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

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# Final Audit Report

**AUDIT OF  
SPECIAL AGENTS MUTUAL BENEFIT ASSOCIATION  
ROCKVILLE, MARYLAND**

**Report Number 1B-44-00-17-002**

**September 29, 2017**

**-- CAUTION --**

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# EXECUTIVE SUMMARY

## *Audit of the Special Agents Mutual Benefit Association*

Report No. 1B-44-00-17-002

September 29, 2017

### **Why did we conduct the audit?**

We conducted this limited scope audit to obtain reasonable assurance that the Special Agents Mutual Benefit Association (SAMBA), as sponsor and administrator of the SAMBA Health Benefit 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. The objective of our audit was to determine whether SAMBA handled FEHBP funds in accordance with the contract and applicable laws and regulations concerning cash management in the FEHBP.

### **What did we audit?**

Our audit covered SAMBA's cash management activities and practices related to FEHBP funds from 2014 through June 30, 2016. Specifically, we reviewed SAMBA'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 for the SAMBA Health Benefit Plan.



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**Michael R. Esser**  
*Assistant Inspector General  
for Audits*

### **What did we find?**

We questioned \$23,679 in cash management activities. Specifically, we determined that SAMBA held *net* excess FEHBP funds of \$23,679 in the plan's dedicated FEHBP investment account as of June 30, 2016. During our pre-audit phase, SAMBA self-disclosed this audit finding. As part of our review, we verified that SAMBA returned these net excess FEHBP funds of \$23,679 to the LOCA on August 31, 2016.

# ABBREVIATIONS

<b>CAP</b>	<b>Corrective Action Plan</b>
<b>CFR</b>	<b>Code of Federal Regulations</b>
<b>Contract</b>	<b>Contract CS 1074</b>
<b>FEHB</b>	<b>Federal Employees Health Benefits</b>
<b>FEHBP</b>	<b>Federal Employees Health Benefits Program</b>
<b>LOCA</b>	<b>Letter of Credit Account</b>
<b>OIG</b>	<b>Office of the Inspector General</b>
<b>OPM</b>	<b>U.S. Office of Personnel Management</b>
<b>Plan</b>	<b>SAMBA Health Benefit Plan</b>
<b>SAMBA</b>	<b>Special Agents Mutual Benefit Association</b>

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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 Special Agents Mutual Benefit Association (SAMBA), as sponsor and administrator of the SAMBA Health Benefit Plan (Plan). SAMBA is located in Rockville, Maryland.

The audit was performed by the U.S. 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 (CFR). Health insurance coverage is made available through contracts with various health insurance carriers.

The SAMBA Health Benefit Plan is a fee-for-service employee organization plan, offering high and standard options, with a preferred provider organization. Enrollment is open to all federal employees and annuitants that are eligible to enroll in the FEHBP. All employees and annuitants that enroll in the Plan automatically become members of SAMBA. SAMBA is the sponsor and administrator of the Plan, operating under Contract CS 1074 (contract) to provide a health benefits plan authorized by the FEHB Act.

SAMBA's contract (CS 1074) 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 SAMBA's management. In addition, management of SAMBA is responsible for establishing and maintaining a system of internal controls.

Our prior audit of SAMBA (Report No. 1B-44-00-06-020, dated May 22, 2006), covering contract years 2000 through 2004 for the SAMBA Health Benefit Plan, disclosed no audit findings.

The results of this audit were discussed with the SAMBA officials throughout the audit and at an exit conference on May 18, 2017; and were presented in detail in a draft report, dated June 15, 2017. SAMBA's comments offered in response to the draft report were considered in preparing our final report and are included as an Appendix to this report.

## II. OBJECTIVE, SCOPE, AND METHODOLOGY

### **OBJECTIVE**

The objective of our audit was to determine whether SAMBA handled FEHBP funds in accordance with the contract and 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 SAMBA's cash management activities and practices related to FEHBP funds from 2014 through June 30, 2016, for the SAMBA Health Benefit Plan. Specifically, we reviewed SAMBA'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 SAMBA handled FEHBP funds in accordance with the contract and applicable laws and regulations concerning cash management in the FEHBP.

In planning and conducting our audit, we obtained an understanding of SAMBA'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 SAMBA'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 SAMBA's system of internal controls taken as a whole.

We also conducted tests to determine whether SAMBA 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, SAMBA did not fully comply with all

provisions of the contract relative to cash management of FEHBP funds. Exceptions noted in the areas reviewed are set forth in detail in the "Audit Findings and Recommendations" section of this audit report. 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 SAMBA. 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 18, 2017. During our fieldwork phase, we also made a short on-site visit to SAMBA from January 26, 2017, through January 27, 2017. Throughout the audit process, SAMBA did an excellent job providing complete and timely responses to our requests for supporting documentation. We greatly appreciated SAMBA's exceptional cooperation and responsiveness during the pre-audit and fieldwork phases of this audit.

## **METHODOLOGY**

To test SAMBA's compliance with contract provisions relative to cash management activities, we selected and reviewed a judgmental sample of 50 LOCA drawdown amounts, totaling \$53,787,504 (from a universe of [REDACTED] LOCA drawdowns, totaling \$635,107,914, for the SAMBA Health Benefit Plan during the period 2014 through June 30, 2016), for the purpose of determining if the 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 SAMBA's working capital calculations, adjustments and/or balances, treasury offsets, and interest income transactions from 2014 through June 30, 2016, as well as SAMBA's dedicated FEHBP investment account activity during the scope and balance as of June 30, 2016, for the SAMBA Health Benefit Plan.



# III. AUDIT FINDING AND RECOMMENDATIONS

## A. Excess Funds in the Dedicated Investment Account

\$23,679

During our pre-audit phase, SAMBA self-disclosed that *net* excess FEHBP funds of \$23,679 were inadvertently held in the dedicated FEHBP investment account as of June 30, 2016. As a result, SAMBA returned these net excess FEHBP funds to the LOCA on August 31, 2016.

48 CFR 31.201-5 states, “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.”

Contract CS 1074, Part II, Section 2.3 (i) states, “All health benefit refunds and recoveries, including erroneous payment recoveries, must be deposited into the working capital or investment account within 30 days and returned to or accounted for in the FEHBP letter of credit account within 60 days after receipt by the Carrier.” Regarding reportable monetary findings, Contract CS 1074, Part III, Section 3.16 (a), states, “Audit findings . . . in the scope of an OIG audit are reportable as questioned charges unless the Carrier provides documentation supporting that the findings were already identified and corrected . . . prior to audit notification.”

SAMBA’s dedicated FEHBP investment account generally includes working capital funds, approved LOCA drawdown reimbursements, health benefit refunds and recoveries from providers and subscribers, interest income earned, and other cash items identified as due to the FEHBP. Based on Contract CS 1074, all funds deposited into the dedicated FEHBP investment account (such as health benefit refunds and recoveries, interest income, and excess working capital funds), should be returned to the FEHBP by adjusting the LOCA within 60 days after receipt by SAMBA.

**SAMBA held *net* excess funds of \$23,679 in the dedicated FEHBP investment account as of June 30, 2016.**

In our Audit Information Request (dated July 15, 2016), we requested SAMBA to provide an analysis of the funds (such as working capital, approved LOCA drawdown reimbursements, health benefit refunds and recoveries, pharmacy and medical drug rebates, interest income, and excess funds) that were held in the dedicated FEHBP investment account as of June 30, 2016. In response to our Audit Information Request (during our pre-audit phase), SAMBA self-disclosed that net excess FEHBP funds of \$23,679 were inadvertently held in the FEHBP investment account as of June 30, 2016.

Specifically, SAMBA self-disclosed that \$185,945 of these net excess funds were FEHBP funds that should have been returned to the LOCA during the audit scope. SAMBA also self-disclosed that \$162,266 in cost reimbursements were inadvertently transferred from the dedicated FEHBP investment account to SAMBA’s corporate account during the audit scope, without withdrawing these funds from the LOCA, resulting in a shortage of funds by this amount in the dedicated FEHBP investment account as of June 30, 2016. We reviewed SAMBA’s analysis and applicable supporting documentation and agree that SAMBA held net excess FEHBP funds of \$23,679 (\$185,945 minus \$162,266) in the dedicated FEHBP investment account as of June 30, 2016.<sup>1</sup>

The following schedule is a summary of the excess FEHBP funds that were held in the dedicated FEHBP investment account as of June 30, 2016. We noted that most of these excess funds had been held in the dedicated FEHBP investment account for more than a year (as of June 30, 2016).

Description of FEHBP Funds	Amount
Drug Claims – Refunds	
Drug Administrative Expenses – Refunds	
Administrative Expense Reimbursements	
Non-Sufficient Funds - Bank Fee Reimbursements	
Rejected Claim Electronic Fund Transfers	
<b>Total</b>	<b>\$185,945</b>

The following schedule is a summary of the cost reimbursements that SAMBA inadvertently transferred from the dedicated FEHBP investment account to SAMBA’s corporate account during the audit scope, without withdrawing these funds from the LOCA.

Description of Cost Reimbursements	Amount
Patient-Centered Outcomes Research Institute Fees	
Administrative Expenses	
Returned Excess Amount for Drug Claim Refund	
Non-Sufficient Funds for Claim Refund Checks	
<b>Total</b>	<b>\$162,266</b>

<sup>1</sup> SAMBA identified these exceptions after receiving our audit notification letter and Audit Information Request (dated July 15, 2016) and while preparing for the audit.

As a monetary finding, we are questioning the net excess FEHBP funds of \$23,679 (\$185,945 minus \$162,266) that were held in the dedicated FEHBP investment account as of June 30, 2016. As part of our review, we verified that SAMBA returned these net excess FEHBP funds to the LOCA on August 31, 2016, which made the dedicated FEHBP investment account whole.

**SAMBA Response:**

*SAMBA agrees with the findings and recommendations. SAMBA states, “The Plan implemented a Corrective Action Plan (CAP) wherein an additional step was added to the monthly bank reconciliations of dedicated FEHBP checking accounts. The CAP and supporting documentation are being forwarded to SAMBA’s contracting officer under separate cover.”*

**Recommendation 1**

We recommend that the contracting officer require SAMBA to immediately return \$23,679 to the FEHBP for the questioned net excess FEHBP funds. However, since we verified that SAMBA returned these net excess FEHBP funds of \$23,679 to the LOCA, no further action is required for this questioned amount.

**Recommendation 2**

We recommend that the contracting officer require SAMBA to provide evidence or supporting documentation ensuring that SAMBA has implemented corrective actions, such as monthly or quarterly account reconciliations, to improve the internal controls over the dedicated FEHBP investment account. In addition, the contracting officer should require SAMBA to provide evidence or supporting documentation ensuring that SAMBA has implemented corrective actions so that only necessary funds are maintained in the dedicated FEHBP investment account.

## APPENDIX

11301 Old Georgetown Road  
Rockville, Maryland 20852-2800



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### **Sent via Email**

RE: REPORT NO. 1B-44-00-17-002

July 21, 2017

[REDACTED], Group Chief  
Experienced-Rated Audits Group  
Office of the Inspector General  
U.S. Office of Personnel Management  
1900 E. Street, Room 6400  
Washington, DC 20415-1100

Dear [REDACTED]:

This communication responds to the transmittal letter dated June 15, 2017 that SAMBA (“the Plan”) received from the Office of the Inspector General (OIG). Attached to the letter was the OIG’s draft audit report (referenced above) detailing the results of the limited scope audit of the Federal Employees Health Benefits Program (FEHBP) operations at SAMBA.

The Plan agrees with the OIG’s findings and recommendations and has taken the actions described below:

Recommendation 1: During the course of the audit, the OIG verified that the Plan had returned net excess FEHBP funds (\$23,679) to the LOCA. No further action is required.

Recommendation 2: The Plan implemented a Corrective Action Plan (CAP) wherein an additional step was added to the monthly bank reconciliations of dedicated FEHBP checking accounts. The CAP and supporting documentation are being forwarded to SAMBA’s contracting officer under separate cover.

Should you have any questions or concerns regarding SAMBA’s response, please contact SAMBA’s Controller, [REDACTED] at [REDACTED].

Sincerely,

[REDACTED]  
Deputy Executive Director

[REDACTED]  
July 21, 2017  
Page 2

Enclosures

cc:

[REDACTED]  
Lead Auditor  
Experience-Rated Audits Group

[REDACTED]  
Chief of Health Insurance II  
OPM's Insurance Operations

[REDACTED]  
Chief of Audit Resolution Branch  
OPM's Insurance Operations

[REDACTED]  
Health Insurance Specialist  
US Office of Personnel Management



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