

**U.S. Office of Personnel Management  
Office of the Inspector General and Retirement and Insurance Service**

**July 2000**

**FEHBP EXPERIENCED-RATED CARRIER  
AND  
SERVICE ORGANIZATION AUDIT GUIDE**

**TOPICS**

*Financial Statement Audits*

*Reporting on Internal Controls and Compliance with Laws and Regulations*

*Attestation Reports*

*Agreed-Upon Procedures*

*Reporting on Internal Controls of Third Party Servicing Organizations*

**NOTE: Office of the Inspector General updates this audit guide periodically throughout the year and adds guidance and instructions. To view the most current information, go to the OIG web page: [www.opm.gov/oig](http://www.opm.gov/oig). Call OIG for information.**

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# CHAPTER I

## REPORTING REQUIREMENTS AND OTHER CONSIDERATIONS

### PURPOSE OF THE AUDIT GUIDE

#### Objectives

Overall objectives of OPM in implementing these financial audit, internal control and compliance review and agreed-upon procedure (AUP) requirements are to gain the following assurances:

- A. Carrier's calendar or fiscal year Federal Health Benefits Program (FEHBP) Annual Accounting Statements (AAS) are fairly stated in all material respects in accordance with the Office of Personnel Management's (OPM) prescribed accounting practices.
- B. Carrier management's assertions, supported by an independent public accountant's (IPA) report, on the effectiveness of the entity's internal controls over compliance with the FEHBP contract is fairly stated.
- C. Carrier reported fiscal year activity is reasonably complete and accurate, and processed in accordance with the FEHBP contract requirements.
- D. Service organization(s) has suitably designed and effectively operating internal control systems over FEHBP processed activity.

### USE OF THIS GUIDE

This guide must be used by experienced-rated carriers (ERCs) participating in the FEHBP.

This guide is divided into five sections.

**Chapter I** provides general information about engagement requirements and addresses the purpose of the Guide, the scope of required engagements, management and practitioner responsibilities, reporting, effective dates, examination periods and due dates.

**Chapter II** describes assertions to be made by management regarding the effectiveness of internal controls over, and management's compliance with, the FEHBP contract, and provides suggested examination procedures for selected assertions.

**Chapter III** provides FEHBP program-related procedures and FEHBP financial information roll forward procedures and related reporting requirements and other matters.

*Chapter IV* provides guidance over reviews of internal controls at service organizations.

## **AUTHORIZATION**

The FEHBP contracts, as amended, require each participating ERC to prepare an AAS and supplemental information at specified times, and subject this information to audit and other audit related procedures.

These contracts also require that the audits and audit related procedures be performed by a qualified, independent certified public accountant.

**Accounting Requirements** - See Appendix A.

## ERC REPORTING REQUIREMENTS

The Guide requires, depending upon the reporting option chosen by the carrier, that:

### A. Carriers with claims greater than \$40 million select from the following options:

	September 30			December 31		
	Option 1	Option 2		Option 3	Option 4	
	GAAS	GAGAS	DUE DATES	GAAS	GAGAS	DUE DATES
Reports Prepared by IPA:						
1. Financial audit of AAS	X	X	December 15	X	X	March 31
2. SSAE 3	X	-	December 15	X	-	March 31
3. Agreed-upon procedures:						
a. Program	X	X	December 15	X	X	December 15
b. Roll forward	-	-		X	X	December 15
4. Unaudited AAS for:						
a. Fiscal year ending 9/30	-	-	-	X	X	December 15
b. Fiscal year ending 12/31	X	X	March 31	-	-	-
5. Third party service organization control test	For guidance SAS No.70 is referenced			For guidance SAS No.70 is referenced		
Reports Prepared by Carrier:						
6. Corrective action plan	X	X	March 31	X	X	June 30

**B. Carriers with claims less than \$40 million must only do lines No. 1 above for FEHBP activity and No. 4 unless otherwise notified by OPM.**

Generally, in addition to performing the engagement at either September 30 or December 31, the engagements may be performed in conformity with either Generally Accepted Auditing Standards (GAAS), including Attestation Standards where applicable, or Generally Accepted Government Auditing Standards (GAGAS).

**Option 1**

This engagement would be performed on the September 30 AAS in accordance with GAAS. The AAS and all audit reports must be received by OPM no later than **December 15**. Additionally, this engagement requires:

- A. Statements on Standards for Attestation Engagements (SSAE) No. 3 (attestation engagement) related to specified management assertions about the carrier's compliance with the FEHBP contract for the period ending September 30.
- B. The application of specified agreed-upon procedures as of September 30.
- C. The procedures necessary to assess service organization controls related to FEHBP activity, if applicable. The IPA may consider the use of a service organization auditor's report.
- D. Unaudited AAS as of December 31.

**Option 2**

This engagement would be performed at September 30 in accordance with GAGAS. The AAS and all audit reports must be received by OPM no later than **December 15**. Additionally, this engagement requires:

- A. The application of specified agreed-upon procedures as of September 30.
- B. The procedures necessary to assess service organization controls related to the FEHBP if applicable. The IPA may consider the use of a service organization auditor's report.
- C. A report on compliance with laws, regulations and internal controls.
- D. Unaudited AAS as of December 31.

**Option 3**

This engagement would be performed at December 31 in accordance with GAAS. The AAS and all

audit reports must be received by OPM no later than **March 31**. Additionally, this engagement requires:

- A. An attestation engagement related to specified management assertions about the carrier's compliance with the FEHBP contract for the period ending December 31.
- B. The application of two sets of specified agreed-upon procedures; one, as of September 30, and the second, as of December 31.
- C. The procedures necessary to assess service organization controls related to health benefits program activity, if applicable. The IPA may consider the use of a service organization auditor's report.
- D. Unaudited AAS as of September 30.

#### **Option 4**

This engagement would be performed at December 31 in accordance with GAGAS. The AAS and all reports must be received by OPM no later than **March 31**. Additionally, this engagement requires:

- A. The application of two sets of specified agreed-upon procedures; one, as of September 30, and the second, as of December 31.
- B. The procedures necessary to assess service organization controls related to FEHBP activity, if applicable. The IPA may consider the use of a service organization auditor's report.
- C. A report on compliance with laws, regulations and internal controls.
- D. Unaudited AAS as of September 30.

Where applicable, we encourage the performance of any of the work described in the options above to be performed throughout the year or at interim periods. In addition, the carrier should consider having their internal auditors to perform some of the AUP work. The role of the internal auditors should be coordinated with the IPA responsible for the overall Guide testwork and should be in accordance with SAS No. 65, The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements, and with this Guide.

#### **CORRECTIVE ACTION PLAN**

##### **Management Reporting Responsibilities Defined**

*Management Assertions* (if GAGAS is not applied). Carrier management is required to make written assertions about the carrier's compliance with specified FEHBP contract requirements and the effectiveness of the carrier's internal control over compliance with those requirements.



*Corrective Action Plan.* To assist OPM to resolve deficiencies in financial statements, internal controls and contract compliance, a carrier or service organization must develop and submit a corrective action plan directly to OPM within 90 days of report issuance. The corrective action plan, an essential part of the report requirement for the FEHBP, is prepared by the carrier or service organization management, and is presented on the entity's letterhead and includes the name, title, and telephone number of the responsible carrier or service organization official. In the plan, management:

- A. Describes the corrective action taken or planned in response to findings identified in the practitioner's report.
- B. Comments on the status of corrective action taken on the findings included in the practitioner's two prior reports.

See Appendix B, Example 6, for a suggested plan format.

### **Practitioner Reporting Responsibilities For Other Than Financial Statement Audits**

*Attestation Reports.* SSAE No. 3<sup>1</sup> provides overall guidance on reports. See Appendix B for pro forma reports.

*Agreed-Upon Procedures Reports.* SAS No. 75 provides overall guidance on reports. See Appendix B for pro forma reports.

### **Deficiencies in Carrier's Internal Controls**

*For carriers:* For carriers electing reporting Options 1 and 3, paragraphs 58 and 59 of SSAE No. 3 describe the practitioner's responsibility to communicate internal control structure deficiencies identified during the attestation engagement. In addition, paragraphs 33-37 provide the practitioner with guidance regarding reportable conditions and material weaknesses. For carriers electing reporting Options 2 or 4 (GAGAS options), refer to the GAO's Government Auditing Standards, as amended July 1999 (Yellow Book).

*For service organizations:* Service organization management is encouraged to engage a practitioner to perform a SAS No. 70 (Report on the Processing of Transactions by Service Organizations) review that reports on the internal control policies and procedures placed in operation and tests of operating effectiveness, or the carrier's IPA may perform procedures to determine the effectiveness of the service organization's controls. Practitioners should consider the testing and reporting requirements contained in the Codification of Statements on Auditing Standards, AU sec. 324, Reporting on an Entity's Internal

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<sup>1</sup>SSAE No. 3 was amended by SSAE No. 9 in 1999. We have revised all references to SSAE No. 3 to reflect the amendments. However, IPAs should be aware of and consider the amendments when performing their work.

## Control Structure over Financial Reporting.

*Follow-up on Audit Resolution Matters:* Paragraph 4.10 of Government Auditing Standards require practitioners to:

- A. Follow up on known material findings and recommendations from previous audits to determine whether timely and appropriate corrective action has been taken.
- B. Report the status of uncorrected material findings and recommendations from prior audits.

Practitioners must report on the status of material findings and related recommendations contained in prior reports by the practitioner or by other practitioners that are related to the carrier's or service organization's participation in the FEHBP.

Practitioners do not have to report on the specific status of findings or recommendations from OPM program reviews or other engagements, which were not OPM required examinations or audits (opinion-level engagements). An illustrative report is shown in Appendix B, Example 1, of this guide.

We anticipate requirements of this guide will serve as the basis for establishing certain performance measures, which will be used to evaluate carriers and service organizations.

## **MANAGEMENT RESPONSIBILITIES AND ASSERTIONS**

Among other management responsibilities discussed in this guide, carrier management is responsible for:

- A. Preparing the Annual Accounting Statements as of and for the period ending September 30 and December 31.
- B. Complying with FEHBP contract requirements.
- C. Establishing and maintaining effective internal controls.
- D. Evaluating and monitoring the effectiveness of internal controls.
- E. Providing the audit practitioner with their written representations (See Chapter II), in a separate report, about all matters in paragraph 67 of SSAE No. 3 (not required if audit is performed in accordance with GAGAS).
- F. Maintaining accounting records for 5 years after contract year-end.

Management must comply with the above requirements to avoid being in default of its FEHBP contract.

## PRACTITIONER QUALIFICATIONS AND RESPONSIBILITIES

Following is a discussion of the standards audit practitioners must follow and guidance on applying those standards in the engagements required by this guide.

*Qualifications and General Standards.* The FEHBP contract requires a combination of annual financial audits, reports on internal controls and compliance with laws and regulations, attestation reports, reports on agreed-upon procedures and reviews of service organization activities to be conducted by a qualified, independent public accountant in accordance with GAGAS or GAAS. Therefore the engagements must be performed by a licensed certified public accountant ("practitioner") who meets the general standards of qualification, independence, due professional care and quality control. For GAGAS audits, refer to Chapter 3 of the Yellow Book for continuing professional education requirements. In part, those standards require practitioners and audit firms to comply with the applicable provisions of the public accountancy laws and rules of the jurisdictions in which they are licensed and where the engagement is being conducted. If the carrier or service organization is located in a state outside the home state of the practitioner, and the practitioner performs substantial field work in the carrier's or service organization's state, the practitioner must document his or her compliance with the licensing requirements of the public accountancy laws of that state. This guide does not impose additional licensing requirements beyond those established by the individual State Boards of Accountancy.

Internal auditors of a carrier or service organization are not independent of the entity while auditing within it and, therefore, their work and reports cannot directly satisfy the reporting requirements of this guide. However, where audit standards allow, internal auditors and their work should be considered by the practitioner. For example, while performing the examination of internal controls discussed in Chapter II of this guide, a practitioner should consider the guidance in SAS No. 65 for use of internal auditors.

*Field work and Reporting Standards.* The practitioner must follow the fieldwork and reporting standards for financially related audits in accordance with those standards contained in GAAS or Chapters 4 and 5, respectively, of GAGAS. If the audit is performed in accordance with GAAS, the practitioner must perform a review of and report on the carrier's internal controls and compliance with laws and regulations in accordance with SSAE No. 3.

*Engagement Scope.* The nature of the carrier or service organization management's written assertions and the scope of the practitioner's engagement may vary depending on whether the carrier contracts with service organizations. All applicable assertions required of management by this guide must be addressed by the practitioner's report.

*Engagement Letter.* The practitioner must prepare a letter of engagement to communicate to the carrier or service organization the nature of the engagement. The letter must include, at a minimum, the following:

- A. A statement that the engagement is to be performed in accordance with GAGAS, GAAS and AICPA Attestation Standards as applicable.

- B. A statement that both parties understand that the U.S. Office of Personnel Management intends to use the practitioner's report to help carry out its responsibilities for oversight of the FEHBP.
- C. A statement that the practitioner is required to provide OPM's contracting officer and Inspector General, as well as the U.S. General Accounting Office (GAO), or their representatives, access to working papers or related documents to review the engagement. Access to working papers includes making necessary photocopies. Practitioners can refer to Interpretation No. 1 of SAS No. 41, titled "Providing Access to or Photocopies of Working Papers to a Regulator," or attestation standards AT 9100 paragraphs 56 to 59, for guidance. Information regarding confidential commercial information that may be contained in working papers and Freedom of Information Act (FOIA) disclosure is provided in the "Working Papers" subsection on page I-10 of this guide.

*Obtaining Management Representations.* Management representations are required for essentially all of the engagements in this Guide. Specifically, Paragraph 9c of SSAE No. 3 states, in part, a practitioner may perform an examination engagement if management makes written assertions about the entity's compliance with specified requirements or about the effectiveness of the entity's internal control over compliance. Management's written assertions are the basis for the practitioner's testing and, therefore, are an integral part of the engagement. In addition to the specific assertions identified in the Guide, management must also provide written representations about the matters in paragraph 12 of SSAE No. 3 to the practitioner. Management must provide all written assertions and representations required by the Guide to the IPA. If management omits any of the required assertions or representations, the practitioner should consider the guidance of paragraph 68 of SSAE No. 3 about restrictions on the scope of the engagement.

*Matters Requiring Immediate Action.* Practitioners must plan and perform the audit to obtain reasonable assurance about whether financial statements are free of material misstatements, whether caused by error, illegal acts or fraud, in accordance with AICPA SAS No. 82.

As described in paragraph 2, Appendix B of SAS No. 82, the practitioner is required to plan and perform his or her work with due professional care. Due professional care imposes a responsibility upon each professional within an independent auditor's organization to observe the standards on fieldwork and reporting.

As described in Paragraph 38 of SAS 82, whenever the auditor has determined that there is evidence that fraud may exist, that matter must be brought to the attention of an appropriate level of management. This is generally appropriate even if the matter might be considered inconsequential; such as a minor defalcation by an employee at a low level in the entity's organization. Fraud or illegal acts involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the AAS should be reported to the audit committee. Further, consistent with paragraph 40 (a) and (d) of SAS 82, the auditor must disclose possible fraud and illegal acts and management's response to the OPM Inspector General within 30 days from the time disclosure is made to management or the audit committee as appropriate. The practitioner shall submit these reports to the Assistant Inspector General for Audits at the address shown at the end of this section.

For supplemental guidance, consult SAS No. 82, Consideration of Fraud in a Financial Statement Audit, and SAS No. 54, Illegal Acts by Clients.

*Due Care and Professional Skepticism.* Paragraph 3.26 of GAGAS states due professional care should be used in conducting the audit and in preparing related reports. Practitioners are cautioned against ignoring basic weaknesses in internal controls, performing audit steps mechanically (auditing form over substance), and accepting explanation for audit exceptions without question.

*Obtaining an Understanding of Internal Control Structure.* SAS No. 78, SSAE No. 3, and Chapter 5 of the Government Auditing Standards provide guidance on understanding, evaluating and testing internal control policies and procedures.

*Obtaining Sufficient Evidence and Sampling.* The examination procedures suggested in this guide are not intended to be all inclusive. The practitioner is responsible for determining the procedures necessary to form an opinion regarding the financial statements and whether management's assertion regarding the effectiveness of internal controls is fairly stated. The procedures are not intended to supplant the practitioner's judgment of the work required. Suggested procedures described may not cover all circumstances or conditions encountered. Practitioners should consider Evidential Matter, Codification of Statements on Auditing Standards, AU sec. 326.

The Guide requires samples to be selected in such a way to be representative of the population and period under audit (in the case of service organizations, representative of the carrier clients serviced) and have certain confidence levels and tolerable error rates. Practitioners are encouraged to use guidance contained in the AICPA's Professional Standards, Vol. 1, AU sec. 350, Audit Sampling, and the GAO Financial Audit Manual.

*Working Papers.* SAS No. 41 and Paragraphs 4.34 through 4.38 of GAGAS address working papers. SAS No. 41, paragraph 5 states working papers ordinarily should include documentation showing (a) the work was adequately planned and supervised; (b) sufficient understanding of the internal control structure was obtained to plan the audit and determine nature, timing and extent of audit tests; and (c) the audit evidence obtained, the auditing procedures applied, and the testing performed have provided sufficient competent evidential matter to afford a reasonable basis for an opinion.

Further, Paragraph 4.35 of GAGAS states the practitioner's working papers should "contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditor's significant conclusions and judgments."

Carriers, service organizations or practitioners who deem any of the working paper information to be "confidential commercial information" should take appropriate steps to so designate each working paper containing confidential commercial information.

Such designation may protect its confidentiality if, at a future point of time, a request is made for disclosure of this information under the Freedom of Information Act. "Confidential commercial information" means records that may contain material exempt from release under Exemption 4 of the

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. Further information regarding the designation of such documents and OPM's Office of Inspector General (OIG) procedures upon receipt of a FOIA request are contained in Appendix E.

*Engagement Quality.* The OPM OIG has implemented procedures for evaluating work performed by non-federal practitioners. As part of this evaluation, the practitioner shall make working papers available upon request to the Assistant Inspector General for Audits or other representatives of the OIG. To facilitate these requests, management's reporting package should include an information sheet identifying the name, address, and telephone number of the partner on the engagement (see Appendix A). Working paper reviews will normally take place at the carrier's office.

Whenever an evaluation of a report or working papers discloses inadequacies, the practitioner may be asked to take corrective action. If OPM determines the report and working papers are substandard or contain significant inadequacies, referral to the AICPA and the cognizant State Board of Accountancy will be considered. OPM may also initiate action to debar the practitioner from further participation in federal programs.

## **FUTURE REVISIONS**

It is the practitioner's responsibility to ensure he/she is using the most current version of this guide. OPM periodically revises the FEBHP reporting requirements and the OPM OIG plans to issue revisions to this Guide to reflect these changes. Until the Guide is revised, inconsistencies may exist between the Guide and FEBHP laws or regulations. Practitioners should follow the FEBHP laws or regulations in effect for the period being examined and modify their procedures to test the FEBHP compliance requirements accordingly.

The practitioner is also responsible for monitoring relevant changes in GAGAS and GAAS, including AICPA SASs and SSAEs, and for considering the implications of changes on the engagement.

Technical questions about applying the Guide and suggestions for improving future guides should be sent to:

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Office of the Inspector General  
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## CHAPTER II

### SSAE NO. 3 CARRIER REPORTING

#### MANAGEMENT ASSERTIONS FOR COMPLIANCE ATTESTATION IN ACCORDANCE WITH SSAE NO. 3

These assertions are made by the management of each experienced-rated carrier participating in the Federal Employees Health Benefits Program (FEHBP). They relate to the effectiveness of the carrier's internal controls over compliance with specified laws and regulations and with the carrier's contract with the Office of Personnel Management (OPM) (See Appendix D). The independent public accountant (IPA), engaged by that carrier, will perform the procedures necessary to express an opinion about whether the assertions are fairly stated in all material respects.

*Preamble:* The Federal Employees Health Benefits Program is authorized and operates under statute (Title 5, U.S. Code, Chapter 89) and regulation (Title 5, Code of Federal Regulations, Part 890). Carriers participate under the terms of a contract with OPM; the contracts conform with the Federal Acquisition Regulation (FAR), 48 CFR Ch. 1, and the Federal Employees Health Benefits Acquisition Regulations (FEHBAR), 48 CFR Ch. 16.

**Assertion 1: Management asserts that controls were in place during the current federal fiscal year to ensure compliance with the contractual requirements for accurate and timely claim payments and coordination of benefits as described in the contract.**

*Examination considerations:* Using the sample test results from the agreed upon procedures for “Accuracy of Claim Payments” and “Timeliness of Claim Payments” from Chapter III, evaluate the errors and determine whether the controls over the accuracy and timeliness of claims payments are adequate.

**Assertion 2: Management asserts that controls were in place during the current fiscal year to ensure compliance with the requirements for investing FEHBP funds as specified in section 3.4 of the contract.**

**Assertion 3: Management asserts that controls were in place during the current fiscal year to ensure that FEHBP funds were not commingled with funds obtained from other sources in accordance with the requirements in Section 3.5 of the contract.**

**Assertion 4: Management asserts that controls were in place during the current federal fiscal year to ensure compliance with the requirements at 48 CFR 1632.170 (2) and (3) for withdrawing funds from the letter of credit account maintained by OPM for the plan.**

*Examination considerations:* Using the sample test results from the agreed upon procedures for “Letter of Credit (LOC) authorizations” in Chapter III, evaluate the findings reported and determine whether the controls over LOC withdrawals are adequate.

**Assertion 5: Management asserts that controls were in place during the current federal fiscal year to ensure that uncashed checks issued to pay for or reimburse the payment of benefits, services or supplies are credited and handled in accordance with Section 3.6 of the contract.**

*Examination considerations:* Using the sample test results from the agreed upon procedures for “Cash and Equivalents” in Chapter III, evaluate the reported findings and determine whether controls over uncashed checks are adequate.

**Assertion 6: Management asserts that controls were in place during the current fiscal year to ensure that the requirements for diligent collection of overpaid claims in section 2.3 (g) of the contract are adhered to.**

**Assertion 7: Management asserts that controls were in place during the current federal fiscal year to ensure that costs charged to the contract were allowable, actual, necessary, and reasonable and were properly justified and supported in accordance with section 3.2 of the contract.**

*Examination considerations:* Using the sample test results from the agreed upon procedures for “Administrative Expenses” in Chapter III, evaluate the reported findings and determine whether controls over administrative expenses are adequate.

**Assertion 8: Management asserts that controls were in place during the current federal fiscal year to ensure that enrollment was reconciled with information provided by employers in the form of a quarterly health benefits reconciliation report.**

*Examination considerations:* Using the results of the inspection performed from the agreed upon procedures for “Revenue” in Chapter III, evaluate the reported findings and determine whether controls over subscriber enrollment reconciliations are adequate.

**Assertion 9: Management asserts that controls were in place during the current federal fiscal year to ensure that, in accordance with FAR 31.201-5, the applicable portion of any income, rebate, allowance or other credit relating to any allowable cost and received by or accruing to the carrier was credited to the FEHBP either as a cost reduction or by refund. FEHBP credits/refunds result from benefit payments that include, but are not limited to, coordination of benefits, hospital year-end settlements, uncashed and returned checks, utilization reviews, litigation with subscribers or providers of services, and erroneous benefit payments.**

*Examination considerations:* Using the sample test results from the agreed upon procedures for



“Refunds” in Chapter III, evaluate the reported findings and determine whether controls over refunds are adequate.

**Assertion 10: Management asserts that controls were in place during the current federal fiscal year to ensure that, in accordance with 5 U.S.C. 8909(f)(1), no taxes, fees, or other monetary payment, directly or indirectly, were imposed on FEHBP premiums by any state, the District of Columbia, the Commonwealth of Puerto Rico, or any other political subdivision [48 CFR 1631.205-41].**

**Assertion 11: Management asserts that controls were in place during the current fiscal year to ensure that, in accordance with FEHBAR 1631.205-73, no interest costs incurred in the administration of the contract were charged to the contract.**

**Assertion 12: Management asserts that controls were in place during the current fiscal year to ensure that, in accordance with FEHBAR 1631.205-73, no selling costs related to sales promotion or paid to outside entities for enrolling federal subscribers in the plan were charged to the contract.**

**Assertion 13: Management asserts that controls were in place to ensure that known material findings and recommendations from prior audits were incorporated into a corrective action plan and subsequently forwarded to the Office of Personnel Management.**

## CHAPTER III

### AGREED-UPON PROCEDURES FOR SPECIFIED ELEMENTS, ACCOUNTS, OR ITEMS OF THE FINANCIAL STATEMENT FOR PROGRAM REPORTING (SAS 75)

#### PROGRAM PROCEDURES

This section of Chapter III contains specific procedures for seven requisite elements to be followed during the audit. Should the carrier's system of accounts and records make the use of these specific procedures inappropriate, the carrier may request OPM to consider alternative procedures designed to produce similar results. The seven requisite elements include the following:

Health Benefits Charges  
Letter of Credit (LOC) Authorizations  
Cash and Equivalents  
Administrative Expenses  
Revenue  
Refunds  
Provider Charges

#### Health Benefits Charges

*Accuracy of Claim Payments.* Stratify the claims-paid universe into five payee subgroups: (1) physician, (2) hospital, (3) pharmacy/prescriptions, (4) subscriber under age 65, and (5) subscriber age 65 or over. Select a judgmental sample of each claim population. The compliance test sample size for Groups 1, 2, 3 and 5 is 157; for Group 4 the test sample size is 93.

Sample sizes may be reduced under the following circumstances:

- o Items that meet multiple subgroup criteria can be used as a sample item for several categories; e.g. if a claim was selected as a physician claim, but also was for a subscriber under age 65, then this item could be counted as one sample item for both subgroups. Or
- o If a carrier can assert that all claims are processed through the same processing system at the same location by the same employees and are subject to the same control procedures then stratify the claims-paid universe into two payee subgroups, (1) subscriber age 65 and over and (2) all other claims. The sample size for each subgroup would consist of 157 claims.

For each claim selected, perform the following:

- A. Compare the claimant's name and other identifying information to the carrier's subscriber eligibility files and determine eligibility.
- B. Inspect documentation evidencing accuracy of claim amount.
- C. Inspect documentation evidencing allowability of claim and compare with the terms of the contract.
- D. 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.
- E. Inspect documentation supporting proper application of coinsurance.
- F. Inspect documentation supporting proper application of coordination of benefits (COB).

For claim population of subscriber age 65 or over, also perform the following:

- G. Obtain the subscriber history file (for up to 6 months) of subsequent information.
- H. Inspect documentation that identifies other insurance coverages (Medicare B, etc.) impacting COB.
- I. Recalculate COB amounts due OPM for retroactive application of coverage.
- J. Determine whether the amount of the claim and the amount charged to the FEHBP agrees with the amount on the remittance advice to provider, or amount of the check.
- K. Select judgmental sample of 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.

***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, expressed as a cumulative percentage.

***Evaluation:*** If the cumulative percentage of average days for all 5 subgroups exceed the standards expressed in Section 1.9(a)(2)(I), of the standard contract, report the results as a finding.

## Letter of Credit Authorizations

Select a sample of 25 withdrawals from the carrier's FEHBP LOC account and using the sample:

- A. 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.
- B. Inspect withdrawals. Compare the date the checks issued for FEHBP 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 LOC 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 LOC withdrawals occur before checks issued for FEHBP Program disbursements are presented to the carrier's bank.

## Cash and Equivalents

- A. Inspect a sample of uncashed FEHBP checks. Identify and tally all checks outstanding for two years. Compare the amounts represented by these checks with the corresponding amounts credited to the FEHBP, and identify those checks that were credited later than the 25th month after issuance or not credited at all.
- B. Inspect a sample of uncashed checks where the FEHBP is a related party. Identify and tally all checks outstanding for two years. Compare the date that amounts representing the FEHBP's allocable share of these checks were credited to the FEHBP with the date of the uncashed checks. Identify those amounts representing FEHBP's allocable share of the checks credited later than the 25th month after issuance or not credited at all.

**Evaluation:** Compile the number of instances that the FEHBP or FEHBP-related uncashed checks outstanding for two years have not been credited to the FEHBP later than the 25th month after issuance and report the results as a finding.

## Administrative Expenses

- A. Stratify the administrative expenses into five subgroups: (1) salaries, (2) fringe benefits, (3) pension costs, (4) post retirement benefits, and (5) all other. Select a judgmental sample of each expense population. The compliance test sample size is 42, sample unit is general ledger transactions, for each subgroup.

For each sample item:

1. Inspect documentation evidencing that each transaction was supported by invoices or other

documentation.

2. 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.
3. Inspect documentation evidencing the charges were allocable to the contract, as defined in 48 CFR 31-201-4.
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 FEHBP were not in accordance with the contractual terms or the charges were not supported by appropriate documentation.

- B. Inspect all manual adjustments to administrative expenses made after period-end closing and compare the adjustments with the corresponding supporting documentation.
- C. 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 supporting documentation did not exist for manual adjustments and instances where adjusted administrative costs were not allowable charges under the terms 48 CFR, Part 31 and 1631.

- D. Review any nonrecurring items such as gain or loss on sale of assets to insure that the FEHBP was allocated according to 48 CFR 31.205-16.
- E. Review 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 by more than 3 percent.

## **Revenue**

The carrier is required to maintain records of subscriber enrollment reconciliations with federal payroll offices and to make the information available for inspection by OPM's Inspector General and by the U.S. General Accounting Office.

The federal payroll offices initiate the enrollment reconciliation cycle by producing and sending to the carriers the quarterly reports of enrollment. These reports are sent on 4/1, 7/1, 10/1 and 1/1 of a given

year. Within 60 days after receiving the enrollment reports, the carriers must reconcile these reports to their enrollment information and report to the federal payroll offices any discrepancies. In return, the payroll offices must respond within 31 days to the discrepancies reported by the carriers. The reconciliation is complete when all enrollees have been confirmed.

Inspect the records of subscriber enrollment reconciliations with federal payroll offices and affirm that: (1) all reconciliations were completed quarterly, and (2) all actions were taken to reconcile identified differences within 91 days of the end of the quarter.

***Evaluation:*** Report all instances where enrollment reconciliations are not completed quarterly. Also, report all instances where action to reconcile differences have not occurred within 91 days of the end of the quarter. Identify instances where federal payroll offices fail to respond to carrier efforts to reconcile, including the identification of the payroll offices.

## **Refunds**

- A. 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.
- B. Compare the outstanding refunds report to the total refunds reported in the general ledger.
- C. Select a sample of 25 refund transactions (resulting from direct and indirect charges) and perform the following:
  - 1. Compare refunds allocable to the FEHBP with requirement that refunds be credited to it within 60 days of receipt.
  - 2. For refunds that were indirectly charged to the FEHBP, but where the proportionate share of the charge or associated refund cannot be identified, compare the FEHBP refund with an amount derived from the application of a percentage (FEHBP'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: the carrier lacks policies and procedures to account for refunds, the outstanding refunds report does not agree with the general ledger; and refunds directly or indirectly associated with the FEHBP are not credited to the program within 60 days of receipt.

## **Provider Charges**

Obtain agreements detailing arrangements the carrier has established with its providers for discounts and settlements.

- A. Inspect payment/pricing methodology and determine if the methodology allows for retroactive settlements to occur.
- B. Inspect a sample of 25 carrier settlements and document and determine whether they are in compliance with provider agreements. Compare the settlement received by the FEHBP with the terms of the agreements.
- C. Tally the number of transactions where amounts resulting from provider discounts/settlements were returned to the FEHBP after 60 days of receipt by the carrier.

**Evaluation:** Compile the number of instances where the carrier: (1) cannot identify discounts and settlements, (2) does not comply with provider agreements, (3) does not credit the FEHBP in accordance with the terms of the agreements, and (4) does not return funds benefited from the discounts/settlement arrangements within 60 days of receipt by the carrier. Report the results as a finding.

## **ROLL FORWARD PROCEDURES**

Roll forward procedures are to be completed when a carrier chooses either option 3 or 4. These procedures are performed on the September 30 unaudited AAS supporting documentation.

Obtain reconciliations and supporting detailed schedules for all amounts reported in the financial statements.

### **Review the carrier's financial records for the following:**

- A. Review the carrier's general ledger record of cash (LOC) receipts to verify that the carrier received OPM premium payments and that they are recording the receipts properly. Reconcile any differences.
- B. Payments from the carrier to providers. Review the carrier's general ledger records of claim payments to verify that the carrier reimbursed providers and subscribers for the amounts received from OPM. Reconcile any differences.
- C. Charges for administrative expenses. Determine that the administrative expenses reported in the FEHBP financial statements reconcile to the carrier's general ledger.

For all schedules (i.e., cash reconciliations or property, plant, and equipment listings) with amounts representing 10 percent or more of the total assets for the balance sheet or 10 percent or more of the total claims on the statement, verify that they agree with the general ledger balances or can be reconciled to the general ledger. The auditor should agree the detailed information contained in the schedules and reconciliations to supporting documentation. Tests should also analyze the next month's transactions for activity relating to the prior period as is done with standard cut-off testing.

## **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 B, number 6 for an illustrative corrective action plan.



## **CHAPTER IV**

### **SAS No. 70 REVIEWS FOR SERVICE ORGANIZATIONS**

This chapter sets forth the suggested federal fiscal year reporting for carriers who use service organization entities to process FEHBP-related transactions. It also provides guidance on the general approach the practitioner should consider in designing and carrying out procedures necessary to report on the controls placed in operation and tests of operating effectiveness.

#### **SERVICE ORGANIZATION REQUIREMENTS**

The service organization is encouraged to provide a written representation, which includes all elements of AICPA Professional Standards, Vol. 1, AU sec. 324, paragraph 57. Service organizations have responsibility for designing and implementing sufficient internal controls to ensure FEHBP claims are accurately processed in accordance with the terms of the service contract.

If a service organization does not perform for its carrier client all of the functions addressed by a single assertion, that assertion may be modified, but must clearly distinguish responsibilities of the carrier and the service organization, so that their respective written assertions address only the functions each performs.

#### **PRACTITIONER (SERVICE AUDITOR) ENGAGEMENT REQUIREMENTS**

The service auditor is responsible for performing the procedures necessary to provide reasonable assurance that during the current federal fiscal year service organization management has:

- A. Designed controls to ensure FEHBP claims are accurately processed in accordance with the terms of the service contract; and
- B. Controls are operating with sufficient effectiveness to provide reasonable assurance FEHBP claims are accurately processed in accordance with the terms of the service contract.

Responsibilities of the service auditors are contained in AICPA Professional Standards, Vol. 1, AU sec. 324, paragraphs 22-24. In addition service auditors should consult paragraphs 41-56 for information on reports on controls placed in operation and tests of operating effectiveness.

## **CHAPTER V**

### **CONTRIBUTORS TO THIS GUIDE**

The Office of Inspector General wishes to express our appreciation for the contributions of time, effort and expertise so generously given by the members of the following government and private entities.

OPM Retirement and Insurance Service  
KPMG Peat Marwick, LLP  
Baird, Kurtz and Dobson, LLP  
Government Employees Hospital Association (GEHA)  
Blue Cross and Blue Shield National Capital Area  
American Postal Workers Union, Health Plan Department

OPM and the Office of the Inspector General also gratefully acknowledge the assistance provided by all other FEHBP carriers and the public accounting community.

## **APPENDIX A**

### **CARRIER ANNUAL ACCOUNTING STATEMENT FORMAT**

Carrier financial statements should be presented in conformity with the following OPM prescribed statements, which are representative of Generally Accepted Accounting Principles (GAAP) for Health and Welfare Plans (SOP 92-06). The following statements presentation and are for information purposes only. We acknowledge changes may be necessary for each carrier's individual situation and it is the carrier's responsibility to prepare full disclosure financial statements. All supplemental schedules must be completed as detailed.

This guide requires federal fiscal year-end and calendar year-end carrier financial statements and disclosures. However, the following illustrative financial statements and disclosures (pages A-2 through A-12) are calendar year only.

**FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM  
ANNUAL ACCOUNTING STATEMENTS  
FOR  
CALENDAR YEAR 19XX**

**Carrier Name:** \_\_\_\_\_ **Code** \_\_\_\_\_

**TABLE OF CONTENTS**

**Executive Summary**

- A. Financial statements and required supplementary schedules of the FEHBP as of and for the years ended December 31, 19xx and 19xx and independent auditors' report.

Required supplementary schedules include:

- C Supplemental Schedule of Administrative Expenses
  - C Supplemental Schedule of Status of Reserves
  - C Supplemental Schedule of Health Charges Paid
  - C Supplemental Schedule of Audit Findings
- B. Other reports based on reporting option chosen.
- C. Corrective action plan.

**FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM**

Carrier Name: \_\_\_\_\_ Code

**BALANCE SHEET  
DECEMBER 31, 19XX AND 19XX**

	<u>19XX</u>	<u>19XX</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$	\$
Balance in Letter of Credit (LOC) Account		
Interest Income Receivable		
Program Income Receivable		
Prepaid Expenses		
<b>TOTAL ASSETS</b>	\$	\$ _____
<b>LIABILITIES</b>		
Health Benefits Accrued but Unpaid	\$	\$
Accrued Administrative Expenses and Retentions		
Special Reserve		
<b>TOTAL LIABILITIES WITH SPECIAL RESERVE</b>	\$	\$ _____

*See accompanying notes to financial statements.*

**FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM**

Carrier Name: \_\_\_\_\_ Code

**STATEMENT OF OPERATIONS  
FOR THE  
YEAR ENDED DECEMBER 31, 19XX**

	<u>19XX</u>	<u>19XX</u>
<b>REVENUE:</b>	\$	\$
Letter of Credit (LOC) Authorizations		
Net Investment Income		
Total Revenue		
 <b>BENEFITS AND EXPENSES</b>		
Health Benefit Charges		
Administrative Expenses		
State Statutory Reserve		
Reinsurance Expenses		
Service Charges		
Other		
Total Benefits and Expenses		
 <b>GAIN (LOSS) FROM OPERATIONS</b>	\$	\$ _____
Special Reserve Beginning of Year	\$	\$
Gain (Loss) from Operations		
Return of Excess Reserves		
Contingency Reserve Payments		
Other		
Special Reserve at End of Year	\$	\$ _____

*See accompanying notes to financial statements.*

**FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM**

**Carrier Name:** \_\_\_\_\_ **Code**

**STATEMENT OF CASH FLOWS  
FOR THE  
YEARS ENDED DECEMBER 31, 19XX AND 19XX**

	<u>19XX</u>	<u>19XX</u>
<b>CASH FLOWS FROM OPERATIONS ACTIVITIES</b>	\$	\$
Net Gain		
Adjustments to Reconcile Net Gain to Net Cash Provided by (used in) Operating Activities:		
(Increase) Decrease in Assets:		
Benefits Receivable		
Accrued Investment Income		
xxx		
xxx		
Other Assets		
Increase (Decrease) in Liabilities:		
Accrued Benefits Payable		
Special Reserve		
xxx		
xxx		
xxx		
Other Liabilities		
<b>TOTAL ADJUSTMENTS</b>		
Net cash provided by operating activities	\$	\$ _____

**(Continued Next Page)**

**FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM**

**Carrier Name:** \_\_\_\_\_ **Code**

**STATEMENT OF CASH FLOW** (Continued from previous page)

**CASH FLOWS FROM INVESTMENT ACTIVITIES**

Proceeds from Sale of Investments	\$	\$	
xxx			
Net Cash Provided by Investing Activities	\$	\$	_____

**NET INCREASE IN CASH AND CASH EQUIVALENTS**

Cash and Cash Equivalents at the Beginning of Year

Cash and Cash Equivalents at the End of Year      \$                      \$                      \_\_\_\_\_

*See accompanying notes to financial statements.*



**FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM**

**Carrier Name:** \_\_\_\_\_ **Code**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE  
YEARS ENDED DECEMBER 31, 19XX AND 19XX**

**FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM**

Carrier Name: \_\_\_\_\_ Code

**SUPPLEMENTAL SCHEDULE OF ADMINISTRATIVE EXPENSES  
FOR THE  
YEARS ENDED DECEMBER 31, 19XX AND 19XX**

	<u>19XX</u>	<u>19XX</u>
<b>ADMINISTRATIVE EXPENSES</b>		
Rent	\$	\$
Salaries		
Employee Benefits		
Furniture and Equipment		
Maintenance		
Equipment Rental		
Printing, Stationery and Supplies		
Travel		
Postage		
Telephone & Telegraph		
Private Wire System		
Auditing Services		
Legal Services		
Consulting & Professional		
Payroll Taxes		
Utilities		
Insurance		
LOC Bank Charges		
Cost Containment		
Other		
<b>TOTAL</b>	\$	\$ _____

*See accompanying independent auditors' report.*

**FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM**

**Carrier Name:** \_\_\_\_\_ **Code**

**SUPPLEMENTAL SCHEDULE OF STATUS OF RESERVES  
AS OF DECEMBER 31, 19XX**

**1. Reserves Held by Carrier**

- a. Ending Special Reserve Balance \$
- b. Ending Accrued but Unpaid Health Benefits Charges
- c. Total. *(line 1.a. plus line 1.b.)* \$

**2. One Month's Average Expenses**

a. One Month's Average Claims Paid:

Claims paid-last six months of 19XX:

- July \$
- August
- September
- October
- November
- December
- Total \$ \_\_\_\_\_ x 1/6 \$

b. One Month's Average Administrative Expenses and Retentions  
(Statement of Operations x 1/12) \$

c. Total One Month's Average Expenses. *(line 2.a. plus line 2.b.)* \$

**3. Target Level of Carrier-Held Reserves.** *(line 2.c. x 3.5)* \$

**4. Status of Reserves:**

a. Excess Reserve *(If the amount on line 1.c. is greater than the amount in line 3., enter the difference here.)* \$

b. Deficiency of Reserves *(If the amount on line 3. is greater than line 1.c., enter the difference here.)* \$

*See accompanying independent auditors' report.*

**FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM**

Carrier Name: \_\_\_\_\_ Code

**High Option**

**Low Option**

**SUPPLEMENTAL SCHEDULE OF HEALTH BENEFIT CHARGES PAID  
FOR THE YEAR ENDED DECEMBER 31, 19XX**

**PART A - Monthly Claims Paid**

MONTH	AMOUNT PAID	YEAR INCURRED		
		1998	1997	1996 - PRIOR
January	\$	\$	\$	\$
February				
March				
April				
May				
June				
July				
August				
September				
October				
November				
December				
Total	\$	\$	\$	\$

Prior year's accrual from line *Summary Statement* \$

Difference \$

**PART B - Number of Claims Paid**

TOTAL	YEAR INCURRED		
	1998	1997	1996 - PRIOR

**(Continued Next Page)**

**FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM**

Carrier Name: \_\_\_\_\_ Code

**SUPPLEMENTAL SCHEDULE OF HEALTH BENEFIT CHARGES PAID  
FOR THE YEAR ENDED DECEMBER 31, 19XX (Continued from previous page)**

**PART C - Types of Claim Paid**

TOTAL	HOSPITALIZATION	PHYSICIANS	OTHER

**PART D - Reconciliation of Health Benefit Charges Paid**

Total Claims Paid from Part A *(above)* \$

Less: Reinsurance Recovery

Other Adjustments *(explain)*

**TOTAL** (Summary Statement) \$

*See accompanying independent auditors' report.*

**FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM**

**Carrier Name:** \_\_\_\_\_ **Code**

**SUPPLEMENTAL SCHEDULE OF AUDIT FINDINGS  
FOR THE  
YEAR ENDED DECEMBER 31, 19XX**

**AUDIT NUMBER AND ASSOCIATED YEAR:**

XXXX

\$

XXXX

**TOTAL**

\$

## APPENDIX B

### SAMPLE PRACTITIONER REPORTS - For Selected Requirements

#### 1. ILLUSTRATIVE REPORT ON CARRIER MANAGEMENT'S ASSERTIONS ABOUT EFFECTIVENESS OF CONTROLS OVER COMPLIANCE WITH FEHBP CONTRACT REQUIREMENTS

##### Independent Accountants' Report

Office of Personnel Management

Carrier Audit Committee

Carrier X

City, State ZIP Code

We have examined management's assertions about the requirements listed in Chapter II of the Audit Guide about *[name of carrier]*'s compliance with its contract with the Office of Personnel Management and the effectiveness of the internal controls over compliance with those requirements during the year ended *[September 30 or December 31]*. Management is responsible for *[name of carrier]*'s compliance with those requirements. Our responsibility is to express an opinion on management's assertions about the carrier's compliance based on our examination.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants, and, accordingly, included examining, on a test basis, evidence about *[name of carrier]*'s compliance with these requirements and performing other such procedures we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on *[name of carrier]*'s compliance with specified requirements.

[Unqualified]

In our opinion, management's assertions that the *[name of carrier]* complied with the aforementioned requirements for the year ended *[September 30 or December 31]* is fairly stated, in all material respects.

[Qualified]

Our examination disclosed the following material noncompliance *with [compliance requirement]* applicable to *[name of carrier]* during the year ended *[September 30 or December 31]*. *[Describe*

*noncompliance*].

In our opinion, except for the material noncompliance described in the third paragraph, management's assertions that the *[name of carrier]* complied with the aforementioned requirements for the year ended *[September 30 or December 31]* is fairly stated, in all material respects.

[Adverse]

Our examination disclosed the following material noncompliance *with [compliance requirement]* applicable to *[name of carrier]* during the year ended *[September 30 or December 31]*. *[Describe noncompliance]*.

In our opinion, because of the material noncompliance described in the third paragraph, management's assertions that the *[name of carrier]* complied with the aforementioned requirements for the year ended *[September 30 or December 31]* is not fairly stated.

(Date)

## 2. ILLUSTRATIVE REPORT ON AGREED-UPON PROCEDURES (AU Section 622.34)

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 x, solely to assist you in evaluating the accompanying Annual Accounting Statement for the period ending September 30, 19xx. This agreed-upon procedure engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the 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, perform an examination, the objective of which would be the expression of an opinion on the accompanying Annual Accounting Statement of carrier X. 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 X, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

3. ILLUSTRATIVE SCHEDULE OF FINDINGS AND QUESTIONED AMOUNTS

Schedule of Findings for Agreed-Upon Procedures			
Area	Description of Findings	\$ Questioned	Status of Finding
Claims Enrollment Records	Describe in detail the noted finding	\$10,000 Unknown	1. Amount Reimbursed to FEHBP, or 2. Amount Not Reimbursed to FEHBP, or 3. Resolved – No Money Due the FEHBP 4. Unresolved – No Money Due the FEHBP

4. 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.3 could be modified to incorporate these two items, and thereby minimize duplication of efforts.

5. ILLUSTRATIVE SAS No. 70 REPORT REGARDING SERVICE ORGANIZATION MANAGEMENT’S ASSERTIONS (AU 324.39)

We have examined the accompanying description of controls related to the claims processing and payment applications of ABC service organization. Our examination included procedures to obtain reasonable assurance about whether: (1) the accompanying description presents fairly, in all respects, the aspects of ABC service organization's controls that may be relevant to a user organization's internal control as it relates to an audit of financial statements, (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily, and (3) such controls had been placed in operation as of September 30, 19xx. The control objectives were specified by ABC service organization.

In our opinion, the accompanying description of the aforementioned application presents fairly, in all respects, the relevant aspects of ABC service organization's controls that had been placed in operation as of September 30, 19xx. Also, in our opinion, the controls, as described are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily.

In addition to the procedures we considered necessary to render our opinion as expressed in the previous paragraph, we applied tests to specific controls, listed in Schedule X, to obtain evidence about their effectiveness in meeting the control objectives, described in Schedule X, during the period from October 1, 19x1 to September 30, 19x2. The specific controls and the nature, timing, extent, and results of the tests are listed in Schedule X. This information has been provided to user organizations of ABC service organization and to their auditors to be taken into consideration, along with information about the internal control at user organizations, when making assessments of control risk for user organizations. In our opinion the controls that were tested, as described in Schedule X, were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectiveness specified in Schedule X were achieved during the period from October 1, 19x1 to September 30, 19x2.

The relative effectiveness and significance of specific controls at ABC service organization and their effect on assessments of control risk at user organizations are dependent on their interaction with the controls and other factors present at individual user organizations. We have performed no procedures to evaluate the effectiveness of controls at individual user organizations.

The description of controls at ABC service organization as of September 30, 19xx, and information about tests of the operating effectiveness of specified controls covers the period from October 1, 19x1 to September 30, 19x2. A projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the system in existence. The potential effectiveness of specified controls at the service organization is subject to inherent limitations and, accordingly, errors or irregularities may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that changes may alter the validity of such conclusions.

This report is intended solely for use by the management of the ABC service organization, its customers, and the independent auditors of its customers.

6. 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.

## APPENDIX C

### 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.

<i>AICPA</i>	American Institute of Certified Public Accountants
<i>AIGA</i>	Assistant Inspector General for Audits
<i>BCBS</i>	Blue Cross Blue Shield
<i>CFR</i>	Code of Federal Regulations
<i>CFO Act</i>	Chief Financial Officers Act of 1990
<i>CPA</i>	Certified Public Accountant
<i>ERC</i>	Experienced-rated Carriers
<i>FOIA</i>	Freedom of Information Act
<i>GAAS</i>	Generally Accepted Auditing Standards
<i>GAGAS</i>	Generally Accepted Government Auditing Standards
<i>GAO</i>	U.S. General Accounting Office
<i>GLS</i>	General Ledger System
<i>IC</i>	Internal Control
<i>LOC</i>	Letter of Credit
<i>MOU</i>	Memorandum of Understanding
<i>OFCM</i>	Office of Financial Control and Management
<i>OIG</i>	Office of the Inspector General
<i>OMB</i>	Office of Management and Budget
<i>OPM</i>	Office of Personnel Management
<i>QIT</i>	Quality Improvement Team
<i>SAS</i>	AICPA's Statement on Auditing Standards
<i>SSAE</i>	AICPA's Statements on Standards for Attestation Engagements

### AUTHORITATIVE REFERENCES

Generally Accepted Accounting Principles (GAAP)

GAO's Government Auditing Standards (Yellow Book)/Generally Accepted Government Auditing Standards (GAGAS)  
Generally Accepted Auditing Standards (GAAS)  
SAS No. 41, Working Papers  
Interpretation No. 2 of SAS No. 41, Providing Access to or Photocopies of Working Papers to a Regulator  
SAS No. 54, Illegal Acts by Clients  
SAS No. 65, The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements  
SAS No. 70, Reports on the Processing of Transactions by Service Agents  
SAS No. 78, Consideration of Internal Control in a Financial Statement Audit: An Amendment to SAS No. 55  
SAS No. 82, Consideration of Fraud in a Financial Statement Audit  
SSAE No. 3, Compliance Attestation, as amended by SSAE No. 9  
SSAE No. 4, Agreed-Upon Procedures Engagements

## APPENDIX D

### LAWS AND REGULATIONS, AND CONTRACT TERMS TO BE TESTED FOR COMPLIANCE

1. *Enrollment reconciliations.*
2. *Claims benefit payments.*
3. *Coordination of benefits.* OPM expects all Federal Health Benefits Program plans to coordinate benefits. (48 CFR- 1604.70.)
4. *Carrier investment of FEHBP 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 FEHBP funds to the special reserve on behalf of the FEHBP. If a carrier fails to invest excess FEHBP 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 CFR - 1615.805-70b, c and d).
5. *FEHBP credits.* 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. FEHBP 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).
6. *Taxes.* 5 U.S.C. 8909(f)(1) prohibits the imposition of taxes, fees, or other monetary payment, directly or indirectly, on FEHBP 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).
7. *Interest expense.* Interest charges incurred in the administration of FEHBP contracts are not allowable in accordance with FAR 31.205.20. However, interest charges that are associated with the carrier's investment of FEHBP 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).

8. *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 FEHBP plan. Selling costs are allowable costs to FEHBP contacts 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).
9. *Non-commingling of FEHBP funds.* Carrier or underwriter commingling of FEHBP funds with those from other sources makes it difficult to precisely determine FEHBP cash balances at any given time or to precisely determine investment income attributable to FEHBP invested assets. FEHBP funds shall be maintained separately from other cash and investments of the carrier or underwriter. (48 CFR 1632.771).
10. Carriers must comply with the provisions negotiated and as reported in the contract and any addendums thereto between the carrier and the Office of Personnel Management.
11. *Exclusion of unallowable costs per FAR.*

## **APPENDIX E**

### **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, 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.