



JUL 10 2009

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

Report Number: A-07-08-00271

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 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." 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-07-08-00271 in all correspondence.

Sincerely,

for Christopher G. Breaette

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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Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**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**



Daniel R. Levinson
Inspector General

July 2009
A-07-08-00271

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 and Medicare

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.

COSVI sponsors a defined benefit pension plan, which is a deferred compensation plan in which an employer makes actuarially determined contributions to fund an employee's retirement benefit as defined by the plan's terms.

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 Procurement Regulations, Federal Acquisition Regulation, Cost Accounting Standards (CAS), and Medicare contracts.

Pension Segmentation

Beginning with fiscal year 1988, CMS incorporated specific 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.

OBJECTIVE

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

- identifying the Medicare segment's initial asset base and
- updating the Medicare segment's assets from the initial asset base to January 1, 2007.

SUMMARY OF FINDINGS

COSVI did not always comply with the Medicare contract's pension segmentation requirements when identifying the Medicare segment's initial asset base, and while updating Medicare segment assets from the initial asset base to January 1, 2007. As a result, COSVI understated the Medicare segment pension assets by \$858,062. The understatement occurred primarily because COSVI identified Medicare segment pension assets attributable only to employer funded benefits, but did not take mandatory employee contributions into account. In our audited update, we developed Medicare segment assets associated with the total plan benefit (including

mandatory employee contributions). This was necessary because the employer pension cost is adjusted to reflect actuarial gains and losses attributable to total plan benefits, which includes both employer funded benefits and mandatory employee contributions.

RECOMMENDATION

We recommend that COSVI increase its Medicare segment assets as of January 1, 2007, by \$858,062 and recognize \$1,499,943 (which includes \$772,718 of mandatory employee contributions) as the Medicare segment assets.

AUDITEE COMMENTS

In written comments on our draft report, COSVI concurred with our finding that it understated Medicare segment pension assets by \$858,062. In addition, COSVI referred to the Medicare segment closing pension adjustment by stating, “. . . we anticipate that since the Medicare segment assets are understated by \$858,000, the final settlement will result in a refund equivalent to that amount.”

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

OFFICE OF INSPECTOR GENERAL RESPONSE

We have informed COSVI that the Medicare segment closing pension adjustment will be addressed separately in a future report.

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Glossary of Abbreviations and Acronyms

CAS	Cost Accounting Standards
CMS	Centers for Medicare & Medicaid Services
COSVI	Cooperativa de Seguros de Vida de Puerto Rico
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) has administered Medicare Part A operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) since 1970.¹

COSVI sponsors a defined benefit pension plan, which is a deferred compensation plan in which an employer makes actuarially determined contributions to fund an employee's retirement benefit as defined by the plan's terms.

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 Procurement Regulations, Federal Acquisition Regulation (FAR), Cost Accounting Standards (CAS), and Medicare contracts.

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.

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 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.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

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

¹On February 28, 2009, the contractual relationship was terminated.

- identifying the Medicare segment's initial asset base and
- updating the Medicare segment's assets from the initial asset base to January 1, 2007.

Scope

We reviewed COSVI's initial allocation of the Medicare segment assets and its update of the Medicare segment's assets from January 1, 1996, to January 1, 2007.

Achieving our objectives did not require us to review COSVI's overall internal control structure. However, we reviewed controls relating to the initial allocation of the Medicare segment assets, the identification of the Medicare segment, and the update of the Medicare segment's assets.

We performed fieldwork at COSVI's office in Rio Piedras, Puerto Rico, during March and April 2008.

Methodology

To accomplish our objective, we did the following:

- We reviewed the applicable portions of the FAR, CAS, and Medicare contracts.
- We reviewed the information provided 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 obtained and reviewed the pension plan documents, actuarial valuation reports, and Department of Labor/Internal Revenue Service Form 5500s 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 provided the CMS Office of the Actuary with the actuarial information necessary for it to calculate the Medicare segment assets as of January 1, 2007.
- We reviewed the CMS actuaries' methodology and calculations.

We performed this review in conjunction with our audits of COSVI's pension costs claimed for Medicare reimbursement (A-07-08-00272; A-07-09-00317) and unfunded pension costs (A-07-09-00318). We used the information obtained during those audits 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 RECOMMENDATION

COSVI did not always comply with the Medicare contract's pension segmentation requirements when identifying the Medicare segment's initial asset base, and while updating Medicare segment assets from the initial asset base to January 1, 2007. As a result, COSVI understated the Medicare segment pension assets by \$858,062. The understatement occurred primarily because COSVI identified Medicare segment pension assets attributable only to employer funded benefits, but did not take mandatory employee contributions into account. In our audited update, we developed Medicare segment assets associated with the total plan benefit (including mandatory employee contributions). This was necessary because the employer pension cost is adjusted to reflect actuarial gains and losses attributable to total plan benefits, which includes both employer funded benefits and mandatory employee contributions.

Appendix A presents details of the Medicare segment's pension assets from January 1, 1996, to January 1, 2007, 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			
	Per OIG	Per COSVI	Difference
Medicare Segment Asset Base (Initial Allocation)	\$707,293	\$455,511	\$251,782
Update of Medicare Segment Assets			
Contributions and Transferred Prepayment Credits	1,484,772	1,873,988	(389,216)
Mandatory Employee Contributions	502,149	0	502,149
Benefit payments	(552,326)	(2,100,560)	1,548,234
Transfers	(1,601,399)	(118,827)	(1,482,572)
Earnings, net expenses	959,454	531,769	427,685
Understatement of Medicare segment assets			\$858,062

MEDICARE SEGMENT ASSET BASE (INITIAL ALLOCATION)

The Medicare contracts provide for separate identification of the pension assets for the Medicare segment. The identification involves the allocation of assets to the Medicare segment as of the first pension plan year after December 31, 1985, in which the salary criterion was met. The allocation is to use the ratio of the actuarial liabilities of the Medicare segment to the actuarial liabilities of the total plan, as of the later of the first day of the first plan year after December 31, 1980, or the first day of the first pension plan year following the date such Medicare segment existed. This ratio is known as the asset fraction.

In 1989, responding to CMS's decision to incorporate the segmentation requirements into the Medicare contracts, COSVI computed an initial Medicare segment asset base. However, COSVI did not update that initial asset base. Prior to our review, COSVI recomputed \$455,511 as the Medicare segment asset base as of January 1, 1996. COSVI's computation identified pension assets attributable only to employer funded benefits, but did not take mandatory employee contributions into account. While we accepted COSVI's use of January 1, 1996, to recompute the Medicare segment's initial asset base, we computed \$707,293 as the asset base associated with the total pension plan benefit (including mandatory employee contributions). As a result, COSVI understated the Medicare segment initial asset base by \$251,782.

UPDATE OF MEDICARE SEGMENT ASSETS

Federal Requirements

The Medicare contracts identify a Medicare segment as:

. . . any organizational component of the contractor, such as a division, department, or other similar subdivision, having a significant degree of responsibility and accountability for the Medicare contract/agreement, in which:

1. The majority of the salary dollars is allocated to the Medicare agreement/contract; or,
2. Less than a majority of the salary dollars are charged to the Medicare agreement/contract, and these salary dollars represent 40% or more of the total salary dollars charged to the Medicare agreement/contract.

The Medicare contracts also 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.

Contributions and Transferred Prepayment Credits Overstated

COSVI overstated contributions and transferred prepayment credits for the Medicare segment by \$389,216. This overstatement occurred because COSVI's update methodology did not equitably assign pension contributions to the Medicare segment. Specifically, the overstatement occurred primarily because COSVI's Medicare segment asset base and the asset values of subsequent years were incorrect. As a result, COSVI overstated contributions and transferred prepayment credits for the Medicare segment by \$389,216.

Mandatory Employee Contributions Understated

COSVI understated mandatory employee contributions for the Medicare segment by \$502,149. This understatement occurred because COSVI's overall asset update methodology omitted assets attributable to employee contributions in order to develop a Medicare segment asset value attributable only to employer funded benefits. Accordingly, mandatory employee contributions were incorrectly omitted from COSVI's asset rollup.

Benefit Payments Overstated

COSVI overstated benefit payments by \$1,548,234, primarily because it misidentified participants receiving benefit payments. Specifically, COSVI incorrectly included benefit payments for participants that we, in following COSVI's stated methodology, considered as participant transfers. In addition, COSVI's calculations incorrectly considered a pro-rata share of payments for participants with indirect Medicare allocations who were not part of the Medicare segment. Benefit payments made during the year to Medicare segment participants should have been identified as benefit payments to the Medicare segment, as required by CAS 413.50(c)(7). This overstatement of benefit payments resulted in an understatement of the Medicare segment assets. Table 2 shows the variance between COSVI's and our calculations of Medicare segment benefit payments.

Table 2: Comparison of Medicare Segment Benefit Payments			
Year	Per OIG	Per COSVI	Difference
1996	(\$5,453)	\$0	(\$5,453)
1997	0	(1,050)	1,050
1998	(67,325)	(176,567)	109,242
1999	(60,423)	(9,982)	(50,441)
2000	(9,224)	(461,342)	452,118
2001	(7,862)	(1,830)	(6,032)
2002	0	(204,437)	204,437
2003	(87,775)	(82,834)	(4,941)
2004	(98,670)	(525,552)	426,882
2005	(110,346)	(547,676)	437,330
2006	(105,248)	(89,290)	(15,958)
Total	(\$552,326)	(\$2,100,560)	\$1,548,234

Transfers Overstated

COSVI overstated the participant transfer adjustments in its update of Medicare segment assets by \$1,482,572. The overstatement occurred primarily because COSVI incorrectly identified the participants who transferred in and out of the Medicare segment. Specifically, COSVI incorrectly accounted for certain participants as receiving a benefit payment rather than following its stated approach of transferring those participants out of the Medicare segment when they terminated employment. This practice resulted in an overstatement of the Medicare segment assets. Table 3 shows the variance between COSVI's and our asset adjustments associated with the Medicare segment participant transfers.

Table 3: Comparison of Net Asset Transfers from the Medicare Segment			
Year	Per OIG	Per COSVI	Difference
1996	\$0	\$0	\$0
1997	(30,607)	0	(30,607)
1998	(1,858)	0	(1,858)
1999	(12,267)	0	(12,267)
2000	(301,940)	0	(301,940)
2001	52,294	0	52,294
2002	(81,083)	0	(81,083)
2003	(559,265)	9,058	(568,323)
2004	(530,619)	(23,196)	(507,423)
2005	(20,933)	(46,990)	26,057
2006	(115,121)	(57,699)	(57,422)
Total	(\$1,601,399)	(\$118,827)	(\$1,482,572)

Earnings and Expenses Understated

COSVI understated investment earnings, less administrative expenses, by \$427,685 for the Medicare segment because it incorrectly identified the Medicare segment's initial asset base and because it used incorrect contribution and transferred prepayment credit amounts, mandatory employee contribution amounts, benefit payment amounts, and transfer adjustment amounts (all discussed above) to update the Medicare segment's asset base. In addition, COSVI did not use the WAV of assets to allocate earnings as required by CAS 413.50(c)(7). In our audited update, we reallocated earnings and expenses, based on the applicable CAS requirements, and determined that COSVI understated the Medicare segment assets by \$427,685.

RECOMMENDATION

We recommend that COSVI increase its Medicare segment assets as of January 1, 2007, by \$858,062 and recognize \$1,499,943 (which includes \$772,718 of mandatory employee contributions) as the Medicare segment assets.

AUDITEE COMMENTS

In written comments on our draft report, COSVI concurred with our finding that it understated Medicare segment pension assets by \$858,062. In addition, COSVI referred to the Medicare segment closing pension adjustment by stating, ". . . we anticipate that since the Medicare segment assets are understated by \$858,000, the final settlement will result in a refund equivalent to that amount."

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

OFFICE OF INSPECTOR GENERAL RESPONSE

We have informed COSVI that the Medicare segment closing pension adjustment will be addressed separately in a future report.

APPENDIXES

**STATEMENT OF MARKET VALUE OF PENSION ASSETS FOR
COOPERATIVA DE SEGUROS DE VIDA DE PUERTO RICO
FOR THE PERIOD JANUARY 1, 1996, TO JANUARY 1, 2007**

APPENDIX A

Description	Total Company	"Other" Segment	Medicare Segment
Assets January 1, 1996	<u>1/</u> \$8,535,635	\$7,828,342	\$707,293
Transferred Prepayment Credits	<u>2/</u> 0	(38,293)	38,293
Employer Contributions	<u>3/</u> 941,553	879,892	61,661
Employee Contributions	<u>4/</u> 434,484	394,614	39,870
Earnings	<u>5/</u> 582,172	527,840	54,332
Benefit Payments	<u>6/</u> (1,395,754)	(1,390,301)	(5,453)
Expenses	<u>7/</u> (52,193)	(47,322)	(4,871)
Transfers	<u>8/</u> 0	0	0
Assets January 1, 1997	9,045,897	8,154,772	891,125
Transferred Prepayment Credits	0	(37,722)	37,722
Employer Contributions	1,211,703	1,130,235	81,468
Employee Contributions	470,261	428,002	42,259
Earnings	734,201	655,067	79,134
Benefit Payments	(1,286,297)	(1,286,297)	0
Expenses	(54,325)	(48,470)	(5,855)
Transfers	0	30,607	(30,607)
Assets January 1, 1998	10,121,440	9,026,194	1,095,246
Transferred Prepayment Credits	0	(52,265)	52,265
Employer Contributions	1,224,000	1,157,056	66,944
Employee Contributions	555,583	514,876	40,707
Earnings	779,547	691,885	87,662
Benefit Payments	(1,181,588)	(1,114,263)	(67,325)
Expenses	(39,007)	(34,621)	(4,386)
Transfers	0	1,858	(1,858)
Assets January 1, 1999	11,459,975	10,190,720	1,269,255
Transferred Prepayment Credits	0	(65,533)	65,533
Employer Contributions	1,182,000	1,128,055	53,945
Employee Contributions	492,881	453,568	39,313
Earnings	819,526	721,903	97,623
Benefit Payments	(1,867,165)	(1,806,742)	(60,423)
Expenses	(54,454)	(47,967)	(6,487)
Transfers	0	12,267	(12,267)
Assets January 1, 2000	\$12,032,763	\$10,586,271	\$1,446,492

Description	Total Company	“Other” Segment	Medicare Segment
Assets January 1, 2000	\$12,032,763	\$10,586,271	\$1,446,492
Transferred Prepayment Credits	0	(77,729)	77,729
Employer Contributions	1,308,000	1,249,462	58,538
Employee Contributions	509,736	464,595	45,141
Earnings	922,334	795,369	126,965
Benefit Payments	(2,914,001)	(2,904,777)	(9,224)
Expenses	(36,600)	(31,562)	(5,038)
Transfers	0	301,940	(301,940)
Assets January 1, 2001	11,822,232	10,383,569	1,438,663
Transferred Prepayment Credits	0	(77,711)	77,711
Employer Contributions	1,455,000	1,411,421	43,579
Employee Contributions	544,949	501,245	43,704
Earnings	730,384	633,687	96,697
Benefit Payments	(1,995,020)	(1,987,158)	(7,862)
Expenses	(56,994)	(49,448)	(7,546)
Transfers	0	(52,294)	52,294
Assets January 1, 2002	12,500,551	10,763,311	1,737,240
Transferred Prepayment Credits	0	(102,460)	102,460
Employer Contributions	1,500,000	1,472,807	27,193
Employee Contributions	671,513	620,590	50,923
Earnings	843,832	722,574	121,258
Benefit Payments	(904,801)	(904,801)	0
Expenses	(39,250)	(33,610)	(5,640)
Transfers	0	81,083	(81,083)
Assets January 1, 2003	14,571,845	12,619,494	1,952,351
Transferred Prepayment Credits	0	(103,449)	103,449
Employer Contributions	1,625,000	1,611,971	13,029
Employee Contributions	521,676	471,167	50,509
Earnings	750,751	646,159	104,592
Benefit Payments	(1,705,387)	(1,617,612)	(87,775)
Expenses	(58,633)	(50,464)	(8,169)
Transfers	0	559,265	(559,265)
Assets January 1, 2004	\$15,705,252	\$14,136,531	\$1,568,721

Description	Total Company	“Other” Segment	Medicare Segment
Assets January 1, 2004	\$15,705,252	\$14,136,531	\$1,568,721
Transferred Prepayment Credits		(\$142,826)	\$142,826
Employer Contributions	\$1,175,000	\$1,172,270	\$2,730
Employee Contributions	\$495,451	\$445,337	\$50,114
Earnings	\$795,910	\$707,667	\$88,243
Benefit Payments	(\$2,318,195)	(\$2,219,525)	(\$98,670)
Expenses	(\$65,419)	(\$58,166)	(\$7,253)
Transfers		\$530,619	(\$530,619)
Assets January 1, 2005	\$15,787,999	\$14,571,907	\$1,216,092
Transferred Prepayment Credits		(\$110,876)	\$110,876
Employer Contributions	\$1,324,221	\$1,271,396	\$52,825
Employee Contributions	\$517,961	\$467,687	\$50,274
Earnings	\$825,006	\$747,041	\$77,965
Benefit Payments	(\$5,291,463)	(\$5,181,117)	(\$110,346)
Expenses	(\$83,033)	(\$75,186)	(\$7,847)
Transfers		\$20,933	(\$20,933)
Assets January 1, 2006	\$13,080,691	\$11,711,785	\$1,368,906
Transferred Prepayment Credits	0	(78,446)	78,446
Employer Contributions	2,300,000	2,164,450	135,550
Employee Contributions	529,464	480,129	49,335
Earnings	866,930	769,355	97,575
Benefit Payments	(2,745,463)	(2,640,215)	(105,248)
Expenses	(84,405)	(74,905)	(9,500)
Transfers	0	115,121	(115,121)
Assets January 1, 2007	<u>9/</u> \$13,947,217	\$12,447,274	\$1,499,943
Per COSVI	<u>10/</u> \$13,947,217	\$13,305,336	\$641,881
Asset Variance	<u>11/</u> \$0	\$858,062	(\$858,062)

FOOTNOTES

1/ As explained in the Findings section of the report, we computed the Medicare segment’s assets based on the total pension plan benefit. Using audited Medicare segment participants and participant data provided by COSVI and its actuarial consulting firm, we calculated the Medicare segment’s initial assets as shown on the next page.

January 1, 1996	Total Company	Medicare Segment
EAN Actuarial Liability	\$13,599,367	\$1,293,320
Pre 1982 Employee Contribution Balance	573,231	41,843
Liability Basis for Asset Fraction	\$14,172,598	\$1,335,163
Asset Fraction		9.42%
Valuation Assets	\$7,890,774	
Less: Audited Value of Accumulated Prepayment Credits	(382,351)	
Assets to Allocate	\$7,508,423	
Multiplied by: Asset Fraction	x 9.42%	
Initial Medicare Segment Asset Base		\$707,293

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 Department of Labor/Internal Revenue Service Form 5500s. 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 Form 5500s. 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 the Department of Labor/Internal Revenue Service Form 5500s. 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 calculated the Medicare segment’s benefit payments based on actual payments to Medicare retirees. We obtained information on the benefit payments from documents prepared by COSVI. We used actual benefit payments for Medicare segment retirees.
- 7/ We allocated administrative expenses to the Medicare segment in proportion to investment earnings.
- 8/ We identified participant transfers between segments based on the participant valuation data files provided by COSVI. Our asset transfer adjustments were also based on information provided by COSVI. Where provided, we used an accrued benefit actuarial liability. Otherwise, we discounted known benefit payments, made in a subsequent year, using the valuation interest rate.

- 9/ Based upon the audited Medicare segment participants and employee contribution data provided by COSVI, the Medicare segment assets include \$772,718 of assets attributable to mandatory employee contributions.
- 10/ We obtained the asset amounts as of January 1, 2007, from documents prepared by COSVI's actuarial consulting firm.
- 11/ The asset variance represents the difference between our calculation of Medicare segment assets and COSVI's calculation of the Medicare segment assets.



June 16, 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

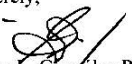
Dear Mr. Cogley:

Enclosed are our written comments to the U.S. Department of Health and Human Services, Office of Inspector General (OIG), draft reports dated April 17, 2009.

1. **A-07-09-00317 "Review of Pension Costs Claimed for Medicare Reimbursement by Cooperativa de Seguros de Vida de Puerto Rico, for Fiscal Years 1988 Through 1995"** – Based on the agreement reached by our actuary with the OIG, we agree with the adjustment of \$70,282 for the 1988 through 1995 period. Our approach will be to reduce the FY 2009 FACP by this amount or consider it as an offset during the final settlement.
2. **A-07-09-00318 "Audit of Cooperativa de Seguros de Vida de Puerto Rico's Unfunded Pension Costs for 1986 to 2007"** – We concur with the adjustment. The OIG's recommendation will be referred to our actuary for the identification of accumulated unallowable unfunded cost and update of interest as applicable.
3. **A-07-08-00271 "Review of 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"** – We concur with the OIG finding that the Medicare segment pension assets are understated by \$858,062. We will refer the OIG recommendation of increasing the Medicare segment assets as of January 1, 2007 by that amount to our actuary.

Thank you for the opportunity to comment on the report. From the outcome the reports we anticipate that since the Medicare segment assets are understated by \$858,000, the final settlement will result in a refund equivalent to that amount.

Sincerely,


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