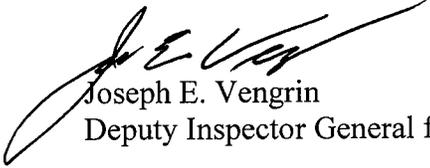




JUL 22 2009

TO: Charlene Frizzera
Acting Administrator
Centers for Medicare & Medicaid Services

FROM: 
Joseph E. Vengrin
Deputy Inspector General for Audit Services

SUBJECT: Review of Pension Costs Claimed for Medicare Reimbursement by Triple-S, Inc.,
for Fiscal Years 1988 Through 2006 (A-07-08-00268)

Attached is an advance copy of our final report on the pension costs claimed for Medicare reimbursement by Triple-S, Inc. (Triple-S). We will issue this report to Triple-S within 5 business days.

Triple-S has administered Medicare Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) since 1966.

Medicare reimburses a portion of the annual contributions that contractors make to their pension plans. In claiming costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation, Cost Accounting Standards (CAS), and Medicare contracts.

Our objective was to determine the allowability of pension costs that Triple-S claimed for Medicare reimbursement for fiscal years (FY) 1988 through 2006.

Triple-S claimed \$2,945,128 of unallowable Medicare pension costs for FYs 1988 through 2006. This overstatement occurred primarily because Triple-S calculated pension expense using Financial Accounting Standard No. 87, a standard intended for financial reporting. Using this standard, Triple-S claimed \$7,069,369 in Medicare reimbursement. We calculated allowable pension costs for this period in accordance with CAS 412 and 413, as required by the Medicare contracts, to be \$4,124,241, a difference of \$2,945,128.

We recommend that Triple-S (1) reduce its Final Administrative Cost Proposal (FACP) pension costs by \$2,945,128 or refund this amount to CMS and (2) ensure that future pension cost claims are in accordance with the Medicare contracts.

In written comments on our draft report, Triple-S stated that it was not in a position to concur with our recommendations because its Medicare contract had been terminated. After reviewing Triple-S's comments, we maintain that our finding and recommendations are valid.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact George M. Reeb, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or through email at George.Reeb@oig.hhs.gov or Patrick J. Cogley, Regional Inspector General for Audit Services, Region VII, at (816) 426-3591 or through email at Patrick.Cogley@oig.hhs.gov. Please refer to report number A-07-08-00268.

Attachment



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

JUL 28 2009

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

Report Number: A-07-08-00268

Gloria M. Lebrón, Esq.
Medicare Program Vice President
Triple-S, Inc.
P.O. Box 71391
San Juan, Puerto Rico 00936-1391

Dear Ms. Lebrón:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Pension Costs Claimed for Medicare Reimbursement by Triple-S, Inc., for Fiscal Years 1988 Through 2006." We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

Pursuant to the Freedom of Information Act, 5 U.S.C. § 552, OIG reports generally are made available to the public to the extent that information in the report is not subject to exemptions in the Act. Accordingly, this report will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, or your staff may contact Jenenne Tambke, Audit Manager, at (573) 893-8338, extension 21, or through email at Jenenne.Tambke@oig.hhs.gov. Please refer to report number A-07-08-00268 in all correspondence.

Sincerely,

A handwritten signature in black ink that reads "Patrick J. Cogley".

Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

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

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF
PENSION COSTS CLAIMED FOR
MEDICARE REIMBURSEMENT BY
TRIPLE-S, INC., FOR FISCAL
YEARS 1988 THROUGH 2006**



Daniel R. Levinson
Inspector General

July 2009
A-07-08-00268

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

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The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

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The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

Pursuant to the Freedom of Information Act, 5 U.S.C. § 552, Office of Inspector General reports generally are made available to the public to the extent that information in the report is not subject to exemptions in the Act.

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

Triple-S, Inc. (Triple-S), has administered Medicare Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) since 1966.

Medicare reimburses a portion of the annual contributions that contractors make to their pension plans. In claiming costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation, Cost Accounting Standards (CAS), and Medicare contracts.

OBJECTIVE

Our objective was to determine the allowability of pension costs that Triple-S claimed for Medicare reimbursement for fiscal years (FY) 1988 through 2006.

SUMMARY OF FINDING

Triple-S claimed \$2,945,128 of unallowable Medicare pension costs for FYs 1988 through 2006. This overstatement occurred primarily because Triple-S calculated pension expense using Financial Accounting Standard No. 87, a standard intended for financial reporting. Using this standard, Triple-S claimed \$7,069,369 in Medicare reimbursement. We calculated allowable pension costs for this period in accordance with CAS 412 and 413, as required by the Medicare contracts, to be \$4,124,241, a difference of \$2,945,128.

RECOMMENDATIONS

We recommend that Triple-S:

- reduce its Final Administrative Cost Proposal (FACP) pension costs by \$2,945,128 or refund this amount to CMS and
- ensure that future pension cost claims are in accordance with the Medicare contracts.

AUDITEE COMMENTS

In written comments on our draft report, Triple-S stated that it was not in a position to concur with our recommendations because its Medicare contract had been terminated. Triple-S's comments are included in their entirety as Appendix B.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing Triple-S's comments, we maintain that our finding and recommendations are valid.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
Triple-S	1
Medicare Reimbursement of Pension Costs	1
OBJECTIVE, SCOPE, AND METHODOLOGY	1
Objective	1
Scope	1
Methodology	1
FINDING AND RECOMMENDATIONS	2
FEDERAL REQUIREMENTS	2
UNALLOWABLE PENSION COSTS CLAIMED	2
RECOMMENDATIONS	3
AUDITEE COMMENTS	4
OFFICE OF INSPECTOR GENERAL RESPONSE	4
 APPENDIXES	
A – ALLOWABLE MEDICARE PENSION COSTS FOR TRIPLE-S, INC., FOR FISCAL YEARS 1988 THROUGH 2006	
B – AUDITEE COMMENTS	

INTRODUCTION

BACKGROUND

Triple-S

Triple-S, Inc. (Triple-S), has administered Medicare Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) since 1966.

Medicare Reimbursement of Pension Costs

Medicare reimburses a portion of the annual contributions that contractors make to their pension plans. To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with Cost Accounting Standards (CAS) 412 and 413 and (2) funded as specified by part 31 of the Federal Acquisition Regulation (FAR).

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine the allowability of pension costs that Triple-S claimed for Medicare reimbursement for fiscal years (FY) 1988 through 2006.

Scope

We reviewed \$7,069,369 of pension costs that Triple-S claimed for Medicare reimbursement on its Final Administrative Cost Proposals (FACP) for FYs 1988 through 2006. Achieving our objective did not require that we review Triple-S's overall internal control structure. However, we did review the internal controls related to the pension costs claimed for Medicare reimbursement to ensure that the pension costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

We performed fieldwork at Triple-S's office in San Juan, Puerto Rico, during March and April 2008.

Methodology

We reviewed the applicable portions of the FAR, CAS, and Medicare contracts. Additionally, we reviewed Triple-S's FACPs to identify the amount of pension costs claimed for Medicare reimbursement for FYs 1988 through 2006. We also determined the extent to which Triple-S funded CAS pension costs with contributions to the pension trust fund and accumulated prepayment credits. We based our calculations on separately computed CAS pension costs for the Medicare segment and the "Other" segment. The CMS Office of the Actuary calculated the allocable CAS pension costs based on Triple-S's historical practices and on the results of our segmentation review, "Review of the Qualified Pension Plan at Triple-S, Inc., for the Period January 1, 1986, Through January 1, 2007" (A-07-08-00266).

In performing our review, we used information that Triple-S's actuarial consulting firm provided. The information included assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We examined Triple-S's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Form 5500s.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

FINDING AND RECOMMENDATIONS

Triple-S claimed \$2,945,128 of unallowable Medicare pension costs for FYs 1988 through 2006. This overstatement occurred primarily because Triple-S calculated pension expense using Financial Accounting Standard No. 87, a standard intended for financial reporting. Using this standard, Triple-S claimed \$7,069,369 in Medicare reimbursement. We calculated allowable pension costs for this period in accordance with CAS 412 and 413, as required by the Medicare contracts, to be \$4,124,241, a difference of \$2,945,128.

FEDERAL REQUIREMENTS

The Medicare contracts address the determination and allocation of pension costs. The contracts state: "The calculation of and accounting for pension costs charged to this agreement/contract are governed by the Federal Acquisition Regulation and Cost Accounting Standards 412 and 413."

FAR 31.205-6(j) addresses allowability of pension costs and requires that plan contributions substantiate pension costs assigned to contract periods.

CAS 412 addresses the determination and measurement of pension cost components. It also addresses the assignment of pension costs to appropriate accounting periods.

CAS 413 addresses the valuation of pension assets, allocation of pension costs to segments of an organization, adjustment of pension costs for actuarial gains and losses, and assignment of gains and losses to cost accounting periods.

UNALLOWABLE PENSION COSTS CLAIMED

Triple-S claimed \$2,945,128 of unallowable Medicare pension costs for FYs 1988 through 2006. During that period, Triple-S claimed pension costs of \$7,069,369 for Medicare reimbursement. We calculated allowable pension costs based on separately computed CAS pension costs for the Medicare segment and the "Other" segment in accordance with CAS 412 and 413. Based on the terms of the Medicare contracts, the allowable CAS pension costs for this period totaled \$4,124,241.

The following table compares the pension costs claimed on Triple-S's FACP's with allowable CAS pension costs. Appendix A contains details on allowable pension costs and contributions.

Comparison of Claimed Pension Costs and Allowable Pension Costs

Fiscal Year	Medicare Pension Costs		Difference
	Claimed by Triple-S	Allowable per Audit	
1988	\$30,258	\$23,793	\$6,465
1989	82,404	12,365	70,039
1990	183,308	14,606	168,702
1991	227,409	133,278	94,131
1992	319,366	160,481	158,885
1993	334,137	181,385	152,752
1994	260,834	218,481	42,353
1995	355,368	123,425	231,943
1996	285,723	85,442	200,281
1997	269,408	175,903	93,505
1998	314,149	101,552	212,597
1999	330,348	85,183	245,165
2000	373,739	16,254	357,485
2001	309,904	20,200	289,704
2002	567,844	231,823	336,021
2003	629,104	475,493	153,611
2004	746,603	632,487	114,116
2005	719,566	694,176	25,390
2006	729,897	737,914	(8,017)
Total	\$7,069,369	\$4,124,241	\$2,945,128

The Medicare contracts require Triple-S to calculate pension costs for Medicare reimbursement pursuant to CAS 412 and 413. However, Triple-S based its claim on pension expense calculated for financial reporting purposes using Financial Accounting Standard No. 87 (FAS 87). As a result, Triple-S claimed \$2,945,128 of unallowable pension costs.

RECOMMENDATIONS

We recommend that Triple-S:

- reduce its FACP pension costs by \$2,945,128 or refund this amount to CMS and
- ensure that future pension cost claims are in accordance with the Medicare contracts.

AUDITEE COMMENTS

In written comments on the draft report, Triple-S stated that it was not in a position to concur with the recommendations related to reimbursing funds to the Medicare program.¹ Triple-S stated that its Medicare contract ended in March 2009 and requested “. . . that the implementation of the recommendation of reducing the Final Administrative Cost Proposal pension costs contained in the aforementioned reports be evaluated in light of the fact that the current program has been terminated.” Triple-S also requested “. . . that the final determination or settlement be deferred until after the final analysis of the pension plan costs . . . is concluded.”

Triple-S’s comments are included in their entirety as Appendix B.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing Triple-S’s comments, we maintain that Triple-S did not comply with its contracts’ provisions when it based its pension costs claimed for Medicare reimbursement on the FAS 87 pension expense instead of CAS 412 and 413. Therefore, Triple-S should reduce its FACP pension costs by \$2,945,128 or refund this amount to CMS, and it should ensure that future pension cost claims are in accordance with the Medicare contracts.

The costs associated with the Medicare contract termination and computation of the segment closing are outside the scope of this audit. CMS has informed us that Triple-S will continue to have a contractual relationship with the Medicare program.

¹Triple-S provided a single set of written comments for both this report and its companion report, the segmentation review entitled “Review of the Qualified Pension Plan at Triple-S, Inc., for the Period January 1, 1986, Through January 1, 2007” (A-07-08-00266).

APPENDIXES

**ALLOWABLE MEDICARE PENSION COSTS FOR TRIPLE-S, INC.,
FOR FISCAL YEARS 1988 THROUGH 2006**

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
1987	Contributions	<u>1/</u> \$740,661	\$673,755	\$66,906	
8.50%	Discount for interest	<u>2/</u> (48,456)	(44,079)	(4,377)	
1/1/87	Present value contributions	<u>3/</u> 692,205	629,676	62,529	
	Prepayment credit applied	<u>4/</u> 20,276	18,440	1,836	
	Present value of funding	<u>5/</u> 712,481	648,116	64,365	
1/1/87	CAS funding target	<u>6/</u> 710,754	646,389	64,365	
	Percentage funded	<u>7/</u>	100.00%	100.00%	
	Funded pension cost	<u>8/</u>	646,389	64,365	
	Allowable interest	<u>9/</u>	37,808	3,765	
	Allocable pension cost	<u>10/</u>	684,197	68,130	
1988	Contributions	\$0	\$0	\$0	
9.00%	Discount for interest	<u>0</u>	<u>0</u>	<u>0</u>	
1/1/88	Present value contributions	<u>0</u>	<u>0</u>	<u>0</u>	
	Prepayment credit applied	<u>1,873</u>	<u>1,873</u>	<u>0</u>	
	Present value of funding	<u>1,873</u>	<u>1,873</u>	<u>0</u>	
1/1/88	CAS funding target	501,635	501,635	0	
	Percentage funded		<u>0.37%</u>	<u>0.00%</u>	
	Funded pension cost		<u>1,873</u>	<u>0</u>	
	Allowable interest		<u>0</u>	<u>0</u>	
	Allocable pension cost		<u>1,873</u>	<u>0</u>	
1988	Fiscal year pension cost	<u>11/</u>	172,454	17,033	
	Medicare LOB* percentage	<u>12/</u>	<u>3.92%</u>	<u>100.00%</u>	
	Allowable pension cost	<u>13/</u>	<u>\$6,760</u>	<u>\$17,033</u>	<u>\$23,793</u>

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
1989	Contributions	\$419,947	\$419,947	\$0	
9.00%	Discount for interest	<u>(24,515)</u>	<u>(24,515)</u>	<u>0</u>	
1/1/89	Present value contributions	395,432	395,432	0	
	Prepayment credit applied	<u>0</u>	<u>0</u>	<u>0</u>	
	Present value of funding	395,432	395,432	0	
1/1/89	CAS funding target	618,315	618,315	0	
	Percentage funded		<u>63.95%</u>	<u>0.00%</u>	
	Funded pension cost		395,432	0	
	Allowable interest		<u>24,515</u>	<u>0</u>	
	Allocable pension cost		419,947	0	
1989	Fiscal year pension cost		315,429	0	
	Medicare LOB* percentage		<u>3.92%</u>	<u>100.00%</u>	
	Allowable pension cost		<u>\$12,365</u>	<u>\$0</u>	<u>\$12,365</u>

1990	Contributions	\$358,633	\$358,633	\$0	
9.00%	Discount for interest	<u>(23,195)</u>	<u>(23,195)</u>	<u>0</u>	
1/1/90	Present value contributions	335,438	335,438	0	
	Prepayment credit applied	<u>0</u>	<u>0</u>	<u>0</u>	
	Present value of funding	335,438	335,438	0	
1/1/90	CAS funding target	645,603	645,603	0	
	Percentage funded		<u>51.96%</u>	<u>0.00%</u>	
	Funded pension cost		335,438	0	
	Allowable interest		<u>21,384</u>	<u>0</u>	
	Allocable pension cost		356,822	0	
1990	Fiscal year pension cost		372,603	0	
	Medicare LOB* percentage		<u>3.92%</u>	<u>100.00%</u>	
	Allowable pension cost		<u>\$14,606</u>	<u>\$0</u>	<u>\$14,606</u>

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
1991	Contributions	\$1,036,198	\$891,219	\$144,979	
9.00%	Discount for interest	<u>(76,163)</u>	<u>(65,507)</u>	<u>(10,656)</u>	
1/1/91	Present value contributions	960,035	825,712	134,323	
	Prepayment credit applied	<u>0</u>	<u>0</u>	<u>0</u>	
	Present value of funding	960,035	825,712	134,323	
1/1/91	CAS funding target	857,465	723,142	134,323	
	Percentage funded		<u>100.00%</u>	<u>100.00%</u>	
	Funded pension cost		723,142	134,323	
	Allowable interest		<u>46,100</u>	<u>8,563</u>	
	Allocable pension cost		769,242	142,886	
1991	Fiscal year pension cost		666,137	107,165	
	Medicare LOB* percentage		<u>3.92%</u>	<u>100.00%</u>	
	Allowable pension cost		<u>\$26,113</u>	<u>\$107,165</u>	<u>\$133,278</u>

1992	Contributions	\$1,098,038	\$989,041	\$108,997	
9.00%	Discount for interest	<u>(60,146)</u>	<u>(54,176)</u>	<u>(5,970)</u>	
1/1/92	Present value contributions	1,037,892	934,865	103,027	
	Prepayment credit applied	<u>111,801</u>	<u>97,533</u>	<u>14,268</u>	
	Present value of funding	1,149,693	1,032,398	117,295	
1/1/92	CAS funding target	919,077	801,782	117,295	
	Percentage funded		<u>100.00%</u>	<u>100.00%</u>	
	Funded pension cost		801,782	117,295	
	Allowable interest		<u>40,812</u>	<u>5,970</u>	
	Allocable pension cost		842,594	123,265	
1992	Fiscal year pension cost		824,256	128,170	
	Medicare LOB* percentage		<u>3.92%</u>	<u>100.00%</u>	
	Allowable pension cost		<u>\$32,311</u>	<u>\$128,170</u>	<u>\$160,481</u>

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
1993	Contributions	\$1,308,605	\$1,189,530	\$119,075	
8.50%	Discount for interest	<u>(67,446)</u>	<u>(61,309)</u>	<u>(6,137)</u>	
1/1/93	Present value contributions	1,241,159	1,128,221	112,938	
	Prepayment credit applied	<u>251,371</u>	<u>218,675</u>	<u>32,696</u>	
	Present value of funding	1,492,530	1,346,896	145,634	
1/1/93	CAS funding target	1,119,651	974,017	145,634	
	Percentage funded		<u>100.00%</u>	<u>100.00%</u>	
	Funded pension cost		974,017	145,634	
	Allowable interest		<u>41,046</u>	<u>6,137</u>	
	Allocable pension cost		1,015,063	151,771	
1993	Fiscal year pension cost		971,946	144,645	
	Medicare LOB* percentage		<u>3.78%</u>	<u>100.00%</u>	
	Allowable pension cost		<u>\$36,740</u>	<u>\$144,645</u>	<u>\$181,385</u>

1994	Contributions	\$1,691,340	\$1,552,897	\$138,443	
8.00%	Discount for interest	<u>(86,772)</u>	<u>(79,669)</u>	<u>(7,103)</u>	
1/1/94	Present value contributions	1,604,568	1,473,228	131,340	
	Prepayment credit applied	<u>404,573</u>	<u>354,486</u>	<u>50,087</u>	
	Present value of funding	2,009,141	1,827,714	181,427	
1/1/94	CAS funding target	1,465,454	1,284,026	181,428	
	Percentage funded		<u>100.00%</u>	<u>100.00%</u>	
	Funded pension cost		1,284,026	181,428	
	Allowable interest		<u>50,268</u>	<u>7,103</u>	
	Allocable pension cost		1,334,294	188,531	
1994	Fiscal year pension cost		1,254,486	179,341	
	Medicare LOB* percentage		<u>3.12%</u>	<u>100.00%</u>	
	Allowable pension cost		<u>\$39,140</u>	<u>\$179,341</u>	<u>\$218,481</u>

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
1995	Contributions	\$1,576,278	\$1,536,104	\$40,174	
8.50%	Discount for interest	<u>(79,760)</u>	<u>(77,727)</u>	<u>(2,033)</u>	
1/1/95	Present value contributions	1,496,518	1,458,377	38,141	
	Prepayment credit applied	<u>587,182</u>	<u>551,512</u>	<u>35,670</u>	
	Present value of funding	2,083,700	2,009,889	73,811	
1/1/95	CAS funding target	1,215,025	1,141,214	73,811	
	Percentage funded		<u>100.00%</u>	<u>100.00%</u>	
	Funded pension cost		1,141,214	73,811	
	Allowable interest		<u>31,429</u>	<u>2,033</u>	
	Allocable pension cost		1,172,643	75,844	
1995	Fiscal year pension cost		1,213,056	104,016	
	Medicare LOB* percentage		<u>1.60%</u>	<u>100.00%</u>	
	Allowable pension cost		<u>\$19,409</u>	<u>\$104,016</u>	<u>\$123,425</u>

1996	Contributions	\$1,479,138	\$1,457,208	\$21,930	
8.50%	Discount for interest	<u>(96,560)</u>	<u>(95,128)</u>	<u>(1,432)</u>	
1/1/96	Present value contributions	1,382,578	1,362,080	20,498	
	Prepayment credit applied	<u>942,512</u>	<u>909,359</u>	<u>33,153</u>	
	Present value of funding	2,325,090	2,271,439	53,651	
1/1/96	CAS funding target	1,525,259	1,471,607	53,652	
	Percentage funded		<u>100.00%</u>	<u>100.00%</u>	
	Funded pension cost		1,471,607	53,652	
	Allowable interest		<u>33,852</u>	<u>1,234</u>	
	Allocable pension cost		1,505,459	54,886	
1996	Fiscal year pension cost		1,422,255	60,126	
	Medicare LOB* percentage		<u>1.78%</u>	<u>100.00%</u>	
	Allowable pension cost		<u>\$25,316</u>	<u>\$60,126</u>	<u>\$85,442</u>

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
1997	Contributions	\$3,098,039	\$2,984,557	\$113,482	
8.50%	Discount for interest	<u>(210,497)</u>	<u>(202,786)</u>	<u>(7,711)</u>	
1/1/97	Present value contributions	2,887,542	2,781,771	105,771	
	Prepayment credit applied	<u>867,817</u>	<u>786,774</u>	<u>81,043</u>	
	Present value of funding	3,755,359	3,568,545	186,814	
1/1/97	CAS funding target	2,000,433	1,813,619	186,814	
	Percentage funded		<u>100.00%</u>	<u>100.00%</u>	
	Funded pension cost		1,813,619	186,814	
	Allowable interest		<u>61,825</u>	<u>6,368</u>	
	Allocable pension cost		1,875,444	193,182	
1997	Fiscal year pension cost		1,782,948	158,608	
	Medicare LOB* percentage		<u>0.97%</u>	<u>100.00%</u>	
	Allowable pension cost		<u>\$17,295</u>	<u>\$158,608</u>	<u>\$175,903</u>

1998	Contributions	\$540,000	\$540,000	\$0	
9.00%	Discount for interest	<u>(35,545)</u>	<u>(35,545)</u>	<u>0</u>	
1/1/98	Present value contributions	504,455	504,455	0	
	Prepayment credit applied	<u>1,636,254</u>	<u>1,636,254</u>	<u>0</u>	
	Present value of funding	2,140,709	2,140,709	0	
1/1/98	CAS funding target	1,636,254	1,636,254	0	
	Percentage funded		<u>100.00%</u>	<u>0.00%</u>	
	Funded pension cost		1,636,254	0	
	Allowable interest		<u>0</u>	<u>0</u>	
	Allocable pension cost		1,636,254	0	
1998	Fiscal year pension cost		1,696,052	48,296	
	Medicare LOB* percentage		<u>3.14%</u>	<u>100.00%</u>	
	Allowable pension cost		<u>\$53,256</u>	<u>\$48,296</u>	<u>\$101,552</u>

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
1999	Contributions	\$2,574,322	\$2,574,322	\$0	
9.00%	Discount for interest	<u>(206,373)</u>	<u>(206,373)</u>	<u>0</u>	
1/1/99	Present value contributions	2,367,949	2,367,949	0	
	Prepayment credit applied	<u>841,803</u>	<u>841,803</u>	<u>0</u>	
	Present value of funding	3,209,752	3,209,752	0	
1/1/99	CAS funding target	1,937,045	1,937,045	0	
	Percentage funded		<u>100.00%</u>	<u>0.00%</u>	
	Funded pension cost		1,937,045	0	
	Allowable interest		<u>69,822</u>	<u>0</u>	
	Allocable pension cost		2,006,867	0	
1999	Fiscal year pension cost		1,914,214	0	
	Medicare LOB* percentage		<u>4.45%</u>	<u>100.00%</u>	
	Allowable pension cost		<u>\$85,183</u>	<u>\$0</u>	<u>\$85,183</u>

2000	Contributions	\$1,145,537	\$1,145,537	\$0	
9.00%	Discount for interest	<u>(87,227)</u>	<u>(87,227)</u>	<u>0</u>	
1/1/00	Present value contributions	1,058,310	1,058,310	0	
	Prepayment credit applied	<u>694,081</u>	<u>694,081</u>	<u>0</u>	
	Present value of funding	1,752,391	1,752,391	0	
1/1/00	CAS funding target	694,081	694,081	0	
	Percentage funded		<u>100.00%</u>	<u>0.00%</u>	
	Funded pension cost		694,081	0	
	Allowable interest		<u>0</u>	<u>0</u>	
	Allocable pension cost		694,081	0	
2000	Fiscal year pension cost		1,022,278	0	
	Medicare LOB* percentage		<u>1.59%</u>	<u>100.00%</u>	
	Allowable pension cost		<u>\$16,254</u>	<u>\$0</u>	<u>\$16,254</u>

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2001	Contributions	\$6,212,972	\$6,212,972	\$0	
9.00%	Discount for interest	(493,299)	(493,299)	0	
1/1/01	Present value contributions	5,719,673	5,719,673	0	
	Prepayment credit applied	1,909,112	1,909,112	0	
	Present value of funding	7,628,785	7,628,785	0	
1/1/01	CAS funding target	2,157,527	2,157,527	0	
	Percentage funded		100.00%	0.00%	
	Funded pension cost		2,157,527	0	
	Allowable interest		15,836	0	
	Allocable pension cost		2,173,363	0	
2001	Fiscal year pension cost		1,803,543	0	
	Medicare LOB* percentage		1.12%	100.00%	
	Allowable pension cost		\$20,200	\$0	\$20,200

2002	Contributions	\$11,499,754	\$11,499,754	\$0	
9.00%	Discount for interest	(949,521)	(949,521)	0	
1/1/02	Present value contributions	10,550,233	10,550,233	0	
	Prepayment credit applied	3,366,036	3,102,479	263,557	
	Present value of funding	13,916,269	13,652,712	263,557	
1/1/02	CAS funding target	3,366,036	3,102,479	263,557	
	Percentage funded		100.00%	100.00%	
	Funded pension cost		3,102,479	263,557	
	Allowable interest		0	0	
	Allocable pension cost		3,102,479	263,557	
2002	Fiscal year pension cost		2,870,200	197,668	
	Medicare LOB* percentage		1.19%	100.00%	
	Allowable pension cost		\$34,155	\$197,668	\$231,823

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2003	Contributions	\$9,531,000	\$9,531,000	\$0	
8.50%	Discount for interest	(741,068)	(741,068)	0	
1/1/03	Present value contributions	8,789,932	8,789,932	0	
	Prepayment credit applied	5,523,316	5,043,423	479,893	
	Present value of funding	14,313,248	13,833,355	479,893	
1/1/03	CAS funding target	5,523,316	5,043,423	479,893	
	Percentage funded		100.00%	100.00%	
	Funded pension cost		5,043,423	479,893	
	Allowable interest		0	0	
	Allocable pension cost		5,043,423	479,893	
2003	Fiscal year pension cost		4,558,187	425,809	
	Medicare LOB* percentage		1.09%	100.00%	
	Allowable pension cost		\$49,684	\$425,809	\$475,493

2004	Contributions	\$13,221,000	\$13,221,000	\$0	
8.50%	Discount for interest	(991,831)	(991,831)	0	
1/1/04	Present value contributions	12,229,169	12,229,169	0	
	Prepayment credit applied	6,207,944	5,654,433	553,511	
	Present value of funding	18,437,113	17,883,602	553,511	
1/1/04	CAS funding target	6,207,944	5,654,433	553,511	
	Percentage funded		100.00%	100.00%	
	Funded pension cost		5,654,433	553,511	
	Allowable interest		0	0	
	Allocable pension cost		5,654,433	553,511	
2004	Fiscal year pension cost		5,501,681	535,107	
	Medicare LOB* percentage		1.77%	100.00%	
	Allowable pension cost		\$97,380	\$535,107	\$632,487

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2005	Contributions	\$8,000,000	\$8,000,000	\$0	
8.00%	Discount for interest	<u>(592,593)</u>	<u>(592,593)</u>	<u>0</u>	
1/1/05	Present value contributions	7,407,407	7,407,407	0	
	Prepayment credit applied	<u>7,540,084</u>	<u>6,895,604</u>	<u>644,480</u>	
	Present value of funding	14,947,491	14,303,011	644,480	
1/1/05	CAS funding target	7,540,084	6,895,604	644,480	
	Percentage funded		<u>100.00%</u>	<u>100.00%</u>	
	Funded pension cost		6,895,604	644,480	
	Allowable interest		<u>0</u>	<u>0</u>	
	Allocable pension cost		6,895,604	644,480	
2005	Fiscal year pension cost		6,585,311	621,738	
	Medicare LOB* percentage		<u>1.10%</u>	<u>100.00%</u>	
	Allowable pension cost		<u>\$72,438</u>	<u>\$621,738</u>	<u>\$694,176</u>

2006	Contributions	\$5,000,000	\$5,000,000	\$0	
8.00%	Discount for interest	<u>(370,370)</u>	<u>(370,370)</u>	<u>0</u>	
1/1/06	Present value contributions	4,629,630	4,629,630	0	
	Prepayment credit applied	<u>8,047,273</u>	<u>7,372,018</u>	<u>675,255</u>	
	Present value of funding	12,676,903	12,001,648	675,255	
1/1/06	CAS funding target	8,047,273	7,372,018	675,255	
	Percentage funded		<u>100.00%</u>	<u>100.00%</u>	
	Funded pension cost		7,372,018	675,255	
	Allowable interest		<u>0</u>	<u>0</u>	
	Allocable pension cost		7,372,018	675,255	
2006	Fiscal year pension cost		7,252,915	667,561	
	Medicare LOB* percentage		<u>0.97%</u>	<u>100.00%</u>	
	Allowable pension cost		<u>\$70,353</u>	<u>\$667,561</u>	<u>\$737,914</u>

* Line of business.

FOOTNOTES

- 1/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the plan year and accrued contributions deposited after the end of the plan year but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-08-00266). The amounts shown for the "Other" segment represent the difference between the Total Company and the Medicare segments.
- 2/ We subtracted the interest that was included in the contributions deposited after the beginning of the valuation year to discount the contributions back to their beginning-of-the-year value. For purposes of this Appendix, we computed the interest as the difference between the present value of contributions (at the valuation interest rate) and actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the plan year. For purposes of this Appendix, we deemed deposits made after the end of the plan year to have been made on the final day of the plan year, consistent with the method mandated by the Employee Retirement Income Security Act.
- 4/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year Cost Accounting Standards (CAS) funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.
- 5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at the first day of the plan year.
- 6/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of the Federal Acquisition Regulation (FAR) 31.205-6(j)(2)(i).
- 7/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the plan year. Because any funding in excess of the CAS funding target is accounted for as a prepayment in accordance with CAS 412.50(c)(1) (as amended), the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimals.
- 8/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.
- 9/ We assumed that interest on the funded CAS pension cost, less the prepayment credit, accrues in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in four equal installments deposited within 30 days after the end of the quarter.
- 10/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.

- 11/ We converted the plan year (January 1 through December 31) allocable pension costs to a fiscal year (FY) basis (October 1 through September 30). We calculated the FY pension costs as 1/4 of the prior year's costs plus 3/4 of the current year's costs.
- 12/ We calculated allowable pension costs of the Medicare segment and "Other" segment based on the Medicare line of business (LOB) percentage of each segment. The Medicare segment charged 100 percent of its pension costs to Medicare. The "Other" segment charged only a portion of its pension costs to Medicare. For FYs 1988–1992, Triple-S was unable to provide complete documentation by year in order to calculate a LOB percentage for each specific year. However, we were able to estimate the LOB percentage by calculating the change in the Medicare segment head count to Total Company head count from year to year and multiplying that percent change in head count to the succeeding year's LOB percentage, starting with FY 1993. For FYs 1993–2005, we obtained the percentages from documentation provided by Triple-S that was specific to each year.
- 13/ We computed the allowable Medicare pension cost as the FY pension cost multiplied by the Medicare LOB percentage. Pursuant to CAS 412 and 413, the total Medicare allowable pension costs charged to the Medicare contract consisted of the Medicare segment's direct pension costs plus "Other" segment pension costs attributable to indirect Medicare operations.



May 27, 2009

Mr. Patrick J. Cogley
Regional Inspector General for Audit Services
601 East, 12th Street
Room 0429
Kansas City, Missouri 64106

Dear Mr. Cogley:

We acknowledge receipt of the audit reports A-07-08-00268 and A-07-08-00266 corresponding to the "Review of Pension Costs Claimed for Medicare Reimbursement by Triple-S, Salud Inc. (TSS), for Fiscal Years 1988 through 2006" performed by the Office of Inspector General (OIG) of the U.S. Department of Health and Human Services.

The findings and recommendations included in the report arise substantially due to TSS allocating pension cost to the Medicare program using Financial Accounting Standards (FAS) instead of Cost Accounting Standards (CAS). The allocation methodologies differs among each other primarily in the assumptions used to determine the present pension cost and funding requirements for specific retirement benefits to be paid in the future under a Define Benefit Pension Plan, which is the plan offered by TSS to its employees, including Medicare program employees. Such assumptions create a temporary difference, which should reconcile through the years, as the employees approach their eligible retirement date and the actual benefits earned are paid. Furthermore, such temporary difference should be reconciled and/or disposed of, in the event of an early termination of the plan or upon discontinuation of beneficiaries' employment under the Medicare program due to the termination of the Medicare contract with TSS.

After extensive evaluation with our consulting pension actuaries, we are not in a position to concur with the recommendations stated in the Review Reports as they relate to TSS reimbursing funds to the Medicare program. The difference leading to the reimbursement recommendation is based upon a difference which is deemed temporary and upon the assumption that the program will be on an on-going basis. The TSS' contract for Medicare Administration in Puerto Rico ended on March 2, 2009.

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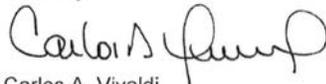
Mr. Patrick J. Cogley
May 27, 2009
Page 2

In connection with such termination, we are filing the corresponding termination cost associated to the pension plan benefits earned by the employees who worked for the program and were vested at contract termination date. As reported by our consulting actuaries, the status of the plan for Medicare employees as of the contract termination date is that there is an unfunded liability which is estimated from \$2.5 to \$3.0 million. In fact, according to the 2008 Pension Plan Valuation Report issued by JP Morgan (see copy of excerpt attached) the unfunded liability corresponding to the Medicare segment amounted to \$2,859,473.

Based on the above facts, we respectfully request that the implementation of the recommendation of reducing the Final Administrative Cost Proposal pension costs contained in the aforementioned reports be evaluated in light of the fact that the current program has been terminated. In this respect, we also request that the final determination or settlement be deferred until after the final analysis of the pension plan costs – which are part of the closeout process and termination costs of our Title XVIII contract ended on March 2, 2009 – is concluded.

We hope that you consider favorably our request. However, if you feel the need for further discussion or would like to have more information, please, contact us at your earliest convenience at 787-749-4056 or civaldi@ssspr.com.

Cordially,



Carlos A. Vivaldi
Vice president
Finance & Administration

f Mr. Carlos A. González, Esquire
Medicare Director



CAS pension cost for medicare segment

	2008 program year
1. Actuarial accrued liability as of valuation date	\$5,449,803
2. Actuarial value of assets as of valuation date	2,590,330
3. Unfunded actuarial accrued liability (UAAL), (1) - (2)	2,859,473
4. Normal cost as of valuation date	\$252,730
5. Amortization of UAAL	<u>388,693</u>
6. Preliminary CAS pension cost, (4) + (5)	\$641,423
7. Unallowable unfunded amount as of valuation date	0
8. Accumulated prepayment credits as of end of prior program year	0
9. Assignable cost limitation (3) + (4) - (7) + (8), not less than zero	3,112,203
10. Assignable CAS pension cost as of valuation date Lesser of (6) and (9), not less than zero	641,423
11. Allowable interest credits	0
12. Allocable CAS pension cost for 2008, (10) + (11)	\$641,423
13. Assignable cost deficit/(credit) as of valuation date	0

The reimbursable CAS cost under the Medicare contract is the sum of: 1. the allocable Medicare segment cost multiplied by the applicable Medicare line of business percentage for the Medicare segment, and 2. the allocable other segment cost multiplied by the applicable Medicare line of business percentage for the other segment.