

An Audit

Health Insurance Risk-Sharing Plan Authority

2009-2010 Joint Legislative Audit Committee Members

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Response

From the Chief Executive Officer of the HIRSP Authority



STATE OF WISCONSIN
Legislative Audit Bureau

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Janice Mueller
State Auditor

September 28, 2010

Senator Kathleen Vinehout and
Representative Peter Barca, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Vinehout and Representative Barca:

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 2009. 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. As of December 31, 2009, 16,381 policyholders were enrolled in one of the HIRSP Authority's plans. Enrollment has increased in 2010 as the HIRSP Authority reduces premiums and increases income limits for subsidies, and as individuals who have lost employer-sponsored group coverage exhaust their COBRA benefits.

We have provided an unqualified audit opinion on the HIRSP Authority's financial statements. However, our report includes a recommendation to address a concern with access to the pharmacy claims adjudication system by the pharmacy benefit manager's employees.

Since its inception on July 1, 2006, the HIRSP Authority has maintained a sound financial position. Its net asset balance was \$27.5 million on December 31, 2009, which was well in excess of the targeted balance of \$15.8 million established by the HIRSP Authority Board. Premiums and health insurer assessments were therefore reduced for 2010.

In July 2010, as part of the federal health care reform efforts, the federal government contracted with the HIRSP Authority to implement a temporary federal high-risk pool program to provide access to insurance for individuals who are uninsured because of pre-existing medical conditions. The HIRSP Federal Plan, with coverage effective August 1, 2010, is expected to operate until 2014.

We appreciate the courtesy and cooperation extended to us by the HIRSP Authority, the plan administrator, and the pharmacy benefit manager. A response from the Chief Executive Officer of the HIRSP Authority follows our report.

Respectfully submitted,

Janice Mueller
State Auditor

JM/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 people who lose employer-sponsored group health insurance and meet other specified criteria.

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. It is allowed to establish the plan design, which previously had been defined largely in statutes. Certain services specified by statutes must still be covered, but the HIRSP Authority 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.

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 Pharmacy Services, located in Overland Park, Kansas, to function as the pharmacy benefit manager.

At the request of the HIRSP Authority and as required under s. 13.94 (1)(dh), Wis. Stats., we have completed a financial and federal compliance audit for 2009. We reviewed the HIRSP Authority's control procedures, assessed the fair presentation of its financial statements, and reviewed compliance with selected federal requirements and state statutory provisions.

Plan Provisions

HIRSP currently offers eligible applicants six plans.

To participate in HIRSP, 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 plans, including one Medicare supplement plan and five other plans for policyholders who are not eligible for Medicare. These five plans offer identical coverage and differ primarily in their premiums 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 a health savings account 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 a disability.

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

Policyholders who have annual household incomes below a specified threshold may be eligible for premium, medical deductible, and drug coinsurance subsidies. In response to 2007 Wisconsin Act 39, the Board made several changes to the subsidy rates it sets for HIRSP policyholders, including extending the subsidy program to all plans beginning in 2008 and increasing the annual household income limit for subsidy eligibility from \$24,999 to \$32,999 beginning in 2009. In 2009, 27.0 percent of HIRSP policyholders received subsidies from the program at a cost of \$9.0 million. In 2008, 19.0 percent had received subsidies at a cost of \$8.2 million.

Funding

Program costs are shared by policyholders, health insurance companies, and health care providers.

Program costs are funded primarily through policyholder premiums, financial assessments on health insurance companies that do business in Wisconsin, and reduced reimbursements to health care providers. None of the funding is from general purpose revenue tax dollars. The HIRSP Authority also earns investment income and periodically receives grants from the federal Centers for Medicare and Medicaid Services, which are 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 was awarded a federal grant totaling \$2.6 million in 2008, which was expended in 2009 to fund premium subsidies and implement a diabetes disease management program. Another federal grant totaling \$3.5 million is being expended in 2010.

Statutes require that policyholder premiums fund 60 percent of estimated operating and administrative costs. 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.

Enrollment

HIRSP enrollment totaled 16,381 policyholders on December 31, 2009.

Enrollment in HIRSP plans increased significantly during the first part of the decade but subsequently moderated and then declined. As shown in Table 1, enrollment increased slightly to 16,381 policyholders as of December 31, 2009. Enrollment is continuing to increase in 2010, with 17,944 policyholders as of August 31, 2010.

Table 1

HIRSP Enrollment

Date	Total Policyholders	Percentage Change
December 31, 2000	10,042	–
December 31, 2001	12,606	25.5
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

At least part of the decline in enrollment during 2006 and 2007 was associated with a decrease in the number of policyholders in the Medicare Supplement plan, which is attributable to the availability of the federal Medicare Part D program beginning in January 2006. In addition, during 2008 the State's BadgerCare Plus program was expanded to include all children under the age of 19, regardless of income. As a result, approximately 500 HIRSP policyholders under the age of 19 were no longer eligible to participate in the HIRSP Authority's plans.

53.5 percent of policyholders were enrolled in the HIRSP 2,500 plan at the end of 2009.

Over the past six years, enrollments have increasingly shifted away from the HIRSP plan with the lowest deductible and the highest premium levels—HIRSP 1,000—to the other HIRSP plans with higher deductibles and lower premiums. In 2003, almost 50.0 percent of policyholders were enrolled in the highest-premium, lowest-deductible plan. However, as of December 31, 2009, enrollment in that plan had declined to 13.7 percent of policyholders. In contrast, as shown in Table 2, 53.5 percent of policyholders were enrolled in HIRSP 2,500, the plan offering moderate deductible and premium levels. That enrollment trend is continuing in 2010. As of August 31, 2010, only 9.3 percent of policyholders were enrolled in HIRSP 1,000.

Table 2

Enrollment by Plan
As of December 31, 2009

Plan	Plan Description	Enrollment	Percentage of Total Enrollment
HIRSP 1,000	Offers lowest deductible and highest premium levels	2,240	13.7%
HIRSP 2,500	Offers moderate deductible and premium levels	8,771	53.5
HIRSP 5,000	Offers highest deductible and lowest premium levels	3,717	22.7
HIRSP HSA	Qualifies policyholders to open health savings account	684	4.2
HIRSP Medicare Supplement	Available to participants under age 65 in the Medicare program because of a disability	969	5.9
Total		16,381	100.0%

The HIRSP Authority is experiencing increasing enrollment in 2010.

Initially, HIRSP enrollment was not affected significantly as unemployment increased during the recent recession, because premium reductions and additional election opportunities for COBRA benefits were made available under the American Recovery and Reinvestment Act of 2009. However, as the HIRSP Authority reduces premiums and increases income limits for subsidies, and as individuals who have lost employer-sponsored group coverage exhaust their COBRA benefits, which allow temporary continuation of health coverage at group rates, the HIRSP Authority is experiencing increasing enrollment in 2010.

Financial Status of the HIRSP Authority

The HIRSP Authority has maintained a sound financial position.

Since its inception on July 1, 2006, the HIRSP Authority has maintained a sound financial position. As shown in Table 3, the total net asset balance at the end of 2009 was \$27.5 million. As part of its funding structure, the HIRSP Authority separately accounts for each funding party's share of the net asset balance and takes these balances into account when establishing funding levels for the next year. Contributing to the HIRSP Authority's positive financial experience has been the shift toward higher-deductible plans, an increased use of generic rather than brand-name drugs, and reduced utilization, which may reflect an improved health status of the population served.

Table 3

Net Assets by Funding Party
As of December 31
(in millions)

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

In April 2007, the HIRSP Authority established a policy regarding a 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. The total net asset balance has been well in excess of targeted minimum balances during those three years, and the HIRSP Authority has been taking steps to reduce its net asset balance by reducing premiums, assessments, and discounts on health care provider contributions.

The HIRSP Authority continued to experience more favorable results and ended 2009 with a significantly larger policyholder balance than estimated.

In December 2008, the HIRSP Authority Board approved a distribution or refund of approximately \$12.0 million to policyholders meeting certain criteria. However, even after the distribution the HIRSP Authority 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. In response, in December 2009 the Board approved an amended 2010 budget, which again reduces premiums and assessments.

Health Care Reform

Federal health care reform legislation enacted into law in March 2010 included the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010. Several provisions of the 2010 federal health care law were required to be implemented in the current year, while others will be implemented through 2014, when state-based health insurance exchanges are expected to be functioning.

One of the provisions to be implemented in 2010 is the establishment of a temporary federal high-risk pool program that will give individuals who have been uninsured because of pre-existing medical conditions access to insurance. The 2010 health care reform legislation allocated each state a portion of the \$5.0 billion in federal funds provided for the temporary high-risk pool program and gave the federal Department of Health and Human Services (DHHS) 90 days to establish the program either directly or through contracts with states and nonprofit entities. In July 2010, DHHS contracted with the HIRSP Authority to implement the program in Wisconsin, which is expected to operate until 2014.

The HIRSP Authority is separately administering the HIRSP Federal Plan from its state-based program. Although medical and drug benefits are comparable, the federal and state programs each have different eligibility requirements; premium levels; and deductible, coinsurance, and maximum out-of-pocket levels. Further, the HIRSP Federal Plan cannot provide subsidies to low-income participants. In order to be eligible for the HIRSP Federal Plan, an individual must:

- be a United States citizen or be lawfully present in the United States;
- be uninsured for at least the previous six months before applying for coverage;
- have a pre-existing condition, as determined in a manner consistent with guidance issued by the DHHS Secretary;
- not be eligible for employer-offered group health insurance coverage; and
- not be eligible for Medicare or any comprehensive Medicaid program, including the Medicaid Purchase Plan and the BadgerCare Plus Standard plan.

Current HIRSP policyholders are precluded from coverage under the HIRSP Federal Plan, unless they are willing to be uninsured for six months. The HIRSP Authority began accepting applications for the HIRSP Federal Plan on July 15, 2010, with coverage beginning on August 1, 2010.



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 as of and for the years ended December 31, 2009 and 2008, 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 audits 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 opinion.


In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the HIRSP Authority as of December 31, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The required supplementary information included as Management’s Discussion and Analysis on pages 13 through 18 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.

The accompanying Schedule of Expenditures of Federal Awards on page 41 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 9, 2010, on our consideration of the HIRSP Authority’s internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, grant agreements, and contracts; 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.

September 9, 2010

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 section provides management's discussion and analysis (MD&A) of the HIRSP Authority's financial statements for the calendar year ended December 31, 2009, and for comparative purposes the calendar years ended December 31, 2008, and December 31, 2007. 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 on 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.

Through June 30, 2007, HIRSP Authority operations, budgeting, and assessments were conducted on a state fiscal year basis. A calendar year convention was used for financial reporting for calendar year 2007. Effective January 1, 2008, a calendar year convention was implemented for budgeting and assessments, premium rates, and eligibility for low-income subsidies.

Financial Position

The HIRSP Authority Board developed a budget for 2009 with the intent to “spend down” or use policyholder, insurer, and provider surpluses, as reflected in the change in net assets for 2009. As shown in Table A, total net assets decreased almost \$8.0 million, or 22.5 percent, in 2009 and equaled \$27.5 million as of December 31, 2009. The overall financial position of the HIRSP Authority from 2007 to 2008 was virtually unchanged. Total net assets increased \$343,000, or 1.0 percent, from \$35.1 million as of December 31, 2007, to \$35.4 million as of December 31, 2008.

Table A

Condensed Financial Information As of December 31

	2009	Percentage Change from 2008	2008	Percentage Change from 2007	2007
Total Assets	\$51,602,064	(30.1)%	\$73,823,989	8.4%	\$68,133,050
Total Liabilities	24,134,524	(37.1)	38,381,372	16.2	33,033,856
Total Net Assets	\$27,467,540	(22.5)	\$35,442,617	1.0	\$35,099,194

Assets

Total assets increased by \$5.7 million, or 8.4 percent, from 2007 to 2008 and were \$73.8 million as of December 31, 2008. Total assets decreased in 2009 by \$22.2 million, or 30.1 percent, and were \$51.6 million as of December 31, 2009. The most significant change in assets in 2009 was a decrease in cash assets, which decreased by 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 decreased \$14.2 million, or 37.1 percent, in 2009 and were \$24.1 million as of December 31, 2009, compared to \$38.4 million as of December 31, 2008. From December 31, 2007, to December 31, 2008, liabilities increased \$5.3 million, or 16.2 percent.

The primary source for the overall increase in liabilities in 2008 and subsequent decrease in 2009 was the establishment of a \$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 per member per month (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 the second half of 2007 and calendar years 2008 and 2009. As shown in Table B, the change in net assets decreased by \$6.4 million, or 94.9 percent, from 2007 to 2008. 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. Therefore, the budget for 2010 was adjusted accordingly to continue toward the objective of spending down the remaining surplus.

Table B

Condensed Financial Information 2009, 2008, and 2007

	2009	Percentage Change from 2008	2008	Percentage Change from 2007	2007
Total Operating Revenues	\$111,116,302	(13.5)%	\$128,482,946	(4.4)%	\$134,405,542
Total Operating Expenses	121,909,675	3.7	117,588,033	(11.6)	132,955,160
Operating Income (Loss)	(10,793,373)	(199.1)	10,894,913	651.2	1,450,382
Total Nonoperating Income (Loss)	2,818,296	126.7	(10,551,490)	(298.4)	5,317,804
Change in Net Assets	\$ (7,975,077)	(2,422.2)	\$ 343,423	(94.9)	\$ 6,768,186

Operating Revenues

Total operating revenues in 2009 were \$111.1 million and decreased \$17.4 million, or by 13.5 percent, compared to 2008 operating revenues. From 2007 to 2008, total operating revenues decreased by \$5.9 million, or 4.4 percent.

The two sources of operating revenues 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.

Insurer assessments for 2008 were \$5.7 million higher than the 2007 assessments, as the Board anticipated higher losses in 2008 than 2007. Premium revenues were \$11.6 million less in 2008 compared to 2007, as a result both of somewhat lower enrollment in 2008 and of policyholders shifting away from the HIRSP plan with the lowest deductible and the highest premium levels to other plans. A continuing shift of members to higher deductible, lower premium plans also affected premium revenue in 2009.

Operating Expenses

Total operating expenses in 2009 were \$4.3 million, or 3.7 percent more than in 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.

Total operating expenses were \$15.4 million, or 11.6 percent, less in 2008 than in 2007. Total medical losses incurred as operating expenses in 2008 were \$78.2 million, which is a decrease of \$11.0 million, or 12.3 percent, from total medical losses of \$89.2 million in 2007. Total pharmacy losses in 2008 were \$32.9 million, which is a decrease of \$4.4 million, or 11.8 percent, from total pharmacy losses of \$37.3 million in 2007. The 2008 decrease in total pharmacy losses was due to increased use of generic drugs and decreased utilization.

Nonoperating Income

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, while in 2007 total nonoperating income was \$5.3 million. The 2008 loss was a result of the \$11.9 million policyholder distribution expense, offset by \$1.3 million in investment income. In 2007, nonoperating income included federal grant revenue and 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 in 2009.

Plan Enrollment

Plan enrollment was 16,252 as of December 31, 2008, which was a decrease of 874 policyholders, or 5.1 percent, compared to enrollment of 17,126 as of December 31, 2007. During 2009 there was a slight increase of 129 policyholders, or 0.8 percent, in plan enrollment: there were 16,381 policyholders as of December 31, 2009. Approximately 500 of the individuals who left HIRSP in 2008 were children who qualified for the State's BadgerCare Plus program effective February 1, 2008. Because of their BadgerCare Plus eligibility, these children were no longer eligible for HIRSP and transitioned to BadgerCare Plus during the first quarter of 2008. During 2009, approximately 470 individuals left HIRSP as a result of the expansion of the State's BadgerCare Plus program to adults without children, which affected overall enrollment growth.

Per Member per Month Plan Costs

As shown in Table C, PMPM gross claim costs in 2009 were \$717.11, a decrease of 6.7 percent from PMPM gross claim costs of \$768.63 in 2008. The 2009 reduction of PMPM claims cost is reflective of decreased utilization of HIRSP health care services during 2009. The 2008 PMPM gross claims costs were 4.4 percent lower than the \$803.89 PMPM gross claims costs in 2007. The reduction in PMPM claims costs from 2007 to 2008 reflects the implementation of a 2008 provider fee schedule that was budget neutral to 2007 provider payment rates, and decreased utilization of HIRSP health care services during 2008.

Table C

Plan Cost Summary on a per Member per Month Basis 2009, 2008, and 2007

Description	2009	2008	2007	2009 PMPM	2008 PMPM	2007 ¹ PMPM
Member Months (Sum of Total Members Enrolled in Each Month)	196,808	196,441	209,966			
Gross Claims (Costs before Provider Contributions Are Deducted)	\$141,132,163	\$150,990,734	\$168,788,865	\$717.11	\$768.63	\$803.89
Administrative Expenses	\$6,630,362	\$6,486,953	\$6,407,505	\$33.69	\$33.02	\$30.52

¹ The amounts for 2007 were restated to reflect more current data received subsequent to the 2007 audit report.

Administrative expenses incurred in 2009 equaled 4.5 percent of total plan costs. Administrative expenses equaled 4.1 percent of total plan costs in 2008 and 3.7 percent of total plan costs in 2007. The majority of costs are incurred on a PMPM basis, and therefore vary by year according to plan membership. 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 greater percentage of total costs in 2009 compared to 2008.

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, 2009, and December 31, 2008

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
ASSETS		
Cash and Cash Equivalents (Note 2)	\$ 48,483,979	\$ 71,325,612
Drug Rebates Receivable (Note 3)	2,497,421	1,445,188
Premiums Receivable (Note 3)	99,060	472,998
Claims Recoverable (Note 3)	490,315	479,307
Assessments Receivable	5,577	44,391
Prepaid Items	6,512	14,030
Other Assets	19,200	42,463
TOTAL ASSETS	<u>\$ 51,602,064</u>	<u>\$ 73,823,989</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Unpaid medical loss liabilities (Note 6)	\$ 9,992,106	\$ 11,831,369
Unpaid pharmacy loss liabilities (Note 6)	473,955	358,899
Unpaid loss adjustment expenses (Note 6)	780,000	780,000
Unearned premiums (Note 1E)	10,727,074	11,221,087
Payments to providers (Note 3)	1,379,298	1,467,479
Distribution to policyholders (Note 5)	655	11,892,065
Accrued administrative expenses	781,436	830,473
Total Liabilities	24,134,524	38,381,372
NET ASSETS		
Invested in Capital Assets Net of Related Debt	19,200	23,733
Unrestricted	27,448,340	35,418,884
Total Net Assets	<u>27,467,540</u>	<u>35,442,617</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 51,602,064</u>	<u>\$ 73,823,989</u>

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, 2009, and December 31, 2008

	For the Year Ended December 31, 2009	For the Year Ended December 31, 2008
OPERATING REVENUES		
Premiums (Note 1E)	\$ 83,601,410	\$ 89,191,448
Insurers' Assessments (Note 1E)	27,514,892	39,291,498
Total Operating Revenues	111,116,302	128,482,946
OPERATING EXPENSES		
Losses:		
Gross medical losses	111,181,402	123,458,024
Provider contributions (Note 8)	(25,918,885)	(39,942,539)
Increase (Decrease) in unpaid medical losses (Note 6)	(2,687,961)	(5,349,426)
Total medical losses	82,574,556	78,166,059
Gross pharmacy losses	32,523,666	33,364,392
Increase (Decrease) in unpaid pharmacy losses (Note 6)	115,056	(482,256)
Total pharmacy losses	32,638,722	32,882,136
Total Losses	115,213,278	111,048,195
General and Administrative Expenses (Note 9)	6,630,362	6,486,953
Referral Fees (Note 1E)	66,035	52,885
Total Operating Expenses	121,909,675	117,588,033
OPERATING INCOME (LOSS)	(10,793,373)	10,894,913
NONOPERATING REVENUES AND EXPENSES		
Federal Grant Revenue (Notes 1E and 4)	2,561,169	0
Investment Income	255,702	1,340,575
Distribution to Policyholders (Note 5)	1,425	(11,892,065)
Total Nonoperating Income (Loss)	2,818,296	(10,551,490)
CHANGE IN NET ASSETS	(7,975,077)	343,423
NET ASSETS		
Total Net Assets—Beginning of the Year	35,442,617	35,099,194
Total Net Assets—End of the Year	\$ 27,467,540	\$ 35,442,617

The accompanying notes are an integral part of this statement.

Statement of Cash Flows for the Years Ended December 31, 2009, and December 31, 2008

	For the Year Ended December 31, 2009	For the Year Ended December 31, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received for Premiums	\$ 83,481,336	\$ 86,523,566
Cash Received for Assessments	27,569,243	39,247,107
Cash Received for Federal Grant	2,561,169	0
Cash Payments for Medical Losses	(84,338,421)	(82,217,890)
Cash Payments for Pharmacy Losses	(33,664,080)	(32,822,198)
Cash Payments for Other Expenses	(6,834,224)	(6,373,098)
Cash Payments for Distribution to Policyholders	(11,889,985)	0
Net Cash Provided by Operating Activities	(23,114,962)	4,357,487
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Capital Assets	(1,104)	0
Net Cash Used for Capital and Related Financing Activities	(1,104)	0
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income	274,433	1,562,626
Net Cash Provided by Investing Activities	274,433	1,562,626
NET INCREASE IN CASH AND CASH EQUIVALENTS	(22,841,633)	5,920,113
Cash and Cash Equivalents, Beginning of Year	71,325,612	65,405,499
Cash and Cash Equivalents, End of Year	\$ 48,483,979	\$ 71,325,612
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net Operating Income	\$ (10,793,373)	\$ 10,894,913
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:		
Depreciation expense	5,635	5,557
Federal grant revenue reported as nonoperating revenue	2,561,169	0
Distribution to policyholders reported as nonoperating expense	(11,889,985)	0
Changes in assets and liabilities:		
Decrease (Increase) in receivables	(650,489)	(2,496)
Decrease (Increase) in prepaids	7,518	4,062
Increase (Decrease) in medical loss liabilities	(1,839,263)	(3,796,051)
Increase (Decrease) in pharmacy loss liabilities	115,056	(482,256)
Increase (Decrease) in unpaid loss adjustment expenses	0	10,000
Increase (Decrease) in unearned premiums	(494,013)	(2,451,944)
Increase (Decrease) in liability for payments to providers	(88,181)	(25,180)
Increase (Decrease) in accrued administrative expenses	(49,036)	200,882
Total Adjustments	(12,321,589)	(6,537,426)
Net Cash Provided (Used) by Operating Activities	\$ (23,114,962)	\$ 4,357,487

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. 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 its 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.

HIRSP policyholders who have annual incomes of \$32,999 or less are eligible for subsidized assistance for premium payments, health care deductible payments, and drug copayments. 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.

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 Note 1E and Note 6, and the health care provider contributions as described in Note 8.

D. Cash Flow Statement Presentation

The Statement of Cash Flows as of December 31, 2009, includes more detail, and activity was grouped differently than the audited Statement of Cash Flows as of December 31, 2008. Therefore, the cash flow statement activities for 2008 presented in this report are presented in more detail and grouped similar to 2009 to make a more accurate comparison to 2009.

E. 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, 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.

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. Refer to Note 2 for further information regarding cash deposits.

c) Premium Income Recognition

Premiums are recognized as earned in the period in which policyholders are entitled to receive services and are reported in the financial statements net of allowed premium subsidies. A 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.

d) Assessment Revenue Recognition

An assessment to provide a funding contribution for HIRSP Authority program costs 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 HIRSP Authority plan costs, plus one-half of the premium, deductible, and copayment subsidies granted to eligible low-income policyholders 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.

e) 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 and are recorded as revenue when the expense is incurred.

f) Policyholder, Insurer, and Health Care Provider Contribution

The HIRSP Authority uses fund accounting methodology to provide for equitable accounting of contributed funds and to ensure that HIRSP 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 maintained in three separate, closed fund accounts.

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.

g) 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. Unpaid loss liabilities are reported net of estimated health care provider discounts and 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. In 2008, the cost to process outstanding claims was re-estimated based on current administrative costs and resource estimates, and the unpaid loss adjustment expense liability was increased by \$10,000 to reflect the revised estimate.

h) 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.

i) 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

The HIRSP Authority maintains three bank accounts under a bank services contract at a commercial bank. As of December 31, 2008, \$15,851,417 was on deposit with the bank. Of this amount, \$15,601,417 was not covered by the Federal Deposit Insurance Corporation (FDIC) and was exposed to custodial credit risk. At that time, the HIRSP Authority did not have a written investment policy in place regarding custodial credit risk. However, the HIRSP Authority’s cash assets on deposit at the bank were secured by an irrevocable, unconditional, and nontransferable letter of credit issued by the Federal Home Loan Bank of Cincinnati. As of December 31, 2008, \$56,301,795 of the remaining HIRSP cash assets was deposited with the Local Government Investment Pool.

As of December 31, 2009, \$6,826,479 of the HIRSP Authority’s cash assets was deposited with the bank, and the entire balance was collateralized with federal agency securities having market values in excess of the HIRSP Authority’s cash deposit balance. 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. As of December 31, 2009, \$42,557,497 of the remaining HIRSP cash assets was 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 State of Wisconsin and its agencies and are managed in a single fund called the State Investment Fund. The State Investment Fund is managed by the State of Wisconsin Investment Board, with oversight by its Board of Trustees and in accordance with Wisconsin Statutes. The State Investment Fund 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 State Investment Fund 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 State Investment Fund, please see www.swib.state.wi.us.

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

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. These funds were recognized as revenue as they were applied to low-income subsidy and disease management program costs in 2009.

The HIRSP Authority was awarded a supplemental federal grant award for 2008 operational losses of \$3,536,213 in August 2009. The intent of the grant application was to apply the funds to low-income subsidy and disease management program costs in 2010. Therefore, none of the funds were disbursed in 2009, 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 2009.

5. 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 approximately \$12.0 million to be refunded to certain policyholders in the first quarter of 2009. The distribution, which was paid in March 2009, is reported as an expense and a liability on the 2008 financial statements. In order to be eligible for the distribution, an individual was 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.

6. 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 2009 and 2008.

	<u>2009</u>	<u>2008</u>
Balance—Beginning of the Year	\$12,970,268	\$17,238,575
Incurred Claims:		
Provision for insured events of the current fiscal year	122,588,890	117,852,638
Changes in provision for insured events of prior fiscal years	<u>(3,662,475)</u>	<u>(3,077,460)</u>
Total Incurred	<u>118,926,415</u>	<u>114,775,178</u>
Payments:		
Claims attributable to insured events of the fiscal year	111,621,319	105,164,318
Claims attributable to insured events of prior fiscal years	<u>9,029,303</u>	<u>13,879,167</u>
Total Paid	<u>120,650,622</u>	<u>119,043,485</u>
Balance—End of the Year	<u>\$11,246,061</u>	<u>\$12,970,268</u>

7. PREMIUM, DEDUCTIBLE, AND DRUG COINSURANCE SUBSIDIES

The HIRSP Authority provides subsidies to eligible low-income policyholders. The subsidies reduce the amounts these policyholders are required to pay for premiums, health care deductibles, and prescription drug costs.

During 2009, policyholders with any HIRSP plan who had annual household incomes below \$33,000 were eligible for various premium, deductible, and drug coinsurance subsidies. During 2008, the annual household income threshold was \$24,999. The subsidies available to HIRSP policyholders on each of the 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	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.

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

Chapter 149, Wis. Stats., requires that the HIRSP Authority Board of Directors provide policyholders with low-income deductible subsidies and permits the Board to provide policyholders 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, 2009, 27.0 percent of HIRSP policyholders received premium, deductible, and/or drug expense subsidies. As of December 31, 2008, 19.0 percent of HIRSP policyholders received premium, deductible, and/or drug expense subsidies. The cost of the subsidies totaled \$8,953,287 during 2009 and \$8,248,318 during 2008. The following table summarizes the subsidies provided for each subsidy type during those periods.

<u>Subsidy Type</u>	<u>2009</u>	<u>2008</u>
Premium	\$7,412,582	\$6,914,095
Deductible	619,017	622,125
Out-of-Pocket Drug Expense	<u>921,688</u>	<u>712,098</u>
Total	\$8,953,287	\$8,248,318

In 2008, there were no federal grant funds available to support the subsidies and the costs were shared by health care providers in the amount of \$4,124,161, and by health insurers in the amount of \$4,124,157. 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.

8. HEALTH CARE PROVIDER CONTRIBUTIONS

Statutes require that 20.0 percent of HIRSP plan costs be funded by health care providers. In addition, 50.0 percent of the plan subsidies not covered by federal funding are funded by health care providers. Under current HIRSP practice, only nonpharmacy providers supply the funding for 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 rate 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 29.0 percent was applied to the HIRSP Authority's 2008 fee schedule rates to derive the HIRSP-allowed or reimbursed amount. The discount factor for 2009 was reduced to 19.3 percent in order to spend down the provider surplus accumulated during 2008.

9. 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.

Services provided under the administrative services agreement in 2009 include policyholder and provider services, claims and systems administration, medical management, data collection and reporting, subrogation, coordination of benefits, and disaster recovery.

During 2008, WPS maintained service contracts with third-party contractors, whereby HIRSP Authority pharmacy benefit management services were performed by Navitus Health Solutions and HIRSP Authority actuarial services were performed by Milliman Consultants and Actuaries.

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 January 1, 2009, MedTrak Pharmacy Services became the HIRSP Authority pharmacy benefit manager. Milliman was awarded the actuarial services contract, and its direct contract with the HIRSP Authority began February 1, 2009.

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 proceeding, transferred the contract 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. The new contract will be effective January 1, 2011.

10. LEASES**A. Operating Leases**

The HIRSP Authority has entered into a lease for administrative office space for a lease 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 \$50,243 for 2009 and \$47,917 for 2008.

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 2009 and 2008 were \$2,916 annually.

B. Noncancelable Lease Terms

As of January 1, 2010, the minimum aggregate rental commitments are as follows:

<u>Year</u>	<u>Commitment</u>
2010	55,168
2011	56,773
2012	56,516

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

11. PENSION BENEFITS

During 2008 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 may be obtained by writing to:

Department of Employee Trust Funds
P.O. Box 7931
Madison, WI 53707-7931

The most current financial report is also 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 10.4 percent of employees' gross salary to the plan for 2009. The relative position of the HIRSP Authority in the WRS is not available because the WRS is a statewide, multi-employer plan.

12. CAPITAL ASSETS

The HIRSP Authority did not make any capital asset purchases in 2008. The HIRSP Authority did purchase office furniture during 2009. The capital assets are included in other assets 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	\$34,843	\$ 1,102	\$ 0	\$35,945
Less Accumulated Depreciation for:				
Equipment	<u>(11,110)</u>	<u>(5,635)</u>	<u>0</u>	<u>(16,745)</u>
Total Capital Assets Being Depreciated, Net	<u>\$23,733</u>	<u>\$(4,533)</u>	<u>\$ 0</u>	<u>\$19,200</u>

13. SUBSEQUENT EVENT

Effective July 9, 2010, the federal Department of Health and Human Services contracted with the HIRSP Authority to administer a federal temporary high-risk health insurance pool in Wisconsin. The pool, which is known as the HIRSP Federal Plan, will not be subject to any pre-existing condition exclusions. The HIRSP Federal Plan began accepting applications on July 15, 2010, for August 1, 2010 effective dates.

Effective January 1, 2010, the HIRSP Authority added a new indemnity benefit plan: a \$2,500 deductible health savings account qualified plan.



Auditor's Report ■

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 as of and for the years ended December 31, 2009, and 2008, and have issued our report thereon dated September 9, 2010. 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 deficiencies, 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 Section II of the Schedule of Findings and Questioned Costs—Finding WI HIRSP 09-1: Employee Access to Pharmacy Claims Adjudication System—on pages 46 through 48 to be a material weakness in internal control over financial reporting.

We also note that the HIRSP Authority has taken steps to address a significant deficiency reported during our 2008 audit pertaining to incorrect reporting of a federal grant receivable and liability on its 2008 Balance Sheet. As part of these steps, it has implemented a more thorough review process to help prevent and detect material misstatement in its financial statements.


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, grant agreements, and contracts, 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*.

The HIRSP Authority's written response to the finding identified in our audit is summarized in Section II of the Schedule of Findings and Questioned Costs. We did not audit the HIRSP Authority's response and, accordingly, express no opinion on it.

This independent auditor's report is intended solely for the information and use of 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.

September 9, 2010

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 U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to the HIRSP Authority's major federal program for the year ended December 31, 2009. The major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. 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 above 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 requirements referred to in the first paragraph that are applicable to its major federal program for the year ended December 31, 2009.

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 requirements that could have a direct and material effect on its major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 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 would not necessarily 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 independent auditor's 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.

September 9, 2010

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, 2009**

<u>FEDERAL GRANTOR/Program Title</u>	<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>\$2,561,169</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u><u>\$2,561,169</u></u>

The accompanying notes are an integral part of this schedule.

Notes to the Schedule of Expenditures of Federal Awards ■

1. PURPOSE

The Schedule of Expenditures for Federal Awards includes the federal grant activity of the Wisconsin Health Insurance Risk-Sharing Plan Authority for the year ended December 31, 2009. 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 2009.

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 operations 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 2009.

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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 2009:

Financial Statements

Type of auditor's report issued	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Significant deficiencies identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major program:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	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 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 material weaknesses 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. We identified the following financial statement finding for the year ended December 31, 2009.

Finding WI HIRSP 09-1: Employee Access to Pharmacy Claims Adjudication System

Criteria: In establishing access to its pharmacy claims adjudication system, the pharmacy benefit manager—MedTrak Pharmacy Services—should ensure that the access does not provide its employees the ability to enter and receive payment for fictitious pharmacy claims.

Condition: As part of our review of access capabilities to MedTrak's pharmacy claims adjudication system, we found that 98.0 percent of its employees have the ability to enter or edit pharmacy names and addresses, enter or edit policyholder information, and enter manual and electronic claims.

Questioned Costs:

None

Context:

2009 was the first year that MedTrak was under contract to serve as the HIRSP Authority's pharmacy benefit manager to process and pay pharmacy claims.

Effect:

With this access, MedTrak's employees could enter fictitious pharmacy claims and direct payments to themselves by entering a fictitious pharmacy or changing a pharmacy's address. At the same time, MedTrak's management does not regularly review an audit log to detect inappropriate changes made to the system's data, such as inappropriate changes to a pharmacy's address. Further, the level of employee access to the pharmacy claims adjudication system could undermine some of the controls MedTrak has established for other parts of its claims adjudication process.

In response to the concern regarding the potential of fraudulent payments, we performed additional testing of pharmacy claims payments and determined that all payments for 2009 were sent to valid pharmacies at valid addresses.

Cause:

MedTrak provided broad access to its employees as part of its efforts to be responsive to participants.

Recommendation:

We recommended the HIRSP Authority work with MedTrak to address control concerns with the level of employee access provided to the pharmacy claims adjudication system.

Management's Response and Corrective Action Plan

The HIRSP Authority agreed with the finding and recommendation and immediately worked with MedTrak to develop a corrective action plan to address the internal control issue surrounding the level of access granted to employees. MedTrak subsequently segregated three capabilities—the keying of claims, the adding or changing of pharmacy address information, and the entering of eligibility information—to ensure that each employee has access to perform only one of these functions.

In addition to changing to the level of access granted to the employees, two additional controls were put in place. First, claims manually entered into the claims adjudication system will be reviewed by another person who does not have access to enter claims. This person will compare supporting paper claim documentation to the claims entered into the system to ensure legitimacy and accuracy. Second, a report of pharmacy additions and changes will be generated from the system, and the pharmacy changes will be reviewed for accuracy and legitimacy by a person separate from the person entering the pharmacy updates. Documentation of these reviews will be signed, dated, and retained.

The HIRSP Authority appreciates the additional review of 2009 pharmacy claims the Audit Bureau performed as a result of this internal control finding. Its review provided additional assurance that all 2009 pharmacy claims were sent to valid pharmacies at valid addresses.

Section III

Federal Award Findings and Questioned Costs for 2009

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 Circular A-133. No federal award findings or questioned costs are reported for the year ended December 31, 2009.

Federal Award Summary Schedule of Prior Audit Findings

The Summary Schedule of Prior Audit Findings summarizes the status of the federal audit findings reported in Section III of the HIRSP Authority Schedule of Findings and Questioned Costs for the year ended December 31, 2007 (report 08-12). The prior concern was adequately addressed, and the Summary Schedule of Prior Audit Findings indicates that the corrective action described in the prior audit report was taken.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

HIRSP Authority

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Federal Program</u>	<u>Finding</u>	<u>Status of Finding</u>
WI HIRSP 07-1	93.780	Grants to States for Operation of Qualified High-Risk Pools	Cash Management	Corrective Action Taken

■ ■ ■ ■

HIRSP

AUTHORITY

September 10, 2010

Ms. Janice Mueller
State Auditor
22 East Mifflin Street, Suite 500
Madison, WI 53703

Dear Ms. Mueller:

This is in response to the Legislative Audit Bureau (LAB) report regarding the audit of the Health Insurance Risk-Sharing Plan (HIRSP) Authority for the calendar year 2009.

We agree with your finding regarding the level of access our pharmacy benefit manager MedTrak Pharmacy Services (MedTrak) provides its employees and that it represents a material internal control weakness. As soon as we became aware of this internal control issue we immediately worked with MedTrak to address the issue and they have put a number of procedures in place to remedy the situation and create strong internal controls.

MedTrak segregated three capabilities- the keying of claims, the adding or changing of pharmacy address information, and the entering of eligibility information- to ensure that each employee only has access to perform one of these functions. In addition to the change in the level of access granted to employees MedTrak also implemented two additional internal control procedures.

The first additional control procedure MedTrak added was a review of manual claims entered into the pharmacy claims adjudication system. Once the claims are entered into the system they are reviewed by another person who does not have access to enter claims. This person will compare the supporting paper claim documentation to a report generated from the pharmacy claims adjudication system that lists all manual claims entered to ensure accuracy and legitimacy of the claim. Documentation of this review will be signed, dated, and retained.

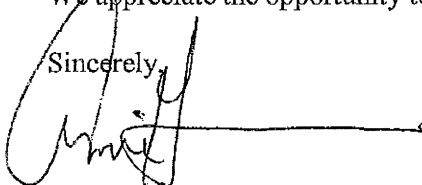
The second internal control procedure added was in relation to the process surrounding pharmacy changes and additions. A report of pharmacy additions and changes will be generated from the pharmacy claims adjudication system. This report will be reviewed by a person separate from the person entering the pharmacy updates for accuracy and legitimacy of pharmacy additions and changes. Documentation of this review will be signed, dated, and retained.

We appreciate the additional review the Legislative Audit Bureau performed as a result of this internal control finding to ensure that the 2009 pharmacy claims payments were sent to valid pharmacies at valid addresses. This review provided us additional assurance that there were not any fraudulent payments made to pharmacies. All 2009 pharmacy payments were sent to valid pharmacies at valid addresses.

We are confident that the changes MedTrak made to the level of access granted to employees and the review processes put in place creates strong internal controls and addresses the concerns in your report.

We appreciate the opportunity to have our response included in the final report.

Sincerely,



Amie Goldman
CEO