Audit Report

OIG-14-031

Fiscal Service Needs to Improve Program Management of Direct Express

March 26, 2014

Office of Inspector General

Department of the Treasury

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Abbreviations

ACH	automated clearinghouse
ATM	automated teller machine
DCIA	Debt Collection Improvement Act of 1996
EFT	electronic funds transfer
ETA	electronic transfer account
FAA	financial agency agreement
FRB	Federal Reserve Bank
Fiscal Service	Bureau of the Fiscal Service
IVR	interactive voice response
OIG	Office of Inspector General
OASDI	Old Age, Survivors, and Disability Insurance
PIN	personal identification number
POS	point-of-sale
SSA	Social Security Administration
SSI	Supplemental Security Income

March 26, 2014

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Commissioner
Bureau of the Fiscal Service

In 2008, the Bureau of the Fiscal Service (Fiscal Service)[1] established the Direct Express® Debit MasterCard® program (Direct Express), a program that allowed federal beneficiaries to receive benefit payments electronically using a prepaid debit card. Effective March 2013, individuals, with limited exceptions, could no longer receive federal payments by paper check and would have to either receive the payments by direct deposit to a bank account or through the Direct Express prepaid debit card.

This report presents the results of our audit of Direct Express. The objectives of our audit were to determine whether Fiscal Service's decision to proceed with the program, selection of the financial agent, and administration of the program were reasonable. As of June 2013, there were approximately 5.5 million enrollees in Direct Express, and Fiscal Service had paid the program's financial agent, Comerica Bank (Comerica), about $32.5 million in enrollment fees and infrastructure development support.

To accomplish our objectives, we reviewed: (1) Fiscal Service's considerations in initiating the program, (2) Fiscal Service's financial agent selection process and the selection of Comerica as the Direct Express financial agent, (3) the terms of the financial agency agreement (FAA), (4) how an amendment to the FAA to compensate Comerica was vetted and approved, and (5) Fiscal Service's monitoring of the FAA. We interviewed officials and staff with Fiscal Service, Comerica, the Federal Reserve Bank of Dallas, and the Social Security Administration (SSA). We also reviewed

[1] Direct Express was established by the Department of the Treasury's (Treasury) Financial Management Service. Effective October 7, 2012, Treasury consolidated the Financial Management Service with the Bureau of the Public Debt, and re-designated it as the Bureau of the Fiscal Service. Although most matters discussed in this report occurred while the program was administered by the Financial Management Service, we refer to Fiscal Service throughout this report.

Fiscal Service's policies and procedures, and examined documents related to the origination and administration of the FAA. Additionally, we visited two call centers that handled Direct Express calls to gain an understanding of call center operations. Appendix 1 contains a more detailed description of our objectives, scope, and methodology.

Illustration 1. Direct Express homepage
Source: Comerica Bank, https://www.usdirectexpress.com/edcfdtclient/index.html#

Results in Brief

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.

In April 1996, Congress passed the Debt Collection Improvement Act of 1996 (DCIA) requiring that all non-tax federal payments made after January 1, 1999, be paid by electronic funds transfer (EFT). In its effort to implement DCIA, in September 1998 Treasury issued regulations[2] which provided that individuals receiving a federal benefit, wage, salary, or retirement payment shall be eligible to open an electronic transfer account (ETA)[3] at a federally insured financial institution that offers ETAs.

Pursuant to its authorities,[4] in January 2007 Fiscal Service directed a financial agent, JPMorgan Chase Bank, NA (JPMorgan Chase), to conduct a 1-year pilot program to provide unbanked[5] federal beneficiaries the option to receive federal benefit payments electronically. Fiscal Service set eight performance metrics for evaluating the pilot program. Eight (8) months into the 1-year pilot, in September 2007, Fiscal Service declared that the success of the pilot supported a national rollout of the program, as the pilot met 3 of the 8 performance metrics – *Cost to government of disbursing a payment, Cost of card to beneficiary*, and *Overall customer*

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[2] 31 CFR Part 208, *Management of Federal Agency Disbursements.*

[3] An ETA is an account made available by a federally insured financial institution acting as a Treasury financial agent in accordance with 31 CFR Part 208.5. Financial institutions are not required to offer ETAs.

[4] 12 USC § 90, *Depositaries of public moneys and financial agents of Government*, provides that the Secretary of the Treasury may select financial agents in accordance with any process the Secretary deems appropriate. 12 U.S.C. § 265, *Insured banks as depositaries of public money; duties; security; discrimination between banks prohibited; repeal of inconsistent laws*, provides that all insured banks designated for that purpose shall be depositaries of public money of the United States. 31 CFR Part 202, *Depositaries and Financial Agents of the Federal Government*, governs the designation of depositaries and financial agents of the Federal Government, and their authorization to accept deposits of public money and to perform other services that may be required.

[5] The Federal Deposit Insurance Corporation defines unbanked as lacking any kind of deposit account at an insured depository institution.

satisfaction; Fiscal Service also determined that another metric, *Losses due to fraud and unauthorized use*, was not material.

Fiscal Service announced in September 2007 that it was seeking applications from financial institutions to serve as the financial agent that provides beneficiaries the option of using a prepaid debit card for receiving federal benefit payments electronically. Fifteen (15) institutions responded to the announcement, and Fiscal Service established a financial agent selection process for Direct Express. After reviewing average costs within the debit card industry, Fiscal Service decided not to use a cost model or otherwise create a cost estimate to price the program due to the short time to select a financial agent and belief that pricing would be determined by competition. In addition, Fiscal Service did not develop a quality assurance surveillance plan for monitoring the selected financial agent's compliance with the FAA.

Although we do not take issue with the selection of Comerica as the financial agent for Direct Express, Fiscal Service could not support its determination that Comerica would provide the lowest cost/highest quality service to the cardholders at the time of its selection. Also, Fiscal Service did not document its evaluation of Comerica's full technical capabilities, including Comerica's stated capacity to process and accommodate a nationwide prepaid debit card program for federal beneficiaries.

Fiscal Service entered into an FAA with Comerica, effective January 3, 2008, which stated that Comerica would not charge any fees to the government or any government agency and may charge cardholders only the card usage fees prescribed in the FAA. Although the cost of Direct Express was originally free to the government, Fiscal Service amended the FAA, effective March 31, 2011, to provide compensation to Comerica of $5 per new enrollment processed on or after December 1, 2010, and up to $20 million for infrastructure development support (of which $12.7 million was paid as of June 2013). We found that Fiscal Service did not identify, consider, or document all the available options before deciding whether and how much to compensate Comerica for operating the program.

According to Fiscal Service officials, the rationale to compensate Comerica was based on increased demand for the Direct Express card as a result of the "all-electronic mandate."[6] Fiscal Service anticipated that the mandate would result in enrollments increasing to between 3 million to 4 million cardholders by 2013. Another consideration was that Comerica's revenue did not meet the bank's expectations because of how Direct Express cardholders used the card (e.g., cardholders were by and large withdrawing cash when benefit payments were loaded on the cards instead of using the cards for purchases, resulting in less interchange income[7] to Comerica).

Fiscal Service officials emphasized that financial agents provide specified services in a fiduciary capacity. The officials noted the FAA with Comerica provided for Fiscal Service, in its sole discretion, to modify, add to, or reduce the specific services required under the general scope of the agreement. The FAA also provided that if such a modification, addition, or reduction causes an increase or decrease in the cost of, or the time required for, performance of any service required by the agreement, Fiscal Service and the financial agent will negotiate an equitable adjustment in the price of the service or other terms of performance.

We question whether the anticipated increase in cardholders and the manner in which cardholders used the cards represented a change in scope. Comerica had stated it was fully capable and could readily scale to 20 million or more cardholders in its 2007 application. Furthermore, it specified in a 2010 presentation that it had no capacity concerns because of the mandate. Additionally, in 2010, Comerica informed Fiscal Service that the bank validated the

[6] The "all-electronic mandate" refers to Treasury's December 22, 2010, amendment to its regulation to require recipients of federal non-tax payments to receive payment by EFT, effective May 1, 2011. The effective date was delayed until March 1, 2013, for individuals receiving federal payments by check on May 1, 2011; and for individuals who requested check payments when they filed a claim for federal benefits before May 1, 2011. Individuals who did not choose the direct deposit option would be enrolled in the Direct Express program. Treasury waived the EFT requirement for recipients born before May 1, 1921, and those receiving payments by paper check on March 1, 2013; for payments not eligible for deposit to a Direct Express prepaid card account; and for recipients whose Direct Express card had been suspended or cancelled. In addition, the rule established criteria for granting a waiver if the EFT requirement created a hardship due to mental impairment or remote geographic location.

[7] The primary source of income to Comerica from Direct Express is interchange income.

capacity to handle 5 million cardholders. That said, it should be noted that the FAA states the following:

> "[Fiscal Service] does not guarantee the number of cardholders who will enroll in the program, the dollar amount that will be loaded onto the debit cards, any set quantity or types of transactions that cardholders will complete, any minimum volume of business, or level of compensation to the financial agent, and shall not adjust compensation on the basis that volume level did not meet expectations."

We believe that amending the FAA to compensate Comerica, in effect, served to guarantee a minimum volume of business and level of compensation. Furthermore, Fiscal Service did not validate the revenue and expense information from Comerica before amending the FAA to compensate Comerica and did not adequately validate infrastructure improvements before paying Comerica. Fiscal Service's decision to pay Comerica for infrastructure development support could also provide Comerica with a future competitive advantage in the rebid of the FAA.

Fiscal Service's use of financial agents does not constitute a procurement contract under the purview of the Federal Acquisition Regulation; therefore, the monitoring of FAAs varies by program.[8] Although Fiscal Service monitors Direct Express through various means, we found that Fiscal Service did not (1) review all the monthly activity reports Comerica is required to submit under the FAA; (2) track Comerica's revenues and expenses associated with the Direct Express program; (3) assess the reasons why the anticipated cost savings of the program were not achieved, (4) require Comerica to certify compliance with the FAA annually, as required by the FAA; (5) enforce provisions of the FAA related to Comerica's performance of certain service level requirements; (6) conduct periodic independent customer satisfaction surveys; or (7) develop a formal plan to ensure that customer feedback is

[8] The Federal Acquisition Regulation, Subpart 46.4, Government Contract Quality Assurance, provides, among other things, for a structured approach to ensure that supplies or services being acquired by the government conform to contract specifications through a quality assurance surveillance plan. The quality assurance surveillance plan specifies all work requiring surveillance, the method of surveillance, and the form of documentation for the surveillance.

communicated to the appropriate officials so that necessary actions can be taken.

We also noted that the FAA with Comerica did not include a provision requiring the financial agent to notify the Office of Inspector General (OIG) of instances of possible violations of federal criminal laws such as fraud, conflicts of interest, bribery, or illegal gratuities. We believe such a provision would act as a deterrent and help ensure that possible violations of civil and criminal laws are appropriately handled.

Appendix 2 presents a chronology of significant events regarding Direct Express.

In January 2014, after our audit period, Fiscal Service announced a rebid of the Direct Express program's FAA. The solicitation provides a comprehensive description of the program, including the services to be provided and cardholder usage patterns.[9] The solicitation also includes a timeline for selection and implementation activities, which are expected to be concluded by December 31, 2014. We did note, however, that the solicitation did not indicate the period to be covered by the agreement, a matter we brought to management's attention.

As Fiscal Service rebids the Direct Express FAA, we are recommending that the Fiscal Service (1) create an independent estimate to determine whether proposed compensation by bidders is reasonable; (2) assess bidders' technical capability to process and handle a large nationwide prepaid debit card program; (3) 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; and (4) include a provision in the FAA requiring the selected financial agent to notify OIG of any instances of possible violations of federal criminal laws such as fraud.

To improve program administration of Direct Express, we are recommending that Fiscal Service (1) ensure infrastructure compensation paid to Comerica or any other financial agent is

[9] We did not validate the information in the solicitation as part of this audit.

appropriately supported, (2) 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, (3) 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; (4) track the financial agent's revenues and expenses associated with the Direct Express program throughout the FAA and periodically assess whether financial agent compensation requirements in the FAA remain reasonable and fair to both parties; (5) periodically assess net cost savings of the Direct Express program compared to other benefit delivery methods and determine the reasons for variances from expectations; (6) continue to enforce the annual certification of compliance requirement in the FAA and take action when requirements are not met; (7) consider obtaining periodic independent customer satisfaction surveys to ensure customer feedback is unbiased; (8) develop a formal plan to ensure customer feedback is communicated to the appropriate parties for action, prioritized, and addressed; and (9) ensure that appropriate and complete documentation is maintained for all matters related to FAAs for Direct Express.

Management Response

In a written response, Fiscal Service stated that the Direct Express program was a part of Fiscal Service's efforts to increase the use of electronic payments in accordance with DCIA and supports Treasury's "all-electronic mandate." The increased use of electronic payments significantly reduced the number of paper benefit checks and will save an estimated $1 billion over a 10-year period. Today, nearly 98 percent of all benefit payments are made electronically. Over 5 million beneficiaries, many of whom are unbanked or under-banked, are receiving their monthly payment through Direct Express. Not only has this reduced the cost of government operation; recipients now receive their government payments more safely and securely. For these reasons, Fiscal Service believes the program has been enormously successful.

Treasury's "all-electronic mandate" in December 2010 radically changed the scope and scale of the Direct Express program. The number of cardholders increased from approximately 1.5 million to over 4 million in a 2-year period. Fiscal Service discovered that the newer cardholders had very different banking and customer service requirements than voluntary cardholders, which was the model used to inform the program's initial design. The FAA with Comerica allowed Treasury to renegotiate the terms to reflect different demands and ensure that the agent was able to meet the program's new and broader scope. Fiscal Service made a management determination that the renegotiations resulted in the best value for the government while also maintaining high levels of cardholder satisfaction.

Fiscal Service agrees with many of the audit recommendations to improve the selection, control, and oversight of the financial agent for Direct Express. The bureau already implemented many of them and is currently re-competing the FAA as originally planned, as the current agreement expires January 1, 2015.

OIG Comment

We acknowledge the importance of Direct Express to achieve the goal of DCIA and Treasury's "all electronic mandate." However, as discussed in our report, we are concerned with Fiscal Service's administration of the Direct Express program, its enforcement of the terms of the FAA, and its overreliance on the financial agent for decision-making information. Also, we found that Fiscal Service's documentation supporting key decisions and the 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.

Fiscal Service's response to our 13 recommendations are summarized and evaluated in the body of our report. We determined that Fiscal Service's response and corrective action met the intent of 7 recommendations, and we consider those recommendations closed. For 2 recommendations, Fiscal Service's planned corrective actions also met the intent of the recommendation; however, Fiscal Service will need to provide an estimated implementation date. For 4 recommendations, Fiscal's Service's response either did not meet or only partially met the intent of the recommendation, and we consider those recommendations unresolved. We request that Fiscal Service provide a more detailed response within 30 days for the 6 recommendations that either lacked an estimated implementation date or are unresolved.

Fiscal Service's full written response is provided as appendix 9.

Audit Results

Fiscal Service's Considerations to Establish Direct Express

DCIA required that all non-tax federal payments made after January 1, 1999, be paid by EFT unless waived by the Secretary of the Treasury. DCIA also required the Secretary to ensure that individuals receiving federal payments by EFT have access to an account at a financial institution at a reasonable cost, with the same consumer protections as other account holders at that financial institution.

Debit Card Pilot Program

In its effort to implement DCIA, Fiscal Service developed a debit card pilot program to provide unbanked federal beneficiaries the option of receiving federal benefit payments electronically. According to a June 2006 Fiscal Service concept paper, the goal of the pilot was to determine whether debit cards offered a cost-effective alternative to paper checks for disbursing federal benefit payments. In January 2007, Fiscal Service worked with JPMorgan Chase and SSA to implement a 1-year debit card pilot program. The pilot program required only an addendum to an existing FAA, as JPMorgan Chase was already a financial agent for Treasury. The pilot program included mostly Supplemental Security Income (SSI) and Old Age, Survivors, and Disability Insurance (OASDI) beneficiaries in Chicago and rural and urban areas of Illinois who volunteered for the pilot by replying to a direct mail solicitation.

Fiscal Service determined that the pilot program would be evaluated using eight performance metrics:

- Sign-up rates – obtain 3,000 participants in 6 months
- Cost to government of disbursing a payment
- Cost of card to beneficiary
- Card usage
- Activation rate of 98 percent – 100 percent

- Debit Card/EFT retention rate
- Losses due to fraud and unauthorized use
- Overall customer satisfaction

Eight (8) months into the 1-year pilot, Fiscal Service concluded in a September 2007 evaluation report that the pilot program met three metrics: *Cost to government of disbursing a payment*, *Cost of card to beneficiary*, and *Overall customer satisfaction*. Fiscal Service also concluded that the pilot did not meet two metrics: *Sign-up rates – obtain 3,000 participants in 6 months* and *Activation rate of 98 percent – 100 percent*. According to the evaluation report, Fiscal Service could not draw conclusions for two other metrics: *Card usage* and *Debit Card/EFT retention rate*. Fiscal Service also determined that the other metric, *Losses due to fraud and unauthorized use*, was not material.

With respect to the metric *Cost to government of disbursing a payment*, it should be noted that in fiscal year 2007, during the time of the pilot, Fiscal Service reported that the government's cost of producing and mailing a paper check was $0.98, while an EFT cost $0.10. In a press release from 2008, Fiscal Service estimated that the government would save $44 million annually if every unbanked beneficiary signed up for the prepaid debit card option.

To meet the metric for *Cost of card to beneficiary*, the evaluation report stated the cost to the cardholder to withdraw funds should not exceed the average cost to cash a paper check or purchase a money order. The evaluation report stated the average monthly cost to the beneficiary to obtain cash using the debit card was $3.87, while the average monthly cost to the beneficiary to use the debit card for all transactions was $5.27. The report also stated the fee to cash a government benefit check at a check-cashing outlet ranged from 1 to 5 percent of the check's value with an average charge of 2.44 percent, or $12.19 for SSI benefit payments and $18.52 for OASDI benefit payments for fiscal year 2007.[10] In addition, the average fee for a $100 money order at a check-cashing outlet, if fees applied, was $1.08, whereas the

[10] For fiscal year 2007, the average SSI benefit payment was $499.62 and the average OASDI benefit payment was $758.99.

United States Postal Service charged $1.05 and Wal-Mart charged $0.50.

Fiscal Service worked with JPMorgan Chase to create a customer satisfaction survey for the pilot. Overall customer satisfaction was determined by several components, including cost to the cardholder, likes and dislikes of card features, ease of use, customer service, accessibility, enrollment experience, awareness, and knowledge of the card's benefits. Of the 1,607 cardholders contacted for the survey, 202 (or about 13 percent) completed the survey. Although many cardholders were satisfied with the debit card, suggestions for improving the program included reducing charges and fees, allowing customers to make deposits, removing daily maximum cash withdrawal amounts, and having more automated teller machines (ATMs) and banks in the area. Appendix 4 presents the survey results for the debit card pilot program.

Direct Express Financial Agent Selection Process

Concluding that the pilot's success supported a nationwide rollout, in September 2007, Fiscal Service announced it was seeking applications from financial institutions to serve as the financial agent to provide beneficiaries the option of using a prepaid debit card for receiving federal benefit payments electronically. Treasury's selection of a financial agent does not constitute a procurement effort subject to the requirements of the Federal Acquisition Regulation. In this regard, the Secretary of the Treasury has broad authority in selecting financial agents. According to Fiscal Service officials, the relationship between a financial agent and the government is different from a relationship between a contractor and the government in that a financial agent provides specific services in a fiduciary capacity. The financial agent selection process establishes the general parameters of the selection and designation of a financial agent, where each bureau or office requesting the use of a financial agent is responsible for developing, documenting, and following a financial agent selection process for their program.

The financial agent selection process for Direct Express stated that Fiscal Service would assess each submission based on the following factors, taken as a whole:

- pricing approach
- specific debit card experience for government and corporate programs, including the experience of project managers
- technical capabilities, including the applicant's proposed time frame to implement an enrollment call center/customer service center, its capacity to process a large debit card business, leveraging of existing solutions, system security measures, physical security measures, personnel security measures, and infrastructure flexibility
- overall organizational and project management skills
- strength of written application and oral presentation of the project manager
- management commitment
- customer references
- best interest of the government
- any other appropriate factors

Fiscal Service's Selection of Comerica Bank

Fifteen (15) institutions responded to Fiscal Service's announcement for a financial agent for Direct Express. After an initial review, Fiscal Service determined that all but two of the applicants met the requirements of the financial agent selection process.[11] Fiscal Service conducted a preliminary evaluation of the remaining 13 applicants to determine whether each applicant:

- Was qualified to act as a financial agent
- Had partners or affiliated organizations with which Treasury had no concerns
- Was qualified to issue MasterCard- or Visa-branded debit cards nationwide
- Was able to establish reloadable debit card accounts insured by the Federal Deposit Insurance Corporation and subject to Regulation E[12] protection

[11] One financial institution failed to meet the requirement to issue branded debit cards nationwide. Another applicant failed to meet the requirement of being a financial institution.

[12] Regulation E, set forth by the Board of Governors of the Federal Reserve System, outlines the rules and procedures for electronic funds transfers and the guidelines for those who sell and issue electronic debit cards. Rules for consumer liability for unauthorized card usage fall under this regulation as well.

- Was able to establish and staff an enrollment and customer service call center with U.S. citizens or lawful resident aliens no later than January 2008
- Had sufficient experience issuing debit cards

Following this evaluation, Fiscal Service eliminated 1 of the 13 applicants because the applicant had limited experience as a debit card provider. Fiscal Service personnel stated that this applicant did not provide information about the number of cards issued, number of customers supported or the size of its portfolio, and did not submit a signed transmittal letter as required by the application instructions. Fiscal Service did not retain a copy of this financial institution's application.

The remaining 12 applicants were evaluated for experience providing debit card services to government entities; pricing, size and distribution of a surcharge-free ATM network; and the ability to carry out the mission of Direct Express. According to the Fiscal Service Commissioner, there were three important elements in the selection of a financial agent for the program: (1) senior management commitment to the program, (2) strong project management, and (3) technical capability and proficiency in the prepaid debit card market. Based on these and other elements, Fiscal Service selected six finalists to give oral presentations. Fiscal Service, however, did not document the content or results of the oral presentations. Appendix 5 presents our analysis of the six finalists' applications.

On January 3, 2008, Fiscal Service entered into an FAA with Comerica as the service provider for Direct Express, and publicly announced its decision the following day. According to Fiscal Service's evaluation report, Comerica was selected for the following reasons:

- Cardholder Fees - Comerica offered pricing at no cost to the government and the lowest fees to the cardholders
- Marketing Contribution - Comerica and MasterCard offered contributions to market the program
- Surcharge-Free Network - Comerica offered the largest surcharge-free ATM network, with 53,160 ATMs
- Experience - Comerica and its partner had deployed 25 state debit card programs in 13 states

- Debit Card Features - Comerica offered deposit notifications via email, phone, and text message; low-balance alert notices; online bill pay, and the ability to transfer funds using Interactive Voice Response (IVR)
- Strength of Presentation - According to Fiscal Service officials, Comerica's written application and oral presentation were outstanding. Comerica's representatives asked pertinent questions and answered the selection panel's questions with detailed information
- Other Distinguishing Services - Comerica offered online enrollment options and an identity verification process. Comerica was sensitive to the needs of SSI recipients and trained its customer service representatives to deal with OASDI and SSI recipients. Comerica also planned to give customer service representatives elderly abuse training; its web site was compliant with the Americans with Disabilities Act; its software platform was designed solely for government business; and Comerica said it would retain an overstock of debit cards of 8 to 10 percent for emergencies.

We analyzed the applications of the six finalists and noted the following:

- All of the six finalists offered pricing at no cost to the government
- Comerica was the only finalist that stated it had a capacity constraint, which was 20 million cardholders (given that anticipated enrollments were well below 20 million, we do not consider this stated constraint a major factor)
- Comerica was not the only finalist with a large surcharge-free ATM network
- Three other finalists were larger as far as asset-size and had greater nationwide name recognition
- Comerica did not have direct experience working with the Federal Government, nor had it previously been a financial agent for Treasury. Other finalists had experience working with the Federal Government, and three were already financial agents for Treasury

It should also be noted that Fiscal Service officials were unable to support how they determined that Comerica would have provided the lowest fees to cardholders. Though Fiscal Service staff created a spreadsheet with calculations that indicated this to be the case, they could not provide us with support for these calculations.[13] Fiscal Service management also did not document their evaluation of the finalists' full technical capabilities, including the capacity to process a large number of prepaid debit cards and accommodate a large number of cardholders nationwide. Despite these documentation weaknesses, we determined that the financial agent selection process for Direct Express was thorough and identified the top applicants as finalists. We concluded that Fiscal Service's choice of Comerica was reasonable in that all six finalists had sufficient capacity (at least on paper) to operate the program.

As a result of our review of Fiscal Service's financial agent selection process for Direct Express, we believe that the process would be strengthened by (1) creating an independent government cost estimate to help determine whether the proposed costs by bidders are reasonable, and (2) assessing the technical capabilities of bidders.

Monitoring Compliance with the Financial Agency Agreement

Standards for Internal Control in the Federal Government[14] require agency management to conduct effective monitoring, assess program quality and performance, and address any identified deficiencies. A Fiscal Service official stated that each FAA and program is different, and thus the monitoring of FAAs will, by necessity, vary by program/activity. Fiscal Service's monitoring of Direct Express consisted of (1) creating a monthly dashboard that tracked certain program activity using information from Comerica's monthly activity reports, (2) holding bi-weekly senior management meetings with Comerica and operations calls with benefit-paying agencies, (3) reviewing customer satisfaction survey results, (4) monitoring payment postings on the 1st of the month, and

[13] The spreadsheet showed a calculated amount of $62,400 in cardholder fees for Comerica, which was the lowest for the six finalists. The calculated amount for the next highest finalist was $63,900.

[14] The Federal Managers' Financial Integrity Act of 1982 requires the Comptroller General of the United States to issue standards for internal control in government. The standards provide the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement. GAO/AIMD-00-21.3.1, *Standards for Internal Control in the Federal Government* (Nov. 1999), requires federal agencies establish accounting and administrative controls in accordance with the Standards.

(5) receiving hourly updates on call center operations when call volume peaks on the 1st and 3rd of each month.

While those activities are important to program monitoring, Fiscal Service needs a more comprehensive approach to ensure financial agent compliance with the FAA, and to determine whether the Direct Express program is achieving the intended results. A critical concept in federal procurement regulations is that quality assurance surveillance plans be put in place to determine if the government is actually receiving the goods and services it purchased in accordance with the contract. Fiscal Service did not develop a quality surveillance plan to determine if the government and cardholders were receiving services in accordance with the FAA. While we understand that FAAs do not come under the purview of federal procurement law and regulations, we believe that the critical concept of establishing and following a quality assurance surveillance plan should be applied to FAAs, as a best practice.

Monthly Activity Reports

The FAA required that Comerica provide monthly activity reports to Fiscal Service; however, Fiscal Service did not review some of the reports that were submitted.

The FAA states that

> "At minimum, the Financial Agent shall supply the following information, separately by payment type, in the manner and format agreed upon by the parties: revenue fees by category and/or transaction type (including transaction fees by transaction type, interchange fees,[15] float earnings, issuer reimbursements, and other revenue or earnings), cardholder surcharge fees paid (fees added by merchants when a cardholder uses the card), automated clearing house (ACH) rejects (rejected transactions), enrollment rejects, identity verification rejects (when the enrollee's identity cannot be verified), funding reports, adjustment reporting,

[15] Financial institutions receive interchange fees when a purchase is made with a debit card issued by the financial institution.

financial activity (including loads, amounts, ATM withdrawals, PIN-based (personal identification number-based) and signature-based transactions and POS (point-of-sale) with cash-back combination transactions, aggregate account balance, aggregate transaction types), cardholder account activity (summary of activated, active, and closed accounts), cardholder demographic activity, cardholder issuance activity, enrollment activity, including the number of calls or website access statistics in response to specific marketing activity (which may require daily reports), service level metrics and customer service activity."

Fiscal Service personnel created a monthly dashboard to track certain program activity using the information from the monthly activity reports received from Comerica.[16] The monthly dashboard served as a summary of some of the items obtained from Comerica, but did not include any comparisons against the metrics in the FAA or other analytics.

According to Fiscal Service personnel, Fiscal Service did not review (and in some cases did not realize that it had) the following four monthly reports submitted by Comerica:

- Revenue fees by category and/or transaction type (including fees by transaction type, interchange fees, float earnings, issuer reimbursements, and other revenue or earnings),
- Cardholder surcharge fees paid,
- Identity verification reports, and
- Cardholder demographic reports.

We believe that reviewing the reports required by the FAA could improve Fiscal Service's monitoring of the FAA with Comerica and future FAAs. Without reviewing this information, Fiscal Service

[16] The monthly dashboard reported on (1) monthly enrollment numbers, (2) the total number of open accounts, (3) the total number of cards issued and activated, (4) the total dollars loaded onto the cards, (5) the total value of ATM withdrawals, (6) the total and average value of POS transactions, (7) the total and average value of over-the-counter transactions, (8) the average amount of ATM withdrawals, (9) the average number of transactions, (10) total agency deposits, and (11) daily IVR call volume.

management is unable to make fully informed decisions about the program such as the cost of the card to the cardholders, the revenues earned by Comerica from the program, and the risk of identity theft.

Revenues and Expenses of the Program

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 staff obtained a spreadsheet from Comerica that showed it received $298,394,638 in revenue from the Direct Express program as of March 2013 (which included approximately $32.5 million in compensation from Fiscal Service). Appendix 6 shows the Direct Express program revenues and expenses since its inception in 2008. To improve the administration of the Direct Express program, we believe that Fiscal Service should track the financial agent's revenues and expenses of the program to ensure that more informed decisions regarding the financial gain or burden of the program are made, and to help assess the financial agent's efficiency.

Cost of the Program

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 about $32.5 million. When the Direct Express program 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. We found that Fiscal Service has not assessed the reasons for the variance between the estimated savings ($44 million a year) and the actual savings ($39.5 million over nearly 4½ years).

During the financial agent selection process, Fiscal Service officials were unable to support how they determined that Comerica would have provided the lowest cost to cardholders. We believe that the cost burden of the fee structure to cardholders should be considered on an on-going basis as changes to technology and the business environment occur.

Service Level Requirements in the FAA

Comerica has not consistently met some service level requirements in the FAA and Fiscal Service has not enforced these requirements. The FAA sets service level requirements, including those for account set-up, card issuance, payments, customer service representative response time, IVR, call center abandonment rate, and customer service representative call quality. A Fiscal Service official stated that these service level requirements were developed in 2007 and 2008 to accommodate approximately 1.2 million cardholders, and are not realistic today with over 5 million cardholders. While this official stated the service level requirements in the FAA did not take into account the rapid growth and changes to the program, Fiscal Service had not created new service level targets. We believe that Fiscal Service should analyze Comerica's performance against the service level requirements in the FAA, assess Comerica's ability to meet those requirements, and develop new service level targets, if appropriate. We also believe that Fiscal Service should enforce the service level requirements in the FAA for Comerica and all financial agents of the Direct Express program going forward. Appendix 7 shows Comerica's performance against the customer service response time requirement for the month of May from 2009 to 2013.

Annual Certification Confirming Compliance with the FAA

The FAA requires that Comerica annually certify its compliance with the FAA. Among other things, this requires that the bank certify that it is not delinquent on any federal tax obligation or other debt owed to the federal government. A Fiscal Service official stated that Fiscal Service had not been enforcing the annual certification requirement. However, in October 2013, for the first time, Fiscal Service did obtain Comerica's certification of compliance. In the certification, Comerica disclosed that certain requirements of the FAA were not met. For example, Comerica had not implemented an agreed upon card feature (web bill pay) nor met certain other service level requirements.

Direct Express Customer Satisfaction Surveys

The FAA requires Comerica to conduct monthly customer satisfaction surveys. The survey questions were created by Fiscal

Service and cleared through the Office of Management and Budget. We found that the customer satisfaction surveys were conducted annually, not monthly. Fiscal Service was satisfied with the frequency of the surveys and we do not consider this non-compliance with the FAA to be a significant issue. As an observation, however, we do note that the surveys were not independent (i.e., conducted by a party reporting directly to Fiscal Service), but rather conducted by a company commissioned by Comerica and MasterCard.

A Fiscal Service official stated that survey results have led to changes in the program, resulting in decreased customer service call wait times and new account features such as text message service alerts, and bill pay options. However, Fiscal Service lacked a formal process to track how customer feedback from surveys is prioritized and addressed. We noted recurring suggestions in the customer satisfaction surveys regarding eliminating fees and increasing the number of surcharge-free ATMs. Also, the survey conducted in 2012 reported that 40 percent of cardholders continued to be unaware of locations for surcharge-free ATMs. We believe a formal process to track how customer feedback from surveys is prioritized and addressed will help ensure customer feedback is communicated to the appropriate parties for action.

Oversight Clause

The FAA with Comerica included an audit clause giving Fiscal Service and entities authorized by Fiscal Service the right to conduct announced and unannounced reviews and audits. That, along with our office's authorities under the Inspector General Act of 1978, provides sufficient authority for audit. We did note, however, the FAA did not include a provision requiring that Comerica notify OIG of instances of possible violations of federal criminal laws regarding fraud, conflict of interest, bribery, or illegal gratuities. We believe such a provision would act as a deterrent and help ensure that possible violations of civil and criminal laws are appropriately handled.

Financial Agency Agreement Amendments

Fiscal Service amended the FAA with Comerica twice. The first amendment, effective December 2008, was made to recognize that the government's access to particular information held by

Comerica is governed and sometimes restricted by information access laws such as the Right to Financial Privacy Act. The amendment also clarified that benefits paid by the government became funds owned by the cardholder; and granted Fiscal Service a license to use, modify, and create derivative works from all marketing materials for the program.

The second amendment, effective March 2011, provided for Fiscal Service to compensate Comerica as follows:

- $5 for each new enrollment processed on or after December 1, 2010; and
- up to $20 million for infrastructure development support, with an initial payment of $10 million to be made within 30 days of the effective date of the amendment.

The justification to begin compensating Comerica for services it had been performing at no cost to the government was described in a March 8, 2011, memorandum from the Fiscal Service Assistant Commissioner for Payment Management to the Fiscal Service Commissioner and Deputy Commissioner. The memorandum stated that Fiscal Service should consider compensating Comerica for continued development and on-going services needed to support the program, as the "all-electronic mandate" required Comerica to make a substantial investment in infrastructure to support the significant increase in cardholders. Furthermore, card usage patterns of Direct Express cardholders had resulted in lower revenues than anticipated.

According to the memorandum, Fiscal Service had four possible responses to the program's economic issues: (1) do nothing and allow Comerica to continue to lose money operating the program; (2) terminate the program and undertake the effort and expense of transitioning over 1 million cardholders back to paper checks; (3) authorize Comerica to increase fees assessed on cardholders, which would conflict with the program's original goal of providing a low-cost payment option for unbanked beneficiaries; or (4) provide compensation to Comerica, the option recommended in the memorandum. Although the recommendation was not approved in writing, the Commissioner and Deputy Commissioner told us that they believed that compensation was the best option and authorized this amendment to the FAA.

Fiscal Service, however, did not consider other options such as re-bidding the FAA. In addition, Fiscal Service could not be sure that Comerica was losing money running the program because it did not validate revenue or cost information from Comerica before amending the FAA in March 2011.

According to the memorandum:

- Treasury's "all-electronic mandate" would significantly increase the demand for the Direct Express card. Fiscal Service anticipated that the approximately 11 million recipients who were receiving benefit payments by check would eventually move to the Direct Express Debit MasterCard in large numbers (estimated at 3 million to 4 million by 2013).
- Comerica's interchange income was lower than what Fiscal Service and Comerica expected, and was significantly below the interchange fee income generated by Comerica's state benefit, payroll, and general purpose reloadable debit card programs. The memorandum stated this deviation in expected earnings was due to unanticipated usage patterns of cardholders that differed greatly from the state benefit programs upon which Comerica modeled its assumptions in its 2007 application. For example, almost half of the Direct Express cardholders withdrew their entire balance the day after payment was received, rather than leaving funds on the card and spending it throughout the month, which would have allowed Comerica to generate interchange fee income.
- Comerica's costs increased because cardholders' demand for live customer service telephone assistance was significantly higher than expected.
- Comerica's costs increased because benefit-paying agencies did not always follow the rules laid out in the Green Book[17] and could not bring its systems into compliance with standard ACH operating procedures. In addition, some benefit-paying agencies manually enrolled program participants, and the information supplied carried an unusually high rate of errors.
- Comerica's revenue was insufficient to cover the program's costs. According to the memorandum, Comerica produced an

[17] The Green Book, issued by Fiscal Service, is a guide for financial institutions processing Federal Government ACH payments and collections.

analysis of the projected revenues and expenses for the program from which Fiscal Service concluded that Comerica would incur a projected loss of $124 million through 2014.

We have the following observations about the March 2011 memorandum and Fiscal Service's decision to amend the FAA.

"All-Electronic Mandate"

Although Fiscal Service's memorandum said the "all-electronic mandate" would significantly increase the demand for the Direct Express card, Comerica's application to become the financial agent for the program, dated October 2, 2007, stated "Comerica, along with its strategic solutions partner, was fully capable and had the existing capacity to readily scale to 20 million or more cardholders." In addition, in a presentation to Fiscal Service on May 21, 2010, Comerica stated that it had no concerns about its capacity for managing cardholder accounts, and that it had validated its capacity for 5 million cardholders during the bid process. When Fiscal Service amended the FAA in March 2011, there were approximately 1.8 million cardholders in the program, representing a small fraction of Comerica's stated capacity (20 million cardholders) in October 2007 and well under Comerica's validated capacity (5 million cardholders) in May 2010.

When we asked Fiscal Service officials about Comerica's capacity to readily scale to 20 million cardholders, they told us Comerica did not indicate that it could actually handle 20 million cardholders, but rather that it could grow to accommodate that number. We note, however, that Comerica's application did not use any qualifier in its stated capacity. The Fiscal Service official who wrote the March 2011 memorandum stated that he was unaware of Comerica's stated capacity of 20 million cardholders in its application. Considering that an increase in the number of cardholders was a factor in providing infrastructure development compensation to Comerica, Fiscal Service should have explored why Comerica could not accommodate the increase in cardholders, given its stated and validated capacity.

Interchange income was lower than expected and cardholder usage patterns decreased income

Although the FAA stated that Fiscal Service and the financial agent will negotiate an equitable adjustment in the price of the service or other terms of performance in the event of a change in the scope of services occurs, it also stated that Fiscal Service would not change the compensation paid to Comerica if the volume of business from the card did not meet expectations. According to the memorandum, Treasury unilaterally expanded the scope of services required of Comerica. However, the amendment to compensate Comerica mentions no changes or expansion in the scope of services, but rather a significant increase in the number of individuals who enrolled in the Direct Express program. In addition, the memorandum asks the Commissioner and Deputy Commissioner to "consider compensating [Comerica] for *continued* development and *on-going* services needed to support the program."

The original FAA stated "[Fiscal Service] does not guarantee the number of cardholders who will enroll in the program, the dollar amount that will be loaded onto the debit cards, any set quantity or types of transactions that cardholders will complete, any minimum volume of business, or level of compensation to the financial agent, and shall not adjust compensation on the basis that volume level did not meet expectations." When we asked why Fiscal Service officials decided to compensate Comerica in light of this language in the FAA, a Fiscal Service official stated that they did not want Comerica to fail for providing the government a service.[18] Although the Fiscal Service memorandum stated that cardholder usage was not as expected, the way that cardholders used Direct Express was similar to that of cashing a federal benefit check and consistent with the usage patterns noted in the 2007 pilot program evaluation report. In other words, we believe cardholder usage patterns should not have come as a surprise to either Fiscal Service or Comerica.

[18] It should be noted that as December 2013, Comerica reported $65.2 billion in assets and equity of $7.2 billion.

Cardholder usage patterns increased costs

According to Fiscal Service officials, cardholders' demand for call center customer service was higher than expected. According to Fiscal Service, call volume increases at very concentrated times, once or twice a month, for approximately 2 hours (from midnight to 2:00 a.m.), around the benefit payment date. Monthly activity reports showed that call volume ranged from about 2.8 million calls in June 2009 to about 17.4 million calls in May 2013. Of the 17.4 million calls in May 2013, approximately 5 percent, or 862,000 callers, opted to speak to a customer service representative and 590,000 calls were answered by a customer service representative. In its application in 2007, Comerica stated it was fully prepared to support the debit card program; and would increase its staff at three of its call centers as needed. According to the application, each of these centers support nearly 3 million government debit cardholders and more than 2 million electronic benefit transfer cardholders, 24 hours a day, 7 days a week. Appendix 8 shows the Direct Express call volume levels since May 2009.

Fiscal Service officials stated that a reason for providing infrastructure payments to Comerica was to maintain a high level of customer service and to decrease call center wait times; however, Comerica's monthly activity reports showed that customer service response times did not measurably change after the bank received infrastructure payments. Appendix 7 shows the customer service response time for the month of May from 2009 to 2013. Since 2010, Fiscal Service has paid approximately $12.7 million to Comerica for infrastructure development. According to Comerica, $7.8 million of that amount was for improvements to the call centers and the remaining amount ($4.9 million) was for technology releases, project management, and back-office costs. In December 2012, Comerica estimated that it would need an additional $8.4 million to increase staff at call centers in 2013 and 2014, which would increase support for the call centers to a total of $16 million. To date, Comerica has not requested the additional funding nor has Fiscal Service paid the amount.

Unique needs at benefit-paying agencies

Fiscal Service's March 2011 memorandum stated that unique needs and problems at benefit-paying agencies increased program costs, requiring Comerica to modify its software to accept and process nonstandard payment transmissions. Although this issue was resolved before the March 2011 memorandum, a Fiscal Service official stated that it still had an economic impact on the program, as Comerica had already incurred the additional costs to resolve the issue. The expectation that the Direct Express program would be extended to other federal benefit payments was evident in 2007. In this regard, we believe Fiscal Service could have vetted these types of technical and information system capability concerns during the financial agent selection process, especially for a financial institution that was not a current financial agent for Treasury.

Revenues were insufficient to cover the costs of the program

In anticipation of Treasury instituting the "all-electronic mandate" (announced in December 2010), Fiscal Service and Comerica held discussions about compensating Comerica for the Direct Express program. On May 21, 2010, Fiscal Service asked Comerica to submit a proposal for compensation, if needed. Comerica electronically submitted three compensation proposals to Fiscal Service on October 28, November 1, and November 2, 2010.

- The October 28, 2010, proposal was for a monthly maintenance fee ranging from $1.325 to $1.425 for each issued card; a $3 fee for each new enrollment; and an extension of the FAA through January 2015. According to a Fiscal Service official, this proposal was rejected because it was entirely based on fees and Fiscal Service did not want to lock the government into a fee structure without considering other options, such as an upfront investment.
- The November 1, 2010, proposal was for a monthly maintenance fee of $0.92 per card; a $10 fee for each new enrollment; a lump sum development investment of $11 million; and two 1-year extensions of the FAA through January 2015. According to a Fiscal Service official, the November 1 proposal was closer to what Fiscal Service was expecting; however, Fiscal Service wanted to ensure the

program would be in a good position to handle the additional cardholder volume because of the “all-electronic mandate.”

- The November 2, 2010, proposal was for a monthly maintenance fee of $0.92 per card; a $5 fee for each new enrollment, with an additional $5 fee if the enrollment was made in late 2012 or early 2013 to comply with the mandate; a lump sum development investment of $20 million; and two 1-year extensions of the FAA through January 2015. Fiscal Service preferred a larger upfront investment versus a fee-based compensation model.

According to a Fiscal Service official, the $5 enrollment fee was considered appropriate compensation for setting up new enrollments given the additional requirements imposed on Comerica from the “all-electronic mandate,” and for certain software adjustments to accommodate benefit-paying agencies. The official also stated that an upfront investment to resolve call center issues was preferred over monthly fees, and the term of the FAA was extended because Fiscal Service did not want it to expire near the March 2013 deadline for the “all-electronic mandate”. In addition, Fiscal Service rejected Comerica’s proposal to charge the government monthly maintenance fees because the need for the fee was not adequately supported in Comerica’s proposals. The official also noted that Comerica could increase its revenue by educating cardholders on how to use the card. For example, if Comerica could convince cardholders not to withdraw all their funds when a payment is received and use the card for purchases, Comerica’s interest and interchange fee income would increase.

In November 2010, Fiscal Service asked Comerica to detail the differences between its bid assumptions and the program as implemented. On December 6, 2010, Comerica submitted a slide presentation via email comparing its bid assumptions to the implemented program and the requirements set forth by the “all-electronic mandate”. In the slide presentation, Comerica showed that most of its bid assumptions were based on its experience with state benefit programs, “conservatively adjusted” for federal benefit programs. The slide presentation included predictions of the program’s expected revenues and expenses through 2014, with expenses exceeding revenues by $124 million. Although we did not audit the revenues and expenses of the Direct Express program or these projections, we noted a large variance between

Comerica's projections and the actual revenues and expenses of the program. For example, Comerica's slide presentation projected that through 2014, program revenues would be $514 million and expenses would be $638.3 million, based on 142 million benefit payments made through 2014. However, as of March 2013, Direct Express program revenue was $298 million (including approximately $32.5 million paid by Fiscal Service) and expenses were $290 million. Appendix 6 shows Direct Express program revenues and expenses.

Compensation Payments Made to Comerica

Card Enrollment Fees

As of June 2013, Fiscal Service paid Comerica approximately $19.8 million in card enrollment fees.[19] Each month Fiscal Service received an invoice from Comerica for enrollment fees. Once the invoice was received, Fiscal Service personnel divided the dollar amount that Comerica requests by $5 and compared that number to Comerica's enrollment report for that month. While this step compared Comerica's invoices with Comerica's monthly enrollment numbers, the procedure did not determine whether Comerica's report of the number of enrollments was accurate. The Federal Reserve Bank (FRB) of St. Louis tracked the number of federal ACH enrollments processed each month. Twice a year, Fiscal Service personnel compared FRB's enrollment information to Comerica's enrollment number to gauge the accuracy of Comerica's information. To date, there have not been any significant variances. We believe this is a practical test for determining the reasonableness of Comerica's reported enrollment number.

Infrastructure Development Support

Fiscal Service did not obtain documentation to support infrastructure compensation, or confirm that the Fiscal Service infrastructure payments resulted in infrastructure improvements for the Direct Express program. Since the second amendment of the FAA, Fiscal Service paid Comerica twice for infrastructure development: $10 million in April 2011 and approximately

[19] The amended FAA provided that the enrollment fee be paid even if the issued card was not activated or the cardholder did not receive a benefit payments.

$2.7 million in December 2012, for a total of approximately $12.7 million.

Comerica's invoice for the $10 million payment in April 2011 listed the items the funds would pay for as required by the March 2011 amendment, but did not list dollar amounts or a timeline for making those improvements. The items listed in the FAA amendment included, among other things, live operator call center costs; the hiring and training of staff; pilot programs needed to add another Federal agency to the program; costs to improve data transfers; and marketing costs. In December 2012, Comerica submitted a second invoice detailing pre-approved infrastructure development items and the corresponding costs. According to a Fiscal Service official, Comerica requested approximately $3.3 million, but Fiscal Service approved only $2.7 million. Fiscal Service did not approve approximately $600,000 in expenses earmarked for Comerica's Direct Express PayPerks program.[20] According to a Fiscal Service official, a goal of the Direct Express PayPerks program was to increase POS transactions, and thus increase interchange income for Comerica. The official stated that the government should not bear the cost for something that increases the bank's revenue. We agree.

Fiscal Service paid the full amount for infrastructure development support without receiving additional documentation to support the need for the payment, and without confirming that improvements were actually made. We believe that Fiscal Service should ensure infrastructure improvements were needed and justified. Going forward, if such a scenario were to present itself again, Fiscal Service should ensure that timelines are established for making improvements and verify that improvements are made before making a full payment to Comerica or any other financial agent.

As another observation, the Fiscal Service personnel responsible for reviewing compensation to Comerica told us that although enrollment fee payments made to Comerica went through two levels of review and approval, infrastructure development payments were reviewed and approved by one person. The

[20] The Direct Express PayPerks program was a marketing effort that educates cardholders about using the card for POS transactions and bill payments, and how to prevent identity theft.

Standards for Internal Control in the Federal Government advise Federal agencies to divide key duties and responsibilities among different employees to reduce the risk of error and fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing transactions, and handling any related assets, as no one individual should control all key aspects of a transaction or event. In this regard, Fiscal Service should consider internal controls standards regarding the segregation of duties as it relates to payments made to Comerica for infrastructure development support.

Concluding Remarks

Although Fiscal Service's decisions to create Direct Express and select Comerica as the program's financial agent were reasonable, we are concerned with Fiscal Service's administration of the Direct Express program, its enforcement of the terms of the FAA, and its overreliance on Comerica for decision-making information. Fiscal Service did not construct an independent government cost estimate during the financial agent selection process or before amending the FAA to determine whether the costs Comerica incurred or may incur in performing services for Direct Express were reasonable and fair. Particularly surprising to us was that Comerica never formally asked Fiscal Service for a change in the FAA to provide compensation.[21] Furthermore, Fiscal Service did not validate the costs Comerica incurred prior to approving compensation. In fact, we believe that the compensation for infrastructure development support could give Comerica a competitive advantage as Fiscal Service rebids the program. We are also concerned that Fiscal Service did not vigorously enforce, or formally amend as appropriate, the minimum service level requirements imposed on Comerica by the FAA. Also, we found 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.

[21] During our audit, we asked Fiscal Service officials on several occasions if such a formal request by Comerica existed, and were told it did not.

In January 2014, Fiscal Service announced a rebid of the Direct Express program's FAA. The solicitation provides a comprehensive description of the program, including the services to be provided and cardholder usage patterns.[22] The solicitation also includes a timeline for selection and implementation activities, which are expected to be completed by December 31, 2014. We believe the solicitation provides bidders with much better information to make informed proposals to Fiscal Service for managing Direct Express going forward. That said, we believe Fiscal Service would be well served to ensure that proposed costs by bidders are appropriate and reasonable and that the selected financial agent has the technical capacity to manage the program and meet the service level performance requirements of the FAA.

Recommendations

As Fiscal Service rebids the Direct Express FAA, we recommend that the Fiscal Service Commissioner:

1. Create an independent estimate to determine whether proposed compensation by bidders is reasonable.

   Management Response

   Fiscal Service agreed that the government should receive multiple estimates to determine the true cost of operating the program. During the re-competition of the FAA, Fiscal Service asked each bidder to estimate the compensation they will require so that the selected financial agent does not operate at a loss while maintaining cardholder fees at current levels.

   OIG Comment

   We consider the recommendation unresolved. Although the solicitation requests that bidders submit proposals for financial support for operational costs, Fiscal Service did not indicate whether it would develop an independent estimate to determine whether the proposed compensation by the bidders is reasonable.

[22] We did not validate the information in the solicitation as part of this audit.

2. Assess bidders' technical capability to process and handle a large nationwide prepaid debit card program.

Management Response

Over the past 7 years, Fiscal Service has developed a greater level of expertise about the magnitude and nature of the Direct Express program. For the re-competition of the FAA, Fiscal Service designed a two-phase selection process that first evaluates the bidders' capacity to handle a program of this size. In the solicitation, Fiscal Service included quantitative measures of program participation and cardholder banking patterns. Before a bidder can advance to the second phase of evaluation, the bidder must cite its actual experience in operating a debit card program with similar characteristics to Direct Express.

OIG Comment

We consider the recommendation unresolved. While the response describes a two-phased selection process regarding bidders' capacity, the response does not state how Fiscal Service will assess bidders' technical capabilities. We believe that Fiscal Service needs to validate the bidders' claimed capacity, including their call center operations, for those bidders that advance to the second phase of the selection process.

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

Management Response

Fiscal Service monitors all of the reports submitted by the current financial agent. Information on fees paid by transaction type as well as 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 will be continued by the financial agent selected through the re-competition. The requirement for these reports is included in the solicitation.

OIG Comment

Our recommendation was for Fiscal Service to assess the monthly activity reports required by the FAA for their continued relevancy and usefulness in monitoring the program. According to Fiscal Service personnel, Fiscal Service did not review (and in some cases did not realize that it had) some of the monthly reports submitted by Comerica. To the extent Fiscal Service commits to (1) determining which reports are relevant and should be required, and (2) monitoring those reports, Fiscal Service's response meets the intent of the recommendation. We consider the recommendation closed.

4. Include a provision in the FAA requiring the selected financial agent to notify OIG of any instances of possible violations of federal criminal laws such as fraud.

   Management Response

   An amendment has been added to the current FAA that includes a requirement to notify OIG in cases of violation of federal criminal laws. This language will also be continued in the FAA for the financial agent selected in the re-competition.

   OIG Comment

   The response meets the intent of the recommendation and we consider the recommendation closed.

To improve program administration of Direct Express, we recommend that the Fiscal Service Commissioner:

5. 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.

   Management Response

   Fiscal Service will continue to follow its well-established process for re-negotiating the terms of an FAA, in accordance with the language contained in the FAA, when the scope of the agreement has changed. Fiscal Service will prepare a decision memorandum for bureau leadership and counsel after the program manager and the agent have shared objective data on the magnitude and cost of the change of scope and have agreed to a level of compensation that fairly balances the needs of the program while ensuring fair value for the government.

OIG Comment

We consider the recommendation unresolved. While Fiscal Service describes a process to identify and justify the need for things like infrastructure payments, the response does not address how Fiscal Service will determine that infrastructure improvements are actually made before payment; and the related payments are not made until they are reviewed and approved by more than one person.

6. 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.

Management Response

Fiscal Service concurs that measuring the cardholders' overall satisfaction with the card is appropriate to ensure good program execution. The bureau plans to continue to measure cardholder satisfaction through surveys of cardholders. The survey will: (1) assess the cardholders' general satisfaction with the Direct Express card and (2) identify any areas where the cardholder is having difficulty such that it might inhibit proper use. The survey will also determine if there are any new features or capabilities that the cardholder would like to see on the card. For example, an uptick in ATM withdrawal fee revenue to the financial agent may be indicative of the need for additional free ATM cash withdrawals.

OIG Comment

We consider the recommendation unresolved. While surveys of cardholders provide important information as to overall satisfaction levels and areas for improvement, we believe Fiscal Service needs to separately and on an on-going basis monitor the costs and burden to the cardholder by looking at cardholder usage patterns and the totals costs incurred by the cardholders given those patterns.

7. 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.

   Management Response

   After the re-competition of the FAA, Fiscal Service will establish a performance measurement program for the Direct Express financial agent. The program would monitor three dimensions of agent performance: efficiency, customer satisfaction, and compliance. Additionally, the program manager would provide the financial agent a monthly score (from 1 to 5) in each of the three dimensions of performance.

   OIG Comment

   To the extent that Fiscal Service takes corrective action to address financial agent shortfalls in performance, to include when service level requirements are not met, the response meets the intent of the recommendation. We consider the recommendation closed.

8. Track the financial agent's revenues and expenses associated with the Direct Express program throughout the FAA and periodically assess whether financial agent compensation requirements in the FAA remain reasonable and fair to both parties.

   Management Response

   Fiscal Service currently monitors the revenues and expenses of the financial agent and will continue to ensure the FAA compensation remains reasonable and fair to all parties.

   OIG Comment

   The response meets the intent of the recommendation and we consider the recommendation closed.

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

   Management Response

   Fiscal Service routinely monitors the unit costs associated with all of the payment delivery processes for which it is responsible (e.g., checks, EFT, letter-of-credit, etc.). 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. Now that expensive paper checks are a miniscule portion of total payments, Fiscal Service intends to increase its focus on the unit cost differences among the various EFT delivery mechanisms.

   OIG Comment

   In recognition that comparing the cost of EFT to paper checks is now less relevant as a measure of savings, Fiscal Service's planned focus on EFT cost differences meets the intent of the recommendation. We consider the recommendation closed.

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

   Management Response

   Fiscal Service 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.

   OIG Comment

   The response meets the intent of the recommendation and we consider the recommendation closed.

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

Management Response

Fiscal Service intends to continue the practice of a third-party survey of cardholders that is conducted annually by a firm under contract to the financial agent. Fiscal Service has no reason to doubt the objectivity of a professional research firm.

OIG Comment

We acknowledge Fiscal Service's intention to continue the practice of having surveys conducted annually by a firm under contract with the financial agent. We consider the recommendation closed.

12. Develop a formal plan to track how customer feedback from surveys is communicated to the appropriate parties for action, prioritized, and addressed.

    Management Response

    Fiscal Service intends to carefully integrate the actionable recommendations that emerge from the cardholder survey into its management of the Direct Express program. Fiscal Service is considering how the results of the survey might be incorporated into the financial agent performance measurement program.

    OIG Comment

    Fiscal Service's response meets the intent of the recommendation. Fiscal Service should establish a date for when the bureau expects planned actions to be implemented.

13. Ensure that 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. The extent of the documentation will vary depending on the matter, but significant information/requests from and to the financial agent should be communicated in formal writings and not just emails and other informal communications.

Management Response

In the past year, Fiscal Service has strengthened the documentation pertaining to all FAAs, not just those for Direct Express. Fiscal Service has established a working group (Financial Agent Oversight Group) that has been tasked with establishing oversight policies, including a standard checklist for document retention.

OIG Comment

Fiscal Service's response meets the intent of the recommendation. Fiscal Service should establish a date for when the bureau expects the planned oversight policies to be implemented.

* * * * *

We appreciate the courtesies and cooperation provided to our staff during the audit. If you wish to discuss the report, you may contact me at (202) 927-6512 or Christen Stevenson, Audit Manager, at (202) 927-8117. Major contributors to this report are listed in Appendix 10.

/s/

Michael J. Maloney
Audit Director

The objectives of our audit were to determine whether the Bureau of the Fiscal Service's (Fiscal Service) decision to proceed with the Direct Express® Debit MasterCard® program (Direct Express), selection of the financial agent, and administration of the program were reasonable. To accomplish our objectives, we reviewed: (1) Fiscal Service's considerations in initiating the program; (2) Fiscal Service's financial agent selection process and the selection of Comerica Bank (Comerica) as its financial agent; (3) the terms of the financial agency agreement (FAA); (4) how an amendment to the FAA to compensate Comerica was vetted and approved; and (5) Fiscal Service's monitoring of the FAA.

To address our objectives, we:

- Researched applicable laws, regulations, Treasury directives, and Fiscal Service requirements, including:
  - Public Law 104-134, Debt Collection Improvement Act of 1996 (April 26, 1996);
  - 31 CFR Part 202, Depositaries and Financial Agents of the Federal Government (July 1, 2001);
  - 31 CFR Part 208, Management of Federal Agency Disbursements (December 21, 2010);
  - 12 USC §90, Depositaries of Public Moneys and Financial Agents of Government (January 3, 2012);
  - 12 USC § 265, Insured Banks as Depositaries of Public Money; Duties; Security; Discrimination Between Banks Prohibited; Repeal of Inconsistent Laws (January 3, 2012);
  - Federal Acquisition Regulation; and
  - U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government* (November 1999).

- Interviewed Fiscal Service's Commissioner, Deputy Commissioner, and officials and employees of the Electronic Fund Transfer Strategy Division, who are responsible for the management and oversight of the Direct Express program. We also interviewed the Fiscal Service personnel who were part of the financial agent selection process.

- Interviewed Treasury's Fiscal Policy Deputy Assistant Secretary who, in her prior position as Fiscal Service's

Assistant Commissioner for Payment Management, was responsible for guiding the implementation of the Direct Express program.

- Interviewed Comerica senior management officials responsible for managing the FAA and the relationship between Comerica and Fiscal Service.
- Interviewed managers at a Comerica subcontractor who operated three call centers supporting Direct Express (e.g., calls relating to program enrollments, card maintenance, and other customer service related information).
- Interviewed key personnel at the Federal Reserve Bank of Dallas responsible for program enrollments.
- Interviewed staff in SSA's Office of the Deputy Commissioner, Budget, Finance, Quality, and Management - Office of Financial Policy and Operations; Office of the Deputy Commissioner for Operations - Office of Public Service, and Operations Support; and Office of the Deputy Commissioner for Systems - Office of Applications and Supplemental Security Income Systems to gain an understanding of the agency's role in assisting beneficiaries who elect to receive their benefit payments via the Direct Express card.
- Reviewed available documentation related to the Direct Express program, including the 2006 Debit Card Pilot Concept Paper, 2007 Debit Card Pilot Program Evaluation Paper, the 2007 financial agent selection process for the Direct Express program and financial agent selection process guidance for that period, the Financial Agent Selection Process Final Evaluation Report, applications from prospective financial agents, the FAA and its amendments, Comerica's activity reports, monthly enrollment reports, and other related information.
- Reviewed Fiscal Service's payment files for the Direct Express program to assess completeness of invoicing records and the controls over the invoice review, approval, and payment process.

- Reviewed the financial disclosures of key Fiscal Service officials involved in the administration of the Direct Express program to determine whether any conflicts of interest existed with the financial agent.

- Reviewed the performance plans of key Fiscal Service officials to determine whether these plans contained goals related to the Direct Express Program.

- Conducted site visits at two of the three Comerica subcontractor call centers to gain an understanding of call center operations. During our visits, we conducted walkthroughs of the facilities, inquired about upgrades to systems at the facilities, and listened in on 187 account maintenance calls. Our purpose for listening to these calls was to confirm that customer service representatives followed the prescribed enrollment script.

We performed fieldwork from March 2011 to July 2013 at Fiscal Service in Washington, DC; Comerica in Auburn Hills, Michigan; call centers operated by the Comerica subcontractor in San Antonio, Texas, and London, Kentucky; the Federal Reserve Bank in Dallas, Texas, and the Social Security Administration in Woodlawn, Maryland.

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.

Table 1: Chronology of significant events as it relates to the Direct Express Debit MasterCard program (Direct Express).

Date	Significant Event
April 26, 1996	Congress passed the Debt Collection Improvement Act of 1996, requiring that all federal payments after January 1, 1999, be paid by electronic funds transfer (EFT) unless waived by the Secretary of the Treasury.
September 25, 1998	Treasury issued 31 CFR Part 208, which provided that any individual receiving a federal benefit, wage, salary, or retirement payment shall be eligible to open an electronic transfer account (ETA) at any federally insured financial institution that offers ETAs.
June 16, 2006	The Bureau of the Fiscal Service (Fiscal Service) prepared *Concept Paper for the Debit Card Pilot for Unbanked Federal Beneficiaries,* which provided an overview of the pilot program and how it could work.
November 27, 2006	Fiscal Service signed an amendment to its Financial Agency Agreement (FAA) with JPMorgan Chase Bank, NA, to be the service provider for the debit card pilot.
January 2007	Fiscal Service developed a debit card pilot to provide unbanked, current, and new federal beneficiaries the option of receiving federal benefit payments via a debit card. The pilot program was targeted to beneficiaries in low-income areas of Illinois.
September 4, 2007	Fiscal Service announced it was seeking applications from financial institutions to serve as the financial agent to provide all beneficiaries the option of using a prepaid debit card for receiving Supplemental Security Income (SSI) and other federal benefit payments electronically.
January 3, 2008	Fiscal Service entered into an FAA with Comerica as the service provider for the Direct Express® Debit MasterCard program® (Direct Express).
January 4, 2008	Fiscal Service announced it selected Comerica as the financial agent for Direct Express.
June 10, 2008	Fiscal Service announced that the Direct Express program was available to the public.
December 22, 2008	Fiscal Service amended the FAA with Comerica to (1) restrict the government's access to specific cardholder information in accordance with federal laws, such as the Right to Financial Privacy Act; (2) ensure that benefits paid by the government became funds owned by the cardholder upon final settlement of the automated clearing house (ACH) entry; and (3) grant Fiscal Service a nonexclusive, perpetual, fully paid license to use, modify, and create derivative works from all Direct Express marketing materials designed for or produced by Comerica, its contractors, MasterCard, or Visa.
December 18, 2009	The Secretary of the Treasury signed a memorandum recommending a paperless Treasury to improve efficiency and service. The first recommended policy change required Social Security and other beneficiaries to receive payments electronically, beginning in 2011. This is known as the "all-electronic mandate."
April 12, 2010	Fiscal Service met with Comerica to discuss the "all-electronic mandate." Attending the meeting were Comerica's CEO, Treasury's Fiscal Assistant Secretary, and Fiscal Service officials: the Commissioner, Deputy Commissioner, Assistant Commissioner, and Program Manager. Fiscal Service informed Comerica of the importance the program would have as a result of the mandate, emphasizing Comerica's relationship with Fiscal Service being a key component. Fiscal Service asked Comerica to present financials and discuss the impact of the "all-electronic mandate."
April 19, 2010	Treasury issued a press release announcing plans for the "all-electronic mandate" by implementing a three-pronged initiative to dramatically reduce the number of paper transactions and moving them to electronic systems in an effort to save the agency more than $400 million in its first 5 years. First, Treasury will require individuals receiving Social Security, Supplemental Security Income, Veterans, Railroad Retirement, and Office of Personnel Management benefits to receive payments electronically. Second, Treasury will require businesses currently permitted to use paper Federal Tax Deposit coupons to make those deposits electronically. Finally, Treasury will eliminate the option to purchase paper savings bonds through payroll deductions.

Date	Significant Event
May 21, 2010	Comerica showed its readiness for the "all-electronic mandate" in a presentation. The bank stated that it had no capacity concerns and validated capacity levels for 5 million cardholders during the initial bid process. Following the presentation, Fiscal Service concluded that Direct Express should receive financial support, and suggested that Comerica submit a proposal for compensation.
July 9, 2010	Fiscal Service met with Comerica. Comerica submitted to Fiscal Service a report showing the estimated revenues and expense of the program for various enrollment scenarios as a result of the mandate.
July 29, 2010	Fiscal Service visited a Direct Express call center.
October 28, 2010	Comerica proposed a compensation option for Direct Express as a result of the all-electronic mandate. Proposal included a tiered active account maintenance fee ranging from $1.325 to $1.425, an enrollment fee of $3 for each new enrollment, and an extension of the FAA through January 2015.
November 1, 2010	Comerica revised the October 28 proposal to reduce the monthly maintenance fee to $0.92 per account; increase the new enrollment fee to $10; add a lump sum investment of $11 million; and to split the 2-year FAA extension into 2 single-year extensions.
November 2, 2010	Comerica revised the November 1 proposal to include a monthly maintenance fee of $0.92 per account, $5 for each new enrollment, an additional $5 for enrollments made in late 2012 and early 2013 solely to comply with the mandate, a lump sum payment of $20 million, and 2 one-year extensions of the FAA to January 2015.
November 2010	Fiscal Service requested that Comerica develop a slide presentation detailing the differences between the program bid and the implemented product.
December 6, 2010	Comerica submitted a slide presentation via email comparing its bid assumptions to the implemented program and the requirements set forth by the all-electronic mandate. The slide presentation included predictions of the program's expected revenues and expenses through 2014, showing expenses exceeding revenues by $124 million.
December 22, 2010	Treasury amended its regulation to require recipients of federal nontax payments to receive payment by EFT, effective May 1, 2011. The effective date was delayed until March 1, 2013, for individuals receiving federal payments by check on May 1, 2011; and for individuals who requested check payments when they filed a claim for federal benefits before May 1, 2011. Individuals who did not choose the direct deposit option would be enrolled in the Direct Express program. Treasury waived the EFT requirement for recipients born before May 1, 1921, and those receiving payments by paper check on March 1, 2013; for payments not eligible for deposit to a Direct Express prepaid card account; and for recipients whose Direct Express card had been suspended or cancelled. In addition, the rule established the criteria under which a payment recipient may request a waiver if the EFT requirement creates a hardship due to mental impairment or remote geographic location.
March 8, 2011	Fiscal Service drafted an internal memo describing the rationale for compensating Comerica.
March 31, 2011	Fiscal Service amended the FAA with Comerica to include (1) $5 per new enrollment processed on or after December 1, 2010, regardless of whether the prepaid debit card was activated or received a payment; and (2) up to $20 million for infrastructure development support for expanding the program. Fiscal Service authorized use of permanent and indefinite appropriations to compensate Comerica.
October 2012	The Federal Reserve Bank Dallas Call Center began processing 100 percent of enrollments for Direct Express, using Treasury's Payments, Claims and Enhanced Reconciliation system to verify enrollment information.
March 1, 2013	Individuals currently receiving benefit checks were required to receive payments electronically.
August 16, 2013	Fiscal Service visited a Direct Express call center.
September 25, 2013	Fiscal Service visited a Direct Express call center.

Table 2: The number of enrollments in the Direct Express Debit MasterCard program by month since the third quarter of 2008, and a schedule of payments made by the Bureau of the Fiscal Service to Comerica since the March 2011 amendment to the financial agency agreement.

Dates	Enrollments[a]	Cumulative Enrollments	Enrollment Fees	Infrastructure Payments
3rd Quarter 2008[b]	111,128	111,128		
October 2008	60,507	171,635		
November 2008	43,248	214,883		
December 2008	46,177	261,060		
January 2009	47,808	308,868		
February 2009	44,344	353,212		
March 2009	51,297	404,509		
April 2009	42,699	447,208		
May 2009	44,369	491,577		
June 2009	55,557	547,134		
July 2009	54,546	601,680		
August 2009	46,457	648,137		
September 2009	47,075	695,212		
October 2009	58,473	753,685		
November 2009	49,987	803,672		
December 2009	47,819	851,491		
January 2010	44,322	895,813		
February 2010	44,346	940,159		
March 2010	55,217	995,376		
April 2010	53,324	1,048,700		
May 2010	52,715	1,101,415		
June 2010	60,051	1,161,466		
July 2010	60,175	1,221,641		
August 2010	66,499	1,288,140		
September 2010	69,769	1,357,909		
October 2010	56,698	1,414,607		
November 2010	67,710	1,482,317		
December 2010	67,800	1,550,117		
January 2011	87,541	1,637,658		
February 2011	67,019	1,704,677		
March 2011	93,150	1,797,827	$1,588,905	
April 2011	83,640	1,881,467	418,200	$10,000,000[c]
May 2011	109,437	1,990,904	547,185	
June 2011	110,257	2,101,161	551,285	
July 2011	109,168	2,210,329	545,840	
August 2011	132,327	2,342,656	661,635	
September 2011	109,071	2,451,727	545,355	

Dates	Enrollments[a]	Cumulative Enrollments	Enrollment Fees	Infrastructure Payments
October 2011	113,530	2,565,257	567,650	
November 2011	131,668	2,696,925	658,340	
December 2011	154,168	2,851,093	770,840	
January 2012	141,616	2,992,709	708,080	
February 2012	126,620	3,119,329	633,100	
March 2012	123,780	3,243,109	618,900	
April 2012	122,759	3,365,868	613,795	
May 2012	141,636	3,507,504	708,180	
June 2012	126,190	3,633,694	630,950	
July 2012	116,869	3,750,563	584,345	
August 2012	128,452	3,879,015	642,260	
September 2012	108,119	3,987,134	540,595	
October 2012	133,643	4,120,777	668,215	
November 2012	127,569	4,248,346	637,845	
December 2012	139,048	4,387,394	695,240	2,686,708
January 2013	195,646	4,583,040	978,230	
February 2013	268,212	4,851,252	1,341,060	
March 2013	187,326	5,038,578	936,630	
April 2013	156,036	5,194,614	780,180	
May 2013	134,389	5,329,003	671,945	
June 2013	119,433	5,448,436	597,165	
Totals	**5,448,436**	**5,448,436**	**$19,841,950**	**$12,686,708**

[a] The number of new enrollments for each month may include inactive, pending, returned, and/or closed accounts.
[b] Fiscal Service did not maintain monthly enrollment data prior to October 2008.
[c] The first infrastructure payment was made in April 2011; this payment included compensation for changes Comerica made to its infrastructure in November 2010 to accommodate the "all-electronic mandate."
Source: Enrollment Reports provided to Fiscal Service from Comerica.

Table 3: Survey results of the customer satisfaction components for the debit card pilot program.

Customer Satisfaction Component	Survey Results
Overall Satisfaction	• 85 percent of the customers surveyed were satisfied with the pilot program debit card and 78 percent would have definitely recommended it to a family member or friend • Older customers (60 years +) appeared to be less satisfied with the card and used it less often on average
Costs to cardholder	• 59 percent of customers said the fees associated with the card were less than what they were paying before • 25 percent felt the fees were the same, while 11 percent felt the fees were more than before
Likes/Dislikes of card features	• 35 percent of customers signed up for the card so they would not have to worry about lost or stolen checks • Suggestions for improvement included having less charges/fees, allowing customers to make deposits, withdrawing any amount of cash, and having more ATMs/banks in the area • The reasons customers were satisfied with the card were ease/convenience (42 percent), speed (27 percent), and safety/security (26 percent)
Ease of use	• 18 percent of cardholders said having the card was easier than cashing a check • 64 percent of customers did not have any problems with the debit card • 35 percent of the customers who had experienced problems using their card were mainly due to ATM malfunction or the card not being accepted (37 percent) or insufficient funds (23 percent)
Customer Service	• Although all customer service representative ratings were high, attributes related to agent knowledge, answering all of the caller's questions, and providing accurate information were rated relatively lower than attributes relating to friendliness and taking time to listen and help
Accessibility	• 7 percent of dissatisfied customers suggested more ATMs/banks in the area
Enrollment	• 88 percent of customers were satisfied with the service they received when they called to sign up for the card
Awareness	• The highest percentage of customers became aware of the card from an insert with their benefit check (43 percent) or through direct mail/letter (33 percent)
Knowledge of Benefits	• 41 percent of customers received the most information about the card from a customer service representative. Nearly all customers who received most information through a representative "Agreed Completely" that they were given the information needed regarding the card's convenience, value, security, and fees in a clear and understandable way

Source: Fiscal Service, Pilot Program Evaluation Report (Sep. 6, 2007)

Table 4: Analysis of the six finalists' submissions for the Direct Express FAA.

	Comerica	Bank A	Bank B	Bank C	Bank D	Palm Desert National Bank[a]
Cost to Fiscal Service	Free	Free	Free	Free	Free	[e]
Estimated Cardholder Fees[b]	$62,421	$63,901	$71,164	$78,532	$83,553	$74,517
Cardholder Fees						
Monthly Account Maintenance	Free	Free	Free	Free	Free	Free
Card Issuance Fee	Free	Free	Free	[d]	$2.00	$2.39
Point of Sale Purchase (With Signature)	Free	Free	Free	Free	Free	Free
Point of Sale Purchase (PIN-based)	Free	Free	Free	Free	Free	Free
Number of Free Domestic ATM Cash Withdrawal[c]	1 per deposit, with carryover to the following month	1 per benefit deposit per month	Unlimited in network & 1 free per month anywhere else	1 per benefit deposit per month	Unlimited in network	2
Additional Domestic ATM Cash Withdrawal	$0.90	$1.00	$1.50	$1.50	$2.00	$1.50
Bank Teller Withdrawal	Free	Free	Free	$5.00	Free	$4.95
International ATM Withdrawal	$3.00	$3.00	Not Applicable	$3.00	$2.50	$3.00
Internet and Telephone Purchase	Free	Free	[d]	[d]	[d]	[d]
Paying Bills	Free	Free	[d]	[d]	[d]	$0.35
ATM Balance Inquiry	Free	Free	Free	$1.00	[d]	$0.25
ATM Decline	Free	Free	Free	$1.00	[d]	$1.00
POS Decline	Free	Free	Free	$1.00	[d]	$1.00
Convenience Check	[d]	$10.00	[d]	$12.00	Free	$9.50

	Comerica	Bank A	Bank B	Bank C	Bank D	Palm Desert National Bank[a]
Account Inactivity Fee	Free	$1.50 / month after 12 months of inactivity	$1.50 / month after 12 months of inactivity	$1.50 / month after 6 months of inactivity	[d]	$0.95 / month after 90 straight days of inactivity
International Currency Conversion	3.00%	1.50%	[d]	[d]	[d]	4.00%
Overdraft Fee	Free	$10.00	$9.00	Free	[d]	$8.95
IVR Fund Transfer	$1.50	$0.50	[d]	[d]	[d]	[d]
Balance Transfer	[d]	[d]	[d]	[d]	[d]	$0.95
ACH Transfers	[d]	[d]	[d]	[d]	$1.50	[d]
Money Transfer (Western Union) via IVR	[d]	[d]	[d]	[d]	$8.95	[d]
On-Line Bill Pay (per item)	$0.50	[d]	[d]	[d]	[d]	$0.35
Bill Pay via paper check	[d]	[d]	[d]	[d]	[d]	$0.95
Customer Service						
Web Balance	Free	Free	Free	Free	Free	Free
Balance Inquiry via IVR	[d]	[d]	Free	[d]	Free	[d]
Text Notifications to Cell Phone	Free	Free	[d]	[d]	Free	[d]
Email Customer Service	Free	Free	[d]	[d]	[d]	[d]
Money Network Checks	[d]	[d]	[d]	[d]	Free	[d]
IVR Customer Service call	Free	Free	Free	Free	Free	Free
Live Operator Customer Service	Free	Free	2 Free per month then $3.00/per call	Free	$1.00	$3.00
Live Operator Charge to Treasury	[d]	[d]	[d]	[d]	[d]	$3.00 for card transaction /$5.00 for all other calls

	Comerica	Bank A	Bank B	Bank C	Bank D	Palm Desert National Bank[a]
No of Free Replacement Cards per year	1	[d]	[d]	1	[d]	[d]
Replacement Card	$4.00	$5.00	Free	$5.00	$6.00	$4.95
Replacement Card Expedited Delivery (over cost of card)	$13.50	$12.95	$15.00	$12.50	$6.00	$34.95
PIN Change	Free	Free	[d]	[d]	[d]	[d]
Account Closure	Free	Free	[d]	[d]	[d]	[d]
Paper Statement upon cardholder request	Free	[d]	[d]	[d]	[d]	$1.95 / per request
Optional Paper Statement	$0.75 / month	$0.95 / month	$2.00/ month	$0.95 / month	Free internet Paper- $1.95	$1.95 / per request
Capacity Restraints	20 million or more cardholders	None	None	None	None	None
Marketing and Contribution						
Financial Institution Marketing and Contribution	$2.4 million	Unlimited	Unspecified	[d]	[d]	[d]
Visa / Master Card Marketing	$1.5 million	$1.5 million	$1.5 million	$1.5 million	[d]	[d]
Use of Marketing for Cardholder Purposes	No	No	[d]	Yes w/FMS approval	[d]	No
Number of ATMS	53,160 Surcharge Free ATMs.	51,000 Surcharge-Free ATMs.	(1) 5,000 Surcharge-Free ATMs or (2) 32,000 with All point.	40,000 Surcharge-Free ATMs.	32,000 Surcharge-Free ATMs.	90,000 Surcharge-Free ATMs.

[a] The Office of the Comptroller of the Currency closed Palm Desert National Bank on April 27, 2012.
[b] We interviewed Bureau of the Fiscal Service personnel to determine how the cardholder fees were calculated during the financial agent selection process; however, Fiscal Service was not able to provide us with information to support the figures provided.
[c] Domestic ATM Cash Withdrawal means a cash withdrawal made at an ATM located in the 50 United States, the District of Columbia, Puerto Rico, Guam, or the U.S. Virgin Islands.
[d] Information was not listed in documentation provided by Fiscal Service.
[e] $2.39/per card; Fiscal Service provides toll free line; and $5.00 non-card calls.
Source: The Financial Agent Selection Process participants' bid applications.

Table 5: Comerica's Direct Express Debit MasterCard program revenues, compensation paid by the Bureau of the Fiscal Service (Fiscal Service), and expenses since the program's inception in 2008.

Year	Revenues*	Compensation Paid by Fiscal Service	Expenses	Net Income (Loss)	Net Income (Loss) without Fiscal Service Compensation
2008	$2,435,504	0	$5,470,766	($3,035,262)	($3,035,262)
2009	19,081,061	0	22,033,988	(2,952,927)	(2,952,927)
2010	40,706,147	0	43,418,741	(2,712,594)	(2,712,594)
2011	83,882,654	$16,855,235	70,269,954	13,612,700	(3,242,535)
2012	117,987,911	10,368,213	115,285,103	2,702,808	(7,665,405)
As of March 2013	34,301,361	5,305,210	33,502,699	798,662	(4,506,548)
Total	**$298,394,638**	**$32,528,658**	**$289,981,251**	**$8,413,387**	**($24,115,271)**

* Includes Fiscal Service's compensation payments.

Source: The revenues and expenses for the program were provided by Comerica upon Fiscal Service's request. The data on compensation paid to Comerica was provided by Fiscal Service.

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Table 6: Comerica's performance against the customer service response time requirement for the months of May since 2009. Red type indicates failure to meet benchmark. We reviewed similar data for the intervening months and did not find significant differences. The financial agency agreement (FAA) requires Comerica to answer 80 percent of all calls within 30 seconds of a call transfer, 92 percent of calls within 90 seconds of a call transfer, and 95 percent within 180 seconds. Also, the FAA requires that no more than 5 percent of calls should be abandoned.

Benchmark	May 2009	May 2010	May 2011	May 2012
80% of calls within 30 seconds	78.2%	61.95%	77.4%	72.0%
92% of calls within 90 seconds	90.9%	72.31%	86.1%	81%
95% of calls within 180 seconds	95.3%	81.39%	89.9%	86%
No more than 5% of calls abandoned	3.08%	11.94%	5%	5.86%

Source: Comerica's Activity Reports.

Table 7: Comerica's Direct Express Debit MasterCard program monthly call volume from May 2009 to May 2013, separated by the total call volume and those handled by a customer service representative.

Dates	IVR Call Total	Customer Service Representative Calls
May 2009	No Data	142,048
June 2009	2,841,023	129,062
July 2009	3,353,041	145,344
August 2009	2,972,311	120,999
September 2009	3,218,904	133,056
October 2009	3,903,606	202,452
November 2009	3,166,683	203,903
December 2009	4,334,638	228,591
January 2010	3,646,402	177,022
February 2010	4,044,408	190,264
March 2010	4,384,946	226,596
April 2010	4,973,734	236,847
May 2010	4,610,506	216,993
June 2010	5,178,100	240,190
July 2010	6,246,441	276,970
August 2010	4,847,009	264,515
September 2010	5,873,294	133,056
October 2010	6,437,441	270,485
November 2010	5,892,312	276,755
December 2010	7,274,986	315,998
January 2011	5,774,380	279,260
February 2011	6,303,180	273,752
March 2011	6,929,771	325,871
April 2011	7,756,740	346,142
May 2011	6,686,748	335,447
June 2011	7,858,529	374,541
July 2011	8,426,231	396,644
August 2011	9,048,609	415,503
September 2011	9,598,796	392,420
October 2011	8,247,579	365,363
November 2011	8,879,652	406,888
December 2011	12,041,367	467,502
January 2012	9,092,564	415,709
February 2012	9,816,487	365,355
March 2012	12,095,453	440,617
April 2012	9,153,957	352,540
May 2012	11,354,951	419,418

Dates	IVR Call Total	Customer Service Representative Calls
June 2012	13,255,549	423,543
July 2012	10,497,427	391,837
August 2012	14,968,058	516,983
September 2012	10,302,432	423,417
October 2012	12,602,382	506,683
November 2012	14,759,493	512,102
December 2012	15,826,460	517,263
January 2013	13,381,673	530,979
February 2013	13,444,671	510,004
March 2013	14,810,125	519,472
April 2013	14,975,220	553,371
May 2013	17,374,139	589,210

Source: Comerica Activity Reports.

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

COMMISSIONER

March 19, 2014

Mr. Michael J. Maloney
Director, Fiscal Service Audits
Office of the Inspector General
740 15th Street, NW
Suite 600
Washington, DC 20220

Dear Mr. Maloney:

Thank you for the opportunity to respond to the recommendations in the Inspector General's recent audit of the Direct Express® program. As you know, the program is a part of the Bureau of the Fiscal Service's efforts to increase the use of electronic payments in accordance with the Debt Collection Improvement Act of 1996 (DCIA) and supports Treasury's All-Electronic initiative. The increased use of electronic payments has enabled the Fiscal Service to significantly reduce the number of paper benefit checks and will save an estimated $1 billion for American taxpayers over a ten-year period. Today nearly 98% of all benefit payments are being made electronically. Over 5 million beneficiaries, many of whom are unbanked or under-banked, are receiving their monthly payments through the Direct Express® Card. The program has not only significantly reduced the cost of government operations; recipients now receive their government payments more safely and securely.

For these reasons, we believe the program has been enormously successful. At the same time, we welcome your thoughts on ways to further improve the effectiveness of the program and have included our response in this letter to the thirteen recommendations in the OIG's report. The Fiscal Service agrees with many of the audit recommendations to improve the selection, control and oversight of the financial agent for the Direct Express® debit card program. The recommendations are generally based on industry best practices and sound public administration. As you will see, we have already implemented many of them and are currently re-competing the financial agency agreement (FAA) as originally planned, as the current agreement expires January 1, 2015.

As cited in the OIG audit, Treasury's "all-electronic mandate" in December 2010 radically changed the scope and scale of the Direct Express® program. The number of cardholders increased from approximately 1.5 million to over 4 million in a two-year period. We discovered the newer cardholders had very different banking and customer service requirements than the voluntary cardholders for whom the program was initially designed. Our documented agreement with the agent allowed Treasury to renegotiate the terms to reflect these new demands and ensure that the agent was able to meet the program's new and broader scope. The appendix of the audit acknowledges the extent of this renegotiation. Fiscal Service made a management determination that the renegotiation resulted in the best value for the government while also maintaining high levels of cardholder satisfaction as millions of beneficiaries converted from expensive paper checks to the more efficient Direct Express® card. The recommendations from the Inspector General's audit are generally consistent with the direction that the Fiscal Service is taking to continually improve the Direct Express® program.

Thank you for the opportunity to comment on this draft OIG report. Enclosed are our responses to your recommendations. If you have any questions or wish to discuss these comments in more detail, please contact Wanda Rogers or myself on (202) 874-7000.

Sincerely,

David A. Lebryk

Enclosure

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Fiscal Service Response to the OIG Direct Express® Recommendations:

1. Create an independent estimate to determine whether the proposed compensation by bidders is reasonable.

   Fiscal Service agrees that government should receive multiple estimates to determine the true cost of operating the program. We chose to do that during the re-competition of the FAA. We have asked each bidder to estimate the compensation they will require so that they do not operate at a loss while maintaining cardholder fees at current levels. We have asked each bidder to provide a clear and transparent explanation of their costs under three levels of cardholder participation.

   This approach will provide Treasury with multiple data points from which to determine reasonable compensation for the financial agent.

2. Assess the bidder's technical capacity to process and handle a large nationwide prepaid debit card program.

   Over the past seven years, we have developed a greater level of expertise about the magnitude and nature of the Direct Express® program. For the re-competition of the FAA, we designed a two-phase selection process that first evaluates the bidders' capacity to handle a program of this size. In the solicitation, we included quantitative measures of program participation and cardholder banking patterns. Before a bidder can advance to the second phase of evaluation, they must cite their actual experience in operating a debit card program with similar characteristics to Direct Express®.

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

   Fiscal Service monitors all of the reports submitted by the current financial agent, Comerica Bank. Information on fees paid by transaction type as well as identity verification activity and cardholder demographics are of continued interest by the program manager, who currently receives this data from Comerica's monthly reports package. These monthly activity reports will be continued by whichever financial agent is selected through the current re-competition. The requirement for these reports is included in the solicitation.

4. Include a provision in the FAA requiring the selected financial agent to notify OIG of any instances of possible violation of federal criminal laws such as fraud.

An amendment has been added to the current FAA that includes a requirement to notify the OIG in cases of violation of federal criminal laws. This language will also be continued in the FAA for the financial agent selected as a result of the current re-competition.

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

   Fiscal Service will continue to follow its well-established process for re-negotiating the terms of an FAA, in accordance with the language contained in the FAA, when the scope of the agreement has changed. This was done with Comerica in 2010 and 2011. Fiscal Service will prepare a decision memorandum for bureau leadership and counsel after the program manager and the agent have shared objective data on the magnitude and cost of the change of scope and have agreed to a level of compensation that fairly balances the needs of the program while ensuring fair value for the government.

6. Assess the cost and burden of the program to the cardholders on an on-going basis as changes in technology and the business environment occur.

   In accordance with the Debt Collection Improvement Act of 1996, federal beneficiaries are required to receive their monthly payments by electronic funds transfer (EFT), unless certain waiver requirements are met. Treasury also must ensure that unbanked individuals required to receive federal payments by EFT have access to an account available at a reasonable cost and with the same consumer protections as other account holders at the financial institution.

   We concur that measuring the cardholders' overall satisfaction with the card is appropriate to ensure good program execution. The bureau plans to continue to measure cardholder satisfaction through independent surveys of cardholders. As was done in 2013 and since the inception of the program, the survey will: 1) assess the cardholders' general satisfaction with the Direct Express® card, and 2) identify any areas where the cardholder is having difficulty such that it might inhibit proper use. The survey will also determine if there are any new features or capabilities that the cardholder would like to see on the card. We have noted in our survey results high approval ratings and consistent satisfaction with the Direct Express® program over the life of the program.

7. Establish a quality assurance surveillance plan to monitor and document the financial agent's performance under the FAA and take actions when requirements, including service level agreements, are not met.

After the re-competition of the FAA, Fiscal Service will establish a performance measurement program for the Direct Express® financial agent. The program would monitor three dimensions of agent performance: efficiency, customer satisfaction and compliance. Additionally, the program manager would provide the financial agent a monthly score (from 1 to 5) in each of the three dimensions of performance.

8. Track the financial agent's revenue and expenses associated with the Direct Express® program and periodically assess whether the financial agent's compensation under the FAA remains reasonable and fair to both parties.

   Fiscal Service currently monitors the revenue and expenses of the financial agent and will continue to ensure the FAA compensation remains reasonable and fair to all parties. The FAA allows for Fiscal Service to change the terms of an agreement when there is a significant change in the FAA scope.

9. Periodically assess net cost savings of the Direct Express® program compared to other benefit delivery methods (e.g. ETA, paper checks, etc.) and determine the reasons for variance from expectations.

   The Fiscal Service routinely monitors the unit costs associated with all of the payment delivery processes for which it is responsible (e.g. checks, EFT, letter-of-credit, etc.). 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. Historically, the unit cost of Treasury disbursed payments has been declining steadily since the 1980s. Now that expensive paper checks are a miniscule portion of total payments, Fiscal Service intends to increase its focus on the unit cost differences among the various EFT delivery mechanisms.

10. Continue to enforce the annual certification of the compliance requirement of the FAA.

    Fiscal Service plans to continue the annual certification process as currently administered for all financial agents. Under the performance measurement program (see Recommendation 7), the annual certification will be monitored as one measure of financial agent compliance.

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

    Fiscal Service intends to continue the practice of a third-party survey of cardholders that is conducted annually by a firm under contract to the financial agent. Fiscal Service has no reason to doubt the objectivity of a highly-regarded professional research firm. Please consider that the bureau is involved in developing the survey instrument. Then OMB reviews the instrument for clarity and burden-hours, and the sampling methodology is generally peer-reviewed within the polling firm. Regardless, the bureau would be interested in any evidence that suggests that this arrangement might produce biased results.

12. Develop a formal plan to track how customer feedback from the surveys is communicated to the appropriate parties for action, prioritized and addressed.

Fiscal Service intends to carefully integrate the actionable recommendations that emerge from the cardholder survey into our management of the Direct Express® program. Fiscal Service is considering how the results of the survey might be incorporated into the financial agent performance measurement program detailed previously.

13. Ensure that appropriate and complete documentation is maintained of all matters related to FAAs for Direct Express® to include, but not limited to, amendments to the FAA. The extent of the documentation will of necessity vary depending on the matter, but significant information/requests from and to the financial agent should be communicated in formal writings and not just emails and other informal communications.

In the past year, Fiscal Service has strengthened the documentation pertaining to all FAAs, not just those for Direct Express®. We have established a working group (Financial Agent Oversight Group) that has been tasked with establishing oversight policies, including a standard checklist for document retention.

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Department of the Treasury

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Office of Strategic Planning and Performance Management
Office of the Deputy Chief Financial Officer, Risk and Control Group

Bureau of the Fiscal Service

Commissioner
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OIG Liaison

Office of Management and Budget

OIG Budget Examiner