

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

**FINANCIAL REPORTING  
AND  
AUDIT GUIDE**

**Federal Fiscal Year 2006**

*For the Carriers of Experienced-Rated Plans  
and their Practitioners*



## TABLE OF CONTENTS

### CHAPTERS

I.	Purpose and Authority	1
II.	Overview of Reporting and Auditing Requirements	2
III.	Accounting and Reporting Requirements	3
IV.	Guidance for Practitioners	6
V.	Corrective Action Plans	8

### APPENDICES

A.	Carriers Subject to Primary Audit Coverage for Federal FY 2006	9
B.	Schedule of Selected Balances	10
C.	Report on Subsequent Events	11
D.	Agreed-upon Procedures	12
E.	Sample Practitioner Reports	17
F.	Definitions and Acronyms	20
G.	Laws and Regulations and Contract Terms to be Tested for Compliance	21
H.	Freedom of Information Requests	23
I.	OPM Contacts	25

## 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 2006* [hereafter, the “Guide”]. The purpose of the Guide is to:

- Acquire, 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’s 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 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 carriers must have their 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, 2006

*OPTION 2:* Submit audited financial statements as of September 30, 2006 and unaudited AAS as of December 31, 2006

#### B. TYPE OF AUDIT COVERAGE

*PRIMARY.* Carriers with Program claims expense of \$100 million or more in contract (calendar) year 2005 must meet *all* the requirements in the chart below for the financial reporting option they have selected. Appendix A lists the carrier determined to be subject to primary audit coverage for 2006.

*SECONDARY.* Carriers with Program claims expense of less than \$100 million in contract (calendar) year 2005 are required to meet requirements 1 through 4 below for the financial reporting option they have selected. Carriers not listed on Appendix A are deemed to be subject to secondary audit coverage for 2006. The OPM contracting officer may select carriers with claims expenses below the \$100 million threshold to perform the agreed-upon procedures and submit a corrective action plan (items 5 and 6, 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, 2006 financial statements including an audit report in accordance with generally accepted government auditing standards (GAGAS)		December 15, 2006
2. Audited December 31, 2006 AAS including an audit report in accordance with GAGAS	March 31, 2007	

3. Unaudited AAS as of December 31, 2006		March 31, 2007
4. Schedule of Selected Balances (Unaudited)	October 10, 2006	October 10, 2006
5. Report on the application of agreed-upon procedures	March 31, 2007	December 31, 2006
6. Corrective Action Plan	June 30, 2007	March 15, 2007

### CHAPTER III

## ACCOUNTING AND REPORTING REQUIREMENTS

### A. FINANCIAL STATEMENTS AS OF AND FOR SEPTEMBER 30, 2006

Carriers that have selected Financial Reporting Option 2 must prepare financial statements as of and for the year ended September 30, 2006 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, 2006. 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 ACCOUNTING STATEMENT AS OF AND FOR DECEMBER 31, 2006

All carriers must submit an AAS as of December 31, 2006 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, 2006 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, 2006. The purpose of the June 30 close is to allow the practitioner to get an "early warning" of issues that would perhaps otherwise

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, 2006 financial statements or the AAS as and for the year-ended December 31, 2006.

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

Although they will not be submitted to OPM, carriers must generate a balance sheet and income statement as of and for June 30, 2006. 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 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 31st - must produce an income statement for the *six-month* period ending June 30, 2006. Carriers that have selected *Financial Reporting Option 2* - audited financial statements as of September 30, 2006 - must produce an income statement for the nine-month period ending June 30, 2006. To assist carriers with their June 30, 2006 “close”, OPM will provide a *Report of Letter of Credit Account Activity* as of June 30 no later than *July 7, 2006*.

Carriers designated for primary coverage must provide their IPAs a Schedule of Selected Balances 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 IPAs will later compare the June 30-projected-to-September 30 IBNR to the actual September 30 amount and must report any material differences. 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 [All Carriers]**

Historically, OPM has based its financial statements on audited financial statements submitted by the carriers. Effective for Federal fiscal year 2004, OPM and all other Federal agencies must publish their financial statements by November 15<sup>th</sup> – 45 days after the end of the Federal fiscal year. Thus, it is now 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, *all* carriers must submit unaudited financial information to OPM on the *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 30, 2006. 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 30, 2006, OPM will provide a *Report of Letter of Credit Account Activity* as of September 30, 2006 no later than October 5, 2006.

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 submission of a properly prepared *Schedule of Selected Balances* is critical to OPM's ability to generate its financial statements by its November 15, 2006 deadline. The *Schedule of Selected Balances* as of and for the Federal fiscal year ended September 30, 2006 must be received by OPM no later than 5:00 EST on *October 10, 2006*. It must be submitted 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 [Susan.Lee@opm.gov](mailto:Susan.Lee@opm.gov) or [Melanese.Wynn@opm.gov](mailto:Melanese.Wynn@opm.gov) using "SELECTED BALANCES" as the subject line. The fax number is 202-606-1338.

#### **E. 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*. 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* 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 November 3, 2006. Carriers must fax all *Reports of Subsequent Events*, with requisite signatures and contact information, to 202-606-7944.

## 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, issued in June 2003, is effective for financial audits of periods ending on or after January 1, 2004. It 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 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, 2006, so as to lessen the effort and expense of opening on the September 30, 2006 financial statements or the AAS as and for the year-ended December 31, 2006. 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 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, 2007* for carriers selecting Financial Reporting Option 1

*December 15, 2006* 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, 2007* for carriers selecting Financial Reporting Option 1

*March 15, 2007* 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 title and telephone number.

In the CAP, carrier 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*

**CARRIERS SUBJECT TO PRIMARY AUDIT COVERAGE  
for Federal Fiscal Year 2006**

Blue Cross Blue Shield Association  
Government Employees Hospital Association (GEHA) Benefit Plan  
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  
Blue HMO/Anthem  
Triple – S, Inc.  
Association Benefit Plan  
SAMBA  
Blue Cross of California

Appendix B

SCHEDULE OF SELECTED BALANCES

<b>SCHEDULE OF SELECTED BALANCES [UNAUDITED]</b>	
<b>As of and for the year ended September 30, 2006</b>	
<b>Carrier Name:</b>	
_____	
<b>Enrollment Code:</b> _____	
<b>ASSETS</b>	
Cash and Cash Equivalents	
Prepaid Expenses	
Other Assets [ <i>except Balance in LOCA, Interest Receivable on LOCA and Program Income Receivable</i> ]	
<b>LIABILITIES</b>	
Health Benefits Incurred but not Reported ( <i>IBNR</i> )	
Claims Reported but not Paid	
Accrued Administrative Expenses	
Other Liabilities [ <i>do not include Special Reserve</i> ]	
<b>REVENUE</b>	
Interest Income, Net [ <i>do not include interest on LOCA</i> ]	
<b>EXPENSES</b>	
Health Benefits Charges	
Administrative Expenses	
Service Charge	
Other Expenses	
Prior Period Adjustment [ <i>reflect as "negative", if increase to equity</i> ]	
<b>Preparer Information</b>	
<b>CFO/Accounting Manager Information</b>	
Name [print]	Name [print]

<b>Signature</b>		<b>Signature</b>	
<b>Date Signed</b>		<b>Date Signed</b>	
<b>Phone</b>		<b>Phone</b>	
<b>Fax</b>		<b>Fax</b>	
<b>Email</b>		<b>Email</b>	

REPORT OF SUBSEQUENT EVENTS

<b>REPORT OF SUBSEQUENT EVENTS</b>				
<b>Carrier Name:</b> _____ <b>Code:</b> _____  _____, 2006				
<b>Line Item(s) Affected</b>	<b>Explanation of Change</b> <i>[continue on separate sheet of paper, if necessary]</i>	<b>Last Balance Reported</b>	<b>Revised Balance</b>	<b>Change from Previous Balance</b>
<b>Preparer Information</b>			<b>CFO/Accounting Manager Information</b>	
<b>Name [print]</b>		<b>Name [print]</b>		
<b>Signature</b>		<b>Signature</b>		
<b>Date Signed</b>		<b>Date Signed</b>		
<b>Phone</b>		<b>Phone</b>		
<b>Fax</b>		<b>Fax</b>		
<b>Email</b>		<b>Email</b>		

**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**

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

From each subgroup, 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. If the carrier is Option 1 as defined in Chapter II.A of the Guide, then the two samples would be between 1/1 – 6/30 (50% of total sample) and 7/1 – 12/31 (remaining 50% of total sample). For carriers that are Option 2, the two samples would be 10/1 – 6/30 (75% of total sample) and 7/1 – 9/30 (remaining 25% of total sample). This will require separate reports on sample size for each occasion of sampling.

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.

$$\text{Start With} = \{ 1, 2, 3, \dots, \text{Take Every} \}$$

- 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:**

**For Group X:**

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

<u>Column 1</u>	<u>Column 2</u>		<u>Column 3</u>
Sample Record Number	Running Total		Record to Test
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 three and four provide summary information for the sampled claims. We understand AUP's 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 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, 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 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.

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 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 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 organization 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

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

3. in Sample of Payees

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

5. Number of Underpayments in Sample

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

7. Number of Overpayments in Sample

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

9. Total Number of Days to Pay Claims

Age of Subscriber

**Book Value of Claims**

2. in Population of Payees

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

4. in Sample of Payees

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

6. Dollar Value Underpayments in Sample

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

8. Dollar Value Overpayments in Sample

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

Payment to:	< 65	65 +
Physician		
Hospital		
Pharmacy/Scripts		

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

	<u>Number in Population</u>	<u>Dollars in Population</u>	<u>Number Sampled</u>	<u>No. Of Checks Outstanding &gt; 2 Years</u>	<u>Dollars Credited &gt; 25 Months</u>
<u>11. Cash and Equivalents - Uncashed Checks</u>					

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

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

**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], 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]. 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**

<b>SCHEDULE OF FINDINGS FOR AGREED-UPON PROCEDURES</b>			
<b>Area</b>	<b>Description of Findings</b>	<b>\$ Questioned</b>	<b>Status of Finding</b>
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 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.

## 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.

*AICPA* American Institute of Certified Public Accountants

*AU* AICPA U.S. Auditing Standards

*AT* AICPA U.S. Attestation Standards

*CFR* Code of Federal Regulations

*ERC* Experienced-rated Carriers

*FEHBP* Federal Employees Health Benefit Program

*FOIA* Freedom of Information Act

*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

**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 CFR1615.805-70b, 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. 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 contracts 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 REQUESTS

### **Notification to Submitters of Confidential Commercial Information**

You have been or may be asked to submit to the Office of Inspector General (OIG), 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.

## 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  
Fax: (202) 606-4823  
Email: [Michael.Esser@opm.gov](mailto:Michael.Esser@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](mailto:finance@opm.gov)