



United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-271268

May 1, 1996

The Honorable Frank R. Wolf
Chairman, Subcommittee on Transportation
and Related Agencies
Committee on Appropriations
House of Representatives

Dear Mr. Chairman:

This letter responds to your January 25, 1996, request that we assess the Washington Metropolitan Area Transit Authority's (WMATA) administrative costs and determine why these costs, as a percentage of total operating costs, are higher for WMATA than for other major transit authorities. You also asked us to determine whether federal funds are involved in WMATA's cost-reimbursable contract with the state of Maryland for an extension to the existing metrorail system.

In summary, we found that, prior to 1994, WMATA had misclassified a portion of its administrative costs in its annual report to the Department of Transportation's Federal Transit Administration (FTA). This error made WMATA's administrative costs, as a percentage of its total operating costs, appear to be much higher than other transit authorities' administrative costs. WMATA corrected the misclassification during the 1994 reporting cycle. According to the most recent FTA data available, administrative costs were 20.4 percent of WMATA's total operating costs for 1994. This percentage is more closely aligned with the percentages of other major transit authorities, which ranged in 1994 from a low of 13.5 percent to a high of 24.2 percent. In commenting on a draft of this letter, WMATA officials told us they had recently found another misclassification. If this error had been corrected for the 1994 reporting cycle, they said, their administrative costs would have been 17.2 percent of their total operating costs rather than 20.4 percent. The officials indicated that this error had been corrected for WMATA's 1995 report.

We also found that no federal money is currently being used to fund WMATA's work under the contract with the state of Maryland. However, according to a

Maryland official, the state's Mass Transit Administration (MTA) plans to request federal funds in the future for the final design and construction phases of the project under FTA's "new starts" discretionary capital program. WMATA is expected to participate in this part of the project as well.

MISCLASSIFICATION INFLATED ADMINISTRATIVE COSTS

All transit authorities that are recipients or beneficiaries of federal transit formula funds are required to report financial and nonfinancial operating data annually to FTA for inclusion in the National Transit Database.¹ The federal government and state and local governments then use this information in making mass transportation planning and investment decisions. The reported information includes financial data on a transit authority's total operating costs and the components of these costs.

In late 1995, a New York Times article showed that, for 1993, administrative costs as a percentage of total operating costs were higher for WMATA than for other major transit authorities in the country. Cost data in the article were attributed to information submitted by the transit authorities to FTA's National Transit Database. According to the information in the database, administrative costs for 1993 were 35.2 percent of total operating costs for WMATA, compared with 25.9, 19.9, 12.4, and 12.5 percent, respectively, for the major transit authorities in New Jersey, Boston, New York, and Chicago.

Our review of WMATA's 1993 submission to FTA's National Transit Database and discussions with WMATA officials disclosed that WMATA had been misclassifying the costs of fringe benefits for its transit operators. Rather than classifying these costs as an operating cost, WMATA had inadvertently been classifying them as an administrative cost, thereby inflating its administrative costs relative to its total operating costs. As a result, when expressed as a percentage of total operating costs and compared with the percentages for other major transit authorities, WMATA's administrative costs were misleadingly high. The misclassification, however, had no effect on the total amount reported as operating costs by WMATA, since administrative costs are generally included in that total.

¹Reporting is required under 49 U.S.C. §5335(a) (formerly section 15(a) of the Federal Transit Act). FTA uses this information to provide transit funds annually under its formula program to urban areas and directly to transit authorities.

The misclassification had occurred in previous years as well, dating back to at least 1988, according to WMATA officials. WMATA has since taken steps to correct the error. Data submitted for the 1994 National Transit Database, the most recent data available, show that administrative costs are 20.4 percent of WMATA's total operating costs. This percentage is more closely aligned with the percentages for other major transit authorities, which ranged in 1994 from a low of 13.5 percent to a high of 24.2 percent. For additional information on the administrative and operating costs of WMATA and other major transit authorities, see enclosure I. Also included at your request are graphics showing transit operators' salaries as a percentage of total operating costs for various transit authorities, including WMATA.

Misclassification Not Identified Through Validation Process

Each report submitted by transit authorities for inclusion in the National Transit Database is tracked and reviewed for completeness using a series of computerized and manual error checks. The database is managed by a private company, under contract with FTA, whose validation analysts are responsible for following up with transit officials if errors are found or questions about the data are raised. According to the FTA official responsible for overseeing the management of the National Transit Database, WMATA's misclassification of fringe benefit costs was apparently detected by a validation analyst during a review of WMATA's submission for the 1993 National Transit Database. However, resolution was not pursued, and the error was not corrected. As a result, the error continued to occur until WMATA officials, alerted by the New York Times article, identified the problem and corrected it.

WMATA Identifies Additional Misclassification

In commenting on a draft of this letter, WMATA officials informed us they had recently identified an additional misclassification in past years' reports submitted to the National Transit Database. According to WMATA officials, some operators' salaries and related fringe benefits had been misclassified as an administrative cost rather than as an operating cost. For the 1994 reporting cycle, these costs amounted to about \$20.4 million. Had these costs been properly reported, they would further have decreased WMATA's administrative costs to 17.2 percent of total operating costs, according to WMATA officials. WMATA officials explained that a problem with their labor cost distribution system had allowed this error to occur and they have since taken the necessary steps to correct it. Furthermore, according to WMATA officials, they have submitted a revised report for the 1995 National Transit Database, which will not be available until spring 1997, that reflects the correction. FTA officials

indicated they are planning to implement additional validation checks of the data to address the situation that resulted in this error. Because WMATA did not report its estimate of 17.2 percent to FTA for the 1994 National Transit Database, we could not verify and FTA could not validate the data. Hence, the data are not included in enclosure I.

WMATA'S WORK ON LARGO EXTENSION FUNDED
BY STATE AND LOCAL RESOURCES

WMATA is currently operating a rail system that includes 89.5 miles of completed track and accompanying stations and is in the process of completing construction on an additional 13.5 miles. Funding for the construction of this 103-mile rail system has been, and continues to be, provided under a separate appropriation from the Congress through FTA. Unless this separate appropriation is reauthorized, federal funding for any extension beyond the 103-mile system will need to be requested through FTA's new starts discretionary capital program and assessed in conjunction with other proposed rail projects.

In October 1995, WMATA entered into a cost-reimbursable contract with Maryland's MTA to support the design and development of a 2.9-mile extension to the existing metrorail system from the current Addison Road station to Largo, Maryland. Under the contract, WMATA is responsible for (1) supporting the development of an environmental impact statement and (2) managing the preliminary engineering phase of the project through 30 percent of design. MTA is providing \$7.5 million to WMATA, which comes solely from a trust fund of the Maryland Department of Transportation's Consolidated Transportation Program. According to an MTA official, this trust fund includes resources from bond issuances, gas tax revenues, and other state and local funding mechanisms. As a result, the funds provided to WMATA to cover its costs on the Largo project are not federal resources. According to the Largo project manager, MTA may subsequently seek reimbursement from FTA for at least some of these costs. Additionally, MTA plans to request federal capital funding from FTA's new starts discretionary capital program for the final design and construction phases of the project in the future. MTA also plans to ask WMATA to manage these phases as well, but no agreement has yet been negotiated. Further details on this contract and WMATA's role are included in enclosure II.

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To prepare this letter, we spoke with officials at WMATA, FTA, and Maryland's MTA and reviewed pertinent documentation related to WMATA's administrative

and operating costs and contract for the Largo extension. In addition, using information from FTA's National Transit Database, we compared WMATA's administrative and operating costs with similar costs for the following transit authorities in major metropolitan areas: Massachusetts Bay Transportation Authority (MBTA), New York City Transit Authority (NYCTA), New Jersey Transit Corporation (NJTC), Southeastern Pennsylvania Transportation Authority (SEPTA), Metropolitan Atlanta Rapid Transit Authority (MARTA), Chicago Transit Authority (CTA), and Los Angeles County Metropolitan Transit Authority (LACMTA). We conducted our review from February through March 1996 in accordance with generally accepted government auditing standards.

We provided copies of a draft of this letter to WMATA and FTA officials for their review and comment. We discussed a draft of this letter with WMATA's Assistant General Manager for Finance and Auditor General and with two FTA Transportation Program Specialists—one responsible for the National Transit Database and the other from the Office of Program Management—who generally agreed with the facts as presented. WMATA's Assistant General Manager for Finance also provided information on an additional misclassification that they recently found. We included this information in the letter and made other revisions on the basis of WMATA's and FTA's comments as appropriate.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution until 30 days from the date of this letter. At that time, we will send copies to the Secretary of Transportation. We will also make copies available to others on request.

Major contributors to this letter were Gary Jones, Ralph Lamoreaux, and Paul Bollea. Please call me at (202) 512-9696 if you or your staff have any questions.

Sincerely yours,

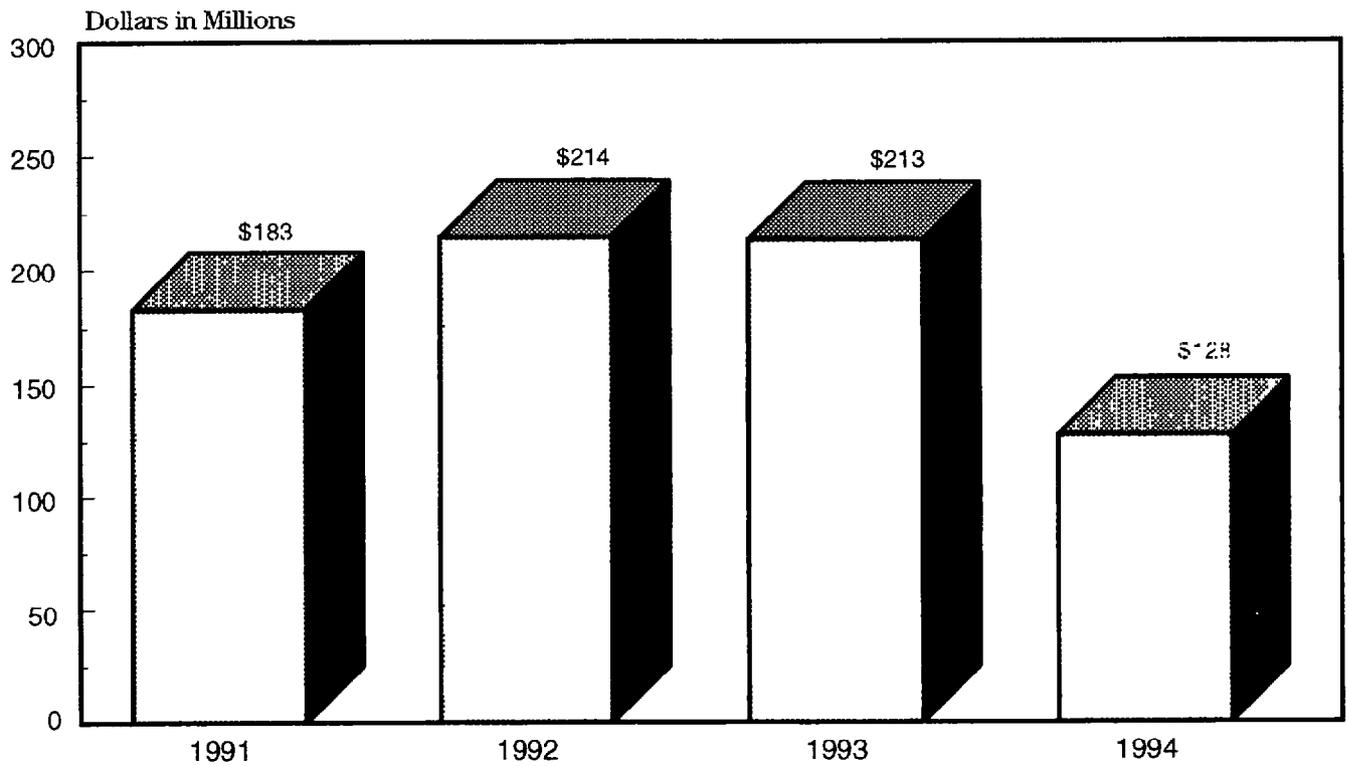


Phyllis F. Scheinberg
Associate Director, Transportation
and Telecommunication Issues

Enclosures - 2

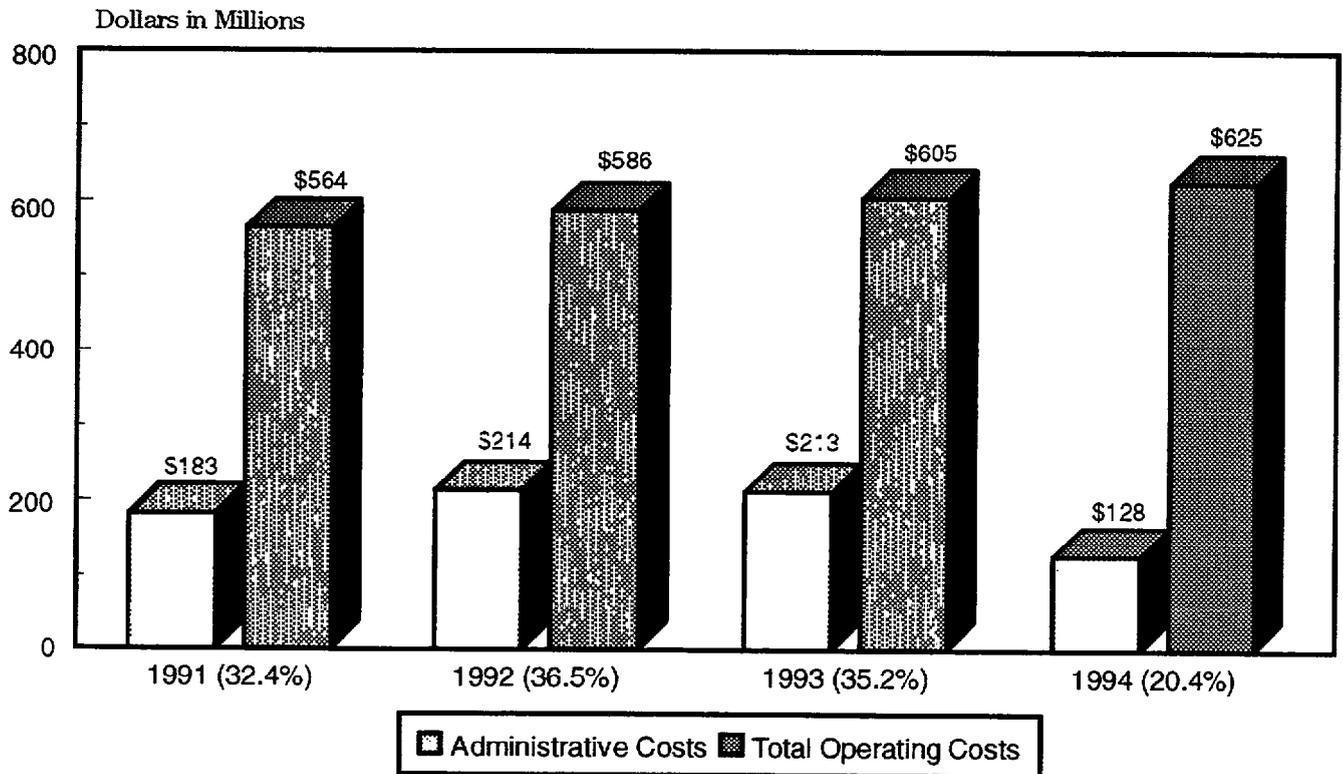
TRANSIT AUTHORITIES' ADMINISTRATIVE
AND OPERATING COSTS

Figure I.1: Effect of Misclassification on WMATA's Administrative Costs,
1991 Through 1994



Note: Administrative costs reported to FTA under section 15 requirements, now called the National Transit Database.
Fringe benefits misclassified 1991 through 1993; error corrected in 1994.

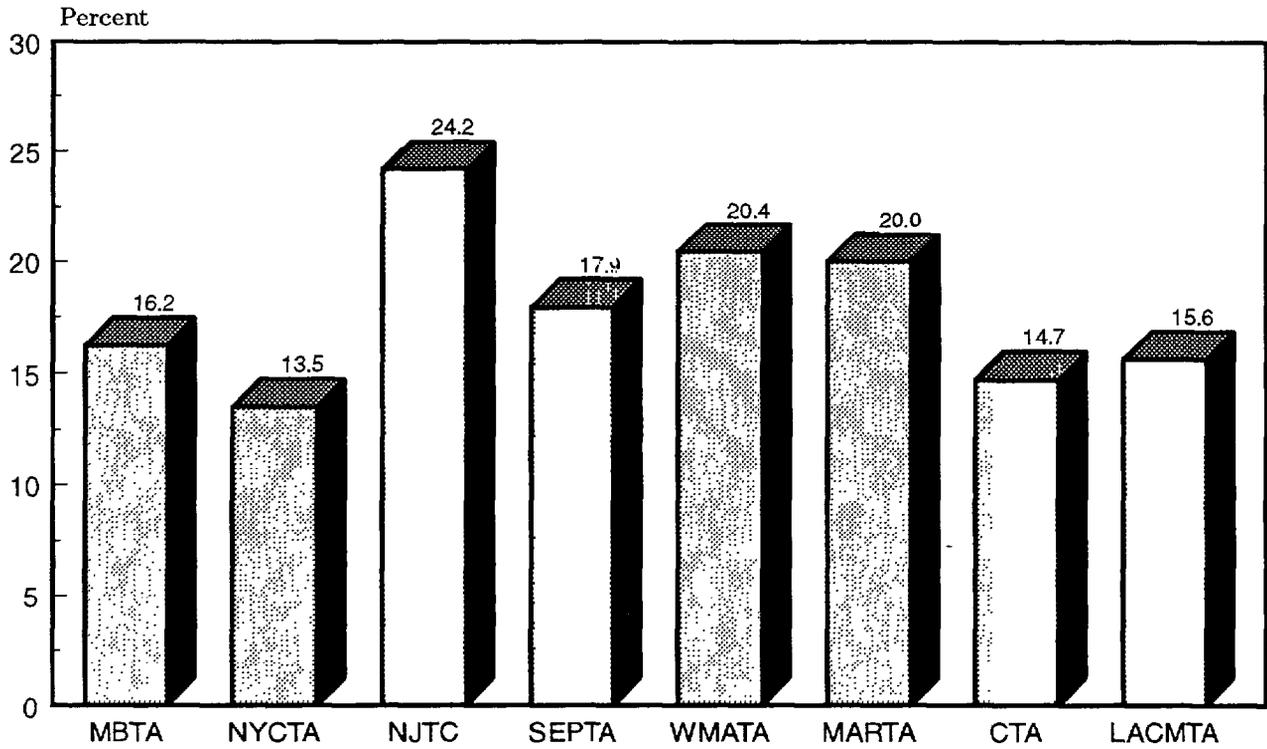
Figure I.2: Comparison of WMATA's Administrative and Total Operating Costs, 1991 Through 1994



Note: Costs reported to FTA under section 15 requirements, now called the National Transit Database.

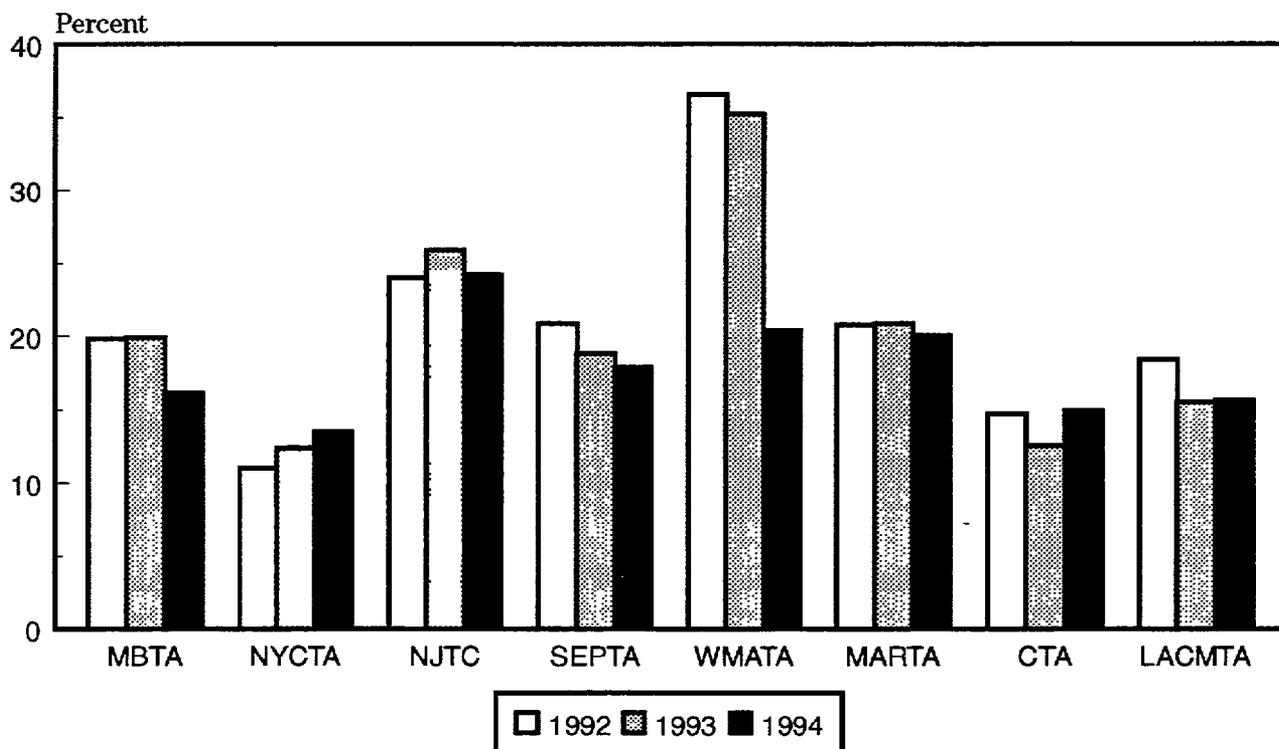
Fringe benefits misclassified 1991 through 1993; error corrected in 1994.

Figure I.3: Percentage of Administrative Costs to Total Operating Costs (Various Transit Authorities), 1994



Note: As reported to FTA under section 15 requirements, now called the National Transit Database.

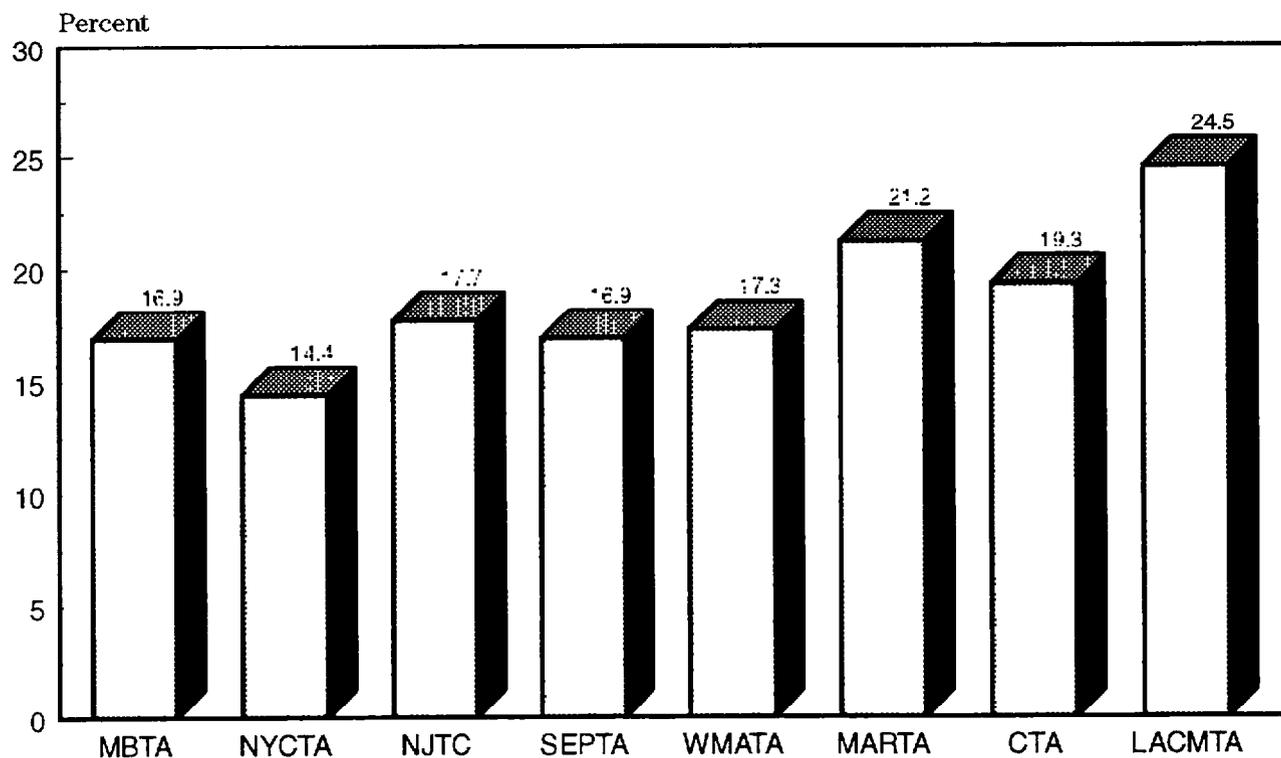
Figure I.4: Percentage of Administrative Costs to Total Operating Costs (Various Transit Authorities), 1992 Through 1994



Note: As reported to FTA under section 15 requirements, now called the National Transit Database.

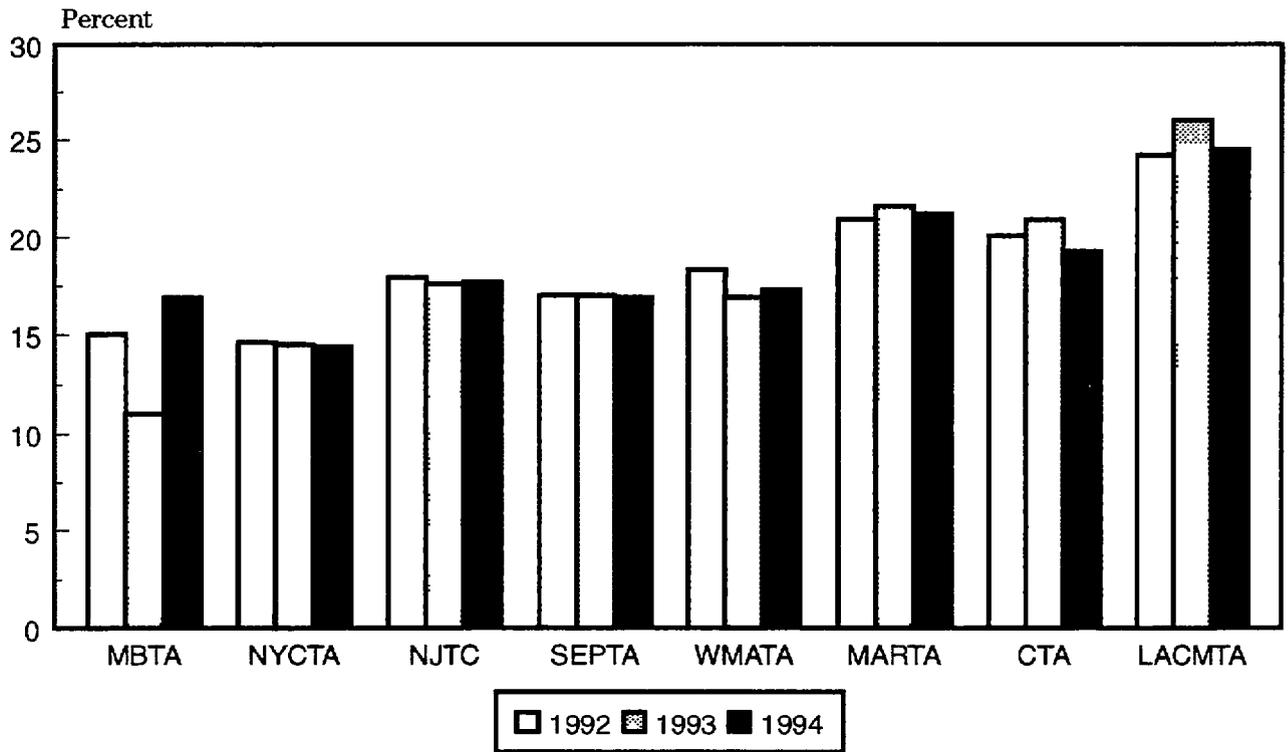
WMATA's fringe benefits misclassified 1991 through 1993; error corrected in 1994.

Figure I.5: Percentage of Transit Operators' Salaries to Total Operating Costs (Various Transit Authorities), 1994



Note: As reported to FTA under section 15 requirements, now called the National Transit Database.

Figure I.6: Percentage of Transit Operators' Salaries to Total Operating Costs (Various Transit Authorities), 1992 Through 1994



Note: As reported to FTA under section 15 requirements, now called the National Transit Database.

WMATA'S REIMBURSABLE CONTRACT
LARGO EXTENSION

Project:

A study, initiated in 1990 and completed in 1993, identified a 2.9-mile extension of the metrorail system from an existing station at Addison Road to the Largo Town Center as the preferred alternative to address congestion in this transportation corridor. The cost of this project is expected to be \$350 million.

Schedule Milestones:

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|---|----------------|
| Complete environmental impact statement | February 1997 |
| Record of decision | July 1997 |
| Complete final design | July 1998 |
| Initiate construction | September 1998 |
| Begin revenue service | September 2003 |

WMATA's Role:

Under the current contract, the Washington Metropolitan Area Transit Authority (WMATA) is expected to perform required services through March 1997. WMATA is responsible for supporting the development of the environmental impact statement and managing the preliminary engineering phase of the project, including the development of detailed architectural and engineering plans and specifications for the rail extension through approximately 30 percent of the project's design. WMATA is also responsible for developing an overall budget and schedule for the entire project based upon the \$350 million estimate and the milestones cited previously.

WMATA's Staff and Costs:

For fiscal year 1996, approximately 12.6 staff years are assigned to the project and for fiscal year 1997 (through Mar. 1997), approximately 11.06 staff years. The expected cost of WMATA's services is \$7.5 million.

Funding For WMATA:

According to the Largo project manager, WMATA's services under the current contract will be funded 100 percent by the Maryland Department of Transportation through its Consolidated Transportation Program. Advance payments will be provided to WMATA before each phase of the work is initiated.

FTA has issued a Letter of No Prejudice to the Maryland Mass Transit Administration (MTA), which stipulates that FTA will reimburse MTA up to \$5 million for work on the project during the preliminary engineering phase should federal funding be applied for and granted. The \$5 million for this project was earmarked by the Intermodal Surface Transportation Efficiency Act of 1991.

Future Plans:

MTA plans to seek capital funding from FTA's new starts discretionary program for the final design and construction phases of this project. MTA also plans to ask WMATA to manage the remaining phases of the project, through the beginning of revenue service; but no agreement has yet been negotiated.

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