April 1987

INTERNAL CONTROLS

Transportation Acts to Correct Weaknesses in Its Bus Program

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GAO

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

Resources, Community, and
Economic Development Division

B-226204

April 28, 1987

The Honorable Elizabeth H. Dole
The Secretary of Transportation

Dear Madam Secretary:

As part of our continuing effort to determine whether federal agencies
are improving internal controls pursuant to the Federal Managers'
Financial Integrity Act of 1982 (FMFIA), we reviewed the Urban Mass
Transportation Administration's (UMTA's) actions to correct a material
weakness in its bus grant program. FMFIA requires that agency heads
report to the President and the Congress annually on the adequacy of
their internal controls and identify areas of material weakness, along
with their plans to correct them

In your FMFIA statements of 1983 and 1984, you pointed out that UMTA
had a material weakness in its bus grant program because it lacked
policy guidance on grantees' management of their bus fleets and did not
sufficiently encourage or direct grantees to properly maintain and reha-
bilitate their buses. You also stated that UMTA should require grantees to
identify all spare, stockpiled, and scrapped buses and dispose of those in
excess. In 1985 you reported that UMTA acted to correct the weakness by
issuing policy guidance on bus stockpiling[1] and rehabilitation and by
monitoring grantee activities. Our objective in this review was to deter-
mine whether UMTA is implementing the corrective actions you cited in
your 1985 FMFIA statement.

In summary, we found that UMTA regional offices included in our review
are following UMTA's headquarters policy guidance on bus stockpiling
and rehabilitation Our review found examples of grant processing and
administrative actions by these regions which demonstrate such adher-
ence. We also found that the regional offices are reviewing grantee com-
pliance with program requirements on a triennial basis. Although we
found that UMTA's regions are adhering to its policy guidance, we noted
that some transit systems did not satisfy the service-life requirement for
buses contained in UMTA's policy. Full federal funding of replacement
buses can depend on the operation of the buses for a minimum service
life. UMTA needs to clarify how it wants transit systems to calculate the
service lives of buses. Further, we found that some of the regions we
visited did not collect sufficient information to determine the service

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[1] Includes buses permanently removed from service and those held for contingencies

lives of buses when the transit systems stockpiled or replaced them. These issues are discussed below and are presented in more detail in the appendixes.

In obtaining information for this report, we contacted officials and reviewed documents and records from UMTA headquarters in Washington, D.C., and the UMTA Region I, Region III, and Region V offices (in Boston, Philadelphia, and Chicago, respectively). We also met with officials of the Massachusetts Bay Transportation Authority (MBTA), the Maryland Mass Transit Administration (MTA), and the Washington Metropolitan Area Transit Authority (WMATA), all recipients of bus program grants. A more complete description of our objective, scope, and methodology appears as appendix I. Our review was conducted in accordance with generally accepted government auditing standards.

Efforts to Correct the Bus Management Weakness

As previously stated, in 1983 and 1984 the Secretary of Transportation reported a material weakness in UMTA's bus grant program because of a lack of policy guidance and insufficient focus on bus maintenance, rehabilitation, and identification of spare, stockpiled, or scrapped buses. The bus grant program provides state and local authorities with up to 80 percent of the acquisition costs of buses and bus-related equipment. UMTA obligated about $336.5 million in grant funds for fiscal year 1986.

According to UMTA officials, the weakness reported resulted in some transit systems having more buses than they needed to provide service while UMTA continued to approve funds for additional buses. The officials told us that during the 1970's, the energy crisis raised industry expectations for a significant rise in ridership, and transit authorities purchased many new buses. However, the increased ridership did not materialize, and newly designed buses purchased during this time were initially unreliable due to inherent design problems. The transit systems continued to purchase additional buses so that they would not have to keep in service the older buses that had the design problems resulting in high maintenance costs. This situation increased federal costs to fund additional buses for the transit systems.

In June 1985 UMTA issued written guidelines governing federal assistance for the purchase, rehabilitation, and stockpiling of buses in order to ensure that grantees (1) do not acquire or keep buses that exceed their needs and (2) properly maintain their bus fleets. The guidelines define an acceptable level of spare buses that grantees may keep and

establish 12 years or 500,000 miles (for standard-size buses) as a minimum service-life requirement for buses that they may stockpile or replace. The guidelines also provide criteria for reducing federal funding for the early replacement of buses.

UMTA has also recovered funds from some grantees for the federal share in the value of the remaining useful life of buses that grantees retired early. (See app. II.)

In addition, UMTA has increased monitoring of grantee bus management practices through triennial reviews that it conducts of grantee compliance with program requirements.

In the 1985 FMFIA statement, the Secretary said that UMTA believes that its actions and the Department of Transportation's (DOT's) Office of the Inspector General (OIG) monitoring of its regional offices provide it with adequate controls for the program.

UMTA Regions Are Implementing Policy Guidance

We collected information on grant application actions from three UMTA regions. We found examples of how UMTA regional offices had implemented UMTA's policy guidance on bus purchases, rehabilitation, and stockpiling during grants processing and administration by

- withholding or denying funds for the acquisition of buses by grantees with excess buses and/or
- documenting grantee compliance with the policy guidance or extenuating circumstances for noncompliance.

For example, we found that

- UMTA's Region I office did not approve an MBTA request for about $25 million to fund its acquisition of 158 buses in 1986 because MBTA had an excess number of spare buses and planned to replace buses before they were 12 years old and
- UMTA's Region V office placed a moratorium on approving new bus replacement grants in 1986 for three transit systems because they had an excess number of buses.

We also reviewed 7 of 16 grant actions approved by UMTA's Region III office for bus acquisition and rehabilitation between June 1985 and June 1986. We found that the office documented whether the grant

applicant complied with UMTA policy or noted any extenuating circumstances that it believed supported exemption from the policy.

Controls to Enforce Minimum Service-Life Requirements Not Complete; Policy Clarification Needed

Although we found that the UMTA regions we visited are following its policy guidance during grants processing, we also found indications that if UMTA is going to effectively enforce the minimum service-life provisions of its policy guidance, it (1) needs to clarify what it means by a 12-year minimum service life and (2) needs stronger controls to assure that grantees, in replacing, stockpiling, or disposing of buses, are satisfying UMTA's service-life provision.

Although UMTA officials consider service life as the number of years a bus is employed in actual service, the UMTA policy does not specifically state how transit systems should calculate the service lives of buses. We found examples where transit systems' actions indicate that they do not understand how UMTA intends for them to calculate service life. For example, in determining its compliance with UMTA's policy that buses should be 12 years old before they are replaced, one of the three systems we visited calculated the chronological age of buses from the model year of the buses to the year that it planned to dispose of them. These buses had actually been in service for periods ranging from 9 to 11 years.

During our review we found that 70 buses that MBTA had stored pending disposal had not completed their service-life requirements as defined by UMTA policy. UMTA's Region I office was not aware of the service life of these buses prior to audits by the OIG and by us because it did not obtain data from MBTA that specifically detailed the service life of each of the buses that MBTA stored.

Furthermore, MBTA continued to depreciate buses while they were in a stored category until October 1986. This practice reduced the residual value of the buses and, consequently, the amount of payment MBTA would calculate it owed UMTA when it disposed of the buses. In October 1986, the MBTA Supervisor of Fixed Assets told us that MBTA changed its method of calculating the residual value of stored buses so that it calculates the value from the date it took the buses out of service to the end of a 12-year expected life. MBTA changed its method in response to a 1985 OIG audit report that concluded that UMTA should recover funds for the undepreciated value of buses that MBTA removes from service before the end of their useful life

In another case, we noted that the responsible UMTA region was not aware that the Maryland Mass Transit Administration is replacing 24 buses that do not have 12 years of actual service. Although the regional office obtained information on the age of the buses to be replaced, it did not obtain data on the actual service lives of the buses. We found that these buses had actual service lives ranging from 9 to 11 years. UMTA's policy conditions full federal participation in bus replacement on buses being replaced having 12 years of service. According to UMTA officials, the 12-year service-life criterion is determined on the basis of the time a bus is actually in service. MTA officials believed that the 24 buses satisfied UMTA's criterion for a 12-year service life because the buses would be chronologically 12 years old when disposed of.

We believe these examples demonstrate a need for UMTA to clarify its policy guidance regarding how grantees should calculate the service life or residual value of buses to be replaced or stockpiled. We also believe these examples demonstrate that UMTA's regional offices need stronger controls to effectively enforce the minimum service-life provisions of its bus stockpiling and replacement policy guidance. Specifically, we believe that UMTA should (1) require grantees to certify that buses they are stockpiling, disposing of, or replacing satisfy UMTA's service-life provisions and (2) on an exception basis, require that grantees provide actual service-life data on buses to be stockpiled, disposed of, or replaced. UMTA should determine when it needs actual service-life data from grantees based on audit and triennial review findings or other available information.

UMTA Acts to Improve Grantee Monitoring

UMTA is making progress in monitoring grantees' management of their bus fleets during triennial reviews at transit authorities and is acting to improve the review process. UMTA estimates that it has recovered or will recover $3.8 million as a result of 250 triennial reviews conducted during the first 2 years of the program. The recoveries resulted, in part, from grantee actions, such as disposals of excess buses, required by UMTA as a result of the triennial reviews.

UMTA is aware of and is acting to correct problems within the triennial review process, including a lack of documentation and delays in issuing final reports. It is developing procedures to uniformly document work performed and the level of verification used during the triennial reviews. In addition, UMTA is providing resource assistance to regional offices experiencing delays in issuing final reports.

We also found that DOT's OIG actively monitors grantees and UMTA regional offices. As an example, in 1987, the OIG plans work to determine regional office and grantee compliance with UMTA policies related to excess buses, grant review and approval, program income and sales proceeds, and bus maintenance policies.

Conclusions

UMTA regional offices included in our review have acted to implement the actions cited by the Secretary of Transportation in her FMFIA statements as necessary to correct a material weakness in UMTA's bus grant program. Specifically, these offices have followed UMTA's policy guidance on bus purchases, rehabilitation, and stockpiling during grants processing. The regional offices have also made progress in monitoring grantees' activities during triennial reviews.

While UMTA has made progress toward implementing corrective actions, two offices we visited did not collect sufficiently detailed information from grantees about the actual service life of buses being replaced or stockpiled to ensure compliance with standards for minimum service life contained in UMTA policy. In addition, grantees may not be fully aware of how UMTA wants them to calculate the actual service life of buses being stockpiled, replaced, or disposed of. As a result, UMTA may expend more funds than provided for by its policy to replace buses before the end of their normal service life or may not recover from grantees all funds representing the federal interest in the remaining useful life of buses disposed of early.

Recommendations

We recommend that the Secretary of Transportation direct the Administrator, UMTA, to clarify its policy guidance regarding how grantees should calculate the service life or residual value of buses being stockpiled, replaced, or disposed of. We also recommend that the Secretary direct the Administrator, UMTA, to

- require that transit authorities certify to UMTA that buses they propose to stockpile, dispose of, or replace satisfy UMTA's service-life provision and
- on an exception basis, require that grantees provide actual service-life data on buses to be stockpiled, disposed of, or replaced.

Agency Comments

UMTA officials, including the chief of the Program Guidance Division, generally agreed that UMTA should act to strengthen controls to ensure
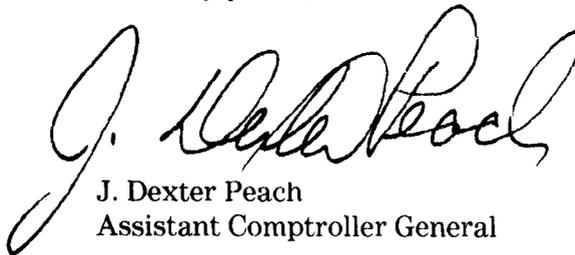
compliance with the policy guidance service-life provisions. Specifically, the officials agreed that UMTA should clarify its policy on calculating service life and said it would be practical to require grantees to certify their compliance with this policy and to obtain actual service-life data from grantees if warranted.

As you know, the head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of this letter and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this letter.

We are sending copies of this report to the House and Senate Committees mentioned above, the House Committee on Public Works and Transportation; the Senate Committee on Banking, Housing and Urban Affairs; and the Director, Office of Management and Budget. Copies will also be made available to others upon request.

This work was performed under the direction of Sarah P. Frazier, Associate Director. Other major contributors are listed in appendix VII.

Sincerely yours,

J. Dexter Peach
Assistant Comptroller General

Contents

Abbreviations

DOT	Department of Transportation
FMFIA	Federal Managers' Financial Integrity Act
GAO	General Accounting Office
MBTA	Massachusetts Bay Transportation Authority
MTA	Mass Transit Administration (Maryland)
OIG	Office of the Inspector General (DOT)
RCED	Resources, Community, and Economic Development Division
UMTA	Urban Mass Transportation Administration
WMATA	Washington Metropolitan Area Transit Authority

Objective, Scope, and Methodology

Our objective in this review was to determine whether the Urban Mass Transportation Administration (UMTA) was implementing the actions cited by the Secretary of Transportation in her Federal Managers' Financial Integrity Act (FMFIA) statements as necessary to correct a material weakness in its bus grant program.

We collected information from UMTA's headquarters and Regions I, III, and V. We also collected information from the Washington Metropolitan Area Transit Authority (WMATA), the Massachusetts Bay Transportation Authority (MBTA), and the Maryland Mass Transit Administration (MTA). The UMTA regions accounted for approximately 41 percent of proposed bus purchases in fiscal year 1986.

At UMTA headquarters we discussed the causes and effects of the material weakness and the corrective actions, including the intended purpose of the policy guidance affecting bus rehabilitation and stockpiling. We did not evaluate the appropriateness of service-life or spare bus criteria contained in UMTA's policy guidance because such an evaluation was beyond the scope of our review. We reviewed policy guidance on triennial reviews and UMTA's progress and problems in completing these reviews. We reviewed pertinent Office of the Inspector General (OIG) reports and discussed with headquarters and regional OIG staffs their plans to review UMTA's implementation of corrective actions.

We determined whether UMTA's Regions I and III offices considered UMTA policy on spare buses and rehabilitation before approving grant applications by reviewing

- Region III's approval of 7 of the 16 bus grant applications in 1985 and 1986 and
- Region I's handling of MBTA's grant application request for funds in 1986 to acquire 158 buses. MBTA provides bus service to the most populated urban area in the region.

We also verified, through discussions with region V officials, the region's moratorium on grant funds to three grantees having an excess number of buses.

In order to evaluate UMTA's triennial reviews as a control mechanism for identifying excess buses and improper maintenance, we examined documentation supporting the 11 draft or final reports of reviews conducted by UMTA's Region I as of July 1986 and three reviews conducted by UMTA's Region III that covered the transit systems we visited in that region.

UMTA's Bus Grant Material Weakness

The Secretary of Transportation identified UMTA's bus grant program as an area of material weakness in her 1983 and 1984 FMFIA statements. Through the bus grant program, UMTA provides to state and local authorities up to 80 percent of the funds they need to acquire buses and bus-related equipment. According to UMTA's Chief, Resource Management Division, UMTA provided about $336.5 million in assistance to fund the acquisition of 3,053 buses, vans, and related equipment in fiscal year 1986 to approximately 350 grantees.

The Secretary described UMTA's bus grant material weakness in her 1983 FMFIA statement as follows:

"There is a lack of policy guidance within the Urban Mass Transportation Administration regarding transit authorities' management of their bus fleets. Urban Mass Transportation Administration does not sufficiently direct and/or encourage transit authorities to properly maintain and rehabilitate their buses. In addition, Urban Mass Transportation Administration grantees should be required to identify all spare, stockpiled, and scrapped buses on hand. Those determined to be excess should be disposed of "

The Secretary stated that UMTA planned to correct the weakness by issuing policy guidance on bus rehabilitation and stockpiling and policies and procedures to assure effective bus maintenance.

UMTA officials told us that this weakness resulted in some transit systems having more buses than they needed to provide service and continuing to apply to UMTA for funding of additional buses. This situation existed because

- transit systems purchased many new buses in the 1970's to service an expected increase in bus ridership caused by energy shortages,
- the expected increase in ridership did not materialize,
- new bus designs were a problem and initially proved to be unreliable, and
- the transit systems wanted to buy additional buses instead of incurring the high maintenance costs associated with keeping the newly designed buses in service.

This situation resulted in increased federal costs to fund additional buses for the transit systems.

To correct this problem, in June 1985, UMTA issued formal guidelines governing federal assistance for the purchase, rehabilitation, and stockpiling of buses. UMTA included a provision in the policy that the number

of spare buses a grantee has in its active fleet should not normally exceed 20 percent of the vehicles operated during the peak period of demand for bus service. UMTA intended this provision to ensure that grantees did not acquire or keep buses that exceeded their needs.

UMTA officials also told us that previous OIG and General Accounting Office audits had shown that some grantees did not properly maintain their buses. These officials attributed improper maintenance to grantees not having the operating funds to properly maintain their buses. As a result, grantees would seek UMTA funding to replace or rebuild the buses before the end of their normal service life, thus increasing federal costs.

According to UMTA officials, UMTA has provided incentives to grantees to maintain their buses by stating in its policy guidance that buses grantees propose to replace or rebuild should be at the end of a minimum normal service life of 12 years, or 500,000 miles, for standard-size buses. UMTA policy guidance also states that grantees may replace or rebuild buses if they have reached at least one-half the minimum normal service life but that federal participation in early replacement or rebuilding will be at a reduced share.

Another provision of the guidelines intended to ensure that buses are maintained and remain in revenue service prohibits grantees from stock-piling buses in inactive fleets prior to the end of their normal service life. UMTA officials said that they have recovered funds from some grantees for the federal share in the value of the remaining normal service life of buses that grantees retired early.

According to UMTA officials, UMTA has also increased monitoring of grantees' bus management practices through triennial reviews of grantee compliance with program requirements. The Surface Transportation Assistance Act of 1982 requires UMTA to conduct these reviews.

In 1985 the Secretary of Transportation stated in her FMFIA statement that UMTA believes that its policy guidance, increased monitoring of grantees, and OIG monitoring of its regional offices provide it with an adequate level of internal control for the program.

UMTA's Regional Implementation of Bus Management Policy

During our review, we found examples of how UMTA offices acted to implement UMTA's policy guidance on bus purchases, rehabilitation, and stockpiling during grants processing and administration by

* withholding or denying funds for the acquisition of buses by grantees with excess buses and/or
* documenting grantees' compliance with the policy guidance or extenuating circumstances for noncompliance.

In October 1985 MBTA sent a grants application package to UMTA's Region I that included a request for funds for the acquisition of 158 buses in 1986 at an estimated cost of about $25 million. We found that region I informed MBTA in 1986 that it could not provide funds for additional buses for that system because (1) MBTA's ratio of spare buses to the number of buses it needed for maximum service exceeded the 20-percent standard contained in UMTA's policy and (2) MBTA was planning to replace buses before they were 12 years old. UMTA consequently did not fund the bus acquisition. In addition, the region required that MBTA submit a plan to dispose of its excess buses. MBTA originally submitted a plan to region I in January 1986, with revised versions in February and June. If MBTA adheres to its plan, it should reduce its fleet size to a level complying with UMTA's guidelines that will require MBTA to dispose of approximately 400 buses.

Similarly, we noted that UMTA's Region V placed a moratorium on approving new bus replacement grants in 1986 for three transportation systems because they had an excess number of buses. According to region V officials, region V withheld approximately $29 million requested by three transit systems to acquire 216 buses in 1986 because, among other reasons, the systems had buses in excess of their needs. For example, the region V official responsible for processing grants for the bus authority in Cleveland, Ohio, said that UMTA withheld approval of Cleveland's 1986 request for about $10.3 million to fund the acquisition of 77 buses because that transit system had too many spare buses. Similarly, the region V official responsible for processing grants for the Minneapolis/St. Paul transit authority said that UMTA was holding back approval of that transit system's 1986 application for $11 million to fund the replacement of 83 buses because of excess spare buses and the need to adequately maintain stockpiled buses.

The region V director of grants management said that the office has worked with the three transportation systems to develop plans to bring them into compliance with UMTA's policy on spare buses. For example,

the officials responsible for the Cleveland and the Minneapolis/St. Paul transit systems said that each of these systems provided UMTA with information on their plans to dispose of buses. According to these officials, the Cleveland transit system is near UMTA's 20-percent spare bus ratio provision, while the Minneapolis/St. Paul system reached a 20-percent spare bus ratio in October 1986.

In UMTA's Region III, we reviewed 7 of 16 grant actions approved for bus acquisition and rehabilitation by that office between June 1985 and June 1986. We found that the office had documented whether the grant applicant complied with the policy provisions or if any extenuating circumstances existed that justified exceptions from the guidance. For example, in September 1985 the region approved an amendment to a WMATA grant for the purchase of 49 buses. In his grant approval memorandum to the Region III Administrator, the UMTA official handling WMATA's case noted that

- WMATA's ratio of spare buses to maximum service needs was 15 percent and
- the newly acquired buses would replace buses manufactured in 1974, which would have reached their useful life of 12 years upon delivery of the new buses.

Although UMTA's guidelines for bus rehabilitation projects state that the rate of federal participation will be reduced in grants to fund the rebuilding of buses before the end of their minimum normal service life (12 years or 500,000 miles), we found one case where the region approved the maximum 80 percent funding of a project to rehabilitate eight buses before they had reached their minimum service life. The project involved replacing engines and related exhaust and cooling systems on eight buses that had reached about one-half the minimum normal service life at the time UMTA approved the grant. The UMTA official who processed the grant justified the early rehabilitation project with full federal participation because

- the buses were originally underpowered and were uneconomical and
- it was cost-effective for the government to fund 80 percent of the rehabilitation project, as opposed to funding the early replacement of the buses at a reduced rate.

Examples of Buses Being Stored or Replaced Before Satisfying Service-Life Requirements

Although UMTA's policy guidelines require that standard-size buses have a minimum service life of 12 years, or 500,000 miles, before they are replaced (with full federal participation) or are stockpiled, we found that

- one grantee stored buses before the end of their normal service life as defined in UMTA's policy guidance and
- another grantee was replacing buses that it believed satisfied UMTA's minimum service-life criterion because the buses were chronologically 12 years old although they had not been in service since they were 9, 10, or 11 years old.

UMTA regional offices, in both cases, were not aware of the service lives of these buses because they did not obtain actual service-life data from the grantees on buses that are stored or being replaced.

For example, in August 1985 the OIG reported that MBTA had removed buses from service for extended periods of time before the expiration of their normal useful life. During our review, we found that MBTA had stored 21 buses that the OIG had previously identified as removed from service and an additional 49 buses pending disposal before the end of their normal service life as defined in UMTA's guidance. UMTA's guidance prohibits grantees from stockpiling buses before the end of their normal service life. The UMTA regional office was not aware of the service lives of these stored buses because it did not, prior to the audits, obtain data from MBTA that specifically detailed the service life of each of the buses that MBTA stored.

We also found that MBTA continued to depreciate buses while they were in a stored category. This practice reduced the residual value of the buses and consequently the amount of payment MBTA would calculate it owed UMTA when it disposed of the buses. UMTA has recovered funds from other grantees for the federal share in the value of the remaining normal service life of buses that grantees retire early.

In October 1986, however, MBTA's Supervisor of Fixed Assets told us that the MBTA changed its method of calculating the residual value of stored buses. According to the MBTA official responsible for fixed assets, MBTA changed its method of calculating residual values in response to the 1985 OIG audit report. The report recommended that UMTA recover funds from MBTA for the undepreciated value of buses removed from service before the end of their useful life. As of October 1986, MBTA calculates the residual value from the date it took the buses out of revenue

service to the end of a 12-year expected life (i.e., the residual value of a bus taken out of service after 9 years would be calculated as 3 years times annual depreciation based on a 12-year straight-line depreciation schedule).

MBTA's revised method of calculating residual value recognizes UMTA's current policy intent of obtaining 12 years of service from a standard-size bus. In October 1986 the MBTA Supervisor of Fixed Assets provided us with a depreciation schedule—which used the revised calculation method—that showed MBTA would owe UMTA $743,847 for buses that it is storing for a proposed sale. This amount is higher than it would have been under MBTA's previous method of calculating residual values (usually calculated up to the time it was considering them for disposal).

Subsequent to our review, the MBTA Acting Treasurer-Controller questioned the accuracy of the $743,847 as the amount that MBTA would owe UMTA for the buses. He advised us that MBTA is undertaking an audit of the entire bus disposition issue. We plan to look at this issue after MBTA and UMTA agree on the amount of the payback.

In another case, we noted that Maryland's MTA—as part of its bus-replacement program—reported 38 buses as retired, pending disposal in its July 1986 bus inventory. We noted, however, that 24 of the buses were last in service when they were 9, 10, or 11 years old. Although the responsible UMTA regional office official asked MTA for information on the age of the buses to be replaced, the office did not become aware that these buses did not have a 12-year service life because it did not collect information on the specific service lives obtained by the buses.

MTA officials said that, chronologically, all 38 buses will be 12 years old when they are disposed of and will therefore satisfy UMTA's criterion for a 12-year service life. According to UMTA officials in the Program Guidance Division, however, the 12-year service-life criterion is not determined by the chronological age of a bus but by the time a bus is in actual service, allowing for periods of maintenance and repair.

UMTA's Triennial Reviews of Grantees

The Surface Transportation Assistance Act of 1982 requires UMTA to review grantee compliance with program requirements every 3 years. These reviews consist of desk reviews of grantee information available in the regional offices and site visits by UMTA grants management officials to grantees. The reviews concentrate on grantee compliance with pertinent statutory and administrative requirements, including the 1985 policy guidance on spare buses and stockpiling. According to UMTA, the process has most frequently uncovered problems in maintenance and "satisfactory continuing control," which includes problems in managing excess spare bus ratios.

We examined triennial reviews conducted in regions I and III and found that each review included a desk and/or on-site review of the transit system's spare bus ratios and maintenance plans. In each case, the triennial review report included actions taken by the grantee as a result of issues raised during the review. For example, as a result of UMTA's review, Maryland's MTA submitted to UMTA a fleet management plan.

Although UMTA has made progress in monitoring grantee performance through triennial reviews, it acknowledges that problems with the process persist, including a lack of documentation and delays in issuing final reports. For example, in a recent review of the implementation of the triennial review process (dated July 30, 1986), the OIG reported that UMTA did not adequately document the work done during triennials.

During our review we found that UMTA does not consider the triennials to be an audit and, therefore, the reviews include only limited testing of grantee records. For example, reviewers said that they do not verify inventory records and may only examine one or two bus maintenance records to verify compliance with maintenance plans.

UMTA has taken steps to correct problems within the triennial review process. While UMTA does not foresee requiring strict audit standards for verification during triennial reviews, it is developing procedures, such as pro forma worksheets, to uniformly document work performed during triennial reviews and the level of verification used. To expedite the triennial review process, UMTA is providing resource assistance, from headquarters and other regions, to regions that are having problems in writing reports. UMTA also has a pilot project in place to contract out triennial reviews.

Agency and Transit Authority Comments

We provided a draft copy of this report to the agency for review and comment. UMTA officials, including the chief of the Program Guidance Division, provided us with oral comments. The officials agreed that UMTA should act to strengthen controls to ensure compliance with the 1985 policy's service-life provisions. The officials agreed that UMTA should clarify its policy on service life for grantees. With regard to a proposal in our draft report that UMTA regions collect and analyze service-life data from grantees, the officials said that the regions do not always have the resources to do this. UMTA officials believed that it would be practical, however, to require that grantees certify that they are in compliance with UMTA's service-life provisions when they propose to stockpile, dispose of, or replace buses, and to obtain detailed service-life data from grantees if OIG audit findings, triennial review findings, or other significant information dictated the need for more in-depth review. This is consistent with the intent of our proposals, and we have modified our recommendation accordingly.

The Program Guidance chief emphasized that while the guidelines issued in June 1985 provided controls over several areas of bus management, UMTA considered the 20-percent spare bus ratio as the most comprehensive and critical control and believes that UMTA has achieved a significant level of compliance from grantees.

MBTA and MTA officials reviewed excerpts of a draft of this report that discussed their activities. MTA officials voiced no exceptions or objections to the information. As previously mentioned, the MBTA Acting Treasurer-Controller questioned the amount of payback MBTA would owe UMTA for buses it is storing pending disposal.

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