Wisconsin Physicians Service Insurance Corporation Understated Its Allocable Pension Costs

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

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

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

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

WPS did not concur with our findings and, by extension, with the dollar amounts in our recommendations. WPS referred to its comments on related OIG reports and stated that it believes that its calculation of pension costs did comply with Federal regulations and that its computation of assignable pension cost for CY 2013 was accurate. In the context of its comments on related reports, WPS stated that the difference between its calculations of some Medicare segment pension assets and our own calculations was because it amortized the impact of a CY 2012 plan change over 1 year (instead of 10 years).

After reviewing WPS’s comments on this and related draft reports, we revised the dollar amounts in our findings and recommendations. We maintain that our findings and recommendations, as modified, are valid. WPS cannot amortize the impact of the CY 2012 plan change over a 1-year period because the 10-year amortization requirement appears in Cost Accounting Standards 413.

The full report can be found at https://oig.hhs.gov/oas/reports/region7/71700520.asp.