

Inspector General

United States
Department *of* Defense



Report Documentation Page				Form Approved OMB No. 0704-0188	
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1. REPORT DATE 23 NOV 2007		2. REPORT TYPE		3. DATES COVERED 00-00-2007 to 00-00-2007	
4. TITLE AND SUBTITLE Internal Controls over the Department of Defense Transit Subsidy Program within the National Capital Region				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Department of Defense Inspector General, ODIG-AUD, 400 Army Navy Drive, Arlington, VA, 22202-4704				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT Same as Report (SAR)	18. NUMBER OF PAGES 44	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

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Acronyms

ACL	Audit Command Language
DISA	Defense Information Systems Agency
DMD	Data Mining Directorate
DoD IG	Department of Defense Inspector General
DOT	Department of Transportation
FTB	Federal Transit Benefits
GAO	Government Accountability Office
MOA	Memorandum of Agreement
NCR	National Capital Region
OIG	Office of Inspector General
OMB	Office of Management and Budget
PFPA	Pentagon Force Protection Agency
TRANServe	DOT Transportation Service
USD(P&R)	Under Secretary of Defense for Personnel and Readiness
WHS	Washington Headquarters Services



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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WASHINGTON, VIRGINIA 22202-4704

November 23, 2007

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR PERSONNEL
AND READINESS
DIRECTOR, WASHINGTON HEADQUARTERS SERVICES

SUBJECT: Report on Internal Controls over the Department of Defense Transit Subsidy
Program within the National Capital Region (Report No. D-2008-025)

We are providing this report for review and comment. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Under Secretary of Defense for Personnel and Readiness and Washington Headquarters Services comments were partially responsive. We request additional comments on Recommendations 1.c., 2.b., 2.c., 2.d (1)., and 2.d (3). We request that the Under Secretary of Defense for Personnel and Readiness provide comments on Recommendations 1.c. and Director, Washington Headquarters Services provide comments on 2.b., 2.c., 2.d (1)., and 2.d (3). by December 24, 2007.

We request that management provide comments that conform to the requirements of DoD Directive 7650.3. If possible, please send management comments in electronic format (Adobe Acrobat file only) to auddfs@dodig.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Ms. Lorin T. Pfeil at (703) 325-5568 (DSN 221-5568) or Mr. Walter J. Gaich at (703) 325-5894 (DSN 221-5894). See Appendix D for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

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Department of Defense Office of Inspector General

Report No. D-2008-025

November 23, 2007

(Project No. D2007-D000FE-0076.000)

Internal Controls over the Department of Defense Transit Subsidy Program within the National Capital Region

Executive Summary

Who Should Read This Report and Why? DoD personnel with oversight responsibility and personnel working within the DoD transit subsidy program for the National Capital Region should read this report to obtain information about internal controls over transit subsidies.

Background. This audit was performed as a follow up to Government Accountability Office investigative work that identified participant abuse of the DoD Transit Subsidy Program. On April 24, 2007, the Government Accountability Office testified before the United States Senate Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs, that ineffective controls resulted in fraud and abuse of the Federal Transit Benefits Program by Federal workers, including DoD employees.

Results. Internal controls over the DoD Transit Subsidy Program within the National Capital Region were inadequate. Specifically, internal control activities were deficient in the following areas:

- the transit subsidy enrollment application process;
- enrollment status changes and withdrawal of transit subsidy participants (change management);
- management of the enrollment database used to determine eligibility for distribution of benefits; and
- audit trails to validate transit subsidy benefit amounts and enrollment database entries.

We identified 14,023 DoD employees in the transit subsidy enrollment database who filed incomplete enrollment applications, 9 individuals from a judgmentally-selected sample of 14 DoD employees who overstated their monthly benefit amounts by an average of \$42 per month, 9 individuals from a judgmentally-selected sample of 85 DoD employees who were listed as active participants but should have withdrawn from the program, and other specific instances of DoD employees who overstated their benefit amounts or did not file forms to indicate changes to their status in the transit subsidy program. The results indicate a high risk that DoD employees will not file forms to indicate status changes or to withdraw from the program, will commit fraud to receive benefits more than once in the same distribution period, and will obtain and hold both transit subsidy benefits and subsidized parking benefits at the same time. We recommend

that the Office of the Under Secretary of Defense, Personnel and Readiness, implement policies and procedures to strengthen controls over the Program. We also recommend that the Washington Headquarters Services comply with oversight requirements and make necessary revisions to the transit subsidy enrollment application form.

Management Comments and Audit Response. The Under Secretary of Defense for Personnel and Readiness concurred with Recommendations 1, 1.a., 1.b. and 1.d., and nonconcurred with Recommendation 1.c. The Under Secretary of Defense for Personnel and Readiness nonconcurred with Recommendation 1.c., stating that the Pentagon Force Protection Agency does not have access to all DoD parking databases in the National Capital Region with which to confirm application eligibility. However, the Under Secretary stated that Washington Headquarters Services has provided assurance that DoD Components' program points-of-contact will be required to check appropriate parking databases outside of the Pentagon Reservation.

The Under Secretary's comments were partially responsive for Recommendation 1.c. because he did not comment on the part of Recommendation 1.c. that requires the Pentagon Force Protection Agency to conduct periodic reconciliations of parking data with enrollment database information maintained by the Department of Transportation. Therefore, we request that the Under Secretary of Defense for Personnel and Readiness provide additional comments by December 24, 2007.

The Director, Washington Headquarters Services concurred with Recommendation 2. The comments from the Director were partially responsive for Recommendations 2.b., 2.c., 2.d.1., and 2.d.3. because he did not indicate what specific procedures he plans to implement to ensure compliance with transit subsidy guidance and audit requirements. Therefore, we request the Director, Washington Headquarters Services provide additional comments by December 24, 2007. See the finding section of the report for a detailed discussion of management comments and the Managements Comments section of the report for a complete text of the comments and audit response.

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Background

Executive Order 13150, “Federal Workforce Transportation,” signed by President Clinton on April 21, 2000, required Federal agencies to establish transportation fringe benefit programs by October 1, 2000. The goal of the programs is to reduce Federal employees’ contribution to traffic congestion and air pollution and to expand their commuting alternatives.

Transportation Fringe Benefits. Under the Transportation Incentive Program (the Program), DoD Components in the National Capital Region (NCR) are required to provide a transportation fringe benefit for employees who use mass transit or van pools.¹ The amount of the benefit should be equal to the individual’s personal commuting costs but not exceed the maximum allowed by the Internal Revenue Code, which was \$100.00 per month from 2002 through 2006.² DoD civilian and military personnel and non-appropriated fund employees are eligible to participate in the Program. DoD transit subsidy expenditures within the Region were \$35.9 million in FY 2006—the highest of all Federal agencies within the region. (See Table 1). There were 33,770 DoD participants enrolled in the Program in the NCR as of September 30, 2006.

Table 1. DoD Transit Subsidy Program	
Actual Expenditures within the National Capital Region	
FY 2006	
DoD Component	Actual Expenditures
Army	\$13,277,990
Navy	7,776,936
Air Force	6,606,902
Defense Information Systems Agency	649,657
All Other DoD Components	7,637,144
Total	\$35,948,629

¹ The National Capital Region comprises the District of Columbia; Montgomery, Prince George’s, and Frederick Counties in Maryland; Arlington, Fairfax, Loudoun, and Prince William Counties in Virginia; and all cities in Maryland or Virginia within the geographic area bounded by the outer boundaries of the combined area of those counties.

² \$110.00 per month as of 2007.

Program Administration. The Director, Washington Headquarters Services (WHS) is responsible for administering the Program for civilian employees and Military Service members in the NCR. WHS signed a Memorandum of Agreement (MOA) with Department of Transportation, Transportation Services (TRANServe) on July 6, 2000, to assist it with administering the program. With advice from TRANServe, WHS developed the program application and certification forms. WHS was responsible for establishing criteria for TRANServe to use to determine DoD employee eligibility and to process enrollment applications. In addition, WHS is responsible for retaining oversight of all transit subsidy program data. TRANServe responsibilities include:

- maintaining and safeguarding fare media (metrocheks);
- processing enrollment applications;
- providing a monthly detailed report on employee participation in the program;
- cross-referencing program applicants against WHS parking databases to verify eligibility;
- maintaining a database that identifies participants in the program;
- maintaining support documentation to meet audit requirements;
- distributing metrocheks on a quarterly basis to qualified DoD employees in the Region; and
- providing technical expertise to assist with audits and customer service support.

In 2000, the Pentagon Force Protection Agency Parking Office took over the responsibility of cross-referencing program applicants against WHS parking databases to verify eligibility. In FY 2006, DoD Components paid TRANServe \$1.83 million to meet its responsibilities set forth in the MOA.

Interest in the Program. Congress has demonstrated special interest in the Federal transit subsidy program. On April 24, 2007, the U.S. Senate Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs, held a hearing on abuses of the program by Federal employees. At that hearing, the Government Accountability Office (GAO) testified that ineffective controls resulted in fraud and abuse of the Federal Transit Benefits Program by Federal workers, including DoD employees. In addition, the Washington, D.C. affiliate of Fox News released a news story on November 14, 2006, about Government personnel abusing the program by selling the metrocheks on-line. That news story did not specifically mention DoD personnel abuse of the transit program. We performed this audit as follow up to the GAO investigative work. Our audit was limited to WHS administration of the transit subsidy program, and DoD Component responsibilities within the program.

Objective

Our overall audit objective was to determine the adequacy of internal controls over the administration of the DoD Transit Subsidy Program within the National Capital Region. Specifically, we evaluated the adequacy of controls to ensure that benefits were being paid to DoD employees who meet the eligibility requirements for program participation. We also reviewed the management control program as it related to the overall objective. See Appendix A for a discussion of the scope and methodology and prior audit coverage related to the Transit Subsidy Program within the National Capital Region. Appendix B discusses transit subsidy and internal control guidance.

Review of Internal Controls

DoD Instruction 5010.40, “Managers’ Internal Control Program Procedures,” January 4, 2006, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We evaluated the DoD, WHS, Army, Navy, Air Force, Defense Information Systems Agency (DISA), Pentagon Force Protection Agency (PFPA), and DOT internal controls over the administration of the DoD Transit Subsidy Program in the NCR. WHS is the office of primary responsibility for administering the DoD Transit Subsidy Program in the NCR for DoD Components, including the Army, Navy, Air Force, and DISA. TRANServe and PFPA help WHS administer the program. We specifically focused on administration of transit subsidy benefits, including enrollment, enrollment change of status and withdrawal processes, database management, and documentation retention. We also evaluated the adequacy of management’s self-evaluation of those controls.

Adequacy of Management Controls. We identified material management control weaknesses for WHS, Army, Navy, Air Force, DISA, PFPA, and DOT as defined by DoD Instruction 5010.40. Internal control activities were deficient in the following areas: transit subsidy enrollment application process, enrollment status changes, withdrawal of transit subsidy participants, management of the transit subsidy enrollment database, and retention of supporting documentation. The details of the management control weaknesses are provided in the Finding section of this report. The recommendations in this report, if implemented, will strengthen controls over the DoD Transit Subsidy Program in the NCR.

Adequacy of Management’s Self-Evaluation. WHS and Navy identified the DoD Transit Subsidy Program in the NCR as an assessable unit. However, their self evaluations were not effective in identifying management control weaknesses identified by this audit. Army, Air Force, DISA, and PFPA did not identify the DoD Transit Subsidy Program in the NCR as an assessable unit in their management control programs; therefore, they did not assess controls or identify and report the control weaknesses identified by this audit in their FY 2006 Statements of Assurance.

Adequacy of Transit Subsidy Program Internal Controls

Internal controls over administration of the Program within the NCR were inadequate. Specifically, internal control activities were deficient in the following areas:

- the transit subsidy enrollment application process,
- enrollment status changes and withdrawal of transit subsidy participants (change management),
- management of the enrollment database used to determine eligibility for distribution of benefits, and
- audit trails to validate transit subsidy benefit amounts and enrollment database entries.

Internal controls over the Program were inadequate because WHS did not adequately administer the Program in accordance with Government Accountability Office Internal Control Standards. In addition, WHS did not fully comply with the terms of the MOA between WHS and TRANServe. Specifically, it did not adequately retain oversight of transit subsidy program data. Further, WHS developed and implemented a transit subsidy application form that allowed DoD employees to self-certify their eligibility for benefits, accuracy and completeness of applications, status changes, and withdrawal from the program without verification by an independent approving official.

We identified 14,023 DoD employees in the transit subsidy enrollment database who filed incomplete enrollment applications, 9 individuals from a judgmentally-selected sample of 14 DoD employees who overstated their monthly benefit amounts by an average of \$42 per month, 9 individuals from a judgmentally-selected sample of 85 DoD employees who were listed as active participants but should have been withdrawn from the program, and other specific instances of DoD employees who overstated their benefit amounts or did not file forms to change their status in the Program. These findings indicate a high risk that DoD employees will not file forms to indicate status changes or to withdraw from the program, will commit fraud to receive benefits more than once in the same distribution period, and will obtain and concurrently hold both transit subsidy benefits and subsidized parking benefits.

Transit Subsidy Application Process

WHS administers the Program in the NCR, including the transit subsidy application process, with the assistance of PFPA and TRANServe. The transit subsidy application process involves enrollment, change management, and

withdrawal transactions. WHS designed the application process to rely on employee self-certification for all of these transactions.

To enroll in the DoD Transit Subsidy Program in the National Capital Region, an applicant must complete DD Form 2845, "U.S. Department of Defense National Capital Region Public Transportation Benefit Program Application" (Form 2845). The form includes the employee's self-certification that they:

- are employed with DoD and are not named on a Federally subsidized workplace parking permit with DoD or any other Federal agency;
- are eligible for the a public transportation fare benefit, will use it for daily commuting to and from work, and will not transfer it to anyone else;
- will estimate a monthly benefit cost that does not exceed actual monthly commuting costs; and
- are eligible for usual or estimated commuting costs (excluding parking).

The applicant faxes the application to the PFPA Parking Office. A PFPA Parking Office specialist reviews the application and qualifies the application by checking the PFPA parking database to determine if the applicant has a parking permit. If the applicant has a parking pass, the application is marked with the parking pass number and the parking database record is tagged. The transit subsidy application is not processed until the applicant turns in their parking pass. If the applicant does not have a parking pass, PFPA parking office determines the applicant to be eligible and the PFPA parking office specialist puts the application in a box for TRANServe to pick it up and process it. TRANServe processes the applications based on criteria established by WHS. After TRANServe successfully enrolls the applicant in the program, the applicant can pick up metrocheks from a distribution location. TRANServe then stores the file for 3 years.

TRANServe distributes transit subsidy benefits to DoD participants on a quarterly basis at 27 locations in the NCR. TRANServe also makes monthly distributions at two locations to DoD participants who did not pick up benefits during the quarterly distribution process. On a monthly basis, TRANServe issues a participation report to WHS listing employees who have picked up transit subsidy benefits. WHS separates the information by DoD Component and sends the information to each Component. DoD Components verify eligibility of DoD employees within their respective organizations.

To make changes in a participant's status, including residence information, work location, mode of transportation, or withdrawal from the Program, the participant is required to resubmit DD Form 2845 through PFPA and TRANServe, indicating change of status or withdrawal. TRANServe is responsible for processing the change of status or withdrawal applications by entering data in the enrollment database and managing the database. TRANServe also is responsible for maintaining support documentation for change of status and withdrawal transactions. WHS is responsible for retaining oversight of all transit subsidy program data.

Controls Over the Enrollment Application Process

The Army, Navy, Air Force, and DISA did not independently approve transit subsidy applications and inadequately verified applicant eligibility for transit subsidy benefits. Also, the Army, Navy, Air Force, DISA and TRANServe did not perform (or inadequately performed) independent verifications of transit subsidy applications for accuracy and completeness. In addition, PFPA did not adequately reconcile applicant information with DoD subsidized parking databases as part of the enrollment process.

Approval Process. GAO publication, “Standards for Internal Control in the Federal Government,” November 1999, states that transactions should be authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to use resources, such as transit subsidy benefits, are initiated or entered into. However, DoD employees are not required to have their transit subsidy applications approved by their DoD Component before sending them to PFPA. To enroll, change status, or withdraw from the Program, DoD employees complete Form 2845, certify on the form that they are eligible for benefits, and send the form to PFPA for review and subsequent processing. Form 2845 states that applications must be complete in order to be processed.

The lack of independent approval of transit subsidy applications increases the risk that DoD employees will improperly complete transit subsidy applications or that DoD employees will apply for transit subsidy benefits multiple times. We identified transit subsidy applications that were incomplete or incorrectly filed. In addition, we identified 24 DoD employees who had enrolled in the transit subsidy program more than once and could have received benefits multiple times in the same distribution period. It appears that three of these employees actually received transit subsidy benefits more than once in the same distribution period.

Applicant Eligibility. Army, Navy, Air Force, and DISA inadequately verified applicant eligibility for transit subsidy benefits. DoD Components periodically verify employee eligibility by comparing transit subsidy distribution reports with employee lists. Names that appear on the distribution report but not on the DoD Component’s employee list are given to TRANServe. TRANServe flags these names in the enrollment database as ineligible to receive future transit subsidy benefits. This control procedure—performed after benefit distributions are made—does not minimize the initial risk that DoD employees would fraudulently apply for transit subsidy benefits. The control process also did not provide assurance that benefits would be paid to DoD employees who met eligibility requirements.

Accuracy and Completeness of Application Data. GAO publication, “Standards for Internal Control in the Federal Government,” November 1999, state that control activities, including verifications, help to ensure that all transactions are completely and accurately recorded. However, the Army, Air Force, and DISA did not perform independent verifications to ensure the validity, accuracy, and completeness of transit subsidy application data before the applications were sent to PFPA and then TRANServe for subsequent processing.

Although the Navy claimed that it independently checks Navy employee transit subsidy applications for accuracy and completeness, it had no written procedures for this in place.

TRANServe also performed inadequate verifications of transit subsidy application data. TRANServe is responsible for processing all enrollment applications for the transit subsidy program in accordance with the MOA with WHS. The Form 2845 states that transit subsidy applications must be complete in order to be processed. Specifically, Form 2845 has 23 data fields with a minimum of 20 that all applicants must complete when enrolling.³ Yet, TRANServe will enroll DoD employees in the transit subsidy program so long as it has information for seven data fields: last name, first name, last four digits of the social security number, signature, branch of service/employer, organization code, and monthly transit commuting cost.⁴

The impact of deficient verification controls became evident in three analyses we performed to test accuracy and completeness of transit subsidy application data. In one analysis, we reviewed a judgmental sample of transit subsidy applications used to enroll 28 active participants into the program from a universe of 6,259 participants residing in Alexandria and Arlington, Virginia. We intended to test the accuracy of amounts entered for the monthly benefit amount. However, because of lack of documentation that would have provided an audit trail, we could only validate the monthly transit benefit for 14 of the 28 sample items. We identified that 9 of the 14 sample items (64 percent) had monthly benefit amounts that were overstated by an average of \$42 per month.

In another analysis, we requested copies of transit subsidy applications for 85 program participants from TRANServe. Here, we intended to test the completeness of audit trails for information entered into the enrollment database. TRANServe was only able to provide copies of 59 of the 85 applications requested and, of those 59 applications, only 25 (42 percent of those received and 29 percent of those requested) were complete.

The third analysis revealed that 14,023 of the 33,770 (42 percent) DoD participants in the transit subsidy program as of September 30, 2006, had incomplete data fields in the enrollment database. Among the missing data fields were work location or building, and the city, state, and zip code of the applicant's residence. These data fields are needed to accurately calculate the monthly transit subsidy benefit amount. By not performing (or inadequately performing) independent verification controls of transit subsidy application data, DoD incurs a high risk of its employees overstating their allowable monthly benefit amount or filing inaccurate or incomplete enrollment applications. TRANServe will then enter inaccurate and incomplete information into the enrollment database. See Appendix C for details of the database-related analyses we performed.

Reconciliation of Subsidized Parking and Transit Subsidy Applications.
PFPA is responsible for matching applicants against the WHS parking database to

³ The other three are fields to be completed by military personnel only.

⁴ The enrollment database we reviewed had 18 data fields.

ensure that applicants do not have subsidized parking benefits. However, the parking database PFPA uses to perform this function includes DoD employees working on the Pentagon Reservation. The Pentagon Reservation includes only the Federal Building 2, and Hayes, Fern, and Eads Street parking lots in Arlington, Virginia. It does not include parking data of DoD employees who work at other DoD locations in the NCR outside of the Pentagon Reservation. We identified a DoD employee who received transit subsidy benefits who was also listed in a parking database that was not part of PFPA's parking database.

Change Management

GAO Publication, "Standards for Internal Control in the Federal Government," November 1999, states that transactions and events should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. Control activities help to ensure that all transactions are completely and accurately recorded. In addition, Office of the Secretary of Defense memorandum, "Mass Transit Program in the National Capital Region," August 16, 2000, states that DoD Components will be responsible for setting up a system to withdraw participants from the program within 30 days of their departure. However, the Army, Navy, Air Force, and DISA did not have control procedures in place to ensure that DoD employees made prompt, accurate, and complete changes to their enrollment status or withdrew from the transit subsidy program. DoD employees complete a Form 2845 to report status changes or withdraw from the transit subsidy program and send it directly to PFPA for processing. However, as in the initial enrollment process, responsibility for making prompt, accurate, and complete status changes to, or withdrawing from, the transit subsidy program is placed solely with the employee. The lack of control procedures in the change management process creates a high risk that DoD employees will not report changes in their enrollment status, such as reducing their transit subsidy benefit or withdrawing from the program. Thus, the enrollment database used to determine eligibility for transit subsidy distributions is at high risk of having outdated and incorrect employee information. This limits the assurance that benefits are paid only to DoD employees who meet eligibility requirements.

Database Management

WHS and TRANServe did not ensure that the enrollment database was properly managed. In addition, PFPA did not periodically reconcile the WHS parking database with the transit subsidy enrollment database maintained by TRANServe.

Enrollment Database. The MOA signed by WHS and TRANServe on July 6, 2000, states that WHS is responsible for retaining oversight of all transit subsidy program data. TRANServe is also responsible for maintaining the enrollment database. TRANServe uses the enrollment database to verify eligibility for benefits when making transit subsidy distributions to DoD employees. However, analysis of the enrollment database revealed the following deficiencies.

-
- **Missing information.** The enrollment database had complete information for only 19,747 (58 percent) of the 33,770 DoD employees.
 - **Overstated Benefit Amounts.** Nine out of 14 (64 percent) DoD employees in a judgmental sample had overstated their monthly benefit amount by an average of \$42 per month. In addition, control deficiencies in the change management process increase the risk that DoD employees will not report status changes or withdrawals to TRANServe, so it can enter them in the enrollment database.
 - **Eligibility for Dual Benefits.** We identified four DoD employees who appear to have enrolled to receive both transit subsidy benefits and DoD subsidized parking benefits, but with slight variations in either their first name, last name, or middle initial. The use of slight variations in a name can give the impression that two different people are separately applying for transit subsidy benefits and subsidized parking benefits.
 - **Duplicate Enrollees.** There were 26 potential duplicate enrollees in the enrollment database. Twenty-four of these employees had a high enough number of matching data fields in the enrollment database to rule out coincidence: the same last and first name and last four digits of the social security number. The other two were able to enroll twice into the program using the same last and first name, but with slight variations in the last four digits of the social security number. All 26 had more than one pick up distribution identification number. It appears that three of these employees actually received transit subsidy benefits more than once in the same distribution period.
 - **Program Withdrawals.** TRANServe indicated that the enrollment database automatically withdraws transit subsidy participants after 6 months of inactivity. However, we identified 9 individuals in a judgmental sample of 85 DoD employees in the enrollment database who had not picked up benefits for more than 6 months and who were still listed as eligible to receive benefits. See Appendix C for details on the database testing.

These issues indicate systemic problems in ensuring that the enrollment database is properly maintained. The apparent lack of controls in this area and the control deficiencies cited in the application and change management processes call into question the accuracy, completeness, and timeliness of information on the status of the 33,770 active DoD participants listed in the transit subsidy enrollment database on September 30, 2006.

Subsidized Parking Database. PFPA did not periodically reconcile the WHS parking database with the transit subsidy enrollment database maintained by TRANServe. DoD Instruction 5010.40, “Managers Internal Control Program Procedures,” January 4, 2006, states that periodic reconciliations of data should be included as part of the regular assigned duties of personnel. PFPA has at its disposal a printout, “Transit Subsidy Report,” that can be used to identify DoD employees who may have unintentionally or fraudulently obtained dual benefits. However, on March 29, 2007, PFPA stated that it had not performed this control

activity since June 2006. Since that time, there is increased risk that DoD employees may have unintentionally or fraudulently obtained dual benefits and not been identified. We obtained and reviewed a copy of the “Metrosubsidy Report” dated January 30, 2007, that contained the names of 993 DoD employees with transit subsidy and parking benefits. Our analysis of this report identified 20 employees from a judgmentally-selected sample of 36 employees who may have obtained both benefits.

Audit Trails

The Army, Navy, Air Force, and DISA did not require DoD employees to support and provide calculations for transit subsidy benefit amounts. In addition, TRANServe did not ensure that documentation supporting transit subsidy enrollment database information was readily or sufficiently available in accordance with GAO internal control standards and their MOA, July 6, 2000.

Calculation of Benefit Amounts. According to the Form 2845, DoD employees who apply to enroll in the transit subsidy program are required to estimate and report their monthly benefit allowance, not to exceed their actual monthly commuting costs. However, DoD employees are not required to show support for how this amount was calculated. In completing Form 2845, DoD employees merely enter their estimated monthly commuting cost. The lack of an audit trail to support calculation of monthly benefit costs increases the risk that DoD employees will overstate their monthly benefit amount. In addition to the nine DoD employees identified who overstated their monthly benefit amount, we interviewed two DoD employees who overstated their monthly benefit amount by 100 and 85 percent respectively. The two employees claimed that they were instructed by TRANServe’s disbursement agent located at the Pentagon to enter the maximum amount for their monthly benefit and not provide support for their commuting costs.

Document Retention. GAO internal control standard, “Control Activities,” dictates that documentation used to record transactions should be readily available for examination. In addition, the MOA between WHS and DOT states that TRANServe would maintain sufficient records and information to enable WHS to comply with audit requirements. However, TRANServe acknowledged that it did not have supporting documentation for a significant number of DoD employees enrolled in the transit subsidy program. TRANServe was unable to provide copies of transit subsidy applications for 26 out of 85 (31 percent) of enrollment applications we requested for analysis. We were unable to trace data elements in the enrollment database back to the originating transit subsidy applications for these sample items to test for accuracy and completeness.

Administration of Program Controls

WHS did not adequately administer the Program within the NCR in accordance with GAO standards. In addition, WHS did not comply with the MOA requirement to retain oversight over all transit subsidy program data. Further, WHS developed and implemented an application form that allowed DoD

employees to self certify their eligibility for benefits, accuracy and completeness of applications, status changes, and withdrawal from the program and, thus, bypass an independent approving authority.

Control Environment. GAO Publication, “Standards for Internal Control in the Federal Government,” states that management should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control. A positive control environment is the foundation for all other internal control standards,⁵ including the use of control activities-policies, procedures, techniques, and mechanisms that ensure management’s directives are carried out. A positive control environment includes:

- understanding the importance of developing and implementing good internal controls;
- development of detailed procedures and practices to fit an organization’s operations;
- clearly defined key areas of authority and responsibility within an organizational structure; and
- appropriately delegated authority and responsibility throughout the organization.

WHS did not communicate the importance of these elements to DoD Components, PFPA, and TRANServe. The following examples indicate that controls over the Program were not adequately administered.

- **Internal Control Activities.** In their areas of responsibility, Army, Navy, Air Force, DISA, PFPA, and TRANServe did not develop and implement internal control activities designed to ensure that: transit subsidy applications were duly approved and were accurate and complete; DoD employees promptly made status changes or withdrew from the transit subsidy program; parking and enrollment databases were up-to-date and had accurate information; and supporting documentation was required or retained to properly establish audit trails to validate monthly benefit costs and enrollment database entries.
- **Policies and Procedures.** TRANServe was responsible for processing applications for the transit subsidy program according to WHS-established criteria and maintaining sufficient records and information to comply with audit requirements. However, WHS did not provide policies and procedures for TRANServe to follow to ensure that transit subsidy applications were adequately processed and to ensure supporting documentation to establish an audit trail was readily available for audit.

⁵ GAO Publication, “Standards for Internal Control in the Federal Government,” November 1999, states that Internal Control Standards include control environment, risk assessment, control activities, information and communications, and monitoring.

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- **Organizational Structure.** TRANServe was responsible for cross-referencing transit subsidy applicants against WHS parking databases to verify eligibility for transit subsidy benefits. However, PFPA began taking responsibility for this procedure soon after the program started in 2000, and WHS did not revise the MOA to annotate this change of responsibility. Further, WHS continued to reimburse TRANServe for a service being performed by PFPA.
 - **Delegation of Authority.** WHS implemented enrollment application form (Form 2845) for DoD Component use that delegated authority and responsibility for authorization, change management, benefit calculation, and application accuracy and completeness to transit subsidy applicants instead of requiring independent authorizing officials within DoD Components to review and approve the applications.

WHS needs to communicate to DoD Components, TRANServe, and PFPA the importance of developing and implementing effective internal controls, provide policies and procedures to ensure that personnel accomplish their assigned duties, and clearly define and appropriately delegate key areas of authority and responsibility. In addition, DoD Components need to require that employees periodically recertify their eligibility for benefits. This will reduce the risk that DoD employees might neglect to make status changes or withdraw from the Program.

Memorandum of Agreement. The MOA states that WHS is responsible for retaining oversight of all transit subsidy program data. The data includes transit subsidy application data provided by DoD employees and processed by PFPA and TRANServe. WHS did not adequately retain oversight over transit subsidy program data and stated that it had not performed audits of the data. In light of this and other identified internal control deficiencies, there is a high risk that incomplete, incorrect, out of date, and possible fraudulent transit subsidy program data have been entered into the enrollment database maintained by TRANServe. WHS needs to ensure compliance with the MOA requirement to properly maintain oversight over all transit subsidy program data.

Self-Certification of Transit Subsidy Application Actions. Although WHS developed and implemented application Form 2845 that allowed DoD employees to self-certify their eligibility for benefits, WHS gave the transit subsidy program an overall risk assessment of “low” in its “Annual Management Control Evaluation (2006) – DoD NCR Mass Transit Subsidy Program,” April 14, 2006. In the evaluation, WHS stated that the self-certification of employee eligibility for transit subsidy benefits was a basic control in place for detecting fraud, waste, and abuse in the transit subsidy program. Unfortunately, there is no assurance that self-certification by employees in the transit subsidy application process is a satisfactory control for detecting fraud, waste, and abuse in the program.

Delegating responsibility to an independent authority within each DoD Component to review and authorize transit subsidy applications will improve verification of applicant eligibility for benefits, as well as the accuracy and completeness of the applications. More importantly, this will deter individuals from fraudulently applying for transit subsidy benefits. The Form 2845 must be

revised to include a section for an authorizing official to acknowledge that they reviewed and approved the application. Further, requiring DoD employees to support calculation of their monthly transit subsidy benefit will help to minimize overstatement of these benefits. Lastly, the Form 2845 should require that both home and work addresses be entered, instead of only the city of residence and work building location. This specificity will enhance accurate verification of the transit subsidy application by third parties.

Ongoing Actions

On May 14, 2007, the Office of Management and Budget (OMB) issued a Memorandum for the Heads of Departments and Agencies, “Federal Transit Benefits Program,” in response to GAO Senate testimony that reported fraud and abuse unchecked by ineffective controls in the Federal Transit Benefits (FTB) Program. OMB specified that agencies confirm in writing, no later than June 30, 2007, that they have implemented (at a minimum) internal controls listed in the Memorandum attachment, “Transit Benefit Internal Controls.” The listed internal controls include:

- Application Requirements – Employee home address, employee work address, commuting cost breakdown, employee certification of eligibility, warning against making false statements.
- Independent Verification of Eligibility – Applicant eligibility and commuting cost verified by approving official.
- Implementation – Applicants checked against parking benefits records, benefits adjusted due to travel, leave, or change of address, removal from Program included in exit procedures.

In response, on July 2, 2007, the Under Secretary of Defense for Personnel and Readiness (USD[P&R]) issued a Memorandum for the Associate Director for Management of the Office of Management and Budget. The USD(P&R) stated that by September 30, 2007, all DoD organizations would have internal controls in place as delineated in the May 14, 2007, OMB memorandum. Also, the USD(P&R) established a DoD-wide working group with representatives from the Components and the Department of Transportation to review and revise the current FTB policy. The revised policy will include the internal controls suggested by the GAO and OMB.

In addition to controls suggested by GAO and OMB, Recommendation 1. in this report will assist the USD(P&R) in implementing specific policies and procedures to support WHS efforts to effectively administer the DoD transit subsidy program in the NCR. Recommendation 2. will assist WHS with improving internal controls over the DoD transit subsidy program in the NCR.

The DoD OIG also plans to further review potential cases of fraud and abuse by individuals identified during our audit. We will then determine whether these cases warrant referral to the Defense Criminal Investigative Service for investigation.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Under Secretary of Defense for Personnel and Readiness implement policies and procedures that will support Washington Headquarters Services' efforts to effectively administer the DoD transit subsidy program.

Under Secretary of Defense for Personnel and Readiness Comments. The Under Secretary concurred and stated that the Mass Transit Benefit Working Group (Working Group) is reviewing current policy and administrative procedures, and is identifying areas where additional accountability controls may be needed. The Working Group has drafted a new DoD Instruction to direct administration of the DoD Transit Subsidy Program in the National Capital Region. The final DoD Instruction on Mass Transit Subsidy policy is expected to be formally coordinated throughout DoD sometime during first quarter FY 2008.

Washington Headquarters Services Comments. Although not required to comment, the Director stated that Washington Headquarters Services has been participating in the Working Group and that, once the Under Secretary of Defense for Personnel and Readiness Instruction is issued, Washington Headquarters Services will adjust its practices to comply with DoD policies.

Audit Response. Management comments are responsive. The formation of the Working Group and Washington Headquarters Services' active participation are indicative of the high priority the Under Secretary and Director, Washington Headquarters Services have placed on promoting a positive control environment within the Program.

These policies should require:

a. DoD Components to implement control activities to ensure that appropriate independent authorities approve transit subsidy applications once they are verified for eligibility, accuracy, and completeness, and before they are submitted to the Pentagon Force Protection Agency for processing.

Under Secretary of Defense Personnel and Readiness Comments. The Under Secretary concurred, but did not provide specifics. However, the Working Group is in the process of reaching consensus on the necessity for a reviewing or approving official and requiring a supervisory signature to attest to each applicant's employment or Service status, location of duty station, and work schedule at the time the person applies for enrollment in the Program.

Washington Headquarters Services Comments. The Director, Washington Headquarters Services stated that, "effective October 1, 2007, all applications will be sent to Component program points-of-contact, prior to submitting to TRANServe for processing."

Audit Response. Management comments are responsive. The independent review of applications will help to improve verification of applicant eligibility for benefits, as well as accuracy and completeness of applications in the Program enrollment and change management processes. In addition, this control activity will deter individuals from fraudulently applying for transit subsidy benefits.

b. DoD Components to establish periodic recertification of eligibility for employees' benefits.

Under Secretary of Defense for Personnel and Readiness Comments. The Under Secretary concurred, but did not provide specifics. However, the Working Group has agreed that Program participants should be required to recertify application information and has asked the DoD OIG for suggestions on the frequency of recertification.

Audit Response. Management comments are responsive. Periodic recertification of eligibility for benefits may minimize fraud, waste, and abuse and reduce the risk that DoD employees might neglect to make status changes or withdraw from the Program.

c. The Pentagon Force Protection Agency to adequately check all appropriate parking databases in the National Capital Region when comparing parking information to transit subsidy applications, and perform periodic reconciliations of parking data with enrollment database information maintained TRANServe.

Under Secretary of Defense for Personnel and Readiness Comments. The Under Secretary nonconcurred and stated that the Pentagon Force Protection Agency cannot check applications against all DoD parking databases in the National Capital Region because it does not have access to all the databases. However, the Under Secretary has been assured by Washington Headquarters Services that in those cases where the Pentagon Force Protection Agency does not have access to parking databases, Washington Headquarters Services will require program points-of-contact to conduct reconciliations of parking data with enrollment database information maintained by TRANServe.

Washington Headquarters Services Comments. The Director's comments mirrored those of the Under Secretary.

Audit Response. Management comments are partially responsive. The Under Secretary of Defense for Personnel and Readiness did not state whether the new instruction for the Program would directly or indirectly require the Pentagon Force Protection Agency to adequately check all appropriate parking databases in the National Capital Region when comparing parking information to transit subsidy applications. However, if Washington Headquarters Services requires DoD Component program points-of-contact to check against available parking records, while the Pentagon Force Protection Agency continues to match the Program enrollment applications with its parking database, it should improve controls and minimize the potential for DoD employees outside the Pentagon Reservation to obtain dual benefits.

Recommendation 1.c. also requires the periodic reconciliation of parking data with enrollment database information maintained by TRANServe. This control activity will help to identify DoD employees who may have unintentionally or fraudulently obtained dual benefits. The Under Secretary did not comment on this part of recommendation 1.c. Thus, we request that the Under Secretary of Defense for Personnel and Readiness provide additional comments as appropriate.

d. The Washington Headquarters Services, Pentagon Force Protection Agency, and DoD Components clearly define areas of responsibility and authority within the application, change management, database management, and audit trail areas of the program.

Under Secretary of Defense for Personnel and Readiness Comments. The Under Secretary concurred, but did not provide specific comments.

Washington Headquarters Services Comments. The Director, Washington Headquarters Services stated that program procedures have been updated in accordance with internal control guidance from the Office of Management and Budget and has been communicating changes to the DoD Components and the Pentagon Force Protection Agency. New Washington Headquarters Services procedures will be implemented once the DoD Instruction has been issued.

Audit Response. Management comments are responsive. The Working Group meetings and Washington Headquarter Services' active participation and comment are indicative of the promotion of a positive control environment within the Program.

2. In conjunction with policies and procedures developed by the Under Secretary of Defense for Personnel and Readiness, we recommend that the Director, Washington Headquarters Services update the Memorandum of Agreement, July 6, 2000.

Management Comments. The Director, Washington Headquarters Services concurred and stated that an updated Memorandum of Agreement has been drafted and is being coordinated with the Department of Transportation.

Audit Response. Management comments are responsive.

The recommended Memorandum of Agreement updates include:

a. Policies and procedures that clearly define and appropriately delegate key areas of authority and responsibility to DoD Components, Pentagon Force Protection Agency, and TRANServe, and communicate the importance of developing and implementing effective internal controls.

Management Comments. The Director, Washington Headquarters Services concurred and stated that Washington Headquarters Services will ensure that policies and procedures are consistent with DoD guidance and will amend the Memorandum of Agreement to ensure that respective responsibilities and areas of authority are defined.

Audit Response. Management comments are responsive. Amending the Memorandum of Agreement to ensure that respective responsibilities and areas of authority are defined will help to promote a positive control environment in the Program.

b. Specific requirements to ensure compliance with its transit subsidy guidance to properly maintain oversight of all DoD transit subsidy program data.

Management Comments. The Director, Washington Headquarters Services concurred and stated the Memorandum of Agreement will be amended to ensure emphasis on internal control requirements.

Audit Response. Management comments are partially responsive. While we agree with the intent of the Director's statement that it will ensure internal control requirements are emphasized, the statement is too general. The existing Memorandum of Agreement already requires that Washington Headquarters Services properly maintain oversight of all DoD transit subsidy program data. Washington Headquarters Services did not indicate what specific procedures it plans to implement to ensure compliance. We request that Washington Headquarters Services provide additional comment.

c. Specific requirements to ensure that TRANServe appropriately maintains the enrollment database and retains sufficient records to enable Washington Headquarters Services to comply with audit requirements.

Management Comments. The Director, Washington Headquarters Services concurred and stated that it will amend the Memorandum of Agreement to ensure that TRANServe maintains DoD National Capital Region enrollment data in compliance with audit requirements.

Audit Response. Management comments are partially responsive. Washington Headquarters Services indicated that it would amend the Memorandum of Agreement to ensure that TRANServe maintains DoD National Capital Region enrollment data in compliance with audit requirements. The existing Memorandum of Agreement already requires this. Washington Headquarters Services should indicate what procedures it plans to implement to ensure compliance by TRANServe. Thus, we request that Washington Headquarters Services provide additional comment.

d. Specific revisions of the Form DD2845 to add sections that require:

(1) Acknowledgement by the appropriate DoD Component approving official that the application has been reviewed to verify eligibility for benefits, accuracy of commuting cost and application information, and overall completeness of the application.

Management Comments. The Director, Washington Headquarters Services concurred, but did not offer specifics.

Audit Response. Management comments are partially responsive. While management comments on recommendation 1.a. appear to satisfy recommendation 2.d.(1), we request that Washington Headquarters Services provide additional comment to identify the specific revisions which will be made to Form DD2845.

(2) Supporting documentation to be included with the application form to show how the applicant determines his/her allowable monthly transit benefit amount, to include bus routes taken and entry and exit Metro stops.

Management Comments. The Director, Washington Headquarters Services concurred and stated that the revised Form DD2845 will require applicants to complete a commuting expense worksheet, which automatically calculates their transit costs based on their method and/or modes of transportation.

Audit Response. Management comments are responsive. The worksheet will provide an audit trail and will provide supporting documentation for benefit amounts that can be readily verified.

(3) Applicants to enter specific residence and work addresses.

Management Comments. The Director, Washington Headquarters Services concurred and stated that the Form DD2845 will require applicants to provide their nine-digit zip code in lieu of street address, which is consistent with the direction being taken by the Under Secretary of Defense for Personnel and Readiness in his draft DoD Instruction. This approach has been taken to protect the employee's personal information, while providing detailed information that may be used to verify the area of residence.

Audit Response. Management comments are partially responsive. While the Form DD2845 will require a nine-digit zip code in lieu of street address, it is possible to use an independent database with common data elements to verify the home address of DoD employees enrolled in the Program. One such database is the Defense Enrollment Eligibility Reporting System (DEERS) database, managed by the Defense Manpower Data Center (DMDC). The DEERS database includes the home address, which can be used for verification purposes. Washington Headquarters Services did not comment on the recommendation to require a section in the Form DD2845 for applicants to enter a specific work address. Thus, we request that Washington Headquarters Services provide additional comment.

Appendix A. Scope and Methodology

We conducted this performance audit from November 2006 through July 2007 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 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.

We audited the DoD transit subsidy program within the National Capital Region to determine the adequacy of the internal controls over the administration of the program. We evaluated the adequacy of controls to ensure that benefits were being paid to individuals who met the eligibility requirements for program participation. We conducted site visits at and performed follow up inquiries with WHS, PFPA, DOT TRANServe, Army, Navy, Air Force, and DISA to gain an understanding of the:

- overall control environment;
- specific internal control activities within the program's enrollment, change management, and database maintenance processes; and
- responsibilities of each of the above Components within the Program's operations.

To test the adequacy of internal controls, we reviewed and analyzed the enrollment database used to determine eligibility for distribution of benefits to DoD employees. We also reviewed and analyzed the PFPA parking database used to determine initial eligibility for Program enrollment. See Appendix C for results of these analyses.

The audit scope was limited to a review to determine the adequacy of the internal controls over the administration of the DoD Transit Subsidy Program within the National Capital Region. We did not review internal controls over the administration of the DoD Transit Subsidy Program outside the National Capital Region.

Use of Computer-Processed Data. We used computer-processed data including data from the enrollment and distribution databases provided by TRANServe and Pentagon parking database provided by PFPA. We did not perform a formal reliability assessment of the computer-processed data. However, we compared the data with support documentation to test controls over the administration of the DoD transit subsidy program.

Use of Technical Assistance. The Data Mining Directorate (DMD), Office of the DoD Deputy Inspector General for Policy and Oversight helped us with this audit. DMD imported files from the PFPA Pentagon Parking and the DOT databases into Audit Command Language (ACL) and advised us what to look for in the computer processed data. In addition, DMD trained us and offered technical

assistance on the use of the ACL software so we could perform additional analyses on the data.

Government Accountability Office High-Risk Area. The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the Financial Management and Business Transformation high-risk areas.

Prior Coverage

During the last 5 years, the Government Accountability Office has testified to Congress on the Federal Transit Subsidy Program inside the National Capital Region. The Department of Defense Inspector General (DoD IG) has issued one report discussing the DoD Transit Subsidy Program inside the National Capital Region. Unrestricted GAO testimony can be accessed on the Internet at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

GAO

GAO Testimony before the Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs, U.S. Senate, No. GAO-07-724T, “Federal Transit Benefits Program: Ineffective Controls Result in Fraud and Abuse by Federal Workers,” April 24, 2007.

DoD IG

DoD IG Report No. D-2004-009, “Allegations Concerning Controls Over DoD Transit Subsidies Within the National Capital Region,” October 14, 2003.

Appendix B. Transit Subsidy and Internal Control Guidance

Executive Order 13150. Executive Order 13150, “Federal Workforce Transportation,” signed by President Clinton on April 21, 2000, required Federal agencies to establish transportation fringe benefit programs by October 1, 2000. The programs were established to reduce Federal employees’ contribution to traffic congestion and air pollution and to expand their commuting alternatives.

Government Accountability Office. GAO Publication, “Standards for Internal Control in the Federal Government,” November 1999, defines internal control as an integral component of an organization’s management that reasonably assures:

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

The publication provides the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges. It also describes areas at greatest risk of fraud, waste, abuse, and mismanagement. The five standards for internal control are control environment, risk assessment, control activities, information and communications, and monitoring. A positive control environment is the foundation which influences the quality of internal control. A good internal control environment requires that the agency’s organizational structure clearly define key areas of authority and responsibility, delegation of authority, responsibility for operating activities, and authorization protocols. The risk assessment identifies risks associated with achieving program objectives. Control activities are intended to mitigate those risks. Examples of control activities provided in the publication include: authorizations, verifications, reconciliations, and the creation and maintenance of related records, which provide evidence of control activities. Management is responsible for developing and implementing the detailed policies, procedures, and practices to fit their agency’s operations and to ensure that they are an integral part of operations.

DoD Policies. DoD Instruction 5010.40 establishes requirements for implementing and executing the Manager’s Internal Control Program. The Office of the Secretary of Defense and the Office of the Deputy Secretary of Defense issued additional guidance to DoD Components for administering the Mass Transit Program in the National Capital Region.

DoD Instruction 5010.40. DoD Instruction 5010.40, “Managers’ Internal Control Program Procedures,” January 4, 2006, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls. This instruction states that it is DoD policy that the

Manager's Internal Control Program be established to review, assess, and report on the effectiveness of the internal controls in DoD.

Office of the Secretary of Defense Mass Transit Program in the NCR Guidance. The Office of the Secretary of Defense memorandum "Mass Transit Program in the National Capital Region," August 16, 2000, provided guidance to DoD Components within the Region and informed them that Washington Headquarters Services is responsible for administering the subject program for all DoD employees (civilian, military and non-appropriated fund) in the Region. The memorandum states that Department of Transportation will help WHS implement and administer this program. It also states that while WHS will manage the program centrally, individual Components will be responsible for providing ongoing enrollment information to their employees, to include the application form and the WHS policy memo. Likewise, Components are responsible for setting up a system to withdraw departing employees from the program within 30 days of their departure. Also, the memorandum states that the Components should work directly with DOT on setting up the enrollment and withdrawal procedures.

Deputy Secretary of Defense Department of Defense Transportation Incentive Program Guidance. The Deputy Secretary of Defense memorandum "Department of Defense Transportation Incentive Program," October 13, 2000, revised the Department's policy on transportation incentives to conform to Executive Order 13150, April 21, 2000. The Executive Order differentiates between employees working in the Region and those outside of the Region with respect to the kind of transportation incentives that must be offered by Federal agencies. However, the Deputy Secretary of Defense expressed the aspiration that all DoD personnel be treated equitably in this memorandum. Therefore, DoD offered the same incentive to all DoD personnel regardless of location inside or outside the Region. Transportation incentive programs apply equally to all civilian employees and Military Service members, including non-appropriated fund employees. Members of Reserve Components serving on active duty also are eligible for the incentive. DoD Component installations and activities in the Region were required to implement, by October 1, 2000, a "transit pass transportation fringe" benefit for Military Service members and civilian employees using mass transit or van pools. According to this program, and their current compensation, Components are responsible for providing personnel vouchers or similar items that may be exchanged only for transit passes in amounts that do not exceed personal commuting costs, up to the maximum allowed by the Internal Revenue Code. The Director, Washington Headquarters Services, is responsible for administering the program for civilian employees and Military Service members in the NCR. Parking costs are not to be used in establishing commuter costs.

Memorandum of Agreement. WHS and DoT, Transportation Services (TRANServe) entered into an agreement on July 6, 2000, to define the services TRANServe would provide to WHS on a reimbursable basis to implement the DoD Transit Subsidy Program for the Region, and the responsibilities of both parties in this endeavor. Under the agreement, WHS was to develop (with advice from TRANServe) necessary program application and certification forms, establish criteria for DOT to determine DoD employee eligibility to participate in

the Program, and retain oversight over all transit subsidy program data. TRANServe's responsibilities included cross-referencing Program applicants against WHS parking databases to verify eligibility, processing applications for the transit subsidy program according to WHS established criteria, maintaining a database that identifies all WHS participants in the Program, and maintaining sufficient records and information to comply with audit requirements.

DoD Customer Agreement. Annually, WHS enters into a customer agreement with TRANServe to establish an understanding of the services that TRANServe will provide DoD for administration of the transit subsidy program. For FY 2006, the agreement stated that TRANServe would administer the DoD's transit benefit program in locations designated by DoD. TRANServe will order, purchase, verify, maintain, and safeguard fare media prior to disbursing to participants. TRANServe bears full responsibility for any fare media that is in its possession prior to disbursement to participants. TRANServe states that it is the responsibility of DoD to verify eligibility of recipients.

Appendix C. Database Testing

We analyzed enrollment, distribution, and subsidized parking databases to test whether internal controls were adequate to ensure the accuracy, completeness, and auditability of database information used in DoD Transit Subsidy Program processes. Following is a brief discussion of each analysis with results.

Completeness of Enrollment Database. The enrollment database is used by TRANServe to verify eligibility during distribution of benefits to DoD employees. TRANServe is responsible for maintaining this database. WHS is responsible for retaining oversight of, and proprietary rights to, all transit subsidy program data. We identified blank data fields among: work location/building (BLDG); middle initial (MI); city, state (ST), and zip code of residence (ZIP); and work phone number (WP). Missing information for these data fields inhibits validation of eligibility for benefits. Table C-1 identifies the blank data fields by DoD Component that were within the scope of our audit.

Table C-1. Blank Data Fields in DoD Enrollment Database								
Component	Enrollees	Number of Blank Data Fields						
		BLDG	MI	CITY	ST	ZIP	WP	TOTAL
Army	12,861	3,004	1,486	1,187	829	1,150	827	8,483
Navy	7,483	2,133	740	676	496	719	470	5,234
Air Force	6,603	1,354	574	475	304	474	311	3,492
DISA	649	198	74	48	31	46	25	422
Other DoD	6,174	1,663	645	601	444	556	275	4,184
Total	33,770	8,352	3,519	2,987	2,104	2,945	1,908	21,815

Also, 14,023 of the 33,770 (42 percent) DoD participants in the transit subsidy program on September 30, 2006, had incomplete data fields in the enrollment database. Table C-2 breaks these down by DoD Component.

Table C-2. Participants in Enrollment Database with Incomplete Data Fields			
Component	Enrollees	Incomplete Data Fields	Incomplete Percent
Army	12,861	5,372	42
Navy	7,483	3,320	44
Air Force	6,603	2,352	36
DISA	649	284	44
Other DoD	6,174	2,695	44
Total	33,770	14,023	42

Accuracy of Monthly Benefit Amounts. Transit subsidy program enrollees are required to certify and enter a usual or estimated monthly commuting cost, excluding parking. We intended to test the accuracy of amounts entered for the monthly benefit of a judgmental sample of 28 active participants selected from a universe of 6,259 active participants in the enrollment database who resided in Alexandria and Arlington, Virginia. Because of incomplete databases and audit trails, we could only test and validate monthly benefit amounts for 14 of the 28 sample participant records. Only five of these records passed testing for accuracy. Table C-3 shows the results of this analysis.

Table C-3. Accuracy of Monthly Benefit Amounts (Universe – 6,259 items)		
	Total	Percent of Total
Sample Size:	28	
No Supporting Documentation Provided:	7	25
Participants not tested – Incomplete Information:	7	25
Participants with Overstated Benefit Amounts:	9	32
Participants with Accurate Benefit Amounts:	5	18
Average Amount of Overstatement - \$42 per month		
Range of Overstatements - \$17.50 to \$52.50 per month		

Audit Trails. We requested supporting documentation for 85 DoD employees listed as active participants in the transit subsidy program enrollment database to determine whether adequate audit trails existed. Only 25 of the 85 sample participants had an adequate audit trail from the Form 2845 to the enrollment database. Table C-4 shows the results of this analysis.

Table C-4. Audit Trail Testing Results		
	Total	Percent of Total
Total Sampled:	85	
No Supporting Documentation Provided:	26	31
Supporting Documentation Available but Incomplete	34	40
Supporting Documentation Available and Complete:	25	29

Automatic Withdrawal of Inactive Participants. TRANServe stated that the enrollment database automatically withdraws transit subsidy participants after 6 months of inactivity. However, we identified 9 individuals in the sample of 85 DoD employees whose information we requested who had not picked up benefits beyond 6 months but were still listed as eligible to receive benefits.

Subsidized Parking Database. PFPA stated that it had not periodically reconciled the Pentagon subsidized parking database with the enrollment database maintained by TRANServe. We obtained and reviewed a copy of PFPA printout, “Metrosubsidy Report,” dated January 30, 2007, that contained the names of 993 DoD employees with dual benefits. From our analysis of this report, we identified 20 employees from a judgmentally-selected sample of 36 employees who may have unintentionally or fraudulently obtained dual benefits.

D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
Under Secretary of Defense (Comptroller)/Chief Financial Officer
 Deputy Chief Financial Officer
 Deputy Comptroller (Program/Budget)
Under Secretary of Defense for Personnel and Readiness

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Administrative Assistant to the Secretary of the Army
Auditor General, Department of the Army

Department of the Navy

Assistant for Administration to the Under Secretary of the Navy
Assistant Secretary of the Navy (Manpower and Reserve Affairs)
Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Washington Headquarters Services
Director, Pentagon Force Protection Agency, Parking Office
Defense Information Systems Agency Inspector General

Non-Defense Federal Organization

Office of Management and Budget
U.S. Department of Transportation, Transportation Services

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Homeland Security and Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

House Committee on Oversight and Government Reform
House Subcommittee on Government Management, Organization, and Procurement,
Committee on Oversight and Government Reform
House Subcommittee on National Security and Foreign Affairs,
Committee on Oversight and Government Reform

Under Secretary of Defense for Personnel and Readiness Comments



PERSONNEL AND
READINESS

UNDER SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-4000

OCT 2 2007



MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: Report on Internal Controls over the Department of Defense Transit Subsidy Program within the National Capital Region (Project No. D2007-D000FE-0076.000)

This responds to the subject draft report dated July 31, 2007, specifically, recommendation (1), "The Under Secretary of Defense for Personnel and Readiness implement policies and procedures that will support Washington Headquarters Services (WHS) efforts to effectively administer the DoD transit subsidy program". I am pleased to inform you that efforts are well underway to revise the Department's current Mass Transit Subsidy policy, issue more comprehensive program guidelines, and ensure consistent program administration throughout the Department.

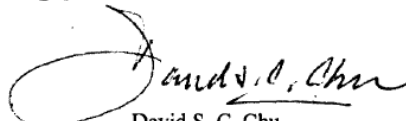
I have formed a Working Group, comprised of representatives from the Components and Washington Headquarters Services to review the current policy and administrative procedures, and identify areas where additional accountability controls may be needed. The Working Group has been meeting since May 2007 and has already prepared a draft of a new instruction. I expect the final instruction to be ready for formal Department coordination sometime during first quarter FY 08.

Except for recommendation 1c, I concur with recommendation (1). PFPA does not have the ability to check applications against all DoD parking databases in the National Capital Region (NCR). Thus, my non-concurrence is necessary. However, I have been assured that, in those cases where PFPA does not have access to parking databases, WHS will require program points-of-contact to conduct the reconciliation you are recommending.



Recommendations 2. a., b., c., and d relate specifically to the operation of WHS' program. WHS will respond directly to you on those recommendations.

Questions regarding this matter should be directed to Ms. Sherry Smith, (703) 696-8903, or sherry.smith@cpms.osd.mil.



David S. C. Chu

Washington Headquarters Services Comments



DEPARTMENT OF DEFENSE
WASHINGTON HEADQUARTERS SERVICES
1155 DEFENSE PENTAGON
WASHINGTON, DC 20301-1155



MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE
ATTN: DEFENSE FINANCIAL AUDITING SERVICE

SUBJECT: Report on Internal Controls over the Department of Defense Transit Subsidy Program within the National Capital Region (Project No. D2007-D000FE-0076.000)

This responds to the draft report dated July 31, 2007, regarding the above subject. Washington Headquarters Services (WHS) appreciates the opportunity to respond to the recommendations.

Recommendation 1. We recommend that the Under Secretary of Defense for Personnel and Readiness implement policies and procedures that will support Washington Headquarters Services efforts to effectively administer the DoD transit subsidy program.

Concur. The Under Secretary of Defense for Personnel and Readiness (USD/P&R) has established a department-wide working group to refine DoD policy and issue a DoD Instruction for the DoD Mass Transportation Benefit Program. WHS has been participating in the working group and looks forward to the issuance of the instruction. Following issuance of the instruction, WHS will adjust its practices to be in conformity with the DoD policies and procedures.

Recommendation 1a. Require DoD Components to implement control activities to ensure that appropriate independent authorities approve transit subsidy applications once they are verified for eligibility, accuracy, and completeness, and before they are submitted to PFPA for processing.

Concur. Consistent with OMB Guidance and this recommendation, effective October 1, 2007, all applications will be sent to Component program points-of-contact, prior to submitting to the Department of Transportation/TRANServe for processing. Pentagon Force Protection Agency (PFPA) will continue to review all applications before they are forwarded to determine, from Pentagon Reservation parking records, if the applicant possesses a Pentagon parking permit.

Recommendation 1.b. Require DoD components to establish periodic recertification of eligibility for employees' benefits.

Concur.

Recommendation 1.c. Require PFPA to adequately check all appropriate parking databases in the National Capital Region when comparing parking information to transit

subsidy applications, and perform periodic reconciliations of parking data with enrollment database information maintained by TRANServe.

Concur with exception. PFPA does not have the ability to check applications against all DoD parking databases in the National Capital Region (NCR). However, WHS will require program points-of-contact to check against available parking records at DoD locations in the NCR.

Recommendation 1.d. WHS, PFPA, and DoD Components clearly define areas of responsibility and authority within the application, change management, database management, and audit trail areas of the program.

Concur. WHS has updated program procedures in accordance with internal control guidance from OMB and has been communicating changes to the DoD Components and PFPA. Formal issuance of new WHS procedures will be accomplished following issuance of the DoD Instruction.

Recommendation 2. In conjunction with policies and procedures developed by the Under Secretary of Defense for Personnel and Readiness, we recommend that Director, WHS update the Memorandum of Agreement, July 6, 2000.

Concur. Updated MOA has been drafted and is being coordinated with the Department of Transportation.

Recommendation 2a. Include policies and procedures that clearly define and appropriately delegate key areas of authority and responsibility to DoD components, PFPA, and TRANServe, and communicate the importance of developing and implementing effective internal controls.

Concur. WHS will ensure procedures and policies are consistent with DoD guidance. WHS will amend the agreement with TRANServe to ensure that respective responsibilities and areas of authority are defined, that internal control requirements are emphasized, and that TRANServe maintains DoD NCR enrollment data in compliance with audit requirements.

Recommendation 2b. Include specific requirements to ensure compliance with its transit subsidy guidance to properly maintain oversight of all DoD transit subsidy program data.

Concur. See 2a, above.

Recommendation 2 c. Include specific requirements to ensure that TRANServe appropriately maintains the enrollment database and retain sufficient records to enable WHS to comply with audit requirements.

Concur. See 2a, above.

Recommendation 2 d. Include specific revisions of the Form DD 2845 to add sections that require:

Acknowledgement by the appropriate DoD Component approving official that the application has been reviewed to verify eligibility for benefits, accuracy of commuting cost and application information, and overall completeness of the application.

1. **Concur.** Supporting documentation to be included with the application form to show how the applicant determines his/her allowable monthly transit benefit amount, to include bus routes taken and entry and exit Metro stops.
2. **Concur with comment.** The revised DD2845 will require applicants to complete a commuting expense worksheet, which automatically calculates their transit costs based on their method and/or modes of transportation.
3. **Applicants to enter specific resident and work addresses.**
Concur with comment. The DD2845 will require applicants to provide their nine-digit zip code in lieu of street address, which is consistent with the direction being taken by the USD, P&R in their draft DoD Instruction. This approach has been taken to protect the employee's personal information, while providing detailed information that may be used to verify the area of residence.

Please contact Bill Berry at (703) 696-4555 for further inquiries.



Michael L. Rhodes,
Director

Team Members

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