

An Audit

Health Insurance Risk-Sharing Plan Authority

2011-2012 Joint Legislative Audit Committee Members

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CONTENTS

Letter of Transmittal	1
Introduction	3
HIRSP Plan Provisions	4
HIRSP Federal Plan Provisions	5
Funding	6
Enrollment in the State and Federal Plans	6
Financial Status of the HIRSP Authority	9
Audit Opinion	13
Independent Auditor's Report on the Financial Statements of the Wisconsin Health Insurance Risk-Sharing Plan Authority	
Management's Discussion and Analysis	15
Financial Statements	23
Balance Sheet as of December 31, 2010, and December 31, 2009	24
Statement of Revenues, Expenses, and Changes in Net Assets for the Years Ended December 31, 2010, and December 31, 2009	25
Statement of Cash Flows for the Years Ended December 31, 2010, and December 31, 2009	26
Notes to the Financial Statements	27
Report on Internal Control and Compliance	41
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	
Auditor's Report	45
Independent Auditor's Report on the Wisconsin Health Insurance Risk-Sharing Plan Authority's Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	

Schedule of Expenditures of Federal Awards	49
Notes to the Schedule of Expenditures of Federal Awards	53
Schedule of Findings and Questioned Costs	55



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Joe Chrisman
Interim State Auditor

June 28, 2011

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

As required under s. 13.94 (1)(dh), Wis. Stats., we have completed our annual financial audit of the Wisconsin Health Insurance Risk-Sharing Plan (HIRSP) Authority for 2010 and have provided an unqualified audit opinion on its financial statements. The HIRSP Authority provides medical and prescription drug insurance for individuals who are unable to obtain coverage in the private market or who have lost employer-sponsored group health insurance.

Enrollment in the state-based HIRSP Plan increased 15.8 percent to reach 18,965 as of December 31, 2010, and increased another 7.2 percent during the first four months of 2011. At least part of this increase is a result of reduced premiums and improved affordability.

Since its inception in 2006, the HIRSP Authority has maintained a sound financial position. Its net asset balance was \$13.7 million as of December 31, 2010, which is slightly higher than its targeted balance of \$12.6 million. However, in response to an unexpected increase in large medical claims and prescription drug costs, the HIRSP Authority is increasing most policyholder premium rates for the state-based HIRSP Plan by 15.0 percent effective July 1, 2011.

In July 2010, as part of federal health care reform efforts, the federal government contracted with the HIRSP Authority to operate a temporary high-risk insurance pool for individuals who are uninsured because of pre-existing medical conditions. The HIRSP Federal Plan had enrolled 307 policyholders at the end of 2010 and is expected to operate until 2014. The federal government funds costs in excess of the premiums collected from policyholders.

We appreciate the courtesy and cooperation extended to us by the HIRSP Authority, the plan administrator, and the pharmacy benefit manager.

Respectfully submitted,

Joe Chrisman
Interim State Auditor

JC/DA/ss

Introduction ■

The Wisconsin Health Insurance Risk-Sharing Plan (HIRSP) Authority provides medical and prescription drug insurance for individuals who cannot obtain coverage in the commercial health insurance market because of the severity of their health conditions. In the late 1990s, HIRSP was also designated as Wisconsin’s plan to meet federal Health Insurance Portability and Accountability Act (HIPAA) regulations and to provide health insurance to individuals who lose employer-sponsored group health insurance and meet other specified criteria.

The HIRSP Authority began to operate a temporary federal high-risk pool under a contract with the federal government in 2010.

The HIRSP Authority, which was created under 2005 Wisconsin Act 74 as a public body corporate and politic, assumed responsibility for HIRSP from the former Department of Health and Family Services on July 1, 2006. In accordance with statutes, it has established the design of the state-based plan known as the HIRSP Plan and may change benefit levels, deductibles, copayment and coinsurance requirements, exclusions, and limitations that it determines generally reflect and are commensurate with comprehensive health insurance coverage offered in the private individual market in Wisconsin. Since 2010, the HIRSP Authority has also operated a temporary federal high-risk pool under contract with the United States Department of Health and Human Services, which is known as the HIRSP Federal Plan.

The HIRSP Authority’s governing Board of Directors consists of 13 voting members—representatives of insurers, health care providers, small businesses, and HIRSP policyholders, as well as a consumer advocate—and the Commissioner of Insurance or a designee who serves as a nonvoting member. The HIRSP Authority

employs four staff and contracts with Wisconsin Physicians Service Insurance Corporation (WPS), located in Madison, to function as the plan administrator and with MedTrak Services LLC, located in Overland Park, Kansas, to function as the pharmacy benefit manager.

At the request of the HIRSP Authority; as required under s. 13.94 (1)(dh), Wis. Stats.; and in accordance with the federal contract with the Department of Health and Human Services, we have completed a financial and federal compliance audit for 2010. We reviewed the HIRSP Authority's internal control procedures, assessed the fair presentation of its financial statements, and reviewed compliance with selected federal requirements and state statutory provisions.

HIRSP Plan Provisions

The state-based HIRSP Plan currently offers eligible applicants six plan options.

To participate in the state-based HIRSP Plan, applicants must be Wisconsin residents who are not eligible for employer-sponsored group health insurance, Medicaid, or Wisconsin's BadgerCare Plus Standard plan and who meet specified criteria based on their medical condition or loss of employer-sponsored group health insurance. The HIRSP Authority currently offers eligible applicants six options under the state-based HIRSP Plan, including one Medicare supplement plan and five other plans for applicants who are not eligible for Medicare, which offer identical coverage and differ primarily in their premium and deductible amounts.

- HIRSP 1,000 offers the lowest deductible with the highest premium levels.
- HIRSP 2,500 offers a moderate deductible with moderate premium levels.
- HIRSP 5,000 offers the highest deductible with the lowest premium levels.
- HIRSP HSA 2,500 and HIRSP HSA 3,500 qualify policyholders to open health savings accounts to pay for health-related expenses and to save for future medical expenses on a tax-free basis.
- The HIRSP Medicare Supplement plan is for participants under the age of 65 who participate in the Medicare program because of disabilities or individuals who turn 65 while enrolled in a HIRSP plan.

HIRSP 5,000 and HIRSP HSA 3,500 were first offered at the beginning of 2008, and HIRSP HSA 2,500 was first offered at the beginning of 2010.

State-based HIRSP Plan policyholders with incomes of less than \$34,000 are eligible for subsidies.

Policyholders who have annual household incomes below a specified threshold may be eligible for premium, medical deductible, and drug coinsurance subsidies. The annual household income limit for subsidy eligibility was increased from \$24,999 to \$32,999 beginning in 2009. Effective October 1, 2010, the HIRSP Board increased the household income limit to \$33,999. As of December 31, 2010, 26.6 percent of state-based HIRSP Plan policyholders received subsidies from the program at a cost of \$8.9 million. As of December 31, 2009, 27.3 percent received subsidies at a cost of \$8.9 million.

HIRSP Federal Plan Provisions

Federal health care reform legislation enacted in March 2010 included the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010. Several provisions of these laws were required to be implemented in 2010, while others are to be implemented through 2014.

Wisconsin is one of 27 states administering a temporary federal high-risk pool.

One of the provisions implemented in 2010 was a temporary federal high-risk pool program that provides access to insurance for individuals who are uninsured because of pre-existing medical conditions. The 2010 health care reform legislation allocated each state a portion of \$5.0 billion in federal funding for the temporary high-risk pool program and gave the federal Department of Health and Human Services 90 days to establish the program either directly or through contracts with states and nonprofit entities. In July 2010, the federal agency contracted with the HIRSP Authority to implement the program in Wisconsin. The HIRSP Authority began accepting applications on July 15, 2010, with coverage beginning on August 1, 2010. As of December 31, 2010, Wisconsin was one of 27 states contracted to administer their own pools. In the other 23 states and the District of Columbia, the federal government is administering the pools.

The HIRSP Authority is administering the HIRSP Federal Plan separate from the state-based HIRSP Plan. Although medical and drug benefits are comparable, the federal and state plans have different eligibility requirements; premium levels; and deductible, coinsurance, and maximum out-of-pocket cost levels. Further, federal regulations prohibit the HIRSP Federal Plan from providing subsidies for low-income participants, and there is no six-month waiting period for eligible individuals with pre-existing medical conditions under the HIRSP Federal Plan. However, to qualify for that plan, individuals must not have had credible coverage for

six months prior to enrollment. Policyholders in the state-based HIRSP Plan are therefore precluded from coverage under the HIRSP Federal Plan unless they are willing to be uninsured for six months.

Funding

Costs for the state-based HIRSP Plan are shared by policyholders, health insurance companies, and health care providers.

The state-based HIRSP Plan is funded primarily through policyholder premiums, financial assessments on health insurance companies that do business in Wisconsin, and reduced reimbursements to health care providers for their services. None of the funding is obtained from general purpose revenue. The HIRSP Authority also earns investment income and periodically receives grants that the federal Centers for Medicare and Medicaid Services make available to qualified high-risk state health insurance pools that meet certain criteria. Statutes require that these federal grants be used to help fund subsidy costs. The HIRSP Authority spent \$2.6 million in federal grant awards in 2009, and \$3.5 million in 2010, to fund premium subsidies for the state-based HIRSP Plan and to implement a diabetes disease management program.

Statutes require that policyholder premiums fund 60 percent of estimated operating and administrative costs of the state-based HIRSP Plan. The remaining 40 percent of program costs are to be funded equally by the insurers and health care providers, who also are equally responsible for the premium, deductible, and drug coinsurance subsidies not funded by federal grants. Insurers are charged their share of operating and administrative costs through annual assessments that are proportionately based on their annual revenue from health insurance premiums. Health care providers contribute through reduced reimbursements for billed services.

HIRSP Federal Plan costs in excess of policyholder premiums are funded by the federal government.

Operating and administrative costs of the HIRSP Federal Plan are funded in part by policyholder premiums. Costs in excess of premiums are funded by the federal Department of Health and Human Services under its contract with the HIRSP Authority.

Enrollment in the State and Federal Plans

Enrollment in the state-based HIRSP Plan increased to 18,965 policyholders as of December 31, 2010, and continues to grow.

Enrollment in the state-based HIRSP Plan increased during the first part of the decade, subsequently declined and moderated, and then increased 15.8 percent in 2010. As shown in Table 1, there were 18,965 policyholders as of December 31, 2010. Enrollment is continuing to increase in 2011, with 20,330 policyholders as of April 30, 2011.

Table 1

Enrollment in the State-Based HIRSP Plan

Date	Enrollment	Percentage Change
December 31, 2001	12,606	–
December 31, 2002	15,882	26.0%
December 31, 2003	17,447	9.9
December 31, 2004	18,341	5.1
December 31, 2005	18,947	3.3
December 31, 2006	18,058	(4.7)
December 31, 2007	17,126	(5.2)
December 31, 2008	16,252	(5.1)
December 31, 2009	16,381	0.8
December 31, 2010	18,965	15.8

Earlier enrollment declines in the state-based plan are attributable in part to the availability of the federal Medicare Part D program beginning in January 2006, which reduced the number of participants in the HIRSP Medicare Supplement plan. In addition, when the State's BadgerCare Plus program was expanded in 2008 to include all children under the age of 19 regardless of income, approximately 500 policyholders under the age of 19 were no longer eligible to participate in the state-based HIRSP Plan. The HIRSP Authority believes that the recent increase in enrollment in the state-based HIRSP Plan is primarily due to increased awareness of the program and increased affordability in 2010.

Enrollment increased most significantly in HIRSP 5,000.

Over the past six years, enrollment in the state-based HIRSP Plan has increasingly shifted away from HIRSP 1,000, which has the lowest deductible and the highest premium levels. In 2003, almost 50.0 percent of policyholders were enrolled in HIRSP 1,000, but as shown in Table 2, its enrollment had declined to 8.6 percent of HIRSP Plan policyholders as of December 31, 2010, when the largest percentage was enrolled in HIRSP 2,500. HIRSP 5,000, which was first offered in 2008 and includes the highest deductible and lowest premium levels, has experienced the most rapid growth, with an 80.0 percent increase in enrollment from December 31, 2009, to December 31, 2010. The continued growth of HIRSP 5,000 also accounts for the majority of the enrollment increase in the state-based HIRSP Plan during the first four months of 2011.

Table 2

State-Based HIRSP Plan Enrollment
As of December 31, 2010

Name	Plan Description	Enrollment	Percentage of Total Enrollment
HIRSP 1,000	Offers lowest deductible and highest premium levels	1,632	8.6%
HIRSP 2,500	Offers moderate deductible and premium levels	8,408	44.3
HIRSP 5,000	Offers highest deductible and lowest premium levels	6,685	35.3
HIRSP HSA 2,500	Qualifies policyholders to open health savings account	421	2.2
HIRSP HSA 3,500	Qualifies policyholders to open health savings account	800	4.2
HIRSP Medicare Supplement	Available to participants under age 65 in the Medicare program because of a disability	1,019	5.4
Total		18,965	100.0%

Enrollment in the HIRSP Federal Plan was 307 on December 31, 2010.

Enrollment in the HIRSP Federal Plan was 307 on December 31, 2010, and 546 on April 30, 2011. The Federal Plan's March 31, 2011 enrollment of 456 ranked ninth among the 27 states contracted to administer their temporary federal high-risk pools. Nationally, enrollment in the temporary federal high-risk pools has not been as rapid as some expected. A lack of awareness among potential enrollees could be a contributing factor, as states only began covering policyholders in the second half of 2010. In addition, although the HIRSP Federal Plan's premiums are lower than unsubsidized premiums under the state-based HIRSP Plan, and the Federal Plan does not require a waiting period for pre-existing conditions, it does require applicants to have been uninsured for six months. Therefore, some individuals may be delaying enrollment and avoiding premium payments until needed to fund higher-cost claims.

The HIRSP Authority began a marketing program in early 2011 to increase enrollment in the Federal Plan.

In February 2011, the HIRSP Authority began a statewide marketing and outreach program designed to increase Federal Plan enrollment by increasing awareness among potential enrollees, insurance agents, and others. Advertising approaches have included 30-second radio advertisements, Google and social media advertisements, radio interviews, and speaking engagements. It is too early to evaluate the success of the marketing program and its effect on enrollment.

Financial Status of the HIRSP Authority

The state-based HIRSP Plan has maintained a sound financial position.

Since its inception on July 1, 2006, the HIRSP Authority has maintained a sound financial position for the state-based HIRSP Plan. Contributing to the positive financial experience in recent years has been the shift toward higher-deductible plans, an increased use of generic rather than brand-name drugs, and reduced utilization of services. As part of its funding structure, the HIRSP Authority separately accounts for each funding party's share of the state-based HIRSP Plan's net asset balance and takes these balances into account when establishing funding needs for the next year.

The HIRSP Authority has taken steps in recent years to reduce the state-based HIRSP Plan's total net asset balance.

In April 2007, the HIRSP Authority established a policy regarding the state-based HIRSP Plan's minimum net asset level based on an analysis of other states' high-risk insurance pools, capital requirements for health insurance companies doing business in Wisconsin, and an opinion from the Office of the Commissioner of Insurance. The HIRSP Authority targeted balances of \$15.8 million for 2009 and \$16.8 million for 2008 and 2007. As shown in Table 3, the total net asset balance has been well in excess of targeted minimum balances during those three years, and the HIRSP Authority has taken steps to reduce the net asset balance by reducing premiums, assessments, and discounts on health care provider contributions.

Table 3

**State-Based HIRSP Plan
Net Assets by Funding Party
As of December 31
(in millions)**

Funding Party	2010	2009	2008	2007	2006
Policyholders	\$11.8	\$19.5	\$15.9	\$24.6	\$23.8
Providers	1.0	3.0	9.6	4.7	(2.6)
Insurers	0.9	5.0	9.9	5.8	7.1
Total Net Asset Balance	\$13.7	\$27.5	\$35.4	\$35.1	\$28.3

In December 2008, the HIRSP Authority Board approved a distribution or refund of nearly \$12.0 million to policyholders meeting certain criteria. However, even after the distribution the HIRSP Plan continued to experience more favorable results than estimated. It ended 2009 with lower claims costs and a significantly larger net asset balance for policyholders than expected, and in December of that year the Board approved an amended 2010 budget that again reduced premiums and assessments in an effort to reduce the net asset balance and better match the target balance of \$12.6 million for the end of 2010.

Medical claims exceeding \$50,000 have increased in recent months.

The decrease in the total net asset balance to \$13.7 million at the end of 2010 is due in part to the reduced 2010 premiums and assessments, as well as the large enrollment increase. However, an unexpected increase in large-dollar medical claims during the last three quarters of 2010 accelerated this decline. During each quarter of 2009, an average of 12 claims of \$50,000 or more were incurred. The average doubled to 24 quarterly claims of \$50,000 or more during the last three quarters of 2010, and 31 during the first quarter of 2011.

In response to an increasing number of large-dollar medical claims and increasing prescription drug costs, the HIRSP Authority Board approved a 15.0 percent increase in rates for five of the insurance options available under the state-based HIRSP Plan, effective July 1, 2011. Table 4 shows changes in premium rates since the HIRSP Authority's inception. In response to these factors and increasing enrollment, insurer assessments were also increased on January 1, 2011, and July 1, 2011, by a combined total of 40.8 percent.

Table 4

**State-Based HIRSP Plan
Premium Rate Changes from Prior Year
2006 to 2011**

Effective Date	HIRSP 1,000	HIRSP 2,500	HIRSP 5,000	HIRSP HSA 2,500	HIRSP HSA 3,500	HIRSP Medicare Supplement
July 1, 2006	5.0%	5.0%	–	–	–	(21.5)%
July 1, 2007	7.4	(5.1)	–	–	–	(20.0)
January 1, 2008	15.0	6.1	–	–	–	0.0
April 1, 2008	(2.7)	(10.0)	(10.0)%	–	(10.0)%	0.0
January 1, 2009	5.9	3.7	3.6	–	3.5	(9.8)
January 1, 2010	11.0	6.0	(15.0)	–	(3.0)	(5.0)
April 1, 2010	(7.2)	(7.5)	0.0	0.0%	(5.2)	0.0
January 1, 2011	0.0	0.0	0.0	0.0	0.0	(30.0)
July 1, 2011	15.0	15.0	15.0	15.0	15.0	0.0

The total net asset balance for the HIRSP Federal Plan at the end of 2010 was \$0 because the Federal Plan is not designed to accumulate a balance. In 2010, approximately \$956,600 in operating and administrative costs was funded by the Department of Health and Human Services under its contract with the HIRSP Authority.

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Audit Opinion ■

Independent Auditor's Report on the Financial Statements of the Wisconsin Health Insurance Risk-Sharing Plan Authority

We have audited the accompanying financial statements of the Wisconsin Health Insurance Risk-Sharing Plan (HIRSP) Authority's state-based HIRSP Plan and the HIRSP Federal Plan as of and for the year ended December 31, 2010, and of the HIRSP Plan as of and for the year ended December 31, 2009, as listed in the table of contents. These financial statements are the responsibility of HIRSP Authority management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial positions of the HIRSP Plan and the HIRSP Federal Plan as of December 31, 2010, and the financial position of the HIRSP Plan as of December 31, 2009, and the respective changes in their


financial positions and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 13, 2011, on our consideration of the HIRSP Authority's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The required supplementary information included as Management's Discussion and Analysis on pages 15 through 21 is not a required part of the financial statements of the HIRSP Authority, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the HIRSP Plan and the HIRSP Federal Plan. The accompanying Schedule of Expenditures of Federal Awards for the Year Ended December 31, 2010, on page 51 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

June 13, 2011

LEGISLATIVE AUDIT BUREAU
by 
Diann Allsen
Audit Director

Management's Discussion and Analysis ■

Prepared by the Health Insurance Risk-Sharing Plan Authority

The Health Insurance Risk-Sharing Plan Authority is a Wisconsin state government public body corporate and politic. The HIRSP Authority was established effective July 1, 2006, by ch. 149, Wis. Stats., to administer the insurance risk-sharing pool known as HIRSP, which provides individual health insurance policies to Wisconsin residents who are unable to obtain coverage from commercial insurers due to high costs or adverse health circumstances, and to persons who are entitled to continuation of coverage under federal law, including the Health Insurance Portability and Accountability Act (HIPAA) under Title XXII, P.L. 104-191. This activity is referred to as the HIRSP Plan or HIRSP in the following management's discussion and analysis (MD&A), the financial statements, and accompanying notes. In addition, beginning in 2010, the HIRSP Authority operates a temporary federal high-risk pool under contract with the United States Department of Health and Human Services. Temporary federal high-risk pools were created under Section 1101 of Title I of the Patient Protection and Affordable Care Act of 2010. This activity is referred to as the HIRSP Federal Plan or HIRSP Federal in the following MD&A, the financial statements, and accompanying notes.

This section provides the MD&A of the HIRSP Authority's financial statements for the calendar year ended December 31, 2010, and for comparative purposes the calendar years ended December 31, 2009, and December 31, 2008. To provide further insight in the following MD&A, the HIRSP Federal Plan activity is broken out where appropriate. The financial statements are prepared in conformity with generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board. The financial statements report upon the financial position, changes in financial position, and cash flows of the HIRSP Authority and include accompanying notes. The financial statements, notes to the financial statements, and MD&A are the responsibility of management.

Financial Position

The HIRSP Authority Board developed a budget for 2010 and 2009 with the intent to “spend down” or use policyholder, insurer, and provider surpluses, as reflected in the change in net assets for 2010 and 2009. As shown in Table A, total net assets decreased \$13.7 million, or 50 percent, in 2010 and equaled \$13.7 million as of December 31, 2010. Total net assets decreased almost \$8.0 million, or 22.5 percent, in 2009 and equaled \$27.5 million as of December 31, 2009.

Table A

Condensed Financial Information

As of December 31

	2010	Percentage Change from 2009	2009	Percentage Change from 2008	2008
Total Assets	\$42,313,764	(18.0)%	\$51,602,064	(30.1)%	\$73,823,989
Total Liabilities	28,574,450	18.4	24,134,524	(37.1)	38,381,372
Total Net Assets	\$13,739,314	(50.0)	\$27,467,540	(22.5)	\$35,442,617

Assets

Total assets decreased by \$9.3 million, or 18.0 percent, from 2009 to 2010 and were \$42.3 million as of December 31, 2010. Total cash assets decreased by \$29.9 million in 2010. A significant portion of this decrease is due to the investment of \$20.0 million of cash assets late in 2010. The cash assets were moved from the Local Government Investment Pool in order to invest HIRSP's cash assets with the goal of obtaining a better return. The remaining decrease in cash assets is a result of a decrease in premium rates, as well as an increase in claims paid in 2010. Total assets decreased by \$22.2 million, or 30.1 percent, in 2009 and were \$51.6 million as of December 31, 2009. The most significant change in assets in 2009 was a decrease in cash assets of 32.0 percent, or \$22.8 million. Approximately \$11.9 million of the decrease was a result of a distribution to policyholders that was approved by the HIRSP Authority Board of Directors in December 2008 and paid in 2009 in order to refund a portion of the policyholder surplus that had accumulated over the years when premiums collected exceeded the required 60 percent share of program costs. The remaining \$10.9 million decrease in cash was largely due to the reduction of premium rates and assessments in 2009.

Liabilities

Total liabilities increased \$4.4 million, or 18.4 percent, in 2010 and were \$28.6 million as of December 31, 2010, compared to \$24.1 million as of December 31, 2009. From December 31, 2008, to December 31, 2009, liabilities decreased \$14.2 million, or 37.1 percent.

The increase in liabilities in 2010 is due in large part to an increase in the unpaid medical loss liabilities of \$3.3 million, or 32.7 percent, which reflects a higher gross per member per month (PMPM) medical claims costs in 2010 compared to 2009, as well as an increase in medical claims incurred because of higher membership in 2010.

The primary source for the overall decrease in liabilities in 2009 was the establishment of an \$11.9 million liability for policyholder distribution at the end of 2008 and its subsequent payment in the first quarter of 2009.

As of December 31, 2009, unpaid medical loss liabilities decreased 15.5 percent, to \$10.0 million. The reduction in the unpaid medical loss liabilities reflects lower PMPM medical claim costs in 2009 compared to 2008, which are a result of lower utilization of services in 2009 and more policyholders choosing higher-deductible plans.

Change in Financial Position

In response to a surplus balance that had accumulated over several years, the HIRSP Authority established operating budgets that had the objective of decreasing net income and spending down insurer, policyholder, and provider surpluses for expenses during calendar years 2008, 2009, and 2010. However, because the anticipated losses for 2008 did not materialize, the Board decided in December 2008 to distribute a portion of the policyholder surplus through direct reimbursement to qualifying policyholders, to ensure that the original objective of spending down the policyholder surplus was met. While the HIRSP Authority experienced a decrease in the change in net assets of \$8.3 million during 2009, the net loss again was less than originally budgeted and a continuing surplus balance was carried over into 2010. The budget for 2010 was adjusted accordingly to continue toward the objective of spending down the remaining surplus. Therefore, the decrease in the change in net assets of \$5.8 million is a result of the Board's policy to spend down policyholder surplus, as well as an increase in claims costs for 2010.

Table B

Condensed Financial Information
2010, 2009, and 2008

	2010	Percentage Change from 2009	2009	Percentage Change from 2008	2008
Total Operating Revenues	\$113,736,083	2.4%	\$111,116,302	(13.5)%	\$128,482,946
Total Operating Expenses	131,067,893	7.5	121,909,675	3.7	117,588,033
Operating Income (Loss)	(17,331,810)	(60.6)	(10,793,373)	(199.1)	10,894,913
Total Nonoperating Income (Loss)	3,603,584	27.9	2,818,296	126.7	(10,551,490)
Change in Net Assets	\$(13,728,226)	(72.1)	\$ (7,975,077)	(2,422.2)	\$ 343,423

Operating Revenues

Total operating revenues in 2010 were \$113.7 million and increased \$2.6 million, or 2.4 percent, compared to 2009 operating revenues. From 2008 to 2009, total operating revenues decreased by \$17.4 million, or 13.5 percent.

The two sources of operating revenues in 2008 and 2009 for the HIRSP Authority are insurer assessments and policyholder premiums. Insurer assessments decreased by \$11.8 million, or 30.0 percent, from 2008 to 2009, and premium revenue decreased by \$5.6 million, or 6.3 percent, for the same period. The Board lowered assessments and premium rates in 2009 to address excess insurer and policyholder surplus levels. A continuing shift of members to higher-deductible, lower-premium plans also affected premium revenue in 2009. Premiums continued to decrease in 2010—a decrease of \$1.8 million, or 2.1 percent—as a result of the Board lowering premium rates to address excess policyholder reserves. Insurer assessments, however, increased by \$3.4 million, or 12.5 percent, in 2010 as the Board sought to bring the insurers' funding level back up to the statutory required 20.0 percent of plan costs following the decrease in the funding level in 2009 in order to spend down insurer reserves. The HIRSP Authority also received federal contract revenue of \$957,000 in 2010 to cover excess losses for the HIRSP Federal Plan.

Operating Expenses

In 2010, total operating expenses increased \$9.2 million, or 7.5 percent compared to 2009. The 2010 increase in total operating expenses is due in large part to a \$5.2 million increase in medical losses and a \$3.3 million increase in pharmacy losses, which are largely due to the increase in membership.

In 2009, total operating expenses increased \$4.3 million, or 3.7 percent compared to 2008. The 2009 increase in total operating expenses is due in large part to a \$14.0 million, or 35.1 percent, reduction in provider contributions, which were \$25.9 million in 2009. Provider contributions are not a source of revenue; rather they represent a decrease in expenses and are reflected in the financial statements as a reduction to gross medical losses and a decrease to total operating expenses. The reduction in provider contributions in 2009 was a result of the Board's decision to spend down the excess provider surplus from previous years.

Nonoperating Income

In 2010, the HIRSP Authority had nonoperating income of \$3.6 million, which comprised federal grant revenue of \$3.5 million and investment income of \$71,000. In 2009, the HIRSP Authority had nonoperating income of \$2.8 million, which comprised federal grant revenue of \$2.6 million and investment income of \$256,000. In 2008, the HIRSP Authority had a total nonoperating loss of \$10.6 million, a result of the \$11.9 million policyholder distribution expense, offset by \$1.3 million in investment income. The amount of investment income decreased significantly over the last three years, in large part because of decreased interest rate yields and lower cash deposits as a result of the intent to spend down reserves. The HIRSP Authority hired a banking institution late in 2010 to manage a portion of its funds with the goal of achieving a higher rate of return.

Plan Enrollment

HIRSP Plan enrollment was 18,965 as of December 31, 2010. This was an increase of 15.8 percent, or 2,584 policyholders, compared to December 31, 2009, when HIRSP Plan enrollment was 16,381. In 2009, HIRSP Plan enrollment increased by 129 policyholders, or 0.8 percent, compared to 16,252 policyholders as of December 31, 2008, and approximately 470 individuals left the HIRSP Plan as a result of expansion of the State's BadgerCare Plus program to include adults without children. HIRSP Federal Plan enrollment was 307 as of December 31, 2010.

Per Member per Month Plan Costs

As shown in Table C, PMPM gross claims costs for the HIRSP Plan in 2010 were \$737.20, an increase of 2.8 percent from PMPM gross claims costs of \$717.11 in 2009. The increase is a result of the net effect of the increase in HIRSP provider payment rates, changes in utilization, and a continued shift of membership to higher-deductible plans. The PMPM gross claims costs in 2009 decreased 6.7 percent from PMPM gross claims costs of \$768.63 in 2008. The 2009 reduction of PMPM claims costs is reflective of decreased utilization of HIRSP health care services during 2009. Unlike the HIRSP Plan, the HIRSP Federal Plan pays medical claims using rates based on the Medicaid fee schedule. PMPM gross claims costs for the HIRSP Federal Plan were \$709.23 for 2010.

Table C

**HIRSP Plan Cost Summary on a per Member per Month Basis
2010, 2009, and 2008**

Description	2010	2009	2008	2010 PMPM	2009 PMPM	2008 PMPM
Member Months (Sum of Total Members Enrolled in Each Month)	211,586	196,808	196,441			
Gross Claims (Costs before Provider Contributions Are Deducted)	\$155,980,614	\$141,132,163	\$150,990,734	\$737.20	\$717.11	\$768.63
Administrative Expenses	\$6,725,423	\$6,630,362	\$6,486,953	\$31.79	\$33.69	\$33.02

**HIRSP Federal Plan Cost Summary on a per Member per Month Basis
2010**

Description	2010	2010 PMPM
Member Months (Sum of Total Members Enrolled in Each Month)	940	
Gross Claims	\$666,677	\$709.23
Administrative Expenses	\$586,176	\$623.59

Administrative expenses incurred for the HIRSP Plan in 2010 equaled 4.1 percent of total plan costs. Administrative expenses equaled 4.5 percent of total plan costs in 2009, and 4.1 percent of total plan costs in 2008. The majority of the administrative costs are incurred on a PMPM basis and therefore vary by year according to plan membership. In 2010, total administrative costs increased 1.4 percent as a result of the growth in enrollment in that year. On a PMPM basis, 2010 administrative expenses decreased 5.6 percent compared to 2009, primarily as a result of a reduction in fees charged by HIRSP's third-party plan administrator. In 2009, enrollment stayed constant measured by member months and increased by

0.2 percent compared to 2008, while gross claim costs declined by 6.5 percent. As a result, administrative costs were a higher percentage of total costs in 2009 compared to 2008. For the HIRSP Federal Plan, administrative expenses on a PMPM basis were \$623.59 in 2010. This is a result of significant costs incurred in 2010 related to the start-up of the HIRSP Federal Plan.

HIRSP Authority Contact Information

General information regarding the risk-sharing plan may be obtained from the HIRSP Authority's Web site at <http://www.hirsp.org>.

Questions concerning any of the information provided in the HIRSP Authority's financial reports, or requests for additional information, should be directed to the HIRSP Authority at the following address:

HIRSP Authority
33 East Main Street, Suite 230
Madison, WI 53703
Phone: (608) 441-5777
Fax: (608) 441-5776

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Financial Statements ■

Balance Sheet

December 31, 2010, and December 31, 2009

	HIRSP December 31, 2010	HIRSP Federal December 31, 2010	Total HIRSP and HIRSP Federal December 31, 2010	HIRSP December 31, 2009
ASSETS				
Current Assets:				
Cash and cash equivalents (Note 2)	\$ 18,398,110	\$ 201,129	\$ 18,599,239	\$ 48,483,979
Investments (Note 2)	2,757,730	0	2,757,730	0
Interest receivable (Note 3)	56,785	0	56,785	0
Drug rebates receivable (Note 3)	2,739,674	6,014	2,745,688	2,497,421
Premiums receivable (Note 3)	219,067	1,756	220,823	99,060
Claims recoverable (Note 3)	359,205	2,042	361,247	490,315
Assessments receivable	118,039	0	118,039	5,577
Interfund receivable (payable)	29,438	(29,438)	0	0
Prepaid items	6,348	0	6,348	6,512
Federal grant revenue receivable (Note 4)	89,803	0	89,803	0
Federal contract revenue receivable (Note 5)	0	200,747	200,747	0
Total Current Assets	24,774,199	382,250	25,156,449	51,582,864
Noncurrent Assets:				
Investments (Note 2)	17,143,829	0	17,143,829	0
Capital assets net of accumulated depreciation	13,486	0	13,486	19,200
Total Noncurrent Assets	17,157,315	0	17,157,315	19,200
TOTAL ASSETS	\$ 41,931,514	\$ 382,250	\$ 42,313,764	\$ 51,602,064
LIABILITIES AND NET ASSETS				
Liabilities:				
Unpaid medical loss liabilities (Note 7)	\$ 13,047,987	\$ 207,947	\$ 13,255,934	\$ 9,992,106
Unpaid pharmacy loss liabilities (Note 7)	611,271	4,855	616,126	473,955
Unpaid loss adjustment expenses (Note 7)	776,000	13,000	789,000	780,000
Unearned premiums (Note 1D)	10,868,590	129,151	10,997,741	10,727,074
Payments to providers (Note 3)	1,647,247	10,953	1,658,200	1,379,298
Accounts payable and accrued administrative expense	1,241,105	16,344	1,257,449	782,091
Total Liabilities	28,192,200	382,250	28,574,450	24,134,524
NET ASSETS				
Invested in Capital Assets Net of Related Debt	13,486	0	13,486	19,200
Unrestricted	13,725,828	0	13,725,828	27,448,340
Total Net Assets	13,739,314	0	13,739,314	27,467,540
TOTAL LIABILITIES AND NET ASSETS	\$ 41,931,514	\$ 382,250	\$ 42,313,764	\$ 51,602,064

The accompanying notes are an integral part of this statement .

Statement of Revenues, Expenses, and Changes in Net Assets for the Years Ended December 31, 2010, and December 31, 2009

	HIRSP For the Year Ended December 31, 2010	HIRSP Federal For the Year Ended December 31, 2010	Total HIRSP and HIRSP Federal For the Year Ended December 31, 2010	HIRSP For the Year Ended December 31, 2009
OPERATING REVENUES				
Premiums (Note 1D)	\$ 81,525,797	\$ 298,695	\$ 81,824,492	\$ 83,601,410
Insurers' Assessments (Note 1D)	30,955,033	0	30,955,033	27,514,892
Federal Contract Revenue (Notes 1D and 5)	0	956,558	956,558	0
Total Operating Revenues	112,480,830	1,255,253	113,736,083	111,116,302
OPERATING EXPENSES				
Losses:				
Gross medical losses	116,070,719	352,381	116,423,100	111,181,402
Provider contributions (Note 9)	(33,005,722)	0	(33,005,722)	(25,918,885)
Increase (Decrease) in unpaid medical losses (Note 7)	4,100,766	207,947	4,308,713	(2,687,961)
Total medical losses	87,165,763	560,328	87,726,091	82,574,556
Gross pharmacy losses	35,671,813	101,494	35,773,307	32,523,666
Increase (Decrease) in unpaid pharmacy losses (Note 7)	137,316	4,855	142,171	115,056
Total pharmacy losses	35,809,129	106,349	35,915,478	32,638,722
Total Losses	122,974,892	666,677	123,641,569	115,213,278
General and Administrative Expenses (Note 10)	6,725,423	586,176	7,311,599	6,630,362
Referral Fees (Note 1D)	112,325	2,400	114,725	66,035
Total Operating Expenses	129,812,640	1,255,253	131,067,893	121,909,675
OPERATING LOSS	(17,331,810)	0	(17,331,810)	(10,793,373)
NONOPERATING REVENUES AND EXPENSES				
Federal Grant Revenue (Notes 1D and 4)	3,536,213	0	3,536,213	2,561,169
Investment Income	71,280	0	71,280	255,702
Distributions to Policyholders (Note 6)	(3,909)	0	(3,909)	1,425
Total Nonoperating Income (Loss)	3,603,584	0	3,603,584	2,818,296
CHANGE IN NET ASSETS	(13,728,226)	0	(13,728,226)	(7,975,077)
NET ASSETS				
Total Net Assets—Beginning of the Year	27,467,540	0	27,467,540	35,442,617
Total Net Assets—End of the Year	\$ 13,739,314	\$ 0	\$ 13,739,314	\$ 27,467,540

The accompanying notes are an integral part of this statement.

Statement of Cash Flows for the Years Ended December 31, 2010, and December 31, 2009

	HIRSP For the Year Ended December 31, 2010	HIRSP Federal For the Year Ended December 31, 2010	Total HIRSP and HIRSP Federal For the Year Ended December 31, 2010	HIRSP For the Year Ended December 31, 2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received for Premiums	\$ 81,550,566	\$ 422,830	\$ 81,973,396	\$ 83,481,336
Cash Received for Assessments	30,827,035	0	30,827,035	27,569,243
Cash Received for Federal Contract	0	755,811	755,811	0
Cash Received for Miscellaneous Income	2,886	0	2,886	0
Cash Payments for Medical Losses	(83,965,957)	(356,273)	(84,322,230)	(84,338,421)
Cash Payments for Pharmacy Losses	(35,646,117)	(96,556)	(35,742,673)	(33,664,080)
Cash Payments for Other Expenses	(6,406,178)	(524,683)	(6,930,861)	(6,834,224)
Cash Payments for Distribution to Policyholders	(7,450)	0	(7,450)	(11,889,985)
Net Cash Provided (Used) by Operating Activities	(13,645,215)	201,129	(13,444,086)	(25,676,131)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash Received for Federal Grant	3,446,410	0	3,446,410	2,561,169
Net Cash Provided by Noncapital Financing Activities	3,446,410	0	3,446,410	2,561,169
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of Capital Assets	0	0	0	(1,104)
Net Cash Used for Capital and Related Financing Activities	0	0	0	(1,104)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net (Purchase) and Sales of Investments	(19,926,980)	0	(19,926,980)	0
Investment Income	39,916	0	39,916	274,433
Net Cash Provided by Investing Activities	(19,887,064)	0	(19,887,064)	274,433
NET INCREASE IN CASH AND CASH EQUIVALENTS	(30,085,869)	201,129	(29,884,740)	(22,841,633)
Cash and Cash Equivalents, Beginning of Year	48,483,979	0	48,483,979	71,325,612
Cash and Cash Equivalents, End of Year	<u>\$ 18,398,110</u>	<u>\$ 201,129</u>	<u>\$ 18,599,239</u>	<u>\$ 48,483,979</u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Net Operating Income (Loss)	\$ (17,331,810)	\$ 0	\$ (17,331,810)	\$ (10,793,373)
Adjustments to Reconcile Net Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation expense	5,714	0	5,714	5,635
Miscellaneous revenue reported as nonoperating revenue	2,886	0	2,886	0
Distribution to policyholders reported as nonoperating expense	(7,450)	0	(7,450)	(11,889,985)
Changes in assets and liabilities:				
Decrease (Increase) in receivables	(373,049)	(181,121)	(554,170)	(650,489)
Decrease (Increase) in prepaids	164	0	164	7,518
Increase (Decrease) in medical loss liabilities	3,055,881	207,947	3,263,828	(1,839,263)
Increase (Decrease) in pharmacy loss liabilities	137,316	4,855	142,171	115,056
Increase (Decrease) in unpaid loss adjustment expenses	(4,000)	13,000	9,000	0
Increase (Decrease) in unearned premiums	141,516	129,151	270,667	(494,013)
Increase (Decrease) in liability for payments to providers	267,949	10,953	278,902	(88,181)
Increase (Decrease) in accrued administrative expenses	459,668	16,344	476,012	(49,036)
Total Adjustments	3,686,595	201,129	3,887,724	(14,882,758)
Net Cash Provided (Used) by Operating Activities	\$ (13,645,215)	\$ 201,129	\$ (13,444,086)	\$ (25,676,131)

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements ■

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the HIRSP Authority

The Health Insurance Risk-Sharing Plan Authority is a Wisconsin state government public body corporate and politic. The HIRSP Authority was established by ch. 149, Wis. Stats., for the purpose of maintaining and administering the insurance risk-sharing pool that provides individual health care insurance policies to Wisconsin residents who are at high risk for adverse health care costs and who cannot obtain health insurance in the commercial individual health insurance market. HIRSP also provides health care policies to persons who are entitled to continuation of coverage under federal law, including the Health Insurance Portability and Accountability Act (HIPAA) under Title XXII, P.L. 104-191. These activities are referred to as the HIRSP Plan or HIRSP in the statements and in the notes accompanying the statements. In addition, the HIRSP Authority operates a temporary federal high-risk pool under contract with the United States Department of Health and Human Services (HHS). Temporary risk pools were created under Section 1101 of Title I of the Patient Protection and Affordable Care Act of 2010. The temporary federal high-risk pool operated by the HIRSP Authority is referred to as HIRSP Federal or the HIRSP Federal Plan in the statements and the notes accompanying the statements. The HIRSP Authority qualifies as exempt from federal income taxation pursuant to Internal Revenue Code Section 501(c)(26).

The HIRSP Authority derives all funding for HIRSP Plan costs and policyholder subsidy costs through a funding formula prescribed by

s. 149.143, Wis. Stats. Insurance policy premiums paid by policyholders fund 60 percent of plan costs. Assessments levied on insurance companies that write health insurance policies in Wisconsin and discounts on payments to health care providers for health care services rendered to HIRSP policyholders each fund 20 percent of plan costs.

Effective October 1, 2010, HIRSP policyholders who have annual incomes of \$33,999 or less are eligible for subsidized assistance for premium payments, health care deductible payments, and drug copayments. For 2009 and the first three quarters of 2010, the annual income threshold was \$32,999. Premium subsidies are first funded by any available federal grant funds. The remaining premium subsidy costs, plus the deductible and drug copayment subsidy costs, are paid on an equal-share basis by the assessed insurance companies and the participating health care providers.

The HIRSP Authority derives funding for the HIRSP Federal Plan through insurance policy premiums paid by policyholders. The HIRSP Federal Plan costs not supported by premiums are funded through the federal contract entered into with HHS.

B. Accounting Practices

The financial statements of the HIRSP Authority have been prepared in conformity with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB) for determining and reporting the financial position, changes in financial position, and cash flows of a governmental enterprise. The HIRSP Authority has not applied Financial Accounting Standards Board pronouncements issued after November 30, 1989. The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under accrual accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

C. Use of Estimates in Preparation of the Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates. Estimates that are particularly susceptible to significant change are the unpaid loss liabilities as described in Notes 1D and 7, and the health care provider contributions as described in Note 9.

D. Accounting Policy**a) *Operating Revenues and Operating Expenses***

The HIRSP Authority's operating revenues and operating expenses arise from transactions that are directly related to ongoing indemnity health care insurance and services activities. Nonoperating revenues, including investment income and federal grant funds, are not directly related to ongoing indemnity health care insurance and services. On the financial statements for the HIRSP Plan, both policyholder premiums, net of allowed policyholder premium subsidies, and insurer assessments are reported as elements of total operating revenues. Provider funding contributions, which are derived from discounted payments for provider services, are reported as a deduction from gross medical losses and therefore as a reduction of total operating expenses. For the HIRSP Federal Plan, policyholder premiums and federal contract revenue are reported as elements of total operating revenue.

b) *Cash and Cash Equivalents*

Cash and cash equivalents consist of demand deposits maintained by the HIRSP Authority at a commercial bank and with the State of Wisconsin Local Government Investment Pool. The cash and cash equivalents also consist of a money market account held at a commercial bank. Refer to Note 2 for further information regarding cash deposits.

c) *Investments*

Investments are carried at fair-market value based on quoted market prices. Refer to Note 2 for further information regarding investments.

d) *Premium Income Recognition*

Premiums are recognized as earned in the period in which policyholders are entitled to receive services. For the HIRSP Plan, premiums are reported in the financial statements net of allowed premium subsidies. For the HIRSP Plan and the HIRSP Federal Plan, the liability for unearned premiums is established to properly recognize the liability for premiums that have been written but will be earned in subsequent accounting periods.

e) *Assessment Revenue Recognition*

An assessment to provide a funding contribution for the HIRSP Plan program cost is levied on commercial insurance companies that issue health insurance coverage in Wisconsin. The commercial insurers have a statutory requirement to fund 20 percent of the HIRSP Plan costs, plus one-half of the premium, deductible, and copayment subsidies granted to eligible low-income policyholders enrolled in the HIRSP Plan and not otherwise funded by federal grants.

Insurers that have written health insurance premiums in one calendar year are legally obligated to participate in the HIRSP Authority assessment that will be issued in the subsequent calendar year. As provided by s. 149.13, Wis. Stats., each insurer that participates in the assessment pays a proportionate share of the total assessment corresponding to that insurer's proportionate share of the aggregate premiums charged for health insurance coverage issued in Wisconsin in the prior calendar year.

Assessment receipts are recognized as earned revenue during the budget period for which the assessments are levied as a funding contribution.

f) Federal Contract Revenue Recognition

Federal funds received from HHS are used to fund program costs for the HIRSP Federal Plan in excess of premium revenue and are recorded as revenue when the expense is incurred.

g) Federal Grant Revenue Recognition

Federal grant funds received from the Centers for Medicare and Medicaid Services are used to fund premium subsidies and disease management program costs for the HIRSP Plan and are recorded as revenue when the expense is incurred.

h) Policyholder, Insurer, and Health Care Provider Contribution

The HIRSP Authority maintains records to separately account for each funding constituency's contributed funds and to ensure that HIRSP Plan program funding operates in conformity with the funding model mandated by s. 149.143, Wis. Stats. An annual operating budget based on an actuarial analysis of projected revenues and program costs determines contribution amounts required from policyholders, assessed insurers, and participating health care providers. Inception-to-date funding contributions, plan cost participation, and surplus or deficit net asset positions of each of the three funding constituencies are separately accounted for in the HIRSP Authority's records.

Contributions and surplus net assets provided by any one constituency group are restricted to that constituency's account and are not available to offset the program cost obligations or deficit net asset position of the other two funding constituencies. The surplus or deficit net asset interest of each funding constituency is carried forward from one accounting period to the next and is applied solely to the ongoing contribution requirements of the respective funding constituency.

i) Unpaid Loss Liabilities

Unpaid loss liabilities consist of health care claims incurred and reported but not paid prior to the close of the accounting period, plus estimates of claims incurred during the accounting period but not

reported as of the financial statement date. The HIRSP Plan’s unpaid loss liabilities are reported net of estimated health care provider discounts. The HIRSP Plan’s and the HIRSP Federal Plan’s unpaid loss liabilities are estimated using actuarial methods and assumptions based on claim payment patterns, historical developments such as claim inventory levels, and other relevant factors. Corresponding administrative costs to process outstanding claims are estimated and accrued as unpaid loss adjustment expense liabilities.

Estimates of future payments related to claims incurred in the current and prior accounting periods are continually reviewed by management and adjusted as necessary, with resulting adjustments to the liabilities reflected in current operations.

j) Referral Fees

Insurance agents who assist individuals with the HIRSP application process are paid a one-time nominal referral fee of \$40. Referral fees represent the sole policy acquisition cost of the HIRSP Authority and are recorded as incurred.

k) Depreciation

Depreciation and amortization of property and equipment are provided in amounts sufficient to relate the cost of the related assets to operations over their estimated service lives by the straight-line method for financial reporting purposes. The estimated useful lives are as follows:

Office Furniture and Equipment	5 to 7 years
Computer Equipment and Software	3 to 5 years

2. DEPOSITS AND INVESTMENTS

A. Deposits

The HIRSP Authority maintains bank accounts under a bank services contract at a financial institution. As of December 31, 2010, and as of December 31, 2009, \$9,286,581 and \$6,826,479, respectively, of the HIRSP Plan’s cash assets were deposited with the bank. As of December 31, 2010, \$214,113 of the HIRSP Federal Plan’s cash assets were on deposit with the bank as well. The entire cash deposit balance in 2010 and 2009 in excess of the Federal Deposit Insurance Corporation limit of \$250,000 was collateralized with federal agency securities. The securities were pledged as collateral for the benefit of the HIRSP Authority and were held in a restricted securities account under the control of a federal reserve bank. The HIRSP Authority held a perfected security interest in the pledged securities.

The HIRSP Authority also maintains a mutual fund account with the same financial institution. As of December 31, 2010, \$30,555 of the HIRSP Plan’s cash assets were deposited in the mutual fund. As of December 31, 2009, the HIRSP Plan did not have any funds invested in the mutual fund.

As of December 31, 2010, and as of December 31, 2009, \$10,139,878 and \$42,557,497, respectively, of the remaining cash assets of the HIRSP Plan were deposited with the Local Government Investment Pool. The Local Government Investment Pool is a short-term investment pool of local funds whose goal is to provide for the prudent management of public funds. These funds are combined with the cash balances of the Wisconsin Retirement System and other funds of the State and are managed in a single fund called the State Investment Fund (SIF). The SIF is managed by the State of Wisconsin Investment Board, with oversight by its Board of Trustees and in accordance with Wisconsin Statutes. The SIF is not registered with the Securities and Exchange Commission.

Sections 25.17(3)(b), (ba), (bd), and (dg), Wis. Stats., enumerate the various types of securities in which the SIF may be invested, which include direct obligations of the United States or its agencies, corporations wholly owned by the United States or charged by an act of Congress, securities guaranteed by the United States, the unsecured notes of financial and industrial issuers, direct obligations of or guaranteed by the government of Canada, certificates of deposit issued by banks in the United States and solvent financial institutions in Wisconsin, and bankers acceptances. The Board of Trustees may specifically approve other prudent legal investments. For more information on the SIF please see www.swib.state.wi.us.

B. Investments

Late in 2010, the HIRSP Authority entered into an investment management relationship with a financial institution. The HIRSP Plan’s investments as of December 31, 2010, are as follows:

	December 31, 2010 <u>Fair Value</u>
US Agencies	\$12,069,308
US Treasury	703,339
Certificates of Deposit	747,972
Corporate Bonds	<u>6,380,940</u>
Total	<u>\$19,901,559</u>

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The HIRSP Authority’s investment policy limits investment in securities that have been rated by a nationally recognized statistical rating organization as being of the highest investment grade. Securities authorized under the investment policy are restricted to Class 1 investment grade securities as classified by the National Association of Insurance Commissioners Securities Valuation Office. Aggregate exposures by investment type as of December 31, 2010, are found in the table below:

		December 31, 2010
	<u>Rating</u>	<u>Fair Value</u>
US Agencies	AAA	\$12,069,308
US Treasury	AAA	703,339
Certificates of Deposit	NA	747,972
Corporate Bonds	A-AAA	<u>6,380,940</u>
Total		<u>\$19,901,559</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The HIRSP Authority does not have an investment policy for interest rate risk. However, the investment policy does limit the time horizon for longer-term investments to a maximum of three years. As of December 31, 2010, the investments of the HIRSP Plan had the following weighted average maturity:

	December 31, 2010	Weighted
	<u>Fair Value</u>	<u>Average</u>
		<u>Maturity (Years)</u>
US Agencies	\$12,069,308	2.0
US Treasury	703,339	1.4
Certificates of Deposit	747,972	1.0
Corporate Bonds	<u>6,380,940</u>	1.9
Total	<u>\$19,901,559</u>	
Portfolio Weighted Average Maturity		1.9

3. RECEIVABLES AND PAYABLES

Unless otherwise noted, receivable balances are expected to be collected within the following year. Management expects that all reported drug rebates will be received; however, it can sometimes take more than one year for final settlement of drug rebate balances to occur.

The financial statements report a liability balance labeled "Payments to providers." The reported liability is for pharmacy claims that were adjudicated and paid by the third-party pharmacy benefit manager in the final two weeks of the reporting period. As of the close of the reporting period, the pharmacy benefit manager was in the process of billing the HIRSP Authority for reimbursement of the paid claims, and HIRSP Authority payment had not yet been remitted.

4. FEDERAL GRANT REVENUE AND FEDERAL GRANT REVENUE RECEIVABLE

In certain years, the federal government has appropriated monies for federal grants that are awarded to state high-risk pools to support the pools' operational losses and other specified bonus activities. The grants are awarded by the Centers for Medicare and Medicaid Services. The HIRSP Authority was awarded \$2,561,169 in federal grant funds in July 2008 and was awarded a supplemental federal grant for 2008 operational losses of \$3,536,213 in August 2009. These funds were applied to low-income subsidy and disease management program costs for the HIRSP Plan in 2009 and 2010, respectively.

The financial statements report a receivable labeled "Federal grants revenue receivable." This receivable is for grant funds that are yet to be received for funds expended for the low-income subsidy and disease management program costs in 2010.

The HIRSP Authority was awarded an additional supplemental federal grant award for 2008 operational losses of \$2,502,217 in September of 2010. The intent of the grant application was to apply the funds to low-income subsidy and disease management program costs in 2011. Therefore, none of the funds were disbursed in 2010, and because revenue recognition is based on when funds are expended for this reimbursement-type grant, no federal grant revenue was reported for this supplemental federal grant award in 2010.

5. FEDERAL CONTRACT REVENUE AND FEDERAL CONTRACT REVENUE RECEIVABLE

As of July 2, 2010, the HIRSP Authority entered into a contract with HHS to establish a temporary high-risk health insurance pool. Temporary risk pools were created under Section 1101 of Title I of the Patient Protection and Affordable Care Act of 2010. Under this contract, HHS is to reimburse the HIRSP Authority for all costs in excess of premiums for the temporary

high-risk health insurance pool or the HIRSP Federal Plan. The operating revenue labeled “Federal Contract Revenue” represents the funding from HHS to support HIRSP Federal Plan costs in excess of premium revenue.

The receivable labeled “Federal contract revenue receivable” is for contract funds that are yet to be received for HIRSP Federal Plan costs in excess of premium revenue.

6. DISTRIBUTION TO POLICYHOLDERS

The HIRSP Authority Board of Directors approved a distribution to certain policyholders in order to refund a portion of the policyholder surplus that had accumulated over a period of years when premiums collected exceeded the required 60 percent share of program costs. At its December 2008 meeting, the Board authorized nearly \$12.0 million to be refunded to certain policyholders in the first quarter of 2009. The distribution, which was paid in March 2009, was reported as an expense and a liability on the 2008 financial statements. In order to be eligible for the distribution, individuals were required to have had a HIRSP policy in effect as of December 31, 2008, and at the time of the distribution. The amount of the distribution was calculated by the HIRSP actuary and varied based on the policyholder’s HIRSP tenure and the HIRSP plan in which the policyholder was enrolled as of December 31, 2008.

7. LIABILITY FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The following is a reconciliation of changes in the combined unpaid liabilities for medical and pharmacy losses, together with unpaid loss adjustment expense liabilities for 2010 and 2009.

<u>HIRSP Plan</u>	<u>2010</u>	<u>2009</u>
Balance—Beginning of the Year	<u>\$11,246,061</u>	<u>\$12,970,268</u>
Incurred Claims:		
Provision for insured events of the current fiscal year	127,074,892	122,588,890
Changes in provision for insured events of prior fiscal years	<u>(327,048)</u>	<u>(3,662,475)</u>
Total Incurred	<u>126,747,844</u>	<u>118,926,415</u>
Payments:		
Claims attributable to insured events of the fiscal year	113,159,691	111,621,319
Claims attributable to insured events of prior fiscal years	<u>10,398,956</u>	<u>9,029,303</u>
Total Paid	<u>123,558,647</u>	<u>120,650,622</u>
Balance—End of the Year	<u>\$14,435,258</u>	<u>\$11,246,061</u>

<u>HIRSP Federal Plan</u>	<u>2010</u>
Balance—Beginning of the Year	\$ <u>0</u>
Incurred Claims:	
Provision for insured events of the current fiscal year	688,533
Changes in provision for insured events of prior fiscal years	<u>0</u>
Total Incurred	<u>688,533</u>
Payments:	
Claims attributable to insured events of the fiscal year	462,731
Claims attributable to insured events of prior fiscal years	<u>0</u>
Total Paid	<u>462,731</u>
Balance—End of the Year	<u>\$225,802</u>

8. PREMIUM, DEDUCTIBLE, AND DRUG COINSURANCE SUBSIDIES

The HIRSP Authority provides subsidies to eligible low-income policyholders enrolled in the HIRSP Plan. The subsidies reduce the amounts that these policyholders are required to pay for premiums, health care deductibles, and prescription drug costs. Policyholders enrolled in the HIRSP Federal Plan are not eligible for these subsidies.

During 2009 and through September 30, 2010, HIRSP Plan policyholders whose annual household incomes did not exceed \$32,999 were eligible for various premium, deductible, and drug coinsurance subsidies. Effective October 1, 2010, the annual household income threshold was raised to \$33,999. The subsidies available to HIRSP policyholders in each of six HIRSP plans are shown in the following table.

<u>Plan</u>	<u>Subsidized Premium Discount</u>	<u>Subsidized Medical Deductible Discount</u>	<u>Subsidized Drug Copayment Out-of-Pocket Maximum</u>
HIRSP 1,000, 2,500, 5,000	15–43%	\$100–\$500	\$375–\$1,250
HIRSP HSA 2,500, 3,500	15–43%	\$100–\$500	Not Applicable ¹
Medicare Supplement	10–35%	Not Applicable ²	\$125–\$500

¹ The medical and drug benefit in the HSA plan is a combined benefit. The maximum unsubsidized out-of-pocket cost for HSA policyholders is \$5,600 for the HIRSP 3,500 HSA and \$4,600 for the HIRSP 2,500 HSA.

² A medical deductible discount is not available for the Medicare supplement plan.

Chapter 149, Wis. Stats., requires the HIRSP Authority Board of Directors to provide policyholders enrolled in the HIRSP Plan with low-income deductible subsidies and permits the Board to also offer them a subsidy for prescription drug expenses. Wisconsin statutes authorize the Board to establish the amounts of the deductible and the prescription drug expense subsidies.

As of December 31, 2010, 26.6 percent of HIRSP policyholders received premium, deductible, and/or drug expense subsidies. As of December 31, 2009, 27.3 percent of HIRSP policyholders received premium, deductible, and/or drug expense subsidies. The cost of the subsidies totaled \$8,936,065 during 2010 and \$8,953,287 during 2009. The following table summarizes the amounts provided for each subsidy type during those periods.

<u>Subsidy Type</u>	<u>2010</u>	<u>2009</u>
Premium	\$7,289,054	\$7,412,582
Deductible	645,266	619,017
Out-of-Pocket Drug Expense	<u>1,001,745</u>	<u>921,688</u>
Total	\$8,936,065	\$8,953,287

In 2010, federal grant funds totaling \$3,214,609 were applied to premium subsidies. The remaining premium, deductible, and drug expense subsidy costs were shared equally by health insurers and health care providers, with each contributing \$2,860,728. For 2009, federal grant funds totaling \$2,235,651 were applied to premium subsidies. The remaining premium, deductible, and drug expense subsidy costs were shared equally by health insurers and health care providers, with each contributing \$3,358,818.

9. HEALTH CARE PROVIDER CONTRIBUTIONS

Wisconsin statutes require that 20 percent of the HIRSP Plan costs be funded by health care providers. In addition, 50 percent of the plan subsidies not covered by federal grant funds are required to be funded by health care providers. Under current HIRSP practice, only non-pharmacy providers fund the provider contributions. Provider contributions are not a source of revenue; rather they represent a decrease in expenses and are therefore reflected in the financial statements as a reduction to gross medical losses and a decrease to total operating expenses. Provider contributions are obtained by reducing the usual and customary rates paid by the HIRSP Authority to participating providers for approved services.

Effective January 1, 2008, the HIRSP Authority adopted a fee schedule to establish its usual and customary rates. For most health care services, a discount factor of 19.3 percent was applied to the HIRSP Authority’s 2009 fee schedule rates to derive the HIRSP-allowed or reimbursed amount. The

discount factor for 2010 was increased to 23.2 percent to capture the full amount necessary to meet the statutory funding requirement.

The provider contribution is not required for the HIRSP Federal Plan, which reimburses providers using rates based on the Medicaid fee schedule.

10. GENERAL AND ADMINISTRATIVE EXPENSES

HIRSP Authority indemnity insurance operations are performed by HIRSP Authority staff and a third-party plan administrator under an administrative services agreement with Wisconsin Physicians Service Insurance Corporation (WPS).

Services provided under the administrative services agreement in 2010 include policyholder and provider services, claims and systems administration, medical management, data collection and reporting, subrogation, coordination of benefits, and disaster recovery.

During 2008, the HIRSP Authority conducted two competitive procurements for direct contracts with its pharmacy benefit manager and actuary, rather than contracting for these services through WPS. Beginning on January 1, 2009, MedTrak Services LLC became the HIRSP Authority pharmacy benefit manager. Milliman, Inc., was awarded the actuarial services contract, and its direct contract with the HIRSP Authority began on February 1, 2009.

Also during 2008, a procurement was conducted to identify a vendor to manage the new diabetes disease management program. The procurement resulted in the award of a three-year contract to LifeMasters Supported SelfCare, Inc., in July 2008. The program was implemented in December 2008. In September 2009, LifeMasters filed for protection under chapter 11 of the Bankruptcy Code, and on December 29, 2009, as part of the bankruptcy proceedings, the contract was transferred to the Staywell Company, LLC.

During the latter part of 2009 and the beginning of 2010, the HIRSP Authority conducted a competitive procurement for the third-party administrator contract. WPS was again awarded the contract, which became effective January 1, 2011.

During 2010, the HIRSP Authority entered into a contract agreement with HHS to operate the temporary federal high-risk health insurance pool known as the HIRSP Federal Plan. The HIRSP Authority allocates staff costs and other administrative costs of the HIRSP Authority based on the proportion of staff time spent on activities related to the HIRSP Federal Plan.

11. LEASES

A. Operating Leases

The HIRSP Authority has entered into a lease for administrative office space for a term of five years and ten months. The lease term commenced on March 1, 2007, and will terminate December 31, 2012. Office lease rental payments charged to expenses were \$52,252 for 2010 and \$50,243 for 2009.

The HIRSP Authority has entered into an equipment operating lease for office copier equipment. The lease has a term of 60 months and commenced November 15, 2006. The equipment lease rental payments charged to expenses during 2010 and 2009 were \$2,916 annually.

B. Noncancelable Lease Terms

As of January 1, 2011, the minimum aggregate rental commitments are as follows:

<u>Year</u>	<u>Commitment</u>
2011	\$56,773
2012	56,516

The HIRSP Authority is not party to any sales-leaseback transactions.

12. PENSION BENEFITS

During 2010 and 2009, eligible HIRSP Authority employees participated in the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit plan governed by ch. 40, Wis. Stats. Under the WRS, employees are entitled to an annual formula retirement benefit based on: 1) the employee's final average earnings, 2) years of creditable service, and 3) a formula factor. If an employee's contributions, matching employer's contributions, and interest credited to the employee's account exceed the value of the formula benefit, the retirement benefit may instead be calculated as a money purchase benefit. Copies of the separately issued financial report that includes financial statements and required supplementary information of the WRS are available on the Department of Employee Trust Funds' Web site, <http://etf.wi.gov>.

The WRS requires employee contributions equal to specified percentages of qualified earnings based on the employee's classification, plus employer contributions at a rate determined annually. The HIRSP Authority contributed 11.0 percent of employees' gross salaries to the plan for 2010. The relative position of the HIRSP Authority in the WRS is not available because the WRS is a statewide, multi-employer plan.

13. CAPITAL ASSETS

The HIRSP Authority purchased office furniture in 2009, but not in 2010. The capital assets are included in “Capital assets net of accumulated depreciation” on the Balance Sheet, and depreciation expense is included in general and administrative expenses.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated:				
Equipment, at historical cost	\$35,945	\$ 0	\$0	\$35,945
Less Accumulated Depreciation for:				
Equipment	<u>(16,745)</u>	<u>(5,714)</u>	<u>0</u>	<u>(22,459)</u>
Total Capital Assets Being Depreciated, Net	<u>\$19,200</u>	<u>\$(5,714)</u>	<u>\$0</u>	<u>\$13,486</u>

14. SUBSEQUENT EVENTS

Since January 1, 2011, the HIRSP Authority has provided first dollar coverage for select preventative services with no cost-sharing for policyholders. Since April 1, 2011, the HIRSP Authority has paid outpatient services using the professional facility fee schedule where appropriate and has continued to pay the remaining outpatient services based on a discount off of billed charges. In the first quarter of 2011, the HIRSP Authority began a significant outreach and marketing effort for the HIRSP Federal Plan, and it anticipates a significant increase in enrollment in that plan as a result of the effort.

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Report on Internal Control and Compliance ■

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

We have audited the financial statements of the Wisconsin Health Insurance Risk-Sharing Plan (HIRSP) Authority's state-based HIRSP Plan and HIRSP Federal Plan as of and for the year ended December 31, 2010, and of the HIRSP Plan as of and for the year ended December 31, 2009, and have issued our report thereon dated June 13, 2011. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits, we considered the HIRSP Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the HIRSP Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the HIRSP Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and therefore

there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed in the following paragraphs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the HIRSP Authority's financial statements will not be prevented or will not be detected and corrected on a timely basis. We consider the deficiency described in the following paragraph to be a material weakness in internal control over financial reporting for 2009 and until the last quarter of 2010 when the deficiency was resolved.

As further described in report 10-13, issued in September 2010, we identified a concern with the access capabilities of the pharmacy benefit manager's employees to the pharmacy claims adjudication system. In 2009 and through September 2010, most of the employees of the pharmacy benefit manager—MedTrak Services LLC—had the ability to enter or edit pharmacy names and addresses, enter or edit policyholder information, and enter manual and electronic claims. The HIRSP Authority agreed with the finding and, after learning of the concern, worked with MedTrak to develop and implement a corrective action plan to appropriately limit the level of access granted to employees. Further, MedTrak took additional steps, including performing various internal reviews of claims and access, to help mitigate risk in 2010. During our current audit, we found that procedures have been implemented to address and resolve the concern and improve controls over employee access to the pharmacy claims adjudication system.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the HIRSP Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted a certain additional matter pertaining to processing of HIRSP subsidies that we reported to management of the HIRSP Authority in separate correspondence dated June 6, 2011.

This independent auditor's report is intended solely for the information and use of the HIRSP Authority's management and Board of Directors, the Wisconsin Legislature, federal awarding agencies, and pass-through entities. This report is a matter of public record and its distribution is not limited. However, because we do not express an opinion on the effectiveness of the HIRSP Authority's internal control or on compliance, this report is not intended to be used by anyone other than these specified parties.

June 13, 2011

LEGISLATIVE AUDIT BUREAU

by 
Diann Allsen
Audit Director

Auditor's Report ■

Independent Auditor's Report on the Wisconsin Health Insurance Risk-Sharing Plan Authority's Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

COMPLIANCE

We have audited the Wisconsin Health Insurance Risk-Sharing Plan (HIRSP) Authority's compliance with the types of compliance requirements described in the federal Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the HIRSP Authority's major federal program for the year ended December 31, 2010. The HIRSP Authority's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs, as well as in Note 1 of the accompanying Notes to the Schedule of Expenditures of Federal Awards. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the HIRSP Authority's major federal program is the responsibility of HIRSP Authority management. Our responsibility is to express an opinion on the HIRSP Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance

requirements referred to in the first paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the HIRSP Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the HIRSP Authority's compliance with those requirements.

In our opinion, the HIRSP Authority complied, in all material respects, with the compliance requirements referred to in the first paragraph that could have a direct and material effect on its major federal program for the year ended December 31, 2010.

INTERNAL CONTROL OVER COMPLIANCE

Management of the HIRSP Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the HIRSP Authority's internal control over compliance with the requirements that could have a direct and material effect on its major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the HIRSP Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined in the preceding paragraph.

This report is intended for the information and use of the HIRSP Authority's management and Board of Directors, the Wisconsin Legislature, federal awarding agencies, and pass-through entities. This report is a matter of public record and its distribution is not limited. However, this report is not intended to be used by anyone other than these specified parties.

June 13, 2011

LEGISLATIVE AUDIT BUREAU

by 
Diann Allsen
Audit Director

Schedule of Expenditures of Federal Awards ■

**Schedule of Expenditures of Federal Awards
for the Year Ended December 31, 2010**

FEDERAL GRANTOR/Program Title	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES— Centers for Medicare and Medicaid Services		
<i>Grants to States for Operation of Qualified High-Risk Pools</i>	93.780	<u>\$3,536,213</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u><u>\$3,536,213</u></u>

Notes to the Schedule of Expenditures of Federal Awards ■

1. PURPOSE

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Wisconsin Health Insurance Risk-Sharing Plan Authority for the year ended December 31, 2010. The Grants to States for Operation of Qualified High-Risk Pools is a major federal program that was tested for compliance with federal requirements for 2010.

Because the schedule presents only a selected portion of the activities of the HIRSP Authority, it is not intended to and does not present the financial position or results of the operation of the HIRSP Authority.

2. BASIS OF ACCOUNTING

The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The amounts in the schedule are presented on the same basis as used in the financial statements—the accrual basis of accounting.

The information included in the schedule may not fully agree with other federal award reports that the HIRSP Authority submits directly to the federal granting agency because the award reports may be prepared for different fiscal periods and may include cumulative data from a prior period rather than data for the current period only.

3. AMOUNT PROVIDED TO SUBRECIPIENTS

OMB Circular A-133 requires the Schedule of Expenditures of Federal Awards, to the extent practical, to include the amount provided to subrecipients under each federal program. The HIRSP Authority did not provide any federal awards to subrecipients during 2010.

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Schedule of Findings and Questioned Costs ■

OMB Circular A-133 requires the auditor to prepare a schedule of findings and questioned costs that includes the following three sections:

- 1) a summary of the auditor's results;
- 2) findings related to the financial statements, which are required to be reported in accordance with *Government Auditing Standards*; and
- 3) findings and questioned costs for federal awards.

Section I

Summary of Auditor's Results

As required by OMB Circular A-133, the Wisconsin Legislative Audit Bureau is providing the following summary information related to the Wisconsin HIRSP Authority's single audit for 2010:

Financial Statements

Type of auditor's report issued	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Significant deficiencies identified?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major program:	
Material weaknesses identified?	No
Significant deficiencies identified?	No
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as a low-risk auditee?	No

The HIRSP Authority's major federal program is the Grants to States for Operation of Qualified High-Risk Pools, CFDA 93.780, which was awarded by the U.S. Department of Health and Human Services—Centers for Medicare and Medicaid Services.

Section II**Financial Statement Findings**

This section of the schedule includes all significant deficiencies related to internal control over financial reporting and compliance and other matters that are required to be reported by auditing standards generally accepted in the United States of America and by *Government Auditing Standards*, including those that do not affect federal awards. Finding WI HIRSP 09-1 from Wisconsin Legislative Audit Bureau report 10-13, which pertained to the access capabilities of the pharmacy manager's employees to the pharmacy claims adjudication system, remained in effect through part of 2010 but was resolved in the last quarter of 2010. No additional financial statement findings are reported for the year ended December 31, 2010.

Section III**Federal Award Findings and Questioned Costs for 2010**

This section of the schedule includes all significant deficiencies, material weaknesses, and material instances of noncompliance, including questioned costs and other matters that are required to be reported by section 510(a) of OMB Circular A-133. No federal award findings or questioned costs are reported for the year ended December 31, 2010.

**Federal Award Summary Schedule
of Prior Audit Findings**

No federal award findings or questioned costs were reported for prior period.

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