Audit Report

OIG-17-034

Direct Express Bid Evaluation Documentation Requires Improvement

January 24, 2017

Office of Inspector General

Department of the Treasury

Contents

Audit Report 1

Results in Brief 2

Background 4

Audit Results 6

Bid Documentation Has Improved, But Further Improvement Is Needed 8

Matter of Concern 13

Appendices

Appendix 1: Objective, Scope, and Methodology 15
Appendix 2: Corrective Actions to Address OIG-14-031 17
Appendix 3: Management Response 22
Appendix 4: Major Contributors to This Report 24
Appendix 5: Report Distribution 25

Abbreviations

ATM	automated teller machine
Comerica	Comerica Bank
Direct Express	Direct Express® Debit MasterCard® Program
FAA	financial agency agreement
FAR	Federal Acquisition Regulation
FASP	Financial Agent Selection Process
Fiscal Service	Bureau of the Fiscal Service
OIG	Office of Inspector General
Treasury	Department of the Treasury

This Page Intentionally Left Blank

January 24, 2017

Sheryl Morrow
Commissioner
Bureau of the Fiscal Service

In 2008, the legacy Financial Management Service[1] entered into a financial agency agreement (FAA) with Comerica Bank (Comerica) to operate the Direct Express® Debit MasterCard® Program (Direct Express). The program allows beneficiaries to receive Federal benefit payments electronically, using a prepaid debit card. In 2014, the Bureau of the Fiscal Service (Fiscal Service) rebid the Direct Express FAA and selected Comerica as the financial agent[2] for an additional 5 years, effective January 3, 2015.

This report presents the results of our audit of Fiscal Service's selection process for the 2014 rebid of the Direct Express FAA. The objective of this audit was to determine whether Fiscal Service followed applicable laws, regulations, policies, and procedures in selecting the financial agent for Direct Express.

To accomplish our objective, we (1) reviewed the Debt Collection Improvement Act of 1996,[3] the Federal Acquisition Regulation (FAR),[4] Fiscal Service's FAA procedures, and Fiscal Service's Direct Express FAA files; and (2) interviewed key officials and staff with Fiscal Service, Comerica, another bank that was a finalist in the Direct Express rebid, and the Federal Reserve Bank of Dallas. Appendix 1

---

1 In 2012, the Department of the Treasury consolidated the Financial Management Service with the Bureau of the Public Debt and re-designated it as the Bureau of the Fiscal Service.
2 Financial agents act on behalf of the Government during the performance of their duties under an agent-principal relationship.
3 Public Law 104-134 (April 26, 1996)
4 Fiscal Service is not subject to the Federal Acquisition Regulation when selecting financial agents. We used the Federal Acquisition Regulation as a guide for best practices to assess Fiscal Service's selection process.

contains a more detailed description of our objective, scope, and methodology.

Results in Brief

Fiscal Service followed applicable laws, regulations, policies, and procedures when selecting Comerica as the Direct Express financial agent. However, we noted concerns with the documentation of the bid evaluation. These included simple errors and other issues with form and substance that could make it difficult for Fiscal Service to justify its award decisions, especially given that Fiscal Service selected a proposal with higher out-of-pocket costs to the government and less savings to the cardholders. Specifically, we noted the following:

- The bid evaluation presented the additional savings (from the losing finalist bidder) to customers in terms of savings per account per month rather than as total savings over the term of the agreement. This could result in the minimization of these savings when compared to transition and operational costs, which were presented as totals over the term.

- Fiscal Service's policies and procedures do not require the evaluation team to assign weight to the various factors considered or to document the rationale for those weights. Accordingly, reasons for considering certain factors, such as transition costs, more heavily than others, such as savings to customers, is not clear.

Transition costs are of particular interest since an overemphasis of these costs could result in an insurmountable advantage in favor of the incumbent. Such an advantage could restrict future competition by discouraging potential bidders from submitting a proposal if they perceive that it would be overly difficult for another bidder to unseat the incumbent. This situation could also provide an incumbent with undue leverage over the Federal Government in negotiating future terms, conditions, and compensation.

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

As a separate matter, we provided another observation regarding the use of enrolled accounts. Specifically, Fiscal Service paid for cards enrolled but not used. Of the 8.2 million accounts enrolled as of December 2015, 6.4 million were open,[5] 0.7 million were closed, and 1.1 million were not activated or used. Although we do not make a formal recommendation regarding this matter, we believe that unused accounts should be analyzed to determine their age and whether they should be closed to reduce the risk of loss from fraudulent activities.

We also reviewed Fiscal Service's corrective actions taken in response to 5 of the 13 recommendations made in our previous audit report.[6] The five recommendations reviewed were those that relate to the objective of our current audit. Fiscal Service's actions met the intent of the five recommendations. As evidenced by the issues raised in the finding of this report, the corrective action for our prior recommendation that appropriate and complete documentation be maintained for the Direct Express FAA has been implemented but additional improvement is needed. Appendix 2 contains the results of our follow-up on these recommendations.

In its response, management concurred with our recommendations and agreed that Fiscal Service needs to improve the documentation of FAA bid evaluations. Related to our observation on unused accounts, management reached an agreement with Comerica to analyze and close inactive/unused accounts but determined that inactive accounts do not present a risk of fraud. Management's response is summarized in the recommendation section of this report and is included in its entirety in appendix 3. We will verify whether Fiscal Service implemented its proposed corrective actions necessary to improve its documentation of FAA bid evaluations in future audits.

[5] Open accounts consist of active accounts and inactive accounts. An active account is an account with a financial transaction and a deposit during the month.

[6] *Fiscal Service Needs to Improve Program Management of Direct Express* (OIG-14-031; March 26, 2014).

Background

Fiscal Service's Mission

Fiscal Service's mission is to promote the financial integrity and operational efficiency of the Federal Government through accounting, financing, collections, payments, and shared services. Fiscal Service provides central payment services to Federal program agencies, and as of December 2015, disburses approximately $2.4 trillion annually via more than a billion payments on behalf of Federal agencies like the Social Security Administration, Department of Veteran Affairs, and Office of Personnel Management.

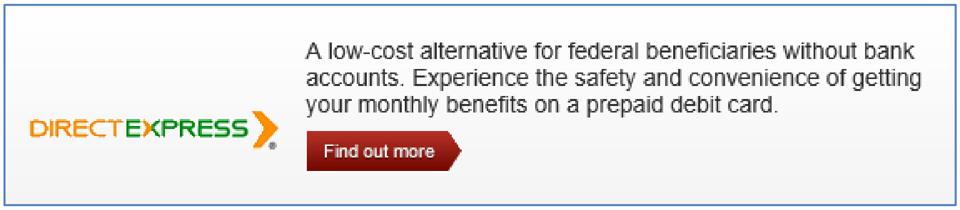
Direct Express Program

In 2008, Direct Express was established to allow beneficiaries to receive Federal benefit payments electronically on a prepaid debit card. The program was created to offer a convenient, safe, and inexpensive electronic payment mechanism for unbanked beneficiaries. Direct Express offers cardholders the convenience and security of using electronic transactions instead of cash for purchases and instead of having to wait for a paper check each month.

Among other things, Direct Express allows beneficiaries to make purchases, pay bills, and withdraw cash from any financial institution that displays the MasterCard logo and from any automated teller machine (ATM). Applying for the card is free and does not require a credit check. As of December 2015, Fiscal Service disbursed payments on approximately 3.3 million active accounts. Seven Federal agencies use Direct Express to disburse funds from 21 programs.[7]

[7] Fiscal Service makes Federal benefit payments on behalf of the Social Security Administration, Department of Veterans Affairs, Department of Labor, Office of Personnel Management, Railroad Retirement Board, Department of Homeland Security, and Department of Defense.

Below is the Direct Express logo and program description appearing on Fiscal Service's Internet homepage.



Source: https://www.fiscal.treasury.gov/ (accessed by OIG on April 3, 2016)

Underlying Legislation

The Debt Collection Improvement Act of 1996 requires that all Federal benefit payments made after January 1, 1999, be issued by electronic funds transfer. The act states that any individual who is required to have an account at a financial institution to comply with the law should have access to the account at a reasonable cost and with the same consumer protections as other account holders at the same financial institution. To implement the electronic payment provisions of this act, the Department of the Treasury (Treasury) issued 31 CFR 208, *Management of Federal Agency Disbursements*, in 1998. This regulation provides that beneficiaries receiving Federal benefit payments have the option to open an electronic transfer account at a Federally-insured financial institution.[8]

In 2010, Treasury launched an "all electronic initiative" to reduce the number of paper checks issued by moving Federal benefit payments to electronic options. Treasury also amended 31 CFR 208 and required beneficiaries who applied for Federal benefits on or after May 2011 to receive payments electronically. Beneficiaries who were receiving benefits by paper check as of May 2011 were required to switch to electronic payment by March 2013. In addition, Treasury adopted several waivers to this requirement in certain circumstances.[9]

---

8 An electronic transfer account is a low-cost account opened at a participating Federally-insured bank, savings and loan, or credit union to receive Federal payments.

9 Treasury waived the electronic fund transfer requirement for recipients (1) born before May 1, 1921, and who were receiving payments by check on March 1, 2013; (2) whose payments are not eligible for deposit to a Direct Express prepaid card account; or (3) whose Direct Express card had been suspended or cancelled. In addition, the rule established criteria for granting a waiver if the electronic fund transfer requirement created a hardship due to mental impairment or remote geographic location.

Audit Results

Direct Express Rebid

In January 2014, Fiscal Service issued the solicitation to rebid the Direct Express FAA. The solicitation stated that Fiscal Service understood that the financial agent may operate Direct Express at a loss without compensation from Treasury and required bidders to state how much, if any, compensation from Treasury would be required to operate the program.

Four financial institutions, including Comerica, responded to Fiscal Service's request for bids. Fiscal Service's evaluation team reviewed the proposals to determine each financial institution's ability to meet or exceed program requirements, benefits offered to the cardholder population, total program cost to the government, and proposed innovative solutions that affect customer service and program efficiencies.

In the initial phase of the selection process, the evaluation team disqualified two financial institutions for technical deficiencies and cost issues, explaining the reasons in Fiscal Service's *Evaluation of Applicants*. Specifically, one disqualified bidder (1) did not have any experience with government prepaid debit cards and provided only two payroll card references, the nature and the size of which were not adequately described; (2) submitted a proposal that lacked sufficient depth and breadth; and (3) proposed costs that were high and only binding for the initial 12 months of the program. The other disqualified bidder (1) proposed costs that were high and (2) proposed a surcharge-free ATM network that was not large enough and would not support point-of-sale cash access. Fiscal Service concluded that Comerica and another finalist (hereafter referred to as "Bank A") submitted strong proposals and gave both institutions the opportunity to make oral presentations and respond to questions.

Initially, Comerica proposed a fee of $5 per new enrollment and a monthly account maintenance fee of $0.30 per active account.[10] In comparison, Bank A proposed zero costs to the Federal government. The Fiscal Service evaluation team lead told us that, based on Fiscal Service's experience with Direct Express, the team was skeptical that Bank A could sustain its zero-cost model.

In May 2014, Comerica and Bank A separately gave oral presentations further detailing their proposals and answering questions from Fiscal Service. At its meeting with Fiscal Service, Comerica revised the pricing structure and reduced the new enrollment fee to $2 per enrollment and the monthly account maintenance fee to $0.15 per active account. Bank A reaffirmed its zero-cost proposal and maintained the cardholder fee structure. See Table 1 on page 9 for a comparison of the fees that Fiscal Service established as reasonable, as well as the fees proposed by Comerica and Bank A for cardholder transactions. Bank A later provided forecasting financial statements with different scenarios to demonstrate the program's economic sustainability and profitability.

Direct Express FAA Award to Comerica

According to Fiscal Service's *Evaluation of Applicants*, both Comerica and Bank A were capable of delivering a service that would meet or exceed all of the technical requirements in the solicitation. This evaluation document also stated that Bank A's proposal would be less costly to the cardholders, but transitioning the FAA to a new financial agent would involve significant and unavoidable disruptions to both the cardholders and the benefit agencies, and would be more expensive to the Federal Government. Accordingly, Fiscal Service selected Comerica to continue operating Direct Express.

[10] For the 2008 Direct Express FAA, Comerica proposed, and the FAA was awarded, at no cost to the government. In 2011, Fiscal Service amended the FAA to compensate Comerica for costs expected to be incurred as a result of anticipated increased enrollment caused by the electronic initiative. The amendment added a fee of $5 for each new enrollment and compensation to Comerica of up to $20 million for infrastructure development support. By the end of the 2008 FAA, Comerica was compensated approximately $12.7 million for infrastructure development support.

Finding — Bid Documentation Has Improved, But Further Improvement Is Needed

Fiscal Service has improved documentation supporting the evaluation of bids for the Direct Express FAA since our last audit, but this area requires further improvement. We have concerns with the bid evaluation documentation that could make it difficult for Fiscal Service to justify or defend its award decision. In addition, several documents in the FAA file contained inaccurate and/or incomplete information.

Documentation of Bid Evaluation Needs Improvement

Pursuant to the Debt Collection Improvement Act of 1996, Fiscal Service established a cardholder fee schedule to provide beneficiaries receiving Federal benefit payments with an electronic payment option at a reasonable cost.[11] Fiscal Service's 2014 solicitation instructed bidders to submit proposals with costs to the cardholder consistent with the established cardholder fee structure, while allowing bidders to reduce or eliminate any of the established fees.

Table 1 on page 9 shows the fees that Fiscal Service established as reasonable, as well as the fees proposed by Comerica and Bank A for cardholder transactions. Across all categories, Bank A's proposed fees were either less expensive than Comerica or free.

Fiscal Service documented the rationale for awarding the FAA to Comerica in its *Evaluation of Applicants*. According to the evaluation document, Fiscal Service determined that both Comerica, whose proposal is estimated to cost the Federal government between $35 million and $42 million, and Bank A, with its zero-cost proposal, were technically capable of delivering a service that would meet or exceed all of the requirements identified in the solicitation. The evaluation document stated that the overall savings in ATM cash-withdrawal fees offered by Bank A's proposal could not be precisely quantified because ATM withdrawal savings are dependent

[11] To develop a low-cost payment option, Fiscal Service issued a notice of proposed rulemaking in the Federal Register in 2010 requesting public comment on fees, features, and consumer protections associated with the Direct Express card. Based on the feedback, Fiscal Service developed the fee schedule summarized in Table 1 under the heading, "Established".

Table 1. Fiscal Service's Established Fees and Bidders' Proposed Fees

Services	Established	Comerica Proposed	Bank A Proposed
Point-of-sale in U.S.	Free	Free	Free
Cash back	Free	Free	Free
Deposit notification	Free	Free	Free
Low balance notification	Free	Free	Free
Web account access	Free	Free	Free
ATM balance inquiry	Free	Free	Free
Customer service calls	Free	Free	Free
Cash from bank tellers	Free	Free	Free
Card replacement	1 free per year	1 free per year	1 free per year
Paper statement	$0.75/month	$0.75/month	Free
Funds transfer in U.S.	$1.50 each time	$1.50 each time	Free
ATM withdrawals in U.S.	1 free with each deposit	1 free with each deposit	Unlimited free in network and 1 free out of network/month
ATM Fee in U.S.	$0.90	$0.85	$0.80
Card replacement	$4.00	$4.00	$3.00
Delivery of replacement card	$13.50	$13.50	$10.00
ATM withdrawals outside U.S.	$3.00 + 3% of amount withdrawal	$3.00 + 3% of amount withdrawal	2.5% of withdrawal amount in network or $2.50 + 2.5% of withdrawal amount out of network
Point-of-sale outside U.S.	3% of purchase	3% of purchase	2.5% of purchase

Source: Fiscal Service's solicitation and bidders' proposals.

on cardholder behavior. However, Fiscal Service quantified the average savings per cardholder at less than $1.41 per month, which it considered to be relatively modest. Fiscal Service also estimated that it would cost the Federal government $48 million to transition to a new financial agent. Ultimately, Fiscal Service determined that the cost to transition, as well as the potential disruptions to both the cardholders and the Federal Government, outweighed the estimated monthly savings to each cardholder.

We understand that transition costs, whether monetary or as disruptions, should be considered, along with cost to customers and operational costs, in selecting the Direct Express financial agent. However, we noted the following concerns with the documentation of the bid evaluation that could make it difficult for Fiscal Service to justify its award decision.

- The bid evaluation presented the additional savings to customers from Bank A's proposal in terms of savings per account per month rather than as total savings over the term of the agreement. Transition and operational costs were presented as totals over the term. Considering that Direct Express had about 3 million active accounts at the time of the bid evaluation in May 2014, Fiscal Service's estimated monthly savings of $1.41 per account over the life of the 5-year FAA could result in an estimated $254 million in savings to the cardholder population. Presenting all estimates of costs and savings in like terms would help demonstrate that factors are reasonably and sufficiently considered.

- Fiscal Service's policies and procedures do not require the evaluation team to assign weight to the various factors considered or to document the rationale for those weights. Accordingly, reasons for considering certain factors (e.g., transition costs and disruption to the cardholders and the Federal Government) more heavily than others (e.g., total estimate of savings to cardholders) are not clear and may make it difficult for Fiscal Service to defend the bid decision should it be challenged.

Transition costs are of particular interest, especially if an overemphasis is placed on the weight of these costs in the bid evaluation. If the emphasis placed on transition costs is not properly tailored to the lifecycle of the program under bid, it could result in an insurmountable advantage for the incumbent. Such an advantage could restrict future competition by discouraging potential bidders from submitting a proposal if they perceive that it would be overly difficult for another bidder to unseat the incumbent. This situation could also provide an incumbent with undue leverage over the Federal Government in negotiating future terms, conditions, and compensation.

File Documents Contained Incorrect and Incomplete Information

The Fiscal Service FAA file contained documents such as the *Evaluation of Applicants*, the *Direct Express FASP*[12] *Scoring Methodology*, and the *FASP Execution Plan* to record the rationale, assumptions, plans, and support for selecting the financial agent for Direct Express. The file included documents that contained incorrect and incomplete information. Specifically, the following documents contain examples of incorrect and incomplete information.

- The *Evaluation of Applicants* document approved in August 2014 contains these statements and inaccuracies:
    - o "The cumulative cost to the government of selecting Comerica would range from $38 million to $42 million." Separate supporting documentation showed a range of $35 million to $42 million.
    - o "Direct Express had 5.2 million active accounts in May 2015." May 2015 was 9 months after Fiscal Service approved the document, and separate supporting documentation showed that Direct Express had about 3 million active accounts as of May 2014, the time of the evaluation.
    - o "Comerica's surcharge-free network has 100,000 locations." Comerica's oral presentation to Fiscal Service in May 2014 included a reference to 85,000 surcharge-free locations.
- The *Direct Express FASP Scoring Methodology* document contains a statement that "the pessimistic scenario's estimated transition costs are $63.92 million." A different page of the document (and the separate *Evaluation of Finalists* document) showed the "pessimistic" total as $59.08 million.
- The *Direct Express FASP Scoring Methodology* and the *FASP Execution Plan* documents were missing information, such as the document preparation date, document preparer, and a

[12] The Financial Agent Selection Process (FASP) is Fiscal Service's process to evaluate, select, and document a decision for a financial agent.

routing sheet or other support to show that the document was reviewed and the reviewer name.

According to the Government Accountability Office's *Standards for Internal Control in the Federal Government*, transactions should be clearly and promptly (and completely and accurately) recorded to maintain their relevance and value to management in controlling operations and making decisions—from the initiation and authorization through its final classification in summary records. Documents that Fiscal Service prepared to support the rationale and assumptions used to award the FAA did not fully meet this internal control standard.

In its response to our March 2014 audit report, management stated its intention to strengthen the documentation pertaining to FAAs by establishing oversight policies, including a standard checklist for document retention. While documentation of the rebid improved over the original Direct Express award documentation, Fiscal Service did not establish oversight policies related to FAA documentation until March 2016, 22 months after completing bid evaluations.

Recommendation

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

Management Response

Management concurred with our recommendation. Fiscal Service will instruct future selection teams that selection factors be presented in comparable terms. Fiscal Service will also revise its existing financial agent selection guidance to more explicitly describe how to document the methodology used to evaluate bidders, including a methodology that uses weighted factors. Furthermore, Fiscal Service will address in future training of employees and the selection procedures the importance of including names and dates on all documents and ensuring that the information is consistent and accurate.

OIG Comment

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

Matter of Concern

As a separate matter, we noted that Fiscal Service paid for cards enrolled but not used. Since program inception in 2008 through December 2015, Direct Express enrolled about 8.2 million accounts. Even though enrolled, not all accounts were used. Of the 8.2 million enrolled accounts, 6.4 million were open, 0.7 million were closed, and 1.1 million were not activated or used. An open account is an account that is activated and can receive payments. When accounts do not have activities or are no longer used, the cardholders or Comerica may close them for various reasons such as the cardholder switched to another financial institution, the cardholder has died, or the person enrolled but never activated the card. That leaves 1.1 million unused accounts (about 13 percent of the total enrollment) which are accounts that were neither opened nor closed but for which Fiscal Service paid for enrollments.

Under the 2008 FAA, Fiscal Service paid Comerica a per-enrollment fee of $5. Under the current FAA, Fiscal Service pays a per-enrollment fee of $2. As of December 2015, Fiscal Service paid Comerica about $31 million to enroll 8.2 million cards. While it is estimated that about $4 million was paid for enrolling unused accounts, benefit recipients cannot be discouraged from enrolling or are denied enrollments.[13] However, we believe that unused accounts should be analyzed to determine their age and whether they should be closed to reduce the risk of loss from fraudulent activities.

Management Response

Fiscal Service believes that an inventory of unused accounts is unavoidable and, in 2015, documented an agreement with Comerica to remove inactive/unused accounts after 12 months of inactivity. Furthermore, Fiscal Service has determined that accounts that are not

[13] The $4 million estimate is based on the OIG's calculation of the ratio of unused accounts to total enrolled accounts of 13 percent (1.1 million/8.2 million) multiplied by $31 million Fiscal Service paid for all enrollments through December 2015.

activated do not present a risk of fraud because no funds can be sent to the account and any attempt to use the card associated with an inactive account would be declined.

OIG Comment

While we agree that an inventory of unused accounts is unavoidable and Fiscal Service’s plan to remove accounts is helpful, we believe the risk of fraud exists because of the sophistication of modern-day hackers and cyberattacks and management should minimize such risks.

* * * * * *

We appreciate the courtesies and cooperation provided to our staff during the audit. Major contributors to this report are listed in appendix 4. A distribution list for this report is provided as appendix 5. If you wish to discuss the report, you may contact me at (202) 927-5904 or Greg Sullivan, Audit Manager, at (202) 927-5369.

/s/
Kieu T. Rubb
Audit Director

In 2008, the legacy Financial Management Service entered into a financial agency agreement (FAA) with Comerica Bank (Comerica) to operate the Direct Express® Debit MasterCard® Program (Direct Express) for electronic payments of Federal benefits. In 2014, the Bureau of the Fiscal Service (Fiscal Service) rebid the Direct Express FAA and selected Comerica as the financial agent.

Because the incumbent proposal was selected over a no-cost proposal, we initiated our audit with the objective of determining whether Fiscal Service followed applicable laws, regulations, policies, and procedures in selecting the financial agent for Direct Express. We also followed up on several corrective actions planned by Fiscal Service to respond to recommendations in our March 2014 audit report, OIG-14-031, *Fiscal Service Needs to Improve Program Management of Direct Express.* Appendix 2 discusses the results of several of the recommendations in the March 2014 report.

We conducted fieldwork from September 2014 to January 2016 at Fiscal Service's office in Washington, DC; Comerica headquarters in Auburn Hills, Michigan; a branch office located in Washington, DC for a bank that was a finalist in the Direct Express rebid (hereinafter referred to as "Bank A"); and the Federal Reserve Bank of Dallas call center in Dallas, Texas. To address the audit objectives, we took the following actions:

- reviewed applicable laws, regulations, and guidance, including:
    - Public Law 104-134, Debt Collection Improvement Act of 1996 (April 1996)
    - 31 CFR Part 208 *Management of Federal Agency Disbursements* (December 2010)
    - Federal Acquisition Regulation (January 2014)
    - *Guiding Principles for Financial Agent Selection Process* (September 2010)
- interviewed Fiscal Service's Assistant Commissioner for Payment Services, Direct Express Program Manager, and Direct Express evaluation team members

- interviewed senior managers from Comerica and Bank A who were responsible for bidding on the Direct Express FAA

- interviewed key personnel at the Federal Reserve Bank of Dallas responsible for program enrollments

- reviewed emails between Comerica and Bank A and Fiscal Service employees involved in the selection process for the rebid of the Direct Express FAA

- reviewed the Direct Express FAA file, including, the following documents:
    - project charter
    - selection plans
    - solicitation
    - proposals
    - individual and team evaluations
    - oral presentation notes
    - FAA

- evaluated Fiscal Service's actions to address several recommendations made in our March 2014 audit report, OIG-14-031, *Fiscal Service Needs to Improve Program Management of Direct Express*

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.

We reviewed select corrective actions taken by the Bureau of the Fiscal Service (Fiscal Service) in response to the recommendations from our March 2014 audit report, OIG-14-031, *Fiscal Service Needs to Improve Program Management of Direct Express*. In that report, 5 of the 13 recommendations to Fiscal Service had corrective actions related to the objective of this report, that is, the selection of Comerica Bank (Comerica) to continue operating the Direct Express® Debit MasterCard® Program (Direct Express) as a financial agent in the rebid of the financial agent agreement (FAA). Those recommendations include:

- create an independent estimate to determine whether proposed compensation by bidders is reasonable;
- assess bidders' technical capability to process and handle a large nationwide prepaid debit card program;
- include a provision in the FAA requiring the selected financial agent to notify the Office of Inspector General (OIG) of any instances of possible violations of federal criminal laws and fraud;
- develop a formal plan to ensure customer feedback is communicated to appropriate parties for action and prioritization; and
- ensure that appropriate and complete documentation is maintained for all matters related to the FAA for Direct Express, including the amendments.

We summarized the recommendations from the previous OIG report and the Fiscal Service corrective action taken that we reviewed in this audit.

Recommendations	Fiscal Service Response	OIG Disposition	Notes
1. Create an independent estimate to determine whether proposed compensation by bidders is reasonable.	During the rebid, Fiscal Service asked bidders to estimate the required compensation so they do not operate at a loss while maintaining current cardholder fees structure.	Reviewed, corrective actions taken	A
2. Assess bidders' technical capability to process and handle a large nationwide prepaid debit card program.	For the rebid, Fiscal Service designed a two-phase selection process to evaluate the bidders' capacity. The bidder must cite its actual experience in operating a debit card program with similar characteristics to Direct Express.	Reviewed, corrective actions taken	B
3. Assess the monthly activity reports required by the FAA for their continued relevancy and usefulness in monitoring the program.	Fiscal Service reviews the reports and included the requirement for the reports in the solicitation.	Verification planned in future work	
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 and fraud.	Fiscal Service amended the current FAA to include this requirement and will also include it in the new FAA.	Reviewed, corrective actions taken	C
5. Ensure infrastructure compensation paid to Comerica or any other financial agent is appropriately supported.	Fiscal Service will continue to follow the established process for re-negotiating the terms of the FAA, in accordance with the language contained in the FAA, when the scope of the agreement has changed.	Verification planned in future work	

Recommendations	Fiscal Service Response	OIG Disposition	Notes
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.	Fiscal Service plans to continue to measure cardholder satisfaction through surveys.	Verification planned in future work	
7. Establish a quality assurance surveillance plan to monitor and document the financial agent's performance and take action when requirements are not met.	Fiscal Service will establish a performance measurement program for the Direct Express financial agent to measure efficiency, customer satisfaction, and compliance.	Verification planned in future work	
8. Track the financial agent's Direct Express revenues and expenses throughout the FAA and periodically assess whether financial agent compensation remains reasonable and fair to all.	Fiscal Service currently monitors the revenues and expenses of the financial agent and will continue to ensure the compensation remains reasonable and fair to all parties.	Verification planned in future work	
9. Periodically assess net cost savings of Direct Express compared to other benefit delivery methods and determine the reasons for variances from expectations.	Fiscal Service routinely monitors the unit costs associated with all of the payment delivery processes for which it is responsible.	Verification planned in future work	
10. Continue to enforce the annual certification of compliance requirement and take action when requirements are not met.	Fiscal Service plans to continue the annual certification process as currently administered for all financial agents.	Verification planned in future work	
11. Consider obtaining periodic independent customer satisfaction surveys to ensure customer feedback is unbiased.	Fiscal Service intends to continue using the third-party survey conducted annually by a firm under contract to the financial agent.	Verification planned in future work	

Recommendations	Fiscal Service Response	OIG Disposition	Notes
12. Develop a formal plan to ensure customer feedback is communicated to appropriate parties for action and prioritization.	Fiscal Service intends to integrate the actionable recommendations that emerge from the cardholder survey to manage Direct Express.	Reviewed, corrective actions taken	D
13. Ensure appropriate and complete documentation is maintained for the Direct Express FAA.	In the past year, Fiscal Service has strengthened the documentation of all FAAs, not just those for Direct Express.	Reviewed, corrective actions taken but further work is needed	E

Note A – To address this recommendation, Fiscal Service reviewed historical data and received multiple estimates to determine the reasonable cost of operating Direct Express. The Federal Acquisition Regulation (FAR)[14] states that the government may use various price analysis techniques to ensure a fair and reasonable price. FAR recommends comparing proposed prices received in response to a bid request (1) to the solicitation, (2) to historical prices paid, or (3) to the independent Government cost estimate. We believe that Fiscal Service's actions taken meet the intent of the recommendation made.

Note B – To address this recommendation, Fiscal Service management told us that since the incumbent service provider, Comerica, was selected, Fiscal Service had ample evidence of their technical capability. Fiscal Service reviewed the bidders' experience issuing debit cards for recurring payments disbursed by government or private entities to determine if they were qualified. Fiscal Service explained that if another bidder had been selected, then the selected bidder's technical capability would have been confirmed prior to finalizing the FAA. FAR states that the quality of the product or service shall be addressed in every source selection through consideration of one or more non-cost evaluation factors such as past performance, compliance with solicitation requirements, technical excellence, management capability, personnel qualifications, and prior

[14] FAR 15.404-1(b)(2), *Proposal Analysis Techniques*

experience.[15] We believe that Fiscal Service's actions taken meet the intent of the recommendation made.

Note C – To address this recommendation, Fiscal Service included a provision in the 2015 FAA requiring the financial agent to notify the OIG of possible violations of federal criminal laws and fraud. We believe that Fiscal Service's actions taken are responsive to the recommendation made.

Note D – To address this recommendation, Fiscal Service reviewed cardholder surveys dating back to 2009 and included a customer satisfaction rating in the current FAA as a performance measure. This performance measure is one of 37 included in the FAA. If Comerica does not meet the minimum score for two consecutive months, Fiscal Service will reduce the compensation by $0.01 per active account starting in the 3rd month until the performance score equals or exceeds the threshold. We believe that Fiscal Service's actions taken are responsive to the recommendation made.

Note E – To address this recommendation, Fiscal Service intended to establish the Financial Agent Oversight Group, a working group tasked to establish oversight policies, including a standard checklist for document retention. Fiscal Service established the working group and as of March 2016, adopted the oversight policies related to FAA documentation. Fiscal Service also told us that appropriate documentation was maintained for Direct Express and that they had closed the recommendation internally. Although Fiscal Service improved file documentation since our last audit, further improvement is needed. Our current audit disclosed that important FAA file documents contained incorrect and incomplete information. Accordingly, this report addresses this finding and related recommendations.

---

[15] FAR 15.304(c)(2), *Evaluation Factors and Significant Subfactors*

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

COMMISSIONER

December 21, 2016

Ms. Kieu T. Rubb
Audit Director
Office of the Inspector General
740 15th Street, NW
Suite 600
Washington, DC 20220

Dear Ms. Rubb:

Thank you for the opportunity to respond to the recommendations in the Inspector General's recent audit of the Bureau of the Fiscal Service's selection process for the 2014 rebid of the Direct Express® Financial Agency Agreement (FAA). As you know, the Direct Express program is part of the Fiscal Service's efforts to increase electronic payments in accordance with the Debt Collection Improvement Act of 1996. The use of electronic payments will save American taxpayers an estimated $1 billion over a ten year period while ensuring that more than 4 million benefit recipients, many of whom are financially underserved, receive their payments more safely, securely and reliably through the Direct Express program. With a cardholder satisfaction rate of 96%, we believe the program has been enormously successful.

We appreciate your recommendations on how to improve the documentation of FAA bid evaluations. Specifically, the audit report recommends: *that the Fiscal Service Commissioner improve the documentation of FAA bid evaluations by ensuring that (1) factors under consideration are presented in comparable terms and the rationale for selecting factors and weights used is adequately described and (2) accurate and complete documentation is maintained for FAA files.*

Fiscal Service agrees that documentation of bid evaluations should present the factors under consideration in comparable terms. In this regard, the report notes that the bid evaluation presented savings to customers in terms of savings per account per month rather than as a total savings over the term of the agreement, whereas transition and operational costs were presented as totals over the term. We will instruct future selection teams that selection factors should be presented in comparable terms.

We also concur with the importance of adequately describing the rationale for the selection of a financial agent. While we believe that the rationale for the factors used in the 2014 rebid was comprehensively described in the evaluation team's report, we understand the value of documenting the rationale for the methodology used to evaluate bidders. Accordingly, Fiscal Service will revise its existing financial agent selection guidance to more explicitly describe how to document the methodology used to evaluate bidders, including a methodology that uses weighted factors.

Fiscal Service also agrees it is important to maintain accurate and complete documentation for FAA files. We will address in future training of employees and in our selection procedures the importance of including names and dates on all documents and ensuring that the information in them is internally consistent and accurate.

As a separate matter, the report noted that Fiscal Service paid for cards enrolled but not used. Although no recommendation was made, OIG believes that unused accounts should be analyzed to determine their age and whether they should be closed to reduce the risk of loss from fraudulent activities.

We note that an inventory of unused accounts is unavoidable because some individuals who apply for benefits and select Direct Express never activate the account for various reasons. Subsequently to selecting Direct Express, some individuals (1) choose another payment method; (2) have the benefit claim denied; (3) are assigned a representative payee; or (4) die prior to the first payment. In September of 2014, Comerica Bank began to take action to examine the entire account database. Based on this review, in April 2015 Comerica and Fiscal Service agreed that accounts that are not activated or used will be removed from the system after a 12 month period of inactivity and documented this in Instructional Bulletin 2015-005. Fiscal Service has determined that accounts that are not activated do not present a risk of fraud because no funds can be sent to the account and because any attempt to use a Direct Express card associated with an inactive account would be declined.

Thank you for the opportunity to comment on this draft OIG report. If you have any questions or wish to discuss our comments in more detail, please contact me on 202 874-7000.

Sincerely,

FOR

Sheryl R. Morrow
Commissioner

2

Greg Sullivan, Audit Manager
David Hash, Auditor-in-Charge
Allison Jackson, Program Analyst
Anne Ryer, Referencer

Department of the Treasury

Deputy Secretary
Fiscal Assistant Secretary
Office of Strategic Planning and Performance Improvement
Office of the Deputy Chief Financial Officer, Risk and Control Group

Bureau of the Fiscal Service

Assistant Commissioner, Payment Management
Director, Finance and Internal Control Division

Office of Management and Budget

OIG Budget Examiner

Treasury OIG Website

Access Treasury OIG reports and other information online:
http://www.treasury.gov/about/organizational-structure/ig/Pages/default.aspx

Report Waste, Fraud, and Abuse

OIG Hotline for Treasury Programs and Operations – Call toll free: 1-800-359-3898
Gulf Coast Restoration Hotline – Call toll free: 1-855-584.GULF (4853)
Email: Hotline@oig.treas.gov
Submit a complaint using our online form:
https://www.treasury.gov/about/organizational-structure/ig/Pages/OigOnlineHotlineForm.aspx