Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

TRIPLE-S SALUD UNDERSTATED ITS MEDICARE SEGMENT ASSETS AND OVERSTATED MEDICARE'S SHARE OF THE EXCESS LIABILITIES AS OF MARCH 1, 2009

Inquiries about this report may be addressed to the Office of Public Affairs at Public.Affairs@oig.hhs.gov.

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Regional Inspector General

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Office of Inspector General

https://oig.hhs.gov/

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EXECUTIVE SUMMARY

Triple-S Salud, a terminated Medicare contractor, understated the Medicare segment pension assets by $371,181 as of March 1, 2009. In addition, Triple-S Salud overstated Medicare's share of excess pension liabilities by $68,601 as a result of the segment closing adjustment on March 1, 2009.

WHY WE DID THIS REVIEW

Medicare contractors are required to segment their Medicare segment pension plan assets based on the requirements of their Medicare contracts and the Cost Accounting Standards (CAS). The Centers for Medicare & Medicaid Services (CMS) incorporated specific segmentation requirements into the Medicare contracts beginning with fiscal year 1988. In addition, in situations such as contract terminations, the Medicare contracts require contractors to identify excess Medicare pension assets/liabilities, in accordance with the CAS. Previous Office of Inspector General reviews found that Medicare contractors did not always correctly identify and update the segmented pension assets.

The objectives of this review were to determine whether Triple-S Salud (Triple-S) complied with Federal requirements and the Medicare contracts' pension segmentation requirements when (1) implementing the prior audit recommendation to decrease the Medicare segment pension assets as of January 1, 2007, (2) updating the Medicare segment's pension assets from January 1, 2007, to March 1, 2009, and (3) determining Medicare's share of the Medicare segment excess pension liabilities as a result of the termination of the Medicare contracts.

BACKGROUND

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

We performed a prior pension segmentation audit at Triple-S (A-07-08-00266, issued July 28, 2009), which brought the Medicare segment pension assets to January 1, 2007. We recommended that Triple-S decrease its Medicare segment pension assets by $68,572 and, as a result, recognize $2,084,729 as the Medicare segment pension assets as of January 1, 2007.

In addition, upon the termination of its Medicare contracts, Triple-S identified Medicare's share of the Medicare segment excess pension liabilities to be $2,423,637.

WHAT WE FOUND

Triple-S did not fully implement the prior audit recommendation to recognize $2,084,729 as the Medicare segment pension assets as of January 1, 2007. In addition, Triple-S did not correctly update the Medicare segment pension assets from January 1, 2007, to March 1, 2009, in accordance with Federal requirements. Triple-S identified Medicare segment pension assets of $1,294,834 as of March 1, 2009; however, we determined that the Medicare segment pension assets were $1,666,015. Therefore, Triple-S understated the Medicare segment pension assets by $371,181.

Regarding our third objective, Triple-S computed Medicare's share of the Medicare segment excess pension liabilities to be $2,423,637 as of March 1, 2009 (the effective date of the termination of Triple-S's Medicare contract); however, we determined that Medicare's share of the Medicare segment excess pension liabilities was $2,355,036 as of that date. Triple-S overstated Medicare's share of excess pension liabilities by $68,601, because of differences in the identification of the Medicare segment participants and the Medicare segment pension assets.

WHAT WE RECOMMEND

We recommend that Triple-S:

- increase Medicare segment pension assets as of March 1, 2009, by $371,181 and recognize $1,666,015 as the Medicare segment pension assets and

- decrease Medicare's share of the Medicare segment excess pension liabilities by $68,601 and submit for reimbursement $2,355,036 as Medicare's share of the Medicare segment excess pension liabilities due to the segment closing calculation.

AUDITEE COMMENTS

In written comments on our draft report, Triple-S concurred with both of our recommendations. Regarding our second recommendation, though, Triple-S referred to an earlier audit that we had conducted of this entity (*Review of Pension Costs Claimed for Medicare Reimbursement by Triple-S, Inc., for Fiscal Years 1988 Through 2006* (A-07-08-00268), issued July 28, 2009). Triple-S discussed the relationship between the findings in these two reports and said that if the finding in our earlier report prevails "… even after having established the need to perform a segment closing calculation at the time of the contract termination, we do not concur with such calculation since the implementation of the [recommendation from the earlier report] will definitely increase – by the same amount indicated in that report – the segment excess pension liabilities." Triple-S also described corrective action that it planned to implement if it were the case that the earlier report is superseded by this current review.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing Triple-S's comments, we maintain that our findings and recommendations are valid. The final assets used to compute the audited segment closing adjustment reflect prior period costs and contributions determined in accordance with the CAS. We based our calculations of these prior period costs and contributions on the calculations we developed for the current reviews and on the calculations we used in our earlier reviews of Triple-S: both the prior segmentation review (A-07-08-00266) mentioned in "Background" and our objective, and the prior pension costs claimed review (A-07-08-00268) to which Triple-S referred in its comments. The calculations and findings from those prior reviews remain valid. Thus, this current report does not, as Triple-S suggested, supersede the earlier pension costs claimed audit report (A-07-08-00268). Accordingly, and in light of the fact that Triple-S concurred with our findings and our calculations, the concerns that it raised in its comments, about the relationship between the findings in those earlier reviews and the findings in this current review, relate not to this audit report per se but rather to Triple-S's settlement of these costs with CMS.

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INTRODUCTION

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OBJECTIVES

Our objectives were to determine whether Triple-S Salud (Triple-S) complied with Federal requirements and the Medicare contracts' pension segmentation requirements when (1) implementing the prior audit recommendation to decrease the Medicare segment pension assets as of January 1, 2007, (2) updating the Medicare segment's pension assets from January 1, 2007, to March 1, 2009, and (3) determining Medicare's share of the Medicare segment excess pension liabilities as a result of the termination of the Medicare contracts.

BACKGROUND

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

We performed a prior pension segmentation audit at Triple-S (A-07-08-00266, issued July 28, 2009), which brought the Medicare segment pension assets to January 1, 2007. We recommended that Triple-S decrease its Medicare segment pension assets by $68,572 and, as a result, recognize $2,084,729 as the Medicare segment pension assets as of January 1, 2007.

In addition, upon the termination of its Medicare contracts, Triple-S identified Medicare's share of the Medicare segment excess pension liabilities to be $2,423,637.

HOW WE CONDUCTED THIS REVIEW

We reviewed Triple-S's implementation of the prior audit recommendation; identification of its Medicare segment; update of Medicare segment assets from January 1, 2007, to March 1, 2009; and the Medicare segment's closing calculation as of March 1, 2009.

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 objectives.

Appendix A contains details of our audit scope and methodology.

FINDINGS

Triple-S did not fully implement the prior audit recommendation to recognize $2,084,729 as the Medicare segment pension assets as of January 1, 2007. In addition, Triple-S did not correctly update the Medicare segment pension assets from January 1, 2007, to March 1, 2009, in accordance with Federal requirements. Triple-S identified Medicare segment pension assets of $1,294,834 as of March 1, 2009; however, we determined that the Medicare segment pension assets were $1,666,015. Therefore, Triple-S understated the Medicare segment pension assets by $371,181.

Appendix B presents details of the Medicare segment's pension assets from January 1, 2007, to March 1, 2009, as determined during our audit. Table 1 below summarizes the audit adjustments required to update Medicare segment pension assets in accordance with Federal requirements.

Table 1: Summary of Audit Adjustments

	Per Audit	Per Triple-S	Difference
Prior Audit Recommendation	$2,084,729	$2,153,301	($68,572)
Asset adjustment at December 31, 2007	0	65,892	65,892
Net Prior Audit Adjustment	2,084,729	2,087,409	(2,680)
Update of Medicare Segment Assets			
Contributions and Prepayment Credits	1,478,607	1,463,087	15,520
Benefit Payments	489,474	488,336	(1,138)
Net Transfers Out	(618,119)	(997,803)	379,684
Earnings, Net Expenses	(789,728)	(769,523)	(20,205)
Understatement of Medicare Segment Assets			**$371,181**

Regarding our third objective, the CAS requires that a segment closing adjustment be made to recognize Medicare's share of the Medicare segment excess pension liabilities as a result of the termination of the Medicare contracts. Triple-S computed Medicare's share of the Medicare segment excess pension liabilities to be $2,423,637 as of March 1, 2009 (the effective date of the termination of Triple-S's Medicare contract); however, we determined that Medicare's share of the Medicare segment excess pension liabilities was $2,355,036 as of that date. Triple-S overstated Medicare's share of excess pension liabilities by $68,601, because of differences in the identification of the Medicare segment participants and the Medicare segment pension assets.

PRIOR AUDIT RECOMMENDATION

Triple-S did not fully implement the prior audit recommendation (A-07-08-00266) which recommended that Triple-S decrease Medicare segment pension assets by $68,572 and recognize $2,084,729 of Medicare segment pension assets as of January 1, 2007. However, Triple-S made an asset adjustment of $65,892 to decrease the Medicare segment pension assets at December 31, 2007. Therefore, Triple-S overstated the Medicare segment pension assets by $2,680 by not fully implementing the prior audit recommendation.

UPDATE OF MEDICARE SEGMENT PENSION ASSETS

The Medicare contracts require Medicare contractors to update the Medicare segment pension assets yearly in accordance with the CAS. The CAS requires that the assets base be adjusted by contributions, permitted unfunded accruals, income, benefit payments, and expenses.

For details on the Federal requirements and the relevant language of the Medicare contracts, see Appendix C.

The following are our findings regarding the update on the Medicare segment pension assets from January 1, 2007, to March 1, 2009.

Contributions and Transferred Prepayment Credits Understated

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. For additional details on these Federal requirements, see Appendix C.

Triple-S understated contributions and transferred prepayment credits by $15,520 for the Medicare segment. The understatement occurred primarily because of differences in the asset base used to compute the assignable pension costs. As a result, Triple-S understated the Medicare segment pension assets by $15,520.

Benefit Payments Understated

Triple-S understated benefit payments by $1,138 because Triple-S incorrectly excluded one benefit payment from a Medicare segment participant in 2007.

Net Transfers Overstated

Triple-S overstated net transfers out of the Medicare segment by $379,684. The overstatement occurred primarily because in 2008 Triple-S incorrectly transferred Medicare segment participants out of the Medicare segment. This overstatement of the net transfer adjustment resulted in an understatement of the Medicare segment assets by $379,684.

Table 2 shows the differences between our calculations and Triple-S's calculations of net transfers out of the Medicare segment for the relevant timeframe.

Table 2: Net Transfers Out of the Medicare Segment			
	Per Audit	**Per Triple-S**	**Difference**
2007	($232,033)	($232,194)	(161)
2008	(383,367)	(762,890)	(379,523)
2009	(2,719)	(2,719)	(0)
Total	**($618,119)**	**($997,803)**	**($379,684)**

Earnings, Net Expenses Overstated

Triple-S understated investment earnings, less administrative expenses, by $20,205 for the Medicare segment, because it used incorrect contributions and transferred prepayment credits, benefit payments, and net transfers (all discussed above), to develop the Medicare segment pension asset base. In our audited update, we allocated earnings, net expenses based on the applicable CAS requirements. For details on applicable Federal requirements, see Appendix C.

MEDICARE SEGMENT CLOSING ADJUSTMENT

Medicare Segment Excess Pension Liabilities as of March 1, 2009

Federal regulations (Appendix C) require Triple-S to compute a Medicare segment closing adjustment as a result of the termination of its Medicare contract. Triple-S identified $2,423,637 in Medicare segment excess pension liabilities as of March 1, 2009. However, we calculated the Medicare segment excess pension liabilities to be $2,355,036 as of that date. (It is necessary to calculate the pension assets and liabilities as well as any adjustments for the Medicare segment before calculating Medicare's share.) Therefore, Triple-S overstated the excess pension liabilities by $68,601. The overstatement occurred because Triple-S (a) incorrectly identified the final Medicare segment participants as of March 1, 2009, and (b) understated the Medicare segment's final market value of pension assets as of March 1, 2009. The development of excess liabilities was used to identify Medicare's share of Medicare segment's excess pension liabilities.

Medicare's Share of the Medicare Segment Excess Pension Liabilities

Triple-S calculated the aggregate Medicare percentage (that is, the percentage that reflects Medicare's share of the Medicare segment excess pension liabilities) as 100 percent. We calculated the aggregate Medicare percentage (see Appendix D) using the Medicare segment pension costs developed during the prior pension costs claimed reports (A-07-08-00268) and current pension costs claimed (A-07-12-00396) audits as required by the CAS. As shown in Table 3 on the following page, we agreed with Triple-S's calculation that the aggregate Medicare percentage was 100 percent. For details on the Federal requirements regarding the aggregate Medicare percentage, see Appendix C.

Triple-S calculated $2,423,637 as Medicare's share of the excess pension liabilities as of March 1, 2009; however, we determined that Medicare's share of the excess pension liabilities was $2,355,036 as of March 1, 2009. The difference, $68,601, was unallowable for Medicare reimbursement. Triple-S overstated Medicare's share of the excess Medicare segment pension liabilities because it overstated the Medicare segment's excess pension liabilities (as discussed above).

Table 3 below shows our calculation of Medicare's share of the excess pension liabilities.

Table 3: Medicare's Share of Excess Pension Liabilities

	Excess Medicare Segment Liabilities (A)	Aggregate Medicare Percentage (B)	Excess Liabilities Attributable to Medicare (A x B)
Per Audit	$2,335,036	100%	$2,335,036
Per Triple-S	2,423,637	100%	2,423,637
Difference			**($68,601)**

RECOMMENDATIONS

We recommend that Triple-S:

- increase Medicare segment pension assets as of March 1, 2009, by $371,181 and recognize $1,666,015 as the Medicare segment pension assets and

- decrease Medicare's share of the Medicare segment excess pension liabilities by $68,601 and submit for reimbursement $2,335,036 as Medicare's share of the Medicare segment excess pension liabilities due to the segment closing calculation.

AUDITEE COMMENTS

In written comments on our draft report, Triple-S concurred with both of our recommendations. Regarding our second recommendation, though, Triple-S referred to an earlier audit that we had conducted of this entity (*Review of Pension Costs Claimed for Medicare Reimbursement by Triple-S, Inc., for Fiscal Years 1988 Through 2006* (A-07-08-00268), issued July 28, 2009). Triple-S discussed the relationship between the findings in these two reports and said that if the finding in our earlier report prevails "… even after having established the need to perform a segment closing calculation at the time of the contract termination, we do not concur with such calculation since the implementation of the [recommendation from the earlier report] will definitely increase – by the same amount indicated in that report – the segment excess pension liabilities." Triple-S also described corrective action that it planned to implement if it were the case that the earlier report is superseded by this current review.

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

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing Triple-S's comments, we maintain that our findings and recommendations are valid. The final assets used to compute the audited segment closing adjustment reflect prior period costs and contributions determined in accordance with the CAS. We based our calculations of these prior period costs and contributions on the calculations we developed for the current reviews and on the calculations we used in our earlier reviews of Triple-S: both the prior segmentation review (A-07-08-00266) mentioned in "Background" and our objective, and the prior pension costs claimed review (A-07-08-00268) to which Triple-S referred in its comments. The calculations and findings from those prior reviews remain valid. Thus, this current report does not, as Triple-S suggested, supersede the earlier pension costs claimed audit report (A-07-08-00268). Accordingly, and in light of the fact that Triple-S concurred with our findings and our calculations, the concerns that it raised in its comments, about the relationship between the findings in those earlier reviews and the findings in this current review, relate not to this audit report per se but rather to Triple-S's settlement of these costs with CMS.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed Triple-S's implementation of the prior audit recommendation; identification of its Medicare segment; update of Medicare segment assets from January 1, 2007, to March 1, 2009; and the Medicare segment's closing calculation as of March 1, 2009.

Achieving our objective did not require us to review Triple-S's overall internal control structure. We reviewed controls relating to the identification of the Medicare segment, the update of the Medicare segment's assets, and the Medicare segment's final assets and liabilities to ensure adherence to the Medicare contracts, CAS 412, and CAS 413.

We completed our audit work in November 2012

METHODOLOGY

To accomplish our objectives, we took the following steps:

- We reviewed the portions of the Federal Acquisition Regulation, CAS, and the Medicare contracts applicable to this audit.

- We reviewed the annual actuarial valuation reports prepared by Triple-S's actuarial consulting firms, 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 reviewed the Medicare segment closing calculation prepared by Triple-S's staff and its actuarial consulting firms.

- 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 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 reviewed the prior segmentation audit performed at Triple-S (A-07-08-00266) 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 from January 1, 2007, to

March 1, 2009, and the Medicare segment's excess pension liabilities as of March 1, 2009.

- 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-07-12-00396) 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 objectives.

APPENDIX B: STATEMENT OF MARKET VALUE OF PENSION ASSETS
FOR TRIPLE-S
FOR THE PERIOD JANUARY 1, 2007, TO MARCH 1, 2009

Description		Total Company	"Other" Segment	Medicare Segment
Assets January 1, 2007	1/	$64,520,111	$62,435,382	$2,084,729
Prepayment Credits	2/	0	(708,934)	708,934
Contributions	3/	4,000,000	4,000,000	0
Earnings	4/	4,652,446	4,449,151	203,295
Benefit Payments	5/	(5,140,337)	(4,966,981)	(173,356)
Expenses	6/	(336,196)	(321,505)	(14,691)
Transfers	7/	0	232,033	(232,033)
Assets January 1, 2008		$67,696,024	$65,119,146	$2,576,878
Prepayment Credits		0	(650,770)	650,770
Contributions		9,000,000	9,000,000	0
Earnings		(16,237,041)	(15,455,012)	(782,029)
Benefit Payments		(7,926,154)	(7,610,036)	(316,118)
Expenses		(320,485)	(305,049)	(15,436)
Transfers		0	383,367	(383,367)
Assets January 1, 2009		$52,212,344	$50,481,646	$1,730,698
Prepayment Credits		0	(118,903)	118,903
Contributions		0	0	0
Earnings		(4,949,805)	(4,771,191)	(178,614)
Benefit Payments		(1,911,415)	(1,911,415)	0
Expenses		(62,430)	(60,177)	(2,253)
Transfers		0	2,719	(2,719)
Assets March 1, 2009		$45,288,694	$43,622,679	$1,666,015
Per Triple-S	8/	45,288,694	43,993,860	1,294,834
Asset Variance	9/	0	371,181	(371,181)

ENDNOTES

1/
We determined the Medicare segment pension assets as of January 1, 2007, based on our prior segmentation audit of Triple-S (A-07-08-00266). 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 avoid incurring unallowable interest. Prepayment credits are transferred to the Medicare segment as needed to cover funding requirements.

3/ We obtained Total Company 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 investment earnings from the actuarial valuation reports. 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 CAS.

5/ 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.

6/ We allocated administrative expenses to the Medicare segment in proportion to investment earnings.

7/ We identified participant transfers between segments by comparing valuation data files provided by Triple-S. Asset transfers were equal to the actuarial liability determined under the accrued benefit cost method in accordance with the CAS.

8/ We obtained total asset amounts as of March 1, 2009, from documents prepared by Triple-S’s actuarial consulting firm and trust statements provided by Triple-S.

9/ The asset variance represents the difference between our calculation of Medicare segment pension assets and Triple-S’s calculation of the Medicare segment pension assets.

APPENDIX C: FEDERAL REQUIREMENTS RELATED TO PENSION SEGMENTATION AND SEGMENT CLOSING ADJUSTMENT

PENSION SEGMENTATION

Federal Regulations

Federal regulations (CAS 413.50(c)(8)) require that an adjustment 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.

Federal regulations (CAS 412.50(a)(4)) require 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.

Federal regulations (CAS 413.50(c)(7)) require that the asset base be adjusted by contributions, permitted 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 WAV of assets to Total Company WAV of assets.

Medicare Contracts

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.

Furthermore, the Medicare contracts state that "… the pension assets allocated to each Medicare Segment shall be adjusted in accordance with CAS 413.50(c)(7)."

SEGMENT CLOSING ADJUSTMENT

Federal Regulations

Federal regulations (CAS 413.50(c)(12)) state:

> 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.
>
> (iv) Pension plan improvements adopted within 60 months of the date of the event which increase the actuarial accrued liability shall be recognized on a prorata basis using the number of months the date of adoption preceded the event date. Plan improvements mandated by law or collective bargaining agreement are not subject to this phase-in.

The methodology for determining the Federal Government's share of excess pension assets/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 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 assets/liabilities in accordance with CAS 413.

APPENDIX D: CALCULATION OF AGGREGATE MEDICARE PERCENTAGE

FY	Medicare Segment Pension Costs Charged to Medicare	Total Medicare Segment Pension Costs	Medicare's Aggregate %
1/	**(A)**	**(B)**	**(A/B)** 2/
1988	$17,033	$17,033	
1989	0	0	
1990	0	0	
1991	107,165	107,165	
1992	128,170	128,170	
1993	144,645	144,645	
1994	179,341	179,341	
1995	104,016	104,016	
1996	60,126	60,126	
1997	158,608	158,608	
1998	48,296	48,296	
1999	0	0	
2000	0	0	
2001	0	0	
2002	197,668	197,668	
2003	425,809	425,809	
2004	535,107	535,107	
2005	621,738	621,738	
2006	667,561	667,561	
2007	700,514	700,514	
2008	665,311	665,311	
2009	251,870	251,870	
Total	**$5,012,978**	**$5,012,978**	**100.00%**

ENDNOTES

1/ The aggregate percentage was based on the audited pension costs as determined during the pension audits related to the Triple-S Medicare segment. The information for fiscal years 1988 through 2006 was obtained during our prior audit (A-07-08-00268). The information for fiscal years 2007 through 2009 was obtained during the current review (A-07-12-00396).

2/ We calculated the aggregate Medicare percentage by dividing the Medicare Segment pension costs claimed for Medicare Reimbursement (numerator) by the Total Medicare Segment pension costs (denominator) pursuant to CAS 413.

APPENDIX E: AUDITEE COMMENTS

TRIPLE-S SALUD
BlueCross BlueShield of Puerto Rico

Pablo Almodóvar Scalley
Presidente y Principal Oficial Ejecutivo

March 8, 2013

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

Report Number: A-07-12-00395

Dear Mr. Cogley:

This letter is in response to your letter dated February 7, 2013, enclosing the draft report entitled *Triple-S Salud Understated Its Medicare Segment Assets and Overstated Medicare's Share of the Excess Liabilities as of March 1, 2009* (Report Number A-07-12-00395). As requested, the following are our comments to the recommendations set forth in the report, including a statement of concurrence or nonoccurrence, with corresponding explanations and planned corrective actions, in the applicable cases.

<u>Recommendation: That Triple-S increase Medicare segment pension assets as of March 1, 2009, by $371,181 and recognize $1,666,015 as the Medicare segment pension assets.</u>

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.

<u>Recommendation: That Triple-S decrease Medicare's share of the Medicare segment excess pension liabilities by $68,601 and submit for reimbursement $2,355,036 as Medicare's share of the Medicare segment excess pension liabilities due to the segment closing calculation.</u>

For the reasons stated below, we concur with this recommendation inasmuch as it considers and supersedes the recommendations contained in Report Number A-07-08-00268 (*Review of Pension Costs Claimed for Medicare Reimbursement by Triple-S, Inc., for Fiscal Years 1988 through 2006*)

After performing a review of pension costs claimed for Medicare reimbursement by Triple-S for FYs 1988 through 2006, OIG prepared Report Number A-07-08-00268 (hereinafter the OIG First Report), dated July 28, 2009. In this report OIG concluded that Triple-S claimed unallowable Medicare pension costs for FYs 1988-2006 primarily because Triple-S calculated the pension expense using Financial Accounting Standard (FAS) No. 87, instead of Cost Accounting Standards

(CAS) 412 and 413. According to the report, this caused that Triple-S claimed $2,945,128 of unallowable pension costs during that period. The report then recommends that Triple-S "reduce its Financial Administrative Cost Proposal (FACP) pension costs by $2,945,128 or refund

This amount to CMS"; in addition, it recommends that Triple-S "ensure that future pension cost claims are in accordance with the Medicare contract".

Triple-S responded to this report requesting that the implementation of the recommendation contained therein be evaluated in light of the fact that the program had been terminated (due to the implementation of the Medicare Administrative Contractor) and the Medicare segment closed, prior to the date of that OIG First Report. In so indicating, Triple-S specifically stated that:

> "The findings and recommendations included in the report arise substantially due to [Triple-S] allocating pension cost to the Medicare program using Financial Accounting Standards (FAS) instead of Cost Accounting Standard (CAS). The allocation methodologies differs among each other primarily in the assumptions used to determine the present pension cost and funding requirements for specific retirements benefits to be paid in the future under a Define Benefit Pension Plan, which is the plan offered by [Triple-S] to its employees. <u>Such temporary assumptions create a temporary difference, which should be 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 termination of the Medicare contract with [Triple-S]</u>" (emphasis supplied)

While performing the audit at issue here (Report No. A-07-12-00395; *Triple-S Salud Understated Its Medicare Segment Assets and Overstated Medicare's Share of the Excess Liabilities as of March 1, 2009*, hereinafter, the OIG Second Report), OIG evaluated whether the contract termination that took place on March 1, 2009 constituted the "segment closing" of Triple-S Pension Plan for the Medicare Division, pursuant to the definition contained in CAS (48 C.F.R. 9904.413-30 (20)). Such determination was of particular importance because the CAS establishes that "if a segment is closed... the contractor shall determine the difference between the actuarial accrued 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. <u>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</u>" (48 C.F.R. 9904.413-50(c)(12)). Therefore, a segment closing entails a final evaluation – as of the date of such closure – of the market value of the assets as well as the actuarial accrued liability to adjust any previously determined pension costs.

During the audit, Triple-S answered various OIG questions related to the "segment closing", and explained in detail, why it should be considered that the segment had closed. In addition, in relation to the implementation of the prior recommendation (OIG First Report), Triple-S indicated the following in its letter to OIG dated April 20, 2012:

> "Triple-S has recognized that its compliance with FAS rather than CAS standards was in error. Nonetheless, given that OIG reports were issued subsequently to the termination of the Part B Contract, which significantly affected Triple-S's pension liability, Triple-S requested that there be a global reconciliation of these issues.
>
> Specifically, in a response letter dated May 27, 2009 (included as an attachment in the OIG report), Triple-S requested that the final settlement be adjusted to account for the balance in termination costs related to the underfunded pension liability as of the date of contract termination, March 1, 2009. In subsequent correspondence dated June 3, 2009, sent to CMS prior to Triple-S's receipt of the OIG reports, Triple-S did not dispute that CAS applies but contended that, even under CAS, the pension plan was underfunded by $2,423,637 as of March 1, 2009, the contract termination date. Triple-S requested reimbursement from CMS in that amount, and explained that it was not revising its Final Administrative Cost Proposal..."

In its Second Report – which we are answering through this communication – OIG recognized that a segment closing adjustment was required, pursuant to the cited Section 413 of CAS. However, OIG calculated that the excess pension liabilities as of March 1, 2009, should be $2,355,036, instead of the $2,423,637 that Triple-S had calculated. Finally, and as previously indicated, OIG recommended that Triple-S should submit for reimbursement $2,355,036 as Medicare's share of the Medicare segment excess pension liabilities due to the segment closing calculation.

As stated before, we do concur with that calculation and recommendation from the OIG Second Report, as it reflects the reality of the market value of the assets and actuarial liabilities of the segment at the time of its closure. In fact, that is the reality at the time of the segment closing, regardless of how Triple-S had calculated/claimed the pension costs to CMS in prior years. However, if it is understood that the finding of the OIG First Report prevails even after having established the need to perform a segment closing calculation at the time of the contract termination, we do not concur with such calculation since the implementation of the First Report will definitely increase – by the same amount indicated in that report – the segment excess pension liabilities.

Finally, if it is established/agreed that the First Report is superseded by the content of the Second Report, we would work the reimbursement directly with CMS because we no longer have access to the CAFM system to revise the FACP.

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

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