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AUDIT REPORT

OFFICE OF AUDITS

INTERNAL CONTROLS OVER NASA'S TRANSIT
SUBSIDY PROGRAM AT HEADQUARTERS AND
GODDARD SPACE FLIGHT CENTER NEEDED
IMPROVEMENT

OFFICE OF INSPECTOR GENERAL



National Aeronautics and
Space Administration

Final report released by:

signed

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Acronyms

DoD	Department of Defense
GEWA	Goddard Employees' Welfare Association
GPR	Goddard Procedural Requirement
HRMD	Human Resources Management Division
IRS	Internal Revenue Service
NHQ	NASA Headquarters
NPD	NASA Policy Directive
OMB	Office of Management and Budget
SOP	Standard Operating Procedure
PFSS	Parking and Fare Subsidy System

OVERVIEW

INTERNAL CONTROLS OVER NASA'S TRANSIT SUBSIDY PROGRAM AT HEADQUARTERS AND GODDARD SPACE FLIGHT CENTER NEEDED IMPROVEMENT

The Issue

The National Aeronautics and Space Administration (NASA) Office of Inspector General initiated the audit of NASA's Transit Subsidy Program because we received information that NASA was providing transit subsidies to individuals who were not eligible to receive them. We conducted audit work at NASA Headquarters and at Goddard Space Flight Center (Goddard) to determine whether NASA had adequate internal controls over the transit subsidies distributed to employees in the National Capital Region. Details of the audit's scope and methodology are in Appendix A.

Results

The NASA Headquarters Human Resources Management Division (HRMD) needed to improve internal controls as well as establish additional internal controls over the transit subsidies that it distributes. HRMD's Standard Operating Procedure (SOP) provides guidance on eligibility requirements for the Transit Subsidy Program; however, the controls used to ensure compliance with eligibility requirements needed improvement. Specifically, for the period that we reviewed, April through June 15, 2006, we found that 428 of the 1,058 Transit Subsidy Program participants were not eligible to receive the subsidy. Those 428 participants consisted of 235 Center employees detailed to Headquarters, 4 individuals working at NASA under the Intergovernmental Personnel Act, 7 Department of Defense employees, 147 personnel no longer employed at NASA Headquarters, 28 personnel who were listed as eligible to receive both transit and parking subsidies, 4 NASA Headquarters personnel detailed to Centers, and 3 contractors.

Of the 428 ineligible participants, 62 received transit subsidies totaling \$16,122 during the April through June 2006 distribution period. Specifically,

- 49 of the 235 Center employees detailed to Headquarters received transit subsidies totaling \$13,502;
- 8 of the 147 personnel no longer employed at NASA Headquarters received transit subsidies totaling \$1,345;

- 3 of the 4 individuals working at NASA under the Intergovernmental Personnel Act received transit subsidies totaling \$675; and
- 2 of the 7 Department of Defense employees received transit subsidies totaling \$600.

The Transit Subsidy Program included ineligible participants because HRMD did not apply the eligibility requirements in accordance with its SOP.

HRMD also did not have internal controls to account for fare cards purchased, on hand, and distributed or to account for Smart Cards. Specifically, HRMD did not have procedures in place requiring the reconciliation of fare cards ordered to those received; the amount of fare cards on hand to the amount distributed and signed for; or the physical distribution (fare cards) to electronic distribution (Smart Cards). Internal controls for reconciliation are required in order to verify inventory, determine whether fare cards were accurately distributed, and ensure participants are not receiving duplicate subsidies (through both physical and electronic distribution). (See Finding A.)

Overall, the internal controls that Goddard established were effective; however, we found instances where controls for reconciling fare cards, updating the Transit Subsidy Program database, and safeguarding the fare cards either were nonexistent or could be improved. Specifically, Goddard's Transit Subsidy Program administrator did not reconcile the fare cards after each monthly distribution and Goddard had not established written procedures for reconciling undistributed fare cards. The net effect of not reconciling the fare cards for the 6-month period that we reviewed, January through June 2006, was a loss of \$995 in fare cards. Monthly reconciliations could ensure that Goddard identifies errors, theft, or abuse. Goddard also needed to implement a procedure to ensure that the program administrator is aware of all personnel departures in order to remove participants from the database. Finally, we found that Goddard was not adequately safeguarding the fare cards. Because fare cards can be used on the public transportation system or sold by anyone who possesses them, they need to be safeguarded and protected as if they were cash.

During the audit, Goddard's Management Operations Directorate, which administers the Transit Subsidy Program at Goddard, took immediate corrective actions to resolve the issues that we identified. Specifically, Goddard implemented reconciliation processes, established procedures for notifying the program administrator when program participants leave Goddard and for removing them from the database, and installed a safe to secure the fare cards. (See Finding B.)

Management Action

We recommended that HRMD recover the \$16,122 in erroneous transit subsidy distributions, ensure that participants comply with existing eligibility requirements,

correct the subsidy database, and develop a Headquarters directive for the Transit Subsidy Program.

In response to a draft of this report, the Assistant Administrator for Infrastructure and Administration nonconcurred with the recommendation to recover the \$16,122 in erroneous transit subsidy distributions, stating that it would not be cost-effective to recover the debt, and has directed HRMD to request a waiver. The Assistant Administrator concurred with the recommendations to ensure that participants comply with existing eligibility requirements, correct the subsidy database, and develop a Headquarters directive. See Finding A for our evaluation and disposition of management's comments on the draft report and Appendix B for the full text of management's comments.

We consider management's comments to be responsive to the intent of our recommendations, and they are resolved. The recommendation to correct the subsidy database is closed, and we will close the others upon verification that the corrective actions have been completed.

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INTRODUCTION

Background

Executive Order. The President issued Executive Order 13150, “Federal Workforce Transportation,” on April 21, 2000, to expand Federal employees’ commuting alternatives in an effort to reduce employees’ contribution to traffic congestion and air pollution. The Executive Order requires that Federal agencies implement a Transportation Fringe Benefit Program (Transit Subsidy Program) for their qualified Federal employees in the National Capital Region.¹ The Transit Subsidy Program encourages the use of mass transportation and vanpools by providing transit passes up to the amount of an employee’s commuting costs, not to exceed the maximum level allowed by the Internal Revenue Service (IRS). As of October 2006, the maximum amount allowed was \$105 a month.

NASA Transit Subsidy Program. NASA established a Transit Subsidy Program and related policy in 1991 based on General Services Administration Bulletin FPMR D-227, issued on July 11, 1991. NASA updated its policy in 1995 to incorporate requirements in Public Law 103-172, “Federal Employees Clean Air Incentives Act,” and again in 2000 to implement Executive Order 13150. NASA’s Transit Subsidy Program for the National Capital Region allows qualified civil service employees at NASA Headquarters and Goddard Space Flight Center (Goddard) to receive transit subsidies up to the equivalent of their commuting costs, not to exceed the IRS-established limit. At Headquarters, the Human Resources Management Division (HRMD), under the Associate Administrator for Institutions and Management, administers the Transit Subsidy Program. Goddard’s Information and Logistics Management Division, within the Management Operations Directorate, administers the Transit Subsidy Program at Goddard.

In March 2007, NASA Headquarters reported 760 participants in the Transit Subsidy Program at a monthly cost of about \$76,151 and Goddard reported 107 participants at a monthly cost of about \$11,125. NASA procures the transit passes at cost from the Washington Metropolitan Area Transit Authority (Metro).

Internal Control Requirements

The Office of Management and Budget (OMB) Circular No. A-123, “Management’s Responsibility for Internal Control,” December 21, 2004, paragraph 4, states that Federal

¹ The Executive Order defines the National Capital Region as the District of Columbia; the Maryland Counties of Prince George’s and Frederick; the Virginia Counties of Arlington, Fairfax, Loudoun, and Prince William; “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.”

agency management must take systematic and proactive measures for establishing, assessing, correcting, and reporting on internal controls to improve the accountability and effectiveness of programs. In addition, paragraphs I, II, and III of the Circular state that management is responsible for establishing and maintaining internal controls such as approvals, authorizations, verifications, reconciliations, performance reviews, and maintaining records and documentation.

NASA Policy Directive (NPD) 1200.1D, “NASA Internal Control and Accountability,” May 15, 2006, paragraph 1.a, states that NASA management will establish controls to provide reasonable assurance that

- managed activities achieve their intended results;
- managed activities are protected from waste, fraud, unauthorized use, misappropriation, and mismanagement;
- resources are used consistent with NASA’s mission;
- laws and regulations are followed; and
- reliable and timely information is obtained, maintained, reported, and used for decision-making.

Paragraph 1.d(5) states that managers will periodically evaluate the effectiveness of existing controls over operations and processes using internal and external audits.

Objective

Our objective was to determine whether NASA Headquarters and Goddard had adequate internal controls over the transit subsidies they distribute in the National Capital Region. See Appendix A for details of the audit’s scope and methodology and a list of prior coverage.

Other Matters of Interest

During our audit, we performed a review of the NASA Headquarters Parking Subsidy Program to ensure that employees were not participating in both programs. We found that a contractor had received a parking subsidy. According to NPD 1541.2J, “Criteria for the Assignment of Parking Permits and Parking Procedures,” July 29, 2003, Attachment A, paragraphs 1.a and 2, NASA-subsidized parking is limited to qualified Headquarters civil service employees only. Initially, a qualified civil service employee signed up to receive subsidized parking and included a contractor as a participating carpooler. The qualified employee departed NASA on March 18, 2006, but did not return the parking pass to NASA.

The contractor continued using the parking pass for the remainder of March 2006 and from April until August 10, 2006, when she turned the parking pass over to NASA.

NASA Parking Subsidy Program participants pay for a subsidized parking pass on a quarterly basis. For two quarters (April through June 2006 and July through September 2006), the contractor paid the subsidized parking fee of \$120 per quarter. However, the contractor should have paid the \$12 daily rate.

In August 2006, we notified the Director, Facilities and Administrative Services Division, that the contractor should be removed from the Parking Subsidy Program, that NASA should seek reimbursement for the time period that the contractor improperly received subsidized parking, and that the Division should implement internal controls to prevent this from occurring in the future. The Director took immediate action by removing the contractor from the Parking Subsidy Program and recovered \$1,068 from the contractor.

FINDING A: INTERNAL CONTROLS AT NASA HEADQUARTERS NEEDED IMPROVEMENT

HRMD did not establish adequate internal controls over the Transit Subsidy Program. Specifically, for the period that we reviewed, the April through June 2006 distribution period, 428 of the 1,058 participants (40 percent) were not eligible to receive transit subsidies but were included in the program because HRMD did not comply with NASA Headquarters (NHQ) Standard Operating Procedure (SOP), "Fare Subsidy," October 30, 2003. In addition, HRMD did not

- reconcile fare cards and tokens HRMD received to the vendor invoices,
- reconcile physical distribution (fare cards) to electronic distribution (Smart Cards),
- adequately reconcile the quarterly physical distribution, and
- adequately account for Smart Cards.

HRMD did not perform those internal controls because they were not included in the SOP. As a result, HRMD distributed \$16,122 in transit subsidies to 62 ineligible participants during the distribution period.

Headquarters Transit Subsidy Program Guidance

The SOP describes the Transit Subsidy Program, defines eligibility requirements, and specifies program limitations. Specifically, the SOP includes the following guidelines:

- Appropriated funds may be used, if available, and if the subsidy does not exceed the IRS limit.
- The program is open to NASA Headquarters civil service employees. Detailees, Center employees participating in training programs at Headquarters, consultants, contractors, and other personnel who are not on NASA Headquarters' payroll are not considered Headquarters employees. However, Center employees whose duty station is NASA Headquarters may receive the subsidy.
- Eligible personnel must use the approved means of transportation to and from work at least 10 days during the month.
- Personnel cannot receive subsidized parking as well as the transit subsidy.

Headquarters Transit Subsidy Program

HRMD administers the Transit Subsidy Program at Headquarters. For the period that we reviewed, April through June 15, 2006, HRMD reported 1,058 participants in the Transit Subsidy Program.

Participants in the program can receive their transit subsidy through physical distribution or electronic distribution. If the participant chooses physical distribution, then the participant receives transit subsidies in the form of fare cards and tokens, which HRMD personnel distribute in the NASA Headquarters lobby each quarter. For electronic distribution, the participant chooses the Smart Benefits Option. HRMD implemented the Smart Benefits Option in December 2005 and provided each participant choosing electronic distribution with a Smart Card. Participants download their authorized transit subsidy directly from a Metro kiosk each month. Of the 1,058 participants in the Headquarters Transit Subsidy Program, 199 (18.8 percent) chose the Smart Benefits Option.

To enroll in the Transit Subsidy Program, an employee must complete NHQ Form 201, "Application for Transit Benefit." For the Smart Benefits Option, the employee must also complete NHQ Form 300, "NASA HQ Transit SmartBenefit Enrollment/Change Application." HRMD personnel review submitted applications for completeness; accept completed applications; and, if approved, enter the information into the Parking and Fare Subsidy System (PFSS) database. Both Transit Subsidy Program and Parking Subsidy Program personnel can access the PFSS database (read access); however, they can make changes only in their respective program area (write access). If an employee chooses the Smart Benefits Option, HRMD personnel input the participant's name, Smart Card number, and authorized monthly amount into Metro's Smart Benefits Program database. Although Metro owns and maintains that database, HRMD has access to NASA's information within the database and can generate reports as needed.

In September 2004, Goddard² awarded a firm-fixed-price, indefinite-quantity contract to Metro for \$718,000. Under that contract, NASA Headquarters purchases, at cost, fare cards, tokens, and Smart Cards from Metro. The contract has a performance period of 5 years and a ceiling of \$8 million. As of January 2007, the contract totaled \$2.59 million (\$1.13 million was added in September 2005 and \$742,000 was added in January 2007).

² Goddard issued the contract for NASA Headquarters.

Ineligible Personnel Were Included in the Transit Subsidy Program

HRMD did not have adequate internal controls over the Transit Subsidy Program at NASA Headquarters. Specifically, HRMD allowed ineligible employees to participate in the Transit Subsidy Program. During the April through June 2006 distribution period, 428 of the 1,058 participants (40 percent) were not eligible. As a result, HRMD distributed transit subsidies totaling \$16,122 to 62 individuals who were not eligible to participate in the program, as shown in Table 1.

Table 1. Distribution of Transit Subsidies to Ineligible Participants During the April through June 2006 Distribution Period			
<u>Ineligible Participants</u>	<u>In Database</u>	<u>Number Who Received Subsidy</u>	<u>Subsidy Distributed</u>
Center employees detailed to Headquarters	235	49	\$13,502
Individuals under the Intergovernmental Personnel Act ^a	4	3	675
Department of Defense (DoD) employees under a reimbursable agreement ^b	6	1	300
DoD employees under a non-reimbursable agreement ^c	1	1	300
Employees no longer employed at Headquarters	147	8	1,345
Employees in both Transit Program and Parking Program	28	0	0
Headquarters detailees	4	0	0
Contractors	3	0	0
Total	428	62	\$16,122
^a The Intergovernmental Personnel Act allows for the assignment of personnel between the Federal Government and non-Federal entities. Personnel at NASA under this program are not on the Headquarters' payroll and, therefore, are not eligible for the subsidy. ^b DoD continues to pay the employee's salary, and NASA reimburses DoD. ^c DoD continues to pay the employee's salary, and NASA does not reimburse DoD.			

Distribution of subsidies to ineligible participants occurred because HRMD did not comply with the eligibility requirements in the NHQ SOP and did not coordinate requirements for the Transit Subsidy Program with other Headquarters offices. Specifically, HRMD did not ensure that applicants were civil service employees officially assigned to Headquarters and did not update the PFSS database to reflect personnel actions in a timely manner.

Center Employees Detailed to Headquarters. We identified 235 employees listed in the PFSS database that had duty stations other than Headquarters and, therefore, were not eligible for the Transit Subsidy Program. Of the 235 employees, 49 (20.9 percent) received benefits totaling \$13,502 during the April through June 2006 distribution period. The SOP states that the Transit Subsidy Program is only available to Headquarters civil service employees and that detailees are not eligible, with the following exception:

Employees of other NASA Centers who are duty stationed at NASA Headquarters may also receive the fare subsidy. These employees will be required to furnish the Headquarters Human Resources Management Division with a copy of their Standard Form 50 (Notification of Personnel Action) documenting their official duty station in order to be eligible.

The SOP does not define a detailee. However, the Office of Personnel Management Operating Manual Update 45, "The Guide to Processing Personnel Actions," August 6, 2006, Chapter 14, section 2(f), describes a detailee as an employee who is considered for pay and strength count purposes to be permanently occupying his or her regular position. The Manual also states, "Unless the agency chooses to use a Standard Form 50 (Notification of Personnel Action), a detail . . . is documented with a Standard Form 52, Request for Personnel Action."

HRMD did not request copies of either Standard Form (50 or 52) to document Headquarters as the employees' official duty station; documentation is required by the SOP. In addition, HRMD did not have procedures in place to receive notification when the official duty station of a Headquarters employee changes. According to the SOP, if a participant does not pick up his or her transit subsidy for more than two consecutive quarters, HRMD is required to remove the participant from the database.

Participants Not NASA Civil Service Employees. HRMD approved 11 participants who were not NASA civil service employees and, therefore, were not eligible to receive transit subsidies. The ineligible participants were approved because HRMD personnel did not properly apply the eligibility requirements of the SOP, which states that the Transit Subsidy Program is open only to NASA Headquarters civil service employees. Consultants, contractors, and other personnel who are not on NASA Headquarters' payroll are not considered Headquarters employees. Of the 11 ineligible participants, 7 were Department of Defense (DoD) employees on detail to NASA. The SOP does not address transit subsidies for military detailees, and we were unable to identify any policy or procedure that did.

Of the seven DoD employees, six were military officers temporarily assigned to Headquarters. These officers were officially detailed to the astronaut program at Johnson Space Center, Texas, on a reimbursable basis. One of the six received transit subsidies from NASA totaling \$300. Because the six military officers' official duty station is Texas, they do not meet the eligibility requirements as stated in the SOP. The seventh DoD employee, a military liaison officer, was assigned to NASA Headquarters and the Pentagon on a non-reimbursable basis. He also received transit subsidies from NASA

totaling \$300. The Executive order allows military personnel within the National Capital Region to receive transit subsidies. However, the officer was not entitled to receive NASA transit subsidies because he was not a NASA employee nor was he working on a reimbursable basis. As of March 21, 2007, HRMD had not removed the DoD employees from the database because HRMD was still assessing whether a policy change was needed.

Of the four individuals working at NASA under the Intergovernmental Personnel Act, three received subsidies, for a combined total of \$675, during the April through June 2006 distribution period. In November 2006, HRMD removed the four Intergovernmental Personnel Act employees from the PFSS database.

Ineligible Participants Included in PFSS Database. The PFSS database listed 182 participants who should not have been in the database because they were not eligible to receive transit subsidies:

- 147 were no longer employed at Headquarters. As of March 21, 2007, HRMD was in the process of removing their names from the database.
- 28 were listed as eligible to receive both transit and parking subsidies. As of March 21, 2007, HRMD was in the process of contacting each of the participants to verify which program they had chosen.
- 4 were listed as NASA Headquarters personnel, but had been detailed to a NASA Center.
- 3 were contractors. HRMD removed their names from the PFSS database in November 2006.

None of these 182 participants received transit subsidies during the April through June 2006 distribution period.

The SOP states that failure to pick up the transit subsidy for two consecutive quarters will result in termination of eligibility, unless HRMD approves an exception. In addition, NASA Headquarters requires each departing employee to complete an NHQ Form 60, "Final Checkout Record." NHQ Form 60 requires an HRMD sign-off showing that the employee turned in unused fare cards, tokens, or Smart Cards. HRMD received the NHQ Form 60 for the 147 participants who departed NASA; however, HRMD did not remove them from the PFSS database in a timely manner.

In addition, the SOP states that an employee who is receiving another form of transportation subsidy, such as subsidized parking at Headquarters or any other Federal agency's garage, is not eligible to receive the transit subsidy. HRMD has an internal control in place within the PFSS database that flags any participant listed in one of the programs who attempts to participate in the other. HRMD can override this internal

control to facilitate changing a participant from one program to the other. However, both Transit Subsidy Program personnel and Parking Subsidy Program personnel allowed participants to change between the two programs without completing the proper NHQ Form 202, "Request for Change in Commuting Status," and without removing participants from the database of the program that they were leaving.

Transit Subsidy Program Assets Were Not Adequately Accounted For

HRMD did not properly implement internal controls to reconcile and account for Transit Subsidy Program assets. The Transit Subsidy Program provides fare cards and tokens; anyone who possesses them can use the cards or tokens on public transportation or can sell them. Therefore, HRMD should account for and safeguard fare cards and tokens in the same manner as cash. Paragraphs C and E of OMB Circular A-123 state that management should have controls in place to help ensure that agency objectives are met and should monitor the effectiveness of internal controls in the normal course of business. In addition, OMB calls for periodic reviews and reconciliations of data to be included as part of the regular assigned duties of program personnel. The NHQ SOP, however, does not require that the program manager perform any reconciliations or physical inventories. To supplement the SOP, HRMD developed internal procedures, the "Process to Manage the Fare Subsidy Program," describing responsibilities under the Transit Subsidy Program. Those internal procedures established the following positions:

- recordkeeper, to input information into the PFSS database.
- distributor, to issue fare cards and tokens during physical distribution.
- reconciler, to be responsible for inventory and preparing reconciliation memorandums.

However, HRMD did not implement adequate reconciliation procedures as described by OMB Circular A-123 to safeguard Transit Subsidy Program assets.

Reconciliations To Metro Invoices Not Performed. HRMD did not adequately reconcile the fare cards and tokens actually received from Metro to the purchase orders or invoices. When the fare cards and tokens ordered from Metro arrive, the reconciler compares the invoices to the bill of lading, but not to the inventory by counting the fare cards and tokens actually received. HRMD should reconcile the fare cards and tokens actually received to the invoices and report any discrepancies.

This deficiency was previously identified in an HRMD internal risk assessment, "Fare Subsidy Program Controls, Risk Assessment, Recommendations, and Management Response," November 3, 2004. The risk assessment recommended that the recordkeeper and reconciler jointly receive the transit subsidies and jointly count them. Once the count

is complete, the reconciler should place the fare cards and tokens in the safe. HRMD partially implemented that recommendation. The internal procedures only require the reconciler to receive and approve all invoices from Metro before placing them in the safe. The reconciler's responsibilities do not include verifying that the fare cards and tokens actually received match the invoice. As a result, NASA had no assurance that the inventory reported on the invoices was actually received.

Reconciliations of Quarterly Distributions Not Adequately Performed. HRMD did not reconcile the amount of distributed fare cards and tokens with the amount signed for by participants. Specifically, the distributor did not maintain a running total of fare cards and tokens distributed to reconcile with the signature sheet. Such a control is required in order to determine whether fare cards and tokens were accurately distributed and also is needed to determine whether a variance exists.

This deficiency was also identified in the HRMD internal risk assessment. The risk assessment recommended that HRMD appoint a reconciler who would be responsible for determining whether the distributed subsidies corresponded to the amount signed for. In addition, the assessment recommended that the reconciler be responsible for preparing a quarterly memorandum to provide documentation of fare cards and tokens on hand, the dollar value of cards and tokens distributed, and an ending balance. HRMD partially implemented that recommendation. Specifically, the reconciler prepares a quarterly reconciliation certification memorandum. However, HRMD does not reconcile the number and dollar value of fare cards and tokens distributed to the dollar value signed for. Instead, the memorandums simply show the ending balance from the previous period and the balance on hand, noting orders placed when applicable. Information on amounts distributed is arrived at through those numbers, not by any documentation of actual distribution. In addition, the reconciler's certification memorandum for the April through June 2006 distribution period does not include the number of fare cards and tokens distributed. Because HRMD does not maintain documentation that shows the dollar value of fare cards and tokens actually distributed, we could not perform a reconciliation to determine whether differences existed. This occurred because the SOP does not include a requirement for the distributor and reconciler to perform those tasks. As a result, HRMD was not fully accounting for transit subsidies.

Reconciliations of Physical and Electronic Distribution and Databases. HRMD did not reconcile the physical distribution (fare cards) to the electronic distribution (Smart Cards) to ensure that individuals did not receive duplicate subsidies. As a result, six participants received a physical distribution and an electronic distribution, totaling \$1,330, during the April through June 2006 distribution period. HRMD could not provide documentation to support either the physical or the electronic subsidies.

In addition, HRMD did not reconcile the databases used for the Smart Benefits Option. Specifically, our comparison of Metro's Smart Benefits Program database with the PFSS database showed that 34 participants' subsidy amount was higher in the Metro database than in PFSS, with a combined difference of \$290 per month. Also, 14 participants listed

in the Metro's Smart Benefits Program database were not listed in the PFSS database. HRMD personnel could not explain the differences between the databases. As of January 31, 2007, HRMD had not corrected the PFSS database for the 34 participants' electronic distribution or added the 14 participants to the PFSS database.

Accountability of Smart Cards Not Maintained. HRMD did not maintain full accountability of Smart Cards. Specifically, HRMD did not have records documenting the number of Smart Cards initially purchased from Metro, the number distributed, or the number in the safe. Although HRMD maintained a listing of damaged or returned Smart Cards, the listing was incomplete because HRMD did not always collect and maintain complete information for Smart Cards that were reissued, such as who the card was reissued to, the justification, or the date of each transaction. We identified three Smart Cards that HRMD recorded as reissued from one person to another; however, those cards were not included in the active Smart Card lists generated by Metro's database for the April through June 2006 distribution period. Therefore, HRMD did not know whether any of the Smart Cards were missing.

HRMD Policy Is Out of Date

HRMD had not updated its October 2003 SOP to reflect subsequent changes in the Transit Subsidy Program. Specifically, the SOP addresses the physical distribution of fare cards and tokens but does not include guidance on the Smart Benefits Option, which was implemented in December 2005. In addition, the internal procedures HRMD developed in 2005 had not been incorporated in the SOP. Also, the SOP does not include HRMD roles and responsibilities; guidance for the periodic and timely updating of the PFSS database; or inventory and reconciliation procedures.

Recommendations, Management's Response, and Evaluation of Management's Response

Recommendation 1. The Director, HRMD, should recover from the 62 ineligible participants the \$16,122 they received as transit subsidies.

Management's Response. The Assistant Administrator for Infrastructure and Administration nonconcurred, stating that HRMD agreed that it had made an administrative error when it erroneously provided transit subsidy payments to ineligible personnel, but that HRMD planned to request a waiver from collecting the funds. The Assistant Administrator stated that it may not be possible to locate all 62 individuals and that it would be very labor intensive and not cost-effective to recover the debt. The debt collection costs for NASA Headquarters range from \$400 to \$500 per case and would cost NASA anywhere from \$24,800 to \$31,000 to collect the \$16,122. HRMD plans to implement proper checks and balances to ensure future integrity of the program.

Evaluation of Management's Response. Management's comments are responsive. We agree that it would be difficult and may not be cost-effective to seek reimbursement from the 62 ineligible personnel. In addition, since funding may have been authorized under travel orders and our audit work did not extend to reviewing travel vouchers, we surmise that the subsidies may have defrayed NASA travel costs. Therefore, we consider that the implementation of controls to prevent erroneous distribution of transit subsidies is sufficient to resolve the recommendation. We will close it upon receipt of the approved waiver and verification that checks and balances have been put into place. We request that management provide us with an estimated completion date for the proposed corrective action.

Recommendation 2. The Director, HRMD, should verify that all Transit Subsidy Program participants are NASA Headquarters civil service employees or have an SF-50 showing Headquarters as their official duty station.

Management's Response. The Associate Administrator concurred, stating that HRMD recognized that its internal controls needed improvement. HRMD will update the NHQ SOP to clarify eligibility requirements. In addition, HRMD will ensure that enrollment forms are prepared in compliance with Headquarters policy and verification of employee status is conducted when HRMD receives an NHQ Form 201 or NHQ Form 300.

Evaluation of Management's Response. Management's comments are responsive. We consider the recommendation to be resolved and will close it upon verification that the SOP has been updated or incorporated into the Headquarters policy directive addressed in Recommendation 4. We request that management provide us with an estimated completion date for the proposed corrective action.

Recommendation 3. The Director, HRMD, should correct the PFSS database to include all current participants and the accurate dollar value of transit subsidies received.

Management's Response. The Assistant Administration concurred, stating that, subsequent to the audit, HRMD conducted a 100 percent review of the PFSS database and updated it to ensure that all active participants met eligibility requirements and the correct dollar amounts were recorded.

Evaluation of Management's Response. Management's comments are responsive. We consider the recommendation to be resolved and closed.

Recommendation 4. The Director, HRMD, should develop a Headquarters policy directive for the Transit Subsidy Program, which

- a. incorporates guidance relating to military detailees;
- b. defines the process, including internal controls, for administering and monitoring the Transit Subsidy Program, including the Smart Benefits Option; and

- c. establishes a monitoring or review process.

Management's Response. The Assistant Administrator concurred, stating that HRMD is in the process of reviewing its current process and policies to ensure that adequate internal controls are in place, management and administration of the program is sound, and inventory is accounted for.

Evaluation of Management's Response. Management's comments are responsive. The recommendation is resolved but will remain open until the revised guidance is issued. We request that management provide us with an estimated completion date for the proposed corrective action.

FINDING B: INTERNAL CONTROLS AT GODDARD NEEDED IMPROVEMENT

Goddard officials had established effective internal controls over the Transit Subsidy Program; however, additional controls were needed. Specifically, we determined that Goddard officials

- did not reconcile fare cards after each distribution period to the beginning and ending balances because there was no requirement to do so,
- did not remove ineligible employees from the PFSS database because the program administrator was not notified when employees left Goddard, and
- did not adequately safeguard the fare cards.

As a result of the inadequate or missing controls, Goddard had an increased risk that ineligible participants could obtain transit subsidies and that fare cards could be lost. During the audit, Goddard took immediate corrective actions to reduce the risk.

Goddard Guidance on the Transit Subsidy Program

Goddard Procedural Requirement (GPR) 9730.1A, "Transportation Fringe Benefit Program for Employees Utilizing Public Mass Transportation," January 10, 2005, is the Goddard implementing guidance for the Transit Subsidy Program. The GPR states that the Transit Subsidy Program is open to Goddard civil service employees, including employees who are part-time, term, temporary assignment group, temporary, and in the Cooperative Education Program. Detailees, consultants, contractors, and other employees who are not on Goddard's payroll are not considered Goddard employees and are not eligible for the subsidy. Although GPR 9730.1A expired on February 28, 2006, Goddard considered it applicable until GPR 9730.1B, "Transportation Fringe Benefit Program," was issued on January 8, 2007.

Goddard Transit Subsidy Program Summary

Goddard's Information and Logistics Management Division, within the Management Operations Directorate, administers the Transit Subsidy Program at Goddard. Goddard issued \$115,000 in fare cards from August 1, 2005, through July 31, 2006. Goddard procures the fare cards at cost from Metro. The Transit Subsidy Program administrator provides the fare cards to the Goddard Employees' Welfare Association (GEWA) Exchange store. Exchange store personnel distribute the fare cards each month to

participating employees and maintain the certification logs and undistributed fare cards. The program administrator instituted various internal controls, to include

- using the Goddard badging database to verify that applicants are Goddard civil service employees,
- counting the fare cards received from Metro and reconciling inventory to the number and dollar value of fare cards ordered,
- obtaining a receipt for the number and dollar value of the fare cards provided to GEWA, and
- requiring participants to show their Goddard badge and sign a certification sheet showing that the subsidy was received.

Overall, the internal controls that Goddard established were effective; however, we found instances where controls for reconciling fare cards, updating the Transit Subsidy Program database, and safeguarding the fare cards either were nonexistent or could be improved.

Fare Card Reconciliation Not Performed

The Transit Subsidy Program administrator did not reconcile the fare cards after each monthly distribution because there was no requirement to do so. GPR 9730.1A did not require that reconciliations be performed after every distribution period. In addition, neither the Information and Logistics Management Division nor GEWA had written procedures for GEWA's processes for reconciling undistributed fare cards. We performed the reconciliations for January through June 2006 using existing Goddard documentation, as shown in Table 2.

<u>Month</u>	<u>Beginning Balance</u>	<u>Less Value Distributed</u>	<u>Ending Balance</u>	<u>Actual Ending Balance</u>	<u>Difference</u>
January	\$10,990	\$8,055	\$2,935	\$2,625	(\$ 310)
February	10,630	7,635	2,995	2,860	(135)
March	11,100	8,265	2,835	2,835	0
April	10,890	7,895	2,995	2,695	(300)
May	10,940	7,790	3,150	3,255	105
June	10,940	8,105	2,835	2,480	(355)
Total	\$65,490	\$47,745	\$17,745	\$16,750	(\$995)

The net effect of the 6-month period was a loss of \$995 in fare cards. Internal controls were needed to safeguard Goddard assets and to ensure that fare cards were properly

accounted for. Monthly reconciliations would help ensure that Goddard identifies errors, theft, and abuse.

Management Action. Goddard took corrective action and began performing monthly reconciliations in July 2006. In addition, Goddard issued a new “Transit Subsidy Program Desk Guide” on November 16, 2006, which included reconciliation procedures. Because Goddard took corrective actions, we are not making a recommendation.

Transit Subsidy Database Not Updated

The program administrator did not update the PFSS database to remove employees who were no longer eligible for the benefit. GPR 9730.1A, paragraph 4.c(2), states that failure to pick up a transit subsidy for 3 consecutive months results in termination of eligibility. If a participant does not pick up a subsidy for 3 consecutive months, then the administrator’s practice was to contact the person to determine whether the person should remain in the Transit Subsidy Program. If warranted, the program administrator removed the person from the PFSS database. However, the program administrator was not performing that function.

As of July 10, 2006, the database contained 108 Goddard participants. We determined that 4 (3.7 percent) no longer worked at Goddard and that 3 of the 4 participants had been inactive for five consecutive distribution periods. Although Goddard’s Human Resources Office does not notify the program administrator when a civil service employee leaves Goddard, the program administrator should have identified them by reviewing the certification logs and removed them from the PFSS database.

Goddard needed to implement a procedure to ensure that the program administrator is aware of all departures and can remove departing participants from the PFSS database. Removing participants from the database is important to ensure that ineligible personnel do not receive transit subsidies.

Management Action. Goddard took corrective action by including procedures for removing personnel from the PFSS database in the Desk Guide. Specifically, the Desk Guide now requires the program administrator to provide a PFSS database listing to the Passport Agent each month and the Passport Agent to notify the program administrator if anyone on the list leaves Goddard. Because Goddard took appropriate corrective action, we are not making a recommendation.

Fare Cards Not Adequately Safeguarded

The Information and Logistics Management Division was not adequately safeguarding the fare cards. GPR 9730.1A, paragraph 2.a.(2), requires the Division to “develop and implement a procedure to ensure that funds, property, and other program assets are

properly accounted for and safeguarded against fraud, waste, abuse, mismanagement, or misappropriation.” In addition, the Government Accountability Office, “Standards for Internal Control in the Federal Government,” November 1999, states that an agency must establish physical control to secure and safeguard vulnerable assets—for example, security for and limited access to assets such as cash—which might be vulnerable to risk of loss or unauthorized use. At the time of our audit, the Transit Subsidy Program administrator locked the fare cards in a desk drawer. The dollar value of undistributed fare cards can range from about \$2,500 to \$11,000. Since fare cards can be used on the public transportation system or sold by anyone who possesses them, they needed to be safeguarded and protected as if they were cash.

Management Action. In November 2006, the Information and Logistics Management Division took the corrective action of installing a safe to store the fare cards. In addition, the Desk Guide was updated to include procedures on safeguarding fare cards. Because Goddard took appropriate corrective actions, we are not making a recommendation.

Scope and Methodology

We performed this audit at NASA Headquarters and Goddard from June 2006 through April 2007 in accordance with generally accepted government auditing standards. We reviewed and evaluated the internal controls associated with the Transit Subsidy Program at Headquarters and Goddard. We reviewed documentation dated from December 1991 through February 2007. To understand the requirements for the Transit Subsidy Program and internal controls, we reviewed applicable documents, including the following:

- Executive Order 13150;
- IRS requirements in section 132, “Certain Fringe Benefits,” title 26, United States Code;
- IRS requirements in the Code of Federal Regulations, title 26, parts 1 and 602, “Qualified Transportation Fringe Benefits”;
- OMB Circular A-123;
- Government Accountability Office publications: “Internal Control Management and Evaluation Tool,” August 2001, and “Standards for Internal Control in the Federal Government,” November 1999;
- NPD 1200.1B³ and NPD 1200.1D;
- NASA Policy Memorandum, “Policy on Fare Subsidy for NASA Employees Using Public Mass Transportation,” July, 7, 1995;
- NASA Policy Memorandum, “Transportation Fringe Benefit Program,” July 3, 2000;
- Headquarters Policy Directive 9730.1A;
- HRMD’s NHQ SOP; and
- Goddard’s GPR 9730.1A, GPR 9730.1B, and Desk Guide.

³ NPD 1200.1B was in effect for the distribution period that we reviewed. However, the criteria we used for our review remained the same in NPD 1200.1D.

At Headquarters, we interviewed personnel and obtained documentation from HRMD, the Facilities and Administrative Services Division, and the Procurement Operations Division. In addition, we met with the NASA DoD Affairs Manager concerning detailed military personnel and with the Integrated Enterprise Management Program Business Process and Application Support Office at Marshall Space Flight Center concerning the Federal Personnel/Payroll System. We observed the physical distribution of subsidies at Headquarters in September and December 2006.

At Goddard, we interviewed personnel and obtained documentation from the Information and Logistics Management Division and the GEWA Exchange store. We visited the GEWA Exchange store to assess safeguards for the distribution of the transit subsidies. We also interviewed Goddard Procurement Operations Division personnel regarding the contract with Metro.

Use of Computer-Processed Data. We used data generated from the PFSS database related to program participation. We assessed the reliability of the PFSS database by comparing the database's listing of Transit Subsidy Program participants as of June 15, 2006, with the Department of Interior's Federal Personnel/Payroll System listing of NASA Headquarters employees as of June 15, 2006, and Goddard employees as of July 10, 2006. We performed this comparison to determine whether the PFSS database contained only NASA Headquarters and Goddard civil service employees. Our findings address issues regarding the accuracy of the PFSS database.

In addition, we used information from Metro's Smart Benefits Program database to compare with the PFSS database's information on participants in NASA's Smart Benefits Option. We compared information from the two databases to determine whether all participants shown by Metro as receiving benefits were in the PFSS database and whether electronic distribution values matched that recorded in PFSS. Finding A addresses issues related to the electronic distribution of transit subsidies.

We did not perform tests to validate the accuracy of the information from the Federal Personnel/Payroll System database or Metro's Smart Benefits Program database. We do not believe that omissions of such tests had a material effect on our findings and conclusions.

Review of Internal Controls

We reviewed NASA Headquarters and Goddard policies, procedures, and internal controls related to the Transit Subsidy Program. We identified internal control weaknesses, which are discussed in Findings A and B of this report. For the internal control weaknesses identified at Headquarters (Finding A), our recommendations, if implemented, will improve controls over the Transit Subsidy Program. Goddard took immediate corrective actions to correct the internal control weaknesses we identified at Goddard (Finding B).

Prior Coverage

During the last 5 years, we found only one report applicable to the subject audit. HRMD issued an internal risk assessment, "Fare Subsidy Program Controls, Risk Assessment, Recommendations, and Management Response," November 3, 2004.

MANAGEMENT COMMENTS

National Aeronautics and Space Administration
Headquarters
Washington, DC 20546-0001



July 2, 2007

Reply to Attn of: Office of Infrastructure and Administration

TO: Assistant Inspector General for Auditing
FROM: Assistant Administrator for Infrastructure and Administration
SUBJECT: Response to Draft Audit Report "Internal Controls over NASA's Transit Subsidy Program at Headquarters and Goddard Space Flight Center Needed Improvement" (Assignment A-06-019-00)

In response to your memorandum of June 8, 2007, regarding Draft Audit Report A-06-019-00 entitled "Internal Controls over NASA's Transit Subsidy Program at Headquarters and Goddard Space Flight Center Needed Improvement," the Office of Infrastructure and Administration and the Management Operations Directorate at the Goddard Space Flight Center have reviewed the recommendations and comments. We appreciate your efforts to help NASA improve its program management activities. Management responses to the specific recommendations of the draft report are provided below:

OIG Recommendation

1. The Director, Headquarters Human Resources Management Division should recover from 62 ineligible participants the \$16,122 they received as transit subsidies.

NASA Management Response :

1. NASA management non-concurs with the recommendation. The erroneous transit subsidy payments were an administrative error on behalf of management and therefore, Headquarters Human Resources Management Division plans to request a waiver for the funds. Furthermore it may not be possible to locate all of these individuals. In addition, the debt recovery process will be very labor intensive, inequitable to the individual and not cost beneficial to the Agency. The debt collection costs NASA Headquarters would incur would be approximately \$400-\$500 per case to conduct. In this situation, it would cost NASA approximately \$24,800-\$31,000 to collect \$16,122. This would not be cost effective and certainly would not be advantageous to the government. Proper checks and balances will be implemented to ensure future integrity of the program.

OIG Recommendation

2. The Director, Headquarters Human Resources Management Division should verify that all Transit Subsidy Program Participants are NASA Headquarters Civil Servants or have an SF-50 showing Headquarters as their official duty station.

NASA Management Response:

2. NASA Management concurs with the recommendation. Headquarters Human Resources Management Division recognizes that internal controls need improvement. Our Headquarters Standard Operating Procedure dated October 30, 2003, will be revised to clarify eligibility requirements (detailees, Department of Defense employees, etc). In addition, Headquarters Human Resources Management Division will ensure that enrollment forms are in compliance with the Headquarters policy and verification of employee status is conducted when Headquarters Human Resources Management Division receives new Transit Benefit Enrollment forms or Change Application forms.

OIG Recommendation

3. The Director, Headquarters Management Division should correct the Parking Fare Subsidy System database to include all current participants and the accurate dollar value of transit subsidies received.

NASA Management Response

3. NASA Management concurs with the recommendation. Headquarters Human Resources Management Division has a dedicated staff member that receives the enrollment forms, verifies eligibility and maintains the transit database. Subsequent to the audit, we conducted a 100% review of the database and continue to update it daily to ensure that all active participants meet eligibility requirements and that all dollar amounts are accurately reflected.

OIG Recommendation

4. The Director, Headquarters Human Resources Management Division should develop a Headquarters policy directive for the Transit Subsidy program which,
- a. Incorporates guidance relating to military detailees;

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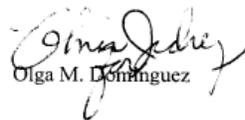
- b. defines the process, including internal controls, for administering and monitoring the transit subsidy program, including the Smart Benefits Option; and
- c. To establish a monitoring or review process.

NASA Management Response

4. NASA Management concurs with the recommendation The Headquarters Human Resources Management Division Acting Director, directed an audit in 2004 of the Transit Subsidy Program. In addition to verifying that the program had accounted for all costs, it also created program controls, risk assessment, recommendations and procedures for verification. This included a procedure to conduct a quarterly Transit Subsidy Reconciliation as well as defined roles and responsibilities to more effectively manage and administer the program. We are reviewing our process and policy directive and will revise the policy by the beginning of FY2007 to ensure adequate internal controls are in place, management and administration of the program are sound, and we have accountability for our inventory of fare cards and Smart Cards after each quarterly physical and electronic distribution.

There were no recommendations in the draft report for the Goddard Space Flight Center, therefore, the Management Operations Directorate at Goddard has no comments.

Thank you again for your assistance and the opportunity to respond to the recommendations and findings in this draft report. If you have any questions, please contact Ms. Joan Youravich on (202) 358-3020.


Olga M. Dominguez

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JULY 20, 2007

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