

*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*



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## 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



































