Approved For Release 2005/08/03 : CIA-RDP86-00964R000200070006-3

84-3789

C O N F I D E N T I A L

11 October 1984

MEMORANDUM FOR: Director of Personnel

VIA: Inspector General

25X1

FROM: [redacted]
Acting Chief, Audit Staff

SUBJECT: Report of Audit, Government Employees Health Association, Inc., 1 January 1983 - 31 December 1983

1. Subject report is attached. Please advise me of the action taken on the recommendations contained in the report.

2. We appreciate the cooperation and assistance provided by your staff during the audit.

[redacted]

25X1

Attachment:
As stated

Distribution:
Orig. - D/Pers
1 - C/Board of Directors
1 - D/OF
1 - O/Compt/BMG

25X1

WARNING NOTICE
INTELLIGENCE SOURCES
OR METHODS INVOLVED

Approved For Release 2005/08/03 : CIA-RDP86-00964R000200070006-3

C O N F I D E N T I A L

[redacted]

Approved For Release 2005/08/03 : CIA-RDP86-00964R000200070006-3

REPORT OF AUDIT
Government Employees Health Association, Inc.

For the Period
1 January 1983 - 31 December 1983

SUMMARY

1. Controls and procedures governing the custody and use of Government Employees Health Association, Inc. (GEHA) assets were generally effective and in accordance with applicable requirements. This report contains recommendations concerning the reconciliation of certain general ledger accounts with their subsidiaries, accrual of revenues and expenses, and preparation of periodic financial statements. Minor administrative matters were discussed with responsible officials and resolved during the audit.

SCOPE AND OPINION

2. The audit included an examination of the GEHA statement of financial position as of 31 December 1983 and 1982 and the related statements of changes in reserve fund balances and changes in financial position for 1983. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and other auditing procedures, including a review of claim settlement procedures, as we considered necessary under the circumstances.

3. In our opinion, the accompanying financial statements, Exhibits A, B and C, present fairly the financial position of GEHA at 31 December 1983 and 1982 and the results of its operations for the year ended 31 December 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

BACKGROUND

4. GEHA is a tax-exempt organization incorporated in the District of Columbia to administer employee insurance programs in accordance with Agency operational and security requirements. An elected Board of Directors prescribes GEHA operating policies. The daily business is conducted by the Insurance Division, Office of Personnel. GEHA reimburses the Agency for the services of [redacted] employees in the Insurance Branch.

25X1

5. GEHA maintains [redacted] insurance accounts for active and retired employees. The following plans are in effect:

25X1

WARNING NOTICE
INTELLIGENCE SOURCES
OR METHODS INVOLVED

[redacted]

25X1

Approved For Release 2005/08/03 : CIA-RDP86-00964R000200070006-3

Approved For Release 2005/08/03 : CIA-RDP86-00964R000200070006-3

PLANS	ACCOUNTS
Life Insurance:	
United Benefit Life Insurance Company Active Retired	
Worldwide Assurance for Employees of Public Agencies	
Health Insurance:	
Association Benefit Plan Active Retired	
Contract Hospitalization	
Specified Diseases	
Disability Insurance:	
Income Replacement	
Accidental Death and Dismemberment Insurance:	
Flight and Accident	
Travel Insurance:	
Air Flight	
Military Air Flight	

25X1

6. The Association Benefit Plan received premiums of $27 million, paid out benefits of $23.4 million, and incurred net operating expenses of $1.6 million for a net underwriting gain of $2.0 million in 1983.

DETAILED COMMENTS

Reconciliation of General Ledger Accounts

7. The general ledger accounts recording premiums received for contract employees hospitalization insurance (CHI) have not been reconciled with supporting records. The prior audit report recommended that these accounts be reconciled at least quarterly; however, the latest reconciliations found were those

Approved For Release 2005/08/03 : CIA-RDP86-00964R000200070006-3

prepared by the auditors as of 30 June 1983. GEHA personnel attempted to reconcile these accounts but were unsuccessful. The reconciliation process involves tedious manual computations of sub-account balances for approximately 90 Foreign Broadcast Information Service foreign national employees (Account 217) and 50 contract employees (Account 218).

8. GEHA officials are well aware of the cumbersome and complex accounting procedures used to record and verify the CHI premiums. The Deputy Director for Administration has authorized $1.5 million for the automation of Insurance Division records which will include the GEHA accounting system. Proper automation could make these reconcilations almost automatic as well as reducing time spent on other accounting duties.

> Recommendation #1: Reconcile the CHI premium general ledger accounts at least quarterly.

Accrual of Revenues and Expenses

9. GEHA accounting records are maintained on a modified accrual basis. During the year revenue and expense items are recorded when cash is received or disbursed. GEHA accrues payroll expenses at year-end; however, revenue items such as interest earned on investments and the GEHA share of Association Benefit Plan and CHI premiums on hand are not accrued at that time.

10. The accrual basis of accounting is required by generally accepted accounting principles for a fair presentation of financial position. While the present accounting method has been acceptable in the past, the size of GEHA and the proposed automation of the accounting records make this an appropriate time to consider changing to accrual accounting. Financial statements prepared on a cash basis may be considered to fairly present the financial position only if they do not differ materially from the financial statements prepared on an accrual basis. The use of the accrual method of accounting for GEHA operations in 1983 would result in a reduction in reported revenue of approximately $89,000; therefore, the accrual method should be used to more fairly present the financial operations of GEHA.

> Recommendation #2: Accrue revenues earned but not received and expenses incurred but not paid at year end.

Financial Statements

11. Although GEHA prepares an annual trial balance of the accounting records and special reports as requested by the

Approved For Release 2005/08/03 : CIA-RDP86-00964R000200070006-3

Board of Directors, they do not prepare formal financial statements annually. Generally accepted accounting principles require that financial statements be prepared at the end of each accounting cycle (usually annually). The purpose of a non-profit organization's financial statements is to show how resources have been used to carry out the stated objectives. The report should show the nature and amount of available resources, the uses made of the resources, and the net change in fund balances during the reporting period. This report should be available for use by the GEHA Board of Directors and for review by GEHA membership.

> Recommendation #3: Prepare annual financial statements for Board and membership information.

Approved For Release 2005/08/03 : CIA-RDP86-00964R000200070006-3

Approved For Release 2005/08/03 : CIA-RDP86-00964R000200070006-3
CONFIDENTIAL
Exhibit A

Government Employees Health Association, Inc.
Statement of Financial Position
31 December 1983 and 1982

ASSETS

	1983	1982
Cash	$ 489,923	$ 400,712
Investments (Note 1)	6,036,591	5,503,390
Claims receivable	130,359	37,761
Contingent assets:		
Funds withheld by underwriter for specified policyholders	99,000	139,666
Less: Reserves	(99,000)	(139,666)
Equipment (Net of depreciation)	578	1,156
Total assets	$6,657,451	$5,943,019

LIABILITIES AND RESERVES

Accounts payable	$ 27,795	$ 32,128
Prepaid premiums	197,783	137,009
Accrued salaries	11,774	33,034
Accrued dependent premiums	16,537	17,388
Total liabilities	$ 253,889	$ 219,559
Reserves (Exhibit B)	6,403,562	5,723,460
Total liabilities and reserves	$6,657,451	$5,943,019

Note 1: Investments are recorded at cost; market value at 31 December 1983 was $6,214,000 and at 31 December 1982 was $5,860,000.

Approved For Release 2005/08/03 : CIA-RDP86-00964R000200070006-3
CONFIDENTIAL