

**UNITED STATES
CONSUMER PRODUCT SAFETY COMMISSION**



**OFFICE OF INSPECTOR GENERAL
AUDIT OF THE FEDERAL TRANSIT BENEFITS PROGRAM**

Issued:

March 24, 2014



UNITED STATES
CONSUMER PRODUCT SAFETY COMMISSION
BETHESDA, MD 20814

Memorandum

Date: March 24, 2014

TO : Robert S. Adler, Chairman, Acting
Marietta Robinson, Commissioner
Ann Marie Buerkle, Commissioner

FROM : Christopher W. Dentel
Inspector General

SUBJECT : Audit of the CPSC's Federal Transit Benefit Program

The Office of Inspector General has completed its audit of the CPSC's Federal Transit Benefit Program (FTBP). A copy of the report is attached.

As detailed in the report, we found that the CPSC had a functioning FTBP, but the program had several internal control weaknesses. In addition, we discovered that the program did not comply with certain government-wide policies and procedures mandated by the U.S. Department of Transportation (DOT), the entity responsible for the general administration of the FTBP throughout the federal government.

Management (EXFS and OEX) has been briefed regarding the findings and recommendations of this audit and given an opportunity to respond to them. Management generally concurred with the findings and either agreed to implement corrective actions regarding these findings or indicated that corrective action had already been taken. Management's response can be found in its entirety as an attachment to the report.

If you have any questions about this report or wish to discuss it, please feel free to contact me at 301-504-7644 or cdentel@cpsc.gov.

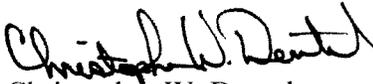

Christopher W. Dentel
Inspector General

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
INTRODUCTION	4
OBJECTIVES	4
SCOPE	5
METHODOLOGY	5
RESULTS AND FINDINGS	7
1. Lack of Adherence to CPSC Policy and Procedures:	7
2. Noncompliance with Government-Wide Policies and Procedures:	14
3. Lack of Properly Designed, Implemented, and Effective Internal Controls:	15
CONCLUSION.....	17
APPENDIX A: MANAGEMENT RESPONSE.....	18

EXECUTIVE SUMMARY

BACKGROUND

The Department of Transportation DOT uses its TRANServe program to assist participating federal agencies, including the U.S. Consumer Product Safety Commission (CPSC), to provide non-taxable subsidies to federal employees through the Federal Transit Benefit Program (FTBP). The FTBP is designed to encourage federal employees to use mass transportation in their commutes to and from work to reduce air pollution, noise, and traffic congestion in metropolitan areas.

The CPSC Office of Inspector General (OIG) conducted an audit of the Federal Transit Benefits Program (FTBP) administered by the agency. The OIG conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). We reviewed FTBP activity at the CPSC during the period October 1, 2011 through December 31, 2012. This included reviewing applicable documents to understand the operations of the FTBP and the related internal controls. Furthermore, to evaluate management's remediation efforts, we performed follow-up procedures over the previously issued fiscal year (FY) 2009 FTBP Review findings provided to the Office of Facilities (EXFS). Finally, we assessed the agency's compliance with identified applicable laws, regulations, policies, and provisions.

RESULTS OF EVALUATION AND FINDINGS

This report covers our assessment of the operations of the CPSC's FTBP for FY 2011 and the first quarter of FY 2013. Overall, we found that the CPSC had a functioning FTBP, but the program had several internal control weaknesses. In addition, we discovered that the program did not comply with certain government-wide policies and procedures mandated by the U.S. Department of Transportation (DOT), the entity responsible for the general administration of the FTBP throughout the federal government. Our findings included the following:

1. **Lack of Adherence to CPSC Policies and Procedures:**

The FTBP at the CPSC did not comply with the procedures outlined in CPSC Directive 862.1 – *Transit Subsidy Benefit Program*. Specifically, the CPSC did not follow its own procedures in these areas:

- cancellation of transit benefits using CPSC Form 119A;
- verification of participant addresses;
- verification and recalculation of participant benefits;
- return of excess transit benefits;
- participant separations from the program;
- receipt of transit subsidy debit cards; and
- the development and maintenance of written standard operating procedure(s) (SOPs) to ensure that the program complies with all applicable federal laws, regulations, and provisional guidance.

2. **Noncompliance with Government-Wide Policies and Procedures:**

The CPSC, in general, and the Office of Financial Service (EXFS), in particular, did not comply with various government-wide regulations associated with the FTBP. We identified noncompliance with these regulations:

- (a) Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*. The CPSC did not properly establish, implement, or maintain effective internal controls; and
- (b) OMB M-07-15, *Federal Transit Benefit Program Memorandum*. This regulation directs agency and department heads on the specific internal controls that CPSC must implement, at a minimum, over the FTBP to meet OMB's requirements. The CPSC did not effectively maintain the required controls related to:
 - verifying participants' addresses;
 - confirming the accuracy of benefits received;
 - returning excess benefits; and
 - removing participants from the program.

3. **Lack of Properly Designed, Implemented, and Effective Internal Controls:**

Internal controls are designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) Effectiveness and efficiency of operations; (b) Reliability of financial reporting; and (c) Compliance with laws and regulations. The CPSC's FTBP does not have adequate internal controls. We identified issues with the design, implementation, and/or effectiveness of the internal controls in multiple areas of the CPSC's FTBP:

- a) The manner in which the agency initiates, modifies, and terminates FTBP benefits does not comply with the CPSC's established internal controls.
- b) The existing internal controls governing the monitoring of FTBP participant activity are weak.
- c) The CPSC fails to follow its own internal controls governing the verification of FTBP participant home addresses. This is a particularly vital internal control because the home addresses of the participants are used to determine the amount of benefits each participant is entitled to receive.
- d) The internal controls governing the authorization of CPSC employees to participate in the FTBP are not functioning as intended.
- e) The CPSC lacks internal controls to ensure that FTBP participants who take extended leave do not draw FTBP benefits to which they are not entitled (this internal control deficiency, to some extent, has been mitigated by DOT's implementation of internal controls designed to address this situation when other agencies fail to do so).
- f) The CPSC does not follow existing internal controls governing the documentation of debit cards CPSC receives from DOT.

MANAGEMENT'S RESPONSE

Management concurred with our findings and recommendations and is developing a Corrective Action Plan (CAP) to remediate the findings and recommendations. In addition, we note that on February 1, 2013 (outside the audit scope), TranServe transitioned to an online system to manage all FTBP participants government-wide. The CPSC implemented this automated system and participants now use the system to apply, change, and/or cancel their benefits. Some of the issues identified during the audit have the potential to be remediated by this system. However, the OIG did not perform procedures over the processes used by the automated system. Therefore, we are unable to comment on management's assertions regarding the effectiveness of the automated system. Notwithstanding the implementation of the online system described above, the single most important internal control over the FTBP at the CPSC is CPSC Directive 862.1. Once updated to reflect the recommendations made in this audit, this directive will memorialize the corrective actions taken and formalize the changes made in the program to remediate the findings identified in this report. To date, however, the CPSC has not revised CPSC Directive 862.1.

INTRODUCTION

BACKGROUND

The DOT uses its TRANServe program to assist participating federal agencies, including the CPSC, to provide non-taxable subsidies to federal employees through the Federal Transit Benefit Program (FTBP). The FTBP is designed to encourage federal employees to use mass transportation in their commutes to and from work to reduce air pollution, noise, and traffic congestion in metropolitan areas.

DOT established the FTBP began in the early 1990s, and the program evolved to the present day, as follows:

- The program was established in 1991, when the Federal Transit Administration (FTA) began pilot testing a program to provide \$21.00 a month in transit fare to employees.
- During 1993, the Federal Employees Clean Air Incentive Act was signed into law, authorizing federal participation in the Transit Benefit Program.
- On April 21, 2000, President Clinton signed Executive Order 13150, the Federal Workforce Transportation Fringe Benefit, which called upon DOT, the U.S. Environmental Protection Agency (EPA), and the U.S. Department of Energy (DOE) to implement a nationwide pilot program for “transit pass” fringe benefits.
- In 2005, the Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users, required federal agencies to implement transit benefit programs for all eligible employees.

The DOT’s TranServe program offers distribution services of transit benefits nationwide to organizations throughout the federal government. TranServe distributes more than \$320 million in cash-equivalent fare media annually and provides service to more than 275,000 transit benefit participants employed by more than 100 federal organizations nationwide. During FY 2011, TranServ distributed approximately \$150 million in federal transit benefits to more than 106,000 federal employees working at more than 80 federal organizations within the Washington D.C. region. From the perspective of providing an efficient, economical means to distribute the transit benefits, TranServe enables federal agencies to use a single, established distribution system with extensive and effective internal controls to receive, maintain, and distribute fare media to federal employees. This single-system approach eliminates duplicating these functions at agencies and individual offices throughout the country.

OBJECTIVES

The OIG initiated this audit to assess the CPSC’s FTBP and to follow up on the previous findings and recommendations from the November 2009 Review OIG performed. The primary objectives of this audit include:

1. Assessing the adequacy of the CPSC’s remediation efforts regarding the issues identified in the OIG November 2009 FTBP Review.
2. Evaluating the CPSC’s current FTBP internal control structure to determine whether internal controls are designed properly, implemented appropriately, and operated effectively to ensure that the FTBP objectives are met.

3. Evaluating the CPSC's compliance with the federal laws, regulations, and provisions governing the FTBP.

SCOPE

This audit covered the operations of the CPSC's FTBP. The scope of this audit included Federal transit benefits provided to eligible CPSC employees from October 1, 2011 through December 31, 2012, as administered by the Office of Financial Services (EXFS) at CPSC headquarters in Bethesda, MD. During the period in question, approximately 138 CPSC participants were enrolled in the program, and these participants received a total of \$135,456.25 in transit benefits. Audit fieldwork took place from March 2013 through August 2013.

METHODOLOGY

We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require us to 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.

To accomplish our audit objectives, we obtained an understanding of the CPSC's administration of the FTBP to include the design, implementation, and operating effectiveness of internal controls, compliance with CPSC governing policies and procedures, and compliance with applicable federal laws, regulations, and provisions. We obtained this understanding by: conducting interviews with key EXFS Management personnel and the FTBP Coordinator; performing walk-throughs of the program to identify internal controls and assess the execution of policies and procedures; inspecting relevant supporting documentation; and examining TranServe transit subsidy data and reports. To assess the internal control environment further, we also reviewed the CPSC's remediation efforts from the OIG FTBP review conducted in 2009.

Based on the information gathered, we identified specific risks and opportunities for fraudulent, improper, and/or abusive FTBP activity within the CPSC. We also determined what key internal control activities were in place to prevent or detect such occurrences. Additionally, we performed a preliminary assessment of whether the internal controls were likely to be effective and identified any internal control design inefficiencies based on the CPSC's FTBP processes. From our preliminary assessment, we designed audit procedures (test of controls) to assess the internal controls' operating effectiveness, to review specific attributes of the program, and to determine compliance with the identified laws, regulations, and provisions governing the program.

To perform our audit procedures at the transaction level, the FTBP Coordinator provided us with a population of transit subsidy benefits received by CPSC participants from October 1, 2011 through December 31, 2012. We reviewed: (1) a FY 2011 Statement of Assurance from the DOT attesting to the operational effectiveness of the TranServe internal controls; (2) interviews of TranServe and CPSC agency officials knowledgeable about the data; and (3) documents verifying the completeness of the population by obtaining a direct download of CPSC transit benefits from TranServe and reconciling the information with the CPSC Coordinator's population. Our reconciliation yielded no differences. We determined that the data were sufficiently reliable for the purposes of this report.

The total population used for our audit procedures included 1,460 transactions, resulting in \$135,456.25 of benefits provided to CPSC employees.

To determine which transactions to review, we developed a dual-purpose sample to increase the efficiency of audit procedures. The dual-purpose sample allowed for the simultaneous testing of internal control effectiveness and the completeness and accuracy of transactions. We developed the dual-purpose sample using a Monetary Unit Sampling (MUS) approach. This approach resulted in a statistical sample of 59 transit benefit transactions (based on a 95 percent confidence level ((reliability)), and we had an expected error rate of five percent.)

Additionally, we performed procedures over specific attributes within the FTBP. For each specific attribute, we tested 100 percent of the population (see Table 1 below for sample sizes). Attributes tested included FTBP participants who separated from the CPSC, participants who took extended leave from the CPSC and subsequently received excess benefits, and FTBP debit cardholders—all within the audit scope period.

Table 1

Summary of Samples			
Sample	Type	Description	Total Transactions
MUS (Dual Purpose)	Statistical	Random sample of transactions	59
Separated Employees	100% Selection	Employees in the transit benefit program w ho separated from CPSC in the audit scope period	34
Excess Benefits Received	100% Selection	Employees w ho took sick or annual leave in excess of three business days and subsequently received transit benefits for the time out of office in October or November 2011 (period w hen TranServe w as not automatically recouping excess benefits w ithin the audit scope)	9
Debit Card Holders	100% Selection	Employees w ho held debit cards through the transit benefits program in the audit scope period	8

RESULTS AND FINDINGS

1. Lack of Adherence to CPSC Policy and Procedures:

EXFS does not adhere to its internal control policies and procedures regarding the operation and monitoring of the CPSC's FTBP. In our review of CPSC Directive 862.1, *Transit Benefit Subsidy Program*, we found inconsistencies in how EXFS and the FTBP Coordinator operated the program and how the CPSC's policies and procedures state how the program was to operate. The FTBP Coordinator's failure to comply with the procedures stipulated in the directive caused these inconsistencies. The inconsistencies identified indicate:

Cancelling Transit Subsidy Benefits

- In canceling participant benefits, the FTBP Coordinator failed to use the required CPSC Form 119/119A (Appendix A & B to Directive 862.1). Directive 862.1, Section 6 – Policy (b) & (c) (which establishes the proper procedures for participants in communicating the cancellation of their transit subsidy) states that participants must complete CPSC Form 119/119A to join, modify, recertify, and/or cancel participation in the FTBP. Here, the Coordinator accepted e-mail or verbal notification from participants to cancel benefits. By not following the stated procedures, the Coordinator risked the possibility of overlooking instances in which a participant separated from the CPSC and/or ceased participation the program but continued to receive and use benefits.

Monthly Monitoring of Transit Subsidy Benefits Activity & Transactions

- The FTBP Coordinator did not monitor properly and/or consistently the benefit downloads/transactions within the program. CPSC Directive 862.1, Section 8 – Responsibilities (e.)(4) establishes guidance for monitoring transit subsidy benefit transactions and activity by participants. The Coordinator attempted to perform a monthly reconciliation of the downloaded total benefits against data from DOT's TranServe System. However, we identified (through re-performance of the June 2012 monthly reconciliation) that the Coordinator did not follow up on variances and/or discrepancies of amounts noted during the monthly period. Without standard monthly monitoring of TranServe data over participant activity, the CPSC could be at risk of having incorrect or potentially fraudulent benefits claimed by participants and/or others who could access another participant's subsidies.

Participant Address Verification

- The FTBP Coordinator did not verify participants' addresses upon their initial application for enrollment in the FTBP. CPSC Directive 862.1, Section 8 – Responsibilities (e)(2), (5), & (11) sets forth this requirement. The FTBP Coordinator is responsible for reviewing the applications (CPSC Forms 119/119A) for correct data, verifying commuting costs using the participants' addresses, and confirming the addresses of program participants. Due to the FTBP Coordinator's failure to review initial applications properly, the performance of address verification occurred only during the annual re-certification period, after the applicant had been receiving benefits for a year. However, based on our review of a sample of program participants who were scheduled

to recertify during the period from October 1, 2011 to December 31, 2012, we found that the Coordinator also failed consistently to verify the addresses of participants during their recertification period. We identified the following discrepancies:

- Addresses for five samples were incorrect and did not match the listing provided by the CPSC's Office of Human Resources (EXRM), and the Coordinator did not follow up on the discrepancies;
- EXRM did not provide the participant addresses for two of the samples, and the Coordinator did not follow up with EXRM to obtain the addresses; and
- At the time of application, the Coordinator did not verify addresses, at all, for three samples.

In follow-up discussions with EXFS regarding these discrepancies, there were mitigating circumstances during the period in question that could account for some of the discrepancies involving interns and temporary employees. Regardless of the circumstances, the Coordinator should be following up on all discrepancies, documenting the address inconsistencies, and determining the accuracy of the information. Without proper verification of addresses, there is a risk that participants are using incorrect or potentially fraudulent addresses to obtain increased benefits and/or benefits in general.

Approval of Benefits in Excess of Statutory Maximums

- In our examination of the FTBP Coordinator's review and approval of transit benefit applications, we found that the Coordinator was not reviewing accurately and completely CPSC Forms 119 and 119A. Periodically, governing legislation changes the maximum benefit that participants can receive to subsidize their daily commutes. As such, the Coordinator should keep abreast of changes in legislation to ensure the proper incorporation of such changes into the CPSC's policy and procedures. However, we found that after the statutory maximum benefit was lowered, some participants were approved for benefits in excess of the new statutory maximum:
 - The Coordinator approved one participant to receive \$290 and approved another participant to receive \$268 in benefit commuting costs—both amounts in excess of the statutory maximum, which at the time of our sample date, October 1, 2011, was \$230; and
 - Another participant was approved erroneously to receive \$4,210 instead of the \$210 to which the participant actually was entitled to receive. Furthermore, the Coordinator failed to correct the error on the form.

In all of the instances detailed above, we found that TranServe had automated internal controls to prevent program participants from receiving benefits in excess of the statutory maximum. As such, employees did not receive excess benefits. However, this does not change the fact that the Coordinator did not comply with the directive regarding the proper procedures for reviewing and approving Form 119 and Form 119A. See Section 8 – Responsibilities (e)(2). The Coordinator's actions created the risk for the CPSC that

participants who are enrolled in the program may receive incorrect or potentially fraudulent benefits.

Annual Recertification Process

- We also reviewed the recertification process, which requires active participants in the FTBP to “recertify” their CPSC Form 119 information annually. The recertification process is governed by CPSC Directive 862.1, Section 8 – Responsibilities (e.)(12). The recertification process allows the agency to confirm a participant’s continued eligibility for the FTBP, and if necessary, to modify a participant’s subsidy amount. From our review, we found that the Coordinator did not comply with the directive. We noted the following inconsistencies:
 - Nine participants in our sample, each of whom entered the program in FY 2011, did not perform a recertification in FY 2012, as required by the directive. Because there was no recertification until FY 2013, the applicants were allowed to draw benefits for almost two fiscal years after their initial application submission or modification before the agency confirmed their continued eligibility for benefits;
 - In our sample, we found 39 recertifications that were completed in FY 2012, and which were approved by the agency to receive subsidy amounts exceeding the statutory maximum of \$125. On January 1, 2012, the statutory maximum benefit decreased from \$230; the DOT issued a memorandum on December 12, 2011, announcing the change in the statutory maximum. However, the FTBP Coordinator did not update Form 119A to reflect this, and therefore, approved amounts that were above the new maximum. The CPSC’s failure in this area did not result in an overpayment of benefits because the DOT had compensating internal controls that prevented benefit payments exceeding the statutory limit;
 - A participant who cancelled participation in the FTBP on September 22, 2012, had not been required to recertify since FY 2010, a violation of the annual recertification policy; and
 - Another participant performed a modification of benefits on February 14, 2011. In accordance with the recertification rules, the recertification should have occurred in FY 2012, but there was no record that the participant was required to recertify in FY 2012.

The Coordinator’s failure to adhere to the recertification procedures increases the risk to the CPSC that participants in the FTBP are receiving incorrect or potentially fraudulent benefits.

Verification and Recalculation of Participant Benefits

- To determine the appropriate transit subsidy for each participant, the FTBP Coordinator is required to review for accuracy and completeness Forms 119A and 119 submitted by FTBP participants. The Coordinator designates the completion of the review by signing each form. To assess the effectiveness of the review performed, we determined the actual benefit amounts downloaded by the selected participants during a specific period within

the audit scope period. We recalculated and compared the actual benefits downloaded to the benefits the participants claimed they would require when they completed their Form 119As. Our review found that the Coordinator was not complying with Directive 862.1, Section 8 – Responsibilities (e)(2) & (5) regarding the recalculation of participant commuting costs and the verification of the accuracy of monthly benefit amounts claimed. This creates a risk to the CPSC that when participants enroll in the FTBP, they may claim incorrect or potentially fraudulent benefits. We identified these discrepancies:

- In three instances, the Coordinator approved the FTBP participants' claims forms despite the participants completing the forms incorrectly. The forms did not properly identify the Metro (subway) station(s) and/or bus route(s) used to calculate the transit fares claimed. Furthermore, upon inquiry, the Coordinator could not recall how she verified the accuracy of the transit fares claimed. Therefore, to determine the accuracy of the amounts claimed by the participants, we calculated the participants' transit fares using the participants' addresses and the authorized fare rates from the respective transit authority. The fares we calculated did not match the fares indicated on the participants' forms;
- In one instance, the Coordinator approved a participant's request to receive transit subsidy benefits based on an incorrectly completed Form 119A. The participant's actual reimbursable transit fares for the month totaled \$201.60. This amount was calculated using the correct cost of the daily commute to work, and based on 18 working days per month, the total number of days actually worked on the participant's duty schedule. However, although this correct daily figure did appear on the Form 119A, the participant also calculated a weekly and monthly benefit total based on a traditional duty schedule and included those amounts in the overall total amount claimed of \$291. Ultimately, the Coordinator approved the participant for this amount calculated incorrectly, which also exceeded the statutory maximum allowable monthly reimbursement of \$230; and
- Another participant also completed Form 119A incorrectly; again, the Coordinator improperly approved the participant's claim. We recalculated the total value of monthly benefits to which the participant was actually entitled, which was \$160 for 16 working days. However, in completing Form 119A, the participant claimed \$210. Ultimately, the Coordinator approved the participant for the incorrect amount.

Return of Excess Benefits

- On December 1, 2011, the DOT began taking away excess monthly transit subsidy benefits not used by participants. Before that date, each recipient was responsible for returning unused benefits by contacting DOT directly or offsetting their receipt of excess benefits in one month by downloading fewer benefits the next month. This, in effect, was an "honor system," which each participant in the program was expected to follow. For example, if a participant went on vacation (pre-planned—"extended leave"), the participant was expected to anticipate not needing their entire transit subsidy for the month. Therefore, the participant was expected to reduce the amount of transit benefits

downloaded for the month in question or to deduct the excess benefits received for the month in question from the benefits download the following month.

Relying on an “honor system” presented a clear risk to the CPSC’s FTBP. However, the CPSC did not mitigate this risk through proper internal controls, such as monthly monitoring procedures to review of participants’ leave status (*i.e.*, reviewing leave reports) to detect any misuse of transit subsidy funds. Ultimately, this weakness in internal controls increased the risk to the agency that participants would claim incorrect and/or potentially fraudulent benefits.

We performed audit procedures to determine whether participants who were on extended annual or sick leave (*i.e.*, leave exceeding three days) were returning or foregoing excess transit benefits for the month that they were on extended leave status. We found that a few participants received and kept excess benefits. We also found that the Coordinator was not complying with Directive 862.1, Section 8 – Responsibilities (e)(4) & (6) regarding policies and procedures for the proper monitoring of FTBP activity. The responsibilities in question included ensuring the return of excess benefits by participants. We identified the following exceptions:

- One participant took extended leave in October and November 2011, but the employee downloaded the same value of transit benefits they would have used if they had not been on extended leave (*i.e.*, they did not reduce the amount of their benefits, even though their extended leave left them entitled to less in transit benefits, which totaled \$116.62). Although the participant downloaded fewer benefits than normal in December 2011 (the employee downloaded \$113.25, only \$34.75 less than the normal amount they received), the employee did not adequately offset the leave that they had taken in the previous months;
- Another participant took extended leave at the end of November 2011, and should have returned \$30.04 in excess funds. However, the funds from November 2011 were not returned, and in December 2011, the participant downloaded their full benefit amount; and
- Lastly, a participant took leave in October 2011, but downloaded their full benefits of \$208 in October and November. In December, the participant downloaded \$205.95, which was \$2.05 less than their normal monthly transit benefit, leaving them with \$98 in excess benefits that they should have returned but they did not return.

Participant Separations from the Program

- Participants may separate from the FTBP for a variety of reasons. The separation can occur because the participant simply decides that they no longer wish to use public transportation to commute to/from work, or separation may occur when the participant’s employment with the CPSC ends. The FTBP Coordinator is responsible for ensuring that participants who separate from the FTBP are removed from the program in an appropriate and timely manner. Directive 862.1, Section 8 – Responsibilities (e)(15) covers the proper removal of employees from the FTBP upon separating from the CPSC.

To test compliance, we designed audit procedures to determine whether the Coordinator is following agency procedures and whether participants are, in fact, exiting the FTBP in a timely manner. The results of our work indicated that the Coordinator is not following agency procedures related to the CPSC's Employee Departure Process (Section 5a) and completion of the CPSC Form 226 – *Employee Clearance and Accountability Form*. The Coordinator's failure to follow procedures in this area has resulted in the delayed removal of participants from the FTBP. These situations put the CPSC at risk of providing benefits to unauthorized participants, which could create the potential for fraud to occur. We determined that on several occasions FTBP participants have continued to receive and use transit benefits after leaving the FTBP and/or the CPSC. We noted these findings:

- In our sample, we found two instances in which the Coordinator did not give the DOT Transit Benefits Manager (TBM) the proper participant cancellation date as documented on CPSC Form 226;
- In one case, the Coordinator did not realize that a participant had separated from the CPSC on December 31, 2012, and as a result, the Coordinator did not request that the DOT TBM have the participant removed from the FTBP until March 22, 2013. As of the date of our review, July 16, 2013, the Coordinator had yet to complete the participant's CPSC Form 226;
- A participant separated from the CPSC on September 28, 2012, but the Coordinator did not request that the DOT TBM remove the participant from the program until November 23, 2012. As result, the separation date given to the TBM did not match CPSC Form 226, and the former participant could have continued to collect benefits to which they were not entitled;
- One participant separated from the CPSC on June 18, 2010, but the Coordinator did not contact DOT to have the participant removed from the benefits program until November 2011. The Coordinator asserted that a request to the DOT to cancel the participant from the program did occur in November 2010; however, we could find no documentation to support that assertion. An e-mail dated November 25, 2011, establishes that the Coordinator asked to have the participant removed. Additionally, the Coordinator completed CPSC Form 226 on October 19, 2011; approximately 15 months after the participant left the CPSC. As a result of the delayed removal, the participant downloaded transit benefits to which they were not entitled. Through discussion with the DOT, the Coordinator confirmed that the participant had continued to download benefits for approximately 15 months after separating from the CPSC. Ultimately, the participant downloaded, received, and expended a total of \$699.90 from July 2010 through October 2011;
- There were eight instances in which the Coordinator did not complete CPSC Form 226 (Section 5a) in a timely fashion (within 30 days) after the employee separated from the agency and the FTBP;
- There were five instances in which participants who had separated from the CPSC had not been removed from the FTBP properly and/or in a timely manner (*i.e.*, prior to exiting the agency). We found that the participants continued to have access to transit benefits after leaving the CPSC, and they could have used the transit benefits

when they were not authorized to do so. The total amount of benefits in question for these five participants was \$943.50; and

- Finally, in six instances the Coordinator did not contact the DOT TBM in a timely manner to have FTBP remove participants from the transit program who had separated from the CPSC and/or ceased participation. In the most extreme case identified, the participant separated on June 18, 2010 (as discussed in the 4th bullet above), but the official removal from FTBP did not occur until November 25, 2011.

Receipt of Transit Subsidy Debit Cards

- In December 2012, DOT established a Debit Card Program with JP Morgan. The Debit Card Program is designed to allow participants to use their transit subsidy benefits at commuter-direct transportation vendors. As such, the CPSC and DOT have established internal controls for participants to accept the cards, as well as internal controls for the FTBP Coordinator to receive and issue the cards properly. We performed procedures to test these internal controls and found that the Coordinator was not following proper procedures when receiving and issuing the debit cards to program participants.

The Coordinator is required to provide copies of the documents to DOT establishing receipt of the debit cards by the participants. However, the Coordinator could only provide this documentation for the first two participants in the program. The Coordinator stated that she had stopped sending the debit card receipt documentation to DOT because the process had changed and it was no longer required. However, the Coordinator was unable to provide documentation to support this claim. We contacted the CPSC's DOT TBM, who confirmed that receipt documentation is still required by DOT.

Not only is the Coordinator not complying with Directive 862.1 Section 8-Responsibilities (e)(14) related to compliance with laws and regulations related to receipt of debit cards, but she is also creating a risk that transit subsidy benefits could be misappropriated. The failure to obtain receipt documentation from participants and provide the information to DOT increases the risk that authorized FTBP participants will not receive debit cards and that individuals who are unauthorized to use the program will receive debit cards.

We recommend that EXFS and the FTBP Coordinator:

1. Modify CPSC Directive 862.1 to comply with the new procedures for cancelling benefits through TranServe, to ensure proper and timely cancellation of benefits by the employees and the FTBP Coordinator (Note: CPSC Forms 119 and 119A are currently obsolete).
2. Improve and strengthen controls over the monthly monitoring of TranServe data and transactions. The new controls should include a requirement for the Coordinator to review and investigate any differences between the TranServe data and transactions, and to note any suspicious or unusual activity. In addition, EXFS should update the SOP for monthly FTBP procedures and incorporate those updates into the CPSC Directive 862.1 under the Responsibilities Section for the FTBP Coordinator.

3. Strengthen the internal control procedures for reviewing FTBP applications, commutating costs, and verifying addresses to comply with the CPSC Directive 862.1.
4. Become familiar with the DOT Policy Guidance relevant to agency controls, and review the Guidance to ensure that the CPSC complies with the program internal control requirements. In particular, the CPSC needs to strengthen the policy over recertification procedures so that the recertifications are performed in a timely manner and in accordance with DOT policy.
5. Verify all pertinent required information (*i.e.*, station locations for commutes) that is included in the updated online TranServe Form before approving the application. Additionally, we recommend that EXFS Management and the FTBP Coordinator review the internal control requirements for the FTBP and strengthen internal controls over benefit recalculations to comply with this provision.
6. Investigate and pursue the instances noted above in which individuals erroneously received benefits while taking extended leave, and recoup the benefits that were received improperly.
7. Strengthen internal controls over the process used to remove individuals from the FTBP. The new internal controls should cover not only current CPSC employees who are withdrawing from the FTBP, but also employees withdrawing from the FTBP because they are separating from the agency.
8. Investigate and pursue the instances noted above in which separated employees continued to receive benefits after leaving the CPSC, and recoup the benefits that were fraudulently downloaded and used.
9. Work directly with the CPSC assigned TBM at DOT to resolve the discrepancy between the CPSC and DOT over what documentation must be provided to DOT regarding participants' receipt of debit cards. The resolution of this matter should include having the FTBP Coordinator communicate directly with the TBM at DOT, understand what documents need to be provided for the receipt of the debit cards, and clarify when the documents must be provided.

2. Noncompliance with Government-Wide Policies and Procedures:

The CPSC is not in compliance with the following regulations governing the FTBP:

- *OMB Circular A-123, Management's Responsibility for Internal Control.* OMB Circular A-123 states that agency management is responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. We found many areas in which internal controls were designed inappropriately and/or were not effective at meeting the objectives of the CPSC's administration of the FTBP. These internal controls also failed to prevent and correct errors. See additional discussion regarding: "Lack of Proper Design, Implementation, and Effective Internal Controls" below.

- OMB M-07-15, *Federal Transit Benefit Program Memorandum*. This memorandum provides guidance to agency and department heads regarding the minimum level of internal controls required by agencies over the FTBP. The memorandum also requests that agencies confirm that the required internal controls are in place and effective. Various controls outlined in this memorandum are specifically associated with participant address verification, the accuracy of benefits received, the return of excess benefits, and removal of participants from the program. As indicated above, the CPSC has not implemented and/or effectively maintained internal controls over the FTBP.

Most of the internal control issues noted above concern compliance with laws and regulations and the lack of oversight by EXFS Management over the Coordinator. Currently, management relies on the Coordinator to administer the program in accordance with CPSC policy and procedures, as well as comply with federal laws and regulations. While constant oversight is unnecessary, there appears to be no periodic follow-up with the Coordinator to ensure that established internal controls are operating as intended. This is reflected in the Coordinator's ability to override/overlook certain internal controls for long periods of time without detection by agency management. Noncompliance with laws and regulations over the FTBP puts the CPSC at risk of incorrect and potentially fraudulent transactions by participants, transactions that go unnoticed by management. The CPSC could be held responsible for the waste of government funding associated with the FTBP if these abusive transactions continue.

We recommend that EXFS and the FTBP Coordinator:

10. Review the internal controls associated with the program to ensure that these controls are designed and operating not only in compliance with the relevant laws and general federal regulations, but also in accordance with the internal controls specific to the CPSC as set out in CPSC Directive 862.1. Because CPSC management is ultimately responsible for the proper execution of established internal controls, we also recommend that EXFS Management conduct periodic reviews of those internal controls performed by the FTBP Coordinator. These reviews will be conducted to ensure FTBP's operating effectiveness and to prevent the possibility of the FTBP Coordinator becoming a single point of failure for the program as a whole.

3. Lack of Properly Designed, Implemented, and Effective Internal Controls:

We identified internal controls implemented by EXFS that were designed insufficiently and/or are not operating effectively to prevent and correct errors and misuse throughout the CPSC FTBP. For additional details and discussion about the FTBP internal controls design and operating effectiveness and the weaknesses we identified, see Section 1 above. Overall, we noted the following internal control weaknesses:

- a) Failure to comply with established internal controls regarding the use of CPSC Form 119A to initiate, modify, or terminate FTBP benefits;
- b) Failure of established internal controls to monitor FTBP participant activity;

- c) Failure to follow established internal controls for verification of FTBP participant home addresses to determine the appropriate amount of benefits a participant is to receive;
- d) The internal controls developed over the authorization to participate in the FTBP are not functioning as intended;
- e) Lack of agency internal controls over the monitoring of extended leave and use of transit benefits prior to controls implemented by DOT, and;
- f) Failure to follow established internal controls over the documentation of receipt of debit cards.

We recommend that EXFS and the FTBP Coordinator:

11. Review the internal controls associated with the program to ensure compliance with laws and regulations and to update and maintain compliance with CPSC Directive 862.1. To assist in ensuring compliance with internal control over laws and regulations, we also recommend that EXFS Management develop periodic review of the internal controls performed by the FTBP Coordinator to ensure the program's operating effectiveness. Ultimately, CPSC Management is responsible for proper execution of established internal controls.

CONCLUSION

Based on the results and findings noted above, the CPSC has not complied with its policies and procedures or the government-wide FTBP regulations, policies, and procedures. Moreover, the CPSC's FTBP has significant internal control weaknesses. We have discussed our recommendations with management. Management has indicated that they plan to take the proper action to remediate the issues noted and will implement policies and procedures to strengthen the program through a Corrective Action Plan (CAP).

APPENDIX A: MANAGEMENT RESPONSE

PAGE INTENTIONALLY LEFT BLANK



UNITED STATES
CONSUMER PRODUCT SAFETY COMMISSION
WASHINGTON, DC 20207

Memorandum

March 18, 2014

TO: Chris Dentel
Office of Inspector General

THROUGH: DeWane J. Ray,
Deputy Executive Director
Operations Support

JERRY
RAY

Digitally signed by JERRY RAY
DN: cn=JERRY RAY, o=U.S. Government,
ou=Consumer Product Safety
Commission, c=US
Date: 2014.03.18 10:29:01 -0400

FROM: Douglas F. Brown
Director, Office of Facilities Services

DOUGLAS
BROWN

Digitally signed by DOUGLAS BROWN
DN: c=US, o=U.S. Government, ou=Consumer
Product Safety Commission, cn=DOUGLAS
BROWN,
0.9.2342.19200300.100.1.1=#61001000001958
Date: 2014.03.18 09:28:31 -0400

SUBJECT: The OIG's Audit of FY13 Transit Subsidy Benefit Program

The Office of Facilities Services (EXFS) has reviewed the Office of Inspector General (OIG) FY13 Transit Subsidy Benefit Program (TSBP) audit findings and recommendations. EXFS generally agrees with the OIG's finding and recommendations and submits the following response:

1. Cancellation of Federal Transit Benefits Using Form 119A—"We recommend that the TSB Coordinator comply with the CPSC Directive 862.1 Policies and procedures over participants cancelling benefits formally using the Form 119A."

Response: Effective February 1, 2013, CPSC implemented the new TranServe Transit Benefit Online Application. This new system replaced the need to use form CPSC 119 and CPSC 119A. The system allows users to enroll, certify, update changes and withdraw from the program. However, even with the new system and annual training, employees do not always use the system to withdraw when separating from CPSC. When this happens, the TSBP Coordinator sends an email to the Department of Transportation to immediately cancel benefits for employees that are withdrawn from the program. The TSBP coordinator will receive employee departure notices and will review weekly staffing reports to see if an employee has departed the agency and should be remove from the program. EXFS will update CPSC Directive 862.1 to reflect the use of the new system.

2. Improper of Monthly Monitory of the TranServe and DOT Data—"We recommend that the Office Facilities (EXFS) management and the TSBP Coordinator improve and strengthen controls over the monthly monitoring of TranServe data and related transactions. This can be accomplished by incorporating the monthly monitoring procedures into CPSC Directive 862.1 under the responsibilities of the TSBP Coordinator and/or developing a Standard Operating Procedure (SOP). The policy should enhance Management's and the

Coordinator's awareness of the program's activity, so that when variances do arise, a process is in place to review and investigate those variances to identify any suspicious or unusual activity."

Response: EXFS management agrees with the recommendation. The TSBP Coordinator's position is currently vacant and EXFS management is in the process of filling the vacancy. EXFS management is handling the duties. EXFS management will work with the new TSBP Coordinator to improve and strengthen implementation of controls over the monthly reconciliation process so that all variances are brought to management's attention and reconciled.

3. Address Verification-“The verification of addresses at the time of enrollment for all participants, as well as annually to ensure claimed commuting costs are accurate.

When the TSBP Coordinator discovers a discrepancy with a participant's address, the coordinator should immediately follow up with the participant and/or EXRM. Further, if EXRM does not provide the address, the Coordinator should notify EXFS Management for assistance in obtaining all information necessary.”

Response: EXFS management agrees with the recommendation. The TSBP Coordinator's position is currently vacant and EXFS management is in the process of filling the vacancy. EXFS management is handling the duties. EXFS management will work with the new TSBP Coordinator on establishing standard operating procedures to strengthen the internal control for reviewing TSBP applications, commuting costs and verifying addresses to comply with OMB M-07-15 and updating the CPSC Directive 862.1.

4. Control Exceptions and Weaknesses over the TSBP Process- “We recommend that the TSBP Coordinator becomes compliant with the CPSC Directive 862.1 policies and procedures over reviewing and approving the Forms 119 and 119A. There should be specific focus during review to ensure accurate reflection of the maximum statutory amount allowable on the application forms and the approval amounts to ensure participants are not over the statutory limit.

We recommend that the TSBP Coordinator becomes familiar with the DoT Policy Guidance for agency controls and reviews them to ensure the CPSC's compliance.

Further, we recommend that the Office of Facilities (EXFS) Management reinforce the recertification procedures established by the agency to ensure that the TSBP Coordinates performs the re-certifications in a manner that is timely and in accordance with the CPSC policy.”

Response: Effective February 1, 2013, CPSC implemented the new TRANServe Transit Benefit Online Application. This new system replaced the need to use form CPSC 119 and CPSC 119A. The system allows users to enroll, certify, update changes and withdraw from the program. EXFS is updating the Directive to reflect the new TranServe website. In addition, EXFS works very closely with the DOT

staff in making sure participants comply with the statutory benefit amount. However, if Congress changes the statutory rate in the middle of the year, our DOT Customer Services Representative requests that our employees do not make any adjustments or re-submit new applications as they will make the necessary adjustments to curtail the voluminous amount of new applications received from Federal Agencies. For example: December 2013 CPSC had started its annual recertification before DOT notified EXFS of the decreased statutory transit benefit (from \$245 to \$130). Some staff had completed their re-certification application and subsequently used their actual commuting cost, which exceeded \$130. DOT informed CPSC that staff did not have to adjust their commuting cost if it exceeded the \$130 in the event Congress increased the statutory amount during FY14. DOT makes sure that the participants' monthly amount does not exceed the current statutory amount.

EXFS has established a mandatory re-certification month of December and procedures to ensure that the new TSBP Coordinator performs the re-certifications in a timely manner.

5. Re-calculation of Monthly Benefits- “We recommend that the TSBP Coordinator becomes compliant with the CPSC Directive 862.1 policies and procedures over reviewing and approving the 119 and 119A Forms related to recalculating the total commuting costs of participants; as well as, the mathematical accuracy of the calculation.

We recommend that the Office of Facilities (EXFS) and the TSBP Coordinator investigate the instances noted above where individuals erroneously received incorrect benefits and recoup the benefits that were not allowable during the period received.

We recommend that the TSBP coordinator verify all pertinent required information (i.e. station locations for commutes) that is included in the 119A Form before approving the application.

We further recommend that the EXFS Management and the TSBP Coordinator review the control requirements noted in OMB M-07-15 and strengthen controls over benefits recalculation to comply with this provision.”

Response: As stated above, the CPSC Form 119 and 119A has been replaced by an online system. This new online system accepts the CPSC Employee's application for transit benefits and calculates their eligible commuting costs, ensuring participants receive the subsidy amount they are entitled.

EXFS management will investigate the instances noted above where individuals erroneously received incorrect benefits and attempt to recoup the benefits that were not allowable during the period received.

EXFS established procedures for verifying pertinent required information (i.e., station location and tour of duty) that is included in the TranServe application before approving the application.

6. **Return Excess Benefits-** We acknowledged that starting in December 2011, TranServe developed mitigating internal controls to remove excess benefits from participants SmarTrip and debit cards automatically at the end of the month. Therefore, we will consider this finding remediated based on the recent mitigating factors established within DoT's TranServe system. However, we still recommend that the Office of Facilities (EXFS) and the TSBP Coordinator consider investigating the exceptions noting above and recoup the excess benefits from the participants identified. Further, we recommend that EXFS Management and the TSBP Coordinator strengthen the monthly monitoring over transit transactions to ensure that the amounts claimed and used by participants are in accordance with CPSC Directive 862.1; as well as, OMB M-07-15 going forward.

Response: EXFS Management has recouped the excess benefits from participants in sample #25, #37 and #5, and have forwarded the checks to Division of Finance Services. EXFS requested EXRM recoup the excess benefits from staff that have separated from the Agency through the Treasury Offset process. The new TranServe system will automatically remove excess funds at the end of the month.

7. Separated Employees from CPSC and the TSBP- "We recommend that the EXFS Management and TSBP Coordinator become compliant with the CPSC Directive 862.1 and OMB M-07-15. This requires that the EXFS Management and the TSBP coordinator strengthen internal controls over properly coordinating the removal of not only TSBP participants, but also employees separating from the agency as a whole. A part of strengthening this process should include:

EXFS management and the TSBP Coordinator reincorporating and reinforcing the use of the CPSC Form 119A to cancel benefits as a formal mechanism to end participation in the TSBP, regardless of reason.

The TSBP Coordinator soliciting and only accepting the Form 119A from the participants for cancelling TSBP benefits when the EXRM sends out the notification email regarding employee separation. The receipt of this form should correspond with the Coordinators signature and date on the CPSC Form 226.

EXFS establishing time frames in which the TSBP Coordinator has to complete the removal process of TSBP participant beginning with the acceptance of 119A and/or the CPSC Form 226, communication to DoT, and the subsequent follow-up.

We further recommend that EXFS re-pursues action to recoup the funds downloaded by Sample #34 after separation in the amount of \$699.90. Although follow up was attempted to be made with the individual, EXFS did not pursue action once a reply was not received by the individual. As the benefits were fraudulently downloaded for over a year after the individual separated from the agency, the amount should be paid back to CPSC."

Response: EXFS management agrees with the recommendation. The TSBP Coordinator's position is currently vacant and EXFS management is in the process of filling the vacancy. The duties are being handled by EXFS management. EXFS management will work with the new TSBP Coordinator on establishing standard operating procedures to strengthen the internal control for properly coordinating the removal of not only TSBP participants, but also employees separating from the agency as a whole.

Effective February 1, 2013, CPSC implemented the new TRANServe Transit Benefit Online Application. This new system replaced the need to use form CPSC 119 and CPSC 119A. The system allows users to enroll, certify, update changes and withdraw from the program. However, even with the new system and annual training, employees do not always use the system to withdraw when separating from CPSC. When this happens the TSBP Coordinator sends an email to the Department of Transportation to immediately cancel benefits for employees that are withdrawn from the program. The TSBP coordinator receives employee departure notices and reviews weekly staffing reports to see if an employee has departed the agency and should be removed from the program. CPSC Directive 862.1 is being updated to reflect the use of the new system.

EXFS will request EXRM to recoup the excess benefits from sample #34 through the Treasury Offset process.

8. **Receipt of Debit Cards-** We recommend that the TSBP Coordinator follow the DoT policy as described for all TSBP Debit Card participants and ensure the retention of all documentation. If the Coordinator does not understand the documentation requirements, it is the Coordinator's responsibility to contact the DoT directly for guidance. If DoT cannot provide sufficient guidance, the TSBP Coordinator should inform EXFS Management for assistance. We also recommend that the TSBP Coordinator provide complete receipt documentation to the assigned CPSC TBM at DoT, as soon as possible for the remaining Debit Cards issued.

Response: EXFS will work with DOT and the new TSBP Coordinator in establishing procedures for the handling of TSBP Debit Cards.

9. **Non Compliance with Laws and Regulations-**“ We recommend that the EXFS Management works with the TSBP Coordinator to review the internal controls associated with the program to ensure that compliance over not only laws and regulations, but also compliance the CPSC Directive 862.1 internal controls established. To assist in ensuring compliance with internal control over laws and regulations, we also recommend that EXFS Management develop periodic review of the internal controls performed by the TSBP Coordinator to ensure the programs operating effectiveness, as CPSC Management is ultimately responsible for proper execution of established internal controls.

Response: EXFS concurs with the above recommendations.