



DEPARTMENT OF HEALTH AND HUMAN SERVICES

## OFFICE OF INSPECTOR GENERAL



OFFICE OF AUDIT SERVICES, REGION VII  
601 EAST 12<sup>TH</sup> STREET, ROOM 0429  
KANSAS CITY, MO 64106

April 16, 2012

Report Number: A-07-12-00388

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, Office of Inspector General (OIG), final report entitled *Postretirement Benefit Costs Claimed by Wisconsin Physicians Service Insurance Corporation for Fiscal Years 1999 Through 2001 Were Reasonable and Allowable*. We will forward a copy of this report to the HHS action official noted below.

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 direct them to the HHS action official. Please refer to report number A-07-12-00388 in all correspondence.

Sincerely,

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

Enclosure

**HHS Action Official:**

Ms. Deborah Taylor  
Director & Chief Financial Officer  
Office of Financial Management  
Centers for Medicare & Medicaid Services  
Mail Stop C3-01-24  
7500 Security Boulevard  
Baltimore, MD 21244-1850

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**POSTRETIREMENT BENEFIT COSTS  
CLAIMED BY WISCONSIN PHYSICIANS  
SERVICE INSURANCE CORPORATION FOR  
FISCAL YEARS 1999 THROUGH 2001  
WERE REASONABLE AND ALLOWABLE**



Daniel R. Levinson  
Inspector General

April 2012  
A-07-12-00388

# *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:

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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**  
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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**

#### **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).

In 1999, WPS established the WPS Represented Employees' Postretirement Medicare Plan to provide benefits to the represented employees formerly employed by Health Care Service Corporation. In 2001, WPS discontinued the Post Retirement Medical plan and agreed to apply the remaining funds in the Voluntary Employee Benefit Association (VEBA) trust to existing and future retiree insurance benefits until the funds are exhausted.

CMS reimburses a portion of its contractors' postretirement benefit (PRB) costs. In claiming PRB costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation and applicable Cost Accounting Standards as required by their Medicare contracts.

### **OBJECTIVE**

Our objective was to determine whether the PRB costs claimed by WPS for Medicare reimbursement on an accrual basis for fiscal years (FY) 1999 through 2001 were reasonable and allowable.

### **RESULTS OF REVIEW**

During our review, we determined that WPS claimed \$5,404,834 of PRB costs for FYs 1999 through 2001. After reviewing WPS's methodology for claiming PRB costs for Medicare reimbursement as well as the contributions made to the VEBA trust, we determined that the PRB costs that WPS claimed for Medicare reimbursement for FYs 1999 through 2001 were reasonable and allowable. This report therefore makes no recommendations.

## **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).

In 1999, WPS established the WPS Represented Employees' Postretirement Medicare Plan to provide benefits to the represented employees formerly employed by Health Care Service Corporation. In 2001, WPS discontinued the Post Retirement Medical plan and agreed to apply the remaining funds in the Voluntary Employee Benefit Association (VEBA) trust to existing and future retiree insurance benefits until the funds are exhausted.

#### **Federal Requirements**

CMS reimburses a portion of the funded accruals that contractors charge for their postretirement benefit (PRB) plans. Federal Acquisition Regulation (FAR) 31.205-6(o) requires that, to be allowable for Medicare reimbursement, PRB accrual costs be determined in accordance with Statement of Financial Accounting Standards (SFAS) 106 and funded in a dedicated trust fund, such as a VEBA trust.

### **OBJECTIVE, SCOPE, AND METHODOLOGY**

#### **Objective**

Our objective was to determine whether the PRB costs claimed by WPS for Medicare reimbursement on an accrual basis for fiscal years (FY) 1999 through 2001 were reasonable and allowable.

#### **Scope**

We reviewed the PRB costs claimed for Medicare reimbursement for the WPS Represented Employees' Post Retirement Medicare Plan for FYs 1999 through 2001. We focused on this time period, which began with the establishment of this benefits plan and ran through its discontinuance, because it had not been reviewed in previous Office of Inspector General audits.

Achieving our objective did not require that we review WPS's overall internal control structure. However, we reviewed the internal controls related to the accrued PRB costs claimed for Medicare reimbursement to ensure that the PRB costs were allowable pursuant to the FAR.

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

## **Methodology**

We reviewed applicable Federal requirements. We also identified the amount of accrued PRB costs claimed on WPS's Final Administrative Cost Proposal (FACP). We determined the extent to which WPS funded the PRB costs with contributions to the VEBA trust. In performing our review, we used information provided by WPS's actuarial firm. The CMS Office of the Actuary staff used this information to develop PRB costs for WPS based on SFAS 106 methodology applied in accordance with FAR 31.205-6(o). In turn, we verified the actuarial data and used it to calculate the PRB costs that were allowable for Medicare reimbursement on WPS's FACPs for FYs 1999 through 2001.

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.

## **RESULTS OF REVIEW**

During our review, we determined that WPS claimed \$5,404,834 of PRB costs for FYs 1999 through 2001. After reviewing WPS's methodology for claiming PRB costs for Medicare reimbursement as well as the contributions made to the VEBA trust, we determined that the PRB costs that WPS claimed for Medicare reimbursement for FYs 1999 through 2001 were reasonable and allowable. This report therefore makes no recommendations.

## **OTHER MATTER**

WPS has elected to continue to pay retiree claims from the VEBA trust until those funds are exhausted. In light of this decision, WPS and CMS will need to execute an advanced agreement that documents CMS's agreement with this decision.