



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

JUL 10 2009

Region VII
601 East 12th Street
Room 0429
Kansas City, Missouri 64106

Report Number: A-07-09-00317

Mr. Carlos González, CPA
Executive Vice-President of Infrastructure and Chief Financial Officer
Cooperativa de Seguros de Vida de Puerto Rico
400 Americo Miranda Avenue
Rio Piedras, Puerto Rico 00927

Dear Mr. González:

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 Cooperativa de Seguros de Vida de Puerto Rico, for Fiscal Years 1988 Through 1995." 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.

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If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, or 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-07-09-00317 in all correspondence.

Sincerely,

for 
Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Deborah Taylor, Acting Director
Office of Financial Management (OFM)
Centers for Medicare & Medicaid Services
Mail Stop C3-01-24
7500 Security Boulevard
Baltimore, Maryland 21244-1850

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS
CLAIMED FOR MEDICARE
REIMBURSEMENT BY
COOPERATIVA DE SEGUROS DE
VIDA DE PUERTO RICO, FOR
FISCAL YEARS
1988 THROUGH 1995**



Daniel R. Levinson
Inspector General

July 2009
A-07-09-00317

Office of Inspector General

<http://oig.hhs.gov>

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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

Cooperativa de Seguros de Vida de Puerto Rico (COSVI) has administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) since 1970.

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.

The Medicare contracts require contractors to allocate or separately calculate pension costs. Contractors must use the separate calculation method if there is a material difference between the results of the two methods.

OBJECTIVE

Our objective was to determine the allowability of pension costs that COSVI claimed for Medicare reimbursement for fiscal years (FY) 1988 through 1995.

SUMMARY OF FINDING

COSVI claimed \$70,282 of unallowable Medicare pension costs for FYs 1988 through 1995. This overstatement occurred primarily because COSVI calculated pension expense using the contributions to the pension plan instead of computing pension costs in accordance with CAS 412 and 413, as required by the Medicare contracts. In basing the pension expense on the pension plan contributions, COSVI claimed \$607,093 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 \$536,811, a difference of \$70,282.

RECOMMENDATION

We recommend that COSVI reduce its Final Administrative Cost Proposal pension costs by \$70,282 or refund this amount to CMS.

AUDITEE COMMENTS

In written comments on our draft report, COSVI agreed with our recommendation.

COSVI's comments are included in their entirety as Appendix B.

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INTRODUCTION

BACKGROUND

Cooperativa de Seguros de Vida de Puerto Rico

Cooperativa de Seguros de Vida de Puerto Rico (COSVI) has administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) since 1970.¹

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).

Beginning with fiscal year (FY) 1988, CMS incorporated specific segmentation language into Medicare contracts that requires contractors to use either an allocation method or a separate calculation method to identify and claim pension costs for Medicare reimbursement. Under the allocation method, the contractor determines total plan CAS pension costs and allocates a share to Medicare. Under the separate calculation method, the contractor separately identifies the pension cost components for the Medicare segment. The contractor must use the separate calculation method if its result is materially different from that of the allocation method.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine the allowability of pension costs that COSVI claimed for Medicare reimbursement for FYs 1988 through 1995.

Scope

We reviewed \$607,093 of pension costs that COSVI claimed for Medicare reimbursement on its Final Administrative Cost Proposals (FACP) for FYs 1988 through 1995. Achieving our objective did not require that we review COSVI's overall internal control structure. However, we reviewed 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 COSVI's office in Rio Piedras, Puerto Rico, during March and April 2008.

¹On February 28, 2009, the contractual relationship was terminated.

Methodology

We reviewed the applicable portions of the FAR, CAS, and Medicare contracts. Additionally, we reviewed COSVI's FACPs to identify the amount of pension costs claimed for Medicare reimbursement for FYs 1988 through 1995. We also determined the extent to which COSVI funded CAS pension costs with contributions to the pension trust fund and accumulated prepayment credits. We based our calculations on an allocation of Total Company CAS pension costs to the Medicare segment and "Other" segment. The CMS Office of the Actuary calculated the allocable Total Company CAS pension costs based on COSVI's historical practices.

In performing our review, we used information that COSVI's actuarial consulting firms provided. The information included assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We examined COSVI'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 RECOMMENDATION

COSVI claimed \$70,282 of unallowable Medicare pension costs for FYs 1988 through 1995. This overstatement occurred primarily because COSVI calculated pension expense using the contributions to the pension plan instead of computing pension costs in accordance with CAS 412 and 413, as required by the Medicare contracts. In basing the pension expense on the pension plan contributions, COSVI claimed \$607,093 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 \$536,811, a difference of \$70,282.

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

COSVI claimed \$70,282 of unallowable Medicare pension costs for FYs 1988 through 1995. During that period, COSVI claimed pension costs of \$607,093 for Medicare reimbursement. We calculated the allowable pension costs based on an allocation of Total Company CAS pension costs to the Medicare segment and “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 \$536,811.

The following table compares allowable CAS pension costs with the pension costs claimed on COSVI’s FACPs. Appendix A contains details on allowable pension costs and contributions.

Comparison of Allowable Pension Costs and Claimed Pension Costs

Fiscal Year	Medicare Pension Costs		Difference
	Allowable Per Audit	Claimed By COSVI	
1988	\$2,593	\$0	\$2,593
1989	22,247	0	22,247
1990	71,072	49,439	21,633
1991	62,625	91,425	(28,800)
1992	60,670	33,938	26,732
1993	100,088	185,485	(85,397)
1994	108,201	139,640	(31,439)
1995	109,315	107,166	2,149
Total	\$536,811	\$607,093	(\$70,282)

The Medicare contracts require COSVI to calculate pension costs for Medicare reimbursement pursuant to CAS 412 and 413. However, COSVI based its claim on the contributions to the pension plan. As a result, COSVI claimed \$70,282 of unallowable pension costs.

RECOMMENDATION

We recommend that COSVI reduce its FACP pension costs by \$70,282 or refund this amount to CMS.

AUDITEE COMMENTS

In written comments on our draft report, COSVI agreed with our recommendation.

COSVI’s comments are included in their entirety as Appendix B.

APPENDIXES

**ALLOWABLE MEDICARE PENSION COSTS FOR
COOPERATIVA DE SEGUROS DE VIDA DE PUERTO RICO
FOR FISCAL YEARS 1988 THROUGH 1995**

Date	Description	Total Company	“Other” Segment	Medicare Segment	Total Medicare
1987	Contributions	<u>1/</u> \$0			
8.00%	Discount for Interest	<u>2/</u> 0			
1/1/87	Present Value Contributions	<u>3/</u> 0			
	Prepayment Credit Applied	<u>4/</u> 0			
	Present Value of Funding	<u>5/</u> 0			
1/1/87	CAS Funding Target	<u>6/</u> 10,771			
	Percentage Funded	<u>7/</u> 0.00%			
	Funded Pension Cost	<u>8/</u> 0			
	Allowable Interest	<u>9/</u> 0			
	Allocable Pension Cost	<u>10/</u> 0			
	Segment Allocation Percentage	<u>11/</u>	83.97%	16.03%	
	Segment Allocable Pension Cost	<u>12/</u>	0	0	

1988	Contributions	\$20,435			
8.00%	Discount for Interest	(1,514)			
1/1/88	Present Value Contributions	18,921			
	Prepayment Credit Applied	0			
	Present Value of Funding	18,921			
1/1/88	CAS Funding Target	45,874			
	Percentage Funded	41.25%			
	Funded Pension Cost	18,921			
	Allowable Interest	0			
	Allocable Pension Cost	18,921			
	Segment Allocation Percentage		83.97%	16.03%	
	Segment Allocable Pension Cost		15,888	3,033	
1988	Fiscal Year Pension Cost	<u>13/</u>	11,916	2,275	
	Medicare LOB* Percentage	<u>14/</u>	2.67%	100.00%	
	Allowable Pension Cost	<u>15/</u>	<u>\$318</u>	<u>\$2,275</u>	<u>\$2,593</u>

Date	Description	Total Company	“Other” Segment	Medicare Segment	Total Medicare
1989	Contributions	\$188,460			
8.00%	Discount for Interest	<u>(12,775)</u>			
1/1/89	Present Value Contributions	175,685			
	Prepayment Credit Applied	<u>0</u>			
	Present Value of Funding	175,685			
1/1/89	CAS Funding Target	154,982			
	Percentage Funded	<u>100.00%</u>			
	Funded Pension Cost	154,982			
	Allowable Interest	<u>1,053</u>			
	Allocable Pension Cost	156,035			
	Segment Allocation Percentage		83.97%	16.03%	
	Segment Allocable Pension Cost		131,023	25,012	
1989	Fiscal Year Pension Cost		102,239	19,517	
	Medicare LOB* Percentage		<u>2.67%</u>	<u>100.00%</u>	
	Allowable Pension Cost		<u>\$2,730</u>	<u>\$19,517</u>	<u>\$22,247</u>

1990	Contributions	\$500,920			
8.00%	Discount for Interest	<u>(25,729)</u>			
1/1/90	Present Value Contributions	475,191			
	Prepayment Credit Applied	<u>22,360</u>			
	Present Value of Funding	497,551			
1/1/90	CAS Funding Target	455,972			
	Percentage Funded	<u>100.00%</u>			
	Funded Pension Cost	455,972			
	Allowable Interest	<u>10,636</u>			
	Allocable Pension Cost	466,608			
	Segment Allocation Percentage		83.97%	16.03%	
	Segment Allocable Pension Cost		391,811	74,797	
1990	Fiscal Year Pension Cost		326,614	62,351	
	Medicare LOB* Percentage		<u>2.67%</u>	<u>100.00%</u>	
	Allowable Pension Cost		<u>\$8,721</u>	<u>\$62,351</u>	<u>\$71,072</u>

Date	Description	Total Company	“Other” Segment	Medicare Segment	Total Medicare
1991	Contributions	\$425,017			
8.50%	Discount for Interest	<u>(17,164)</u>			
1/1/91	Present Value Contributions	407,853			
	Prepayment Credit Applied	<u>44,906</u>			
	Present Value of Funding	452,759			
1/1/91	CAS Funding Target	381,607			
	Percentage Funded	<u>100.00%</u>			
	Funded Pension Cost	381,607			
	Allowable Interest	<u>13,866</u>			
	Allocable Pension Cost	395,473			
	Segment Allocation Percentage		88.11%	11.89%	
	Segment Allocable Pension Cost		348,451	47,022	
1991	Fiscal Year Pension Cost		359,291	53,966	
	Medicare LOB* Percentage		<u>2.41%</u>	<u>100.00%</u>	
	Allowable Pension Cost		<u>\$8,659</u>	<u>\$53,966</u>	<u>\$62,625</u>

1992	Contributions	\$487,488			
8.50%	Discount for Interest	<u>(22,937)</u>			
1/1/92	Present Value Contributions	464,551			
	Prepayment Credit Applied	<u>77,199</u>			
	Present Value of Funding	541,750			
1/1/92	CAS Funding Target	428,939			
	Percentage Funded	<u>100.00%</u>			
	Funded Pension Cost	428,939			
	Allowable Interest	<u>11,941</u>			
	Allocable Pension Cost	440,880			
	Segment Allocation Percentage		87.53%	12.47%	
	Segment Allocable Pension Cost		385,902	54,978	
1992	Fiscal Year Pension Cost		376,539	52,989	
	Medicare LOB* Percentage		<u>2.04%</u>	<u>100.00%</u>	
	Allowable Pension Cost		<u>\$7,681</u>	<u>\$52,989</u>	<u>\$60,670</u>

Date	Description	Total Company	“Other” Segment	Medicare Segment	Total Medicare
1993	Contributions	\$775,713			
7.50%	Discount for Interest	<u>(32,948)</u>			
1/1/93	Present Value Contributions	742,765			
	Prepayment Credit Applied	<u>122,399</u>			
	Present Value of Funding	865,164			
1/1/93	CAS Funding Target	707,135			
	Percentage Funded	<u>100.00%</u>			
	Funded Pension Cost	707,135			
	Allowable Interest	<u>17,156</u>			
	Allocable Pension Cost	724,291			
	Segment Allocation Percentage		86.11%	13.89%	
	Segment Allocable Pension Cost		623,687	100,604	
1993	Fiscal Year Pension Cost		564,241	89,198	
	Medicare LOB* Percentage		<u>1.93%</u>	<u>100.00%</u>	
	Allowable Pension Cost		<u>\$10,890</u>	<u>\$89,198</u>	<u>\$100,088</u>

1994	Contributions	\$826,902			
7.50%	Discount for Interest	<u>(30,899)</u>			
1/1/94	Present Value Contributions	796,003			
	Prepayment Credit Applied	<u>169,881</u>			
	Present Value of Funding	965,884			
1/1/94	CAS Funding Target	668,816			
	Percentage Funded	<u>100.00%</u>			
	Funded Pension Cost	668,816			
	Allowable Interest	<u>17,378</u>			
	Allocable Pension Cost	686,194			
	Segment Allocation Percentage		86.05%	13.95%	
	Segment Allocable Pension Cost		590,470	95,724	
1994	Fiscal Year Pension Cost		598,774	96,944	
	Medicare LOB* Percentage		<u>1.88%</u>	<u>100.00%</u>	
	Allowable Pension Cost		<u>\$11,257</u>	<u>\$96,944</u>	<u>\$108,201</u>

Date	Description	Total Company	“Other” Segment	Medicare Segment	Total Medicare
1995	Contributions	\$807,312			
7.50%	Discount for Interest	<u>(28,049)</u>			
1/1/95	Present Value Contributions	779,263			
	Prepayment Credit Applied	<u>319,348</u>			
	Present Value of Funding	1,098,611			
1/1/95	CAS Funding Target	742,935			
	Percentage Funded	<u>100.00%</u>			
	Funded Pension Cost	742,935			
	Allowable Interest	<u>15,948</u>			
	Allocable Pension Cost	758,883			
	Segment Allocation Percentage		87.17%	12.83%	
	Segment Allocable Pension Cost		661,518	97,365	
1995	Fiscal Year Pension Cost		643,756	96,955	
	Medicare LOB* Percentage		<u>1.92%</u>	<u>100.00%</u>	
	Allowable Pension Cost		<u>\$12,360</u>	<u>\$96,955</u>	<u>\$109,315</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.
- 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).
- 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), 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/ The segment allocation percentage represents each segment's portion of the Total Company allocable CAS pension cost. We determined the segment allocation percentages based upon salary information provided by COSVI. We assumed the 1987 through 1989 percentages equaled the 1990 percentages.
- 12/ We calculated the segment allocable pension cost as the Total Company allocable pension cost multiplied by each segment's allocation percentage.
- 13/ 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.
- 14/ 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. We determined the LOB percentages based upon information provided by COSVI. We assumed the 1988 and 1989 LOB percentages equaled the 1990 LOB percentages.
- 15/ 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.



June 16, 2009

Mr. Patrick J. Cogley
Regional Inspector General
for Audit Services
OFFICE OF INSPECTOR GENERAL
Office of Audit Services
Region VII
601 East 12th Street Rm 0429
Kansas City, Missouri 64106

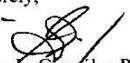
Dear Mr. Cogley:

Enclosed are our written comments to the U.S. Department of Health and Human Services, Office of Inspector General (OIG), draft reports dated April 17, 2009.

1. **A-07-09-00317 "Review of Pension Costs Claimed for Medicare Reimbursement by Cooperativa de Seguros de Vida de Puerto Rico, for Fiscal Years 1988 Through 1995"** – Based on the agreement reached by our actuary with the OIG, we agree with the adjustment of \$70,282 for the 1988 through 1995 period. Our approach will be to reduce the FY 2009 FACP by this amount or consider it as an offset during the final settlement.
2. **A-07-09-00318 "Audit of Cooperativa de Seguros de Vida de Puerto Rico's Unfunded Pension Costs for 1986 to 2007"** – We concur with the adjustment. The OIG's recommendation will be referred to our actuary for the identification of accumulated unallowable unfunded cost and update of interest as applicable.
3. **A-07-08-00271 "Review of Pension Segmentation Requirements for the Qualified Pension Plan at Cooperativa de Seguros de Vida de Puerto Rico, for the Period January 1, 1996 to January 1, 2007"** – We concur with the OIG finding that the Medicare segment pension assets are understated by \$858,062. We will refer the OIG recommendation of increasing the Medicare segment assets as of January 1, 2007 by that amount to our actuary.

Thank you for the opportunity to comment on the report. From the outcome the reports we anticipate that since the Medicare segment assets are understated by \$858,000, the final settlement will result in a refund equivalent to that amount.

Sincerely,


Carlos L. González Rodríguez, CPA, CMA
Finance Vice President and CFO