



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-07-08-00272

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 1996 Through 2006." 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.

Pursuant to the Freedom of Information Act, 5 U.S.C. § 552, OIG reports generally are made available to the public to the extent that information in the report is not subject to exemptions in the Act. Accordingly, this report will be posted on the Internet at <http://oig.hhs.gov>.

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-07-08-00272 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
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Centers for Medicare & Medicaid Services
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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
1996 THROUGH 2006**



Daniel R. Levinson
Inspector General

July 2009
A-07-08-00272

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

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) 1996 through 2006.

SUMMARY OF FINDING

COSVI claimed \$99,244 of unallowable Medicare pension costs for FYs 1996 through 2006. 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 \$1,801,228 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 \$1,701,984, a difference of \$99,244.

RECOMMENDATION

We recommend that COSVI reduce its Final Administrative Cost Proposal (FACP) pension costs by \$99,244 or refund this amount to CMS.

AUDITEE COMMENTS

In written comments on our draft report, COSVI concurred with our recommendation. In addition, COSVI stated that “[w]e are submitting evidence of \$90,863 which was refunded to CMS during the audit of Administrative Cost for the period October 1, 1984 to September 30, 1987. This amount will be offsetted against the unallowable pension cost of \$99,244. The difference will be reduced from our FY 2009 FACP.”

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

OFFICE OF INSPECTOR GENERAL RESPONSE

The refund adjustment of \$90,863 referred to by COSVI is associated with FYs 1985 through 1987, a time period that is unrelated to this review. In addition, executed closing agreements between CMS and COSVI have finalized pension costs for these FYs. For this reason, pension costs for FYs 1985 through 1987 are not subject to further review or adjustment. Therefore, we maintain that COSVI reduce its FY 1996 through 2006 FACP pension costs by \$99,244 or refund this amount to CMS.

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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 1996 through 2006.

Scope

We reviewed \$1,801,228 of pension costs that COSVI claimed for Medicare reimbursement on its Final Administrative Cost Proposals (FACP) for FYs 1996 through 2006. 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 1996 through 2006. 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 separately computed CAS pension costs for the Medicare segment and the "Other" segment. The CMS Office of the Actuary calculated the allocable CAS pension costs based on COSVI's historical practices and on the results of our segmentation review, "Review of the 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" (A-07-08-00271).

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 \$99,244 of unallowable Medicare pension costs for FYs 1996 through 2006. 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 \$1,801,228 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 \$1,701,984, a difference of \$99,244.

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 \$99,244 of unallowable Medicare pension costs for FYs 1996 through 2006. During that period, COSVI claimed pension costs of \$1,801,228 for Medicare reimbursement. We calculated allowable pension costs based on separately computed CAS pension costs for the Medicare segment and the “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 \$1,701,984.

The following table compares allowable CAS pension costs with the pension costs claimed on COSVI’s FACP. 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	
1996	\$110,045	\$88,186	\$21,859
1997	130,780	118,976	11,804
1998	140,430	141,290	(860)
1999	141,893	152,988	(11,095)
2000	159,077	169,749	(10,672)
2001	145,869	186,205	(40,336)
2002	146,537	186,822	(40,285)
2003	141,372	188,235	(46,863)
2004	163,558	198,575	(35,017)
2005	187,627	157,163	30,464
2006	234,796	213,039	21,757
Total	\$1,701,984	\$1,801,228	(\$99,244)

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 \$99,244 of unallowable pension costs.

RECOMMENDATION

We recommend that COSVI reduce its FACP pension costs by \$99,244 or refund this amount to CMS.

AUDITEE COMMENTS

In written comments on our draft report, COSVI concurred with our recommendation. In addition, COSVI stated that “[w]e are submitting evidence of \$90,863 which was refunded to CMS during the audit of Administrative Cost for the period October 1, 1984 to September 30, 1987. This amount will be offsetted against the unallowable pension cost of \$99,244. The difference will be reduced from our FY 2009 FACP.”

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

OFFICE OF INSPECTOR GENERAL RESPONSE

The refund adjustment of \$90,863 referred to by COSVI is associated with FYs 1985 through 1987, a time period that is unrelated to this review. In addition, executed closing agreements between CMS and COSVI have finalized pension costs for these FYs. For this reason, pension costs for FYs 1985 through 1987 are not subject to further review or adjustment. Therefore, we maintain that COSVI reduce its FY 1996 through 2006 FACP pension costs by \$99,244 or refund this amount to CMS.

APPENDIXES

**ALLOWABLE MEDICARE PENSION COSTS FOR
COOPERATIVA DE SEGUROS DE VIDA DE PUERTO RICO
FOR FISCAL YEARS 1996 THROUGH 2006**

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
1995	Allocable Pension Cost	<u>1/</u>	\$661,518	\$97,365	
1996	Contributions	<u>2/</u> \$941,553	\$879,892	\$61,661	
7.50%	Discount for interest	<u>3/</u> (38,008)	(35,519)	(2,489)	
1/1/96	Present value contributions	<u>4/</u> 903,545	844,373	59,172	
	Prepayment credit applied	<u>5/</u> 382,351	344,058	38,293	
	Present value of funding	<u>6/</u> 1,285,896	1,188,431	97,465	
1/1/96	CAS funding target	<u>7/</u> 973,183	875,718	97,465	
	Percentage funded	<u>8/</u>	100.00%	100.00%	
	Funded pension cost	<u>9/</u>	875,718	97,465	
	Allowable interest	<u>10/</u>	22,365	2,489	
	Allocable pension cost	<u>11/</u>	898,083	99,954	
1996	Fiscal year pension cost	<u>12/</u>	838,942	99,307	
	Medicare LOB* percentage	<u>13/</u>	1.28%	100.00%	
	Allowable pension cost	<u>14/</u>	<u>\$10,738</u>	<u>\$99,307</u>	<u>\$110,045</u>

1997	Contributions	\$1,211,703	\$1,130,235	\$81,468	
7.50%	Discount for interest	<u>(51,914)</u>	<u>(48,424)</u>	<u>(3,490)</u>	
1/1/97	Present value contributions	1,159,789	1,081,811	77,978	
	Prepayment credit applied	336,167	298,445	37,722	
	Present value of funding	1,495,956	1,380,256	115,700	
1/1/97	CAS funding target	1,031,080	915,380	115,700	
	Percentage funded		100.00%	100.00%	
	Funded pension cost		915,380	115,700	
	Allowable interest		27,615	3,490	
	Allocable pension cost		942,995	119,190	
1997	Fiscal year pension cost		931,767	114,381	
	Medicare LOB* percentage		1.76%	100.00%	
	Allowable pension cost		<u>\$16,399</u>	<u>\$114,381</u>	<u>\$130,780</u>

APPENDIX A

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
1998	Contributions	\$1,224,000	\$1,157,056	\$66,944	
7.50%	Discount for interest	<u>(47,685)</u>	<u>(45,077)</u>	<u>(2,608)</u>	
1/1/98	Present value contributions	1,176,315	1,111,979	64,336	
	Prepayment credit applied	<u>499,742</u>	<u>447,477</u>	<u>52,265</u>	
	Present value of funding	1,676,057	1,559,456	116,601	
1/1/98	CAS funding target	1,114,902	998,301	116,601	
	Percentage funded		<u>100.00%</u>	<u>100.00%</u>	
	Funded pension cost		998,301	116,601	
	Allowable interest		<u>22,329</u>	<u>2,608</u>	
	Allocable pension cost		1,020,630	119,209	
1998	Fiscal year pension cost		1,001,221	119,204	
	Medicare LOB* percentage		<u>2.12%</u>	<u>100.00%</u>	
	Allowable pension cost		<u>\$21,226</u>	<u>\$119,204</u>	<u>\$140,430</u>

1999	Contributions	\$1,182,000	\$1,128,055	\$53,945	
7.50%	Discount for interest	<u>(43,575)</u>	<u>(41,586)</u>	<u>(1,989)</u>	
1/1/99	Present value contributions	1,138,425	1,086,469	51,956	
	Prepayment credit applied	<u>603,242</u>	<u>537,709</u>	<u>65,533</u>	
	Present value of funding	1,741,667	1,624,178	117,489	
1/1/99	CAS funding target	1,081,502	964,013	117,489	
	Percentage funded		<u>100.00%</u>	<u>100.00%</u>	
	Funded pension cost		964,013	117,489	
	Allowable interest		<u>16,317</u>	<u>1,989</u>	
	Allocable pension cost		980,330	119,478	
1999	Fiscal year pension cost		990,405	119,411	
	Medicare LOB* percentage		<u>2.27%</u>	<u>100.00%</u>	
	Allowable pension cost		<u>\$22,482</u>	<u>\$119,411</u>	<u>\$141,893</u>

APPENDIX A

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2000	Contributions	\$1,308,000	\$1,249,462	\$58,538	
7.50%	Discount for interest	<u>(52,746)</u>	<u>(50,385)</u>	<u>(2,361)</u>	
1/1/00	Present value contributions	1,255,254	1,199,077	56,177	
	Prepayment credit applied	<u>709,677</u>	<u>631,948</u>	<u>77,729</u>	
	Present value of funding	1,964,931	1,831,025	133,906	
1/1/00	CAS funding target	1,222,585	1,088,679	133,906	
	Percentage funded		<u>100.00%</u>	<u>100.00%</u>	
	Funded pension cost		1,088,679	133,906	
	Allowable interest		<u>19,192</u>	<u>2,361</u>	
	Allocable pension cost		1,107,871	136,267	
2000	Fiscal year pension cost		1,075,986	132,070	
	Medicare LOB* percentage		<u>2.51%</u>	<u>100.00%</u>	
	Allowable pension cost		<u>\$27,007</u>	<u>\$132,070</u>	<u>\$159,077</u>

2001	Contributions	\$1,455,000	\$1,411,421	\$43,579	
7.50%	Discount for interest	<u>(57,161)</u>	<u>(55,449)</u>	<u>(1,712)</u>	
1/1/01	Present value contributions	1,397,839	1,355,972	41,867	
	Prepayment credit applied	<u>798,023</u>	<u>720,312</u>	<u>77,711</u>	
	Present value of funding	2,195,862	2,076,284	119,578	
1/1/01	CAS funding target	1,227,965	1,108,387	119,578	
	Percentage funded		<u>100.00%</u>	<u>100.00%</u>	
	Funded pension cost		1,108,387	119,578	
	Allowable interest		<u>15,869</u>	<u>1,712</u>	
	Allocable pension cost		1,124,256	121,290	
2001	Fiscal year pension cost		1,120,160	125,034	
	Medicare LOB* percentage		<u>1.86%</u>	<u>100.00%</u>	
	Allowable pension cost		<u>\$20,835</u>	<u>\$125,034</u>	<u>\$145,869</u>

APPENDIX A

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2002	Contributions	\$1,500,000	\$1,472,807	\$27,193	
7.50%	Discount for interest	<u>57,087</u>	<u>(61,309)</u>	<u>(1,035)</u>	
1/1/02	Present value contributions	1,557,087	1,411,498	26,158	
	Prepayment credit applied	<u>1,040,490</u>	<u>218,675</u>	<u>102,460</u>	
	Present value of funding	2,597,577	1,630,173	128,618	
1/1/02	CAS funding target	1,306,131	1,177,513	128,618	
	Percentage funded		<u>100.00%</u>	<u>100.00%</u>	
	Funded pension cost		1,177,513	128,618	
	Allowable interest		<u>9,475</u>	<u>1,035</u>	
	Allocable pension cost		1,186,988	129,653	
2002	Fiscal year pension cost		1,171,305	127,562	
	Medicare LOB* percentage		<u>1.62%</u>	<u>100.00%</u>	
	Allowable pension cost		<u>\$18,975</u>	<u>\$127,562</u>	<u>\$146,537</u>

2003	Contributions	\$1,625,000	\$1,611,971	\$13,029	
7.50%	Discount for interest	<u>65,801</u>	<u>66,329</u>	<u>(528)</u>	
1/1/03	Present value contributions	1,690,801	1,678,300	12,501	
	Prepayment credit applied	<u>1,265,568</u>	<u>1,162,119</u>	<u>103,449</u>	
	Present value of funding	2,956,369	2,840,419	115,950	
1/1/03	CAS funding target	1,418,500	1,302,550	115,950	
	Percentage funded		<u>100.00%</u>	<u>100.00%</u>	
	Funded pension cost		1,302,550	115,950	
	Allowable interest		<u>5,926</u>	<u>528</u>	
	Allocable pension cost		1,308,476	116,478	
2003	Fiscal year pension cost		1,278,104	119,772	
	Medicare LOB* percentage		<u>1.69%</u>	<u>100.00%</u>	
	Allowable pension cost		<u>\$21,600</u>	<u>\$119,772</u>	<u>\$141,372</u>

APPENDIX A

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2004	Contributions	\$1,175,000	\$1,172,270	\$2,730	
7.50%	Discount for interest	<u>(51,727)</u>	<u>(77,727)</u>	<u>(120)</u>	
1/1/04	Present value contributions	1,123,273	1,094,543	2,610	
	Prepayment credit applied	<u>1,511,737</u>	<u>551,512</u>	<u>142,826</u>	
	Present value of funding	2,635,010	1,646,055	145,436	
1/1/04	CAS funding target	1,539,369	1,393,932	145,437	
	Percentage funded		<u>100.00%</u>	<u>100.00%</u>	
	Funded pension cost		1,393,932	145,437	
	Allowable interest		<u>1,152</u>	<u>120</u>	
	Allocable pension cost		1,395,084	145,557	
2004	Fiscal year pension cost		1,373,432	138,287	
	Medicare LOB* percentage		<u>1.84%</u>	<u>100.00%</u>	
	Allowable pension cost		<u>\$25,271</u>	<u>\$138,287</u>	<u>\$163,558</u>

2005	Contributions	\$1,324,221	\$1,271,396	\$52,825	
7.50%	Discount for interest	<u>(53,437)</u>	<u>(95,128)</u>	<u>(2,132)</u>	
1/1/05	Present value contributions	1,270,784	1,176,268	50,693	
	Prepayment credit applied	<u>1,177,815</u>	<u>909,359</u>	<u>110,876</u>	
	Present value of funding	2,448,599	2,085,627	161,569	
1/1/05	CAS funding target	1,716,315	1,554,746	161,569	
	Percentage funded		<u>100.00%</u>	<u>100.00%</u>	
	Funded pension cost		1,554,746	161,569	
	Allowable interest		<u>20,512</u>	<u>2,132</u>	
	Allocable pension cost		1,575,258	163,701	
2005	Fiscal year pension cost		1,530,215	159,165	
	Medicare LOB* percentage		<u>1.86%</u>	<u>100.00%</u>	
	Allowable pension cost		<u>\$28,462</u>	<u>\$159,165</u>	<u>\$187,627</u>

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2006	Contributions	\$2,300,000	\$2,164,450	\$135,550	
6.00%	Discount for interest	(54,354)	(202,786)	(3,203)	
1/1/06	Present value contributions	2,245,646	1,961,664	132,347	
	Prepayment credit applied	787,204	786,774	78,446	
	Present value of funding	3,032,850	2,748,438	210,793	
1/1/06	CAS funding target	2,115,287	1,904,494	210,793	
	Percentage funded		100.00%	100.00%	
	Funded pension cost		1,904,494	210,793	
	Allowable interest		28,942	3,203	
	Allocable pension cost		1,933,436	213,996	
2006	Fiscal year pension cost		1,843,892	201,422	
	Medicare LOB* percentage		1.81%	100.00%	
	Allowable pension cost		\$33,374	\$201,422	\$234,796

* Line of business.

FOOTNOTES

- 1/ We developed the 1995 allocable pension costs in a related review of pension costs claimed for Medicare reimbursement by Cooperativa de Seguros de Vida de Puerto Rico (COSVI) for fiscal years (FY) 1988 through 1995 (A-07-09-00317).
- 2/ 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. We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-08-00271). The amounts shown for the "Other" segment represent the difference between the Total Company and the Medicare segments.
- 3/ 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.
- 4/ 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.
- 5/ 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.

- 6/ 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.
- 7/ 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)(2)(i).
- 8/ 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.
- 9/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.
- 10/ 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)(2)(iii), 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.
- 11/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.
- 12/ We converted the plan year (January 1 through December 31) allocable pension costs to a 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.
- 13/ 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.
- 14/ 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 23, 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

RE: A-07-08-00272

Dear Mr. Cogley:

We are submitting our comments in response to the DHHS, Office of Inspector General draft report "Review of Pension Cost Claimed for Medicare Reimbursement by Cooperativa de Seguros de Vida de Puerto Rico for fiscal years 1996 through 2006 dated April 17, 2009. This report was not included in our response to the three other draft reports sent on June 16, 2009.

A-07-08-00272 We concur with the adjustment for \$99,244 of unallowable Medicare pension cost for the years 1996 through 2006. We are submitting evidence of \$90,863 which was refunded to CMS during the audit of Administrative Cost for the period October 1, 1984 to September 30, 1987. This amount will be offsetted against the unallowable pension cost of \$99,244. The difference will be reduced from our FY 2009 FACP.

We are also including as an attachment the response of the other three reports which were erroneously addressed to Mr. Steve Garrison.

Cordially,

A handwritten signature in black ink, appearing to read "C. González-Rodríguez", is written over a horizontal line.

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

Enclosures

c: Steve Garrison
Barbara Tittle