



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

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# Final Audit Report

Subject:

**AUDIT OF THE OFFICE OF PERSONNEL  
MANAGEMENT'S OVERSIGHT OF THE FEDERAL  
FLEXIBLE SPENDING ACCOUNT PROGRAM  
WASHINGTON, DC**

**Report No. 4A-RI-00-12-024**

**Date: February 6, 2013**

--CAUTION--

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## AUDIT REPORT

**AUDIT OF THE OFFICE OF PERSONNEL  
MANAGEMENT'S OVERSIGHT OF THE FEDERAL  
FLEXIBLE SPENDING ACCOUNT PROGRAM  
WASHINGTON, DC**

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**CONTRACT NUMBER: OPM030300009**

Report No. 4A-RI-00-12-024

Date: 02/06/13



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

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## EXECUTIVE SUMMARY

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**AUDIT OF THE OFFICE OF PERSONNEL  
MANAGEMENT'S OVERSIGHT OF THE FEDERAL  
FLEXIBLE SPENDING ACCOUNT PROGRAM  
WASHINGTON, DC**

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**CONTRACT NUMBER: OPM030300009**

**Report No. 4A-RI-00-12-024**

**Date: 02/06/13**

The enclosed audit report details the results of our audit of the Office of Personnel Management's (OPM) oversight of the Federal Flexible Spending Account Program (FSAFEDS) for the years 2006 through 2009. The primary objective of our audit was to determine whether OPM administered the FSAFEDS program in accordance with 5 CFR Parts 890 and 892 and OPM's contract [Contract Number OPM030300009 (the Contract)] with SHPS (Sykes Enterprises and Health Plan Services). The audit was performed in our Washington, D.C. office from March 26, 2012 to July 6, 2012.

The results of our audit have been summarized below.

### **PROGRAM OPERATIONS**

Our review concluded that the job descriptions of the departments involved with the administration of the FSAFEDS program adequately cover the duties and responsibilities necessary to administer the program under the Contract.

## **CASH MANAGEMENT ACTIVITIES**

- **No Annual Review of the Risk Reserve Fee** **Procedural**

OPM was unable to provide documentation to support its annual reviews of the Risk Review surcharge (Risk Reserve fee) as required by the Contract.

## **FRAUD AND ABUSE**

Our review of OPM's policies and procedures for fraud and abuse showed that they were sufficient to detect and deter potential fraud and abuse activities.

## **PROGRAM IMPROVEMENT AREAS**

In addition to the above, we identified the following program improvement areas:

- **No Policies and Procedures for Administering the Risk Reserve** **Procedural**

OPM had no policies and procedures in place for maintaining and reconciling the Risk Reserve account and for reviewing the Risk Reserve fee.

- **Erroneous Charges to the Trust Fund** **Procedural**

OPM erroneously charged FSAFEDS salary-related expenses to the Trust Fund account.

- **No Resolution of Program's Internal Review Recommendations** **Procedural**

OPM did not formally resolve open items from a review of FSAFEDS that was issued on November 6, 2007, by OPM's Center for Internal Control and Risk Management.

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# **I. INTRODUCTION AND BACKGROUND**

## **INTRODUCTION**

This report details the results of our audit of the Office of Personnel Management's (OPM) oversight of the Federal Flexible Spending Account Program (FSAFEDS) for the years 2006 through 2009. The audit was conducted pursuant to the provisions of 5 CFR Parts 890 and 892 and OPM's contract [Contract Number OPM030300009 (the Contract)] with SHPS (Sykes Enterprises and Health Plan Services). 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. The audit was performed in our Washington, D.C. office from March 26, 2012 to July 6, 2012.

## **BACKGROUND**

At the direction of the President, OPM implemented a health insurance premium conversion plan in October 2000 for approximately 1.6 million executive branch employees who participate in the Federal Employees Health Benefits Program. OPM also conducted a study of design and pricing options for medical and dependent care flexible spending accounts (FSAs) across the executive branch. Features and operation of the premium conversion plan and the FSAs are described in the Federal Flexible Benefits Plan under Title 5, Code of Federal Regulations (CFR), Part 890 and 892. These reimbursement accounts 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. In the years since their development, FSA programs have become an expected benefit that is popular among employees.

In 2002, OPM issued a request for proposal to solicit third party administrators who could provide FSA services to federal employees. In March 2003, SHPS was awarded the Contract, which includes provisions in section I.11 for audits and inspections of the FSAFEDS program operations.

OPM, through the collaborative efforts of its various offices, has the overall responsibility for oversight of the FSAFEDS program. OPM's oversight responsibilities are funded by budgeted appropriations and are not paid by federal employees through payroll deductions. OPM's oversight responsibilities include, but are not limited to, the following:

- to maintain and update the FSAFEDS program website;
- to annually review and set the Risk Reserve fee;
- to perform annual reconciliations of the Risk Reserve account,
- to act as a liaison between federal agencies and SHPS;
- to facilitate the promotion of the FSAFEDS Program in the Federal government; and
- to respond in a timely manner to a contractor's request for information and assistance.

This was our first audit of OPM's oversight of the FSAFEDS program.

## **II. OBJECTIVES, SCOPE, AND METHODOLOGY**

### **OBJECTIVES**

The primary objectives of this audit were to:

- Obtain reasonable assurance that OPM is providing proper oversight for the FSAFEDS program in accordance with 5 CFR Parts 890 and 892 and OPM's contract with SHPS [Contract Number OPM030300009].
- Ensure that the monies received to oversee the program are being used for program purposes.

### **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 the audit objectives.

To achieve the audit's primary objectives our work covered program operations, cash management and fraud and abuse for contract years 2006 through 2009. The audit was performed at our offices in Washington, D.C. from March 26, 2012, through July 6, 2012.

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

In conducting our audit, we relied to varying degrees on computer-generated data provided by the Plan. 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 cause us to doubt its reliability. We believe that the data was sufficient to achieve the audit objectives.

We also conducted tests to determine whether OPM had complied with the Contract, the applicable procurement regulations, (i.e., Federal Acquisition Regulations), and the laws and regulations governing the Program. Exceptions noted in the areas reviewed are set forth in the "Audit Findings and Recommendations" section of this report. With respect to the items not tested, nothing came to our attention that caused us to believe that OPM had not complied, in all material respects, with those provisions.

## METHODOLOGY

To determine whether OPM's oversight of FSAFEDS was in compliance with the Contract, and the FSAFEDS regulations (5 CFR Part 890 and 892), we performed the following audit steps:

### Program Operations

- Obtained an organizational breakdown and contact information of OPM's management and staff directly involved in the administration of FSAFEDS;
- Determined OPM's responsibilities related to its administration of FSAFEDS; and
- Determined what departments within OPM (i.e., Office of the Chief Financial Officer [OCFO], Call Center, Human Resources, Actuaries, etc.), perform duties for the Program to help in the administration of FSAFEDS and determined what services they provide.

### Cash Management

- Obtained an understanding of OPM's Risk Reserve fee, its calculation, and how often the fee was reviewed and/or recalculated;
- Performed a reconciliation of the Risk Reserve account for 2008 and 2009;
- Determined the policies and procedures in place for maintaining, reconciling and reviewing the Risk Reserve account;
- Determined OPM's process and procedures for budgeting monies it receives for FSAFEDS related services; and
- Determined if the findings and recommendations of OPM's Center for Internal Control and Risk Management's (CICRM) 2007 review of the FSAFEDS program have been resolved and closed.

### Fraud and Abuse

- Determined whether OPM had policies and procedures in place to prevent instances of fraud and abuse in its administration of FSAFEDS.

The results of our audit were discussed with OPM throughout the audit and at the exit conference. In addition, a draft report, dated July 12, 2012, was provided to OPM for review and comment. OPM's comments on the draft report were considered in the preparation of this final report and are included as an Appendix to this report.



### **III. AUDIT FINDINGS AND RECOMMENDATIONS**

#### **A. PROGRAM OPERATIONS**

Our review concluded that the job descriptions of the departments involved with the oversight of the FSAFEDS program adequately cover the duties and responsibilities necessary to administer the program under the Contract.

#### **B. CASH MANAGEMENT ACTIVITIES**

##### **1. No Annual Review of the Risk Reserve Fee**

##### **Procedural**

OPM was unable to provide documentation to support its annual reviews of the Risk Reserve surcharge (Risk Reserve fee) as is required by the Contract.

Modification 002 of the Contract states that beginning in 2004, “and in each future year, SHPS and OPM will make a good faith estimate of the risk surcharge necessary to recover and offset overpayments in that year.”

The Risk Reserve account, and related fee, was created by Modification 002 to the Contract on January 1, 2004, to recover and offset health care benefit overpayments at the end of any plan year. The Risk Reserve fee was originally assessed at \$3.50 per member per month (PMPM) for contract year 2004. In contract year 2008, the Risk Reserve fee was increased to \$4.50 PMPM. Finally, in contract year 2012 the fee was reduced to \$1.00 PMPM.

During our review we requested that OPM provide documentation of its annual reviews of the Risk Reserve fee. OPM was unable to provide any documentation to support the reviews because the previous Contracting Officer for the FSAFEDS program did not maintain that information and is no longer at OPM.

OPM stated that it does review the Risk Reserve fee annually. However, in a memorandum (dated October 11, 2011) regarding the 2012 reduction in the Risk Reserve fee, OPM states that it will reexamine the fee in mid-2013 for a possible change for the 2014 contract year. Here, OPM clearly states that it does not intend to review the Risk Reserve fee on an annual basis by skipping a review in 2012 for the 2013 contract year.

Our review of the Risk Reserve account as of the end of contract year 2011 found that the total of the reserves was \$37 million in excess of the target balance (\$53 million). Even with the recent decrease in the Risk Reserve fee, the Risk Reserve account is still expected to accumulate an additional \$7 million in funds for the 2012 contract year, leaving the Risk Reserve account overfunded.

As a result of the apparent lack of oversight of the Risk Reserve fee and the accumulating account balance, OPM has been charging Federal agencies more than what was needed to ensure an acceptable level of reserve funds.

### **Recommendation 1**

We recommend that OPM, through the collaborative efforts of its various offices, review the Risk Reserve account and assessed Risk Reserve fee on an annual basis and that it maintains documentation of the reviews.

#### **OPM's Comments:**

OPM concurs with the recommendation. However, it disagrees that there was “apparent lack of oversight of the Risk Reserve fee and accumulating account balance” and states that it will continue the ongoing communication between its various offices about the Risk Reserve fee and balance throughout the year. OPM stated that the Risk Reserve is currently evaluated annually to determine maintenance levels for the reserve as well as determining the fee charged to agencies. OPM also stated that although the annual review process was not documented adequately during the scope of the audit that annual reviews were completed and will continue to be.

#### **OIG's Comments:**

We accept OPM's comments and stress the importance of it maintaining complete documentation of the annual review process of the Risk Reserve account and Risk Reserve fee going forward.

### **Recommendation 2**

We recommend that OPM, through the collaborative efforts of its various offices, maintain the Risk Reserve fee at an amount near the recommended target balance.

#### **OPM's Comments:**

OPM partially concurs with this recommendation and states that the “risk reserve fund, in addition to being used to mitigate risk for claims and additional Program expenses, was also used to accumulate funds for the BENEFEDS Procurement that has been ongoing for several years.” Additionally, OPM stated that it is considering three potential methods to address the reserve funds that are above the target balance.

#### **OIG's Comments:**

We are encouraged by the beginning steps taken by OPM to address the overfunding of the Risk Reserve. However, as we were only provided meeting minutes of the proposal, we were unable to verify if the proposed methods would alleviate the issue.

### **Recommendation 3**

We recommend that OPM, through the collaborative efforts of its various offices, offset agency Risk Reserve payments until the excess reserves are reduced to the recommended target balance.

#### **OPM's Comments:**

OPM concurs with this recommendation and states that in 2011 it recognized that “the Risk Reserve balance was well above the target and after engaging OA and OCFO, reduced the fee from \$4.50 per member per month to \$1.00 per member per month beginning January 1, 2012.”

#### **OIG's Comments:**

We accept OPM's response. However, as stated in the finding, reducing the fee to \$1.00 PMPM will still maintain the reserve above the recommended target balance. Therefore, additional corrective action is necessary to reduce the reserve balance to its target.

### **C. FRAUD AND ABUSE**

Our review of OPM's policies and procedures for fraud and abuse showed that they were sufficient to detect and deter potential fraud and abuse activities.

### **D. PROGRAM IMPROVEMENT AREAS**

In addition to the audit finding above, we identified the following suggested areas for improving the program.

#### **1. No Policies and Procedures for Administering the Risk Reserve** **Procedural**

OPM has no policies and procedures in place for maintaining and reconciling the Risk Reserve account and for reviewing the Risk Reserve fee.

In its oversight of the FSAFEDS program, OPM has a fiduciary obligation to the program to maintain records and have policies and procedures in place for all aspects of administering the program and accounting for the funds associated with the program.

During our review, we issued information requests to OPM to determine the following:

- if reconciliations of the Risk Reserve account had been performed;
- the process for review of the fee and determination of the Risk Reserve fee; and
- what written policies and procedures regarding the Risk Reserve account exist.

We found that OPM had no documented policies and procedures related to the Risk Reserve fee and account. Specifically, we did not receive any documentation to show that reconciliations of the Risk Reserve account were performed. As previously stated,

OPM did not maintain documentation of its reviews of the Risk Reserve fee, and the extreme overfunding of the Risk Reserve account makes it appear that the only reviews performed were those done when fee adjustments were made and even these reviews were not done on an annual basis.

By not having policies and procedures in place for the maintenance and reconciliation of the Risk Reserve account and for the review and determination of the Risk Reserve fee, there is a risk of an inaccurate account balance and an over/under funded account. Formal policies and procedures promote accountability and assurance that the funds managed by OPM are properly maintained and accounted for.

#### **Recommendation 4**

We recommend that OPM, through the collaborative efforts of its various offices, work together to develop formal policies and procedures for the maintenance and reconciliation of the Risk Reserve account and for the review and determination of the Risk Reserve fee.

#### **OPM's Comments:**

OPM concurs with the recommendation and states that the OCFO will work with the Program Office to develop and update formal policies and procedures in this area.

OPM disagrees “with the characterization that ‘the extreme overfunding of the risk reserve account makes it appear that the only reviews performed were those done when fee adjustments were made and even these reviews were not done on an annual basis’.” It stated that it has informal ongoing communications between its various offices which were not maintained in the Contract file in the past and that it intended to document these communications in the future.

#### **OIG's Comments:**

We accept OPM's response. However, we must reiterate that our statement in the finding was made because of the fact that the Risk Reserve balance was found to be \$37 million in excess of the target balance and that none of OPM's various offices which administer the FSAFEDS program had any documentation to support the ongoing communications mentioned by OPM.

## **2. Erroneous Charges to the Trust Fund**

### **Procedural**

OPM erroneously charged FSAFEDS salary-related expenses to the Trust Fund (TF) account.

While reviewing salary expenses we discovered that some salary expenses had been incorrectly charged to the TF account, which FSAFEDS is not a part of. The Electronic Time and Attendance Management System (ETAMS) currently in use at OPM is set up to

charge salaries related to the FSAFEDS Program as a non-TF activity. However, ETAMS defaults to TF coding for other employee benefits (Leave [annual, sick, holiday, etc.]) which require manual transfers to correct. The Program Office provided us copies of the transfers that corrected the erroneous charges in 2009, but it was unable to provide transfers for any of the other years.

By having labor codes for FSAFEDS that are linked to the TF, the TF is at risk for unallowable expenses being charged to it.

### **Recommendation 5**

We recommend that OPM, through the collaborative efforts of its various offices, establish ETAMS coding that ensures that FSAFEDS, and other non-Trust Fund activity and employee benefit costs, are not incorrectly charged to the TF.

### **OPM's Comments:**

OPM concurs with the recommendation and states that it has inactivated the FSA labor codes for the Trust Fund in ETAMS and has also updated the default labor schedules of those employees who use the FSAFEDS TF labor codes. Consequently, FSAFEDS employee salary and benefit costs are no longer charged to the TF through ETAMS. OPM believes that this action is sufficient to close the recommendation.

### **OIG's Comments:**

We accept OPM's response. However, we are unable to close this recommendation because we could not verify that the labor codes had been inactivated based on the documentation provided.

## **3. No Resolution of Program's Internal Review Recommendations Procedural**

OPM did not formally resolve open items from a review of FSAFEDS that was issued on November 6, 2007, by OPM's CICRM.

During our review of the administration of the FSAFEDS program we became aware of a review that was done by OPM's CICRM in 2007 of FSAFEDS. We reviewed the final report and corrective action plan and determined several items remained unresolved on the corrective action plan. Of the 13 recommendations included in the review, 10 recommendations remained open. OPM concurred with 3 of the 10 open recommendations. However, there is no documented resolution of these issues. The remaining recommendations that OPM did not concur with related to the following:

- Contract Period of Performance;
- Risk Surcharge and Reserve Account;
- OIG Audit;
- Payment of Invoices;

- Recompensation of the FSAFEDS Contract;
- New Modification to the SHPS Contract; and
- Oversight by OPM's Senior Procurement Executive in relation to the recompetition.

We asked for a current update of the corrective action plan and found that no update existed in OPM's files. In fact, their systems show the review as closed. OPM also indicated that the remaining open items were not a priority of Senior Management at the time and that the main focus had been the Risk Reserve account.

After reviewing the open recommendations, we have concerns that some of these open items were not resolved. Specifically, when Public Law 108-136, Section 1127 was enacted making agencies responsible for paying the administrative fees for the FSAFEDS program, Modification 003 of the Contract was issued making the Federal Acquisition Regulations (FAR) applicable to the contract. FAR 17.104(a) sets length of contract limits on multi-year contracts. Therefore, we believe that the contract should have been rebid at the end of the initial contract term.

Additionally, OPM did not follow proper audit resolution procedures in their disagreement with the OIG audit of FSAFEDS startup costs.

Finally, we agree with the recommendation that the FSAFEDS invoices should contain contract and invoice numbers, sufficient detail on charges (including work performed), and annotations to indicate the reviews performed before payment is authorized.

By not following up and resolving open findings and/or recommendations, the program is at risk for lax internal controls and not adhering to laws, regulations and the contract itself.

**OPM's Comments:**

OPM partially concurs with the finding and states that it has "established processes and procedures in place to resolve findings and recommendations for its testing of financial reporting controls", and that the review in question was outside of the scope of the financial reporting control testing. OPM additionally states that it worked with its internal offices "to address the recommendations by providing the program's actions on the recommendations" and that "Once no additional information was requested and the audit was closed by the audit organization, there was no reason to question the closure." OPM, therefore, believes this recommendation should be closed.

Furthermore, since the 2007 audit in question, OPM stated that it has formalized its audit resolution function of all audits and reviews (including those pertaining FSAFEDS) and has developed a timeline with agreed upon steps for the resolution of all audits and reviews.

**OIG's Comments:**

We accept OPM's response and stress the need for OPM to follow-up on all audit recommendations until each is formally resolved. Had all recommendations from the CICRM audit been formally resolved and corrective actions properly implemented, audit issues identified in this report may have been reduced or eliminated in their entirety. As a result of OPM's efforts in establishing and implementing a process and procedures for resolving audit findings and recommendations, we have made no recommendation for this issue.

#### **IV. MAJOR CONTRIBUTORS TO THIS REPORT**

##### **Special Audits Group**

██████████, Auditor-In-Charge

██████████ Staff Auditor

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██████████, Group Chief ██████████

██████████, Senior Team Leader





## UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Healthcare and  
Insurance

SEP 17 2012

TO: [REDACTED] Chief  
Special Audits Group  
Office of Inspector General

FROM: SHIRLEY R. PATTERSON *Shirley R. Patterson*  
Assistant Director  
Federal Employee Insurance Operations

Subject: Response to Draft Audit Report on the Audit of the Federal Flexible Spending Account Program as Administered by the Office of Personnel Management (Report No. 4A-RI-00-12-024)

Enclosed is our response to the Draft Audit Report of the Federal Flexible Spending Account Program (FSAFEDS) as Administered by the Office of Personnel Management (Report No. 4A-RI-00-12-024). The report evaluated the FSAFEDS Program as administered by the Office of Personnel Management's (OPM) Healthcare and Insurance (HI) for contract years 2006 through 2009 and contained 8 procedural recommendations across several areas.

HI benefits from external evaluations and appreciates the opportunity to provide feedback to this draft report. While we have not concurred with all recommendations we welcome the opportunity to more fully discuss our position, if that would be helpful in providing context and clarity to the final report. Efforts to improve the review of financial documentation, evaluate and approve appropriate expenses, develop stronger controls and expand our procedures are underway and key stakeholders are working together to address the findings in the report.

To give context to the draft audit report, it should be noted that due to agency, as well as the Federal Employees Insurance Operation's (FEIO) reorganization(s), references to the "Program Office" are not synonymous with the current FEIO Contract and/or Resource Management Office (RMO) structures. FEIO's current RMO was established in 2011, well after the audit's scope of 2006 to 2009, when Insurance Services Program was organizationally linked to Retirement Services under Human Resources Products and Services and received RMO support from Retirement. In the aftermath of the 2011 re-organization, FEIO created its own RMO to provide work reporting, HR, budget and other support previously provided by Retirement. Additionally, the FSAFEDS contracting office and Contract Officer have changed as a result of the aforementioned organizational realignments.

Due to the broad audience of this audit report, including those who may access it via a Freedom Of Information Act (FOIA) request, we believe additional background on the program and description of its benefits and organizational structure is warranted. This will familiarize the

reader with the program's structure, features and organizational coordination required to administer and oversee FSAFEDS.

Administration of FSAFEDS is accomplished by several organizations across OPM. This necessitates coordination between HI (FEIO, RMO and Audit Resolution), the Office of the Actuary and the Office of the Chief Financial Officer and, occasionally, the Office of General Counsel. To assist in this coordination, we have leveraged the support of the Internal Oversight and Compliance to facilitate inter-organizational activities required to address and resolve Draft and Final audit findings that reach across functional and reporting authorities. Hence, we respectfully request that findings and recommendations be rewritten acknowledging the collaborative efforts required to administer FSAFEDS and to implement audit recommendations. We further request that the recommendations' wording to that used in the administration of FEDVIP audit, whose recommendations began:

"We recommend that OPM, through the collaboration efforts of its various offices,..."

Working in coordination with the Office of the Chief Financial Officer, Office of the Actuaries, SHPS, and Long Term Care Partners (BENEFEDS), the FSAFEDS Program Office is updating oversight procedures in the FSAFEDS Program. Updating these procedures ensures that all participants in the administration of the Program understand their obligations to send and receive funds, submit reports, and review data. Upon completion, the Program Office expects to memorialize these updated procedures in a Memorandum of Understanding and in contract amendments.

This, and other audits of our Individual Benefits' programs, represents an opportunity to further strengthen our oversight and administration of FSAFEDS through formalizing stakeholder roles, documenting procedures and, where necessary, review or amend contract language to clarify requirements and expectations to better meet the needs of the 330,000 participants in the program.

Deleted by OIG

Not relevant to the final report.

## **Cash Management Activities**

### **1. No Annual Review of the Risk Reserve Fee**

**Procedural**

Deleted by OIG

Not relevant to the final report.

### **Recommendation 1**

*We recommend that OPM, through the collaboration efforts of its various offices, reviews the risk reserve account and assessed risk reserve fee on an annual basis and that it maintains documentation of the reviews.*

***OPM Response*** – Concur– While we disagree that there was an “the apparent lack of oversight of the risk reserve fee and accumulating account balance” we concur with the recommendation and will continue our ongoing communication between the Program Office, OCFO, the Office of the General Counsel (OGC) and the Office of the Actuaries (OA) about the risk reserve fee and balance throughout the year.

The risk reserve is currently evaluated annually by the OA to determine the adequacy of level to maintain in the reserve as well as to determine the fee to charge agencies and payment sources for other compensation. The analysis of the risk reserve includes many variables associated with the Flexible Spending Account program such as forfeitures, previous year's balance, estimated take-up rate, paperless reimbursement, payment for claims not collected, etc. the Actuary's recommendations are sent to program office which evaluates their recommendation and responds to the OA. The result of this evaluation is communicated to agencies through a benefits administration letter.

Although this annual process was not adequately documented during the scope of this audit, the reviews were performed yearly and will continue.

Deleted by OIG

Not relevant to the final report.

### **Recommendation 2**

*We recommend that OPM, through the collaboration efforts of its various offices, maintains the risk reserve fee at an amount near the recommended target balance.*

***OPM Response*** – Partially Concur – See above. The risk reserve fund, in addition to being used to mitigate risk for claims and additional Program expenses, was also used to accumulate funds for the BENEFDS Procurement that has been ongoing for several years. In analyzing the Risk Reserve fee OA presented three potential ways to address the Risk Reserve account funds that are above the target level. FEIO will be recommending an aggressive strategy that 1) further reduces the Risk Reserve fee paid by agencies into the account; and 2) reduces the administrative fees paid by agencies to SHPS while reimbursing SHPS for that reduction out of the Risk Reserve. FEIO does not recommend eliminating these fee channels to avoid potential administrative burdens when they need to be reopened. This strategy saves money for participating agencies and reduces the excess funds at a moderate pace without creating administrative problems in the future.

We are including evidence of this collaboration and the options under consideration to reduce the risk reserve fee.

Deleted by OIG

Not relevant to the final report.

### **Recommendation 3**

*We recommend that OPM, through the collaboration efforts of its various offices, offset agency risk reserve payments until the excess reserves are reduced to the recommended target balance.*

***OPM Response*** – Concur – See response to Recommendation 2. The Program Office recognized in 2011 that the Risk Reserve balance was well above the target and after engaging OA AND OCFO, reduced the fee from \$4.50 per member per month to \$1.00 per member per month beginning January 1, 2012.

Deleted by OIG

Not relevant to the final report.

## Program Improvement Areas

In addition to the audit finding above we identified the following suggested areas for improving the program.

### 1. No Policies and Procedures for Administering the Risk Reserve Procedural

Deleted by OIG

Not relevant to the final report.

#### Recommendation 4

*We recommend that OPM, through the collaboration efforts of its various offices, work together to develop formal policies and procedures for the maintenance and reconciliation of the risk reserve account and for the review and determination of the risk reserve fee.*

OPM Response – Concur –

Deleted by OIG

Not relevant to the final report.

We disagree with the characterization that “the extreme overfunding of the risk reserve account makes it appear that the only reviews performed were those done when fee adjustments were made and even these reviews were not done on an annual basis”. There were, and continue to be, informal ongoing communication between the Program Office and the OCFO. While historically this coordination was not retained in the Contract file, efforts are now being taken to document these.

The OCFO will continue to update, monitor and review the risk reserve fees submitted for accuracy and completeness. In addition, the OCFO will work with the Program Office to develop and update formal policies and procedures in this area.

### 2. Program Office Costs in Excess of Budget and Erroneous Charges to the Trust Fund Procedural

Deleted by OIG

Not relevant to the final report.

#### Recommendation 6

We recommend the Director instruct the OCFO to establish ETAMS coding that ensures that FSAFEDS (and other non-Trust Fund activity) employee benefit costs are not incorrectly charged to the Trust Fund.

OPM Response – Concur.

Deleted by OIG

Not relevant to the final report.

Leave (annual, sick, holiday, etc.) defaults to TFA in trust fund organizations. This does not accurately distribute costs to the correct fund sources. A manual calculation and ET is required to correctly capture these indirect labor costs of a non-TFA activity. The Resource Management Office is currently updating system coding to more accurately assign and reflect Program expenses and activities.

OCFO Financial Services has inactivated the Flexible Spending Account labor codes for Trust Fund in ETAMS. Financial Services also updated the default labor schedules of those employees who used the FSAFEDS TF labor codes. As a result, FSAFEDS employee salary and benefit costs are no longer charged to the Trust Fund through ETAMS. Evidence of this action is included with this response. The OCFO and the Program Office believe this action is sufficient to close the recommendation.

Deleted by OIG

Not relevant to the final report.

### **3. No Resolution of Program's Internal Review Recommendations**

Deleted by OIG

Not relevant to the final report.

### **Recommendation 8**

*We recommend that OPM, through the collaboration efforts of its various offices, ensure that all findings and recommendations on any audit or review go through the proper resolution procedures and that they properly document the procedures taken to resolve the findings.*

***OPM Response*** – Partially Concur – OCFO has established processes and procedures in place to resolve findings and recommendations from its testing for financial reporting controls. The subject review was outside the scope of the financial reporting control testing. We believe this recommendation should be closed since the program office worked with the OCFO to address the recommendations by providing the program's actions on the recommendations. Once no additional information was requested and the audit was closed by the audit organization, there was no reason to question the closure. Where audit issues arise outside of Insurance Operations that affect the benefit programs, FEIO coordinates the resolution with the IOC.

Since this 2007 CICRM audit was issued, FEIO has formalized its audit resolution function, which handles all audits and reviews pertaining to FEIO. In 2011, working with OIG, OA and OGC, FEIO developed a timeline with agreed upon steps for the resolution of IG and other audits and reviews in accordance with OMB circular A-50. This agreement is included with this response.

Thank you for the opportunity to respond to this draft report. Please let us know if there are additional questions or a meeting would be helpful.