



US OFFICE OF PERSONNEL MANAGEMENT
OFFICE OF THE INSPECTOR GENERAL
OFFICE OF AUDITS

Final Audit Report

Subject:

**Audit of SHPS, Inc. as Administrator of the
Federal Flexible Spending Account Program
for Contract Years 2004 Through 2007
Louisville, Kentucky**

Report No. 4A-RI-00-08-015

Date: April 8, 2009

--CAUTION--

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UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

AUDIT REPORT

**AUDIT OF SHPS, INC. AS ADMINISTRATOR FOR
THE FEDERAL FLEXIBLE SPENDING ACCOUNT PROGRAM
FOR CONTRACT YEARS 2004 THROUGH 2007
LOUISVILLE, KENTUCKY**

Report No. 4A-RI-00-08-015

Date: April 8, 2009

A handwritten signature in black ink, appearing to read "Michael R. Esser", written over a horizontal line.

Michael R. Esser
Assistant Inspector General
for Audits



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

Office of the
Inspector General

EXECUTIVE SUMMARY

**AUDIT OF SHPS, INC. AS ADMINISTRATOR FOR
THE FEDERAL FLEXIBLE SPENDING ACCOUNT PROGRAM
FOR CONTRACT YEARS 2004 THROUGH 2007
LOUISVILLE, KENTUCKY**

Report No. 4A-RI-00-08-015

Date: April 8, 2009

This report details the results of our audit of the Federal Flexible Spending Account (FSA) Program operations at SHPS, Inc. (SHPS), in Louisville, Kentucky. The audit covered claim benefit payments, administrative fees and cash management activities for contract years 2005 through 2007. In addition, we reviewed SHPS's administration of the FSA Risk Reserve account from contract year 2004 through the transfer of the funds to the Office of Personnel Management (OPM) in October 2007. The audit identified \$267,596 in questioned costs. The questioned items are summarized below.

CLAIM PAYMENTS

• **Overpayments Incorrectly Identified as FSA Deficits**

SHPS incorrectly reported claim overpayments totaling \$153,080 as FSA deficits for contract years 2005 through 2007.

• **Overpayment Recoveries Not Returned to the FSA Election Account**

SHPS did not provide sufficient documentation to show that nine recoveries (checks received from participants for reimbursement of overpaid claims) totaling \$32,273 were returned to the FSA Election Account.

CASH MANAGEMENT

- **Uncashed Checks Not Returned to the FSA Risk Reserve**

SHPS retained uncashed FSA participant checks, totaling \$165,354, which have not been returned to the FSA Risk Reserve.

- **Unspecified Forfeitures Not Transferred to the FSA Risk Reserve**

SHPS did not transfer \$37,570 in “unspecified forfeitures” reported on SHPS’ OPM Program Income Statement for contract year 2006 to the FSA Risk Reserve.

- **All FSA Risk Reserve Funds Not Transferred to OPM**

SHPS did not transfer \$32,399 of the FSA Risk Reserve funds to OPM by October 2007, as requested by Contract Modification 4.

ADMINISTRATIVE FEES

We determined that the administrative fees charged by SHPS to the Federal agencies for administering the FSA Program were reasonable and in compliance with the terms of the Contract.

CONTENTS

	<u>PAGE</u>
EXECUTIVE SUMMARY	i
I. INTRODUCTION AND BACKGROUND.....	1
II. OBJECTIVES, SCOPE, AND METHODOLOGY	2
III. AUDIT FINDINGS AND RECOMMENDATIONS	6
A. <u>CLAIM PAYMENTS</u>	6
1. Overpayments Incorrectly Identified as FSA Deficits	6
2. Overpayment Recoveries Not Returned to the FSA Election Account.....	8
B. <u>CASH MANAGEMENT</u>	9
1. Uncashed Checks Not Returned to the FSA Risk Reserve	9
2. Unspecified Forfeitures Not Transferred to the FSA Risk Reserve	11
3. All FSA Risk Reserve Funds Not Transferred to OPM	11
C. <u>ADMINISTRATIVE FEES</u>	13
IV. MAJOR CONTRIBUTORS TO THIS REPORT	14
SCHEDULE A - SUMMARY OF QUESTIONED COSTS	
APPENDIX (SHPS's response, dated January 23, 2009, to the draft audit report)	

I. INTRODUCTION AND BACKGROUND

INTRODUCTION

This report details the findings, conclusions and recommendations resulting from our audit of SHPS, Inc. (SHPS), as administrator for the Federal Flexible Spending Account (FSA) Program. The audit was performed by the Office of Personnel Management's (OPM) Office of the Inspector General (OIG), as established by the Inspector General Act of 1978, as amended.

BACKGROUND

OPM is the executive branch agency with primary responsibility for the Federal Government's human resources management policy and structure. As part of its basic mission, OPM administers the Civil Service Retirement System, Federal Employees Retirement System, Federal Employees Health Benefits Program, Federal Employees Group Life Insurance Program, and the Long Term Care Program. OPM also exercises a leadership role in the development of new benefit programs for Federal employees.

At the direction of the President, OPM implemented a Health Insurance Premium Conversion Plan, 5 Code of Federal Regulations (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 Account, also referred to as reimbursement accounts, which provide tax advantages authorized under the Internal Revenue Code and are widely used by both private and public employers in the United States.

SHPS was contracted by OPM, in March 2003, to administer OPM Contract 0303000009 (the Contract), pursuant to the Request for Proposals (RFP) issued by OPM for qualified third party administrators to administer Health and Dependent Care Spending Accounts on a self-supporting basis for active civilian Federal employees.

Compliance with laws and regulations applicable to the FSA Program is the responsibility of SHPS management. Also, management of SHPS is responsible for establishing and maintaining a system of internal controls.

The audit of the FSA Program administered by SHPS was conducted pursuant to the Contract; 48 CFR Part 31; and 5 CFR Chapter 1, Part 892.

Our previous audit of SHPS as Administrator of the FSA Program (Report Number 4A-RI-00-05-010, dated September 2, 2005) covered contract years 2003 and 2004. This audit covered the start up and administrative costs for contract year 2003, and the handling of funds received from agencies and payroll offices for contract year 2004. All findings were resolved.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The primary purpose of the audit was to determine if SHPS administered the FSA Program in compliance with the Contract (and the applicable contract modifications) and 48 CFR Part 31 of the Federal Regulations. Specifically, our objectives for 2005 through 2007 were as follows:

Claim Payments

- To determine whether SHPS complied with the Contract's provisions relative to benefit payments.

Cash Management

- To determine whether SHPS handled FSA Program funds in accordance with applicable laws and regulations, OPM guidance, and the Contract.

Administrative Expenses

- To determine whether administrative fees were charged in accordance with the terms of the Contract and applicable regulations.
- To determine if administrative fees for health care and dependent care, and risk assessment fees paid by Government agencies were calculated correctly.

Additionally, our objectives relating specifically to the FSA Risk Reserve (FSARR) were to determine if SHPS properly accounted for all FSARR deposits (i.e., agency fees, investment income, dividends, performance penalties, etc.) and withdrawals from the risk reserve during contract years 2004 through 2007, and transferred all risk reserve funds on hand to OPM in October 2007 in accordance with the Contract.

SCOPE

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 provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit covered contract years 2005 through 2007 for our review of claim payments, cash management, and administrative expenses. Additionally, the audit covered the FSARR for contract year 2004 through October 2007. Audit field work was completed at SHPS's offices in Louisville, Kentucky, from April 14, 2008 through May 16, 2008. Additional work was accomplished in our Washington, D.C. office.

In conducting the audit, we relied to varying degrees on computer-generated data provided by SHPS. 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 audit testing, nothing came to our attention to doubt its reliability. We believe that the data was sufficient to achieve the audit objectives.

We obtained an understanding of SHPS'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 SHPS's internal control structure and its operation. However, since our audit would not necessarily disclose all significant matters in the internal control structure, we do not express an opinion on SHPS's system of internal controls taken as a whole.

We also conducted tests to determine whether SHPS had complied with the Contract, the applicable procurement regulations (i.e., Federal Acquisition Regulations, and the laws and regulations governing the FSA Program). 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 SHPS had not complied, in all material respects, with those provisions.

METHODOLOGY

SHPS provided MS Excel spreadsheets encompassing summary claim payment detail by FSA enrollee for 2006 and 2007. Due to the voluminous nature of this data the Health Care (HC) FSA universe for each year was provided in four different spreadsheets (HC1 through HC4 for purposes of the report). Dependent Care (DC) FSA and Limited Expense Health Care (LEX) FSA universes were also provided separately. As a result of these multiple spreadsheets our samples were selected judgmentally from each spreadsheet to ensure proper sample coverage. The universes for the HC FSA, DC FSA, and LEX FSA for 2006 and 2007 were as follows:

	2006	2007
HC FSA Enrollees	217,476	223,998
HC FSA Disbursements	\$365,048,482	\$389,441,197
DC FSA Enrollees	26,878	31,398
DC FSA Disbursements	\$96,398,143	\$107,643,494
LEX FSA Enrollees	519	939
LEX FSA Disbursements	\$673,327	\$1,081,392

To test SHPS's compliance with the Contract's provisions relative to claim payments we judgmentally selected 140 FSA enrollees with total disbursements of \$377,563 from contract years 2006 and 2007. Specifically, we judgmentally selected the 70 highest dollar FSA enrollees from each year (15 each from HC1 through HC4 and 5 each from DC FSA and LEX FSA) to

determine if the necessary documents were provided, if the deposits were accurate, and if the claims were correctly calculated and paid.

To test SHPS's compliance with the Contract's provisions relative to the accounting of forfeitures (forfeitures occur when FSA participants' reimbursed claims are less than their payroll deductions) and deficits (deficits occur when FSA participants' claims reimbursed exceed their payroll deductions, typically due to attrition), we judgmentally selected and reviewed the following:

- 120 FSA enrollees with high dollar forfeitures totaling \$408,238 (from a universe of 79,273 FSA enrollees with forfeitures of \$47,637,261). Specifically, we selected the top 10 FSA enrollees from contract years 2006 and 2007 with the highest forfeiture amounts from all 4 HC FSA spreadsheets, as well as the DC FSA and LEX FSA spreadsheets (60 from each year); and
- 85 FSA enrollees with deficits totaling \$328,638 [from a universe of 16,379 FSA enrollees with deficits totaling (\$6,295,288)]. Specifically, we selected the top 10 FSA enrollees with the highest deficit amounts from all HC FSA spreadsheets from contract years 2006 and 2007 (40 from each year) and the top 5 FSA enrollees with the highest deficit amounts from the 2007 LEX FSA spreadsheet.

To review SHPS's claims overpayment adjudication process, we judgmentally selected:

- 40 FSA enrollees with high dollar overpayments totaling \$103,344 (from a universe of 892 FSA Enrollees with overpayments totaling \$611,866). Specifically, we selected the top 10 HC FSA and DC FSA enrollees from contract years 2006 and 2007 (20 from each year) with the highest overpayments with recoveries; and
- 20 FSA enrollees with high dollar overpayment recoveries totaling \$69,289 (from a universe of 2,051 overpayment recoveries totaling \$683,200). Specifically, we selected the top 10 FSA enrollees with the largest overpayment recoveries for 2006 and 2007.

We reviewed all FSA uncashed checks using SHPS's uncashed check register from 2004 through 2007 to identify any outstanding participant claim reimbursement checks related to the 2005 and 2006 contract years. The universe consisted of 3,227 uncashed checks totaling \$548,987.

To test if SHPS followed its process for the receipt of payroll deductions and if it complied with the Contract we judgmentally selected a sample of 10 payroll deductions by payroll offices totaling \$43,544,552 (from a universe of \$1,346,579,424) from 2005 through 2007. Specifically, we selected the following:

- The three highest payroll deduction amounts (totaling \$6,242,356), by payroll office, from the 26th payroll period of 2005 (December 12, 2005 through December 31, 2005); and
- The three highest payroll deduction amounts (totaling \$18,455,145), by payroll office, from the 3rd quarter of 2006; and
- The four highest payroll deduction amounts (totaling \$18,847,051), by payroll office, from November 2007.

We judgmentally selected 10 agency invoices (from a universe of 714 invoices) issued by SHPS to determine if the invoice (for administrative and risk reserve fees) reconciled to the billing

support, and if the HC FSA counts reconciled to the actual enrollee numbers. Specifically, we selected the following:

- Three agency invoices from January 2006 and 2007; and
- Two agency invoices from October 2006 and 2007.

The samples mentioned above which 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.

We used the Contract and the Federal Acquisition Regulations to determine allowable, allocable, and reasonable administrative expenses charged against the Contract.

The results of the audit were provided to SHPS in a draft report, dated November 3, 2008, for review and comment. SHPS's comments on the draft report were considered in preparing the final report and are included as an Appendix to this report.

III. AUDIT FINDINGS AND RECOMMENDATIONS

SHPS administered the FSA Program in compliance with the Contract and all other applicable Federal regulations with the exception of the following areas.

A. CLAIM PAYMENTS

1. Overpayments Incorrectly Identified as FSA Deficits

Procedural

We identified 1,319 FSA enrollees who received \$153,080 in claim payments in excess of their election amounts from 2005 through 2007. These overpayments were incorrectly reported by SHPS as FSA deficits.

A deficit occurs when an FSA participant's total payroll deduction is less than the annual election amount (generally due to attrition) and the funds that have been collected are not adequate to cover the claims that SHPS has reimbursed to the participant. However, our review of the 2005 through 2007 FSA health claims showed instances where SHPS's health claim disbursement to the participants exceeded the participants' annual election amount. The election amount is the total the FSA participant chooses to have deducted from their pay and is the maximum they can be reimbursed if their claims exceed their election.

Our review found that SHPS incorrectly included these overpayments as part of the total annual FSA deficits. Overpayments of this type should be reimbursed to the FSA by the participant. According to the Contract and SHPS's internal procedures, the participant may reimburse SHPS directly (send a check to SHPS) or have the overpaid amount applied to the participant's future claims.

SHPS is responsible for taking steps to recover claims overpayments from the participants. In contrast, FSA deficits are netted against the FSA participant payroll contributions that are not used by the participants for reimbursement of health claims (i.e., forfeitures).

In the Contract, SHPS stated that if improper processing of claims results in an overpayment, the account would be frozen and no further activity would be allowed until the overpayment was resolved. SHPS would then send the participant a letter advising them of the overpayment and provide the option of reimbursing the overpayment in full by personal payment or deducting it from future claims payments. SHPS would make two subsequent attempts to contact the employee for reimbursement of the overpayment.

While on-site the SHPS claims operations department discussed its internal/corporate procedures for identifying and recovering claims overpayments with the OIG auditors. SHPS's internal procedures were consistent with those in the Contract.

By classifying these overpayments as deficits, SHPS did not follow its overpayment procedures and attempt recovery of the funds. This resulted in the FSARR not receiving \$153,080 that was paid to FSA enrollees in error from 2005 through 2007.

SHPS Comments:

SHPS disagrees with the finding and states that it identified a total of \$132,282 in unresolved overpayments for contract years 2005 through 2007 that meet the criteria questioned by the OIG. SHPS goes on further to state that while the contract does not provide specific language regarding resolution of outstanding overpayments, it considers this item to fall under the claims processing quality performance guarantee. The guarantee requires SHPS to maintain a 97 percent or greater level for claims processing quality. If SHPS failed to meet the guarantee it would be assessed a penalty. However, during this period SHPS maintained a level of 99.99 percent.

OIG Comments:

SHPS is incorrect in stating that the Contract does not provide specific language regarding the resolution of outstanding overpayments. SHPS's responses to the RFP have been incorporated into the Contract and are now considered to be part of the Contract by the OPM contracting office. As a result, SHPS's own policies regarding overpayments are the procedures that must be followed for the Contract.

We agree that claims overpayments questioned are processing errors. However, this type of overpayment should not be identified as a "deficit" to the FSA. A deficit account occurs when the participant did not meet his or her annual election amount (through FSA payroll allotments) but received the total annual election amount through claim reimbursement payments. An "overpayment" to a participant occurs when SHPS's total annual claim payments to a participant exceeds the participants' annual election amount.

We believe that although the claims processing error may be below the three percent error rate allowable per the guarantee, SHPS should take the necessary steps to correct and recover identifiable errors and implement controls to prevent this error from occurring in the first place.

Recommendation 1

We recommend that the contracting office ensure that SHPS understands its requirements under the Contract in regards to overpayments and that it follows those requirements in regards to all future FSA overpayments.

Recommendation 2

We recommend that the contracting office require SHPS to perform quarterly reviews of claims overpayments and to begin any necessary recovery processes.

Recommendation 3

We recommend that the contracting office modify the Contract to specifically define deficits and overpayments per the OIG comments above. The modifications should also address the consequences if the requirements related to overpayments are not followed.

2. Overpayment Recoveries Not Returned to the FSA Election Account \$32,273

SHPS did not provide support to show that nine recoveries (checks sent to SHPS by FSA participants for reimbursement of claim overpayments), totaling \$32,273, were deposited into the FSA Election Account.

We reviewed a judgmental sample of 20 recoveries (10 each from contract years 2006 and 2007) and found that 9 of the recoveries from 2006 were deposited into SHPS's Master FSA Composite Account (Concentration Account) instead of the FSA Election Account.

Based on our review of SHPS's flowchart of the various FSA accounts, the Concentration Account is a holding account used for the receipt of FSA funds from Federal agency payroll offices. The funds are held in the Concentration Account until they are transferred to the appropriate FSA account. The FSA Election Account is used to hold and disburse the funds used for reimbursement of FSA participant health benefit and dependent care claims or invested until needed to pay claims. Therefore claim overpayment reimbursements from FSA participants should be deposited into the FSA Election Account and not the Concentration Account.

Our review showed that the nine recoveries identified (totaling \$32,273) were deposited into the Concentration Account and not transferred to the FSA Election Account.

SHPS Comments:

SHPS agreed with the finding and stated that the recoveries have been transferred to the Election Account.

OIG Comments:

SHPS did not provide documentation to show that the overpayment recoveries were transferred to the FSA Election Account.

Recommendation 4

We recommend that the contracting officer ensure that SHPS has returned the \$32,273 to the FSA Election Account and provide documentation showing the funds were transferred.

Recommendation 5

We recommend that the contracting officer modify the Contract to require SHPS to perform monthly reconciliations of the FSA Concentration Account to ensure that all FSA funds are transferred to the proper accounts.

B. CASH MANAGEMENT

1. Uncashed Checks Not Returned to the FSA Risk Reserve **\$165,354**

SHPS did not return funds from uncashed FSA benefit payment checks issued from March 2004 through December 2006, totaling \$165,354, to the FSARR account.

This audit issue was also identified in our previous audit of this program; report number 4A-RI-00-05-010, dated September 2, 2005. The OIG recommended that the OPM contracting office provide SHPS with procedures for handling uncashed participant reimbursement checks. Subsequently, procedures were developed in agreement with the OPM contracting office before Modification 3 became effective and were eventually incorporated into Modification 3.

Modification 3, Exhibit A, 2.A. 4) a) iv) of the Contract, regarding reissued checks, requires SHPS to reissue checks to FSA participants whose uncashed checks, in an amount of at least \$25, have become stale. The Contract further states that SHPS must send a letter to FSA participants notifying them of the uncashed check and give them a specified period to respond, requesting that the check be reissued. Per SHPS internal uncashed check procedures, FSA participants have 30 days to respond to SHPS inquiries.

Additionally, Modification 3, Exhibit A, 5. B. of the Contract, regarding outstanding checks, states that in the event that an FSA participant reimbursement check remains outstanding 180 days following the end of the close out period, SHPS would then void the remaining uncashed checks and deposit the funds into the FSARR account within 20 days of the stop payment. Furthermore, it states that once the funds have been transferred to the FSARR account, SHPS shall not reissue any checks and shall not be liable to any FSA participant for those amounts. Per our discussions with SHPS, its internal policies and procedures state that the forfeited amounts are credited to the appropriate plan year on an annual basis.

Our review showed that SHPS did not review the uncashed checks on a regular basis. As a result, we identified 1,435 checks totaling \$165,354 that were not credited to the FSARR account.

SHPS Comments:

SHPS disagreed with the finding and stated that the criterion cited by the OIG in Modification 3 was effective January 1, 2007 (subsequent to the dates of the items in

question). However, it stated that it will work with OPM to develop a process for uncashed checks.

OIG Comments:

SHPS is correct that the criterion cited in Modification 3 is effective after the dates of the FSA reimbursement checks in question. However, as stated above, our previous audit identified that SHPS did not have procedures in place to handle 2004 uncashed participant reimbursement checks that were identified during the audit. The OIG recommended that the OPM contracting office provide SHPS with procedures for handling uncashed participant reimbursement checks.

Subsequently, procedures were developed in agreement with the OPM contracting office before Modification 3 became effective. As result, a reconciliation of 2004 uncashed checks was completed in 2006. While on-site, we were informed that a review of the 2005 uncashed checks was completed, however SHPS did not provide supporting documentation for this review. Therefore, we could not verify whether the review was completed. SHPS should continue its review of uncashed checks for contract years 2005 through 2007 as was done for contract year 2004.

Our review of the Modification 3 language regarding uncashed checks raises concerns about the length of time before an uncashed FSA reimbursement check can be returned to the FSARR account. Per the current language (180 days after the claims run out period), an uncashed check would not be eligible to be returned until November of the following year. For example, an FSA reimbursement check issued in January 2009 that goes uncashed will not be eligible to be transferred to the FSARR account until November 2010. Waiting this long is completely unnecessary as checks typically have a stale date 180 days after the issuance of the check and, in our opinion, SHPS should be allowed to act on any check after that date.

Recommendation 6

We recommend that the contracting officer review and revise the Contract language related to uncashed checks to allow SHPS to stop payment after the check reaches its stale date, and SHPS should then begin those procedures as outlined in the Contract.

Recommendation 7

We recommend that the contracting officer require SHPS to complete its reviews of uncashed checks for contract years 2005, 2006 and 2007. Upon completion of the uncashed check review, SHPS should provide the contracting office with documentation to support the results of its review and transfer of all uncashed check forfeitures to the FSARR account.

Recommendation 8

We recommend that the contracting officer require SHPS to complete quarterly reviews of uncashed checks and provide the contracting office with documentation to support completion of its review including the transfer of \$165,354 in uncashed check forfeitures to the FSARR account.

2. Unspecified Forfeitures Not Transferred to the FSA Risk Reserve \$37,570

SHPS did not transfer amounts reported as “unspecified forfeitures” on the SHPS OPM Program Income Statement for plan year 2006 to the FSARR account.

During our audit we reviewed the SHPS OPM Program Income Statement for 2006 and identified \$37,570 listed as “unspecified forfeitures.” We met with SHPS officials regarding this, informed them of our concerns, and requested additional documentation. However, SHPS has been unable to provide any documentation to support the “unspecified forfeitures” or what they represent. Through our review of the FSARR account, we determined that the “unspecified forfeitures” had not been transferred to the account as required by the Contract.

Modification 3, Exhibit A, 5. A. of the Contract regarding the return of forfeitures states that 180 days following the end of the claims run out period SHPS will refund to OPM any funds unclaimed by FSA participants.

SHPS Comments:

SHPS disagreed with the finding and stated that it believes that the cash received on the statement was overstated because refunds were not taken into consideration.

OIG Comments:

SHPS did not provide any documentation to support that the \$37,570 in “unspecified forfeitures” should not be returned to the FSARR account.

Recommendation 9

We recommend that the contracting officer require SHPS to transfer the \$37,570 in “unspecified forfeitures” to the FSARR or provide documentation to support that the cash received was overstated.

3. All FSA Risk Reserve Funds Not Transferred to OPM \$32,399

SHPS did not transfer \$32,399 of the FSARR funds to OPM by October 2007, as required by Contract Modification 4.

Modification 4 to the Contract states that SHPS is to transfer the full balance of the FSARR to OPM.

As a result of this modification to the Contract, SHPS transferred the administration of the FSARR account to OPM in October 2007. SHPS reconciled and closed its FSARR account and transferred \$18,463,807 to OPM on October 15, 2007.

To determine if the amount returned by SHPS was correct, we reconciled the FSARR account from its inception in January 2004 to the transfer to OPM in October 2007. We determined the total deposited into the FSARR account by reviewing SHPS accounting, billing and payment records/schedules, bank and investment statements, wire transfers, etc. The FSARR account deposits included Risk Reserve Fee payments from Federal agencies, forfeitures, earned interest, dividends, and performance penalties.

We also identified all withdrawals from the FSARR account from January 2004 through October 2007. We verified that all of the withdrawals from the FSARR account were properly authorized by the OPM Contracting Office. We subtracted the total withdrawals from the total amount deposited in the FSARR account from 2004 through October 2007.

We compared our reconciled balance of \$18,496,206 to the balance SHPS transferred to OPM, \$18,463,807 and determined the OPM is due \$32,399.

SHPS Comments:

SHPS disagrees with the finding and states that it isn't clear if market fluctuations were taken into consideration when determining the amount due to the FSARR account. As a result, SHPS does not agree that any funds are due to the FSARR account.

OIG Comments:

The OIG reconciliation of the FSARR account did take into account market fluctuations. Our review traced deposits and withdrawals to the investment accounts from 2004 through 2007. Our reconciliation of the ending balance and beginning balances took into consideration the market cost per share to determine the value of the portfolio at each year through the closing of the investment account. We feel that all losses and gains are already reflected in our reconciliation. It also concerns us that SHPS would categorically state our calculations were incorrect without asking for those calculations at any point during its review of our draft audit report.

Recommendation 10

We recommend that the contracting office require SHPS to transfer \$32,399 to the FSARR account or provide a reconciliation that supports that all funds were appropriately transferred to OPM.

C. ADMINISTRATIVE FEES

We determined that the administrative fees charged by SHPS to the Federal agencies for administering the FSA Program were reasonable and in compliance with the terms of the Contract.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Special Audits Group

██████████ Auditor-In-Charge

██████████ Auditor

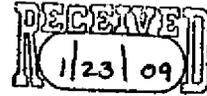
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AUDIT OF SHPS, INC., AS ADMINISTRATOR OF
THE FEDERAL FLEXIBLE SPENDING ACCOUNT PROGRAM
LOUISVILLE, KENTUCKY

REPORT NUMBER: 4A-RI-00-08-015
SUMMARY OF QUESTIONED COSTS

QUESTIONED COSTS	2004	2005	2006	2007	Total
A. CLAIM PAYMENTS					
1. Overpayments Incorrectly Identified as FSA Deficits	\$0	\$0	\$0	\$0	\$0
2. Overpayment Recoveries Not Returned to the FSA Election Account	0	0	32,273	0	32,273
TOTAL CLAIMS BENEFIT PAYMENTS QUESTIONED	\$0	\$0	\$32,273	\$0	\$32,273
B. CASH MANAGEMENT					
1. Uncashed Checks Not Returned to the FSA Risk Reserve	\$1,667	\$401	\$163,286	\$0	\$165,354
2. Unspecified Forfeitures Not Transferred to the FSA Risk Reserve	0	0	37,570	0	37,570
3. All FSA Risk Reserve Funds Not Transferred to OPM	0	0	0	32,399	32,399
TOTAL CASH MANAGEMENT COSTS QUESTIONED	\$1,667	\$401	\$200,856	\$32,399	\$235,323
TOTAL QUESTIONED COSTS	\$1,667	\$401	\$233,129	\$32,399	\$267,596



January 23, 2009

U.S. Office of Personnel Management
Office of the Inspector General
Attn: [REDACTED]
1900 E Street, NW, Rm. 6400
Washington, DC 20415-1100

RE: Report No. 4A-R1-00-08-015

Dear [REDACTED]

SHPS is pleased to provide you with our response to the recommendations that were presented as a result of the recent audit of the FSAFEDS program by the Office of the Inspector General (OIG). For your convenience, we have provided a separate response for each item outlined in the OIG's report.

If you have any questions after reviewing our feedback, please do not hesitate to contact us for clarification.

Sincerely,

[REDACTED]
Vice President of Finance
SHPS Human Resource Solutions, Inc.
9200 Shelbyville Road, 2nd Floor
Louisville, KY 40222
[REDACTED]

A. Health Benefit Claim Payments

Recommendation 1: Overpayments Incorrectly Identified as FSA Deficits

The OIG recommends that the contracting officer require SHPS to return \$154,895 to OPM to be credited to the FSA Risk Reserve.

SHPS Response:

The OIG identified \$49,591.00 in overpayments for the 2005 plan year that did not appear to be resolved. SHPS was able to reconcile to this amount but disputes \$2,411.02. This total represents election increases made by participants as a result of approved election changes. The forfeiture report used during the review does not include election changes made during the year.

The OIG identified \$84,892.00 in overpayments for the 2006 plan year that did not appear to be resolved. SHPS is unable to reconcile to this amount. SHPS review of the report identified a total of \$79,460.42 for a variance of \$10,501.58. Of the total amount SHPS identified, \$8,390.74 is not applicable because that amount represents election increases made by participants as a result of approved election changes. The forfeiture report used during the review does not include election changes made during the year.

The OIG identified \$20,412.00 in overpayments for the 2007 plan year that did not appear to be resolved. SHPS is unable to reconcile to this amount. SHPS review of the report identified \$24,986.27 for a variance of \$4,574.37. Of the total amount SHPS identified, \$10,954.26 is not applicable because that amount represents election increases made by participants as a result of approved election changes. The forfeiture report used during the review does not include election changes made during the year.

In summary, the OIG found a total \$154,895 in unresolved overpayments. SHPS identified a total of \$153,897.69, for a difference of only \$857.31 across all plan years. Of that total, \$132,281.67 was determined to be a result of unresolved overpayments that exists for plan years 2005, 2006 and 2007. However, SHPS does not agree that financial restitution is required. While the contract does not provide specific language regarding resolution of outstanding overpayments, SHPS considers this item to fall under the claims processing quality performance guarantee. That guarantee requires SHPS to maintain a 97% or greater level for claims processing quality. If SHPS fails to meet the 97% quality mark, a 2% penalty payment will be assessed based upon the estimated revenue for the effective quarter.

SHPS calculated the processing claims quality for overpayments utilizing the service level agreement logic outlined in the contract. The calculation details are below.

Plan Year	Disbursements	SHPS Overpayment	% of Error
2007	\$533,593,440.40	\$14,032.10	0.003%
2006	\$460,372,357.24	\$71,069.68	0.015%
2005	\$352,505,471.08	\$47,179.98	0.013%
Overall	\$1,346,471,268.72	\$132,281.76	0.010%

The calculation shows the percentage of error is well below 1% so the overpayments identified are well within the required performance standard for claims quality, and as a result, restitution is not required.

Recommendation 2: Overpayment Recoveries Not Returned to the FSA Election Account

The OIG recommends that the contracting officer require SHPS to transfer and confirm the transfer of \$32,273 to the FSA Election Account.

SHPS Response:

SHPS agrees overpayment recoveries that should have been deposited into the 'election' account were deposited, in error, into the 'concentration' account. This error was subsequently identified during the monthly reconciliation process and transferred to the correct account. SHPS can identify all of the deposits that were initially deposited into the incorrect account prior to the reconciliation.

In addition, all OPM bank accounts operated by SHPS are interest bearing so neither the election or concentration accounts experienced a loss of interest income. Regardless of the purpose of the account or the duration of the deposit, SHPS will always maximize the interest earnings.

Base upon these findings, SHPS does not agree that any financial restitution is warranted. There is no financial impact to the government, thus no correction is needed.

DELETED BY OPM-OIG

NOT RELEVANT TO FINAL REPORT

DELETED BY OPM-OIG

NOT RELEVANT TO FINAL REPORT

Recommendation 5 – 6: Un-cashed checks >1 Year Not Returned to the FSA Risk Reserve

The OIG recommends that the contracting officer require SHPS to return \$165,354 to the OPM FSA risk reserve account for forfeited un-cashed benefit payment checks.

The OIG also recommends that the contracting officer ensures that SHPS performs an annual reconciliation of un-cashed checks to identify and return un-cashed forfeited checks over one year old to the OPM FSA Risk Reserve. Upon completion of the annual un-cashed check reconciliation, provide the contracting office with documentation to support completion of reconciliation and transfer of un-cashed check forfeitures to OPM Risk Reserve Account.

SHPS Response:

SHPS confirmed that the OIG's findings reference Modification 3 of the contract. Modification 3 was effective 1/1/2007, but your findings are relative to un-cashed checks from March 2004 through December 2006. SHPS agrees to cooperate with OPM to develop, or re-instate, the previous un-cashed check process to reach resolution on this item.

Recommendation 7: Forfeitures Not Transferred

The OIG recommends that the contracting officer require SHPS to transfer \$37,570 in unspecified forfeitures to OPM to be credited to the FSA Risk Reserve Account.

SHPS Response:

Forfeitures are calculated by taking the difference between the cash received and claims paid. SHPS believes the cash received was overstated because refunds were not taken into consideration. Refunds must be netted against total deposits. Refunds are necessary due to participant error, qualifying life event or payroll deduction error. SHPS does not agree that \$37,570 needs to be transferred to the FSA Risk Reserve Account.

Recommendation 8: Risk Reserve Funds Not Transferred

The OIG recommends that the contracting officer require SHPS to transfer \$32,399 to the OPM Risk Reserve.

SHPS Response:

The findings indicate the difference was calculated by simply comparing deposits to withdrawals. It is not clear to SHPS as to whether market fluctuations were taken into account when determining this amount. The funds in the FSA Risk Reserve Account were always invested into one or more bond funds. The balance of those bond funds can only be determined by understanding the share price at the time of the deposit or withdrawal. As a result, SHPS does not agree that any restitution is warranted. If the OIG can provide details as to whether or not market fluctuations were considered, SHPS is willing to revisit this recommendation.

Overall Summary

The OIG recommends a total of \$630,395 be deposited into the FSA Risk Reserve Account. Based on the review of the recommendations and the research details provided, SHPS does not agree that any transfer of funds is required.