



November 22, 2011

**TO:** Donald M. Berwick, M.D.  
Administrator  
Centers for Medicare & Medicaid Services

**FROM:** /Gloria L. Jarmon/  
Deputy Inspector General for Audit Services

**SUBJECT:** Audit of Medicare Part B Administrative Costs for the Period October 1, 2006, Through September 30, 2008 at the Wisconsin Physicians Service Insurance Corporation (A-05-09-00096)

Attached, for your information, is an advance copy of our final report on Medicare Part B administrative costs for the period October 1, 2006, through September 30, 2008 at the Wisconsin Physicians Service Insurance Corporation. We will issue this report to Wisconsin Physicians Service Insurance Corporation within 5 business days.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Brian P. Ritchie, Assistant Inspector General for Centers for Medicare & Medicaid Audits, at (410) 786-7104 or through email at [Brian.Ritchie@oig.hhs.gov](mailto:Brian.Ritchie@oig.hhs.gov) or Sheri Fulcher, Regional Inspector General for Audit Services, at (312) 353-2618 or through email at [Sheri.Fulcher@oig.hhs.gov](mailto:Sheri.Fulcher@oig.hhs.gov). Please refer to report number A-05-09-00096.

Attachment



DEPARTMENT OF HEALTH and HUMAN SERVICES

Office of Inspector General

Office of Audit Services, Region V  
233 North Michigan Avenue  
Suite 1360  
Chicago, IL 60601

November 28, 2011

Report Number: A-05-09-00096

Jared A. Adair  
Senior Vice President, Medicare Division  
Wisconsin Physicians Service Insurance Corporation  
1717 West Broadway  
Madison, WI 53708

Dear Ms. Adair:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *Audit of Medicare Part B Administrative Costs for the Period October 1, 2006, Through September 30, 2008 at the Wisconsin Physicians Service Insurance Corporation*. We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

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

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Dave Markulin, Audit Manager, at (312) 353-1644 or through email at [David.Markulin@oig.hhs.gov](mailto:David.Markulin@oig.hhs.gov). Please refer to report number A-05-09-00096 in all correspondence.

Sincerely,

/Sheri L. Fulcher/  
Regional Inspector General  
for Audit Services

Enclosure

**Direct Reply to HHS Action Official:**

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

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**AUDIT OF MEDICARE PART B  
ADMINISTRATIVE COSTS FOR THE  
PERIOD OCTOBER 1, 2006,  
THROUGH SEPTEMBER 30, 2008  
AT THE  
WISCONSIN PHYSICIANS SERVICE  
INSURANCE CORPORATION**



Daniel R. Levinson  
Inspector General

November 2011  
A-05-09-00096

# ***Office of Inspector General***

<http://oig.hhs.gov>

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The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

## ***Office of Audit Services***

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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# *Notices*

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**THIS REPORT IS AVAILABLE TO THE PUBLIC**  
at <http://oig.hhs.gov>

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

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

## **EXECUTIVE SUMMARY**

### **BACKGROUND**

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

The legacy Medicare Part B contract between CMS and Wisconsin Physicians Service Insurance Corporation (WPS) provides that, when claiming costs, WPS must follow cost reimbursement principles contained in part 31 of the Federal Acquisition Regulation (FAR) and other applicable criteria. After the close of each fiscal year (FY), WPS submits to CMS a Final Administrative Cost Proposal (FACP) reporting Medicare administrative costs. The FACP and supporting data provide the basis for the CMS contracting officer and contractor to negotiate a final settlement of allowable administrative costs.

During FYs 2007 and 2008, WPS processed Part B claims in Illinois, Michigan, Minnesota, and Wisconsin. WPS reported Medicare administrative costs totaling \$107,255,186 in its FYs 2007 and 2008 FACPs.

### **OBJECTIVE**

Our objective was to determine whether administrative costs WPS reported on its FACPs for FYs 2007 and 2008 were reasonable, allowable, and allocable and in compliance with the FAR and other applicable criteria.

### **SUMMARY OF FINDINGS**

Administrative costs claimed by WPS on its FYs 2007 and 2008 FACPs were generally reasonable, allowable, and allocable and in compliance with the FAR and other applicable criteria. However, WPS reported unallowable costs totaling \$3,537,431: overstated indirect costs (\$2,646,766); costs for subcontracts (\$300,000), equipment (\$269,221), outside professional services (\$212,092), and travel (\$91,780); miscellaneous costs (\$13,752); and other costs (\$3,820).

### **RECOMMENDATION**

We recommend that WPS decrease its FY 2007 FACP by \$1,700,698 and decrease its FY 2008 FACP by \$1,836,733 to eliminate the unallowable costs identified in this report.

## **WISCONSIN PHYSICIANS SERVICE INSURANCE CORPORATION COMMENTS**

In written comments on our draft report, WPS concurred with our findings regarding full-time employees, subcontract expenses, furniture and equipment related to another contract, legal services, investment administrative fees, leased vehicles, membership dues, and lobbying costs.

Regarding our finding that WPS had reported unallowable costs that included an allocation totaling \$80,200 in profit paid to a wholly owned subsidiary, WPS disputed our calculation of the amount allocated. WPS stated that we “did not consider indirect costs for the subsidiary as a ratio of all indirect costs to all direct costs, but as a ratio of a subset of indirect costs to all direct costs resulting in an erroneous indirect rate which overstates the subsidiary profit amount.”

WPS disagreed with our finding regarding home office expenses. WPS asserted that payments to Medicare providers should have been included as operating revenue in the formula used to calculate the allocation of residual home office costs to the Medicare line of business. WPS submitted additional documentation to support its position.

In addition, WPS did not concur with our findings regarding consultant services, meals, airfare related to another contract, meals and beverages, and gifts. WPS’s comments appear in their entirety as Appendix C, with the exception of the attachments, which contained proprietary information.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

Regarding our calculation of profit incurred by a WPS wholly owned subsidiary and allocated to the Medicare contract, we maintain that our calculation is accurate. Of the subsidiary’s six offices, only one office incurred costs chargeable to the Medicare contract. WPS’s statement that we should have used a ratio of the subsidiary’s total indirect costs to total direct costs would have overallocated profit to five of the subsidiary’s six offices and underallocated profit to the office that worked on the Medicare contract. Our calculation properly allocated profit to the subsidiary’s one office that worked on the Medicare contract.

With regard to WPS’s contention that payments to Medicare providers should be included in the calculation of residual home office expenses allocated to this contract, we reviewed WPS’s comments, the Cost Accounting Standards (CAS) requirements, and the contract between WPS and CMS. We maintain that our interpretation of the CAS requirement is correct.

WPS’s comments on our findings related to consultant services, meals, airfare related to another contract, meals and beverages, and gifts all referred to inapplicable or inappropriate criteria. For example, WPS stated that the cost of the gift and gift cards was allowable because they were earned in accordance with FAR 31.205-6(f)(i), which states that “Awards are paid or accrued under an agreement entered into in good faith between the contractor and the employees before the services are rendered or pursuant to an established plan or policy followed by the contractor so consistently as to imply, in effect, an agreement to make such payment.” We did not question these costs based on the criteria that WPS cited, but on FAR 31.205-13(b), which states that the “Costs of gifts are unallowable.”

After we reviewed WPS's comments and analyzed the additional documentation provided, we maintain that our findings and recommendation are correct.

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## INTRODUCTION

### BACKGROUND

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

The legacy<sup>1</sup> Medicare Part B contract between CMS and Wisconsin Physicians Service Insurance Corporation (WPS) provides that, when claiming costs, WPS must follow cost reimbursement principles contained in part 31 of the Federal Acquisition Regulation (FAR) and other applicable criteria. After the close of each fiscal year (FY), WPS submits to CMS a Final Administrative Cost Proposal (FACP) reporting Medicare administrative costs. The FACP and supporting data provide the basis for the CMS contracting officer and contractor to negotiate a final settlement of allowable administrative costs.

During FYs 2007 and 2008, WPS processed Part B claims in Illinois, Michigan, Minnesota, and Wisconsin. WPS reported Medicare administrative costs totaling \$107,255,186 in its FYs 2007 and 2008 FACPs.

### OBJECTIVE, SCOPE, AND METHODOLOGY

#### Objective

Our objective was to determine whether administrative costs WPS reported on its FACPs for FYs 2007 and 2008 were reasonable, allowable, and allocable and in compliance with the FAR and other applicable criteria.

#### Scope

Our review covered the period October 1, 2006, through September 30, 2008 (FYs 2007 and 2008). For this period, WPS reported Medicare Part B administrative costs totaling \$107,255,186 (Appendix A). This total included pension costs of \$5,642,286 that we did not review because they will be the subject of a separate review.

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<sup>1</sup> Section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P.L. No. 108-173, required CMS to transfer the Medicare Part A and Part B workloads to Medicare administrative contractors (MAC) between October 2005 and October 2011. On January 7, 2009, CMS awarded the MAC contract for Jurisdiction 6, which consists of Illinois, Minnesota, and Wisconsin, to one entity and awarded the MAC contract for Jurisdiction 8, which consists of Michigan and one other State, to another entity. Protests were filed against both awards. Therefore, CMS has authorized WPS to continue operating as the legacy carrier for Illinois, Minnesota, Wisconsin, and Michigan until further notice.

We reviewed WPS's internal controls related to the claiming of costs on the FACP. We limited our review of internal controls to those controls necessary to achieve our audit objective.

We conducted fieldwork at WPS's offices in Madison, Wisconsin.

## **Methodology**

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidelines;
- reviewed WPS's contract with CMS;
- reviewed internal and external audit reports, including independent auditor's reports and letters related to WPS's internal controls for calendar years 2007 and 2008 and prior Office of Inspector General (OIG) reports for FYs 2004 through 2008;
- interviewed WPS officials regarding the cost accumulation processes for its FACP and cost allocation systems;
- reconciled line item expenses on the FACP and its supporting reports to WPS's accounting records;
- tested costs for reasonableness, allowability, and allocability by reviewing contracts and agreements and by judgmentally selecting journal entries, invoices, expense vouchers and reports, payroll journals, corporate bonus plans, and personnel records; and
- reviewed total compensation paid to WPS's five highest paid executives.

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

## **FINDINGS AND RECOMMENDATION**

Administrative costs claimed by WPS on its FYs 2007 and 2008 FACP were generally reasonable, allowable, and allocable and in compliance with the FAR and other applicable criteria. However, WPS reported unallowable costs totaling \$3,537,431: overstated indirect costs (\$2,646,766); costs for subcontracts (\$300,000), equipment (\$269,221), outside professional services (\$212,092), and travel (\$91,780); miscellaneous costs (\$13,752); and other costs (\$3,820) (Appendix B).

## UNALLOWABLE COSTS

### Indirect Costs

#### *Requirements*

Pursuant to FAR 31.201-2 (a), “A cost is allowable only when the cost complies with all of the following requirements: (1) Reasonableness. (2) Allocability. (3) Standards promulgated by the CAS [cost accounting standards] Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances. (4) Terms of the contract ....”

Pursuant to FAR 31.203(a), “For contracts subject to full CAS coverage, allocation of indirect costs shall be based on the applicable provisions.” According to 48 CFR § 9903.201-2(a), full CAS coverage requires compliance with all of the CAS specified in 48 CFR part 9904.

Pursuant to 48 CFR § 9904.403-50(c)(1), CAS requires residual home office expenses<sup>2</sup> to be allocated using the three-factor formula, which consists of payroll dollars, operating revenue, and the average net book value of tangible capital assets and inventories.

Federal regulations at 48 CFR § 9904.403-30(a)(3) state that:

*Operating revenue* means amounts accrued or charge[d] to customers, clients, and tenants, for the sale of products manufactured or purchased for resale, for services, and for rentals of property held primarily for leasing to others. It includes both reimbursable costs and fees under cost-type contracts and percentage-of-completion sales accruals except that it includes only the fee for management contracts under which the contractor acts essentially as an agent of the Government in the erection or operation of Government-owned facilities. It excludes incidental interest, dividends, royalty, and rental income, and proceeds from the sale of assets used in the business.

#### *Home Office Expenses*

WPS overstated residual home office expenses by \$2,619,258 in its FYs 2007 and 2008 FACP's because of an incorrect calculation used to allocate these expenses. WPS used the three-factor formula to allocate residual home office expenses. However, instead of using the revenue it received from CMS (\$85 million in FY 2007 and \$149 million in FY 2008) for the operating revenue portion of the three-factor formula, WPS used the revenue received from CMS plus the amount of Medicare claim benefits paid to providers (\$8 billion in FY 2007 and \$42 billion in FY 2008) in its cost allocation. As a result, the allocation percentages for the operating revenue factors were overstated, which resulted in WPS overstating residual home office expenses on its FACP's for FYs 2007 and 2008.

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<sup>2</sup> Residual home office expenses are costs incurred by the home office that cannot be identified to a specific contract, group of contracts, or company segment.

### *Full-Time Employees*

WPS overstated its indirect costs on its FY 2008 FACP by \$27,508 because it used an incorrect full-time employee (FTE) allocation rate. The rate was incorrect because WPS calculated it using an inaccurate FTE count.

WPS overstated the indirect costs for home office cost expenses and FTEs by \$2,646,766 in its FYs 2007 and 2008 FACPs.

### **Subcontract Expenses**

Pursuant to Appendix B, section II.B, of the Medicare Part B contract, “The contractor shall be required to provide assurance that each type of cost is allocated only once and only on one basis to the contract or other cost objective.”

WPS reported unallowable subcontract costs totaling \$300,000 in its FY 2008 FACP because it recorded an accrual twice.

### **Furniture and Equipment Related to Another Contract**

Pursuant to FAR 31.201-4:

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

WPS reported unallowable costs totaling \$269,221 in its FY 2008 FACP for the purchase of office furniture (\$159,940) and electronic data processing equipment (\$109,281) that was used for and solely benefited another WPS contract.

### **Outside Professional Services**

#### *Legal Services*

Pursuant to FAR 31.205-47(f):

Costs not covered elsewhere in this subsection are unallowable if incurred in connection with— ... (8) Protests of Federal Government solicitations or contract awards, or the defense against protests of such solicitations or contract awards, unless the costs of defending against a protest are incurred pursuant to a written request from the cognizant contracting officer.

WPS reported unallowable legal expenses totaling \$109,270 in its FYs 2007 and 2008 FACPs related to its protest of MAC bids. The protest was not requested by the CMS cognizant contracting officer.

#### *Profit Associated With Related-Party Transactions*

Pursuant to Article XV.A of the Medicare Part B contract, “It is the intent of this contract that the Carrier, in performing its functions under this contract, shall be paid its cost of administration under the principle of neither profit nor loss to the Carrier ....”

WPS reported unallowable costs on its FYs 2007 and 2008 FACPs that included an allocation totaling \$80,200 in profit paid to a wholly owned subsidiary.

#### *Consultant Services*

Pursuant to FAR 31.201–2 (a):

A cost is allowable only when the cost complies with all of the following requirements: (1) Reasonableness. (2) Allocability.... (4) Terms of the contract. (5) Any limitations set forth in this subpart.” Moreover, FAR 31.201-2(d) requires a contractor to be responsible for “maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles ....

The cost principles for professional and consultant service costs at FAR 31.205-33(f) provide that:

Fees for services rendered are allowable only when supported by evidence of the nature and scope of service[s] furnished .... Evidence necessary to determine that work performed is proper and does not violate law or regulation shall include— (1) Details of all agreements (*e.g.*, work requirements, rate of compensation, and nature and amount of other expenses, if any) with the individuals or organizations providing the services and details of actual services performed ....

WPS reported unallowable costs totaling \$19,482 on its FYs 2007 and 2008 FACPs for consultant services. Specifically, WPS reported costs totaling \$18,268 for a consultant to review documentation. In addition, WPS reported costs totaling \$1,214 for a second consultant who provided financial and estate services to a senior vice president. WPS did not provide adequate documentation of its agreements with the consultants (*e.g.*, description of the services, estimate of time required, and rate of compensation) to support that the costs were allocable to Medicare. In the absence of such support, the costs were unallowable.

### *Investment Administrative Fees*

Pursuant to FAR 31.201-4:

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

WPS reported unallowable costs totaling \$3,140 in its FYs 2007 and 2008 FACPs for investment administrative fees related to a 401K plan. The fees were associated with employees who did not work in the Medicare line of business and should not have been allocated to the contract.

WPS overstated outside professional services related to legal services, related-party transactions, consultant services, and investment administrative fees totaling \$212,092 in its FYs 2007 and 2008 FACPs.

### **Travel**

#### *Leased Vehicles*

Pursuant to FAR 31.205-6(m)(2), “That portion of the cost of company-furnished automobiles that relates to personal use by employees (including transportation to and from work) is unallowable regardless of whether the cost is reported as taxable income to the employees (see 31.205-46(d)).”

WPS reported unallowable costs totaling \$85,513 on its FYs 2007 and 2008 FACPs related to the personal use of company-furnished leased vehicles.

#### *Meals*

FAR 31.205-14 states, “Costs of amusement, diversions, social activities, and any directly associated costs such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities are unallowable. Costs made specifically unallowable under this cost principle are not allowable under any other cost principle....”

WPS reported unallowable costs totaling \$4,021 to its FYs 2007 and 2008 FACPs for meals provided during company Christmas parties in December 2006 and 2007 totaling \$3,703 and the cost of personal meals provided to executives who were not on travel totaling \$318.

### *Airfare Related to Another Contract*

Pursuant to FAR 31.201-4:

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

WPS reported unallowable costs totaling \$2,246 in its FY 2007 FACP for airfare that was purchased in connection with a trip that was for the sole benefit of one of WPS's other contracts.

WPS overstated travel costs related to leased vehicles, meals, and airfare costs by \$91,780 in its FYs 2007 and 2008 FACPs.

### **Miscellaneous**

#### *Meals and Beverages*

Pursuant to FAR 31.205-14, "Costs of amusement, diversions, social activities, and any directly associated costs such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities are unallowable. Costs made specifically unallowable under this cost principle are not allowable under any other cost principle...."

WPS reported unallowable costs totaling \$7,456 in its FYs 2007 and 2008 FACPs for food and beverages served during company social events.

#### *Gifts*

Pursuant to FAR 31.205-13(b), "Costs of gifts are unallowable."

WPS reported unallowable costs totaling \$6,296 in its FYs 2007 and 2008 FACPs for gifts and gift cards provided to employees at social events.

WPS overstated miscellaneous costs related to meals and beverages and gifts totaling \$13,752 in its FYs 2007 and 2008 FACPs.

## **Other**

### *Membership Dues*

Pursuant to FAR 31.205-43(a), costs associated with “[m]emberships in trade, business, technical, and professional organizations” are allowable. However, FAR 31.205-14 provides that:

Costs of amusement, diversions, social activities, and any directly associated costs such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities are unallowable. Costs made specifically unallowable under this cost principle are not allowable under any other cost principle. Costs of membership in social, dining, or country clubs or other organizations having the same purpose are also unallowable, regardless of whether the cost is reported as taxable income to the employee.

WPS reported unallowable costs totaling \$2,405 in its FYs 2007 and 2008 FACP for membership dues to a club in which executives attended social events.

### *Lobbying*

Pursuant to FAR 31.205-22(a)(1), “Costs associated with the following activities are unallowable: (1) Attempts to influence the outcomes of any Federal, State, or local election, referendum, initiative, or similar procedure, through in kind or cash contributions, endorsements, publicity, or similar activities ....”

We identified paid invoices for business association membership fees. These itemized invoices indicated that \$1,415 of the invoiced amounts covered lobbying fees. WPS reported this unallowable amount in its FYs 2007 and 2008 FACP.

WPS overstated other costs related to membership dues and lobbying totaling \$3,820 in its FYs 2007 and 2008 FACP.

## **RECOMMENDATION**

We recommend that WPS decrease its FY 2007 FACP by \$1,700,698 and decrease its FY 2008 FACP by \$1,836,733 to eliminate the unallowable costs identified in this report.

## **WISCONSIN PHYSICIANS SERVICE INSURANCE CORPORATION COMMENTS**

In written comments on our draft report, WPS concurred with our findings regarding full-time employees, subcontract expenses, furniture and equipment related to another contract, legal services, investment administrative fees, leased vehicles, membership dues, and lobbying costs.

Regarding our finding that it had reported unallowable costs that included an allocation totaling \$80,200 in profit paid to a wholly owned subsidiary, WPS disputed our calculation of the amount

allocated. WPS stated that we “did not consider indirect costs for the subsidiary as a ratio of all indirect costs to all direct costs, but as a ratio of a subset of indirect costs to all direct costs resulting in an erroneous indirect rate which overstates the subsidiary profit amount.”

WPS disagreed with our finding regarding home office expenses. WPS stated that, originally, it had allocated its residual home office expenses on the basis of total administrative expense by segment; however, in 2006, WPS changed its allocation to the CAS three-factor formula in response to a CMS directive. WPS asserted that, notwithstanding the change in allocation methods, payments to Medicare providers should have been included as operating revenue in the three-factor formula, which is used to calculate the allocation of residual home office costs to the Medicare line of business. WPS alleged that to do otherwise would be inequitable and overstate the business volume in its other lines of business. WPS submitted additional documentation to support its position.

In addition, WPS did not concur with our findings regarding consultant services, meals, airfare related to another contract, meals and beverages, and gifts. WPS’s comments appear in their entirety as Appendix C with the exception of the attachments, which contained proprietary information.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

Regarding our calculation of profit incurred by a WPS wholly owned subsidiary and allocated to the Medicare contract, we maintain that our calculation is accurate. Of the subsidiary’s six offices, only one office incurred costs chargeable to the Medicare contract. WPS’s statement that we should have used a ratio of the subsidiary’s total indirect costs to total direct costs would have overallocated profit to five of the subsidiary’s six offices and underallocated profit to the office that worked on the Medicare contract. Our calculation properly allocated profit to the subsidiary’s one office that worked on the Medicare contract.

With regard to WPS’ contention that payments to Medicare providers should be included in the calculation of residual home office expenses allocated to this contract, we reviewed WPS’s comments, the CAS requirements, and the contract between WPS and CMS. We maintain that our interpretation of the CAS requirement is correct. Additional support for excluding payments to Medicare providers from operating revenues as a portion of the calculation of allocable residual home office expenses can be found in the contract between WPS and CMS. According to the terms of that contract, “any costs which are properly chargeable by a provider of services as benefit costs in accordance with the Act and Regulations, shall not be chargeable to this contract as administrative costs” (Article XV, “Types of Costs Allowable for Administration of this Contract, D”). That contract remained in effect after WPS’s transition to the three-factor formula, and, in that contract, WPS agreed to exclude payments to Medicare providers from its administrative costs. FAR 31.201-2(a)(4) provides that a cost is allowable only when the cost complies with all of the terms of the contract. To comply with the terms of the contract, WPS must exclude payments to Medicare providers from its operating revenue for purposes of calculating residual home office expenses.

WPS’s comments on our findings related to consultant services, meals, airfare related to another contract, meals and beverages, and gifts all referred to inapplicable or inappropriate criteria. For

example, WPS stated that the cost of the gift and gift cards was allowable because they were earned in accordance with FAR 31.205-6(f)(i), which states that “Awards are paid or accrued under an agreement entered into in good faith between the contractor and the employees before the services are rendered or pursuant to an established plan or policy followed by the contractor so consistently as to imply, in effect, an agreement to make such payment.” We did not question these costs based on the criteria that WPS cited, but on FAR 31.205-13(b), which states that the “Costs of gifts are unallowable.”

After we reviewed WPS’s comments and analyzed the additional documentation provided, we maintain that our findings and recommendation are correct.

# **APPENDIXES**

**APPENDIX A: WISCONSIN PHYSICIANS SERVICE INSURANCE  
CORPORATION COSTS REPORTED ON THE FINAL  
ADMINISTRATIVE COST PROPOSAL BY COST CLASSIFICATION**

<b>Cost Category</b>	<b>FY 2007<sup>1</sup></b>	<b>FY 2008<sup>2</sup></b>	<b>Total</b>
Salaries/Wages	\$34,345,264	\$23,180,690	\$57,525,954
Fringe Benefits	16,776,994	10,494,903	27,271,897
Facilities or Occupancy	4,509,376	1,048,235	5,557,611
Electronic Data Processing Equipment	4,650,456	1,243,162	5,893,618
Subcontractors	12,151,640	11,085,920	23,237,560
Outside Professional Services	8,102,978	15,753,370	23,856,348
Telephone and Telegraph	11,604	227,879	239,483
Postage and Express	2,216,597	2,415,288	4,631,885
Furniture and Equipment	0	3,465,947	3,465,947
Materials and Supplies	735,247	1,466,157	2,201,404
Travel	502,864	494,703	997,567
Return on Investment <sup>3</sup>	0	0	0
Miscellaneous	221,118	90,379	311,497
Other	1,575,954	129,757	1,705,711
<b>Subtotal</b>	<b>85,800,092</b>	<b>71,096,390</b>	<b>156,896,482</b>
Other Adjustments (Credits)	(25,401,777)	(24,239,519)	(49,641,296)
Total Cost	60,398,315	46,856,871	107,255,186
Forward Funding <sup>4</sup>	0	0	0
<b>Total Costs Claimed on Final Administrative Cost Proposal</b>	<b>60,398,315</b>	<b>46,856,871</b>	<b>107,255,186</b>
OIG Recommended Adjustments <sup>5</sup>	(1,700,698)	(1,836,733)	(3,537,431)
<b>Total Adjusted Costs</b>	<b>\$58,697,617</b>	<b>\$45,020,138</b>	<b>\$103,717,755</b>

FY = fiscal year

OIG = Office of Inspector General

WPS = Wisconsin Physicians Service Insurance Corporation

<sup>1</sup> The FY 2007 Final Administrative Cost Proposal was based on Supplement No. 07.

<sup>2</sup> The FY 2008 Final Administrative Cost Proposal was based on Supplement No. 03.

<sup>3</sup> WPS did not report any return on investment costs.

<sup>4</sup> WPS did not report any forward funding costs.

<sup>5</sup> See Appendix B.

**APPENDIX B: OFFICE OF  
INSPECTOR GENERAL—RECOMMENDED COST ADJUSTMENTS**

<b>Cost Category</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>Total Cost Adjustments</b>
Indirect Costs	\$1,483,382	\$1,163,384	\$2,646,766
Subcontracts	0	300,000	300,000
Furniture and Equipment	0	269,221	269,221
Outside Professional Services	160,935	51,157	212,092
Travel	50,771	41,009	91,780
Miscellaneous	4,286	9,466	13,752
Other	1,324	2,496	3,820
<b>Total OIG-Recommended Adjustments</b>	<b>\$1,700,698</b>	<b>\$1,836,733</b>	<b>\$3,537,431</b>

July 27, 2011

Mr. James C. Cox  
Regional Inspector General for Audit Services  
HHS, Office of Audit Services  
233 North Michigan Avenue, Suite 1360  
Chicago, IL 60601

RE: Draft OIG Report Number A-05-09-00096  
Contract No. HCFA 87-032-2

Dear Mr. Cox:

In a letter dated June 28, 2011, we received the Office of Inspector General's draft report entitled *Audit of Medicare Part-B Administrative Costs for the Period October 1, 2006, Through September 30, 2008 at Wisconsin Physicians Service Insurance Corporation*. In that letter, you requested that we respond to you and include a statement of concurrence or non-concurrence for each recommendation. WPS has included these statements below in the same order that the recommendations appear in the draft report.

We note that the contract is not subject to the Cost Accounting Standards (CAS), except as referenced in Appendix B (10-87) to the contract.

#### Home Office Expenses

WPS does not concur with the OIG recommendation to reduce its costs by \$2,619,258 related to the revenue components used to determine the allocation of residual home office overhead under the three factor formula set forth in CAS 403. Although the referenced contract is not subject to CAS, WPS changed its allocation methodology to the CAS formula in response to a CMS directive in 2006, prior to WPS' first Medicare Administration Contract (MAC) proposal submission.

OIG references FAR 31.201-2(a), "A cost is allowable only when the cost complies with all of the following requirements: (1) Reasonableness. (2) Allocability. (3) Standards promulgated by the CAS Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances. (4) Terms of the contract...". There are no generally accepted accounting principles relative to the allocation of home office residual expense. Accordingly, under the terms of the contract, any reasonable allocating method should be appropriate. See Contract, Article XII.

While WPS' Medicare Legacy contract is not subject to CAS, WPS has had other contracts that are and have been subject to CAS since the early 1990's. These contracts have been audited by DCAA, WPS' Cognizant Federal Audit Agency, including CAS 403 audits, Business Proposal audits, and Disclosure Statement audits for purposes of WPS' TRICARE and Medicare MAC contracts, which are subject to full CAS. The method of arriving at the component parts of the 3-factor formula

including the revenue component was specifically reviewed by DCAA and DCAA has never taken exception to WPS' allocation methodology for residual home office overhead since the 2006 application of the three factor formula.

WPS' allocation of residual home office overhead expense has been calculated to be compliant with FAR 31.203. The allocation has been reviewed by DCAA and OIG previously, and has been found to be reasonable and allowable. While the subject Medicare Part B legacy contract is not subject to CAS, WPS' allocation of residual home office overhead has been based on CAS 403 since 2006, has been reviewed by DCAA, and has been found to be CAS compliant.

Provided below is a more detailed explanation supporting WPS allocation calculation for residual home office overhead using the three factor formula:

WPS disagrees with OIG's contention that WPS' methodology for allocating home office expenses deviates from CAS 403 and the three factor formula (per FAR 31.203). To the contrary, WPS believes its allocation methodology for home office expenses is fully compliant with the CAS 403 three factor formula. In response to direction from CMS, WPS changed its methodology for allocating home office expenses to the CAS 403 three factor formula in 2006. WPS has disclosed this allocation methodology for home office expenses in its CAS required Home Office Disclosure Statement. On multiple occasions, DCAA, WPS' Cognizant Federal Audit Agency (CFAA), has reviewed WPS' home office allocation methodology and has deemed it reasonable and adequate (please see attachments 1&2 – DCAA audit of three factor formula). Provided below is a chronology detailing the history of WPS' home office allocation methodology. It demonstrates that WPS implemented its current methodology in response to direction from CMS, is compliant with CAS 403, and has been deemed reasonable and adequate by DCAA.

WPS has held numerous CAS covered contracts on a continuous basis with DoD since 1990, under the OCHAMPUS and TRICARE Managed Care Support programs. In accordance with CAS and the FAR, DoD was designated the Cognizant Federal Agency Official (CFAO) for WPS' TRICARE segment and WPS' home office expenses and has been responsible for administering the Cost Accounting Standards for all of WPS' CAS contracts (See FAR 52.230-6 "Administration of Cost Accounting Standards"). This single point of control within the government for CAS administration is required, because the disclosed practices of a contractor must be consistently applied across all of its CAS covered contracts (See FAR 52.230-2). Having different agencies require different cost accounting practices under different contracts would violate the consistency requirements of CAS.

Since at least 1990, WPS had allocated CAS 403 home office residual expenses on the basis of total administrative expense by segment. This allocation methodology was understood and accepted by both TMA and DCAA. In 2005, CMS directed WPS to revise its allocation methodology for CAS 403 residual home office expenses to the CAS 403 three factor formula, prior to submission of a MAC proposal.

In 2005, CMS held a conference in Baltimore, prior to the award of the first MAC contract, which addressed the requirement that all contractors going forward would be subject to CAS. This conference explained CAS requirements, including Disclosure Statements, established accounting

practices, Cognizant Federal Audit agencies, and home office expenses (Part 8 of the Disclosure Statement). CMS also explained that it would require use of the CAS 403 three factor formula for allocation of residual home office expenses. Unlike other MAC contractors, WPS, under its TRICARE contracts with the DoD, was already subject to CAS and WPS maintained a CAS compliant home office allocation. The use of total administrative expense as the allocation base for the CAS 403 residual pool was identified in WPS' DCAA approved CAS Disclosure Statement for parts one through eight. DCAA was WPS' Cognizant Federal Audit Agency (for Parts 1-7 TRICARE Segment and Part 8 Home Office Expenses). At the time of the CMS conference, although not based on the three factor formula, WPS' home office allocation structure had been reviewed and approved as CAS-compliant by both the DoD appointed CFAO and DCAA.

CAS requires the application of home office expenses consistently across all government contracts, regardless of segment. CMS requested the change to the CAS 403 three factor formula for allocation of residual home office expenses. For calendar year 2006, prior to the award of its first MAC contract, WPS revised its allocation methodology for residual home office expense to the three factor formula and updated its Disclosure Statements accordingly. In accordance with FAR 52.230-6, WPS notified the CFAO of the change through the submission of a revised Disclosure Statement. DCAA, as the CFAA, subsequently reviewed WPS' revised three factor methodology for allocation of residual home office expense, and deemed it reasonable and adequate. For multiple audits, on both Medicare and TRICARE contracts, DCAA and the HHS OIG (Medicare FY 2006) have audited WPS' allocation of home office expense and have found no significant issues related to the requirements of CAS 403. In fact, contrary to the OIG's present assertion, DCAA explicitly found inclusion of benefits payments in revenue as a reimbursed cost to be proper under CAS 403. (See attachments 1&2-DCAA audit of three factor formula).

OIG is specifically questioning the "Revenue" component of the three factor formula. In accordance with CAS, WPS' definition of "revenue" under the formula is an accurate measure of the total activity of each segment in relation to the other segments and has been accepted by DCAA in every audit covering this issue since 2006.

CAS 9904.403-30(3) defines "operating revenue" as including reimbursable costs and fees under cost-type contracts. WPS' Medicare segment pays both administrative and claim payments out of WPS accounts and is separately reimbursed by CMS. WPS' TRICARE segment also makes claims payments out of WPS accounts and is separately reimbursed for those payments. CAS 403 states that such reimbursable costs are to be included in operating revenue under the three factor formula. WPS has accounted for the payments of claims for Medicare and TRICARE as a cost, and the corresponding reimbursement as revenue, on its general ledger since the inception of these business segments over 40 years ago. In addition, DCAA explicitly found benefits payments to be reimbursable costs properly included in revenue under the CAS 403 three factor formula. (See Attachments 1 & 2, DCAA audit of three factor formula).<sup>1</sup>

OIG's position is that inclusion of the claims paid as revenue, for Medicare and TRICARE, has the effect of over-allocating home office expenditures to government contracts. To the contrary, WPS' position is that the exclusion of the reimbursement for claim payments as revenue would inequitably and inappropriately understate the allocation of residual home office expense to WPS' Medicare and

<sup>1</sup> Office of Inspector General Note-The attachments were removed because it is proprietary information.

TRICARE segments that perform administrative services for claims payment contracts. Exclusion would also contravene WPS' DCAA-approved CAS Disclosure Statements, and the basic purpose of CAS 403 that "beneficial or causal relationships" between home office expenses and receiving segments should be the basis for the allocation method selected. An allocation method that distorts the relative benefits received by WPS' various segments would be inconsistent with the requirements of the CAS.

CAS9904.403-50(c)(1) identifies "three broad areas of management concern" used in the allocation formula: the employees of the organization, **the business volume**, and the capital invested in the organization. There can be no question that WPS has, is and will always consider its fiduciary responsibility, related to the payment of claims for our government segments, equal to that of WPS' commercial segment. Aside from WPS' fiduciary duties, WPS has material positive incentives, error penalties, and various award fees, related to the accuracy of claim payments for its two government segments. These financial incentives ensure that WPS approaches the payment of claims equally across its various business segments, whether they are made on an administrative services basis or an insured basis. The appropriate, reasonable and consistent position is to consider business volume on the basis of revenue that covers both administrative and claim costs equally for all segments, government and commercial. OIG's position would result in over-allocation of home office expenses to the commercial side of the business and distortion of the actual costs benefitting WPS' various business segments.

Claim payments typically run approximately eight times higher than the corresponding administrative costs necessary to process the claim. OIG's position would mean that, from a business volume perspective, the WPS commercial risk volume would count eight times that of its Medicare and TRICARE volume. This approach would lead to an unreasonable result and would be inconsistent with the intent of the three factor formula to properly reflect the relative business volume among segments and to achieve an overall allocation base representative of the total activity across all business segments. While WPS' commercial segment processes approximately 6 million claims annually, the Medicare and TRICARE segments process over 150 million claims and 60 million claims, respectively. Yet under OIG's approach, from a business volume perspective, WPS' commercial business segment would be considered over three times the size of either government segment.

To further illustrate this point, when comparing the current three factor formula calculation used by WPS to the methodology used by WPS prior to 2006 (i.e., administrative expenses by business segment), the allocation rates are materially comparable. Prior to CMS requiring WPS' use of the three factor formula in 2006 under the MAC contracts, OIG had audited over forty years of Medicare costs and had never taken exception to WPS' allocation of home office residual expenses. In contrast, using OIG's approach to the three factor formula calculation would lead to a material change in allocation results that would not be representative of the actual relative business activity across WPS' government and commercial business segments.

WPS top management is deeply involved in business operations across all of the company's segments. To illustrate the need for WPS' top management involvement, several examples of contract deliverables are provided. Regulatory requirements such as DIACAP, Service Contract Act

compliance, preparation of proposals in response to RFP's, FISMA compliance, Certification Package for Internal Controls (CPIC), management of government audits including SAS 70 (in 2010 alone, the Medicare Business Segment has had 12 external audits), and contract modifications (just to name a few) command a greater proportional share of WPS' top management time than does WPS' commercial segment.

To summarize, there is no basis for challenging WPS' DCAA-approved allocation methodology for residual home office overhead under the CAS 403 three factor formula. OIG's position would lead to a result contrary to the basic intent of the three factor formula by distorting the allocation of these costs to WPS' various business segments. WPS' application of the three factor formula has been fully disclosed to the CFAO and repeatedly approved in government audits. And, there is no basis for excluding claim payment reimbursement from operating revenue in applying the three factor formula.

#### Full Time Employees

WPS concurs with the OIG recommendation to reduce its costs by \$27,508 related to using an incorrect FTE allocation caused by using an incorrect formula to calculate the FTE count. WPS is reviewing the allocation formulas on a quarterly basis to provide reasonable assurance that there are no errors going forward.

#### Subcontract Expenses

WPS concurs with the OIG recommendation to reduce its costs by \$300,000 due to recording an accrual twice. WPS has in fact returned the \$300,000 in question to CMS through its revised FACP supplemental number 05 dated February 1, 2010. WPS accruals are systematically reversed in the following month to prevent this from happening in the future.

#### Furniture and Equipment Related to Another Contract

WPS concurs with the OIG recommendation to reduce its costs by \$269,221 for equipment that benefited another WPS contract. WPS now charges furniture and equipment through an indirect rate preventing a direct charge to the wrong contract.

#### Legal Services

WPS concurs with the OIG recommendation to reduce its costs by \$109,270 for legal expenses for protest fees relating to a Medicare Administrative Contractor bid which were not requested by the contracting officer. WPS will include future protest fees in its protest cost center, which are not claimed for reimbursement under this contract.

#### Profit Associated With Related-Party Transactions

WPS does not concur with the OIG recommendation to reduce its costs by \$80,200 (Part-B portion) related to profit paid to a wholly owned subsidiary. The OIG overstated the subsidiary's profit by \$78,162 (Part-A and Part-B combined). The correct profit charged to Medicare is \$28,190 (Part-A and Part-B combined), \$21,030 (Part-B portion) of which is related to Part B. The OIG calculation did not consider indirect costs for the subsidiary as a ratio of all indirect costs to all direct costs, but as a ratio of a subset of indirect costs to all direct costs resulting in an erroneous indirect rate which overstates the subsidiary profit amount.

WPS agrees to reduce its costs claimed by \$21,030 (Part-B portion) as profit paid to a wholly owned subsidiary. When the WPS fiscal year end results are final, WPS evaluates the subsidiary profit or loss and adjusts its costs claimed as appropriate.

#### Consultant Services

WPS does not concur with the OIG recommendation to reduce its costs by \$19,482 for consulting services. The consultant services were performed under two oral contract agreements. The OIG was provided the invoice copy backup showing approval of the services provided, hours worked, and rate of compensation. The total amounts paid to these consultants in 2007 and 2008 of \$24,535 and \$4,011 is much less than the cost of employing individuals with similar qualifications. Therefore these costs are allowable under *FAR 31.205-33 (d)*,:

*In determining the allowability of costs (including retainer fees) in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the contracting officer shall consider the following factors, among others:*

- (1) The nature and scope of the service rendered in relation to the service required.*
- (2) The necessity of contracting for the service, considering the contractor's capability in the particular area.*
- (3) The past pattern of acquiring such services and their costs, particularly in the years prior to the award of Government contracts.*
- (4) The impact of Government contracts on the contractor's business.*
- (5) Whether the proportion of Government work to the contractor's total business is such as to influence the contractor in favor of incurring the cost, particularly when the services rendered are not of a continuing nature and have little relationship to work under Government contracts.*
- (6) Whether the service can be performed more economically by employment rather than by contracting.*
- (7) The qualifications of the individual or concern rendering the service and the customary fee charged, especially on non-Government contracts.*
- (8) Adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, termination provisions).*

#### Investment Administrative Fees

WPS concurs with the OIG recommendation to reduce its costs by \$3,140 for investment administrative fees related to a 401(k) plan. The employees in the plan who are not part of the Medicare division will have their 401k administrative fees charged based on the Medicare allocation for their cost center.

Note that the issue here was that the cost for several support staff were charged one hundred percent to Medicare rather allocated in part to Medicare. Therefore, the last part of the sentence stating “and should not have been allocated to the contract” is inaccurate and should be changed to read “and should not have been allocated one hundred percent to the contract”.

#### Leased Vehicles

WPS concurs with the OIG recommendation to reduce its costs by \$85,513 related to the personal use of company furnished leased vehicles. WPS now excludes these costs as unallowable costs.

#### Meals

WPS does not concur with the OIG recommendation to reduce its costs by \$3,703 for meals provided during a board of directors meeting. Incidental costs associated with board of director meetings are allowable under *FAR 31.205-28* (“the following types of recurring costs are allowable: (f) Incidental costs of directors’ and committee meetings”). WPS concurs with reducing its costs by \$51 for the alcohol served with the meal. WPS will classify any alcohol purchase as “entertainment”, which is not claimed for reimbursement from the government.

WPS does not concur with the OIG recommendation to reduce its costs by \$318 for meals provided to executives. These expenses are indirect costs in the General Administrative cost pool and are allocated to Medicare in the same manner used for all General Administrative costs in accordance with *FAR 31.203(c)*:

*The contractor shall accumulate indirect costs by logical cost groupings with due consideration of the reasons for incurring such costs. The contractor shall determine each grouping so as to permit use of an allocation base that is common to all cost objectives to which the grouping is to be allocated. The base selected shall allocate the grouping on the basis of the benefits accruing to intermediate and final cost objectives. When substantially the same results can be achieved through less precise methods, the number and composition of cost groupings should be governed by practical considerations and should not unduly complicate the allocation.*

As indicated in the above referenced FAR provision, it is not appropriate to “cherry-pick” individual expense items out of an indirect pool for disallowance and then pay only a fraction of the Medicare specific expenses in the same pool.

WPS agrees to reduce its costs claimed by \$48 for the meal costs for which it has no receipts. WPS will review expense reports for receipts and request a signed affidavit from the traveler for amounts not supported with a receipt.

#### Airfare Related to Another Contract

WPS does not concur with the OIG recommendation to reduce its costs by \$2,246 for airfare purchased in connection with a trip that was for the benefit of one of WPS’s other contracts. These expenses are indirect costs in the Department Overhead cost pool and are allocated to Medicare contracts based on the departments direct labor costs in accordance with *FAR 31.203(c)*:

*The contractor shall accumulate indirect costs by logical cost groupings with due consideration of the reasons for incurring such costs. The contractor shall determine each grouping so as to permit use of an allocation base that is common to all cost objectives to which the grouping is to be allocated. The base selected shall allocate the grouping on the basis of the benefits accruing to intermediate and final cost objectives. When substantially the same results can be achieved through less precise methods, the number and composition of cost groupings should be governed by practical considerations and should not unduly complicate the allocation.*

As indicated in the above referenced FAR provision, it is not appropriate to “cherry-pick” individual expense items out of an indirect pool for disallowance and then pay only a fraction of the Medicare specific expenses in the same pool.

#### Meals and Beverages

WPS does not concur with the OIG recommendation to reduce its costs by \$7,456 for meals and beverages. The meals and beverages are related to WPS’ annual all employee meeting. The company president and senior executives address the employees on the company’s accomplishments over the previous year, current and future goals, and motivate employees to meet the company’s current and future goals. These costs are allowable under *FAR 31.205-13(a), Aggregate costs incurred on activities designed to improve working conditions, employer-employee relations, employee morale, and employee performance (less income generated by these activities) are allowable.*

#### Gifts and Gift Cards

WPS does not concur with the OIG recommendation to reduce its costs by \$6,296 for gifts and gift cards. The gift cards were provided under a WPS policy in recognition for years of service in the Medicare line of business. As these are earned by employees through length of service in the Medicare program, they are allowable as compensation. See *FAR 31.205-6(f)(i) (“Awards are paid or accrued under an agreement entered into in good faith between the contractor and the employees before the services are rendered or pursuant to an established plan or policy followed by the contractor so consistently as to imply, in effect, an agreement to make such payment; and (ii) Basis for the award is supported.”)*

The gifts are incidental mementos related to WPS’ annual all employee meeting to encourage attendance and to help employees remember goals. The company president and senior executives address the employees on the company’s accomplishments over the previous year, current and future goals, and motivate employees to meet the company’s current and future goals. These costs are allowable under *FAR 31.205-13(a) (“Aggregate costs incurred on activities designed to improve working conditions, employer-employee relations, employee morale, and employee performance (less income generated by these activities) are allowable”)*

#### Membership Dues

WPS concurs with the OIG recommendation to reduce its costs by \$2,405 for membership dues to attend social events. WPS excludes these costs as unallowable costs.

Lobbying

WPS concurs with the OIG recommendation to reduce its costs by \$1,415 for lobbying costs. WPS now includes these costs in its lobbying cost center, which are not claimed for reimbursement.

Thank you for the opportunity to comment, please contact me at (608) 301-2639 or e-mail me at [Jared.Adair@wpsic.com](mailto:Jared.Adair@wpsic.com) if you have any questions.

Sincerely,



Jared A. Adair  
Senior Vice President  
Medicare Division

Attachments