Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

WISCONSIN PHYSICIANS SERVICE INSURANCE CORPORATION DID NOT CLAIM SOME ALLOWABLE MEDICARE PENSION COSTS

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

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Office of Inspector General

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

Report in Brief
Date: January 2018
Report No. A-07-17-00519

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

Why OIG Did This Review

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

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

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

Our objective was to determine whether the fiscal years (FYs) 2008 through 2013 pension costs that Wisconsin Physicians Service Insurance Corporation (WPS) claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACPs, were allowable and correctly claimed.

How OIG Did This Review

We reviewed $11.8 million of pension costs claimed by WPS for Medicare reimbursement on its FACPs for FYs 2008 through 2013.

Wisconsin Physicians Service Insurance Corporation Did Not Claim Some Allowable Medicare Pension Costs

What OIG Found

WPS claimed FYs 2008 through 2013 pension costs of $11.8 million for Medicare reimbursement; however, we determined that the allowable Cost Accounting Standards (CAS)-based pension costs during this period were $12.8 million. The difference, $1.0 million, represented allowable Medicare pension costs that WPS should have claimed on its FACPs for FYs 2008 through 2013. WPS did not claim these allowable Medicare pension costs primarily because it based its claim for Medicare reimbursement on an incorrectly calculated CAS pension cost.

What OIG Recommends and Auditee Comments

We recommend that WPS revise its FACPs for FYs 2008 through 2013 to claim additional Medicare pension costs of $1.0 million.

WPS did not concur with our findings and, by extension, with the dollar amount in our recommendation. WPS referred to its comments on related OIG reports and stated that it believes that its calculation of pension costs did comply with Federal regulations and that its computation of assignable pension cost for calendar year (CY) 2013 was accurate. In the context of its comments on related reports, WPS stated that the difference between its calculations of some Medicare segment pension assets and our own calculations was because it amortized the impact of a CY 2012 plan change over 1 year (instead of 10 years).

After reviewing WPS's comments on this and related draft reports, we revised the dollar amounts in our findings and recommendation for this report. We maintain that our findings and recommendation, as modified, are valid. WPS cannot amortize the impact of the CY 2012 plan change over a 1-year period because the 10-year amortization requirement appears in CAS 413.

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INTRODUCTION

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their pension costs, which are funded by the annual contributions that these contractors make to their pension plans. The amount of pension costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the allocability and cost reimbursement principles contained in the Federal Acquisition Regulation (FAR), Cost Accounting Standards (CAS), and Medicare contracts. Previous Office of Inspector General (OIG) reviews found that Medicare contractors did not always comply with Federal requirements when claiming pension costs for Medicare reimbursement.

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

OBJECTIVE

Our objective was to determine whether the fiscal years (FYs) 2008 through 2013 qualified defined-benefit plan pension costs (herein, referred to as "pension costs") that Wisconsin Physicians Service Insurance Corporation (WPS) claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACPs, were allowable and correctly claimed.

BACKGROUND

Wisconsin Physicians Service Insurance Corporation

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

With the implementation of Medicare contracting reform,[1] WPS continued to perform Medicare work after being awarded the MAC contracts for Medicare Parts A and B Jurisdiction 5[2] and Jurisdiction 8[3] effective September 5, 2007, and September 30, 2011, respectively.

During the audit period, WPS had three defined-benefit pension plans: (1) the Managerial Retirement Program for Selected Locations (MRPSL), (2) the Managerial Pension Plan (MPP), and (3) the Employees' Pension Plan (EPP). The MRPSL and the EPP merged into the MPP effective December 31, 2009, and December 31, 2012, respectively. This report addresses the pension costs claimed by WPS, under the provisions of its fiscal intermediary and carrier contracts, for all three pension plans.

Medicare Reimbursement of Pension Costs

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

Beginning with FY 1988, CMS incorporated specific segmentation language into Medicare contracts that requires contractors to use either an indirect allocation method or a separate calculation method to identify and claim pension costs for Medicare reimbursement. Under the indirect allocation method, the contractor determines total plan CAS-based pension costs and allocates a share to Medicare. Under the separate calculation method, the contractor separately identifies the pension cost components for the Medicare segment. The contractor must use the separate calculation method if its result is materially different from that of the allocation method.

HOW WE CONDUCTED THIS REVIEW

We reviewed $11,818,424 of pension costs claimed by WPS for Medicare reimbursement on its FACPs for FYs 2008 through 2013.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain

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

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

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

sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

Appendix A contains details of our audit scope and methodology.

FINDING

WPS claimed FYs 2008 through 2013 pension costs of $11,818,424 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs during this period were $12,824,653. The difference, $1,006,229, represented allowable Medicare pension costs that WPS should have claimed on its FACPs for FYs 2008 through 2013. WPS did not claim these allowable Medicare pension costs primarily because it based its claim for Medicare reimbursement on an incorrectly calculated CAS pension cost.

CLAIMED PENSION COSTS

WPS claimed Medicare pension costs of $11,818,424 for Medicare reimbursement, under the provisions of its fiscal intermediary and carrier contracts, on its FACPs for FYs 2008 through 2013. We calculated the allowable Medicare pension costs based on separately computed CAS-based pension costs for the Medicare segment and the Other segment in accordance with CAS 412 and 413. For details on the Federal requirements, see Appendix B.

ALLOWABLE PENSION COSTS NOT CLAIMED

We determined that the allowable CAS-based pension costs for FYs 2008 through 2013 were $12,824,653. Thus, WPS did not claim $1,006,229 of allowable Medicare pension costs on its FACPs for FYs 2008 through 2013. WPS did not claim these allowable Medicare pension costs primarily because it based its claim for Medicare reimbursement on an incorrectly calculated CAS pension cost. More specifically, WPS incorrectly computed the calendar year (CY) 2013 assignable pension cost for the MPP.

The table on the following page shows the differences between the allowable CAS-based pension costs and the pension costs that WPS claimed on its FACPs and reflected in its accounting documents. Appendixes C through E show the development of the allocable pension cost for each of WPS's three pension plans, and Appendix F contains additional details on allowable pension costs.

Table: Comparison of Allowable Pension Costs and Claimed Pension Costs

	Medicare Pension Costs		
Fiscal Year	**Allowable Per Audit**	**Claimed by WPS**	**Difference**
2008	$3,331,071	$3,080,521	$250,550
2009	2,707,268	2,712,995	(5,727)
2010	1,755,924	1,896,329	(140,405)
2011	1,690,789	1,621,963	68,826
2012	2,303,814	2,236,195	67,619
2013	1,035,787	270,421	765,366
Total	**$12,824,653**	**$11,818,424**	**$1,006,229**

RECOMMENDATION

We recommend that WPS revise its FACPs for FYs 2008 through 2013 to claim additional Medicare pension costs of $1,006,229.

AUDITEE COMMENTS

In written comments on our draft report, WPS did not concur with our findings and, by extension, with the dollar amount in our recommendation.

WPS's comments referred to our related report on its allocable pension costs claimed (A-07-17-00520; Appendix A). In that report, we found that the pension costs (for both the Medicare segment and the Other segment) that WPS used to calculate the indirect cost rates in its ICPs did not comply with Federal requirements. Because WPS regards our findings in both reports as related, it used a single set of written comments to reply to both draft reports.

Furthermore, WPS added that it believes that its calculation of pension costs did comply with Federal regulations and that its computation of assignable pension cost for CY 2013 was accurate. In that context, WPS alluded to its written comments on our related draft report on pension segmentation of its MPP (A-07-17-00518; Appendix A). WPS stated in its comments on both that report and this one that the difference between its calculations of the MPP Medicare segment pension assets and our calculations was due to the calculation of the CAS cost in CY 2013—specifically, to "different amortization periods" of a plan change in CY 2012. WPS said that it amortized the impact of a plan change in CY 2012 over 1 year. WPS added that this amortization period was consistent with informal guidance provided by CMS, and with WPS's curtailment of benefits under the plan, which ended the Federal Government's participation in the plan effective December 31, 2013. WPS also said that our draft audit reports recommended that the impact of the CY 2012 plan change be amortized over 10 years. These recommendations would, according to WPS, have the effect of increasing allowable pension costs in CY 2013 (because the cost savings of the plan change would be spread out over a longer period of time). However, according to WPS, we have "provided no authority from the CAS Board's regulations indicating that a pension plan change should be amortized over a period that extends beyond the Government's participation in the plan."

WPS also referred to an email that we sent to WPS on November 7, 2017, indicating that it should have claimed an additional approximately $1.5 million of allowable Medicare pension costs on its ICPs for CYs 2008 through 2013.

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

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing WPS's comments on this and related draft reports, we revised the dollar amounts in our findings and recommendation for this report, based on WPS's comments on related reports A-07-17-00517 and A-07-17-00518 (Appendix A). Our revised recommendation is that WPS revise its FACPs for FYs 2008 through 2013 to claim additional Medicare pension costs of $1,006,229. We maintain that our findings and recommendation, as modified, are valid.[4]

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

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

The November 7, 2017, email to which WPS referred actually dealt with a separate audit for which we are still conducting audit work and for which we plan to issue a report in the future. The financial adjustment referenced in that email does not impact the allowable pension costs in this audit.

[4] After reviewing WPS's comments on this series of pension reports, we revised our finding and recommendation for allowable pension costs in this report. The amount of allowable Medicare pension costs in this final report is $4,747 more than the amount conveyed in the draft report.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed $11,818,424 of pension costs that WPS claimed for Medicare reimbursement on its FACPs for FYs 2008 through 2013.

Achieving our objective did not require that we review WPS's overall internal control structure. We reviewed the internal controls related to the pension costs claimed for Medicare reimbursement to ensure that the pension costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

We performed our fieldwork at WPS in Madison, Wisconsin.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;

- reviewed information provided by WPS to identify the amount of pension costs claimed for Medicare reimbursement for FYs 2008 through 2013;

- used information that WPS's actuarial consulting firm provided, including information on the pension plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses;

- examined WPS's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Forms 5500;

- determined the extent to which WPS funded CAS-based pension costs with contributions to the pension trust fund and accumulated prepayment credits;

- engaged the CMS Office of the Actuary, which provides technical actuarial advice, to calculate the allocable pension costs based on the CAS (the calculations were based on separately computed CAS-based pension costs for the Medicare segment and the Other segment);

- reviewed the CMS actuaries' methodology and calculations; and

- provided the results of the review to WPS officials on June 7, 2017.

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

- *Wisconsin Physicians Service Insurance Corporation Understated Its Medicare Segment Pension Assets for Its Employees' Pension Plan* (A-07-17-00516),

- *Wisconsin Physicians Service Insurance Corporation Understated Its Medicare Segment Pension Assets for Its Managerial Retirement Program for Selected Locations* (A-07-17-00517),

- *Wisconsin Physicians Service Insurance Corporation Understated Its Medicare Segment Pension Assets for Its Managerial Pension Plan* (A-07-17-00518), and

- *Wisconsin Physicians Service Insurance Corporation Understated Its Allocable Pension Costs* (A-07-17-00520).

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

APPENDIX B: FEDERAL REQUIREMENTS RELATED TO REIMBURSEMENT OF PENSION COSTS

FEDERAL REGULATIONS

Federal regulations (FAR 31.205-6(j)) address allowability of pension costs and require that contractors fund the pension costs assigned to contract periods by making contributions to the pension plan.

Federal regulations (CAS 412) (as amended) address the determination and measurement of pension cost components. This regulation also addresses the assignment of pension costs to appropriate accounting periods.

Federal regulations (CAS 413) (as amended) address the valuation of pension assets, allocation of pension costs to segments of an organization, adjustment of pension costs for actuarial gains and losses, and assignment of gains and losses to cost accounting periods.

CAS 413.50(a)(2)(ii) requires that actuarial gains and losses be amortized over a 10-year period in equal annual installments, beginning with the date as of which the actuarial valuation is made.

MEDICARE CONTRACTS

The Medicare contracts address the determination and allocation of pension costs. The contracts state: "The calculation of and accounting for pension costs charged to this agreement/contract are governed by the Federal Acquisition Regulation and Cost Accounting Standards 412 and 413."

APPENDIX C: ALLOCABLE MEDICARE PENSION COSTS FOR THE MANAGERIAL RETIREMENT PROGRAM FOR SELECTED LOCATIONS FOR WISCONSIN PHYSICIANS SERVICE INSURANCE CORPORATION FOR CALENDAR YEARS 2008 AND 2009

Date	Description		Total Company	"Other" Segment	Medicare Segment
2008	Contributions	1/	$5,902,378	$3,846,816	$2,055,562
	Discount for Interest	2/	($313,375)	($204,239)	($109,136)
January 1, 2008	Present Value Contributions	3/	$5,589,003	$3,642,577	$1,946,426
	Prepayment Credit Applied	4/	$333,259	$13,144	$320,115
	Present Value of Funding	5/	$5,922,262	$3,655,721	$2,266,541
January 1, 2008	CAS Funding Target	6/	$2,359,603	$93,062	$2,266,541
	Percentage Funded	7/		100.00%	100.00%
	Funded Pension Cost	8/		$93,062	$2,266,541
	Allowable Interest	9/		$4,246	$103,404
2008	CY Allocable Pension Cost	10/		$97,308	$2,369,945

Date	Description	Total Company	"Other" Segment	Medicare Segment
2009	Contributions	$399,667	$399,667	$0
	Discount for Interest	($22,463)	($22,463)	$0
January 1, 2009	Present Value Contributions	$377,204	$377,204	$0
	Prepayment Credit Applied	$1,935,585	$0	$1,935,585
	Present Value of Funding	$2,312,789	$377,204	$1,935,585
January 1, 2009	CAS Funding Target	$1,935,585	$0	$1,935,585
	Percentage Funded		0.00%	100.00%
	Funded Pension Cost		$0	$1,935,585
	Allowable Interest		$0	$0
2009	CY Allocable Pension Cost		$0	$1,935,585

ENDNOTES

1/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the CY and accrued contributions deposited after the end of the CY but within the time allowed for filing tax returns. We determined the contributions allocated to the MRPSL Medicare segment during the pension segmentation review (A-07-17-00517). The amounts shown for the "Other" segment represent the difference between the Total Company and the MRPSL Medicare segments.

2/ We subtracted the interest that was included in the contributions deposited after the beginning of the valuation year to discount the contributions back to their beginning-of-the-year value. For purposes of this Appendix, we computed the interest as the difference between the present value of contributions (at the CAS valuation interest rate) and actual contribution amounts.

3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the CY. For purposes of this Appendix, we deemed deposits made after the end of the CY to have been made on the final day of the CY, consistent with the method established by the Employee Retirement Income Security Act prior to the implementation of the Pension Protection Act.

4/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year CAS funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.

5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at the first day of the CY.

6/ The CAS funding target must be funded by contributions made during the current accounting period or prepaid contributions to satisfy the funding requirement of the FAR 31.205-6(j)(2)(i).

7/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the CY. Because any funding in excess of the CAS funding target is accounted for as a prepayment in accordance with CAS 412.50(c)(1), the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimal places.

8/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.

9/ We assumed that interest on the funded CAS-based pension cost, less the prepayment credit, accrues in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in four equal installments deposited within 30 days after the end of the quarter.

10/ The CY allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.

APPENDIX D: ALLOCABLE MEDICARE PENSION COSTS FOR THE EMPLOYEES' PENSION PLAN FOR WISCONSIN PHYSICIANS SERVICE INSURANCE CORPORATION FOR CALENDAR YEARS 2008 THROUGH 2012

Date	Description		Total Company	"Other" Segment	Medicare Segment
2008	Contributions	1/	$8,471,000	$8,471,000	$0
	Discount for Interest	2/	($409,504)	($409,504)	$0
January 1, 2008	Present Value Contributions	3/	$8,061,496	$8,061,496	$0
	Prepayment Credit Applied	4/	$1,168,163	$1,168,163	$0
	Present Value of Funding	5/	$9,229,659	$9,229,659	$0
January 1, 2008	CAS Funding Target	6/	$2,148,575	$2,148,575	$0
	Percentage Funded	7/		100.00%	0.00%
	Funded Pension Cost	8/		$2,148,575	$0
	Allowable Interest	9/		$49,802	$0
2008	CY Allocable Pension Cost	10/		$2,198,377	$0

Date	Description	Total Company	"Other" Segment	Medicare Segment
2009	Contributions	$3,600,000	$3,600,000	$0
	Discount for Interest	($251,163)	($251,163)	$0
January 1, 2009	Present Value Contributions	$3,348,837	$3,348,837	$0
	Prepayment Credit Applied	$1,645,398	$1,645,398	$0
	Present Value of Funding	$4,994,235	$4,994,235	$0
January 1, 2009	CAS Funding Target	$1,645,398	$1,645,398	$0
	Percentage Funded		100.00%	0.00%
	Funded Pension Cost		$1,645,398	$0
	Allowable Interest		$0	$0
2009	CY Allocable Pension Cost		$1,645,398	$0

Date	Description	Total Company	"Other" Segment	Medicare Segment
2010	Contributions	$3,000,000	$3,000,000	$0
	Discount for Interest	($209,302)	($209,302)	$0
January 1, 2010	Present Value Contributions	$2,790,698	$2,790,698	$0
	Prepayment Credit Applied	$1,469,355	$1,469,355	$0
	Present Value of Funding	$4,260,053	$4,260,053	$0
January 1, 2010	CAS Funding Target	$1,469,355	$1,469,355	$0
	Percentage Funded		100.00%	0.00%
	Funded Pension Cost		$1,469,355	$0
	Allowable Interest		$0	$0
2010	CY Allocable Pension Cost		$1,469,355	$0

Date	Description	Total Company	"Other" Segment	Medicare Segment
2011	Contributions	$3,100,000	$3,100,000	$0
	Discount for Interest	($196,565)	($196,565)	$0
January 1, 2011	Present Value Contributions	$2,903,435	$2,903,435	$0
	Prepayment Credit Applied	$1,647,539	$1,647,539	$0
	Present Value of Funding	$4,550,974	$4,550,974	$0
January 1, 2011	CAS Funding Target	$1,647,539	$1,647,539	$0
	Percentage Funded		100.00%	0.00%
	Funded Pension Cost		$1,647,539	$0
	Allowable Interest		$0	$0
2011	CY Allocable Pension Cost		$1,647,539	$0

Date	Description	Total Company	"Other" Segment	Medicare Segment
2012	Contributions	$600,000	$600,000	$0
	Discount for Interest	($25,370)	($25,370)	$0
January 1, 2012	Present Value Contributions	$574,630	$574,630	$0
	Prepayment Credit Applied	$3,208,660	$3,208,660	$0
	Present Value of Funding	$3,783,290	$3,783,290	$0
January 1, 2012	CAS Funding Target	$3,208,660	$3,208,660	$0
	Percentage Funded		100.00%	0.00%
	Funded Pension Cost		$3,208,660	$0
	Allowable Interest		$0	$0
2012	CY Allocable Pension Cost		$3,208,660	$0

ENDNOTES

1/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the CY and accrued contributions deposited after the end of the CY but within the time allowed for filing tax returns. We determined the contributions allocated to the EPP Medicare segment during the pension segmentation review (A-07-17-00516). The amounts shown for the "Other" segment represent the difference between the Total Company and the EPP Medicare segments.

2/ We subtracted the interest that was included in the contributions deposited after the beginning of the valuation year to discount the contributions back to their beginning-of-the-year value. For purposes of this Appendix, we computed the interest as the difference between the present value of contributions (at the CAS valuation interest rate) and actual contribution amounts.

3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the CY. For purposes of this Appendix, we deemed deposits made after the end of the CY to have been made on the final day of the CY, consistent with the method established by the Employee Retirement Income Security Act prior to the implementation of the Pension Protection Act.

4/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year CAS funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.

5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at the first day of the CY.

6/ The CAS funding target must be funded by contributions made during the current accounting period or prepaid contributions to satisfy the funding requirement of the FAR 31.205-6(j)(2)(i).

7/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the CY. Because any funding in excess of the CAS funding target is accounted for as a prepayment in accordance with CAS 412.50(c)(1), the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimal places.

8/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.

9/ We assumed that interest on the funded CAS-based pension cost, less the prepayment credit, accrues in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in four equal installments deposited within 30 days after the end of the quarter.

10/ The CY allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.

APPENDIX E: ALLOCABLE MEDICARE PENSION COSTS FOR THE MANAGERIAL PENSION PLAN FOR WISCONSIN PHYSICIANS SERVICE INSURANCE CORPORATION FOR CALENDAR YEARS 2008 THROUGH 2013

Date	Description		Total Company	"Other" Segment	Medicare Segment
2008	Contributions	1/	$22,196,619	$22,196,619	$0
	Discount for Interest	2/	($1,126,280)	($1,126,280)	$0
January 1, 2008	Present Value Contributions	3/	$21,070,339	$21,070,339	$0
	Prepayment Credit Applied	4/	$10,947,315	$10,121,523	$825,792
	Present Value of Funding	5/	$32,017,654	$31,191,862	$825,792
January 1, 2008	CAS Funding Target	6/	$10,947,315	$10,121,523	$825,792
	Percentage Funded	7/		100.00%	100.00%
	Funded Pension Cost	8/		$10,121,523	$825,792
	Allowable Interest	9/		$0	$0
2008	CY Allocable Pension Cost	10/		$10,121,523	$825,792

Date	Description	Total Company	"Other" Segment	Medicare Segment
2009	Contributions	$14,881,667	$14,881,667	$0
	Discount for Interest	($1,587,156)	($1,587,156)	$0
January 1, 2009	Present Value Contributions	$13,294,511	$13,294,511	$0
	Prepayment Credit Applied	$7,808,797	$7,151,890	$656,907
	Present Value of Funding	$21,103,308	$20,446,401	$656,907
January 1, 2009	CAS Funding Target	$7,808,797	$7,151,890	$656,907
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		$7,151,890	$656,907
	Allowable Interest		$0	$0
2009	CY Allocable Pension Cost		$7,151,890	$656,907

Date	Description	Total Company	"Other" Segment	Medicare Segment
2010	Contributions	$7,000,000	$7,000,000	$0
	Discount for Interest	($976,744)	($976,744)	$0
January 1, 2010	Present Value Contributions	$6,023,256	$6,023,256	$0
	Prepayment Credit Applied	$4,986,922	$3,314,734	$1,672,188
	Present Value of Funding	$11,010,178	$9,337,990	$1,672,188
January 1, 2010	CAS Funding Target	$4,986,922	$3,314,734	$1,672,188
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		$3,314,734	$1,672,188
	Allowable Interest		$0	$0
2010	CY Allocable Pension Cost		$3,314,734	$1,672,188

Date	Description	Total Company	"Other" Segment	Medicare Segment
2011	Contributions	$9,800,000	$9,800,000	$0
	Discount for Interest	($849,553)	($849,553)	$0
January 1, 2011	Present Value Contributions	$8,950,447	$8,950,447	$0
	Prepayment Credit Applied	$6,324,884	$4,467,479	$1,857,405
	Present Value of Funding	$15,275,331	$13,417,926	$1,857,405
January 1, 2011	CAS Funding Target	$6,324,884	$4,467,479	$1,857,405
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		$4,467,479	$1,857,405
	Allowable Interest		$0	$0
2011	CY Allocable Pension Cost		$4,467,479	$1,857,405

Date	Description	Total Company	"Other" Segment	Medicare Segment
2012	Contributions	$0	$0	$0
	Discount for Interest	$0	$0	$0
January 1, 2012	Present Value Contributions	$0	$0	$0
	Prepayment Credit Applied	$12,754,353	$9,459,657	$3,294,696
	Present Value of Funding	$12,754,353	$9,459,657	$3,294,696
January 1, 2012	CAS Funding Target	$12,754,353	$9,459,657	$3,294,696
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		$9,459,657	$3,294,696
	Allowable Interest		$0	$0
2012	CY Allocable Pension Cost		$9,459,657	$3,294,696

Date	Description	Total Company	"Other" Segment	Medicare Segment
2013	Contributions	$0	$0	$0
	Discount for Interest	$0	$0	$0
January 1, 2013	Present Value Contributions	$0	$0	$0
	Prepayment Credit Applied	$9,891,666	$8,488,908	$1,402,758
	Present Value of Funding	$9,891,666	$8,488,908	$1,402,758
January 1, 2013	CAS Funding Target	$9,891,666	$8,488,908	$1,402,758
	Percentage Funded		100.00%	100.00%
	Funded Pension Cost		$8,488,908	$1,402,758
	Allowable Interest		$0	$0
2013	CY Allocable Pension Cost		$8,488,908	$1,402,758

ENDNOTES

1/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the CY and accrued contributions deposited after the end of the CY but within the time allowed for filing tax returns. We determined the contributions allocated to the MPP Medicare segment during the pension segmentation review (A-07-17-00518). The amounts shown for the "Other" segment represent the difference between the Total Company and the MPP Medicare segments.

2/ We subtracted the interest that was included in the contributions deposited after the beginning of the valuation year to discount the contributions back to their beginning-of-the-year value. For purposes of this Appendix, we computed the interest as the difference between the present value of contributions (at the CAS valuation interest rate) and actual contribution amounts.

3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the CY. For purposes of this Appendix, we deemed deposits made after the end of the CY to have been made on the final day of the CY, consistent with the method established by the Employee Retirement Income Security Act prior to the implementation of the Pension Protection Act.

4/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year CAS funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.

5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at the first day of the CY.

6/ The CAS funding target must be funded by contributions made during the current accounting period or prepaid contributions to satisfy the funding requirement of the FAR 31.205-6(j)(2)(i).

7/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the CY. Because any funding in excess of the CAS funding target is accounted for as a prepayment in accordance with CAS 412.50(c)(1), the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimal places.

8/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.

9/ We assumed that interest on the funded CAS-based pension cost, less the prepayment credit, accrues in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in four equal installments deposited within 30 days after the end of the quarter.

10/ The CY allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.

APPENDIX F: ALLOWABLE MEDICARE PENSION COSTS FOR WISCONSIN PHYSICIANS SERVICE INSURANCE CORPORATION FOR FISCAL YEARS 2008 THROUGH 2013

Date	Description		Other Segment	Medicare Segment	Total Medicare
January 1, 2007	Calendar Year Allowable Pension Cost	1/	$873,372	$1,978,076	
January 1, 2008	Managerial Retirement Program for Selected Locations Allocable Cost	2/	$97,308	$2,369,945	
	Employees' Pension Plan Allocable Cost	3/	$2,198,377	$0	
	Managerial Pension Plan Allocable Cost	4/	$10,121,523	$825,792	
	Total Calendar Year Allocable Pension Costs	5/	$12,417,208	$3,195,737	
	LOB* percentage	6/	8.06%	77.92%	
	Calendar Year Allowable Pension Cost	7/	$1,000,827	$2,490,118	
2008	Fiscal Year Allowable Pension Cost	8/	$968,963	$2,362,108	$3,331,071

Date	Description	Other Segment	Medicare Segment	Total Medicare
January 1, 2009	Managerial Retirement Program for Selected Locations Allocable Cost	$0	$1,935,585	
	Employees' Pension Plan Allocable Cost	$1,645,398	$0	
	Managerial Pension Plan Allocable Cost	$7,151,890	$656,907	
	Total Calendar Year Allocable Pension Costs	$8,797,288	$2,592,492	
	LOB* percentage	6.79%	71.31%	
	Calendar Year Allowable Pension Cost	$597,336	$1,848,706	
2009	Fiscal Year Allowable Pension Cost	$698,209	$2,009,059	$2,707,268

Date	Description	Other Segment	Medicare Segment	Total Medicare
January 1, 2010	Employees' Pension Plan Allocable Cost	$1,469,355	$0	
	Managerial Pension Plan Allocable Cost	$3,314,734	$1,672,188	
	Total Calendar Year Allocable Pension Costs	$4,784,089	$1,672,188	
	LOB* percentage	6.90%	71.51%	
	Calendar Year Allowable Pension Cost	$330,102	$1,195,782	
2010	Fiscal Year Allowable Pension Cost	$396,911	$1,359,013	$1,755,924

Date	Description	Other Segment	Medicare Segment	Total Medicare
January 1, 2011	Employees' Pension Plan Allocable Cost	$1,647,539	$0	
	Managerial Pension Plan Allocable Cost	$4,467,479	$1,857,405	
	Total Calendar Year Allocable Pension Costs	$6,115,018	$1,857,405	
	LOB* percentage	7.08%	70.68%	
	Calendar Year Allowable Pension Cost	$432,943	$1,312,814	
2011	Fiscal Year Allowable Pension Cost	$407,233	$1,283,556	$1,690,789

Date	Description	Other Segment	Medicare Segment	Total Medicare
January 1, 2012	Employees' Pension Plan Allocable Cost	$3,208,660	$0	
	Managerial Pension Plan Allocable Cost	$9,459,657	$3,294,696	
	Total Calendar Year Allocable Pension Costs	$12,668,317	$3,294,696	
	LOB* percentage	5.48%	54.50%	
	Calendar Year Allowable Pension Cost	$694,224	$1,795,609	
2012	Fiscal Year Allowable Pension Cost	$628,904	$1,674,910	$2,303,814

Date	Description	Other Segment	Medicare Segment	Total Medicare
January 1, 2013	Managerial Pension Plan Allocable Cost	$8,488,908	$1,402,758	
	LOB* percentage	2.66%	23.19%	
	Calendar Year Allowable Pension Cost	$225,805	$325,300	
2013	Fiscal Year Allowable Pension Cost	$342,910	$692,877	$1,035,787

*Line of Business

ENDNOTES

1/ We obtained the 2007 CY allowable pension cost from our prior review (A-07-11-00369, issued February 1, 2012).

2/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes. The calculation of the MRPSL allocable pension cost appears in Appendix C.

3/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes. The calculation of the EPP allocable pension cost appears in Appendix D.

4/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes. The calculation of the MPP allocable pension cost appears in Appendix E.

5/ The total CY allocable pension cost is the total of segments' cost from each pension plan.

6/ We calculated the line of business (LOB) percentages based on information provided by WPS.

7/ We computed the CY allowable Medicare pension cost as the CY allocable pension cost multiplied by the Medicare LOB percentage.

8/ We converted the CY allowable pension costs to an FY basis. We calculated the FY pension costs as 1/4 of the prior year's costs plus 3/4 of the current year's costs.

WPS GOVERNMENT HEALTH ADMINISTRATORS

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

November 21, 2017

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

RE: OIG Draft Reports
Number A-07-17-00519 and A-07-17-00520

Dear Mr. Cogley:

This letter is in response to Reports Number A-07-17-00519 entitled *Review Wisconsin Physicians Service Insurance Corporation Did Not Claim Some Allowable Medicare Pension Costs* and A-07-17-00520 entitled *Wisconsin Physicians Service Insurance Corporation Understated Its Allocable Pension Costs.* You requested that WPS provide you with a written comment including a statement of concurrence or non-concurrence with the recommendation.

In Report A-07-17-00520, OIG found that the pension costs (for both the Medicare and Other segments) that WPS used to calculate the indirect cost rates in its ICPs did not comply with Federal regulations. Specifically, OIG stated that WPS understated the Medicare segment pension costs by $1,535,679 and the Other segment costs by $7,151,907. OIG stated that the understatements occurred primarily because WPS incorrectly computed the assignable pension cost for CY 2013. In Report A-07-17-00519, OIG found that there was an additional $1,001,482 of allowable Medicare pension costs that WPS should have claimed on its FACPs for FYs 2008 through 2013. Separately, OIG sent an email to WPS on November 7, 2017 indicating there was an additional $1.5M of allowable Medicare pension costs that WPS should have claimed on its ICPs for CYs 2008 through 2013. WPS believes that all three of these findings are related and is responding to all at once in this communication.

WPS does not concur with the findings. WPS believes that its calculation of pension costs did comply with Federal regulations and that its computation of assignable cost for CY 2013 is accurate. The difference between OIG's and WPS's position is primarily due to the calculation of pension cost for CY 2013. As discussed below, WPS disagrees with the Draft Reports' interpretation of how cost should be determined for CY 2013.

As was stated in the response to Report A-07-17-00518, the difference in 2013 allowable pension cost between WPS and OIG is due to different amortization periods of the plan change in 2012. WPS amortized the impact of this plan change over one year. This amortization period was consistent with informal guidance provided by CMS, and with WPS's curtailment of

CMS

benefits under the plan, which ended the Government's participation in the plan effective December 31, 2013. The Draft Audit Reports recommend that the impact of the 2012 plan change be amortized over 10 years. This recommendation has the effect of increasing allowable pension costs in 2013 (because the cost savings of the plan change are spread out over a longer period). However, OIG has provided no authority from the CAS Board's regulations indicating that a pension plan change should be amortized over a period that extends beyond the Government's participation in the plan.

WPS calculated 2013 allowable pension cost of $0 for both the Medicare and Other segment due to the shorter amortization period. The draft audit report (A-07-17-00520) shows 2013 allowable pension cost of $1,406,641 for the Medicare segment and $8,486,361 for the Other segment. The draft audit and November 7, 2017 email then calculate an allocation of cost to Medicare of $1,001,482 (from report A-07-17-00519) plus $1,500,000 (from the 11/7/2017 email) for a total of $2,501,482 that WPS should have claimed in cost through its FACPs and ICPs.

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

Sincerely,

/S/

Janet L. Kyle
Executive Vice President
GHA Division