United States

Office of
Personnel Management

The Federal Government's Human Resources Agency

FINANCIAL REPORTING
AND
AUDIT GUIDE

Federal Fiscal Year 2010

FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM (FEHBP)

For the Carriers of Experience-Rated Plans and their Practitioners

April 2010

TABLE OF CONTENTS

CHAPTERS

I.	Purpose and Authority	3
II.	Overview of Reporting and Auditing Requirements	4
III.	Accounting and Reporting Requirements	6
IV.	Guidance for Practitioners	10
V.	Corrective Action Plans	12

APPENDICES

A.	Projected Carriers Subject to Primary Audit Coverage for Federal FY 2010	13
B.	Schedule of Selected Balances	14
C.	Report on Subsequent Events	15
D.	Agreed-upon Procedures	16
E.	Sample Practitioner Reports	26
F.	Definitions and Acronyms	29
G.	Laws and Regulations and Contract Terms to be Tested for Compliance	30
H.	Freedom of Information Act Requests	32
I.	Sample Management Internal Control Letter	34
J.	OPM Contacts	35

CHAPTER I

PURPOSE AND AUTHORITY

PURPOSE OF THE GUIDE

The U.S. Office of Personnel Management (OPM) has issued this *Reporting and Audit Guide for Federal Fiscal Year (FY) 2010* [hereafter, the "Guide"]. The purpose of the Guide is to:

Obtain, for input into OPM's consolidated financial statements, financial information pertaining to the Federal Employees Health Benefits Program [hereafter, the "Program"] that has been subjected to audit procedures.

Obtain assurance that carriers of experience-rated plans submit financial statements that are fairly stated in all material respects, prepared and audited in accordance with prescribed guidelines.

Validate, by means of a set of agreed-upon procedures performed by an independent public accountant [hereafter, "practitioner"], that the carriers have conducted their Program-related operations in accordance with their contracts with OPM.

Support a nationwide estimate of the number of improper payments made by the carriers, as required by the Office of Management and Budget Circular A-136, Financial Reporting Requirements.

Since OPM must periodically revise its financial and auditing requirements, inconsistencies may exist at any given time between the Guide and other OPM guidelines. It is the carrier's responsibility to ensure that it and its practitioner are applying the most current guidelines.

OPM AUTHORITY AND CARRIER RESPONSIBILITIES

Standard Program Contract:

Section 3.2 - Accounting and Allowable Cost - requires that each carrier of an experience-rated plan furnish to OPM an accounting of its operations under the contract. In preparing this accounting, the carrier must follow the reporting requirements prescribed by OPM. In addition, the carrier must have its annual accounting statements and that of its underwriter, if any, audited in accordance with the Guide.

Section 3.10 - Audit, Financial, and Other Information - requires that each carrier of an experience-rated plan furnish to OPM audit, financial, and other information in the format and within the timeframes specified in the Guide.

CHAPTER II

OVERVIEW OF REPORTING AND AUDITING REQUIREMENTS

A. FINANCIAL REPORTING OPTIONS

All carriers must select a financial reporting option as follows:

OPTION 1: Submit an audited Annual Accounting Statement (AAS) as of December 31, 2010

OPTION 2: Submit audited financial statements as of September 30, 2010, and an unaudited AAS as of December 31, 2010

B. TYPE OF AUDIT COVERAGE

PRIMARY carriers with Program claims expenses of $125 million or more in contract (calendar) year 2009 must meet **all** the requirements in the chart below for the financial reporting option they have selected. Appendix A lists the projected carriers determined to be subject to primary audit coverage for FY 2010.

SECONDARY carriers with Program claims expenses of less than $125 million in contract (calendar) year 2009 are required to meet requirements 1 through 8 below for the financial reporting option they have selected. Carriers not listed in Appendix A are deemed to be subject to secondary audit coverage for FY 2010. The OPM contracting officer may select carriers with claims expenses below the $125 million threshold to perform the agreed-upon procedures and submit a corrective action plan (items 11 and 12, below); the selected carriers will be notified in writing by the contracting officer.

C. FINANCIAL REPORTING REQUIREMENTS

Reporting Requirement/Deliverable	Due Dates	
	Financial Reporting Option 1	Financial Reporting Option 2
1. Audited September 30, 2010, financial statements including an audit report in accordance with generally accepted government auditing standards (GAGAS)		December 15, 2010
2. Audited December 31, 2010, AAS including an audit report in accordance with GAGAS	March 31, 2011	

3. Unaudited AAS as of December 31, 2010		March 31, 2011
4. Schedule of Selected Balances (Unaudited) Quarterly Report, (October 1, 2009 through June 30, 2010)	July 13, 2010	July 13, 2010
5. Schedule of Selected Balances (Unaudited) Federal Fiscal Year Ended September 30, 2010	October 11, 2010	October 11, 2010
6. Schedule of Selected Balances (Unaudited) Quarterly Report, (October 1, 2010, through December 31, 2010)	January 13, 2011	January 13, 2011
7. Schedule of Selected Balances (Unaudited) Quarterly Report, (October 1, 2010, through March 31, 2010)	April 13, 2011	April 13, 2011
8. Schedule of Selected Balances (Unaudited) Quarterly Report, (October 1, 2010, through June 30, 2010)	July 13, 2011	July 13, 2011
9. Management Internal Controls (October 1, 2009, through August 31, 2010)	September 3, 2010	September 3, 2010
10. Management Internal Controls of Subsequent Events for Federal Fiscal Year Ended September 30, 2010	October 6, 2010	October 6, 2010
11. Report on the Application of Agreed-Upon Procedures	March 31, 2011	December 31, 2010
12. Corrective Action Plan	June 30, 2011	March 11, 2010

CHAPTER III

ACCOUNTING AND REPORTING REQUIREMENTS

A. FINANCIAL STATEMENTS AS OF AND FOR SEPTEMBER 30, 2010

Carriers that have selected Financial Reporting Option 2 must prepare financial statements as of and for the year ended September 30 in accordance with OPM requirements and have those financial statements audited in accordance with GAGAS. Carriers that have selected Financial Reporting Option 1, on the other hand, should not prepare financial statements as of and for the year ended September 30. All carriers, however, must prepare and submit to OPM the *Schedule of Selected Balances (Unaudited)* and the *Report of Subsequent Events*, if necessary; see D in this chapter.

B. ANNUAL ACOUNTING STATEMENT AS OF AND FOR DECEMBER 31, 2010

All carriers must submit an AAS as of December 31 in accordance with OPM requirements. Carriers that have selected Financial Reporting Option 1 must have the AAS audited in accordance with GAGAS.

C. JUNE 30, 2010, CLOSE (Primary Audit Coverage Only)

A key component of the auditing approach adopted by OPM's independent auditor is the financial information that carriers subject to primary audit coverage must prepare as of and for the six or nine months ended June 30. The purpose of the June 30 close is to give the practitioner an "early warning" of issues that perhaps would not have become evident until Federal fiscal year end. It also affords the practitioner the ability to perform a majority of its test work earlier, thereby, lessening the effort and expense of opining on the September 30 financial statements or the AAS as and for the year ended December 31.

OPM does not prescribe a methodology for the June 30 close. A carrier may use a "hard," "soft," or hybrid approach to "closing its books" as of June 30. This is a decision, however, that carriers must make in close consultation with their practitioners.

Carriers must generate a balance sheet and income statement as of and for June 30, and they must provide these along with all supporting schedules and workpapers to their practitioners in such time as to allow their practitioners to meet the timeframes specified in the document entitled *Audit Instructions for the Independent Public Accountants of Experience-Rated Carriers*, prepared by OPM's independent auditor and forwarded directly by it to each audit coverage carrier's practitioner and to the carrier (see Chapter IV).

Carriers that have selected Financial Reporting Option 1 - audited financial statements as of December 31 - must produce an income statement for the **six-month** period ending June 30. Carriers that have selected Financial Reporting Option 2 - audited financial statements as of September 30 - must produce an income statement for the nine-month period ending June 30. To assist carriers with their June 30 “close,” OPM will provide a *Report of Letter of Credit Account Activity* no later than the fourth business day after the ending reporting period.

Carriers designated for primary coverage must provide their practitioners a *Schedule of Selected Balances (SSB)* as of June 30. The value for claims Incurred But Not Reported (IBNR) as of June 30 must be projected forward to September 30. Carrier practitioners will later compare the June 30-projected-to-September 30 IBNR to the actual September 30 amount and must report any material differences. **If a carrier and practitioner have developed alternative procedures to utilize amounts other than described above in order to ensure IBNR on the September 30 SSB will be calculated before October 8, 2010, and have audit test work performed prior to October 14, 2010, they are required to contact OPM's practitioner to discuss such alternative procedures. These discussions must be made prior to test work preformed within this area, even if the approach was discussed and agreed upon in previous years.** As IBNR is an important line item in the FEHB financial statements, it is critical that carriers take great care in its calculation.

D. SCHEDULE OF SELECTED BALANCES (SSB) (All Carriers)

OPM and all other Federal agencies must publish their financial statements by November 15 – 45 days after the end of the Federal FY. OPM, therefore, will base its consolidated financial statements on unaudited financial information submitted by the carriers. Thus, **all** carriers must submit unaudited financial information to OPM on the **SSB**.

The SSB, as updated and presented in Appendix B, must include balances as of and for the Federal FY ended June 30. For the June 30, 2010 quarterly report, OPM requires all Carriers to include a separate breakout of their Investments. In addition, Carriers are required to submit a supporting schedule for their investments showing what type of investment is held by amount. Cash and cash equivalents should include all cash and highly liquid investments that are both (a) readily convertible to cash and (b) so near to maturity that they present insignificant risk of changes in value because of changes in interest rates [in accordance with paragraph 8 of FASB Statement No. 95, Statement of Cash Flows]. Investments should include debt or equity instruments that do not meet the definition of cash and cash equivalents.

The SSB does not include the reporting of any balances that OPM maintains on its own books. Thus, carriers will not include balances on the SSB that relate to their letter-of-credit account (LOCA), including the Balance in LOCA, Interest Receivable on LOCA, Interest on LOCA and Program Income Receivable. To assist the carriers in preparing the SSB as of and for the year ended September 30, OPM will provide a *Report of Letter of Credit Account Activity* as of September 30, no later than October 5, 2010.

OPM requires all Carriers to submit Quarterly SSB reports that do not need to be audited;

“Unaudited” reports were and remain acceptable (see Chapter II, C. Financial Reporting Requirements – Table). All SSBs are required to be submitted under the comparative financial format. **In addition, management is required to provide an explanation for each line item of the SSB for the primary and secondary carriers with a percentage variance from the previous year’s quarter exceeding five percent (5%) if greater than $500 thousand and ten percent (10%) if greater than $250 thousand, respectively.** To assist with the quarterly and fiscal year end SSB report, OPM will provide the current fiscal year *Report of Letter of Credit Account Activity* no later than the fourth business day after the ending reporting period.

Carriers should use actual balances to the extent that they are available at the time the SSB is due to OPM. In the absence of a precise measurement of a balance as of the reporting date, carriers should use accounting estimates that they believe are an approximation of the amount of an item.

The timely submission of a properly prepared SSB is critical to OPM’s ability to generate its financial statements by its November 15, 2010, deadline. The SSB as of and for the Federal FY ended September 30, 2010, must be received by OPM no later than 1pm EST on **October 11, 2010**. It must be submitted by email in Excel format and followed-up **within three business days** with a faxed copy, with the requisite preparer and management signatures. The email address for submitting the *Schedule of Selected Balances* is Melanese.Wynn@opm.gov, using “SCHEDULE OF SELECTED BALANCES” as the subject line. The fax number to be used is 202-606-1338.

E. MANAGEMENT INTERNAL CONTROLS

The Office of Personnel Management has been directed by the Office of Management and Budget (OMB), via the document *Circular A-123, Management’s Responsibility for Internal Control*, the responsibility for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.

In an effort to accommodate this requirement, carriers’ management is required to provide OPM with a letter documenting its ability or lack thereof to adhere to “Internal Controls”. Carriers are required to inform OPM of any “material weaknesses/significant deficiencies” for the Federal FY 2010 (October 1, 2009, through August 31, 2010) and/or any significant subsequent events for the overall period of October 1, 2009 through September 30, 2010 (see Chapter II, B. Financial Reporting Requirements - Table). In addition, carriers are required to submit their letter for the Federal FY 2010 period of October 1, 2009 through August 31, 2010, no later than close of business September 3 and any subsequent events for the Federal FY Ended September 30, no later than **close of business October 6** (see Appendix I for sample letter).

Carriers’ management should use all applicable internal control documentation, general and information technology (IT) controls, and information provided by its practitioner for its internal control conclusion that will be conveyed to OPM.

Carriers’ management letter should be addressed to OPM’s Chief Financial Officer and email submitted and followed-up **within three business days** with a faxed copy with the requisite management signature(s). The email address for submitting the *Management Internal Controls* is Melanese.Wynn@opm.gov, using “MANAGEMENT INTERNAL CONTROLS” as the subject line. The fax number to be used is 202-606-1338.

F. REPORT OF SUBSEQUENT EVENTS (All Carriers)

Financial events may occur that would require a carrier to revise the balances it has reported to OPM on its *Schedule of Selected Balances (SSB)*. Such events have the potential to require that OPM adjust the amounts it has posted to its records from the SSB. It is critical, therefore, that carriers **immediately** inform OPM of any change to the amount(s) reported on the June 30 and the Federal FY Ended September 30 SSB that exceed 2.5 percent of total assets, liabilities, revenue or expenses.

Carriers will report to OPM such financial events via the *Report of Subsequent Events* (see Appendix C for form and content). The *Report of Subsequent Events* must be submitted to OPM as often as events transpire that meet the criteria discussed above through close of business on August 3, 2010 for June 30 and on November 2, 2010, for the Federal FY Ended September 30, 2010. Carriers must email and fax all *Reports of Subsequent Events,* with requisite signatures and contact information, to 202-606-1338. The email address for submitting the *Report of Subsequent Events* is Melanese.Wynn@opm.gov, using “REPORT OF SUBSEQUENT EVENTS” as the subject line.

CHAPTER IV

GUIDANCE FOR PRACTITIONERS

A. AUDITS MUST BE PERFORMED IN ACCORDANCE WITH GAGAS

Practitioners must conduct the financial statement audits required by OPM in accordance with the standards issued by the Comptroller General through the United States General Accountability Office. These standards are often referred to as generally accepted government auditing standards (GAGAS). The current GAGAS can be found at http://www.gao.gov/govaud/ybk01.htm. Practitioners are also responsible for monitoring relevant changes in GAGAS, as well as applicable generally accepted auditing standards issued by the American Institute of Certified Public Accountants (AICPA), and considering the implications of these changes on their engagement.

B. AUDIT INSTRUCTIONS FOR INDEPENDENT PUBLIC ACCOUNTANTS OF EXPERIENCE-RATED CARRIERS

OPM's independent auditor has developed a document entitled *Audit Instructions for the Independent Public Accountants of Experience-Rated Carriers* [hereafter, *Audit Instructions*]. *Audit Instructions* will be forwarded to all carriers subject to primary audit coverage under separate cover. Carriers subject to primary audit coverage must ensure that their practitioners receive the *Audit Instructions* package and perform the procedures within the timeframes therein. Carriers subject to secondary audit coverage and carriers within their first contract year must not have these procedures performed. Practitioners must follow the OPM guidelines in effect for the period being examined and modify their procedures to test the compliance requirements accordingly. OPM's independent auditor will work directly with the carriers' practitioner to ensure that the procedures contained in *Audit Instructions* are fully understood.

C. LEVERAGING INTERIM AUDIT PROCEDURES

One of OPM's major objectives is to minimize the amount of additional effort that carriers and their practitioners must expend to meet the requirements in this Guide. OPM anticipates that the practitioners for carriers subject to primary audit coverage will, to the extent feasible, **leverage** the interim work they perform as of June 30, 2010, so as to lessen the effort and expense of opining on the September 30, 2010, financial statements or the AAS as and for the year ended December 31, 2010. By doing so, any potential increase in administrative costs related to *Audit Instructions* can be controlled.

D. APPLICATION OF AGREED-UPON PROCEDURES (Primary Audit Coverage)

OPM requires that carriers subject to primary audit coverage require their practitioners to perform agreed-upon procedures (AUPs) to provide OPM with assurance and comfort that Program operations are being performed in accordance with regulations and the carrier's contracts. The procedures required are provided in Appendix D. A carrier may request OPM to consider alternate procedures designed to produce similar results. Such changes must be approved annually by OPM before being implemented. As mentioned earlier in the Guide, the OPM contracting officer may select carriers subject to secondary audit coverage to perform the agreed-upon procedures.

A report on the application of agreed-upon procedures is due to OPM by:

March 31, 2011, for carriers selecting Financial Reporting Option 1

December 15, 2010, for carriers selecting Financial Reporting Option 2

CHAPTER V

CORRECTIVE ACTION PLANS

To ensure that deficiencies discovered during the audits discussed in this Guide are resolved, each primary audit coverage carrier must develop and submit to OPM a Corrective Action Plan (CAP). Any carrier subject to secondary audit coverage that has been selected by the OPM contracting officer to perform the agreed-upon procedures must also submit a CAP.

A CAP, if applicable, is due to OPM by:

June 30, 2011, for carriers selecting Financial Reporting Option 1

March 16, 2011, for carriers selecting Financial Reporting Option 2

The CAP is an essential part of a carrier's annual reporting requirements. It must be presented on the carrier's letterhead, signed by an appropriate carrier official, include his or her title, and telephone number.

In the CAP, a carrier's management must:

Describe the corrective action taken or planned in response to findings identified in the practitioner's report.

Comment on the status of corrective action taken on the findings included in the practitioner's two prior reports.

.

Appendix A

PROJECTED CARRIERS SUBJECT TO PRIMARY AUDIT COVERAGE
for Federal FY 2010

- Blue Cross Blue Shield Association
- Government Employees Health Association (GEHA), Inc.
- National Association of Letter Carriers (NALC) Health Benefit Plan
- Mail Handlers Benefit Plan
- American Postal Workers Union (APWU) Health Plan
- Rural Carrier Benefit Plan
- Group Health Insurance (GHI) Health Plan
- Hawaii Medical Service Association (HMSA) Health Plan
- SAMBA
- Foreign Service

The above represents OPM's projected carriers subject to primary audit coverage based on the carriers' financial data from fiscal year 2009. Carriers with program claims expense less than $125 million for calendar year 2009 are **NOT** required to apply the audit coverage unless otherwise directed by OPM.

Appendix B

SCHEDULE OF SELECTED BALANCES

SCHEDULE OF SELECTED BALANCES (UNAUDITED)
As of (insert applicable reporting period, e.g. June 30, 2010)

Carrier Name: ____
Enrollment Code: __________

ASSETS	FY 2010	FY 2009
Cash and Cash Equivalents		
Investments		
Prepaid Expenses		
Other Assets (except Balance in LOCA, Interest Receivable on LOCA and Program Income Receivable)		
LIABILITIES		
Health Benefits Incurred but not Reported (IBNR)		
Claims Reported but not Paid		
Accrued Administrative Expenses		
Other Liabilities (do not include Special Reserve)		
REVENUE		
Interest Income, Net (do not include interest on LOCA)		
EXPENSES		
Health Benefits Paid (A)		
Less: Beginning Health Benefits Accrual, e.g. October 1 (B)		
Plus: Ending Health Benefits Accrual, e.g. June 30 (C)		
Total Health Benefits Charges – (A), (B) and (C)		
Administrative Expenses		
Service Charge		
Other Expenses		
Prior Period Adjustment (reflect as "negative”, if increase to equity)		

Preparer Information		CFO/Accounting Manager Information	
Name (print)		Name (print)	
Signature		Signature	
Date Signed		Date Signed	
Phone		Phone	
Fax		Fax	
Email		Email	

Appendix C

REPORT OF SUBSEQUENT EVENTS

REPORT OF SUBSEQUENT EVENTS

Carrier Name:____
Code:_________

____________________, 2010

Line Item(s) Affected	Explanation of Change (continue on separate sheet of paper, if necessary)	Last Balance Reported	Revised Balance	Change from Previous Balance

Preparer Information		CFO/Accounting Manager Information	
Name (print)		Name (print)	
Signature		Signature	
Date Signed		Date Signed	
Phone		Phone	
Fax		Fax	
Email		Email	

Appendix D

AGREED-UPON PROCEDURES

INTRODUCTION

As part of the financial reporting requirements for carriers who work with the Office of Personnel Management (OPM), their IPA's documentation of the application of these agreed-upon procedures must include an **estimate** of the number of improper payments made by the carrier and the dollar value of those improper payments. OPM has a further requirement, in that it must roll-up these **estimates** from all carriers who service OPM to provide a nationwide **estimate** of improper payments. These agreed-upon procedures provide guidelines to practitioners as to how the statistical samples should be drawn and values that need to be included in reports to OPM so that a national **estimate** will be feasible. OPM requires that carriers subject to audit coverage require their practitioners to perform the procedures presented in this Appendix.

1. HEALTH BENEFITS CHARGES

Stratify the claims-paid universe into six payee subgroups:

Strata for Sampling of Payees

	Age of Subscriber	
Payment to:	Under age 65	65 and Over
Physician	1	4
Hospital	2	5
Pharmacy/Prescriptions	3	6

From each group, select a sample of 60 payees. For this and other agreed-upon procedures, the sample size and level of examination are driven by OPM's obligation to provide a program-wide assessment of improper payments. To achieve an acceptable level of precision from the statistical samples, a larger sample size is required relative to the size required to assess a single carrier. The sample is to be drawn using simple random sampling without replacement, with all payees having the same probability of selection. DO NOT SELECT A JUDGMENTAL SAMPLE. This sample will be more than adequate to make reliable determinations for the carrier by the category of recipient (e.g. physician) or by age of subscriber. Carriers will be allowed to sample twice per year in order to distribute their IPA (auditor's) work. This will require separate reports on sample size for each occasion of sampling. [Please note – the entire claims population is subject to sampling. All non-Hospital services, other than Pharmacy/Prescriptions, should be part of Physicians category].

For each group, use the following steps to select a simple random sample:

1) Compute a "Take Every" value, equal to the number of payees divided by 60.

$$\text{Take Every} = \frac{\text{Number of Payee Claims in Group}}{60}$$

2) If Take Every is less than 1.0, take all the claims (there are fewer than 60).

3) Pick a "Start With", a random integer between 1 and the Take Every.

Start With = { 1, 2, 3, …, Take Every }

4) Order the payee claim records by size of payment – this guarantees representation of large, medium, and small claims.

5) Calculate a table in Excel or some other spreadsheet that contains 60 rows – the 60 values you will sample:

a) Column 1 – enter values 1 through 60 in the first 60 rows

b) Column 2 – first row equals Start With

c) Column 2 – second row equals value in row 1 plus Take Every – DO NOT ROUND

d) Column 2 – third row equals value in row 2 plus Take Every – DO NOT ROUND

e) Column 2 – continue to row 60, where the entry for each row equals
the value of the row above plus the Take Every

f) Column 3 – take the integer part of the value in column 1

6) The values in column 2 are the 60 records you will sample out of all the payee records ordered by size of claim.

Example:

<u>For Group X:</u>

Number of Claims =	440
Sample Size =	60
Take Every =	7.333333333
Start With =	5

<u>Column 1</u> Sample Record <u>Number</u>	**<u>Column 2</u>** Running <u>Total</u>		**<u>Column 3</u>** Record to <u>Test</u>
1	5	= Start With	5
2	12.33333333	= 5 + 7.333	12
3	19.66666667	= 12.333 + 7.333	19
…	…	…	…
58	423	= 415.667 + 7.333	423
59	430.3333333	= 423 + 7.333	430
60	437.6666667	= 430.333 + 7.333	437

Use this same sampling methodology in selecting samples in procedures 2 – 6.

Nine tables are needed for the reporting process. A report form is included at the end of this section of this document. The first two tables provide summary information on the total number of claims and the dollar value paid and denied claims. Tables 3 and 4 provide summary information for the sampled claims. We understand AUPs cannot be effectively performed on pending claims. Tables 5, 6, 7 and 8 give information on the sample and sample results for the number of records found with dollar errors and the amount of dollar errors, defined below. Table 9 gives the total number of days (cumulative across the sample) required to pay the sampled claims.

- **Accuracy of Claim Payments.** For each claim selected, perform the following:
  - Compare the claimant's name and other identifying information to the carrier's subscriber eligibility files and determine eligibility.
  - Inspect documentation evidencing accuracy of claim amount.
  - Inspect documentation evidencing allowability of claim and compare with the terms of the contract.
  - Compare evidence of claim amount with claim amount recorded in the general ledger or claim amount to check register and then to the general ledger.
  - Inspect documentation supporting proper application of coinsurance.
  - Inspect documentation supporting proper application of coordination of benefits (COB).
  - Obtain agreements detailing arrangements the carrier has established with its providers for discounts and settlements. Review the provider agreements for claims sampled and determine whether the claims paid are in compliance with provider agreements.
  - Determine if provider settlements will result from the claim payments. If so, verify that the settlements were returned to the program within 30 days of receipt by the carrier.

For claim populations of subscribers age 65 and over, also perform the following:

- Obtain the subscriber history file (for up to 6 months) of subsequent information.
- Inspect documentation that identifies other insurance coverages (Medicare, etc.) impacting coordination of benefits (COB).
- Recalculate COB amounts due OPM for retroactive application of coverage.
- Determine whether the amount of the claim and the amount charged to the Program agree with the amount on the remittance advice to provider, or amount of the check.
- Select COB refunds and determine that they were properly applied to the contract.

Evaluation: Compile the number of errors, including monetary amounts found, for each subgroup sample and report the claim amounts and error rate as a finding. Also report the numbers and claim amounts in the Report Form at the end of this section of the document.

- **Timeliness of Claim Payments.** Using the sample derived above, calculate the average number of working days from the date a claim was received to the date it is adjudicated (paid, denied, or a request for further information is sent out), for the given time period.

Evaluation: If the cumulative percentage of average days for all subgroups exceed the standards expressed in Section 1.9(a)(2)(I), of the standard contract, report the results as a finding. Complete table 9 in the report form regarding time to adjudication.

2. LETTER OF CREDIT AUTHORIZATIONS

Please note: This section does not apply to those carriers who have received waivers from the LOC accounting. If you have a waiver, please submit a copy of the waiver from OPM. **In addition, waivers need to be justified every three years per FEHBAR 1632.170(b)(3).**

Select a simple random sample of 60 withdrawals from the carrier's letter of credit account (LOCA). All the carrier's LOCA accounts must be subject to having a sample drawn from them. If there are less than 60 LOCA transactions during the period, a 100% sample will be taken. Follow the instructions given above for sample selection. Again, the sampling technique to be used is a simple random sample. Use the sample to:

- Examine the withdrawals and confirm that the amounts withdrawn are supported by claims invoices, administrative expense vouchers or other documentation, and compare the total dollar value of the supporting documentation with the amounts withdrawn.

- Inspect withdrawals. Compare the date the checks issued for Program disbursements were actually presented to the carrier's bank with the date of the withdrawals.

  Evaluation: Compile the number of times that the dollar value of the LOCA withdrawal exceeds the dollar value of the supporting documentation. In each case identified, report the amount of the excess. In addition, compile the number of times that LOCA withdrawals occur before checks issued for Program disbursements are presented to the carrier's bank. Complete table 10 in the report form.

3. CASH AND EQUIVALENTS

- **Uncashed Checks**. Inspect a random sample of 60 uncashed Program checks. Identify and tally all checks from the sample group outstanding for two years or more. This will be a simple random sample. Compare the amounts represented by these checks with the corresponding amounts credited to the Program, and identify those checks that were credited later than the 25th month after issuance or not credited at all.

  Evaluation: Compile the number of instances that checks issued for the Program and outstanding for two years have been credited to the Program later than the 25th month after issuance or not credited to the Program, and report the results as a finding.

4. ADMINISTRATIVE EXPENSES

A sample of administrative expenses may be selected twice during the year, (as with the claims paid) to distribute the auditor's work. Again, separate reports on sample size will be required. Stratify the administrative expenses into four subgroups: (1) salaries and fringe benefits, (2) pension costs, (3) post-retirement benefits, and (4) all other. Select a sample of each expense population. The compliance test sample size is 120 for salaries and fringe benefits and 60 each for pension costs, post-retirement benefits, and all other. Salaries and fringe benefits will both be tested in each of the 120 samples. Pension cost allocations from a parent organization must be validated. Such a procedure will likely vary from carrier to carrier. The sample unit is general ledger transactions for each subgroup.

- **Allowable Charges.** For each sample item:
  - Inspect documentation evidencing that each transaction was supported by invoices or other documentation.
  - Compare charges to the criteria prescribed for allowability of charges as defined in the contract cost principles procedures found in 48 Code of Federal Regulations (CFR), Part 31 and 1631.
  - Inspect documentation evidencing the charges were allocable to the contract, as defined in 48 CFR 31.201-4.
  - Compare charges to definition of reasonable charges as described in 48 CFR 31.201-3.

  Evaluation: Report as a finding all instances where administrative charges made to the Program were not in accordance with the contractual terms or the charges were not supported by appropriate documentation.

- **Supporting Documentation – Manual Adjustments.** Inspect all manual adjustments to administrative expenses made after period-end closing and compare the adjustments with the corresponding supporting documentation.

  Evaluation: Report as a finding all instances where supporting documentation did not exist for manual adjustments under the terms 48 CFR, Part 31 and 1631.

- **Allowable Charges – Manual Adjustments.** Inspect all manual adjustments to administrative expenses made after period-end closing and compare the adjusted administrative costs with the charges allowable by 48 CFR, Part 31 and 1631.

  Evaluation: Report as a finding all instances where adjusted administrative costs were not allowable charges under the terms 48 CFR, Part 31 and 1631.

- **Nonrecurring Items.** Review any nonrecurring items such as gain or loss on sale of assets to insure that the Program was allocated according to 48 CFR 31.205-16.

- **Rental Charges.** Review 5 samples of rental charges for five transactions (involving five different properties) according to 48 CFR 31.205-36. Note any items with rental costs; treatment under a sale and leaseback agreement; and charges for rent between any divisions, subsidiaries, or organizations under common control.

  Evaluation: Report as a finding all instances where amount charged exceeds allowable amounts.

5. REFUNDS

- **Accounting Policies and Procedures.** Inspect the carrier’s accounting policies and procedures used to account for solicited and unsolicited refunds and determine whether the policies and procedures are in accordance with the contract.

Evaluation: Report as a finding all instances where the carrier lacks policies and procedures to account for refunds.

- **Outstanding Refunds.** Compare the outstanding refunds report to the total refunds reported in the general ledger.

  Evaluation: Report as a finding all instances where the outstanding refunds report does not agree with the general ledger.

- **Refund Transactions.** Select a simple random sample of 60 claims refund transactions (resulting from direct and indirect charges) and perform the following:

  - Compare refunds allocable to the Program with requirement that refunds be credited to it within 30 days of receipt.

  - For refunds that were indirectly charged to the Program, but where the proportionate share of the charge or associated refund cannot be identified, compare the Program refund with an amount derived from the application of a percentage (Program's share of the carrier's business proportionate to the carrier's total business) to the total refund amount.

  Evaluation: Report as a finding all instances where refunds (directly or indirectly) associated with the Program are not credited to the program within 30 days of receipt.

6. PROVIDER CHARGES

Obtain agreements detailing arrangements the carrier has established with its providers for discounts and settlements. IPA must confirm a carrier's provider contracts do not address discounts and/or settlements if that is the case.

- **Retroactive Settlements.** Inspect payment/pricing methodology and determine if the methodology allows for retroactive settlements to occur.

  Evaluation: Report as a finding the number of instances where the carrier cannot identify discounts and settlements.

- **Compliance with Provider Agreements.** Inspect a sample of 30 carrier settlements and document and determine whether they are in compliance with provider agreements. Compare the settlement received by the Program with the terms of the agreements.

  Evaluation: Report as a finding the number of instances where the carrier does not comply with provider agreements.

- **Discounts/Settlements Returned to the Program.** Tally the number of transactions where amounts resulting from provider discounts/settlements were returned to the Program after 30 days of receipt by the carrier.

Evaluation: Report as a finding the number of instances where the carrier does not credit the Program in accordance with the terms of the agreements and does not return funds benefited from the discounts/settlement arrangements within 30 days of receipt by the carrier.

7. STATUS OF PRIOR YEAR FINDINGS

If the carrier was subject to the Guide in the prior year, update the status of prior year findings. Obtain the carrier's corrective action plan from the prior year. Obtain an update on the status of each finding from the prior year. Verify that the actions indicated were completed by the plan by viewing evidence from the plan. See Appendix D for an illustrative corrective action plan.

Report Form – Sample Values and Results of Agreed-Upon Procedures for

____

Carrier Name

Number of Claims

1. in Population of Payees

Payment to:	Age of Subscriber < 65	Age of Subscriber 65 +
Physician		
Hospital		
Pharmacy/Scripts		

Book Value of Claims

2. in Population of Payees

Payment to:	Age of Subscriber < 65	Age of Subscriber 65 +
Physician	$	$
Hospital	$	$
Pharmacy/Scripts	$	$

3. in Sample of Payees

Payment to:	Age of Subscriber < 65	Age of Subscriber 65 +
Physician		
Hospital		
Pharmacy/Scripts		

4. in Sample of Payees

Payment to:	Age of Subscriber < 65	Age of Subscriber 65 +
Physician	$	$
Hospital	$	$
Pharmacy/Scripts	$	$

5. Number of Underpayments in Sample

Payment to:	Age of Subscriber < 65	Age of Subscriber 65 +
Physician		
Hospital		
Pharmacy/Scripts		

6. Dollar Value Underpayments in Sample

Payment to:	Age of Subscriber < 65	Age of Subscriber 65 +
Physician	$	$
Hospital	$	$
Pharmacy/Scripts	$	$

7. Number of Overpayments in Sample

Payment to:	Age of Subscriber < 65	Age of Subscriber 65 +

8. Dollar Value Overpayments in Sample

Payment to:	Age of Subscriber < 65	Age of Subscriber 65 +

Physician				Physician	$	$
Hospital				Hospital	$	$
Pharmacy/Scripts				Pharmacy/Scripts	$	$

9. Total Number of Days to Pay Claims

	Age of Subscriber	
Payment to:	< 65	65 +
Physician		
Hospital		
Pharmacy/Scripts		

	Number in Population	Dollars in Population	Number Sampled	Number of Times Dollars are in Excess	Dollars in Excess	No. Of Times Early LOCA Withdrawals
10. Letter of Credit Authorizations						

	Number in Population	Dollars in Population	Number Sampled	No. Of Checks Outstanding > 2 Years	Dollars Credited > 25 Months
11. Cash and Equivalents - Uncashed Checks					

12. Administrative Expenses	Number in Population	Dollars in Population	Number Sampled	No. of charges Failing	Dollars in items that Failed
Allowable Charges					
Supporting Documentation - Manual Adj.					
Allowable Charges - Manual Adjustments					
Nonrecurring Items					
Rental Charges					

13. Refunds	Number in Population	Dollars in Population	Number Sampled	No. of charges Failing	Dollars in items that Failed
Refund Transactions					

SAMPLE PRACTITIONER REPORTS
for Selected Requirements

1. ILLUSTRATIVE REPORT ON AGREED-UPON PROCEDURES (at Section 201.32)

United States Office of Personnel Management (OPM)

We have performed the procedures enumerated below, which were agreed to by the audit committee and management of (carrier) and OPM and solely to assist in evaluating the accompanying Annual Accounting Statement for the period ending September 30, 2010. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are enumerated in the listing of engagement procedures accompanying this report. Findings obtained from performing these procedures are presented in the accompanying schedule of findings and questioned amounts.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the accompanying Annual Accounting Statement of (carrier). Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of OPM and the audit committee and management of (carrier), and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

2. ILLUSTRATIVE SCHEDULE OF FINDINGS AND QUESTIONED AMOUNTS

SCHEDULE OF FINDINGS FOR AGREED-UPON PROCEDURES			
Area	**Description of Findings**	**$ Questioned**	**Status of Finding**
Claims Enrollment Records	Describe in detail the noted finding	$10,000 Unknown	1. Amount Has Been Credited to FEHBP, or 2. Amount Will Be Credited to FEHBP, or 3. Resolved – No Money Due to FEHBP 4. Unresolved – No Money Due to FEHBP

3. ILLUSTRATIVE COMMENTS ON RESOLUTION OF PRIOR YEAR'S EXAMINATION FINDINGS

Finding No 1: In an examination performed by the (name of audit entity) dated (mm/dd/yy) and titled (name of report), in tests of claims paid, the carrier did not properly coordinate payment of benefits. The FEHBP was overcharged by $xx.

Status: As of (mm/dd/yy) the carrier has not reimbursed the FEHBP for these claims or recorded proper accounting entries to record payable to the FEHBP.

NOTE: The chart in No.2 could be modified to incorporate these two items, and thereby minimize duplication of efforts.

4. ILLUSTRATIVE CORRECTIVE ACTION PLAN FOR MATERIAL WEAKNESSES OR FINDINGS

Corrective Action Plan
(Prepared by carrier or service organization)

Name of carrier or service organization and plan code:

Official responsible for plan:

Phone number:

Audit Period:

Practitioner/Audit firm:

A. Comments on findings and recommendations

The carrier should provide a statement of concurrence or nonconcurrence with each finding and recommendation. For instances of nonconcurrence, the carrier should provide documentation to support their position.

B. Actions taken or planned

The carrier should develop a detailed action plan to correct or resolve all practitioner findings. The plan should include expected correction date(s) and name of official responsible for corrective actions.

C. Status of corrective actions for prior year findings

The carrier should document status of all prior year findings and the related corrective actions, including changes in corrective action and expected dates of completion.

Appendix F

DEFINITIONS AND ACRONYMS

Carrier: a voluntary association, corporation, partnership, or other non-governmental organization which is lawfully engaged in providing, paying for, or reimbursing the cost of health services under group insurance polices or contracts, medical or hospital services agreements, membership or subscription contracts, or similar group arrangements, in consideration of premiums or other periodic charges payable to the carrier, including a health benefits plan duly sponsored or underwritten by an employee organization.

Service organization: any organization that provides claims processing or claims related service(s) to a FEHBP carrier as defined above.

AICPA	American Institute of Certified Public Accountants
AU	AICPA U.S. Auditing Standards
AT	AICPA U.S. Attestation Standards
CAP	Corrective Action Plan
CFR	Code of Federal Regulations
ERC	Experience-rated Carriers
FEHBP	Federal Employees Health Benefit Program
FOIA	Freedom of Information Act
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
GAO	U.S. General Accounting Office
LOCA	Letter of Credit Account
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
SSB	Schedule of Selected Balances

Appendix G

LAWS, REGULATIONS, AND CONTRACT TERMS TO BE TESTED FOR COMPLIANCE

1. Claims Benefit Payments

2. Coordination of Benefit

OPM expects all carriers to coordinate benefits. (48 CFR 1604.70.)

3. Carrier Investment of Program Funds

The carrier is required to invest and reinvest all funds on hand, including any attributable to the special reserve or the reserve for incurred but unpaid claims, exceeding the funds needed to discharge promptly the obligations incurred under the contract. Also, the carrier is required to credit income earned from its investment of Program funds to the special reserve on behalf of the Program. If a carrier fails to invest excess Program funds or to credit any income due the contract, for whatever reason, it shall return or credit any investment income lost to OPM or the special reserve. Investment income is the net amount earned by the carrier after deducting investment expenses. (48 CFR 1615.805-70(b)(c)(d).)

4. FEHBP Credit

FAR 31.201-5 provides that the applicable portion of any income, rebate, allowance, or other credit relating to any allowable cost and received by or accruing to the contractor shall be credited to the government either as a cost reduction or by cash refund. Program credits result from benefit payments that include, but are not limited to:

a. Coordination of benefit refunds
b. Hospital year-end settlements
c. Uncashed and returned checks
d. Utilization review refunds
e. Refunds attributable to litigation with subscribers or providers of health services
f. Erroneous benefit payment, overpayment, and duplicate payment recoveries (48 CFR 1631.201-70).

5. Taxes

5 U.S.C. 8909(f)(1) prohibits the imposition of taxes, fees, or other monetary payment, directly or indirectly, on Program premiums by any state, the District of Columbia, or the Commonwealth of Puerto Rico or by any political subdivision or other governmental authority of those entities. (48 CFR 1631.205-41.)

6. Interest Expense

Interest charges incurred in the administration of Program contracts are not allowable in accordance with FAR 31.205.20. However, interest charges that are associated with the carrier's investment of Program account funds are not considered administrative costs and may be allowable under very limited circumstances (see criteria (1) through (5)). (48 CFR 1631.205-73.)

7. Selling Costs

FAR 31.205-38 is modified to eliminate from allowable costs those costs related to sales promotion and the payment of sales commissions fees or salaries to employees or outside commercial or selling agencies for enrolling Federal subscribers in a particular plan. Selling costs are allowable costs to Program contacts to the extent that they are necessary for conducting annual contract negotiations with the government and for liaison activities necessary for ongoing contract administration. (48 CFR 1631.205-75.)

8. Commingling of Program Funds

Carrier or underwriter commingling of Program funds with those from other sources makes it difficult to precisely determine Program cash balances at any given time or to precisely determine investment income attributable to Program invested assets. Program funds shall be maintained separately from other cash and investments of the carrier or underwriter. (48 CFR 1632.771.)

9. Contract Provisions

Carriers must comply with the provisions negotiated and as reported in the contract and any addendums thereto between the carrier and OPM.

10. Exclusion of Unallowable Costs per FAR

FREEDOM OF INFORMATION ACT REQUESTS

Notification to Submitters of Confidential Commercial Information

You have been or may be asked to submit information to the Office of Inspector General (OIG), U.S. Office of Personnel Management in connection with these procedures, audit, inspection or other inquiry pursuant to the Inspector General Act of 1978, as amended, 5 U.S.C. app. 3, sec. 1 et seq. This is to notify you that if you deem any of this information to be "confidential commercial information," you may take steps to so designate that information to protect its confidentiality if at a future point in time a request is made for disclosure of this information under the Freedom of Information Act (FOIA).

"Confidential commercial information" means records that may contain material exempt from release under Exemption 4 of FOIA (pertaining to trade secrets and commercial or financial information that is privileged or confidential), because disclosure could reasonably be expected to cause substantial competitive harm.

You may use any reasonable method you believe appropriate and which is acceptable to the OIG to indicate which documents and information you deem to fall into the category of "confidential commercial information." Please be as specific as possible in segregating the information that you consider to be "confidential commercial information" from any other information you are providing to the OIG. This may be done before such information is provided to the OIG if feasible, but only if it will not delay or interfere with production of the information or delay or interfere with the OIG's investigation, audit, inspection or other inquiry. Otherwise, you may so designate this information within a reasonable period of time after the information is provided to the OIG.

If a FOIA request is received by the OIG for information you have designated as "confidential commercial information," the OIG is nevertheless required by law to make its own independent determination of whether the FOIA requires disclosure of the information or whether it should be withheld pursuant to Exemption (b)(4) or any other exemption of FOIA. If the OIG determines that it may be required to disclose, pursuant to FOIA, that information you have designated or other information that the OIG has reason to believe could be expected to cause substantial competitive harm, to the extent permitted by law, we will make a good faith effort to notify you and provide you with a reasonable opportunity to object to such disclosure and to state all grounds upon which you oppose disclosure. We will give careful consideration to all specified grounds for nondisclosure prior to making our final decision.

If we nonetheless believe that disclosure is required, we will provide you with a statement explaining why your objections were not sustained and specifying a disclosure date. To the extent permitted by law, this statement will be provided to you in a reasonable number of days prior to the specified disclosure date. Furthermore, if disclosure of the designated information is denied pursuant to an exemption under FOIA and an administrative or judicial appeal is taken by the FOIA requester, we will make a good faith effort to notify you promptly.

The procedures outlined in this notice are intended only to improve the internal management of the OIG and are not intended to create any right or benefit, substantive or procedural, enforceable at law by a party against the United States, its agencies, officers, or any person.

SAMPLE MANAGEMENT INTERNAL CONTROLS

for Primary Carriers ONLY

F. Management Internal Controls

United States Office of Personnel Management (OPM)

The Management of the (carrier/plan's name) is responsible for establishing and maintaining adequate internal controls over financial reporting, which include safeguarding of assets and compliance with applicable laws and regulations. Internal controls (as defined in OMB Circular A-123 Management's Responsibility for internal control) are processes for planning, organizing, directing, controlling and reporting to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.

Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Plan's assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles prescribed or permitted by the U. S. Office of Personnel Management, and that the Plan's receipts and expenditures are being made only in accordance with authorizations of the Plan's management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Plan's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect and correct misstatements. Also, projections of any evaluation to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The Plan's management has not performed a formal assessment of the effectiveness of the Plan's internal control over financial reporting for the period October 1, 2009, through August 31, 2010. (The plan/carrier is required to provide their outcome, i.e., based upon reports provided by internal and external auditors (etc.), the plan/carrier has determined that there were (no material weaknesses or significant deficiencies/the plan/carrier has the following material weaknesses or significant deficiencies described below)).

OPM CONTACTS

Technical questions regarding the audit procedures and suggestions for improving the audit procedures should be sent to:

Office of the Inspector General
U.S. Office of Personnel Management
1900 E Street NW, Room 6400
Washington, D.C. 20415-1100
Attention: W.W. Scott, Jr.
Fax: (202) 606-4823
Email: wwscott@opm.gov

Technical questions regarding financial reporting and suggestions for improving financial reporting should be sent to:

Financial Services
U.S. Office of Personnel Management
1900 E Street NW, Room 3H19
Washington, D.C. 20415-1100
Fax: (202) 606-1338
Email: Melanese.Wynn@opm.gov