

***State of New York
Office of the State Comptroller
Division of Management Audit***

**PORT AUTHORITY OF NEW YORK
AND NEW JERSEY**

**ADMINISTRATION OF THE
TRANSITCHEK PROGRAM**

REPORT 96-S-8



H. Carl McCall
Comptroller



State of New York Office of the State Comptroller

Division of Management Audit

Report 96-S-8

Mr. Lewis M. Eisenberg
Chairman
Port Authority of New York and New Jersey
One World Trade Center
New York, NY 10048

Dear Mr. Eisenberg:

The following is our report on the practices used by the Port Authority of New York and New Jersey to administer the TransitChek Program.

We did this audit according to the State Comptroller's authority as stated in Section 7071 of the Unconsolidated Laws of New York. We list major contributors to this report in Appendix A.

*Office of the State Comptroller
Division of Management Audit*

July 23, 1997

Executive Summary

Port Authority Of New York And New Jersey Administration Of The TransitChek Program

Scope of Audit

In 1987, the Port Authority of New York and New Jersey's (Authority) Transit Center introduced the TransitChek Program (Program). This Program allowed participating employers in the New York City metropolitan area to provide employees with a nontaxable benefit of mass transit tokens/tickets or specially designed TransitCheks. The Program is administered by the Authority's Transit Center (Center). By 1996, the maximum monthly benefit was \$65 per employee. Employers purchase TransitCheks at face value from the Authority, which charges a 4 percent administrative fee for each TransitChek sold. During 1995, 1.3 million TransitCheks (worth \$30.5 million) were sold, producing about \$1.3 million in revenues for the Center. Because the Program's annual operating costs generally exceed operating income, the Authority requires subsidies from some of the Program's sponsoring agencies - the Port Authority Trans-Hudson Corporation, the Metropolitan Transportation Authority, and New Jersey Transit. For the three years ended December 31, 1995, these subsidies totaled about \$2.4 million.

Our audit addressed the following questions about the Authority's administration of the Program for the period January 1, 1992 through December 31, 1995:

- Has the Authority effectively marketed the Program?
- Has the Authority administered the Program at the lowest possible cost?
- Has the Authority adequately assessed Program performance?

Audit Observations and Conclusions

We found that improvements can be made in the Authority's practices for marketing the Program and assessing Program performance. Also, there is high risk that the Program's administration costs are higher than necessary. Authority and Center management should formally assess the costs and benefits of other options to administer the Program.

In 1994, the Authority hired nine people to enroll employers in the Program. We determined that new employer enrollments in 1994 and 1995 were down 31 percent from 1993, before the sales force was hired. We therefore questioned the effectiveness of the sales force. We found that sales staff should be more active in initiating contact with employers and in following-up to determine why employers declined to participate in the Program. We also concluded that enrollment efforts may be more effective if various initiatives were undertaken to improve sales productivity such as providing sales staff incentives for successful enrollments. (See pp. 5-8)

In 1990, the U.S. Congress amended the Federal Clean Air Act through the addition of the Employee Commute Option (ECO). The ECO was intended to encourage car drivers to use mass transit, and thereby, reduce air pollution generated by single-occupant cars in major metropolitan areas. Thus, we believe the Center's advertising should be directed more toward motorists, not individuals who already use mass transit. However, Program advertising has been aimed at people who already use mass transit. We recommend that the Program direct its advertising at motorists and consider low-cost advertising options such as establishing a home page for the Program on the Internet. (See pp. 8-9)

We obtained data on TransitChek programs in six other major municipalities and found that none of those six programs required operating subsidies. Further, none of the other six programs charged participating employers more than a 2 percent administrative fee. Moreover, we believe officials could significantly reduce or perhaps eliminate the need for the annual subsidies (usually \$750,000), if the Authority made better use of competitive procurement processes to develop more efficient methods for administering the Program. Without the sponsor subsidies, the Program would have generated operating losses totaling about \$2 million for the three years ended December 31, 1995. According to Center officials, the Program should be financially self-sufficient (not need subsidies) during 1997. (See pp. 11-12, and p. 2)

Managers need accurate information to assess their program's performance. However, the Authority's Program information was misleading. According to Center records, as of December 31, 1995, 5,876 employers were enrolled in the Program. However, we found that the Center was reporting the cumulative enrollments in the Program since its inception and that 1,920 (33 percent) of these employers did not order any TransitCheks during 1995. In addition, the Post Office returned 41 of the questionnaires we sent to inactive firms, because the addressees had either moved or were "unknown" and the letters were undeliverable. Because Center officials reported the cumulative enrollments and they did not distinguish between active and inactive employers, all employer accounts in the Program's database were considered to be active, whether or not the employers purchased any TransitCheks within the prior year. Thus, because Authority records did not distinguish between active and inactive enrollees, efforts to assess the effectiveness of the Center's marketing efforts were limited. (See pp. 12-14)

We also determined that the Authority did not always use a competitive process to obtain vendors to provide banking and TransitChek processing services for the Program. As a result, the prices paid for these services may have been higher than necessary. (See pp. 14-16)

Comments of Authority Officials

We provided Authority officials with draft copies of this report for their review and formal comment. We have considered officials' comments in preparing this report. Generally, the response in substance implied disagreement with our report's recommendations. Their comments suggest that many of our recommendations reflect practices that were already in place or were planned. We believe that many of the actions taken were to correct the conditions we reported to them during the audit at meetings and through preliminary findings.

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Introduction

Background

The Port Authority of New York and New Jersey (Authority) is a municipal corporation and subdivision of the states of New York and New Jersey. A compact between the two states created the Authority on April 30, 1921 and was approved by the Congress of the United States to support economic development in the New York City/New Jersey metropolitan region.

The facilities operated by the Authority include bridges, tunnels, airports, heliports, marine ports, office complexes and industrial parks. The Authority is self-sustaining financially.

In 1986, the Authority established the Transit Center (Center). In October 1987, the Center introduced the TransitChek Program (Program). The Program allowed participating employers to provide their employees with a nontaxable benefit of up to \$15 per month in mass transit tokens or tickets, or specially designed TransitCheks that could be used by the employees to purchase tickets, tokens and passes from the mass transit agencies that sponsor the Program. The sponsors include the Port Authority Trans-Hudson Corporation (PATH) a wholly-owned subsidiary of the Authority, the Metropolitan Transportation Authority (MTA), and New Jersey Transit.

Path is the host agency for the Program. The Program is operated from the Authority's offices at One World Trade Center and is also part of the Authority's financial reporting entity. According to Authority officials, the Program's main objective is to promote the use of mass transit.

Since 1987, the amount of the maximum monthly allowance has been increased periodically and in 1996 was increased to \$65. The TransitCheks must be purchased by the employers at face value from the Authority. Employers are precluded by law from issuing TransitCheks or other transit fare media in place of salary or wages.

The Program is administered by the Center, which also administers TransitLink, a public information service for mass transit patrons. We would note, however, that only a very small portion of the Center's total revenues and total costs are attributable to TransitLink. To administer the Program, the Center incurs costs for personnel, office operations and other services. During the year ended December 31, 1995, these costs totaled about \$4.3 million. To pay the Program's costs, the Center charges participating employers an administrative fee of 4 percent of the cost of each TransitChek purchased. In 1995, these fees totaled about \$1.3 million.

To help pay its operating costs, the Center requires significant annual subsidies from some of the transit agencies that sponsor the Program. For the three years ended December 31, 1995, the sponsor subsidies totaled about \$2.4 million. Without such subsidies, the Program would have had operating losses totaling about \$2 million for the three-year period, as follows:

TRANSITCHEK PROGRAM				
(Amounts in Thousands)				
	1993	1994	1995	Total
Operating Revenues* (Excluding Sponsor Subsidies and Grants)	\$ 792	\$2,400	\$ 1,820	\$5,012
Less: Operating Costs (Excluding Costs Associated With Grants)	<u>1,542</u>	<u>2,583</u>	<u>2,853</u>	<u>6,978</u>
Surplus (Loss) Without Sponsor Subsidies and Grants	(750)	(183)	(1,033)	(1,966)
Add: Sponsor Subsidies	<u>750</u>	<u>875</u>	<u>750</u>	<u>2,375</u>
Net Surplus (Loss) Excluding Grant Ac- tivity**	<u>\$ -0-</u>	<u>\$ 692</u>	<u>\$ (283)</u>	<u>\$ 409</u>
* Includes revenue from TransitChek administrative and handling fees, expired TransitChek vouchers, TransitLink, and Interest Income.				
** According to Center officials, grant income is recognized only to the extent that grant expenses are incurred. Thus, we excluded grant revenues and expenses from this summary, to simplify it for the purpose of our audit.				

According to Center officials, the Center should become financially self-sufficient during 1997. (Note: In responding to the draft report, the Center's Executive Director stated that the sponsor's support totals \$1.5 million annually—which equates to \$4.5 million over a three-year period. Contrary to his response, the financial reports provided to us by the Center's management for the three years ended December 31, 1995, the annual amounts of sponsor support actually ranged from \$750,000 to \$875,000.)

During 1995, the Center sold about 1.3 million TransitCheks (worth a total of \$30.5 million) to participating employers. According to Authority

officials, at the time of our review, about 2 percent of New York City employers were enrolled in the Program.

Audit Scope, Objectives and Methodology

We audited the Authority's administration of the Program for the period January 1, 1992 through December 31, 1995. The objectives of our performance audit were to determine whether the Center marketed the Program effectively, provided services at the lowest possible cost, and adequately assessed Program performance.

To accomplish our objectives, we surveyed a judgmental sample of 200 active and 200 inactive employers who were enrolled in the Program. We also reviewed Center records, interviewed Center and other Authority officials, contacted officials for TransitChek operations in other municipalities, and contacted certain providers of banking services and TransitChek processing services. In addition, we reviewed literature on methods for compensating sales employees.

We did our audit according to generally accepted government auditing standards. Such standards require that we plan and do our audit to assess adequately those Authority operations included in our audit scope. Further, these standards require that we understand the Authority's internal control structure and its compliance with those laws, rules and regulations that govern the operations included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing management's estimates, judgments, and decisions. We believe our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach when selecting activities to audit. This approach focuses our audit efforts on those operations identified through a preliminary survey as having the greatest chance for needing improvement. So, by design, we use our finite audit resources to identify where and how to make improvements. Thus, we devote little audit effort to reviewing operations that may be efficient or effective. As a result, we prepare our audit reports on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

Comments of Authority Officials

We provided draft copies of this report to Authority officials for their review and formal comment. We considered their comments in preparing this report and have included them as Appendix B.

Generally, the Authority's comments, which were prepared by the Center's Executive Director, in substance implied disagreement with our report's recommendations. His comments indicate that our recommendations reflect practices that were already in place or had been planned. We believe that many of the actions taken were to correct the conditions we reported to them during the audit at meetings and through preliminary findings.

Within 90 days after final release of this report, we request that the Executive Director of the Port Authority of New York and New Jersey report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

Marketing Efforts and Effectiveness

We found that improvements can be made in the effectiveness of the Center's sales force. We also found that the Center's advertising activities may not be focused on the appropriate customer group.

Sales Force Effectiveness

The Center hired a sales force in 1994 to enroll employers in the Program. At the time of our audit, this sales force consisted of nine employees. We note that, during 1993, before the sales force was hired, 1,579 employers were newly enrolled in the Program. After the sales force was hired, new enrollments went down 31 percent, as 1,092 employers were enrolled in 1994 and 1,089 employers were enrolled in 1995. We therefore question the productivity and effectiveness of the sales force. In responding to the draft report, the Center's Executive Director questioned the use of the number of new employers enrolled in the Program to assess program performance. He noted that one large employer could potentially generate more sales than 500 small companies and suggested that increases in total sales volume is a more accurate measure of success. We would note, however, that in recent years, increases in total sales resulted significantly from periodic increases in the maximum monthly TransitChek benefit. In 1987, the Program was introduced with a maximum monthly benefit of \$15. Since 1987, the maximum monthly benefits has been increased to \$21, \$60 and \$65 in 1993, 1994 and 1996, respectively. Therefore, without enrolling a single new employer, total sales could increase as the maximum monthly benefit increased. Thus, we believe the number of new employers enrolled in the Program is a valid indicator of the sales staff's performance.

Generally, proactive efforts are required to maximize sales. However, the Center's sales staff generally wait for an employer, who has learned about Transitchek, to contact them, instead of initiating contact and following up with prospective Program participants. We asked Center officials why the sales staff generally does not initiate and follow-up sales contacts. They said that the Authority does not want to be perceived as "too aggressive" by the general public. As a result of passive sales efforts, the sales force may not be as effective as possible. In responding to the draft report, the Center's Executive Director indicates that the mission of the sales force was to contact 5,000 employers [with 100 or more employees] in the New York City region. However, although Center staff claimed to have sent TransitChek informational mailings to the 5,000 firms, it is their practice not to follow-up with officials of these firms to assess their interests or to answer their questions.

The Center's response also stated the TransitChek Program has been recognized as the largest and most successful program of its type in the nation and that in 1996 the Program had over 4,000 employers purchasing TransitChek vouchers. However, in 1995, the Center reported that it had 5,876 employers enrolled in the Program (without any regard as to whether or not they had purchased any TransitCheks). We determined that 1,920 had not made any purchases in calendar year 1995, and classified them as "inactive." The remaining 3,956 employers made purchases in 1995. Therefore, the fact that there were "over 4,000 employers" in 1996 does not necessarily reflect an effective sales force. We believe that there is still need to significantly improve the marketing of the Program.

Only about 10 percent of the Officials from companies responding to our questionnaire about their participation in the Program, indicated that they had been contacted by Center sales staff, but they had rejected TransitCheks for various reasons (for example, the fees seemed too high and some employees could not, or would not, use mass transit to commute). However, the reasons for the rejections were not documented by the Center and there were no indications that Center sales staff took action at the time of the rejections to address the reasons for the rejections. Because Center management did not institute a formal system for reacting to such rejections by following up with employers that declined to participate in the Program, management was less able to determine why these potential customers declined participation and was less able to identify aspects of the Program that need to be improved.

In responding to the draft report, the Center's Executive Director stated that Center staff regularly conduct surveys of TransitChek and non-TransitChek employers to assess their views of the Program and to improve its marketability. However, documentation provided to us by Center officials did not provide evidence that sales staff regularly surveyed non-TransitChek employers. Although a consultant surveyed non-TransitChek employers in 1993, there was no evidence that sales staff surveyed non-participants at any other time. Because conditions (for example, increases in the maximum monthly benefit) can change significantly over time, the use of periodic surveys would better enable Center officials to modify the Program to maximize its marketability.

We also note that the Center does not maintain a list of companies that could potentially participate in the Program. Such a list could be used by sales personnel to identify employers to contact. Authority officials told us that 2 percent of New York City's employers were enrolled in the Program, but without such a list, the officials could not document this claim.

In responding to the draft report, the Center's Executive Director stated that the Center has purchased lists of non-TransitChek employers on a regular basis. We requested documentation of such lists. However, Center staff did not provide documentation to us.

We also concluded that Center management should consider some form of an incentive program to help ensure that sales staff maximize sales potential. For example, Thomas McCoy, who has written extensively on employee performance and reward systems, believes that an incentive-based system improves an employee's overall effectiveness. Further, Jeremy Thorne, in his book "The First Time Sales Manager," states that the payment of a fixed salary alone produces the lowest overall rate of sales, because it provides no motivation either for increasing sales or acquiring new business. The Center's sales staff are paid a fixed salary with no provision for incentives, and as a result, may not be as effective as possible. Thus, to encourage sales staff to perform at higher levels, we conclude that management should consider new initiatives to increase productivity such as developing performance-based incentives for sales staff.

In responding to the draft report, the Center's Executive Director asserted that the amount of new enrollments was not negatively impacted by the Center's lack of a performance-based incentive program. However, the Center's Executive Director provided no evidence that sales staff were enrolling maximum levels of new employers in the Program. Moreover, as previously noted, a significant portion of the sales volume increases could be attributed to the increase in the maximum monthly benefit.

Recommendations

1. Ensure that sales staff regularly initiate contact and follow-up with prospective Program participants.
2. (Recommendation deleted.)
3. Document why firms reject TransitCheks and follow up with the firms to identify ways to improve the acceptability of the Program.
4. Develop or purchase a list of potential customers for TransitCheks.
5. Consider various initiatives to increase productivity such as the development of a performance-based incentive program for the Center's sales staff.

Advertising Activities

In 1990, the U.S. Congress amended the Federal Clean Air Act through the addition of the Employee Commute Option (ECO). The ECO was an employer trip reduction program that was intended to encourage car drivers to use mass transit, and thereby, to reduce air pollution generated by single-occupant cars in major metropolitan areas during peak traffic periods. Thus, we believe the Center's advertising efforts may increase participation and yield better results if marketed more towards motorists and not wholly to people who already use mass transit. However, the Center's efforts to market and advertise the Program have generally been focused on mass transit facilities. We believe these efforts have generated a limited number of sales and have missed the intended audience - the single occupant of a motor vehicle. We question whether a different advertising strategy might be more effective.

In responding to the draft report, the Center's Executive Director indicated that Center staff had previously attempted to market the Program to drivers. However, they found more success in marketing the Program to employers who already had a majority of their workers using mass transit to commute to and from work. Although this is true, we also believe that there is limited benefit (in the form of reducing traffic and pollution) to enrolling employers whose employees already use mass transit for their daily commutes. Because a major objective of the Program is to reduce traffic and pollution through the increased use of mass transit, we maintain that Center staff should focus

more of their marketing efforts on automobile commuters and their employers.

We also believe that Center management can make use of low-cost promotional media to reach potential customers. For example, some vendors have been able to advertise inexpensively through the Internet, which allows potential customers to make inquiries and receive responses instantaneously and at all hours of the day. However, the Center has not explored the Internet as a tool for publicizing the Program to increase sales.

We observed that the Program is advertised on subway cars. However, at the time of our fieldwork, Center officials had not formally explored the options of placing public service announcements in major media or sharing such advertising costs with the sponsoring mass transit agencies, such as the MTA. The MTA aims advertisements (at motorists) that describe the advantages of commuting by rail as compared to commuting by automobile. These advertisements could include “taglines” for TransitCheks, just as some retailers’ advertisements mention that the retailers accept the credit cards issued by certain credit card companies.

In responding to the draft report, the Center’s Executive Director indicated that the Center has made use of public service announcements. The Center’s Executive Director also indicated that the sponsoring agencies are assisting the Center with promotion of the Program. Documentation provided to us by Center staff indicates that such efforts were undertaken after we started the audit. The Executive Director further indicated that Center management will evaluate the cost/benefit of establishing a home page.

Recommendations

6. Modify the Program’s advertising strategy to increase the extent to which advertising efforts are directed at motorists.
7. Formally evaluate the benefits of low-cost advertising options such as establishing a home page on the Internet, placing public service announcements in major media, or sharing costs with sponsoring mass transit agencies.

Program Administration

Public officials and others who manage publicly-funded organizations or handle public resources are responsible for achieving program objectives in an economical, efficient and effective manner. We found that the Program could be administered more efficiently, if management made better use of competitive procurement processes to obtain the goods and services required to run the Program. We also found that improvements could be made in Center practices for assessing Program performance.

Reducing Administrative Costs

The employers who participate in the Program pay the Center a 4 percent processing fee and a \$12 shipping charge for every order of TransitCheks. During 1995, the processing fees alone totaled about \$1.3 million. The transit agencies that sponsor the Program subsidize the Program's operating losses. For the three years ended December 31, 1995, these subsidies totaled about \$2.4 million.

We compared the costs incurred by Program participants and sponsors to the costs incurred by participating employers and sponsoring transit agencies of TransitChek programs in six other major municipalities: Buffalo, Chicago, Milwaukee, Los Angeles, Philadelphia, and Sacramento. We found that none of these six programs need operating subsidies from their sponsoring transit agencies. In addition, none of the six programs charge more than a 2.5 percent processing fee and more than \$10 per order for shipping.

The costs incurred by Program participants and sponsors, therefore, appear comparatively high to those of other municipalities. The higher cost of participating in the Program may contribute to the Center's difficulty in enrolling employers in the Program. We note that each of the six other municipalities we contacted made greater use of services from private contractors to run the Program.

In responding to the draft report, the Center's Executive Director suggests that the Program's 4 percent fee is less than the fees charged by other Programs throughout the country. The Center's Executive Director notes that an order of twelve \$15 checks from the Philadelphia TransitChek Program would result in an administrative fee of 4.7 percent. However, such an order is not representative and does not make a valid comparison because it uses a very small order quantity at a low denomination—\$50 less than the maximum monthly benefit. If, for example, this order was increased to only twelve \$30 checks (still a very small order, with a denomination less than half the maximum monthly benefit), the administrative fee would be only 2.3 percent. Thus, we maintain that the Center's 4 percent fee is most often

higher than the fees charged by the other major municipalities whose Programs we surveyed.

Moreover, the Center's Executive Director indicated that the Center would competitively re-bid the main Program contract when it expires in 1999. However, we noted that this is after exercising two one-year options to renew this contract, the first renewal starting in 1997.

Recommendation

8. Use open competitive procurement processes to obtain proposals for the goods and services required to administer the Program. As appropriate, contact officials at other TransitChek programs to identify prospective contractors.

Assessing Program Performance

If senior managers are to make the best possible decisions regarding program activities, they need accurate information about program performance. According to Center records, as of December 31, 1995, 5,876 employers were enrolled in the Program. However, we determined that this number does not accurately represent the actual level of employer participation, because it represented the cumulative enrollments in the Program since its inception and 1,920 (33 percent) of these employers did not order any TransitCheks during 1995. Center officials told us they do not distinguish between active and inactive employers, as an employer's account number remains in the Program's database indefinitely, whether or not the employer purchases any TransitCheks.

In addition, using judgmental samples, we surveyed 200 enrolled firms that bought TransitCheks during 1995 (active firms) and 200 enrolled firms that did not buy any TransitCheks during 1995 (inactive firms). We received responses from 109 active firms and only five inactive firms. Moreover, the Post Office returned 41 of our questionnaires addressed to inactive firms, because the addressee had either moved or was unknown to Postal officials. Therefore, by reporting on the cumulative enrollments and not distinguishing active from inactive employers, we believe Center records may overstate the results of the Center's marketing efforts and may not accurately inform senior Authority management about the effectiveness of these efforts.

We note that, in response to our survey questionnaire, 11 firms (10%) indicated that the Program's fees are too high. As noted previously, each of the six other municipalities we contacted charged employers processing and handling fees that were lower than those charged by the Center. Thus, we

conclude that senior Authority officials need to formally evaluate whether the fees or some other factors discourage participation in the Program.

In responding to the draft report, the Center's Executive Director stated that the 4 percent fee and \$12 shipping charge have never been identified by customers [enrolled employers] as impediments to enrolling in the Program. However, there could be impediments to employers who did not enroll in the Program. The Center's Executive Director also asserted that the 4 percent fee has had no measurable impact on the growth of the Program. However, as previously noted, growth in total sales has generally coincided with increases in the maximum monthly benefit, as approved by the Federal government. Because Center officials cannot assume that the Federal Government will approve further significant increases in the maximum benefit, they should be concerned with other factors which could contribute to significant increases or decreases in TransitChek sales.

We also identified another factor that may discourage companies from participating in the Program. The Center issues TransitCheks in four denominations: \$15, \$21, \$30 and \$35. However, many commuters may need TransitCheks in other denominations. For example, a monthly fare on the Authority's PATH mass transit system is \$40. We note that some of the TransitChek programs in other municipalities vary TransitChek denominations to meet the specific needs of individual employees.

In responding to the draft report, the Center's Executive Director stated that responses to employer surveys did not reveal strong preferences for a denomination other than the four currently offered. However, Center officials did not provide us with the results of any employer surveys that addressed this issue. Moreover, we believe that Center management should survey participants and formally assess the costs and benefits of increasing the number of denominations available to customers.

Recommendations

9. Ensure that Center records distinguish between active and inactive Program participants.

(Note: In responding to the draft report, the Center's Executive Director indicated that Center records now distinguish between active and inactive employers. The Center has also advised the sponsors of the limitations of using cumulative enrollments to gauge growth in the Program.)
10. Formally assess the impact of the 4 percent fee and the \$12 shipping charge on the Center's ability to successfully market the Program.
11. Consider surveying the TransitChek participants to determine their needs for other denominations.

Using Competition To Obtain Services

The use of an open competitive procurement processes increases the likelihood that quality goods and services can be purchased at the most favorable cost. Such a procurement process also guards against favoritism and promotes the interest of private enterprise by providing equal opportunities to compete for business.

Since the inception of the Program in 1987, the Center has contracted with the same vendor to process orders for TransitCheks. The Center sought vendor competition in 1992, when various vendors responded to a request for proposals for TransitChek processing services. At that time, Center officials rejected the proposals from other vendors, mainly because of security concerns, and decided to retain the services of the original vendor. However, we believe that conditions have changed since 1992, and other vendors now may be able to meet the Center's security concerns. We note that, in 1995, the Center paid its TransitChek processing contractor \$908,000.

To determine whether a lower price is available, we contacted the previously mentioned vendor who processes orders for TransitCheks in two other municipalities. This vendor charges 60 cents per TransitChek processed. If the Center had contracted with this vendor in 1995, it would have paid the vendor about \$796,000, or about \$112,000 less (12 percent less) than it actually paid. Moreover, this vendor would not only print TransitCheks, but would also provide sales and certain banking services for basically the same

fee. We therefore conclude it would be advantageous for the Center to again seek competitive proposals for its TransitChek processing services.

The Center contracts with a bank for standard banking services such as paying checks, stopping payment on checks, and reconciling bank statements. During 1995, these services cost about \$219,000. According to investment guidelines published by the State Comptroller, such services should be obtained through either a competitive procurement process or negotiated prices. However, we found that the Center has neither sought competitive proposals for banking services nor tried to negotiate prices for these services. Based on fee information provided to us by an alternative bank, we determined that the Center could have saved about \$100,000 in 1995 if it obtained services from this bank.

In responding to the draft report, the Center's Executive Director stated that the Center's banking costs are the same as or below the national and regional averages, as contained in the Blue Book of Bank Prices, a widely accepted survey of various bank charges. He further states that it is implausible that about \$100,000 in service charges could be saved through the use of a competitive procurement process, because the fee structure varies too much from industry pricing. We note that the Blue Book is an index of banks' published fee schedules and does not necessarily reflect the fees a bank would charge a major account (such as the Center) after formally competing with other banks for that account.

We also noted that the Center paid about \$34,000 in 1995, according to Center officials, for the serial sorting of canceled checks that are stored in a warehouse. Center officials told us that this service was competitively procured. However, when we requested documentation of vendor competition, officials were unable to provide such documentation to us. We also questioned the need for this service.

Recommendations

12. Use an open competitive process to rebid the contract for TransitChek processing and banking services.
13. Continue to review all banking services. To the extent that they are not needed or no longer provide any benefit, they should be terminated.

(Note: Center officials told us that they received no benefit from the sorting service. In November 1996, subsequent to our audit fieldwork, Center management discontinued the serial sorting of canceled checks.)

Major Contributors to This Report

David R. Hancox
Carmen Maldonado
Abraham C. Markowitz
Brian Mason
Santo Rendon
Stanley T. Pawlak
Mintari Preston
Sheila Jones
Jeremy Mack
Sheila Williams
Victoria Saks
Dana Newhouse



December 31, 1996

Mr. David R. Hancox
Director of State Audits
State of New York
Office of the State Comptroller
A. E. Smith State Office Building
Albany, New York 12236

*Ref: Office of the New York State Comptroller - Draft Report (No. 96-S-8) on
the Administration of the TransitChek Program, dated November 19, 1996.*

Dear Mr. Hancox:

We have received the referenced draft report forwarded to Mr. George J. Marlin, Executive Director of The Port Authority of New York and New Jersey, by your letter dated November 19, 1996. While we have labored to explain to the auditors the origin and operations of TransitCenter and its largest program, TransitChek, the draft report reflects a **fundamental misunderstanding** of the role of Port Authority Trans-Hudson Corporation (PATH) as host agency, the relationship between all of TransitCenter's activities and the TransitChek Program, and key marketing and sales indicators which should be used to measure the success of the TransitChek Program.

TransitCenter was established in 1986 as a public-private partnership sponsored by the Metropolitan Transportation Authority (MTA), New Jersey Transit (NJT), and PATH, a wholly-owned subsidiary of The Port Authority of New York and New Jersey. TransitCenter's purpose is to develop employer-based programs which promote the use of public transportation in order to reduce traffic congestion, improve air quality and support the region's economy. TransitCenter is chaired by the MTA and co-chaired by the New York City Partnership and Chamber of Commerce (NY Chamber). Its Board is composed of ten members: the three sponsors, the NY Chamber, New York City Transit Authority, Long Island Rail Road, Metro-North Railroad, New York City Department of Transportation, and New Jersey and New York private bus operator representatives. Its operations, programs and budgets are reviewed and approved annually by its Board.

Initially, the United States Department of Transportation (USDOT) funded the TransitCenter program with a three year \$1.5 million grant to PATH, on behalf of the three sponsors. After this period, the three sponsors have contributed a total of \$1.5 million on an annual basis to support the operations of TransitCenter. Revenues from TransitCenter's programs and grants make up the rest of TransitCenter's budget. PATH contributes \$125,000 a year to TransitCenter. TransitCenter was never intended to be a Port Authority or PATH operation; PATH's role was to act as the regional host agency as a way to avoid the costs associated with creating a new institution. The governance of TransitCenter and its annual budget are subject to TransitCenter Board's approval and oversight.

TransitCenter's first major program began in 1987 with the introduction of TransitChek; a \$15 transit voucher which allowed employers in Manhattan to take advantage of a then new federal tax benefit. The tax benefit allowed employers to provide \$15 a month, tax free, to their employees to cover the cost of commuting by public transit. The TransitChek Program was the first program to use a transit voucher to offer the transit benefit and represented a major change in the way transit benefits were marketed to employers.

The TransitChek Program has grown significantly over the last nine years. TransitCenter sold \$30.7 million of TransitChek vouchers in 1995 and expects to sell \$42 million by the end of 1996, a 38 percent growth in sales. In 1996, there were over 4,000 employers purchasing TransitChek vouchers. The TransitChek Program has been recognized as the largest and most successful program of its type in the nation.

During the period examined by the auditors, 1992 through 1995, TransitCenter was engaged in a number of activities in addition to the administration of the TransitChek Program. However, some of these activities were conducted in a complementary fashion to the TransitChek Program making it difficult to separate the costs and impact of each component. Thus, in 1992 and 1993, TransitCenter was involved in activities which resulted in the passage of the 1993 federal law that legislated an increase in the transit subsidy cap to \$60 a month and the promulgation by the Internal Revenue Service of guidelines for the use of this benefit. TransitCenter was also involved in a number of federal Clean Air Act activities that culminated in the issuance of federal guidelines for the implementation of employer trip reduction laws in New York and New Jersey which gave maximum credit to employers for employees' use of public transit for commuting to work. Additionally, TransitCenter was involved in a number of employer-based information services funded by New York State which resulted in new and simple ways to communicate transit information to employees at the workplace. One of these initiatives, called the TransitLink Program, was set up as an ongoing transit services program for major employers in Manhattan.

In 1994, TransitCenter developed a new initiative called the Employee Commute Options (ECO) Technical Assistance Program. ECO was developed to provide services to employers in New York State with 100 or more employees at a worksite who were required to

comply with state law to reduce the number of vehicles being driven to the worksite by employees commuting to work. Through federal, state and local grants, TransitCenter hired a sales force to contact all 5,000 of these affected employers in and around New York City and market the use of public transit as a key strategy to meet the state's trip reduction targets. The mission of this sales force, the first ever employed by TransitCenter, was to contact every affected employer between January and September 1995. The sales staff was responsible for coordinating the delivery of technical assistance to help employers adapt transit promotion and information strategies, including the use of the TransitChek Program, into their trip reduction compliance plan.

Our comments in response to specific findings and recommendations contained in each section of report follow:

Sales Force Effectiveness

The auditors' assessment of the effectiveness of the TransitCenter sales force was based on the number of newly-enrolled employers in 1994 and 1995 in comparison to new employer enrollments in 1993 -- almost two years before TransitCenter hired a sales staff. We believe that the use of new employer enrollments as a measure of the effectiveness of our sales force has major shortcomings; the principle one being that the number of employers does not provide a valid indication of sales growth or success. For example, we could enroll 2,000 new companies in one year and still lag in dollar sales growth over previous years when employer enrollments were significantly lower. One large employer who enrolls in the TransitChek Program can generate sales far in excess of the sales that could be generated by 500 very small companies. Thus, the number of new employers who enroll in the program may not significantly increase with the advent of a sales force; but the growth in dollar sales should be positive if their efforts are to be judged successful. The role of the sales force is to focus on the larger companies in order to achieve the highest dollar sales. This strategy has been responsible for strong sales increases in 1995 and 1996. Furthermore in 1995, 60 percent of all new sales were generated by the sales force. Through the first nine months of 1996, 81 percent of all new sales were generated by the sales force. We anticipate that TransitChek sales will approach \$42 million in 1996, representing a 38 percent growth in sales in comparison to the 1995 sales level. Given this track record, we believe that our sales force is highly effective.

Furthermore, any comparison of 1993 new employer enrollments or sales figures to similar data for 1994 and 1995 is misleading. In 1993, a federal law was enacted which increased the maximum TransitChek benefit to \$60 a month. Because the legislation was sponsored and promoted by U.S. Senator Moynihan (New York), the TransitChek Program received a great amount of local press coverage. This press coverage resulted in the largest one-year increase of employer enrollments and sales in the history of the TransitChek Program. In addition, the significantly higher cap made the program of interest to a much larger number of employers. Therefore, 1993 activity is not a fair benchmark to judge the success of our sales force in subsequent years.

Recommendation #1: Ensure that sales staff regularly initiate contact with prospective program participants.

The TransitCenter maintains an extensive sales contact database which tracks all contacts with employers. Given the large amount of inquiries that we receive from Manhattan employers, as a result of our marketing and advertising activities, our efforts are more focused on screening and follow-up activities than initiating contact with this group of potential participants. However, sales staff have initiated contacts with employers who are located in suburban areas and the outer boroughs of New York City, where the number of inquiries is relatively low. We have shown the auditors, for example, reports of these activities which have taken place on Long Island.

Recommendation #2 Ensure that sales activities are recorded and evaluated against appropriate performance objectives.

During 1995 and again in 1996, we established quantifiable performance objectives for our sales staff. These objectives reflect the unique characteristics of each sales territory and measure performance against several indicators which include the number of contacts per week and the number of presentations per week. It should also be noted that in 1995 we began recording sales activities and have continued to refine and improve our sales database in 1996.

Recommendation #3 Document why firms reject TransitChecks and follow-up with the firms to identify ways to improve the acceptability of the program.

We regularly conduct surveys of TransitCheck and non-TransitCheck employers to assess their views of the program and to improve its use and marketability. The results of these surveys have been documented and are available for review.

Recommendation #4 Develop or purchase a list of potential customers for TransitChecks.

It has been our practice to purchase lists of non-TransitCheck employers on a regular basis. We forward promotional literature to these employers and contact key decision-makers at each company to supplement the information provided in our mailings.

Recommendation #5 Develop a commission-based compensation plan for the sales staff.

While it is true that we do not provide commissions to our sales staff, this has not had an impact on sales performance as demonstrated by the large increases in sales realized from their efforts. As mentioned earlier, we anticipate a 38 percent growth in sales during 1996. Furthermore, a commission-based compensation plan would not be consistent with the compensation policies promulgated by the public agencies that sponsor TransitCenter.

Advertising Activities

Recommendation #6 **Consider whether changes should be made in the Program's advertising strategy to increase the extent to which advertising efforts are directed at motorists. Consider contacting other advertising agencies to develop different strategies.**

We attempted to market the program to drivers. We found that it is much more expensive than public transit marketing and far less effective. We have learned that as our market is the Central Business District with 80 percent to 85 percent of employees using transit for their commute, and with most employers having a majority of workers who use transit, it is more effective to promote a product to the employer on the basis that it benefits most of its employees than to target a minority of the workforce. New benefits are adopted by employers for the majority not the minority. Since it is employers who enroll in the TransitChek Program and not the employees, we have to make our best case to the employers. Our expectation born out by our surveys is that once an employer adopts the program, it is made available to all employees, even those who drive to work. Automobile drivers then have an available financial incentive at the workplace to switch to public transit.

However, in our suburban markets where the majority of employees are automobile drivers, we used a two-pronged approach in 1995. We first used the ECO mandate as a rationale for enrolling employers. We also focused on recruitment and relocation issues involving lower paid workers who typically rely on transit commuting. This approach is working well in our suburban markets with annual sales increases of over 80 percent in some of these markets.

Recommendation #7 **Formally evaluate the benefits of low-cost advertising options such as establishing a home page on the Internet, placing public service announcements in major media, or sharing costs with sponsoring mass transit agencies.**

We have used public service announcements on cable channels to promote the benefits of the TransitChek Program. Furthermore, our sponsors frequently promote TransitChek in their normal advertisements and messages. The New York City Transit Authority has recently posted TransitChek advertisements in all token booth windows. New Jersey Transit and the Long Island Rail Road have permanently posted our signage in their stations. PATH's Video Information System contains messages which urge riders to use TransitChek to purchase fare media. The MTA has donated radio spots to promote TransitChek. We will evaluate the cost/benefit of establishing a home page on the internet.

Reducing Administrative Costs

We strongly disagree with the auditors' assertion that the TransitCenter's fees are high in comparison to the fees charged by TransitCheck Programs located in six other municipalities. Our analysis of the fees charged in the six municipalities mentioned in the report reveals that, depending on the size of the order and the denomination ordered, the fees range from a high of 4.7 percent to a low of approximately one percent. For example, the Philadelphia TransitCheck Program charges \$.70 per check for orders of eighty-nine checks or less. If a company orders twelve \$15 checks, their fee would be the equivalent of 4.7 percent. Our fee is a flat 4 percent. Since programs operating in these municipalities generally sell TransitCheck vouchers to small companies, their fees are equal to, and in many cases greater than, our 4 percent fee.

There is no documentation to support the auditors' statement that the use of another fulfillment contractor could have saved our program participants approximately \$1 million in fees. The fulfillment contractor that was identified by the auditors was unable to meet the cost and service requirements outlined in our Request For Proposals (RFP). Therefore, the contractor's tentative cost proposals in a non-binding, non-competitive situation offers little credibility.

Recommendation #8 Use competitive procurement processes to obtain proposals for the goods and services required to administer the Program. As appropriate, contact officials at other TransitCheck programs to identify prospective contractors. Formally assess competing proposals to obtain the most reasonable costs for the Program.

We agree that competitive procurement processes should be used to obtain goods and services required to administer the program. We will competitively re-bid our fulfillment contract when it expires in 1999.

Assessing Program Performance

Recommendation #9 Ensure that Center records distinguish between active and inactive Program participants.

Currently, our records distinguish between active and inactive program participants. An active participant is defined as a company that has placed an order within the previous two years. On a quarterly basis, we report to our oversight committee the number of companies who have placed orders during the quarter and the number of companies that have placed orders year-to-date. We also provide data to our sponsors on the number of cumulative enrollments since the program's inception in 1987. We have also advised our sponsors as to the limitations of using cumulative enrollments to gauge the growth of the program. However, we have been asked to continue to maintain and provide cumulative enrollment data.

Recommendation #10 **Formally assess the impact of the 4 percent fee and the \$12 shipping charge on the Center's ability to successfully market the Program.**

Our 4 percent fee and \$12 shipping charge have never been identified by our customers as an impediment to enrolling in the program. Our fee structure is necessary to achieve self-sufficiency and thereby eliminate sponsor contributions in calendar year 1997. The 4 percent fee has had no measurable impact on our phenomenal sales growth and falls within the range of fees charged by other programs around the country.

Recommendation #11 **Consider varying the denominations of TransitChecks to meet the needs of individual employees.**

Responses to our employer surveys do not reveal a strong preference for a denomination other than the four that are currently offered. Furthermore, any new denomination must have the unanimous support of all of our sponsors. The latest increase in the maximum TransitCheck benefit to \$65 a month resulted in the introduction of a \$35 voucher -- the only new denomination authorized by all of the sponsors of the program.

Recommendation #12 **Use a competitive process to obtain services for TransitCheck processing and banking.**

With respect to banking services, the Port Authority has provided TransitCenter with banking services which resulted from negotiations with several banks. These services and rates have been continuously monitored by the Port Authority for opportunities to reduce rates. Rate negotiations have occurred in 1995 and again in 1996 and have resulted in lower check processing fees and collateral charges, respectively. Compared to bank pricing contained in the Blue Book of Bank Prices, a widely accepted survey of bank charges, TransitCenter charges for per check processing is at the national average and under the northeast average; account maintenance charges are below both the national and northeast average; and wire charges are almost half the national and northeast averages.

Furthermore, the auditors state that based on fee information "provided to us by an alternative bank", TransitCenter could have saved approximately \$100,000 in banking costs in 1995. This statement lacks credibility and would imply a price reduction in banking fees so at variance from industry pricing as to be implausible.

Recommendation #13 **Terminate unneeded banking services, such as the serial sorting of canceled checks.**

As of November 1996, we have reviewed all of our banking services and discontinued the serial sorting of canceled checks.

While we take issue with several findings and related recommendations contained in the draft report, the overall efforts of your audit staff to identify ways in which TransitCenter can improve its administration of the TransitChek Program is appreciated.

Sincerely,



Larry Filler
Executive Director

cc: G. J. Marlin, Executive Director
The Port Authority of NY & NJ

P. A. Woodworth, Executive Director
NYS, Division of the Budget