Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

WISCONSIN PHYSICIANS SERVICE INSURANCE CORPORATION UNDERSTATED ITS ALLOCABLE PENSION COSTS

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

Gloria L. Jarmon
Deputy Inspector General
for Audit Services

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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-07-17-00520

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 Incurred Cost Proposals (ICPs).

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

Our objective was to determine whether the allocable pension costs that Wisconsin Physicians Service Insurance Corporation (WPS) calculated, under the provisions of its MAC contracts, for calendar years (CYs) 2008 through 2013 complied with Federal requirements.

How OIG Did This Review

We reviewed $58.6 million of allocable pension costs (for both the Medicare and Other segments) used by WPS in the calculation of its indirect cost rates for the MAC contracts for CYs 2008 through 2013.

Wisconsin Physicians Service Insurance Corporation Understated Its Allocable Pension Costs

What OIG Found

Neither the Medicare segment nor the Other segment allocable pension costs that WPS used to calculate the indirect cost rates in its ICPs complied with Federal requirements. Specifically, for CYs 2008 through 2013, WPS used Medicare segment pension costs of $12.5 million to calculate its indirect cost rates in its ICPs; however, we determined that the Medicare segment pension costs that should have been used to calculate the indirect cost rates were $14.0 million. Thus, WPS understated the Medicare segment pension costs used to calculate its indirect cost rates by $1.5 million.

In addition, WPS used Other segment pension costs of $46.1 million to calculate its indirect cost rates in its ICPs; however, we determined that the Other segment pension costs that should have been used to calculate the indirect cost rates were $53.3 million. Thus, WPS understated the Other segment pension costs used to calculate its indirect cost rates by $7.2 million.

These understatements occurred primarily because WPS incorrectly computed the assignable pension cost for CY 2013.

What OIG Recommends and Auditee Comments

We recommend that WPS increase the Medicare segment pension costs used to calculate its indirect cost rates by $1.5 million for CYs 2008 through 2013, and increase the Other segment PRB costs used to calculate its indirect cost rates by $7.2 million for CYs 2008 through 2013.

WPS did not concur with our findings and, by extension, with the dollar amounts in our recommendations. 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 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 recommendations. We maintain that our findings and recommendations, 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 Cost Accounting Standards 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) and Cost Accounting Standards (CAS) as required by the 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 allocable qualified defined-benefit plan pension costs (herein, referred to as "pension costs") that Wisconsin Physicians Service Insurance Corporation (WPS) calculated, under the provisions of its MAC contracts, for calendar years (CYs) 2008 through 2013 complied with Federal requirements.

BACKGROUND

Wisconsin Physicians Service Insurance Corporation and Medicare

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

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

Under the provisions of their MAC-related contracts, Medicare contractors use pooled costing to calculate the indirect cost rates that they report on their ICPs. The FAR requires Medicare contractors to file final indirect cost rates on their ICPs 6 months after the year end. In turn, CMS uses the indirect cost rates in reimbursing costs under cost-reimbursement contracts.

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 allocable pension costs calculated by WPS, under the provisions of its MAC contracts, for all three defined-benefit 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.

Under the provisions of the contracts that CMS developed with the Medicare contractors as part of the implementation of the MMA, the method by which Medicare reimbursed pension costs to the contractor changed from a cost reimbursement basis to an indirect cost basis. In accordance with the FAR and the MAC contract, reimbursement of costs was now based on indirect cost rates determined by the contract.

HOW WE CONDUCTED THIS REVIEW

We reviewed $58,591,690 of allocable pension costs (for both the Medicare and Other segments) used by WPS in the calculation of its indirect cost rates for the MAC contracts for CYs 2008 through 2013.

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[1] Section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), 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.

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

Appendix A contains details of our audit scope and methodology.

FINDINGS

Neither the Medicare segment nor the Other segment allocable pension costs that WPS used to calculate the indirect cost rates in its ICPs complied with Federal requirements. Specifically, for CYs 2008 through 2013:

- WPS used Medicare segment pension costs of $12,476,360 to calculate its indirect cost rates in its ICPs; however, we determined that the Medicare segment pension costs that should have been used to calculate the indirect cost rates were $14,015,276. Thus, WPS understated the Medicare segment pension costs used to calculate its indirect cost rates by $1,538,916.

- WPS used Other segment pension costs of $46,115,330 to calculate its indirect cost rates in its ICPs; however, we determined that the Other segment pension costs that should have been used to calculate the indirect cost rates were $53,270,828. Thus, WPS understated the Other segment pension costs used to calculate its indirect cost rates by $7,155,498.

These understatements occurred primarily because WPS incorrectly computed the assignable pension cost for CY 2013.

UNDERSTATEMENT OF MEDICARE SEGMENT PENSION COSTS

Allocable Medicare Segment Pension Costs

WPS calculated allocable Medicare segment costs of $12,476,360 for CYs 2008 through 2013. We calculated CAS-based pension costs for CYs 2008 through 2013 for the Medicare segment in accordance with CAS 412 and 413. For details on the Federal requirements, see Appendix B.

Understated Medicare Segment Allocable Pension Costs

We determined that the CAS-based pension costs for the Medicare segment for CYs 2008 through 2013 were $14,015,276. Thus, WPS understated the Medicare segment pension costs used to calculate the indirect cost rates in its ICPs for this timeframe by $1,538,916. This understatement occurred primarily because WPS incorrectly computed the assignable pension cost for CY 2013.

Table 1 below shows the differences between the Medicare segment CAS-based pension costs that we calculated and the Medicare segment pension costs that WPS used to calculate its indirect cost rates for CYs 2008 through 2013.

Table 1: Comparison of Pension Costs for the Medicare Segment

Calendar Year	Allocable Per Audit	Allocable Per WPS	Difference
2008	$3,195,737	$2,984,942	$210,795
2009	2,592,492	2,693,346	(100,854)
2010	1,672,188	1,734,847	(62,659)
2011	1,857,405	1,856,252	1,153
2012	3,294,696	3,206,973	87,723
2013	1,402,758	0	1,402,758
Total	**$14,015,276**	**$12,476,360**	**$1,538,916**

UNDERSTATEMENT OF OTHER SEGMENT PENSION COSTS

Allocable Other Segment Pension Costs

WPS calculated allocable Other segment costs of $46,115,330 for CYs 2008 through 2013. We calculated CAS-based pension costs for CYs 2008 through 2013 for the Other segment in accordance with CAS 412 and 413. For details on the Federal requirements, see Appendix B.

Understated Other Segment Allocable Pension Costs

We determined that the CAS-based pension costs for the Other segment for CYs 2008 through 2012 were $53,270,828. Thus, WPS understated the Other segment pension costs used to calculate the indirect cost rates in its ICPs for this timeframe by $7,155,498. This understatement occurred because WPS incorrectly computed the assignable pension cost for CY 2013.

Table 2 on the following page shows the differences between the Other segment CAS-based pension costs that we calculated and the Other segment pension costs that WPS used to calculate its indirect cost rates for CYs 2008 through 2013.

Table 2: Comparison of Pension Costs for the Other Segment

Calendar Year	Allocable Per Audit	Allocable Per WPS	Difference
2008	$12,417,208	$12,800,030	($382,822)
2009	8,797,288	9,169,900	(372,612)
2010	4,784,089	5,315,273	(531,184)
2011	6,115,018	6,090,275	24,743
2012	12,668,317	12,739,852	(71,535)
2013	8,488,908	0	8,488,908
Total	**$53,270,828**	**$46,115,330**	**$7,155,498**

The OIG will use the information contained in this report and the related fiscal intermediary and carrier contract report (A-07-17-00519) to determine the allowable Medicare and Other segment pension costs for WPS.[4]

RECOMMENDATIONS

We recommend that WPS:

- increase the Medicare segment pension costs used to calculate its indirect cost rates by $1,538,916 for CYs 2008 through 2013, and

- increase the Other segment pension costs used to calculate its indirect cost rates by $7,155,498 for CYs 2008 through 2013.

AUDITEE COMMENTS

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

WPS's comments referred to our related fiscal intermediary and carrier contract report (A-07-17-00519; footnote 4 and 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.

[4] Our review of the allocable pension costs for WPS identified the amount of pension costs that should have been used to allocate pension costs to the Medicare segment. OIG will use the information in this report, as well as the information from our reviews of the fiscal intermediary and carrier contract pension costs claimed by WPS (A-07-17-00519), to determine the allowable pension costs for WPS. In addition, CMS will use the information provided by the audit organization that reviews the ICPs (regarding their compliance with the CAS) to determine the final indirect cost rates for WPS.

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 recommendations for this report, based on WPS's comments on related reports A-07-17-00517 and A-07-17-00518 (Appendix A). Our revised recommendations are that WPS increase the Medicare segment pension costs used to calculate its indirect cost rates by $1,538,916 and that it increase the Other segment pension costs used to calculate its indirect cost rates by $7,155,498. We maintain that our findings and recommendations, as modified, are valid.[5]

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

[5] After reviewing WPS's comments on this series of pension reports, we revised our findings and recommendations for allowable pension costs in this report. The amount of allowable Medicare pension costs in this final report is $3,237 more for the Medicare segment, and $3,591 more for the Other segment, than the respective amounts conveyed in the draft report.

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.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed $58,591,690 of allocable pension costs (for both the Other and Medicare segments) used by WPS in the calculation of its indirect cost rates for the MAC contracts for CYs 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 used to calculate its indirect cost rates for CYs 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 for this review:

- *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 Did Not Claim Some Allowable Medicare Pension Costs* (A-07-17-00519).

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 52.216-7(a)(1)) address the invoicing requirements and the allowability of payments as determined by the Contracting Officer in accordance with FAR subpart 31.2.

Federal regulations (FAR 31.205-6(j)) require Medicare contractors to measure, assign, and allocate the costs of all defined-benefit pension plans in accordance with CAS 412 and 413. This regulation also addresses the allowability of pension costs and requires 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 require WPS to submit invoices in accordance with FAR 52.216-7, “Allowable Cost & Payment." Furthermore, FAR 52.216-7(a)(1) addresses the invoicing requirements and the allowability of payments as determined by the Contracting Officer in accordance with FAR subpart 31.2.

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). Therefore, 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). Therefore, 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). Therefore, 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: ALLOCABLE MEDICARE PENSION COSTS FOR WISCONSIN PHYSICIANS SERVICE INSURANCE CORPORATION FOR FISCAL YEARS 2008 THROUGH 2013

Date	Description		Other Segment	Medicare Segment	Total Allocable
January 1, 2008	Managerial Retirement Program for Selected Locations Allocable Cost	1/	$97,308	$2,369,945	
	Employees' Pension Plan Allocable Cost	2/	$2,198,377	$0	
	Managerial Pension Plan Allocable Cost	3/	$10,121,523	$825,792	
	Total Calendar Year Allocable Pension Costs	4/	$12,417,208	$3,195,737	$15,612,945

Date	Description	Other Segment	Medicare Segment	Total Allocable
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	$11,389,780

Date	Description	Other Segment	Medicare Segment	Total Allocable
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	$6,456,277

Date	Description	Other Segment	Medicare Segment	Total Allocable
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	$7,972,423

Date	Description	Other Segment	Medicare Segment	Total Allocable
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	$15,963,013

Date	Description	Other Segment	Medicare Segment	Total Allocable
January 1, 2013	Managerial Pension Plan Allocable Cost	$8,488,908	$1,402,758	$9,891,666

ENDNOTES

1/ 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.

2/ 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.

3/ 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.

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

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 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