



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Spending Taxpayer Dollars

EPA Needs to Improve Oversight of Its Transit Subsidy Benefits Program

Report No. 16-P-0268

August 16, 2016



Report Contributors:

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Abbreviations

CY	Calendar Year
EPA	U.S. Environmental Protection Agency
IRC	Internal Revenue Code
OARM	Office of Administration and Resources Management
OIG	Office of Inspector General
OMB	Office of Management and Budget

Cover photo: Forms of transportation offered by Regional Transit Authority in Chicago, Illinois. (EPA Region 5 and U.S. Department of Labor photos)

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At a Glance

Why We Did This Review

The Office of Inspector General (OIG) conducted an audit of the U.S. Environmental Protection Agency's (EPA's) Transit Subsidy Benefits program. Our objective was to identify and analyze risks in the program.

The Transportation Subsidy Benefits program originated with the *Federal Employees Clean Air Incentives Act*, Public Law 103-172, which has a purpose "to improve air quality and to reduce traffic congestion by providing for the establishment of programs to encourage Federal employees to commute by means other than single-occupancy motor vehicles." A transit benefit is a non-taxable transportation fringe benefit providing employees with fare media when taking mass transit to or from work. In calendar year 2014, employee monthly subsidies were limited to \$130 a month for transit and \$20 for bicycle. In calendar year 2014, the EPA paid approximately \$9.6 million for transit subsidies managed under 13 different offices.

This report addresses the following EPA goal or cross-agency strategy:

- *Embracing EPA as a high-performing organization.*

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EPA Needs to Improve Oversight of Its Transit Subsidy Benefits Program

What We Found

The EPA operates a transit subsidy benefits program for its employees covering 13 separate locations. Most of the locations did not comply with all of the Office of Management and Budget's (OMB's) 10 minimum internal control requirements.

We also discovered the following specific areas of concern at four of the 13 locations.

Weak internal controls made EPA transit subsidies of about \$10 million vulnerable to potential abuse. We found at least \$137,000 in unnecessary payments.

- EPA headquarters separated 431 EPA employees in calendar year 2014, of which 149 (35 percent) continued to receive transit subsidy benefits and 46 (31 percent) continued to use their EPA paid transit cards. In addition, we identified \$1,379 of prohibited, improper and erroneous payments that previously had not been detected.
- Region 6's *Regional Order Public Transit Subsidy Program Guidance*, from 1997, is outdated and does not reflect the transit forms, reports or practices currently in use.
- Region 9 has two transit plans, and employees were permitted to enroll in either plan. The plans have varying levels of review.
- Region 10 purchased transit passes for all employees at a discount, which cost more than if the region had paid the actual incurred transit costs for only those employees needing passes. In calendar years 2014 and 2015, Region 10 spent \$135,701 in excess of actual transit costs.

OMB Memorandum M-07-15, *Transit Benefit Internal Controls*, establishes guidelines for a federal agency's transit subsidy benefits program. OMB Circular A-123, *Management's Responsibility for Internal Control*, establishes guidelines for internal control policies. However, we found that the EPA did not adhere to all of OMB's requirements at every location. As a result, the EPA's Transit Subsidy Benefits program is vulnerable to unnecessary payments.

Recommendations and Planned Agency Corrective Actions

We recommend that the agency provide oversight to regions and field offices to enforce compliance with OMB's 10 minimum internal control policies. Also, the Assistant Administrator for Administration and Resources Management should implement internal controls for transit processors. In addition, Region 6 should update its transit policy, Region 9 should allow its employees to use only one transit payment system, and Region 10 should perform a commuting cost analysis to determine the most cost-beneficial fare options. The agency concurred with all of the recommendations, and the OIG agrees with the agency's proposed actions.



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

THE INSPECTOR GENERAL

August 16, 2016

MEMORANDUM

SUBJECT: EPA Needs to Improve Oversight of Its Transit Subsidy Benefits Program
Report No. 16-P-0268

FROM: Arthur A. Elkins Jr.

A handwritten signature in black ink, appearing to read "Arthur A. Elkins Jr.", is written over the "FROM:" line.

TO: *See Below*

This is our final report on the subject audit conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). The project number for this audit was OA-FY15-0080. This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. This report represents the opinion of the OIG and does not necessarily represent the final EPA position.

The Office of Administration and Resources Management, the Region 6 Management Division, the Region 9 Environmental Management Division, and the Region 10 Office of Management Programs administer programs for which recommendations in this report were made.

Action Required

The agency provided corrective actions for addressing the recommendations with milestone dates. Therefore, a response to the final report is not required. The OIG may make periodic inquiries on your progress in implementing these corrective actions. Please update the EPA's Management Audit Tracking System as you complete planned corrective actions. Should you choose to provide a final response, we will post your response on the OIG's public website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal along with corresponding justification.

This report will be available at www.epa.gov/oig.

Addressees:

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Chapter 1

Introduction

Purpose

The Office of Inspector General (OIG) conducted an audit of the U.S. Environmental Protection Agency's (EPA's) Transit Subsidy Benefits program for the agency's employees. Our objective was to identify and analyze risks in the program.

Background

The federal government's Transportation Subsidy programs originated with the *Federal Employees Clean Air Incentives Act* (Public Law 103-172) dated December 2, 1993. The purpose of the law was "to improve air quality and to reduce traffic congestion by providing for the establishment of programs to encourage Federal employees to commute by means other than single-occupancy motor vehicles." The law authorized agencies to start a Transportation Subsidy program, but it was not mandatory.¹

In April 2007, U.S. Government Accountability Office officials submitted written congressional testimony, [GAO-07-724T](#), *Federal Transit Benefits Program – Ineffective Controls Result in Fraud and Abuse by Federal Workers*, that cited several instances of fraud and abuse by federal employees. To prevent further abuse, the Office of Management and Budget (OMB) issued OMB Memorandum M-07-15 on May 14, 2007, requiring federal agencies to implement, at a minimum, a list of 10 transit benefit internal controls. For calendar years (CYs) 2014 and 2015, Internal Revenue Code (IRC) §132(f) limited employee monthly subsidies to \$130 for transit and \$20 for bicycle.²

Executive Order 13150

Executive Order 13150 of April 21, 2000, *Federal Workforce Transportation*, provided guidance on transit subsidies. Excerpts of mandated guidance follow in Table 1:

¹ Citation 5 U.S.C. § 7901 nt, § 7905 nt, refers to programs that encourage commuting by means other than single-occupancy motor vehicles.

² Citation 26 U.S.C. § 132(f) applies to transit subsidy benefits that the U.S. Internal Revenue Service specifically excludes from reported gross income.

Table 1: Excerpts from Executive Order 13150

Section 1. Mass Transportation and Vanpool Transportation Fringe Benefit Program
“Federal agencies shall implement a transportation fringe benefit program that offers qualified Federal employees...commuting costs incurred through the use of mass transportation and vanpools, not to exceed the maximum level allowed by law.”
Section 2. Federal Agencies in the National Capital Region
“Federal agencies in the National Capital Region shall implement a ‘transit pass’ transportation fringe benefit program for their qualified Federal employees ... in amounts approximately equal to employee commuting costs, not to exceed the maximum level allowed by law...”
Section 3. Nationwide Pilot Program
“The Department of Transportation, the Environmental Protection Agency and the Department of Energy shall implement a ‘transit pass’ transportation fringe benefit program, as described in section 2...as a 3 year pilot program no later than October 1, 2000.”
Section 4. Guidance
“Federal agencies shall develop plans to implement this order in consultation with the Department of the Treasury, the Department of Transportation, the Environmental Protection Agency, the Office of Personnel Management, the General Services Administration, and the Office of Management and Budget.”

Executive Order 13150 of April 21, 2000, *Federal Workforce Transportation*.

The 2000 executive order made the “transportation fringe benefit program” mandatory for all federal agencies within the National Capital Region. Effective October 1, 2005, Public Law 109-59 made the program available to the rest of the nation.

EPA's Transit Subsidy Program

The EPA’s Transit Subsidy Program guidance states that it “aims to reduce air pollution created by the use of motor vehicles and to alleviate traffic congestion in metropolitan areas.” The program is available to EPA employees with an alternative means of commuting to work that is environmentally responsible and complies with federal mandates.



Transit benefits help reduce road congestion. (EPA photo)

The EPA wrote transit subsidy program guidance, dated February 2012, for only the Washington, D.C., area employees. The EPA states this guidance was available to employees through the EPA’s intranet website. However, we could not locate the guidance on the EPA’s intranet website. The *Washington, DC-Area Transit Subsidy Guidelines*, states that it:

Establishes the scope, authority, and responsibilities for EPA employees and individuals authorized to receive subsidies for home to-work transit. EPA employees are considered to be those individuals employed by EPA whose base location is in the

Washington, D.C., area or who are visiting or detailed from other EPA Regions.

The objectives of the guidelines are:

To ensure that all relevant EPA employees and contractors in the Washington, D.C., area properly and efficiently support the management of the Transit Subsidy Benefits program... and to provide a model framework for developing similar transit subsidy benefits programs within other EPA locations.

In CY 2014, the EPA paid approximately \$9.6 million to transit subsidy participants (Table 2).

Table 2: EPA CY 2014 transit costs

Location	Total cost
Region 1 (Boston)	\$620,659
Region 2 (New York)	701,020
Region 3 (Philadelphia)	895,770
Region 4 (Atlanta)	287,123
Region 5 (Chicago)	1,143,291
Region 6 (Dallas)	408,804
Region 7 (Kansas City)	100,467
Region 8 (Denver)	218,345
Region 9 (San Francisco)	617,028
Region 10 (Seattle)	448,241
Headquarters (Washington, D.C., Area)	3,965,515
Research Triangle Park Location	126,161
Cincinnati Location	25,857
Total	\$9,558,281¹

Source: OIG analysis of data provided by EPA regions and offices.

¹ Includes transit cost paid to OIG employees nationwide.

Responsible EPA Offices

Office of Administration and Resources Management (OARM) “provides direction for developing and establishing an effective and efficient Transit Subsidy Program.” OARM is responsible for:

- “Providing guidance for good management practices based on established policies and procedures.
- “Evaluating and reviewing the Transit Subsidy program operations and processes.
- “Assigning responsibilities to others by grants of authority, instruction and direction.”

Within OARM, the Office of Administration “provides guidance for the management of the EPA’s Transit Subsidy Program.” The Office of Administration also “ensures compliance with all EOs [Executive Orders] and regulations regarding federal commuting alternatives.”

Each region independently implements and administers its own transit subsidy program. In addition, the Facilities Management and Services Division, Facilities Operations Branch within the Office of Administration, is responsible for the program at only three locations (headquarters and the two field offices at Research Triangle Park, North Carolina; and Cincinnati, Ohio).

Scope and Methodology

We conducted this audit from February 26, 2015, through February 3, 2016, in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To answer our objective, we reviewed relevant laws, procedures and policy orders, including:

- Public Law 103-172, *Federal Employees Clean Air Incentives Act*.
- Public Law 109-59, *Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users*.
- Executive Order 13150, *Federal Workforce Transportation*.
- OMB Memorandum M-07-15, *Transit Benefit Internal Controls*.
- OMB Circular A-123, *Management's Responsibility for Internal Control*.
- EPA’s *Washington, DC-Area Transit Subsidy Guidelines*.
- Transit subsidy policies for each of the EPA’s 10 regional offices.

To identify and analyze risks in the EPA’s Transit Subsidy Benefits program, we:

- Reviewed transit subsidy policies and procedures for headquarters, Research Triangle Park, Cincinnati, and each of the 10 regional offices—13 transit offices in total.
- Interviewed the EPA’s Transit Subsidy Benefits program team members at all offices to obtain an understanding of their oversight practices and internal controls.
- Reviewed CY 2014 monthly transit costs for the Transit Subsidy Benefits programs, including reports of payments; contracts; information pertaining

to lost, stolen and damaged cards; employee balances; and CY 2015 monthly transit costs for selected regions.

- Reviewed and compared the agency-reported transit costs with the financial system's transit data to ensure a complete universe of transit subsidy costs.
- Evaluated the implementation of OMB M-07-15, *Transit Benefit Internal Controls*, for internal control requirements at all offices.
- Analyzed transit subsidy information data for separated EPA employees to determine whether these employees continued to receive and spend subsidy payments after leaving the EPA.
- Reviewed the EPA's *OARM/Office of Chief Financial Officer Report on Internal Control Assessments of EPA's Sensitive Payment Areas*, dated April 15, 2014.
- Reviewed the 2014 Federal Managers' Financial Integrity Act Annual Assurance Letters for OARM and the regions. We sought to determine whether those letters identified any weaknesses related to the program, and found that they did not.

New Transit Subsidy Practices Initiated in 2015

Regions 3 and 5 initiated new transit subsidy practices during our audit. Region 3 began its new transit subsidy practice in September 2015, and there was not sufficient data to review during our fieldwork. Region 5's new transit subsidy practice was operational in December 2014, and we incorporated Region 5's updated policies and procedures in our audit results. We also reviewed actual transit expenses for Region 5's new transit subsidy practice.



Region 5 transit debit card. (EPA OIG photo)

Chapter 2

EPA Did Not Fully Comply With OMB's Requirements for a Federal Transit Benefits Program

Only one of the EPA's 13 Transit Subsidy Benefit program locations implemented all of OMB's minimum internal control requirements. Federal agencies are required to comply with OMB's list of internal controls for their transit benefit programs. A lack of attention to OMB's direction and ineffective oversight by OARM resulted in offices not implementing OMB's internal control requirements. Noncompliance with control requirements increases the risk of prohibited, improper and erroneous transit payments.

Transit Subsidy Benefits Program Must Comply With Federal and EPA Requirements

In April 2007, U.S. Government Accountability Office officials submitted written congressional testimony ([GAO-07-724T](#)) of case studies that demonstrated abusive and potentially fraudulent activity by federal employees of the Federal Transit Benefits Program. In response to that testimony, and to prevent further abuse, OMB issued OMB M-07-15, *Transit Benefit Internal Controls*, on May 14, 2007, requiring federal agencies to implement, at a minimum, a list of 10 transit benefit internal controls.

OMB M-07-15 required agencies to confirm in writing, no later than June 30, 2007, that certain internal controls had been implemented regarding the transit application process, including:

- Application Requirements – verification that all applications include a home address, employee work address, commuting cost breakdown, employee certification of eligibility, and a warning against making false statements in the benefit application.
- Independent Verification of Eligibility – verification of commuting cost calculation and eligibility by an approving official.
- Implementation – verification that benefits are checked against parking benefits records; benefits are adjusted due to travel, leave or change of address; and removal from the transit program is included in exit procedures.

EPA's Transit Subsidy Benefits Program Lacks Compliance With OMB's Internal Control Requirements

Only one of the EPA's transit subsidy offices complied with all of the 10 requirements listed in OMB M-07-15. Our analysis included a review of the procedures and forms, and actual implementation of the Transit Subsidy Benefits program by the EPA's offices and regions. An "X" in Table 3 below indicates that an office was in compliance with a specific OMB requirement.

Table 3: CY 2014 EPA compliance with OMB M-07-15

	OMB M-07-15 Requirements	R1	R2	R3	R4	R5	R6¹	R7	R8	R9	R10	HQ²	RTP³	CIN⁴	Total
1	Employee home address				X	X	X			X	X	X			6
2	Employee work address				X	X	X				X	X	X	X	7
3	Commuting cost breakdown	X	X			X	X			X		X			6
4	Employee certification of eligibility	X	X	X	X	X	X	X	X	X		X	X	X	12
5	Warning against making false statements in benefit application	X	X		X	X	X	X	X	X		X	X	X	11
6	Commuting cost verified by approving official	X				X	X		X	X		X			6
7	Eligibility verified by approving official	X	X		X	X	X	X	X	X		X			9
8	Applicants checked against parking benefits records	n/a	n/a	n/a	X	n/a	n/a ¹	n/a	n/a	n/a	n/a	X	n/a	n/a	2
9	Benefits adjusted due to travel, leave or change of address	X	X		X		X	X	X	X		X	X		9
10	Removal form transit benefits program included in exit procedures	X	X	X	X	X	X	X	X	X	X	X ¹	X	X	13
	Total Compliance	7	6	2	8	8	9	5	6	8	3	10	5	4	81

X = Adequate Control; **Blank** = No Internal Control; **n/a** = Parking benefits are not provided.

¹ Actual practices do not agree with documented policies. (See Chapters 3 and 4).

² HQ: Headquarters.

³ RTP: Research Triangle Park.

⁴ CIN: Cincinnati.

Source: OIG analysis of EPA documentation and interviews provided by the EPA.

EPA's Compliance With OMB M-07-15 Internal Control Requirements

OMB requires federal agencies' transit subsidy benefits programs to include 10 minimum internal control requirements. Outlined below is discussion for the locations regarding compliance for each of the 10 application requirements.

Application Requirements

1 - Employee Home Address

In six of the 13 locations, EPA transit offices obtained the required full home address of the employee. OMB M-07-15 requires the employee's home address. The sample form provided by OMB includes the street number, street address, city, state and zip code. In some cases the EPA transit office collected only the zip code or city name. Not requiring employees to provide their full addresses increases the possibility that transit subsidies could be paid in excess of the allowable benefit based on the distance of the home location from the office.

2 - Employee Work Address

In seven of the 13 locations, the EPA transit offices collected the required work address of the employees. The sample form provided by OMB includes office, building, room, mail stop and phone number. This information helps identify different employees with the same or similar names, or offices that may have more than one location. This information may be used in a later step to verify eligibility. In some cases, the transit office did not collect the work address because other network systems have the home address data. Noncompliance increases the possibility that transit subsidies were paid in excess of the allowable benefit to employees who work in another location.

3 - Commuting Cost Breakdown

In six of the 13 locations, the EPA transit offices had employees break out the cost of their commute. OMB M-07-15 requires employees to break out their commuting costs and provide an example of cost breakout by day, week and month on a worksheet. In the example OMB provided, the employee also identified the number of days he or she commutes and all the types of transit taken. This information assists the transit office in calculating the amount of transit subsidy the employee receives each month. In some cases, the transit office did not calculate the allowable



Transit commuters. (EPA photo)

benefit because annual transit cards were provided for all employees. Other offices were not concerned about the calculation as long as the employee did not receive more than the \$130-per-month limitation enforced by the IRC. As a result, employees may have received a subsidy in excess of the eligible amount.

4 – Employee Certification of Eligibility

In all but one location, the EPA transit offices verified that the employees work for the agency. To confirm eligibility, the agency verified—through employment records and not just badge identification—that the applicant is an EPA employee and not a contractor. This information ensures that only eligible employees receive the transit subsidy benefit. One transit office assumed that if an employee had a badge, someone in the badge department had verified his or her employment. Without verification of eligibility, a subsidy could be paid to a non-qualified employee.

5 - Warning Against Making False Statements in Benefit Application

In 11 of the 13 locations, employees certified annually or monthly that they worked for the agency, had not made a fraudulent claim, and understood the consequences against making false claims. Some EPA transit offices believe that employees will be more truthful in filing claims if they are aware of the consequences. As part of the application requirements, OMB M-07-15 requires that employees sign a “warning against making false statements in [the] benefit application.” In addition, OMB M-07-15 includes a sample application form, which requires that employees certify they understand that:

...making a false, fictitious, or fraudulent certification may render the maker subject to criminal prosecution under Title 18 of the United States Code section 1001, civil penalty action providing for administrative recoveries of up to \$5,000 per violation, and/or agency disciplinary actions up to and including dismissal.

Even though OMB supplied the above sample language, there is no requirement that this exact language be used in the warning. Mentioning 18 U.S.C. § 1001 may, however, facilitate criminal prosecution of an employee’s fraudulent certification. We reviewed the 11 locations to determine whether the application/claim form included a specific reference to 18 U.S.C. § 1001 (using the above language or other language). We found that eight of 11 locations included the specific reference (Table 4).

Table 4: Certification against false claims

Included in application/claim form	R1	R2	R3	R4	R5	R6	R7	R8	R9	R10	HQ	RTP	CIN	Total
Warning against making false statements	X	X		X	X	X	X	X	X		X	X	X	11
Title 18 USC §1001	X	X			X	X		X			X	X	X	8

Source: OIG analysis of EPA documentation and testimonial evidence.

Of the 13 locations, five expose additional weaknesses in the EPA's Transit Subsidy Benefits program and may limit the EPA's ability to pursue criminal action if a false statement is made.

Independent Verification of Eligibility

6 - Commuting Cost Verified by Approving Official

In six of the 13 locations, EPA transit offices verified the breakout of employee commuting costs, as discussed above in *3 - Commuting Cost Breakdown*. While the transit offices verified the employees' cost breakdown in six offices, we found that each employee's supervisor verified the claim reimbursement in only one location. OMB M-07-15 requires that a supervisor also sign the employee claim form. Transit offices believe that the warning against false statements is sufficient to prevent the necessity for supervisory approval. Supervisory review of claims can potentially decrease the submission of fraudulent claims.

7 - Eligibility Verified by Approving Official

In nine of the 13 locations, the EPA transit offices verified employees' eligibility through employment records. Based on OMB requirements, the agency verified, through employment records and not just badge identification, that the applicant is an EPA employee and not a contractor. Only eligible employees should receive the transit subsidy benefit.

Implementation

8 - Applicants Checked Against Parking Benefits Records



Inside a commuter rail car. (EPA photo)

Only two of the 13 locations (headquarters and Region 4) provide regular parking for employees. In addition, Region 6 does not provide employee parking at all, but the region did allow disability accessible parking for an employee who also received a transit pass (see Chapter 4). OMB M-07-15 states that each employee must attest that he or she is not the holder of any other form of workplace motor vehicle parking permit.

9 - Benefit Adjusted Due to Travel, Leave or Change of Address

Nine of the 13 locations adjusted benefits due to travel, leave or change of address. Frequently, employees commute less often than scheduled, and may not qualify for their full transit subsidy when actual commute days are calculated. Not adjusting benefits may result in improper transit payments.

10 - Removal From Transit Benefit Program Included in Exit Procedures

At all 13 locations, the EPA's transit offices have written policies specifying that employees are to complete a transit removal form as part of their checkout before separating from employment at the EPA. OMB M-07-15 states that the agency must have transit removal as part of exit procedures. However, despite this policy, during our audit we discovered it was not fully implemented at headquarters; see Chapter 3 for details.

EPA Transit Offices and Administrators Did Not Comply With Directions

EPA Did Not Comply With Executive Order 13150

Executive Order 13150 ordered federal agencies to develop transit benefit programs. EPA and five other agencies were given the additional leadership responsibilities of serving as consultants to other agencies in furtherance of their program development. In the ensuing 15 years, the EPA never implemented the executive order as intended, and never developed a transit subsidy benefits policy for the agency as a whole. Instead the agency decentralized the program and passed the responsibility on to its 10 regions to develop their transit benefit practices. By failing to comply with the executive order to develop an EPA transit policy or provide proper internal oversight, the EPA increased the agency's risk for erroneous expenses.

OARM neither confirmed in writing nor implemented the EPA transit subsidy program, and assigned transit subsidy responsibilities to regions. Clearly, OARM did not intend to, and has not performed, oversight of the EPA's Transit Subsidy Benefits program at any of the agency's 10 regional offices. Each region has independently implemented and administered its own transit subsidy practices. Although OARM developed a transit subsidy benefits program for headquarters, OARM did not assist the regions in developing their transit programs.

EPA Could Not Document Compliance With OMB Requirements

OMB required federal agencies, including the EPA, to confirm in writing by June 30, 2007, that they had implemented, at a minimum, the internal controls listed in OMB M-07-15. OMB did not require the EPA's regions to respond separately. EPA staff did not know whether the agency responded to OMB in 2007, and could not provide us with documentation showing compliance with requirements for any of the locations. The issue is not whether the agency can locate the report; rather, the issue is whether the EPA as a whole is complying with OMB requirements.

Most EPA Regions Were Not Aware of OMB Requirements

Although OARM transit program staff were aware of OMB's 10 minimum internal control requirements, they did not provide oversight by sharing the requirements with regional transit offices or tracking compliance. As a result, some of the EPA's 10 regional offices were not aware of OMB's requirements, and their locations did not include all of those requirements.

OARM's Facilities Management and Services Director stated that the office does not have oversight of regional transit subsidy practices. Other OARM staff stated that each region is responsible for the development and administration of its own transit subsidy practices, and they provide the *Washington, DC-Area Transit Subsidy Guidelines* to aid the regions in developing their own guidance.

OARM does directly oversee the Transit Subsidy Benefits program at its own three locations (headquarters, Research Triangle Park and Cincinnati). Still, two of OARM's three locations did not adequately comply with all 10 of OMB's minimum internal controls for a transit subsidy benefits program.

There is no requirement for OARM to provide oversight of all EPA transit subsidy locations. However, OMB required federal agencies, including the EPA, to confirm that they had implemented at a minimum the internal controls listed in OMB M-07-15. To ensure all 13 locations comply with the OMB requirements, some level of oversight must be performed at the EPA. In response to the OIG's discussion document, OARM stated, "The agency will develop a transit subsidy policy covering all locations offering transit subsidy."

Ineffective Oversight Contributes to Risks



A bicycle—another transit choice.
(EPA photo)

The EPA's nationwide oversight of its Transit Subsidy Benefits program was not effective because of a lack of guidance from the EPA's central transit office. As a result, transit offices and transit administrators did not comply with OMB's internal controls requirements.

Most regional offices developed their own transit policies and procedures, and these policies were not reviewed by the EPA's transit program office for compliance with OMB's 10 minimum internal controls requirements. This lack of compliance indicates a continued risk of prohibited, improper and erroneous transit payments.

Recent Agency Actions Prompted by OIG Work

The agency began to address issues raised during our audit work. Regions 4, 7, 8 and 10, and the headquarters and RTP locations, initiated corrective actions. They

updated their employee annual enrollment forms and procedures to become compliant with OMB’s transit requirements (Table 5).

Table 5: 2016 Changes to EPA transit policies listed in Table 3

OMB M-07-15	Updated annual enrollment form	R4	R7	R8	R10	HQ ¹	RTP ²
1	Employee home address		X	X			
2	Employee work address		X	X			X
3	Commuting cost breakdown	X			X		
4	Employee certification of eligibility				X		
5	Warning against making false statements in benefit application				X		
6	Commuting cost verified by approving official	X			X	X ³	X
Updated compliance with OMB 07-15		10	7	8	7	10	7

¹: HQ: Headquarters.

²: RTP: Research Triangle Park.

³: HQ costs were previously viewed by a transit official. HQ improved the process; now an employee’s supervisor reviews the transit costs.

Source: OIG analysis of documentation and interviews provided by the EPA.

In summary, the EPA’s lack of oversight over transit subsidy offices resulted in most of the locations not implementing all of OMB’s 10 minimum internal control procedures. The EPA was unaware that it was noncompliant with OMB’s guidelines. This situation indicates an ongoing risk that employees who may not be eligible could receive the subsidy. The EPA needs to improve transit subsidy oversight in this current tight budget environment.

Recommendations

We recommend that the Deputy Administrator:

1. Require the Office of Administration and Resources Management to provide oversight and guidance to the 10 regions in addition to the three field offices.
2. Achieve compliance with the Office of Management and Budget’s guidance by verifying that the 10 minimum internal controls are implemented for transit subsidies at all locations.

Agency Response and OIG Evaluation

The agency concurred with Recommendations 1 and 2 and provided estimated completion dates of not later than December 31, 2016, for both recommendations.

For Recommendation 1, the agency stated, “The agency will develop a transit subsidy policy covering all locations offering transit subsidy.” For

Recommendation 2, the agency stated, “The agency will require senior resource officials to certify annually that the 10 minimum controls are implemented.” The OIG concurs with the agency’s proposed actions and, when implemented, the corrective actions will satisfy the intent of Recommendations 1 and 2. These two recommendations will remain open pending completion of the proposed corrective actions.

The agency’s complete response to the draft is in Appendix A.

Chapter 3

Headquarters Continued to Provide Transit Subsidies to Separated Employees

Separated headquarters employees continued to receive transit subsidy benefits after leaving the agency. Of the 431 headquarters employees who separated from the EPA in CY 2014, 149 (35 percent) continued to receive transit payments at least 1 month after separation. In addition, 46 (31 percent) of the 149 actually used their EPA paid transit cards after separation. OMB M-07-15 directs and requires the EPA to remove employees from the transit program upon separation. OARM did not provide effective oversight to remove transit card holders from the transit benefits program upon separation. This resulted in \$1,379 of prohibited, improper and erroneous payments that went undetected.

Transit Subsidy Benefits Program Must Comply With Federal and EPA Requirements

OMB M-07-15 has an implementation requirement for the “removal from transit benefits program included in exit procedures.”

According to the EPA’s *Washington, DC-Area Transit Subsidy Guidelines*, Section 2.5.2, “processors are responsible for keeping all Transit Subsidy Program databases current.”

In addition, transit processors ensure the integrity of the database and update the files as information is received on participating and exiting employees.

Separated Employees Continued to Receive Transit Subsidy Benefits

Thirty-five percent of EPA employees who separated from the agency in CY 2014 continued to receive transit subsidy benefits for at least a month after leaving the agency. In fact, separated employees continued to receive the transit subsidy benefit from 1 to 6 months after separation. Of the 149 separated employees who continued to receive funding on their transit cards, 46 (31 percent) of those employees used their EPA-paid transit cards after separation.



Transit card scanner. (EPA photo)

Transit Subsidy Processors Did Not Follow Required Policy and Procedures

OARM’s oversight was not effective in implementing internal controls for transit subsidy processors to remove separated employees. We found ineffective oversight by the transit subsidy processors in the following areas:

- Separated employees did not always complete a separation form before exiting.
- Transit subsidy processors did not always update the transit database when employees separated.
- A monthly labor report used by transit subsidy processors to remove names from the Transit database erroneously included separated employees.

Ineffective Implementation of Controls Led to Improper Payments

Ineffective implementation of management controls led to improper payments. In addition, the continued availability of the transit subsidy and the corresponding transactions were undetected by the EPA’s transit subsidy team. Of the 35 percent of separated employees who continued to receive funding, 31 percent misused their transit cards, resulting in \$1,379 of unallowable costs for amounts between \$1.15 and \$408.40. In addition, the 35 percent of separated employees receiving funding represent \$14,715 at risk because funds were available in their transit accounts for expenditure (Table 6).



Transit commuters. (EPA photo)

Table 6: Separated employees at risk of spending EPA funds

Description	Separated employees	Dollars at risk	Dollars questioned	Percentage of separated employees
Total separated employees	431			100%
Continued to receive funding	149	\$14,715		32%
Used transit card after separation	46		\$1,379	11%

Source: OIG analysis of separated employees for CY 2014.

OARM did not fully implement internal controls for transit subsidy participants to be removed from the program upon separation. One-third of the separated employees continued to receive a subsidy a month after separation. Almost one-third of those separated employees continued to use their EPA subsidized transit card after separation. This situation indicates an ongoing risk. Improved transit subsidy oversight should save the EPA money.

Recommendations

We recommend that the Assistant Administrator for Administration and Resources Management:

3. Establish internal controls to require that the transit subsidy processor be notified when an employee separates. Require transit subsidy processors to review the transit database when the employee leaves.
4. Obtain biweekly or monthly reports of only employees who have separated from the agency from the Office of Human Resources and verify that transit subsidy information has been updated.

Agency Response and OIG Evaluation

The agency concurred with Recommendations 3 and 4.

For Recommendation 3, OARM stated, “The Headquarters will assess the current Headquarters separation check sheet and identify opportunities to strengthen controls.” OARM provided an estimated completion date of no later than December 31, 2016. The OIG concurs with the agency’s proposed actions and, when implemented, the corrective actions will satisfy the intent of Recommendation 3. This recommendation will remain open pending completion of the proposed corrective action.

As of July 19, 2016, OARM had completed corrective actions for Recommendation 4. OARM stated that the Facilities Management and Services Division “has received the monthly separation report from OHR, and has confirmed the separated employees have been removed from the HQ transit subsidy program.” The OIG concurs with the agency’s new practice, and it satisfies the intent of Recommendation 4. Recommendation 4 is complete and thus closed.

The agency’s complete response to the draft is in Appendix A.

Chapter 4

Region 6's Transit Policy Is Outdated

Region 6's *Regional Order Public Transit Subsidy Program Guidance*, dated June 23, 1997, does not reflect the transit forms, reports or practices currently in use. In addition, Region 6 is the only transit location that paid for both a transit pass and a parking pass as noted by the EPA when it performed an audit of duplicate transit payments. Per OMB, federal employees may receive either a parking or transit benefit but not both. Region 6 staff stated that they are in the process of updating their policies and transit practices. As a result, there are no updated documented policies to hold staff accountable for adhering to transit benefits requirements.

Transit Subsidy Must Comply With OMB Guidance

OMB Circular A-123 states that:

... Agencies and individual Federal managers must take systematic and proactive measures to (i) develop and implement appropriate, cost-effective internal control ... (ii) assess the adequacy of internal control in federal programs and operations ... [and] (v) take corresponding corrective action.

Documented Policies and Procedures Do Not Reflect Current Practices

Region 6's *Regional Order Public Transit Subsidy Program Guidance*, dated June 23, 1997, does not reflect the current forms, reports or practices documented during our review and interviews. The almost 20-year-old policy was written 10 years before OMB came out with its transit guidance. Currently, Region 6 purchases annual Dallas Area Rapid Transit passes if requested by an employee. Examples of outdated information in the policy include:

- The amount of subsidy provided is \$60 per month.
- After initial enrollment, employees are required to sign an employee recertification and claim form, and keep a daily log each month to verify eligibility for reimbursement.
- The public transit subsidy is made by reimbursing employees at the end of each reporting period (monthly) through the payroll system.

The Office of the Chief Financial Officer issued a report, *Internal Control Assessments Travel, Payroll, Parking and Transit*, dated April 15, 2014. In section 5.4 of the report, the Office of the Chief Financial Officer stated that it had discovered one duplicate payment. This duplicate payment was identified for a Region 6 employee who received both a transit pass and a parking permit. OMB M-07-15 prohibits federal employees from receiving both parking and transit subsidies. In addition, IRC § 132(a)(5) states that (only) *qualified* transportation fringe benefits are excluded from gross income, which means that employees must claim as taxable income any transit benefit received over the per-month limitation.³



Dallas Area Rapid Transit bus and rail.
(U.S. Department of Transportation photo)

Region 6 Is Updating Its Transit Policy

Region 6 staff stated that even though its written policy is outdated, updated forms accurately reflect their current practices. In October 2015, the Region 6 Safety, Health and Environmental Management Program Manager responded:

We are in the process of updating the policy, as we understand that it doesn't accurately reflect our current practices. I don't want to update the policy just to update it. I want it to be accurate and reflect the current procedures that we are working through at this time. It may take some time, but it will be done right.

The Region 6 duplicate payment for both a transit pass and a parking pass was reviewed by Region 6's Office of Regional Counsel, which stated:

While it would be a violation of EPA policy for an employee to receive payment for both carpool and mass transit subsidies, it is not the same with mass transit and ease of access for those times when a mobility impaired employee does drive.... Part of the confusion seems to stem from the significant changes to the transit subsidy program over the years with no corresponding changes to Region 6 policy.... If the Region has no parking subsidy program for carpools, then the language referring to one should be removed from the guidance and the policy rescinded (noting that this does not impact the parking offset for disabled employees).

³ Citation 26 U.S.C. § 132(a) (5) applies to transit subsidy benefits that the U.S. Internal Revenue Service specifically excludes from reported gross income.

Agency staff stated that the proposed policy does not address disability accessible parking because Region 6 does not plan to subsidize parking for employees with disabilities.

Documented Policies Can Be Used to Hold Staff Accountable

Although Region 6 transit forms generally complied with the requirements of OMB M-07-15, the current policy is outdated and does not reflect the transit forms, reports or practices currently in use. Without updated documented policies, it is difficult to hold staff accountable for not adhering to transit benefit requirements. As a result, the potential exists that employees cannot be held accountable for transit subsidy misuse, and erroneous payments may occur.

Recommendation

We recommend that the Regional Administrator, Region 6:

5. Follow the EPA Transit Policy and supplement it with Region 6 operating procedures.

Agency Response and OIG Evaluation

The agency concurred with Recommendation 5.

For Recommendation 5, Region 6 stated, “The Region 6 will, upon receipt of the agency transit policy, develop and implement corresponding procedures.” Region 6 provided an estimated completion date of no later than March 31, 2017. The OIG concurs with the agency’s proposed actions and, when implemented, the corrective actions will satisfy the intent of Recommendation 5. This recommendation will remain open pending completion of the proposed corrective action.

The agency’s complete response to the draft is in Appendix A.

Chapter 5

Region 9 Staff Were Not Required to Enroll in the New Transit Plan

Region 9 permitted employees to enroll in the transit plan of their choice. Most employees participate in the older plan that has a quarterly internal review, while employees under the new plan are subject to a monthly review. OMB Circular A-123 requires internal control reviews to provide reasonable assurance that the organization is operating efficiently. Due to resistance to the new transit plan, Region 9 management did not require current staff to enroll in it. As a result, the potential exists for erroneous payments. In CY 2014, approximately 93 percent of Region 9 employees participated in the older plan. Transit staff stated that by the end of CY 2015, enrollment in this plan had decreased to about 68 percent.

OMB Requirements

OMB Circular A-123 states that

... Agencies and individual Federal managers must take systematic and proactive measures to (i) develop and implement appropriate, cost-effective internal control ... (ii) assess the adequacy of internal control in federal programs and operations ... [and] (v) take corresponding corrective action.

In addition, according to IRC § 132(a)(5), only “qualified transportation fringe [benefits]” are excluded from gross income, which means that only transit subsidy benefits up to \$130 monthly are excluded from income tax.⁴

Two Different Transit Plans

Of the two available transit plans, most Region 9 employees participated in the transit plan that was not subject to a monthly review. The two plans operate differently.

Original (Old) Transit Plan

Under the original plan, employees spend their own funds and then are reimbursed. At the end of the quarter, employees submit a form seeking reimbursement for the quarterly transit costs incurred. Transit funds are directly deposited into the employee’s bank account. The employee signs the reimbursement form, but the form does not require approval by the employee’s

⁴ Citation 26 U.S.C. § 132(a) (5) applies to transit subsidy benefits that the U.S. Internal Revenue Service specifically excludes from reported gross income.

supervisor. Region 9 transit staff stated that supervisors are reluctant to sign the reimbursement form because “they do not know the fare prices that would apply or if the employee received rides from friends or relatives.” This comment shows a lack of understanding by supervisors of their role in effective internal controls and a lack of support for Region 9’s management effort to control spending.

Transit staff stated that they perform a quarterly review of questionable claim forms, along with a random sample of the remaining claim forms. The Region 9 Standard Operating Procedure for Transit Subsidy Review states the following:

Each quarter, the accounting office will separate the transit claim forms that had:

- Questionable claim from prior quarter.
- Obvious questionable cost and appeared suspicious.
- Hand-written claim form.
- A random sample.

Then we follow the process of reviewing the claim forms with People Plus and GovTrip. We also check the math for the hand-written claim forms.

In CY 2014, 93 percent of Region 9 employees participated in this plan. Transit staff stated that by the end of CY 2015, enrollment in this plan had decreased to about 68 percent.



San Francisco cable car. (Library of Congress photo)

There is no time limit for employees to submit reimbursement requests. However, the IRC required that any transit subsidy an employee received over the allowed limitation be declared as additional income when filing a personal income tax return. We found three employees who were reimbursed for more than \$130 per month over the course of CY 2014. This situation was due to employees not submitting timely reimbursement claims. As a result, a total of \$321 was paid to the three employees above the IRC annual limitation (Table 7).

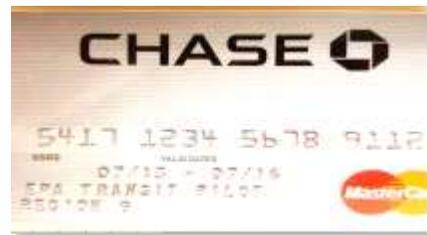
Table 7: Subsidy paid over the IRC limit

Employee	Paid in CY 2014	Annual IRC limit	Annual excess
No. 1	\$1,602	\$1,560	\$42
No. 2	1,668	1,560	108
No. 3	1,731	1,560	171
Total	\$5,001	\$4,680	\$321

Source: OIG analysis of the Region 9’s Transit Subsidy Report for CY 2014.

Alternative (New) Transit Plan

Under the new plan, employees receive a “Transit Debit Card” operated by GSA Smart Pay, which can only be used with approved merchants. Based on the amount requested in an employee’s enrollment form, transit funds are deposited monthly into the employee account on the 24th day of the month for use in the upcoming month. An automatic return of unused funds occurs monthly. Both employee and supervisor sign the enrollment form. Benefits of this plan include:



Transit debit card. (EPA photo)

- Cash payments are not directly paid to employees.
- Card usage is limited to specific merchants.
- Benefit usage can be tracked to actual transportation expense.
- Reports can be obtained and sorted by merchant type, employee name, date and cost.

Information on Region 9’s website states that, on a monthly basis, a random sampling of Transit Debt Cards are reviewed by the Cincinnati Finance Center. Per the center’s financial specialist, this sample represents 5 percent of new transit plan transactions. Our analysis determined that, for CY 2014, the sample represented 5 percent of new plan transactions. As total new plan transactions made up only 7 percent of all transit transactions, the sample represented less than a half of 1 percent of Region 9’s total transit dollars.

In CY 2014, 7 percent of Region 9 employees participated in the new transit plan. Transit staff stated that by the end of CY 2015, enrollment in this plan had increased to about 32 percent, including new employees who are only allowed to enroll in this new plan.

Region 9 Needs to Choose One Transit Payment Plan

Region 9 management was aware that most employees were still enrolled in the original transit plan, but did not require employees to switch to the new plan due to employee resistance. The transit management team believed that it did not have the authority to require employees to change to the new plan. The region expects to make a decision on which plan to use after the OIG issues its audit report.



Transit rail. (EPA photo)

Risk of Undetected Erroneous Payments Under Older Transit Plan

By permitting employees to continue using the older transit plan, the potential exists for misuse to go undetected. Both Region 9 transit plans include some level of review. However, the new plan offers less risk to the government because employees are not paid cash and the use of the debit card is limited to specific merchants. Region 9 should identify specific risks associated with its transit plan, and implement appropriate balance between controls and risk in order to mitigate these risks to the greatest extent possible to prevent fraud, misuse or abuse. In light of the current budget situation, Region 9 management should provide adequate internal controls and oversight to protect funds from unreasonable expenditures.

Recommendations

We recommend that the Regional Administrator, Region 9:

6. Perform an analysis and determine the best transit payment system that will contain internal controls to prevent fraud, misuse or abuse.
7. Allow Region 9 employees to use only one transit payment system.
8. Implement internal controls that require the transit subsidy management team to conduct uniform reviews, including random transaction testing where every transit participant is subject to potential review.

Agency Response and OIG Evaluation

The agency concurred with Recommendations 6 through 8.

As of June 28, 2016, Region 9 has completed corrective actions for Recommendation 6. Region 9 stated that it has completed an analysis and has selected one transit payment system (card program administered by the Cincinnati Finance Center). This system is to be implemented by December 31, 2016. Recommendation 6 is thus closed.

For Recommendation 7, the agency stated:

The region completed an analysis in December 2014 covering the best option for providing a transit program to the Region 9 employees. The Region 9 Headquarters will coordinate with employees and local bargaining units to implement the change. Furthermore, the Region 9 will evaluate alternative approaches for other Region 9 locations.

Region 9 provided an estimated completion date of no later than December 31, 2016.

For Recommendation 8, the agency stated:

The region will ensure that whichever transit payment system it chooses as described in response to recommendation seven will have appropriate internal controls consistent with the Office of Management and Budget and the Internal Revenue Service guidance.

Region 9 provided an estimated completion date of no later than December 31, 2016.

The OIG concurs with the agency's proposed actions and, when implemented, the corrective actions will satisfy the intent of Recommendations 6 through 8. These recommendations will remain open pending completion of the proposed corrective actions.

The agency's complete response to the draft is in Appendix A.

Chapter 6

Excess Transit Passes Purchased in Region 10

Region 10 purchased transit passes for all employees at a discount, rather than just for those employees who actually used transit passes. As a result, the region paid more than the actual transit costs incurred. OMB Circular A-123 and OMB M-07-15 require agencies to implement cost-effective internal controls. Region 10 did not review the available transit reports because they were unaware of how to access them. Thus, Region 10 did not amend the contract to a more cost-effective transit plan that would save government funds. In CYs 2014 and 2015, the actual full-fare transit costs were \$135,701 less than the contracted amount that was paid for all Region 10 employees.

Cost-Effective Internal Controls Required for Federal Program

OMB Circular A-123 states that:

... agencies and individual Federal managers must take systematic and proactive measures to (i) develop and implement appropriate, cost-effective internal control ... (ii) assess the adequacy of internal control in federal programs and operations ...[and] (v) take corresponding corrective action.



Ferry transit. (EPA photo)

OMB M-07-15 has a requirement that a commuting cost breakdown be prepared and an independent verification for eligibility be correctly calculated.

All Employees Received Transit Passes, Including Those Who Do Not Take Public Transportation

Region 10 purchased annual transit passes for all employees at a discount. It paid the U.S. Department of Transportation, Transportation Services, to “deliver a full service transit benefit program” in the Seattle, Washington, area. The contract required the region to buy transit passes for 100 percent of enrolled participants, and the region decided to buy transit passes for all employees, including those who do not take public transportation.

Commuting Cost Breakdown Can Determine Best Value

Region 10 did not perform a commuting cost analysis to determine if it was more economically beneficial to purchase passes for all employees. The Region 10 transit subsidy team did not believe cost calculations were applicable because discounted annual transit passes were only available if passes were purchased for all employees. As a result, employees were not required to submit commuting cost breakdowns. These breakdowns can be used to calculate actual transit costs, which would have shown the actual costs were less than what Region 10 paid to the contractor.



Region 10 transit card. (EPA OIG photo)

In addition, the transit authority in Seattle provides actual ridership reports on its website. If Region 10 had reviewed the reports each year, it would have discovered that actual ridership was significantly less than the contracted amount. Region 10 staff stated that they did not understand how to request or download the available reports. As a result, more economical cost alternatives were not considered, and Region 10 continued to purchase transit passes for all employees at a higher cost overall.

Excessive Transit Costs Incurred

Although Region 10 purchased discounted transit passes for all employees, it still paid more than the full fare price for actual transit usage. For CY 2014, Region 10 paid \$448,240, though the full fare price for actual transit trips taken was only \$377,368. The actual cost included a contracted van pool, guaranteed ride home value, and a contracted 5 percent management fee for 2014 applied to the actual usage and contracted expenses. For CY 2015, Region 10 paid \$444,986 though the full fare price for actual transit plus van pool, a management fee of 5.3 percent, and guaranteed ride home coverage was \$380,156. Region 10 paid \$135,701 in excess of actual full fare transit costs for CYs 2014 and 2015 (Table 8). If the region's transit team had reviewed the actual usage in prior years, it would not have continued entering into this contract agreement year after year.

Table 8: CYs 2014 and 2015 costs for Region 10

Description	CY 2014 cost	CY 2015 cost	Total
Actual transit ridership	\$330,240	\$331,863	\$ 662,103
Van pool value	27,794	27,794	55,588
Home fee guarantee value	1,365	1,365	2,730
<i>Subtotal</i>	<i>359,399</i>	<i>361,022</i>	<i>720,421</i>
Contracted 5% & 5.3% management fees	17,970	19,134	37,104
Total Cost	377,369	380,156	757,525
EPA Paid	448,240	444,986	893,226
Questioned Costs	\$70,871	\$64,830	\$135,701

Source: OIG analysis of the EPA's actual ridership reports, full value of other services. Paid contracts for fiscal years 2014 and 2015 were adjusted quarterly to determine the CY values.

Recent Agency Actions Prompted by OIG Work

In October 2015, Region 10 instituted a new public transit subsidy enrollment form to improve management control and oversight of its transit subsidy practices. According to the Region 10 Assistant Regional Administrator, the purpose of the new annual enrollment form is to ensure that all employees: (1) understand the eligibility requirements, (2) certify their own eligibility and (3) obtain supervisor certification of their own work schedule for commuting to work. The new *Transit Subsidy Program Guidance and Enrollment Form Guidance* are located on the Region 10 website.

Recommendations

We recommend that the Regional Administrator, Region 10:

9. Perform an employee commuting cost analysis to determine the most economical transit subsidy fare options for Region 10.
10. Consider renegotiating to a new contract price to save funds based on the results of the cost analysis.

Agency Response and OIG Evaluation

The Regional Administrator, Region 10, concurred with Recommendations 9 and 10. As of July 8, 2016, Region 10 has completed corrective actions for both recommendations.

For Recommendation 9, Region 10 stated it has:

Determined that DOT Transerve Debit Card program (also used by Region 3) is our best choice. The available debit card programs operate in very similar ways and have very similar cost profiles.

For Recommendation 10, Region 10 stated that:

The current agreement with DOT will expire at the end of the current fiscal year. We expect to have the new agreement in place effective Oct. 1, 2016... [O]ur shift to a debit card program implements this recommendation or alternatively renders it moot.

Recommendations 9 and 10 are complete and thus closed. The agency's complete response to the draft is in Appendix A.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS

Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Potential Monetary Benefits (\$000s)
1	13	Require the Office of Administration and Resources Management to provide oversight and guidance to the 10 regions in addition to the three field offices.	O	Deputy Administrator	12/31/16	
2	13	Achieve compliance with the Office of Management and Budget's guidance by verifying that the 10 minimum internal controls are implemented for transit subsidies at all locations.	O	Deputy Administrator	12/31/16	
3	17	Establish internal controls to require that the transit subsidy processor be notified when an employee separates. Require the transit subsidy processors to review the transit database when the employee leaves.	O	Assistant Administrator for Administration and Resources Management	12/31/16	\$1
4	17	Obtain biweekly or monthly reports of only employees who have separated from the agency from the Office of Human Resources and verify that transit subsidy information has been updated.	C	Assistant Administrator for Administration and Resources Management	7/19/16	
5	20	Follow the EPA Transit Policy and supplement it with Region 6 operating procedures.	O	Regional Administrator, Region 6	3/31/17	
6	24	Perform an analysis and determine the best transit payment system that will contain internal controls to prevent fraud, misuse or abuse.	C	Regional Administrator, Region 9	6/28/16	
7	24	Allow Region 9 employees to use only one transit payment system.	O	Regional Administrator, Region 9	12/31/16	
8	24	Implement internal controls that require the transit subsidy management team to conduct uniform reviews, including random transaction testing where every transit participant is subject to potential review.	O	Regional Administrator, Region 9	12/31/16	
9	28	Perform an employee commuting cost analysis to determine the most economical transit subsidy fare options for Region 10.	C	Regional Administrator, Region 10	7/8/16	\$136
10	28	Consider renegotiating to a new contract price to save funds based on the results of the cost analysis.	C	Regional Administrator, Region 10	7/8/16	

- 1 O = Recommendation is open with agreed-to corrective actions pending.
 C = Recommendation is closed with all agreed-to actions completed.
 U = Recommendation is unresolved with resolution efforts in progress.

Agency Response to Discussion Draft



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

FEB 19 2016

OFFICE OF
ADMINISTRATION
AND RESOURCES
MANAGEMENT

MEMORANDUM

SUBJECT: Response to Office of Inspector General Discussion Draft No. OA-FY14-0080, "EPA Needs to Improve Oversight of the Transit Subsidy Benefits Program"

FROM: Karl Brooks, Acting Assistant Administrator

TO: Kevin Christensen, Assistant Inspector General
Office of Audit
Office of the Inspector General

Thank you for the opportunity to respond to the issues and recommendations in the subject discussion draft. The following is a summary of the agency's overall position and comments to the report, with an attached table of responses to each of the report recommendations (Attachment 1).

Overall Position

The agency concurs with recommendations 1-10 and has provided corrective actions for each of the recommendations.

Comments to Draft

1. Table 2, CY 2014 EPA compliance with OMB M-07-15- OMB guidance requires an eligibility determination by the approving official. In Headquarters, the approving official who is the Transit Subsidy Coordinator, performs this activity. Therefore, we believe that the Headquarters program meets the requirement. We are unclear why this box is not checked on the table.
2. With respect to the Headquarters' application of the OMB control number 10 – "Removal from the Transit Benefits Program included in Exit Procedures," the Headquarters' separation check sheet does contain a required transit subsidy activity for separating employees – meeting the minimum transit internal controls required. However, the agency does agree that controls could be improved to reduce unallowable costs as identified by the Office of the Inspector General (~.0002% of the total Headquarters transit subsidy budget at risk for FY 2014.)

3. The oversight of the cash reimbursement option in the Region 9 is audited on a quarterly basis because those participants are paid on a quarterly basis. The auditing process has a substantial level of oversight, for example, the expense forms submitted are calculated for accuracy, claims are verified through People Plus, and questionable expenses are addressed immediately.
4. The draft report states that “about 93 percent of the transit subsidy costs are not subject to review.” See, e.g., pp. 21 (Chapter heading and in first paragraph), 23 (heading stating “Ninety-Three Percent of Transit Costs Not Subject to Review” and text therein), “At a Glance” summary (“most employees participate in the plan that is not subject to monthly review”).

Under the original transit plan which reimburses employees for their transit payments on a quarterly basis, the region reviews the employees’ transit claim forms. First, the claim forms are reviewed and those forms from employees that had questionable claims from prior quarters, or forms that have obviously questionable costs or are handwritten are separated out, as are a random sample of the remaining forms. This subset of forms is then reviewed including verification through PeoplePlus that employees worked on the days for which they are requesting reimbursement and calculations to ensure that the amounts claimed accurately reflect the employees’ transit costs. If errors are found, the region notifies the employee, and then verifies the revised transit claim forms before entering in the Compass System for payment.

5. In Chapter 1, Page 3, Table 1: EPA CY 2014 Transit Costs, the report shows that the audit covers the CY 2014 and that the Region 10 paid \$527,919 for transit costs that year. The Region 10 funds the transit subsidy Interagency Agreement with the Department of Transportation on a fiscal year cycle, so the calculation of costs for a calendar year must be a split of the FY 2014 and FY 2015 funding using 75% of funding from FY 2014 and 25% funding from FY 2015. The IA funding records show that the agency committed \$553,816 in FY 2014 and received \$84,988 in refunds from the DOT. For FY 2015, the agency committed \$522,280 and received \$135,800 in refunds from the DOT. If the correct 75/25 formula is applied to account for the 2014 calendar year, the agency actually spent \$448,241 which is \$79,678 less than what the OIG reported.
6. In Chapter 2, Page 8, Table 2: CY 2014 EPA Compliance with OMB M-07-15, the report shows that the Region 10 does not have a removal form for the transit benefits program as part of its exit procedures; the form is attached.
7. In Chapter 6, Page 25, the report states “In CY 2014, the actual full fare transit costs were \$168,922 less than the contracted amount was paid for all Region 10 employees.” The report states that the Region 10’s costs for the IA with the DOT was \$545,931 for CY 2014.

These amounts are different than the Table 1 amounts on page 3. The Table 1 states that the agency spent \$527,919 whereas Chapter 6 states we paid \$545,931. The

documentation shows we paid \$448,241 in CY 2014. Using the actual costs of \$448,241 in Table 6 would lower the OIG questioned amount from \$168,922 to \$71,232.

8. In Chapter 6, Page 26, under the section titled “Excessive Transit Costs Incurred”, the report states that the Region 10 entered into a new five-year contract in CY 2015. The Region 10 operates the execution of the budget based on fiscal years as does the DOT. The fiscal year begins in October of the previous calendar year and ends in September of the current year. For CY 2014, we entered into the last year of a multi-year IA with the DOT in October 2014 (FY 2015). This audit was undertaken in CY 2015 and the discussion document was delivered in February 2016. In October 2015, the Region 10 entered into a new one year IA with the DOT. The IA is not the first year of a five year contract and should be accurately presented in the report.
9. In Chapter 6, Page 26, under the section titled “Commuting Costs Breakdown Can Determine Best Value”, the report states that the Region 10 staff did not understand how to request or download available reports. We would like to clarify this.

In April 2015, the Infrastructure and Operations Unit Manager retired, shifting responsibilities for the Transit Subsidy Program. A new manager has been temporarily overseeing the Unit. This was the audit data gathering timeframe. So, it is accurate that the Transit Subsidy Program Coordinator did not know how to find the monthly reports provided to the Region 10 by DOT per the IA, this was rectified within a few months.

If you have any questions regarding this response, please contact Vaughn Noga, Director, Office of Administration, at (202) 564-8400.

Attachments

cc: Stan Meiburg, Acting Deputy Administrator
Ron Curry, Regional Administrator, Region 6
Jared Blumenfeld, Regional Administrator, Region 9
Dennis McLerran, Regional Administrator, Region 10
James McDonald, Assistant Regional Administrator, Region 6
Serena McIlwain, Assistant Regional Administrator, Region 9
Ed Chu, Assistant Regional Administrator, Region 10
Donna Vizian, Principal Deputy Assistant Administrator, OARM
Vaughn Noga, Director, Office of Administration
Brandon McDowell, AFC, OARM

AGENCY'S RESPONSE TO DRAFT AUDIT RECOMMENDATIONS

No.	Recommendation	Intended Corrective Actions	Estimated Completion by Quarter and FY
1	Require the Office of Administration and Resources Management to provide oversight and guidance to the ten regions in addition to the three field.	Concur. The agency will develop a transit subsidy policy covering all locations offering transit subsidy.	Q1, FY2017
2	Achieve compliance with the Office of Management and Budget's guidance by verifying the ten minimum internal controls are implemented for transit subsidies at all locations.	Concur. The agency will require senior resource officials to certify annually that the ten minimum controls are implemented.	Q1, FY2017
3	Establish internal controls to require the transit processor be notified when an employee separates. Require the transit subsidy processors to review the transit database when the employee leaves.	Concur. The Headquarters will assess the current Headquarters separation check sheet and identify opportunities to strengthen controls.	Q1, FY2017
4	Obtain biweekly or monthly reports of employees who have separated from the agency from the Office of Human Resources and verify the transit subsidy has been updated.	Concur. The Transit Subsidy Coordinator in the Headquarters will pull monthly reports and verify transit subsidy has been updated.	Q3, FY2016
5	Follow the EPA Transit Policy, supplement with the Region 6 operating procedures.	Concur. The Region 6 will, upon receipt of the agency transit policy, develop and implement corresponding procedures.	Q2, FY2017
6	Perform an analysis and determine the best transit payment system that will contain internal controls to prevent fraud, misuse or abuse.	Concur with modifications. The Region 9 Headquarters made a determination to implement the "new" transit plan as identified in the report.	Q3, FY2016
7	Allow the Region 9 employees to use only one transit payment system.	Concur. The region completed an analysis in December 2014 covering the best option for providing a transit program to the Region 9 employees. The Region	Q1, FY2017

		9 Headquarters will coordinate with employees and local bargaining units to implement the change. Furthermore, the Region 9 will evaluate alternative approaches for other Region 9 locations.	
8	Implement internal controls that require the transit subsidy management team to conduct uniform reviews including random transaction testing where every transit program participant is subject to potential review.	Concur. The Region 9 Headquarters will leverage the capabilities of the General Services Agency program to ensure adequate internal controls are implemented. Both methods Region 9 uses to pay transit have internal controls in place; the debit card program has a monthly review cycle and the quarterly reimbursement program has a quarterly review cycle. The region will ensure that whichever transit payment system it chooses as described in response to recommendation seven will have appropriate internal controls consistent with the Office of Management and Budget and the Internal Revenue Service guidance.	Q1, FY2017
9	Perform an employee commuting cost analysis to determine the most economical transit subsidy fare options for the Region 10.	Concur with modifications. The Region 10 has already taken actions consistent with this recommendation. The Region 10 is committed to moving to a trip-based transit program.	Q1, FY2017
10	Do not execute the current contract's option years or consider renegotiating to a new contract price to save funds based on the results of the cost analysis.	Concur with modifications. The Region 10 will evaluate options for implementing a more economical transit subsidy program.	Q1, FY2017

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