SUBJECT: Guidance for the Preparation of Audited Financial Statements for Federal Fiscal Year 2006

President George W. Bush's Management Agenda articulates the Administration's strategy for improving the management and performance of government, including a requirement that Federal agencies publish more timely financial information. As a consequence, the U.S. Office of Management and Budget (OMB) requires that all Federal agencies, including OPM, publish their financial statements by November 15, 2006 - 45 days after the end of the Federal fiscal year (FY). To meet this deadline, OPM has worked closely with many of the carriers to reconsider almost all of its financial reporting and auditing requirements.

The FEHBP Financial Reporting and Audit Guide [the "Guide"] presents detailed requirements for the financial reporting due from ALL carriers as of and for FY 2006, as well as auditing requirements for certain carriers.

FY 2006 FINANCIAL REPORTING

As presented in the Guide, all carriers must submit a Schedule of Selected Balances no later than October 10, 2006. This is critical because it will provide much of the information OPM needs to prepare its financial statements within OMB's deadline.

Those carriers that have elected Option 1 [audited Annual Accounting Statement (AAS) as of December 31] in the Guide are no longer required to submit financial statements [other than the Schedule of Selected Balances] as of and for September 30. These carriers can therefore disregard the requirements enclosed with this letter.

Those carriers that have elected Option 2 [audited financial statements as of September 30 and unaudited AAS as of December 31] must continue to submit to OPM audited financial statements as of and for September 30, 2006, prepared in accordance with the enclosed requirements. For FY 2006, these statements are due to OPM no later than December 15, 2006.

AUDITING REQUIREMENTS

Primary Audit Coverage. Primary audit coverage pertains to carriers that had claims expenses of $100 million or more in the previous contract year. The applicable carriers that have elected Option 2 must submit, in addition to audited financial statements as of and for September 30, 2006, a report on compliance with laws, regulations and internal controls, in accordance with Generally Accepted Government Auditing Standards (GAGAS), and a report on the application...
Secondary Audit Coverage. Secondary audit coverage pertains to carriers that had claims expenses of less than $100 million in the previous contract year. The applicable carriers that have elected Option 2 in the Guide must submit audited financial statements as of and for September 30, 2006. However, they are not required to provide a report on compliance with laws, regulations and internal controls nor agreed-upon-procedures. It is important to note carriers that would otherwise be subject to secondary audit coverage may, at the contracting officer's discretion, be made subject to some primary audit coverage.

Please submit four copies of the FY 2006 financial statements to:

U.S. Office of Personnel Management
Business Units & Financial Services Group
Trust Funds Branch
Attention: Melanese Wynn
1900 E Street NW, Room 3H19
Washington, DC 20415-0001

If you have any questions about the requirements for the audited FY 2006 financial statements, please direct them to Susan.Lee@opm.gov or Melanese.Wynn@opm.gov of the Trust Funds Branch, fax number (202) 606-1338.

Sincerely,

Robert F. Danbeck
Associate Director
for Human Resources Products and Services

Enclosure