



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

January 4, 2011

Report Number: A-07-10-00343

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 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 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 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-07-10-00343 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 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**



Daniel R. Levinson
Inspector General

January 2011
A-07-10-00343

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.

Since its inception, Medicare has paid a portion of contractors' contributions to their pension plans. These contributions are allowable Medicare costs subject to the criteria set forth in the Federal Acquisition Regulation, Cost Accounting Standards (CAS), and Medicare contracts. Furthermore, in situations such as contract terminations, the Medicare contracts require contractors to identify excess Medicare pension assets/liabilities, in accordance with CAS 413.

Pension Segmentation

Beginning with fiscal year 1988, CMS incorporated segmentation requirements into the Medicare contracts to ensure conformance with CAS 413. The Medicare contracts define a segment and specify the methodology for the identification and initial allocation of pension assets to the segment. Additionally, the contracts require Medicare segment assets to be updated for each year after the initial allocation in accordance with CAS 412 and 413.

Upon the termination of its Medicare contract, COSVI identified Medicare's share of the Medicare segment excess pension liabilities to be \$663,995.

Prior Pension Segmentation Audit Report

We performed a prior pension segmentation audit at COSVI (A-07-08-00271, issued July 10, 2009), which brought the Medicare segment pension assets to January 1, 2007. The prior audit found that COSVI understated the Medicare segment pension assets by \$858,062 as of January 1, 2007. We recommended that COSVI increase its Medicare segment pension assets by \$858,062 and, as a result, recognize \$1,499,943 as the Medicare segment pension assets as of January 1, 2007.

OBJECTIVE

Our objective was to determine whether COSVI complied with Federal requirements and the Medicare contracts' pension segmentation requirements when:

- implementing the prior audit recommendation,
- updating the Medicare segment's pension assets from January 1, 2007, to December 31, 2008, and

- determining Medicare's share of the Medicare segment excess pension assets/liabilities as a result of the termination of the Medicare contract.

SUMMARY OF FINDINGS

COSVI properly implemented the prior audit recommendation; however, COSVI did not always comply with the Medicare contracts' pension segmentation requirements when updating Medicare segment assets from January 1, 2007, to December 31, 2008. COSVI identified Medicare segment pension assets of \$1,264,107; however, we determined that the Medicare segment pension assets were \$1,472,521 as of December 31, 2008. As a result, COSVI understated the Medicare segment pension assets by \$208,414. The understatement occurred primarily because COSVI understated the Medicare segment's contributions and transferred prepayment credits.

In addition, COSVI did not fully comply with Federal requirements in its calculation of Medicare's share of the Medicare segment excess pension liabilities associated with the termination of its Medicare contract. COSVI computed Medicare's share of the Medicare segment excess pension liabilities to be \$663,995; however, we determined that Medicare's share of the Medicare segment's excess pension liabilities was \$455,718 as of December 31, 2008. Thus, COSVI overstated Medicare's share of excess liabilities, due to the termination of the Medicare contract, by \$208,277.

RECOMMENDATIONS

We recommend that COSVI:

- increase Medicare segment pension assets as of December 31, 2008, by \$208,414 and
- decrease Medicare's share of the Medicare segment's excess pension liabilities by \$208,277, and thereby recognize \$455,718 as Medicare's portion.

AUDITEE COMMENTS

In written comments on our draft report, COSVI concurred with our recommendations. COSVI's comments are included in their entirety as Appendix C.

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Glossary of Abbreviations and Acronyms

COSVI	Cooperativa de Seguros de Vida de Puerto Rico
CAS	Cost Accounting Standards
CMS	Centers for Medicare & Medicaid Services
FAR	Federal Acquisition Regulation
WAV	weighted average value

INTRODUCTION

BACKGROUND

Cooperativa de Seguros de Vida de Puerto Rico and Medicare

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.

Since its inception, Medicare has paid a portion of contractors' contributions to their pension plans. These contributions are allowable Medicare costs subject to the criteria set forth in the Federal Acquisition Regulation (FAR), Cost Accounting Standards (CAS), and Medicare contracts. Furthermore, in situations such as contract terminations, the Medicare contract requires contractors to identify excess Medicare pension assets/liabilities, in accordance with CAS 413.

Federal Requirements

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. CAS 413 also addresses the determination of segment assets and liabilities in the event of contract terminations, segment closings, or pension plan terminations.

Pension Segmentation

CMS incorporated CAS 412 and 413 into the Medicare contracts effective October 1, 1980. Beginning with fiscal year 1988, CMS incorporated segmentation requirements into the Medicare contracts. The Medicare contracts define a segment and specify the methodology for the identification and initial allocation of pension assets to the segment. The contracts require Medicare segment assets to be updated for each year after the initial allocation in accordance with CAS 412 and 413. In claiming costs, contractors must follow cost reimbursement principles contained in the FAR, CAS, and the Medicare contracts.

Upon the termination of its Medicare contract, COSVI identified Medicare's share of the Medicare segment excess pension liabilities to be \$663,995.

Prior Pension Segmentation Audit Report

We performed a prior pension segmentation audit at COSVI (A-07-08-00271, issued July 10, 2009), which brought the Medicare segment pension assets to January 1, 2007. The

prior audit found that COSVI understated the Medicare segment pension assets by \$858,062 as of January 1, 2007. We recommended that COSVI increase its Medicare segment pension assets by \$858,062 and, as a result, recognize \$1,499,943 as the Medicare segment pension assets as of January 1, 2007.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether COSVI complied with Federal requirements and the Medicare contracts' pension segmentation requirements when:

- implementing the prior audit recommendation,
- updating the Medicare segment's pension assets from January 1, 2007, to December 31, 2008, and
- determining Medicare's share of the Medicare segment excess pension assets/liabilities as a result of the termination of the Medicare contract.

Scope

We reviewed COSVI's implementation of the prior audit recommendation; identification of its Medicare segment; update of Medicare segment assets from January 1, 2007, to December 31, 2008; and the Medicare segment closing calculation as of December 31, 2008.

Achieving our objective did not require us to review COSVI's overall internal control structure. However, we reviewed controls relating to the implementation of the prior audit recommendation, identification of the Medicare segment, the update of the Medicare segment's assets, and the Medicare segment closing calculation to ensure adherence to the Medicare contracts, CAS 412, and CAS 413.

We performed fieldwork in our Jefferson City, Missouri, field office from January through March 2010.

Methodology

To accomplish our objective, we took the following steps:

- We reviewed the applicable portions of the FAR, CAS, and Medicare contract.
- We reviewed the information prepared by COSVI's actuarial consulting firms. Prior to our review, COSVI engaged an actuarial consulting firm to analyze and develop its Medicare segment pension asset accounting. This information, as well as information prepared by COSVI's customary actuary, included the pension plan's assets, liabilities,

normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We used this information to calculate the Medicare segment assets.

- We reviewed the Medicare segment closing calculation prepared by COSVI's customary actuarial consulting firm.
- We obtained and reviewed the pension plan documents and Department of Labor/Internal Revenue Service Forms 5500 used in calculating the Medicare segment assets.
- We interviewed COSVI staff responsible for identifying the Medicare segment to determine whether the segment was properly identified in accordance with the Medicare contracts.
- We reviewed COSVI's accounting records to verify the segment identification and benefit payments made to the Medicare segment.
- We reviewed the prior segmentation audit performed at COSVI (A-07-08-00271, issued July 10, 2009) to determine the beginning market value of assets.
-
- We provided the CMS Office of the Actuary with the actuarial information necessary for it to calculate the Medicare segment pension assets and the Medicare segment excess pension liabilities as of December 31, 2008.
- We reviewed the CMS actuaries' methodology and calculations.

We performed this review in conjunction with our audit of COSVI's pension costs claimed for Medicare reimbursement (A-07-10-00342) and used the information obtained during that audit in this review.

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 RECOMMENDATIONS

COSVI properly implemented the prior audit recommendation; however, COSVI did not always comply with the Medicare contracts' pension segmentation requirements when updating Medicare segment assets from January 1, 2007, to December 31, 2008. COSVI identified Medicare segment pension assets of \$1,264,107; however, we determined that the Medicare segment pension assets were \$1,472,521 as of December 31, 2008. As a result, COSVI

understated the Medicare segment pension assets by \$208,414. The understatement occurred primarily because COSVI understated the Medicare segment's contributions and transferred prepayment credits.

In addition, COSVI did not fully comply with Federal requirements in its calculation of Medicare's share of the Medicare segment excess pension liabilities associated with the termination of its Medicare contract. COSVI computed Medicare's share of the Medicare segment excess pension liabilities to be \$663,995; however, we determined that Medicare's share of the Medicare segment's excess pension liabilities was \$455,718 as of December 31, 2008. Thus, COSVI overstated Medicare's share of excess liabilities, due to the termination of the Medicare contract, by \$208,277.

PRIOR AUDIT RECOMMENDATION

COSVI properly implemented the recommendation from the prior segmentation report (A-07-08-00271, issued July 10, 2009), which recommended that COSVI identify \$1,499,943 as the Medicare segment pension assets as of January 1, 2007.

UPDATE OF MEDICARE SEGMENT PENSION ASSETS

Federal Requirements

The Medicare contracts state that "... the pension assets allocated to each Medicare Segment shall be adjusted in accordance with CAS 413.50(c)(7)." CAS 413.50(c)(7) requires that the asset base be adjusted by contributions, unfunded accruals, income, benefit payments, and expenses. For plan years beginning after March 30, 1995, the CAS requires investment income and expenses to be allocated among segments based on the ratio of the segment's weighted average value (WAV) of assets to total company WAV of assets.

In addition, CAS 413.50(c)(8) requires an adjustment to be made for transfers (participants who enter or leave the segment) if the transfers materially affect the segment's ratio of pension plan assets to actuarial accrued liabilities. For plan years beginning after March 30, 1995, the CAS requires that the amount of assets transferred equal the actuarial accrued liabilities as determined using the accrued benefit cost method.

Furthermore, CAS 412.50(a)(4) requires that contributions in excess of the pension cost assigned to the period be recognized as prepayment credits and accumulated at the assumed valuation interest rate until applied to future period costs. Prepayment credits that have not been applied to fund pension costs are excluded from the value of assets used to compute pension costs.

Appendix A presents details of the Medicare segment's pension assets from January 1, 2007, to December 31, 2008, as determined during our audit. Table 1 summarizes the audit adjustments required to update Medicare segment pension assets in accordance with Federal requirements.

Table 1: Summary of Audit Adjustments in Updating Medicare Segment Assets			
	Per Audit	Per COSVI	Difference
Update of Medicare Segment Assets			
Contributions and Transferred Prepayment Credits	\$494,736	\$355,373	\$139,363
Mandatory Employee Contributions	88,606	89,818	(1,212)
Transfers	(161,024)	(230,003)	68,979
Earnings, Net Expenses	139,422	138,138	1,284
Understatement of Medicare Segment Assets			\$208,414

Contributions and Transferred Prepayment Credits Understated

COSVI understated contributions and transferred prepayment credits by \$139,363 for the Medicare segment. The understatement occurred primarily because COSVI used an understated 2008 pension cost in transferring prepayment credits to the Medicare segment.

The audited contributions and transferred prepayment credits are based on the assignable pension costs. In compliance with the CAS, we applied prepayment credits first to current-year assignable pension costs (because the credits were available at the beginning of the year) and then updated any remaining credits with interest to the next measurement (valuation) date. We then allocated contributions to assigned pension costs, as needed, as of the date of deposit.

A comparison of COSVI's and our calculations of Medicare segment contributions and transferred prepayment credits appears in Table 2.

Table 2: Comparison of Medicare Segment Contributions and Transferred Prepayment Credits			
Year	Per Audit	Per COSVI	Difference
2007	\$217,643	\$215,657	\$1,986
2008	277,093	139,716	137,377
Total	\$494,736	\$355,373	\$139,363

Mandatory Employee Contributions Overstated

COSVI overstated mandatory employee contributions for the Medicare segment by \$1,212. The overstatement occurred because COSVI's asset update did not consider actual employee mandatory contributions for 2008. Rather, COSVI incorrectly used projected employee mandatory contributions for that year. In our audited update, we used actual employee mandatory contributions.

Net Transfers Understated

COSVI understated the participant transfer adjustments in its update of Medicare segment assets by \$68,979. COSVI made adjustments for transfers in its update of segment assets; however, COSVI incorrectly identified the participants who transferred out of the segment. In addition,

COSVI did not use an accrued benefit cost method liability as the basis to make the asset transfer adjustment as required by the CAS.

Earnings, Net Expenses Understated

COSVI understated investment earnings, less administrative expenses, by \$1,284 for the Medicare segment, because it used incorrect contributions and transferred prepayment credits, mandatory employee contributions, and net transfer amounts (all previously discussed) to develop the Medicare segment pension asset base. In our audited update, we allocated earnings, net expenses based on the applicable CAS requirements.

MEDICARE SEGMENT EXCESS PENSION LIABILITIES

Federal Requirements

Medicare Contracts

In the event of a contract termination, the Medicare contracts require contractors to follow the segment closing provision of the CAS. Furthermore, in situations such as contract terminations, the Medicare contracts require contractors to identify excess Medicare pension liabilities in accordance with CAS 413.

Cost Accounting Standards

In 1980, CMS renegotiated the Medicare contracts and expressly incorporated CAS 412 and 413 into the contracts beginning October 1, 1980.

Contract terminations and segment closings are addressed by CAS 413.50(c)(12), which states:

If a segment is closed, if there is a pension plan termination, or if there is a curtailment of benefits, the contractor shall determine the difference between the actuarial liability for the segment and the market value of the assets allocated to the segment, irrespective of whether or not the pension plan is terminated. The difference between the market value of the assets and the actuarial accrued liability for the segment represents an adjustment of previously-determined pension costs.

(i) The determination of the actuarial accrued liability shall be made using the accrued benefit cost method. The actuarial assumptions employed shall be consistent with the current and prior long term assumptions used in the measurement of pension costs

(ii) ... The market value of the assets shall be reduced by the accumulated value of prepayment credits, if any. Conversely, the market value of assets shall be increased by the current value of any unfunded actuarial liability separately identified and maintained in accordance with 9904.412-50(a)(2).

(iii) The calculation of the difference between the market value of the assets and the actuarial accrued liability shall be made as of the date of the event (e.g., contract termination, plan amendment, plant closure) that caused the closing of the segment, pension plan termination, or curtailment of benefits. If such a date is not readily determinable, or if its use can result in an inequitable calculation, the contracting parties shall agree on an appropriate date.

Medicare Segment Excess Pension Liabilities as of December 31, 2008

COSVI identified \$663,995 as the Medicare segment’s excess pension liabilities as of December 31, 2008. However, we calculated the excess pension liabilities to be \$455,718 as of that date. Thus, COSVI overstated excess pension liabilities by \$208,277. The overstatement occurred because COSVI did not fully comply with Federal requirements in its calculation of Medicare segment excess pension liabilities. Specifically, COSVI understated the segment’s final assets (as previously discussed) and used an incorrect amount of accumulated unfunded pension costs. Table 3 summarizes the differences between COSVI’s and our calculations.

Table 3: Adjustments to Medicare Segment Excess Pension Liabilities			
	Per Audit	Per COSVI	Difference
Medicare segment assets as of December 31, 2008	\$1,472,521	\$1,264,107	\$208,414
Accrued liabilities of segment participants	(2,013,731)	(2,013,731)	0
Accumulated unfunded pension costs	85,492	85,629	(137)
Medicare segment excess pension liabilities	(455,718)	(663,995)	
Overstatement of Medicare Segment Excess Liabilities			\$208,277

Medicare’s Share of Excess Pension Liabilities as of December 31, 2008

Federal Requirements

The methodology for determining the Federal Government’s share of excess pension liabilities is addressed by CAS 413.50(c)(12)(vi), which states:

The Government’s share of the adjustment amount determined for a segment shall be the product of the adjustment amount and a fraction. The adjustment amount shall be reduced for any excise tax imposed upon assets withdrawn from the funding agency of a qualified pension plan. The numerator of such fraction shall be the **sum of the pension plan costs** allocated to all contracts and subcontracts (including Foreign Military Sales) subject to this Standard during a period of years representative of the Government’s participation in the pension plan. The denominator of such fraction shall be the **total pension costs** assigned to cost accounting periods during those same years. This amount shall represent an adjustment of contract prices or cost allowance as appropriate. The adjustment

may be recognized by modifying a single contract, several but not all contracts, or all contracts, or by use of any other suitable technique. [Emphasis added.]

Medicare’s Share of the Excess Pension Liabilities Overstated

COSVI did not comply with the Medicare contract in determining Medicare’s share of the excess pension liabilities associated with the termination of the Medicare contract as of December 31, 2008. COSVI computed \$663,995 as Medicare’s share of the Medicare segment excess pension liabilities as of that date; however, we determined that Medicare’s share was \$455,718. Thus, COSVI overstated Medicare’s share by \$208,277. The overstatement occurred because COSVI overstated the Medicare segment’s excess pension liabilities (as previously discussed).

In accordance with CAS 413.50(c)(12)(vi), we calculated the aggregate Medicare percentage using the Medicare segment pension costs developed during both the previous and the current pension audits. Appendix B shows our calculation of the Medicare segment’s aggregate Medicare percentage; Table 4 shows COSVI’s and our calculations of Medicare’s share of the excess liabilities.

Table 4: Medicare’s Share of Excess Liabilities (Adjustment)			
	Excess Medicare Segment Liabilities (A)	Aggregate Medicare Percentage (B)	Excess Liabilities Attributable to Medicare (A x B)
Per Audit	(\$455,718)	100.00%	(\$455,718)
Per COSVI	(663,995)	100.00%	(663,995)
Difference			\$208,277

RECOMMENDATIONS

We recommend that COSVI:

- increase Medicare segment pension assets as of December 31, 2008, by \$208,414, and
- decrease Medicare’s share of the Medicare segment’s excess pension liabilities by \$208,277, and thereby recognize \$455,718 as Medicare’s portion.

AUDITEE COMMENTS

In written comments on our draft report, COSVI concurred with our recommendations. COSVI’s comments are included in their entirety as Appendix C.

APPENDIXES

**APPENDIX A: STATEMENT OF MARKET VALUE OF PENSION ASSETS FOR
COOPERATIVA DE SEGUROS DE VIDA DE PUERTO RICO
FOR THE PERIOD JANUARY 1, 2007, TO DECEMBER 31, 2008**

Description	Total Company	"Other" Segment	Medicare Segment
Assets January 1, 2007	1/ \$13,947,217	\$12,447,274	\$1,499,943
Transferred Prepayment Credits	2/ 0	(93,186)	93,186
Employer Contributions	3/ 5,445,000	5,320,543	124,457
Employee Contributions	4/ 571,691	520,342	51,349
Investment Earnings	5/ 892,299	796,935	95,364
Benefit Payments	6/ (3,962,630)	(3,550,614)	(412,016)
Expenses	7/ (46,789)	(41,788)	(5,001)
Transfers	8/ 0	117,256	(117,256)
Assets January 1, 2008	16,846,788	15,516,762	1,330,026
Transferred Prepayment Credits	0	(277,093)	277,093
Employer Contributions	2,092,456	2,092,456	0
Employee Contributions	604,216	566,959	37,257
Investment Earnings	603,826	550,096	53,730
Benefit Payments	(1,382,221)	(1,205,075)	(177,146)
Expenses	(52,491)	(47,820)	(4,671)
Transfers	0	43,768	(43,768)
Assets December 31, 2008	9/ \$18,712,574	\$17,240,053	\$1,472,521
Per COSVI	10/ \$18,712,574	\$17,448,467	\$1,264,107
Asset Variance	11/ \$0	(\$208,414)	\$208,414

FOOTNOTES

- 1/ We determined the Medicare segment assets as of January 1, 2007, based on our prior segmentation audit (A-07-08-00271) of Cooperativa de Seguros de Vida de Puerto Rico (COSVI). The amounts shown for the "Other" segment represent the difference between the Total Company and the Medicare segment. All pension assets are shown at market value.
- 2/ Prepayment credits represent funds available to satisfy future funding requirements and are applied to future funding requirements before current year contributions in order to reduce interest costs to the Federal Government. Prepayment credits are transferred to the Medicare segment as needed to cover funding requirements.
- 3/ We obtained Total Company employer contribution amounts from the actuarial valuation reports and Department of Labor/Internal Revenue Service Forms 5500. We allocated Total Company contributions to the Medicare segment based on the ratio of the Medicare segment funding target divided by the Total Company funding target. Contributions in excess of the funding targets were treated as prepayment credits and accounted for in the "Other" segment until needed to fund pension costs in the future.
- 4/ We obtained Total Company employee contribution amounts from the Department of Labor/Internal Revenue Service Forms 5500. We obtained the Medicare segment amounts from annual employee contribution data provided by COSVI. The Medicare segment amounts were based upon the audited Medicare segment participants as of the beginning of the year.

- 5/ We obtained investment earnings from Department of Labor/Internal Revenue Service Forms 5500. We allocated investment earnings based on the ratio of the segment's weighted average value (WAV) of assets to total company WAV of assets as required by the Cost Accounting Standards (CAS).
- 6/ We accepted the Medicare segment benefit payments presented by COSVI.
- 7/ We allocated administrative expenses to the Medicare segment in proportion to investment earnings.
- 8/ We identified participant transfers between segments by comparing valuation data files prepared by COSVI's customary actuarial consulting firm. Asset transfers were equal to the actuarial liability determined under the accrued benefit cost method in accordance with the CAS.
- 9/ Using the audited Medicare segment participants and the employee contribution data provided by COSVI, the Medicare segment assets include \$668,840 of assets attributable to employee mandatory contributions.
- 10/ We obtained total asset amounts as of December 31, 2008, from documents prepared by COSVI's engaged actuarial consulting firm.
- 11/ The asset variance represents the difference between our calculation of Medicare segment assets and COSVI's calculation of Medicare segment assets.

APPENDIX B: CALCULATION OF AGGREGATE MEDICARE PERCENTAGE

Fiscal Year	Medicare Segment Pension Costs Charged to Medicare	Total Medicare Segment Pension Costs	Medicare Aggregate Percentage
1/	(A)	(B)	(A/B) 2/
1988	\$2,275	\$2,275	
1989	19,517	19,517	
1990	62,351	62,351	
1991	53,966	53,966	
1992	52,989	52,989	
1993	89,198	89,198	
1994	96,944	96,944	
1995	96,955	96,955	
1996	99,307	99,307	
1997	114,381	114,381	
1998	119,204	119,204	
1999	119,411	119,411	
2000	132,070	132,070	
2001	125,034	125,034	
2002	127,562	127,562	
2003	119,772	119,772	
2004	138,287	138,287	
2005	159,165	159,165	
2006	201,422	201,422	
2007	216,435	216,435	
2008	262,132	262,132	
2009	69,273	69,273	
Total	\$2,477,650	\$2,477,650	100%

FOOTNOTES

1/ We obtained information for fiscal years (FY) 1988 - 1995 from our prior pension costs claimed audit (A-07-09-00317), and information for FYs 1996 - 2006 from our prior pension costs claimed audit (A-07-08-00272). We obtained information for FYs 2007 - 2009 during our current pension costs claimed audit (A-07-10-00342).

2/ We calculated the aggregate Medicare percentage by dividing the Medicare segment pension costs charged to Medicare by the total Medicare segment pension costs, pursuant to Cost Accounting Standard 413.

APPENDIX C: 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. The signature is stylized and somewhat cursive.

Ricardo A. Rivera-Cardona

c: Stuart Brown

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