

Statement of
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Office of the Secretary
United States Department of Transportation (DOT)
Hearing on the Transit Benefit Program
Before
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs

United States Senate
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Thank you, Mr. Chairman, Ranking Member Coleman, and members of the Subcommittee for the opportunity to testify today on the Department of Transportation's role in implementing the Federal Transit Benefit Program. My statement today will address both the Department's own participation in the transit benefit program as a Federal agency and its role as the home agency for TRANServe, the organization utilized by 108 Federal entities nationwide to obtain and manage the distribution of transit benefit fare media.

Reducing Highway Congestion is a Priority for DOT

According to its 2003 study of 85 urban areas in the US, the Texas Transportation Institute estimated that highway congestion is imposing a high cost on the national economy. The study estimated that highway congestion causes 3.7 billion hours of travel delays and potentially wastes \$63 billion per year. For example, in the 10 most congested areas, which include the National Capital Region, congestion has been estimated to cost individual commuters between \$850 and \$1,600 in lost time and fuel each year. To address this growing concern, last May, the Department of Transportation announced the Bush Administration's National Strategy to Reduce Congestion on America's Transportation Network, a comprehensive new national initiative to reduce congestion across our entire transportation system. Increasing transit ridership nationwide is an important component of the National Strategy for reducing congestion. The Transit Benefit program is a proven means to help increase the use of mass transit.

Background on the Transit Benefit Program

The program was established in 1991 when the Department's Federal Transit Administration (FTA) began pilot testing a transit benefit program, which provided up to \$21 per month in transit fare media to its employees. The Energy Policy Act of 1992 raised the monthly tax-free limit to \$60 and linked the limit to changes in the Consumer Price Index. The Federal Employees Clean Air Incentive Act, signed into law in 1993, permanently authorized Federal participation in this program, resulting in its expansion throughout the Department of Transportation and other Federal agencies. In April 2000,

President Clinton signed Executive Order 13150, which sought to reduce Federal employees' contribution to traffic congestion and air pollution and expand their commuting alternatives. The executive order called upon DOT, the Environmental Protection Agency, and the Department of Energy to implement a nationwide pilot program, and ascertain its effectiveness in reducing single occupancy vehicle travel and local area traffic congestion. In a 2003 final report to the Office of Management and Budget, DOT reported that the interagency group found transit benefits to be successful in reducing Federal employees' contribution to traffic congestion and air pollution, and expanding their commuting alternatives. The report estimated that the transit benefit program resulted in over 15,000 fewer single occupancy vehicles on the roads of the National Capital Region, saving over 8 million gallons of gasoline, and eliminating emissions of almost 40,000 tons of carbon dioxide from the air, as well as reducing other tailpipe emissions. In 2005, the Safe, Accountable, Flexible, Efficient, Transportation Equity Act: A Legacy for Users (SAFETEA-LU) required Federal agencies to implement transit benefit programs for all eligible employees in the National Capital Region.

Today, participation in the transit benefit program has increased considerably, and its impact on the National Capital Region, in terms of congestion mitigation and air quality has grown. The transit benefit program's importance is particularly evident when considering specific transportation alternatives in the National Capital Region. For example, the Virginia Railway Express (VRE), a growing commuter railroad serving the National Capital Region relies on transit benefits for about 65 percent of its revenues. With FY 2006 average daily ridership of nearly 15,000 people, Federal employees' transit benefits used on VRE alone are responsible for removing a significant number of motor vehicles off the highly-congested I-95 and I-66 corridors in Virginia.

Overall the Federal transit benefit program now has extensive participation in the National Capital Region. Benefit recipients are eligible to receive a maximum of \$110 of fare media per month, with the amount received dependent on their actual mass transit commuting costs. Many of the Federal agencies offering the transit benefit program are utilizing the distribution services of the organization within DOT, known as TRANServe.

TRANServe Offers Transit Benefit Distribution Services

As the transit benefit program took shape in its early years, the Department of Transportation decided that it would be most efficient to centralize the distribution services for its operating administrations, rather than replicate the resources necessary to obtain and safeguard fare media, and manage the distribution program. This organization has evolved over the years, to offer transit benefit distribution services nationwide, to organizations throughout the Federal government. It now distributes over \$200 million in cash equivalent fare media annually, servicing over 233,000 participants employed by 108 Federal organizations nationwide. Within the National Capital Region, during FY 2006, this organization distributed about \$102 million in Federal transit benefits to 81 Federal employer organizations and over 106,000 Federal employees.

From the perspective of providing an efficient, economical means to distribute transit benefits, TRANServe enables agencies to make use of a single established distribution system, with extensive and effective internal controls over the receipt, maintenance, and distribution of the fare media provided to Federal employees under the program. It eliminates the need to establish multiple systems duplicating these functions at agencies and individual offices throughout the country. It also offers some unique advantages due to its size and experience. For example, transit operators in some localities offer discounts for volume purchases of fare media, and these savings are then passed on to the participating agencies. There is no mandate to make use of TRANServe for transit benefit distribution, rather, each of the agencies now making use of its services, including the Government Accountability Office (GAO) and the US House of Representatives, decided it was in their interest to use TRANServe for transit benefit distribution. Participating agencies, TRANServe, and transit benefit recipients all have specific responsibilities to help ensure that the transit benefit program functions effectively and that individuals participating in the program receive only the fare media they are eligible for, and use it appropriately.

Participating Agency and TRANServe Responsibilities

TRANServe enters into a customer agreement with each of the Federal entities it services. A sample customer agreement is shown in Attachment 1. The customer agreement specifically states that TRANServe will order, purchase, verify, maintain, and safeguard fare media prior to disbursing them to participants, and shall have full responsibility for any fare media that is in its possession prior to disbursement. It also states that it is the responsibility of the Customer (i.e., the participating Federal entity) to verify the eligibility of its employees to receive the transit benefits. This means that participating agencies are responsible for identifying, determining the amount of eligibility, and overseeing the participation of their employees in the transit benefit program. Agency and TRANServe responsibilities are further reinforced in the monthly activity statements provided to TRANServe customers, a sample of which is included in Attachment 2. The key point is that TRANServe is only a distribution agent for providing the fare media. Its role in distributing transit fare media is analogous to the role of the four Federal payroll centers and agencies throughout the Federal government. In both cases, the servicing organizations use data provided by agencies to make disbursements, while the customer agency remains responsible for its internal controls over its employees' eligibility and the amount each receives.

DOT's Implementation of the Transit Benefit Program

Inasmuch as the Department of Transportation is both a participant in the transit benefit program and home to the TRANServe organization, we are seeking to maintain a program with extensive participation and use of mass transit, in line with our strategic goals for congestion reduction, while having effective and useful controls in place to ensure the program accomplishes its intended results. Each time a transit benefit recipient receives his or her fare media, the recipient is required to sign for it. On the form, there is an explanation of general requirements for continued participation in the

program and recipient responsibility. Because recipients may not take the time to read the requirements on the signature form, in August 2006, TRANServe produced, and began distributing to DOT recipients, the plain language reminder reproduced in Attachment 3 to this testimony. With this action, TRANServe was seeking to help ensure that transit benefit recipients are fully aware of the requirements associated with their receipt and use of the fare media. TRANServe has also been seeking agreement from the agencies it services to provide the plain language reminder to their recipients, each time fare media is distributed. Thus far it has gained written agreement from 14 agencies who have agreed to use the plain language reminder.

DOT also believes that it is important to have current accurate information on transit benefit recipient commuting costs, and last year initiated the first round of what is now an annual recertification requirement. In order for DOT employees to continue receiving transit benefits, they must recertify each year. Finally, to reduce program costs and further improve internal controls, DOT is moving to require all of its employees in the National Capital Region that receive transit benefits and use only the Metro system to commute to work, to transition to the use of SmartCards®. These cards enable users to download monthly benefits directly from Metro FareCard machines onto permanent cards equipped with special microchips. TRANServe expects to achieve significant reductions in its inventory needs and program costs, once the SmartCard® is fully implemented. These SmartCards® also include a reminder on the back that transit benefits downloaded to the cards are only for employees' commute to work.

Making the System Work Better

Mr. Chairman, we recognize that it is in the best interest of the Federal government, the taxpayer, and commuters in general to make the transit benefit program work as effectively as possible. We are here today to express our commitment to the program and to gain additional insight from this Committee and the GAO that could help to make it work better. We have been coordinating with GAO in the ongoing investigation, and we are concerned by the results we understand the GAO will be reporting here today. As a result, we are working to ensure the Department of Transportation is prepared to take swift and appropriate action to address any instances of wrongdoing by DOT's benefit recipients. Furthermore, we have initially identified three areas that could benefit from improvements -- participant education, internal controls, and administrative remedies. I would like to take a moment to discuss each of these areas and identify actions that are already underway.

Participant Education

Preliminary indications from GAO relating to its ongoing investigation show that some of the issues it has identified may be due to program participants who are not fully aware of their responsibilities under the transit benefit program. There are a number of actions now underway to address these issues. First, to ensure that there is no misunderstanding by participating agencies with regard to their role in the program, TRANServe is preparing to update all customer agreements to more extensively

delineate the services provided by TRANServe, and those responsibilities that remain with the customer agency.

To better educate transit benefit recipients, TRANServe will continue to distribute the plain language written explanation of responsibilities and requirements. It intends to make use of them at all distribution points, and expand acceptance to all its customers in the near future. TRANServe is also considering new means to convey this message, and is now experimenting with printing the warning on small envelopes, and inserting the fare media in the envelopes, so that the message stays with the fare media.

TRANServe is also developing an electronic learning package that would be implemented through the electronic Learning Management System or eLMS. This package will initially be pilot tested with DOT employees and will reemphasize recipient responsibilities, identify prohibited practices such as unauthorized use by ineligible employees and inappropriate transfer of fare media. It will also enumerate the potential penalties associated with inappropriate actions, which range from admonishment through dismissal depending on the circumstances. We are working to incorporate this tutorial through eLMS into DOT's on-line annual recertification process, so that it will be necessary for recipients to complete the training course each year, before recertification can occur.

Internal Controls

TRANServe recognizes that the fare media it distributes is a cash equivalent and has an extensive system of internal controls that provide oversight for inventory maintenance and distribution activities. This system has been independently reviewed by security experts and auditors. TRANServe uses various types of internal controls that range from weekly independent inventory counts to full quarterly audits to ensure effective inventory control. Recently, TRANServe created an Internal Controls Officer position which is specifically responsible for monitoring and reviewing the organization's internal controls and ensuring that all requirements are effectively fulfilled. In addition, the Internal Controls Officer will design related training classes and materials to serve as a resource for training TRANServe employees and DOT transit benefit participants. These training materials will be offered as a recommended resource to Federal entities using TRANServe

Administrative Remedies

We believe that the vast majority of Federal employees who participate in the program do so honestly, responsibly, and with integrity. With the implementation and increasing deployment of TRANServe's efforts to ensure program participants are aware of the restrictions on obtaining, and using the benefits provided, it is our hope to eliminate any inappropriate use of the fare media. However, we recognize that there may be individuals intent on using the system for their own personal gain at taxpayers' expense. We at DOT are prepared to deal firmly and expediently with any individual found to be intentionally deceptive in obtaining more benefits than they are due, using them

inappropriately, or selling the fare media. We await the final results of GAO's investigation, and any subsequent investigation undertaken by DOT's Office of Inspector General, to determine whether there have been any instances of misuse or misstatements made by DOT participants in the Transit Benefit Program. DOT will take fast, appropriate, and meaningful action to address any wrongdoing identified. I have already met with representatives from DOT's Office of Human Resources and our Office of General Counsel to discuss appropriate administrative penalties for proven instances of misuse and have instructed them to act swiftly and decisively.

Conclusion

The Federal Transit Benefit program is an important tool to help address the congestion and air pollution issues affecting the National Capital Region and cities across the Nation. When implemented properly, it helps to get commuters out of their single occupancy vehicles and onto mass transit, saving fuel while reducing congestion and air pollution. DOT is pleased to make its TRANServe organization available to other Federal agencies, to provide them with an effective and efficient means to distribute transit benefits to their eligible employees. At the same time, DOT is dismayed to learn that some employees through either ignorance or avarice have made inappropriate use of the privilege afforded by the transit benefit program. As described above, TRANServe is already working to help ensure the program serves its intended purpose. We also stand ready to work with your committee to take all appropriate measures, within our authority, to make sure this program works as intended for the American people.

I would be happy to answer any questions the committee may have.

Attachment 1 – Sample TRANServe Customer Agreement (Highlight Added)

OST CUSTOMER AGREEMENT		AGREEMENT NUMBER	
PARTIES TO THE AGREEMENT			
a. CUSTOMER CONTACT / BILLING ADDRESS		b. OST CONTACT / ADDRESS	
AGENCY: Attn: ADDRESS: Phone: Fax: Email:		U.S. Department of Transportation Attn: Cheri Johnson M-71, Room 0327, P2 Level 400 7 th Street, SW Washington, D.C. 20590 Phone: 202.366.1227 Fax: 202.493.2436 Email: cheri.johnson@dot.gov	
APPROPRIATION / ACCOUNT CODE CHARGEABLE		COST ACCOUNT PROGRAM ELEMENT CODE	
		14X4520000.2007.0000000000.1103006000	
EFFECTIVE DATE		COST (ESTIMATED)	
10/01/2006 – 09/30/2007		a. FY 2007	b. Amount \$
<p>DESCRIPTION OF SERVICES: This Customer Agreement between the XX [make sure to include agency and any subagency] and the U.S. Department of Transportation (DOT) Office of the Secretary -Transportation Services (TRANServe), is entered into under the following statutory authorities (please check all that apply):</p> <p>_____ The Administrative Working Capital Fund (49 U.S.C. 327) and/or [For Intra-agency agreements within DOT]</p> <p><u> X </u> The Economy Act of 1932 as amended (31 U.S.C. 1535) [For Inter-agency agreements with agencies other than DOT]</p> <p>This Customer Agreement provides a written understanding of the Transit Benefit Program Services TRANServe will provide to the customer. TRANServe will act as the liaison between the Customer and the Washington Metropolitan Area Transit Authority and regional transit providers and will order, purchase, verify, maintain, and safeguard fare media prior to disbursing to participants. TRANServe shall bear full responsibility for any fare media that is in its possession prior to disbursement to participants.</p> <p>It is the responsibility of the Customer to verify eligibility of recipients.</p> <p>TRANServe will provide disbursing agents to cover distribution hours agreed upon by the Customer and TRANServe. A copy of the annual distribution schedule is attached for review and confirmation. In the regional offices, fare media will be sent via courier to representatives designated by the Customer for distribution. Each disbursing agent will be billed at \$28.75 per hour for either mailing or on-site distribution. Estimated distribution hours include preparation, balancing and travel time. All expenditures made on behalf of the Customer except for distribution services (e.g., fare media, fare media voucher fees, shipping, travel costs, etc.) will be subject to the 4.95% financial management fee.</p> <p>FUNDING / REPORTING: The DOT Office of the Secretary Working Capital Fund (DOT/OST-WCF) will take an advance as required by 49 U.S.C. 327 “Administrative Working Capital Fund” not earlier than 30 days prior to the commencement of each Federal fiscal quarter. Advances will be processed through the IPAC system. These quarterly advances will be adjusted throughout the year as necessary. Actual monthly expenses will be applied to the quarterly advance amounts, and the Customer will be provided account activity reports by the 25th of each month detailing the amount applied to the estimated quarterly advance. DOT-OST Finance will also provide the Customer’s point of contact, identified on this agreement, a copy of the account activity reports along with the SF-1081s which document the IPAC payments. If an increased or decreased level of services is required, this</p>			

agreement may be modified with the approval of both the Customer and OST. Changes may be made by a modification to the original agreement with the signature of both parties. Estimated costs for the Customer's transit benefit program are shown on page two.

FULL COST RECOVERY: By law, both Economy Act agreements (31 USC 1535) and those authorized by DOT's WCF (49 USC 327) must achieve full cost recovery. Full cost recovery includes direct and indirect costs. Further, neither statute permits DOT to receive a profit when providing goods or services. Accordingly, all TRANServe agreements will correspond with the Federal Fiscal year. After each Fiscal Year has closed, DOT-OST will determine the final financial Over / Under recovery for the TRANServe program. In accordance with the above stated quote, a determination will be made whether to refund or collect additional funds from the Customer to balance out the annual program. TRANServe will monitor the financial status of the program throughout the year to bring the final balance as close to zero as possible. This may result in rate adjustments during the year. TRANServe will work with each Customer to keep program costs as low as possible while still providing the requested services.

CONTINUED ON PAGE 2:

OST FORM VER 1.9 WKAUTH9.FRP for Form Flow 1.1 (26 SEP 96) w/Customer Agreement

Attachment 2 – Sample TRANServe Account Activity Statement (Highlight Added)

**SAMPLE
TRANServe Account Activity Statement for NON-DOT AGENCY NAME**

February, 2007

(This is not an official bill. Your servicing account office will receive the official bill within 30 days.)

03/22/2007-L

APPROP CODE: 0000000000
ALC CODE: 00000000000

CUSTOMER ID: 07-TFC-0000000000-0000

BPAC NUMBER: 0000000000

FARE MEDIA BILLED: \$XXX,XXX.
OTHER COSTS: \$XX.
SHIPPING: \$16.00

SUB TOTAL: \$XXX,XXX.

FINANCIAL SERVICES FEE: X.XX%
SUB TOTAL: \$X,XXX.

DISTRIBUTION SERVICES FEE: \$XX,XXX.

SUB TOTAL: \$XXX,XXX.

CREDITS:

FARE MEDIA(INDIVIDUAL):			
FARE MEDIA(BULK):	DC	ADMIN CODE	

TOTAL: \$XXX,XXX.

To Our Valued Customers: This message is being sent each month as part of our billing process. The U.S. Department of Transportation (DOT), Transportation Services (TRANServe) works to provide transit benefits to eligible federal employees as requested by your agency. The Transit Benefit program represents an employee benefit and we strongly urge you to take all measures necessary to protect it. We do our part by ordering, obtaining, verifying, and safeguarding fare media prior to its distribution. We also maintain a database that identifies all agency participants based on information provided by you. We use this information to distribute the appropriate amount of transit benefits to authorized employees. We ask that you do your part by carrying out the following responsibilities. All transit benefit enrollment applications should be thoroughly reviewed by your agency's authorizing official prior to submission to DOT for processing. Utilizing a self-certification process, it is the agency's responsibility to ensure all employees are instructed that they are certifying under U.S.C. Title 18 that they will not transfer this benefit to anyone else, they are not named on a federally subsidized parking permit, and the benefit received does not exceed their monthly commuting costs. If employees collect more than they use, are on extended sick leave or are on temporary duty elsewhere, they should be instructed to return the unused benefit or receive an appropriately reduced benefit amount at the next distribution. If you have questions regarding these responsibilities, please contact your TRANServe account representative or the TRANServe office at 202-366-0064.

Attachment 3 – Sample TRANServe Participant Reminder

To All Transit Benefit Participants

Reminder: Every time you pick-up Transit Benefits and sign the accompanying certification, you are legally bound to abide by the terms of the transit benefit program.

This includes certifying that:

- You are not named on a worksite parking permit at any Federal agency, nor otherwise participating in a carpool.
- You are using transit benefits only for your regular home to work transportation, and will not transfer the fare media to anyone else.
- The amount of transit benefits you receive do not exceed your actual monthly commuting cost by public transportation.

It is a violation of law to provide false or fraudulent information to obtain transit benefits, or to transfer or sell transit benefits.

The benefits must only be used for your home to work transportation. Any misuse of your transit benefits may be grounds for disciplinary action up to and including dismissal, along with civil and criminal penalties and other criminal action.

If you have any questions about these or any other aspects of the transit benefit program, contact Tony Allen at 202-366-1398.