



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

Final Audit Report

**Audit of the Federal Flexible Spending
Account Program as Administered by
WageWorks, Inc. from
September 1, 2016, through December 31, 2018**

**Report Number 1N-0A-00-20-023
February 21, 2021**

EXECUTIVE SUMMARY

Audit of the Federal Flexible Spending Account Program as Administered by WageWorks, Inc. from September 1, 2016, through December 31, 2018

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Why Did We Conduct The Audit?

The objective of the audit was to determine whether costs charged to the Federal Flexible Spending Account program (FSAFEDS) and services provided to FSAFEDS participants were in accordance with the terms of Contract Number OPM3516C0003 and Federal regulations.

What Did We Audit?

The Office of the Inspector General has completed a performance audit of FSAFEDS as administered by WageWorks, Inc. (WageWorks). Our audit included reviews of WageWorks' administrative expenses, cash management, claim benefit payments, and performance guarantees during the period of September 1, 2016, through December 31, 2018. Our audit was conducted from June through December 2020, at our offices in Jacksonville, Florida and Cranberry Township, Pennsylvania.

What Did We Find?

Based on our audit reviews, we did not identify any audit findings or recommendations. As a result, we determined costs charged to the FSAFEDS program and services provided to FSAFEDS participants complied with the terms of its Contract and Federal regulations for the scope of our audit from September 1, 2016, through December 31, 2018.



Michael R. Esser
Assistant Inspector General
For Audits

ABBREVIATIONS

5 CFR	Title 5, United States Code of Federal Regulations
AAS	Annual Accounting Statements
Contract	Contract Number OPM3516C0003
FSA	Flexible Spending Account(s)
FSAFEDS	Federal Flexible Spending Account 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 Federal Flexible Spending Account program (FSAFEDS) as administered by WageWorks, Inc. (WageWorks) from September 1, 2016, through December 31, 2018. The audit was conducted pursuant to the provisions of contract number OPM3516C0003 (Contract) between the U.S. Office of Personnel Management (OPM) and WageWorks; Title 5, United States Code, Chapter 89; and Title 5, Code of Federal Regulations, Chapter 1 (5 CFR), Part 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. 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.

OPM has overall responsibility for administering the program, including the publication of program regulations and agency guidelines, and being responsive on a timely basis to the Contractor's request for information and assistance. WageWorks contracted with OPM, in March 2016¹, to administer FSAFEDS and provide administrative services associated with FSAFEDS for active civilian Federal employees. WageWorks' responsibilities under the Contract are carried out at its offices located in Louisville, Kentucky. We are conducting this audit pursuant to the Contract, Section D.1.3.3(2), which allows for audits of the program's operations. This was the first audit of FSAFEDS as administered by WageWorks. The results of our audit were discussed with WageWorks' officials at an exit conference on December 10, 2020.

¹ The contract was awarded to WageWorks in March 2016 and WageWorks began administration of the FSAFEDS operations on September 1, 2016.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The main objective of our audit was to determine whether costs charged to FSAFEDS and services provided to FSAFEDS participants were in accordance with the terms of the Contract and Federal regulations during the period of September 1, 2016, through December 31, 2018.

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, and 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 audit conclusion based on our audit objectives.

This performance audit included reviews of administrative expenses, cash management, claim benefit payments, and performance guarantees from September 1, 2016, through December 31, 2018. We conducted our audit from June through December 2020. Audit fieldwork was completed at our offices in Jacksonville, Florida and Cranberry Township, Pennsylvania.

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 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 an FSA.



**FSAFEDS is a
valuable benefit to
stretch employees
hard-earned
dollars.**

WageWorks collected and disbursed FSA allotments and claims on behalf of enrolled active Federal employees. Allotments represent the total amount of pre-tax gross income a participant deposits into their FSAFEDS flexible spending account for the benefit period; disbursements represent the amounts the participant received for claims reimbursement; and forfeitures represent any funds unclaimed by participants at the end of the annual benefit period. See Exhibit 1 for a Summary of WageWorks' Annual Accounting Statements by calendar year.

Exhibit 1

Summary of Annual Accounting Statements			
Year	Allotments	Claims	Forfeitures
2016 ²	\$846,415,293	\$836,023,137	\$10,397,216
2017	\$955,954,254	\$944,323,956	\$11,644,345
2018	\$1,031,346,252	\$1,018,846,353	\$12,513,013
Total	\$2,833,715,799	\$2,799,193,446	\$34,554,574

In planning and conducting the audit, we obtained an understanding of WageWorks' 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 audit testing, we did not identify any significant matters involving WageWorks' internal control structure and its operation. Since our audit would not necessarily disclose all significant matters in the internal control structure, we do not express an opinion on WageWorks' system of internal controls taken as a whole.

We also conducted tests to determine whether WageWorks complied with the Contract and Federal regulations governing FSAFEDS. With respect to the items not tested, nothing came to our attention that caused us to believe that WageWorks 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 WageWorks. 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 testing, 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 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:

A) Administrative Expense Review

- We verified the reasonableness, accuracy and completeness of WageWorks' FSAFEDS administrative expenses reported in its Annual Accounting Statements (AAS) to OPM for the scope of our audit.

² The 2016 AAS amounts are reflective of the period from March 1 through December 31, 2016.

- FSAFEDS Administrative Expenses Reported:
 - 2016 - \$ [REDACTED] (September through December)
 - 2017 - \$ [REDACTED]
 - 2018 - \$ [REDACTED]

B) Cash Management Review

- We determined WageWorks received a total of \$1,987,788,865³ in allotments for calendar year 2017 through 2018. From this population, we selected and reviewed the month with the highest allotments for each year, representing a total of \$199,827,419 in allotments. Specifically, we selected the month of June for 2017 and 2018, totaling \$96,729,025 and \$103,098,394, respectively. For our review, we reconciled the total amounts reported by the federal payroll offices to the total amounts received by WageWorks, to determine if the employee allotments received from the payroll offices were accurately reported.
- We reconciled WageWorks' forfeiture reports to the AAS for the scope of our audit, to determine if the forfeitures were properly calculated and managed in accordance with the terms of the Contract.
- We reviewed all WageWorks' interest summary reports and bank statements for the scope of our audit to determine if interest earned on FSAFEDS funds was calculated correctly, properly used to offset bank fees, and any excess interest was returned to the claims reimbursement account. Total interest earned and total bank fees paid over the scope of our audit totaled \$2,464,355 and \$1,047,059⁴, respectively. Excess interest returned to the FSAFEDS program totaled \$1,514,520.
- We reviewed WageWorks' uncashed check listings for the scope of our audit, to determine if uncashed checks were properly voided and reissued in accordance with the terms of the Contract.
- We reviewed WageWorks' start-up process to determine if any significant issues were encountered during the implementation of WageWorks' FSAFEDS Contract.

³ Total amount varies from Exhibit 1 due to accounting recognition methods. The allotments in the AAS were on an accrual basis and our Allotment Review was on a cash received basis.

⁴ Includes bank fees directly paid by WageWorks totaling \$97,224 due to insufficient interest earned in the month incurred.

C) Claim Benefit Payments Review

- We reconciled the paid claims reported in the AAS to WageWorks’ paid claims data for the scope of our audit, to determine if claims were properly reported.
- To determine if claims were allowable and properly paid, we judgmentally selected 150 claims from a universe of 36,700,808 claims processed by WageWorks. Refer to Exhibit 2 for the Summary of Samples Selected for Review.

EXHIBIT 2

Summary of Samples Selected for Review (September 1, 2016, through December 31, 2018)					
Review Type	Universe		Samples		
	Claim Count	Amount Paid	Selection Methodology	Claim Count	Amount Paid
1. Paid Claims	35,247,490	\$2,297,910,279	Random	100	\$7,707
2. Denied Claims ⁵	1,453,318	\$219,265,763	Random	50	\$4,427
Total	36,700,808			150	

1. Paid Claims Review

We stratified the data by incurred year of the audit scope and randomly selected 20 claims in 2016, 40 claims in 2017, and 40 claims in 2018. An incurred year represents the claim’s date of service. See the results below by each incurred year:

- 2016 - 20 claims, totaling \$1,628 in payments;
- 2017 - 40 claims, totaling \$2,720 in payments; and
- 2018 - 40 claims, totaling \$3,359 in payments.

2. Denied Claims Review

We stratified the data by incurred year of the audit scope and randomly selected 10 claims in 2016, 20 claims in 2017, and 20 claims in 2018. See below for the results by each incurred year:

- 2016 - 10 claims, totaling \$1,364 in denied payments;

⁵ We determined claims with a denial reason code of 32, meaning a subscriber’s allotment was exhausted before the end of the year, to be low risk; therefore, these types of claims were excluded from our sample selection and universe.

- 2017 - 20 claims, totaling \$2,182 in denied payments; and
- 2018 - 20 claims, totaling \$881 in denied payments.

3. Participant Amount Paid Greater than Allowed Review

From September 1, 2016, through December 31, 2018, there were on average 471,879 participants enrolled in FSAFEDS each year. From this population, we judgmentally set the sample size at 10 participants, to determine if a subscriber's payments exceeded their annual allotment election. Specifically, we randomly selected the following for each year:

- 2016 - two participants from our paid claims sample;;
- 2017 - four participants from our paid claims sample; and
- 2018 - four participants from our paid claims sample.

D) Performance Guarantees Review

- For each calendar year, we reviewed all performance standards provided in the Quality Assurance Surveillance Plan to determine if WageWork's actual performance met the quality performance standards defined in its contract with OPM. As an example, we reviewed performance standards related to developing and maintaining a project plan for the contract award, employee training, customer service, and claims processing.

When a performance standard was deficient, we reviewed the penalty amount calculated by WageWorks and verified that the funds were properly returned to FSAFEDS.

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

Based on our administrative expense, cash management, claim benefit payments and performance guarantees reviews, we did not identify any exceptions for the scope of our audit. We determined costs charged to FSAFEDS and services provided to FSAFEDS participants complied with the terms of the Contract and Federal regulations from September 1, 2016, through December 31, 2018.

**Wage Works
complied with
the terms of its
Federal
Contract for the
FSAFEDS
program**



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