

An Audit

Health Insurance Risk-Sharing Plan Authority

*For the Six-Month Period Ended
December 31, 2006*

2007-2008 Joint Legislative Audit Committee Members

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Janice Mueller
State Auditor

October 29, 2008

Senator Jim Sullivan and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Sullivan and Representative Jeskewitz:

We have completed a financial and compliance audit of the Wisconsin Health Insurance Risk-Sharing Plan (HIRSP) Authority for the six-month period ended December 31, 2006. This audit satisfies audit requirements under s. 13.94 (1)(dh), Wis. Stats. It also satisfies the HIRSP Authority's audit requirements under the federal Single Audit Act of 1984, as amended, and U.S. Office of Management and Budget Circular A-133. The six-month period represents a transition as the financial reporting period was changed from a fiscal year basis to a calendar year basis. We have also issued a separate audit report (08-12) on our audit of the HIRSP Authority for calendar year 2007.

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. 2005 Wisconsin Act 74 made significant changes to the operations of HIRSP. Among the most significant was the creation of the HIRSP Authority, which assumed oversight responsibility from the Wisconsin Department of Health and Family Services (currently the Department of Health Services) on July 1, 2006.

We have provided an unqualified opinion on the HIRSP Authority's financial statements. Our report also contains the auditor's reports on internal control over financial reporting and on compliance with program requirements, and our unqualified audit opinion on the HIRSP Authority's Schedule of Expenditures of Federal Awards. Overall, the HIRSP Authority has complied with federal grant requirements.

We appreciate the courtesy and cooperation extended to us by the HIRSP Authority and the plan administrator.

Respectfully submitted,

Janice Mueller
State Auditor

JM/DA/ss

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 six-month period ended December 31, 2006, 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 audit.

We conducted our audit 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 audit provides 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, 2006, and the changes in its financial position and its cash flows for the six-month period then ended in conformity with accounting principles generally accepted in the United States of America.


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The required supplementary information included as Management's Discussion and Analysis on pages 5 through 10 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 35 is presented for purposes of additional analysis as required by 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 October 14, 2008, 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.

October 14, 2008

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 (HIRSP) Authority is a Wisconsin state government public body corporate and politic. The HIRSP Authority was established effective July 1, 2006, by Chapter 149, Wis. Stats., to administer the insurance risk-sharing plan 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 HIRSP Authority financial statements for the six-month period ended December 31, 2006, and for comparative purposes the six-month period ended June 30, 2006. 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.

The time period reported upon by the MD&A includes the second half of 2006 and the first half of 2006. Significant changes occurred during 2006, as responsibility for plan administration transferred from the State of Wisconsin Department of Health and Family Services (currently the Department of Health Services) to the HIRSP Authority effective July 1, 2006. The second half of 2006 was the first six months of fiscal year (FY) 2006-07 and was the first six-month period of HIRSP Authority administration.

Some of the financial differences between the two six-month reporting periods included in the MD&A pertain to the seasonality of the HIRSP enterprise and the timing of assessment billings. For example, a material portion of the asset and liability accruals related to FY 2006-07 assessments remained outstanding as of December 31, 2006. In comparison, the first half of calendar year 2006 was the final six months of the FY 2005-06 operating period, and accrued assets and liabilities for assessments were negligible as of June 30, 2006.

Financial Position

As shown in Table A, the net financial position of the HIRSP Authority improved in 2006. Total net assets increased \$4.9 million, or 21.1 percent, in the second half of 2006 and equaled \$28.3 million as of December 31, 2006. In the first half of 2006, total net assets increased \$10.4 million, or 80.1 percent, from \$13.0 million as of December 31, 2005, to \$23.4 million as of June 30, 2006.

Table A

Condensed Financial Information as of December 31, 2006, and June 30, 2006

	December 31, 2006	June 30, 2006	Percentage Change
Total Assets	\$79,429,816	\$56,340,452	41.0%
Total Liabilities	51,098,808	32,938,692	55.1
Net Assets			
Restricted	0	19,486,586	(100.0)
Unrestricted	28,331,008	3,915,174	623.6
Total Net Assets	\$28,331,008	\$23,401,760	21.1

As of June 30, 2006, \$19.5 million in net assets was restricted. The restricted net assets were inception-to-date policyholder premium receipts in excess of requirements for policyholder contributions to fund HIRSP plan costs. Through June 30, 2006, s. 149.143(2m)(b), Wis. Stats., imposed express restrictions on the disposition of net assets contributed by policyholder premium payments. 2005 Wisconsin Act 74 simplified the HIRSP statutory funding formula and effective July 1, 2006, eliminated the statutory restrictions on net assets contributed by policyholder premiums that were imposed under s. 149.143(2m)(b), Wis. Stats. However, as described in the notes to the financial statements, the inception-to-date funding contribution and net asset interest of each respective HIRSP funding constituency (policyholders, assessed insurers, and health care providers) is

maintained in one of three separate, closed fund accounts and is restricted solely to offset the ongoing funding obligation of the respective constituency.

Assets

Total assets increased \$23.1 million, or 41.0 percent, to \$79.4 million in the second half of 2006, compared to total assets of \$56.3 million as of June 30, 2006. The increase was primarily due to year-end 2006 accruals for assessment receivable and federal grant receivable assets.

Cash and cash equivalent assets increased \$3.5 million, or 6.6 percent, in the second half of 2006 and equaled \$56.9 million as of year-end. Assessment receivable assets as of December 31, 2006, were \$17.7 million, as one-half of FY 2006-07 assessment revenues were uncollected as of December 31, 2006, and were due during the first half of 2007. In contrast, the end of the FY 2005-06 assessment cycle was June 30, 2006, and negligible assessment receivable assets remained due and uncollected.

Federal grant receivable assets were \$2.3 million as of December 31, 2006, and were \$0 as of June 30, 2006. In September 2006, the Centers for Medicare and Medicaid Services awarded a federal grant to the HIRSP Authority totaling \$4.4 million; \$2.3 million of the grant was determined to be earned as of December 31, 2006, and was recorded as a receivable because the grant funds were not received until January 2007. As of June 30, 2006, there was not a receivable asset for federal grant funds.

Liabilities

Total liabilities increased \$18.2 million, or 55.1 percent, to \$51.1 million in the second half of 2006, compared to total liabilities of \$32.9 million as of June 30, 2006. Unpaid medical loss liabilities increased to \$14.7 million and unpaid pharmacy loss liabilities increased to \$794,000 in the second half of 2006, primarily due to the customary seasonal increase in HIRSP-incurred claims during the final months of each calendar year.

The unearned assessment liability was \$19.2 million as of December 31, 2006, and was \$0 as of June 30, 2006. One-half of FY 2006-07 assessment revenues was unearned as of year-end in 2006 and would be collected and earned during the first half of 2007. June 2006 was the end of the FY 2005-06 HIRSP assessment cycle, and there was no liability for unearned assessments at year-end.

Change in Financial Position

As shown in Table B, the \$4.9 million increase in net assets in the second half of 2006 comprised operating income of \$1.1 million, plus nonoperating income of \$3.8 million. That change was 52.7 percent less than the \$10.4 million increase in net

assets in the first half of 2006, which comprised operating income of \$9.3 million, and nonoperating income of \$1.1 million. The higher operating income in the first half of 2006 was primarily due to the effect of large decreases in medical loss liabilities in the first half of 2006, which resulted in less incurred medical loss expense in the first half of the year. Second-half 2006 net income was reduced by \$814,000 in increased medical loss liabilities, which contributed to an increased incurred medical loss expense in the second half of the year.

Table B

Condensed Financial Information
for the Six-Month Periods Ended December 31, 2006, and June 30, 2006

	Six-Month Period Ended December 31, 2006	Six-Month Period Ended June 30, 2006	Percentage Change
Total Operating Revenues	\$73,117,137	\$72,112,616	1.4%
Total Operating Expenses	71,988,283	62,825,019	14.6
Operating Income	1,128,854	9,287,597	(87.8)
Total Nonoperating Income	3,800,394	1,126,299	237.4
Change in Net Assets	\$ 4,929,248	\$10,413,896	(52.7)

Operating Revenues

Total operating revenues in the second half of 2006 were \$73.1 million, an increase of \$1.0 million, or 1.4 percent, from total operating revenues in the first half of 2006. The primary source of the increase was a \$1.1 million increase in assessment revenues due to an increase in assessments levied for FY 2006-07 compared to FY 2005-06.

Operating Expenses

Operating income of \$1.1 million in the second half of 2006 was \$8.2 million, or 87.8 percent, less than operating income of \$9.3 million in the first half of 2006. Gross medical loss expense was \$66.8 million in the second half of the year, a 4.2 percent increase from gross medical loss expense of \$64.1 million in the first half of the year. The higher gross medical loss expense in the second half of 2006 reflects claims seasonality, as larger numbers of policyholders have met their deductible payment requirements in the second half of a calendar year and the HIRSP Authority has corresponding higher paid-claims volume. The total incurred medical loss expense was reduced during the first half of 2006 due to the effect of an \$8.1 million decrease in estimated medical loss liabilities, which contributed to an \$8.1 million reduction in incurred medical loss expense and, correspondingly, to favorable operating income.

Gross pharmacy losses decreased by \$2.2 million in the second half of 2006. In the first half of the year, they decreased by \$2.3 million from gross pharmacy losses incurred in the last six months of 2005. The decreased gross pharmacy losses in 2006 were primarily due to decreased enrollment in Plan 2 and movement of HIRSP policyholders to the federal Medicare Part D drug benefit program, which shifted former HIRSP drug claim costs to Medicare. Decreases in pharmacy loss liabilities in the first half of the year reduced the pharmacy loss expense by \$430,000, whereas increases in the second half of 2006 increased the incurred pharmacy loss expense by \$237,000. The noted changes in pharmacy loss liabilities are consistent with the overall seasonality of HIRSP claims experience and loss liability estimates.

Nonoperating Income

In the second half of 2006, nonoperating income increased by \$2.7 million, or 237.4 percent, to reach \$3.8 million. In the first half of 2006, nonoperating income totaled \$1.1 million. Nonoperating income in the second half of 2006 included federal grant revenue of \$2.3 million that was applied to offset policyholder subsidy costs during the last six months of 2006. There was no federal grant revenue during the first half of 2006. Investment income increased to \$1.5 million in the second half of 2006. The 30.2 percent increase from investment income in the first half of 2006 resulted from increased cash assets and increased market rates of interest earned on cash deposits in the second half of 2006.

Plan Enrollment

Plan enrollment as of December 31, 2006, was 18,073, a decrease of 874 policyholders, or 4.6 percent, compared to enrollment of 18,947 in December 2005. Enrollment peaked in June 2005 with 19,256 policyholders. Compared to that peak, enrollment as of December 31, 2006, decreased by 1,183 policyholders, or 6.1 percent. A significant factor for the large enrollment decrease is a sustained decrease in Plan 2 Medicare eligible policyholders following the implementation of the Medicare Part D drug benefit program, which commenced effective January 1, 2006. Enrollment in HIRSP benefit Plan 2 decreased from 1,702 policyholders as of June 30, 2005, to 987 as of December 31, 2006, a decrease of 715 policyholders, or 42.0 percent, in the 18 months.

Per Member per Month Plan Costs

Per member per month (PMPM) gross claim costs in the second half of 2006 were \$798.09, an increase of 16.5 percent from PMPM costs in the first half of 2006. The PMPM data shown in Table C reflect seasonal differences between the first half and the second half of the calendar year, the decreased membership trend that HIRSP sustained in the second half of 2006, and ongoing increases in provider billed charges and price inflation in the health care market during 2006. Claim costs incurred in the second half of 2006 equaled 96.5 percent of total plan costs incurred

during that six-month period. Claim costs incurred in the first half of 2006 equaled 95.7 percent of total plan costs incurred during the first half of 2006.

Table C

**Plan Cost Summary on a per Member per Month (PMPM) Basis
2006**

Description	7/1/2006 through 12/31/2006	1/1/2006 through 6/30/2006	PMPM 7/1/2006 through 12/31/2006	PMPM 1/1/2006 through 6/30/2006
Member Months (Sum of Total Members Enrolled in Each Month)	109,528	113,013		
Gross Claims (Costs before Provider Contributions are Deducted)	\$87,413,291	\$77,392,108	\$798.09	\$684.81
Administrative Expenses	\$3,140,966	\$3,474,846	\$28.68	\$30.75

Administrative expenses incurred in the second half of 2006 equaled 3.5 percent of total plan costs during that six-month period. Administrative expenses incurred in the first half of 2006 equaled 4.3 percent of total plan costs during the first half of 2006.

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 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





Financial Statements ■



Balance Sheet
December 31, 2006

December 31, 2006

ASSETS

Cash and Cash Equivalents (Note 2)	\$	56,944,180
Drug Rebates Receivable (Note 3)		1,551,692
Premiums Receivable (Note 3)		355,398
Claims Recoverable (Note 3)		297,262
Assessments Receivable		17,658,427
Prepaid Items		22,852
Federal Grants Receivable		2,333,710
Other Assets		266,295
TOTAL ASSETS	\$	<u>79,429,816</u>

LIABILITIES AND NET ASSETS

Liabilities:

Unpaid medical loss liabilities (Note 6)	\$	14,725,188
Unpaid pharmacy loss liabilities (Note 6)		794,466
Unpaid loss adjustment expenses (Note 6)		770,000
Unearned premiums (Note 1E)		13,441,414
Unearned assessments		19,173,097
Payments to providers (Note 3)		1,536,349
Accrued administrative expenses		658,294
Total Liabilities		<u>51,098,808</u>
Total Net Assets		<u>28,331,008</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>79,429,816</u>

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Assets for the Six-Month Period Ended December 31, 2006

For the Six-Month Period Ended
December 31, 2006

OPERATING REVENUES

Premiums (Note 1E)	\$ 52,720,642
Insurers' Assessments (Note 1E)	20,396,495
Total Operating Revenues	73,117,137

OPERATING EXPENSES

Losses:	
Gross medical losses	66,760,546
Provider contributions (Note 9)	(18,592,959)
Increase (Decrease) in unpaid medical losses (Note 6)	813,502
Total medical losses	48,981,089
Gross pharmacy losses	19,602,200
Increase (Decrease) in unpaid pharmacy losses (Note 6)	237,043
Total pharmacy losses	19,839,243
Total Losses	68,820,332
General and Administrative Expenses (Note 4)	3,140,966
Referral Fees (Note 1E)	26,985
Total Operating Expenses	71,988,283
OPERATING INCOME	1,128,854

NONOPERATING REVENUES AND EXPENSES

Federal Grant Revenue (Note 10)	2,333,710
Investment Income	1,466,684
Total Nonoperating Income	3,800,394
CHANGE IN NET ASSETS	4,929,248

NET ASSETS

Total Net Assets—Beginning of the Year	23,401,760
Total Net Assets—End of the Year	\$ 28,331,008

The accompanying notes are an integral part of this statement.

**Statement of Cash Flows
for the Six-Month Period Ended December 31, 2006**

For the Six-Month Period Ended
December 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received for Premiums	\$ 50,945,605
Cash Received for Assessments	21,907,978
Cash Payments for Medical Losses	(48,401,160)
Cash Payments for Pharmacy Losses	(18,743,609)
Cash Payments for Other Expenses	(3,394,491)
Net Cash Provided by Operating Activities	<u>2,314,323</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	<u>(15,539)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(15,539)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>1,215,684</u>
Net Cash Provided by Investing Activities	<u>1,215,684</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,514,468
Cash and Cash Equivalents, Beginning of Year	<u>53,429,712</u>
Cash and Cash Equivalents, End of Year	<u>\$ 56,944,180</u>

**RECONCILIATION OF NET OPERATING INCOME
TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

Net Operating Income	<u>\$ 1,128,854</u>
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:	
Depreciation expense	243
Federal grant revenue reported as nonoperating revenue	2,333,710
Changes in assets and liabilities:	
Decrease (Increase) in receivables	(19,288,080)
Decrease (Increase) in prepaids	(21,975)
Increase (Decrease) in accounts payable	18,935,222
Increase (Decrease) in unearned premiums	(1,664,466)
Increase (Decrease) in medical loss liabilities	648,181
Increase (Decrease) in pharmacy loss liabilities	242,634
Total Adjustments	<u>1,185,469</u>
Net Cash Provided by Operating Activities	<u>\$ 2,314,323</u>

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 (HIRSP) Authority is a Wisconsin state government public body corporate and politic. The HIRSP Authority was established by Chapter 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 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 coverages under federal law, including the Health Insurance Portability and Accountability Act (HIPAA) under Title XXII, P.L. 104-191.

HIRSP was originally established in 1980 as a Wisconsin state government fund, administered by the Wisconsin Office of the Commissioner of Insurance. From 1998 through June 30, 2006, it was administered by the Wisconsin Department of Health and Family Services (DHFS), which is currently the Department of Health Services. The HIRSP Authority was created by 2005 Wisconsin Act 74 and assumed responsibility for administration of HIRSP effective July 1, 2006.

The HIRSP Authority qualifies as exempt from federal income taxation pursuant to Internal Revenue Code Section 501(c)(26). An application for recognition of the HIRSP Authority's status as a tax-exempt public corporation is currently pending before the Internal Revenue Service.

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 60.0 percent of plan costs. Assessments levied on insurance companies that write health insurance coverages in Wisconsin and discounts on payments to health care providers for health care services rendered to HIRSP policyholders each fund 20.0 percent of plan costs.

HIRSP policyholders who have annual incomes of \$25,000 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. Financial Statement Reporting Periods

The financial statements report on the financial activities and condition of the HIRSP Authority for the six-month period ended December 31, 2006.

The HIRSP Authority's Board of Directors adopted a calendar year convention for the HIRSP Authority's annual operating budget commencing with calendar year 2008. HIRSP Authority budgeting and financial reporting were previously conducted on a state fiscal year basis. The most recent audited financial statements reported on FY 2005-06, which ended June 30, 2006, and FY 2004-05, which ended June 30, 2005. To establish comparable audited financial statements on a calendar year basis going forward, financial statements have been issued that report on the calendar year ended December 31, 2007, and separate financial statements have been issued concurrently that report on the six-month period ended December 31, 2006.

D. 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 9.

E. Accounting Policy

a) Operating Revenues and Operating Expenses

HIRSP Authority 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

Effective July 2006, cash and cash equivalents consist solely of demand deposits maintained by the HIRSP Authority at a commercial bank. 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. Premium rates required for a calendar year period are determined during the annual budget planning process. 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 coverages in Wisconsin. The commercial insurers have a statutory requirement to fund 20.0 percent of HIRSP Authority plan costs, plus one-half of the premium, deductible, and copayment subsidies granted to 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. The total assessment required for a calendar year period is determined during the annual budget planning process. 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 coverages issued in Wisconsin in the prior calendar year.

Assessments are recognized as earned revenue during the budget period for which the assessments are levied as a funding contribution. A liability for unearned assessments is established to properly recognize the liability for assessment assets that will be earned subsequent to the close of the current accounting period.

e) Policyholder, Insurer, and Health Care Provider Contributions

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 actuarial analysis of projected revenues and program costs determines the 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.

f) Liabilities for Unpaid Losses

Liabilities for unpaid losses 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. Liabilities for unpaid losses are estimated using actuarial methods and assumptions based on claim payment patterns, medical cost inflation,

historical developments such as claim inventory levels and claim reporting patterns, 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 in prior accounting periods are continually reviewed by management and adjusted as necessary, with resulting adjustments to the liabilities reflected in current operations.

g) Policy Acquisition Costs

The HIRSP Authority does not engage in marketing activities and does not incur sales commissions. Insurance agents who assist individuals with the HIRSP application process are paid a one-time referral fee in the amount of \$35 for each policy issued. The referral fees, which represent the sole policy acquisition cost of the HIRSP Authority, are miscellaneous expenses, are minimal, and are recorded as incurred.

2. CASH DEPOSITS

The HIRSP Authority maintains three bank accounts under a bank services contract at a commercial bank. These accounts include one depository account and two zero-balance bank accounts. The zero-balance accounts are used to remit policy-related disbursements and administrative expense disbursements. Disbursements issued on the zero-balance bank accounts are funded as necessary from the depository account, which serves as a concentration account for cash receipts and cash assets.

Under the bank services contract, the HIRSP Authority's average collected deposits balance is paid interest at an agreed-upon HIRSP interest rate. The collected balance in the HIRSP cash management account pool at the bank is collateralized with federal agency securities having market value in excess of the HIRSP Authority's cash deposit balance. The securities are pledged as collateral for the benefit of the HIRSP Authority and are held in a restricted securities account under the control of a federal reserve bank. The HIRSP Authority holds a perfected security interest in the pledged securities.

3. RECEIVABLES AND PAYABLES

Unless otherwise noted, receivable balances are expected to be collected within the following 12-month period. 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. GENERAL AND ADMINISTRATIVE EXPENSES

HIRSP Authority indemnity insurance operations are performed by a third-party plan administrator under an administrative services agreement with Wisconsin Physicians Service Insurance Corporation (WPS). WPS administration of HIRSP operations commenced April 1, 2005. The administrative services agreement provided for an initial termination date of April 1, 2008, with three one-year renewals possible. Effective December 17, 2007, the agreement was extended through March 31, 2009.

Services currently provided under the administrative services agreement include policyholder and provider services, claims and systems administration, medical management, data collection and reporting, subrogation, coordination of benefits, disaster recovery, pharmacy benefit management, and actuarial services. WPS maintains service contracts with third-party contractors, whereby HIRSP Authority pharmacy benefit management services are currently performed by Navitus Health Solutions, and HIRSP Authority actuarial services are currently performed by Milliman Consultants and Actuaries.

General and administrative expenses for the six-month period ended December 31, 2006, include the following:

Plan Administrator Fees	\$2,889,486
State Administrative Costs (DHFS)	24,929
Authority Administrative Costs	173,989
Transition Costs	37,562
Other Expense	<u>15,000</u>
Total	\$3,140,966

5. 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 was executed in July 2006, but the leased premises were not completed and available for occupancy until February 2007. The lease term commenced on March 1, 2007, and will terminate December 31, 2012.

There were no office lease rental payments expended or charged to expenses for the six-month period ended December 31, 2006.

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. Equipment lease rental payments charged to expenses for the six-month period ended December 31, 2006, were \$364.

B. Noncancelable Lease Terms

As of January 1, 2007, the minimum aggregate rental commitments are as follows:

<u>Year</u>	<u>Commitment</u>
2007	\$39,911
2008	50,834
2009	53,159
2010	55,168
2011	56,773
2012	56,516

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

6. LIABILITY FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The following is a reconciliation of changes in the combined medical and pharmacy unpaid loss liabilities and unpaid loss adjustment expense liabilities for the six-month period ended December 31, 2006:

Balance—Beginning of the Six-Month Period	<u>\$15,431,701</u>
Incurred Claims:	
Provision for insured events of the current fiscal year	74,489,907
Changes in provision for insured events of prior fiscal years	<u>(3,780,136)</u>
Total Incurred	<u>70,709,771</u>
Payments:	
Claims attributable to insured events of the fiscal year	58,960,900
Claims attributable to insured events of prior fiscal years	<u>10,890,918</u>
Total Paid	<u>69,851,818</u>
Balance—End of the Six-Month Period	<u>\$16,289,654</u>

7. DRUG COINSURANCE ANNUAL OUT-OF-POCKET MAXIMUMS

During the six-month period ended December 31, 2006, the HIRSP pharmacy benefit design was structured to apply coinsurance and annual out-of-pocket maximum limitations on policyholder payments for prescription drugs. The annual out-of-pocket maximum amount varied for each HIRSP benefit plan. When a policyholder reached the coinsurance out-of-pocket maximum, HIRSP subsequently paid 100.0 percent of the allowed amount of drug benefits for the remainder of the calendar year.

Plan 1A policyholders who qualified for deductible reduction subsidies also qualified for reductions in drug coinsurance out-of-pocket maximums. The following table provides a schedule of the medical deductible and corresponding drug coinsurance out-of-pocket maximums that were applicable during the six-month period ended December 31, 2006. Refer to Note 8 for further discussion of the drug coinsurance subsidies provided during the reporting period.

HIRSP Benefit Plan	Annual Household Income		Medical Deductible	Drug Coinsurance Out-of-Pocket Maximum
	<i>At least</i>	<i>but less than</i>		
Plan 1A	\$20,000	–	\$1,000	\$ 750
	17,000	\$20,000	800	600
	14,000	17,000	700	525
	10,000	14,000	600	450
	0	10,000	500	375
Plan 1B	All Income Levels		2,500	1,000
Plan 2	All Income Levels		500	125

Effective January 1, 2008, the HIRSP prescription drug benefit design was changed to a tiered copayment plan with a new out-of-pocket benefit design, and the predecessor benefit design model of drug coinsurance with maximum out-of-pocket limitations for drug spending was terminated.

8. PREMIUM, DEDUCTIBLE, AND DRUG COINSURANCE SUBSIDIES

The HIRSP Authority provides subsidies to eligible low-income policyholders, which reduce the amounts policyholders are required to pay for premiums, health care deductibles, and prescription drug costs. Effective January 1, 2008, significant changes were made in HIRSP benefit plan designs and the subsidy program. The following discussion pertains to the subsidy program and subsidy benefits applicable during the six-month period ended December 31, 2006.

During the six-month period ended December 31, 2006, HIRSP policyholders who were enrolled in Plan 1A or Plan 2 and who had annual household incomes below \$25,000 were eligible for a premium subsidy. No premium subsidy was available for policyholders enrolled in Plan 1B. Policyholders enrolled in Plan 1A with incomes below \$20,000 were also eligible for a deductible subsidy and for drug copayment maximums. No deductible subsidy was available for policyholders enrolled in Plan 1B or Plan 2.

The full premium rates for HIRSP policyholders who are not eligible for a premium subsidy are established through actuarial modeling of projected annual revenues and plan costs. Chapter 149, Wis. Stats., established HIRSP’s subsidized premium rates as a percentage of the standard-risk rate; that is, the rate that a commercial insurer would charge for an individual insurance policy that provides substantially the same coverage and deductibles as provided under a HIRSP policy.

Premium rates for unsubsidized HIRSP policyholders in Plan 1A equaled 148.8 percent of the standard-risk rate for the period July 1, 2006, through June 30, 2007. During the six-month period ended December 31, 2006, the subsidized premiums paid by Plan 1A or Plan 2 policyholders who were eligible for the subsidy program were indexed to the standard-risk rate as indicated in the following table:

Annual Household Income		Amount of Premium as Percentage of Standard-Risk Rates	Reduction in Deductible for Plan 1A Participants
<u>at Least</u>	<u>but Less Than</u>		
\$ 0	\$10,000	100.0%	\$500
10,000	14,000	106.5	400
14,000	17,000	115.5	300
17,000	20,000	124.5	200
20,000	25,000	130.0	N/A

For the six-month period ended December 31, 2006, 17.0 percent of HIRSP policyholders received premium, deductible, and/or drug coinsurance subsidies totaling \$3,138,201. The following table summarizes the subsidies provided for each subsidy type during that period:

<u>Subsidy Type</u>	
Premium	\$2,563,484
Deductible	272,951
Drug Coinsurance	<u>301,766</u>
Total	\$3,138,201

For the six-month period ending December 31, 2006, federal grant funds totaling \$2,333,710 were applied to premium subsidies. The remaining premium, deductible, and drug coinsurance subsidy costs were shared equally by health insurers and health care providers, with each contributing \$402,246.

9. 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 expenditure 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 amount paid to participating providers for billed services.

The basis for calculating HIRSP's program costs is usual and customary charges, which are reported as gross medical losses in the financial statements. The usual and customary charges are determined by applying a 28.5 percent discount to billed charges. Provider contributions represent the difference between the HIRSP-defined usual and customary charges and reimbursed or allowed amounts, which are primarily based on Medicaid reimbursement rates plus an add-on percentage.

Although management believes the results of the estimates for provider contributions are materially correct, uncertainties inherent in estimates may potentially result in actual provider contributions that exceed or are less than the amounts estimated.

Effective January 1, 2008, the HIRSP Authority adopted a fee schedule to serve as the usual and customary rates. This schedule is based on an actuarial analysis of HIRSP claim experience and on analysis of generalized medical payment billing and payment practices in the health care industry. For most health care services, the current discount factor applied to the HIRSP Authority's fee schedule rates to derive the HIRSP-allowed or reimbursed amount is 29.0 percent.

10. FEDERAL GRANT REVENUE

In certain years, the federal government has appropriated monies for federal grants that are awarded for the purpose of providing funds to states' risk-sharing insurance plans. The grants are awarded by the Centers for Medicare and Medicaid Services (CMS). HIRSP was awarded \$4,422,935 in CMS federal grant funds in September 2006.

Pursuant to s. 149.143, Wis. Stats., the Authority "shall pay for premium, deductible, and copayment subsidies in a policy year first from federal funds, if any." Any grant fund receipts in excess of policyholder subsidy costs are applied to offset operations losses, per the grant agreement. Consequently, the federal grant funds of \$4,422,935 were applied to partially offset premium subsidy funding that was required for the period July 1, 2006, through June 30, 2007, and equaled 86.4 percent of the premium subsidies that were allowed during that period. The HIRSP Authority applied \$2,333,710 of the

federal grant funds to offset policyholder subsidy costs in the six-month period ended December 31, 2006, and \$2,089,225 in the six-month period ended June 30, 2007.

11. PENSION BENEFITS

During the six-month period ended December 31, 2006, HIRSP Authority employees participated in a Section 457 deferred compensation plan. The employer contributions to the plan were up to 3.0 percent of the employee’s gross salary. In addition, the HIRSP Authority contributed up to 2.0 percent of the employee’s gross salary to an Individual Retirement Account (IRA) for each of the HIRSP Authority employees.

12. CAPITAL ASSETS

The HIRSP Authority purchased office equipment and furniture during the six-month period ended December 31, 2006. These items are included in other assets on the Balance Sheet; 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	\$ 0	\$15,539	\$ 0	\$15,539
Less Accumulated Depreciation for:				
Equipment	<u>0</u>	<u>(243)</u>	<u>0</u>	<u>(243)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 0</u>	<u>\$15,296</u>	<u>0</u>	<u>\$15,296</u>

13. SUBSEQUENT EVENTS

Effective January 1, 2008, the HIRSP Authority instituted numerous changes to the risk-sharing plan. Changes in the benefit plan design included the addition of two new indemnity benefit plans: a \$3,500 deductible health savings account qualified plan, and a \$5,000 deductible health care benefit plan. Modifications to the plan design include applicability of low-income subsidies to all of the indemnity insurance benefit plans, modification of the drug benefit plan design to a tiered copayment plan, and an increase in the maximum out-of-pocket limitation for prescription drug benefits. Significant changes were made in the provider contribution methodology, including the adoption of a HIRSP Authority fee schedule for health care services.



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 six-month period ended December 31, 2006, and have issued our report thereon dated October 14, 2008. We conducted our audit 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 audit, we considered the HIRSP Authority's internal control over financial reporting 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the HIRSP Authority's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A *significant*

deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.


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

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*.

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, upon submission to the Joint Legislative Audit Committee, 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 over financial reporting or on compliance, this report is not intended to be used by anyone other than these specified parties.

October 14, 2008

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 are applicable to the HIRSP Authority's major federal program for the six-month period ended December 31, 2006. 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 programs 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, and which 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 preceding paragraphs that are applicable to its major federal program for the six-month period ended December 31, 2006.

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 a 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 control deficiency in an entity's 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the 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 that might be 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, upon submission to the Joint Legislative Audit Committee, 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.

LEGISLATIVE AUDIT BUREAU

by 
Diann Allsen
Audit Director

October 14, 2008

Schedule of Expenditures of Federal Awards ■

**Schedule of Expenditures for Federal Awards
for the Six-Month Period Ended December 31, 2006**

FEDERAL GRANTOR/Pass-Through Grantor/Program Title	CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES— Centers for Medicare and Medicaid Services		
Pass-through from the Wisconsin Office of the Commissioner of Insurance		
<i>Grants to States for Operation of Qualified High Risk Pools</i>	93.780	<u>\$2,333,710</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u><u>\$2,333,710</u></u>

The accompanying notes are an integral part of this schedule.

Notes to the Schedule of Expenditures for Federal Awards ■

1. PURPOSE

The Schedule of Expenditures for Federal Awards includes the federal grant activity of the Wisconsin Health Insurance Risk-Sharing Plan (HIRSP) Authority for the six-month period ended December 31, 2006. Grants to States for Operation of Qualified High Risk Pools is a major federal program that was tested for compliance with federal requirements for the six-month period ended December 31, 2006.

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 positions 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. CHANGE IN FISCAL PERIOD

HIRSP financial information was previously reported on a state fiscal year basis through the fiscal year ended June 30, 2006. The HIRSP Authority used a calendar year basis for financial reporting beginning with calendar year 2007. This single audit report represents the interim six-month period ended December 31, 2006. A separate single audit report for 2007 has been issued concurrently.

4. 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 the six-month period ended December 31, 2006.

■ ■ ■ ■

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 the six-month period ended December 31, 2006:

Financial Statements

Type of auditor's report issued	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
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 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. No financial statement findings are reported for the six-month period ended December 31, 2006.

Section III

Federal Award Findings and Questioned Costs for the Six-Month Period Ended December 31, 2006

No federal award findings or questioned costs are reported for the six-month period ended December 31, 2006.

Federal Award Findings and Questioned Costs for Prior Periods

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