
FEHB Program Carrier Letter

All Experienced-Rated FEHB Carriers

U.S. Office of Personnel Management
Office of Insurance Programs

Letter No. 2002-25

Date: July 30, 2002

Fee-for-service [22] Experience-rated HMO [22] Community-rated HMO [--]

Subject: Audit Guide

To improve our management of the Federal Employees Health Benefit Program (FEHBP), we have published the enclosed “FEHBP Experienced-Rated Carrier and Service Organization Audit Guide” (Guide). The Guide provides authoritative guidance for the audit of the Annual Accounting Statement (AAS) submitted by all experienced-rated carriers (ERCs). It requires all ERCs to engage a certified independent public accounting (IPA) firm to obtain a standard audit engagement and to perform specified procedures on the AAS and the general control environment.

The requirements contained in the Guide pertain to 2002 only, although we anticipate little substantive change for 2003. As we have previously informed you, our requirements will change significantly for 2004. The Office of Management and Budget (OMB) has drastically accelerated the timeframes governing the submission of our annual financial statements. Since the financial information you report to us is a significant portion of our annual financial statements, we must, accordingly, expedite the dates by which you submit it to us. For 2004, we must submit a final draft of our financials to OMB by November 1, 2004. As a consequence, we will need your financial information by October 15, 2004. We will be working closely with you and your auditors over the next several months to develop the means to meet these timeframes.

Engagement Reporting Options

All carriers must submit an AAS for the accounting periods ending September 30 and December 31. However, carriers may choose to obtain an audit of the AAS for either accounting period.

Primary coverage. Carriers with FEHBP claims expense of \$50 million or more in the previous contract (calendar) year are required to submit an audited AAS as of either September 30 or December 31. In addition, these carriers must provide a report on compliance with laws, regulations and internal controls, in accordance with either attestation standards or generally accepted government auditing standards, and agreed-upon-procedures.

Secondary coverage. Carriers with FEHBP claims expense of less than \$50 million in the previous contract (calendar) year are required to submit an audited AAS as of either - September 30 or December 31. It is important to note that the AAS submitted by carriers, ordinarily subject to secondary coverage will, at the contracting officer's discretion, be made subject to primary coverage on a rotational basis at a frequency not less than every five (5) years.

Primary Coverage Engagement Options

For maximum flexibility, the Guide provides four options for meeting the primary coverage requirements. If this is the carrier's first year of primary coverage under the Guide, then the carrier should submit their selected option in writing to its contracting officer **by August 30, 2002**. The options are outlined in Chapter 1 of the audit guide. Carriers may **not** switch among options from year to year without advance approval from OPM.

Effective Date

These requirements are effective beginning for the year ended either December 31, 2001 or September 30, 2002, depending on the reporting option period chosen by the carrier. Related reports are due by March 31 for the period ending December 31 or December 1 for the period ending September 30.

We are willing to discuss modifications to the required delivery dates of the AAS and related audit reports. Requests for extensions must be submitted to your contract officer in writing and they must provide a complete description of the reasons for the extension.

Submit 4 copies of all reports to:

U.S. Office of Personnel Management
Retirement and Insurance Service
1900 E Street NW, Room 3H19
Washington, DC 20415-0001

Attn: Financial Management Division

Questions and requests for the guide may be faxed to the Office of the Inspector General at (202) 606-4823, emailed to mwlamber@opm.gov, or mailed to:

U.S. Office of Personnel Management
Office of the Inspector General
1900 E Street NW, Room 6400
Washington, DC 20415-1100

Attn: Audits

We look forward to working with you on this important initiative.



(signed)
Harvey D. Thorp
Assistant Inspector General for Audits

Abby L. Block
Assistant Director for Insurance Programs