



Region VII
601 East 12th Street
Room 0429
Kansas City, Missouri 64106

January 4, 2011

Report Number: A-07-10-00342

Mr. Ricardo Rivera
President
Cooperativa de Seguros de Vida de Puerto Rico
400 Americo Miranda Avenue
Rio Piedras, PR 00927

Dear Mr. Rivera:

Enclosed is the U.S. Department of Health & 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 2007 Through 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.

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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-07-10-00342 in all correspondence.

Sincerely,

/Patrick J. Cogley/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Deborah Taylor
Acting Director & Chief Financial Officer
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Department of Health & 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
2007 THROUGH 2009**



Daniel R. Levinson
Inspector General

January 2011
A-07-10-00342

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) administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated February 28, 2009. The effective closing date for the Medicare segment was December 31, 2008.

CMS 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) 2007 through 2009.

SUMMARY OF FINDING

COSVI did not claim \$140,010 of pension costs that were allowable for Medicare reimbursement for FYs 2007 through 2009. This understatement occurred primarily because COSVI calculated its 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 \$476,441 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 \$616,451, a difference of \$140,010.

RECOMMENDATION

We recommend that COSVI increase its Final Administrative Cost Proposal pension costs by \$140,010.

AUDITEE COMMENTS

In written comments on our draft report, COSVI agreed with our recommendation. COSVI's comments are included in their entirety as Appendix B.

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INTRODUCTION

BACKGROUND

Cooperativa de Seguros de Vida de Puerto Rico

Cooperativa de Seguros de Vida de Puerto Rico (COSVI) administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) until the contractual relationship was terminated February 28, 2009. The effective closing date for the Medicare segment was December 31, 2008.

Medicare Reimbursement of Pension Costs

CMS 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 the 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 2007 through 2009.

Scope

We reviewed \$476,441 of pension costs that COSVI claimed for Medicare reimbursement on its Final Administrative Cost Proposals (FACP) for FYs 2007 through 2009. 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 in our Jefferson City, Missouri, field office from January through March 2010.

Methodology

We reviewed the applicable portions of the FAR, CAS, and Medicare contract. Additionally, we reviewed COSVI's FACPs to identify the amount of pension costs claimed for Medicare reimbursement for FYs 2007 through 2009. 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 Qualified Pension Plan at Cooperativa de Seguros de Vida de Puerto Rico, A Terminated Medicare Contractor, for the Period January 1, 2007, to December 31, 2008*, A-07-10-00343).

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 Forms 5500.

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 did not claim \$140,010 of pension costs that were allowable for Medicare reimbursement for FYs 2007 through 2009. This understatement occurred primarily because COSVI calculated its 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 \$476,441 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 \$616,451, a difference of \$140,010.

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.

ALLOWABLE PENSION COSTS NOT CLAIMED

COSVI did not claim \$140,010 of allowable Medicare pension costs for FYs 2007 through 2009. For that period, COSVI claimed pension costs of \$476,441 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 \$616,451.

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	
2007	\$244,123	\$261,524	(\$17,401)
2008	295,424	173,772	121,652
2009	76,904	41,145	35,759
Total	\$616,451	\$476,441	\$140,010

The Medicare contracts required 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 did not claim \$140,010 of allowable pension costs.

RECOMMENDATION

We recommend that COSVI increase its FACP pension costs by \$140,010.

AUDITEE COMMENTS

In written comments on our draft report, COSVI agreed with our recommendation. COSVI’s comments are included in their entirety as Appendix B.

APPENDIXES

**APPENDIX A: ALLOWABLE MEDICARE PENSION COSTS FOR
COOPERATIVA DE SEGURO DE VIDA DE PUERTO RICO
FOR FISCAL YEARS 2007 THROUGH 2009**

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2006	Allocable Pension Cost	<u>1/</u>	\$1,933,436	\$213,996	
2007	Contributions	2/ \$5,445,000	\$5,320,543	\$124,457	
6.00%	Discount for Interest	3/ (\$238,553)	(\$233,100)	(\$5,453)	
January 1, 2007	Present Value Contributions	4/ \$5,206,447	\$5,087,443	\$119,004	
	Prepayment Credit Applied	5/ \$972,616	\$879,430	\$93,186	
	Present Value of Funding	6/ \$6,179,063	\$5,966,873	\$212,190	
January 1, 2007	CAS Funding Target	7/ \$2,214,706	\$2,002,516	\$212,190	
	Percentage Funded	8/	100.00%	100.00%	
	Funded Pension Cost	9/	\$2,002,516	\$212,190	
	Allowable Interest	10/	\$47,731	\$5,058	
	Allocable Pension Cost		\$2,050,247	\$217,248	
2007	Fiscal Year Pension Cost	11/	\$2,021,044	\$216,435	
	Medicare LOB* Percentage	12/	1.37%	100.00%	
	Allowable Pension Cost	13/	\$27,688	\$216,435	\$244,123
2008	Contributions	\$2,092,456	\$2,092,456	\$0	
6.00%	Discount for Interest	(\$72,190)	(\$72,190)	\$0	
January 1, 2008	Present Value Contributions	\$2,020,266	\$2,020,266	\$0	
	Prepayment Credit Applied	\$2,931,199	\$2,654,106	\$277,093	
	Present Value of Funding	\$4,951,465	\$4,674,372	\$277,093	
January 1, 2008	CAS Funding Target	\$2,931,199	\$2,654,106	\$277,093	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$2,654,106	\$277,093	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$2,654,106	\$277,093	
2008	Fiscal Year Pension Cost		\$2,503,141	\$262,132	
	Medicare LOB* Percentage		1.33%	100.00%	
	Allowable Pension Cost		\$33,292	\$262,132	\$295,424
2009	Fiscal Year Pension Cost	14/	\$663,527	\$69,273	
	Medicare LOB* Percentage		1.15%	100.00%	
	Allowable Pension Cost		\$7,631	\$69,273	\$76,904

* Line of business.

FOOTNOTES

1/ The allocable Cost Accounting Standards (CAS) pension cost is the amount of pension cost that may be allocated for contract cost purposes. We obtained the 2006 plan year (PY) (January 1 - December 31) allocable pension from our prior review (A-07-08-00272; issued July 10, 2009).

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-07-09-00343). 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 PY. 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 PY, 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 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 PY.
- 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 PY. 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/ We converted the PY allocable pension costs to a fiscal year (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.
- 12/ We calculated allowable pension costs of the Medicare and "Other" segments 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.
- 13/ 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.
- 14/ We computed FY 2009 pension costs as 1/4 of the 2008 PY allocable cost to represent the period October 1, 2008, through the December 31, 2008, effective segment closing date.

APPENDIX B: AUDITEE COMMENTS



December 16, 2010

Mr. Patrick J. Cogley
Regional Inspector General
for Audit Services
Office of Inspector General
Office of Audit Services, Region VII
601 East 12th Street Room 0429
Kansas City, MO 64106

Re: A-07-10-00342
A-07-10-00343

Dear Mr. Cogley:

We are submitting our written comments to the U.S. Department of Health and Human Services, Office of the Inspector General (OIG) draft reports dated November 17, 2010.

1. **A-07-10-00342** Review of Pension Cost claimed for Medicare Reimbursement by Cooperativa de Seguros de Vida de Puerto Rico for fiscal Years 2007 through 2009. COSVI did not claim \$140,010 of allowable pension cost for the period.

We agree with the recommendation of increasing our FACP by \$140,010 nevertheless based on previous recommendation from CMS the adjustment will be subject to the final settlement determination after summarizing all audits reports which are pending review.

2. **A-07-10-00343** Review of the Qualified Pension Plan at Cooperativa de Seguros de Vida de Puerto Rico a Terminated Medicare contractor for the Period January 1, 2007 to December 31, 2008.

We concur with the recommendation of increasing the segment asset as of December 31, 2008 by \$208,414 and decreasing the share of the Medicare segment's excess pension liability by \$208,277, recognizing \$455,718 as the Medicare portion. We will refer the recommendation to our actuary. We anticipate the final settlement will result in an amount due COSVI in the amount of \$455,718.

Thank you for the opportunity to comment on the reports.

Sincerely,

A handwritten signature in black ink, appearing to read "Ricardo A. Rivera-Cardona", is written over a horizontal line.

Ricardo A. Rivera-Cardona

c: Stuart Brown

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