



February 16, 2011

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

Report Number: A-02-10-01019

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 2009*. 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-02-10-01019 in all correspondence.

Sincerely,

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

Enclosure

Direct Reply to HHS Action Official:

Deborah Taylor
Director & Chief Financial Officer
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 & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF COOPERATIVA DE
SEGUROS DE VIDA DE PUERTO
RICO'S FINAL ADMINISTRATIVE
COST PROPOSAL FOR FISCAL
YEAR 2009**



Daniel R. Levinson
Inspector General

February 2011
A-02-10-01019

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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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.

Prior to February 28, 2009, 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. Pursuant to section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P.L. No. 108-173, CMS replaced its Part A fiscal intermediaries with new contract entities called Medicare Administrative Contractors (MAC). CMS did not award COSVI a MAC contract. As a result, CMS terminated its Part A fiscal intermediary contract with COSVI, effective February 28, 2009.

In its cost proposal for the 5-month period ending February 28, 2009, COSVI reported Medicare Part A administrative costs totaling \$1,566,164.

OBJECTIVES

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

SUMMARY OF FINDINGS

COSVI's reported expenditures in its cost proposal substantially complied with the FAR and the Medicare contract. However, COSVI overstated its cost proposal by \$5,680. Specifically, COSVI reported unallocable annual meeting and insurance costs (\$3,946) and unsupported salary costs (\$1,734) to the Medicare program.

RECOMMENDATION

We recommend that COSVI decrease its cost proposal by \$5,680 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 concurred with our recommendation. COSVI's comments appear in their entirety as Appendix D.

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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.

Prior to February 28, 2009, 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. Pursuant to section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P.L. No. 108-173, CMS replaced its Part A fiscal intermediaries with new contract entities called Medicare Administrative Contractors (MAC). CMS did not award COSVI a MAC contract. As a result, CMS terminated its Part A fiscal intermediary contract with COSVI, effective February 28, 2009.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our objectives were to determine whether (1) the COSVI cost proposal fairly presented program administration 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, 2008, through February 28, 2009. For this 5-month period, COSVI reported Medicare Part A administrative costs totaling \$1,566,164. These costs included pension costs of \$40,776 that we excluded from this review because they will be the subject of a separate audit.¹ COSVI did not report any forward-funding costs in its cost proposal for this period. We reviewed only those internal controls necessary to achieve our audit objectives.

¹ We will also be issuing a separate report (A-02-10-01028) on costs submitted by COSVI related to the termination of the Medicare contract.

We conducted our fieldwork at COSVI's offices in San Juan, Puerto Rico, from February through July 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 year 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's reported expenditures in its cost proposal substantially complied with the FAR and the Medicare contract. However, COSVI overstated its cost proposal by \$5,680. Specifically, COSVI reported unallocable annual meeting and insurance costs (\$3,946) and unsupported salary costs (\$1,734).

UNALLOCABLE COSTS

Annual Meeting

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 annual meeting costs totaling \$3,152 in its cost proposal. Specifically, COSVI reported annual meeting costs (using an estimated monthly charge) for the 12-month period October 1, 2008, through September 30, 2009.² However, COSVI's Medicare contract was terminated effective February 28, 2009; therefore, COSVI should have reported only 5 months of annual meeting costs.

Insurance

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 insurance costs totaling \$794 in its cost proposal. Specifically, COSVI reported insurance costs incurred during the 9-month period January 1, 2009, through September 30, 2009. However, COSVI's Medicare contract was terminated effective February 28, 2009; therefore, COSVI should have reported only 2 months of insurance costs.

UNSUPPORTED COSTS

Salaries

Pursuant to section 31.201-2(d) of the FAR, 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 reported salary costs totaling \$1,734 in its cost proposal that were not supported by documentation.

² COSVI used the cost of the previous year's annual meeting to estimate and allocate a monthly charge for the June 2009 annual meeting.

RECOMMENDATION

We recommend that COSVI decrease its cost proposal by \$5,680 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 concurred with our recommendation. COSVI's comments appear in their entirety as Appendix D.

APPENDIXES

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

Cost Category	Total Claimed Costs
Salaries/Wages	\$ 809,802
Fringe Benefits	83,257
Facilities or Occupancy	112,425
Subcontractors	112,584
Outside Professional Services	344,728
Telephone and Telegraph	18,848
Postage and Express	6,332
Furniture and Equipment	38,278
Materials and Supplies	9,730
Travel	8,550
Return on Investment	9,474
Miscellaneous	20,040
Credits	(7,884)
Total Costs Reported on Final Administrative Cost Proposal	\$1,566,164
OIG Recommended Adjustments*	(5,680)
Total Adjusted Costs	\$1,560,484

* See Appendix B

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

Finding Category	Total Part A Adjustments
Unallocable Annual Meeting	\$3,152
Unallocable Insurance Costs	794
Unsupported Salary Costs	1,734
Total OIG Recommended Adjustments	\$5,680

**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	\$ 191,500	\$ 246,872	\$(55,372)
Appeals/Reviews	80,000	76,708	3,292
Beneficiary Inquiries	4,400	4,072	328
Reimbursement	81,400	79,277	2,123
Provider Enrollment	34,000	22,253	11,747
Provider Inquires	109,400	77,355	32,045
Provider Outreach & Education	41,300	29,710	11,590
Credits	(12,600)	(7,884)	(4,716)
Subtotal	\$ 529,400	\$ 528,363	\$ 1,037
<u>Medicare Integrity Program</u>			
Medical Review	\$ 173,400	\$ 173,972	\$ (572)
MSP- Prepayment	14,600	12,759	1,841
Benefits Integrity	7,500	15,842	(8,342)
MIP Provider Outreach and Education	50,400	67,328	(16,928)
Audit	444,400	343,354	101,046
MSP Post payment	4,300	2,815	1,485
Subtotal	\$ 694,600	\$ 616,070	\$ 78,530
Non-Renewal	\$ 641,144	\$ 421,731	\$219,413
Totals	\$1,865,144	\$1,566,164	\$298,980

Notes: All amounts were taken from Final Administrative Cost Proposal (Supplement No. 00) and Notification of Budget Approval (Supplement No. 07).

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



October 27, 2010

Report Number: A-02-10-01019

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 2009. We have reviewed the adjustments recommended in the report totaling \$5,680.00 and our comments are the following:

1. Annual Meeting Cost - \$3,152.00. COSVI agrees with the proposed adjustment.
2. Insurance Cost - \$794.00. COSVI agrees with the proposed adjustment.
3. Salaries - \$1,734.00. COSVI agrees with the proposed adjustment.

We appreciate the opportunity to comment on the report submitted.

Sincerely,

A handwritten signature in black ink, appearing to read "Stuart S. Brown", is written over a light blue horizontal line.

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