

**Report 15-7
June 2015**

Health Insurance Risk-Sharing Plan

STATE OF WISCONSIN



Legislative Audit Bureau ■

Health Insurance Risk-Sharing Plan

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Joe Chrisman
State Auditor

June 26, 2015

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

Dear Senator Cowles and Representative Kerkman:

As required by nonstatutory provisions in 2013 Wisconsin Act 116, we have completed a final financial audit of the Wisconsin Health Insurance Risk-Sharing Plan (HIRSP). The HIRSP Authority was created, in part, to administer medical and prescription drug insurance for individuals who could not obtain coverage in the commercial health insurance market because of high costs or adverse health circumstances. As a result of implementation of the federal Affordable Care Act, provisions were included in 2013 Wisconsin Acts 20 and 116 to end HIRSP insurance coverage on March 31, 2014. Act 116 also set February 28, 2014, as the date the HIRSP Authority's administrative responsibilities would be transferred to the Office of the Commissioner of Insurance (OCI) to oversee HIRSP's final operations and close out.

We have provided an unmodified opinion on the HIRSP Authority's financial statements for the two-month period ended February 28, 2014. We reviewed the close out of the financial activity of the HIRSP plans through May 31, 2015. We found that OCI distributed the remaining cash balance to the three funding parties in accordance with its plan submitted to the Joint Committee on Finance in August 2014. A total of \$5.2 million was distributed through premium refunds to policyholders; \$1.2 million was contributed on behalf of providers to the Wisconsin Hospital Association Foundation, Inc., to support initiatives of the Wisconsin Council on Medical Education and Workforce; and \$1.0 million was distributed to insurers through assessment refunds.

Because OCI received drug rebates that were larger than expected in May 2015, a total of \$1.4 million remained in state accounts as of May 31, 2015. We recommend OCI return any required funds to the federal government and work with the HIRSP Advisory Committee to determine appropriate actions related to the remaining cash balance.

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

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Joe Chrisman".

Joe Chrisman
State Auditor

JC/BN/ss

Introduction ■

The Wisconsin Health Insurance Risk-Sharing Plan (HIRSP) was created to provide medical and prescription drug insurance for individuals who could not obtain coverage in the commercial health insurance market because of high costs or adverse health circumstances. HIRSP also was designated as Wisconsin’s plan to meet federal Health Insurance Portability and Accountability Act (HIPAA) requirements by making health insurance available to individuals who lost employer-sponsored group health insurance and met other specified criteria.

The HIRSP Authority was created in 2006. The HIRSP Authority’s governing Board of Directors consisted 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 served as a nonvoting member. The HIRSP Authority employed four staff and contracted with Wisconsin Physicians Service Insurance Corporation, located in Madison, to function as the plan administrator, and with MedTrak Services, LLC located in Overland Park, Kansas, to function as the pharmacy benefit manager.

In accordance with statutes, the HIRSP Authority designed the state-based insurance plan known as the HIRSP Plan to generally reflect and be commensurate with comprehensive health insurance coverage offered in the private individual health insurance market in Wisconsin. Since 2010, as a provision of the federal Patient Protection and Affordable Care Act and under contract with the U.S. Department of Health and Human Services, the

HIRSP Authority also operated a temporary federal high-risk pool, which was known as the HIRSP Federal Plan.

Effective January 1, 2014, HIRSP policyholders could obtain health insurance through the commercial insurance market.

Implementation of the Affordable Care Act reduced the continued need for high-risk pools, such as the state-based HIRSP Plan administered by the HIRSP Authority. Effective January 1, 2014, HIRSP policyholders could obtain insurance through the commercial insurance market because health care insurers are now prohibited from denying insurance coverage because of an individual's pre-existing condition, charging premiums based on health status, and applying annual benefit limits. In addition, health insurance exchanges have been established to assist individuals in buying insurance.

Coverage under the state-based HIRSP Plan and HIRSP Federal Plan was offered through March 31, 2014.

In anticipation of these changes, 2013 Wisconsin Act 20, the 2013-15 Biennial Budget Act, included provisions to end HIRSP insurance coverage as of December 31, 2013. Although the exchanges were operational, there were some initial concerns as to whether individuals could readily obtain insurance through the exchanges, and 2013 Wisconsin Act 116 was enacted in December 2013 to extend coverage under the state-based HIRSP Plan through March 31, 2014. As permitted by Act 116, the HIRSP Authority also signed two contract amendments with the U.S. Department of Health and Human Services to administer the HIRSP Federal Plan through March 31, 2014. Act 116 also set February 28, 2014, as the date the HIRSP Authority's administrative responsibilities would be transferred to the Office of the Commissioner of Insurance (OCI).

As required by nonstatutory provisions included in SECTION 28 of 2013 Wisconsin Act 116, and as requested by the former HIRSP Authority and current OCI staff to meet requirements included in the contract with the U.S. Department of Health and Human Services, we completed a financial audit of the HIRSP Authority for the two-month period from January 1, 2014, through February 28, 2014. We reviewed the HIRSP Authority's internal controls, assessed the fair presentation of its financial statements, and reviewed compliance with selected federal requirements and state statutory provisions. In addition, we reviewed OCI's administration of the close out of HIRSP's financial activity, covering the period from March 1, 2014, through May 31, 2015. A federal compliance audit for the HIRSP Authority was not required for 2014 because the Authority did not receive any federal grant funds during the period from January 1, 2014, through February 28, 2014. After the transfer to OCI, the State applied for and received a federal grant for \$899,600, which will be part of the State of Wisconsin's single audit for fiscal year 2014-15.

State-Based HIRSP Plan

Policyholders in the state-based HIRSP Plan were required to be Wisconsin residents who were not eligible for employer-sponsored group health insurance or most programs covered under Medical Assistance, and who met specified criteria based on their medical conditions or loss of employer-sponsored group health insurance.

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

The state-based HIRSP Plan was funded primarily through policyholder premiums, reduced payments to health care providers for their services, and financial assessments on health insurance companies that did business in Wisconsin. None of the funding was from state general purpose revenue. Statutes required policyholder premiums to fund 60 percent of estimated operating and administrative costs of the state-based HIRSP Plan. The remaining 40 percent of costs were to be funded equally by health care providers and insurers who also were equally responsible for the premium, deductible, and drug coinsurance subsidies not funded by federal grants.

Through March 31, 2014, only 5,872 policyholders maintained coverage in the state-based HIRSP Plan.

As of December 31, 2013, the state-based HIRSP Plan had 21,418 enrolled policyholders. The HIRSP Authority originally anticipated that the majority of policyholders would maintain coverage for the extension period from January 1, 2014, through March 31, 2014. However, only 6,873 policyholders maintained coverage as of January 1, 2014, and only 5,872 policyholders continued coverage through March 31, 2014.

HIRSP Federal Plan

The federal Affordable Care Act allocated each state a portion of \$5.0 billion in federal funding for the federal temporary high-risk pool program. In July 2010, the U.S. Department of Health and Human Services contracted with the HIRSP Authority to administer the program in Wisconsin. The HIRSP Authority administered the HIRSP Federal Plan separately from the state-based HIRSP Plan. Although medical and drug benefits were comparable, the federal and state plans had different eligibility requirements; premium levels; and deductible, coinsurance, and maximum out-of-pocket cost levels.

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

Through March 31, 2014, only 546 policyholders maintained coverage in the HIRSP Federal Plan.

As of December 31, 2013, the HIRSP Federal Plan had 1,935 enrolled policyholders. Like the state-based HIRSP plan, the HIRSP Authority originally anticipated that the majority of HIRSP Federal Plan policyholders would maintain coverage for the extension period from January 1, 2014, through March 31, 2014. However, only 706 policyholders maintained coverage as of January 1, 2014, and only 546 policyholders continued coverage through March 31, 2014.

Close Out of HIRSP

HIRSP Authority's administrative responsibilities transferred to OCI on February 28, 2014.

As required by 2013 Wisconsin Act 116, the HIRSP Authority's administrative responsibilities, as well as all of the Authority's assets and liabilities, were transferred to OCI on February 28, 2014. Therefore, as noted, our financial audit of the HIRSP Authority was for the period from January 1, 2014, through February 28, 2014. We provide an unmodified opinion on the HIRSP Authority's financial statements. In addition, we did not identify any internal control or compliance concerns for the HIRSP Authority.

Upon transfer, OCI was responsible for the administration of the state-based HIRSP Plan and the HIRSP Federal Plan for the coverage period from March 1, 2014, through March 31, 2014, as well as the subsequent close out of the plans. As required by Acts 20 and 116, the HIRSP Advisory Committee, which consists of the former board members, was created on March 1, 2014, to "advise and assist" OCI with the close out of the insurance plans and subsequent dissolution of the HIRSP Authority.

In report 14-7, we noted that OCI had not made the necessary arrangements to record the HIRSP-related financial activity in the two appropriations created by 2013 Wisconsin Act 20 for the close out. Although the financial activity is currently being recorded on the State's central accounting system, we found that OCI, working with the State Controller's Office in the Department of Administration, is recording the activity in only one appropriation instead of the two appropriations required by Act 20. Since completion of the close out of the HIRSP plans is imminent, we make no recommendation related to this matter.

After insurance coverage ended as of March 31, 2014, OCI administered the close out of the plans, including making final claims payments. Act 116 set June 1, 2014, as the deadline for providers and pharmacies to submit medical and prescription drug claims for payment. Act 116 also set dates by which grievances and appeals on denied claims had to be made. Based on these dates, OCI anticipated that September 30, 2014, would be the last date that claims could be paid.

Subsequent to the transfer from the HIRSP Authority, OCI applied for and received a federal grant, in the amount of \$899,600, based on prior operational losses in the state-based HIRSP Plan. In December 2014, OCI accounted for the federal grant funds in one of the newly created appropriations instead of in a federal appropriation, as required by statute. Since completion of the close out of the state-based HIRSP Plan is imminent, we make no recommendation related to this matter.

Table 1 includes OCI's operational cash receipts and disbursements related to the state-based HIRSP Plan and HIRSP Federal Plan from March 1, 2014, through December 31, 2014.

Table 1

Office of the Commissioner of Insurance
Operational Cash Receipts and Disbursements—HIRSP Plans
 From March 1, 2014, through December 31, 2014

	State-Based HIRSP Plan	HIRSP Federal Plan
Cash Transferred from the HIRSP Authority	\$12,328,702	\$ 23,653
Cash Receipts:		
Premiums	727,002	94,264
Insurer Assessments	124,108	–
Federal Contract	–	861,818
Federal Grant	899,613	–
Claims Recovered	1,358,483	175,596
Drug Rebates	2,958,614	228,399
Investment Income	1,121	22
Miscellaneous Receipts	2,740	–
Total Cash Receipts	6,071,681	1,360,099
Cash Disbursements:		
Medical Claims	6,675,426	699,053
Pharmacy Claims	2,346,318	289,466
Administrative Charges	1,733,371 ¹	309,440
Premium Refunds	128,079	17,341
Total Cash Disbursements	10,883,194	1,315,300
Remaining Cash Balance Before Final Distribution	\$ 7,517,189	\$ 68,452

¹ This amount is net of administrative charges paid for and later reimbursed by the HIRSP Federal Plan.

OCI submitted a report to the Joint Committee on Finance on the proposed distribution of the remaining cash balance of the state-based HIRSP Plan to the three primary funding parties.

As required by 2013 Wisconsin Act 116, OCI submitted a report on August 22, 2014, to the Joint Committee on Finance on the operation of HIRSP, including the proposed distribution of the remaining cash balance of the state-based HIRSP Plan to the three primary funding parties. The proposed distribution followed recommendations made by the HIRSP Authority Board in October 2013. The report included distribution amounts that were estimated using the most current financial information available at the time. When the actual distributions were made, updated financial information was used and, therefore, the actual amounts distributed differed from the estimated amounts. As shown in Table 2, the final distribution to the three primary funding parties was as follows:

- The policyholders' share of the remaining cash balance was distributed through a "premium refund." In order to qualify, policyholders must have paid at least 12 months of premiums and had coverage as of December 31, 2013. On September 25, 2014, \$5,179,946 was distributed to 17,455 policyholders in equal amounts of \$296.76.
- The providers, which funded the state-based HIRSP Plan through reductions in the amounts they were paid for services to HIRSP policyholders, received a reduction in this discount for medical claims paid in the later part of 2013 and first quarter of 2014. In effect, providers were paid more for their services, which reduced their contribution to the state-based HIRSP Plan's net position. Based on the proposed distribution, the providers' share of the remaining cash balance was to be donated to the Wisconsin Hospital Association Foundation to support initiatives of the Wisconsin Council on Medical Education and Workforce. On November 5, 2014, and December 30, 2014, \$500,000 and \$666,917, respectively, were donated.
- The insurers' share of the remaining cash balance was distributed through an assessment refund. The refund was allocated on the same basis that was used to calculate the assessments for 2013. The minimum threshold for an individual refund was \$100. On December 10, 2014, a total of \$1,002,029 was distributed to 136 insurers.

Table 2

Final Cash Distribution
State-Based HIRSP Plan

	Amount
Remaining Cash Balance Before Final Distribution	\$7,517,189
Final Cash Distribution:	
Policyholders	5,179,946
Providers	1,166,917
Insurers	1,002,029
Total Distribution	7,348,892
Undistributed Cash as of December 31, 2014	\$ 168,297

As noted in OCI's August 22, 2014 report to the Joint Committee on Finance, some HIRSP-related financial activity was expected to occur after the final cash distributions were determined. As of December 31, 2014, there was an undistributed cash balance of \$168,297 for the state-based HIRSP Plan. In addition, there was a remaining cash balance for the HIRSP Federal Plan of \$68,452 as of December 31, 2014. Combined, the remaining cash balance for the HIRSP plans totaled \$236,749 as of December 31, 2014.

On May 7, 2015, OCI received HIRSP-related drug rebates of \$1.1 million.

Receipts and disbursements from January 1, 2015, through May 31, 2015, included \$127,210 in claims recovered, \$5,775 in miscellaneous receipts, and \$84,968 in administrative charges. In addition, on May 7, 2015, OCI received final drug rebates in the amount of \$1,114,002, which was larger than expected. As of May 31, 2015, the remaining cash balance for the HIRSP plans was \$1,398,768.

In 2015, OCI did not separately account for the state-based HIRSP Plan and HIRSP Federal Plan.

The remaining cash balance causes two concerns. First, OCI did not separately account for the 2015 receipts and disbursements between the state-based HIRSP Plan and the HIRSP Federal Plan. Based on the contract with the U.S. Department of Health and Human Services, any balance remaining related to the HIRSP Federal Plan would be considered excess federal funding, and must be returned to the federal government.

Second, the Commissioner of Insurance is required by statute to distribute the remaining cash balance related to the state-based HIRSP Plan. As noted, the HIRSP Advisory Committee is required to "advise and assist" OCI with the close out. Under

SECTION 9122 of Act 20, the HIRSP Advisory Committee will terminate on August 25, 2015, which is 60 days after the date of issuance of this audit report. Therefore, because the amount of drug rebates received on May 7, 2015, was larger than expected, it is appropriate for the HIRSP Advisory Committee to advise OCI before the Committee's termination on appropriate actions related to the remaining cash balance for the state-based HIRSP Plan.

☑ Recommendation

We recommend that the Office of the Commissioner of Insurance:

- *account separately by plan for the 2015 receipts and disbursements, and return any remaining balances for the HIRSP Federal Plan to the U.S. Department of Health and Human Services by September 30, 2015;*
- *work with the Health Insurance Risk-Sharing Plan Advisory Committee to determine by August 25, 2015, appropriate actions related to the remaining cash balance for the state-based Health Insurance Risk-Sharing Plan; and*
- *report to the Joint Legislative Audit Committee by October 15, 2015, on the amounts returned to the federal government and the actions taken related to the remaining cash balance for the state-based Health Insurance Risk-Sharing Plan.*

It is possible that additional but limited activity may still occur related to the HIRSP plans, including subrogation lawsuit settlements and awards, and receipt of claims or provider recovery payments. Any receipts related to the state-based HIRSP Plan should be deposited to the appropriations established to account for the close out of HIRSP. In the event the appropriations created to account for the close out of HIRSP are repealed, any remaining balance would lapse to the General Fund, unless otherwise directed by law. However, any receipts related to the HIRSP Federal Plan should be remitted promptly by OCI to the federal government.

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Audit Opinion ■



Independent Auditor's Report on the Financial Statements and Other Reporting Required by *Government Auditing Standards*

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee

Mr. Theodore K. Nickel, Commissioner
Office of the Commissioner of Insurance

Report on the Financial Statements

We have audited the accompanying financial statements and the related notes of the Wisconsin Health Insurance Risk-Sharing Plan (HIRSP) Authority's state-based HIRSP Plan and the HIRSP Federal Plan as of and for the two-month period ended February 28, 2014, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management, which includes the Office of the Commissioner of Insurance (OCI) and the HIRSP Authority, prior to the transfer of administrative responsibilities to OCI, was responsible for processing accounting transactions and the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This included the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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*, which is 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on these financial statements.

Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the state-based HIRSP Plan and the HIRSP Federal Plan as of February 28, 2014, and the respective changes in its financial position and its cash flows thereof for the two-month period then ended in accordance with accounting principles generally accepted in the United States of America.

Emphases of Matter

As discussed in Note 1 to the financial statements, 2013 Wisconsin Act 20 and 2013 Wisconsin Act 116 extended coverage under the state-based HIRSP Plan through March 31, 2014. In addition, the HIRSP Authority signed contract amendments to extend coverage under the HIRSP Federal Plan through the same date. Act 116 also transferred all assets, liabilities, and contract agreements, as well as the HIRSP Authority's administrative responsibilities, to the Office of the Commissioner of Insurance (OCI) on February 28, 2014. As a result, the HIRSP Authority is not considered a going concern. Management's plans in regard to these matters are described in Note 1. Our opinions are not modified with respect to this matter.

The financial statements reflect an extraordinary item, a transfer of \$7,659,779 from the HIRSP Authority to OCI, representing the net amount of the HIRSP Authority's assets and liabilities immediately before the transfer. The Statement of Net Position reports zero dollar amounts because, upon transfer to OCI, the assets and liabilities were no longer those of the HIRSP Authority. Note 3 summarizes the account balances immediately before the transfer to OCI. Our opinions are not modified with respect to this matter.

Other Matter

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 17 through 19 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be essential for placing the financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information that included inquiries of management about the methods of preparing the information. We further compared the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial

statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to do so.

Management has omitted the comparison to the previous year's financial statements in the Management's Discussion and Analysis because of the unique circumstances of the two-month audit period and the close out of HIRSP. Such missing information, although not part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinions are not modified with respect to this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated June 11, 2015, on our consideration of the HIRSP Authority's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, 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 the 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 used when considering the HIRSP Authority's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU



Joe Chrisman
State Auditor

June 11, 2015

Management's Discussion and Analysis ■

Prepared by the Office of the Commissioner of Insurance

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

This section provides the MD&A of the HIRSP Authority's financial statements for the two-month period ended February 28, 2014. To provide further insight in the MD&A, the HIRSP Federal Plan activity is broken out where appropriate. The financial statements are prepared in conformity with generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements report upon the financial position, changes in financial position, and cash flows of the HIRSP Authority and

include the accompanying notes. The financial statements, notes to the financial statements, and MD&A are the responsibility of management.

Financial Highlights

The HIRSP Authority's financial operations and financial position were affected by the enactment of 2013 Wisconsin Act 20 and 2013 Wisconsin Act 116, which ended coverage for HIRSP members after March 31, 2014, and ended coverage for HIRSP Federal members as of January 1, 2014, or a later date under specified conditions. Those conditions were met and HIRSP federal coverage also ended after March 31, 2014. The HIRSP Authority closed its offices on February 28, 2014. Since that time, the Wisconsin Office of the Commissioner of Insurance (OCI) administered the "wind down" of plan activities. Please see Note 1A in the Notes to the Financial Statements for more details of the impact of this legislation and Note 3 for information regarding the transfer of assets and liabilities to OCI.

Financial Position

Balance Sheet

No assets or liabilities existed for the Authority on February 28, 2014, as the assets and liabilities were transferred to OCI as part of the close out of the plan. The cash balances of \$12,328,702 and \$23,653 for the HIRSP Plan and HIRSP Federal Plan, respectively, were transferred to the OCI appropriation for the close out to pay for expenses related to coverage provided for March 2014, the payoff of existing liabilities, administrative costs, and the distribution of net position to the three stakeholder groups. The Commissioner of Insurance has discretion in distribution of any funds remaining for the HIRSP Plan. In the event the appropriations are repealed, any remaining balances will lapse to the General Fund of the State of Wisconsin. Any remaining HIRSP Federal Plan funds should be returned to the federal government.

Change in Financial Position

The Board approved a budget for 2014 that did not include assessment revenue from the insurance industry. Pursuant to 2013 Wisconsin Act 20 and 2013 Wisconsin Act 116, an assessment of insurers under s. 149.13, Wis. Stats., was to be determined prior to July 1, 2014, if necessary to cover in full the HIRSP Plan's expenses related to operations, winding up operations, and dissolution of the HIRSP Plan. The board opted not to make an assessment in January or February 2014. This resulted in a \$2.3 million loss from operations for the HIRSP Plan before the extraordinary item, which was a transfer to OCI. On February 28, 2014, all assets and liabilities were transferred to OCI, for a net amount of \$7.7 million, resulting in a net position of zero.

Table A

Condensed Financial Information
January 1, 2014, through February 28, 2014

	HIRSP Plan	HIRSP Federal Plan
Total Operating Revenues	\$ 4,856,618	\$999,640
Total Operating Expenses	7,169,229	999,640
Operating Income (Loss)	(2,312,611)	0
Total Nonoperating Income (Loss)	4,578	0
Income (Loss) Before Extraordinary Item	(2,308,033)	0
Extraordinary Item—Transfer to OCI	(7,659,779)	0
Change in Net Position	\$(9,967,812)	\$ 0

HIRSP Authority Contact Information

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

Wisconsin Office of the Commissioner of Insurance
125 South Webster Street
Madison, Wisconsin 53703-3474
Phone: (608) 226-3585



Financial Statements ■

Statement of Net Position February 28, 2014

	<u>HIRSP</u>	<u>HIRSP Federal</u>	<u>Total HIRSP and HIRSP Federal</u>
ASSETS			
Assets:			
Cash and Cash Equivalents (Note 4)	\$ 0	\$ 0	\$ 0
Drug Rebates Receivable (Note 5)	0	0	0
Premiums Receivable (Note 5)	0	0	0
Claims Recoverable (Note 5)	0	0	0
Assessments Receivable (Note 5)	0	0	0
Interfund Receivable (Payable)	0	0	0
Prepaid Items	0	0	0
Federal Contract Revenue Receivable (Note 6)	0	0	0
TOTAL ASSETS	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
LIABILITIES AND NET POSITION			
Liabilities:			
Unpaid Medical Loss Liabilities (Note 7)	\$ 0	\$ 0	\$ 0
Unpaid Pharmacy Loss Liabilities (Note 7)	0	0	0
Unpaid Loss Adjustment Expenses (Note 7)	0	0	0
Unearned Premiums (Note 2C)	0	0	0
Payments to Providers (Note 5)	0	0	0
Accounts Payable and Accrued Administrative Expenses	0	0	0
Total Liabilities	<u>0</u>	<u>0</u>	<u>0</u>
Net Position:			
Unrestricted	<u>0</u>	<u>0</u>	<u>0</u>
Total Net Position	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

On February 28, 2013, all assets and liabilities were transferred from the HIRSP Authority to the Office of the Commissioner of Insurance. Please see Note 3 for additional information.

Statement of Revenues, Expenses, and Changes in Net Position for the Two-Month Period Ended February 28, 2014

	<u>HIRSP</u>	<u>HIRSP Federal</u>	<u>Total HIRSP and HIRSP Federal</u>
OPERATING REVENUES			
Premiums (Note 2C)	\$ 4,856,618	\$ 346,136	\$ 5,202,754
Federal Contract Revenue (Notes 2C and 6)	0	653,504	653,504
Total Operating Revenues	4,856,618	999,640	5,856,258
OPERATING EXPENSES			
Losses:			
Gross Medical Losses	18,820,512	1,841,499	20,662,011
Provider Contributions (Note 9)	(1,041,664)	0	(1,041,664)
Increase (Decrease) in Unpaid Medical Losses (Note 7)	(15,435,506)	(1,491,190)	(16,926,696)
Total Medical Losses	2,343,342	350,309	2,693,651
Gross Pharmacy Losses	4,370,638	492,706	4,863,344
Increase (Decrease) in Unpaid Pharmacy Losses (Note 7)	(640,029)	(51,392)	(691,421)
Total Pharmacy Losses	3,730,609	441,314	4,171,923
Total Losses	6,073,951	791,623	6,865,574
General and Administrative Expenses (Note 10)	1,094,678	208,017	1,302,695
Referral Fees (Note 2C)	600	0	600
Total Operating Expenses	7,169,229	999,640	8,168,869
OPERATING INCOME	(2,312,611)	0	(2,312,611)
NONOPERATING REVENUES AND EXPENSES			
Investment Income	1,867	0	1,867
Miscellaneous Income (Expense)	2,711	0	2,711
Total Nonoperating Income (Loss)	4,578	0	4,578
EXTRAORDINARY ITEM			
Net Position transferred to OCI (Note 3)	(7,659,779)	0	(7,659,779)
CHANGE IN NET POSITION	(9,967,812)	0	(9,967,812)
NET POSITION			
Total Net Position—Beginning of the Year	9,967,812	0	9,967,812
Total Net Position—February 28, 2014	\$ 0	\$ 0	\$ 0

Statement of Cash Flows for the Two-Month Period Ended February 28, 2014

	<u>HIRSP</u>	<u>HIRSP Federal</u>	<u>Total HIRSP and HIRSP Federal</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received for Premiums	\$ 5,427,384	\$ 437,022	\$ 5,864,406
Cash Received for Federal Contract	0	2,435,970	2,435,970
Cash Payments for Miscellaneous Expense	2,711	0	2,711
Cash Payments for Medical Losses	(14,410,067)	(1,917,034)	(16,327,101)
Cash Payments for Pharmacy Losses	(5,287,708)	(566,509)	(5,854,217)
Cash Payments for Other Expenses	(1,699,949)	(376,192)	(2,076,141)
Net Cash Provided (Used) by Operating Activities	<u>(15,967,629)</u>	<u>13,257</u>	<u>(15,954,372)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Sale of Capital Assets	38,421	0	38,421
Net Cash Provided by Capital and Related Financing Activities	<u>38,421</u>	<u>0</u>	<u>38,421</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Income	1,867	0	1,867
Net Cash Provided by Investing Activities	<u>1,867</u>	<u>0</u>	<u>1,867</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfer to OCI	(12,328,702)	(23,653)	(12,352,355)
Net Cash Used by Noncapital Financing Activities	<u>(12,328,702)</u>	<u>(23,653)</u>	<u>(12,352,355)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(28,256,043)</u>	<u>(10,396)</u>	<u>(28,266,439)</u>
Cash and Cash Equivalents, Beginning of Year	28,256,043	10,396	28,266,439
Cash and Cash Equivalents, February 28, 2014	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Net Operating Income (Loss)	\$ (2,312,611)	\$ 0	\$ (2,312,611)
Adjustments to Reconcile Net Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	47	0	47
Miscellaneous Expense Reported as Nonoperating Expense	2,711	0	2,711
Changes in Assets and Liabilities:			
Decrease (Increase) in Receivables	550,882	1,663,049	2,213,931
Decrease (Increase) in Prepaids	24,863	0	24,863
Increase (Decrease) in Medical Loss Liabilities	(11,525,546)	(1,491,190)	(13,016,736)
Increase (Decrease) in Pharmacy Loss Liabilities	(640,029)	(51,392)	(691,421)
Increase (Decrease) in Unpaid Loss Adjustment Expenses	(532,000)	(51,000)	(583,000)
Increase (Decrease) in Unearned Premiums	407,203	53,710	460,913
Increase (Decrease) in Liability for Payments to Providers	(1,678,013)	(111,764)	(1,789,777)
Increase (Decrease) in Accounts Payable and Accrued Administrative Expenses	(265,136)	1,844	(263,292)
Total Adjustments	<u>(13,655,018)</u>	<u>13,257</u>	<u>(13,641,761)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (15,967,629)</u>	<u>\$ 13,257</u>	<u>\$ (15,954,372)</u>

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements ■

1. DESCRIPTION OF THE HEALTH INSURANCE RISK-SHARING PLAN AUTHORITY

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

The HIRSP Authority derived all funding for HIRSP Plan costs and policyholder subsidy costs through a funding formula that was prescribed by Wisconsin Statutes. Insurance policy premiums paid by policyholders

funded 60 percent of plan costs. Discounts on payments to health care providers for health care services rendered to HIRSP policyholders and assessments levied on insurance companies that wrote health insurance policies in Wisconsin each funded 20 percent of plan costs.

HIRSP policyholders who had annual incomes of \$33,999 or less were eligible for subsidized assistance for premium payments, health care deductible payments, and drug copayments. Premium subsidies were first funded by any available federal grant funds. The remaining premium subsidy costs, plus the deductible and drug copayment subsidy costs, were paid on an equal-share basis by the participating health care providers and the assessed insurance companies.

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

A. Going Concern Considerations and the Impact of Legislation Enacted in 2013

2013 Wisconsin Act 20 and 2013 Wisconsin Act 116 made a number of changes to Wisconsin law relating to the HIRSP Authority. The effect of these changes ended coverage for HIRSP members after March 31, 2014, and ended coverage for HIRSP Federal members after December 31, 2013, or a later date under specified conditions. These conditions were met and coverage for HIRSP Federal plan members also ended after March 31, 2014. Additionally, Act 20 repealed ch. 149, Wis. Stats., which created HIRSP and the HIRSP Authority, effective January 1, 2015.

There were agreements in place to ensure key personnel would remain with the Authority through February 2014, at which time the Wisconsin Office of the Commissioner of Insurance (OCI) administered the “wind down” of plan activities. There were also agreements in place to ensure that the vendors carried out their contractual duties during the wind down period. Due to the aforementioned funding structure of the Authority, there were no concerns that the financial obligations of the Authority would not be met and all recorded receivables were expected to be collected.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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 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.

B. 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 amounts reported in the financial statements. Actual results could differ from management's estimates. Estimates that are particularly susceptible to significant change are the unpaid loss liabilities as described in Notes 2C and 7, and the health care provider contributions as described in Note 9.

C. Accounting Policy

a) Operating Revenues and Operating Expenses

The HIRSP Authority's operating revenues and operating expenses arose from transactions that were directly related to ongoing indemnity health care insurance and services activities. On the financial statements for the HIRSP Plan, policyholder premiums, net of allowed policyholder premium subsidies, and insurer assessments are reported as an element of total operating revenues. Provider funding contributions, which were derived from discounted payments for provider services, are reported as a deduction from gross medical losses and, therefore, as a reduction of total operating expenses. For the HIRSP Federal Plan, policyholder premiums and federal contract revenue are reported as elements of total operating revenues.

b) Cash and Cash Equivalents

Cash and cash equivalents consisted of demand deposits maintained by the HIRSP Authority at a commercial bank. Refer to Note 4 for further information regarding cash deposits.

c) Premium Income Recognition

Premiums were recognized as earned in the period in which policyholders were entitled to receive services. For the HIRSP Plan, premiums are reported in the financial statements net of allowed premium subsidies. For both the HIRSP Plan and the HIRSP Federal Plan, the liability for unearned premiums, which was included in the account transfers to OCI (see Note 3), was established to properly recognize the liability for premiums that have been written but will be earned in subsequent accounting periods.

d) *Federal Contract Revenue Recognition*

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

e) *Policyholder, Health Care Provider, and Insurer Contributions*

The HIRSP Authority maintained records to separately account for each funding constituency's contributed funds and to ensure that HIRSP Plan program funding operated in conformity with the funding model mandated by Wisconsin Statutes. An annual operating budget based on an actuarial analysis of projected revenues and program costs determined contribution amounts required from policyholders, assessed insurers, and participating health care providers. Funding contributions, plan cost participation, and surplus or deficit net position of each of the three funding constituencies were separately accounted for in the HIRSP Authority's records.

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

f) *Unpaid Loss Liabilities*

Unpaid loss liabilities, which were included in the account transfers to OCI (see Note 3), consisted of health care claims incurred and reported but not paid prior to the close of the accounting period, plus estimates of claims incurred during the accounting period but not reported as of the financial statement date. The HIRSP Plan's unpaid loss liabilities were included in the financial statements net of estimated health care provider discounts. The HIRSP Plan's and the HIRSP Federal Plan's unpaid loss liabilities were 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 were estimated and accrued as unpaid loss adjustment expense liabilities.

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

g) *Referral Fees*

Through October 2011, insurance agents who assisted individuals with the HIRSP application process were paid a one-time nominal referral fee of \$40. Starting in November 2011, agents who completed the HIRSP training and certification process were paid a one-time fee of \$100 and all other agents were paid a one-time fee of \$40 per approved application. Referral fees represented the sole policy acquisition cost of the HIRSP Authority and were recorded as incurred.

3. EXTRAORDINARY ITEM—TRANSFER TO OCI

As required by 2013 Wisconsin Act 116, the HIRSP Authority’s administrative responsibilities were transferred to OCI on February 28, 2014. In addition, on that date all assets and liabilities were transferred to the State. The following amounts were transferred on February 28, 2014:

	<u>HIRSP</u>	<u>HIRSP Federal</u>
Assets:		
Cash and Cash Equivalents	\$12,328,702	\$ 23,653
Drug Rebates Receivable	2,651,456	172,528
Premiums Receivable	22,455	5,341
Claims Recoverable	678,921	125,215
Assessments Receivable	124,109	0
Interfund Receivable (Payable)	126,076	(126,076)
Prepaid Items	877	0
Federal Contract Revenue Receivable	<u>0</u>	<u>805,744</u>
Total Assets	15,932,596	1,006,405
Liabilities:		
Unpaid Medical Loss Liability	4,273,390	706,460
Unpaid Pharmacy Loss Liability	205,471	16,214
Unpaid Loss Adjustment Expense	244,000	28,000
Unearned Premiums	2,017,840	72,533
Payments to Providers	564,796	92,483
Accounts Payable and Accrued Administrative Expenses	<u>967,320</u>	<u>90,715</u>
Total Liabilities	<u>8,272,817</u>	<u>1,006,405</u>
Net Transfer	<u>\$7,659,779</u>	<u>\$ 0</u>

4. DEPOSITS AND INVESTMENTS

A. Deposits

The HIRSP Authority maintained bank accounts under a bank services contract at a financial institution. At the time of the transfer to OCI on February 28, 2014, \$12,830,206 and \$75,562, respectively of the HIRSP Plan's and HIRSP Federal Plan's cash and cash equivalents were deposited in the bank. Until the transfer, the entire cash deposit balance in excess of the Federal Deposit Insurance Corporation (FDIC) limit of \$250,000 was secured by an irrevocable, unconditional, and nontransferable letter of credit issued by the Federal Home Loan Bank of Cincinnati. The cash and cash equivalents deposited with the bank were greater than the amounts that transferred to OCI because of outstanding checks.

5. RECEIVABLES AND PAYABLES

Unless otherwise noted, receivable balances transferred to OCI on February 28, 2014, are expected to be collected. Management expects that all reported drug rebates will be received.

A liability balance labeled "Payments to Providers" was transferred to OCI on February 28, 2014. The 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 the HIRSP Authority payment had not yet been made.

6. FEDERAL CONTRACT REVENUE AND FEDERAL CONTRACT REVENUE RECEIVABLE

As of July 2, 2010, the HIRSP Authority entered into a contract with HHS to establish a temporary high-risk health insurance pool. Temporary risk pools were created under Section 1101 of Title I of the federal Patient Protection and Affordable Care Act of 2010. Under this contract, HHS was to reimburse the HIRSP Authority for all costs in excess of premiums for the temporary high-risk health insurance pool known as the HIRSP Federal Plan through May 31, 2013. For the period of June 1, 2013, through February 28, 2014, the HIRSP Authority entered into a fixed reimbursement contract, and HHS was to reimburse all costs in excess of premiums up to a capped amount specified in the contract. The operating revenue labeled "Federal Contract Revenue" represents the funding from HHS to support HIRSP Federal Plan costs. The receivable labeled "Federal Contract Revenue Receivable" that transferred to OCI on February 28, 2014, is for contract funds that were yet to be received for HIRSP Federal Plan costs.

7. LIABILITY FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The following is a reconciliation of changes in the combined unpaid liabilities for medical and pharmacy losses, together with unpaid loss adjustment expense liabilities for the first two months of 2014. These liabilities were transferred to OCI on February 28, 2014.

<u>HIRSP Plan</u>	<u>2014</u>
Balance—January 1, 2014	<u>\$17,420,436</u>
Incurring Claims:	
Provision for insured events of the current fiscal year	7,551,372
Changes in provision for insured events of prior fiscal years	<u>(1,043,446)</u>
Total Incurred	<u>6,507,925</u>
Payments:	
Claims attributable to insured events of the fiscal year	5,230,157
Claims attributable to insured events of prior fiscal years	<u>13,975,343</u>
Total Paid	<u>19,205,501</u>
Balance—February 28, 2014	<u>\$ 4,722,860</u>
<u>HIRSP Federal Plan</u>	<u>2014</u>
Balance—January 1, 2014	<u>\$2,344,256</u>
Incurring Claims:	
Provision for insured events of the current fiscal year	1,131,257
Changes in provision for insured events of prior fiscal years	<u>(379,712)</u>
Total Incurred	<u>751,545</u>
Payments:	
Claims attributable to insured events of the fiscal year	578,109
Claims attributable to insured events of prior fiscal years	<u>1,767,018</u>
Total Paid	<u>2,345,127</u>
Balance—February 28, 2014	<u>\$ 750,674</u>

8. PREMIUM, DEDUCTIBLE, AND DRUG COINSURANCE SUBSIDIES

Wisconsin Statutes required the HIRSP Authority Board of Directors to provide policyholders enrolled in the HIRSP Plan with low-income premium subsidies and deductible subsidies and permitted the Board to also offer them a subsidy for prescription drug expenses. Wisconsin Statutes authorized the Board to establish the amounts of the deductible and the prescription drug expense subsidies and, while minimum premium subsidy levels are defined in statute, the Board was allowed to establish more generous levels. The subsidies reduced the amounts that these policyholders were required to pay for premiums, health care deductibles, and prescription drug expenses. Policyholders enrolled in the HIRSP Federal Plan were not eligible for these subsidies.

During 2014, the HIRSP Plan policyholders whose annual household incomes did not exceed \$33,999 were eligible for various premium, deductible, and drug coinsurance subsidies. The 2014 subsidies available to HIRSP policyholders in each of seven 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, 7,500	15%–43%	\$150–\$750	\$425–\$1,500
HIRSP HSA 2,500, 3,500	15%–43%	\$150–\$750	Not Applicable ¹
Medicare Supplement	10%–35%	Not Applicable ²	\$150–\$750

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

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

As of February 28, 2014, 33.1 percent of HIRSP policyholders were approved for premium, deductible, and/or drug expense subsidies. The cost of the subsidies totaled \$668,026 through February 2014. The following table summarizes the amounts provided for each subsidy type during the two-month period ended February 28, 2014.

<u>Subsidy Type</u>	<u>2014</u>
Premium	\$557,806
Deductible	108,774
Out-of-Pocket Drug Expense	<u>1,446</u>
Total	<u>\$668,026</u>

9. HEALTH CARE PROVIDER CONTRIBUTIONS

Wisconsin Statutes required that 20 percent of the HIRSP Plan costs be funded by health care providers. In addition, 50 percent of the plan subsidies not covered by federal grant funds were required to be funded by health care providers. Under HIRSP practice, only non-pharmacy providers funded the provider contributions. Provider contributions were not a source of revenue but represented 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 were obtained by reducing the usual and customary rates established by the HIRSP Authority before paying participating providers for approved services.

Effective January 1, 2008, the HIRSP Authority adopted a fee schedule to establish its usual and customary rates. The fee schedule was reviewed and updated if necessary on an annual basis. For most health care services, a discount factor of 22.8 percent was applied to the HIRSP Authority's 2014 fee schedule rates to derive the HIRSP-allowed amount and to spend down provider reserves.

The provider contribution was not required for the HIRSP Federal Plan, which reimburses providers using rates based on the Medicaid fee schedule. These rates were increased to 191 percent of Medicaid rates in 2013.

10. GENERAL AND ADMINISTRATIVE EXPENSES

Through February 28, 2014, HIRSP Authority indemnity insurance operations were performed by HIRSP Authority staff and a third-party plan administrator under an administrative services agreement with Wisconsin Physicians Service Insurance Corporation (WPS).

Services provided under the administrative services agreement in 2014 included policyholder and provider services, claims and systems administration, medical management, data collection and reporting, subrogation, coordination of benefits, and disaster recovery.

The HIRSP Authority had a contract with MedTrak Services, LLC for pharmacy benefit management services and Milliman, Inc., for actuarial services.

Under its contract with HHS, the HIRSP Authority allocated staff costs and other administrative costs of the HIRSP Authority based on the proportion of staff time spent on activities related to the HIRSP Federal Plan.

On February 28, 2014, all contracts transferred to OCI.

11. LEASES

A. Operating Leases

The HIRSP Authority entered into a lease for administrative office space for a term of five years and three months. The lease term commenced on September 27, 2012, and under normal circumstances would have terminated on December 31, 2017. However, the HIRSP Authority's office space lease agreement included a clause that allowed termination of the lease without penalty if legislation was passed that eliminated or significantly reduced the size or activities of the HIRSP Authority. As a result of the transfer to OCI, the lease terminated as of February 28, 2014. Office lease rental payments charged to expenses were \$10,057 for 2014.

The HIRSP Authority had entered into an equipment operating lease for office copier equipment. The lease had a term of 36 months and commenced on January 9, 2012. This was a non-cancelable lease and, as a result of the transfer to OCI, the HIRSP Authority was required to buy out the lease. The equipment lease rental and buyout payments totaled \$5,477 for 2014.

12. PENSION BENEFITS

During 2014, eligible HIRSP Authority employees participated in the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit plan governed by ch. 40, Wis. Stats. Under the WRS, employees are entitled to an annual formula retirement benefit based on: 1) the employee's final average earnings; 2) years of creditable service; and 3) a formula factor. If an employee's contributions, matching employer's contributions, and interest credited to the employee's account exceed the value of the formula benefit, the retirement benefit may instead be calculated as a money purchase benefit. Copies of the separately issued financial report that includes financial statements and required supplementary information of the WRS are available on the Department of Employee Trust Funds' website, <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. Employee and employer contributions totaled 14.0 percent of employees' gross salaries for 2014. The relative position of the HIRSP Authority in the WRS is not available because the WRS is a statewide, multi-employer plan.

13. TERMINATION BENEFITS

The HIRSP Authority entered into agreements to ensure its four key personnel remained with the Authority until February 28, 2014, after which OCI began overseeing the “wind down” of plan activities. The termination benefits related to these agreements included severance, retention bonuses, and partial payment of COBRA premiums. The cost of the termination benefits and the related taxes was \$420,221, of which, \$356,856 was expensed in 2013, with the remaining \$63,365 expensed in 2014.

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Auditor's Report ■



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee

Mr. Theodore K. Nickel, Commissioner
Office of the Commissioner of Insurance

We have audited the financial statements and the related notes of the Wisconsin Health Insurance Risk-Sharing Plan (HIRSP) Authority's state-based HIRSP Plan and HIRSP Federal Plan as of and for the two-month period ended February 28, 2014, and have issued our report thereon dated June 11, 2015. 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*, which is issued by the Comptroller General of the United States. Our report includes an emphasis of matter paragraph that the HIRSP Authority did not continue as a going concern and, as of February 28, 2014, all of the Authority's assets, liabilities, and contract agreements, as well as its administrative responsibilities, were transferred to the Office of the Commissioner of Insurance.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the HIRSP Authority's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal controls. Accordingly, we do not express an opinion on the effectiveness of the internal controls.

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 misstatements, 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 that a material misstatement will not be detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the HIRSP Authority's financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, 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*.

Purpose of This Report

This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering the internal controls and compliance. The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the internal controls or on compliance. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU



Joe Chrisman
State Auditor

June 11, 2015



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

June 23, 2015

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Mr. Joe Chrisman, State Auditor
Legislative Audit Bureau
22 E. Mifflin St., Suite 500
Madison, WI 53703

Re: Audit Report for the Health Insurance Risk Sharing Pool (HIRSP)

Dear Mr. Chrisman:

The draft audit report for HIRSP has been received and reviewed. We appreciate the opportunity to comment on the three recommendations contained in the report.

The first recommendation related to accounting separately by plan (state and federal) for the 2015 receipts and disbursements. Unfortunately this was not considered in developing the wind-down plan for HIRSP. We agree with this recommendation and have made arrangements with the administrator to accomplish this. The remaining balances will be returned to the U.S. Department of Health and Human services after the federal plan officially terminates on September 30, 2015.

The second recommendation relates to the remaining cash balances in the state plan. The recommendation is material in nature because of a \$1.1 million in drug rebates received as a result of a true-up performed by the pharmacy benefit manager. Such a large true-up was not contemplated at the time of the distribution of the remaining cash balance to the three primary funding parties. The disposition of the remaining funds will be discussed with the advisory board when it convenes to review the audit report.

Finally, the auditors recommended that OCI report to the Joint Legislative Audit Committee on the amounts returned to the federal government and the actions taken related to the remaining cash balance for the state-based Health Insurance Risk-Sharing Plan by October 15, 2015. We will take appropriate action to comply.

Again, thank you for the opportunity to comment on the recommendations made in the report. We appreciate the professionalism of the auditors during the audit process.

Sincerely,


Theodore K. Nickel, Commissioner
Office of the Commissioner of Insurance