

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**WISCONSIN PHYSICIANS SERVICE  
INSURANCE CORPORATION  
UNDERSTATED ITS MEDICARE  
SEGMENT PENSION ASSETS FOR  
ITS MANAGERIAL RETIREMENT  
PROGRAM FOR SELECTED  
LOCATIONS**

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Deputy Inspector General  
for Audit Services

January 2018  
A-07-17-00517

# *Office of Inspector General*

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and any other conclusions and recommendations in this report  
represent the findings and opinions of OAS. Authorized officials of the  
HHS operating divisions will make final determination on these matters.

## Report in Brief

Date: January 2018

Report No. A-07-17-00517

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



### Why OIG Did This Review

Medicare contractors are required to separately account for the Medicare segment pension plan assets based on the requirements of their Medicare contracts and Cost Accounting Standards 412 and 413.

The HHS, OIG, Office of Audit Services, Region VII pension audit team reviews the Medicare segment pension assets to ensure compliance with Federal regulations.

Previous OIG reviews found that Medicare contractors did not always correctly identify and update the segmented pension assets.

Our objectives were to determine whether Wisconsin Physicians Service Insurance Corporation (WPS) complied with Federal requirements and the Medicare contracts' pension segmentation requirements when (1) implementing our prior audit recommendation and (2) updating the Medicare segment pension assets for the Managerial Retirement Program for Selected Locations from January 1, 2008, to December 31, 2009.

### How OIG Did This Review

We reviewed WPS's update of the Medicare segment pension assets as of December 31, 2009, to ensure compliance with Federal regulations.

## Wisconsin Physicians Service Insurance Corporation Understated Its Medicare Segment Pension Assets for Its Managerial Retirement Program for Selected Locations

### What OIG Found

WPS implemented our prior audit recommendation. However, WPS did not correctly update the Medicare segment pension assets from January 1, 2008, to December 31, 2009. WPS identified \$24.824 million as the Medicare segment pension assets as of December 31, 2009; however, we determined that the Medicare segment pension assets were \$24.857 million as of that date. Therefore, WPS understated the Medicare segment pension assets as of December 31, 2009 by \$33,463. WPS understated its Medicare segment's pension assets because it did not have controls to ensure that it calculated them in accordance with Federal regulations and the pension segmentation language of its Medicare contracts when updating the Medicare segment's pension assets from January 1, 2008, to December 31, 2009.

### What OIG Recommends and Auditee Comments

We recommend that WPS increase the Medicare segment pension assets by \$33,463 and recognize \$24.857 million as the Medicare segment pension assets as of December 31, 2009, and implement controls, including policies and procedures, to ensure compliance with Federal regulations and the pension segmentation language of the Medicare contracts.

WPS disagreed with some of the determinations we made in developing some of our findings and, consequently, it did not concur with our recommendations. WPS identified two cost centers that should have been included as Medicare cost centers in 2009. WPS also identified two participants whom we treated as transfers between 2008 and 2009 and said it believes that these participants were always part of its Medicare segment.

We revised our Medicare segment pension assets to include the two cost centers as part of the Medicare segment and have revised our findings and recommendation accordingly. However, we disagree with WPS that the two participants were always Medicare segment participants. Our prior audit treated those two participants as Other segment employees and determined that any changes would be immaterial—a conclusion with which WPS agreed at the time. However, during the current review, we determined that those participants were Medicare segment participants during 2009, and our calculations transferred them to the Medicare segment to properly move assets equal to their accrued liabilities.

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## **INTRODUCTION**

### **WHY WE DID THIS REVIEW**

Medicare contractors are required to separately account for the Medicare segment pension plan assets based on the requirements of their Medicare contracts and Cost Accounting Standards (CAS) 412 and 413. The Centers for Medicare & Medicaid Services (CMS) incorporated this requirement into the Medicare contracts beginning with fiscal year 1988. Previous Office of Inspector General reviews found that Medicare contractors did not always correctly identify and update the segmented pension assets.

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

For this review, we focused on one qualified defined-benefit plan, called the Managerial Retirement Program for Selected Locations (MRPSL), at Wisconsin Physicians Service Insurance Corporation (WPS). In particular, we examined the Medicare segment pension assets that WPS updated for the MRPSL from January 1, 2008, to December 31, 2009.

### **OBJECTIVES**

Our objectives were to determine whether WPS complied with Federal requirements and the Medicare contracts' pension segmentation requirements when (1) implementing the prior audit recommendations to decrease Medicare segment pension assets as of January 1, 2008, and (2) updating the Medicare segment pension assets from January 1, 2008, to December 31, 2009.

### **BACKGROUND**

#### **Wisconsin Physicians Service Insurance Corporation and Medicare**

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

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

During the audit period, WPS had three defined-benefit pension plans: (1) the MRPSL, (2) the Managerial Pension Plan (MPP), and (3) the Employees' Pension Plan (EPP). The MRPSL and the EPP merged into the MPP effective December 31, 2009, and December 31, 2012, respectively. This report addresses the Medicare segment pension assets for the MRPSL for the period January 1, 2008, to December 31, 2009. We are addressing WPS's compliance with Federal regulations and the pension segmentation requirements for the EPP and the MPP in separate reviews.

### **Prior Pension Segmentation Audit**

We performed a prior pension segmentation audit at WPS for the MRPSL (A-07-11-00357, issued February 1, 2012), which brought the MRPSL Medicare segment pension assets to January 1, 2008. We recommended that WPS reduce the Medicare Part B segment pension assets as of January 1, 2008, by \$543,087 and recognize \$22,879,005 as the Medicare segment's pension assets.

### **HOW WE CONDUCTED THIS REVIEW**

We reviewed WPS's implementation of the prior audit recommendation; identification of its MRPSL Medicare segment; and its update of the MRPSL Medicare segment pension assets from January 1, 2008, to December 31, 2009.

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

Appendix A contains details of our audit scope and methodology.

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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 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.

<sup>2</sup> Medicare Parts A and B Jurisdiction 5 consists of the States of Iowa, Kansas, Missouri, and Nebraska.

<sup>3</sup> Medicare Parts A and B Jurisdiction 8 consists of the States of Indiana and Michigan.

## FINDINGS

WPS implemented our prior audit recommendation to recognize \$22,879,005 as the Medicare segment pension assets as of January 1, 2008. Regarding our second objective, WPS did not correctly update the Medicare segment pension assets from January 1, 2008, to December 31, 2009, in accordance with Federal regulations and the Medicare contracts' pension segmentation requirements. WPS identified \$24,823,879 as the Medicare segment pension assets as of December 31, 2009; however, we determined that the Medicare segment pension assets were \$24,857,342 as of that date. Therefore, WPS understated the Medicare segment pension assets as of December 31, 2009, by \$33,463. WPS understated its Medicare segment's pension assets because it did not have controls to ensure that it calculated those assets in accordance with Federal regulations and the pension segmentation language of its Medicare contracts when updating the Medicare segment's pension assets from January 1, 2008, to December 31, 2009.

Appendix B identifies the details of WPS's Medicare segment pension assets from January 1, 2008, to December 31, 2009, as determined during our audit. Table 1 below summarizes the audit adjustments required to update the Medicare segment pension assets in accordance with Federal requirements.

**Table 1: Summary of Audit Adjustments**

	Per Audit	Per WPS	Difference
<b>Prior Audit Recommendation</b>	\$22,879,005	\$22,879,005	\$0
<b>Update of Medicare Segment Assets</b>			
Contributions and Prepayment Credits	4,311,262	4,315,843	(4,581)
Benefit Payments	(1,448,837)	(1,424,129)	(24,708)
Net Transfers	48,550	(10,898)	59,448
Earnings, Net of Expenses	(932,638)	(935,942)	3,304
<b>Understatement of Medicare Segment Assets</b>	<b>\$24,857,342</b>	<b>\$24,823,879</b>	<b>\$33,463</b>

### **PRIOR AUDIT RECOMMENDATION**

WPS implemented our prior audit recommendation (A-07-11-00357), which recommended that WPS decrease its Medicare segment pension assets by \$543,087 and, as a result, recognize \$22,879,005 as the Medicare segment pension assets.

### **UPDATE OF MEDICARE SEGMENT PENSION ASSETS**

The Medicare contracts require Medicare contractors to update the Medicare segment pension assets yearly in accordance with the CAS. The CAS requires that the asset base be adjusted by



contributions, income, benefit payments, and expenses. For details on the Federal requirements and the relevant language of the Medicare contracts, see Appendix C.

WPS did not correctly update the Medicare segment pension assets from January 1, 2008, to December 31, 2009, in accordance with Federal regulations and the Medicare contracts' pension segmentation requirements. WPS identified \$24,823,879 as the Medicare segment pension assets as of December 31, 2009; however, we determined that the Medicare segment pension assets were \$24,857,342 as of that date. Therefore, WPS understated the Medicare segment pension assets as of December 31, 2009, by \$33,463.

WPS understated its Medicare segment's pension assets because it did not have controls to ensure that it calculated those assets in accordance with Federal regulations and the pension segmentation language of its Medicare contracts when updating the Medicare segment's pension assets from January 1, 2008, to December 31, 2009.

The following are our findings regarding the update of the Medicare segment pension assets from January 1, 2008, to December 31, 2009.

### **Contributions and Transferred Prepayment Credits Overstated**

The audited contributions and transferred prepayment credits<sup>4</sup> are based on the assignable pension costs.<sup>5</sup> 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 to assigned pension costs, as needed, as of the date of deposit. For additional details on these Federal requirements, see Appendix C.

WPS overstated contributions and transferred prepayment credits by \$4,581 for its Medicare segment. The overstatement occurred primarily because of differences in the asset base used to compute the assignable pension costs. Table 2 on the following page shows the differences between the contributions and prepayment credits proposed by WPS and the contributions and prepayment credits that we calculated during our review.

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<sup>4</sup> A prepayment credit is the amount funded in excess of the pension costs assigned to a cost accounting period that is carried forward for future recognition.

<sup>5</sup> These are assigned to a specific cost accounting period.

**Table 2: Contributions and Transferred Prepayment Credits**

<b>Calendar Year (CY)</b>	<b>Per Audit</b>	<b>Per WPS</b>	<b>Difference</b>
2008	\$2,375,677	\$2,375,751	(\$74)
2009	1,935,585	1,940,092	(4,507)
<b>Total</b>	<b>\$4,311,262</b>	<b>\$4,315,843</b>	<b>(\$4,581)</b>

**Benefit Payments Understated**

WPS understated benefit payments by \$24,708 for the Medicare segment. This understatement occurred primarily because WPS incorrectly identified some Medicare segment benefit payments during 2008. This understatement of benefit payments resulted in an overstatement of the Medicare segment pension assets by \$24,708. A comparison of WPS's and our calculations of benefit payments for the Medicare segment appears in Table 3 below.

**Table 3: Benefit Payments**

<b>CY</b>	<b>Per Audit</b>	<b>Per WPS</b>	<b>Difference</b>
2008	(\$733,096)	(\$708,388)	(\$24,708)
2009	(715,741)	(715,741)	0
<b>Total</b>	<b>(\$ 1,448,837)</b>	<b>(\$1,424,129)</b>	<b>(\$24,708)</b>

**Net Transfers Out Overstated**

WPS overstated net transfers out of its Medicare segment by \$59,448. The overstatement occurred because WPS incorrectly identified the participants who transferred in or out of its Medicare segment. This overstatement of the net transfer adjustment resulted in an understatement of the Medicare segment pension assets by \$59,448.

**Earnings, Net of Expenses, Understated**

WPS understated investment earnings, less administrative expenses, by \$3,304 for its Medicare segment, because it used incorrect contributions and transferred prepayment credits, incorrect benefit payments, and incorrect net transfers (all discussed above) to develop the Medicare segment pension asset base. In our audited update, we allocated earnings, net of expenses based on the applicable CAS requirements. For details on applicable Federal requirements, see Appendix C.

## RECOMMENDATIONS

We recommend that WPS:

- increase the Medicare segment pension assets by \$33,463 and recognize \$24,857,342 as the Medicare segment pension assets as of December 31, 2009, and
- implement controls, including policies and procedures, to ensure compliance with Federal regulations and the pension segmentation language of the Medicare contracts.

## AUDITEE COMMENTS

In written comments on our draft report, WPS disagreed with some of the determinations we made in developing some of our findings and, consequently, it did not concur with our draft report's first recommendation. In the context of our second recommendation, WPS said that it believes that it has established and implemented controls, policies, and procedures to ensure compliance with Federal regulations and the pension segmentation language of the Medicare contracts. WPS stated that it merely disagrees with our draft report's interpretation of those regulations and contracts. WPS pointed to two specific reasons why its own calculations of its Medicare segment's pension assets differed from the assets conveyed in our draft audit report:

- WPS identified two cost centers, 512411 and 512412, that we treated as Medicare segment cost centers in 2008 and as non-Medicare-segment cost centers in 2009, which resulted in slightly different results between WPS's and our calculations.
- WPS stated that we identified two participants as transfers into WPS's Medicare segment between 2008 and 2009 and added that it believes that these participants were always part of its Medicare segment. WPS stated that as a result, it believes that our calculations overstate the asset value by approximately \$55,000.

WPS concurred with all other differences.

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

## OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing WPS's comments, we revised our Medicare segment pension assets to include cost centers 512411 and 512412 as part of the Medicare segment. We incorporated this adjustment into this final report and revised the relevant findings and our first recommendation accordingly.<sup>6</sup> Our revised first recommendation is that WPS increase the

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<sup>6</sup> After reviewing WPS's comments on this series of pension reports, we revised our finding and recommendation for the Medicare segment pension assets in this report. The Medicare segment pension assets identified in this final report are \$102,074 more than the amount conveyed in the draft report.

Medicare segment pension assets by \$33,463 and recognize \$24,857,342 as the Medicare segment pension assets as of December 31, 2009.

With respect to the two participants transferred into the Medicare segment during 2009, those differences between WPS's and our determinations result from our prior audit of the MRPSL (A-07-11-00357). During our prior audit, WPS suggested that we had incorrectly identified some Medicare segment participants. WPS provided documentation to support its position; however, we determined (in the prior audit) that any changes would be immaterial for the purposes of our review. (In its written comments on our prior audit's draft report, WPS stated that it agreed with us that the treatment of these participants was immaterial for segmentation purposes.) Thus, our prior audit treated these two employees as Other segment employees.

During our current review, WPS provided sufficient evidence to support that these two employees were Medicare segment employees during CY 2009. Therefore, our calculations transferred the two participants from the Other segment into the Medicare segment during CY 2009. It was necessary to transfer those employees to properly move assets equal to their accrued liability from the Other segment to the Medicare segment. Therefore, we disagree that the Medicare segment asset value is overstated in this report.

For our second recommendation, WPS said that it disagrees with our interpretation of the Federal regulations and the pension segmentation language in the Medicare contracts, but it did not specify which regulation(s) it believes we interpreted incorrectly. Excluding the differences (discussed above) between WPS's and our calculations of participant transfers, our audit determined that WPS's calculations also differed from ours with respect to the Medicare segment benefit payments, the contributions and transferred prepayment credits, and the investment earnings, net of expenses. WPS said in its written comments that it concurred with these other differences that we had identified. In light of the information we provide just above regarding the participant transfers, as well as WPS's concurrence with the other differences, we continue to support our recommendation that WPS implement controls, including policies and procedures, to ensure compliance with Federal regulations and the pension segmentation language of the Medicare contracts.

We maintain that our findings and recommendations, as modified, are valid as stated.

## **APPENDIX A: AUDIT SCOPE AND METHODOLOGY**

### **SCOPE**

We reviewed WPS's implementation of the prior audit recommendation; identification of its MRPSL Medicare segment; and its update of MRPSL Medicare segment pension assets from January 1, 2008, to December 31, 2009.

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

We performed fieldwork at WPS in Madison, Wisconsin.

### **METHODOLOGY**

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- reviewed the annual actuarial valuation reports prepared by WPS's actuarial consulting firms, which included the pension plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses, and used this information to calculate the Medicare segment assets;
- obtained and reviewed the pension plan documents and Department of Labor/Internal Revenue Service Forms 5500 used in calculating the Medicare segment assets;
- interviewed WPS staff responsible for identifying the Medicare segment to determine whether the segment was properly identified in accordance with the Medicare contracts;
- reviewed WPS's accounting records to verify the Medicare segment's identification as well as the benefit payments made to the Medicare segment;
- reviewed the prior segmentation audit performed at WPS (A-07-11-00357) to determine the beginning market value of assets for the Medicare segment;
- gave the CMS Office of the Actuary, which provides technical actuarial advice, the actuarial information necessary for it to calculate the Medicare segment pension assets from January 1, 2008, to December 31, 2009;

- reviewed the CMS actuaries' methodology and calculations; and
- provided the results of the review to WPS officials on June 7, 2017.

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

- *Wisconsin Physicians Service Insurance Corporation Understated Its Medicare Segment Pension Assets for Its Employees' Pension Plan (A-07-17-00516),*
- *Wisconsin Physicians Service Insurance Corporation Understated Its Medicare Segment Pension Assets for Its Managerial Pension Plan (A-07-17-00518),*
- *Wisconsin Physicians Service Insurance Corporation Did Not Claim Some Allowable Medicare Pension Costs (A-07-17-00519), and*
- *Wisconsin Physicians Service Insurance Corporation Understated Its Allocable Pension Costs (A-07-17-00520).*

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

**APPENDIX B: WISCONSIN PHYSICIANS SERVICE INSURANCE CORPORATION  
STATEMENT OF MEDICARE SEGMENT PENSION ASSETS FOR THE  
MANAGERIAL RETIREMENT PROGRAM FOR SELECTED LOCATIONS  
FOR THE PERIOD JANUARY 1, 2008, TO DECEMBER 31, 2009**

Description		Total Company	Other Segment	Medicare Segment
Assets January 1, 2008	<u>1/</u>	\$24,797,506	\$1,918,501	\$22,879,005
Prepayment Credits	<u>2/</u>	0	(320,115)	320,115
Contributions	<u>3/</u>	5,902,378	3,846,816	2,055,562
Earnings	<u>4/</u>	(6,534,315)	(634,623)	(5,899,692)
Benefit Payments	<u>5/</u>	(750,810)	(17,714)	(733,096)
Administrative Expenses	<u>6/</u>	(221,714)	(21,533)	(200,181)
Transfers	<u>7/</u>	0	(48,550)	48,550
Assets January 1, 2009		\$23,193,045	\$4,722,782	\$18,470,263
Prepayment Credits		0	(1,935,585)	1,935,585
Contributions		399,667	399,667	0
Earnings		6,115,322	759,979	5,355,343
Benefit Payments		(755,495)	(39,754)	(715,741)
Administrative Expenses		(214,803)	(26,695)	(188,108)
Transfers		0	0	0
Assets December 31, 2009		\$28,737,736	\$3,880,394	\$24,857,342
Per WPS	<u>8/</u>	\$28,737,736	\$3,913,857	\$24,823,879
Asset Variance	<u>9/</u>	\$0	(\$33,463)	\$33,463

**ENDNOTES**

1/ We determined the Medicare segment pension assets as of January 1, 2008, based on our prior segmentation audit of WPS (A-07-11-00357). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare segment. All pension assets are shown at market value.

2/ Transferred 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.

- 3/ 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.
- 4/ We obtained net investment earnings from the actuarial valuation reports. We allocated net investment earnings based on the ratio of each segment's weighted average value (WAV) of assets to Total Company WAV of assets as required by the CAS.
- 5/ We based the Medicare segment's benefit payments on actual payments to Medicare retirees. We obtained the benefit payments from documents provided by WPS.
- 6/ In accordance with the CAS, 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.
- 8/ We obtained total asset amounts from documents prepared by WPS's actuarial consulting firm.
- 9/ 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 C: FEDERAL REQUIREMENTS RELATED TO PENSION SEGMENTATION**

### **FEDERAL REGULATIONS**

Federal regulations (CAS 412.50(a)(4)) require 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.

Federal regulations (CAS 413.50(c)(7)) require that the asset base be adjusted by contributions, permitted unfunded accruals, income, benefit payments, and expenses. 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 WAV of assets to Total Company WAV of assets.

Federal regulations (CAS 413.50(c)(8)) require 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.

### **MEDICARE CONTRACTS**

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)."

November 8, 2017

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

RE: OIG Report Number A-07-17-00517

Dear Mr. Cogley:

This letter is in response to Draft Report Number A-07-17-00517, *Wisconsin Physicians Service Insurance Corporation Overstated Its Medicare Segment Pension Assets for Its Managerial Retirement Program for Selected Locations*. You requested that WPS provide you with a written comment including a statement of concurrence or nonconcurrence with each recommendation.

WPS does not concur with the Draft Report's recommendation to decrease the Medicare segment pension assets by \$68,611 and recognize Medicare segment assets of \$24,755,268. WPS also believes that it has established and implemented controls, policies and procedures to ensure compliance with Federal regulations and the pension segmentation language of the Medicare contracts. WPS merely disagrees with the Draft Report's interpretation of those regulations and contracts.

The differences between WPS's segmented assets and those recommended by the OIG audit report are due to the reasons described below and not due to any deficiencies in WPS's controls, policies or procedures:

- **Treatment of two cost centers as part of the Other segment during 2009:** In both 2008 and 2009, WPS treated cost centers "512412" and "512411" as part of the Medicare segment. However, OIG treated these as part of the Medicare segment in 2008, but as part of the Other segment in 2009. This results in slightly different results between WPS and OIG. OIG has these cost centers moving back to the Direct segment as part of the WPS Managerial Plan Asset Segmentation Report (A-07-17-00518) in a later year, which appears to confirm that WPS's position is correct.
- **Treatment of two participants as transfers into the Medicare segment:** OIG indicated that two participants were treated as transfers into the Medicare segment between 2008 and 2009. WPS believes these participants were always part of the Medicare segment. As a result, WPS believes using the OIG audited Medicare segmentation overstates the asset value by roughly \$55,000.

Due to privacy concerns, WPS is not including identifying information for the two participants in question in this response. However, WPS is willing to share this information in a secure fashion to confirm our position.

The resulting impact on cost is relatively small during the years of this audit.

WPS concurs on all other differences.

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

Sincerely,

Janet L. Kyle  
Executive Vice President  
GHA Division