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# FEHB Program Carrier Letter

## All Carriers

U.S. Office of Personnel Management  
Insurance Services Program

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Letter No. 2003-27

Date: August 18, 2003

Fee-for-service [ 26 ]    Experience-rated HMO [ 26 ]    Community-rated HMO [ 25 ]

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**Subject:        Financial Reporting and Auditing Requirements for Federal Fiscal Year 2003**

### Financial Reporting Requirements

We have previously discussed with you the significant financial management challenges we face over the next several years. The timeframes governing the submission of our annual financial statements have been greatly accelerated. Since our annual financial statements include the FEHB Program, we must, accordingly, expedite the dates by which you must submit your Federal fiscal year financial reporting to us. For Federal fiscal year 2003, we must publish our financial statements by December 31, 2003, which is 30 days sooner than in Federal fiscal year 2002. As a consequence, we will need your preliminary and final financial reporting packages by **October 22, 2003**, and **November 14, 2003**, respectively. It is extremely important that we receive your Federal fiscal year financial reporting package no later than these dates. Detailed instructions for financial reporting for Federal fiscal year 2003 will be provided in a separate letter.

### Auditing Requirements

As you know, the FEHBP Experienced-Rated Carrier and Service Organization Audit Guide (the "Guide") provides authoritative guidance for the audit of the financial reporting by experienced-rated carriers (ERCs). It requires all ERCs to engage a certified independent public accounting (IPA) firm to obtain a standard audit engagement and primary coverage ERCs perform certain agreed-upon procedures. Other than the reporting timeframes and the primary coverage limit, there will be no changes to the Guide for Federal fiscal year 2003. IPAs, therefore, must meet the audit requirements as contained in the 2002 Guide.

*Primary coverage.* ERCs with FEHB Program claims expense of \$90 million or more in the previous contract year are required to submit audited financial statements as of either September 30 (Federal fiscal year) or December 31. In addition, these ERCs must provide a report on compliance with laws, regulations and internal controls, in accordance with either attestation standards or generally accepted government auditing standards, and a report on the application of agreed-upon-procedures. For maximum flexibility, the Guide provides four options for meeting the primary coverage requirements. If this is an ERC's first year of primary coverage under the Guide, it must

submit the option it has selected in writing to its contracting officer by August 29, 2003. The options are outlined in Chapter 1 of the 2002 Guide. An ERC may not switch among options from year to year without advance approval from its contracting officer.

*Secondary coverage.* ERCs with FEHB Program claims expense of less than \$90 million in the previous contract year are also required to submit an audit report as of either September 30 (Federal fiscal year) or December 31. However, these ERCs are not required to provide reports on compliance with laws, regulations and internal controls or agreed-upon-procedures. It is important to note that ERCs, that would otherwise be subject to secondary coverage will, at the contracting officer's discretion, be made subject to primary coverage on a rotational basis at a frequency not less than every five years.

Please submit four copies of all required reports to:

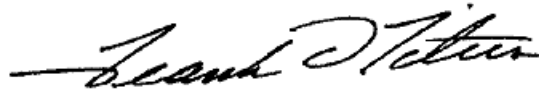
U.S. Office of Personnel Management  
Trust Funds - Financial  
1900 E Street NW, Room 3H19  
Washington, DC 20415-0001

Our technical contacts are:

Financial Reporting	Melanese Matthews	(202) 606-4498	<a href="mailto:mematthew@opm.gov">mematthew@opm.gov</a>
Audit Guide	William W Scott	(202) 606-1839	<a href="mailto:wwscott@opm.gov">wwscott@opm.gov</a>

Thank you in advance for your timely and complete annual financial reports.

Sincerely,



Frank D. Titus  
Assistant Director  
for Insurance Services Programs

Attachment

## ERC REPORTING/AUDIT REQUIREMENTS FOR 2003

The Guide requires that carriers select a reporting option from the table below:

- A. Carriers with claims greater than \$90 million must meet all reporting requirements for the option selected below.
- B. Carriers with claims less than \$90 million must only meet reporting requirement #1 for the option selected below unless otherwise notified by OPM.

Reporting Options <i>[see 2002 Audit Guide for explanation]</i>	September 30		December 31	
	1	2	3	4
<b>1. Financial Reports:</b>				
9/30/2003 preliminary (unaudited)	10/22/03			
9/30/2003 final (unaudited)	n/a		11/14/03	
9/30/2003 final (w/ audit report)	11/14/03		n/a	
12/31/2003 (unaudited)	3/31/04		n/a	
12/31/2003 final (w/ audit report)	n/a		3/31/04	
<b>2. SSAE 10</b>	12/1/03	n/a	12/1/03	n/a
<b>3. Agreed-Upon Procedures:</b>				
Program	3/31/04			
Roll-forward	n/a		3/31/04	
<b>4. Corrective Action Plan</b>	6/30/04			