see Appendix G). CMS determined that WPS had not complied with CAS 403 since January 1, 2008 and requested that WPS submit an accounting practice change to comply with CAS 403 and a detailed cost impact proposal.

WPS's RHO Allocation Methodology Endorsed by the Defense Contract Audit Agency

WPS Comments

WPS said that its RHO allocation methodology using the 3FF fully complies with CAS 403 and has been audited and approved by the Defense Contract Audit Agency (DCAA). Also, WPS stated the inclusion of Medicare benefits paid in developing its 3FF rates was endorsed by DCAA.

Office of Inspector General Response

WPS's reference to DCAA's prior audit work is not relevant to our findings as we did not rely on DCAA's work in conducting our audit. We stand by our findings which are based on criteria stated in CAS 403, a Financial Accounting Standards Board (FASB) statement, and the Medicare contract which clearly state that pass-through monies such as Medicare paid benefits are not operating revenue. Further, WPS's statement that its RHO allocation, including the use of Medicare paid claims as revenue, was approved by DCAA ignores CMS's subsequent notification to WPS that DCAA reversed its decision on the appropriateness of using Medicare paid claims as revenue.

In February 2017, before we issued our draft report, CMS sent a determination of noncompliance with CAS 403 to WPS (see Appendix G) . WPS did not address this determination in its comments to our draft report. Within this notification, and relevant to the issue of WPS's RHO allocation being noncompliant with CAS 403, CMS specifically explained the claims payment process. WPS paid Medicare providers with money funded from CMS under a Tripartite Agreement with a specific bank that was under contract with CMS. CMS deposited the funds and WPS maintained them. The bank account is not a WPS asset, but rather a means for any agent, such as WPS, to obtain funding and pay providers. The CMS notification of noncompliance stated that:

> DCAA asserts their previous conclusion was based on comparing WPS's disclosed practices with what was strictly written in CAS 403. Over the course of its meetings with CMS, DCAA was made aware that WPS's disclosed practices were not consistent with their actual practices of the organization. DCAA stated in its memo if WPS is using its own assets to pay providers, they are not adhering to the Tripartite Agreement. Conversely, if WPS is using the Government funds to pay providers as required in the Tripartite Agreement, the funds are not a reimbursable cost and it is incorrect to record it as operating revenue per Generally Accepted Government Auditing Standards (GAGAS) and Generally Accepted Accounting Principles (GAAP). Such actions are considered CAS 403 noncompliant.

Revenue Percentage Factor

WPS comments

WPS stated that including Medicare benefits paid is compliant with CAS 403 which instructs contractors to allocate costs in proportion to three areas of management concern: (1) the employees of the organization, (2) the business volume, and (3) the capital invested in the organization, and, as such Medicare benefits paid is the best metric of their business volume. WPS attributed the management concern of "business volume" to represent the revenue percentage factor as defined in CAS 403-30(a)(3).

WPS stated that the OIG is erroneous in stating that treating Medicare benefits paid as operating revenue is inconsistent with reported revenue on its consolidated financial statements because, (1) it presents revenue on its financial statements as a "net" figure, (2) in the notes to the statements it explicitly identifies the total claims paid under administrative service-only contracts, and (3) it includes Medicare benefits paid within the revenue section of its general ledger.

Office of Inspector General Response

WPS's practice of determining the revenue factor using their definition of "business volume" which includes Medicare benefits paid as operating revenue does not follow CAS 403. The CAS clearly identifies operating revenue as the metric representing management's concern with business volume and further identifies operating revenue as the basis for the revenue percentage factor of the 3FF. Medicare benefits paid do not represent reimbursement for the services WPS provides to the Medicare program. Unlike WPS's other insurance segments, the funds provided for Medicare benefit payments do not meet the CAS definition of operating revenue because the amounts are not accrued or charged to customers, clients, or tenants for services rendered. Rather, the dollar amounts on the Medicare claims WPS processes for payment are benefit costs as defined in Article XV, paragraph D, of the contract and paid with Government funds provided in accordance with Article III, paragraph A, of the contract. Medicare benefits paid are not considered operating revenue per CAS 403-30(a)(3) or the Medicare contract.

Further, FASB[14] identifies revenues as the inflows or other enhancement of assets of an entity or settlement of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations. Medicare benefits paid are not an inflow of an asset to WPS, because these are pass-through payments from the U.S. Treasury through WPS to the medical providers who rendered medical service to Medicare beneficiaries.

We agree that the amount of Medicare benefits paid is reported in the revenue section of WPS's general ledger and disclosed in notes to its consolidated financial statements. However, the amount of Medicare benefits paid is not included in the net total revenue reported on WPS consolidated financial statements. Further, WPS's "netting" of Medicare benefits paid from the revenue figure reported on its financial statements is an indication on its part that such payments

[14] FASB Statement of Financial Accounting Concepts No. 6, Paragraph 78, issued December 1985

should not be considered revenue. We stand by our finding that WPS's use of Medicare benefits paid as revenue in the 3FF allocation represents an instance of noncompliance with CAS 403, GAGAS, and GAAP as indicated in Appendix G.

Payroll Percentage Factor

WPS comments

WPS disagreed that capitalized payroll costs and payroll costs of subsidiary staff were inappropriately excluded from the payroll percentage factor. WPS stated that when the software was capitalized, payroll expenses were properly credited and including the same cost element in both payroll and capitalized payroll would be double counting, that would result in an incorrect 3FF percentage. Further, WPS stated that payroll costs for staff placed at outside companies should be excluded because (1) they are not management's concern and (2) revenue generated by these staff are considered in the revenue percentage factor.

Office of Inspector General Response

These select payroll costs should not be excluded in developing the payroll percentage. Specifically, the capitalized payroll costs used to develop software do not result in "double counting" as WPS states, because the 3FF is only applied one time to the RHO pool in allocating these RHO costs to business segments. Likewise, including subsidiary staff payroll costs does not result in "double counting" even though the revenue generated by these staff may be included in the revenue percentage factor. The salaries for these subsidiary staff were payroll costs of this WPS subsidiary. CAS 403 does not support WPS's argument to exclude capitalized payroll expenses or the select subsidiary staff payroll expenses. These expenses are recorded as payroll costs on either WPS's general or the affected subsidiary's general ledger and should not be excluded from the payroll percentage.

Net-Book-Value of Assets Percentage Factor

WPS comments

WPS stated that the CAS requirement to average the NBVs from the beginning and ending of each fiscal year cannot be used to calculate this percentage because the Medicare contract is on a different fiscal year than WPS's. As such, WPS stated that its methodology is a reasonable alternative.

Office of Inspector General Response

We maintain that, regardless of the difference in fiscal years, WPS is able to determine its NBVs on the dates specified in the CAS, and thus is able to comply with this CAS requirement. Furthermore, WPS did not provide justification that its "reasonable alternative" had been discussed with, or approved by, CMS as a special allocation of residual expenses [48 CFR 9904.403-40(c)(3)].

UNALLOWABLE EMPLOYEE INCENTIVE PROGRAM BONUSES AND RELATED FICA TAXES

WPS comments

WPS did not concur that its FACPs be reduced by $546,703 in employee incentive bonuses and related FICA expenses of $40,128. WPS stated these costs are allowable compensation for personal services under FAR, 48 CFR § 31.205-6. WPS stated that the fact these bonuses were tied to corporate-wide profitability is irrelevant under FAR, 48 CFR § 31.205-6(f), and does not justify questioning the costs. WPS says that its focus on corporate-wide profitability directly benefits the Medicare program because profitability is achieved by minimizing expenses; thus, the bonuses incentivized employees to increase efficiency and productivity.

Office of Inspector General Response

We acknowledge that these EIP bonuses are compensation for personal services in accordance with FAR, 48 CFR 31.205-6, however, the bonuses are not allowable Medicare FACP costs because they are not allocable. A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship (the FAR, 48 CFR 31.201-4). Subject to the foregoing, a cost is allocable to a Government contract if it is:

- incurred specifically for the contract (the FAR, 48 CFR § 31.201-4(a));
- benefits both the contract and other work and can be distributed to them in reasonable proportion to the benefits received (the FAR, 48 CFR § 31.201-4(b)); or
- necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be found (the FAR, 48 CFR § 31.201-4(c)).

These EIP bonuses were not incurred specifically for the Medicare contract, they did not benefit the Medicare contract, and there is a direct relationship between the EIP bonuses and WPS's other lines of business. The Medicare contract does not require WPS to pay EIP bonuses. Also, WPS did not justify how basing bonuses on profits made in its other lines of business benefitted the Medicare program, thereby making such bonuses allocable. Moreover, the EIP bonuses were directly related to WPS's other lines of business that were profitable. WPS's contract specifies that WPS is to be paid the costs of administering the Medicare program under the principle of neither profit nor loss, so profits on its other lines of business do not benefit the Government, nor is there an equitable relationship between other business line profits and the Medicare contract. Because WPS will receive payment in full for all of its Medicare costs provided they are allowable, reasonable, allocable and within the amounts established by the Notice of Budget Approval, minimizing expenses to achieve profits on other lines of business is irrelevant to the Medicare contract. WPS has not provided evidence of increases in efficiency and productivity in the Medicare program that WPS claims was achieved due to increases in the profitability of its other lines of business. Because the EIP bonuses are paid based on achieving corporate-wide

profit goals, they directly contradict the Medicare contract principle of neither profit nor loss and so are not allocable to Medicare.

INCORRECT SALARY ALLOCATIONS

WPS comments

WPS did not concur with reducing the FACPs by the $23,489 related to select executive salaries allocations, because it disagreed that these salaries were incorrectly included in the RHO expense pool. WPS stated that these senior executives are part of WPS's executive steering team responsible for collectively managing WPS performance in its entirety and not limited to managing its specific business unit "silo". WPS stated that, therefore, it believes these executive salaries are allocable RHO expenses in accordance with CAS (48 CFR § 9904.403-40(b)(6)) because they are not identifiable with any certain specific activities or business segments.

Office of Inspector General Response

We maintain that our findings are valid. These select executive salaries can be identified with specific activities or business segments, and therefore are not allocable RHO expenses. The job titles of these executives clearly indicate a direct and specific relationship to the specific business unit "silo" they manage. Further, WPS was unable to provide us with job descriptions or performance plans that define the job duties, functions, and activities of these executives to support its contention that these executives collectively manage WPS's performance in its entirety.

APPENDIX A: RELATED OFFICE OF INSPECTOR GENERAL REPORTS

Report Title	Report Number	Date Issued
Wisconsin Physicians Service Insurance Corporation Claimed Unallowable Medicare Part A Administrative Costs for FYs 2009, 2010, and 2011	A-05-13-00020	10/30/2015
Wisconsin Physicians Service Insurance Corporation Claimed Unallowable Medicare Part B Administrative Costs for FYs 2009, 2010, and 2011	A-05-13-00019	10/30/2015
Audit of Medicare Part B Administrative Costs for the Period October1, 2006, Through September 30, 2008, at Wisconsin Physicians Service Insurance Corporation	A-05-09-00096	11/28/2011
Audit of Medicare Part A Administrative Costs for the Period November 5, 2007, Through September 30, 2008, at Wisconsin Physicians Service Insurance Corporation	A-05-09-00101	05/24/2011

APPENDIX B: AUDIT SCOPE AND METHODOLOGY

SCOPE

WPS claimed Part B administrative costs totaling $38,041,741 during our audit period, October 1, 2011, through September 30, 2012, which included pension costs of $1,525,175 that were not reviewed. These pension costs will be the subject of a separate review to determine their allowability. Therefore, we reviewed $36,516,566 in administrative costs. We limited our internal control review to those controls related to the recording and reporting of costs on the FACPs. We accomplished our objective through judgmental testing.

We conducted fieldwork at WPS's facility in Madison, Wisconsin, from July 2015 through May 2016.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Medicare laws, regulations, and guidelines;
- reviewed WPS's contract with CMS;
- reviewed WPS's external audit reports for calendar years 2011 and 2012 and OIG audit reports for FYs 2007 through 2011;
- interviewed WPS officials regarding cost accumulation processes for its cost proposal and cost allocation system;
- reconciled line item expenses on the FACP and cost classification report with WPS accounting records;
- reviewed and discussed with WPS prior OIG audit findings to determine whether they had been resolved;
- tested, on the basis of prior OIG reports, for reasonableness, allowability, and allocability costs considered to be high risk areas, specifically costs related to RHO expenses, employee incentive program bonuses and related FICA taxes, select salary allocations, lobbying salaries, dues and donation expenses, and additional costs as determined necessary;
- reviewed the contractor's application of the 3FF allocation method described in CAS 403;
- traced WPS's methodology for developing 3FF rates for October 2011 and October 2012, which covered expenses recorded to general ledgers as of September 2011 and September 2012;

- reviewed select top management group meeting minutes;
- reviewed total compensation paid to the highest paid executives; and
- shared the results of this review with WPS officials, including details of our recommended adjustments.

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 objectives.

APPENDIX C: MEDICARE CONTRACT PROVISIONS AND FEDERAL REGULATIONS

MEDICARE CONTRACT HCFA 87-032-2 PROVISIONS

Contract HCFA 87-032-2 documents the Medicare Part B claims processing activities performed by WPS. Specifically the contract stipulates:

"The term 'Secretary' means the Secretary of Health and Human Services or the Secretary's delegate, unless otherwise specified" (Article I, paragraph A).

"The term 'Carrier' means the contractor [WPS] which is a party to this contract pursuant to Section 1842 of the Social Security Act, as amended" (Article I, paragraph I).

WPS shall: "Receive, disburse, and account for funds in making payments for services furnished to eligible individuals within the jurisdiction of the Carrier pursuant to Articles VII and VIII" (Article II, paragraph A).

The Secretary shall: "Provide funds to the Carrier for making payments to providers of services and eligible individuals and for the Carrier's cost of administering this contract pursuant to Article VIII" (Article III, paragraph A).

"The Carrier shall not use its position as a Medicare contractor for purposes of furthering its private business interests or for profit or gain, nor shall the Carrier use any materials or information it obtains from the Secretary or develops in performing its functions under this contract to promote its private business interest" (Article X, paragraph D).

"It is the intent of this contract that the Carrier, in performing its functions under this contract, shall be paid its cost of administration under the principle of neither profit nor loss to the Carrier, subject to paragraph B below" (Article XV, paragraph A).

> The Secretary shall pay to the Carrier the total amount of allowable costs of the Carrier incurred in the performance of this contract subject to provisions of Article XVI. In determining the costs allowable under this contract, the Secretary shall take into account the amount which is reasonable and adequate to meet the cost which must be incurred by an efficiently and economically operated Carrier in carrying out the terms of this contract. The types of cost allowable and allocable under this contract shall be determined in accordance with the provisions of Part 31 of the FAR, as interpreted and modified by Appendix B to this contract … [Article XV, paragraph B]

"In connection with the allowability of any particular item of cost, the Carrier may, from time to time submit, to the Secretary a request as to whether such item of cost is allowable. A written communication from the Secretary to the Carrier that such item of cost is allowable shall constitute a determination of allowability for purposes of this contract" (Article XV, paragraph C).

"Any costs which are properly chargeable by a provider of services as benefit costs in accordance with the Act and Regulations, shall not be chargeable to this contract as administrative costs" (Article XV, paragraph D).

"The Carrier, as soon as possible, but not later than 3 months after the close of the Federal fiscal year, unless the Secretary approves a different time period or fiscal year, shall submit to the Secretary a Final Administrative Cost Proposal, including supporting data, of the allowable costs incurred by it during the Federal fiscal year…" (Article XVI, paragraph K).

"The Carrier shall maintain adequate accounting records covering the use of funds under this contract. The Carrier agrees that the Secretary ... until the expiration of 3 years after final payment … shall have access to and the right to examine upon reasonable notice and at all reasonable times any directly pertinent books, documents, papers, and records ..." (Article XX, paragraph A).

"No part of any funds under this agreement shall be used to pay the salaries or expenses of any Contractor, or agent acting for the Contractor, to engage in any activity designed to influence legislation or appropriations pending before the Congress. Lobbying costs are defined in and are unallowable in accordance with FAR 31.205-22" (Appendix A, Article V).

"The types of costs allowable and allocable under this agreement/contract shall be determined in accordance with the provisions of Part 31 of the Federal Acquisition Regulation ..." (Appendix B § I, paragraph A).

Appendix B § XV – Specific Unallowable Items states:

> The following items are unallowable:
>
> A. All direct and indirect costs which relate to the contractor's non-Medicare business and do not contribute to the Medicare agreement/contract. These include, but are not limited to:
>
> ... 3. costs relating to the contractor's underwriting activities, including related actuarial and statistical services, and ...

COST ACCOUNTING STANDARD 403

According to CAS 403, entitled "Allocation of home office expenses to segments," the 3FF is an arithmetical average of three specified factors: payroll factor, revenue factor, and NBV of assets factor. This formula is considered to result in appropriate allocations of the RHO expenses. It takes into account three broad areas of management concern: (1) the employees of the organization, (2) the business volume, and (3) the capital invested in the organization. These factors are defined at 48 CFR § 9904.403-50(c)(1) as follows:

> (i) The percentage of the segment's payroll dollars to the total payroll dollars of all segments.

(ii) The percentage of the segment's operating revenue to the total operating revenue of all segments. For this purpose, the operating revenue of any segment shall include amounts charged to other segments and shall be reduced by amounts charged by other segments for purchases.

(iii) The percentage of the average net book value of the sum of the segment's tangible capital assets plus inventories to the total average net book value of such assets of all segments. Property held primarily for leasing to others shall be excluded from the computation. The average net book value shall be the average of the net book value at the beginning of the organization's fiscal year and the net book value at the end of the year.

Furthermore, 48 CFR § 9904.403-30(a)(3) defines operating revenue as "... amounts accrued or charge to customers, clients, and tenants, for the sale of products manufactured or purchased for resale, for services, and for rentals of property held primarily for leasing to others ...."

According to 48 CFR § 9904.403-40(c)(2), contractors are required to use the 3FF if its residual expenses (excluding any unallowable costs and before eliminating any amounts to be allocated under an approved special allocation) exceeds a calculated operating revenue value. This operating revenue value is calculated as follows:

- 3.35 percent of the first $100 million in operating revenue,
- 0.95 percent of the next $200 million in operating revenue,
- 0.30 percent of the next $2.7 billion in operating revenue, and
- 0.20 percent of all operating revenue over $3 billion.

FEDERAL ACQUISITION REGULATION

The FAR, 48 CFR § 31.201-2, entitled "Determining Allowability," states:

(a) A cost is allowable only when the cost complies with all of the following requirements:

(1) Reasonableness.

(2) Allocability.

(3) Standards promulgated by the CAS Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances.

(4) Terms of the contract.

(5) Any limitations set forth in this subpart.

The FAR, 48 CFR § 31.201-2, entitled "Determining Allowability," states:

> (d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.

The FAR, 48 CFR § 31.201-3, entitled "Determining Reasonableness," states:

> (a) A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business.…
> (b) What is reasonable depends upon a variety of considerations and circumstances, including—
>
> (1) Whether it is the type of cost generally recognized as ordinary and necessary for the conduct of the contractor's business or the contract performance;
>
> (2) Generally accepted sound business practices, arm's-length bargaining, and Federal and State laws and regulations;
>
> (3) The contractor's responsibilities to the Government, other customers, the owners of the business, employees, and the public at large; and
>
> (4) Any significant deviations from the contractor's established practices.

The FAR, 48 CFR § 31.201-4, entitled "Determining Allocability," states:

> A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a Government contract if it—
>
> (a) Is incurred specifically for the contract;
>
> (b) Benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received; or
>
> (c) Is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown.

The FAR, 48 CFR § 31.201-6, entitled "Accounting for Unallowable Costs," states:

> (a) Costs that are expressly unallowable or mutually agreed to be unallowable, including mutually agreed to be unallowable directly associated costs, shall be identified and excluded from any billing, claim, or proposal applicable to a Government contract. A directly associated cost is any cost that is generated solely as a result of incurring another cost, and that would not have been incurred had the other cost not been incurred. When an unallowable cost is incurred, its directly associated costs are also unallowable ....

The FAR, 48 CFR § 31.202, entitled "Direct Costs," states:

> (a) No final cost objective shall have allocated to it as a direct cost any cost, if other costs incurred for the same purpose in like circumstances have been included in any indirect cost pool to be allocated to that or any other final cost objective. Direct costs of the contract shall be charged directly to the contract. All costs specifically identified with other final cost objectives of the contractor are direct costs of those cost objectives and are not to be charged to the contract directly or indirectly.
>
> (b) For reasons of practicality, the contractor may treat any direct cost of a minor dollar amount as an indirect cost if the accounting treatment—
>
> (1) Is consistently applied to all final cost objectives; and
>
> (2) Produces substantially the same results as treating the cost as a direct cost.

The FAR, 48 CFR § 31.205-1, entitled "Public Relations and Advertising Costs," discusses the allowability of public relations and advertising costs. It provides that public relations and advertising costs not specifically required by the contract are unallowable.

The FAR, 48 CFR § 31.205-6, entitled "Compensation for Personal Services," states:

> (f) *Bonuses and incentive compensation.*
>
> (1) Bonuses and incentive compensation are allowable provided the—
>
> (i) Awards are paid or accrued under an agreement entered into in good faith between the contractor and the employees before the services are rendered or pursuant to an established plan or policy followed by the contractor so consistently as to imply, in effect, an agreement to make such payment; and
>
> (ii) Basis for the award is supported.

The FAR, 48 CFR § 31.205-8, entitled "Contributions or Donations," states: "Contributions or donations, including cash, property and services, regardless of recipient, are unallowable, except as provided in 31.205-1(e)(3)."

The FAR, 48 CFR § 31.205-1(e)(3) states: "Costs of participation in community service activities such as blood bank drives, charity drives, savings bond drives, disaster assistance, and etc. are allowable."

The FAR, 48 CFR § 31.205-22, entitled "Lobbying and Political Activity Costs," states:

> (a) Costs associated with the following activities are unallowable:
>
> (1) Attempts to influence the outcomes of any Federal, State, or local election, referendum, initiative, or similar procedure, through in kind or cash contributions, endorsements, publicity, or similar activities;
>
> (2) Establishing, administering, contributing to, or paying the expenses of a political party, campaign, political action committee, or other organization established for the purpose of influencing the outcomes of elections;
>
> (3) Any attempt to influence—
>
> (i) The introduction of Federal, state, or local legislation, or ....

CENTERS FOR MEDICARE & MEDICAID SERVICES' MEDICARE FINANCIAL MANAGEMENT MANUAL

Chapter 2, section 190.1, entitled "Examination of Records," states:

> The Secretary and the Comptroller General of the United States shall have access to and the right to examine those books, records, documents and other supporting data which will permit adequate evaluation of the cost or pricing data submitted by the intermediary, along with computations and projections used therein. The purpose of the examination shall be to verify that cost or pricing data submitted in conjunction with the negotiation of the agreement, including changes thereto, and the preparation of any fiscal report or settlement, are accurate, complete, and current. The right to examination of records shall continue as long as records are maintained.

Chapter 2, section 190.3, entitled "Records Maintained," states:

> The intermediary or carrier shall maintain books, records, documents and other evidence pertaining to the costs and expenses of the agreement, as well as accounting procedures and practices (hereinafter collectively called "records"). These records shall be maintained to the extent and in such detail as will properly reflect all net costs, direct and indirect, of labor, materials, equipment, supplies and services, and other costs and expenses of whatever nature claimed to have

> been incurred, and for which reimbursement is claimed under the provisions of the agreement.

Chapter 2, section 190.4, entitled “Availability of Records,” states: “The intermediary’s or carrier’s facilities, or such part thereof as may be engaged in the performance of the agreement, and its records shall be subject at all reasonable times to inspection and audit by the Secretary.”

APPENDIX D: FISCAL YEAR 2012 FINAL ADMINISTRATIVE COST PROPOSAL BY COST CLASSIFICATION

Cost Category	Totals[15]
Salaries/Wages	$18,016,798
Fringe Benefits	8,625,614
Pension Costs	1,579,204
Facilities/Occupancy	1,498,671
EDP	5,393,505
Subcontractors	9,847,705
Outside Prof Services	2,093,262
Telephone/Telegraph	423,593
Postage and Express	3,074,617
Furniture and Equipment	4,247,573
Materials & Supplies	1,255,083
Travel	247,384
Return on Investment	460,353
Miscellaneous	(23,201)
Other	93,423
Subtotal	**$56,833,584**
Credits	(18,791,843)
Forward Funding	0
Total Costs Claimed	**$38,041,741**
Pension Costs Excluded[16]	(1,525,175)
Total Costs Reviewed	**$36,516,566**
Recommended Cost Adjustments[17]	(1,346,026)
Total Accepted Costs	**$35,170,540**

[15] FACP Supplement No. 05.

[16] WPS claimed pension costs of $1,579,204 that included $103,208 in pension costs allocated from the RHO expense pool using an overstated allocation factor. We recommend reducing the Part B FACP by $54,029 in pension costs that were questioned based on the RHO expense recommended adjustment. Accordingly, we excluded from our review pension costs totaling $1,525,175 that will be the subject of a separate review to determine allowability.

[17] See Appendix E.

APPENDIX E: OFFICE OF INSPECTOR GENERAL FISCAL YEAR 2012 RECOMMENDED COST ADJUSTMENTS

Recommended Cost Adjustments	Totals
RHO Expenses[18]	$727,422
EIP Bonuses	546,703
FICA Taxes	40,128
Salary Allocations	23,489
Lobbying Salaries	5,655
Dues and Donations	2,629
Total Recommended Cost Adjustments[19]	**$1,346,026**

[18] RHO expenses include $54,029 in pension costs caused by WPS using overstated 3FF rates to allocate RHO expenses.

[19] See Appendix D for how these adjustments affect the FACPs that were audited.

WPS GOVERNMENT HEALTH ADMINISTRATORS

Wisconsin Physicians Service Insurance Corporation
A CMS Medicare Contractor
1717 W. Broadway | P.O. Box 1787 | Madison, WI 53701-1787

May 10, 2017

Ms. Sheri L. Fulcher
Regional Inspector General for Audit Services
HHS, Office of Audit Services, Region V
233 North Michigan Avenue, Suite 1360
Chicago, IL 60601

Re: Wisconsin Physicians Service Insurance Corporation;
Draft OIG Report Number A-05-15-00047

Dear Ms. Fulcher:

In a letter dated April 11, 2017, we received the Office of Inspector General's draft report entitled *Wisconsin Physicians Service Insurance Corporation Claimed Unallowable Medicare Part-B Administrative Costs for FY 2012* under Contract No. HCFA 87-032-2 (the "Legacy Contract"). In that letter, you requested we respond to you and include a statement of concurrence or nonconcurrence for each recommendation, WPS has included these statements below in the same order the recommendations appear in the draft report.

WPS Did Not Overstate Its Residual Home Office Expenses**.**

WPS does not concur with the OIG recommendation to reduce its costs by $727,422 related to residual home office expenses.

Revenue Percentage.

WPS did not overstate its residual home office expenses for FY2012. First, the Draft Audit Report applies the wrong standard because the Legacy Contracts are not subject to Cost Accounting Standard ("CAS") 403. Part B Contract, Art. XV, ¶ B & App. B (incorporating by reference CAS 412 and 413 and reciting CAS 401 and 402, but including no reference or recitation of CAS 403 or other CAS). Instead, the Legacy Contract requires only that WPS's method of allocating indirect costs be "equitable, reasonable, and in accord with the general accepted accounting principles." Part A Contract, Art. XII, ¶ B. DCAA audited and approved WPS's residual home office expense allocation method on multiple occasions, both prior to and subsequent to the time period that is subject to OIG's audit report:

- In 2007, in connection with WPS's J5 MAC proposal, DCAA performed an adequacy and compliance audit of WPS's disclosure statement, and specifically verified that WPS's allocation of home office costs complies with CAS 403. WPS and DCAA specifically discussed WPS's application of the three-factor formula and WPS's practice of including benefits paid in Medicare operating revenue. DCAA specifically concluded that WPS's practice was appropriate.

- In 2007-2008, DCAA conducted an audit of WPS's Home Office Disclosure Statement, which specifically identified that "Benefits Paid" and "Claims Paid" were components of revenue. DCAA concluded that WPS's disclosed practices complied with CAS and FAR Part 31.

- In 2010, DCAA and WPS entered into an agreement finalizing WPS's indirect rates for FY 2007. The agreed-to rates were developed based on WPS's established practice of including benefits paid in Medicare operating revenue.

- WPS has undergone a number of audits of its forward pricing rates for TRICARE, with the most recent audit completed in 2013. Neither DCMA nor DCAA have questioned WPS's application of the three-factor formula as part of any of these audits or in connection with any of WPS's forward pricing rate agreements.

DCAA was the Cognizant Federal Audit Agency for WPS's TRICARE segment during the time and is a leading authority on Government cost accounting. Even assuming that DCAA and OIG could reasonably disagree on this matter, the fact that DCAA endorsed WPS's allocation method in and of itself confirms that WPS's approach is, at a minimum, equitable, reasonable, and in accord with the general accepted accounting principles.

Regardless, WPS's allocation method fully complies with CAS 403. CAS 403's "three-factor formula" instructs contractors to allocate residual home office expense costs in proportion to "three broad areas of management concern: [1] The employees of the organization, [2] the business volume, and [3] the capital invested in the organization." 48 C.F.R. 9904.403-50(c)(1). CAS 403 prescribes three business metrics as proxies for these "three broad areas of management concern"—payroll dollars, operating revenue, and net book value—and requires that contractors average the share of each metric attributable to a particular cost objective.

Including "Medicare benefits paid" in the second factor—the factor aimed at capturing "business volume"—complies with CAS 403 without question. For a company whose primary function is to process and pay claims for health care benefits, common sense dictates that the amount of benefits paid is the best metric of the company's business volume. Only by including benefits paid within operating revenue can WPS equitably measure the business volume of its various units. For example, for units within WPS that sell insurance and then pay claims out of the proceeds from the insurance, WPS includes all of the insurance proceeds as operating revenue, which includes both the amount retained by WPS and the amount paid out for claims. For units within WPS that provide administrative services and pay claims, not out of insurance proceeds, but out of funds provided by a third party (such as Medicare), WPS includes the full amount paid by the third party, which likewise includes both the amount retained by WPS and the amount paid out for claims. The only difference between these two models is the source of funds for payment, but that has no bearing whatsoever on WPS's "business volume." Instead, WPS's business volume is the value of the claims it processes. All of the claims paid by WPS, whether Medicare, commercial, or other, flow through WPS and are recorded on WPS's books as revenue.

The value of those claims is the only reasonable metric of WPS's business volume for purposes of CAS 403. This is precisely the conclusion reached by DCAA, which has specifically audited WPS's disclosed accounting practices for home office allocations, and concluded time and again that those practices comply with CAS 403 (unlike WPS's legacy Medicare contracts, the Department of Defense considers WPS's TRICARE contracts subject to CAS). By disagreeing with DCAA, OIG would compel WPS to depart from the disclosed accounting practices that WPS was contractually obligated to follow under its TRICARE contracts. WPS should not be given the Hobson's choice of deciding which agency's interpretation of CAS 403 to follow, particularly where WPS is dutifully following the interpretation of the agency whose contracts are actually subject to CAS 403.

Finally, OIG's draft report erroneously states that "WPS's treatment of the Medicare benefit claims paid as operating revenue is inconsistent with reported Medicare revenue on its consolidated financial statements." WPS presents *net* revenue (as opposed to *gross* revenue) on its consolidated statements of earnings for financial reporting purposes. *See* Emerging Issues Task Force ("EITF") Issue Number 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent." In the notes to its consolidated financial statements, WPS explicitly identifies the total claims paid under administrative service only contracts. Similarly, on its General Ledger, WPS includes benefits payments as "Medicare Claims Reimbursement" within the revenue section of its General Ledger. WPS's accounting practices for financial reporting purposes are therefore entirely consistent with WPS's established practice for allocating home office expenses to its Medicare and TRICARE contracts.

Payroll Percentage.

The Draft Audit Report contends the payroll percentage factors were calculated incorrectly due to 1) excluding capitalized payroll costs for internally developed software, and 2) the Staffing subsidiary people placed with other companies were excluded. WPS does not concur with the last observations.

The objective of the three factor formula is to capture the three broad areas of management concern. OIG observation #1 states that internally developed capitalized software should be included with both the payroll factor and the net book value factor. WPS feels this is double counting. When internally developed software is capitalized, payroll expenses are properly credited. WPS accounted appropriately in this manner when developing the payroll factor. Including the same cost element in multiple factors (#1 Payroll and Capitalized Payroll) as the draft report contends will incorrectly double count that Payroll cost element resulting in an incorrect three factor formula percent.

The Staffing subsidiary (#2) people placed with other companies are not the responsibility of WPS management and not in any way WPS management's concern. These people are temporary help workers placed with external companies and would be more akin to cost of goods sold than a payroll expense. WPS has correctly included the revenue generated by placing these staff at other companies in the Revenue factor. Including these costs in the Payroll factor results in an unreasonable three factor formula percentage.

Net-Book-Value of Assets Percentage.

The Draft audit report contends the Net Book Value of Assets Factors were calculated incorrectly. CAS 403-50(c)(1)(iii) states the NBV of assets shall be the average of the NBV at the beginning of the organization's fiscal year and the NBV at the end of the year. The legacy contracts require costs be reported based on the federal fiscal year and not on the organization's fiscal year as required in the standard. Therefore, a literal application of the CAS standard is not possible and also remain in compliance with the legacy contract requirements. WPS calculated the NBV of assets using each months NBV for the government's fiscal year time period. This is more accurate than the NBV at the beginning of the federal fiscal year and the NBV at the end of the federal fiscal year and is a reasonable alternative since the CAS standard cannot be used. "The Intermediary's established method of allocating indirect costs to the cost of performing agreement, if equitable, reasonable, and in accord with generally accepted accounting principles, shall be accepted by the Secretary", Article XII(B) of the contract.

WPS's Employee Incentive Program Bonuses and Related FICA Taxes Are Allowable

WPS does not concur with the OIG recommendation to reduce its costs by $546,703 related to employee incentive plan bonuses and by $40,128 related to FICA taxes.

The Draft Audit Report argues that the costs of WPS's Employee Incentive Program are unallowable because they do not "benefit" the Medicare contract and because WPS's use of corporate-wide profitability as a metric for determining whether it will pay bonuses is inconsistent "with the contracts' stated intent that the carrier/intermediary be paid the costs of administration under the principle of neither profit nor loss." WPS does not believe that either argument justifies questioning these costs.

As a threshold matter, bonuses are an aspect of each employee's "compensation for personal services." FAR 31.205-6(f). So long as they comply with FAR 31.205-6(f), these bonuses are allocable to the Legacy Contracts just as those same employees' salaries are allocable to the Legacy Contracts. The bonuses "benefit" the Legacy Contracts just as much as the other elements of the employees' compensation. The fact that bonuses are tied to corporate-wide profitability is irrelevant under FAR 31.205-6(f) and does not provide a basis to disallow these costs. Profit is nothing more than the sum of income less expenses, and minimizing expenses is consistent with, and indeed beneficial to, the Legacy Contracts. WPS's focus on corporate-wide profitability directly benefits the Medicare program by incentivizing employees to increase efficiency and productivity through expense reductions.

Regardless, WPS's bonus program is not inconsistent with the "principle of neither profit nor loss." WPS is seeking reimbursement for compensation costs actually paid to the employees, not for additional money that will add to corporate-wide profit. Indeed, because WPS has paid these bonuses as part of the employees' compensation package, disallowing these costs violates the principle of "neither profit nor loss" because, under OIG's approach, WPS must now absorb these compensation costs as a loss.

Salary Allocations

WPS does not concur with the OIG recommendation to reduce its costs by $23,489 related to Salary Allocations included in the home office residual pool.

Select salaries were not incorrectly included in the RHO expense pool. OIG references FAR 31.201-4 that describes cost are allocable if assignable on a benefits received basis or other equitable relationship. The select salaries are for CAS 9904.403-40(b)(6) "Staff management not identifiable with any certain specific activities of segments". Senior WPS executives are part of the executive steering team responsible for collectively managing performance WPS in its entirety. To accomplish this they integrate best practices, processes, and policies across all WPS business segments and collaborate to coordinate corporate resources in line with the corporate strategic plan. This demonstrates that the senior executives are not limited to managing their specific business unit "silo", but are indeed significantly involved in the management of WPS as a whole, which benefits all segments, including Medicare.

Lobbying Salaries

WPS concurs the lobbying salaries are unallowable. Going forward the individual involved has been moved to the lobbying cost center whose costs are treated as unallowable.

Membership Dues

WPS concurs the enhanced dues, donations, and lobbying portion of membership dues are unallowable; there were some instances where this situation was not identified on the vouchers. WPS will remind accounts payable staff these costs are unallowable.

Should you have any questions regarding these comments, please contact [redacted] at [redacted] or [redacted].

Sincerely,

Janet Kyle

Janet Kyle
Executive Vice President Medicare
Wisconsin Physicians Service Insurance Corporation

OIG Note - The above text has been redacted because it is personally identifiable information.

APPENDIX G: DETERMINATION of CAS 403 NONCOMPLIANCE FOR WISCONSIN PHYSICIAN SERVICES INSURANCE CORPORATION

DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
7500 Security Boulevard, Mail Stop B2-14-21
Baltimore, Maryland 21244-1850

CENTERS FOR MEDICARE & MEDICAID SERVICES
OFFICE OF ACQUISITION & GRANTS MANAGEMENT

February 21, 2017

Wisconsin Physician Services Insurance Corporation
[redacted]
1717 W. Broadway
Madison, WI 53713

SUBJECT: Determination of CAS 403 Performance Noncompliance for Wisconsin Physician Services Insurance Corporation (WPS) effective January 1, 2008

REFERENCE: FAR 30.602-2 Noncompliance with CAS requirements;
FAR 30.602-3 Voluntary Changes
FAR 52.230-2 Cost Accounting Standards
FAR 52.230-6 Administration of Cost Accounting Standards
FAR Part 31 Contract Cost Principles & Procedures

Background

The Health and Human Services (HHS) Office of Inspector General (OIG) has raised a CAS 403 issue in their audit of the Title 18 MAC contract. The issue relates to the CAS 403 allocation base used to allocate home office expenses to the divisions, specifically, the element of revenue in the three factor formula. WPS claims benefits paid as operating revenue which causes home office expenses allocated to the Medicare division to be significantly overstated. The OIG opined WPS uses an incorrect calculation in allocating home office expenses under the 3 factor formula specifically with respect to WPS' calculation of revenue thus making them non-compliant with CAS 403.

However, WPS asserts that including claimed benefits paid as part of the allocation of the TFF is acceptable per DCAA audit reports dated April 10, 2008, June 30, 2008, and January 26, 2012. WPS provided DCAA with general ledger data to to show their procedures of how they report operating revenue. The data WPS provided to DCAA displayed payments of claims recorded by WPS' as a liability in their accounting system as a reimbursable cost, and then a reimbursable cost was then sought from CMS. Upon receiving a reimbursement, WPS recorded the transaction as revenue. Upon reviewing the general ledger information, DCAA determined WPS is compliant with CAS.

The contested issue between the CMS OIG and DCAA is whether WPS properly recorded and reported operating revenue. 48CFR 9904.403-30 (a)(3) defines operating revenue as amounts accrued or charge to customers, clients, and tenants, for the sale of products manufactured or purchased for resale, for services,

OIG Note - Some text in this appendix has been redacted because it is personally identifiable information or proprietary information.

and for rentals of property held primarily for leasing to others. It includes both reimbursable costs and fees under cost-type contracts and percentage-of-completion sales accruals except that it includes only the fee for management contracts under which the contractor acts essentially as an agent of the Government in the erection or operation of Government-owned facilities. It excludes incidental interest, dividends, royalty, and rental income, and proceeds from the sale of assets used in the business. The CMS OIG maintain its assertion that due to WPS's claims being fully reimbursed with Federal funds, they are in noncompliance with CAS 403.

Due to the differing audit opinions, CMS clarified the claims payment process of Medicare Administrator Contractors (MAC) to DCAA. CMS explained that WPS paid providers with money funded from CMS. Next, WPS would submit a bulk summary of claims to a specific bank under contract by CMS per the Tripartite Agreement. The bank would then request money from the Medicare Trust Fund (maintained by the US Treasury), and deposit the requested funds into an account maintained by WPS. WPS would issue checks to providers from the account.

The bank account was not a WPS asset, but rather a means for any Agent (in this case, WPS) to obtain funding and pay providers. These payments do not meet the definition of a reimbursable cost, and thus cannot be reported as operating revenue. Therefore, CMS requested DCAA to revisit their findings of WPS's CAS 403 compliance to provide further explanation based upon these new facts presented by CMS.

FINDINGS

DCAA issued DCAA Memorandum No. [redacted] dated July 6, 2016 detailing their findings after revisiting WPS's CAS 403 issue. DCAA asserts their previous conclusion was based on comparing WPS's disclosed practices with what was strictly written in CAS 403. Over the course of its meetings with CMS, DCAA was made aware that WPS's disclosed practices were not consistent with their actual practices of the organization. DCAA stated in its memo if WPS is using its own assets to pay providers, they are not adhering to the Tripartite Agreement. Conversely, if WPS is using the Government funds to pay providers as required in the Tripartite Agreement, the funds are not a reimbursable cost and it is incorrect to record it as operating revenue per Generally Acceptable Government Auditing Standards (GAGAS) and Generally Accepted Accounting Principles (GAAP). Such actions are considered CAS 403 noncompliant.

The HHS OIG also issued Final Administrative Cost Proposal audit reports: A-05-09-00101, A-05-09-00096, A-5-13-00020, and A-05-13-00019. The reports cited the methods WPS utilizes to allocate selective financial data (revenue included benefits paid) shift a signifigant and inequitable amount of residual home office expenses to Medicare contracts thus making WPS noncompliant with CAS 403.

Although the OIG originally cited WPS for this CAS 403 performance non compliance commencing on October 1, 2006; the undersigned's determination is not retroactively seeking impact to that date but rather and effective date January 1, 2008. The reasoning for this change in effective dates is based on the fact that DCAA finalized and settled the rates of WPS' Segments for FY 2007 which ended on December 31, 2007. And, since final rates were established, by inference all WPS home office allocations including the improperly recorded and reported operating revenue calculation in WPS' 3 Factor Formula were accepted through that time frame. The undersigned has determined that there is limited recourse to retroactively re-open the final DCAA determined rates for FY 2007.

DETERMINATION OF NONCOMPLIANCE

Therefore, based upon a review of WPS Cost Accounting Practices, the Contracting Officer has determined WPS is in noncompliance with the subject Cost Accounting Standards as follows:

1. CAS 403 – Allocation of Home Office Expenses to Segments effective 1/1/2008 based upon WPS' calculations of improperly recorded and reported operating revenue.

Regardless if WPS is in agreement with the alleged noncompliance, WPS is requested to indicate if existing contracts are or would be affected by such noncompliance.

CMS hereby requests WPS to submit an accounting practice change required to correct the CAS 403 noncompliance and a Detailed Cost Impact (DCI) proposal within 60 days of the date of this letter (see FAR 30.605(c), (e)(2) and (f). Please see submission requirements below.

	Submission Instructions
1.	Submit on CASB-DS-1 as both PDF and Word documents.
2.	Transmittal should include a general description of the corrections and subject (Ex. "Initial Disclosure Statement, effective XX/XX/20XX, corrected XX/XX/20XX").
3.	Include a table/matrix with a summary of disclosure statement corrections that includes the page, D/S item #, description/comments/narrative of each item that has changed, i.e., what it was previously ("Initial") and what it is now with the corrections ("Initial, Corrected"). Accompanied by a General Dollar Magnitude or in lieu a Cost Impact Proposal at CO's discretion.
4.	Include cover sheet and signed certification.
5.	In first line of Item 0.4 of the cover sheet, enter the effective date.
6.	After the effective date, include the date corrected (example: "Effective Date of Initial Disclosure Statement XX/XX/20XX; corrected XX/XX/20XX")
7.	On each page, insert the Effective Date and Corrected Date in the Item Description block.
8.	Insert a revision/correction mark (e.g. "C") in the right hand margin of any line that is corrected.
9.	Submit rationale to support any written statement if you believe the cost impact of the changes is immaterial.
10.	Send to: [redacted]

	Submission Instructions
11.	Also, when submitting a Disclosure Statement Revision, please use the following information when completing Section 0.5: For the Cognizant Federal Agency: Centers for Medicare & Medicaid Services (CMS) [redacted] 7500 Security Boulevard, [redacted] Baltimore, Maryland 21244-1850 [redacted] For the Cognizant Federal Auditor: To be determined/coordinated by CMS [redacted]

Failure to comply with the requirements may result in the undersigned notifying all WPS cognizant Contrating Officers to begin withholding ten percent (10%) on subsequent payments on all CAS covered contracts.

If you have any questions, please contact [redacted] or the undersigned at [redacted]

Sincerely,

[redacted]

Director/Contracting Officer
Division of Financial Services (DFS)
Audit and Workforce Group (AWG) formerly (ABSG)
Office of Acquisition and Grants Management
Centers for Medicare & Medicaid Services

cc:

1. DCAA ATTN: Chicago Branch Office; [redacted]
2. CMS ATTN: [redacted]
3. NIH ATTN: [redacted]
4. US DHHS OIG, [redacted]
5. DFS Internal CAT Tracker posting [redacted] DFS ID #

HISTORICAL INFORMATION

- March 16, 2006 - CMS requested DCAA examine Wisconsin Physicians Service's (WPS) accounting system as of May 5, 2006 to determine whether it is adequate for accumulating costs under Government contracts and whether the billing procedures are adequate for the preparation of cost reimbursement claims. DCAA opinioned the accounting system is adequate, for accumulating and billing costs under Government contracts.

- June 27, 2006 - CMS requested DCAA to examine WPS Medicare Division and Home Office Initial Disclosure Statement dated October 1, 20005 and revised June 1, 2006. DCAA determined that the disclosed cost accounting practices adequately describe the practices used to estimate, accumulate, and report costs incurred or to be incurred on government contracts covered by 48 C.F.R. Chapter 99.

- August 8, 2006 – DCAA issued an audit of WPS WPS' Medicare Division and Home Office Initial Disclosure Statements Dated June 1, 2006. DCAA opinioned the subject Medicare division and Home Office disclosure statements adequately describe the contractor's cost accounting practices.

- November 14, 2006 - WPS submitted a Cost Plus Award Fee proposal in response to [redacted] to determine if the proposed costs are acceptable as a basis to negotiate a fair and reasonable contract price. DCAA determined WPS submitted adequate cost or pricing data and the proposal was prepared in accordance with applicable Cost Accounting Standards and appropriate provisions of FAR 31and Health and Human Services Acquisition Regulations (HHSAR).

- May 3, 2007 - DCAA examined the corporate expense allocations portion [redacted] of Wisconsin Physicians Services Insurance Corporation (WPS) [redacted] Cost Plus Award Fee proposal dated November 14, 2006 to determine if the part of the proposal examined is acceptable as a basis to negotiate a fair and reasonable contract price. WPS submitted the proposal for Jurisdiction 5 claims processing services for Medicare Parts A and B. The company proposed a performance period of the date of contract award through 2011. DCAA opinioned WPS has submitted adequate cost or pricing data in support of the corporate expense allocations included in its Jurisdiction 5 proposal. The proposed corporate expense allocations were prepared in accordance with applicable CAS and appropriate provisions of FAR Part 31 and HHS AR.

- January 10, 2008 - DCAA examined Wisconsin Physician Service Insurance Corporation-Medicare Division (WPS Medicare), October 20, 2007, Cost Plus Award Fee proposal submitted in response to [redacted] to determine if the proposed costs are acceptable as a basis to negotiate a fair and reasonable contract price. The [redacted] proposal is for Jurisdiction 6 claims processing services for Medicare Parts A and B. The company proposed a performance period of September 1, 2008 through August 31, 2013. DCAA opinioned except for the non-receipt of the technical evaluation and assist audit results, the offeror has submitted adequate information other than cost or pricing data.

- January 10, 2008 - DCAA examined Wisconsin Physician Service Insurance Corporation - Medicare Division (WPS Medicare), October 20, 2007, Cost Plus Award Fee proposal submitted in response to [redacted] to determine if the proposed costs are acceptable as a basis to negotiate a fair and reasonable contract price. The [redacted] proposal is for Jurisdiction 15 claims processing services for Medicare Parts A and B. The company proposed a performance period of August 1, 2008 through July 31, 2013. DCAA opinioned, except for the non-receipt of the technical evaluation and assist audit results, the offeror has submitted adequate information other than cost or pricing data.

- April 10, 2008 - CMS requested DCAA examine Wisconsin Physical Service Insurance Corporation Medicare Division (WPS) disclosure statement dated January 1, 2007 to determine if the disclosed practices comply with CAS and adequately describes its cost accounting practices, and the disclosed

practices comply with Cost Accounting Standards Board rules, regulations, and standards contained in 48 C.F.R. Chapter 99. DCAA determined the disclosed cost accounting practices comply with applicable Cost Accounting Standards, and FAR Part 31.

- June 30, 2008 – CMS sent a letter to WPS referencing DCAA audit report [redacted] dated June 6, 2008 stating that Wisconsin Physician Services Insurance Corporation disclosed cost accounting practices comply with allowable CAS, and FAR Part 31.

- June 17, 2009 – DCAA issued report number [redacted] which provided a floor check of Wisconsin Physician Service Insurance Corporation (WPS). DCAA performed physical observations (floor checks) to determine that employees are actually at work, that they are performing in their assigned job classifications, and their time is charged to the appropriate jobs. The floor checks included determining if the contractor consistently complies with established timekeeping system policies and procedures for recording labor charges. DCAA opinioned the floor checks disclosed no significant deficiencies in the contractor's timekeeping or labor system.

- April 12, 2010 – DCAA issued Final Rates for WPS FY 2007.

- September 10, 2010 – DCAA examined the Wisconsin Physician Service Insurance Corporation - Medicare Division, (WPS Medicare), Cost Plus Award Fee proposal dated April 23, 2010, for cost realism and possible understatement to assist the contracting officer in performing the analysis. WPS Medicare submitted the proposal for CMS Durable Medical Equipment Jurisdiction D in response to [redacted]. The company proposed a performance period of October 31, 2010 through October 30, 2015.

- September 15, 2010 - WPS submitted a contract proposal, dated August 10, 2010, for the definitization of the letter contract, dated July 28, 2010 for the Medicare Part D Coverage Gap Payment project. It was determined the proposed direct labor rates are acceptable for negotiation of a fair and reasonable direct labor cost. In addition, the proposed indirect rates are acceptable for negotiation of a fair and reasonable departmental and division of overhead expenses except the G&A rate which is impacted by the CAS 403 issue which will result in an overstated G&A rate. The letter recommended the impact of the CAS 403 home office allocation issue on the [redacted] G&A budgetary rate be discussed during negotiations as the rate would be lowered by [redacted] minimum.

- October 8, 2010 – DCAA examined Wisconsin Physician Service Insurance Corporation - Medicare Division (WPS Medicare), cost-plus-award fee proposal dated July 9, 2010 for cost realism and possible understatement to assist the contracting officer in performing the analysis. WPS Medicare submitted the [redacted] proposal for Jurisdiction 8 Medicare Parts A and B Medicare Administrative Contractor (MAC) in response to [redacted]. The company proposed a performance period of March 1, 2011 through February 29, 2016. DCAA determined WPS submitted adequate cost and pricing data.

- October 21, 2010 – WPS received a letter from CMS providing guidance on estimating and accumulating allowable and allocable direct and indirect costs applicable to Title XVIII Legacy, MAC, and other Cost Accounting Standards (CAS) covered contracts or subcontracts.

- November 16, 2010 – WPS sent a letter to CMS asserting it was not aware of any requirement that it adhere to CAS regulations. WPS asserted that the Legacy Medicare Title XVII contracts have not been subject to CAS as a matter of regulation but only as specified in certain limited provisions of the contract, specifically Appendix B, pension costs. WPS does not believe no other section of the contract references CAS and to assert adherence to CAS will require a contract modification.

- November 17, 2010 - Email Correspondence about CMS Cognizance over WPS.

- November 19, 2010 – DCAA conducted an audit of HPES - USPS Medicare Operations' (Medicare), July 8, 2010, firm-fixed-price proposal submitted in response to [redacted] to determine if the proposed costs are acceptable as a basis to negotiate a fair and reasonable subcontract price. The [redacted] proposal is for information technology services in support of the transition and ongoing support of Part B Medicare Administrative Contractor (MAC) processing for Jurisdiction 8 (J8). The company proposed a performance period of March 1, 2011 through February 28, 2016. CLIN 0001 and CLIN 0002 are in Performance Year (PY) 1; CLINs 0003 - 0006 are in PYs 2-5, respectively. DCAA determined the cost or pricing data submitted by the offeror are inadequate in part (see Notes 3 and 6 on pages 10 and 12). However, the inadequacies described are considered to have limited impact on the subject proposal. The proposal was prepared in accordance with applicable Cost Accounting Standards and appropriate provisions of FAR Part 31 and the HHSAR Supplement.

- December 20, 2010 – CMS sent a letter to DCAA requesting a review to determine if WPS policies, procedures, and practices used to estimate, accumulate, and report costs on Government contracts comply with the requirements of CAS 403. CAS 403 establishes criteria for the allocation of home office expenses (direct and indirect) to the segments of the organization. The request noted HHSAR regulations which differed from the FAR. The regulations included Independent Research & Development (IR&D) and the Facilities Capital Cost of Money.

- January 11, 2011 – A Contracting Officer Determination of Adequacy letter was issued to WPS in reference to their disclosure statement submitted January 1, 2010 to DCAA.

- February 18, 2011 – DCAA examined Wisconsin Physicians Service Insurance Corporation - Medicare Division (WPS Medicare) revised disclosure statement, dated July 2, 2010 and effective January 1, 2010 to ensure it disclosure statement adequately describes its cost accounting practices, and the disclosed practices comply with Cost Accounting Standards Board rules, regulations, and standards contained in 48 C.F.R Chapter 99. DCAA noted certain items are inconsistent within the disclosure statement, certain disclosure statement items and continuation sheet (CS) descriptions were vague, and certain disclosure statement items were incomplete.

- April 27, 2011 – DCAA issued audit report number [redacted] which examined Wisconsin Physicians Service Insurance Corporation – Home Office (WPS Home Office) revised disclosure statement, dated July 2, 2010 and effective January 1, 2010. DCAA opinioned the revised disclosure statement cannot be relied upon to provide a current, accurate and complete description of WPS Home Office's cost accounting practices for consistently accumulating and reporting costs charged to contracts.

- May 24, 2011 – The U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), issued a final report entitled, "Audit of Medicare Part A Administrative Costs for the Period November 5, 2007, through September 30, 2008 at Wisconsin Physicians Service Insurance Corporation".

- August 12, 2011 – A Contracting Officer Determination of an Adequate Accounting System was issued to WPS in reference to its DCAA reviewed accounting system on June 16, 2006.

- October 17, 2011 – DCAA issued a determination of adequacy on WPS accounting system for accumulating and billing costs under Government contracts.

- October 20, 2011 – CMS issued an adequacy determination to WPS in reference to the October 17, 2011 audit report.

- November 22, 2011 – The U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), issued a final report entitled, "Audit of Medicare Part B Administrative Costs for the Period October 1, 2006, Through September 30, 2008 at the Wisconsin Physicians Service Insurance Corporation".

- December 15, 2011 – DCAA issued a determination on WPS proposed indirect rates for FY 2008.

- December 15, 2011 - DCAA issued a determination on WPS proposed indirect rates for FY 2009.

- January 26, 2012 – DCAA evaluated the of Cost Accounting Standards (CAS) 403 - Allocation of Home Office Expenses to Segments of WPS. The purpose of the examination was to determine if WPS complied with the requirements of CAS 403 and any applicable FAR Part 31 requirements during Contractor Fiscal Year (CFY) 2010. DCAA determined that WPS complied, in all material respects, with the requirements of Cost Accounting Standard 403, allocation of home office expenses to segments, during CFY January 1, 2010 through December 31, 2010.

- March 28, 2012 - DCAA issued a determination on WPS proposed indirect rates for FY 2010.

- September 10, 2015 – DCAA issued a letter to CMS detailing their review of WPS disclosure statement revision 2 dated January 16, 2013 and effective January 1, 2013. WPS issued assignment number [redacted] and determined no cost accounting practice changes occurred in the disclosure statement revision 2 as the changes were administrative. DCAA asserted a compliance determination was not necessary.

- September 10, 2015 – DCAA issued a letter to CMS detailing their review of WPS disclosure statement revision 3 dated April 21, 2015 and effective January 1, 2015. WPS issued assignment number [redacted] and determined no cost accounting practice changes occurred in the disclosure statement revision 3. WPS asserted they revised its disclosed accounting practice to better reflect its business model. DCAA asserted a compliance determination was not necessary.

- October 2015 – The U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), issued a final report entitled, “Wisconsin Physicians Service Insurance Corporation Claimed Unallowable Medicare Part A Administrative Costs for FYs 2009, 2010, and 2011.”

- October 2015 – The U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), issued a final report entitled, “Wisconsin Physicians Service Insurance Corporation Claimed Unallowable Medicare Part B Administrative Costs for FYs 2009, 2010, and 2011.”

REFERENCE:

1. Defense Contractor Audit Agency (DCAA) Audit Report Number [redacted], dated June 16, 2006
2. Defense Contractor Audit Agency (DCAA) Audit Report Number [redacted], dated August 8, 2006
3. Defense Contractor Audit Agency (DCAA) Audit Report Number [redacted], dated March 20, 2007
4. Defense Contractor Audit Agency (DCAA) Audit Report Number [redacted], dated June 4, 2007
5. Defense Contractor Audit Agency (DCAA) Audit Report Number [redacted], dated February 14, 2008
6. Defense Contractor Audit Agency (DCAA) Audit Report Number [redacted], dated February 15, 2008
7. Defense Contractor Audit Agency (DCAA) Audit Report Number [redacted], dated June 6, 2008
8. CMS CAS Letter to WPS dated June 30, 2008
9. Defense Contractor Audit Agency (DCAA) Audit Report Number [redacted], dated June 17, 2009
10. Defense Contractor Audit Agency (DCAA) Final Rate Agreement for FY 2007 dated April 12, 2010
11. Defense Contractor Audit Agency (DCAA) Audit Report Number [redacted] dated April 20, 2010
12. Defense Contractor Audit Agency (DCAA) Audit Report Number [redacted] dated September 10, 2010
13. CMS Definitization of Letter Contract for Contract [redacted], dated September 15, 2010
14. Defense Contractor Audit Agency (DCAA) Audit Report Number [redacted] dated October 8, 2010
15. Defense Contractor Audit Agency (DCAA) Audit Report Number [redacted] dated November 19, 2010
16. Defense Contractor Audit Agency (DCAA) Audit Report Number [redacted] dated January 28, 2011
17. Defense Contractor Audit Agency (DCAA) Audit Report Number [redacted] dated February 18, 2011
18. Defense Contractor Audit Agency (DCAA) Audit Report Number [redacted] dated April 27, 2011
19. Defense Contractor Audit Agency (DCAA) Audit Report Number [redacted] dated October 17, 2011
20. Defense Contractor Audit Agency (DCAA) Audit Report Number [redacted] dated December 15, 2011
21. Defense Contractor Audit Agency (DCAA) Audit Report Number [redacted] dated December 15, 2011
22. Defense Contractor Audit Agency (DCAA) Audit Report Number [redacted] dated March 28, 2012
23. Defense Contractor Audit Agency (DCAA) Audit Report Number [redacted] dated January 26, 2012
24. Defense Contractor Audit Agency (DCAA) Audit Report No. [redacted], dated January 24, 2011

25. Defense Contractor Audit Agency (DCAA) Audit Report No. [redacted], dated January 26, 2012
26. Defense Contractor Audit Agency (DCAA) Audit Report No. [redacted], dated January 26, 2012
27. Defense Contractor Audit Agency (DCAA) Audit Report No. [redacted], dated September 10, 2015
28. Defense Contractor Audit Agency (DCAA) Audit Report No. [redacted], dated September 10, 2015
29. Defense Contractor Audit Agency (DCAA) Memorandum No. [redacted], dated July 6, 2016
30. OIG Audit Report No. A-05-09-00101, dated May 24, 2011
31. OIG Audit Report No. A-05-09-00096, dated November 22, 2011
32. OIG Audit Report No. A-05-13-00020 (Part A), dated November 9, 2015
33. OIG Audit Report No. A-05-13-00019 (Part B), dated November 9, 2015