

# Board of Governors of the Federal Reserve System

## Audit of the Board's Transportation Subsidy Program



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**Office of Inspector General**

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March 2011



BOARD OF GOVERNORS  
OF THE  
**FEDERAL RESERVE SYSTEM**  
WASHINGTON, D. C. 20551

OFFICE OF INSPECTOR GENERAL

March 31, 2011

Mr. Donald Spicer  
Acting Director, Management Division  
Board of Governors of the Federal Reserve System  
Washington, DC 20551

Dear Mr. Spicer:

The Office of Inspector General of the Board of Governors of the Federal Reserve System (Board) is pleased to present its report on the *Audit of the Board's Transportation Subsidy Program*. The Board supports federal government initiatives to conserve energy, reduce traffic congestion, and improve air quality by providing transportation subsidy benefits to employees who commute to work using public transportation.<sup>1</sup> We conducted this audit in response to reports of abuse and fraud in the federal transit benefits program at other government agencies.

Our audit objective was to determine the extent to which the Board's Transportation Subsidy Program (TSP) is properly controlled and administered. More specifically, we assessed the extent to which the Board's program controls (1) ensure compliance with applicable laws and regulations and management's authorization, and (2) prevent unauthorized or fraudulent activities. In an Interim Audit Memorandum dated December 23, 2008, we provided the then Director of the Management Division with our preliminary observations regarding the TSP (see appendix 1). We noted specifically that the Board's *Transportation Subsidy* policy (1) was outdated and incomplete, (2) did not include provisions for employee recertification or withdrawal from TSP, and (3) did not include two control provisions recommended by the Office of Management and Budget.

Now that we have concluded our audit, we have found that the Board's TSP is reasonably controlled and administered to help ensure compliance with applicable laws and regulations and management's authorization, and to help prevent unauthorized or fraudulent activities. We determined that most of the observations in our Interim Audit Memorandum have been addressed through changes included in a draft revised *Transportation Subsidy* policy. The draft revised policy has not been finalized and issued.

Our audit did not identify significant deficiencies; however, we did identify cases of noncompliance with policies and procedures and opportunities to strengthen controls intended to

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<sup>1</sup> According to the Board's *Transportation Subsidy* policy, effective March 30, 2007, public transportation is any transportation system registered with the Washington Metropolitan Area Transit Authority (WMATA), including van pools and other privately owned and operated transportation systems registered with WMATA.

ensure participants' compliance with TSP requirements. Our report contains three recommendations designed to address these matters.

We provided our draft report to you for review and comment. In your response, included as appendix 2, you concur with recommendations 1 and 3, concur with the intent of recommendation 2, and discuss improvement actions planned or underway. We will follow up on the implementation of each recommendation as part of our future audit activities.

We appreciate the cooperation that we received from the Management Division staff during our review. The principal contributors to this report are listed in appendix 3. We are providing copies of this report to Board management officials. The report will be added to our public web site and will be summarized in our next semiannual report to Congress. Please contact me if you would like to discuss this report or any related issues.

Sincerely,

A handwritten signature in cursive script that reads "Andrew Patchan Jr.".

Andrew Patchan, Jr.  
Associate Inspector General for Audits and Attestations

Enclosure

cc: Governor Sarah Bloom Raskin  
Mr. William Mitchell  
Mr. Mitchell Clark

**Board of Governors of the Federal Reserve System**

**Audit of the Board's  
Transportation Subsidy Program**



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**OFFICE OF INSPECTOR GENERAL**

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March 2011



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## Background

The Board of Governors of the Federal Reserve System (Board) operates a Transportation Subsidy Program (TSP) in support of federal government initiatives to conserve energy, reduce traffic congestion, and improve air quality by encouraging federal employees to commute to work using public transportation. Under the TSP, the Board provides nontaxable transportation subsidy benefits to eligible employees for commuting to work using public transportation. As of December 31, 2010, approximately 1,100 Board employees participated in the TSP, and 2010 Board expenditures for providing TSP benefits totaled about \$1.5 million. Over the last four years, the maximum monthly TSP benefit amount for eligible employees increased from \$110 to \$230.<sup>2</sup>

In 2007, the Government Accountability Office (GAO) issued a report on ineffective controls over the federal transit benefits program at certain federal agencies. GAO found a lack of government-wide policies and control guidelines and identified that weaknesses existed in the design of program controls at certain agencies, which could contribute to fraudulent and abusive activity. GAO confirmed that approximately 20 federal employees were fraudulently selling their Metrocheks (unregistered fare cards provided as transit benefits), 23 employees inflated their transportation expenses on their transit benefit applications, and 2 employees received both parking and transit benefits. In addition, GAO identified four federal employees who continued to receive transit benefits while on extended absences and four former employees who continued to receive benefits after leaving their respective agencies. Subsequently in 2007, the Office of Management and Budget (OMB) issued Memorandum 07-15, *Federal Transit Benefits Program*, which identified internal controls to improve agencies' administration of federal transit benefits. We conducted our audit in response to the reports of abuse and fraud in the federal transit benefits program at other government agencies.

In September 2007, the Board began migrating from distributing transportation subsidy benefits through Metrocheks to distributing benefits through the SmartBenefits program. The Washington Metropolitan Area Transit Authority (WMATA) administers the SmartBenefits program, which provides electronic benefits through SmarTrip cards and SmartBenefits vouchers for employers to distribute to their employees. A SmarTrip card is a plastic, reusable fare card that operates like a debit card and has an embedded computer chip that stores and tracks the value downloaded to it at kiosks located within the WMATA system. A SmartBenefits voucher is a fare card for participants to use on regional transit systems that have not adopted the SmarTrip card payment system, such as Virginia Railway Express, Maryland Area Regional Commuter Rail, and the Maryland Transit Administration commuter buses. The SmarTrip card enhances and provides several program controls by

- registering the SmarTrip card to the owner;
- storing a maximum of \$300 on any one card; and

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<sup>2</sup> With the enactment of the American Recovery and Reinvestment Act of 2009 and the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, the allowable transportation subsidy benefit was temporarily increased to \$230 per month through December 31, 2011.



- enabling WMATA to deactivate a registered SmarTrip card if it is lost or stolen, and to transfer its remaining balance to a replacement card.

At the start of the transition to SmartBenefits in late 2007, the Board required participants to revalidate their TSP eligibility by submitting a new Application for Transportation Subsidy. For SmarTrip card users, the Board also required participants to complete a SmartBenefits Program Application. In April 2009, when the Board discontinued the distribution of Metrocheks, it required SmartBenefits voucher users to submit a DC Transit Benefits application to receive SmartBenefits vouchers. During February 2010, the Board initiated a compliance effort to revalidate all participants in the TSP. All participants were required to reapply to the TSP to continue receiving benefits.

Until recently, the Board had a written agreement with the Department of Transportation (DOT) to process Board-approved TSP applications; maintain a database of information on Board TSP participants and their TSP benefits based on the information provided by the Board; and distribute TSP benefits to Board participants. The agreement detailed DOT's responsibilities to (1) act as the liaison between the Board and WMATA to activate electronic benefits for participants to download to their SmarTrip cards; (2) order and safeguard SmartBenefits vouchers; and (3) provide agents to disburse the vouchers to Board TSP participants on an agreed-upon schedule. As part of the agreement, DOT provided the Board with monthly TSP participant account activity reports and a monthly invoice statement for Board TSP participant benefits disbursed and the related DOT administrative fees. However, since October 2010, the Board no longer uses DOT as its intermediary processor and processes TSP benefits directly through WMATA.

The Board's current *Transportation Subsidy* policy, dated March 30, 2007, establishes criteria for benefits, eligibility, and employee responsibilities. The policy notes that employees receiving transportation subsidy benefits are responsible for providing complete, up-to-date, and certified application information, such as information on commuting costs and participation in the Board's parking program. Employees are also responsible for complying with the policy requirements on receiving and using subsidy benefits, as well as refunding ineligible subsidy benefits. In addition, under the policy, the Accounting Section in the Board's Financial Services Function of the Management Division has program responsibility for administering the TSP.

The Accounting Section has designated a TSP administrator to perform day-to-day operations, which include (1) communicating information to Board staff about the program benefits and distribution processes; (2) administering employees' participation in the TSP, such as receiving, reviewing, approving, and maintaining applications; (3) coordinating and administering benefits distribution, such as establishing distribution dates and locations; and (4) reconciling monthly distribution reports and invoices to the Board's records. In addition, the TSP administrator monitors the participants' compliance with policy requirements, such as performing periodic reviews to ensure that participants' commuting costs are current and valid, participants do not have a parking permit while also receiving TSP benefits, participants are not utilizing 10 or more days of contingency parking in any given month while also receiving TSP benefits, and participants who have separated from the Board are no longer receiving TSP benefits.

## Objective, Scope, and Methodology

The overall objective of this audit was to determine the extent to which the Board's TSP is properly controlled and administered. More specifically, we assessed the extent to which the Board's program controls (1) ensure compliance with applicable laws and regulations and management's authorization, and (2) prevent unauthorized or fraudulent activities. To accomplish our objective, we reviewed the Board's *Transportation Subsidy* policy, the Accounting Section's *Transportation Subsidy Program* procedures, and other relevant documentation to gain detailed knowledge of the Board's TSP and assess its control processes. We interviewed Board staff responsible for managing the Board's TSP to obtain information on program operations and controls. We also met with the Board staff responsible for managing the Board's Parking Program to obtain relevant information. Based on our understanding of the Board's TSP, we developed detailed program flowcharts and narratives to identify the program's processes and procedures, assess the program's controls, and assist with our fieldwork testing.

We tested the adequacy of the controls within the program's application, monitoring, and accounting processes to ensure compliance with the *Transportation Subsidy* policy and the Accounting Section's *Transportation Subsidy Program* procedures. We performed testing to review whether controls ensure that (1) former Board employees who participated in the program do not continue to receive TSP benefits after separating from the Board, (2) TSP benefits are based on accurate commuting cost information, (3) TSP participants do not have a parking permit while also receiving TSP benefits, and (4) TSP participants do not utilize 10 or more days of contingency parking in a given month while also receiving TSP benefits. In addition, we sampled participants' applications to determine if they were properly reviewed, approved, and recorded in the Board's TSP database. We also sampled monthly reconciliations performed by the Accounting Section, which validated TSP benefits distributed by DOT, to ensure that the reconciliations were properly supported and independently reviewed and approved. We performed our testing in 2009, and updated our testing in March and November 2010.

In performing our testing, we analyzed the Board's TSP and personnel databases for the period of November 1, 2009, through December 31, 2009, to identify any TSP participants who separated from the Board but were still identified as "active" in the Board's TSP database and authorized to receive TSP benefits. We also compared 85 TSP participants' addresses in the TSP database with the Board's personnel database as of December 2009, to identify any discrepancies. As part of our updated testing, we compared the Board's TSP and Parking Program databases for the months of June 2010 and July 2010, to identify any TSP participants who had a parking permit or utilized 10 or more days of contingency parking while also receiving TSP benefits in the same month. For any discrepancies noted, we determined if the Accounting Section's commuting cost or parking reviews identified the same discrepancies, and we analyzed available information to estimate the impact on TSP benefits.

We began our audit in August 2008, and in December 2008 we issued an Interim Audit Memorandum that provided the Board with our preliminary observations regarding the program's policy and procedures. We subsequently continued our work and completed the audit fieldwork in November 2010. We performed our work 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions, based on our audit objective.

## Findings, Conclusions, and Recommendations

Overall, we found that the Board's TSP is reasonably controlled and administered to help (1) ensure compliance with applicable laws and regulations and management's authorization, and (2) prevent unauthorized or fraudulent activities. Our audit did not identify significant deficiencies; however, we did identify cases of noncompliance with policies and procedures and opportunities to strengthen controls intended to ensure participants' compliance with TSP requirements. In our December 2008 Interim Audit Memorandum that reported our preliminary observations on the Board's TSP, we identified that the *Transportation Subsidy* policy was outdated and incomplete, did not include provisions for employee recertification of eligibility or withdrawal from the TSP, and did not include two internal control provisions recommended in OMB Memorandum 07-15. In addition, we identified that certain TSP processes were not fully documented in the Accounting Section's written *Transportation Subsidy Program* procedures. We also provided observations regarding clarifications needed on the Board's TSP web page and the 2008 partnership agreement with DOT, which the Board has since resolved. In addition, the Board drafted a revised *Transportation Subsidy* policy and revised the *Transportation Subsidy Program* procedures.

While the draft revised *Transportation Subsidy* policy addresses most of our December 2008 preliminary observations, the policy has not been finalized and issued. Since the TSP involves fund disbursements, it is inherently susceptible to fraud and abuse. In our testing and analysis, we identified weaknesses involving TSP participants (1) continuing to receive benefits after separating from the Board, (2) not providing the Accounting Section with up-to-date address and commuting cost information, and (3) having a parking permit while also receiving TSP benefits. Based on the foregoing, we are making three recommendations designed to help the Board enhance its system of internal controls over the TSP and minimize the potential for fraud and abuse.

### **1. We recommend that the Acting Director of the Management Division finalize and issue the draft revised *Transportation Subsidy* policy, which includes control enhancements.**

In our Interim Audit Memorandum, we identified that the Board's current *Transportation Subsidy* policy, dated March 30, 2007, (1) was outdated and incomplete, (2) did not include requirements for employee recertification of eligibility or withdrawal from the TSP, and (3) did not include two internal control provisions recommended in OMB Memorandum 07-15 regarding benefits being adjusted due to travel and leave, and exit procedures addressing the removal of separating employees from the program. Subsequent to our Interim Audit Memorandum, the Board drafted a revised *Transportation Subsidy* policy that addressed most of our preliminary observations. This policy has not been finalized and issued.

The draft revised policy provides updated and complete program information and reflects the Board's current method of providing TSP benefits through the use of WMATA's SmartBenefits

program. The draft policy also states that the Management Division will make an annual announcement regarding the subsidy amount and that employees will be required to annually revalidate their TSP applications and continuing eligibility. The draft policy also includes the OMB control provision for reducing benefits based on lower commuting costs during periods when employees are out of the office on travel or leave. The draft policy specifies that employees must ensure that they are receiving TSP benefits only for days on which they incur commuting costs, and they must adjust the following month's subsidy for days when they did not report to their work location (such as for official travel, leave, flex days, or telecommuting). Regarding the other OMB control provision about removing separating employees from the TSP, the draft policy states that employees separating from the Board must notify the Accounting Section of their withdrawal from the program.

**2. We recommend that the Acting Director of the Management Division update the *Employee Separation Form* and the Board's exit process to ensure that employees separating from the Board are also removed from the TSP.**

Although the draft revised *Transportation Subsidy* policy states that a TSP participant is required to notify the Accounting Section when leaving the Board, a control provision in OMB Memorandum 07-15 recommends that an agency's exit process for separating employees includes the employees' removal from the TSP. The Board's *Employee Separation Form* and exit process provide overall controls to help ensure that separating employees do not continue to receive Board employee benefits or retain work-related equipment, but they do not specifically address removing separating employees from the TSP.

When an employee separates from the Board, he or she is required to complete the Board's *Employee Separation Form*, which requires that the employee (1) be removed from Board programs, (2) surrender all Board-provided material and equipment, (3) make arrangements for any financial obligations to the Board, and (4) be aware of his or her ongoing benefits available upon separation from the Board. The separating employee and authorized Board officials are required to sign various parts of the form to ensure that the associated steps in the exit process are completed. However, neither the form nor the exit process specifically addresses removing separating employees from the TSP. Accounting Section officials stated that they review the personnel database to identify TSP participants who are separating or have separated from the Board and then terminate their TSP benefits. However, as discussed under recommendation 3 below, we found weaknesses in the controls intended to ensure that separated employees are precluded from receiving further TSP benefits, which supports our position that internal controls could be enhanced by modifying the form and exit procedures to specifically address removing separating employees from the TSP.

**3. We recommend that the Acting Director of the Management Division improve the Board's processes and written procedures to ensure that TSP participants (i) are removed from the program in a timely manner when they separate from the Board, so they do not continue to receive benefits, (ii) provide the Accounting Section with up-to-date address and commuting cost information, and (iii) do not also have a parking permit.**

The Accounting Section's *Transportation Subsidy Program* procedures, dated June 6, 2008, provide information on the Board's TSP and how to administer participants' applications, monitor participants' compliance with TSP requirements, and perform monthly reconciliations with distribution reports. In our Interim Audit Memorandum, we identified that certain TSP processes were not fully documented in the *Transportation Subsidy Program* procedures. Further, our testing of the processes identified weaknesses in ensuring that employees who have separated from the Board do not continue to receive benefits, employees provide the Accounting Section with up-to-date address and commuting cost information, and employees do not have a parking permit while also receiving TSP benefits.

### **Termination Reviews**

Accounting officials perform weekly termination reviews to remove employees from the TSP who have separated from the Board. The officials stated that they run queries in the Board's personnel employment status database to identify TSP participants who are separating or have separated from the Board. Accounting staff then change the status of these employees in the Board's TSP database from "active" to "terminated," and make appropriate changes to the WMATA system.<sup>3</sup> However, we found that the termination reviews did not ensure that TSP benefits were discontinued for all separated Board employees. Specifically, we analyzed the Board's personnel employment status database to identify Board employees who separated during the period of November 1 through December 31, 2009. We identified 19 employees who had separated from the Board. Of this 19, 11 had participated in the TSP. We found that Accounting had only changed the status of 2 of the 11 TSP participants to "terminated"; the other 9 remained listed as "active" in the TSP database, as of January 31, 2010. According to the distribution report reflecting TSP benefits disbursed for Board participants during January 2010, three former employees downloaded a collective total of \$410 in TSP benefits during January 2010. For the 11 separated TSP participants, the table below summarizes their separation dates, their status in the Board's database, and whether they downloaded benefits after separating from the Board.

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<sup>3</sup> When DOT was providing services, Accounting staff communicated the results to DOT, so DOT could process the change in the WMATA system to ensure an accurate distribution of TSP benefits. Since October 2010, the Board no longer uses DOT as its intermediary processor and processes TSP benefits directly through WMATA.

## Overview of Separated TSP Participants

Employee	Separation Date	Board's Database 1/31/2010	Downloaded TSP Benefits January 2010
1	12/22/2009	Active	Yes
2	12/04/2009	Active	Yes
3	11/19/2009	Active	Yes
4	12/18/2009	Active	No
5	12/11/2009	Active	No
6	12/04/2009	Active	No
7	11/20/2009	Active	No
8	12/31/2009	Active	No
9	12/11/2009	Active	No
10	12/31/2009	Terminated	No
11	11/06/2009	Terminated	No

Accounting Section officials stated that they are aware of inaccuracies in the termination reviews and are working to ensure that the Accounting Section staff fully understands the procedures to be performed. In addition, Accounting officials noted that they have initiated collection efforts to recoup benefits that were improperly downloaded.

### Commuting Cost Reviews

Accounting officials also perform monthly commuting cost reviews to ensure commuting costs are current and valid. A random sample of TSP participant applications is reviewed to ensure that the approved commuting costs are current and accurate. The Accounting Section stated that they first compare a participant's current home address in the Board's personnel database with the home address listed on the TSP application. If an address discrepancy is noted, the Accounting Section will request that the participant provide a new TSP application or update the Board's personnel database before performing the commuting cost reviews. Then, based on the participant's home address found in the Board's personnel database, the Accounting Section uses an automated public trip planning tool to calculate the participant's commuting cost to independently validate the commuting cost the participant submitted with his/her TSP application. If the calculated amount is lower by 10 percent or more of the participant's current TSP benefits, the Accounting Section will contact the employee to determine the accurate commuting cost.<sup>4</sup>

We compared 85 TSP participants' addresses, reviewed by the Accounting Section in December 2009, to the Board's personnel database. We identified six participants with address discrepancies that were not identified by the Accounting Section. However, based on our independent calculations, we determined that all six participants' commuting costs were within 10 percent of their current TSP benefits. Accounting officials stated that they are aware of inaccuracies in analyzing addresses within the commuting cost reviews and are working to

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<sup>4</sup>The Accounting Section established the 10 percent threshold due to the uncertainty associated with the participants' exact commuting methods and the cost and resources associated with resolving discrepancies.

address the issues by ensuring that the Accounting Section staff fully understands the procedures to be performed.

## **Parking Reviews**

In addition, Accounting officials perform periodic parking reviews to ensure TSP participants do not also have a parking permit or utilize 10 or more days of contingency parking in a given month while also receiving TSP benefits. Regarding the parking permit reviews, Accounting officials said that, on an annual basis, they compare the parking permit and TSP databases to identify employees participating in both the TSP and parking permit program. The scope of the review is data for one month during the year. If employees are identified in both programs, Accounting staff will compare these employees to the TSP distribution reports to determine if they have downloaded TSP benefits. Accounting staff will also contact the Parking Program officials to validate that the employees have parking permits. If validated, Accounting staff will remove the employees from the TSP and request reimbursement. Accounting officials also noted that they have advised Parking Program officials to access the TSP database to ensure parking permit applicants are not TSP participants, as a preventive control. During our testing, we found that some employees were participating in both programs and had parking permits while also receiving TSP benefits.

Specifically, we compared the Board's TSP and parking permit databases to identify employees listed in both databases. We also compared the TSP distribution reports to the Board's parking permit database to identify TSP participants who had a parking permit while also downloading TSP benefits during June 2010 and/or July 2010. Our testing identified six employees participating in both the TSP and the parking permit program. Of these six employees, two actually downloaded TSP benefits in both months. One of these employees revalidated his TSP application before receiving his parking permit, and the other revalidated his TSP application after receiving his parking permit.

For the employee who revalidated his application before receiving his parking permit, we contacted the Parking Program officials and were told that they have access to the TSP database but do not check it to ensure parking permit applicants are not also receiving TSP benefits. Going forward, Parking Program officials stated they plan to access the TSP database before providing employees parking permits. In addition, Accounting officials noted that they will start performing monthly permit reviews, instead of annual permit reviews, to better detect if employees are violating the *Transportation Subsidy* policy. Regarding the employee who revalidated his TSP application after obtaining a parking permit, we found that this employee certified on his TSP application that he did not have a parking permit. However, we determined that Accounting staff detected both employees during their permit reviews. The first employee was detected in an October 2010 review of permits outstanding as of December 2009. The second employee was detected in a November 2010 review of permits outstanding as of June 2010.

For the contingency parking reviews, Accounting officials stated that, on a monthly basis, they compare the Board's contingency parking databases to the TSP distribution reports to identify employees who utilized 10 or more days of contingency parking in a given month while also

receiving TSP benefits. Accounting staff noted that they contact the Parking Program officials to validate the employees' contingency parking information. If information indicating a violation of policy is validated, Accounting will send an e-mail to the involved employees requesting reimbursement. During our testing of TSP participants, we compared the contingency parking database and the TSP distribution reports for the months of June 2010 and July 2010. We identified 6 TSP participants who received 10 or more days of contingency parking and also downloaded TSP benefits. However, we confirmed that Accounting staff also identified these six TSP participants during their monthly contingency parking reviews and had begun collection efforts to recoup ineligible TSP benefits.

At the time of our review, the above processes followed for termination, commuting cost, and parking reviews were not fully documented in the Accounting Section's *Transportation Subsidy Program* procedures, which may have contributed to the control weaknesses. We identified, for example, that the written *Transportation Subsidy Program* procedures for termination reviews did not cover (1) running queries to identify TSP participants who are separating or have separated, (2) changing the separating or separated participants' status from "active" to "terminated" in the TSP database, or (3) removing them from the WMATA system. Under the commuting cost review process, the written *Transportation Subsidy Program* procedures did not cover (1) comparing addresses from the applications to the addresses in the Board's personnel database to identify any discrepancies; (2) contacting participants to request that they provide a new TSP application or update the Board's personnel database, if discrepancies exist; and (3) calculating the participants' estimated monthly commuting cost using their addresses found in the Board's personnel database. With regard to the parking reviews, the written *Transportation Subsidy Program* procedures did not cover (1) performing the permit reviews for a specific month (specific points in time), (2) comparing the employees identified by comparing the parking permit and TSP databases against reports on TSP benefits disbursed, and (3) contacting the Parking Program to confirm that an employee has a parking permit.

## **Analysis of Comments**

We provided a copy of this report to the Acting Director of the Management Division for review and comment. In his response, included as Appendix 2 to this report, the Acting Director concurs with recommendations 1 and 3, concurs with the intent of recommendation 2, and discusses improvement actions planned or underway.<sup>5</sup> Specifically, with respect to recommendation 1, the Acting Director plans to finalize and issue the draft revised *Transportation Subsidy* policy.

With respect to recommendation 2, the Acting Director notes that the division recently began a review of the separation process, and he will consider this recommendation as he implements an automated workflow routing of the separation form. However, he believes that fully implementing other controls, related to recommendation 3, will better ensure that employees separating from the Board are removed from the TSP. The Acting Director also notes plans to incorporate TSP requirements into the planned rewrite of the Board's parking program, which

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<sup>5</sup> The Acting Director's response, dated March 29, 2011, includes as an attachment a September 15, 2010, response to an earlier OIG draft report.



will more fully automate the process of removing departing employees from the TSP database. Although we recognize that fully implementing current controls (and automating certain processes) will help ensure separating participants are removed from the program, we believe that the exit process, including the exit form, serves as an important additional control to provide assurance that certain benefits are discontinued for separating employees.

With respect to recommendation 3, the Acting Director notes that the division has eliminated DOT as the intermediary processor and now works directly with WMATA, which has streamlined the program and eliminated time lags between notification of an employee's removal from the program and action on that notification. In addition, Accounting staff will perform a monthly reconciliation between the Board's personnel database and the TSP database to identify address discrepancies. The Acting Director also notes that implementing an annual revalidation process will help ensure that information in their database remains up-to-date. To ensure employees do not receive both parking and transportation subsidy benefits, Accounting staff will review the parking database records prior to approving new subsidy applications and Law Enforcement staff will review the transportation subsidy records prior to approving new permanent parking passes. While the Acting Director has identified actions to improve TSP processes, we believe that related written procedures also should be improved.

## **APPENDIXES**



## Appendix 1 – Interim Audit Memorandum

### BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

OFFICE OF INSPECTOR GENERAL

# MEMO

DATE: December 23, 2008

TO: H. Fay Peters, Director, Management Division

FROM: Andrew Patchan Jr., Assistant Inspector General for Audits and Attestations/**signed/**

SUBJECT: Preliminary Observations on the Audit of the Board's Transportation Subsidy Program

As indicated in our announcement letter, dated August 4, 2008, the Office of Inspector General has been conducting an audit of the Board's Transportation Subsidy Program (TSP). The audit objective is to determine the extent to which the TSP is properly controlled and administered. More specifically, we are assessing the extent to which the TSP controls (1) ensure compliance with applicable laws and regulations and management's authorization, and (2) prevent unauthorized or fraudulent activities. During our ongoing audit, we are reviewing the current TSP policy and procedures, TRANServe agreement, and related-documentation; and interviewing various Management (MGT) and Legal division staff. We are also meeting with the Chief Financial Officer, the Accounting Manager who oversees the TSP, and the Accounting Supervisor who is the TSP Administrator, to provide updates on our audit work and any observations.

We were recently advised that the Board is planning to issue a revised TSP policy early in 2009. While our audit is still ongoing, we would like to provide you with our preliminary observations regarding the TSP. Once our fieldwork is complete, we will issue a draft audit report on our conclusions on the overall effectiveness of controls within the TSP, for your comments.

TSP Policy. The current policy is outdated, incomplete, and does not include two of the nine recommended Office of Management and Budget (OMB) control provisions.

- The Board currently provides a transit subsidy for metro bus, metro rail, and van pool through Washington Metropolitan Area Transit Authority's (WMATA's) Metrochek and SmartBenefits processes. The current policy addresses the transit subsidy received through Metrocheks only, and does not address the transit subsidy received through SmartBenefits.

## Appendix 1 (continued)

- The current policy also includes information on Board-sponsored van pools, including reimbursements through electronic funds transfers. The Board, however, discontinued its sponsored van pool program in August 2007.
- The current policy references the 2007 IRS fringe benefit maximum amount (\$110.00), instead of the 2008 amount (\$115.00).
- The policy does not include the following transit benefit internal controls identified in the OMB Memorandum 07-15, "Federal Transit Program;" (1) reducing benefits for travel and leave, and (2) including employee removal from the TSP in the Board's exit procedures for employees who are leaving the Board. The OMB issued the Memorandum in May 2007 after the Government Accountability Office reported numerous instances of fraud and abuse of Metrocheks by Federal employees.
- The current policy does not include an annual or periodic recertification process or procedures for employees withdrawing from the TSP.

TSP Procedures. Differences exist between the process followed for registration and transit benefits payment, versus the detailed written TSP accounting procedures.

- Applying to the TSP starts with the Board Application for Transportation Subsidy (Board Application); however, the current written procedures start with the SmartBenefits Program Application (SmartBenefits Application).
- The current process to review TSP applications includes the scanning and emailing, to the Department of Transportation (DOT), of both the Board Application and the SmartBenefits Application; however, the written procedures only document scanning and emailing the SmartBenefits Application to DOT. DOT performs the transit subsidy distributions for Board employees.
- The current process to ensure the accurate payment of the transit benefits disbursed by DOT to employees includes the receipt and comparison of the monthly DOT invoice to the Board's monthly TSP reconciliation. However, the procedures do not address the receipt and comparison of the invoice. The Board's TSP reconciliation includes comparing the monthly DOT detail reports to the Board's Public Enrollment Spreadsheet.
- The written procedures include a review of the pertinent IRS code to determine changes in the tax-free transit subsidy limits or other requirements under the Metrochek process; however, this step was not included for the overall program, which includes SmartBenefits.

We also noted that the TSP accounting procedures maintained on Inside the Board (ItB) included non-sensitive personally identifiable information for approximately 40 employees. The information included employees' name, SmarTrip card number, work extension, last four of social security number, and employee identification number. We brought this

## Appendix 1 (continued)

observation to the attention of accounting staff, and the spreadsheet was promptly removed from the ItB.

Fiscal Year 2008 TSP partnership agreement with DOT. The Board executed a partnership agreement with DOT's TRANServe unit for disbursement of the transit subsidy. The agreement states that the Board will ensure compliance with certain aspects of Executive Order 13150 and other legislation. However, Board Legal staff told us that the Board is not subject to Executive Order 13150.

TSP Web Page. The TSP web page is incomplete and the TSP application contains information that is not applicable.

- The Board's TSP web page provides information on how to claim the transit subsidy for metro bus and metro rail, but does not provide information on how to claim the transit subsidy for van pools.
- The current TSP application, found on the Board's TSP web page, contains a reference to statute 12 U.S.C. §1819, which applies to the Federal Deposit Insurance Corporation, but does not apply to the Board.

The preliminary observations presented above will be explored further during our continuing audit and reported in an audit report to be issued in the first quarter of 2009. You will have an opportunity to respond to the draft report before the final report is issued. Therefore, no written comments are required at this time.

We appreciate the support the MGT staff has provided us during our audit work. If you have any questions about this memorandum, please contact me at extension 5003 or Cynthia Gray at extension 5040.

cc: Mr. Donald Spicer  
Mr. William Mitchell  
Ms. Elizabeth Coleman



## Appendix 2 – Acting Division Director’s Comments



BOARD OF GOVERNORS  
OF THE  
**FEDERAL RESERVE SYSTEM**  
WASHINGTON, D. C. 20551

DON SPICER  
ACTING DIRECTOR  
MANAGEMENT DIVISION

March 29, 2011

Ms. Elizabeth Coleman  
Inspector General  
Office of Inspector General  
Board of Governors of the Federal Reserve System  
Washington, DC 20551

Dear Beth:

Thank you for the opportunity to review and comment on the draft *Report on the Audit of the Board’s Transportation Subsidy Program* dated February 2011. We are pleased that the audit found that the Board’s transportation subsidy program (TSP) is reasonably controlled and administered and that you did not identify any significant deficiencies. As with any program, we agree that there are always opportunities to strengthen internal controls and, as discussed below, we are in the process of implementing actions that will address the three recommendations’ intent. Our response to recommendation 1 remains unchanged from our letter “Response to OIG Transportation Subsidy Audit” dated September 15, 2010; a copy of that letter is attached.

**Recommendation 1: We recommend that the Acting Director of the Management Division finalize and issue the draft revised *Transportation Subsidy* policy, which includes control enhancements.**

Response: We concur with this recommendation. As your report notes, the Management Division (MGT) revised the policy during the initial phase of the audit to include additional controls related to recertification and adjusting benefits due to travel and leave. We delayed issuing the policy until the audit was complete to ensure that the document captured any necessary changes based on your findings and recommendations. We also wanted additional time to evaluate comments received from senior Board staff when the draft policy was initially released for review. Now that the audit is complete, we plan to finalize and issue the policy.

**Recommendation 2: We recommend that the Acting Director of the Management Division update the *Employee Separation Form* and the Board’s exit process to ensure that employees separating from the Board are also removed from the TSP.**

Response: We concur with the recommendation’s intent. The division recently began a review of the separation process, and we will consider this recommendation as we implement an automated workflow routing of the separation form. In the interim, we believe that fully implementing other controls will better ensure that employees



## Appendix 2 – Acting Division Director’s Comments (continued)

separating from the Board are removed from the TSP. Accounting staff receive a weekly data feed from the Board’s personnel database that includes employee status (e.g., active, inactive, or terminated) and current address; staff use this feed to update the TSP database. Accounting staff run reports to identify terminated employees who were participating in TSP, and then terminate these employees in the TSP database. This process will be added to our monthly checklist. Consistent implementation of this control will help ensure that individuals do not continue to receive TSP benefits after leaving the Board. We also plan to incorporate TSP requirements into the planned rewrite of the Board’s parking program, which will more fully automate the process of removing departing employees from the TSP database.

**Recommendation 3: We recommend that the Acting Director of the Management Division improve the Board’s processes and written procedures to ensure that TSP participants (i) are timely removed from the program when they separate from the Board, so they do not continue to receive benefits, (ii) provide the Accounting Section with up-to-date address and commuting cost information, and (iii) do not also have a parking permit.**

Response: We concur with this recommendation. Fully implementing the controls discussed above will help ensure the timely removal of departing employees from the program. In addition, we streamlined the program by (1) eliminating the Department of Transportation (DOT) as our intermediary processor and (2) establishing an agreement directly with the Washington Metro Area Transportation Authority (WMATA). By working directly with WMATA, we eliminated time lags between notifying DOT of an employee’s removal from the program and DOT’s acting on that notification. Regarding address updates, Accounting staff will perform a monthly reconciliation between the Board’s personnel database and the TSP database to identify address discrepancies. This reconciliation was added to our checklist. Implementing an annual revalidation process will also help ensure that information in our database remains up-to-date. Regarding parking permits, Accounting staff will review the parking database records prior to approving new subsidy applications to ensure employees do not receive both benefits. Law Enforcement staff will review transportation subsidy records prior to approving new permanent parking passes to ensure employees do not receive both benefits. In addition, on a monthly basis, Accounting staff will review contingency, lottery, and permanent parking pass records and compare them to transportation subsidy records to identify employees who may be receiving both benefits. The rewrite of the Board’s parking program will also help establish stronger controls between the transportation subsidy and parking programs.

## Appendix 2 – Acting Division Director’s Comments (continued)

If you have any questions regarding our corrective actions, please let us know.

Sincerely,

*/signed/*

Attachment

cc:    Michell Clark  
      Charles O’Malley  
      William Mitchell  
      Elaine Boutilier  
      Andrew Patchan  
      Cynthia Gray

## Appendix 2 – Acting Division Director’s Comments (continued)



BOARD OF GOVERNORS  
OF THE  
**FEDERAL RESERVE SYSTEM**  
WASHINGTON, D. C. 20551

MANAGEMENT DIVISION

September 15, 2010

Ms. Elizabeth Coleman  
Inspector General  
Office of Inspector General  
Board of Governors of the Federal Reserve System  
Washington, DC 20551

Dear Beth:

Thank you for the opportunity to review and comment on the draft *Report on the Audit of the Board’s Transportation Subsidy Program* dated August 30, 2010. We are pleased that the audit found that the Board’s transportation subsidy program (TSP) is reasonably controlled and administered and that you did not identify any significant deficiencies. As with any program, we agree that there are always opportunities to strengthen internal controls and, as discussed below, we are in the process of implementing actions that will address the three recommendations’ intent.

**Recommendation 1: We recommend that the Director of the Management Division finalize and issue the draft revised *Transportation Subsidy* policy, which includes control enhancements.**

Response: We concur with this recommendation. As your report notes, the Management Division (MGT) revised the policy during the initial phase of the audit to include additional controls related to recertification and adjusting benefits due to travel and leave. We delayed issuing the policy until the audit was complete to ensure that the document captured any necessary changes based on your findings and recommendations. We also wanted additional time to evaluate comments received from senior Board staff when the draft policy was initially released for review. Now that the audit is complete, we plan to finalize and issue the policy.

**Recommendation 2: We recommend that the Director of the Management Division update the *Employee Separation Form* and the Board’s exit process to ensure that employees separating from the Board are also removed from the TSP.**

Response: We concur with the recommendation’s intent. The division recently began a review of the separation process, and we will consider this recommendation as we update the separation form. We believe, however, that fully implementing other controls will better ensure that employees separating from the Board are removed from the TSP.

## Appendix 2 – Acting Division Director’s Comments (continued)

Accounting staff receive a weekly data feed from the Board’s personnel database that includes employee status (e.g., active, inactive, or terminated) and current address; staff use this feed to update the TSP database. Accounting staff run reports to identify terminated employees who were participating in TSP, and then terminate these employees in the TSP database. This process will be added to our monthly checklist. Consistent implementation of this control will help ensure that individuals do not continue to receive TSP benefits after leaving the Board. We also plan to incorporate TSP requirements into the planned rewrite of the Board’s parking program, which will more fully automate the process of removing departing employees from the TSP database.

**Recommendation 3: We recommend that the Director of the Management Division improve the Board’s processes and written procedures to ensure that TSP participants (i) are timely removed from the program when they separate from the Board, so they do not continue to receive benefits and (ii) provide the Accounting Section with up-to-date address and commuting cost information.**

Response: We concur with this recommendation. Fully implementing the controls discussed above will help ensure the timely removal of departing employees from the program. In addition, we are streamlining the program by (1) eliminating the Department of Transportation (DOT) as our intermediary processor and (2) establishing an agreement directly with the Washington Metro Area Transportation Authority (WMATA). By working directly with WMATA, we will eliminate time lags between notifying DOT of an employee’s removal from the program and DOT’s acting on that notification. Regarding address updates, Accounting staff will perform a monthly reconciliation between the Board’s personnel database and the TSP database to identify address discrepancies. This reconciliation will also be added to our checklist. Implementing an annual revalidation process will also help ensure that information in our database remains up-to-date.

If you have any questions regarding our corrective actions, please let us know.

Sincerely,

*/signed/*

H. Fay Peters  
Director, Management Division

cc: Donald Spicer  
Michell Clark  
William Mitchell  
Andrew Patchan  
Cynthia Gray



## **Appendix 3 – Principal Contributors to this Report**

Keisha Turner, Project Leader and Auditor

Cynthia Gray, Project Manager

Andrew Patchan, Jr., Associate Inspector General for Audits and Attestations