




**June 12, 2024**

**To:** Finance and Administration Committee

**From:** Darrell E. Johnson, Chief Executive Officer   
Janet Sutter, Executive Director   
Internal Audit

**Subject:** Flexible Spending Account Program, Internal Audit Report  
No. 24-511

### **Overview**

The Internal Audit Department of the Orange County Transportation Authority has completed a review of the Flexible Spending Account program administered by WEX Health, Inc. Based on the audit, controls over employee enrollment, deductions, payments, and invoice processing are adequate and operating and the Orange County Transportation Authority is complying with applicable Internal Revenue Service regulations. One recommendation has been offered to implement controls to monitor the balance and activity of the custodial account held by WEX Health, Inc.

### **Recommendation**

Direct staff to implement one recommendation provided in the Flexible Spending Account Program, Internal Audit Report No. 24-511.

### **Background**

The Flexible Spending Account Program (FSA) allows employees to divert salary earnings on a pre-tax basis to cover out-of-pocket medical, dental, vision, and/or dependent care expenses. The Orange County Transportation Authority (OCTA) maintains Purchase Order No. 9-1833 with WEX Health, Inc. (WEX), to administer the FSA program. The Benefits Section of the People and Community Engagement Division is responsible for oversight of the FSA.

OCTA is responsible for ensuring that employees are accurately and timely enrolled in the FSA program, payroll deduction amounts are accurately and

timely collected and transmitted to WEX, invoices comply with the purchase order, and each plan year is reconciled and closed out properly.

***Discussion***

Benefits staff do not sufficiently track the custodial account balance held by WEX on behalf of OCTA and the account balance is not accurately reflected in financial statements. Internal Audit recommended management implement a process for regular tracking of contributions, distributions, and running account balance, and work with accounting department staff to ensure the balance is updated properly for purposes of financial reporting. Management agreed and indicated that a process will be established to track the account and report the balance to accounting department staff.

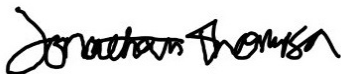
***Summary***

Internal Audit has completed an audit of the Flexible Spending Account Program and has offered one recommendation, which management has agreed to implement.

***Attachment***

- A. Flexible Spending Account Program, Internal Audit Report No. 24-511

**Prepared by:**



Jonathan Thompson  
Internal Auditor  
(714) 560-5930

**Approved by:**



Janet Sutter  
Executive Director, Internal Audit  
(714) 560-5591

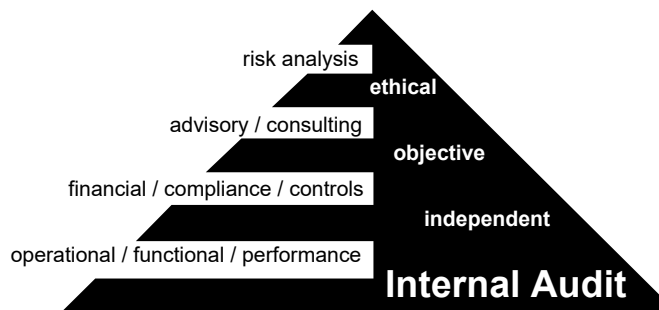
# ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



## Flexible Spending Account Program

### Internal Audit Report No. 24-511

May 29, 2024



**Audit Team:** Jonathan Thompson, Internal Auditor *Jonathan Thompson*  
Janet Sutter, CIA, Executive Director

**Distributed to:** Maggie McJilton, Executive Director, People and Community Engagement  
Karen DeCrescenzo, Bea Maselli

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## **Conclusion**

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed an audit of the Flexible Spending Account (FSA) program administered by WEX Health, Inc. (WEX). Based on the audit, controls over employee enrollment, deductions, payments, and invoice processing are adequate and operating and OCTA is complying with applicable Internal Revenue Service (IRS) regulations. One recommendation has been offered to implement controls to monitor the balance and activity of the custodial account held by WEX.

## **Background**

The FSA program allows employees to contribute earnings on a pre-tax basis to cover out-of-pocket medical, dental, vision, and dependent care expenses. There are three types of FSAs: a medical FSA to cover qualified medical, dental and vision expenses, a limited medical FSA to cover qualified dental and vision expenses, and a dependent care FSA to cover qualified childcare expenses. The IRS sets forth the regulations for administration and operation of FSA accounts, as well as the maximum annual deferral amounts for each type of FSA.

Employees may elect to participate in an FSA account during open enrollment and payroll deductions will be taken throughout the calendar year. Qualified expenses must be incurred between January 1 and March 15, of the following year. Expenses must be submitted by March 31.

By regulation medical, limited medical, and dependent care FSA accounts are subject to a “use it or lose it” rule, meaning any contributions by an employee for which a qualified expense is not incurred are forfeited at the end of the plan year and the monies retained by the employer. Likewise, employees may claim expenses equal to their entire annual contribution prior to funding the full election amount through payroll deductions. If an employee separates from service prior to the end of the calendar year, he or she does not have to pay the uncollected contributions or return any monies reimbursed. WEX maintains a depository account (custodial account) on behalf of OCTA. The custodial account reflects the payroll contribution deposits OCTA sends via Automated Clearing House (ACH) on a biweekly basis, as well as payments to participants for reimbursement of expenses. WEX maintains one custodial account for all their clients and tracks activity and balances by employer.

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OCTA maintains Purchase Order No. 9-1833 with WEX, to administer the FSA program. The Benefits Section (Benefits) of the People and Community Engagement Division is responsible for oversight of the FSA program and the administrator. OCTA is responsible for ensuring that employees are accurately and timely enrolled in the FSA program, payroll deduction amounts are accurately and timely collected and transmitted to WEX, invoices are in compliance with the purchase order, and each plan year is reconciled and closed out properly.

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## **Objectives, Scope, and Methodology**

The objective was to assess and test FSA program administration controls and compliance with IRS regulations.

According to Generally Accepted Government Auditing Standards (GAGAS), internal control is the system of processes that an entity's oversight body, management, and other personnel implement to provide reasonable assurance that the organization will achieve its operational, reporting, and compliance objectives. The five components are control environment, risk assessment, control activities, information and communication, and monitoring.<sup>1</sup> The components and principles that were evaluated as part of this audit are:

- Control Environment
  - OCTA demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
- Control Activities
  - OCTA selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

The methodology consisted of testing enrollment and enforcement of IRS maximum thresholds, testing WEX invoices for compliance with purchase order terms and proper processing, testing employee deductions and corresponding ACH payments to WEX, and testing of the annual benefit year closeout process and custodial account monitoring process. All tests involved haphazard samples. Since samples were non-statistical, any conclusions are limited to the sample items tested.

The scope was limited to FSA program activity from January 1, 2023, through December 31, 2023, and the year-end closeout process for the calendar year 2021.

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

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<sup>1</sup> See U.S. Government Accountability Office publication, "Standards for Internal Control in the Federal Government," available at <http://www.gao.gov/products/GAO-14-704G>, for more information.

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**Audit Comment, Recommendation, and Management Response**

**Custodial Account Monitoring**

Benefits staff do not sufficiently track the custodial account balance held by WEX on behalf of OCTA. The custodial account contributions and distributions are not tracked, and the balance is not verified on a periodic basis. Further, the custodial account balance is not accurately reflected within OCTA's financial statements.

**Recommendation:**

Internal Audit recommends management implement a process for regular tracking of custodial account contributions, distributions, and running account balance, and work with accounting department staff to ensure the balance is updated properly for purposes of financial reporting.

**Management Response:**

The Benefits Section will create a process to ensure the account balance is updated properly and communicated to the accounting department at the end of each fiscal year. A process will be established with the flexible spending account administrator for regular tracking of the account balance to include contributions, distributions, and to reconcile the account balance.