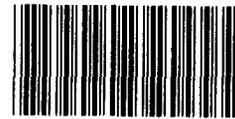


June 1991

MASS TRANSIT GRANTS

Scarce Federal Funds Misused in UMTA's Philadelphia Region



144158

B-242905

June 13, 1991

Congressional Recipients:

GAO has recently implemented a special audit effort to help ensure that areas vulnerable to fraud, waste, abuse, and mismanagement are identified and that appropriate corrective actions are taken. This effort focuses on 16 areas, one of which is the Department of Transportation's (DOT) Urban Mass Transportation Administration (UMTA) grants.

This report presents the results of one of several assignments we are conducting at UMTA and examines (1) compliance with federal requirements by selected grant recipients in UMTA Region III, headquartered in Philadelphia, Pennsylvania, and (2) the effectiveness of UMTA's oversight of Region III grantees. Our work is based on a review of Region III's monitoring of nine grantees that together account for 70 percent of active grants in the region. It also builds on our earlier UMTA work as well as reports issued by DOT's Office of Inspector General (OIG). The Committees and Members of Congress who asked to receive the results of our UMTA reviews are listed at the end of this letter.

Results in Brief

We found that Region III's transit grants are vulnerable to fraud, waste, and mismanagement because grantees do not have adequate financial and other management systems to ensure compliance with federal requirements. Moreover, the region has not consistently used its monitoring tools and enforcement authorities and has allowed grantees to ignore certain reporting requirements. As a result of weaknesses in grantees' management systems and UMTA's oversight, some grant funds have been misspent and ineffectively used. In this regard, the OIG has questioned the use of \$61.5 million by 13 grantees in Region III over the last 3 fiscal years.

Region III's monitoring has not successfully detected and corrected grantee noncompliance with UMTA requirements. Quarterly reports were not submitted, triennial reviews were superficial, procurement reviews were infrequent, and site visits were not documented. UMTA acknowledges that oversight weaknesses exist but continues to rely largely on grantees' assurances that they will use funds in compliance with federal requirements. When problems were brought to the attention of the region, it often did not require grantees to take corrective actions and return misspent funds. Although increased monitoring alone cannot correct the waste and mismanagement found in Region III, with federal dollars limited and mass transit needs great, UMTA must give close attention

to ensuring that grantees' management systems are adequate and that regional oversight quickly detects and corrects problems.

Background

The Urban Mass Transportation Act of 1964, as amended, provides financial assistance for developing new transit systems, such as light rail subways, or improving, maintaining, and operating existing systems, including buses and subways. Five of Region III's 17 staff members are responsible for overseeing 795 grants totaling nearly \$5 billion, awarded to 113 recipients in Delaware, Kentucky, Maryland, North Carolina, Pennsylvania, Tennessee, Virginia, West Virginia, the District of Columbia, and part of New Jersey.¹ (App. II shows the number and value of grants by state.) To put this in perspective, as of December 1990, in its 10 regional offices, UMTA oversaw 4,430 active grants totaling about \$32 billion. Typically, grant recipients are local transit authorities or state and local transit administrations that provide at least 20 percent of eligible project costs; UMTA can fund up to 80 percent.

On the basis of our prior work at UMTA, including work at a Region III grantee, and deficiencies reported by the OIG, DOT identified UMTA's oversight as a material internal control weakness in the 1989 and 1990 reports to the President and the Congress required by the Federal Managers' Financial Integrity Act of 1982, as amended. (App. III discusses our prior UMTA reports.) DOT cited UMTA's ever-growing work load and shrinking staff as causes of the oversight problems and noted that additional resources would be needed in fiscal years 1991 and 1992 to correct the oversight weakness. UMTA received 14 additional staff and authority to expand its use of contractor-provided oversight in fiscal year 1991 and requested 31 additional staff for fiscal year 1992.

Grantees' Noncompliance and Questionable Use of Funds

Grantees are the first line of defense in detecting and preventing waste and mismanagement. To receive a grant, grantees must certify that they have adequate management control systems to ensure compliance with federal requirements for project management and proper use of funds. (App. IV details some certifications and requirements.) We found that Region III grantees did not have effective financial, technical, and other management systems to ensure compliance and prevent the misuse of funds. For example, between 1988 and 1990 the OIG questioned \$61.5 million in expenditures and found numerous violations of federal

¹ According to UMTA officials, responsibility for grants in Kentucky, North Carolina, and Tennessee will transfer to Region IV in Atlanta, Georgia, by the end of fiscal year 1991.

requirements. (App. V lists these OIG reports.) The following examples, drawn from our analyses of the OIG reports and projects at two major grantees, illustrate these deficiencies:

- The Port Authority Transit (PAT), Pittsburgh, Pennsylvania, has been awarded five UMTA grants totaling \$19.3 million since 1979 to rehabilitate 45 trolley cars. PAT terminated the project in 1989 after spending \$8.4 million and completing work on only 16 cars (the remaining \$10.9 million was rebudgeted for other PAT projects). The OIG estimated that PAT owed UMTA \$3.9 million because PAT had purchased excess inventory and removed 39 cars from service before the end of their useful life. Also, the OIG noted that PAT did not have adequate inventory controls to prevent the use of UMTA-funded parts for other purposes. Region III first learned of these problems in a June 1989 OIG report that cited poor project planning and management and weaknesses in PAT's accounting and inventory systems.

Our work disclosed that the project was technically more difficult than originally envisioned and that PAT's management attention was focused on constructing a new subway system. As a result, progress on rehabilitating the trolley cars was slow and costly. In addition, former PAT project managers told us that workers commonly removed parts from federally funded project inventory and used them for routine maintenance. We also found that PAT did not prepare specific cost estimates or a detailed production schedule for this project until 1986. Although the OIG recommended that PAT reimburse UMTA for the misspent funds, as of April 1991, PAT had not done so. (See app. VI for additional details.)

- The city of Philadelphia, Pennsylvania, had been awarded \$2.5 million in UMTA grants since 1979 to expand a closed circuit surveillance system for its subway. The city spent 11 years and \$1.6 million in federal funds, but the project was never completed. We found that Philadelphia had renovated space in City Hall for a new control center, paid a consultant, and incurred salaries; but no cameras or monitoring equipment was purchased. Because of deterioration, vandalism, and outdated equipment, Philadelphia shut down the original surveillance system in late 1989.

In its grant agreement the city pledged that it had the financial capability to operate and maintain the system and agreed to reimburse the government for the portion of useful operating life not achieved by UMTA-funded facilities or equipment. Although Philadelphia has had serious financial problems for years, Region III never questioned the city's ability to operate and maintain the system or required it to comply

with the grant terms by completing the project. As of February 1991 nearly \$1 million remained in the grant account, and UMTA had not sought reimbursement. Since receiving a draft of this report, UMTA has closed out the grant and requested final reports from Philadelphia to determine whether UMTA is due a refund. (See app. VI for additional details.)

- A January 1989 OIG report questioned the use of \$17 million in UMTA bus grants by a Region III transit authority. The report, a follow-up of an October 1987 OIG audit, found that the grantee was still using buses, contrary to UMTA rules, exclusively to transport students. The OIG report specifically criticized Region III's monitoring for failing to detect and prevent noncompliance with UMTA's guidelines. It recommended, among other things, that UMTA withhold \$17 million in future funding pending full compliance. In April 1989 UMTA reported to the OIG that the grantee had agreed to comply with the school bus regulations and that, if it did not comply by December 1989, the date of its next scheduled triennial review, UMTA would withhold funding. As of April 1991 the triennial report, which should have been issued in early 1990, had not been completed, nor had compliance been verified.

UMTA Did Not Detect Problems

UMTA has a number of mechanisms to monitor grantee activities. These include quarterly reports, triennial reviews, procurement reviews, annual audits, site visits, and contractor-provided oversight. For the nine grantees we examined, who account for \$3.2 billion of the region's \$4.5 billion in active grants, Region III has not consistently used its monitoring tools and has allowed grantees to ignore certain reporting requirements. Region III officials told us that limited staff resources precluded closer grantee oversight. The regional manager noted that because of limited resources the region must set priorities and that Region III's foremost priority is awarding new grants, not overseeing existing grants.

No System to Ensure Grantee Reporting

UMTA requires grantees to submit quarterly progress and financial reports that include, among other things, reasons for cost overruns and project delays. Only about one-third of the required progress (36 of 99) and financial (33 of 99) reports were submitted by the Region III grantees we examined. On the PAT trolley project, which encountered substantial delays and \$3.9 million in questioned project costs, Region III received no progress reports for over 5 years. Although the region informed PAT of its noncompliance, the reports were not submitted and

UMTA took no further action. Indeed, UMTA provided additional grants to PAT during that time frame.

In addition, Region III did not ensure that it received, reviewed, and acted on the reports. Timely quarterly reports that contain all the information required in UMTA's guidance are one of the mechanisms that UMTA can use to monitor project implementation and detect major problems. However, because Region III did not require complete reports and ensure their review and follow-up, these reports were of little use as an oversight tool.

Superficial Triennial Reviews Do Not Identify Grantee Noncompliance

Triennial reviews are a primary mechanism used to monitor grantees and the adequacy of grantees' management systems. Mandated by law, triennial reviews cover overall compliance with the statutory and administrative requirements to which the grantees annually certify. We found that UMTA performed triennial reviews of Region III grantees, but the reviews were too superficial to confirm the adequacy of grantee management systems. The reviews involved little or no analysis or testing for compliance to ensure, for example, that procurement actions were competitive or that grantees had adequate controls over federally funded inventories.

Pursuant to the Urban Mass Transportation Act, at least once every 3 years UMTA must perform "...a full review and evaluation of the performance of a [grant] recipient in carrying out the recipient's program, with specific reference to compliance with statutory and administrative requirements...." Region III staff said that they do not have time to test for compliance with grant requirements. Further, they pointed out that they performed the reviews in accordance with headquarters guidance. The position of UMTA headquarters officials is that triennial reviews are not audits, and they intentionally limit their depth.

By limiting the depth of these reviews, UMTA missed opportunities to head off problems before funds were misspent. Although grantees certify to their ability to comply with UMTA requirements, the problems that we and the OIG found occurred when grantees' management systems did not fully comply with UMTA requirements. Since triennial reviews focus specifically on the grantee certification requirements, they could afford UMTA a means to verify the adequacy of grantees' systems. However, UMTA does not use the reviews for such verification. We first reported our concerns about the limited scope of the triennial reviews in March and December 1989 reports on procurement and safety practices at a

Region III grantee.² We recommended that triennial reviews include (1) testing to ensure that proper procedures are in place and being followed, (2) more detailed grantee-specific information, and (3) problem follow-up. Our current work shows that UMTA's triennial reviews still do not include enough information to evaluate a grantee's "compliance with statutory and administrative requirements."

Other Monitoring Tools Did Not Detect Problems

Region III has not effectively used UMTA's other grant-monitoring tools. Although UMTA regards contractor-provided oversight as a monitoring tool, its function in Region III has been limited to project construction—not compliance—oversight. In addition, as the following shows, Region III has not effectively used procurement reviews, site visits, and single annual audits:

- **Procurement reviews.** UMTA grantees must use competitive procurements when feasible, prohibit exclusionary or discriminatory specifications, and comply with Buy America provisions. UMTA relies on grantees' certifications that their procurement systems meet these requirements. Only noncompetitive procurement actions that exceed \$1 million are subject to UMTA review and, again, grantees determine whether procurements meet this criterion. According to Region III monitoring staff, grantees have submitted only a handful of procurements for review over the past several years, and staff did not know whether grantees had submitted for review all procurements meeting the criterion. However, UMTA has performed two comprehensive procurement system reviews in Region III and both found significant deficiencies, such as the absence of price negotiations and inadequate contractor performance evaluations.
- **Site visits.** Although it considers site visits a monitoring tool, UMTA has no guidance for their frequency or purpose. The Region III manager acknowledged that visits to grantees were infrequent but that project managers tried to visit the three largest grantees quarterly. A review of regional records disclosed a number of visits to the major grantees but provided no details on the discussions, agreements, or actions taken. Similarly, although regional staff told us that they had provided guidance to grantees by telephone and sometimes met with grantees in the regional office, they kept no records of the contacts.
- **Single annual audits.** Grantees are required to provide UMTA their single annual audit (as required by Office of Management and Budget Circular

²Mass Transit Grants: UMTA Needs to Improve Procurement Monitoring at Local Transit Authority (GAO/RCED-89-94, Mar. 31, 1989) and Mass Transit Grants: UMTA Needs to Increase Safety Focus at Local Transit Authority (GAO/RCED-90-41, Dec. 1, 1989).

A-128) reports. These audits are intended to determine, among other things, whether the grantees' financial statements fairly represent operating practices and whether reasonable internal control systems exist. They are not detailed project or internal controls reviews. Because the audits review only a sample of projects, if a grantee is receiving funds from several federal agencies, an UMTA project may not be selected for review. In addition, Region III staff told us they did not use the findings in their monitoring strategy. For example, if a single annual audit identified a problem at a grantee, Region III did not use the finding to target a review of that grantee's management controls or determine if the same problem was occurring at other grantees.

Few Grantees Required to Take Corrective Actions

UMTA has rarely used its enforcement authorities to require grantees to take corrective action, even when Region III monitoring or outside audits detected noncompliance or wasteful expenditures. To compel compliance, UMTA can withhold funds on existing grants, deny subsequent grants, or require reimbursement for misspent funds. For the instances of misspent funds and grantee noncompliance that we and the OIG found, Region III did not withhold funds, terminate the projects, or require grantees to reimburse the government for improper expenditures.

In Region III the grantees themselves decided whether to continue the projects or return misspent funds. For example, despite PAT's poor performance in meeting the projected 1984 completion date for its trolley project, UMTA awarded four additional grants totaling \$15.5 million between 1984 and 1987. As of April 1991 Region III had taken no action to compel PAT to reimburse UMTA \$3.9 million as recommended by the OIG in June 1989. Also, although Philadelphia terminated its closed circuit television project in 1989, Region III initiated action to determine whether it was due a refund for any portion of the grant, including the \$1.6 million used to design the system and construct the now-vacant control room, only after reviewing a draft of this report. Finally, Region III has no system to track actions taken on audit findings or to determine their applicability to other grantees.

Conclusions

Grantees have the primary responsibility for ensuring that they spend scarce federal transit funds properly. Although we did not examine all Region III grantees' compliance with federal requirements, our analysis indicates that mass transit funds are vulnerable to waste and mismanagement. Since federal funds are limited and mass transit demands are

large, grantees need to have controls over fund usage to meet federal requirements and ensure that funds are used appropriately, prudently, and effectively.

UMTA headquarters acknowledged the need for more effective oversight of grantees, but Region III has continued a hands-off monitoring stance and reliance on grantees' assurances that they will comply with UMTA's rules and use funds appropriately. In addition, Region III did not effectively use its enforcement authorities, such as withholding funds, to encourage grantees to implement effective management controls or to obtain reimbursement of misspent funds. UMTA needs to exercise more proactive oversight and ensure better grantee management controls. Until such steps are taken, the significant federal investment in mass transit will remain at risk.

Recommendations

To provide more focused and effective grant management and oversight and minimize the vulnerability of mass transit grants to waste and mismanagement, we recommend that the Administrator, UMTA, direct the Region III Manager to take the following actions:

- Evaluate management control systems of new grant recipients to ensure that they are consistent with federal requirements.
- Require that triennial reviews of existing grant recipients evaluate, analyze, and test compliance with federal requirements.
- Track the submission and completeness of grantees' quarterly reports and use the reports to identify cost, schedule, or performance problems.
- Implement a system to track grantees' implementation of corrective actions recommended by various audit entities.
- Review project status to ensure that grantees are in compliance with federal requirements before UMTA approves additional funding requests and withhold funds until problems are corrected.

Agency Comments and Our Evaluation

We sent a draft of this report to the Secretary of Transportation and requested a meeting to obtain oral comments. DOT, UMTA headquarters, and Region III officials met with us and provided us with the following comments.

The officials noted that they take grant oversight very seriously and seek to ensure that federal funds are properly spent. They said that efforts are under way to strengthen UMTA's grant oversight capabilities. They noted that UMTA received 14 additional staff in fiscal year 1991

and requested 31 additional staff for fiscal year 1992. UMTA also received authority to expand its use of contractor oversight in fiscal year 1991. They also noted that UMTA plans to transfer responsibility for grants in Kentucky, North Carolina, and Tennessee from Region III to Region IV by the end of fiscal year 1991, which would reduce Region III's workload.

Although UMTA's efforts to enhance its oversight capabilities is a positive step, this report focuses specifically on grant oversight activities in Region III. UMTA received additional positions in fiscal year 1991, but none went to Region III. Also, although UMTA has contracted for project management oversight on some major construction projects and uses contractors to perform more than one-third of its triennial reviews, Region III has not started using contractors for grant oversight activities.

UMTA officials were concerned that the report focused on problems with UMTA and grantee activities that took place primarily between 1984 and 1989 and that in each case UMTA has initiated actions to correct the problems. We agree that the problems we cite involve long-standing grants. However, awareness of the problems surfaced between October 1988 and September 1990, the period covered by this report. We have included in the report the steps that UMTA has taken to correct these problems.

The officials also reiterated UMTA's position that triennial reviews are not audits and noted that our recommendations would create requirements exceeding UMTA's resources, capabilities, and legislative authority. We agree with UMTA that triennial reviews are not audits. This does not, however, alter our conclusion that UMTA's reviews do not include enough information to evaluate a grantee's compliance with statutory and administrative requirements as mandated by law. Because this is already a statutory requirement, UMTA does not need legislative authority to implement more detailed triennial reviews. We also do not believe that UMTA needs legislative authority to implement our other recommendations because they are based on good management practices for administering UMTA's existing responsibilities and authorities.

The information in this report is based on data obtained from interviews with UMTA and grantee officials and from reports by the Department of Transportation's OIG and others. Appendix I details our objectives, scope, and methodology. We conducted our work from March 1990 to

January 1991 in accordance with generally accepted government auditing standards.

As we noted earlier, this is the first of several reports on UMTA that we plan to issue during 1991. If the problems we found in Region III prove to be program-wide, we will make broader recommendations as appropriate in those reports.

We are sending copies of this report today to the Secretary of Transportation; the Administrator, UMTA; and the Director, Office of Management and Budget. Copies will be sent to others upon request. The work was performed under the direction of Kenneth M. Mead, Director, Transportation Issues, who can be reached on (202) 275-1000. Other major contributors are listed in appendix VII.



J. Dexter Peach
Assistant Comptroller General

List of Recipients

The Honorable John Glenn
Chairman, Committee on Governmental Affairs
United States Senate

The Honorable Donald W. Riegle, Jr.
Chairman, Committee on Banking,
Housing, and Urban Affairs
United States Senate

The Honorable Alan Cranston
Chairman, Subcommittee on Housing and
Urban Affairs
Committee on Banking, Housing, and
Urban Affairs
United States Senate

The Honorable Barbara Boxer
Chairwoman, Government Activities
and Transportation Subcommittee
Committee on Government Operations
House of Representatives

The Honorable Cardiss Collins
House of Representatives

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**Appendix VII
Major Contributors to
This Report**

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Abbreviations

DOT	Department of Transportation
GAO	General Accounting Office
OIG	Office of the Inspector General
PAT	Port Authority Transit
SEPTA	Southeastern Pennsylvania Transportation Authority
UMTA	Urban Mass Transportation Administration

Objectives, Scope, and Methodology

We undertook our review of the Urban Mass Transportation Administration's (UMTA) grants management because of the Comptroller General's interest in determining whether mass transit programs were vulnerable to fraud, waste, and mismanagement similar to the problems found in the Department of Housing and Urban Development and in the savings and loan industry. The objectives of our review were to examine (1) compliance with federal requirements by selected grant recipients in UMTA Region III, headquartered in Philadelphia, Pennsylvania and, (2) the effectiveness of UMTA's oversight of Region III grantees.

To meet our objectives we reviewed the Urban Mass Transportation Act of 1964, as amended, and UMTA's regulations, policies, and guidelines and met with Region III officials responsible for project management and grant oversight. We reviewed all Department of Transportation Office of Inspector General (OIG) reports for Region III grantees from October 1, 1987, through September 30, 1990, to identify major findings, recommendations, and questioned costs. We then evaluated the effectiveness of Region III's practices in identifying and correcting the problems cited by the OIG. We relied on the OIG's certification that the audits were undertaken in conformance with generally accepted government auditing standards and did not independently verify the accuracy of the OIG's findings.

To assist our understanding of UMTA's grant programs, we developed case studies of projects at two large grantees. We asked Region III officials to identify grantees and projects that experienced such problems as schedule delays, cost overruns, or noncompliance with UMTA rules. Of the projects known to have problems that were suggested by Region III officials, we judgmentally selected (1) a trolley rehabilitation project performed by Pittsburgh's Port Authority Transit (PAT) and (2) a closed circuit television subway surveillance system undertaken by Philadelphia. We reviewed UMTA data on the grantees and their projects; visited the two grantees and interviewed officials, including project managers; and reviewed the grantees' files.

We also evaluated Region III's monitoring of nine grantees.¹ The nine grantees ranged from large (\$100 million or more in active grants) to

¹Southeastern Pennsylvania Transportation Authority, Philadelphia, Pennsylvania; Mass Transit Administration, Baltimore, Maryland; Port Authority Transit, Pittsburgh, Pennsylvania; Memphis Area Transit Authority, Memphis, Tennessee; Tidewater Transportation District Commission, Norfolk, Virginia; Luzerne County Transit Authority, Scranton, Pennsylvania; Chattanooga Area Regional Transit Authority, Chattanooga, Tennessee; Red Rose Transit Authority, Lancaster, Pennsylvania; and Greater Lynchburg Transit Company, Lynchburg, Virginia.

medium (\$10 million to \$99.9 million) to small (under \$10 million in active grants) and accounted for \$3.2 billion—or 71.6 percent—of the region's \$4.5 billion in active grants. We evaluated the nine grantees' compliance with certain federal requirements by examining grant and project files at Region III and at the two case study grantees and by discussing compliance with responsible officials. Specifically, we determined compliance with reporting requirements and performed limited testing at PAT regarding compliance with third-party contracting requirements.

To assess UMTA's oversight methods, we interviewed Region III officials and examined records documenting the results of their monitoring efforts. We determined the extent to which Region III used the available monitoring tools for the two selected projects and the other nine grantees. We also evaluated the adequacy of regional review over proposed projects, grant amendments, and funding decisions.

To identify instances in which federal funds were misspent, we relied on costs questioned in the OIG reports and our evaluation of PAT's and Philadelphia's use of federal funds in relation to the project proposals and results. In addition, we interviewed officials from OIG, the Philadelphia District Attorney's Office, the U.S. Attorney's Office, and an international representative of the Transit Workers' Union regarding areas of potential fraud.

UMTA Region III Active Grants by States as of December 31, 1990

Dollars in millions

State	Number of grants	Number of grantees	Value of grants
Delaware	26	4	\$ 27
Kentucky	57	8	79
Maryland	84	6	1,379
New Jersey ^a	10	2	71
North Carolina	114	18	147
Pennsylvania	261	31	2,952
Tennessee	89	11	139
Virginia	96	21	121
West Virginia	40	10	31
District of Columbia	18	2	9
Total	795	113	\$4,954

^aUMTA Region II, headquartered in New York City, is responsible for the remaining six active New Jersey grantees.

Source: UMTA's Grant Management Information Systems.

Other GAO Reports on UMTA

UMTA Needs Better Assurance That Grantees Comply With Selected Federal Requirements (GAO/RCED-85-26, Feb. 19, 1985)

We reported that UMTA needed better assurances that grantees comply with federal requirements. We also supported UMTA's use of triennial reviews mandated by the Surface Transportation Assistance Act of 1982. At the time of our work, UMTA could not provide us with information on the focus of the reviews or how they would be conducted. Nevertheless, we believed that triennial reviews would afford UMTA an opportunity to supplement its existing mechanisms for ensuring grantees' compliance with federal requirements. We recommended that UMTA (1) require triennial reviews to emphasize compliance with regulations not routinely covered by OIG and independent audits, (2) disseminate legal rulings on UMTA's regulations to increase grantees' understanding of and compliance with the requirements, and (3) establish guidelines for appropriate enforcement action when noncompliance is identified.

20 Years of Federal Mass Transit Assistance: How Has Mass Transit Changed? (GAO/RCED-85-61, Sept. 18, 1985)

We examined transit's role in helping to mitigate various social, economic, and environmental problems confronting urban areas. We found that (1) federal funds have helped reverse the service and ridership declines, (2) ridership gains nationwide had not increased transit's share of the commuting market, and (3) service costs had grown rapidly. We concluded that mass transit helped address a number of urban problems of congressional concern, such as traffic congestion; air pollution; energy consumption; and transportation for low-income, elderly, and handicapped persons.

Mass Transit Grants: UMTA Needs to Improve Procurement Monitoring at Local Transit Authority (GAO/RCED-89-94, Mar. 31, 1989)

We reported that the Southeastern Pennsylvania Transportation Authority (SEPTA) had major procurement system problems and UMTA had not detected these problems. Our report disclosed that UMTA's triennial review of SEPTA did not include a detailed procurement assessment, yet the review indicated that SEPTA had complied with procurement requirements. Further, single annual audits performed by public accounting firms did not include an evaluation of SEPTA's compliance with federal procurement requirements. We concluded that UMTA's monitoring procedures were inadequate to detect the weaknesses at SEPTA

and made several recommendations to better focus UMTA's monitoring to detect procurement deficiencies.

Mass Transit Grants: UMTA Needs to Increase Safety Focus at Local Transit Authority (GAO/RCED-90-41, Dec. 1, 1989)

We reported that SEPTA had experienced an increase in motor bus, trolley bus, and streetcar accidents and injuries. We also found that UMTA had not adequately assessed SEPTA's safety conditions and did not consider safety in approving federal funds for SEPTA projects. We also reported that we were unable to determine the specific factors that UMTA's Administrator considered in awarding discretionary grants to SEPTA because the bases for the decisions were not documented. We recommended that UMTA, among other things, obtain more complete and accurate information on SEPTA accidents and injuries to use in evaluating SEPTA's safety conditions during triennial reviews and in selecting projects for funding. In addition, we recommended that UMTA document its discretionary funding decisions.

Grantee Certifications and Requirements

The Urban Mass Transportation Act of 1964, as amended (49 U.S.C. app. sections 1601-1621.), requires that section 9 grant recipients (and UMTA requires other grant recipients) certify annually that, among other things, they

- have or will have the legal, financial, and technical capacity to carry out the project and control the use of the facilities and equipment;
- will use competitive procurement rather than exclusionary or discriminatory specifications and will comply with the Buy America Act;
- make information available to the public on the amount of grant funds available and the projects proposed; and
- will comply with planning and design requirements and will have available and provide matching funds.

In addition to the certification, grantees must observe specific project management requirements promulgated by UMTA. Grantees may also certify that their procurement systems comply with federal procurement regulations. Grantees who have self-certified their procurement systems need only submit for UMTA preaward review, noncompetitive contracts over \$1 million.

Office of Inspector General Reports for UMTA Region III, Fiscal Years 1988-90

Subject	Questioned costs or potential savings	Grantees
Transit service for students (R3-UM-8-030)	\$17,000,000	Southeastern Pennsylvania Transportation Authority, Philadelphia, PA
Value engineering (R3-UM-8-207)	13,000,000	Southeastern Pennsylvania Transportation Authority, Philadelphia, PA Mass Transit Administration, Baltimore, MD Washington Metropolitan Area Transit Authority, Washington, DC
Contingency fund practices (R3-UM-9-007)	4,100,000	Southeastern Pennsylvania Transportation Authority, Philadelphia, PA Mass Transit Administration, Baltimore, MD Port Authority Transit, Pittsburgh, PA
Transit service for students (R3-UM-9-030)	17,000,000 ^a	Southeastern Pennsylvania Transportation Authority, Philadelphia, PA
Peak vehicle requirements (R3-UM-9-048)	22,900,000	Memphis Area Transit Authority, Memphis, TN Berks Area Reading Transit Authority, Reading, PA Winston-Salem Transit Authority, Winston-Salem, NC Cumberland-Dauphin-Harrisburg Transit Authority, Harrisburg, PA Greater Richmond Transit Company, Richmond, VA Lehigh and Northampton Transportation Authority, Allentown, PA Metropolitan Transportation Authority, Nashville, TN Transit Authority of River City, Louisville, KY Mass Transit Administration, Baltimore, MD Tidewater Transportation District Commission, Norfolk, VA
Force account activities (R3-UM-0-089)	4,500,000	Port Authority Transit, Pittsburgh, PA

^aFollow-up to previous review.

Case Studies

Pittsburgh's Port Authority Transit (PAT) Trolley Rehabilitation Project

Between 1979 and 1989 Pittsburgh's Port Authority Transit was awarded five UMTA grants totaling \$19.3 million for 80 percent of the cost to rehabilitate 45 trolley cars with PAT's own work force. After beginning work PAT discovered that rehabilitating the cars would be more technically difficult and extensive than originally envisioned. Further, during the same period PAT's management attention was focused on constructing a new light rail subway system. Consequently, progress on the trolley rehabilitation project was both costly and slow. PAT initially estimated that 45 cars would be completed by the end of 1984, but it finally terminated the project in 1989 after spending \$8.4 million to rehabilitate or overhaul only 16 cars. UMTA allowed PAT to rebudget the remaining \$10.9 million for other projects.

Not only did the project experience cost and schedule problems, but certain management decisions and internal control weaknesses also led to questionable use of federal funds. For example, because PAT intended to rehabilitate 45 cars, it purchased material in advance. When the project was completed, according to an OIG report, PAT held \$1.7 million in UMTA-funded excess inventory. The OIG also reported that PAT had placed \$2.2 million in UMTA-funded parts on 39 cars that it subsequently removed from service for safety reasons. When UMTA-financed equipment is removed from service before the end of its useful life, the grantee must reimburse UMTA for the value of the federal share of the unused life. As of April 1991 PAT had not done so.

In addition to the \$3.9 million in questioned costs, the OIG found that poor controls over project material did not prevent its use for other purposes. Former PAT project managers told us that workers commonly removed parts from the federally funded project inventory and used them for routine maintenance. The manager could not estimate the quantity or value of the materials and did not know if the parts were eventually replaced. Also, project inventories were not separately maintained from general inventories or separately accounted for until 1988—the year before the project was terminated. Lack of property controls is contrary to UMTA grant requirements, but Region III was unaware of the problem until the OIG report.

Further, UMTA currently requires grantees to justify using their own work force (force account work) to carry out a project. In general, use of force account work can be justified on the basis of (1) projected cost savings, (2) grantees' exclusive expertise, (3) existing union agreements, or (4) safety and efficiency of operations. With respect to PAT the OIG concluded that UMTA's guidance during much of the 1979 to 1989 time

frame was discretionary and not a strict requirement to be followed by PAT on the trolley car project. PAT did not submit, and Region III did not request, the required justification for using transit authority labor. Also, Region III did not ask PAT to show whether (1) contracting out the work would have been cheaper and faster, (2) surplus cars were available, or (3) alternatives, such as buses, existed to using the trolley cars. PAT did not prepare specific cost estimates or a detailed production schedule until 1986, which made progress monitoring more difficult for both PAT and UMTA.

Although Region III had oversight responsibility for this project, it took little action to obtain information on PAT's use of federal funds and management of the project. Also, Region III did not compel PAT to correct the problems, require compliance with federal requirements, or terminate the project when it learned of poor progress and the OIG audit findings. Further, PAT failed to comply with UMTA's requirement for quarterly progress reports for over 5 years; Region III notified PAT of its noncompliance but took no stronger action. Region III records show a number of visits to Pittsburgh between fiscal years 1984 and 1990, but only four mention the trolley rehabilitation project, and those provide no information regarding agenda, findings, or actions taken. Region III's 1985 triennial review mentioned noncompliance with the reporting requirement, lack of record keeping on project status, and the need for a dedicated project work force but detected none of the procurement or property management problems that we and the OIG found. Also, Region III did not determine whether PAT's procurement policies and practices conformed to federal regulations.

Region III not only did not enforce UMTA's regulations on force account justifications and progress reporting but also missed opportunities to identify weaknesses through triennial reviews, site visits, and procurement reviews. Nevertheless, Region III approved ongoing funding totaling \$15.5 million from 1984 to 1987. It was not until after PAT decided to terminate the trolley project that UMTA took steps to cancel the project or allow the remaining funds to be used for other PAT projects. Region III's "hands off" stance regarding grantee monitoring contributed to PAT's violations of UMTA rules and inefficient and inappropriate use of federal grant funds.

Philadelphia's Closed Circuit Television Surveillance System

Through the end of calendar year 1990, the City of Philadelphia, Pennsylvania, had spent 11 years and \$1.6 million in UMTA funds for a closed circuit television surveillance project. The city had planned a 2- to 3-year project to update an existing system, funded through the former Model Cities Program in 1977, and to expand the system from 9 to 67 subway stations. After receiving grant approval of nearly \$8 million in 1979 from UMTA, the city decided to expand the system to include three commuter rail stations for a total of 70 stations. UMTA approved the scope change and another \$1.7 million in 1981. Concerned about its financial ability to maintain and operate the proposed system, Philadelphia negotiated for several years to have the Southeastern Pennsylvania Transportation Authority assume responsibility for the project. UMTA approved the proposed transfer. When negotiations failed, Philadelphia reduced the project scope from 70 to 13 stations in 1986. UMTA accepted the revised budget and withdrew \$7.2 million of the original grant.

The city spent \$800,000 in grant funds to renovate space in City Hall for the system monitoring room and an ancillary facility and another \$800,000 for salaries, including fringe benefits, and a design consultant. Because of deterioration and vandalism of the cameras and outdated monitoring equipment, the city shut down the original system in September 1989. The monitoring room has been locked and unused since that time.

UMTA's grant agreement with the city requires that Philadelphia reimburse UMTA if the project is removed from service before the end of its useful life. Although Philadelphia never completed the project by installing the cameras and monitoring equipment, Region III had received no reimbursement of grant funds as of February 1991. Only twice, in December 1989 and October 1990, did Region III attempt to prompt the city into action by threatening to close out the grant. Even then, Region III allowed the city to delay soliciting bids to continue work on the system until August 1990 because of technical questions and dissatisfaction with potential bidders. In July 1990 the region requested a letter of commitment from Philadelphia to provide operating and maintenance funding for the system, but then agreed to the city's request for a month's extension of the August deadline. In the meantime, local news media reported on the city's deteriorating financial condition, including the lowering of its bond rating to one level above bankruptcy in September 1990. A Region III official attributed the inability to secure bids for the system to the city's financial problems.

Region III's monitoring of the project was limited. In 1982 and 1983 the region requested the city to submit overdue quarterly progress reports. Although Philadelphia responded to these requests, it again failed to comply with the reporting requirement from 1984 through the second quarter of 1987 with no action by Region III to secure compliance. The city submitted quarterly financial status reports, but they were up to 6 months late. Although the city's single annual audit in 1988 disclosed a material weakness regarding late and inaccurate financial status reports, Region III did not verify the city's written assurances of corrective action and only infrequently visited city officials to review the project's status. Region III records from January 1984 through June 1990 indicate seven site visits or meetings; four of them occurred in May and June 1985 when an UMTA official was serving on a task force established by the city to reexamine the project. Region III did not document the results of any visits.

Throughout much of the project's history, the city was concerned about its ability to provide an estimated \$2 million annually to maintain and operate the system. We found no evidence that UMTA considered Philadelphia's ability to operate and maintain the system. Because of the type of UMTA grant received, Philadelphia was not subject to triennial reviews. Consequently, UMTA did not determine Philadelphia's financial capacity or perform even a minimal examination of the city's compliance with UMTA rules. According to a city official, all contract awards for the project were competitive and did not need UMTA's approval. Nevertheless, Philadelphia submitted contracts for renovating the control room to UMTA for preaward approval. UMTA has never performed a procurement system compliance review of the city nor has the project been the subject of an OIG audit during the last 3 fiscal years.

UMTA missed three additional opportunities to review the project: (1) when Philadelphia submitted budget revisions, (2) when the city expanded the project scope, and (3) when the city unilaterally decided to radically reduce the project scope from 70 to 13 stations in 1986. UMTA reduced funding but still did not review the project's progress and expenditures or the city's financial capacity to maintain and operate the system. Finally, on March 28, 1991, after reviewing a draft of this report, UMTA advised Philadelphia that it had closed out the project and requested final reports to determine whether UMTA is due a refund.

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