



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

February 3, 2011

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

Report Number: A-02-10-01028

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 Review of Termination Costs Claimed by Cooperativa de Seguros de Vida de Puerto Rico. 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-02-10-01028 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, MD 21244-1850

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF TERMINATION COSTS
CLAIMED BY COOPERATIVA DE SEGUROS
DE VIDA DE PUERTO RICO**



Daniel R. Levinson
Inspector General

February 2011
A-02-10-01028

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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Notices

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

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. The contracts provide for reimbursement of allowable costs when contracts are terminated.

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.

Appendix B of the contract between CMS and COSVI set forth principles of reimbursement for termination costs. The appendix cited the Federal Acquisition Regulation (FAR) as regulatory principles to be followed for application to the Medicare contract.

During the period March 1, 2009, through March 31, 2010, COSVI submitted 13 invoices to CMS for termination costs totaling \$220,596.

OBJECTIVE

Our objective was to determine whether termination costs claimed by COSVI were reasonable, allowable, and allocable in accordance with the FAR and the Medicare contract.

SUMMARY OF FINDINGS

COSVI's claims for termination costs substantially complied with the FAR and the Medicare contract. However, COSVI claimed \$5,948 in unallowable costs related to improperly allocated equipment depreciation (\$5,633) and duplicate equipment expenses (\$315).

RECOMMENDATION

We recommend that COSVI refund \$5,948 to the Federal Government.

COOPERATIVA DE SEGUROS DE VIDA DE PUERTO RICO COMMENTS

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

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INTRODUCTION

BACKGROUND

Title XVIII of the Social Security Act (the 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. The contracts provide for reimbursement of allowable costs when contracts are terminated.

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.

Appendix B of the contract between CMS and COSVI set forth principles of reimbursement for termination costs. The appendix cited the Federal Acquisition Regulation (FAR) as regulatory principles to be followed for application to the Medicare contract.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether termination costs claimed by COSVI were reasonable, allowable, and allocable in accordance with the FAR and the Medicare contract.

Scope

Our review covered the period March 1, 2009, through March 31, 2010. For this period, COSVI submitted 13 invoices to CMS for termination costs totaling \$220,596. We judgmentally sampled \$184,669 (84 percent) of the costs claimed. We reviewed only those internal controls necessary to achieve our audit objective.

We performed our fieldwork at COSVI's offices in San Juan, Puerto Rico, from March through July 2010.

Methodology

To accomplish our objective we:

- reviewed applicable Federal laws, regulations, and guidelines;

- reviewed CMS’s contract with COSVI;
- documented COSVI’s processes for accumulating and allocating termination costs;
- obtained invoices and related supporting documents, including payroll records and lease agreements; and
- tested a judgmental sample of costs for reasonableness, allowability, and allocability.

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 objective.

FINDINGS AND RECOMMENDATION

COSVI’s claims for termination costs substantially complied with the FAR and the Medicare contract. However, COSVI claimed \$5,948 in unallowable costs related to improperly allocated equipment depreciation (\$5,633) and duplicate equipment expenses (\$315).

IMPROPERLY ALLOCATED EQUIPMENT DEPRECIATION COSTS

Pursuant to section 31.201-4 of the FAR, a cost is allocable to a government contract if it can be distributed to the contract in reasonable proportion to the benefits received. On COSVI “Invoice No. 6,” which covered the period August 1, 2009, through August 31, 2009, COSVI improperly allocated and claimed equipment depreciation costs totaling \$5,633. Specifically, COSVI improperly included \$5,269 for building depreciation costs that had already been allocated and \$364 resulting from a clerical error made in calculating equipment depreciation.

DUPLICATE EQUIPMENT COSTS

Pursuant to section 31.201-2(d) of the FAR, a contractor is responsible for documenting that claimed costs are allocable to the contract. Pursuant to Appendix B, section II(B) of CMS’s contract with COSVI, costs should be allocated only once to prevent duplication of charges. However, due to a clerical error, on COSVI “Invoice No. 3,” which covered the period May 1, 2009, through May 31, 2009, COSVI submitted duplicate equipment costs related to a photocopier lease.

RECOMMENDATION

We recommend that COSVI refund \$5,948 to the Federal Government.

COOPERATIVA DE SEGUROS DE VIDA DE PUERTO RICO COMMENTS

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

APPENDIX

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



October 27, 2010

Report Number: A-02-10-01028

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) Review of Termination Cost Claimed. We have reviewed the adjustments recommended in the report totaling \$5,948.00 and our comments are the following:

1. Equipment Depreciation Cost - \$5,633.00. COSVI agrees with the proposed adjustment.
2. Equipment Cost - \$315.00. COSVI agrees with the proposed adjustment.

We appreciate the opportunity to comment on the report submitted.

Sincerely,


Stuart 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