

October 14, 2003



Financial Management

Allegations Concerning Controls Over
DoD Transit Subsidies Within the
National Capital Region
(D-2004-009)

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Acronyms

DLA	Defense Logistics Agency
DOT	Department of Transportation
WHS	Washington Headquarters Services
NCR	National Capital Region



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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October 14, 2003

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE LOGISTICS AGENCY
NAVAL INSPECTOR GENERAL
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on Allegations Concerning Controls Over DoD Transit Subsidies
Within the National Capital Region (Report No. D-2004-009)

We are providing this report for your information and use. We considered management comments on a draft of this report when preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Dennis E. Payne at (703) 604-8907 (DSN 664-8907) or Mr. Marc E. Avers at (703) 604-8838 (DSN 664-8838). See Appendix C for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing

A handwritten signature in cursive script that reads "Shelton Young".

Shelton R. Young
Director, Readiness and
Logistics Support Directorate

Office of the Inspector General of the Department of Defense

Report No. D-2004-009
(Project No. D2003LH-0096)

October 14, 2003

**Allegations Concerning Controls Over DoD
Transit Subsidies Within the National Capital Region**

Executive Summary

Who Should Read This Report and Why? Civil service and uniformed officers with oversight responsibility and personnel working within the transit subsidy program should read this report to obtain information about controls regarding transit subsidies.

Background. This audit was performed in response to allegations made to the Defense Hotline concerning controls over the DoD Transportation Fringe Benefit Program within the National Capital Region. Executive Order 13150, signed April 21, 2000, directed Federal agencies to establish by October 1, 2000, transportation fringe benefit programs in order to reduce Federal employees' contribution to traffic congestion and air pollution and to expand their commuting alternatives. The program provides financial incentives to employees to encourage commuting by mass transportation. Washington Headquarters Services has responsibility for administering the Transportation Fringe Benefit Program for DoD within the National Capital Region. Washington Headquarters Services administers the Transportation Fringe Benefit Program with assistance from the Department of Transportation. Washington Headquarters Services estimated that within the National Capital Region, DoD transit subsidy expenditures were about \$23.6 million in FY 2002. The following chart shows FY 2002 DoD transit subsidy expenditures by component.

FY 2002 DoD Transit Subsidy Expenditures within the National Capital Region	
<u>DoD Component</u>	<u>Amount</u>
Army	\$ 8,418,463.70
Navy	5,537,127.89
Air Force	4,623,530.76
DLA	160,426.72
Other DoD	<u>4,900,038.22</u>
Total	\$23,639,587.29

The complainant alleged that the lack of DoD controls over the transit subsidy program within the National Capital Region resulted in ineligible personnel receiving transit subsidies, personnel receiving both subsidized parking and transit subsidies, no verification of an applicant's employment, and that DoD employees could be selling or giving away their transit subsidies.

Results. Controls over the transit subsidies program within the Army, the Navy, the Air Force, and the Defense Logistics Agency needed improvement. Specifically, the

Army and the Air Force offices with transit subsidy responsibilities were not performing reconciliations of Department of Transportation billing information. The Navy and Defense Logistics Agency were performing reconciliations of Department of Transportation billing information but lacked written policies and procedures. Further, the Defense Logistics Agency was not ensuring that transit subsidy applicants relinquished subsidized parking permits. As a result, there was an increased risk that erroneous transit subsidy charges would not be detected and that ineligible personnel could obtain transit subsidies. The development of policies and procedures requiring the reconciliation of Department of Transportation billings will ensure that reconciliations are performed. In addition, policies and procedures requiring Defense Logistics Agency transit officials to check transit applications against the Defense Logistics Agency parking permit roster will ensure that employees are not also receiving subsidized parking. See the Finding section of the report for the detailed recommendations.

The complainant raised four issues addressing controls over the DoD Transportation Fringe Benefit Program within the National Capital Region. Our review substantiated the allegations that there was no verification of an applicant's employment and that DoD employees could be selling or giving away their transit subsidies. The Department of Transportation did not verify transit subsidy applicant's employers; however, employees were required to show valid DoD identification and provide the last four digits of their social security number in order to obtain benefits. Although there is some risk that individuals could sell, give away, or transfer their transit subsidy, we believe that the cost of implementing controls to prevent this type of misuse would be prohibitive.

The other two allegations, which were partially substantiated, were that ineligible employees were receiving transit subsidies, including a contractor, and that there were no controls to ensure that personnel do not receive both subsidized parking and transit subsidies. Although the complainant's reconciliations identified personnel that did not belong to that Agency, the complainant could not provide any documentation to show that the identified personnel were contractors. Defense Logistics Agency headquarters transit applications were not being checked against the Defense Logistics Agency headquarters parking permit roster. The Army, Navy, and Air Force headquarters transit subsidy applications are checked against a central parking office database to determine if a subsidized parking permit has been issued. Appendix B provides a detailed discussion of each allegation.

Management Comments. The Army, Navy, Air Force and Defense Logistics Agency concurred with the recommendations; therefore, no further comments are required. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

Table of Contents

Executive Summary	i
Background	1
Objectives	2
Finding	
Controls Over DoD Transit Subsidies	3
Appendixes	
A. Scope and Methodology	9
Management Control Program Review	9
B. Review of Allegations	11
C. Report Distribution	13
Management Comments	
Department of the Army	15
Department of the Navy	17
Department of the Air Force	18
Defense Logistics Agency	19
Washington Headquarters Services	23

Background

Executive Order 13150, signed by President Clinton on April 21, 2000, required Federal agencies to establish transportation fringe benefit programs by October 1, 2000. The purpose of the programs is to reduce Federal employees' contribution to traffic congestion and air pollution and to expand their commuting alternatives. The programs provide financial incentives to employees to encourage commuting by mass transportation.

Defense Hotline Allegations. We performed the audit in response to allegations made to the Defense Hotline concerning administration and controls over the DoD Transportation Fringe Benefit Program within the National Capital Region (NCR).^{*} Our review was limited to the Army, the Navy, the Air Force, and the Defense Logistic Agency (DLA) implementation of the program within the NCR. The complainant alleged that the lack of DoD controls over the transit subsidy program within the NCR resulted in ineligible personnel receiving transit subsidies and personnel receiving both subsidized parking and transit subsidies. The complainant also stated that the applicant's employment was not verified, and that some DoD employees could be selling or giving away their transit subsidies. See Appendix B for a discussion of the specific allegations raised by the complainant and the results of our review.

Transportation Fringe Benefits. Under the Transportation Fringe Benefit Program, DoD components are required to provide subsidies for personnel who use mass transportation or qualified vanpools in an amount equal to the individual's personal commuting costs but not to exceed the maximum allowed by the Internal Revenue Service Code, which was \$100 per month as of July 2003. Both DoD civilian and military personnel—including nonappropriated fund employees—are eligible to participate in the program. Washington Headquarters Services (WHS) estimated that within the NCR, DoD transit subsidy expenditures were about \$23.6 million in FY 2002. As of May 21, 2003, the Department of Transportation (DOT) stated there were 29,134 DoD employees participating in the program within the NCR.

Program Administration. Within the NCR, WHS is responsible for administering the program for DoD components. To assist in administering the program, WHS signed a memorandum of agreement with DOT on July 6, 2000. WHS developed, with advice from DOT, necessary program application and certification forms and established criteria for DOT to determine DoD employee eligibility for participation in the program. DOT responsibilities include maintaining and safeguarding fare media; processing enrollment applications; providing monthly statements, with a detailed report on employee participation in the program; cross-referencing program applicants against WHS parking databases to verify eligibility; maintaining a database that identifies all

^{*} The National Capital Region is defined as the District of Columbia; Montgomery, Prince George's, and Frederick Counties in Maryland; Arlington, Fairfax, Loudoun, and Prince William Counties in Virginia; and all cities now or hereafter existing in Maryland or Virginia within the geographic area bounded by the outer boundaries of the combined area of said counties.

participants in the program; distributing fare media on a quarterly basis to qualified NCR DoD employees; and providing customer service support.

Objectives

The primary objective was to review the allegation to the Defense Hotline regarding controls over DoD transit subsidies and to determine if the allegations had merit. See Appendix A for a discussion of the scope and methodology and our review of the management control program.

Controls Over DoD Transit Subsidies

Controls over the Transportation Fringe Benefit Program within the Army, the Navy, the Air Force, and DLA needed improvement. Specifically, Army and Air Force offices with transit subsidy responsibilities were not performing reconciliations of DOT quarterly transit subsidy billing statements and DLA was not ensuring that transit subsidy applicants relinquish subsidized parking permits. Those conditions occurred because the Military Departments and DLA did not develop policies and procedures regarding transit subsidy reconciliations. Also, DLA did not develop policies and procedures requiring that transit subsidy applications be checked against the DLA headquarters parking roster. As a result, there is an increased risk that erroneous charges will not be detected and that ineligible personnel could obtain transit subsidies.

Guidance on Transit Subsidies

The Assistant Secretary of Defense (Force Management Policy) memorandum, "Mass Transportation and Vanpool Transportation Fringe Benefit Program," June 2, 2000, directed DoD components to begin preparing for implementation of Executive Order 13150, which had a deadline of October 1, 2000. The Deputy Secretary of Defense issued revised DoD policy, "Department of Defense Transportation Incentive Program," on October 13, 2000. The guidance defines eligibility requirements and subsidy limitations and states that the Director, WHS will administer the transportation incentive program within the NCR with the assistance of DOT.

Program Summary

The DoD Transportation Fringe Benefit Program allows participating employees to receive, in addition to their current compensation, transit subsidies in an amount equal to their personal commuting costs, not to exceed \$100 a month. The benefit applies to both mass transit and qualified vanpool participants. Employees with subsidized parking must relinquish their parking permits in order to receive the transit subsidy. Similarly, employees who receive transit passes may not be counted as part of a DoD carpool for the purpose of obtaining a parking pass.

The program requires employees within the NCR to submit their applications to DOT for approval. If the employee meets the criteria established by WHS, the application is approved and the employee information is maintained in a DOT database. On a quarterly basis, DOT distributes subsidies at various distribution points within the NCR. DOT issues vouchers to employees when they provide DoD identification and the last four digits of their social security number. As long as the employee's name is in the DOT database, the voucher is provided.

On a quarterly basis, DOT provides WHS with a list of employees, by organization, who signed for and received benefits. WHS distributes the list to each organization and requests funding from that organization based on employee participation.

Controls over the Transportation Fringe Benefit Program within the Army, the Navy, the Air Force, and DLA needed improvement to ensure that erroneous charges are detected and that only eligible personnel receive transit subsidies.

Reconciliation of Transit Subsidy Charges

Army and Air Force offices with transit subsidy responsibilities were not performing reconciliations to validate the accuracy of DOT quarterly billings. Reconciliations were not being performed because policies and procedures had not been developed requiring the reconciliation of DOT quarterly billings.

Army. The Office of the Administrative Assistant to the Secretary of the Army is responsible for providing funding to WHS based on the quarterly billings. The Administrative Assistant's budget officials stated that they have never performed a reconciliation of the DOT quarterly billings from WHS. Once the quarterly billing is received, the Administrative Assistant's budget personnel remits the requested WHS funding. Army personnel stated that when they receive the subsidy billing listing from WHS, their only recourse is to pay the bill since there is no policy or procedure in place for performing reconciliations.

Navy. The Office of the Assistant for Administration to the Under Secretary of the Navy consistently performs detailed quarterly reconciliations of DOT quarterly billings. Our review of FYs 2002 and 2003 DOT quarterly billings showed that reconciliations were being performed on a monthly basis. Those reconciliations identified several discrepancies. For example, in the first quarter of FY 2003, the Navy identified approximately \$7,158 in questionable transit charges. According to Navy officials, those discrepancies involved charges for non-Navy personnel. The Navy's reconciliation efforts ensured the accuracy of DOT billing information and the identification and removal of listed employees that belonged to other agencies and ineligible transit subsidy recipients.

Air Force. The Assistant Secretary of the Air Force (Financial Management and Comptroller) is responsible for providing funding to WHS based on quarterly billings. Budget officials do not perform reconciliations of DOT quarterly billings. Once they receive the quarterly bill from WHS, they simply provide the requested funding based on the quarterly DOT billing. Air Force budget officials recognized the need to perform reconciliations; however, they were unsure how to perform the reconciliations with the data provided by DOT. As a result of our review, Air Force officials have started a working group, along with WHS, to discuss the best approach to facilitate the reconciliation process.

Defense Logistics Agency. Although DLA did not start performing reconciliations until the first quarter of FY 2003, reconciliations are now consistently being performed. DLA reconciliations have been effective in identifying erroneous charges and ensuring the timely removal of listed employees that belong to other agencies. In addition, DLA is in the process of implementing other control measures to ensure that only DLA employees apply for and receive transit subsidies from DLA.

Subsidized Parking

DLA was not ensuring that transit subsidy applicants relinquish subsidized parking permits because it had not developed policies and procedures requiring that subsidy applications be checked against the DLA headquarters parking permit roster. As a result, there was no assurance that DLA employees did not receive both transit and parking subsidies.

Employees with subsidized parking must relinquish their parking permits in order to receive transit subsidies. All applicants are required to certify on their applications they are not receiving subsidized parking and will relinquish subsidized parking permits before or upon receipt of the transit fare benefit.

Our review showed that DLA headquarters transit applications were not being checked against the DLA headquarters parking permit roster. Army, Navy and Air Force transit subsidy applications are checked against a central parking office database to determine whether a subsidized parking permit has been issued. Applicants identified as receiving subsidized parking are flagged and transit subsidies are not processed until parking permits are turned in. Since DLA headquarters personnel are not included in this database, DLA should verify each application against the DLA headquarters parking permit roster to ensure that personnel with DLA parking permits are not issued transit subsidies.

Transit Subsidy Policies and Procedures

The Military Departments and DLA do not have policies and procedures requiring the reconciliation of DOT quarterly billings prior to payment. Army and Air Force officials stated that they were either unaware of procedures to perform such reconciliations or they were unsure how to perform reconciliations with the data provided by DOT. Although the Navy and DLA are performing reconciliations, policies and procedures should be developed to ensure the continued effectiveness of transit subsidy reconciliations. In addition, the development of policies and procedures could enable Army, Navy, Air Force, and DLA transit subsidy officials to develop more streamlined approaches when performing future reconciliations.

DLA also lacked policies and procedures requiring verification of transit applications against the DLA parking permit roster. DLA was not checking transit subsidy applications against the DLA parking permit roster in order to

ensure that employees did not receive both transit and parking subsidies. At the time of our review, the DLA Management Control program manager had developed a draft policy memorandum that would require all DLA transit applications to be checked against the parking permit roster. Since DLA transit subsidy applications were not initially checked against the parking permit roster, the new policy would require all DLA headquarters subsidy participants to re-register in the transit subsidy program to ensure that all participants are identified and verified against the parking permit roster. However, the issuance of this memorandum had been delayed in order to address a union concern regarding the DLA policy of requiring transit subsidy participants to re-register and turn in parking decals. The DLA Management Control program manager stated that without the signed memorandum instructing personnel to return parking permits; a check against the parking permit roster was not possible. We believe the issuance of this memorandum should not preclude DLA from checking transit subsidy applications and current transit subsidy recipients against the parking permit roster to ensure that employees do not receive both transit and parking subsidies.

Conclusion

The absence of controls over quarterly DOT billings decreases the possibility that erroneous charges will be detected in a timely manner and does not ensure that only eligible DoD personnel receive transit subsidies. The development of policies and procedures requiring the reconciliation of DOT billings will ensure that reconciliations are performed. In addition, policies and procedures requiring DLA transit officials to check transit applications against the DLA parking permit roster will ensure that employees are not also receiving subsidized parking.

Management Comments on the Finding and Audit Response

Defense Logistics Agency. The Vice Director, Defense Logistics Agency partially concurred with the section of the report related to checking transit applications against the DLA parking permit roster and stated that until the issuance of a policy memorandum instructing personnel who receive transit subsidies to turn in their parking decals, such a check would be futile. Since the issue of subsidized parking had not been recognized before, it was not accepted practice at DLA to turn in decals. Therefore, participants have retained their decals providing them with subsidized parking.

Audit Response. All transit subsidy applicants are required to certify on their applications they are not receiving subsidized parking and will relinquish subsidized parking permits before or upon receipt of the transit fare benefit. Therefore, the issuance of a DLA policy memorandum should not preclude DLA from ensuring compliance with DoD transit subsidy requirements.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Assistant for Administration to the Under Secretary of the Navy; the Administrative Assistant to the Secretary of the Army; the Assistant Secretary of the Air Force (Financial Management and Comptroller); and the Director, Defense Logistics Agency develop policies and procedures requiring the reconciliation of all transit subsidy billings received from the Department of Transportation.

Army Comments. The Administrative Assistant to the Secretary of the Army concurred with the recommendation and is working with WHS to develop a process to conduct reconciliations. In addition, the Army is drafting policy and procedures requiring the reconciliation of all transit subsidy billings and has identified transit subsidies as an assessable unit. The estimated completion date for these actions is March 30, 2004.

Navy Comments. The Assistant for Administration to the Under Secretary of the Navy concurred with the recommendation by stating that the Navy has documented the transit subsidy reconciliation process in desk guides and is including transit subsidies as an assessable unit in their management control plan. However, the Assistant for Administration indicated that the report did not emphasize the Navy's success in its execution of internal controls in the transit subsidy program and its subsequent efforts to address the concerns of the auditors.

Audit Response. We commend the Navy's prompt documentation of the transit subsidy reconciliation process. The Navy's efforts to document the process will help to ensure the continued effectiveness of its transit subsidy reconciliations.

Air Force Comments. The Air Force Deputy Assistant Secretary (Budget) concurred with the recommendation to develop policies and procedures requiring the reconciliation of transit subsidy billings.

Defense Logistics Agency Comments. The Vice Director, Defense Logistics Agency concurred with the recommendations and stated that policies and procedures will be developed and posted on the DLA Support Services Web page by December 1, 2003.

Washington Headquarters Services. Although not required to comment, the Deputy Director, Washington Headquarters Services stated that as a result of our report, WHS has issued supplemental budget guidance to all DoD Components clarifying that each component is responsible for verifying monthly participation reports and paying periodic bills. In addition, WHS is working with the DoD Components to facilitate report reconciliation. Also, WHS is researching the use of the DoD Common Access Card as identification for the distribution of transit subsidy benefits to increase the accuracy of employee organization information and to reduce the risk of ineligible persons receiving transit benefits.

2. We recommend that the Director, Defense Logistics Agency develop a policy requiring that all transit subsidy applications be checked against the Defense Logistics Agency parking permit roster before being approved.

Defense Logistics Agency Comments. The Vice Director, Defense Logistics Agency concurred with the recommendation and stated that it will issue a memorandum requiring that applications be checked against the DLA parking permit roster once a Master Labor agreement is ratified. The expected completion date is December 1, 2003.

Appendix A. Scope and Methodology

We performed this audit from March through July 2003 in accordance with generally accepted government auditing standards. We performed audit work to examine allegations made to the Defense Hotline. We reviewed applicable policies, procedures, processes, and guidance regarding the DoD transit subsidy program within the NCR. Our review was limited to headquarters-level transit subsidy offices at the Army, the Navy, the Air Force, and DLA. We discussed the allegations with the complainant. We also met with personnel from the Assistant Secretary of the Army (Office of the Administrative Assistant); the Assistant for Administration to the Under Secretary of the Navy; the Assistant Secretary of the Air Force; (Financial Management and Comptroller); DLA; WHS; and DOT.

Use of Computer-Processed Data. We did not use computer-processed data to perform this audit.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the Defense Financial Management high-risk area.

Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We reviewed the adequacy of management controls over transit subsidies at the Army, the Navy, the Air Force, and DLA. We also reviewed the adequacy of management's self-evaluation of those management controls.

Adequacy of Management Controls. We identified material management control weaknesses at the Army, the Navy, the Air Force, and DLA as defined by DoD Instruction 5010.40. The Army, the Navy, the Air Force, and DLA did not have adequate procedures in place to ensure the accuracy of DOT quarterly billings. In addition, DLA did not have adequate controls in place to ensure that personnel with DLA parking permits were not issued transit subsidies. The recommendations in this report, if implemented, will improve controls over transit subsidies at the Army, the Navy, the Air Force, and DLA.

Adequacy of Management's Self Evaluation. The Army, the Navy, the Air Force, and DLA did not identify transit subsidies as an assessable unit, and, therefore, did not identify or report the material control weaknesses identified by this audit. However, in responding to this report, DLA stated that Mass Transit has been included as a core objective in their FY 2004 Management Control Plan.

Prior Coverage

No prior coverage has been conducted on transit subsidies during the last 5 years.

Appendix B. Review of Allegations

Allegation 1. Billing information received from DOT was incomplete and did not include sufficient details to facilitate the reconciliation of quarterly DOT billings. Once sufficient details were provided, reconciliations revealed names of personnel that were not employed by that DoD agency, including a contractor. In addition, WHS would not credit the agency for discrepancies identified in the reconciliation process.

Partially substantiated. Although the complainant's reconciliations identified names of employees that did not belong to that agency, the complainant could not provide any documentation to show that the identified personnel were contractors. Since the transit subsidy program inception in October 2000, DOT has provided WHS with quarterly reports for each DoD agency that contained the names of employees receiving transit benefits and the amount of benefits received. WHS distributes the listings to each Service and agency and requests funding based on the total quarterly distribution amount. According to WHS officials, it is each agency's responsibility to review the list of employees it is being charged for. If an agency identifies an employee who is not on its roster, it must contact DOT so that the employee can be removed from its list for future billings. An agency will continue to be charged for all employees until it has notified DOT of an error. From that point forward, the agency will not be charged for that employee. The complainant's agency did not start performing reconciliation's until the first quarter of FY 2003. Reconciliations of previous quarterly billings identified numerous individuals who did not belong to the agency. Had timely reconciliations been performed, those individuals would have been removed from the DOT quarterly billings. According to WHS officials, WHS has never been resourced for the management of the program and does not have the staff to deal with retroactively giving credits to agencies.

Allegation 2. Controls have not been established to ensure that employees do not receive transit subsidies while receiving subsidized parking.

Partially substantiated. Employees with subsidized parking are required to relinquish their parking permits in order to receive transit subsidies. All applicants are required to certify on their applications that they are not receiving subsidized parking and that they will relinquish subsidized parking permits before or upon receipt of the fare benefit. DLA headquarters transit applications were not being checked against the DLA headquarters parking permit roster. The Army, the Navy, and the Air Force transit subsidy applications are checked against a central parking permit database to determine if a subsidized parking permit has been issued, and if so, the application is flagged and transit subsidies are not processed until parking permit is turned in. Since DLA headquarters personnel are not included in this database, DLA should verify each application against the DLA headquarters parking permit roster to ensure that personnel holding DLA parking permits do not receive transit subsidies as well.

Allegation 3. There is no requirement for transit subsidy applications to be signed by a point of contact at the parent organization to validate an applicants' employer.

Substantiated. The program requires employees within the NCR to submit their application to the DOT for approval. If the employee meets the criteria established by WHS, the application is approved and employee information is maintained in a DOT database. There is no requirement for the form to be signed by a point of contact at the employee's parent organization, nor is there any verification by DOT to validate the applicant's employer. DOT issues transit subsidies to employees on a quarterly basis when they provide DoD identification and the last four digits of their social security number. If ineligible individuals obtain transit subsidies, reconciliation of the DOT quarterly billing would identify those individuals.

Allegation 4. Because of inadequate controls, employees may receive vouchers and then give them to family members, sell the fare cards, or collect reimbursements and continue to drive to work and park in subsidized parking.

Substantiated. The transit subsidy program relies on the integrity of employees concerning the amount of their commuting costs and proper use of the subsidy. All potential participants are required to agree to the following statement:

I certify that I am eligible for a public transportation fare benefit, will use it for my daily commute to and from work, and will not transfer it to anyone else.

During our review, we were notified that a DoD employee was auctioning transit vouchers on the Internet. We referred the case to the Deputy Inspector General for Investigations, DoD for further review. Although there is some risk that individuals could sell, give away, or transfer their transit subsidy, we believe that implementing controls to prevent that type of misuse would not be cost-effective.

Appendix C. Report Distribution

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Department of the Army Comments



DEPARTMENT OF THE ARMY
ADMINISTRATIVE ASSISTANT TO THE SECRETARY OF THE ARMY
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WASHINGTON DC 20310-0105

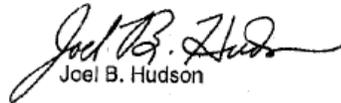
8 SEP 2003

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL, LOGISTICS
MANAGEMENT DIVISION II

SUBJECT: DoDIG Draft Report – Allegations Concerning Controls Over DoD Transit Subsidies
Within the National Capital Region (Project No. D2003LH-0096).

1. The subject report has been reviewed and our comments to the finding and recommendation are attached. Concurrence is given to the finding and recommendation.
2. Any questions or additional comments concerning this should be directed to my Internal Review Directorate (SAAA-JDRP-IR), attention Mr. Donald Friend, (703) 602-1959, Room 10E50 Taylor Building, Crystal City.

Encl


Joel B. Hudson

CF: USAAA (w/encl)

COMMAND REPLY

Heading: DODIG Report D2003LH-0096, Allegations Concerning Controls Over DoD Transit Subsidies Within the National Capital Region.

Finding: Controls over the Transportation Fringe Benefit Program within the Army, the Navy, the Air Force, and DLA need improvement. Specifically, Army and Air Force offices with transit subsidy responsibilities were not performing reconciliations of DOT quarterly transit subsidy billing statements and DLA was not ensuring that transit subsidy applicants relinquish subsidized parking permits. Those conditions occurred because the Military Departments and DLA did not develop policies and procedures regarding transit subsidy reconciliations. Also, DLA did not develop policies and procedures requiring that transit subsidy applications be checked against the DLA headquarters-parking roster. As a result, there is an increased risk that erroneous charges will not be detected and that ineligible personnel could obtain transit subsidies.

Additional Facts: None

Recommendation(s): 1. We recommend that the Assistant for Administration to the Under Secretary of the Navy; the Administrative Assistant to the Secretary of the Army; the Assistant Secretary of the Air Force (Financial Management and Comptroller); and the Director, Defense Logistics Agency develop policies and procedures requiring the reconciliation of all transit subsidy billings received from the Department of Transportation.

Action Taken/Planned: Concur. Army is currently in the process of working with WHS to develop a process to conduct reconciliations. Additionally, we are drafting policy and procedures requiring the reconciliation of all transit subsidy billings. The Army has identified the Transit Subsidy program as an assessable unit and we believe that the new policy and procedures will resolve the issue of the management control weakness as addressed in Appendix A.

Target Date: 30 March 04

Potential Monetary Benefits: None

Department of the Navy Comments

Final Report
Reference



DEPARTMENT OF THE NAVY
OFFICE OF THE UNDER SECRETARY
1000 NAVY PENTAGON
WASHINGTON, D.C. 20350-1000

1 September 2003

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING, DEPARTMENT
OF DEFENSE

Subj: COMMENTS ON DRAFT REPORT ON ALLEGATIONS CONCERNING
CONTROLS OVER DOD TRANSIT SUBSIDIES WITHIN THE NATIONAL
CAPITAL REGION (PROJECT NO. D2003LH-0096)

Ref: (a) Your Letter of 1 August 2003, Same Subject

We welcome your review of our management controls over the transit subsidies program. In general, we agree that a DoD-wide policy regarding reconciliation would be helpful. However, there are portions of the draft report that do not clearly portray the effectiveness of management controls observed by the auditors within the Department of the Navy. As such, we are providing the following comments as requested in reference (a).

The Executive Summary provides a list of agencies needing improvements as well as a general overview of the nature and scope of the improvements required. The Department of the Navy is listed as one of the agencies requiring improvement, but there was no discussion in the Executive Summary or elsewhere identifying weaknesses in Navy internal controls indicative of those used to illustrate the opening thesis. Rather, the report verifies that the internal controls utilized within the Navy were adequate, but not documented. Since this review, the Navy has addressed this concern, documenting the process in desk guides and including the transit subsidy as an assessable unit in the Management Control Plan. We would ask that the report emphasize the Navy's success in its execution of internal controls in the transit subsidy program, and its subsequent efforts to address the concerns of the auditors.

Please direct any questions you may have regarding these comments to Bill O'Donnell or Julie Jackson at (703) 614-4290/1908.

Handwritten signature of John H. La Raia in cursive.

John H. La Raia
Assistant for Administration

Copy to:
NIG

Revised

Department of the Air Force Comments



DEPARTMENT OF THE AIR FORCE
OFFICE OF THE CHIEF OF STAFF
WASHINGTON, DC 20330

17 SEP 2003

MEMORANDUM FOR THE INSPECTOR GENERAL

FROM: SAF/FMB

SUBJECT: Draft of Proposed Report "Allegations Concerning Controls over DoD Transit Subsidies Within the National Capital Region," (Project Code D2003LH-0096)

We appreciate the opportunity to respond to the draft of the proposed report as indicated above. We have thoroughly reviewed the report and concur with the one recommendation for the Air Force; to develop policies and procedures requiring the reconciliation of all transit subsidy billings received from the Department of Transportation.

If you have any questions or concerns, please contact Col Robbie Lowe, (703) 695-4865 or e-mail robbie.lowe@pentagon.af.mil


STEPHEN R. LORENZ, Maj Gen, USAF
Deputy Assistant Secretary (Budget)

Defense Logistics Agency Comments



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD
FORT BELVOIR, VIRGINIA 22060-6221

IN REPLY
REFER TO

SEP 25 2003

DSS-B

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: Draft Report on Allegations Concerning Controls Over DOD Transit
Subsidies Within the National Capital Region (Project No. D2003LH-0096)

Attached please find the Defense Logistics Agency (DLA) comments on your August 1, 2003, draft report on Allegations Concerning Controls Over DOD Transit Subsidies Within the National Capital Region (Project No. D2003LH-0096). If you have any questions regarding these comments, contact Ms. Kathy Elliott of the DLA Support Services Business Management Office, General Services Division at (703) 767-7380.

A handwritten signature in cursive script that reads "Mary L. Saunders".

MARY L. SAUNDERS
Major General, USAF
Vice Director

Attachment

Federal Recycling Program



Printed on Recycled Paper

Findings:

Under Reconciliation of Transit Subsidy Charges, the draft report states, "Although DLA did not start performing reconciliations until the first quarter of FY 2003, reconciliations are now consistently being performed. DLA reconciliations have been effective in identifying erroneous charges and ensuring the timely removal of listed employees that belong to other agencies. In addition, DLA is in the process of implementing other control measures to ensure that only DLA employees apply for and receive transit subsidies from DLA."

Comment: Concur. Reconciliation of bills from October 2002 through June 2003, has resulted in the identification of \$6,755.00 in erroneous charges. The reconciliation data has been shared with Washington Headquarters Services (WHS) as well as the program manager at Department of Transportation (DOT). Additional control measures will include a modified application for DLA employees and a change in process for application that will include all applications being reviewed at the DLA Business Office before forwarding to WHS.

Under Subsidized Parking the draft report states, "DLA was not ensuring that transit subsidy applicants relinquish subsidized parking permits because it had not developed policies and procedures requiring that subsidy applications be checked against the DLA headquarters parking permit roster. As a result, there was not assurance that DLA employees did not receive both transit and parking subsidies.

Employees with subsidized parking must relinquish their parking permits in order to receive transit subsidies. All applicants are required to certify on their applications they are not receiving subsidized parking and will relinquish subsidized parking permits before or upon receipt of the transit fare benefit.

Our review showed that DLA headquarters transit applications were not being checked against a central parking office database to determine whether a subsidized parking permit has been issued. Applicants identified as receiving subsidized parking are denied transit benefits until parking permits are turned in. Since DLA headquarters personnel are not included in this database, DLA should verify each application against the DLA headquarters parking permit roster to ensure that personnel with DLA parking permits are not issued transit subsidies."

Comment: Concur. A memorandum was prepared addressing this issue that required all participants to re-certify their participation in the program and turn in their parking decals, with all applications being processed through the DLA Support Services Business Management Office for review before further processing at Washington Headquarters Services. The memorandum cannot be issued until the local union has a chance to

negotiate the actions. This negotiation has not occurred due to the Master Labor Agreement negotiations. Until the Master Labor Agreement is ratified by the local unions, no conversations can take place with the union. A procedure has been developed where DLA security can identify those cars registered with Department of Defense decals, allowing the driver access to military bases, but not a parking decal.

Under Transit Subsidy Policies and Procedures, the draft report states, "The Military Departments and DLA do not have policies and procedures requiring the reconciliation of DOT quarterly billings prior to payment." The report further states, "Although the Navy and DLA are performing reconciliations, policies and procedures should be developed to ensure the continued effectiveness of transit subsidy reconciliations. In addition, the development of policies and procedures could enable Army, Navy, Air Force, and DLA transit subsidy officials to develop more streamlined approaches when performing future reconciliations."

"DLA also lacked policies and procedures requiring verification of transit applications against the DLA parking permit roster. DLA was not checking transit subsidy applications against the DLA parking permit roster in order to ensure that employees did not receive both transit and parking subsidies. At the time of our review, the DLA Management Control program manager had developed a draft policy memorandum that would require all DLA transit applications to be checked against the parking permit roster. Since DLA transit subsidy applications were not initially checked against the parking permit roster, the policy would require all DLA headquarters subsidy participants to re-register in the transit subsidy program to ensure that all participants are identified and verified against the parking roster. However, the issuance of this memorandum had been delayed in order to address a union concern regarding the DLA policy of requiring transit subsidy participants to re-register and turn in their parking decals. The DLA Management Control Program manager stated that without the signed memorandum instructing personnel to return parking permits; a check against the parking permit roster was not possible. We believe the issuance of this memorandum should not preclude DLA from checking transit subsidy applications and current transit subsidy recipients against the parking permit roster to ensure that employees do not receive both transit and parking subsidies."

Comment: Partially Concur: There is no current policy that addresses the parking permit decals. Actions to verify the participant list against the parking roster prior to release of the memorandum would be futile. Since the issue of subsidized parking had not been recognized before, it was not an accepted practice at DLA to turn in decals. Therefore, participants have retained their decals providing them with subsidized parking.

Recommendations:

1. Development of policies and procedures requiring the reconciliation of all transit subsidy billings received from the Department of Transportation.

Comment: Concur. Policy and procedures will be developed for the DLA participation in the program. The new policy will be posted on the DLA Support Services Webpage by December 1, 2003.

2. Recommend DLA develop a policy requiring all transit subsidy applications be checked against the DLA parking permit roster before being approved.

Comment: Concur. After ratification of the Master Labor Agreement and the successful negotiation of the memorandum addressing this issue, this will be DLA policy. Expected completion date is December 1, 2003, for issuance of memorandum and re-certification of DLA participants. This date is subject to change if the agreement is not ratified by October 30, 2003.

Appendix A:

Management Control Program Review:

The draft report states, "DLA did not have adequate procedures in place to ensure the accuracy of the DOT quarterly billings. In addition, DLA did not have adequate controls in place to ensure that personnel with DLA parking permits were not issued transit subsidies. The recommendations in this report, if implemented, will improve controls over transit subsidies at the Army, the Navy, the Air Force, and DLA."

Comment: Concur. Mass Transit was already identified as a program to be included as a core objective in the Fiscal Year 2004 DLA Management Control Program Plan.

Washington Headquarters Services' Comments



DEPARTMENT OF DEFENSE
WASHINGTON HEADQUARTERS SERVICES
1156 DEFENSE PENTAGON
WASHINGTON, DC 20301-1155



SEP 10 2003

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

Subject: Response to Report on Allegations Concerning controls Over DoD Transit Subsidies Within the National Capital Region (Project No. D2003LG-0096)

Your office issued a draft report on August 1, 2003 regarding the above subject program. Although Washington Headquarters Services (WHS) was not specifically asked to respond, as the program management office for the DoD National Capital Region Mass Transit Subsidy Program, we would like to offer the comments below.

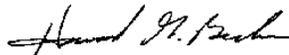
Page 5 "Transit Subsidy Policies and Procedures" indicates that some Components were unaware of the need or unsure how to verify monthly reports provided by WHS. In response, WHS (Budget and Finance Directorate) issued supplemental budget guidance to all DoD Components clarifying that they are responsible for verifying monthly participation reports and paying periodic bills (attached). WHS is responsible for overall program coordination, however we rely on each Component to verify detailed personnel listings. The decision on how to best reconcile the data is left to the individual Component, as internal procedures vary. The memorandum also requests that Components verify their budget points-of-contact for the subsidy program.

WHS program representatives have been working with the Components named in the report to facilitate reconciliation of their reports. Specifically, a joint meeting with Army, Air Force and the Navy was held to discuss policy and procedures for monthly reports. WHS is adjusting some procedures to assist the Components. For example, the application is being modified to reflect organization codes that better serve the Army. Also enrollment information is being provided electronically to the Air Force to facilitate matching transit data against Air Force personnel database. The Air Force successfully completed its first reconciliation beginning with the June monthly report.

WHS is researching use of the DoD Common Access Card (CAC) as identification for distribution of transit subsidy benefits. The intent is to increase the accuracy of employee organization information and reduce risk of ineligible persons receiving the benefit. The CAC uses Smartcard technology to encrypt employee information and instantly verifies the employee name, organization, whether they are military or civilian, contractor or otherwise. WHS is holding coordination/planning meetings with the DoD Smartcard administrators and DoD Components to develop short and long term plans to automate use of the CAC in administering benefits.



If there are any questions regarding these comments, please contact Mario Lopez,
WHS/REF/Management Support Division, at (703) 693-3768.



Howard G. Becker
Deputy Director

Attachment
As Stated



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



(Budget and Finance)

SEP -9 2009

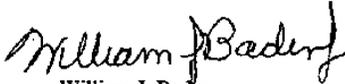
MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: DoD National Capital Region (NCR) Transit Subsidy Program – Supplemental Budget Guidance

In accordance with Executive Order 13150, DoD implemented the NCR Transit Subsidy Program in October 2000 (attachment A). This program provides DoD employees an incentive to use qualified mass transportation for their daily commute. Washington Headquarters Services (WHS) centrally runs this program for the NCR. WHS has an Interagency Agreement with Department of Transportation to administer the benefit program in the NCR. The Real Estate and Facilities Directorate, Management Support Division is the project management office in WHS for this program. The Budget and Finance Directorate (B&FD) in WHS manages the budget/billing for this program. Prior to the first distribution, WHS, B&FD issued funding guidance for the various DoD Components in August 2000 (attachment B).

This memorandum is to clarify budget guidance on the NCR program. WHS/B&FD issues monthly reports to DoD Components based on Department of Transportation records. All Components are responsible for reviewing and verifying these reports and providing any report discrepancies directly to DoT (cheri.johnson@ost.dot.gov) with a copy to Jon Tervo (itervo@bfd.whs.mil) and Alexis Olmsted (aolmsted@ref.whs.mil). Invoices are sent on a periodic schedule and should be paid timely. To ensure we are communicating with the correct contacts within your activities, please review the attached budget contact list and notify Jon Tervo of any changes (attachment C).

We appreciate your continued support of this program. If you have any budget questions, please contact Jon Tervo at (703) 614-1257. For general program issues, please contact Alexis Olmsted at (703) 693-3768.


William J. Bader
Director

Attachments
As Stated



* Omitted because of length. Copies will be provided upon request.

Team Members

The Readiness and Logistics Support Directorate, Office of the Deputy Inspector General for Auditing of the Department of Defense prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

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