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MASS TRANSIT

Significant Federal Investment Is
Not Adequately Protected

*Statement for the Record of
Kenneth M. Mead,
Director, Transportation Issues
Resources, Community, and Economic
Development Division*

*For the
Subcommittee on Transportation
Committee on Appropriations
House of Representatives*



Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to present our views on the Urban Mass Transportation Administration's (UMTA) oversight of its grant programs and on proposals to increase funding flexibility between mass transit and highways and to reduce the federal share for transit assistance. Our testimony is based on our current work in four UMTA regions and our review of reauthorization proposals, including the administration's proposal.

In summary, our work shows the following:

- UMTA's mass transit grants are vulnerable to fraud, waste, and mismanagement because grantees do not have adequate financial and other management systems to ensure that funds are spent appropriately, prudently, and efficiently; and UMTA has not effectively used its monitoring tools, particularly triennial reviews, to oversee grantees' activities. With federal dollars limited and mass transit needs great, grantees must have effective management controls, and UMTA must take a proactive approach on oversight to correct performance deficiencies. Without such actions, the significant federal investment in mass transit will remain at risk.

- All the proposals would allow state and local governments some flexibility in allocating federal funds between mass transit and highway projects. Although we support a multimodal strategy to address transportation needs, a number of obstacles need to be overcome, including a bias for funding highways over mass transit and the absence of integrated transit and highway planning and decisionmaking at all levels of government.

- The administration proposes to reduce the federal share for capital projects from 80 percent to 60 percent and reduce or eliminate federal operating assistance at a time when transit authorities will incur costs to meet new federal wheelchair access and pollution emission standards. Therefore, caution should be exercised in making an immediate shift of financial responsibility to transit authorities who will have to absorb these increases while maintaining service levels.

BACKGROUND

Under the Urban Mass Transportation Act of 1964, as amended, UMTA is authorized to provide assistance for developing and operating mass transportation systems through grants to state and local entities--generally transit authorities. Since 1964 UMTA has provided over \$62 billion to help build, rehabilitate, and

operate the nation's mass transit systems. (Attachment I shows UMTA's funding over the last decade.) UMTA currently oversees about \$32 billion in active grants awarded to about 700 state and local grantees to help fund over 4,400 mass transit projects nationwide. For each new grant, a recipient must certify its intent and ability to comply with federal requirements and properly use funds. UMTA monitors grantees' activities through financial and progress reports, triennial reviews, procurement reviews, annual audits, and contractor-provided oversight.

On the basis of our previous work and deficiencies reported by its Office of Inspector General (OIG), the Department of Transportation (DOT) identified UMTA's oversight of grantees' activities as a material internal control weakness in its 1989 and 1990 reports to the President and the Congress required by the Federal Managers' Financial Integrity Act of 1982, as amended. (Attachment II summarizes our previous UMTA reports.) DOT cited UMTA's growing workload 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 weakness. UMTA received 14 more staff and authority to expand its use of contractor-provided oversight in fiscal year 1991 and requested 31 additional staff for fiscal year 1992.

UMTA is one of 16 federal programs for which GAO initiated 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. Our report, Mass Transit Grants: Scarce Federal Funds Misused in UMTA's Philadelphia Region (GAO/RCED-91-107, June 13, 1991), presents the results of the first of several reviews examining grantee compliance and UMTA oversight.

FEDERAL MASS TRANSIT FUNDS ARE
VULNERABLE TO WASTE AND MISMANAGEMENT

Our work in four UMTA regions covering about 60 percent of active grants shows that, as a result of weaknesses in grantees' management systems and UMTA's monitoring, grant funds have been misspent and ineffectively used. In this regard, between October 1987 and May 1991, DOT's OIG questioned nearly \$340 million in grant expenditures, including instances where grantees double-billed UMTA; failed to reimburse UMTA when costs were less than expected; wrote off UMTA-funded inventories because grantees could not determine whether parts had been used, lost, or stolen; or did not promptly repay unneeded funds upon completion of the project. For example, 48 grant recipients spent \$85.6 million to purchase more buses than their service needs warranted, and 41 grant recipients charged UMTA \$44.3 million for costs, such as extended warranties and rental of publicly owned buildings, that the OIG reported were not eligible for federal funding. (Attachment III summarizes the questioned costs in the 65 OIG reports we examined).

Triennial reviews are a principal means for UMTA to monitor grantees and the adequacy of their management systems. The Urban Mass Transportation Act states that the triennial review is to be "a full review and evaluation of the performance of a [grant] recipient in carrying out the recipients's program, with specific reference to compliance with statutory and administrative requirements." In March 1989 we first reported our concerns about the limited scope of triennial reviews and recommended that UMTA include tests of selected procurements to ensure that proper procedures were in place and being followed.¹ Although UMTA views triennial reviews as a primary mechanism for monitoring grantees, UMTA did not implement our recommendations.

According to UMTA headquarters officials, triennial reviews are not audits, and they intentionally limit their depth and scope. We agree that such reviews are not audits, but our current work shows that UMTA's triennial reviews still do not contain sufficient depth to evaluate a grantee's "compliance with statutory and administrative requirements." We found that the reviews included 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.

¹Mass Transit Grants: UMTA Needs to Improve Procurement Monitoring at Local Transit Authority (GAO/RCED-89-94, Mar. 31, 1989).

Despite demonstrated waste and mismanagement and UMTA's acknowledgement that its oversight is materially weak, the agency continues to rely primarily on grantees' certifications that they will comply with federal procurement and other requirements to ensure that funds are properly spent. UMTA does not verify that grantees have adequate systems to meet their commitments and generally does not require grantees to take corrective actions. Nor does UMTA use its enforcement authorities, such as withholding funds or requiring reimbursement, when problems are identified.

UMTA's effort to enhance its oversight capabilities with additional staff and expanded use of contractors to conduct safety, procurement, management, and financial compliance reviews is a positive step. However, UMTA's oversight problems go beyond staff shortages. Even with additional resources, safeguarding federal transit funds will depend on several factors. First, grantees must have effective management systems. Second, until grantee certifications can be shown to be reliable, UMTA must reduce its reliance on grantee promises and increase its verification of actual performance. Third, UMTA must use the full scope of its monitoring tools and exercise its enforcement authorities to compel grantees to, for example, reimburse UMTA for misspent funds identified by the OIG. Without such actions, the significant federal investment in mass transit will remain at risk.

OBSTACLES EXIST TO IMPLEMENTING
MULTIMODAL FLEXIBILITY

We support a multimodal strategy to address surface transportation infrastructure needs and congestion problems. However, as we reported in 1988, the ability to successfully implement such a strategy is not well served by DOT's practice of preparing separate budget and needs studies for mass transit and highways.² Some of the current proposals do not discuss mechanisms to remove the barriers for developing an integrated transportation strategy and for effectively evaluating mass transit and highway needs.

For example, most of UMTA's assistance is provided directly to local transit authorities, while the Federal Highway Administration provides assistance to the states. Also, no comprehensive federal assessment of the nation's mass transit needs exists. The Federal Highway Administration routinely reports on the capital investment requirements for the nation's highways and bridges, including long-term projections of investment requirements. UMTA compiles information only on the cost of maintaining the existing mass transit infrastructure but does not compile comprehensive data on transit projects currently under construction or future transit needs.

²Transition Series: Transportation Issues (GAO/OCG-89-25TR, Nov. 1988).

Therefore, coordinated planning and project selection by federal, state, and local governments could well prove problematic until the manner in which funds are channeled and comparable selection criteria are resolved. For example, some proposals would require metropolitan planning organizations (MPO) to develop transportation improvement plans and to program mass transit and highway funds within urban areas. However, some MPOs may not be able to readily implement such provisions. Although MPOs have historically played an important role in urban transportation planning, our work to date indicates that most have had limited experience in programming federal transportation funds.

In addition, the criteria used to assess transit and highway projects may further exacerbate the problem of choosing between the two modes. For example, one transit objective is to move people out of their cars, and one highway premise is to build roads that can accommodate more and more cars. It is generally easier to demonstrate the benefits of increased highway capacity over increased transit capacity because constructing new highways or additional lanes are more visible and tangible than acquiring additional buses. These factors raise questions that need to be addressed in any flexible, long-term intermodal investment strategy.

CAUTION NEEDED IN REDUCING
THE FEDERAL CONTRIBUTION

The administration proposes to shift a larger share of the burden of financing transit programs to states and grantees by reducing UMTA's funding share and eliminating some federal operating assistance. Under the administration's proposal, the maximum federal contribution for capital transit projects would be reduced from 80 percent to 60 percent and for new construction projects, from 75 percent to 50 percent. Depending on the type of transit program, transit authorities currently contribute as little as 20 to 25 percent of eligible project costs. UMTA does not view the proposal as a significant change because it already provides only 60 percent on new mass transit projects to some grantees and this level would be consistent with the proposed funding for highway's urban/rural program. However, this figure is less than the minimum 75 percent federal share proposed for other highway programs.

In addition, UMTA proposes to eliminate operating assistance for some grantees. UMTA has been providing grantees with about \$800 million annually in operating assistance on the basis of the size of the urban area and the transit authority's previous years' grants. Transit authorities use about 70 percent of this assistance for salaries and other labor costs; about 10 percent for materials and supplies; and the remainder for utilities, insurance, and other expenses. The proposal would eliminate operating

assistance for urban areas with populations of 1 million or more. Urban areas with populations of less than 1 million could include materials and supplies as capital maintenance items and use up to 25 percent of their formula grant apportionment or an amount equal to their fiscal year 1991 operating assistance, whichever is greater, for such items.

According to UMTA, the largest transit authorities rely the least on federal operating assistance. However, we estimate that the 30 urban areas with populations of 1 million or more include about 176 transit authorities that vary both in size (as measured by the number of vehicles) and in reliance on federal operating assistance. Although 9 of the largest transit authorities receive less than 10 percent of their operating assistance from UMTA, 94 receive between 10 and 19 percent, and 73 rely on UMTA for 20 percent or more of their operating assistance.

In addition, the administration's proposal does not fully consider the financial burden that will be placed on transit authorities to comply with the recently enacted Americans with Disabilities Act of 1990 and the Clean Air Act Amendments of 1990. The proposal would provide only \$50 million annually for transit authorities to implement these new legislative requirements. However, the transit industry estimates that the financial burden to comply with these laws will be significant. For example, 18 of the largest transit operators estimate that they would need about

\$1.2 billion annually to convert their bus fleets to alternative fuels or other clean emission technologies to comply with the Clean Air Act Amendments. In addition, transit operators cite DOT estimates that the cost to comply with the Americans with Disabilities Act, including making all buses and subway cars wheelchair accessible, will be between \$850 million and \$1.3 billion annually. The transit community is concerned that the majority of these costs will be shifted to states, localities, and transit riders.

Although we agree that benefits may be gained by increased state and local financial contributions, reductions in the federal share should be addressed within the full context of financial realities in the transit community. Increasing state and local financial interests could encourage transit authorities to build cost-beneficial projects, seek cost-effective alternatives, maintain the existing infrastructure, and minimize waste and misuse of federal funds.

On the other hand, some transit authorities may not be able to absorb a larger proportion of costs while maintaining service levels and may find it difficult to attract new riders who now rely heavily on automobiles or may lose riders to automobiles because of price considerations. If these added costs are passed to transit users through higher fares, it could thwart efforts to attract ridership away from automobiles and increase transit costs

for those who can least afford it--the elderly, handicapped, and economically disadvantaged. Therefore, we have urged a cautious approach to any major shift of financial responsibility.³

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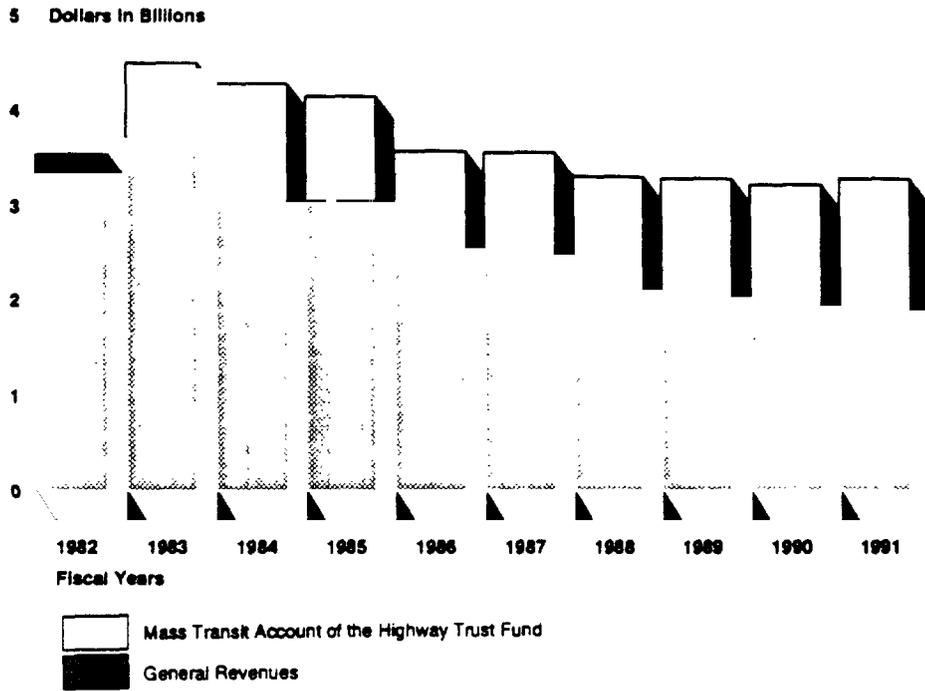
In conclusion, with the nation's mass transit needs outstripping available funding, it is particularly important that UMTA ensure that scarce resources are used judiciously, prudently, and effectively and that grant recipients manage federal funds in the most efficient and economical manner possible. UMTA needs to give close attention to program planning and oversight to avoid the deficiencies of the present system and to ensure the best use of limited federal transit dollars in the future.

We support the concept of defining mass transit objectives in the context of a nationwide surface transportation system and see merit in providing funding flexibility between mass transit and highways. Nevertheless, the biases that favor highways over mass transit must be addressed and overcome for multimodal flexibility to succeed. Finally, we believe that caution should be exercised

³Testimonies before the House Committee on Public Works and Transportation, Subcommittees on Investigations and Oversight (GAO/T-RCED-91-15, Mar. 5, 1991) and Surface Transportation (GAO/T-RCED-91-26, Apr. 18, 1991); the Senate Committee on Banking, Housing, and Urban Affairs, Subcommittee on Housing and Urban Affairs (GAO/T-RCED-91-41, Apr. 24, 1991); and the Senate Committee on Environment and Public Works, Subcommittee on Water Resources, Transportation, and Infrastructure (GAO/T-RCED-91-56, May 14, 1991).

in making an immediate and significant shift of cost-sharing responsibilities to transit authorities. Such a shift may adversely affect service levels or ridership costs.

UMTA FUNDING PROFILE, FY 1982-1991



PREVIOUS GAO REPORTS ON UMTAMass Transit Grants: Scarce Federal Funds Misused in UMTA's Philadelphia Region (GAO/RCED-91-107, June 13, 1991)

We reported that transit grants in UMTA's Philadelphia region were vulnerable to fraud, waste, and mismanagement because grantees did not have adequate financial and other management systems to ensure compliance with federal requirements and to use funds properly. We further reported that the region's monitoring had not successfully detected and corrected grantee noncompliance. We made several recommendations to strengthen the region's oversight and minimize the risk that federal transit funds would be inappropriately spent.

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

We reported that the Southeastern Pennsylvania Transportation Authority (SEPTA) had experienced an increase in bus, trolley, and streetcar accidents and injuries. We also found that UMTA had not assessed SEPTA's safety conditions and did not consider safety in approving federal funds for SEPTA projects. We 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 obtain complete and accurate information on SEPTA accidents and injuries to use, among other things, in evaluating SEPTA's safety conditions during triennial reviews and in selecting and approving projects for funding. In addition, we recommended that UMTA document its discretionary funding decisions.

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

We reported that SEPTA had major procurement system problems, and that UMTA had not detected these problems. Our report disclosed that UMTA's triennial review of SEPTA did not include a detailed procurement assessment, yet indicated that SEPTA had complied with applicable 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.

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

We examined the role of mass transit 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.

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 complied 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 information on the focus of the reviews or how they would be conducted. Nevertheless, we believed that triennial reviews, if properly implemented, would afford UMTA an opportunity to supplement its existing oversight 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.

SUMMARY OF COSTS QUESTIONED IN 65 DOT OIG REPORTS(ISSUED FROM OCTOBER 1987 TO MAY 1991)

Excess Equipment \$85.6 million

This category includes the cost of excess buses bought with UMTA funds in seven regions. According to UMTA guidelines, transit authorities are allowed to use federal funds to purchase enough buses to cover service during their peak period of operation, plus 20 percent more buses as spares. The category also includes funds used to purchase excess bus parts.

Equipment Not Used for Intended Purposes \$74.1 million

This category includes costs to replace buses used solely to transport students, in direct contradiction of UMTA regulations. Under UMTA regulations, buses purchased with federal funds are to be used for public mass transit. The buses can be used to transport students if the bus lines are also open to the public. In these cases, open ridership was not maintained.

Ineligible Costs \$44.3 million

Costs, such as extended warranties, are not eligible for reimbursement under UMTA guidelines yet were billed to UMTA. The amount also includes additional interest costs.

Prematurely Retired or Improperly Maintained Equipment \$36.1 million

This category includes the cost of buses and railcars that were retired before to UMTA's prescribed service life, could not be accounted for, or were bought and not used.

Possible Cost Savings \$30.3 million

These are cost savings that could have been realized if value engineering techniques or cost analysis had been used during construction.

Improper Expenditures

\$22.8 million

Funds were used for personal purposes, improper contracting, excessive grants, excessive profits made by a contractor, and to purchase property that was later lost or stolen. The amount also includes unexplained adjustments of financial records, stolen revenues, and overcharges.

Unsupported Costs

\$18.7 million

This category includes costs questioned because documentation did not adequately support funds spent, allocation methods used, or the cost analyses performed.

Unexpended Program Funds Not Deobligated, or Obligated Prior to Need

\$18.1 million

Funds were either not repaid promptly upon completion of the project or obtained prior to need. UMTA was unable to allocate the funds to other projects and interest was lost.

Local Grant Share Requirements Not Met

\$7.4 million

These are federal funds spent on projects where grantees did not meet the required nonfederal funding match.

Unacceptable Work

\$2.1 million

This category represents UMTA's share of costs for work performed by inadequately skilled engineers. The work was not acceptable and had to be redone.

Unclaimed Share of Lawsuit

\$0.4 million

This category represents UMTA's share in a lawsuit filed by a grantee. The grantee overpaid a contractor that subsequently filed for bankruptcy. The grantee sued the contractor, and UMTA is owed a percentage of any settlement.