



Region VII
601 East 12th Street
Room 0429
Kansas City, Missouri 64106

February 1, 2012

Report Number: A-07-11-00356

Ms. Jared A. Adair
Senior Vice President, Medicare Division
Wisconsin Physicians Service Insurance Corporation
P.O. Box 8190
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 *Review of the Pension Segmentation Requirements for the Represented Employees' Retirement Income Plan at Wisconsin Physicians Service Insurance Corporation for the Period of August 1, 1998, to December 31, 2007*. 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.

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If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, or contact Jenenne Tambke, Audit Manager, at (573) 893-8338, extension 21, or through email at Jenenne.Tambke@oig.hhs.gov. Please refer to report number A-07-11-00356 in all correspondence.

Sincerely,

/Patrick J. Cogley/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

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Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF THE PENSION
SEGMENTATION REQUIREMENTS FOR
THE REPRESENTED EMPLOYEES'
RETIREMENT INCOME PLAN AT
WISCONSIN PHYSICIANS SERVICE
INSURANCE CORPORATION FOR THE
PERIOD OF AUGUST 1, 1998, TO
DECEMBER 31, 2007**



Daniel R. Levinson
Inspector General

February 2012
A-07-11-00356

Office of Inspector General

<http://oig.hhs.gov>

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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.

EXECUTIVE SUMMARY

BACKGROUND

Wisconsin Physicians Service Insurance Corporation and Medicare

Wisconsin Physicians Service Insurance Corporation (WPS) administered Medicare Part A and Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS). With the award to WPS of the CMS Parts A and B Medicare administrative contractors Jurisdiction 5 contract, WPS acquired Mutual of Omaha's Medicare Part A business segment in November 2007.

During the audit period, WPS maintained four separate defined benefit pension plans. This report will address the pension assets for the Represented Employees' Retirement Income Plan only.

On December 31, 2002, WPS terminated its Medicare Part A contract (prior to acquiring the Medicare Part A business segment from Mutual of Omaha). The closing date for the Medicare Part A segment was December 31, 2002. Upon the termination of its Medicare Part A contract, WPS identified Medicare's share of the Medicare Part A segment excess pension liabilities to be \$61,551.

Since its inception, Medicare has paid a portion of contractors' contributions to their pension plans. These contributions are allowable Medicare costs subject to the criteria set forth in the Federal Acquisition Regulation, Cost Accounting Standards (CAS), and Medicare contracts.

Pension Segmentation

Beginning with fiscal year 1988, CMS incorporated segmentation requirements into the Medicare contracts. The Medicare contracts define a segment and specify the methodology for the identification and initial allocation of pension assets to the segment. Additionally, the contracts require Medicare segment assets to be updated for each year after the initial allocation in accordance with CAS 412 and 413.

OBJECTIVE

Our objective was to determine whether WPS complied with Federal requirements and the Medicare contracts' pension segmentation requirements when:

- updating the Medicare Part B segment's pension assets from August 1, 1998, to December 31, 2007,
- updating the Medicare Part A segment's pension assets from August 1, 1998, to December 31, 2002, and

- determining Medicare's share of the Medicare Part A segment excess pension liabilities as a result of the termination of the Medicare contract.

SUMMARY OF FINDINGS

WPS did not always comply with Federal requirements and the Medicare contracts' pension segmentation requirements when updating its Medicare Part B segment pension assets from August 1, 1998, to December 31, 2007, and when updating its Medicare Part A segment pension assets from August 1, 1998, to December 31, 2002. WPS identified Medicare Part B segment pension assets of \$8,216,869; however, we determined that the Medicare Part B segment pension assets were \$7,780,996 as of December 31, 2007. Thus, WPS overstated the Medicare Part B segment pension assets by \$435,873 as of December 31, 2007.

In addition, WPS identified Medicare Part A segment pension assets of \$163,745; however, we determined that the Medicare Part A segment pension assets were \$116,702 as of December 31, 2002. Thus, WPS overstated Medicare Part A segment pension assets by \$47,043 as of December 31, 2002.

Furthermore, WPS did not fully comply with Federal requirements in its calculation of Medicare's share of the Medicare Part A segment excess pension liabilities associated with the termination of the Medicare contract. WPS computed Medicare's share of the Medicare Part A segment excess pension liabilities to be \$61,551; however, we determined that Medicare's share of the Medicare Part A segment excess pension liabilities was \$112,278 as of December 31, 2002. Thus, WPS understated Medicare's share of excess pension liabilities, due to the termination of the Medicare Part A contract, by \$50,727.

RECOMMENDATIONS

We recommend that WPS:

- reduce the Medicare Part B segment pension assets as of December 31, 2007, by \$435,875 and recognize \$7,780,996 as the Medicare segment's pension assets,
- reduce the Medicare Part A segment pension assets as of December 31, 2002, by \$47,043 and recognize \$116,702 as the Medicare segment's pension assets, and
- increase Medicare's share of the Medicare Part A segment excess pension liabilities as of December 31, 2002, by \$50,727 and submit for reimbursement \$112,278 as Medicare's share of the excess pension liabilities due to the segment closing calculation.

AUDITEE COMMENTS

In written comments on our draft report, WPS concurred with our recommendations. WPS's comments are included in their entirety as Appendix D.

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Glossary of Abbreviations and Acronyms

CAS	Cost Accounting Standards
CMS	Centers for Medicare & Medicaid Services
FAR	Federal Acquisition Regulation
MAC	Medicare administrative contractor
WAV	weighted average value
WPS	Wisconsin Physicians Service Insurance Corporation

INTRODUCTION

BACKGROUND

Wisconsin Physicians Service Insurance Corporation and Medicare

Wisconsin Physicians Service Insurance Corporation (WPS) administered Medicare Part A and Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS). With the award to WPS of the CMS Parts A and B Medicare administrative contractors (MAC) Jurisdiction 5 contract, WPS acquired Mutual of Omaha's Medicare Part A business segment in November 2007.¹

During the audit period, WPS had four defined benefit pension plans. The Employees' Pension Plan and the Managerial Pension Plan were ongoing pension plans that we reviewed in prior audits.² On August 1, 1998, WPS established two additional defined benefit pension plans: the Represented Employees' Retirement Income Plan (ERIP) and the Managerial Retirement Program for Michigan, Illinois, and Minnesota Employees of WPS. Effective December 31, 2007, WPS merged the ERIP and the Managerial Retirement Program for Michigan, Illinois, and Minnesota Employees of WPS and renamed the plan WPS Managerial Retirement Program for Selected Locations. This report will address the pension assets for the ERIP only.³

On December 31, 2002, WPS terminated its Medicare Part A contract (prior to receiving the Medicare Part A business segment from Mutual of Omaha). The closing date for the Medicare Part A segment was December 31, 2002. Upon the termination of its Medicare Part A contract, WPS identified Medicare's share of the Medicare Part A segment excess pension liabilities to be \$61,551.

Since its inception, Medicare has paid a portion of contractors' contributions to their pension plans. These contributions are allowable Medicare costs subject to the criteria set forth in the Federal Acquisition Regulation (FAR), Cost Accounting Standards (CAS), and Medicare contracts.

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

² We performed a prior pension segmentation audit (A-05-92-00048, issued October 1992), which brought the Medicare segment pension assets to December 31, 1989.

³ We provide the results of our review of the Managerial Retirement Program for Michigan, Illinois, and Minnesota Employees of WPS in a separate report (A-07-11-00357).

Federal Requirements

CAS 412 addresses the determination and measurement of pension cost components. It also addresses the assignment of pension costs to appropriate accounting periods.

CAS 413 addresses 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.

Pension Segmentation

Beginning with fiscal year 1988, CMS incorporated segmentation requirements into the Medicare contracts. The Medicare contracts define a segment and specify the methodology for the identification and initial allocation of pension assets to the segment. Additionally, the contracts require Medicare segment assets to be updated for each year after the initial allocation in accordance with CAS 412 and 413. In claiming costs, contractors must follow cost reimbursement principles contained in the FAR, CAS, and the Medicare contracts.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether WPS complied with Federal requirements and the Medicare contracts' pension segmentation requirements when:

- updating the Medicare Part B segment's pension assets from August 1, 1998, to December 31, 2007,
- updating the Medicare Part A segment's pension assets from August 1, 1998, to December 31, 2002, and
- determining Medicare's share of the Medicare Part A segment excess pension liabilities as a result of the termination of the Medicare contract.

Scope

We reviewed WPS's identification of its Medicare segments; update of Medicare Part B segment assets from August 1, 1998, to December 31, 2007; update of Medicare Part A segment assets from August 1, 1998, to December 31, 2002; and the Medicare Part A segment closing calculation as of December 31, 2002.

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

We performed fieldwork at WPS's office in Madison, Wisconsin, during July 2009.

Methodology

To accomplish our objective, we did the following:

- We reviewed the applicable portions of the FAR, CAS, and the Medicare contracts.
- We reviewed the annual actuarial valuation reports prepared by WPS's actuary, which included the pension plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We used this information to calculate the Medicare segments' assets.
- We reviewed the Medicare Part A segment closing calculation prepared by WPS's actuary.
- We obtained and reviewed the pension plan documents and Department of Labor/Internal Revenue Service (IRS) Forms 5500 used in calculating the Medicare segments' assets.
- We interviewed WPS staff responsible for identifying the Medicare segments to determine whether the segments were properly identified in accordance with the Medicare contracts.
- We reviewed WPS's accounting records to verify the segment identification and benefit payments made to the Medicare segments.
- We provided the CMS Office of the Actuary with the actuarial information necessary for it to calculate both the Medicare Part A segment pension assets (at market value) from August 1, 1998, to December 31, 2002, and the Medicare segment's excess pension liabilities as of December 31, 2002.
- We provided the CMS Office of the Actuary with the actuarial information necessary for it to calculate the Medicare Part B segment pension assets (at market value) from August 1, 1998, to December 31, 2007.
- We reviewed the CMS actuaries' methodology and calculations.

We performed this review in conjunction with our audit of WPS's pension costs claimed for Medicare reimbursement, to be issued in a subsequent report (A-07-11-00369), and used the information obtained during that audit in this review.

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 RECOMMENDATIONS

WPS did not always comply with Federal requirements and the Medicare contracts' pension segmentation requirements when updating its Medicare Part B segment pension assets from August 1, 1998, to December 31, 2007, and when updating its Medicare Part A segment pension assets from August 1, 1998, to December 31, 2002. WPS identified Medicare Part B segment pension assets of \$8,216,869; however, we determined that the Medicare Part B segment pension assets were \$7,780,996 as of December 31, 2007. Thus, WPS overstated the Medicare Part B segment pension assets by \$435,873 as of December 31, 2007.

In addition, WPS identified Medicare Part A segment pension assets of \$163,745; however, we determined that the Medicare Part A segment pension assets were \$116,702 as of December 31, 2002. Thus, WPS overstated Medicare Part A segment pension assets by \$47,043 as of December 31, 2002.

Appendix A presents details on both Medicare Part B segment pension assets from August 1, 1998, to December 31, 2007, and Medicare Part A segment pension assets from August 1, 1998, to December 31, 2002, as determined during our audit.

Furthermore, WPS did not fully comply with Federal requirements in its calculation of Medicare's share of the Medicare Part A segment excess pension liabilities associated with the termination of the Medicare contract. WPS computed Medicare's share of the Medicare Part A segment excess pension liabilities to be \$61,551; however, we determined that Medicare's share of the Medicare Part A segment excess pension liabilities was \$112,278 as of December 31, 2002. Thus, WPS understated Medicare's share of excess pension liabilities, due to the termination of the Medicare Part A contract, by \$50,727.

UPDATE OF MEDICARE SEGMENTS' PENSION ASSETS

WPS did not always comply with Federal requirements and the Medicare contracts' pension segmentation requirements when updating the Medicare Part B segment pension assets from August 1, 1998, to December 31, 2007, and when updating its Medicare Part A segment pension assets from August 1, 1998, to December 31, 2002.

Federal Requirements

The Medicare contracts identify a Medicare segment as:

... any organizational component of the contractor, such as a division, department, or other similar subdivision, having a significant degree of responsibility and accountability for the Medicare contract/agreement, in which:

1. The majority of the salary dollars is allocated to the Medicare agreement/contract; or,

2. Less than a majority of the salary dollars are charged to the Medicare agreement/contract, and these salary dollars represent 40% or more of the total salary dollars charged to the Medicare agreement/contract.

Furthermore, the Medicare contracts state that "... the pension assets allocated to each Medicare Segment shall be adjusted in accordance with CAS 413.50(c)(7)." CAS 413.50(c)(7) requires that the asset base be adjusted by contributions, permitted unfunded accruals, income, benefit payments, and expenses. The CAS requires expenses to be allocated among the segments in proportion to the investment earnings. In addition, CAS 413.50(c)(8) requires an adjustment to be made for transfers (participants who enter or leave the segment) if the transfers materially affect the segment's ratio of pension plan assets to actuarial accrued liabilities.

For plan years beginning after March 30, 1995, the CAS requires investment income and expenses to be allocated among segments based on the ratio of the segment's weighted average value (WAV) of assets to Total Company WAV of assets.

Furthermore, CAS 412.50(a)(4) requires that contributions in excess of the pension cost assigned to the period be recognized as prepayment credits and accumulated at the assumed valuation interest rate until applied to future period costs. Prepayment credits that have not been applied to fund pension costs are excluded from the value of assets used to compute pension costs.

Medicare Part B Segment Pension Assets

WPS overstated Medicare Part B segment pension assets by \$435,873 as of December 31, 2007, as a result of the component variances discussed below.

Table 1 summarizes the audit adjustment required to update the Medicare Part B segment pension assets to December 31, 2007, in accordance with Federal requirements.

Table 1: Summary of Medicare Part B Audit Adjustments as of December 31, 2007			
	Per Audit	Per WPS	Difference
Contributions and Prepayment Credits	\$5,578,411	\$5,911,703	(\$333,292)
Benefit Payments	476,208	487,944	11,736
Net Transfers In	284,687	329,014	(44,327)
Earnings, Net Expenses	2,394,106	2,464,096	(69,990)
Under/(Over)statement of Medicare Pension Segment Assets			(\$435,873)

Contributions and Prepayment Credits Overstated

WPS overstated contributions and prepayment credits by \$333,292 for the Medicare Part B segment, primarily because it allocated contributions to the Medicare Part B segment in excess of the assignable pension costs. As a result, WPS overstated the Medicare Part B segment pension assets by \$333,292.

The audited contributions and prepayment credits are based on the assignable pension costs. In compliance with the CAS, we applied prepayment credits first to current-year assignable pension

costs because the credits were available at the beginning of the year, and then updated any remaining credits with interest to the next measurement (valuation) date. We then allocated contributions as needed to assigned pension costs as of the date of deposit. Table 2 provides information on our calculations of contributions and prepayment credits, WPS's calculations, and the difference between the two on a year-by-year basis.

Table 2: Contributions and Prepayment Credits			
Medicare Part B Segment			
	Per Audit	Per WPS	Difference
1998	\$254,673	\$254,673	\$0
1999	617,810	618,741	(931)
2000	637,903	638,468	(565)
2001	553,832	553,683	(149)
2002	617,875	566,894	50,981
2003	761,634	868,418	(106,784)
2004	753,445	762,098	(8,653)
2005	677,201	755,000	(77,799)
2006	704,038	635,361	68,677
2007	0	258,367	(258,367)
Total	\$5,578,441	\$5,911,703	(\$333,292)

Benefit Payments Overstated

WPS overstated benefit payments by \$11,736 because of differences in the identification of the Medicare Part B segment participants. As a result, WPS understated the Medicare Part B segment pension assets by \$11,736.

Net Transfers In Overstated

WPS overstated transfers in to the Medicare Part B segment by \$44,327, primarily because of differences in the identification of the Medicare Part B segment participants. This overstatement of the net transfer adjustment resulted in an overstatement of the Medicare Part B segment assets by \$44,327.

Earnings, Net Expenses Overstated

WPS overstated investment earnings, less administrative expenses, by \$69,990 for the Medicare Part B segment because it used incorrect contribution and prepayment credit, benefit payment, and net transfer amounts (all discussed above) to develop the Medicare Part B segment pension asset base. In our audited update, we allocated earnings and expenses based on the applicable CAS requirements.

Medicare Part A Segment Pension Assets

WPS overstated Medicare Part A segment pension assets by \$47,043 as of December 31, 2002, as a result of the component variances discussed below.

Table 3 summarizes the audit adjustment required to update the Medicare Part A segment pension assets to December 31, 2002, in accordance with Federal requirements.

	Per Audit	Per WPS	Difference
Contributions and Prepayment Credits	\$613,374	\$663,008	(\$49,634)
Benefit Payments	27,464	28,506	1,042
Net Transfers Out	(402,469)	(407,631)	5,162
Earnings, Net Expenses	(66,739)	(63,126)	(3,613)
Under/(Over)statement of Medicare Pension Segment Assets			(\$47,043)

Contributions and Prepayment Credits Overstated

WPS overstated contributions and prepayment credits by \$49,634 for the Medicare Part A segment, primarily because it allocated contributions to the Medicare Part B segment in excess of the assignable pension costs. As a result, WPS overstated the Medicare Part A segment pension assets by \$49,634.

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

Benefit Payments Overstated

WPS overstated benefit payments by \$1,042 because of differences in the identification of the Medicare Part A segment participants. As a result, WPS understated the Medicare Part A segment pension assets by \$1,042.

Net Transfers Out Overstated

WPS overstated net transfers out of the Medicare Part A segment by \$5,162, primarily because of differences in identification of the Medicare Part A segment participants. This overstatement of the net transfer adjustment resulted in an understatement of the Medicare Part A segment assets by \$5,162.

Earnings, Net Expenses Overstated

WPS overstated investment earnings, less administrative expenses, by \$3,613 for the Medicare Part A segment because it used incorrect contribution, prepayment credit, benefit payment, and

net transfer amounts (all discussed above) to develop the Medicare Part A segment pension asset base. In our audited update, we allocated earnings and expenses based on the applicable CAS requirements.

MEDICARE PART A SEGMENT EXCESS PENSION LIABILITIES

WPS did not fully comply with Federal requirements in its calculation of Medicare's share of the Medicare Part A segment excess pension liabilities associated with the termination of the Medicare contract.

Federal Requirements

CAS 413 requires a segment closing adjustment to be made in order to recognize Medicare's share of the Medicare Part A segment excess pension liabilities as a result of the termination of the Medicare Part A contract.

Medicare Contracts

In the event of a contract termination, the Medicare contracts require contractors to follow the segment closing provision of the CAS. Furthermore, in situations such as contract terminations, the Medicare contracts require contractors to identify excess Medicare pension liabilities in accordance with CAS 413.

Cost Accounting Standards

Contract terminations and segment closings are addressed by CAS 413.50(c)(12), which states:

If a segment is closed, if there is a pension plan termination, or if there is a curtailment of benefits, the contractor shall determine the difference between the actuarial liability for the segment and the market value of the assets allocated to the segment, irrespective of whether or not the pension plan is terminated. The difference between the market value of the assets and the actuarial accrued liability for the segment represents an adjustment of previously-determined pension costs.

(i) The determination of the actuarial accrued liability shall be made using the accrued benefit cost method. The actuarial assumptions employed shall be consistent with the current and prior long term assumptions used in the measurement of pension costs....

(ii) ... The market value of the assets shall be reduced by the accumulated value of prepayment credits, if any. Conversely, the market value of assets shall be increased by the current value of any unfunded actuarial liability separately identified and maintained in accordance with 9904.412-50(a)(2).

(iii) The calculation of the difference between the market value of the assets and the actuarial accrued liability shall be made as of the date of the event (e.g., contract termination, plan amendment, plant closure) that caused the closing of the segment, pension plan termination, or curtailment of benefits. If such a date is not readily determinable, or if its use can result in an inequitable calculation, the contracting parties shall agree on an appropriate date.

Determination of Excess Medicare Part A Segment Pension Liabilities as of December 31, 2002

WPS identified \$61,551 in excess Medicare Part A segment pension liabilities as of December 31, 2002. However, we calculated the excess Medicare Part A segment pension liabilities to be \$112,289 as of that date. Therefore, WPS understated the excess pension liabilities by \$50,738. The understatement occurred because WPS did not fully comply with Federal requirements in its calculation of the Medicare Part A segment's excess pension liabilities. Specifically, WPS did not compute the Medicare Part A segment excess pension liabilities correctly because it (a) overstated the Medicare Part A segment's final market value of assets (as previously discussed), (b) incorrectly identified a prepayment credit as adjustment to the Medicare Part A segment's final market value of assets, and (c) adjusted the final accrued actuarial liabilities on the basis of a 1999 pension plan amendment for which the CAS did not require that an adjustment be made. Appendix B shows a comparison of our and WPS's calculations of the excess Medicare Part A segment pension liabilities as of December 31, 2002. The development of the excess Medicare Part A segment pension liabilities was used to determine Medicare's share of the Medicare Part A segment excess pension liabilities as discussed below.

Medicare's Share of Medicare Part A Segment Excess Pension Liabilities as of December 31, 2002

Federal Requirements

The methodology for determining the Federal Government's share of excess pension liabilities is addressed by CAS 413.50(c)(12)(vi), which states:

The Government's share of the adjustment amount determined for a segment shall be the product of the adjustment amount and a fraction. The adjustment amount shall be reduced for any excise tax imposed upon assets withdrawn from the funding agency of a qualified pension plan. The numerator of such fraction shall be the **sum of the pension plan costs** allocated to all contracts and subcontracts (including Foreign Military Sales) subject to this Standard during a period of years representative of the Government's participation in the pension plan. The denominator of such fraction shall be the **total pension costs** assigned to cost accounting periods during those same years. This amount shall represent an adjustment of contract prices or cost allowance as appropriate. The adjustment may be recognized by modifying a single contract, several but not all contracts, or all contracts, or by use of any other suitable technique. [Emphasis added.]

Medicare's Share of the Medicare Part A Segment Excess Pension Liabilities Understated

WPS did not fully comply with Federal requirements when determining Medicare's share of the Medicare Part A segment excess pension liabilities associated with the termination of the Medicare contract as of December 31, 2002. WPS calculated \$61,551 as Medicare's share of the Medicare Part A segment excess pension liabilities as of December 31, 2002; however, we determined that Medicare's share of the Medicare Part A segment excess pension liabilities was \$112,278 as of December 31, 2002. The understatement occurred primarily because of differences in the calculation of the excess pension liabilities as of December 31, 2002 (as discussed above). Thus, WPS understated Medicare's share of the Medicare Part A segment excess pension liabilities by \$50,727.

In accordance with CAS 413.50(c)(12)(vi), we calculated the aggregate Medicare percentage using the Medicare segment pension costs developed during our current pension costs claimed (A-07-11-00369) audit. Appendix C shows our calculation of the Medicare Part A segment's aggregate Medicare percentage; Table 4 shows our calculation of Medicare's share of the Medicare Part A segment excess liabilities.

Table 4: Calculation of Medicare's Share of the Medicare Segment Part A Excess Pension Liabilities			
	Excess Medicare Segment Liabilities (A)	Aggregate Medicare Percentage (B)	Excess Liabilities Attributable to Medicare (A x B)
Per OIG	(\$112,289)	99.99%	(\$112,278)
Per WPS	(\$61,551)	100.00%	(\$61,551)
Difference	(\$50,738)	.01%	(\$50,727)

RECOMMENDATIONS

We recommend that WPS:

- reduce the Medicare Part B segment pension assets as of December 31, 2007, by \$435,875 and recognize \$7,780,996 as the Medicare segment's pension assets,
- reduce the Medicare Part A segment pension assets as of December 31, 2002, by \$47,043 and recognize \$116,702 as the Medicare segment's pension assets, and
- increase Medicare's share of the Medicare Part A segment excess pension liabilities as of December 31, 2002, by \$50,727 and submit for reimbursement \$112,278 as Medicare's share of the excess pension liabilities due to the segment closing calculation.

AUDITEE COMMENTS

In written comments on our draft report, WPS concurred with our recommendations. WPS stated that it will:

- reduce the Medicare Part B segment pension assets as of December 31, 2007, by \$435,875 and recognize \$7,780,996 as the Medicare segment's pension assets,
- reduce the Medicare Part A segment pension assets as of December 31, 2002, by \$47,043 and recognize \$116,702 as the Medicare segment's pension assets, and
- increase Medicare's share of the Medicare Part A segment excess pension liabilities as of December 31, 2002, by \$50,727 and submit for reimbursement \$112,278 as Medicare's share of the excess pension liabilities due to the segment closing calculation.

WPS's comments are included in their entirety as Appendix D.

APPENDIXES

APPENDIX A: WISCONSIN PHYSICIANS SERVICE INSURANCE CORPORATION
STATEMENT OF MARKET VALUE OF REPRESENTED EMPLOYEES' RETIREMENT INCOME PLAN PENSION ASSETS
FOR THE PERIOD AUGUST 1, 1998, TO DECEMBER 31, 2007

Description	Total Company	Other Segment	Medicare Part B	Medicare Part A
Assets August 1, 1998	<u>1/</u> \$0	\$0	\$0	\$0
Contributions	<u>2/</u> 254,673	0	254,673	0
Prepayment Credits	0	0	0	0
Earnings	0	0	0	0
Benefit Payments	<u>3/</u> 13,517	0	13,517	0
Expenses	0	0	0	0
Transfers	0	0	0	0
Assets January 1, 1999	\$268,190	\$0	\$268,190	\$0
Contributions	771,900	0	618,861	153,039
Prepayment Credits	<u>4/</u> 0	0	(1,051)	1,051
Earnings	<u>5/</u> 205,750	0	184,114	21,636
Benefit Payments	(533)	0	(533)	0
Expenses	<u>6/</u> (67,909)	0	(60,768)	(7,141)
Transfers	0	0	0	0
Assets January 1, 2000	\$1,177,398	\$0	\$1,008,813	\$168,585
Contributions	805,334	0	638,020	167,314
Prepayment Credits	0	0	(117)	117
Earnings	14,831	0	12,490	2,341
Benefit Payments	(17,835)	0	(13,511)	(4,324)
Expenses	(45,761)	0	(38,538)	(7,223)
Transfers	<u>7/</u> 0	0	(5,425)	5,425
Assets January 1, 2001	\$1,933,967	\$0	\$1,601,732	\$332,235
Contributions	700,872	0	553,880	146,992
Prepayment Credits	0	0	(48)	48
Earnings	(142,443)	0	(117,228)	(25,215)
Benefit Payments	(28,288)	0	(19,405)	(8,883)
Expenses	(57,186)	0	(47,063)	(10,123)
Transfers	0	0	(36,986)	36,986
Assets January 1, 2002	\$2,406,922	\$0	\$1,934,882	\$472,040
Contributions	762,688	0	617,991	144,697
Prepayment Credits	0	0	(116)	116
Earnings	(152,156)	0	(122,687)	(29,469)
Benefit Payments	(25,920)	0	(11,663)	(14,257)
Expenses	(59,612)	0	(48,067)	(11,545)
Transfers	0	0	444,880	(444,880)
Assets December 31, 2002	<u>8/</u> \$2,931,922	\$0	\$2,815,220	\$116,702

Description	Total Company	Other Segment	Medicare Part B
Assets January 1, 2003	\$2,931,922	\$116,702	\$2,815,220
Contributions	868,418	106,784	761,634
Prepayment Credits	0	0	0
Earnings	597,320	29,438	567,882
Benefit Payments	(38,949)	(8,894)	(30,055)
Expenses	(71,688)	(3,533)	(68,155)
Transfers	0	0	0
Assets January 1, 2004	\$4,287,023	\$240,497	\$4,046,526
Contributions	762,098	119,353	642,745
Prepayment Credits	0	(110,700)	110,700
Earnings	551,198	21,523	529,675
Benefit Payments	(28,458)	(8,894)	(19,564)
Expenses	(63,934)	(2,496)	(61,438)
Transfers	0	117,782	(117,782)
Assets January 1, 2005	\$5,507,927	\$377,065	\$5,130,862
Contributions	755,000	191,515	563,485
Prepayment Credits	0	(113,716)	113,716
Earnings	473,303	28,227	445,076
Benefit Payments	(34,704)	(9,751)	(24,953)
Expenses	(81,890)	(4,884)	(77,006)
Transfers	0	0	0
Assets January 1, 2006	\$6,619,636	\$468,456	\$6,151,180
Contributions	709,000	140,698	568,302
Prepayment Credits	0	(135,736)	135,736
Earnings	865,343	48,529	816,814
Benefit Payments	(113,476)	(28,825)	(84,651)
Expenses	(123,439)	(6,923)	(116,516)
Transfers	0	0	0
Assets January 1, 2007	\$7,957,064	\$486,199	\$7,470,865
Contributions	259,322	259,322	
Prepayment Credits	0	0	0
Earnings	629,682	47,678	582,004
Benefit Payments	(301,836)	(29,963)	(271,873)
Expenses	0	0	0
Transfers	0	0	0
Assets December 31, 2007	\$8,544,232	\$763,236	\$7,780,996
Per WPS	9/ \$8,544,232	\$327,363	\$8,216,869
Asset Variance	10/ \$0	\$435,873	(\$435,873)

ENDNOTES

- 1/ The pension plan was established on August 1, 1998. We obtained the beginning market value of assets from the actuarial valuation reports prepared by Wisconsin Physicians Service Insurance Corporation's (WPS) actuary. At the inception of this plan it was 100% Medicare Part B employees so Total Company and the Medicare Part B segment were the same; however, through the audit period WPS developed the "Other" segment and the Medicare Part A Segment. The amounts shown for the "Other" segment represent the difference between the Total Company and the Medicare segments. All pension assets in this appendix are shown at market value.
- 2/ We obtained Total Company contribution amounts from the actuarial valuation reports and Department of Labor/Internal Revenue Service Forms 5500. We allocated Total Company contributions to the Medicare segment based on the ratio of the Medicare segment funding target divided by the Total Company funding target. Contributions in excess of the funding targets were treated as prepayment credits and accounted for in the "Other" segment until needed to fund pension costs in the future.
- 3/ We based the Medicare segment's benefit payments on actual payments to Medicare retirees. We obtained the benefit payments from documents provided by WPS.
- 4/ Prepayment credits represent funds available to satisfy future funding requirements and are applied to future funding requirements before current year contributions in order to avoid incurring unallowable interest. Prepayment credits are transferred to the Medicare segment as needed to cover funding requirements.
- 5/ We obtained investment earnings from the actuarial valuation reports. We allocated investment earnings based on the ratio of the segment's weighted average value (WAV) of assets to Total Company WAV of assets as required by the Cost Accounting Standards (CAS).
- 6/ We allocated administrative expenses to the Medicare segment in proportion to investment earnings.
- 7/ We identified participant transfers between segments by comparing valuation data files provided by WPS. Asset transfers were equal to the actuarial liability determined under the accrued benefit cost method in accordance with the CAS. Furthermore, the CAS requires an adjustment to be made for transfers only if the transfers materially affect the segment's ratio of pension plan assets to actuarial accrued liabilities.
- 8/ The Medicare Part A segment closed as of December 31, 2002. The remaining assets were moved to the "Other" segment as of January 1, 2003.
- 9/ We obtained total asset amounts as of December 31, 2007, from the actuarial valuation report prepared by WPS's actuary.
- 10/ The asset variance represents the difference between our calculation of Medicare segment pension assets and WPS's calculation of the Medicare segment pension assets.

APPENDIX B: EXCESS MEDICARE PART A SEGMENT PENSION LIABILITIES

		WPS	OIG	Variance
Final Market Value of Assets As December 31, 2002	1/	\$163,745	\$116,702	(\$47,043)
Prepayment Credit	2/	(36,210)	0	
Adjusted Final Market Value of Assets		127,535	116,702	(10,833)
Accrued Actuarial Liabilities	3/	228,991	228,991	
Adjustment for Plan Amendment:	4/			
1/1/1999 Plan Amendment	5/	(39,905)	0	
Adjusted Actuarial Liabilities		189,086	228,991	(39,905)
Excess Medicare Segment Pension Assets/(Liabilities)	6/	<u>(61,551)</u>	<u>(112,289)</u>	<u>(50,738)</u>
		100.00%	99.99%	0.01%
Medicare's Share of Excess Pension Liabilities		<u>(\$61,551)</u>	<u>(\$112,278)</u>	<u>\$50,727</u>

ENDNOTES:

1/ We obtained the final market value of assets from Appendix A.

2/ Prepayment credits are carried in the "Other" segment; therefore, there was no prepayment credit in the Medicare Part A segment as of December 31, 2002.

3/ The accrued actuarial liabilities included participants that were in the Medicare Part A segment as of December 31, 2002.

4/ CAS 413-50(c)(12)(iv) required that pension plan improvements adopted within 60 months of the date of the event (plan termination), which increase the actuarial accrued liability, shall be recognized on a prorated basis using the number of months that the the date of adoption preceded the event date.

5/ Plan amendment on January 1, 1999, was not a pension plan improvement; therefore, the CAS does not require a prorated adjustment at the segment closing.

6/ We calculated the Medicare segment excess liabilities due to the termination of the Medicare contract based upon the required adjustments. The Medicare segment excess liabilities represent the adjusted final market value of assets less the adjusted accrued actuarial liabilities.

**APPENDIX C: CALCULATION OF THE MEDICARE PART A SEGMENT
AGGREGATE MEDICARE PERCENTAGE**

WPS Medicare Segment Part A Aggregate Medicare Percentage			
Fiscal Year	Medicare Segment Pension Costs Claimed for Medicare Reimbursement	Total Medicare Segment Pension Costs	Aggregate Percentage¹
1998	\$0	\$0	
1999	113,794	113,794	
2000	161,693	161,693	
2001	149,391	149,436	
2002	150,837	150,837	
2003	38,259	38,259	²
Total	\$613,974	\$614,019	99.99% ³

¹The aggregate percentage was based on the audited pension costs as determined during the pension audits related to the Wisconsin Physicians Service Insurance Corporation (WPS) Medicare Part A segment. The information for 1998 - 2003 was obtained during the current review of pension costs claimed (A-07-11-00369).

²The fiscal year 2003 pension costs were computed for October 1, 2002, to December 31, 2002.

³We calculated the aggregate Medicare percentage by dividing the Medicare Segment Pension Costs Claimed for Medicare Reimbursement (numerator) by the Total Medicare Segment Pension Costs (denominator) pursuant to Cost Accounting Standard 413.

APPENDIX D: AUDITEE COMMENTS



Medicare

December 2, 2011

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

RE: OIG Draft Report Number A-07-11-00356

Dear Mr. Cogley:

This letter is in response to Report Number A-07-11-00356, the Draft Audit Report Review of the Pension Segmentation Requirements for the Represented Employees' Retirement Income Plan at Wisconsin Physicians Service Insurance Corporation for the Period of August 1, 1998, to December 31, 2007.

WPS concurs with the audit recommendations. WPS will:

- Reduce the Medicare Part B segment pension assets as of December 31, 2007, by \$435,875 and recognize \$7,780,996 as the Medicare segment's pension assets,
- Reduce the Medicare Part A segment pension assets as of December 31, 2002, by \$47,043 and recognize \$116,702 as the Medicare segment's pension assets, and
- Increase Medicare's share of the Medicare Part A segment excess pension liabilities as of December 31, 2002, by \$50,727 and submit for reimbursement \$112,278 as Medicare's share of the excess pension liabilities due to the segment closing calculation.

Thank you for the opportunity to comment on this report. If you have any questions, please contact me at (608) 301-2639 or by e-mail at Jared.Adair@wpsic.com.

Sincerely,



Jared A. Adair
Senior Vice President
Medicare Division



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