



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

June 24, 2010

Office of Audit Services
Jacob Javits Federal Building
26 Federal Plaza, Room 3900
New York, NY 10278

Report Number: A-02-08-01026

Mr. Carlos L. González, C.P.A., C.M.A.
Chief Financial Officer
Cooperativa de Seguros de Vida de Puerto Rico
400 Avenida Américo Miranda
Esq. Expreso Las Americas
Rio Piedras, PR 00926

Dear Mr. González:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Audit of Cooperativa de Seguros de Vida de Puerto Rico's Final Administrative Cost Proposal for Fiscal Years 2005 through 2007*. 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.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Richard Schlitt, Audit Manager, at (212) 264-4817 or through email at Richard.Schlitt@oig.hhs.gov. Please refer to report number A-02-08-01026 in all correspondence.

Sincerely,

/James P. Edert/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Deborah Taylor
Acting Director & Chief Financial Officer
Office of Financial Management
Centers for Medicare & Medicaid Services
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7500 Security Boulevard
Baltimore, MD 21244-1850

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF COOPERATIVA DE
SEGUROS DE VIDA DE PUERTO RICO'S
FINAL ADMINISTRATIVE COST
PROPOSAL FOR FISCAL YEARS 2005
THROUGH 2007**



**Daniel R. Levinson
Inspector General**

**June 2010
A-02-08-01026**

Office of Inspector General

<http://oig.hhs.gov>

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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

Title XVIII of the Social Security Act established the Medicare Program. The Centers for Medicare and Medicaid Services (CMS) administers the Medicare program through contractors, including Part A fiscal intermediaries that process and pay Medicare claims. Contracts between CMS and the Medicare contractors define the functions to be performed and provide for the reimbursement of allowable administrative costs incurred in the processing of Medicare claims.

CMS contracts provide for the reimbursement of allowable administrative costs incurred in processing Medicare claims. In claiming costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation (FAR) and the Medicare contracts. Following the close of each fiscal year (FY), contractors submit to CMS a Final Administrative Cost Proposal (cost proposal), which reports the Medicare administrative costs incurred during the year. The cost proposal and supporting data provide the basis for the CMS contracting officer and contractor to negotiate a final settlement of allowable administrative costs.

For FYs 2005 through 2007, CMS contracted with Cooperativa de Seguros de Vida de Puerto Rico (COSVI) to serve as the Part A fiscal intermediary for the Commonwealth of Puerto Rico and the United States Virgin Islands. COSVI reported Medicare Part A administrative costs totaling \$10,327,220 in its cost proposals for FYs 2005 through 2007.

OBJECTIVES

Our objectives were to determine whether (1) the COSVI cost proposals fairly presented program administration costs and (2) the costs were reasonable, allowable, and allocable in accordance with the FAR and the Medicare contracts.

SUMMARY OF FINDINGS

COSVI reported expenditures in its cost proposals that substantially complied with the FAR and the Medicare contracts. However, COSVI overstated its FYs 2005 through 2007 cost proposals by \$61,533. Specifically, COSVI reported unsupported, unallocable, and overstated costs to the Medicare program totaling \$64,292 – (1) unsupported subcontract and salary costs (\$17,608); (2) unallocable entertainment and executive compensation costs (\$24,478), and (3) overstated travel costs, depreciation, indirect expenses, return on investment, and subcontract costs (\$22,206). In addition, COSVI understated salary costs by \$2,759.

RECOMMENDATION

We recommend that COSVI decrease its costs proposals by \$61,533 (\$12,291 for FY 2005, \$34,868 for FY 2006, and \$14,374 for FY 2007) to reflect the unallowable administrative costs.

COOPERATIVA DE SEGUROS DE VIDA DE PUERTO RICO COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, COSVI partially agreed with our recommendation to decrease its cost proposals. COSVI indicated that it agreed to adjust its cost proposals for unsupported subcontract and salary costs; unallocable executive compensation; overstated travel, depreciation, indirect costs, and return on investment; and understated salary costs. However, COSVI did not agree to adjust its cost proposals for unallocable entertainment costs and overstated subcontract costs. COSVI's comments appear in their entirety as Appendix D.

After reviewing COSVI's comments, we continue to recommend that COSVI decrease its cost proposals by \$61,533 to reflect the unallowable administrative costs.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
OBJECTIVES, SCOPE, AND METHODOLOGY	1
Objectives	1
Scope.....	1
Methodology	2
FINDINGS AND RECOMMENDATION	3
UNSUPPORTED COSTS	3
Subcontracts and Salaries	3
UNALLOCABLE COSTS	3
Entertainment.....	3
Executive Compensation	4
OVERSTATED COSTS	4
Travel	4
Depreciation.....	5
Indirect Cost Rate	5
Return on Investment.....	5
Subcontract Costs.....	6
UNDERSTATED SALARY COSTS	6
RECOMMENDATION	6
COOPERATIVA DE SEGUROS DE VIDA DE PUERTO RICO COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE	6

APPENDIXES

A – COSTS REPORTED ON FINAL ADMINISTRATIVE COST PROPOSAL BY
COST CLASSIFICATION

B – OFFICE OF INSPECTOR GENERAL RECOMMENDED COSTS
ADJUSTMENTS

C – COMPARISON OF ADMINISTRATIVE COSTS REPORTED TO BUDGET
AUTHORIZATION

D – COOPERATIVA DE SEGUROS DE VIDA DE PUERTO RICO COMMENTS

INTRODUCTION

BACKGROUND

Title XVIII of the Social Security Act established the Medicare Program. The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program through contractors, including Part A fiscal intermediaries that process and pay Medicare claims. Contracts between CMS and the Medicare contractors define the functions to be performed and provide for the reimbursement of allowable administrative costs incurred in the processing of Medicare claims.

CMS contracts provide for the reimbursement of allowable administrative costs incurred in processing Medicare claims. In claiming costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulation (FAR) and the Medicare contracts. Following the close of each fiscal year (FY), contractors submit to CMS a Final Administrative Cost Proposal (cost proposal), which reports the Medicare administrative costs incurred during the year. The cost proposal and supporting data provide the basis for the CMS contracting officer and contractor to negotiate a final settlement of allowable administrative costs.

During our audit period (FYs 2005 through 2007), CMS contracted with Cooperativa de Seguros de Vida de Puerto Rico (COSVI) to serve as the Part A fiscal intermediary for the Commonwealth of Puerto Rico and the United States Virgin Islands. COSVI reported Medicare Part A administrative costs totaling \$10,327,220 in its cost proposals for FYs 2005 through 2007.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our objectives were to determine whether (1) the COSVI cost proposals fairly presented program administration costs and (2) the costs were reasonable, allowable, and allocable in accordance with the FAR and the Medicare contracts.

Scope

Our review covered the period October 1, 2004, through September 30, 2007 (FYs 2005 through 2007). For this period, COSVI reported Medicare Part A administrative costs totaling \$10,327,220. This total included pension costs of \$631,726 that we excluded from this review because they will be the subject of a separate audit. COSVI did not report any forward-funding costs in its cost proposals for this period. We reviewed those internal controls relevant to our audit objectives.

We conducted our fieldwork at COSVI's offices in San Juan, Puerto Rico.

Methodology

To accomplish our objectives, we

- reviewed applicable Medicare laws, regulations, and guidelines;
- reviewed the applicable sections of the FAR and COSVI's contracts with CMS;
- reviewed COSVI's independent auditor's reports for calendar years 2004 through 2007 and letters related to internal controls for COSVI for calendar years 2006 and 2007;
- reviewed COSVI's Medicare external audit reports for FYs 2003 through 2004;
- reconciled expenses on the cost proposals and cost classification reports to COSVI's accounting records;
- tested costs for reasonableness, allowability, and allocability;
- selected and reviewed a judgmental sample of journal entries, invoices, expense vouchers and reports, contracts and agreements, and additional supporting documentation;
- interviewed COSVI officials regarding their costs accumulation processes for cost proposals and cost allocation systems;
- reviewed payroll journals, corporate bonus plans, and personnel records; and
- selected a judgmental sample of 19 individual employees and verified that the amount paid to each employee was in accordance with the employee's pay rate, the employee's salary was charged to the correct cost center, and the number of hours paid to the employee agreed with the employee's earning statements.

In addition, for each of the five highest paid COSVI executives who had salaries allocated to Medicare, we:

- reviewed total compensation payout data and supporting documentation for FYs 2005 through 2007;
- compared executive compensation costs to benchmark amounts published in the Federal Register for FYs 2005 through 2007; and
- applied the Medicare allocation percentage to each executive's total compensation, up to the benchmark amount, to determine the allowable executive compensation amount.

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 findings and conclusions based on our audit objectives.

FINDINGS AND RECOMMENDATIONS

COSVI reported expenditures in its cost proposals that substantially complied with the FAR and the Medicare contracts. However, COSVI overstated its FYs 2005 through 2007 cost proposals by \$61,533. Specifically, COSVI reported unsupported, unallocable, and overstated costs to the Medicare program totaling \$64,292 – (1) unsupported subcontract and salary costs (\$17,608); (2) unallocable entertainment and executive compensation costs (\$24,478), and (3) overstated travel costs, depreciation, indirect expenses, return on investment, and subcontract costs (\$22,206). In addition, COSVI understated salary costs by \$2,759.

UNSUPPORTED COSTS

Subcontracts and Salaries

COSVI reported unsupported subcontract and salary costs totaling \$17,608 in its FYs 2006 and 2007 cost proposals.

Pursuant to FAR section 31.201-2(d), COSVI is responsible for “... maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles.”

COSVI did not maintain adequate records to support costs in its FYs 2006 and 2007 cost proposals totaling \$17,608. The unsupported costs were included in the following categories:

- \$12,000 for subcontract costs in FY 2007 and
- \$5,608 for salaries (\$2,158 in FY 2006 and \$3,450 in FY 2007).

UNALLOCABLE COSTS

COSVI reported unallocable entertainment and executive compensation costs totaling \$24,478 in its FYs 2005 through 2007 cost proposals.

Entertainment

Pursuant to section 31.205-14 of the FAR, “... costs of amusement, diversions, social activities, and any directly associated costs such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities are unallowable.” Further, pursuant to FAR 31.201-4, “a cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship.”

COSVI improperly reported entertainment costs totaling \$19,305 in its FYs 2005 through 2007 cost proposals (\$8,402 in FY 2005, \$7,908 in FY 2006, and \$2,995 in FY 2007). Specifically,

COSVI reported unallowable costs related to company Christmas parties (\$4,024 in FY 2005 and \$4,509 in FY 2006), as well as food and beverages served after the company's annual meeting (\$4,378 in FY 2005, \$3,399 in FY 2006, and \$2,995 in FY 2007).

Executive Compensation

Pursuant to Appendix B, section XV of the Medicare contract, all direct and indirect costs related to the contractor's non-Medicare business that do not contribute to the Medicare program are unallowable. In addition, pursuant to FAR 31.201-4, "a cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship."

COSVI improperly reported executive compensation costs totaling \$5,173 in its FY 2005 cost proposal. Specifically, COSVI claimed non-Medicare business related expenses paid to the company's former vice president for Medicare during FY 2004.¹

OVERSTATED COSTS

COSVI overstated travel, depreciation, indirect costs, return on investment, and subcontract costs totaling \$22,206 in its FYs 2005 through 2007 cost proposals.

Travel

Pursuant to section 31.205-46 of the FAR, costs incurred for lodging, meals, and incidental expenses shall be considered to be reasonable and allowable only to the extent that they do not exceed on a daily basis the maximum per diem rates in effect at the time of travel. The Federal Travel Regulation (41 CFR Part 300-304) implements statutory requirements and Executive branch policies for travel by Federal civilian employees and other authorized to travel at government expense.

COSVI reported unallowable travel costs totaling \$1,365. Specifically, COSVI reported:

- \$44 for per diem reimbursement for travel that lasted less than 12 hours,
- \$155 for lodging expenses above the per diem rate without CMS authorization and justification,
- \$866 for business class airline tickets without CMS authorization,² and

¹ These non-Medicare business related expenses were normally provided to members of COSVI's executive board and reported as taxable income.

² We determined the disallowance by calculating the difference between the business class ticket and the cost of a coach class ticket for the same flight.

- \$300 in excess per diem fees for not making a travel reservation prior to the date indicated by CMS.

Depreciation

Pursuant to Appendix B, section IV.A of the Medicare contract, a Medicare contractor must depreciate all items of equipment with a useful life of more than one year. The cost of equipment may not be charged off as an expense in the year of purchase.

Contrary to this contract clause, COSVI reported \$31,112 in FY 2006 as depreciation for equipment with a three-year life that cost \$32,635. We calculated the depreciation expense for this equipment as \$10,878 for both FY 2006 and 2007, and \$10,879 for FY 2008. Therefore, COSVI overstated its depreciation expenses in FY 2006 by \$21,757 and understated its FY 2007 depreciation expenses by \$10,878. As a result, during our FYs 2005 through 2007 audit period, COSVI overstated its depreciation expenses by \$10,879.³

Indirect Cost Rate

Pursuant to section 31.203 of the FAR, the contractor shall accumulate indirect costs by logical cost groupings. In addition, section II of the Medicare contract Appendix B requires consistency in allocating costs for the same purpose.

COSVI overstated its indirect costs by \$1,635 in its FY 2005 and FY 2006 cost proposals (\$110 in FY 2005 and \$1,525 in FY 2006). Specifically, COSVI utilized indirect cost rates higher than its internally derived cost rates.⁴ As a result, in FY 2005, COSVI overstated outside professional services cost by \$110. In addition, COSVI overstated its FY 2006 allocation of indirect costs by \$1,525.

Return on Investment

Pursuant to Appendix B, section X.A of the Medicare contract, the cost of investment will be determined by multiplying the average undepreciated balance of such assets for the contract period by the actual rate of return of the contractor's investment portfolio for the contract period, or a lower rate if the contractor chooses.

COSVI overstated by \$1,520 the return on investment in its FY 2006 cost proposal. COSVI used an incorrect indirect cost rate to calculate the cost of investment allocation. As result, for FY 2006, COSVI claimed return on investment costs totaling \$22,670 instead of \$21,150.

³ COSVI may apply this amount to its FY 2008 cost proposal.

⁴ In FY 2005, COSVI used an indirect cost rate of 40 percent instead of 10.9 percent. For FY 2006, COSVI used an indirect cost rate of 11.93 percent rather than 11.13 percent.

Subcontract Costs

Pursuant to section 31.204 of the FAR, subcontract costs are allowable to the extent they are reasonable, allocable, and determined to be allowable.

COSVI overstated subcontract costs totaling \$6,807 in its FY 2007 costs proposal. Specifically, COSVI claimed \$5,851 in excess of subcontract terms and reported \$956 of subcontract costs allocable to FY 2008.

UNDERSTATED SALARY COSTS

COSVI understated costs related to salaries totaling \$2,759 in its FY 2005 cost proposal.

Pursuant to section 31.201-2(d) of the FAR (48 CFR § 31.201-2(d)), a contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements.

During our reconciliation of costs reported on COSVI's cost report to accounting records maintained by the fiscal intermediary, we identified \$2,759 in salary costs that COSVI did not report in its cost proposal.

RECOMMENDATION

We recommend that COSVI decrease its costs proposals by \$61,533 (\$12,291 for FY 2005, \$34,868 for FY 2006, and \$14,374 for FY 2007) to reflect the unallowable administrative costs.

COOPERATIVA DE SEGUROS DE VIDA DE PUERTO RICO COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, COSVI partially agreed with our recommendation to decrease its cost proposals. COSVI indicated that it agreed to adjust its cost proposals for unsupported subcontract and salary costs; unallocable executive compensation; overstated travel, depreciation, indirect costs, and return on investment; and understated salary costs. However, COSVI did not agree to adjust its cost proposals for unallocable entertainment costs and overstated subcontract costs. COSVI's comments appear in their entirety as Appendix D.

After reviewing COSVI's comments, we continue to recommend that COSVI decrease its cost proposals by \$61,533 to reflect the unallowable administrative costs.

APPENDIXES

**APPENDIX A: COSTS REPORTED ON FINAL ADMINISTRATIVE COST
PROPOSAL BY COST CLASSIFICATION**

Cost Category	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Total Costs Claimed
Salaries/Wages	\$1,727,380	\$1,707,675	\$1,537,480	4,972,535
Fringe Benefits	522,473	502,944	550,393	1,575,810
Facilities or Occupancy	215,346	222,028	225,720	663,094
Subcontractors	399,434	361,136	264,453	1,025,023
Outside Professional Services	277,925	387,499	334,570	999,994
Telephone and Telegraph	97,338	99,310	87,862	284,510
Postage and Express	30,707	10,907	7,306	48,920
Furniture and Equipment	71,993	94,788	87,034	253,815
Materials and Supplies	88,633	32,959	26,165	147,757
Travel	75,042	55,308	29,482	159,832
Return on Investment	27,206	22,670	19,919	69,795
Miscellaneous	120,308	101,438	84,208	305,954
Credits	(92,877)	(52,393)	(34,549)	(179,819)
Total Costs Reported on Final Administrative Cost Proposal	\$ 3,560,908	\$ 3,546,269	\$ 3,220,043	\$ 10,327,220
OIG Recommended Adjustments*	(12,291)	(34,868)	(14,374)	(61,533)
Total Adjusted Costs	\$ 3,548,617	\$ 3,511,401	\$ 3,205,669	\$ 10,265,687

* See Appendix B

**APPENDIX B: OFFICE OF INSPECTOR GENERAL
RECOMMENDED COSTS ADJUSTMENTS**

Finding Category	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Total Part A Adjustments
Unsupported Subcontract Costs	-	-	\$12,000	\$12,000
Unsupported Salaries	-	\$2,158	3,450	5,608
Unallocable Entertainment Cost	\$8,402	7,908	2,995	19,305
Unallocable Executive Compensation	5,173	-	-	5,173
Overstated Travel Costs	1,365	-	-	1,365
Overstated Depreciation Costs	-	21,757	(10,878)	10,879
Overstated Indirect Cost Rate	110	1,525	-	1,635
Overstated Return on Investment	-	1,520	-	1,520
Overstated Subcontract Costs	-	-	6,807	6,807
Understated Salary Costs	(2,759)	-	-	(2,759)
Total OIG Recommended Adjustments	\$12,291	\$34,868	\$14,374	\$61,533

Note: Of the \$61,533 in OIG Recommended Adjustments, \$10,879 is related to depreciation costs to be reported in COSVI's FY 2008 cost proposal.

**APPENDIX C: COMPARISON OF ADMINISTRATIVE COSTS
REPORTED TO BUDGET AUTHORIZATION
FISCAL YEAR 2005**

Operation	Budget Authorization	Administrative Costs Reported	Variance Favorable (Unfavorable)
<u>Program Management</u>			
Bills/Claims Payment	\$ 896,000	\$ 895,993	\$ 7
Appeals/Reviews	167,100	180,689	(13,589)
Beneficiary Inquiries	218,984	204,450	14,534
PM Provider Communications	69,394	56,609	12,785
Productivity Investment	-	-	-
Reimbursement	251,000	222,457	28,543
Provider Enrollment	122,900	68,789	54,111
Provider Inquires	165,151	164,642	509
Provider Outreach & Education	-	-	-
Credits	(110,000)	(92,877)	(17,123)
Subtotal	1,780,529	1,700,752	79,777
<u>Medicare Integrity Program</u>			
Medical Review	\$331,425	\$342,883	\$(11,458)
MSP- Prepayment	56,000	57,411	(1,411)
Benefits Integrity	32,000	32,625	(625)
Local PET	99,300	100,037	(737)
Provider Communications	146,800	147,868	(1,068)
Audit	1,043,600	1,029,362	14,238
MSP Post payment	151,200	149,970	1,230
Subtotal	\$ 1,860,325	\$ 1,860,156	\$ 169
Totals	\$ 3,640,854	\$ 3,560,908	\$ 79,946

Note: All amounts were taken from Final Administrative Cost Proposal (Supplement No. 02) and Notice of Budget Approval (Supplement No. 07)

**APPENDIX C: COMPARISON OF ADMINISTRATIVE COSTS
REPORTED TO BUDGET AUTHORIZATION
FISCAL YEAR 2006**

Operation	Budget Authorization	Administrative Costs Reported	Variance Favorable (Unfavorable)
<u>Program Management</u>			
Bills/Claims Payment	\$ 891,400	\$ 849,810	\$ 41,590
Appeals/Reviews	183,500	177,646	5,854
Beneficiary Inquiries	174,084	129,524	44,560
PM Provider Communications	42,400	41,120	1,280
Productivity Investment	-	-	-
Reimbursement	221,800	213,889	7,911
Provider Enrollment	45,600	57,964	(12,364)
Provider Inquires	176,151	209,531	(33,380)
Provider Outreach & Education	-	-	-
Credits	(107,200)	(52,393)	(54,807)
Subtotal	1,627,735	1,627,091	644
<u>Medicare Integrity Program</u>			
Medical Review	\$ 341,525	\$ 353,258	\$ (11,733)
MSP- Prepayment	51,000	51,507	(507)
Benefits Integrity	32,000	31,293	707
Local PET	100,000	95,091	4,909
Provider Communications	149,800	157,277	(7,477)
Audit	1,114,600	1,096,600	18,000
MSP Post payment	134,000	134,075	(75)
Subtotal	\$ 1,922,925	\$ 1,919,101	\$ 3,824
Totals	\$ 3,550,660	\$3,546,192*	\$ 4,468

Note: All amounts were taken from Final Administrative Cost Proposal (Supplement No. 03) and Notice of Budget Approval (Supplement No. 17)

**APPENDIX C: COMPARISON OF ADMINISTRATIVE COSTS
REPORTED TO BUDGET AUTHORIZATION
FISCAL YEAR 2007**

Operation	Budget Authorization	Administrative Costs Reported	Variance Favorable (Unfavorable)
<u>Program Management</u>			
Bills/Claims Payment	\$ 736,300	\$ 709,377	\$ 26,923
Appeals/Reviews	142,000	171,748	(29,748)
Beneficiary Inquiries	17,600	22,048	(4,448)
PM Provider Communications	-	-	-
Productivity Investment	11,100	11,959	(859)
Reimbursement	210,500	199,807	10,693
Provider Enrollment	39,000	43,238	(4,238)
Provider Inquires	193,300	194,865	(1,565)
Provider Outreach & Education	69,600	60,568	9,032
Credits	(40,000)	(34,549)	(5,451)
Subtotal	1,379,400	1,379,061	339
<u>Medicare Integrity Program</u>			
Medical Review	\$ 401,000	\$ 412,050	\$ (11,050)
MSP- Prepayment	48,100	49,881	(1,781)
Benefits Integrity	30,000	31,387	(1,387)
Local PET	-	-	-
Provider Communications	-	-	-
Audit	1,114,600	1,093,789	20,811
MSP Post payment	9,300	9,545	(245)
MIP Provider Outreach & Education	175,000	177,932	(2,932)
Subtotal	1,778,000	1,774,584	3,416
<u>Electronic Data Center Transition</u>			
	75,200	66,398	8,802
Totals	\$ 3,232,600	\$ 3,220,043	\$ 12,557

Note: All amounts were taken from Final Administrative Cost Proposal (Supplement No. 00) and Notice of Budget Approval (Supplement No. 09)

APPENDIX D: COOPERATIVA DE SEGUROS DE VIDA DE PUERTO RICO COMMENTS



June 9, 2010

Report Number: A-02-08-01026

James P. Edert
Regional Inspector General
for Audit Services- Region II
Jacob Javits Federal Building
26 Federal Plaza-Room 3900
New York, NY 10278

Dear Mr. Edert:

We received the draft report from the HHS OIG for the Audit of Cooperativa de Seguros de Vida de Puerto Rico Final Administrative Cost Proposal for fiscal years 2005 through 2007. We have reviewed the adjustments recommended in the report totalling \$61,533.00 and our comments are the following:

1. Subcontracts and Salaries- \$17,608.00. COSVI agrees with the adjustment.
2. Entertainment Cost -\$19,305.00. The auditors have disallowed cost related to company Christmas celebration and food and beverages after company Annual meetings pursuant to section 31.205-14 of the FAR (entertainment). We will request CMS evaluation of the amounts claimed since most of the cost were incurred pursuant to section 31.205-13 -Employee Morale and 31.205-28- cost of Shareholders Meetings.
3. Executive Compensation- \$5,173.00. COSVI agrees with the adjustment.
4. Travel \$1,365 COSVI agrees with the adjustment.
5. Depreciation \$10, 879.00. COSVI agrees with the adjustment.
6. Indirect Cost Rate-\$1,635.00. COSVI agrees with the adjustment.
7. Return on Investment- \$1,520.00. COSVI agrees with the adjustment.
8. Subcontract cost -\$6,807.00. Part of this adjustment pertains to cost claimed by our systems subcontractor who submits its invoices to COSVI according to CAS requirements. We will request CMS evaluation of the cost claimed under this methodology.

James P. Edert
June 9, 2010
Page 2

9. Understated salaries – (\$2,759.00). COSVI agrees with the adjustment.

We appreciate the opportunity to comment on the report submitted.

Sincerely,

/Signature/

Carlos L. González, CPA, CMA
Chief Financial Officer

C: Ricardo A. Rivera, President
Ramón Serrano, OIG Senior Auditor
Alba Cosme, VP Medicare