



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

Final Audit Report

**Audit of the Flexible Spending Account for
Federal Employees as Administered by
Automatic Data Processing, Inc. for
Contract Years 2011 through 2016**

Report Number 1N-0A-00-18-048

June 18, 2019

EXECUTIVE SUMMARY

*Audit of the Flexible Spending Account for Federal Employees
As Administered by Automatic Data Processing, Inc. for Contract Years 2011 through 2016*

Report No. 1N-0A-00-18-048

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Why Did We Conduct The Audit?

The objective of the audit was to determine whether costs charged to the Flexible Spending Account for Federal Employees program (FSAFEDS) and services provided to FSAFEDS participants were in accordance with the terms of Contract Number OPM0303000009 and the applicable Federal regulations.

What Did We Audit?

The Office of the Inspector General has completed a performance audit of the FSAFEDS as administered by Automatic Data Processing, Inc. (ADP). Our audit consisted of a review of cash management, claim benefit payments, and performance guarantees as they related to the FSAFEDS for contract years 2011 through 2016 (through closeout of the contract). We conducted a site visit from August 20 through 22, 2018, at ADP's office in Louisville, Kentucky. Additional audit fieldwork was completed at our offices in Washington, D.C. and Cranberry Township, Pennsylvania.



Michael R. Esser
*Assistant Inspector General
For Audits*

What Did We Find?

Our audit of the FSAFEDS as administered by ADP for contract years 2011 through 2016 (through the closeout of the contract) disclosed no findings pertaining to our reviews of cash management, claim benefit payments, and performance guarantees.

Accordingly, this final report contains no recommendations.

ABBREVIATIONS

5 CFR 890	Title 5, United States Code of Federal Regulations, Part 890
ADP	Automatic Data Processing, Inc.
Contract	Contract Number OPM0303000009
CYs	Contract Years
FSA	Flexible Spending Accounts
FSAFEDS	Flexible Spending Account for Federal Employees Program
OIG	Office of the Inspector General
OPM	U.S. Office of Personnel Management

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I. BACKGROUND

This report details the results of our audit of the Flexible Spending Account for Federal Employees program (FSAFEDS) as administered by Automatic Data Processing, Inc. (ADP), for contract years (CYs) 2011 through 2016 (through the closeout of the contract¹). The audit was conducted pursuant to the provisions of Contract Number OPM0303000009 (Contract) between the U.S. Office of Personnel Management (OPM) and ADP; Title 5, United States Code, Chapter 89; and Title 5, Code of Federal Regulations, Chapter 1, Part 890 (5 CFR 890). The audit was performed by OPM's Office of the Inspector General (OIG), as established by the Inspector General Act of 1978, as amended.

At the direction of the President, OPM implemented a Health Insurance Premium Conversion Plan, 5 CFR Part 550, in October 2000 for approximately 1.6 million executive branch employees who participate in the Federal Employees Health Benefits Program. Furthermore, 5 CFR Part 892 provides policies describing the features and operation of the premium conversion plan and the Flexible Spending Accounts (FSA), also referred to as reimbursement accounts, which provide tax advantages authorized under Section 125 of the Internal Revenue Code and are widely used by both private and public employers in the United States. This Federal program consists of more than 420,000 Federal employee participants.

OPM has the responsibility to maintain the OPM FSA website, liaison with Federal agencies, facilitate the promotion of FSAFEDS through Federal agencies, and be responsive on a timely basis to the contractor's requests for information and assistance. ADP was contracted by OPM, in March 2003, to administer the FSAFEDS. ADP's responsibilities under the Contract are carried out at its offices located in Louisville, Kentucky. The Contract includes a provision, I 11 52.246-4 Inspection of Services – Fixed Price (Aug 1996) (Deviation) (a), which allows for audits of the program's operations. The FSAFEDS Contract was transferred to the new contractor, Wage Works, following the expiration of ADP's Contract on August 31, 2016.

All findings related to the OIG's prior audit of FSAFEDS (Report Number 4A-RI-00-11-060, issued August 22, 2012) have been satisfactorily resolved.

We communicated the results of our audit to ADP on March 27, 2019. Since our audit did not identify any findings, we did not issue a draft report.

¹ Administration of FSAFEDS was transferred to the new administrator on September 1, 2016.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVE

The primary purpose of our audit was to determine whether costs charged to the FSAFEDS and services provided to FSAFEDS participants were in accordance with the terms of the Contract and Federal regulations.

Specifically, our audit objectives were to determine if:

Cash Management Review

- The employee allotments received from the payroll offices were accurately reported.
- Forfeitures were properly calculated and managed in accordance with the terms of the Contract.
- Interest earned and/or charged to FSAFEDS was calculated correctly, properly allocated, and appears reasonable.
- Funds borrowed to pay unfunded claims were properly returned to the risk reserve account.
- Funds were properly transferred to the new administrator at the termination of the Contract.

Claim Benefit Payments Review

- Claim amounts reported on annual accounting statements were reported correctly.
- Claims submitted to ADP electronically by carriers were accurately represented in ADP's claim system.
- Claims submitted to ADP by participants (online and paper claims) were properly paid by ADP.
- Uncashed checks were properly voided and returned to the risk reserve account in accordance with the terms of the Contract.

Performance Guarantees Review

- Performance guarantees stated in the Contract were met and if any penalties were accurately paid for missed guarantees.

SCOPE AND METHODOLOGY

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

This performance audit included reviews of cash management, claim benefit payments, and performance guarantees for CYs 2011 through 2016 (through the closeout of the Contract). A site visit was conducted August 20 through 22, 2018, at ADP's office in Louisville, Kentucky. Additional audit work was completed at our Cranberry Township, Pennsylvania and Washington D.C. offices.

The FSAFEDS is a valuable benefit that allows eligible employees to reduce their out-of-pocket expenses for everyday health and dependent care expenses and stretch their hard-earned dollars. Eligible employees reduce their out-of-pocket costs by opening a health care and/or a dependent care FSA. FSAs are tax-favored accounts that employers, including the Federal government, offer under Section 125 of the Internal Revenue Code. This section allows qualified health and dependent care expenses to be funded with pre-tax dollars via FSAs.

To accomplish these objectives, ADP collected FSA allotments, 100 percent of which was paid by the active Federal employees enrolled in the program through their payroll agencies, and reimbursed Federal employees for their applicable FSA claims as follows:

Year	Allotments	Claims
2011	\$824,821,427	\$818,737,151
2012	\$864,235,816	\$854,487,523
2013	\$750,575,982	\$743,730,764
2014	\$758,055,857	\$750,370,119
2015	\$810,321,128	\$779,972,494
2016 ²	\$538,088,051	\$476,314,400

In planning and conducting the audit, we obtained an understanding of ADP's internal control structure to help determine the nature, timing, and extent of our auditing procedures. This is 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. Additionally,

² Allotment and claim amounts reported for 2016 are through August 31, 2016, when the Contract was transferred to the new administrator.

since our audit would not necessarily disclose all significant matters in the internal control structure, we do not express an opinion on ADP's system of internal controls taken as a whole.

We also conducted tests of accounting records and other auditing procedures as we considered necessary to determine compliance with the Contract and Federal regulations. With respect to the items not tested, nothing came to our attention that caused us to believe that ADP had not complied, in all material aspects, with those provisions.

In conducting the audit, we relied to varying degrees on computer-generated data provided by ADP. 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 objectives.

To determine whether costs charged to the FSAFEDS and services provided to FSAFEDS participants were in accordance with the terms of the Contract and Federal regulations, we performed the following audit steps:

Cash Management Review

- We judgmentally selected the month with the highest dollar amount of deposits (July 2015, totaling \$78,714,983) from February through November 2015 (excluding January and December, which typically include monies received for other CYs, and with total amounts received of \$661,425,883), to reconcile the expected allotments and deposits to the actual allotments and deposits to determine if ADP accurately reflected the allotments received from the payroll office. Additionally, we reconciled ADP's summary of allotments to the bank statements for the month of July 2015 to determine if the employee allotments received from the payroll offices were accurately reported.
- We judgmentally selected CY 2015, with a universe of \$8,960,823 of forfeitures, to reconcile the forfeiture report from ADP to the annual accounting statements to determine if the forfeitures were properly calculated and managed in accordance with the terms of the Contract.
- We judgmentally selected a sample of investment fees to determine if interest earned and/or charged to FSAFEDS was calculated correctly, properly allocated and appears reasonable. Specifically, from CY 2015, with a universe of 12 months, with total investment fees due from OPM of \$81,792, we judgmentally selected the following:
 - The two months with the highest dollar amount of fees due from OPM (totaling \$27,207); and

- All months (three) where investment fees were due to OPM (totaling \$5,493).
- We reviewed all bank transfers to determine that funds borrowed to pay unfunded claims were properly returned to the risk reserve account.
- We reviewed all wire transfers from ADP to determine if funds were properly transferred to the new contractor at the termination of the Contract.

Claim Benefit Payments Review

- We reviewed ADP's uncashed check listings and bank statements for CYs 2011 through 2015 to determine if uncashed checks were properly voided and return to the risk reserve account in accordance with the terms of the Contract.
- We reconciled the claims paid reported in the annual accounting statements to ADP's schedule of claims paid and forfeiture reports for CYs 2011 through 2015 to determine if claims were reported correctly.

FSAFEDS claims consist of both claims submitted by participants (paper or electronic submissions) and those received electronically directly from participating Federal Employee Health Benefit Program health plans, also called Rollover Claims. Those claims received directly from the participating health plans are processed by ADP without change.

For purposes of our review of claim benefit payments, we limited our review to CYs 2015 and 2016.³ During this period, Rollover Claims accounted for 77.3 percent of the number of claims submitted to ADP. Due to this fact, our sample reviews of the Rollover Claims focused on verifying the accuracy of the data received from the participating health plans and our review of participant submitted claims focused on determining if those claims were allowable and properly paid by ADP.

- To determine the accuracy of Rollover Claims we selected a judgmental sample of 25 claims, totaling \$2,089, from a universe of 21,732,016 Rollover Claim, totaling \$598,046,309. Specifically, we selected the sample in the following manner:
 - We judgmentally selected our sample of 25 claims from those received electronically from the largest participating health carrier for the first week of 2015 (332,327 claims, totaling \$15,743,430).

³ The claim universes for 2015 and 2016 do not reconcile to the amounts reported in the page 3 table due to forfeiture amounts being included in the table totals and timing variances between the report and actual claims system totals (which we used).

- To determine if the participant submitted claims were allowable and properly paid by ADP, using SAS software we selected a random sample of 100 claims, totaling \$16,714, from the universe of 6,399,191 claims, totaling \$683,709,216. Specifically, we selected the sample using the following methodology:
 - From those claims paid for dependent care expenses, we randomly selected 10 claims per year. As a result, we reviewed 20 dependent care claims totaling \$12,619.
 - From those claims paid for health care expenses, we randomly selected 40 claims per year. As a result, we reviewed 80 health care claims totaling \$4,095.

Performance Guarantees Review

- For each CY, we reviewed all performance guarantees to determine if the guarantees were met and that any associated penalties were paid.

The samples mentioned above, that were selected and reviewed in performing the audit, were not statistically based. Consequently, the results could not be projected to the universe since it is unlikely that the results are representative of the universe taken as a whole.

III. RESULTS OF THE AUDIT

Our audit of the FSAFEDS as administered by ADP for CYs 2011 through 2016 (through the closeout of the Contract) disclosed no findings pertaining to our reviews of cash management, claim benefit payments and performance guarantees.



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