

**GAO**

**Testimony**

**UMTA Project Oversight and Mass Transit Issues**

For Release  
On Delivery  
Expected at  
9:30 a.m., PDT  
Wednesday,  
August 8, 1990

Statement of  
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Before the  
Subcommittee on Housing and Urban Affairs  
Committee on Banking, Housing, and Urban Affairs  
United States Senate  
In San Jose, California



Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss our work assessing local transit authorities' management of the Department of Transportation's (DOT) Urban Mass Transportation Administration (UMTA) grants and how well UMTA is overseeing active grants totaling about \$33 billion nationwide as of December 31, 1989. These grants have been awarded to about 700 state and local grantees to help fund over 4,400 mass transit projects. During the 1980s, UMTA limited its oversight of grantees by allowing grantees to certify that they would properly manage the grants in accordance with grant conditions and federal requirements.

In summary, our prior and current work to date as well as that of DOT's Office of Inspector General (OIG) has shown that federal mass transit grant programs are at high-risk for mismanagement because:

- Grantees, in some cases, were not using grant funds for project purposes or according to federal requirements even though grantees certified that they would properly manage federal funds. Our work at two grantees and an analysis of a limited number (25) of DOT OIG audit reports indicated that UMTA grantees questionably used over \$100 million of grant funds.

-- UMTA's oversight mechanisms may not be effective in detecting grantees noncompliance with grant conditions or federal requirements. Our prior reports and current work indicate that this occurred because UMTA's oversight tools were not effectively or thoroughly used. DOT has recognized that UMTA has a material weakness with the oversight of its grant programs.

Our testimony will also include a discussion of UMTA grants in California, San Francisco Bay Area mass transit projects, and traffic congestion. Further, we will offer issues for Subcommittee consideration during its deliberations of UMTA's reauthorization.

Now I would like to provide a brief background on UMTA's grant programs and its management and oversight of federal mass transit grants.

#### 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--the grantees. UMTA provides grants primarily through two programs--the Section 3 Discretionary Grant program and the Section 9 Formula Grant

program.<sup>1</sup> Funds from both programs are used to construct new transit projects, such as light rail systems; refurbish existing rail systems; or purchase buses. In addition, formula grant funds are used to support the operation of mass transit systems.

Over half of the discretionary grants are earmarked by the Congress for specific mass transit projects; the remainder are selected and awarded by UMTA's Administrator. Formula grants, as the name suggests, are apportioned among urban areas by a statutory formula based on population data and transit service and ridership statistics. Depending upon the type of grant, grantees contribute matching funds that usually range from 20 to 50 percent of the net project cost. UMTA currently oversees over \$33 billion in active grants nationwide. During fiscal years 1986 through 1990, UMTA funding will provide an estimated \$13.6 billion in section 3 and 9 grants, or about \$2.7 billion annually (see fig. 1).

UMTA, as the agency that reviews and approves mass transit grants, is responsible for ensuring that grantees are complying with the various requirements stipulated in the Urban Mass Transportation Act and in uniform grant regulations that apply governmentwide. The uniform grant regulations include, among

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<sup>1</sup>In addition, UMTA administers several smaller grant programs for efforts such as mass transit planning, designing and developing mass transit for the handicapped and elderly, and supporting mass transit research.

other things, federal purchasing and contracting standards for recipients of federal funds. In lieu of more direct oversight to ensure compliance, UMTA relies on grantees' certifying that they--the grantees--will comply with all applicable federal requirements. To supplement self-certification and oversee grantees' compliance, UMTA's regional offices have a number of monitoring tools including grantee financial and progress reports, site visits, annual audits, and triennial reviews (see fig. 2).

The UMTA work that we have underway focuses on determining the extent of grantees' noncompliance and the reasons for UMTA's oversight weaknesses. Reviews have started or will soon start in UMTA Regions II (New York City), III (Philadelphia), V (Chicago), and IX (San Francisco).

I would now like to discuss our preliminary assessment of grantees' management of grant funds.

#### GRANTEES' MANAGEMENT OF GRANT FUNDS

Our work at 2 grantees and analysis of 25 OIG audit reports identified grantees' questionable use of over \$100 million in grant funds. This work showed that grantees had not always complied with grant conditions and federal requirements even though they certified that they had internal management control systems in place to ensure such compliance (see fig. 3).

Following are a few examples of these findings:

- The OIG reported that one UMTA grantee had been improperly charging indirect, services, handling, and material costs to UMTA projects since 1974. This resulted in an estimated \$17.9 million in overcharges to UMTA grants even though the OIG had repeatedly brought this problem to the attention of the grantee and UMTA. Neither UMTA nor the grantee has, as yet, corrected the problem.
  
- According to another OIG report, a grantee had included land acquisition and construction claims of \$6.3 million that were not in the grant agreement and its procedures for obtaining a \$29.5 million grant were questioned. The transit agency reimbursed UMTA \$6.3 million for the questionably used funds.
  
- We and the OIG determined that another grantee may have used UMTA-funded inventory on non-grant projects. The grantee consequently may have spent about \$4 million for unnecessary purchases. UMTA is negotiating with the grantee to recover unallowable costs.
  
- An OIG survey of grant close-out practices in one UMTA region disclosed that grantees had not taken sufficient action to close out grants at project completion. Timely

grant close-outs are particularly important because unused funds that should be returned to UMTA are not available for other approved projects. We found indications that grantee delays in initiating grant closeouts may be a problem in two other UMTA regions. UMTA has also indicated that grantee close-outs may be a problem nationwide.

I would now like to focus on UMTA's oversight of federal mass transit grantees.

#### UMTA OVERSIGHT OF GRANTEEES

In 1985, we reported that UMTA needed better assurances that grantees complied with federal requirements.<sup>2</sup> We also supported UMTA's use of triennial reviews that were mandated by the Surface Transportation Assistance Act of 1982. Although at the time of our work, UMTA could not provide us information on the focus of the reviews or how they would be conducted, we believed that triennial reviews, if properly implemented, would afford UMTA an opportunity to supplement their existing oversight mechanisms for ensuring grantees' compliance with federal requirements. However, the triennial reviews do not appear to have been properly implemented.

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<sup>2</sup>UMTA Needs Better Assurance That Grantees Comply With Selected Federal Requirements (GAO/RCED-85-26, Feb. 19, 1985).

In March 1989, we reported on UMTA's oversight of the Southeastern Pennsylvania Transportation Authority's (SEPTA) procurement activities.<sup>3</sup> Major procurement problems had been identified in a 1987 UMTA-funded independent procurement review. Our review was directed toward determining why UMTA's own oversight tools had failed to detect 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 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 in SEPTA's procurement system and made several recommendations to the Secretary of Transportation to better focus UMTA's monitoring tools to detect procurement deficiencies.

In addition, UMTA requires grantees to submit quarterly financial and progress reports. However, at one UMTA region we found that reports submitted by some grantees either did not contain enough information to be used as a monitoring tool or UMTA did not use them for this purpose. The acting UMTA regional manager told us that these reports did not contain the information

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<sup>3</sup>Mass Transit Grants: UMTA Needs to Improve Procurement Monitoring at Local Transit Authority (GAO/RCED-89-94, Mar. 31, 1989).



needed to detect grantee problems.

Based upon this work and that of the OIG, DOT identified UMTA's oversight of grantees as a material internal control weakness in its 1989 report to the President required by the Federal Managers' Financial Integrity Act of 1982, as amended. One reason UMTA cited for its oversight problems is its ever-growing workload and shrinking staff. The report states that "In order to improve project oversight, additional staffing is needed." To correct this management control weakness, the report states that "UMTA will require additional resources in both FY 1991 and 1992."

In its description of the problem, the report states that "The number of grants as well as the dollar amount of UMTA's grant program has increased. Currently, [UMTA grants management staff are carrying] double the case load of the early 1980's." In its 1991 budget, UMTA requested an additional 10 staff for grantee oversight.

Since we are in California, I thought it would be useful to discuss UMTA grants for California mass transit projects and projects that are being planned and constructed in the San Francisco Bay area.

SAN FRANCISCO BAY AREA MASS TRANSIT PROJECTS

As of December 31, 1989, UMTA was overseeing about \$3.6 billion in active grants to California grantees. This represents about 11 percent of the active UMTA grants nationwide (see fig. 4). San Francisco and San Jose metropolitan areas grantees receive about \$1.3 billion, or about 36 percent of the active grants in California.

Although the Bay area grantees receive significant UMTA funding, UMTA funds do not represent the major source of mass transit funding. For example, the Metropolitan Transportation Commission, the San Francisco Bay regional transportation planning agency, has adopted a rail extension program that calls for five projects to be built at an estimated total cost of \$2.35 billion through the year 2000. Of this amount, the Commission expects federal funding of \$691 million, provided federal funds are available, or less than 30 percent of the total cost. More than 60 percent of the total cost will be funded from local sources, including new half-percent sales taxes approved in Alameda, Contra Costa, and San Mateo counties.

The extent of Federal participation in Bay area transportation projects varies considerably. The Bay Area Rapid Transit System's San Francisco airport extension is estimated to cost \$590 million, with UMTA funding \$442 million, or 75 percent. In contrast, the Guadalupe Corridor project received \$257 million

in federal funds, or 47 percent of the estimated total project cost of \$550 million. Other planned Bay Area Rapid Transit System extensions, estimated to cost \$1.03 billion, are not expected to receive federal funds.

Mr. Chairman, I would now like to focus on an issue that is important to California and the subject of your other panels-- traffic congestion.

#### TRAFFIC CONGESTION

Traffic congestion is a fact of life for most metropolitan drivers in the United States--especially in the Los Angeles and San Francisco Bay areas--where congestion is approaching gridlock proportions. In November 1989, we reported that Los Angeles and San Francisco/Oakland ranked first and second, respectively, in daily vehicle miles of metropolitan travel.<sup>4</sup> Traffic congestion facing metropolitan areas cannot be solved by any single solution, such as expanded mass transit systems. Absent other actions, such as dramatic increases in the price of automobile commuting, people using mass transit instead of their automobiles will be replaced in the long run by new automobile users.

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<sup>4</sup>Traffic Congestion: Trends, Measures, and Effects (GAO/PEND-90-1, Nov. 30, 1989).

In a December 1989 report on traffic congestion<sup>5</sup>, we evaluated three congestion reduction strategies: construction and reconstruction, transportation systems management, and advanced technologies. The report noted that, according to the Federal Highway Administration, effective congestion reduction requires the balanced use of a variety of strategies and techniques rather than relying on any one in particular. The report recommended that DOT develop an integrated federal congestion-reduction strategy and use appropriate evaluation mechanisms to determine the effectiveness of congestion reduction programs.

California has approved several measures intended to plan for congestion relief. For example, California now requires urban counties to adopt congestion management plans to show how congestion will be reduced. These plans are required to be consistent with regional and statewide transportation plans.

Developing effective strategies to relieve traffic congestion requires the cooperation of federal, state and local governments. We are pleased to participate in the Subcommittee's hearings in California to obtain regional views as a forerunner of the national debate on UMTA's reauthorization. In this context, I would like to briefly talk about UMTA's reauthorization issues.

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<sup>5</sup>Traffic Congestion: Federal Efforts to Improve Mobility  
(GAO/PEMD-90-2, Dec. 5, 1989).

## REAUTHORIZATION ISSUES

Mr. Chairman, as you know, legislation authorizing the federal highway and mass transit programs will expire next year. The nation's surface transportation problems have fundamentally changed since the programs were initially authorized in 1964. With this in mind, the debate has begun on how to structure new federal surface transportation programs.

In February 1990, DOT issued its statement of national transportation policy, Moving America. This statement sets the framework for developing new surface transportation programs. In June 1990, the California Department of Transportation issued its report Addressing Modern Transportation Challenges. The report details California's recommendations for a new national transportation program. It was developed through consultation with state, regional, and local officials and private business representatives from California and throughout the nation.

With respect to urban mass transit programs, we are in the process of identifying and analyzing several reauthorization issues. In analyzing these issues, we will obtain input from federal agencies, state and local governments, and the private sector. The issues we have identified to date include the following:

- What are the appropriate federal, state, and local government roles in planning, overseeing, and evaluating mass transit projects?
  
- Should mass transit operating assistance be reduced or eliminated and local matching requirements increased or decreased?
  
- Can intermodal regional transportation planning approaches be adopted to promote the use of a combination of highway and mass transit system options to solve transportation problems in urban areas? How should state and local government planning efforts be funded to provide incentives for ensuring regional and intermodal planning?
  
- To facilitate implementing regional and intermodal planning, should federal funding requirements be changed to allow flexible use of highway and mass transit funds? Should highway trust funds be used interchangeably by state and local governments for combined transit and highway projects in order to tailor transportation options to their specific needs?

As the Congress proceeds with reauthorization, it must take into consideration today's climate of fiscal constraint. This will be the climate under which the Subcommittee will be

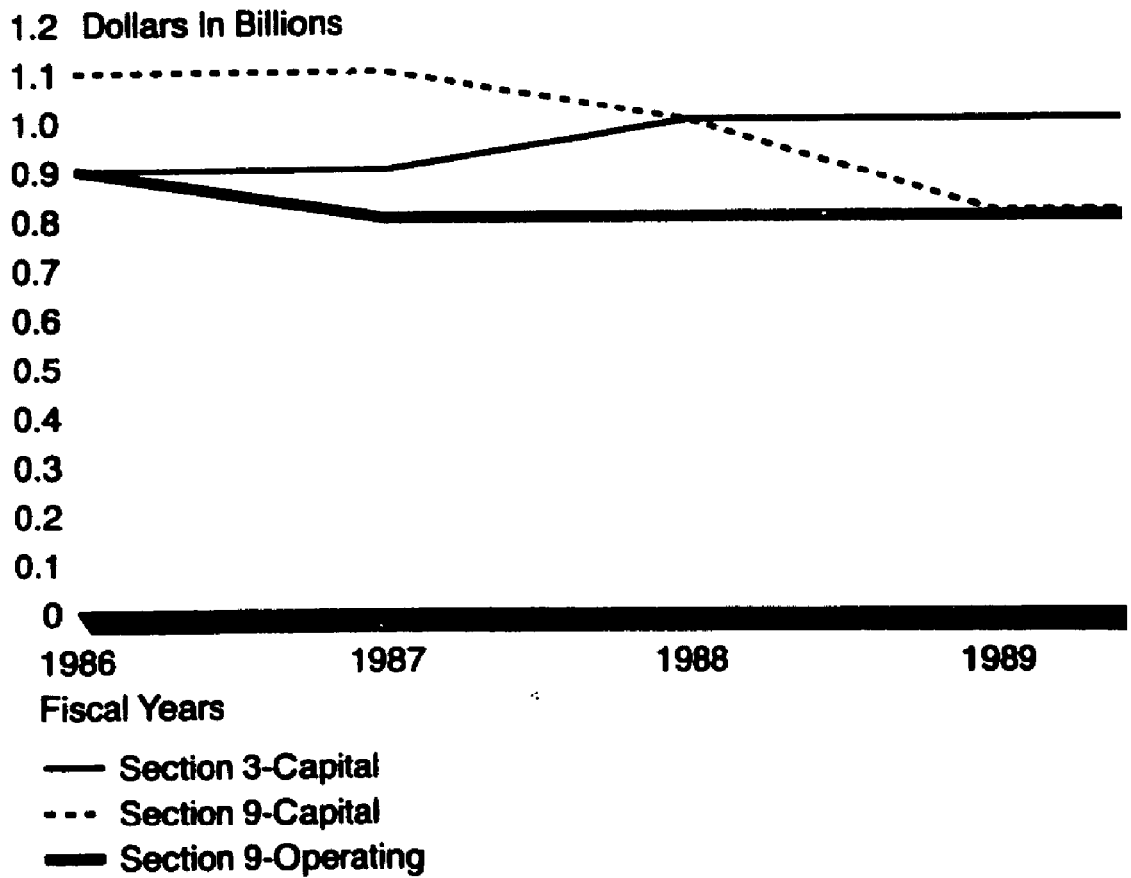
deliberating reauthorizing mass transit programs next year. Further, because of the massive federal budget deficit, federal funds for mass transit programs will remain scarce compared with the need for mass transit systems for urban and suburban communities. Therefore, scarce federal mass transit resources must be spent in the most efficient and economical manner possible.

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This concludes my testimony. I will be glad to answer any questions at this time.

Figure 1

# GAO Section 3 and Section 9 Appropriations-Fy 86-90



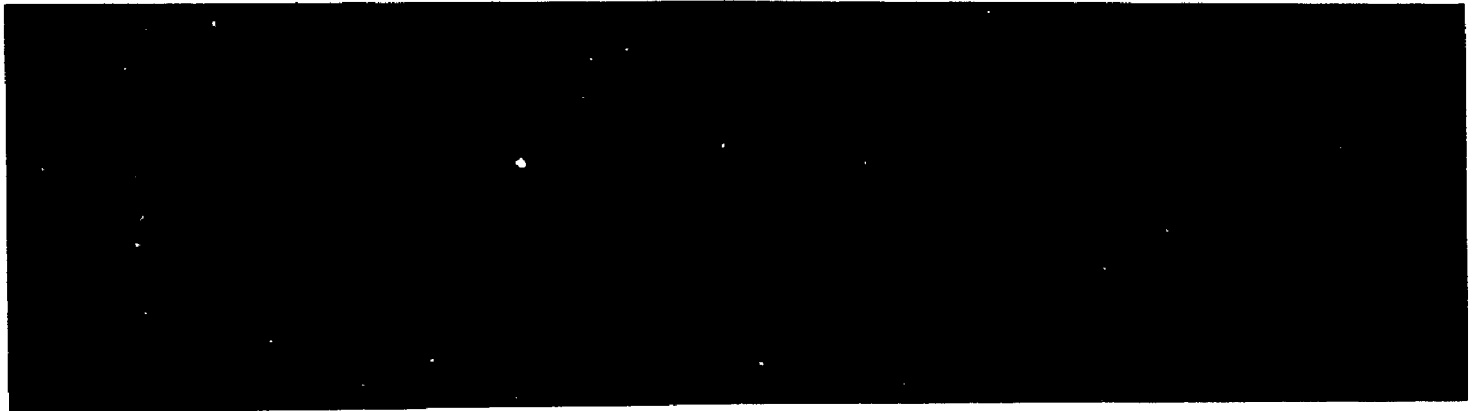


## **GAO UMTA Oversight**

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### **UMTA has several oversight mechanisms –**

- **Grantee reports**
  - **Site visits**
  - **Preaward, triennial, and procurement system reviews**
  - **Independent annual audits**
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Figure 3

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## **GAO Preliminary Results— Types of Grantee Mismanagement**

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- **Untimely grant closeout**
  - **Improper charges (land acquisition, labor, material, etc.)**
  - **Improper contracting**
  - **Unnecessary purchases**
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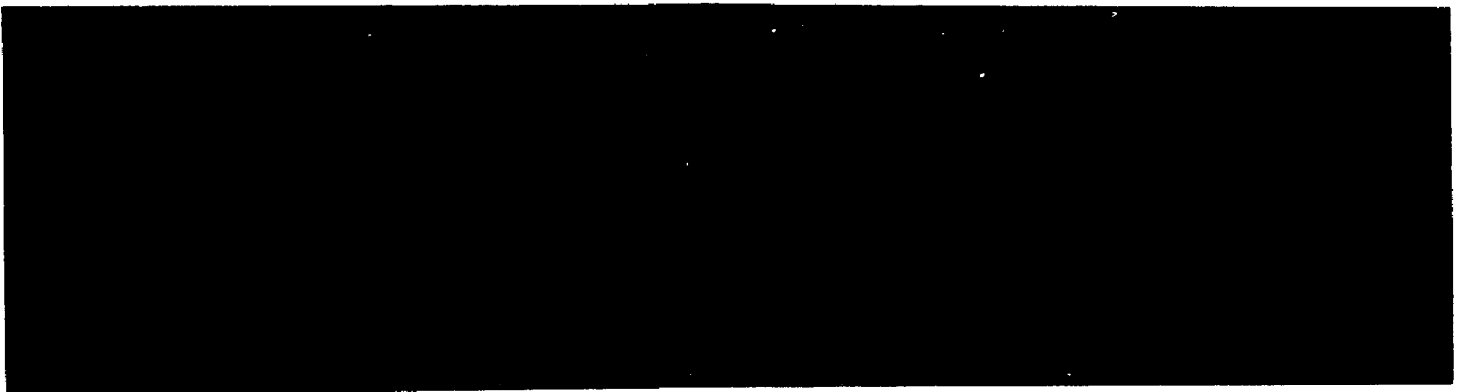


Figure 4

# GAO Active UMTA Mass Transit Grant Total \$33.2 Billion Nationwide

