

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**TRIPLE-S SALUD DID NOT CLAIM
SOME ALLOWABLE PENSION COSTS
FOR FISCAL YEARS
2007 THROUGH 2009**

*Inquiries about this report may be addressed to the Office of Public Affairs at
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**Patrick J. Cogley
Regional Inspector General**

**April 2013
A-07-12-00396**

Office of Inspector General

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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

Triple-S Salud did not claim \$232,120 of allowable Medicare pension costs for Medicare reimbursement for fiscal years 2007 through 2009.

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their pension costs—that is, the annual contributions that these contractors make to their pension plans. The amount of pension costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the cost reimbursement principles contained in the Federal Acquisition Regulation, Cost Accounting Standards (CAS), and Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors have not always complied with Federal requirements when claiming pension costs for Medicare reimbursement.

The objective of this review was to determine whether Triple-S Salud (Triple-S) complied with Federal requirements when claiming pension costs for Medicare reimbursement for fiscal years (FY) 2007 through 2009.

BACKGROUND

Triple-S administered Medicare Part B operations under cost reimbursement contracts with CMS until the contractual relationship was terminated effective March 1, 2009.

WHAT WE FOUND

Triple-S claimed pension costs of \$1,500,739 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs during this period were \$1,732,859. The difference, \$232,120, represented allowable Medicare pension costs that Triple-S did not claim on its Final Administrative Cost Proposals (FACP) for FYs 2007 through 2009. Triple-S did not claim these allowable Medicare pension costs primarily because it incorrectly calculated the FY 2008 allowable portion of the CAS pension cost.

WHAT WE RECOMMEND

We recommend that Triple-S revise its FACPs for FYs 2007 through 2009 to claim the additional pension costs of \$232,120.

AUDITEE COMMENTS

In written comments on our draft report, Triple-S concurred with our recommendation and described corrective action that it planned to implement.

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INTRODUCTION

WHY WE DID THIS REVIEW

Medicare contractors are eligible to be reimbursed a portion of their pension costs—that is, the annual contributions that these contractors make to their pension plans. The amount of pension costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the cost reimbursement principles contained in the Federal Acquisition Regulation (FAR), Cost Accounting Standards (CAS), and Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors have not always complied with Federal requirements when claiming pension costs for Medicare reimbursement.

OBJECTIVE

Our objective was to determine whether Triple-S Salud (Triple-S) complied with Federal requirements when claiming pension costs for Medicare reimbursement for fiscal years (FY) 2007 through 2009.

BACKGROUND

Triple-S Salud

Triple-S administered Medicare Part B operations under cost reimbursement contracts with CMS until the contractual relationship was terminated effective March 1, 2009.

Medicare Reimbursement of Pension Costs

CMS reimburses a portion of the annual contributions that contractors make to their pension plans. To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with CAS 412 and 413 and (2) funded as specified by part 31 of the FAR.

Beginning with FY 1988, CMS incorporated specific segmentation language into Medicare contracts that requires contractors to use either an allocation method or a separate calculation method to identify and claim pension costs for Medicare reimbursement. Under the allocation method, the contractor determines total plan CAS-based pension costs and allocates a share to Medicare. Under the separate calculation method, the contractor separately identifies the pension cost components for the Medicare segment. The contractor must use the separate calculation method if its result is materially different from that of the allocation method.

HOW WE CONDUCTED THIS REVIEW

We reviewed \$1,500,739 of pension costs claimed by Triple-S for Medicare reimbursement for FYs 2007 through 2009 on its Final Administrative Cost Proposals (FACP).

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

Appendix A contains details of our audit scope and methodology.

FINDING

Triple-S claimed pension costs of \$1,500,739 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs during this period were \$1,732,859. The difference, \$232,120, represented allowable Medicare pension costs that Triple-S did not claim on its FACPs for FYs 2007 through 2009. Triple-S did not claim these allowable Medicare pension costs primarily because it incorrectly calculated the FY 2008 allowable portion of the CAS pension cost.

CLAIMED PENSION COSTS

Triple-S submitted Medicare pension costs of \$1,500,739 for Medicare reimbursement on its FACPs for FYs 2007 through 2009.¹ We calculated the allowable Medicare pension costs based on separately computed CAS-based pension costs for the Medicare segment and the “Other” segment in accordance with CAS 412 and 413. For details on the Federal requirements, see Appendix B.

ALLOWABLE PENSION COSTS NOT CLAIMED

We determined that the allowable CAS-based pension costs for FYs 2007 through 2009 were \$1,732,859. Thus, Triple-S did not claim \$232,120 of allowable Medicare pension costs on its FACPs for FYs 2007 through 2009. This underclaim occurred primarily because Triple-S incorrectly calculated the FY 2008 allowable portion of the CAS pension cost.

The table on the following page compares allowable CAS-based pension costs with the pension costs claimed on Triple-S’s FACPs and reflected in its accounting documents. Appendix C contains additional details on allowable pension costs.

¹ The allowable pension costs for FY 2009 were attributable to the pension costs for October 1, 2008, through March 1, 2009.

Table: Comparison of Allowable Pension Costs and Claimed Pension Costs

	Medicare Pension Costs		
Fiscal Year	Allowable Per Audit	Claimed by Triple-S	Difference
2007	\$757,020	\$718,865	\$38,155
2008	716,366	563,889	152,477
2009	259,473	217,985	41,488
Total	\$1,732,859	\$1,500,739	\$232,120

RECOMMENDATION

We recommend that Triple-S revise its FACPs for FYs 2007 through 2009 to claim the additional pension costs of \$232,120.

AUDITEE COMMENTS

In written comments on our draft report, Triple-S concurred with our recommendation and described corrective action that it planned to implement.

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

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$1,550,739 of pension costs that Triple-S claimed for Medicare reimbursement on its FACPs for FYs 2007 through 2009.

Achieving our objective did not require that we review Triple-S's overall internal control structure. We reviewed the internal controls related to the pension costs claimed for Medicare reimbursement to ensure that the pension costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

We completed our audit work in November 2012.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- reviewed information provided by Triple-S to identify the amount of pension costs claimed for Medicare reimbursement for FYs 2007 through 2009;
- used information that Triple-S's actuarial consulting firms provided, including information on assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses;
- examined Triple-S's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Forms 5500;
- determined the extent to which Triple-S funded CAS-based pension costs with contributions to the pension trust fund and accumulated prepayment credits;
- engaged the CMS Office of the Actuary to calculate the allocable pension costs based on the CAS (the calculations were based on separately computed CAS-based pension costs for the Medicare segment and the "Other" segment); and
- reviewed the CMS actuaries' methodology and calculations.

We performed this review in conjunction with our audit of Triple-S's segmentation of its Medicare segment pension assets (A-07-12-00395) 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 finding and conclusions based on our audit objectives.

APPENDIX B: FEDERAL REQUIREMENTS RELATED TO REIMBURSEMENT OF PENSION COSTS

FEDERAL REGULATIONS

Federal regulations (FAR 31.205-6(j)) address allowability of pension costs and require that plan contributions substantiate pension costs assigned to contract periods.

Federal regulations (CAS 412) address the determination and measurement of pension cost components. This regulation also addresses the assignment of pension costs to appropriate accounting periods.

Federal regulations (CAS 413) address 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.

MEDICARE CONTRACTS

The Medicare contracts address the determination and allocation of pension costs. The contracts state: “The calculation of and accounting for pension costs charged to this agreement/contract are governed by the Federal Acquisition Regulation and Cost Accounting Standards 412 and 413.”

**APPENDIX C: ALLOWABLE MEDICARE PENSION COSTS FOR
TRIPLE-S FOR FISCAL YEARS 2007 THROUGH 2009**

Date	Description	Total Company	“Other” Segment	Medicare Segment	Total Medicare
2006	Contributions	\$5,000,000	\$5,000,000	\$0	
	Discount for Interest	(\$370,370)	(\$370,370)	\$0	
January 1, 2006	Present Value Contributions	\$4,629,630	\$4,629,630	\$0	
	Prepayment Credit Applied	\$8,047,273	\$7,372,018	\$675,255	
	Present Value of Funding	\$12,676,903	\$12,001,648	\$675,255	
January 1, 2006	CAS Funding Target	\$8,047,273	\$7,372,018	\$675,255	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$7,372,018	\$675,255	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$7,372,018	\$675,255	
2006	FY Allocable Pension Costs <u>1/</u>		\$7,252,915	\$667,561	
Date	Description	Total Company	“Other” Segment	Medicare Segment	Total Medicare
2007	Contributions <u>2/</u>	\$4,000,000	\$4,000,000	\$0	
	Discount for Interest <u>3/</u>	(\$296,296)	(\$296,296)	\$0	
January 1, 2007	Present Value Contributions <u>4/</u>	\$3,703,704	\$3,703,704	\$0	
	Prepayment Credit Applied <u>5/</u>	\$8,297,055	\$7,588,121	\$708,934	
	Present Value of Funding <u>6/</u>	\$12,000,759	\$11,291,825	\$708,934	
January 1, 2007	CAS Funding Target <u>7/</u>	\$8,297,055	\$7,588,121	\$708,934	
	Percentage Funded <u>8/</u>		100.00%	100.00%	
	Funded Pension Cost <u>9/</u>		\$7,588,121	\$708,934	
	Allowable Interest <u>10/</u>		\$0	\$0	
	Allocable Pension Cost		\$7,588,121	\$708,934	
2007	FY Allocable Pension Costs <u>11/</u>		\$7,534,095	\$700,514	
	Medicare LOB* Percentage <u>12/</u>		0.75%	100.00%	
	Allowable Pension Cost <u>13/</u>		\$56,506	\$700,514	\$757,020

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2008	Contributions	\$9,000,000	\$9,000,000	\$0	
	Discount for Interest	(\$666,667)	(\$666,667)	\$0	
January 1, 2008	Present Value Contributions	\$8,333,333	\$8,333,333	\$0	
	Prepayment Credit Applied	\$8,132,103	\$7,481,333	\$650,770	
	Present Value of Funding	\$16,465,436	\$15,814,666	\$650,770	
January 1, 2008	CAS Funding Target	\$8,132,103	\$7,481,333	\$650,770	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$7,481,333	\$650,770	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$7,481,333	\$650,770	
2008	FY Allocable Pension Costs		\$7,508,030	\$665,311	
	Medicare LOB* Percentage		0.68%	100.00%	
	Allowable Pension Cost		\$51,055	\$665,311	\$716,366

Date	Description	Total Company	"Other" Segment	Medicare Segment	Total Medicare
2009	Contributions	\$0	\$0	\$0	
	Discount for Interest	\$0	\$0	\$0	
January 1, 2009	Present Value Contributions	\$0	\$0	\$0	
	Prepayment Credit Applied	\$1,680,298	\$1,561,395	\$118,903	
	Present Value of Funding	\$1,680,298	\$1,561,395	\$118,903	
January 1, 2009	CAS Funding Target	\$1,680,298	\$1,561,395	\$118,903	
	Percentage Funded		100.00%	100.00%	
	Funded Pension Cost		\$1,561,395	\$118,903	
	Allowable Interest		\$0	\$0	
	Allocable Pension Cost		\$1,561,395	\$118,903	
2009	FY Allocable Pension Costs	14/	\$3,041,380	\$251,870	
	Medicare LOB* Percentage		0.25%	100.00%	
	Allowable Pension Cost		\$7,603	\$251,870	\$259,473

* Line of business.

ENDNOTES

- 1/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes. We obtained the 2006 calendar year (CY) allocable pension cost from our prior review (A-07-08-00268), issued July 28, 2009.
- 2/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the CY and accrued contributions deposited after the end of the CY but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-12-00395). The amounts shown for the “Other” segment represent the difference between the Total Company and the Medicare segment.
- 3/ We subtracted the interest that was included in the contributions deposited after the beginning of the valuation year to discount the contributions back to their beginning-of-the-year value. For purposes of this Appendix, we computed the interest as the difference between the present value of contributions (at the valuation interest rate) and actual contribution amounts.
- 4/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the CY. For purposes of this Appendix, we deemed deposits made after the end of the CY to have been made on the final day of the CY, consistent with the method mandated by the Employee Retirement Income Security Act prior to the implementation of the Pension Protection Act.
- 5/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year CAS funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.
- 6/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at the first day of the CY.
- 7/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of the FAR 31.205-6(j)(2)(i).
- 8/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the CY. Because any funding in excess of the CAS funding target is accounted for as a prepayment in accordance with CAS 412.50(c)(1) (as amended), the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimal places.
- 9/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.
- 10/ We assumed that interest on the funded CAS-based pension cost, less the prepayment credit, accrues in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in four equal installments deposited within 30 days after the end of the quarter.
- 11/ We converted the allocable pension cost to an FY basis (October 1 through September 30). We calculated the FY pension costs as 1/4 of the prior year’s costs plus 3/4 of the current year’s costs.
- 12/ We calculated allowable pension costs of the Medicare and “Other” segments based on the Medicare line of business (LOB) percentage of each segment. We determined the Medicare LOB percentages based upon information provided by Triple-S.
- 13/ We computed the allowable Medicare pension cost as an FY pension cost multiplied by the Medicare LOB percentage. Pursuant to CAS 412 and 413, the total Medicare allowable pension costs charged to the Medicare contracts consisted of the Medicare segment’s direct pension costs plus “Other” segment pension costs attributable to indirect Medicare operations.
- 14/ Triple-S terminated its Medicare contract on March 1, 2009. Therefore, we calculated the FY 2009 pension cost as 1/4 of the prior year’s cost plus the costs for January and February 2009.

APPENDIX D: AUDITEE COMMENTS



Pablo Almodóvar Scalley
Presidente y Principal Oficial Ejecutivo

March 8, 2013

Mr. Patrick J. Cogley
Regional Inspector General for Audit Services
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Report Number: A-07-12-00396

Dear Mr. Cogley:

This letter is in response to your letter dated February 7, 2013, enclosing the draft report entitled *Triple-S Salud Did Not Claim Some Allowable Pension Costs for Fiscal Years 2007 through 2009* (Report Number A-07-12-00396). As requested, the following is our comment to the recommendation set forth in the report, including a statement of concurrence and describing the nature of the corrective action planned.

Recommendation: That Triple-S revises its FACP for FYs 2007 through 2009 to claim the additional pension costs of \$232,120.

We concur with this recommendation. Triple-S Salud will work directly with CMS this issue because we no longer have access to the CAFM system to revise the FACP for the indicated fiscal years.

If you have any question or concern regarding this response, do not hesitate to contact me.

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