

GAO Highlights

Highlights of [GAO-15-497](#), a report to congressional requesters

Why GAO Did This Study

In 1992, Congress created a transportation fringe benefit that allowed public and private employers to offer employees transit benefits, excludable from gross income, to cover out-of-pocket public transportation commuting costs. Federal agencies may distribute these transit benefits directly or enter into an agreement with another agency, such as DOT, to distribute the benefits on a fee-for-service basis. In 2011, DOT's TRANServe began using debit cards to distribute transit benefits. IRS has established rules to help employers ensure their debit card programs qualify as allowable fringe benefits. Members of Congress have questioned whether the debit card restrictions prevent non-transit-related purchases and whether DOT's program complied with IRS rules.

This report describes the extent to which DOT has (1) designed internal controls to provide reasonable assurance that employees do not use the debit card to make non-transit-related purchases and (2) worked with IRS to ensure its debit card program complies with IRS's rules. GAO reviewed the design of TRANServe's internal control system for preventing non-transit purchases, but testing the system was not within the scope of the work; compared federal standards and TRANServe's practices; reviewed IRS rules on fringe benefits; and obtained TRANServe documentation of the steps taken to demonstrate that its debit card complied with the rules.

GAO is not making recommendations in this report. DOT and IRS provided technical comments that were incorporated as appropriate.

View [GAO-15-497](#). For more information, contact Dave Wise at (202) 512-2834 or WiseD@gao.gov

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FEDERAL TRANSIT BENEFIT PROGRAM

DOT's Debit-Card Internal Controls Are Designed to Be Consistent with Federal Standards

What GAO Found

The Department of Transportation's (DOT) Office of Transportation Services (TRANServe) has included multiple internal control activities in the design of the TRANServe debit card program. These controls are intended to prevent federal employees from using their debit card for non-transit-related purchases, and as designed, would be expected to provide reasonable assurance that non-transit-related purchases can be identified and denied. The phrase "internal control" does not refer to a single event, but rather a series of actions that occur throughout an entity's operations on an ongoing basis for safeguarding assets and preventing and detecting errors and fraud. DOT provided evidence that the design of its TRANServe debit card program aligns with each of the five internal control standards as identified in GAO's *Standards for Internal Control in the Federal Government* and as described below.

- **Control environment:** DOT has established a control environment framework for the TRANServe debit card program by, among other things, setting the program's primary goal as enhancing internal controls to deter waste, fraud, and abuse of transit benefits.
- **Risk assessment:** DOT established the position of internal controls officer, in 2007, to examine control activities and identify potential program vulnerabilities through the testing of debit card controls.
- **Control activities:** TRANServe has established mechanisms for controlling the use of the debit card. For example, the debit card is restricted so it can only be used to purchase transit fare from transit providers that are identified by merchant category codes that have been approved by DOT. The codes are used to classify a business by type of goods or services it provides.
- **Monitoring:** TRANServe conducts weekly data mining, which includes reviewing debit card transactions to identify potential misuse and irregularities.
- **Information and communication.** TRANServe sends "anomaly letters" (letters detailing potential misuse of the debit card) to agencies when non-transit purchases are detected.

TRANServe worked with the Internal Revenue Service (IRS) to demonstrate that the debit card program is in compliance with IRS's rules for qualified transportation fringe benefits and that in particular, it was a transit pass and effectively prevented non-transit-related purchases. From 2011 to 2013, TRANServe staff tested the debit card with transit agencies in eight areas across the country, making dozens of purchases of both transit-related and consumer-related products. In most cases the purchase restriction succeeded in preventing the debit card from purchasing non-transit-related products. In the few cases where the restriction failed, TRANServe took steps to have additional restrictions placed on the debit cards. Once it completed the tests in each region, TRANServe sent the test results to IRS, and once IRS was satisfied with the final results, IRS officials sent DOT an e-mail confirming that the debit card qualified as a transportation fringe benefit in that area. TRANServe then completed the roll out of the debit card program by the end of fiscal year 2014.