



**U.S. OFFICE OF PERSONNEL MANAGEMENT
OFFICE OF THE INSPECTOR GENERAL
OFFICE OF AUDITS**

Final Audit Report

**AUDIT OF
AMERICAN POSTAL WORKERS UNION HEALTH PLAN
GLEN BURNIE, MARYLAND**

Report Number 1B-47-00-17-003

July 27, 2017

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EXECUTIVE SUMMARY

Audit of the American Postal Workers Union Health Plan

Report No. 1B-47-00-17-003

July 27, 2017

Why did we conduct the audit?

We conducted this limited scope audit to obtain reasonable assurance that the American Postal Workers Union Health Plan (Plan) is complying with the provisions of the Federal Employees Health Benefits Act and regulations that are included, by reference, in the Federal Employees Health Benefits Program (FEHBP) contract. Specifically, the objective of our audit was to determine whether the Plan handled FEHBP funds in accordance with applicable laws and regulations concerning cash management in the FEHBP.

What did we audit?

Our audit covered the Plan's cash management activities and practices related to FEHBP funds from 2014 through June 30, 2016. Specifically, we reviewed the Plan's letter of credit account drawdowns, working capital calculations, adjustments and/or balances, treasury offsets, interest income transactions, and dedicated FEHBP investment account activity and balances.



Michael R. Esser
*Assistant Inspector General
for Audits*

What did we find?

Our limited scope audit disclosed no significant findings pertaining to the Plan's cash management activities and practices. Overall, we determined that the Plan handled FEHBP funds in accordance with Contract CS 1370 and applicable laws and regulations concerning cash management in the FEHBP. Accordingly, this final report contains no questioned charges or recommendations.

ABBREVIATIONS

| | |
|-----------------|--|
| APWU | American Postal Workers Union |
| Contract | Contract CS 1370 |
| FEHB | Federal Employees Health Benefits |
| FEHBP | Federal Employees Health Benefits Program |
| LOCA | Letter of Credit Account |
| OIG | Office of the Inspector General |
| OPM | U.S. Office of Personnel Management |
| Plan | American Postal Workers Union Health Plan |

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I. BACKGROUND

This final audit report details the findings, conclusions, and recommendations resulting from our limited scope audit of the Federal Employees Health Benefits Program (FEHBP) operations at the American Postal Workers Union (APWU) Health Plan (Plan). The Plan is located in Glen Burnie, Maryland.

The audit was performed by the Office of Personnel Management's (OPM) Office of the Inspector General (OIG), as established by the Inspector General Act of 1978, as amended.

The FEHBP was established by the Federal Employees Health Benefits (FEHB) Act (Public Law 86-382), enacted on September 28, 1959. The FEHBP was created to provide health insurance benefits for federal employees, annuitants, and dependents. OPM's Healthcare and Insurance Office has overall responsibility for administration of the FEHBP. The provisions of the FEHB Act are implemented by OPM through regulations, which are codified in Title 5, Chapter 1, Part 890 of the Code of Federal Regulations. Health insurance coverage is made available through contracts with various health insurance carriers.

The APWU Health Plan is a fee-for-service plan with preferred provider organizations. The Plan enrollment is open to all postal service employees who are members of APWU and all other federal employees and annuitants that elect to become associate members of APWU. APWU is the sponsor and administrator of the Plan, operating under Contract CS 1370 (contract) to provide a health benefits plan authorized by the FEHB Act. Members have a choice of enrollment in a High Option or a Consumer Driven Health Plan.

APWU's contract (CS 1370) with OPM is experience-rated. Thus, the costs of providing benefits in the prior year, including underwritten gains and losses that have been carried forward, are reflected in current and future years' premium rates. In addition, the contract provides that in the event of termination, unexpended program funds revert to the FEHBP Trust Fund. In recognition of these provisions, the contract requires an accounting of program funds be submitted at the end of each contract year. The accounting is made on a statement of operations known as the Annual Accounting Statement.

Compliance with laws and regulations applicable to the FEHBP is the responsibility of the Plan's management. Also, management of the Plan is responsible for establishing and maintaining a system of internal controls.

All findings from our prior audit of the Plan (Report No. 1B-47-00-11-002, dated September 1, 2011), covering contract years 2005 through 2009, have been satisfactorily resolved.

The results of this audit were discussed with the Plan officials throughout the audit and at an exit conference on May 11, 2017. Since our audit disclosed no significant findings, a draft report was not issued.

II. OBJECTIVE, SCOPE, AND METHODOLOGY

OBJECTIVE

The objective of our audit was to determine whether the Plan handled FEHBP funds in accordance with applicable laws and regulations concerning cash management in the FEHBP.

SCOPE

We conducted our limited scope performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The audit covered the Plan's cash management activities and practices related to FEHBP funds from 2014 through June 30, 2016. Specifically, we reviewed the Plan's letter of credit account (LOCA) drawdowns, working capital calculations, adjustments and/or balances, treasury offsets, interest income transactions, and dedicated FEHBP investment account activity and balances to determine if the Plan handled FEHBP funds in accordance with applicable laws and regulations concerning cash management in the FEHBP.

In planning and conducting our audit, we obtained an understanding of the Plan's internal control structure to help determine the nature, timing, and extent of our auditing procedures. This was determined to be the most effective approach to select areas of audit. For those areas selected, we primarily relied on substantive tests of transactions and not tests of controls. Based on our testing, we did not identify any significant matters involving the Plan's internal control structure and its operations. However, since our audit would not necessarily disclose all significant matters in the internal control structure, we do not express an opinion on the Plan's system of internal controls taken as a whole.

We also conducted tests to determine whether the Plan had complied with the contract provisions, the applicable procurement regulations (i.e., Federal Acquisition Regulations and Federal Employees Health Benefits Acquisition Regulations, as appropriate), and the laws and regulations governing the FEHBP that relate to cash management of FEHBP funds. The results of our tests indicate that, with respect to the items tested, the Plan complied with all applicable provisions of the contract and federal procurement regulations. With respect to the items not tested, nothing came to our attention that caused us to believe that the Plan had not complied, in all material respects, with those provisions.

In conducting our audit, we relied to varying degrees on computer-generated data provided by the Plan. Due to time constraints, we did not verify the reliability of the data generated by the various information systems involved. However, while utilizing the computer-generated data during our audit, nothing came to our attention to cause us to doubt its reliability. We believe that the data was sufficient to achieve our audit objective.

The audit was performed at our office in Jacksonville, Florida from December 1, 2016, through May 11, 2017. During our fieldwork phase, we also made a short on-site visit to the Plan from January 23, 2017, through January 25, 2017.

METHODOLOGY

To test the Plan's compliance with contract provisions relative to cash management activities, we selected and reviewed a judgmental sample of 50 LOCA drawdown amounts, totaling \$236,923,774 (from a universe of [REDACTED] LOCA drawdowns, totaling \$[REDACTED], during the period 2014 through June 30, 2016), for the purpose of determining if the Plan's LOCA drawdowns were appropriate and adequately supported. Our sample included a week of LOCA drawdowns (representing 5 LOCA drawdown amounts) judgmentally selected from each of the 10 quarters in the audit scope. The sample results were not projected to the universe of LOCA drawdowns. We also reviewed the Plan's working capital calculations, adjustments and/or balances, treasury offsets, and interest income transactions from 2014 through June 30, 2016, as well as the Plan's dedicated FEHBP investment account activity during the scope and balance as of June 30, 2016.

III. RESULTS OF AUDIT

Our audit disclosed no significant findings pertaining to the Plan's cash management activities and practices. Overall, we concluded that the Plan handled FEHBP funds in accordance with Contract CS 1370 and applicable laws and regulations concerning cash management in the FEHBP. Accordingly, this final report contains no questioned charges or recommendations.

However, during our review of LOCA drawdowns, we noted that while the Plan's daily LOCA drawdown worksheet included a total net drawdown amount, it did not include a detailed itemization of category transaction dollar totals to support the total net drawdown amount (such as category transaction dollar totals for claim payment check and/or electronic fund transfer amounts; plus/minus health benefit refunds and recoveries, pharmacy and/or medical drug rebates, and other health benefit adjustments; plus administrative expenses and service charges; and plus/minus working capital adjustments and interest income earned). This made reviewing the Plan's LOCA drawdowns challenging to complete. Based on our experience with auditing the FEHBP experience-rated Carriers, we have noted that substantially all of these Carriers use a daily LOCA drawdown worksheet that includes a detailed itemization of category transaction dollar totals to support the total net drawdown amount. As a best practice, we provided the Plan with a couple of examples of daily LOCA drawdown worksheet formats to consider using, which would better support the Plan's LOCA drawdown amounts as well as improve the Plan's audit trail. At the exit conference, the Plan's Chief Financial Officer informed us that the Plan has revised the daily LOCA drawdown worksheet to now include itemized category dollar amounts that total the net drawdown amount.



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