



Audit Report



OIG-20-028

GOVERNMENT-WIDE FINANCIAL SERVICES

**Corrective Action Verification for Two Prior OIG Reports:
(1) *Fiscal Service Needs to Improve Program Management of Direct Express* (OIG-14-031) and (2) *Direct Express Bid Evaluation Documentation Requires Improvement* (OIG-17-034)**

March 2, 2020

Office of Inspector General
Department of the Treasury

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Abbreviations

Comerica Bank	Comerica
Conduent	Conduent Incorporated
Direct Express	Direct Express® Debit MasterCard® program
EFT	electronic funds transfer
EMV	Europay, MasterCard, and Visa
EO	executive order
FAA	Financial Agency Agreement
FASP	Financial Agent Selection Process
Fiscal Service	Bureau of the Fiscal Service
JAMES	Joint Audit Management Enterprise System
KRC	KRC Research
OIG	Office of Inspector General
OMB	Office of Management and Budget
SLR	Service Level Requirements
Treasury	Department of the Treasury

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Audit Report

March 2, 2020

Timothy E. Gribben
Commissioner
Bureau of the Fiscal Service

On June 18, 2018, we initiated an audit to review corrective actions taken by the Bureau of the Fiscal Service (Fiscal Service) related to recommendations made in previous Department of the Treasury (Treasury or Department) Office of Inspector General (OIG) reports issued in 2014 and 2017. These reports related to the financial agency agreement (FAA) with Comerica Bank (Comerica) to operate the Direct Express[®] Debit MasterCard[®] program (Direct Express). This report is the second in the series of three planned reports on Direct Express initiated in June 2018. The first report was issued on July 29, 2019.¹

This second report presents the results of our review of the corrective actions taken by Fiscal Service management in response to the Treasury OIG audit reports: (1) *Fiscal Service Needs to Improve Program Management of Direct Express* (OIG-14-031; issued March 26, 2014) and (2) *Direct Express Bid Evaluation Documentation Requires Improvement* (OIG-17-034; issued January 24, 2017). Our third planned report will focus on Direct Express' customer service and compliance with regulations impacting cardholders.

In Treasury OIG-14-031 and Treasury OIG-17-034, we made a total of 14 recommendations and raised a matter of concern to Fiscal Service. The objective of this corrective action verification was to determine whether management made corrective actions responsive to our recommendations and matter of concern.

¹ Treasury OIG, *Interim Audit Update – Matters for Consideration Prior to Fiscal Service's Selection of the Direct Express[®] Debit Card Program Financial Agent*, OIG-19-041 (July 29, 2019)

Appendix 1 provides more detail of our audit objective, scope, and methodology.

Treasury OIG-14-031 Report

For the report issued in fiscal year 2014, we concluded that Fiscal Service's decisions to establish Direct Express and select Comerica as the program's financial agent were reasonable; however, its analyses and documentation of those decisions should have been more complete. In addition, Fiscal Service needs to improve its oversight of Direct Express and administration of the FAA. We made 13 recommendations to Fiscal Service management. At the time of our Treasury OIG-14-031 report, Fiscal Service management concurred with our recommendations and stated that they implemented some corrective actions and planned to take further action to address the report's recommendations. According to the Joint Audit Management Enterprise System (JAMES), Fiscal Service management implemented and closed all corrective actions in March 26, 2015.

Treasury OIG-17-034 Report

For the report issued in fiscal year 2017, we found that Fiscal Service followed applicable laws, regulations, policies, and procedures when selecting Comerica as the Direct Express financial agent. However, we noted concerns with the documentation of the bid evaluation. As such, we recommended that Fiscal Service management improve the documentation of FAA bid evaluations by ensuring that (1) factors under consideration are presented in comparable terms and the rationale for selecting factors and weights used is adequately described and (2) accurate and complete documentation is maintained for FAA files.

We also raised a matter of concern to Fiscal Service management that as of December 2015, 1.1 million Direct Express accounts were activated but not used. Although we did not make a formal recommendation regarding this matter, we believe that unused accounts should be analyzed to determine their age and whether they should be closed to reduce the risk of loss from fraudulent activities.

In addition, for the report issued in fiscal year 2017, we verified the corrective actions taken for 4 of the 13 recommendations made in Treasury OIG-14-031 and closed in JAMES by management. However, at that time, for the following 9 recommendations closed in JAMES, we did not verify the corrective actions taken. The following is a list of the 9 unverified recommendations:

1. as part of developing the next FAA, assess the monthly activity reports required by the FAA for their continued relevancy and usefulness in monitoring the program;
2. ensure that before infrastructure compensation is paid to Comerica or any other financial agent, Fiscal Service establishes that the improvements are needed, justified, made, reviewed and approved by more than one person;
3. assess the costs and burden of the program to the cardholders on an on-going basis as changes to technology and the business environment occur;
4. establish a quality assurance surveillance plan to monitor and document the financial agent's performance under the FAA and take action when requirements, including service level requirements, are not met;
5. track the financial agent's revenues and expenses associated with the Direct Express program throughout the FAA and periodically assess whether financial agent compensation remains reasonable and fair to both parties;
6. periodically assess net cost savings of the Direct Express program compared to other benefit delivery methods (e.g., electronic transfer account, paper check) and determine the reasons for variances from expectations;
7. continue to enforce the annual certification of compliance requirement in the FAA;
8. consider obtaining periodic independent customer satisfaction surveys to ensure customer feedback is unbiased; and

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9. ensure appropriate and complete documentation is maintained for all matters related to FAAs for Direct Express to include, but not limited to, amendments to the FAA.

At the time of our Treasury OIG-17-034 report, Fiscal Service management concurred with our recommendation and matter of concern and stated that they planned to take action to address both. According to JAMES, Fiscal Service implemented and closed all planned corrective actions in September 27, 2017.

Results in Brief

In our current review of the corrective actions taken by Fiscal Service, we found that management implemented all but 1 of the 9 recommendations from the Treasury OIG-14-031 report that we had not previously verified. Specifically, for recommendation 5 above, we found that the corrective actions to review Comerica's compensation for reasonableness throughout the FAA term were not being conducted as reported in JAMES. While we are not making a new recommendation in this report, Fiscal Service management should re-open and revise this recommendation in JAMES to reflect a process to review the financial data each month to ensure Comerica's reported revenues and expenses are reasonable and comply with the FAA. As a reminder, recommendations in JAMES should remain open until all parts of the recommendations are implemented.

Fiscal Service management also implemented the one recommendation and addressed the matter of concern from the Treasury OIG-17-034 report.

In a written response, Fiscal Service management concurs with our findings that corrective actions for all of the recommendations, from the Treasury OIG-14-031 report, and the one recommendation and matter for concern from the Treasury OIG-17-034 report, have been implemented, except for recommendation 5 in the Treasury OIG-14-031 report. To address recommendation 5, Fiscal Service will establish and implement a process and criteria to (1) assess whether Comerica's compensation is "reasonable and fair" and (2) identify any unexpected compensation variances. They are also

establishing a standard operating procedure and process to conduct monthly reviews with the financial agent to ensure that the compensation is in compliance with the FAA. Management's response meets the intent of our recommendation. Fiscal Service management's response, in its entirety, is included as appendix 2 of this report.

Background

According to Office of Management and Budget (OMB) Circular No. A-50, audit follow-up is an integral part of good management and a shared responsibility of management and auditors. Each agency should establish an audit follow-up system to assure the prompt and proper resolution and implementation of audit recommendations.² Treasury Directive 40-03 requires bureau and office Audit Follow-up Officers to (1) coordinate the bureau or office written responses to draft audit reports in a timely fashion; (2) represent the bureau or office in the audit resolution process; and (3) maintain and track audit recommendations and corrective actions and their status through the use of the Department's official audit tracking system.³

The status of audit recommendations is tracked in JAMES, an interactive system accessible to both Treasury OIG and bureau management. JAMES contains tracking information on audit reports from their issuance through completion of all actions related to findings and recommendations.

Personnel within the Risk and Control Group within the Office of the Deputy Chief Financial Officer request corrective action status updates from the bureau or office responsible for implementing the action. Fiscal Service management was responsible for implementing the recommendations in the Treasury OIG-14-031 and Treasury OIG-17-034 audit reports. Fiscal Service management provided the status reports and notified the Risk and Control Group that all 14 recommendations and the matter of concern had been addressed. Accordingly, the Risk and Control Group closed the recommendations and matter of concern in JAMES on March 26, 2015, and September 27, 2017, respectively.

² OMB, Circular No. A-50 Revised, "Audit Follow-up" (September 29, 1982)

³ Treasury, Directive 40-03, "Treasury Audit Resolution, Follow-Up, and Closure" (May 19, 2017)

Status of Corrective Actions Taken by Management

Treasury OIG-14-031

The objectives of this prior audit were to determine whether Fiscal Service's decision to proceed with the Direct Express program, selection of the financial agent, and administration of the program were reasonable. We found that Fiscal Service's decisions to establish Direct Express and select Comerica as the program's financial agent were reasonable; however, its analyses and documentation of those decisions should have been more complete. In addition, Fiscal Service needed to improve its oversight of Direct Express and administration of the FAA. As such, we made 13 recommendations to Fiscal Service management. As discussed above, in the Treasury OIG-17-034 audit report, we verified the corrective actions taken for 4 of these 13 recommendations. The status of the 9 recommendations that we did not verify the corrective actions taken are as follows:

- 1. As part of developing the next FAA, assess the monthly activity reports required by the FAA for their continued relevancy and usefulness in monitoring the program.***

We found that Fiscal Service did not review (and in some cases did not realize that it had) the following four monthly reports submitted by Comerica: (1) revenue fees by category and/or transaction type (including fees by transaction type, interchange fees, float earnings, issuer reimbursements, and other revenue or earnings), (2) cardholder surcharge fees paid, (3) identity verification reports, and (4) cardholder demographic reports.

To address this recommendation, Fiscal Service management reported in JAMES that it monitors all of the reports submitted by Comerica. Information on fees paid by transaction type and identity verification activity and cardholder demographics are of continued interest by program management, who currently receives this data from Comerica's monthly reports package. These monthly activity reports are included in the 2014 solicitation and will be required by the financial agent selected through the re-competition.

We reviewed the July 2014 through December 2018 monthly activity reports and related Fiscal Service narratives⁴, and confirmed that these reports contained valuable data such as number of active and inactive cardholders; their locations; most used purchasing locations; Europay, MasterCard, and Visa (EMV) chip coverage data; and other statistical information used to monitor the program and improve services. For example, Fiscal Service management noted that several Direct Express cardholders shopped at Walmart and added a new service to allow cardholders to withdraw cash at the retailer. We also noted that the monthly activity reports that Fiscal Service management referenced in the 2014 solicitation were included in the 2015 FAA.

We also interviewed Fiscal Service management who told us that the monthly reports are relevant and useful because they provide information such as card distribution by state, number of deposits, total amount of deposits, average deposit, and financially inactive accounts by agency. This information is used to document oversight of Direct Express operations and Comerica's ability to meet the FAA requirements.

Fiscal Service management's corrective actions meet the intent of our recommendation.

2. *Ensure that before infrastructure compensation is paid to Comerica or any other financial agent, Fiscal Service establishes that the improvements are needed, justified, made, reviewed and approved by more than one person.*

We reported that Fiscal Service did not obtain documentation to support infrastructure compensation, or confirm that the infrastructure payments resulted in infrastructure improvements for Direct Express. Since the second amendment of the 2008 FAA, Fiscal Service paid Comerica approximately \$12.7 million for infrastructure development without (1) receiving additional documentation to support the need for the payment, and (2) confirming that improvements were actually made. Fiscal Service management also told us that the infrastructure

⁴ During this corrective action verification, Fiscal Service management provided us with narratives that detailed their actions in response to our recommendations.

development payments were reviewed and approved by one person while enrollment fee payments made to Comerica went through two levels of review and approval.

To address this recommendation, Fiscal Service management reported in JAMES that it will ensure any infrastructure improvements are anticipated well in advance, justified, well documented, and contain multiple approvals prior to payment. Current practice calls for preparation of a decision memorandum that details available options and will be provided to bureau senior leadership for review and approval.

In October 2014, Executive Order (EO) 13681⁵ mandated that all credit or debit cards in all government business be made more secure with the inclusion of EMV chips on such cards. Therefore, Direct Express cards were converted from magnetic strip to chip-and-pin technology in 2015. This conversion was the only Direct Express infrastructure change. We reviewed the EO, EMV documentation, Amendment 1 to the 2008 FAA, which detailed the pricing terms for the EMV implementation, Fiscal Service's "Financial Agency Oversight Guidance Policy," and related Fiscal Service narratives. As Amendment 1 was stipulated by EO and not Comerica, Fiscal Service management told us they were not required to follow the "Financial Agency Oversight Guidance Policy," which stated that before amendments are made to the FAA, the needs are justified, made, reviewed and approved by more than one person. We concurred with Fiscal Service's interpretation.

Fiscal Service management's corrective actions meet the intent of our recommendation.

3. *Assess the costs and burden of the program to the cardholders on an on-going basis as changes to technology and the business environment occur.*

We reported that during the financial agent selection process (FASP), Fiscal Service management was unable to support its determination that Comerica provided the lowest cost to cardholders. Although Fiscal Service staff produced a

⁵ EO 13681, "Improving the Security of Consumer Financial Transactions" (October 23, 2014)

spreadsheet with calculations, they could not provide us with support for these calculations.

To address this recommendation, Fiscal Service management reported in JAMES that it has implemented processes that provide continuous feedback of cardholder experience, including enhanced monitoring of customer service patterns on peak payment and transaction dates, and feedback from specialized processes implemented at the Social Security Administration to assist cardholders in field offices.

We reviewed the (a) 2014 and 2019 FASP proposals, which required financial agent applicants to include the pricing for Direct Express cardholders in their proposals that matched or was lower than the pricing established by regulation, (b) customer satisfaction surveys, conducted by KRC Research (KRC),⁶ a Comerica subcontractor, which included questions related to cardholders' costs, (c) PayPerks⁷ website that educates Direct Express cardholders on how to use their debit cards for free or at a very low cost, and (d) related Fiscal Service narratives. In addition, Fiscal Service management told us that they (1) evaluate the proposals based on several criteria, including costs to cardholders and (2) continually assess costs to cardholders by conducting an annual customer satisfaction survey to determine whether cardholders are satisfied with the cards' costs and to identify and implement enhancements to Direct Express.

Fiscal Service management's corrective actions meet the intent of our recommendation.

4. Establish a quality assurance surveillance plan to monitor and document the financial agent's performance under the FAA and

⁶ KRC is a global strategic research firm that offers quantitative and qualitative market research solutions to a number of industries from its offices in Washington, DC, New York, and Cologne, Germany.

⁷ PayPerks is the official education and rewards program for Direct Express and is free to all Direct Express cardholders. The PayPerks mobile application and website allow Direct Express cardholders to (1) view available balances and transaction histories, (2) manage alerts, (3) order paper statements, (4) transfer funds to external banks, (5) find automatic teller machines (ATMs), and (6) access financial education content.

take action when requirements, including service level requirements, are not met.

We reported that Fiscal Service needed a more comprehensive approach to ensure financial agent compliance with the FAA, and to determine whether Direct Express is achieving the intended results. Federal procurement regulations require that a quality assurance surveillance plan be put in place to determine if the government is actually receiving the goods and services it purchased in accordance with the contract. However, Fiscal Service did not develop this quality assurance surveillance plan to determine if the government and Direct Express cardholders were receiving services in accordance with the FAA.

To address this recommendation, Fiscal Service management reported in JAMES that after the re-competition of the 2015 FAA, Fiscal Service will establish a performance measurement program for the Direct Express financial agent. The program would monitor three dimensions of financial agent performance: efficiency, customer satisfaction, and compliance. Additionally, the program manager would provide the financial agent a monthly score in each of the three dimensions of performance.

We reviewed the (1) Direct Express Service Level Requirements (SLR) Monthly Scorecards from July 2014 through December 2018, (2) Fiscal Service, Comerica, and Conduent Incorporated (Conduent)⁸ monthly meeting agendas, and (3) related Fiscal Service narratives. We reviewed the SLRs including those for account set-up, card issuance, payments, customer service representative response time, interactive voice response, call center abandonment rate, and customer service representative call quality, and determined that Fiscal Service was monitoring Comerica's performance in accordance with the FAA.

While Fiscal Service management's corrective actions meet the intent of our recommendation, we noted that Comerica's compensation was never reduced despite receiving low scores

⁸ Conduent is a Comerica subcontractor who manages the Direct Express call center and processes claim disputes. Conduent, a New Jersey digital interactions company, creates digital platforms and services for businesses and governments. Conduent provides services such as digital payments, claims processing, and customer care.

in some SLR categories. Because of the importance of Direct Express and the needs of its customers, we shared this concern in an interim report, Treasury OIG-19-041, for Fiscal Service's consideration prior to the selection of the next financial agent. We recommended, among other things, that Fiscal Service management revise the SLRs scores related to incentives or disincentives, which will be negotiated between Fiscal Service and the selected financial agent prior to signing the next FAA.

5. *Track the financial agent's revenues and expenses associated with the Direct Express program throughout the FAA and periodically assess whether financial agent compensation remains reasonable and fair for both parties.*

We reported that Fiscal Service did not track the revenues and expenses associated with Direct Express. When we asked Fiscal Service management for the revenues generated from and expenses incurred by Comerica to run the program, they did not have this information readily available. After several requests, Fiscal Service management obtained a spreadsheet from Comerica that documented the Direct Express revenues and expenses.

To address this recommendation, Fiscal Service management reported in JAMES that it currently monitors the revenues and expenses of Comerica and will continue to ensure the FAA compensation remains reasonable and fair to all parties.

We reviewed Comerica's January 2014 through June 2018 revenues and expenses reports and confirmed that Fiscal Service only compensates Comerica for card enrollment and account maintenance on a monthly basis, and EMV related costs, as incurred. Fiscal Service management also told us they receive and maintain the monthly Comerica revenues and expense reports; however, they do not review Comerica's compensation for reasonableness. After the FASP process is completed and the FAA executed, Fiscal Service does not revisit the reasonableness of Comerica's compensation. When OIG met with Fiscal Service in September 2019, management told us that they are developing a process to review Comerica's monthly financial reports to ensure that the reported revenues and expenses are in compliance with the FAA.

Fiscal Service management's corrective actions do not fully meet the intent of our recommendation. To improve the administration of Direct Express, Fiscal Service management should review Comerica's monthly revenues and expenses to (1) assess whether Comerica's compensation is "reasonable and fair," (2) identify any unexpected variances, and (3) ensure compliance with the FAA. We determined that this recommendation should be re-opened and revised in JAMES so that Fiscal Service management can establish and document its finalized review process related to Comerica's monthly revenues and expenses.

6. *Periodically assess net cost savings of the Direct Express program compared to other benefit delivery methods (e.g., electronic transfer account, paper check) and determine the reasons for variances from expectations.*

We reported that Fiscal Service has not assessed the reasons for the variance between the estimated (\$44 million) and actual (\$39.5 million) cost savings of Direct Express. According to Fiscal Service estimates, the total cost savings of the program from 2008 through May 2013 was \$39.5 million, net the compensation paid to Comerica of approximately \$32.5 million. When Direct Express was established in 2008, Fiscal Service predicted that the Federal Government would save \$44 million annually if every unbanked beneficiary signed up for the program.

To address this recommendation, Fiscal Service management reported in JAMES that it routinely monitors the unit costs associated with all of its payment delivery processes (e.g., checks, electronic funds transfer (EFT), letter-of-credit). Fiscal Service currently calculates one unit cost for all EFT payment types; therefore, the unit cost of delivering a payment to a Direct Express card is the same as delivering a direct deposit payment to a bank account. Paper checks are more expensive but are now a miniscule portion of total payments, thus, Fiscal Service intends to increase its focus on the unit cost differences among the various EFT delivery mechanisms.

We reviewed Fiscal Service's FY 2016 through FY 2018 unit cost calculations and supporting documentation for issuing

federal benefits by paper check, automated clearing house, and the Direct Express debit card. Fiscal Service management told us that they validate these costs by inputting the expenditures into a cost model that distributes direct and indirect costs to each program activity based on Fiscal Service's agreed upon cost methodologies. This three year cost analysis verified that the Direct Express debit card was the lowest cost delivery method available. Therefore, there are no variances from expectations as the Direct Express unit costs continue to be lower than paper checks.

Fiscal Service management also explained that Direct Express is operated by a statutory mandate. Although the delivery of benefit payments by direct deposit to a recipient-owned bank account is the least expensive benefit delivery method for the government, it is not an option for a large segment of the financially underserved. Treasury is required by law^{9,10} to ensure that federal benefit payment recipients have access to an account at a reasonable cost, and Treasury complies with this mandate by operating Direct Express. Treasury does not have the legal authority to require recipients to receive payments by another benefit delivery method that may be less costly for the government (such as direct deposit to a bank account).

Fiscal Service management's corrective actions meet the intent of our recommendation.

7. Continue to enforce the annual certification of compliance requirement in the FAA.

We reported that Fiscal Service did not enforce the FAA annual certification of compliance requirement, which among other things, required Comerica to certify that it is not delinquent on any federal tax obligation or other debt owed to the federal Government. When Fiscal Service did obtain Comerica's certification of compliance in October 2013, Comerica disclosed that certain requirements of the FAA were not met (e.g., implementation of web bill pay and other SLRs).

⁹ 31 U.S.C. § 3332, *Required Direct Deposit* (April 26, 1996)

¹⁰ 31 CFR Part 208, *Management of Federal Agency Disbursements* (December 22, 2010)

To address this recommendation, Fiscal Service management reported in JAMES that it plans to continue the annual certification process as currently administered for all financial agents. The annual certification will be monitored as one measure of financial agent compliance.

We reviewed the 2014 through 2018 annual certifications of compliance and verified that they were signed by Comerica officials. In addition, Comerica certified that it has completed all tasks and responsibilities under its FAA, that it has performed all tasks and responsibilities under any active FAA, and observed its fiduciary duty to Treasury. Fiscal Service management told us that if there is any breach of contract, the annual certification of compliance would assist Fiscal Service in any related legal proceedings.

Fiscal Service management's corrective actions meet the intent of our recommendation.

8. *Consider obtaining periodic independent customer satisfaction surveys to ensure customer feedback is unbiased.*

We reported that customer service surveys were conducted annually, not monthly as required in the FAA. Fiscal Service management told us that they were satisfied with the frequency of the surveys. We did not consider this non-compliance with FAA to be a significant issue. We also observed that the surveys were not independent (such as conducted by a party reporting directly to Fiscal Service) but rather conducted by a company commissioned by Comerica and MasterCard. To address this recommendation, Fiscal Service management reported in JAMES that it intends to continue the practice of a third-party survey of cardholders that is conducted annually by a firm under contract to Comerica. Fiscal Service has no reason to doubt the objectivity of this professional research firm.

The 2015 FAA required that Comerica conduct an annual cardholder service satisfaction survey. We reviewed the 2015 through 2018 Direct Express Cardholder Satisfaction and Usage Tracking Surveys, scripts, and briefings conducted by KRC, an independent third party, to ensure that customer feedback was

unbiased. Additionally, we reviewed the OMB documentation that approved KRC's survey and sampling methodology.

Fiscal Service management's corrective actions meet the intent of our recommendation.

9. *Ensure appropriate and complete documentation is maintained for all matters related to FAAs for Direct Express to include, but not limited to, amendments to the FAA.*

We reported that Fiscal Service documentation supporting key decisions and ongoing monitoring of a program involving tens of millions of taxpayer dollars and the delivery of payments to millions of federal beneficiaries was often lacking.

To address this recommendation, Fiscal Service management reported in JAMES that it has established a bureau-wide working group that will establish oversight policies including a standard checklist for document retention.

We reviewed Fiscal Service's policies and procedures related to records management (e.g., Bank Policy and Oversight, FASP Guidance, FASP Checklist, E-Mail Messaging Retention policy, Standard Operating Procedure for Electronic Records Management, and Financial Agent Oversight Guidance). Based on this review, we determined that this Fiscal Service documentation was appropriate and complete for all FAA matters.

Fiscal Service management's corrective actions meet the intent of our recommendation.

Treasury OIG-17-034

The objective of this audit was to determine whether Fiscal Service followed applicable laws, regulations, policies, and procedures in selecting the financial agent for Direct Express. We found that Fiscal Service followed applicable laws, regulations, policies, and procedures when selecting Comerica as the Direct Express financial agent. We made the following recommendation and raised a matter of concern to Fiscal Service management:

1. Improve the documentation of FAA bid evaluations by ensuring that (1) factors under consideration are presented in comparable terms and the rationale for selecting factors and weights used is adequately described; and (2) accurate and complete documentation is maintained for FAA files.

We reported that since the 2014 audit, Fiscal Service management had improved documentation supporting the evaluation of bids for the Direct Express FAA. However, we noted concerns with the bid evaluation documentation that could make it difficult for Fiscal Service to justify or defend its award decision. In addition, several documents in the FAA file contained inaccurate and/or incomplete information.

To address this recommendation, Fiscal Service management reported in JAMES that FASP training will be conducted and open to all agency personnel. This training will be conducted in 2017, and as needed in the future. This training will incorporate lessons learned about presenting factors in comparable terms and proper use of weighted criteria, and will ensure the most accurate and up-to-date information is disseminated to staff members. Financial agent program staff will be educated on setting up fair and consistent selection criteria. Bank Policy and Oversight staff will provide updated training material to all financial agent program staff and will continue to provide guidance to program areas on an ongoing basis.

We reviewed Fiscal Service's 2017 and 2018 FASP training materials and associated guidance and noted that these trainings detailed the methodology used to evaluate bidders, including selection factors and related weights, and emphasized the importance of FAA documentation.

Fiscal Service management's corrective actions meet the intent of our recommendation.

Matter of Concern: Unused accounts should be analyzed to determine their age and whether they should be closed to reduce the risk of loss from fraudulent activities.

We reported that Fiscal Service paid for cards enrolled but not used. An open account is an account that is activated and can

receive electronic payments. When an account has no activity or is no longer used, the cardholder or Comerica may close it for various reasons (e.g., cardholder switched to another financial institution, cardholder has died, or the beneficiary enrolled but never activated the card).

To address this matter of concern, Fiscal Service management re-assessed the treatment of unused/inactive Direct Express accounts and concluded that the treatment of these accounts is appropriate and does not create or heighten fraud risks. Consequently, Fiscal Service prepared Instructional Bulletin 2015-005¹¹ to set forth the policy and procedure for inactive accounts. Instructional Bulletin 2017-001¹² changed the time frame for when an account can be deemed inactive from “12 months” to “no less than 12 months and no more than 30 months.”

We reviewed Fiscal Service’s Instructional Bulletins 2015-005 and 2017-001 and determined that the treatment of inactive/unused accounts is appropriate. Fiscal Service management also explained that they do not consider an unused/inactive account with pending enrollment a high risk of loss from fraudulent activities because this account is not activated for any type of transaction.

Fiscal Service management’s actions addressed the matter of concern, and we consider the matter closed.

Conclusion

Although Fiscal Service management closed all 10 recommendations and the matter of concern in JAMES, we found that its corrective actions did not fully address recommendation 5 in the Treasury OIG-14-031 report. For recommendation 5, the corrective actions to review Comerica’s compensation for reasonableness and compliance with the FAA were not being

¹¹ Fiscal Service, “Instructional Bulletin 2015-005 for the Direct Express® Financial Agent Agreement (FAA) - April 25, 2015”

¹² Fiscal Service, “Instructional Bulletin 2017-001 for the Direct Express Financial Agent Agreement (FAA) –July 27, 2017”

conducted as reported in JAMES. While we are not making a new recommendation in this report, Fiscal Service management should re-open and revise this recommendation in JAMES to reflect the actual date when the review process related to Comerica's monthly revenues and expenses is expected and when it is finalized. As a reminder, recommendations in JAMES should remain open until all parts of the recommendations are implemented.

Management Response

Fiscal Service concurs with our conclusion and will re-open recommendation 5 in the Treasury OIG-14-031 report in JAMES. Fiscal Service will establish and implement a process and criteria to (1) assess whether Comerica's compensation is "reasonable and fair" and (2) identify any unexpected compensation variances. They are also establishing a standard operating procedure and process to conduct monthly reviews with the financial agent to ensure that the compensation is in compliance with the FAA.

OIG Comment

Fiscal Service's management response meets the intent of our recommendation.

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We appreciate the courtesies and cooperation extended to our staff during the audit. Major contributors to this report are listed in appendix 3. A distribution list for this report is provided in appendix 4. If you have any questions, please contact me at (202) 927-8783 or Michael Levin, Audit Manager, at (202) 927-0005.

/s/

Katherine E. Johnson
Director, Debt Management

Appendix 1: Objectives, Scope, and Methodology

As part of our oversight of the Direct Express® Debit MasterCard® program (Direct Express) operated by Department of the Treasury's (Treasury) Bureau of the Fiscal Service (Fiscal Service) and Comerica Bank (Comerica), we initiated a review of the corrective actions taken by Fiscal Service in response to the recommendations presented in Treasury Office of Inspector General (OIG) audit reports: (1) *Fiscal Service Needs to Improve Program Management of Direct Express* (OIG-14-031; issued March 26, 2014) and (2) *Direct Express Bid Evaluation Documentation Requires Improvement* (OIG-17-034; issued January 24, 2017). The objective of this corrective action verification was to determine whether management made corrective actions responsive to our recommendations and matter of concern.

To accomplish our objective, we conducted fieldwork at the Fiscal Service office in Washington, DC, between June 2018 and November 2019, which comprised of the following steps:

- We reviewed the applicable federal and Treasury laws, and regulations:
 - 31 U.S.C. § 3332, *Required Direct Deposit* (April 26, 1996);
 - 31 CFR Part 208, *Management of Federal Agency Disbursements* (December 22, 2010);
 - Executive Order 13681, "Improving the Security of Consumer Financial Transactions" (October 23, 2014);
 - Office of Management and Budget, Circular No. A-50, *Audit Follow-Up* (September 29, 1982);
 - Treasury OIG, *Interim Audit Update – Matters for Consideration Prior to Fiscal Service's Selection of the Direct Express Debit Card Program*, OIG-19-041 (July 29, 2019); and
 - Treasury, Directive 40-03, "Treasury Audit Resolution, Follow-Up, and Closure" (May 19, 2017).
- We reviewed relevant documents to verify that Fiscal Service management took corrective actions that were responsive to our recommendations after the

Appendix 1: Objectives, Scope, and Methodology

recommendations were closed in the Joint Audit Management Enterprise System (JAMES):

- JAMES reports;
 - Financial Agency Agreements (FAA) and FAA amendments;
 - Fiscal Service's monitoring procedures of Comerica;
 - Fiscal Service's procedures for the financial agent selection process;
 - Fiscal Service, "Instructional Bulletin 2015-005 for the Direct Express® Financial Agent Agreement (FAA) - April 25, 2015;" and
 - Fiscal Service, "Instructional Bulletin 2017-001 for the Direct Express Financial Agent Agreement (FAA) – July 27, 2017."
- We interviewed key Fiscal Service and Comerica personnel.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix 2: Management Response



DEPARTMENT OF THE TREASURY
BUREAU OF THE FISCAL SERVICE
WASHINGTON, DC 20227

FEB 21 2020

Ms. Katherine E. Johnson
Audit Director
Office of Inspector General
Department of the Treasury
Washington, D.C. 20220

Dear Ms. Johnson:

Thank you for the opportunity to respond to the Office of the Inspector General's (OIG's) draft Audit Report related to the Corrective Action Verification for the Two Prior OIG Reports (Fiscal Service Needs to Improve Program Management of Direct Express, OIG-14-031 and Direct Express Bid Evaluation Documentation Requires Improvement, OIG-17-034).

We agree with the OIG's findings that corrective actions for all of the recommendations from the 2014 report, and the recommendation and Matter For Concern from the 2017 report, have been implemented, with one exception. This one remaining recommendation from the 2014 report (enumerated as recommendation 5 in the 2017 report) is re-stated and discussed in the draft report, as follows:

OIG Recommendation 5: Fiscal Service should "[t]rack the financial agent's revenues and expenses associated with the Direct Express program throughout the FAA and periodically assess whether financial agent compensation remains reasonable and fair for both parties

...

To improve the administration of Direct Express, Fiscal Service management should review Comerica's monthly revenues and expenses to:

- 1) *assess whether Comerica's compensation is "reasonable and fair,"*
- 2) *identify any unexpected variances, and*
- 3) *ensure compliance with the FAA.*

We determined that this recommendation should be re-opened and revised in JAMES so that Fiscal Service management can establish and document its finalized review process related to Comerica's monthly revenues and expense."

Fiscal Service Response:

Fiscal Service will re-open the recommendation in the Joint Audit Management Enterprise System (JAMES), the Treasury Department system that tracks the

Appendix 2: Management Response

implementation status of OIG recommendations. We will establish and implement a process and criteria to assess whether Comerica's compensation is "reasonable and fair." We note that any process will be based on the starting assumption that compensation is reasonable and fair since it was established through a competitive financial agent selection process and cardholder fees are based on terms and conditions established through a regulatory process (31 CFR 208), pursuant to Federal law (31 USC 3332). We would not be able to change the compensation without an amendment to the Financial Agent Agreement (FAA) and only based on factors that would justify such an amendment (for example, a material change in circumstances). The process and criteria will also help us identify any unexpected compensation variances. Finally, we are establishing a standard operating procedure and process to conduct monthly reviews with the financial agent to ensure that the compensation is in compliance with the FAA.

The draft Audit Report references the Treasury OIG-19-041 report recommendation that Fiscal Service management revise the service level requirements (SLRs) scores in the FAA related to incentives or disincentives. We note that Fiscal Service made changes to the new FAA so that the SLRs incentivize excellent service in all areas, including customer service and chargeback dispute processing. The new Direct Express FAA, executed on January 3, 2020, revises and strengthens the SLRs from the previous FAA.

We appreciate your recommendations and the opportunity to respond.

Sincerely,



Timothy E. Gribben
Commissioner

Appendix 3: Major Contributors to This Report

Michael Levin, Audit Manager
Kevin Guishard, Program Analyst-in-Charge
Kirk Solomon, Auditor
Joshua Yang, Auditor
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