



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

December 28, 2010

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

Report Number: A-02-09-01031

Mr. Ricardo Rivera
President
Cooperativa de Seguros de Vida de Puerto Rico
400 Avenida Américo Miranda
Esq. Expreso Las Américas
Rio Piedras, PR 00926

Dear Mr. Rivera:

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 Year 2008*. 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 Glenn H. Richter, Audit Manager, at (518) 437-9390, extension 227, or through email at Glenn.Richter@oig.hhs.gov. Please refer to report number A-02-09-01031 in all correspondence.

Sincerely,

/Richard Schlitt/ for
/James Edert/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Deborah Taylor
Director & Chief Financial Officer
Office of Financial Management (OFM)
Centers for Medicare & Medicaid Services
Mail Stop C3-01-24
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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 YEAR 2008**



Daniel R. Levinson
Inspector General

December 2010
A-02-09-01031

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 & 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:

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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 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

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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.

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 contract. 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 FY 2008, 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 \$2,928,106 in its cost proposal for FY 2008.

OBJECTIVES

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

SUMMARY OF FINDINGS

COSVI reported expenditures in its cost proposal that substantially complied with the FAR and the Medicare contract. However, COSVI overstated its cost proposal by \$13,246. Specifically, COSVI reported overstated building improvement costs (\$8,869), and unallocable entertainment (\$4,227) and travel costs (\$150) to the Medicare program.

RECOMMENDATION

We recommend that COSVI decrease its cost proposal for FY 2008 by \$13,246 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 concurred with our recommendation to decrease its cost proposal by \$13,246. COSVI indicated that it agreed to adjust its cost proposal for overstated building improvement costs (\$8,869) and unallocable travel costs (\$150). However, COSVI indicated that it did not agree to adjust its cost proposal for entertainment costs (\$4,227) because the costs related to employee morale and shareholders meetings. COSVI's comments appear in their entirety as Appendix D.

After reviewing COSVI's comments, we maintain that the entertainment costs are unallocable and that COSVI should decrease its cost proposal by \$13,246 to reflect all of 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
OVERSTATED COSTS	3
Building Improvements	3
UNALLOCABLE COSTS	3
Entertainment.....	3
Travel	3
RECOMMENDATION	4
COOPERATIVA DE SEGUROS DE VIDA DE PUERTO RICO COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE.....	4
APPENDIXES	
A: COSTS REPORTED ON FINAL ADMINISTRATIVE COST PROPOSAL BY COST CLASSIFICATION	
B: OFFICE OF INSPECTOR GENERAL RECOMMENDED COST 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 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 contract. 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 FY 2008, 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 \$2,928,106 in its cost proposal for FY 2008.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

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

Scope

Our review covered the period October 1, 2007, through September 30, 2008 (FY 2008). For this period, COSVI reported Medicare Part A administrative costs totaling \$2,928,106. This total included pension costs of \$173,772 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 proposal for this period. We reviewed only those internal controls relevant to our audit objectives.

We conducted our fieldwork at COSVI's offices in San Juan, Puerto Rico, from August 2009 through February 2010.

Methodology

To accomplish our objectives, we

- reviewed applicable Medicare laws, regulations, and guidelines;
- reviewed the applicable sections of the FAR and COSVI's contract with CMS;
- reviewed COSVI's independent auditor's reports and letters related to internal controls for COSVI for calendar years 2007 and 2008;
- reconciled expenses on the cost proposal and cost classification report 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 15 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;
- compared executive compensation costs to benchmark amounts published in the Federal Register; 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 RECOMMENDATION

COSVI reported expenditures in its cost proposal that substantially complied with the FAR and the Medicare contract. However, COSVI overstated its cost proposal by \$13,246. Specifically, COSVI reported overstated building improvement costs (\$8,869), and unallocable entertainment (\$4,227) and travel costs (\$150) to the Medicare program.

OVERSTATED COSTS

Building Improvements

Pursuant to Appendix B, section II(B) of the Medicare contract, costs should be allocated only once to prevent duplication of charges. Further, the contract clause states that adherence to this cost accounting concept is necessary to guard against overcharging cost objectives and to prevent double counting.

COSVI properly categorized building improvement costs incurred to install and test fiber optic cable as a capitalized expense and reported related depreciation costs in its cost proposal. However, contrary to the contract clause, COSVI also reported a portion of these building improvement costs as an expense in its cost proposal. As a result, COSVI overstated its expenses by \$8,869.

UNALLOCABLE COSTS

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 unallocable entertainment costs totaling \$4,227 in its cost proposal. Specifically, COSVI reported costs for food and beverages served after the company's annual meeting (\$3,179) as well as costs for renting a facility and hiring a band to perform at the company's Christmas party (\$1,048).

Travel

Pursuant to section 31.201-4 of the FAR, "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 unallocable travel costs in its cost proposal totaling \$150. Specifically, COSVI claimed airfare costs incurred by one employee for personal travel after the conclusion of an official business trip.¹

RECOMMENDATION

We recommend that COSVI decrease its cost proposal for FY 2008 by \$13,246 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 concurred with our recommendation to decrease its cost proposal by \$13,246. COSVI indicated that it agreed to adjust its cost proposal for overstated building improvement costs (\$8,869) and unallocable travel costs (\$150). However, COSVI indicated that it did not agree to adjust its cost proposal for entertainment costs (\$4,227) because the costs related to employee morale and shareholders meetings. COSVI's comments appear in their entirety as Appendix D.

After reviewing COSVI's comments, we maintain that the entertainment costs are unallocable and that COSVI should decrease its cost proposal by \$13,246 to reflect all of the unallowable administrative costs.

¹ The airfare costs related to a trip segment added to the employee's flight home from the business trip.

APPENDIXES

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

Cost Category	Total Costs Claimed
Salaries/Wages	\$ 1,222,510
Fringe Benefits	365,326
Facilities or Occupancy	278,036
Subcontractors	168,800
Outside Professional Services	552,018
Telephone and Telegraph	52,872
Postage and Express	6,346
Furniture and Equipment	129,865
Materials and Supplies	25,847
Travel	42,669
Return on Investment	18,794
Miscellaneous	92,678
Credits	(27,655)
Total Costs Reported on Final Administrative Cost Proposal	\$ 2,928,106
OIG Recommended Adjustments*	(13,246)
Total Adjusted Costs	\$ 2,914,860

* See Appendix B

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

Finding Category	Total Part A Adjustments
Overstated Building Improvement Costs	\$ 8,869
Unallocable Entertainment Costs	4,227
Unallocable Travel Costs	150
Total OIG Recommended Adjustments	\$ 13,246

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

Operation	Budget Authorization	Administrative Costs Reported	Variance Favorable (Unfavorable)
<u>Program Management</u>			
Bills/Claims Payment	\$ 571,500	\$ 517,518	\$ 53,982
Appeals/Reviews	155,600	156,717	(1,117)
Beneficiary Inquiries	34,100	19,306	14,794
Productivity Investment	43,300	22,554	20,746
Reimbursement	222,800	216,953	5,847
Provider Enrollment	68,000	74,162	(6,162)
Provider Inquiries	228,200	190,696	37,504
Provider Outreach & Education	75,300	77,984	(2,684)
Credits	(36,200)	(27,655)	(8,545)
Subtotal	\$ 1,362,600	\$ 1,248,235	\$ 114,365
<u>Medicare Integrity Program</u>			
Medical Review	\$ 390,000	\$ 389,477	\$ 523
MSP- Prepayment	54,600	51,838	2,762
Benefits Integrity	35,000	36,236	(1,236)
MIP Provider Outreach and Education	175,000	170,424	4,576
Audit	1,019,700	1,022,211	(2,511)
MSP Post payment	9,800	9,685	115
Subtotal	\$ 1,684,100	\$ 1,679,871	\$ 4,229
Totals	\$ 3,046,700	\$ 2,928,106	\$ 118,594

Note: All amounts were taken from Final Administrative Cost Proposal (Supplement No. 01) and Notice of Budget Approval (Supplement No. 09).

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



October 27, 2010

Report Number: A-02-09-01031

Mr. James P. Edert
Regional Office 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 (COSVI) Final Administrative Cost Proposal for fiscal year 2008. We have reviewed the adjustments recommended in the report totaling \$13,246.00 and our comments are the following:

1. Building Improvements - \$8,869.00. COSVI agrees with the proposed adjustment.
2. Entertainment Cost - \$4,227.00. 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 costs amounts claimed since most of the costs were incurred pursuant to section FAR 31.205-13 Employee Morale and 31.205-28 cost of Shareholders Meetings.
3. Travel - \$150.00. COSVI agrees with the adjustment.

We appreciate the opportunity to comment on the report submitted.

Sincerely,


Stuart S. Brown
Finance Vice President and Chief Financial Officer

c Mr. Ricardo Rivera, President
Mr. Ramón Serrano, OIG Senior Auditor
Mrs. Alba Cosme, VP Medicare Division