



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

July 28, 2009

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

Report Number: A-07-08-00266

Gloria M. Lebrón, Esq.
Medicare Program Vice President
Triple-S, Inc.
P.O. Box 71391
San Juan, Puerto Rico 00936-1391

Dear Ms. Lebrón:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of the Qualified Pension Plan at Triple-S, Inc., for the Period January 1, 1986, Through 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 your staff may 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-07-08-00266 in all correspondence.

Sincerely,

A handwritten signature in dark ink, appearing to read "Patrick J. Cogley", is written over a faint, larger signature.

Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Nanette Foster Reilly
Consortium Administrator
Consortium for Financial Management & Fee for Service Operations
Centers for Medicare & Medicaid Services
601 East 12th Street, Room 235
Kansas City, Missouri 64106

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF THE QUALIFIED
PENSION PLAN AT TRIPLE-S,
INC., FOR THE PERIOD
JANUARY 1, 1986, THROUGH
JANUARY 1, 2007**



Daniel R. Levinson
Inspector General

July 2009
A-07-08-00266

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

Triple-S, Inc., and Medicare

Triple-S, Inc. (Triple-S), has administered Medicare Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) since 1966.

Triple-S 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 defined/predefined retirement benefit.

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 Triple-S complied with Federal requirements and the Medicare contracts' pension segmentation requirements when:

- identifying the Medicare segment asset base as of January 1, 1986, and
- updating the Medicare segment's assets from January 1, 1986, to January 1, 2007.

SUMMARY OF FINDINGS

Triple-S correctly calculated the initial allocation of the Medicare segment assets; however, it did not always comply with Federal requirements and the Medicare contracts' pension segmentation requirements while updating the Medicare segment assets from January 1, 1986, to January 1, 2007. As a result, Triple-S overstated the Medicare segment assets by \$68,572.

RECOMMENDATION

We recommend that Triple-S decrease its Medicare segment assets as of January 1, 2007, by \$68,572 and recognize \$2,084,729 as the Medicare segment assets.

AUDITEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, Triple-S did not address our findings or recommendation. Therefore, we maintain that Triple-S should decrease its Medicare segment assets as of January 1, 2007, by \$68,572 and recognize \$2,084,729 as the Medicare segment assets.

Triple-S's comments are included in their entirety as Appendix B.

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Glossary of Abbreviations and Acronyms

CAS	Cost Accounting Standards
CMS	Centers for Medicare & Medicaid Services
FAR	Federal Acquisition Regulation
Triple-S	Triple-S, Inc.

INTRODUCTION

BACKGROUND

Triple-S, Inc., and Medicare

Triple-S, Inc. (Triple-S), has administered Medicare Part B operations under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS) since 1966.

Triple-S 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 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 Triple-S complied with Federal requirements and the Medicare contracts' pension segmentation requirements when:

- identifying the Medicare segment asset base as of January 1, 1986, and
- updating the Medicare segment's assets from January 1, 1986, to January 1, 2007.

Scope

We reviewed Triple-S's initial allocation of the Medicare segment assets, and update of the Medicare segment's assets from January 1, 1986, to January 1, 2007.

Achieving our objectives did not require us to review Triple-S'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 Triple-S's office in San Juan, 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 Triple-S's actuarial consulting firm, which 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 Triple-S staff responsible for identifying the Medicare segment to determine whether the segment was properly identified in accordance with the Medicare contracts.
- We reviewed Triple-S'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 audit of Triple-S's pension costs claimed for Medicare reimbursement (A-07-08-00268) 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 RECOMMENDATION

Triple-S correctly calculated the initial allocation of the Medicare segment assets as of January 1, 1986; however, it did not always comply with Federal requirements and the Medicare contracts' pension segmentation requirements while updating the Medicare segment assets from January 1, 1986, to January 1, 2007. As a result, Triple-S overstated the Medicare segment assets by \$68,572.

Appendix A presents details of the Medicare segment's pension assets from January 1, 1986, 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 Triple-S	Difference
Medicare Segment Asset Base (Initial Allocation)	\$731,952	\$731,952	\$0
Update of Medicare Segment Assets			
Contributions and Prepayment Credits	3,619,435	3,701,062	(81,627)
Benefit payments	4,433,983	4,397,842	(36,141)
Transfers	(1,500,555)	(1,644,526)	143,971
Earnings, net expenses	3,667,880	3,762,655	(94,775)
Overstatement of Medicare segment assets			(\$68,572)

MEDICARE ASSET BASE (INITIAL ALLOCATION) AS OF JANUARY 1, 1986

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.

Triple-S correctly calculated an asset fraction of 16.1484 percent as of January 1, 1981, and used that figure to correctly calculate the initial allocation of the Medicare segment assets totaling \$731,952 as of January 1, 1986.

UPDATE OF MEDICARE SEGMENT ASSETS

Federal Requirements

The Medicare contract states 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 average value of assets to total company average value 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.

Contributions and Prepayment Credits Overstated

Triple-S overstated contributions and prepayment credits for the Medicare segment by \$81,627. This overstatement occurred because Triple-S’s update methodology did not equitably assign pension contributions to the Medicare segment. Specifically, the overstatement occurred primarily because for calendar years 1986 and 1988 through 1990, Triple-S allocated contributions to the Medicare segment when the assignable pension costs were zero. Because contributions are allocated upon the assignable pension costs, the contributions assigned to the Medicare segment for those years were zero. As a result, Triple-S overstated contributions and prepayment credits for the Medicare segment by \$81,627.

Benefit Payments Understated

Triple-S understated benefit payments by \$36,141, primarily because it missed one Medicare segment participant’s benefit payment in 1992. Benefit payments made during the year to Medicare segment participants should be identified as benefit payments to the Medicare segment, as required by CAS 413.50(c)(7). This understatement of benefit payments resulted in an overstatement of the Medicare segment assets.

Net Transfers Overstated

Triple-S overstated transfers out of the Medicare segment by \$143,971. Triple-S overstated transfers out of the Medicare segment primarily because Triple-S incorrectly recorded the 1987 transfer as a transfer out of the Medicare segment, when in fact it was a transfer into the

Medicare segment. This overstatement of the net transfer adjustment resulted in an understatement of the Medicare segment assets. Table 2 shows the variance between Triple-S's and our calculations of audited transfers.

Table 2: Comparison of Audited Transfers from the Medicare Segment			
Year	Per OIG	Per Triple-S	Difference
1986	\$0	\$0	\$0
1987	103,317	(104,478)	207,795
1988	937	906	31
1989	4,045	5,057	(1,012)
1990	11,391	8,047	3,344
1991	(18,852)	(19,005)	153
1992	(46,997)	(44,618)	(2,379)
1993	(26,658)	(27,990)	1,332
1994	(359,123)	(285,824)	(73,299)
1995	(33,015)	(32,335)	(680)
1996	(113,637)	(115,026)	1,389
1997	(38,581)	(38,581)	0
1998	(35,272)	(35,272)	0
1999	(48,434)	(48,434)	0
2000	(105,745)	(105,745)	0
2001	461	461	0
2002	(359,359)	(359,359)	0
2003	(51,927)	(51,927)	0
2004	(322,020)	(322,020)	0
2005	(72,059)	(72,059)	0
2006	10,973	3,676	7,297
Total	(\$1,500,555)	(\$1,644,526)	\$143,971

Earnings and Expenses Overstated

Triple-S overstated investment earnings, less administrative expenses, by \$94,775 for the Medicare segment because it used incorrect contribution and prepayment credit amounts, benefit payment amounts, and transfer adjustment amounts (all discussed above) to develop the Medicare asset base. In our audited update, we reallocated earnings and expenses, based on the applicable CAS requirements, and determined that Triple-S overstated the Medicare segment assets by \$94,775.

RECOMMENDATION

We recommend that Triple-S decrease its Medicare segment assets as of January 1, 2007, by \$68,572 and recognize \$2,084,729 as the Medicare segment assets.

AUDITEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, Triple-S did not address our findings or recommendation. Triple-S provided a single set of written comments for both this report and its companion report, "Review of Pension Costs Claimed for Medicare Reimbursement by Triple-S, Inc., for Fiscal Years 1988 Through 2006" (A-07-08-00268). Triple-S's written comments focused entirely on the pension costs claimed report. Therefore, Triple-S should decrease its Medicare segment assets as of January 1, 2007, by \$68,572 and recognize \$2,084,729 as the Medicare segment assets.

Triple-S's comments are included in their entirety as Appendix B.

APPENDIXES

Triple-S, Inc.,
Statement of Market Value of Pension Assets
For the Period
January 1, 1986, to January 1, 2007

APPENDIX A
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Description		Total Company	"Other" Segment	Medicare
Assets January 1, 1986	<u>1/</u>	\$4,532,659	\$3,800,707	\$731,952
Prepayment Credit		0	0	
Contributions	<u>2/</u>	386,066	386,066	0
Earnings	<u>3/</u>	723,776	606,898	116,878
Benefit Payments	<u>4/</u>	(59,363)	(59,363)	0
Expenses	<u>5/</u>	(32,060)	(26,883)	(5,177)
Participant Transfers	<u>6/</u>	0	0	0
Assets January 1, 1987		5,551,078	4,707,425	843,653
Prepayment Credit	<u>7/</u>	0	(1,836)	1,836
Contribution		740,661	673,755	66,906
Earnings		205,607	174,291	31,316
Benefit Payments		(45,880)	(45,880)	0
Expenses		(39,252)	(33,274)	(5,978)
Participant Transfers		0	(103,317)	103,317
Assets January 1, 1988		6,412,214	5,371,164	1,041,050
Prepayment Credit		0	0	0
Contribution		0	0	0
Earnings		886,190	742,313	143,877
Benefit Payments		(36,366)	(36,366)	0
Expenses		(45,363)	(37,998)	(7,365)
Participant Transfers		0	(937)	937
Assets January 1, 1989		7,216,675	6,038,176	1,178,499
Prepayment Credit		0	0	0
Contributions		419,947	419,947	0
Earnings		1,656,953	1,386,369	270,584
Benefit Payments		(182,288)	(124,712)	(57,576)
Expenses		(54,147)	(45,305)	(8,842)
Participant Transfers		0	(4,045)	4,045
Assets January 1, 1990		\$9,057,140	\$7,670,430	\$1,386,710

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Description	Total Company	"Other" Segment	Medicare
Assets January 1, 1990	\$9,057,140	\$7,670,430	\$1,386,710
Prepayment Credit	0	0	0
Contribution	358,633	358,633	0
Earnings	(232,301)	(196,734)	(35,567)
Benefit Payments	(584,484)	(495,728)	(88,756)
Expenses	(58,294)	(49,369)	(8,925)
Participant Transfers	0	(11,391)	11,391
Assets January 1, 1991	8,540,694	7,275,841	1,264,853
Prepayment Credit	0	0	0
Contribution	1,036,198	891,219	144,979
Earnings	1,884,367	1,605,297	279,070
Benefit Payments	(685,258)	(685,258)	0
Expenses	(52,244)	(44,507)	(7,737)
Participant Transfers	0	18,852	(18,852)
Assets January 1, 1992	10,723,757	9,061,444	1,662,313
Prepayment Credit	0	(14,268)	14,268
Contributions	1,098,038	989,041	108,997
Earnings	429,273	362,159	67,114
Benefit Payments	(1,170,185)	(1,126,017)	(44,168)
Expenses	(55,140)	(46,519)	(8,621)
Participant Transfers	0	46,997	(46,997)
Assets January 1, 1993	11,025,743	9,272,837	1,752,906
Prepayment Credit	0	(32,696)	32,696
Contribution	1,308,605	1,189,530	119,075
Earnings	1,153,204	966,444	186,760
Benefit Payments	(189,173)	(189,173)	0
Expenses	(80,456)	(67,426)	(13,030)
Participant Transfers	0	26,658	(26,658)
Assets January 1, 1994	\$13,217,923	\$11,166,174	\$2,051,749

APPENDIX A

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Description	Total Company	"Other" Segment	Medicare
Assets January 1, 1994	\$13,217,923	\$11,166,174	\$2,051,749
Prepayment Credit	0	(50,087)	50,087
Contribution	1,691,340	1,552,897	138,443
Earnings	84,691	71,224	13,467
Benefit Payments	(520,818)	(518,250)	(2,568)
Expenses	(68,400)	(57,523)	(10,877)
Participant Transfers	0	359,123	(359,123)
Assets January 1, 1995	14,404,736	12,523,558	1,881,178
Prepayment Credit	0	(35,670)	35,670
Contribution	1,576,278	1,536,104	40,174
Earnings	3,905,159	3,385,497	519,662
Benefit Payments	(314,343)	(310,802)	(3,541)
Expenses	(70,483)	(61,104)	(9,379)
Participant Transfers	0	33,015	(33,015)
Assets January 1, 1996	19,501,347	17,070,598	2,430,749
Prepayment Credit	0	(33,153)	33,153
Contribution	1,479,138	1,457,208	21,930
Earnings	3,086,261	2,690,645	395,616
Benefit Payments	(996,233)	(996,233)	0
Expenses	(111,600)	(97,294)	(14,306)
Participant Transfers	0	113,637	(113,637)
Assets January 1, 1997	22,958,913	20,205,408	2,753,505
Prepayment Credit	0	(81,043)	81,043
Contribution	3,098,039	2,984,557	113,482
Earnings	4,748,655	4,167,180	581,475
Benefit Payments	(948,895)	(856,833)	(92,062)
Expenses	(129,198)	(113,378)	(15,820)
Participant Transfers	0	38,581	(38,581)
Assets January 1, 1998	\$29,727,514	\$26,344,472	\$3,383,042

APPENDIX A

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Description	Total Company	"Other" Segment	Medicare
Assets January 1, 1998	\$29,727,514	\$26,344,472	\$3,383,042
Prepayment Credit	0	0	0
Contribution	540,000	540,000	0
Earnings	4,618,689	4,091,890	526,799
Benefit Payments	(1,586,739)	(1,445,991)	(140,748)
Expenses	(182,652)	(161,819)	(20,833)
Participant Transfers	0	35,272	(35,272)
Assets January 1, 1999	33,116,812	29,403,824	3,712,988
Prepayment Credit	0	0	0
Contribution	2,574,322	2,574,322	0
Earnings	5,451,136	4,853,691	597,445
Benefit Payments	(1,462,983)	(1,152,299)	(310,684)
Expenses	(173,400)	(154,395)	(19,005)
Participant Transfers	0	48,434	(48,434)
Assets January 1, 2000	39,505,887	35,573,577	3,932,310
Prepayment Credit	0	0	0
Contribution	1,145,537	1,145,537	0
Earnings	(1,629,953)	(1,462,637)	(167,316)
Benefit Payments	(2,574,527)	(2,574,527)	0
Expenses	(269,365)	(241,714)	(27,651)
Participant Transfers	0	105,745	(105,745)
Assets January 1, 2001	36,177,579	32,545,981	3,631,598
Prepayment Credit	0	0	0
Contribution	6,212,972	6,212,972	0
Earnings	(1,742,211)	(1,553,678)	(188,533)
Benefit Payments	(9,073,493)	(8,709,939)	(363,554)
Expenses	(204,902)	(182,729)	(22,173)
Participant Transfers	0	(461)	461
Assets January 1, 2002	\$31,369,945	\$28,312,146	\$3,057,799

APPENDIX A

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Description	Total Company	"Other" Segment	Medicare
Assets January 1, 2002	\$31,369,945	\$28,312,146	\$3,057,799
Prepayment Credit	0	(263,557)	263,557
Contribution	11,499,754	11,499,754	0
Earnings	(2,381,771)	(2,123,120)	(258,651)
Benefit Payments	(6,081,332)	(5,591,523)	(489,809)
Expenses	(131,516)	(117,234)	(14,282)
Participant Transfers	0	359,359	(359,359)
Assets January 1, 2003	34,275,080	32,075,825	2,199,255
Prepayment Credit	0	(479,893)	479,893
Contribution	9,531,000	9,531,000	0
Earnings	5,685,176	5,347,368	337,808
Benefit Payments	(10,633,924)	(8,725,448)	(1,908,476)
Expenses	(184,373)	(173,418)	(10,955)
Participant Transfers	0	51,927	(51,927)
Assets January 1, 2004	38,672,959	37,627,361	1,045,598
Prepayment Credit	0	(553,511)	553,511
Contribution	13,221,000	13,221,000	0
Earnings	3,968,680	3,803,859	164,821
Benefit Payments	(4,265,616)	(4,149,021)	(116,595)
Expenses	(206,690)	(198,106)	(8,584)
Participant Transfers	0	322,020	(322,020)
Assets January 1, 2005	51,390,333	50,073,602	1,316,731
Prepayment Credit	0	(644,480)	644,480
Contribution	8,000,000	8,000,000	0
Earnings	3,444,788	3,335,211	109,577
Benefit Payments	(5,105,895)	(4,290,449)	(815,446)
Expenses	(228,545)	(221,275)	(7,270)
Participant Transfers	0	72,059	(72,059)
Assets January 1, 2006	57,500,681	56,324,668	1,176,013

Description	Total Company	"Other" Segment	Medicare
Assets January 1, 2006	57,500,681	56,324,668	1,176,013
Prepayment Credit	0	(675,255)	675,255
Contribution	5,000,000	5,000,000	0
Earnings	6,908,891	6,677,158	231,733
Benefit Payments	(4,613,845)	(4,613,845)	0
Expenses	(275,616)	(266,371)	(9,245)
Participant Transfers	0	(10,973)	10,973
Assets January 1, 2007	\$64,520,111	\$62,435,382	\$2,084,729
Per Triple-S	<u>8/</u> \$64,520,111	\$62,366,810	\$2,153,301
Asset Variance	<u>9/</u> \$0	(\$68,572)	\$68,572

FOOTNOTES

- 1/ We calculated the Medicare segment assets based upon our computed asset fraction (16.1484 percent). We computed the asset fraction as explained in the Findings section of the report. 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/ We obtained Total Company contribution amounts from the actuarial valuation reports and 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.
- 3/ We obtained investment earnings from actuarial valuation reports. We allocated investment earnings based on the market value of Medicare assets at the beginning of the plan year after adjustments for prepayment credits and participant transfers. For years starting with 1996, 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).
- 4/ We based the Medicare segment's benefit payments on actual payments to Medicare retirees. We obtained the benefit payments from documents provided by Triple-S.
- 5/ We allocated administrative expenses to the Medicare segment in proportion to investment earnings as required by the CAS.

- 6/ We identified participant transfers between segments based on the participant data files provided by Triple-S's actuarial consulting firm. Our transfer adjustment considered each participant's actuarial liability and the funding level of the segment from which the participant transferred. For transfers that occurred prior to the 1996 plan year, asset transfers reflected the funding level of the segment from which the participant transferred, based on the actuarial liability and the asset value used for cost purposes. If the funding level was greater than one, we transferred assets equal to the participant's liability. For plan years starting with 1996, asset transfers were equal to the actuarial liability determined under the accrued benefit cost method in accordance with the CAS.
- 7/ Prepayment credits represent funds available to satisfy future funding requirements and are applied to future funding requirements before current year contributions. Prepayment credits are maintained in the "Other" segment and transferred to the Medicare segment as needed to cover funding requirements.
- 8/ We obtained the asset amounts as of January 1, 2007, from the actuarial valuation report prepared by Triple-S's actuarial consulting firm.
- 9/ The asset variance represents the difference between our calculation of Medicare segment assets and Triple-S's calculation of the Medicare segment assets.



May 27, 2009

Mr. Patrick J. Cogley
Regional Inspector General for Audit Services
601 East, 12th Street
Room 0429
Kansas City, Missouri 64106

Dear Mr. Cogley:

We acknowledge receipt of the audit reports A-07-08-00268 and A-07-08-00266 corresponding to the "Review of Pension Costs Claimed for Medicare Reimbursement by Triple-S, Salud Inc. (TSS), for Fiscal Years 1988 through 2006" performed by the Office of Inspector General (OIG) of the U.S. Department of Health and Human Services.

The findings and recommendations included in the report arise substantially due to TSS allocating pension cost to the Medicare program using Financial Accounting Standards (FAS) instead of Cost Accounting Standards (CAS). The allocation methodologies differs among each other primarily in the assumptions used to determine the present pension cost and funding requirements for specific retirement benefits to be paid in the future under a Define Benefit Pension Plan, which is the plan offered by TSS to its employees, including Medicare program employees. Such assumptions create a temporary difference, which should reconcile through the years, as the employees approach their eligible retirement date and the actual benefits earned are paid. Furthermore, such temporary difference should be reconciled and/or disposed of, in the event of an early termination of the plan or upon discontinuation of beneficiaries' employment under the Medicare program due to the termination of the Medicare contract with TSS.

After extensive evaluation with our consulting pension actuaries, we are not in a position to concur with the recommendations stated in the Review Reports as they relate to TSS reimbursing funds to the Medicare program. The difference leading to the reimbursement recommendation is based upon a difference which is deemed temporary and upon the assumption that the program will be on an on-going basis. The TSS' contract for Medicare Administration in Puerto Rico ended on March 2, 2009.

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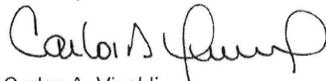
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In connection with such termination, we are filing the corresponding termination cost associated to the pension plan benefits earned by the employees who worked for the program and were vested at contract termination date. As reported by our consulting actuaries, the status of the plan for Medicare employees as of the contract termination date is that there is an unfunded liability which is estimated from \$2.5 to \$3.0 million. In fact, according to the 2008 Pension Plan Valuation Report issued by JP Morgan (see copy of excerpt attached) the unfunded liability corresponding to the Medicare segment amounted to \$2,859,473.

Based on the above facts, we respectfully request that the implementation of the recommendation of reducing the Final Administrative Cost Proposal pension costs contained in the aforementioned reports be evaluated in light of the fact that the current program has been terminated. In this respect, we also request that the final determination or settlement be deferred until after the final analysis of the pension plan costs – which are part of the closeout process and termination costs of our Title XVIII contract ended on March 2, 2009 – is concluded.

We hope that you consider favorably our request. However, if you feel the need for further discussion or would like to have more information, please, contact us at your earliest convenience at 787-749-4056 or cvivaldi@ssspr.com.

Cordially,



Carlos A. Vivaldi
Vice president
Finance & Administration

f Mr. Carlos A. González, Esquire
Medicare Director



CAS pension cost for medicare segment

	2008 program year
1. Actuarial accrued liability as of valuation date	\$5,449,803
2. Actuarial value of assets as of valuation date	2,590,330
3. Unfunded actuarial accrued liability (UAAL), (1) - (2)	2,859,473
4. Normal cost as of valuation date	\$252,730
5. Amortization of UAAL	<u>388,693</u>
6. Preliminary CAS pension cost, (4) + (5)	\$641,423
7. Unallowable unfunded amount as of valuation date	0
8. Accumulated prepayment credits as of end of prior program year	0
9. Assignable cost limitation (3) + (4) - (7) + (8), not less than zero	3,112,203
10. Assignable CAS pension cost as of valuation date Lesser of (6) and (9), not less than zero	641,423
11. Allowable interest credits	<u>0</u>
12. Allocable CAS pension cost for 2008, (10) + (11)	\$641,423
13. Assignable cost deficit/(credit) as of valuation date	0

The reimbursable CAS cost under the Medicare contract is the sum of: 1. the allocable Medicare segment cost multiplied by the applicable Medicare line of business percentage for the Medicare segment, and 2. the allocable other segment cost multiplied by the applicable Medicare line of business percentage for the other segment.