

United States
Office of
Personnel Management
The Federal Government's Human Resources Agency



FEHBP
FINANCIAL REPORTING
AND
AUDIT GUIDE

**For the Carriers of Experienced-Rated Plans and their Independent
Public Accountants**

Previously issued as "FEHBP Experienced-rated Carrier and Service Organization Audit Guide"

May 2004

TABLE OF CONTENTS

	Page
CHAPTER I ~ PURPOSE AND AUTHORITY	1
CHAPTER II ~ OVERVIEW OF REPORTING AND AUDITING REQUIREMENTS	3
CHAPTER III ~ ACCOUNTING AND REPORTING REQUIREMENTS.....	5
CHAPTER IV ~ AUDITING REQUIREMENTS	8
CHAPTER V ~ CORRECTIVE ACTION PLAN	18

APPENDICES

Appendix A

List of Primary Coverage Carriers – FY 2004..... A-1

Appendix B

Schedule of Selected Balances (Unaudited).....B-1

Appendix C

Report on Subsequent Events.....C-1

Appendix D

Sample Practitioner Reports D-1

 Illustrative Report on Agreed-Upon Procedures D-1

 Illustrative Schedule of Findings and Questioned Amounts D-2

 Illustrative Comments on Resolution of Prior Year’s Examination Findings D-2

 Illustrative SAS No. 70 Report Regarding Service Organization Management’s Assertions.. D-2

 Illustrative Corrective Action Plan for Material Weaknesses or Findings D-3

Appendix E

Definitions and AcronymsE-1

Authoritative ReferencesE-1

Appendix F

Laws and Regulations and Contract Terms to be Tested for Compliance..... F-1

Appendix G

Freedom of Information Requests G-1

CHAPTER I

PURPOSE AND AUTHORITY

PURPOSE OF THE REPORTING AND AUDIT GUIDE

OPM's purpose in issuing the FEHBP Reporting and Audit Guide ("Guide") is to:

- Obtain financial information that has been subjected to audit procedures for input into OPM's consolidated financial reports.
- Gain assurance that carrier financial statements are fairly stated in all material respects in accordance with prescribed accounting guidelines.
- Gain assurance that a carrier conducts its operations in accordance with its contract as validated by the performance of agreed-upon procedures.

AUTHORITY AND CARRIER RESPONSIBILITIES

Section 3.2 -- Accounting and Allowable Cost -- of the standard contract requires that experience-rated carriers furnish to OPM an accounting of its operations under the contract. In preparing this accounting, the Carrier must follow the reporting requirements and statement formats prescribed by OPM. In addition, the carriers must have its accounting statements and that of its underwriter, if any, audited in accordance with the Guide (previously entitled, the FEHBP Experienced-Rated Carrier and Service Organization Audit Guide).

Section 3.10 -- Audit, Financial, and Other Information -- of the standard contract requires that experience-rated carriers furnish to OPM audit, financial, and other information in the format and within the time frames specified in the Guide.

Since OPM periodically revises its financial and other reporting requirements, inconsistencies may exist at any given time between the Guide and other OPM's guidelines. It is the independent certified public accountant's [hereafter, practitioner] responsibility to ensure it is using the most current version of the Guide. Practitioners should follow the guidelines in effect for the period being examined and modify their procedures to test the compliance requirements accordingly.

The practitioner is also responsible for monitoring relevant changes in generally accepted government auditing standards (GAGAS), as well as applicable generally accepted auditing standards issued by the AICPA and for considering the implications of these changes on its engagement.

TECHNICAL QUESTIONS

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

Assistant Inspector General for Audits
Office of the Inspector General
U.S. Office of Personnel Management
1900 E Street NW, Room 6400
Washington, D.C. 20415-1100

Fax: (202) 606-4823
Email: william.scott@opm.gov

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

Center for Financial Services
U.S. Office of Personnel Management
1900 E Street NW, Room 3H28
Washington, D.C. 20415-1100

Fax: (202) 606-7944
Email: finance@opm.gov

CHAPTER II

OVERVIEW OF REPORTING AND AUDITING REQUIREMENTS

All carriers must select a reporting option as follows:

- *Option 1:* Audited Annual Accounting Statements (AAS) as of December 31st
- *Option 2:* Audited financial statements as of September 30th and unaudited financial statements as of December 31st

The chart below outlines the requirements for each option:

Primary coverage. Carriers with claims expense of \$90 million or more in the previous contract (calendar) year or carriers selected by their contracting officer must meet all the requirements for the option selected. For a list of primary coverage carriers see Appendix A.

Secondary coverage. Carriers with FEHBP claims expense of less than \$90 million in the previous contract (calendar) year are required to meet reporting requirements A through D for the option selected. Carriers not listed on Appendix A are subject to secondary coverage requirements.

Reporting Requirement / Deliverable	Due Dates	
	Option 1	Option 2
A. Audited Financial Statements as of September 30 with IPA Report on Financial Statements, Internal Controls, and Compliance with Reporting Requirements	N/A	December 15
B. Audited AAS as of December 31 with IPA Report on Financial Statements, Internal Controls, and Compliance with Reporting Requirements	March 31	N/A
C. Unaudited AAS as of December 31	N/A	March 31
D. Schedule of Selected Balances (Unaudited)	October 12	October 12
E. IPA reporting per “Audit Instructions”	See Chapter IV, Section B	See Chapter IV, Section B
F. Third Party Service Organization Control Test (SAS 70) *	December 15	December 15
G. Report on the application of agreed-upon procedures	March 31	December 15
H. Corrective Action Plan	June 30	March 15

* The IPA may consider the use of a service organization auditor’s report to fulfill this requirement.

The practitioner must perform the audits of carrier financial statements in conformity with the General Accounting Office's *Government Auditing Standards* (the "Yellow Book"), often referred to as generally accepted government auditing standards or "GAGAS". The Yellow Book contains standards for audits of government programs, activities, and functions that are to be followed by practitioners when required by law, regulation, agreement, contract, or policy. The standards pertain to the professional qualifications of practitioners, the quality of audit effort, and the characteristics of professional and meaningful audit reports. Practitioners may access the 2003 revision of the Yellow Book and related information at <http://www.gao.gov/govaud/ybk01.htm>

CHAPTER III

ACCOUNTING AND REPORTING REQUIREMENTS

A. JUNE 30TH CLOSE (PRIMARY COVERAGE ONLY)

A key component of the auditing approach adopted by OPM's IPA is the financial information that carriers with primary coverage must prepare as of and for June 30th. OPM will not prescribe whether carriers with primary coverage must use a "hard close", "soft close", or a hybrid approach to "closing their books" as of June 30th. This is a decision that must be made in close consultation between a carrier and its practitioners.

Although they will not be submitted to OPM, carriers with primary coverage must generate a balance sheet and income statement as of and for June 30th. Carriers 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 in *Audit Instructions*.

Carriers that have selected *Option 1* -- audited financial statements as of December 31st - must produce an income statement for the *six-month* period ending June 30th. Carriers that have selected *Option 2* - audited financial statements as of September 30th - must produce an income statement for the nine-month period ending June 30th.

To assist the carriers with their "June 30th close", OPM will provide a *Report of Letter of Credit Account Activity* as of June 30th [previously called "Enclosure A"] by the fifth business day in July.

B. SCHEDULE OF SELECTED BALANCES

Historically, OPM has based its financial statements on audited financial statements submitted by the carriers. Beginning in Federal fiscal year 2004, OPM and all other Federal agencies must publish their financial statements by November 15th – 45 days after the end of the Federal fiscal year. Thus, it will be unrealistic for OPM to use audited financial statements from the carriers as input to its own financial statements. OPM, therefore, will base its consolidated financial statements on unaudited financial information submitted by the carriers. Thus, beginning in FY 2004, *all* carriers must submit unaudited financial information to OPM on the new *Schedule of Selected Balances*.

The Schedule of Selected Balances, as presented in Appendix B, must include balances as of and for the Federal fiscal year ended September 30th. The *Schedule of Selected Balances* does not include the reporting of any balances that OPM maintains on its own books. Thus, carriers will not include balances on the *Schedule of Selected Balances* 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 *Schedule of*

Selected Balances as of and for the year ended September 30th. OPM will provide a *Report of Letter of Credit Account Activity* [previously called “Enclosure A”] as of September 30th by the third business day in October.

Carriers should use actual balances to the extent that they are available at the time the *Schedule of Selected Balances* 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 preparation and submission of a properly prepared *Schedule of Selected Balances* is *critical* to OPM’s ability to generate its financial statements by the November 15th deadline. The *Schedule of Selected Balances* is due to OPM no later than close of business on the 7th business day of October. Thus, for FY 2004, the Schedule of Selected Balances must be received in OPM by 5:00 EST on *October 12, 2004*.

Carriers must submit the *Schedule of Selected Balances* by email in Excel format and follow-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 finance@opm.gov. Please use SELECTED BALANCES as the subject line. The applicable fax number is 202-606-7944.

C. REPORT OF SUBSEQUENT EVENTS

Financial events may occur that would require a carrier to revise the balances it has reported to OPM on its *Schedule of Selected Balances*. Such events have the potential to require that OPM adjust the amounts it has posted to its records from the *Schedule of Selected Balances*. It is critical, therefore, that carriers *immediately* inform OPM of any change to the amount[s] reported on the *Schedule of Selected Balances* of more than *three percent*. The vehicle the carriers will use to inform OPM of such financial events is the *Report of Subsequent Events* [see Appendix C].

The *Report of Subsequent Events* should be sent as often as necessary through the third business day in November. Carriers must fax all *Reports of Subsequent Events*, with requisite signatures and contact information, to 202-606-7944.

D. ANNUAL ACCOUNTING STATEMENT FOR CONTRACT (CALENDAR) YEAR

All carriers must submit to OPM an Annual Accounting Statement (AAS) package for the contract (calendar) year. The AAS package must be prepared in accordance with the requirements that OPM normally provides to the carriers in March of the subsequent contract (calendar) year. Carriers that have selected Option 1 must have the AAS package audited.

E. FINANCIAL STATEMENTS FOR FEDERAL FISCAL YEAR

Carriers that have selected Option 2 must prepare financial statements as of September 30th and have those financial statements audited. The federal fiscal year financial statements must be prepared in accordance with the requirements that OPM normally provides to the carriers in October of the subsequent Federal fiscal year. Carriers that have selected Option 1 need not prepare Federal fiscal year financial statements (other than the Schedule of Selected Balances (Unaudited)).

CHAPTER IV

AUDITING REQUIREMENTS

A. PRACTITIONER QUALIFICATIONS AND RESPONSIBILITIES

Qualifications and General Standards. The Guide requires that audit procedures be performed in accordance with GAGAS. Therefore, the engagements must be performed by a licensed certified public accountant that meets the general standards of qualification, independence, due professional care and quality control. Refer to Chapter 3 of the Yellow Book for continuing professional education requirements.

In part, the standards require practitioners and audit firms to comply with the applicable provisions of the public accountancy laws and rules of the jurisdictions in which they are licensed and where the engagement is being conducted. If a carrier or service organization is located in a state outside the home state of the practitioner, and the practitioner performs substantial field work in a carrier's or service organization's state, the practitioner must document its compliance with the licensing requirements of the public accountancy laws of that particular state. This Guide does not impose additional licensing requirements beyond those established by the individual State Boards of Accountancy.

An internal audit organization is not independent of the carrier or service organization and, therefore, its work and reports cannot directly satisfy the reporting requirements of this Guide. However, where audit standards allow, internal auditors and their work should be considered by the practitioner. For example, while performing the examination of internal controls discussed in Chapter II of this guide, a practitioner should consider the guidance in SAS No. 65 "*The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*" for use of internal auditors.

Field work and Reporting Standards. The practitioner must follow the fieldwork and reporting standards for financially related audits in accordance with those standards contained in Chapters 4 and 5, respectively, of GAGAS.

Engagement Scope. The nature of the carrier or service organization management's written assertions and the scope of the practitioner's engagement may vary depending on whether the carrier contracts with service organizations. All applicable assertions required of management by this guide must be addressed by the practitioner's report.

Engagement Letter. The practitioner must prepare a letter of engagement to communicate to the carrier or service organization the nature of the engagement. The letter must include, at a minimum, the following:

- A statement that the engagement is to be performed in accordance with GAGAS.
- A statement that both parties understand that OPM intends to use the practitioner's report

to help carry out its responsibilities for oversight of the Program.

- A statement that the practitioner is required to provide OPM's contracting officer and Office of the Inspector General (OIG), as well as the U.S. General Accounting Office (GAO), or their representatives, access to working papers or related documents to review the engagement. Access to working papers includes making necessary photocopies. Information regarding confidential commercial information that may be contained in working papers and Freedom of Information Act (FOIA) disclosure is provided in the "Working Papers" subsection on page 9.

Matters Requiring Immediate Action. Practitioners must plan and perform the audit to obtain reasonable assurance about whether financial statements are free of material misstatements, whether caused by fraud or error, in accordance with SAS No. 99, Consideration of Fraud in a Financial Statement Audit.

As described in Paragraph 79 of SAS No. 99, whenever the auditor has determined that there is evidence that fraud may exist, that matter must be brought to the attention of an appropriate level of management. This is generally appropriate even if the matter might be considered inconsequential; such as a minor defalcation by an employee at a low level in the entity's organization. Fraud or illegal acts involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the AAS should be reported to the audit committee. Further, consistent with paragraph 79 of SAS 99, the auditor must disclose possible fraud and management's response to the OPM Inspector General within 30 days from the time disclosure is made to management or the audit committee as appropriate. The practitioner shall submit these reports to the Assistant Inspector General for Audits.

For supplemental guidance, consult SAS No. 99 and SAS No. 54, Illegal Acts by Clients.

Due Care and Professional Skepticism. Paragraph 3.36 of GAGAS states due professional care should be used in conducting the audit and in preparing related reports. Practitioners are cautioned against ignoring basic weaknesses in internal controls, performing audit steps mechanically (auditing form over substance), and accepting explanation for audit exceptions without question.

Obtaining an Understanding of Internal Control Structure. SAS No. 78, Consideration of Internal Controls in a Financial Statement Audit: An amendment to SAS No. 55 and GAGAS provide guidance on understanding, evaluating and testing internal control policies and procedures.

Obtaining Sufficient Evidence and Sampling. The examination procedures suggested in this guide are not intended to be all-inclusive. The practitioner is responsible for determining the procedures necessary to form an opinion regarding the financial statements and whether management's assertion regarding the effectiveness of internal controls is fairly stated. The procedures are not intended to supplant the practitioner's judgment of the work required. Suggested procedures described may not cover all circumstances or conditions encountered. Practitioners should consider AICPA's Professional Standards Vol. 1, U.S Audit Standards (AU)

sec. 326, Evidential Matter.

The Guide requires samples to be selected in such a way to be representative of the population and period under audit (in the case of service organizations, representative of the carrier clients serviced) and have certain confidence levels and tolerable error rates. Practitioners are encouraged to use guidance contained in the AICPA's Professional Standards, Vol. 1, AU sec. 350, Audit Sampling.

Working Papers. SAS No. 96, Audit Documentation and Paragraphs 4.34 through 4.38 of GAGAS address working papers. SAS No. 96, paragraph 4 states working papers ordinarily should include documentation showing (a) the work was adequately planned and supervised; (b) sufficient understanding of the internal control structure was obtained to plan the audit and determine nature, timing and of tests to be performed; and (c) the sufficient, competent evidential matter has been obtained through the auditing procedures applied to afford a reasonable basis for an opinion.

Further, Paragraph 4.22 of GAGAS states the practitioner's audit documentation should "contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from the audit documentation the evidence that supports the auditor's significant judgments and conclusions."

Carriers, service organizations or practitioners who deem any of the working paper information to be "confidential commercial information" should take appropriate steps to so designate each working paper containing confidential commercial information.

Such designation may protect its confidentiality if, at a future point of 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 the 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. Further information regarding the designation of such documents and OPM's OIG procedures upon receipt of a FOIA request are contained in Appendix G.

Engagement Quality. OPM's OIG has implemented procedures for evaluating work performed by non-federal practitioners. As part of this evaluation, the practitioner shall make working papers available upon request to the Assistant Inspector General for Audits or other representatives of the OIG. To facilitate these requests, the financial reporting package should include an information sheet identifying the name, address, and telephone number of the partner on the engagement. Working paper reviews will normally take place at the carrier's office.

Whenever an evaluation of a report or working papers discloses inadequacies, the practitioner may be asked to take corrective action. If OPM determines the report and working papers are sub-standard or contain significant inadequacies, referral to the AICPA and the cognizant State Board of Accountancy will be considered. OPM may also initiate action to debar the practitioner from further participation in federal programs.

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

Due to the accelerated financial reporting deadlines OPM faces beginning in Federal fiscal year 2004, OPM's IPA has adjusted their procedures which they perform so that they may opine on OPM's dated financial statements. To facilitate its audit, OPM's IPA has developed the *Audit Instructions for the Independent Public Accountants of Experience-Rated Carriers* ["*Audit Instructions*"]. Audit Instructions will be forwarded to carriers with primary coverage under separate cover.

- Carriers with primary coverage in the previous contract year must require that their IPA perform the procedures contained in *Audit Instructions*.
- Carriers with secondary coverage in the previous contract year or carriers within their first contract year *must not* have these procedures performed.

OPM's IPA will work directly with the carriers' IPA 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 IPAs must expend to meet the requirements of the "Guide". OPM anticipates that primary coverage carrier IPAs will, to the extent feasible, *leverage* the interim work they perform as of June 30th so as to lessen the effort and expense of opining on the September 30th financial statements or the Annual Accounting Statement as and for December 31st. By doing so, any potential increase in administrative costs related to *Audit Instructions* can be restrained.

D. SERVICE ORGANIZATION REVIEWS

Service organizations have responsibility for designing and implementing sufficient internal controls to ensure claims are accurately processed in accordance with the terms of the service contract.

If a service organization does not perform for its carrier client all of the functions addressed by a single assertion, that assertion may be modified, but must clearly distinguish responsibilities of the carrier and the service organization, so that their respective written assertions address only the functions each performs.

The service auditor is responsible for the representations in his or her report and for exercising due care in the application of procedures that support those representations. These representations should include that, during the current federal fiscal year, service organization management has:

- Designed controls to ensure claims are accurately processed in accordance with the terms of the service contract; and
- Controls are operating with sufficient effectiveness to provide reasonable assurance that claims are accurately processed in accordance with the terms of the service contract.

Responsibilities of the service auditors are contained in AICPA Professional Standards, Vol. 1, AU sec. 324, paragraphs 22-24. In addition service auditors should consult paragraphs 41-56 for information on reports on controls placed in operation and tests of operating effectiveness.

E. AGREED-UPON PROCEDURES FOR SPECIFIED ELEMENTS, ACCOUNTS, OR ITEMS OF THE FINANCIAL STATEMENT FOR PROGRAM REPORTING

This section contains specific procedures for seven requisite elements to be followed during the audit. Should a carrier's system of accounts and records make the use of these specific procedures inappropriate, the carrier may request OPM to consider alternative procedures designed to produce similar results. For carriers with primary coverage in the previous contract year, the report on the application of agreed-upon procedures is due to OPM by:

- March 31st for carriers selecting Option 1; or
- December 15th for carriers selecting Option 2

The seven requisite elements include the following:

- Health Benefits Charges
- Letter of Credit (LOC) Authorizations
- Cash and Equivalents
- Administrative Expenses
- Revenue
- Refunds
- Provider Charges

For all samples selected in the procedures below, the samples must be representative of the population for the period.

Health Benefits Charges

Stratify the claims-paid universe into five payee subgroups: (1) physician, (2) hospital, (3) pharmacy/prescriptions, (4) subscriber under age 65, and (5) subscriber age 65 or over. Select a judgmental sample of each claim population. The compliance test sample size for Groups 1, 2, 3 and 5 is 105; for Group 4 the test sample size is 93.

Sample sizes may be reduced under the following circumstances:

- Items that meet multiple subgroup criteria can be used as a sample item for several categories; e.g. if a claim was selected as a physician claim, but also was for a subscriber under age 65, then this item could be counted as one sample item for both subgroups. Or
- If a carrier can assert that all claims are processed through the same processing system at the same location by the same employees and are subject to the same control procedures then stratify the claims-paid universe into two payee subgroups, (1) subscriber age 65 and over and (2) all other claims. The sample size for each subgroup would consist of 105 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).

For claim population of subscriber age 65 or 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 B, etc.) impacting COB.
- Recalculate COB amounts due OPM for retroactive application of coverage.
- Determine whether the amount of the claim and the amount charged to the FEHBP agree with the amount on the remittance advice to provider, or amount of the check.
- Select judgmental sample of 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.

- ***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, expressed as a cumulative percentage.

Evaluation: If the cumulative percentage of average days for all 5 subgroups exceed the standards expressed in Section 1.9(a)(2)(I), of the standard contract, report the results as a finding.

Letter of Credit Authorizations

Select a sample of 25 withdrawals from the carrier's Letter of Credit account (LOCA) and using the sample:

- 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 FEHBP 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.

Cash and Equivalents

- ***Uncashed Checks.*** Inspect a sample of uncashed FEHBP checks. Identify and tally all checks outstanding for two years. Compare the amounts represented by these checks with the corresponding amounts credited to the FEHBP, 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 the FEHBP uncashed checks outstanding for two years have not been credited to the FEHBP later than the 25th month after issuance and report the results as a finding.

- ***Uncashed Checks – Related Party.*** Inspect a sample of uncashed checks where the FEHBP is a related party. Identify and tally all checks outstanding for two years. Compare the date that amounts representing the FEHBP's allocable share of these checks were credited to the FEHBP with the date of the uncashed checks. Identify those amounts representing FEHBP's allocable share of the checks credited later than the 25th month after issuance or not credited at all.

Evaluation: Compile the number of instances that the FEHBP-related uncashed checks

outstanding for two years have not been credited to the FEHBP later than the 25th month after issuance and report the results as a finding.

Administrative Expenses

Stratify the administrative expenses into five subgroups: (1) salaries, (2) fringe benefits, (3) pension costs, (4) post retirement benefits, and (5) all other. Select a judgmental sample of each expense population. The compliance test sample size is 25, 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 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 the 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 FEHBP 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 FEHBP was allocated according to 48 CFR 31.205-16.

➤ **Rental Charges.** Review 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 organization under common control.

Evaluation: Report as a finding all instances where amount charged exceeds allowable amounts by more than 3 percent.

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 sample of 25 refund transactions (resulting from direct and indirect charges) and perform the following:
 - Compare refunds allocable to the FEHBP with requirement that refunds be credited to it within 30 days of receipt.
 - For refunds that were indirectly charged to the FEHBP, but where the proportionate share of the charge or associated refund cannot be identified, compare the FEHBP refund with an amount derived from the application of a percentage (FEHBP'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 FEHBP are not credited to the program within 30 days of receipt.

Provider Charges

Obtain agreements detailing arrangements the carrier has established with its providers for discounts and settlements.

- ***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 25 carrier settlements and document and determine whether they are in compliance with provider agreements. Compare the settlement received by the FEHBP 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 FEHB.*** Tally the number of transactions where amounts resulting from provider discounts/settlements were returned to the FEHBP after 30 days of receipt by the carrier.

Evaluation: Report as a finding the number of instances where the carrier does not credit the FEHBP 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.

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.

CHAPTER V

CORRECTIVE ACTION PLANS

To assist OPM to resolve deficiencies in financial statements, internal controls and contract compliance, a carrier or service organization must develop and submit a corrective action plan directly to OPM within 90 days of report issuance. The corrective action plan, an essential part of the reporting requirements, is prepared by the carrier or service organization management, and is presented on the entity's letterhead and includes the name, title, and telephone number of the responsible carrier or service organization official.

In the plan, management:

- Describes the corrective action taken or planned in response to findings identified in the practitioner's report.
- Comments on the status of corrective action taken on the findings included in the practitioner's two prior reports.

See Appendix D, for a suggested plan format.

Deficiencies in Carrier's Internal Controls

For carriers: Refer to the GAO's Government Auditing Standards, as amended in the 2003 revision (Yellow Book).

For service organizations: Service organization management is encouraged to engage a practitioner to perform a SAS No. 70¹ (Service Organizations) review that reports on the internal control policies and procedures placed in operation and tests of operating effectiveness, or the carrier's IPA may perform procedures to determine the effectiveness of the service organization's controls. Practitioners should consider the testing and reporting requirements contained in the Codification of Statements on Auditing Standards, AU sec. 324, Service Organizations.

¹ Statement of Auditing Standard (SAS) No. 70 was amended by SAS No. 88 in December 1999. SAS No. 88 replaced existing language in SAS No. 70 with language and concepts in SAS No. 55, *Consideration of Internal Control in a Financial Statement Audit*, as amended by SAS No. 78. Also, SAS No. 88 amended AU section 420, "Consistency of Applications of Generally Accepted Accounting Principles." Finally, SAS No. 88 changed the title of SAS No. 70 from *Reports on the Processing of Transactions by Service Organizations* to *Service Organizations*. IPAs should review and consider the changes included in SAS No. 88 when performing the work under this Audit Guide.

Follow-up on Audit Resolution Matters: Paragraph 4.10 of Government Auditing Standards requires practitioners to:

- A. Follow up on known material findings and recommendations from previous audits to determine whether timely and appropriate corrective action has been taken.
- B. Report the status of uncorrected material findings and recommendations from prior audits.

Practitioners must report on the status of material findings and related recommendations contained in prior reports by the practitioner or by other practitioners that are related to the carrier's or service organization's participation in the FEHBP.

Practitioners do not have to report on the specific status of findings or recommendations from OPM program reviews or other engagements, which were not OPM required examinations or audits (opinion-level engagements). An illustrative report is shown in Appendix D.

We anticipate requirements of this guide will serve as the basis for establishing certain performance measures, which will be used to evaluate carriers and service organizations.

APPENDIX A

LIST OF PRIMARY COVERAGE CARRIERS – FY 2004

Blue Cross Blue Shield Association
Government Employees Hospital Association (GEHA)
National Association of Letter Carriers (NALC) Health Benefit Plan
Mailhandlers 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
HMP/Ohio
Triple – S, Inc.
Association Benefit Plan
SAMBA Health Plan

APPENDIX B

Carrier Name: _____ Code: _____

**SCHEDULE OF SELECTED BALANCES [UNAUDITED]
As of and for the year ended September 30, 2004**

ASSETS	
Cash and Cash Equivalents	
Prepaid Expenses	
Other Assets [<i>except Balance in LOCA, Interest Receivable on LOCA and Program Income Receivable</i>]	
LIABILITIES	
Health Benefits Accrued but Unpaid [<i>include both IBNR and claims reported but not paid</i>]	
Accrued Administrative Expenses	
Other Liabilities [<i>do not include Special Reserve</i>]	
REVENUE	
Interest Income, Net [<i>do not include interest on LOCA</i>]	
EXPENSES	
Health Benefits Charges Paid	
Administrative Expenses	
Service Charge	
Other Expenses	
Prior Period Adjustment [<i>reflect as "negative", if increase to equity</i>]	

Preparer Information		CFO/Accounting Manager Information	
Name [print]		Name [print]	
Signature		Signature	
Date Signed		Date Signed	
Phone		Phone	
Fax		Fax	
Email		Email	

APPENDIX C

Carrier Name: _____

Code: _____

**REPORT OF SUBSEQUENT EVENTS
{Date}**

The report must contain the following information:

- Line item(s) on Schedule of Selected Balances affected

- Brief explanation of change

- Last balance reported [either on Schedule of Selected Balances or on Report of Subsequent Events]

- Revised Balance

- Change from balance previously reported

Line Item(s) Affected by Change	Explanation of Change	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

SAMPLE PRACTITIONER REPORTS - For Selected Requirements

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

Office of Personnel Management

We have performed the procedures enumerated below, which were agreed to by the audit committees and management of OPM and carrier x, solely to assist you in evaluating the accompanying Annual Accounting Statement for the period ending September 30, 200X. 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 X. 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 X, 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	<ol style="list-style-type: none"> 1. Amount Reimbursed to FEHBP, or 2. Amount Not Reimbursed to FEHBP, or 3. Resolved – No Money Due the FEHBP 4. Unresolved – No Money Due the 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 SAS No. 70 REPORT REGARDING SERVICE ORGANIZATION MANAGEMENT’S ASSERTIONS (AU 324.54 through .56)

To ABC Service Organization:

We have examined the accompanying description of controls related to the claims processing and payment applications of ABC service organization. Our examination included procedures to obtain reasonable assurance about whether: (1) the accompanying description presents fairly, in all respects, the aspects of ABC service organization’s controls that may be relevant to a user organization’s internal control as it relates to an audit of financial statements, (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily, and (3) such controls had been placed in operation as of September 30, 200X. The control objectives were specified by ABC service organization. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and included those

procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

In our opinion, the accompanying description of the aforementioned application presents fairly, in all respects, the relevant aspects of ABC service organization's controls that had been placed in operation as of September 30, 200X. Also, in our opinion, the controls, as described are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily.

In addition to the procedures we considered necessary to render our opinion as expressed in the previous paragraph, we applied tests to specific controls, listed in Schedule X, to obtain evidence about their effectiveness in meeting the control objectives, described in Schedule X, during the period from October 1, 200X to September 30, 200Y. The specific controls and the nature, timing, extent, and results of the tests are listed in Schedule X. This information has been provided to user organizations of ABC service organization and to their auditors to be taken into consideration, along with information about the internal control at user organizations, when making assessments of control risk for user organizations. In our opinion the controls that were tested, as described in Schedule X, were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectiveness specified in Schedule X were achieved during the period from October 1, 200X to September 30, 200Y.

The relative effectiveness and significance of specific controls at ABC service organization and their effect on assessments of control risk at user organizations are dependent on their interaction with the controls and other factors present at individual user organizations. We have performed no procedures to evaluate the effectiveness of controls at individual user organizations.

The description of controls at ABC service organization as of September 30, 200X, and information about tests of the operating effectiveness of specified controls covers the period from October 1, 200X to September 30, 200Y. Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the system in existence. The potential effectiveness of specified controls at the service organization is subject to inherent limitations and, accordingly, errors or irregularities may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that changes may alter the validity of such conclusions.

This report is intended solely for use by the management of the ABC service organization, its customers, and the independent auditors of its customers.

5. 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 detail 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 E

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 policies 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 FEBHP carrier as defined above.

<i>AICPA</i>	American Institute of Certified Public Accountants
<i>AIGA</i>	Assistant Inspector General for Audits
<i>AU</i>	AICPA U.S. Auditing Standards
<i>AT</i>	AICPA U.S. Attestation Standards
<i>CFR</i>	Code of Federal Regulations
<i>CFO Act</i>	Chief Financial Officers Act of 1990
<i>CPA</i>	Certified Public Accountant
<i>ERC</i>	Experienced-rated Carriers
<i>FEHBP</i>	Federal Employees Health Benefit Program
<i>FOIA</i>	Freedom of Information Act
<i>GAGAS</i>	Generally Accepted Government Auditing Standards
<i>GAO</i>	U.S. General Accounting Office
<i>IC</i>	Internal Control
<i>LOC</i>	Letter of Credit
<i>OIG</i>	Office of the Inspector General
<i>OMB</i>	Office of Management and Budget
<i>OPM</i>	Office of Personnel Management
<i>SAS</i>	AICPA's Statement on Auditing Standards

APPENDIX F

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

1. Claims Benefit Payments

2. Coordination of Benefit

OPM expects all Federal Health Benefits Program plans to coordinate benefits. (48 CFR-1604.70.)

3. Carrier Investment of FEHBP 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 FEHBP funds to the special reserve on behalf of the FEHBP. If a carrier fails to invest excess FEHBP 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 - 1615.805-70b, c and 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. FEHBP 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 FEHBP 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 FEHBP contracts are not allowable in accordance with FAR 31.205.20. However, interest charges that are associated with the

carrier's investment of FEHBP 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 FEHBP plan. Selling costs are allowable costs to FEHBP 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 FEHBP Funds.

Carrier or underwriter commingling of FEHBP funds with those from other sources makes it difficult to precisely determine FEHBP cash balances at any given time or to precisely determine investment income attributable to FEHBP invested assets. FEHBP 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 the Office of Personnel Management.

10. Exclusion of Unallowable Costs per FAR.

APPENDIX G

FREEDOM OF INFORMATION REQUESTS

NOTIFICATION TO SUBMITTERS OF CONFIDENTIAL COMMERCIAL INFORMATION

You have been or may be asked to submit to the Office of Inspector General, U.S. Office of Personnel Management, information 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.