



DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF AUDIT SERVICES
233 NORTH MICHIGAN AVENUE
CHICAGO, ILLINOIS 60601

REGION V
OFFICE OF
INSPECTOR GENERAL

June 13, 2008

Report Number: A-05-07-00060

Mr. Guy R. Ringle
Senior Vice President Medicare Division
Wisconsin Physicians Services Insurance Corporation
1717 West Broadway
Madison, Wisconsin 53708

Dear Mr. Ringle:

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 October 1, 2003, through September 30, 2006." 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.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, the final report will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Sheri Fulcher, Audit Manager, at (312) 353-1823 or through e-mail at Sheri.Fulcher@oig.hhs.gov. Please refer to report number A-05-07-00060 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Marc Gustafson".

Marc Gustafson
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

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

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF MEDICARE PART B
ADMINISTRATIVE COSTS
OCTOBER 1, 2003, THROUGH
SEPTEMBER 30, 2006**

**WISCONSIN PHYSICIANS
SERVICE INSURANCE
CORPORATION**



Daniel R. Levinson
Inspector General

June 2008
A-05-07-00060

Office of Inspector General

<http://oig.hhs.gov>

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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. 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.

Following the close of each fiscal year (FY), contractors submit to CMS a Final Administrative Cost Proposal (cost proposal), which reports the Medicare administrative costs incurred during the year. The cost proposal and supporting data provide the basis for the CMS contracting officer and contractor to negotiate a final settlement of allowable administrative costs.

For FYs 2004 through 2006, CMS contracted with Wisconsin Physicians Service Insurance Corporation (WPS) to serve as a Medicare contractor in Illinois, Michigan, Minnesota, and Wisconsin. WPS Medicare Services, a division of WPS, processed Part B claims. WPS reported Medicare costs totaling \$218,029,255 in its cost proposals for FYs 2004 through 2006.

OBJECTIVES

Our objectives were to determine whether (1) the WPS cost proposals for FYs 2004 through 2006 presented fairly the costs of program administration and (2) the costs were reasonable, allowable and allocable in accordance with Federal Acquisition Regulations and other applicable criteria.

SUMMARY OF FINDINGS

WPS reported expenditures in its FYs 2004 through 2006 cost proposals that substantially complied with the Federal Acquisition Regulations and the Medicare contract provisions. However, WPS reported unallowable costs totaling \$82,735 because it overstated costs for management and medical consulting services (\$59,092), executive compensation (\$20,026), postage (\$2,764) and entertainment (\$853).

WPS did not report any forward funding costs in the cost proposals. There were no outstanding services reported for which funding was received but services were not rendered during our audit period.

RECOMMENDATION

We recommend that WPS decrease its cost proposals by \$63,019 for FY 2004, \$5,945 for FY 2005, and \$13,771 for FY 2006 to reflect the unallowable costs.

AUDITEE COMMENTS

In written comments on our draft report, WPS agreed with our findings regarding medical consulting services, executive compensation, postage, and entertainment costs. WPS disagreed with our findings regarding management consulting services costs and submitted additional documentation. WPS also suggested changes to Appendix C in the report. WPS' comments are included as Appendix D.

OFFICE OF INSPECTOR GENERAL RESPONSE

We analyzed the additional documentation provided by WPS and maintain that our finding regarding management consulting service costs remains valid; however we revised the Medicare allocable amount. We also modified our findings and Appendix C.

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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. 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.

Following the close of each fiscal year (FY), contractors submit to CMS a Final Administrative Cost Proposal (cost proposal), which reports the Medicare administrative costs incurred during the year. The cost proposal and supporting data provide the basis for the CMS contracting officer and contractor to negotiate a final settlement of allowable administrative costs.

For FYs 2004 through 2006, CMS contracted with Wisconsin Physicians Service Insurance Corporation (WPS) to serve as a Medicare contractor in Illinois, Michigan, Minnesota, and Wisconsin. WPS Medicare Services, a division of WPS, processed Part B claims. WPS reported Medicare costs totaling \$218,029,255 in its cost proposals for FYs 2004 through 2006.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our objectives were to determine whether (1) the WPS cost proposals for FYs 2004 through 2006 presented fairly the costs of program administration and (2) the costs were reasonable, allowable and allocable in accordance with Federal Acquisition Regulations (FAR) and other applicable criteria.

Scope

Our review covered the period October 1, 2003, through September 30, 2006 (FYs 2004 through 2006). For this period, WPS reported Medicare costs totaling \$218,029,255. This total included pension costs of \$12,110,894 that we did not review because pension costs will be the subject of a separate audit. WPS did not report any forward funding costs in the cost proposals.

In planning and performing our audit, we reviewed the internal controls that WPS had in place to allocate costs in accordance with the FAR and the Medicare contract. This understanding was for the purpose of accomplishing our objective and not to provide assurance of the internal control structure.

We conducted fieldwork at the WPS campus in Madison, Wisconsin during April through December 2007.

Methodology

To accomplish the objectives, we:

- reviewed applicable Medicare laws, regulations, and guidelines; the applicable sections of the FAR; and the WPS contract with CMS;
- reviewed the independent auditor's reports and letters related to internal controls for WPS for FYs 1999 through 2006;
- reviewed WPS internal and external audit reports, including prior OIG reports, for FYs 1999 through 2006;
- reconciled line item expenses on the cost proposals and cost classification reports to the contractor's subsidiary records of expenses;
- reviewed journal entries, invoices, expense vouchers and reports, contracts and agreements, and additional supporting documentation;
- interviewed WPS officials regarding the cost accumulation processes for cost proposals and cost allocation systems;
- reviewed payroll and personnel records; and
- tested costs for reasonableness, allowability and allocability.

For the top five executives with salaries allocated to Medicare, we:

- reviewed total compensation payout data and supporting documentation for each fiscal year;
- compared executive compensation costs to benchmark amounts published in the Federal Register for FYs 2003, 2004, 2005, and 2006;
- applied the Medicare allocation percentage to each executive's total compensation, up to the benchmark amount, to determine the allowable executive compensation amount; and
- identified unallowable executive compensation costs by fiscal year.

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 objectives.

FINDINGS AND RECOMMENDATION

WPS reported expenditures in its FYs 2004 through 2006 cost proposals that substantially complied with the FAR and the Medicare contract provisions. However, WPS reported unallowable costs totaling \$82,735 because it overstated costs for management and medical consulting services (\$59,092), executive compensation (\$20,026), postage (\$2,764), and entertainment (\$853).

WPS did not report any forward funding costs in the cost proposals. There were no outstanding services reported for which funding was received but services were not rendered during our audit period.

CONSULTING SERVICES

WPS overstated management and medical consulting services costs by \$59,092.

Management Consulting Services

FAR 31.201-4 states that 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”

WPS reported unallowable costs totaling \$51,764 in its FYs 2004 through 2006 cost proposals for management consulting services. WPS was unable to provide a copy of the consulting agreement or documentation supporting that the costs were allocable to Medicare. In the absence of adequate supporting documentation, the costs are unallowable.

Medical Consulting Services

FAR 31.201-4 states that 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”

WPS reported unallowable costs totaling \$7,328 in its FY 2006 cost proposal for medical consulting services that were used for WPS’ private line of business. WPS assigned the costs to a cost center that incorrectly allocated \$7,328 to the Medicare contract from October 2005 through July 2006. These costs were not allocable to the Medicare contract and are, therefore, unallowable.

EXECUTIVE COMPENSATION

WPS overstated executive compensation costs by \$20,026.

FAR 31.205-6 (p) states that “Costs incurred after January 1, 1998, for compensation of a senior executive in excess of the benchmark compensation amount determined applicable for the contractor fiscal year by the Administrator, Office of Federal Procurement Policy (OFPP), under Section 39 of the OFPP Act (41 U.S.C. 435) are unallowable” Effective January 2, 1999, senior executive means, “. . . the five most highly compensated employees in management

positions at each home office and each segment of the contractor, whether or not the home office or segment reports directly to the contractor's headquarters.”

The actual benchmark compensation amount for each fiscal year is published in the Federal Register. This benchmark compensation amount applies to contract costs incurred after January 1, of that year. The maximum benchmark compensation amounts allowable under government contracts during FYs 2003, 2004, 2005, and 2006 were \$405,273,¹ \$432,851,² \$473,318,³ and \$546,689,⁴ respectively.

WPS overstated executive compensation costs by \$13,063 in the cost proposals for FY 2004, \$5,092 in FY 2005, and \$1,871 in FY 2006. WPS made calculation errors and used incorrect executives' total compensation amounts. The overstated executive compensation costs are unallowable.

POSTAGE COSTS

WPS reported \$2,764 for postage costs in its FY 2006 cost proposal that were not supported by documentation indicating the costs were allocable to the Medicare contract.

FAR 31.201-4 states that 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”

WPS used specific job numbers to record and allocate postage expenses to appropriate cost centers. However, a review of the postage records disclosed that five line items totaling \$2,764 did not identify a job number. This amount was expensed to a Medicare-related cost center without a Medicare allocable job number identified on the postage records. In the absence of supporting documentation, these costs are unallowable.

ENTERTAINMENT COSTS

WPS reported \$853 for unallowable entertainment costs in its FY 2005 cost proposal.

FAR 31.205-14 states 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.”

WPS allocated \$853 to the Medicare contract for a Christmas dinner for its Board of Directors in December 2004. These costs were not allocable to the Medicare contract and are, therefore unallowable.

¹68 Federal Register 23501 (May 2, 2003)

²69 Federal Register 26897 (May 14, 2004)

³70 Federal Register 23888 (May 5, 2005)

⁴71 Federal Register 26114 (May 3, 2006)

RECOMMENDATION

We recommend that WPS decrease its cost proposals by \$63,019 for FY 2004, \$5,945 for FY 2005, and \$13,771 for FY 2006 to reflect the unallowable costs.

AUDITEE COMMENTS

In written comments on our draft report, WPS agreed with our findings regarding medical consulting services, executive compensation, postage, and entertainment costs. WPS disagreed with our findings regarding management consulting services costs and provided additional documentation.

WPS stated that the management consulting services costs were considered urgent and necessary to improve Medicare employee relations and submitted additional documentation. WPS stated that the documentation demonstrates that the costs are allocable to the Medicare contract and therefore, allowable. WPS also suggested changes to Appendix C in the report.

WPS' comments, except for the additional documentation (attachments to its comments), are included as Appendix D.

OFFICE OF INSPECTOR GENERAL RESPONSE

We analyzed the additional documentation provided by WPS and maintain that our finding regarding management consulting service costs remains valid; however, we revised the Medicare allocable amount. We also modified our findings and Appendix C.

For the management consulting services costs, WPS did not provide a copy of the consulting agreement and the additional documentation did not provide specific details from the period when costs were incurred to support that the costs were allocable to Medicare. However, we revised the Medicare allocable amount in the final report based on further review of supporting documentation.

We revised the 2004 Credits Variance and 2005 Administrative Costs Claimed for Credits amounts in Appendix C. We did not change any amounts related to pension costs because the final 2004 FACP report was not provided until after the completion of fieldwork.

We will provide a copy of this report to the CMS contracting officer for resolution.

APPENDIXES

WISCONSIN PHYSICIANS SERVICE INSURANCE CORPORATION
Final Administrative Cost Proposals
With OIG Recommended Cost Disallowances and Acceptance
For Fiscal Years (FY) 2004, 2005, and 2006

<u>Cost Category</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>Total</u>
Salaries/Wages	\$41,653,462	\$42,110,163	\$41,360,010	\$125,123,635
Fringe Benefits	18,570,997	19,193,152	19,337,874	57,102,023
Facilities or Occupancy	3,510,450	3,591,782	3,618,074	10,720,306
EDP Equipment	4,439,801	4,022,345	3,958,936	12,421,082
Subcontractors	27,211,990	14,777,464	13,941,649	55,931,103
Outside Prof. Services	2,518,109	2,146,862	2,916,024	7,580,995
Telephone & Telegraph	884,928	810,261	792,368	2,487,557
Postage & Express	3,953,051	4,146,956	3,576,315	11,676,322
Furniture & Equipment	2,545,747	3,226,336	2,854,713	8,626,796
Materials & Supplies	1,654,001	1,459,424	1,295,128	4,408,553
Travel	831,904	773,634	645,774	2,251,312
Return on Investment	554,718	487,201	733,412	1,775,331
Miscellaneous	(182,451)	18,593	333,148	169,290
Other	559,301	438,635	218,867	1,216,803
Subtotal	108,706,008	97,202,808	95,582,292	301,491,108
Other Adjustments (Credits)	(25,737,361)	(29,949,183)	(27,775,309)	(83,461,853)
Total Cost	\$82,968,647	\$67,253,625	\$67,806,983	\$218,029,255
Forward Funding	0	0	0	0
Total Costs Claimed on FACP	\$82,968,647	\$67,253,625	\$67,806,983	\$218,029,255
OIG Recommended Disallowance*	(63,019)	(5,945)	(13,771)	(82,735)
OIG Recommended for Acceptance	\$82,905,628	\$67,247,680	\$67,793,212	\$217,946,520

* See Appendix B

WISCONSIN PHYSICIANS SERVICE INSURANCE CORPORATION
OIG Recommended Cost Disallowances
For Fiscal Years (FY) 2004, 2005, and 2006

<u>Finding Categories</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>Total Part B Disallowance</u>
Management Consulting Services	49,956	0	1,808	51,764
Medical Consulting Services	0	0	7,328	7,328
Consulting Services Subtotal	49,956	0	9,136	59,092
Executive Compensation	13,063	5,092	1,871	20,026
Postage	0	0	2,764	2,764
Entertainment Expense	0	853	0	853
Total OIG Recommended Disallowances	\$ 63,019	\$ 5,945	\$ 13,771	\$ 82,735

Wisconsin Physicians Service Insurance Corporation – Madison, WI
Final Administrative Cost Proposal - Part B

FY 2004 Comparison of Administrative Costs Claimed to Budget Authorization

<u>Operation</u>	<u>Budget Authorization</u>	<u>Administrative Costs Claimed</u>	<u>Variance Favorable (Unfavorable)</u>
<u>Program Management</u>			
Bills/Claims Payment	\$69,605,900	\$68,705,298	\$900,602
Appeals/Reviews	6,072,000	6,106,423	(34,423)
Bene Inquiries	11,011,800	10,916,659	95,141
PM Provider Communication	685,900	671,639	14,261
Participating Physician	829,100	831,075	(1,975)
Productivity Investment	220,000	173,212	46,788
Provider Enrollment	3,900,000	3,879,564	20,436
Prov Telephone Inquiries	4,522,400	4,426,615	95,785
Credits	(26,138,500)	(25,737,361)	(401,139)
Subtotal	70,708,600	69,973,124	735,476
<u>Medicare Integrity Program</u>			
Medical Review	4,831,000	4,849,383	(18,383)
Medicare Secondary Payer Integrity	631,900	623,407	8,493
Benefits Integrity	343,000	328,010	14,990
Local Provider Education & Training	1,967,100	1,927,364	39,736
Provider Communications	1,996,200	1,961,387	34,813
MSP Postpayment	3,333,060	3,305,972	27,088
Subtotal	13,102,260	12,995,523	106,737
Totals	\$83,810,860	\$82,968,647	\$842,213

Note: All amounts were taken from Final Administrative Cost Proposal (Supplement No. 5) and Notice of Budget Approval (Supplement No. 12)

Wisconsin Physicians Service Insurance Corporation – Madison, WI
Final Administrative Cost Proposal - Part B

FY 2005 Comparison of Administrative Costs Claimed to Budget Authorization

<u>Operation</u>	<u>Budget Authorization</u>	<u>Administrative Costs Claimed</u>	<u>Variance Favorable (Unfavorable)</u>
<u>Program Management</u>			
Bills/Claims Payment	\$57,484,100	\$56,852,054	\$632,046
Appeals/Reviews	6,232,000	6,097,721	134,279
Bene Inquiries	10,088,300	9,939,614	148,686
PM Provider Communication	352,200	364,938	(12,738)
Participating Physician	606,600	603,451	3,149
Productivity Investment	177,900	109,858	68,042
Provider Enrollment	4,513,700	4,454,808	58,892
Prov Telephone Inquiries	7,152,300	5,904,084	1,248,216
Credits	(29,866,900)	(29,949,183)	82,283
Subtotal	56,740,200	54,377,345	2,362,855
<u>Medicare Integrity Program</u>			
Medical Review	5,130,100	4,926,449	203,651
Medicare Secondary Payer Integrity	650,000	639,301	10,699
Benefits Integrity	175,800	178,048	(2,248)
Local Provider Education & Training	1,740,300	1,740,104	196
Provider Communications	1,780,000	1,827,809	(47,809)
MSP Postpayment	3,050,000	2,964,105	85,895
Subtotal	12,526,200	12,275,816	250,384
MMA Fee For Service	\$254,300	\$113,076	\$141,224
MMA Regulatory Reform	538,800	487,388	51,412
Subtotal	793,100	600,464	192,636
Totals	\$70,059,500	\$67,253,625	\$2,805,875

Note: All amounts were taken from Final Administrative Cost Proposal (Supplement No. 7) and Notice of Budget Approval (Supplement No. 10)

Wisconsin Physicians Service Insurance Corporation – Madison, WI
Final Administrative Cost Proposal - Part B

FY 2006 Comparison of Administrative Costs Claimed to Budget Authorization

<u>Operation</u>	<u>Budget Authorization</u>	<u>Administrative Costs Claimed</u>	<u>Variance Favorable (Unfavorable)</u>
<u>Program Management</u>			
Bills/Claims Payment	\$54,166,200	\$53,033,042	\$1,133,158
Appeals/Reviews	8,219,200	8,264,657	(45,457)
Bene Inquiries	8,352,200	8,692,929	(340,729)
PM Provider Communication	779,200	778,175	1,025
Participating Physician	644,100	639,234	4,866
Productivity Investment	98,600	42,236	56,364
Provider Enrollment	4,420,000	4,372,424	47,576
Prov Telephone Inquiries	7,011,900	6,862,034	149,866
Credits	(27,443,700)	(27,775,309)	331,609
Subtotal	56,247,700	54,909,422	1,338,278
<u>Medicare Integrity Program</u>			
Medical Review	5,021,300	5,010,889	10,411
Medicare Secondary Payer Integrity	643,500	644,624	(1,124)
Benefits Integrity	150,000	150,971	(971)
Local Provider Education & Training	1,793,000	1,788,620	4,380
Provider Communications	2,125,000	2,115,453	9,547
MIP Prod Investment	42,800	46,444	(3,644)
MSP Postpayment	3,175,500	3,140,560	34,940
Subtotal	12,951,100	12,897,561	53,539
Totals	\$69,198,800	\$67,806,983	\$1,391,817

Note: All amounts were taken from Final Administrative Cost Proposal (Supplement No. 3) and Notice of Budget Approval (Supplement No. 19)



Medicare

March 11, 2008

Mr. Marc Gustafson
Regional Inspector General for Audit Services
HHS, Office of Audit Services
233 North Michigan Avenue
Chicago, IL 60601

RE: Comment on Draft Audit Report for fiscal years 2004 through 2006.

Dear Mr. Gustafson:

WPS disagrees with two of the findings in report number A-05-07-00060.

1) We disagree with the position that \$163,333 for OPUS subcontract services in 2006 is not allowable. WPS did solicit and receive presentations from two vendors, IMC, LTD. and the OPUS Group in accordance with Article XVIII of the Medicare contract as demonstrated in the discussion that follows. It should be noted that FAR 6.303-1 is not incorporated in the Medicare contract.

Attachments I and II are presentation materials given to WPS before the presentations were made. Attachment III is the invitation to a number of WPS executives, representing all WPS business Medicare (Att

Office of Inspector General Note – These paragraphs are not applicable because the finding or issue referred to by the auditee is not included in this report.

As noted in the attached materials both organizations proposed small upfront fees to complete an initial assessment ranging from \$10,000 to \$30,000. OPUS' initial fee was to be waived if we proceeded with the engagement. As highlighted in Attachments I and II both IMC and OPUS proposed a guaranteed return on our investment of three to one if we decided to go ahead with the full engagement. The IMC proposed process review was similar to the existing WPS time-and-motion work management system an approach WPS employed at the time. The OPUS proposed approach was based on implementation of a proprietary software package showing daily staff production as well as average production for each unit group. In addition, OPUS through process observations and interviews identified opportunities for implementation of best practices through their extensive experience. The OPUS solution, being different from the current WPS system, provided a fresh approach and was believed to offer the best opportunity for real improvement, currently and on an ongoing basis, and was selected by WPS. We believe that the above discussion and Attachments clearly demonstrate that OPUS was not sole sourced, but was selected based on a comparable ROI to that guaranteed by IMC but with an approach which offered a different review perspective than WPS had been using through it's own work management approach and offered ongoing tools to assist in continued efficiency evaluations.



Wisconsin Physicians Service Insurance Corporation serving as a CMS Medicare contractor
P.O. Box 1787 • Madison, WI 53701 • Phone 608-221-4711

Attachment IV is the Medicare post implementation summary showing annual savings of \$1,587,830.40 after the product was implemented for our legacy Medicare contract in June 2007. This provides a snapshot of savings at that point in time, however the OPUS software tools gives WPS ongoing best practice opportunities through individual performance evaluation compared to the group performance. This was demonstrated in our MAC J5 and MAC Cycle Two proposals in which WPS was also able to use these tools to identify additional efficiencies. The following is one example from a CMS question and WPS response during the J5 discussions related to reduce staffing:

Final Proposal Revision Questions dated 8.22.07

“Please provide details on the specific efficiencies being used as rationale to reduce the full time equivalent (FTE) employees in the areas of Medical Review and Appeals. CMS would also like to see the approximate reduction in FTE’s for each specified efficiency.”

Ap
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rede
FTE
Office of Inspector General Note – These paragraphs are not applicable because the finding or issue referred to by the auditee is not included in this report. 7

identifies staff productivity and utilization. We performed observations and analysis in our existing legacy workload and identified opportunities for increased productivity. From this analysis, we determined an increase in our productivity of two additional cases per hour for redeterminations and three per hour for reopenings resulting in the staff reduction of FTEs.”

The above discussions and noted attachments clearly show the positive return achieved through the OPUS initiative. Given that WPS’ Legacy and J5 contracts are cost reimbursement all savings flow through to CMS. Formal approval of this project by CMS was not needed only prior notification given the cost of this initiative did not exceed the \$500,000 approval threshold. Given the OPUS approach was part of an overall corporate strategy to review operational processes it was logical to include Medicare, but resulted in an oversight of providing formal notification to CMS.

WPS believes its shortcoming centers around not giving prior notification and that it met all other requirements of its contracts with CMS in that it did not sole source this initiative, evaluated the pricing of the initiative and most importantly has shown that CMS has clearly benefited from the OPUS initiative.

2)WPS also disagrees with the \$52,614 finding for unallowable Management Consulting Services. The consulting costs were considered urgent and necessary, targeted to improve employee relations communications between management and labor at our Marion IL operations location and to a lesser degree improve communications between the home office and Medicare satellite offices. Attachment V provides support for the February 2004 services, (the Marion IL office location is highlighted) which was the sampled invoice. It indicates the satellite office is Marion IL, and recommendations were reviewed with Karen Krolicki (K. Krolicki on invoice), Karen is an employee relations manager dedicated 100 percent to Medicare. Only Medicare

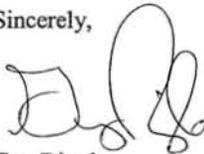
operations are located in our Marion IL office. This demonstrates that the costs are allocable to the Medicare contract and therefore, allowable.

WPS agrees with the remaining findings, Medical Consulting Services, Executive Compensation, Postage, and Entertainment costs.

There were two typos found we recommend be corrected. 1) In Appendix C for 2004, the Credits variance should be (401,139) instead of (25,737,361) and the PM subtotal is \$808,747 instead of (\$24,600,746), and the total variance is \$915,484 instead of \$2,172,754. WPS recommends the OIG replace Appendix C for 2004 with the attached spreadsheet. WPS made a pension adjustment to FY2004, although pension costs are outside the scope of this audit, the (\$73,271) adjustment decreases the totals, this also changes the total costs claimed in the Executive Summary from \$218,029,255 to \$217,955,984 and pension from \$12,110,894 to \$12,037,623. 2) In Appendix C for 2005 the Credits should be (\$29,949,183) instead of (\$29,977,043) to match Appendix A. The Medigap credits were counted twice in the Appendix C credit amount.

Thank you for the opportunity to comment, please contact me at (608) 301-2639 or e-mail me at Guy.Ringle@wpsic.com if you have any questions.

Sincerely,



Guy Ringle
Senior Vice President
Medicare Division