



**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 HealthEquity, Inc. from
January 1, 2019, through December 31, 2022**

**Report Number 2024-SAG-005
July 17, 2024**

EXECUTIVE SUMMARY

*Audit of the Federal Flexible Spending Account Program as Administered by HealthEquity, Inc.
from January 1, 2019, through December 31, 2022*

Report No. 2024-SAG-005

July 17, 2024

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 its participants were in accordance with the U.S. Office of Personnel Management contract numbers 3516C0003 and 24361820D0002, and applicable federal regulations.

What Did We Audit?

The Office of the Inspector General has completed a performance audit of FSAFEDS as administered by HealthEquity, Inc. (Contractor). Our audit consisted of reviewing the administrative expenses, annual accounting statements, cash management, and performance guarantees for FSAFEDS operations during the period of January 1, 2019, through December 31, 2022. Audit fieldwork was completed from our office locations in Washington, D.C.; Jacksonville, Florida; and Cranberry Township, Pennsylvania due to the Contractor operating in a fully remote work environment.



Michael R. Esser
Assistant Inspector General for Audits

What Did We Find?

We identified \$372,666 in funds due back to FSAFEDS and found that the Contractor needs to strengthen its policies and procedures to ensure forfeitures and interest are properly returned to FSAFEDS, all performance guarantees are met, and any associated penalties are properly paid back to the program.

Specifically, our audit identified the following deficiencies that require corrective action:

- The Contractor did not properly return unclaimed funds (forfeitures) and interest earned from the 2020 and 2021 annual benefit periods, resulting in \$332,681 due back to FSAFEDS.
- The Contractor failed to pay one of its performance guarantee penalties in 2019 for \$39,985.

We did not identify any issues or exceptions from our reviews of administrative expenses and the annual accounting statements.

ABBREVIATIONS

5 CFR	Title 5, United States Code of Federal Regulations
Contractor	HealthEquity, Inc.
Contracts	OPM Contract Numbers 3516C0003 and 24361820D0002
FSAFEDS	Federal Flexible Spending Account Program
OIG	Office of the Inspector General
OPM	U.S. Office of Personnel Management
QASP	Quality Assurance Surveillance Plan

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REPORT FRAUD, WASTE, AND MISMANAGEMENT

I. BACKGROUND

This report details the results of our audit of the Federal Flexible Spending Account Program (FSAFEDS) as administered by HealthEquity, Inc. (Contractor) for the period of January 1, 2019, through December 31, 2022. The audit was conducted pursuant to the provisions of the U.S. Office of Personnel Management's (OPM) contract numbers 3516C0003 and 24361820D0002 (Contracts); Title 5, United States Code of Federal Regulations, Chapter 1, Subchapter B (5 CFR), Part 892; and 5 CFR, Part 550. 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 President William J. Clinton in October 2000, OPM implemented a Health Insurance Premium Conversion Plan, 5 CFR Part 550, for approximately 1.6 million executive branch employees. OPM also conducted a study of design and pricing options for implementation of medical and dependent care flexible spending accounts across the executive branch. Premium conversion plans allow employees to deduct their share of health insurance premiums from their taxable income, and flexible spending accounts provide tax advantages authorized under the Internal Revenue Code. Policies describing the features and operations of the premium conversion plan and flexible spending accounts, also referred to as reimbursement accounts, are provided in 5 CFR Part 892. Premium conversion plans and flexible spending accounts are widely used by both private and public employers in the United States.

OPM established FSAFEDS in 2003 and has overall responsibility for administering the program to include the publication of program regulations, creating agency guidelines, and being responsive on a timely basis to the Contractor's request for information and assistance. OPM contracted with WageWorks in March 2016 to administer FSAFEDS and provide administrative services associated with the program for active civilian federal employees. WageWorks was acquired by HealthEquity in June 2019. OPM's current contract is with HealthEquity.

We conducted this audit pursuant to Section D.1.3.3(2) of OPM's 2016 Contract and Section VI, Part E of OPM's 2020 Contract with the Contractor, which allows for audits of program operations. This was the first audit of FSAFEDS as administered by HealthEquity. However, the OIG conducted two previous audits of the program under the administration of two different contractors, which did not identify any findings or issues that required corrective actions. The results of our audit were discussed with HealthEquity's officials at an exit conference on February 13, 2024. In addition, we provided a draft report, dated March 8, 2024, to the Contractor for review and comment. We considered the Contractor's response to the draft report in preparing the final report and included the response as an Appendix to this report.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The main objective of the audit was to determine whether costs charged to FSAFEDS and services provided to its participants were in accordance with the terms of the Contracts and applicable federal regulations for the period of January 1, 2019, through December 31, 2022.

Our specific audit objectives were to determine if:

Administrative Expenses Review

- Administrative expenses were charged in accordance with the Contracts and federal regulations.

Annual Accounting Statements Review

- Revenue, expenses, and claims for FSAFEDS operations were accurately reported to OPM on an annual basis.

Cash Management Review

- Employee allotments received from the payroll offices were accurately reported.
- Forfeitures were properly calculated and returned in accordance with the terms of the Contracts.
- Interest earned on program funds was properly calculated, and if all excess interest was returned to the Risk Reserve Account after offsetting bank fees.

Performance Guarantees Review

- Performance guarantees were met, and if any penalties were properly paid for missed guarantees.

SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our 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.

This performance audit included reviews of the administrative expenses, annual accounting statements, cash management, and performance guarantees related to FSAFEDS operations for the period of January 1, 2019, through December 31, 2022. As part of our survey work, we

conducted pre-audit meetings with the Contractor during the month of October 2023. We completed audit fieldwork remotely from our offices in Washington, D.C.; Jacksonville, Florida; and Cranberry Township, Pennsylvania from November 2, 2023, through February 13, 2024.

FSAFEDS is a valuable benefit that allows eligible employees to reduce their out-of-pocket expenses for everyday health and dependent care expenses. Flexible spending accounts are tax-advantage 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 a flexible spending account. Each federal agency pays the service fees that represent the Contractor’s revenue. This allows every dollar allotment that is withheld from each federal employee’s pay to be spent on healthcare and dependent care expenses tax free. Additionally, each participant is allowed to carryover an unused portion of their allotment to the next calendar year, currently limited to \$640. Unused amounts that exceed the carryover limit (forfeitures) are paid back to OPM for deposit into the FSAFEDS Risk Reserve Account.

The Contractor collected and disbursed flexible spending account allotments and claims on behalf of enrolled active federal employees. Allotments represent the total amount of pre-tax 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 excluding carryovers. See Exhibit 1 for a summary of the Contractor’s financial statements by calendar year. Please note that the Contractor’s revenue is the amount paid by federal agencies as service fees, allotments are federal employee withholdings, and forfeitures are net of participant carryover amounts from one year to the next.

Exhibit 1 - Summary of Contractor’s Financial Statements for FSAFEDS Operations					
Year	Revenue	Expenses	Allotments	Claims	Forfeitures
2019	\$ ██████████	\$ ██████████	\$1,081,542,334	\$1,065,243,158	\$11,247,526
2020	\$ ██████████	\$ ██████████	\$1,058,661,191	\$1,046,639,235	(\$2,549,664)
2021	\$ ██████████	\$ ██████████	\$1,117,794,137	\$1,099,527,693	\$18,268,426
2022	\$ ██████████	\$ ██████████	\$1,158,541,623	\$1,120,843,295	\$42,905,633
Total	\$ ██████████	\$ ██████████	\$4,416,539,285	\$4,332,253,381	\$69,871,921

In planning and conducting the audit, we obtained an understanding of the Contractor’s internal control structure to help determine the nature, timing, and extent of our auditing procedures. We

determined this to be the most effective approach to select areas of audit. For those areas selected, we primarily relied on substantive tests of transactions and not tests of controls. Additionally, we do not express an opinion on the Contractor's system of internal controls taken as a whole since our audit would not necessarily disclose all significant matters in the internal control structures.

We also conducted tests of accounting records and other auditing procedures as we considered necessary to determine compliance with the Contracts and federal regulations governing FSAFEDS. 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 the Contractor had not complied, in all material respects, with those provisions.

In conducting the audit, we relied to varying degrees on computer-generated data provided by the Contractor. Due to time constraints, we did not verify the reliability of the data generated by the various information systems involved. However, while utilizing the computer-generated data during our audit, nothing came to our attention to cause us to doubt its reliability. We believe that the data was sufficient to achieve our audit objectives.

To determine whether costs charged to FSAFEDS and services provided to its participants were in accordance with the terms of the Contracts and applicable federal regulations for the period of January 1, 2019, through December 31, 2022, we performed the following audit steps:

Administrative Expenses Review

- We traced administrative expenses from cost centers back to each agency's billing invoices and task orders to ensure that the Contractor's administrative fees were properly calculated and charged in accordance with the Contracts and federal regulations.

Annual Accounting Statements Review

- We reconciled revenue, expenses, and claims reported in the annual accounting statements to support documentation to determine if the Contractor accurately reported its FSAFEDS operations to OPM.

Cash Management Review

- For each calendar year, we judgmentally sampled the month with the highest dollar amount of allotments, excluding the first and last month due to carryovers, (4 months totaling \$469,498,583 out of 48 months totaling \$4,502,226,252) to reconcile the total allotments reported by federal payroll offices with the amounts received by the

Contractor to determine if the Contractor accurately reported employee allotments received from the payroll offices.

- We reconciled forfeitures reported in the financial statements with the returns shown in bank statements to determine if forfeitures were properly calculated and managed in accordance with the terms of the Contracts.
- We reconciled the interest returned to OPM from the bank statements with the interest summary reports to determine if the Contractor correctly calculated and returned interest to the Risk Reserve Account net of any banking fees.

Performance Guarantees Review

- We reviewed the performance standards and results in the Contractor's Quality Assurance Surveillance Plan (QASP) to determine if the Contractor's performance standards were properly calculated and any associated penalties were correctly paid.

The sample mentioned above, that was selected and reviewed in performing the audit, was 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. AUDIT FINDINGS AND RECOMMENDATIONS

A. ADMINISTRATIVE EXPENSES REVIEW

The results of our review showed that the administrative expenses and fees charged by the Contractor for FSAFEDS operations were in accordance with the Contracts and federal regulations.

B. ANNUAL ACCOUNTING STATEMENTS REVIEW

The results of our review showed that the 2019 through 2022 annual accounting statements for FSAFEDS operations were accurate and properly reported, excluding any variances identified in our cash management review.

C. CASH MANAGEMENT REVIEW

1. Forfeitures and Interest Not Properly Returned \$332,681

We found that the Contractor miscalculated its transfers of program funds to OPM for unclaimed funds (forfeitures) and interest following the end of the 2020 and 2021 annual benefit periods, resulting in \$332,681 due back to FSAFEDS.

The Contractor failed to return \$332,681 in forfeitures and interest earned on program funds in 2020 and 2021.

Section VI, Part B.2. of the 2020 Contract states, “No later than ninety (90) days following the end of the annual benefit period (including a grace period, if applicable), the Contractor shall transfer to OPM any funds unclaimed by participants plus funds from any outstanding checks along with any applicable interest for addition in the Risk Reserve Account.”

Based on our review of the forfeiture reports, bank statements, and interest earned during the scope of the audit, we found that several errors occurred with FSAFEDS program funds that were transferred to OPM at the end of the 2020 and 2021 annual benefit periods. Specifically, the following three errors occurred:

- \$276,947 in interest was underpaid to OPM from the program account following the end of the 2020 annual benefit period due to an oversight that occurred because there were no forfeitures from that period and therefore processes were not followed.
- \$60,096 in FSAFEDS program funds for forfeitures was underpaid to OPM following the end of the 2021 annual benefit period due to an inappropriate offset to carry that forfeiture amount forward which was then unaccounted for in future years.

- \$4,362 in interest was overpaid to OPM for the 2021 annual benefit period due to a miscalculation in bank fees that offset interest earned.

As a result of these three errors, FSAFEDS was due back \$332,681. The Contractor agreed and returned \$332,681 from the program account to OPM and FSAFEDS for errors in the calculation of forfeitures and interest from the 2020 and 2021 annual benefit periods.

Recommendation 1

We recommend that OPM’s Contracting Officer verify \$332,681 was properly credited to FSAFEDS on December 27, 2023, for errors in the calculation of forfeitures and interest from the 2020 and 2021 annual benefit periods.

Recommendation 2

We recommend that the Contractor implement policies and procedures to ensure that the funds for interest earned are transferred to OPM at the end of each annual benefit period, regardless of any forfeitures due back to FSAFEDS.

Recommendation 3

We recommend that the Contractor improve its policies for calculating forfeitures at the end of each annual benefit period to include proper accounting of any forfeitures carried forward to the next benefit period.

Contractor’s Response

The Contractor agreed with the finding and recommendations.

D. PERFORMANCE GUARANTEES REVIEW

1. Missed Performance Metric with Penalty Due **\$39,985**

We found that the Contractor failed to meet the minimum Acceptable Quality Level for the performance standard related to Call Monitoring and Quality in the second quarter of 2019, resulting in a \$39,985 penalty due to FSAFEDS.

According to the 2016 Contract, Customer Service Metric 1.4, Call Monitoring and Quality, of the QASP requires the Contractor to physically record **greater than 99.5 percent** of FSAFEDS participant calls. Failure to meet this metric is equal to a reduction of one percent of the service charge for the corresponding period.

We compared the results reported by the Contractor in its FSAFEDS Service Level Quarterly Reports to the performance guarantees in the QASP for the scope of the audit to determine if the Contractor met the quality performance standards defined in the Contracts. Although several performance standards were missed and their appropriate penalties paid, we found one additional metric that was not properly reported. Our review showed that the Contractor recorded 99.47 percent of participant calls in the second quarter of 2019. The Contractor reports its results rounded to the nearest tenth of a percent. The Contractor's rounded results of 99.5 percent were still below the minimum Acceptable Quality Level for the performance standard to record **greater than 99.5 percent** of all calls. The Contractor acknowledged that its performance related to this guarantee was just shy of the goal and stated that it considered the rounded results to meet the performance standard.

The Contractor failed to pay FSAFEDS a \$39,985 penalty for one of its missed performance standards in 2019.

As a result of the missed performance metric, we found that the Contractor owed OPM and FSAFEDS an additional penalty in the amount of \$39,985 for 2019. The Contractor agreed and paid \$39,985 to OPM and FSAFEDS during the audit for the missed performance standard related to Call Monitoring and Quality from the second quarter of 2019.

Recommendation 4

We recommend that OPM's Contracting Officer verify that \$39,985 was properly credited to FSAFEDS on February 7, 2024, for the missed performance standard related to Call Monitoring and Quality from the second quarter of 2019.

Recommendation 5

We recommend that the Contractor identify the steps necessary to improve its performance in the administration of FSAFEDS to ensure that all quality levels are met, and any corresponding penalties are properly paid if the Contractor fails to meet one of the metrics.

Contractor's Response

The Contractor agreed with the finding and recommendations.

APPENDIX

HealthEquity

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March 25, 2024

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RE: FSAFEDS Audit – Years 2019-2022 / Report Number 2024-SAG-005

Dear Mr. Johnson,

HealthEquity agrees with the findings and recommendations in the report.

Sincerely,



Danielle A. Higdon, PMP
Vice President Relationship Management
HealthEquity



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