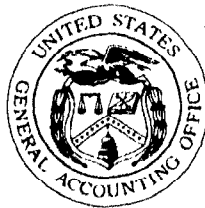


GAO

November 1992

MASS TRANSIT GRANTS

If Properly
Implemented, FTA
Initiatives Should
Improve Oversight



147911



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

**Resources, Community, and
Economic Development Division**

B-248900

November 19, 1992

Congressional Recipients

In January 1990 we implemented a special audit effort to help ensure that areas vulnerable to fraud, waste, abuse, and mismanagement are identified and that appropriate corrective actions are taken. This effort focuses on 16 areas, 1 of which is the grants program administered by the Department of Transportation's Federal Transit Administration (FTA), formerly known as the Urban Mass Transportation Administration.

In reviews of four FTA regions, we examined compliance with federal requirements by selected grant recipients and the effectiveness of FTA's oversight of these grantees. The results of these reviews appear in reports issued between June 1991 and March 1992. This report summarizes that earlier work, examines FTA's use of staff and contractors to provide oversight, and reviews recent FTA and legislative initiatives to strengthen grant management and oversight.

The names of the Committees and Members of Congress who asked to receive the results of our FTA reviews are listed at the end of this letter. We are sending copies of this report to the Secretary of Transportation; the Administrator, Federal Transit Administration; and the Director, Office of Management and Budget. We will make copies available to others upon request.

This work was performed under the direction of Kenneth M. Mead, Director, Transportation Issues, who can be reached at (202) 275-1000. Other major contributors to this report are listed in appendix VII.

A handwritten signature in black ink, appearing to read 'J. Dexter Peach'. The signature is written in a cursive style with a large initial 'J'.

J. Dexter Peach
Assistant Comptroller General

B-248900

List of Recipients

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

The Honorable William V. Roth, Jr.
Ranking Minority Member, Committee on
Governmental Affairs
United States Senate

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

The Honorable Jake Garn
Ranking Minority Member, Committee on
Banking, Housing, and Urban Affairs
United States Senate

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

The Honorable Alfonse M. D'Amato
Ranking Minority Member, Subcommittee on
Housing and Urban Affairs
Committee on Banking, Housing, and
Urban Affairs
United States Senate

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

B-248900

**The Honorable Christopher Cox
Ranking Minority Member, Government
Activities and Transportation Subcommittee
Committee on Government Operations
House of Representatives**

**The Honorable Cardiss Collins
House of Representatives**

Executive Summary

Purpose

Under the direction of the Comptroller General, GAO has special efforts under way to help ensure that federal programs vulnerable to fraud, waste, abuse, and mismanagement are identified and that appropriate corrective actions are taken. This effort currently focuses on 16 areas, including the \$35 billion grants program at the Federal Transit Administration (FTA), formerly the Urban Mass Transportation Administration. In a series of reports, GAO examined grant oversight in four FTA regions that receive about 60 percent of FTA's grant funds. This report (1) builds on GAO's earlier work to demonstrate the systemic effect of FTA's weak oversight, (2) assesses recent FTA and legislative initiatives designed to correct oversight problems, and (3) examines the mix of staff between FTA regional offices and headquarters and the agency's use of contractors to conduct oversight activities.

Background

FTA provides financial assistance to develop new transit systems and improve, maintain, and operate existing systems. FTA oversees, mainly through its 10 regional offices, about 4,400 active grants to 860 state and local transit providers (grantees). Grantees are responsible for managing their activities in accordance with federal requirements; FTA is responsible for ensuring that grantees follow federal rules and regulations. FTA has several mechanisms to monitor grantees, including full evaluations at least once every 3 years (triennial reviews), quarterly progress and financial reports, annual audits, procurement systems reviews, and oversight provided by contractors. FTA also has the authority to enforce grantees' compliance by reducing or withholding funds. The Department of Transportation (DOT) acknowledged FTA's grant oversight as materially weak in its last three annual reports to the President and the Congress.

Results in Brief

FTA has not given high priority to overseeing grants; rather, it has relied primarily on grantees' assurances that they would properly manage federal funds. In a series of reports, GAO and DOT's Office of Inspector General (OIG) documented inadequacies in FTA's oversight; serious deficiencies in grantees' financial, technical, procurement, inventory, and other management controls; noncompliance with federal requirements; and improper expenditures of grant funds. FTA's oversight has not effectively detected and corrected such problems. These findings are magnified in importance because the amount of federal funds at risk has substantially increased. Under recent legislation, authorized annual funding for transit grants increased from \$3.2 billion to \$5 billion, and up to an additional \$70

billion in highway funds may be used for transit needs over the next 6 years.

FTA's past oversight posture has clearly placed scarce transit funds in jeopardy. However, in response to GAO's and the OIG's disclosures, FTA convened a task force that examined the reported findings and confirmed the existence of oversight deficiencies throughout FTA. In May 1992 the FTA Administrator approved a plan to improve grantees' accountability and strengthen FTA's monitoring and enforcement—a plan that parallels many of GAO's recommendations. In addition, recent legislation addressed two of GAO's previous concerns by requiring FTA to assess transit safety and document its discretionary grant award process. Together these changes, if properly implemented, should better safeguard future transit grants from risk of fraud, waste, abuse, and mismanagement.

FTA's new initiatives, however, will not be fully effective until the agency focuses its staff efforts more appropriately, makes full use of its resources, and provides clear guidance to contractors. From region to region no relationship exists between the number of grants, the number of staff performing oversight, the time spent on oversight, and the emphasis given to each oversight mechanism. Nonetheless, FTA has postponed until 1994 a planned study to determine the best use of staff for oversight purposes. Furthermore, FTA has used less than half of the \$35 million it received to pay contractors for providing oversight in fiscal year 1991 and has furnished contractors with inadequate guidance to review grantees' activities.

Principal Findings

FTA Oversight Did Not Detect and Correct the Waste of Funds

GAO reports on four FTA regions cited significant noncompliance and deficiencies in grantees' management control systems that resulted in the waste and mismanagement of millions of federal grant dollars. FTA has relied primarily on grantees' written assurances that they had adequate financial, technical, and other management controls to carry out grant activities and has made only limited, often superficial, use of its monitoring tools. For example, FTA headquarters limited the triennial review to a checklist accompanied by cursory reviews of grantees' procedures rather than the full review and evaluation called for by law. As a result, GAO found that a 1989 review at the Chicago Transit Authority did

not detect that about \$12.6 million in bus repair parts was not included in the authority's inventory system.

FTA did not make effective use of other tools. For instance, single audits did not test whether costs had been charged appropriately to grants and did not always conform with the Office of Management and Budget's requirements. Quarterly progress and financial reports, which should produce the most timely information on such problems as cost overruns and project delays, were often not reviewed by FTA. Other mechanisms, such as procurement system reviews and progress meetings, were ineffective because they were so seldom used. Also, FTA has not routinely received and used state and local entity reports that identify grantees' weaknesses to better target oversight efforts. When problems were identified, FTA rarely used its most stringent enforcement authority—withholding funds—to compel grantees to correct serious and wasteful noncompliance. GAO identified grantees that had failed for more than a decade to correct significant noncompliance of which FTA was cognizant. Such weak oversight and enforcement may send the message that federal regulations are not important.

FTA Initiatives and New Legislation Should Improve FTA's Oversight

GAO previously made numerous recommendations to DOT to ensure that grantees have adequate controls to manage grants and that FTA takes timely and appropriate steps to monitor and enforce adherence to federal requirements. As a result of GAO and OIG reports, the FTA Administrator convened a task force that confirmed GAO's findings and made similar recommendations to correct the oversight weaknesses.

With DOT's support, FTA committed itself to improving grant oversight and is implementing procedures for doing so. The Administrator approved a plan in May 1992 that focuses specifically on improving triennial reviews, audits, enforcement, and grantees' accountability. FTA working groups identified weaknesses, changes needed to correct the weaknesses, and deadlines for implementing the changes. The new procedures are scheduled to be implemented by December 1992. In addition, the Federal Transit Act requires FTA to report to the Congress on transit safety conditions and create a plan to reduce the risk of deaths and injuries, as well as to issue guidelines for evaluating discretionary grant awards. GAO first recommended the need for better safety data and award criteria in 1989.

Barriers to the Successful Implementation of New Initiatives

Potential barriers to the successful implementation of FTA's new oversight initiatives stem from the agency's inconsistent allocation of staff and inadequate use of contractors for oversight tasks. Although most oversight and all day-to-day contact with grantees take place in FTA regional offices, GAO found that the effort expended on oversight and the focus of oversight activities varied from region to region. The number of regional staff performing oversight ranged from 2 to 12; the proportion of staff time spent on oversight ranged from 8 percent to 44 percent; and some regions emphasized triennial reviews while others stressed quarterly reports. Moreover, the New York region, which is responsible for the largest dollar amount of active grants, spends the smallest percentage of its time on oversight. A planned study to determine the most appropriate level and mix of staff among regional offices and headquarters has been postponed until 1994. Also, FTA spent only \$14.8 million of the \$35.3 million it received to hire contractors to provide oversight in fiscal year 1991 and has not provided contractors with adequate guidance to oversee grantees.

Recommendations

FTA plans to fully implement 16 of the 20 recommendations GAO made in recent reports and to take some actions on the other 4. GAO continues to believe that FTA should fully implement these recommendations. In addition, GAO recommends that the Administrator, FTA, (1) implement procedures to ensure that FTA's contractors have adequate guidance for performing oversight tasks and (2) develop consistent standards for staffing triennial reviews and other monitoring tasks to ensure that the new oversight strategy is implemented as FTA headquarters envisions.

Agency Comments

DOT agreed with the report's recommendations. DOT stated that the report properly reflects FTA's intensive efforts to improve grantees' accountability and to strengthen FTA's monitoring and enforcement. If properly implemented, FTA's new initiatives should better safeguard future transit funds from risk of fraud, waste, abuse, and mismanagement. However, FTA will have to be persistent in its efforts to ensure that implementation of the new initiatives does not lose momentum. DOT also noted that the FTA Administrator is examining FTA's organizational structure and will take steps to ensure that resources are appropriately allocated to provide adequate attention to oversight functions.

Contents

Executive Summary		4
Chapter 1		10
Introduction	Management and Oversight of FTA Grants	10
	Grant Oversight Identified as Materially Weak	14
	FTA's Changing Oversight Philosophy	14
	Objectives, Scope, and Methodology	15
Chapter 2		18
FTA's Oversight Practices and Grantees' Mismanagement Left Funds Vulnerable to Misuse	Regional Reviews Showed Widespread Waste and Mismanagement	18
	The OIG Reported Noncompliance and Wasted Funds in All FTA Regions	19
	FTA's Grant Monitoring Has Been Limited and Ineffective	19
	FTA Has Been Reluctant to Use the Full Range of Enforcement Tools	24
	Conclusions	24
Chapter 3		26
New Oversight Strategy and Legislative Requirements Should Better Protect Funds	FTA Adopts a Promising Oversight Strategy	26
	Federal Transit Act Requires Improvements in Safety Oversight and Discretionary Grant Awards	29
	FTA's Use of Staff and Contractors for Oversight Has Been Ineffective	31
	Conclusions	35
	Recommendations	36
	Agency Comments and Our Evaluation	36
Appendixes	Appendix I: Grantee Certifications	38
	Appendix II: FTA Grant Allocations	40
	Appendix III: Summary of Costs Questioned in 109 DOT OIG Reports Issued From January 1988 Through May 1992	42
	Appendix IV: FTA's Actions in Response to GAO'S Recommendations	44
	Appendix V: Time Spent on Grant Oversight	52
	Appendix VI: Comments From the Department of Transportation	54
	Appendix VII: Major Contributors to This Report	61

Related GAO Products		64
Tables		
	Table 1.1: FTA's Grant Monitoring Tools	13
	Table 3.1: FTA Program Oversight Implementation Plan: Tasks and Milestones	27
	Table 3.2: Regional Staffing for Grant Oversight	32
	Table 3.3: FTA's Funding for Oversight Contracts in 1991	35
	Table II.1: FTA Active Grants by State as of April 1992	40
	Table II.2: FTA Active Grants by Region as of April 1992	41
	Table V.1: Percent of Oversight Time Spent on Specific Tasks	52
	Table V.2: Percent of Total Time Spent on Specific Tasks	53
Figures		
	Figure 1.1: FTA's 10 Regions	12
	Figure 3.1: Oversight Activities Lack Consistent Focus	33

Abbreviations

DOT	Department of Transportation
FTA	Federal Transit Administration
GAO	General Accounting Office
OIG	Office of Inspector General
OMB	Office of Management and Budget
PMO	project management oversight
UMTA	Urban Mass Transportation Administration

Introduction

The Federal Transit Administration (FTA) provides financial assistance for local transit authorities and state and local transit administrations to plan, construct, and operate the nation's mass transit systems.¹ Since its inception in 1964, FTA has provided over \$67 billion in grants for mass transit and oversees about \$35 billion in active grants to state and local transit entities (grantees).

Over the next 6 years, FTA is authorized to award an average of \$5 billion annually in transit assistance, primarily through section 9 formula and section 3 discretionary and formula grants.² Section 9 grants account for approximately 50 percent of FTA's authorized budget, or about \$16.1 billion over the next 6 years. These grants may provide up to 80 percent of the costs of transit planning and capital assistance for purchases of equipment and facilities, and up to 50 percent of operating costs. They may also be used to support certain highway projects. Section 9 grants are distributed according to a statutory formula that incorporates such operating statistics as the number of route miles served, the number of passengers carried, and demographics of the local population.

Under section 3, FTA is authorized to disburse \$12.6 billion nationwide over the next 6 years. Forty percent of section 3 funds may be used to modernize older rail transit systems, 40 percent may be used for new projects, and 20 percent may be used to acquire needed buses that cannot be purchased with section 9 and other grant funds. In most instances, section 3 grants fund up to 80 percent of a capital project; the remaining funds may come from state, local, or private sources. However, section 3 may fund up to 90 percent of the acquisition of vehicle-related equipment to meet certain requirements of the Clean Air Act or the Americans with Disabilities Act of 1990. Section 3 discretionary grants may be earmarked by the Congress or designated by the FTA Administrator.

Management and Oversight of FTA Grants

Recipients of FTA grants must comply with a variety of rules, including the requirements of the Federal Transit Act and regulations that apply to all federal grant recipients. For example, all grant recipients must safeguard their federal investment by keeping accurate and current records on the use of federal funds and by adequately controlling cash flow and

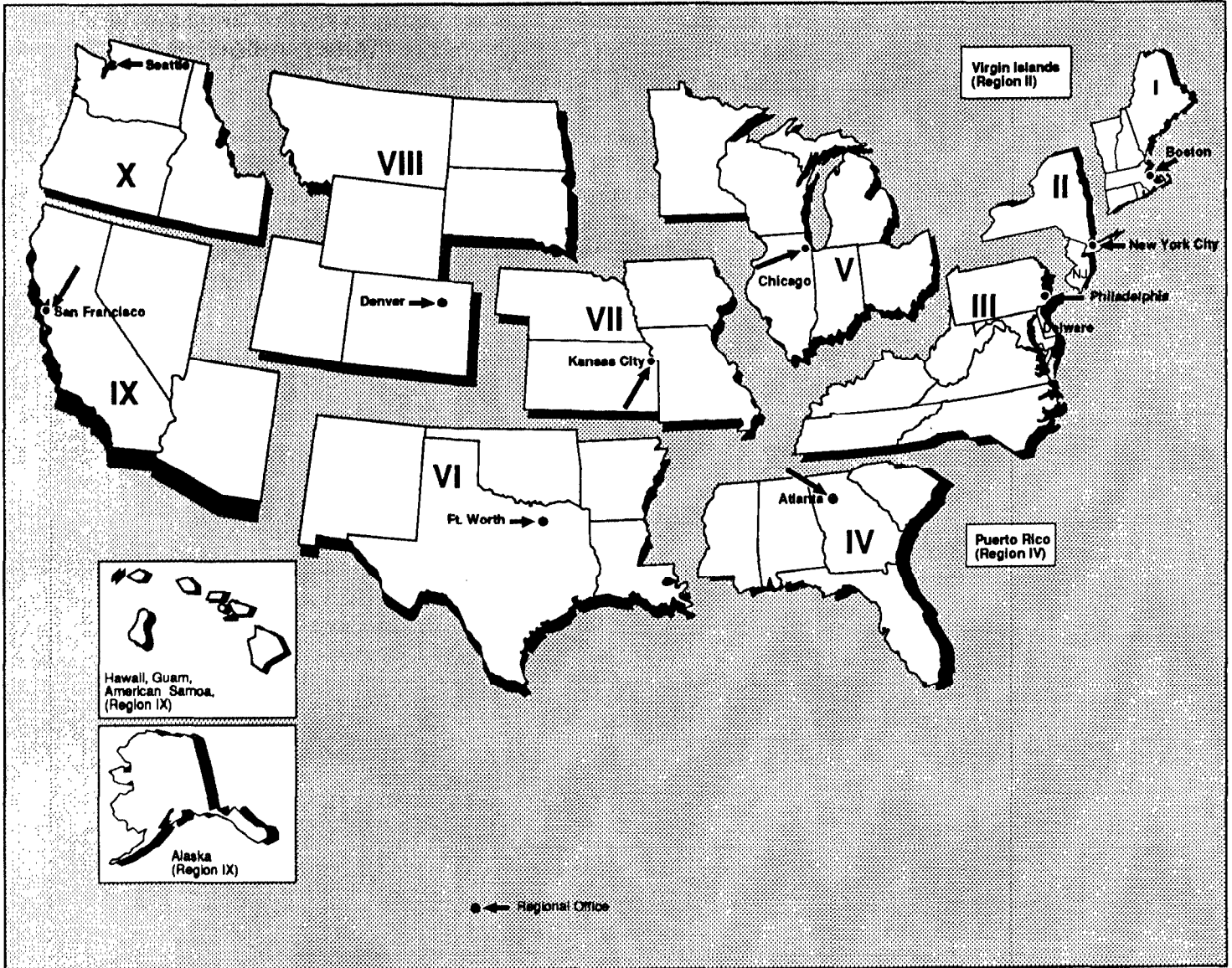
¹The Federal Transit Act is title III of the Intermodal Surface Transportation Efficiency Act of 1991, which was signed into law on December 18, 1991. The Federal Transit Act amended the Urban Mass Transportation Act of 1964 and changed the name of the Urban Mass Transportation Administration (UMTA) to the Federal Transit Administration.

²The Intermodal Surface Transportation Efficiency Act also authorizes the use of up to \$70 billion in federal highway funds for mass transit needs during the next 6 years.

inventory. They must also purchase rolling stock competitively and follow Buy America provisions. Grantees certify to FTA that they have the ability and intention to meet all requirements. (These certifications are explained more fully in app. I.)

Grantees are responsible for the day-to-day management of their grants. FTA is responsible for overseeing grantees' compliance with federal requirements and proper use of federal funds. Grant oversight is primarily performed by staff located in FTA's 10 regional offices. Figure 1.1 depicts the 10 FTA regions, the states they encompass, and the location of each regional office. (App. II lists current FTA grant allocations by state and by FTA region.)

Figure 1.1: FTA's 10 Regions



Source: FTA.

FTA has a number of tools or mechanisms available for grant monitoring, including performance evaluations at least once every 3 years (triennial

reviews), quarterly project review meetings, quarterly progress and financial reports, annual audits performed by independent accounting firms, grant closeout reviews, procurement system reviews, third-party contracting activities including contractor-provided project management oversight (PMO), site visits and day-to-day contact, and reports issued by GAO and the Department of Transportation's (DOT) Office of Inspector General (OIG). Table 1.1 briefly describes the purpose of FTA's monitoring tools.

Table 1.1: FTA's Grant Monitoring Tools

Monitoring tools	Purpose	Source
Triennial review	Full review and evaluation of grantee's performance in carrying out projects, including specific reference to compliance with statutory and administrative requirements	Federal Transit Act
Quarterly project review meeting	Forum at which larger grantees, FTA staff, and appropriate contractors can discuss project status or emerging problems	FTA procedures
Quarterly progress and financial reports	Reports from grantee on project status and grant expenditures to identify such things as cost overruns and potential delays	FTA procedures
Annual audit	Audit performed by independent accounting firm assessing financial statements, control systems, and compliance with applicable requirements	Single Audit Act of 1984 and Federal Transit Act
Closeout review	Final reconciliation of grant to determine that all agreed-upon work has been completed and associated records closed	FTA guidelines
Project management oversight	Monitoring provided by contractors to ensure that major capital projects progress on time, within budget, and in conformance with approved plans	Federal Transit Act
Procurement systems review	Review of grantees' procurement systems for compliance with competitive bidding and other federal contract qualification requirements	Federal Transit Act
Site visit and day-to-day contact	Evaluation of grantee's effectiveness in implementing the project in conformance with the grant agreement	FTA guidelines
GAO and OIG reports	Review of grantee compliance and FTA efficacy in oversight	GAO and OIG authorizing legislation

FTA also has several enforcement tools ranging from notification letters to suspension of funds to compel grantees' compliance. Because it has been FTA's policy to presume the good faith of the transit entities with which it

has a continuing relationship, FTA has generally used notification letters to urge grantees to take corrective actions. However, FTA has the authority to suspend or terminate payments when a grantee is not in compliance and to recover funds when a grantee's improper actions are deemed willful or unreasonable.

Grant Oversight Identified as Materially Weak

On the basis of our work and that of the OIG, the Secretary of Transportation cited FTA's oversight of grantees as a material internal control weakness in his Federal Managers' Financial Integrity Act reports to the President and the Congress for fiscal years 1989, 1990, and 1991. In 1990 the Secretary attributed the risk of inappropriate grant allocation and grantee noncompliance to FTA's ever-growing work load and shrinking staff. FTA's staff declined by 27 percent over the 9 years ending in fiscal year 1990. DOT's 1990 report identified an action plan to improve oversight and noted that additional resources would be needed in fiscal years 1991 and 1992 to correct the oversight weaknesses. The 1991 report extended the targeted date for correcting the deficiency by 2 years to 1994 to give FTA time to (1) seek approval for additional staff from DOT, the Office of Management and Budget (OMB), and the Congress and (2) hire, train, and place the additional personnel.

In response to the Secretary's request for additional resources, the Congress allocated, and FTA hired, 14 new full-time employees for 1991 and received authority to hire 31 additional staff for 1992. In addition, the Congress allocated one-half of 1 percent of FTA funds to hire contractors to perform a variety of activities, including project management; construction management; feasibility studies; and preliminary engineering, design, architectural, surveying, mapping, or related services. As of May 1992 FTA had 36 active contracts for \$100 million in services over the life of the contracts, including 16 contracts to provide PMO services on 53 large construction projects and 20 contracts for technical support and assistance or consulting services.

FTA's Changing Oversight Philosophy

Before 1980 FTA considered that its mission was to guide and oversee the establishment of mass transit systems. FTA maintained hands-on, day-to-day oversight of grantees' activities, including reviewing and approving all procurements. In the early 1980s FTA's oversight approach changed. Consistent with the government's policies at the time, FTA sought to minimize federal involvement in grantees' operations as well as the restraints imposed by government oversight. As previously noted,

reductions in staff, from a high of 591 employees in 1982 to a low of 415 employees in 1990, further limited FTA's involvement in grantees' activities. In lieu of more direct grant monitoring, FTA relied primarily on grantees' certifications of their intent to comply with grant requirements and seldom used its most stringent enforcement authorities—penalties and withholding of funds—to compel grantees' compliance.

In comments on drafts of GAO reports that dealt with grantee management and FTA oversight in 4 of FTA's 10 regions, FTA repeatedly asserted that grantees had adequate systems, its own oversight was sufficient, and its enforcement was timely and appropriate.³ FTA maintained that we misrepresented the facts, that problems were the exceptions, and that FTA was aware of and acting on those problems.

Unexpectedly, FTA reversed its position after a task force, convened by the FTA Administrator, reviewed and confirmed the oversight deficiencies that we and the OIG had been reporting. In what amounted to a significant change in its position, FTA acknowledged that the problems were indeed extensive and serious and that the agency had not adequately been carrying out its fiduciary responsibilities. FTA's task force examined and recommended actions to correct oversight weaknesses and to improve grantee accountability. At FTA's request, we and the OIG have been assisting in this effort by providing advice and support when requested. In May 1992 the Administrator approved a plan to revise grant-monitoring and enforcement practices. The new procedures are scheduled to be implemented by December 1992.

Objectives, Scope, and Methodology

We initiated a review of FTA's oversight of federal transit grants in response to the Comptroller General's interest in determining whether mass transit programs were vulnerable to fraud, waste, abuse, and mismanagement such as were found in Department of Housing and Urban Development programs and in the savings and loan industry. As noted, since June 1991 we have issued reports on FTA's oversight in four regions. Together, these regions oversee 60 percent of FTA's total active grant dollars. The objectives of this review were to (1) summarize and build upon the earlier reports to identify systemic problems in FTA's grant

³Mass Transit Grants: Scarce Federal Funds Misused in UMTA's Philadelphia Region (GAO/RCED-91-107, June 13, 1991); Mass Transit Grants: Improved Management Could Reduce Misuse of Funds in UMTA's Region IX (GAO/RCED-92-7, Nov. 15, 1991); Mass Transit Grants: Noncompliance and Misspent Funds by Two Grantees in UMTA's New York Region (GAO/RCED-92-38, Jan. 23, 1992); Mass Transit Grants: Risk of Misspent and Ineffectively Used Funds in FTA's Chicago Region (GAO/RCED-92-53, Mar. 4, 1992).

oversight, (2) identify the steps FTA has initiated to strengthen the agency's oversight and grantees' accountability, (3) examine FTA's allocation of staff for oversight activities, (4) examine FTA's use of contractors to provide oversight, and (5) review the impact of the Federal Transit Act on FTA's safety program and process for awarding discretionary grants.

We analyzed and synthesized the results of our four regional reviews to identify systemic problems in FTA's oversight of federal transit grants. In so doing we identified patterns of inappropriate or ineffective monitoring and areas in which FTA's monitoring and enforcement had failed to detect and correct grantees' noncompliance with federal or FTA regulations. We also reviewed reports by the OIG to identify categories of serious and persistent noncompliance and waste.

Since February 1992 we have attended biweekly meetings of an FTA management task force established to formulate and implement a plan to improve grantees' accountability and strengthen FTA's monitoring and enforcement. In the course of monitoring FTA's progress in these meetings, we have observed the development of written plans, procedures, and implementing milestones prepared by the task force and approved by the FTA Administrator. We also discussed the plan, potential implementation problems, and anticipated roadblocks with FTA's Associate Administrator for Budget and Policy and other DOT and FTA officials.

To assess FTA's staffing for oversight responsibilities and use of contractors, we examined FTA's allocation of oversight responsibilities between headquarters and its 10 regional offices. We also reviewed UMTA Staffing Levels (May 1, 1991), a study performed by Booz-Allen and Hamilton for FTA. We interviewed officials in FTA's Office of Personnel to determine FTA's procedures for allocating staff and reviewed position descriptions for regional staff performing oversight. To assess FTA's use of contractors, we reviewed relevant sections of the Federal Acquisition Regulations as well as applicable OMB and DOT guidance; we interviewed contracting and administrative officials to determine FTA practices and procedures; and we reviewed FTA's 36 active contracts for PMO, technical assistance, consulting, and computer management services. Also, FTA's Office of Personnel sent a questionnaire that we prepared to the 10 regional offices, inquiring about actual practices for staffing oversight responsibilities and provided us with copies of the responses for analysis.

Finally, we reviewed provisions of title III of the Intermodal Surface Transportation Efficiency Act of 1991—referred to as the Federal Transit

Act—for requirements that would affect FTA's oversight. Specifically, we analyzed provisions of the act that apply to FTA's safety program and discretionary grant award process to determine what new requirements FTA must meet.

We obtained comments from DOT on a draft of this report and incorporated those comments in the report where appropriate. In addition, appendix VI contains the full text of DOT's comments and our responses. We conducted our work from June 1991 through August 1992 in accordance with generally accepted government auditing standards.

FTA's Oversight Practices and Grantees' Mismanagement Left Funds Vulnerable to Misuse

Grantees are the first line of defense in detecting and preventing waste and mismanagement. However, significant and long-standing noncompliance and deficiencies in grantees' financial, technical, and other management controls have placed millions of grant dollars at risk. Until recently, grantees' noncompliance and mismanagement have often gone unchecked by FTA, whose monitoring has lacked the scope, depth, and timeliness to reasonably ensure compliance and the proper use of funds. Moreover, when problems have been identified, FTA has generally been reluctant to withhold or suspend funds to compel grantees' to comply and take corrective actions. This laissez-faire approach to oversight may have suggested to grantees that federal requirements were not important and federal funds did not need to be safeguarded.

As we explain in chapter 3, new FTA initiatives and legislative mandates address many of our concerns regarding FTA's grant program. FTA is implementing a plan to strengthen grant monitoring and enforcement that parallels and incorporates many of our recent report recommendations. Also, the Federal Transit Act addressed concerns that we first raised in 1989 about FTA's oversight of transit safety and procedures for awarding discretionary grants.

Regional Reviews Showed Widespread Waste and Mismanagement

In reports issued between June 1991 and March 1992, we examined grantees' management and FTA's oversight in four FTA regions that together oversee grants whose dollar value represents more than 60 percent of FTA's total active grants. Our reports revealed widespread deficiencies in grantees' management controls, which resulted in wasted and misspent funds. These significant, often long-standing deficiencies in grantees' financial, technical, procurement, property, and other management controls placed millions of grant dollars at risk of misuse and mismanagement. The following are examples of problems that we reported, beginning in June 1991:

- In FTA Region II, headquartered in New York City, the Long Island Railroad did not adequately manage its capital construction program. As a result, costs for a major federally funded project escalated from an estimated \$171 million to nearly \$400 million, and project completion was delayed from 1986 to 1991.
- In FTA Region III, headquartered in Philadelphia, Pennsylvania, Pittsburgh's Port Authority Transit did not have (1) adequate inventory controls to prevent the use of parts purchased with FTA funds for non-FTA

purposes or (2) the technical engineering skills to complete a nearly \$20-million trolley rehabilitation project.

- In FTA Region V, headquartered in Chicago, Illinois, the Chicago Transit Authority's ineffective and uneconomical procurement process, inadequate capital program management, and deficient financial and inventory control systems resulted in the misuse and mismanagement of millions of dollars. Although responsible for overseeing more than \$1.6 billion in active grants to the authority, FTA allowed serious problems to go uncorrected for over a decade.
- In FTA Region IX, headquartered in San Francisco, California, deficiencies in financial, procurement, and property management controls were identified at over half the region's grantees.

Reports and testimonies containing additional information about these problems are listed under Related GAO Products at the end of this report.

The OIG Reported Noncompliance and Wasted Funds in All FTA Regions

In 109 reports on FTA grantees issued between January 1988 and May 1992, the OIG disclosed noncompliance and deficiencies in grantees' management systems that resulted in the waste, misuse, and mismanagement of about \$390 million. The following are examples of the types of grantee noncompliance reported by the OIG:

- 31 grantees overcharged FTA \$85.6 million to purchase more buses and bus parts than FTA's policies allow. Grantees may use federal funds to purchase only enough buses to cover service during peak periods of operation, plus 20 percent more buses as spares. After examining 48 grantees, the OIG found only 17 in compliance.
- Grantees charged FTA \$50 million for costs, such as extended warranties, that were not eligible for reimbursement under FTA guidelines. According to the OIG, 36 of the 60 grantees examined had charged ineligible costs to their grants.

The findings and associated costs questioned in these OIG reports are summarized in appendix III.

FTA's Grant Monitoring Has Been Limited and Ineffective

FTA has a number of tools for monitoring grantees' activities, including triennial reviews, single audits, quarterly progress and financial reports, procurement system reviews, third-party contracting activities, site visits, quarterly project review meetings, and oversight provided by contractors. Our reviews of four FTA regions showed that FTA has not been using these

tools to verify that grantees have adequate management controls to reasonably ensure compliance with federal requirements and proper use of funds. Instead, FTA has been relying primarily on grantees' certifications and assurances that they have the ability and intention to spend federal funds in the manner required by law. Until very recently, FTA viewed instances of noncompliance as anomalies and saw the identification of problems as the responsibility of others, such as the OIG.

Triennial Reviews Have Not Effectively Assessed Compliance With Federal Requirements

Regional officials told us that triennial reviews were their primary oversight mechanism. However, FTA headquarters had limited the scope and depth of the reviews. As a result, although the regions' reviews were consistent with guidance from FTA headquarters, they lacked the thorough assessment called for in the Federal Transit Act (which replaced the Urban Mass Transportation Act of 1964). The act calls for "a full review and evaluation of the performance of a [grant] recipient in carrying out the recipient's program, with specific reference to compliance with statutory and administrative requirements" FTA guidance for triennial reviews focused primarily on grantee certifications and assurances and existing documents and reports, with little on-site inspection or generation of new data.

The reviews, which followed a checklist format, typically included little or no testing for compliance to ensure, for example, that procurement actions had been competitive or that grantees had adequate control over federally funded inventories. The limited level of detail is reflected by the reduced amount of time spent on the reviews. In Region V, for example, from fiscal years 1988 through 1990, staff time devoted to triennial reviews declined from about 3 days to 1 day. Also, the earlier reviews involved senior staff, while more recent reviews were handled almost exclusively by junior staff.

In several instances triennial reviews did not detect existing problems. For example, a triennial review of a Region IX grantee did not discover that the grantee had not reimbursed FTA \$3.2 million for the federal share of prematurely retired property. FTA requires such reimbursement, and the triennial review should have, but did not, examine controls over this requirement. In addition, a 1989 review of the Chicago Transit Authority did not detect that \$20 million worth of bus repair parts was not included in the authority's inventory tracking system. Also, in a July 1989 report, the OIG found that triennial reviews of several Region V grantees had not verified the bus fleet size requirements stated in the grantees'

certifications. The OIG reported that the grantees' certifications were incorrect and that the grantees had requested or received \$15 million more than they were entitled to receive.

We have repeatedly questioned the value of the triennial review in its present limited form, noting that the abbreviated scope cannot provide a full and complete review of grantees' control systems. We first voiced our concerns in 1989 when we recommended that triennial reviews include (1) tests to ensure the existence of, and adherence to, proper procedures, (2) more grantee-specific information, and (3) problem follow-up. FTA has maintained that the reviews have been sufficient to satisfy the law. As we explain in chapter 3, FTA is revising the procedures for conducting triennial reviews as part of its recent initiative to improve oversight.

Quarterly Reports Have Been of Limited Use

Grantees' quarterly financial and progress reports are FTA's most timely source of information for identifying project changes, including cost overruns, revisions of milestones, and newly incurred obligations. These reports should provide FTA with the opportunity to identify problems early and implement appropriate changes before funds are wasted or mismanaged. However, FTA has not consistently received the reports and reviewed their contents.

Officials in Region IX told us that they did not have time to routinely review and follow up on the reports, and we found in Region III that some grantees had not been submitting the reports. Region V officials told us that quarterly reports from smaller grantees were of use to them but that reports from larger grantees were so voluminous that FTA could only spot check them for known problems.

Single Audit Coverage Has Not Effectively Assessed Grantee Compliance

Under the Single Audit Act of 1984, all state and local entities that receive \$25,000 or more in federal funds may have their use of these funds independently audited, and entities receiving \$100,000 or more must have such an audit. FTA requires its grant recipients to submit copies of their single audits for use in grant monitoring. The objectives of a single audit include determining and reporting whether the entity (1) has internal control systems to provide reasonable assurance that it is managing federal financial assistance programs in compliance with applicable laws and regulations and (2) has complied with the laws and regulations that may have a material effect upon each major federal financial assistance program. Whether or not FTA funds are tested in a single audit depends

primarily on whether expenditures of those funds are large enough relative to other federal programs to be considered a "major program," as defined in the Single Audit Act. Therefore, the audits review only a sample of a grantee's federally funded projects, and if a grantee is receiving funds from several federal agencies, an FTA project may not be selected for review. The nature of audit tests performed to assess a major program's past compliance is determined largely by the segment of OMB's "Compliance Supplement" dealing with that program, which is prepared by the agency administering the program—in this case, DOT—and issued by OMB.

As we indicate in the next chapter, FTA believes that the single audits have not been particularly useful in gauging either the adequacy of grantees' internal controls or actual compliance. FTA attributes these inadequacies to the limited detail on audit work suggested in the current compliance supplement, which the agency has targeted for complete revision. We noted in earlier reports that single audits did not always conform with guidance set in the compliance supplement and/or the implementing requirements established by OMB. Greater specificity and clearer guidance in the compliance supplement could contribute to more consistent interpretation by accounting firms performing the audits. We have suggested that FTA coordinate its efforts to revise the compliance supplement with OMB.

We have also questioned FTA's reliance on single audits to verify the appropriateness of costs when a project has been completed or terminated. FTA has a substantial backlog of completed or inactive grants that have not been closed. A timely and full reconciliation of a grant is important so that the unspent funds can be made available for other transit needs. We have recommended that FTA reassess its practice of relying on single audits to verify the appropriateness of costs when closing grants. Because the single audit is not grant-specific—it focuses on the grantee rather than on individual grants—we continue to believe that its usefulness for reconciling completed or terminated grants is limited.

Project Management Oversight Shows Some Success but Is Limited in Range

Since 1987 FTA has used PMO contractors to provide technical, on-site oversight of selected large construction projects. FTA currently has 16 contractors working at 53 large construction projects. The PMO contractor is responsible for ensuring that the project is completed on time and in conformance with the original design and budget. At the time of our

regional reviews, FTA was using PMOs at selected projects in Regions II, V, and IX but had not begun to use them in Region III.

We found, however, that FTA may not be providing sufficient guidance to PMO contractors and to the FTA staff that oversee the PMO contractors' activities. FTA has no written procedures for its staff to use in overseeing PMO contractors, and oversight responsibility rests at FTA headquarters in Washington, D.C., rather than at the regions where the work is being done. A recent OIG report illustrates the potential problems that this situation presents. The OIG reported that a PMO contractor at a California construction project had relied on unverified grantee data, had not sufficiently documented its monitoring of the grantee, and had failed to actively monitor some critical areas of grantee performance. According to the OIG, these weaknesses resulted because (1) the contract implementation plan did not contain specific project monitoring instructions, (2) FTA did not evaluate the contractor's performance, and (3) FTA did not have formal procedures or criteria to evaluate the contractor. The OIG recommended that the contractor be given more specific instructions and that FTA staff review the contractor's performance against formal criteria. FTA responded that it did not need to elaborate on its current instructions to contractors but agreed to develop written guidance to evaluate the performance of PMO contractors.

Use of Other Oversight Mechanisms Has Been Infrequent or of Limited Value

Although FTA considers site visits, quarterly progress review meetings, and procurement system reviews as monitoring tools, these mechanisms are seldom used and have limited value for oversight. For example, in Regions V and IX, site visits were often made only once every 3 years during triennial reviews, and in Regions III and V, quarterly progress reviews were held at a few grantees but not at the majority. FTA officials told us that FTA has conducted only seven procurement system reviews in its history, even though we and the OIG have repeatedly reported problems with grantees' contracting activities.

FTA also includes day-to-day contacts with grantees and GAO and OIG audits among its list of grant-monitoring tools. Day-to-day contacts may supplement other oversight efforts, but they cannot be viewed as a substitute for monitoring grantee performance. Furthermore, periodic GAO and OIG reviews do not relieve FTA of its responsibilities to monitor grantees' compliance or obviate the need for FTA to detect and correct problems before they occur.

FTA Has Been Reluctant to Use the Full Range of Enforcement Tools

When FTA did discover noncompliance, it often did not take timely and appropriate enforcement actions to compel grantees to correct problems. FTA's enforcement authorities range from sending letters of notice to reducing or withholding federal funds when federal requirements have not been met or seeking reimbursement when funds have been misspent or mismanaged. In each region we reviewed, we found instances where long-standing noncompliance continued with, for all intents and purposes, impunity. FTA continued to fund the grantees even though the grantees remained out of compliance. For example, despite technical, financial, and project management problems that resulted in delays and cost overruns on a trolley rehabilitation project, a Region III grantee was awarded additional grants totaling \$15.5 million. Also, FTA took no action to stop the flow of funds or otherwise compel corrective actions at a Region V grantee whose serious procurement, capital program, financial, and inventory management deficiencies had gone uncorrected for up to a decade.

Until recently, FTA relied primarily on notification letters and other correspondence to effect corrective actions, arguing that such limited action was justified by the continuing nature of the grantee/grantor relationship. We cautioned that FTA's use of correspondence could not be considered either timely or appropriate because it failed to compel grantees to correct noncompliance within a reasonable time. We have recommended that FTA impose strict sanctions on noncompliant grantees and insist on corrective actions before new funds are approved. When FTA fails to detect and correct noncompliance in a timely manner, it sends a message that federal requirements are not important. As we explain in chapter 3, FTA has reassessed its views on enforcement. It has developed criteria specifying the conditions and time frames for using the various enforcement tools and has asserted its commitment to correcting future noncompliance in a timely fashion.

Conclusions

Grantees have repeatedly demonstrated that they do not have adequate management controls to safeguard federal funds. Both we and the OIG have reported examples of inventory systems that have not accounted for federally funded equipment, financial systems that have not ensured that procurements comply with federal rules and regulations, and management systems that have not secured compliance with federal rules and regulations. Furthermore, FTA has not taken appropriate enforcement actions. Although FTA is responsible for compelling grantees to quickly correct noncompliance and deficiencies in management systems, it has not

Chapter 2
FTA's Oversight Practices and Grantees'
Mismanagement Left Funds Vulnerable to
Misuse

effectively used the full array of sanctions available to encourage grantee compliance.

FTA has initiated actions to improve the usefulness of monitoring tools and enforcement options—actions that we agree are necessary to strengthen grant oversight and reduce the risk of fraud, waste, abuse, and mismanagement of federal transit funds. The next chapter discusses these actions and the extent to which they address concerns raised in our earlier reports.

New Oversight Strategy and Legislative Requirements Should Better Protect Funds

Recent FTA initiatives and legislative requirements should strengthen grant management and oversight and help reduce the likelihood of fraud, waste, abuse, and mismanagement of federal transit funds. In May 1992, for example, the Administrator approved a plan to strengthen FTA's monitoring tools and increase grantees' accountability—actions paralleling many of our earlier report recommendations. In what amounts to a significant change in its oversight philosophy, FTA is implementing new procedures for triennial reviews and single audits, performing risk assessments of all grantees' programs, and defining timely and appropriate actions to be taken when grantees are not in compliance.

In addition, the Federal Transit Act, signed into law in December 1991, addressed concerns that we first raised in 1989 regarding FTA's safety oversight and its process for awarding discretionary grants. Implementation of the new oversight strategy and legislative requirements is particularly important because the law substantially increases FTA's authorized annual funding, raising it from about \$3.2 billion to about \$5 billion. It also allows the use of up to \$70 billion in highway funds for transit needs over the next 6 years.

However, FTA's inconsistent and unfocused staffing of oversight responsibilities and ineffective use of contractors providing oversight may jeopardize the successful implementation of the new oversight strategy. FTA postponed until 1994 a study to assess its allocation of staff for oversight responsibilities and spent less than half the \$35 million it received to hire contractors.

FTA Adopts a Promising Oversight Strategy

In August 1991 FTA organized a task force to assess oversight and recommend improvements. At FTA's request, we and the OIG have been assisting in this effort. In April 1992 the task force reported its findings and recommendations. The task force agreed with our assessment that FTA has an adequate assortment of oversight tools but has not been using them properly. Recognizing the need "to have an oversight system in place that provides an acceptable level of stewardship," the task force concluded that "a new comprehensive ordering of oversight priorities and methodologies has to be developed."

The approach that the task force recommended includes (1) requiring an annual risk assessment of each grantee to target monitoring efforts and resources, (2) using a matrix developed by the task force to determine the appropriate form of oversight for any given circumstance, (3) clearly

defining the roles of headquarters and regional offices, (4) making use of expanded contracting authority, (5) delineating the specific roles of the single audit and the triennial review and revising guidance for their conduct, and (6) defining the appropriate form of enforcement necessary to deter or remedy grantee noncompliance. The task force also recommended standardizing policies and guidelines and evaluating staffing levels and allocation of personnel at headquarters and in the regions.

In May 1992 the Administrator, FTA, approved a plan to implement the task force recommendations. Table 3.1 provides a synopsis of the tasks to be undertaken and the milestones for their implementation.

Table 3.1: FTA Program Oversight Implementation Plan: Tasks and Milestones

Task	Milestone
Complete initial grantee risk assessments	June 1992
Develop and complete oversight plans on the basis of regional staff and contractor allocations and associated travel plans	October 1992
Issue final guidance and worksheets for conducting triennial reviews	August 1992
Train triennial review staff to organize and prepare reviews	August 1992
Execute and oversee implementation of final guidance for conducting single audits (for use by accounting firms)	December 1992
Identify monitoring tools to be used to assess compliance objectives and incorporate into triennial review process	October 1992
Develop or revise guidance for enforcement practices and develop legislative proposal (if needed) to achieve greater uniformity in documenting compliance infractions and identifying and setting time frames for corrective actions and enforcement actions	October 1992
Implement recommendations from study of documentation and information flow into and between regions and headquarters; if needed, modify circulars and orders to identify appropriate documentary support, redundant documents, and documentation voids	October 1992

Source: Task Force Report on FTA Program Oversight, updated by FTA task force officials.

The following discusses some of FTA's efforts to achieve its oversight goals:

- **Revised Guidance on Triennial Reviews and Single Audits**—To make more effective use of these monitoring tools, FTA is revising triennial review guidance to ensure that procedures measure compliance with all requirements, review efforts focus on assembling and analyzing information, and maximum advantage is taken of the results of other types

of monitoring. To further improve the quality of the reviews, FTA plans to provide extensive training for the staff performing the triennial reviews. Similarly, FTA is reviewing and revising its single audit compliance supplement and other guidance used by private accounting firms to ensure that the audits reflect the adequacy of grantees' systems and indicate past compliance performance.

- **Regional Office Responsibilities**—FTA is giving regional offices more responsibility and authority. Regional managers will develop and implement regional oversight plans using grantee risk assessments. These plans will be used to allocate staff and contractors performing oversight. Furthermore, FTA is working to achieve greater consistency in regional offices' approach to project management and to provide a minimum level of oversight on each project. As part of this effort, FTA is to define, for the first time, the specific roles and responsibilities of regional and headquarters personnel in supporting oversight efforts.
- **Grantee Accountability and Use of Enforcement**—FTA intends to hold members of grantees' governing boards and their financial, accounting, and legal advisors accountable for false or otherwise erroneous certifications. FTA is also increasing emphasis on ensuring that grantees have the internal audit capabilities to which they certify. At the same time, FTA is developing procedures to make full use of enforcement authorities, including withholding funds if necessary and setting time limits for correcting continuing violations of grant requirements.

The actions recommended by the task force and approved by the Administrator parallel recommendations made to correct the oversight weaknesses that we identified in reports issued between June 1991 and March 1992. At the time those reports were issued, FTA disagreed with most of our recommendations. However, in July 14, 1992, letters to the Senate Committee on Governmental Affairs, the House Committee on Government Operations, and the House and Senate Committees on Appropriations, DOT included written statements of the actions FTA is taking to remedy the oversight weaknesses addressed by our 20 recommendations. According to the letters, FTA now fully concurs with 16 of the 20 recommendations and concurs in part with the other 4. Appendix IV contains excerpts from DOT's July 14, 1992, letters detailing the actions FTA has taken or plans to take to implement our recommendations.

Federal Transit Act Requires Improvements in Safety Oversight and Discretionary Grant Awards

In December 1989 we first reported that FTA's oversight was not adequate to assess safety conditions at a local transit authority and that we were unable to determine the factors that the FTA Administrator considered in awarding section 3 discretionary grants.¹ We recommended that FTA obtain more complete and accurate information on accidents and maintain documentation on the section 3 award process. We reiterated our concerns in reports and testimonies during deliberations on the recently enacted Federal Transit Act. The act requires FTA to take actions necessary to address our concerns.

Law Requires Detailed Oversight of Safety Conditions

We previously reported that FTA could not effectively evaluate safety conditions because it did not collect detailed information on the types and causes of accidents and injuries and therefore had little basis for determining when a safety investigation should be conducted. Consequently, we recommended that FTA obtain more complete information, use that information during triennial reviews, and follow up on identified safety problems. The National Transportation Safety Board similarly expressed concern about the safety of federally funded mass transportation systems. An official in FTA's Office of Technical Assistance and Safety acknowledged deficiencies in FTA's own collection of safety information, stating that the data collected have been inaccurate and unreliable. Furthermore, FTA has performed only two safety studies in its history, including one under way that was requested by Members of Congress.

As required by the Federal Transit Act—formerly the Urban Mass Transportation Act of 1964—the nation's mass transit systems have been submitting financial and operating data to FTA, which FTA has compiled and issued annually. The reports include the number of transit accidents and related deaths and injuries but not information on specific accident causes or actions taken to correct unsafe conditions. Our analysis of reports for 1985 through 1989 show that, on average, 120,716 accidents occurred resulting in 395 fatalities and 70,743 injuries. FTA provided us with data for 1990; however, officials told us that, because they had changed the data collection procedures, these data were not comparable to the earlier data. The officials suggested that we not use them to analyze trends.

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

The recently enacted Federal Transit Act required FTA to provide a comprehensive report to the Congress on current transit safety conditions in June 1992. Among other things, FTA's report is to include

- a summary of all passenger- and employee-related deaths and injuries resulting from unsafe conditions in any facility, equipment, or operation financed with FTA funds;
- the actions FTA has taken to alert transit operators of unsafe conditions and to correct or eliminate such conditions;
- consideration of the actions taken by grantees on unsafe conditions before FTA awards a new grant or makes funds available under existing grants; and
- recommendations for legislative or administrative actions needed to ensure that grant recipients will use the best means available to correct or eliminate hazards of death or injury.

According to FTA's Deputy Associate Administrator for Budget and Policy, the agency has gathered the necessary data, but the report will not be issued until April 1993.

Law Sets Criteria for Section 3 Discretionary Grant Awards

In the past FTA has not identified criteria for awarding section 3 discretionary grants and has not documented the award process. Consequently, it has not ensured that funds have been awarded to the highest-priority projects. In an earlier report we noted our inability to determine what specific factors the FTA Administrator had considered in selecting new transit projects for section 3 funding. According to FTA officials, no written selection criteria existed and no documentation was maintained to support the basis for the awards. FTA did not act on our recommendation to maintain documentation on the section 3 grant award process. Under the Federal Transit Act, section 3 grants for new fixed guideway systems—such as a subway line—cannot be made until the Administrator has determined that a proposed project is (1) based on the results of an alternatives analysis; (2) justified on the basis of its mobility improvement, environmental benefits, cost effectiveness, and operating efficiency; and (3) supported by an acceptable degree of local financial commitment. The law further requires FTA to issue guidelines for evaluating these criteria.

FTA's Use of Staff and Contractors for Oversight Has Been Ineffective

Inconsistencies in FTA's staffing of oversight tasks and limited supervision of contractors hired to provide oversight are potential barriers to the successful implementation of a new oversight strategy. We found that FTA regions varied dramatically in the number of staff and proportion of staff time they devoted to oversight and in the emphasis they placed on the different oversight tools. We also found that FTA spent less than half of the \$35.3 million it received to hire contractors for oversight tasks in fiscal year 1991.

Staffing for Oversight Lacked Consistency and Focus

As of July 1992 FTA had 462 full-time employees—310 located in Washington, D.C., and 152 in 10 regional offices. The regional staffs are primarily responsible for overseeing grants—conducting triennial reviews and grant closeouts, receiving and reviewing single audits and quarterly financial and progress reports, and maintaining day-to-day contact with grantees. On average, a regional office has 16 employees to oversee 86 recipients with 437 active grants valued at \$3.5 billion.

From a survey of FTA's regional oversight practices, we found that the number of staff performing oversight and the percent of total staff time spent on oversight varied from region to region. For example, Region II reported that 2 of its 22 employees performed grant oversight tasks and 8 percent of the region's staff time was spent on oversight. In contrast, Region V reported that 15 of its 19 employees performed oversight and 43 percent of the region's staff time was spent on oversight. However, both regions had serious grantee management deficiencies, and Region II has more active grant dollars to oversee. Table 3.2 shows the number of staff and the percentage of staff time allocated to oversight in FTA's 10 regions.

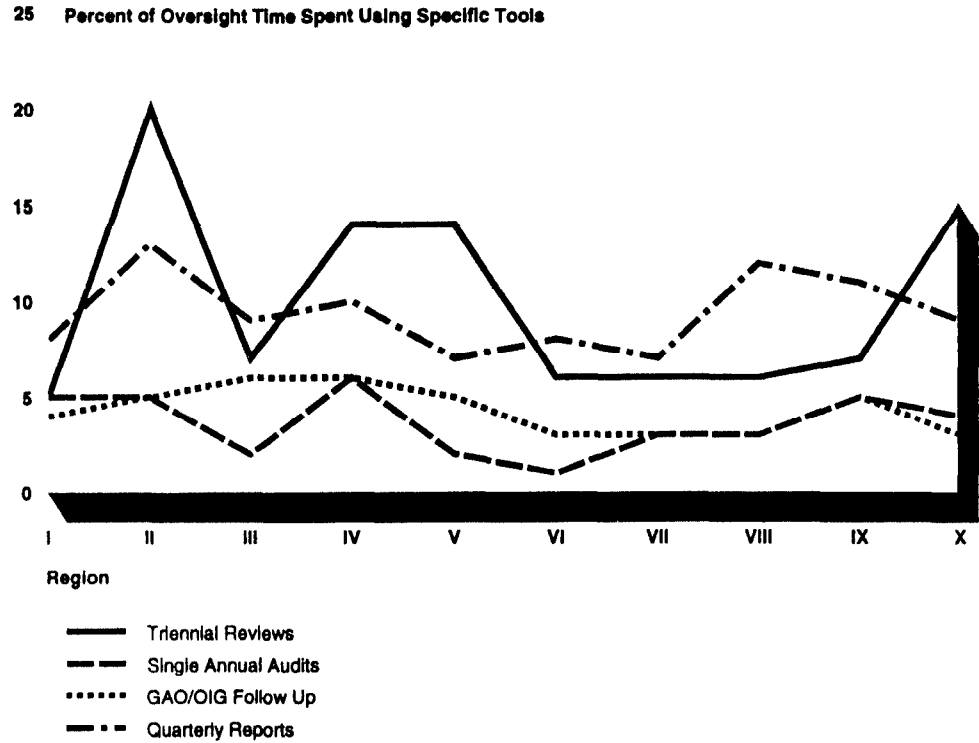
Table 3.2: Regional Staffing for Grant Oversight

Region and location of office	Total number of staff	Number of staff performing oversight	Percent of time spent on oversight
I, Boston, MA	13	6	22
II, New York, NY	22	2	8
III, Philadelphia, PA	19	8	28
IV, Atlanta, GA	20	6	23
V, Chicago, IL	19	15	43
VI, Dallas/Fort Worth, TX	15	12	26
VII, Kansas City, MO	12	6	22
VIII, Denver, CO	8	5	33
IX, San Francisco, CA	20	7	21
X, Seattle, WA	9	6	44
Average	16	7	27

Source: Survey of FTA regions.

The survey also revealed striking differences in the emphasis placed on the various oversight mechanisms from region to region. For example, the percent of time spent conducting triennial reviews ranged from 5 percent in Region I to 20 percent in Region II. Region IV reported spending an almost four times greater percent of oversight time than Regions I or VIII on grant closeouts. Five of the 10 regions reported spending as much or more time following up on GAO and OIG recommendations as on reviewing single audit reports. This was surprising, since, in 1991, we issued 3 reports, the OIG issued 21 reports, and grantees should have submitted 400 single audits for review. (App. V presents the regions' use of monitoring tools in greater detail.) Figure 3.1, which compares the time spent by regions on triennial reviews, single audits, quarterly reports, and GAO and OIG report follow-up, illustrates the inconsistency in the regions' focusing of their oversight efforts.

Figure 3.1: Oversight Activities Lack Consistent Focus



Source: Survey of FTA regions.

A May 1991 report by an FTA contractor that examined FTA's staffing levels found that a relatively small proportion of the agency's staff time was spent on direct grant oversight.² According to the report, 67 percent of FTA's staff (278 of 415) is located at headquarters. These headquarters staff members spend the majority of their time on program administration and support, performing such activities as legal counsel, administrative tasks, personnel management, policy development, legislative initiatives monitoring, budget development and tracking, and program evaluation.

The contractor's report, which was performed to determine an appropriate staff size for the agency, found that FTA would need 213 additional staff to carry out all its tasks and recommended a more in-depth review of FTA's work force. FTA cited the contractor's report to justify requests for

²UMTA Staffing Levels, Booz-Allen and Hamilton, Inc., May 1, 1991.

additional staff members for fiscal year 1992. By design, the study was limited and did not consider whether FTA had properly ranked tasks, efficiently carried them out, and appropriately allocated its existing work force. The study also did not assess the relative importance of particular tasks to FTA's mission, develop alternate plans for allocating staff, or consider greater use of contractors.

The FTA task force also recommended a detailed study of staff allocations. Specifically, the task force determined that FTA does not have an optimal mix of in-house staffing skills to perform oversight and noted that a work load analysis would be necessary to make recommendations for distribution of staff. The task force recommended that the study determine how regional and headquarters staff oversight efforts can best be focused, including what regional staffing levels are necessary to perform routine oversight functions. Although the task force recommended that FTA immediately undertake the study, FTA has postponed its start until fiscal year 1994.

Oversight Contractors Not Effectively Used

To augment the oversight performed by FTA's staff, in 1987 the Congress authorized FTA's use of PMO contractors, and in 1989 it expanded the authority to include the use of contractors for compliance reviews and audits in the areas of safety, procurement, management, and finance. However, FTA has not effectively planned and implemented its use of contractors. According to FTA data, for fiscal year 1991 FTA had \$35.3 million available to contract for oversight but spent only \$14.8 million. FTA had programmed \$19.6 million for PMOs but spent only \$10 million. Also, although FTA had contracted \$1.5 million for procurement system reviews for fiscal year 1991, no such reviews were conducted, and the funds were carried forward to fiscal year 1992. Table 3.3 shows FTA's planned and actual funding for oversight contracts in fiscal year 1991.

**Table 3.3: FTA's Funding for Oversight
Contracts in 1991**

Purpose of contract	Funds allocated	Funds spent	Funds carried over to fiscal year 1992
PMO	\$19,620,000	\$10,000,000	\$9,620,000
Safety review	930,000	930,000	0
Procurement systems review	1,540,000	0	1,540,000
Triennial review	2,300,000	2,300,000	0
Financial management oversight	1,600,000	1,600,000	0
Management review	8,000	8,000	0
Unprogrammed	9,300,000	0	9,300,000
Total	\$35,298,000	\$14,838,000	\$20,460,000

Source: FTA.

FTA has not developed specific guidance for its contractors to use in monitoring and reviewing grantees' activities. Contractors have been using guidance prepared for the use of FTA's staff and, as we indicated in chapter 2, FTA's monitoring in accordance with that guidance has not been effective. In addition, according to FTA's task force, when contractors are used to perform triennial reviews, FTA staff members lose opportunities to acquire first-hand knowledge of grantees' operations. FTA is currently assessing the areas where contractors can most effectively supplement FTA's own oversight.

Conclusions

FTA, with DOT's support, has committed itself to improving grant oversight and is implementing procedures to do so. If properly implemented, FTA's new oversight strategy should greatly reduce the risk of fraud, waste, abuse, and mismanagement of transit funds. However, FTA will have to be persistent in ensuring that the new initiatives do not lose momentum. In addition, the measures required by the Federal Transit Act should improve FTA's oversight of safety conditions and establish criteria for making discretionary grant decisions.

However, FTA has not taken adequate steps to allocate its own staff as efficiently as possible to carry out oversight tasks and it has not made efficient use of, or provided effective guidance for, the contractors that oversee grantees. For FTA's new oversight strategy to be as effective as possible, it must address these issues.

Recommendations

To enhance the effectiveness of FTA's oversight activities, we continue to believe that FTA should fully implement our prior recommendations. In addition, we recommend that the Administrator, FTA, (1) implement procedures to ensure that FTA's contractors have adequate guidance for performing oversight tasks and (2) develop consistent standards for staffing triennial reviews and other monitoring tasks to ensure that the new oversight strategy is implemented as FTA headquarters envisions.

Agency Comments and Our Evaluation

DOT noted that FTA has committed to fully implement 16 of the 20 recommendations contained in our 4 regional reports. In addition, FTA is taking partial or alternative actions on the remaining four recommendations, which it expects will achieve the desired oversight objectives. DOT also concurred with the additional recommendations we have made in this report. According to DOT, FTA will review the existing guidance for contractors and initiate actions to modify or supplement it as necessary. In addition to conducting the detailed staffing analysis that the task force recommended, DOT noted that the FTA Administrator is examining the organizational structure of FTA and will take steps in the near term to ensure that resources are appropriately allocated to provide adequate attention to oversight functions. The full text of DOT's comments and our responses appear in appendix VI.

Grantee Certifications

FTA requires numerous grantee certifications and assurances of compliance with federal requirements. FTA categorizes these submissions into three groups: one-time, annual, and grant-specific. One-time submissions include a number of basic project assurances that are submitted once and remain on file with FTA, needing only to be updated as necessary. Grantees must also submit various planning and operating statistics each fiscal year. Additional submissions are required with each grant application. FTA must have current submissions meeting each applicable requirement on file before a grantee can receive funds.

One-Time Submissions

FTA requires one-time submissions, such as

- an Opinion of Counsel that establishes the applicant's eligibility to apply for, contract for, and execute a grant;
- a list of labor unions to determine that fair and equitable arrangements are made to protect employee interests;
- civil rights assurances to demonstrate that hiring, contracting, and other federally assisted activities are not discriminatory or exclusionary, together with a plan to maximize the participation of minority- and women-owned business enterprises; and
- standard assurances to comply with laws and administrative requirements common to all federal grant programs, such as requirements of the National Environmental Policy Act of 1969, Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, and Flood Disaster Protection Act of 1973, as amended.

For section 9 funds, grantees certify, among other things,

- their legal, financial, and technical capacity to complete the project and protect federal funds;
- their ability to provide satisfactory continuing control and maintenance of FTA funds and property;
- their agreement to maintain a uniform system of accounts, records, and reporting;
- their commitment to acquire or invest in rolling stock in conformance with FTA guidelines, including FTA's 20-percent spare bus policy; and
- their commitment to have procurement systems that comply with federal procurement regulations.

Grantees that have not certified must submit information on noncompetitive awards and procurements exceeding \$100,000 for FTA's

preaward review, while those that have certified need submit only contracts exceeding \$1 million.

Annual Submissions

FTA requires grantees to provide a number of submissions for each fiscal year in which they receive federal funds. The required information may include (1) plans relating to transportation improvement programs, including private sector involvement; (2) plans and updates to meet civil rights requirements and disadvantaged business participation goals; and (3) reports on factors affecting transit operations, such as ridership and revenues (required of section 9 grantees).

Grant-specific Submissions

In addition to the one-time and annual submissions, grantees must provide information with each grant application. Grant-specific submissions include (1) a statement of continued validity of one-time submissions to be kept in the grantee's file, (2) a transmittal letter identifying the commitment of local funds, (3) a program outlining projects and budgets, (4) details on expenditures, and (5) a state certification to ensure compliance with provisions for notifying state organizations of proposed transit projects and state review of proposals.

FTA Grant Allocations

**Table II.1: FTA Active Grants by State
as of April 1992**

State	Number of grantees	Net obligations	Number of grants
Alabama	8	\$ 79,967,470	53
Alaska	4	14,781,554	4
Arizona	5	121,118,903	34
Arkansas	5	30,677,491	23
California	72	4,070,674,831	419
Colorado	10	203,081,743	44
Connecticut	26	551,331,943	150
Delaware	3	17,109,686	21
Florida	42	629,674,774	191
Georgia	9	937,232,883	57
Hawaii	3	76,321,712	27
Idaho	3	16,900,563	33
Iowa	12	49,735,832	62
Illinois	23	3,438,130,861	224
Indiana	18	263,034,506	108
Kansas	7	30,105,020	41
Kentucky	10	60,205,509	48
Louisiana	15	205,807,330	65
Massachusetts	27	2,458,811,743	169
Maryland	5	1,422,089,282	76
Maine	5	20,482,408	42
Michigan	17	253,188,492	88
Minnesota	10	189,573,361	53
Mississippi	9	45,708,276	46
Missouri	10	521,721,033	72
Montana	4	11,154,631	19
Nebraska	4	27,489,781	19
Nevada	3	12,621,394	16
New Hampshire	8	10,047,168	29
New Jersey	6	2,092,121,635	105
New Mexico	6	21,549,753	28
New York	34	6,576,196,360	241
North Carolina	18	140,398,860	92
North Dakota	6	5,791,837	17
Ohio	21	817,970,319	145
Oklahoma	7	42,200,834	25
Oregon	9	466,083,425	112

(continued)

**Appendix II
FTA Grant Allocations**

State	Number of grantees	Net obligations	Number of grants
Pennsylvania	30	2,474,952,574	214
Rhode Island	2	81,245,937	30
South Carolina	10	52,983,339	52
South Dakota	3	5,373,711	12
Tennessee	12	142,300,001	82
Texas	38	724,014,266	139
Utah	4	44,238,047	20
Vermont	3	7,066,214	23
Virginia	21	147,280,171	81
Washington	23	345,467,782	166
West Virginia	10	29,161,108	44
Wisconsin	20	209,702,410	75
Wyoming	3	7,405,359	12
Washington, DC	3	4,693,254	14
United States Territories	27	221,270,868	127
Headquarters	167	4,334,034,502	244
Total	860	\$34,762,282,746	4,363

Source: FTA's Grants Management Information System, April 1992.

Table II.2: FTA Active Grants by Region as of April 1992

Region and headquarters location	Number of grantees	Net obligations	Number of grants
I, Boston, MA	70	\$ 3,128,948,437	442
II, New York, NY	40	8,597,940,316	351
III, Philadelphia, PA	72	4,170,694,234	457
IV, Atlanta, GA	139	2,296,474,105	712
V, Chicago, IL	108	5,171,218,685	690
VI, Dallas/Fort Worth, TX	69	1,024,249,674	280
VII, Kansas City, MO	35	635,344,685	203
VIII, Denver, CO	40	411,350,293	177
IX, San Francisco, CA	78	4,148,794,491	462
X, Seattle, WA	39	843,233,324	345
Headquarters	167	4,334,034,502	244
Total	857^a	\$34,762,282,746	4,363

^aFTA's Grants Management Information System as of April 1992 reports different totals for the number of grantees when the data are grouped by state versus the number when grouped by region.

Source: FTA's Grants Management Information System, April 1992.

Summary of Costs Questioned in 109 DOT OIG Reports Issued From January 1988 Through May 1992

Equipment Not Used for Intended Purposes—\$104.6 million

This category includes costs to replace buses that were used solely to transport students, in direct violation of FTA regulations; other services improperly closed to the general public; and property that was not developed as intended.

Excess Equipment—\$85.6 million

This category includes the replacement value of excessive buses bought with FTA funds in six regions. FTA guidelines allow transit authorities to use federal funds to purchase as many buses as needed to provide service during the peak period of operation, plus 20 percent more buses to serve as spares. This amount also includes funds used to purchase excess bus parts.

Prematurely Retired and Improperly Maintained Equipment—\$58.9 million

This category includes the cost of buses that were retired before the end of FTA's prescribed 12-year service life because their mechanical condition was deteriorated, they could not be accounted for, or they had been bought and not used.

Ineligible Costs—\$50.0 million

Costs that were ineligible for reimbursement under FTA guidelines were still billed to FTA. The category also includes unallowed expenditures and lost interest.

Improper Expenditures—\$22.9 million

Funds were used on property that was lost or stolen, for personal purposes, to pay contractors with conflicts of interest, and for excessive profits made by a contractor. This amount also includes unexplained adjustments of financial records, stolen revenues, and overcharges.

Unexpended Program Funds Not Deobligated, or Obligated Prior to Need—\$21.5 million

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

Unsupported Costs—\$19.7 million

This category includes costs questioned because documentation was inadequate to support claims of funds spent, allocation methods used, or the cost analyses performed.

Possible Cost Savings—\$13.8 million

This category includes cost savings that could have been realized if value engineering techniques had been used during construction, or cost analysis had been performed for contract modifications.

Funding Not Received—\$8.4 million

This category includes federal funds spent on projects for which grantees did not meet the required nonfederal funding match and lease revenues that were not collected.

Unacceptable Work—\$3.6 million

This category represents FTA's share for work that was improperly performed.

Unclaimed Share of Lawsuit—\$0.4 million

This category represents FTA'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 FTA is owed a percentage of any settlement.

FTA's Actions in Response to GAO's Recommendations

In its July 14, 1992, letters to the Senate Committee on Governmental Affairs, the House Committee on Government Operations, and the House and Senate Committees on Appropriations, DOT included written statements of the actions it is taking on our 20 earlier recommendations. The following excerpts from DOT's letters—Status of Corrective Actions—restate each of our recommendations and DOT's responses.

Excerpt from July 14, 1992, 60-day response letter on Mass Transit Grants: Risk of Misspent and Ineffectively Used Funds in FTA's Chicago Region (GAO/RCED-92-53, Mar. 4, 1992).

Recommendation: Ensure that the Chicago Transit Authority, Metra, and other grantees with identified problems have management systems that adequately account for and protect Federal funds before the grantees receive additional grants.

Response: Concur in part. The FTA has initiated several efforts to ensure that grantee internal control systems are adequate. The FTA's guidance contained in the Office of Management and Budget Compliance Supplement for use under the Single Audit Act is being revised for reissuance. The revision will ensure that audit objectives for each compliance area are clearly explained. As a result, audit assurances regarding internal control structures may be relied upon as the principal tool for assessing the adequacy of such systems. Further, the annual risk assessment of FTA grantees, part of the restructured triennial review process, will identify any significant unresolved compliance issues. The FTA will take appropriate enforcement action to resolve such issues, up to and including withholding new grants. The FTA has a range of enforcement remedies available to ensure compliance, and as part of the restructured triennial review process, FTA is studying these remedies and their use to ensure consistent application on a national basis.

Recommendation: Require that triennial reviews evaluate, analyze, and test grantees' compliance with Federal requirements.

Response: Concur. The FTA Administrator has approved a new oversight process whereby annual data collection is separated from the compliance determination functions of the triennial review. Data sources for each compliance area have been identified. The triennial review will focus

almost exclusively on evaluating and analyzing compliance data collected through other in-house and contract oversight mechanisms now in place.

Recommendation: Use quarterly progress and financial reports to identify cost, schedule, and performance problems.

Response: Concur. The restructured triennial review process specifically includes the use of this information for the recommended purposes. In addition, the FTA has modified the Grants Management Information System (GMIS) to track quarterly progress report submissions in addition to Financial Status Reports. Headquarters and regional project managers now track quarterly and financial status reports to identify cost, schedule, or performance problems through the GMIS. Finally, a study of oversight information collection requirements and processes is being undertaken to alleviate concerns with "information overload" identified by the task force as a barrier to effective use of these types of reports.

Recommendation: Implement procedures to coordinate Federal with state and local monitoring activities and explore the possibility of sharing resources to oversee grantee procurement systems, contracting procedures, and other management systems.

Response: Concur. We agree that all available sources of pertinent information should be utilized as appropriate in the conduct of agency oversight. Coordination with state and local monitoring activities is an element of several of the in-house and contract oversight mechanisms in the restructured oversight process. This is particularly true of the audit functions carried out by public and private accounting and audit professionals operating under new guidance being developed by FTA, in cooperation with the GAO, the President's Council on Integrity and Efficiency, and the OIG.

Recommendation: Reassess Region V's practice of relying primarily on single audits to verify the appropriateness of costs when closing completed grants.

Response: Concur. While FTA has reaffirmed the appropriateness of relying upon single audits for grant close outs, deficiencies in the single audit process identified by GAO are being corrected. In addition, other monitoring tools such as routine site visits, project management oversight reviews, and procurement systems reviews will be used to supplement reliance of the single audit for grant close outs where oversight activities

indicate that problems may exist which might not be uncovered by single audits.

Single audits are now being supplemented by internal control structure reviews of selected grantees by oversight contractors in those cases where single audit coverage is deemed insufficient to provide the necessary degree of assurance for particular projects or grantees. Oversight contractor assistance is now available in the areas of construction management, financial capacity, financial management, procurement, and audit to supplement FTA oversight activity.

Excerpt from July 14, 1992, 60-day response letter on Mass Transit Grants: Noncompliance and Misspent Funds by Two Grantees in UMTA's New York Region (GAO/RCED-92-38, Jan. 23, 1992).

Recommendation: Act promptly to correct grantee noncompliance with Federal requirements and withhold funds where appropriate.

Response: Concur. The FTA will conduct an annual risk assessment of each grantee which will include a determination of the status of necessary corrective actions previously identified. When these assessments identify inadequate actions on the part of a grantee to implement corrective actions in response to audit recommendations, the FTA will initiate appropriate enforcement action. The FTA is also reviewing agency enforcement activities in order to achieve greater consistency in applying the various enforcement tools available.

Recommendation: Establish milestones for closing out inactive and completed grants in accordance with FTA guidelines.

Response: Concur. The FTA has identified eliminating the existing backlog of grant close outs as a national priority and will continue to close out as many inactive and completed grants as possible. Substantial progress has been accomplished. Total open grants have been reduced from about 6,100 in FY 87 to about 4,200 at present. The FTA expects to eliminate the grant close out backlog and achieve a steady state whereby the number of grant close outs is equivalent to the number of new grants awarded during the fiscal year, by the end of FY 94. To accomplish this objective, the FTA is issuing regular reports to its program offices which identify grants that

have not had a drawdown in 12 months and those with zero balances. In addition, FTA has developed computer programs for use by its regional offices to identify candidate grants for potential close out.

Recommendation: Review NYCTA overhead cost allocation plans and rates as required by FTA rules.

Response: Concur. The FTA will request that the Department's OIG include an audit of NYCTA overhead cost allocation in its annual audit plan for FY 93.

Recommendation: Formalize coordination with state and local audit organizations responsible for Region II grantees so that the region can obtain and use their reports in its oversight activities.

Response: Concur. We agree that all available sources of pertinent information should be utilized as appropriate in the conduct of agency oversight. Coordination with state and local monitoring activities is an element of several of the in-house and contract oversight mechanisms in the restructured oversight process. This is particularly true of the audit functions carried out by public and private accounting and audit professionals operating under new guidance being developed by FTA in cooperation with the GAO, the President's Council on Integrity and Efficiency, and the OIG.

Excerpt from July 14, 1992, 60-day response letter on Mass Transit Grants: Improved Management Could Reduce Misuse of Funds in UMTA's Region IX (GAO/RCED-92-7, Nov. 15, 1991).

Recommendation: Ensure that all grantees have management control systems that adequately account for and protect Federal mass transit investments.

Response: Concur. The FTA has initiated several efforts to ensure that grantee internal control systems are adequate. The FTA's guidance contained in the Office of Management and Budget Compliance Supplement for use under the Single Audit Act is being revised for reissuance. The revision will ensure that audit objectives for each compliance area are clearly explained. As a result, audit assurances

regarding internal control structures may be relied upon as the principal tool for assessing the adequacy of such systems. The OIG and GAO have agreed to work with FTA staff to accomplish this objective.

Recommendation: Use progress and financial reports to identify cost, schedule, and performance problems.

Response: Concur. The restructured triennial review process specifically includes the use of this information for the recommended purposes. The FTA has modified the Grants Management Information System (GMIS) to track quarterly progress report submissions in addition to Financial Status Reports. Headquarters and regional project managers now track quarterly and financial status reports to identify cost, schedule, or performance problems through the GMIS.

Recommendation: Ensure that close out reviews are conducted promptly upon completion of a project and that they verify that products were delivered as agreed, funds were used appropriately, and Federal requirements were met.

Response: Concur. The FTA has identified eliminating the existing backlog of grant close outs as a national priority. To accomplish this objective, the FTA is issuing regular reports to its program offices identifying grants that have not had a drawdown in 12 months and those with zero balances. In addition, FTA has developed computer programs for use by its regional offices to identify candidate grants for potential close out. Finally, FTA will continue to ensure that grants were properly administered through the use of the A-128 single audit process and other oversight mechanisms. As previously discussed, the FTA is currently revising A-128 audit guidance to assure that single audits contain sufficient information to suit this purpose. The FTA will augment the A-128 audits through other oversight mechanisms as necessary.

Recommendation: Verify that inadequate grantee performance is corrected, and if it is not, take appropriate enforcement action to obtain compliance.

Response: Concur. The FTA will conduct an annual risk assessment of each grantee which will include a determination of the status of necessary corrective actions previously identified. When these assessments identify inadequate actions on the part of a grantee to implement corrective actions in response to audit recommendations, the FTA will initiate

appropriate enforcement action. The FTA is also reviewing agency enforcement activities in order to achieve greater consistency in applying the various enforcement tools available.

Recommendation: Require that triennial reviews evaluate, analyze, and test grantee compliance with Federal requirements.

Response: Concur. The FTA Administrator has approved a new oversight process whereby annual data collection is separated from the compliance determination functions of the triennial review. Data sources for each compliance area have been identified. The triennial review will focus almost exclusively on evaluating and analyzing compliance data collected through other in-house and contract oversight mechanisms now in place.

Recommendation: Review compliance on existing grants and resolve significant noncompliance issues before awarding new grants.

Response: Concur in part. The annual risk assessment of FTA grantees, part of the restructured triennial review process, will identify any significant unresolved compliance issues. The FTA will take appropriate enforcement action to resolve such issues, up to and including withholding new grants. The FTA has a range of enforcement remedies available to ensure compliance, and as part of the restructured triennial review process, FTA is studying these remedies and their use to ensure consistent application on a national basis.

Excerpt from July 14, 1992, 60-day response letter on Mass Transit Grants: Scarce Federal Funds Misused in UMTA's Philadelphia Region (GAO/RCED-91-107, June 13, 1991).

Recommendation: Evaluate management control systems of new grant recipients to ensure that they are consistent with Federal requirements.

Response: Concur. The FTA has initiated several efforts to ensure that grantee internal control systems are adequate. The FTA's guidance contained in the Office of Management and Budget Compliance Supplement for use under the Single Audit Act is being revised for reissuance. The revision will ensure that audit objectives for each compliance area are clearly explained. As a result, audit assurances

regarding internal control structures may be relied upon as the principal tool for assessing the adequacy of such systems. The OIG and GAO have agreed to work with FTA staff to accomplish this objective.

Recommendation: Require that triennial reviews of existing grant recipients evaluate, analyze, and test compliance with Federal requirements.

Response: Concur. The FTA Administrator has approved a new oversight process whereby annual data collection is separated from the compliance determination functions of the triennial review. Data sources for each compliance area have been identified. The triennial review will focus almost exclusively on evaluating and analyzing compliance data collected through other in-house and contract oversight mechanisms now in place.

Recommendation: Track the submission and completeness of grantees' quarterly reports and use the reports to identify cost, schedule, or performance problems.

Response: Concur. The restructured triennial review process specifically includes the use of this information for the recommended purposes. The FTA has modified the Grants Management Information System (GMIS) to track quarterly progress report submission. Headquarters and regional project managers now track quarterly reports to identify cost, schedule, or performance problems through the GMIS.

Recommendation: Implement a system to track grantees' implementation of corrective actions recommended by various audit entities.

Response: Concur in part. A joint OIG/management tracking system is in place within the Department, which tracks the implementation of OIG audit recommendations. The FTA's guidance for performing grantee audits under the Single Audit Act requires consideration of all audits performed by other entities. This process is intended to ensure that the status of corrective actions recommended by various audit entities is evaluated within the A-128 audit process. Current cooperative efforts among the FTA, GAO, the President's Council on Integrity and Efficiency, and various elements of the accounting profession to improve the quality of single audits should also contribute to more systematic monitoring of grantee audit recommendation implementation.

Recommendation: Review project status to ensure that grantees are in compliance with Federal requirements before FTA approves additional funding requests and withhold funds until problems are corrected.

Response: Concur in part. The annual risk assessment of FTA grantees, part of the restructured triennial review process, will identify any significant unresolved compliance issues. The FTA will take appropriate enforcement action to resolve such issues, up to and including withholding new grants. The FTA has a range of enforcement remedies available to ensure compliance, and as part of the restructured triennial review process, FTA is studying these remedies and their use to ensure consistent application on a national basis.

Time Spent on Grant Oversight

Table V.1: Percent of Oversight Time Spent on Specific Tasks

Region	Triennial review	Single audit	Quarterly report	Procurement system review	Third-party contracting
I	5	5	8	0	5
II	20	5	13	0	5
III	7	2	9	1	9
IV	14	6	10	1	11
V	14	2	7	0	13
VI	6	1	8	0	2
VII	6	3	7	0	2
VIII	6	3	12	0	6
IX	7	5	11	1	3
X	15	4	9	1	9
Average	10	4	9	0	7

Region	Site visit	Project meetings	PMO oversight	Grant closeouts	GAO/OIG follow-up	Other
I	13	2	2	3	4	1
II	8	18	8	6	5	0
III	9	6	5	7	6	4
IV	5	3	4	11	6	5
V	4	3	3	5	5	0
VI	4	1	1	6	3	0
VII	7	2	6	8	3	1
VIII	7	10	3	3	3	0
IX	1	7	9	10	5	0
X	2	3	6	7	3	9
Average	6	6	5	7	4	2

Source: Survey of FTA regions.

**Appendix V
Time Spent on Grant Oversight**

Table V.2: Percent of Total Time Spent on Specific Tasks

Region	Triennial review	Single audit	Quarterly report	Procurement system review	Third-party contracting
I	2.3	2.3	3.5	0	2.5
II	1.8	0.5	1.1	0	0.5
III	3.1	1.0	3.9	0.3	3.9
IV	4.3	1.9	3.0	0.3	3.3
V	10.9	1.2	5.8	0.1	10.1
VI	4.7	1.1	6.4	0.1	1.8
VII	2.9	1.3	3.5	0	0.8
VIII	3.9	2.1	7.5	0.3	3.8
IX	2.5	1.8	3.8	0.3	0.9
X	9.7	2.6	6.1	0.3	6.1
Average	4.6	1.6	4.5	0.2	3.4

Region	Site visit	Project meetings	PMO oversight	Grant closeouts	GAO/OIG follow-up	Other
I	5.8	0.8	0.8	1.5	1.8	0.4
II	0.7	1.6	0.7	0.5	0.5	0
III	3.6	2.6	2.3	3.1	2.7	1.6
IV	1.5	0.8	1.3	3.3	1.8	1.6
V	3.3	2.0	1.9	3.8	4.2	0
VI	3.0	0.8	0.5	5.1	2.0	0
VII	3.3	1.0	3.2	3.8	1.4	0.4
VIII	4.1	6.3	1.6	1.6	2.0	0
IX	0.4	2.4	3.3	3.6	1.8	0
X	1.3	1.8	3.7	4.4	2.2	5.9
Average	2.7	2.0	1.9	3.1	2.0	1.0

Source: Survey of FTA regions.

Comments From the Department of Transportation

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



U.S. Department of
Transportation

Assistant Secretary
for Administration

400 Seventh St. S.W.
Washington, D.C. 20590

September 16, 1992

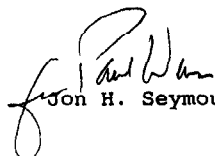
Mr. Kenneth M. Mead
Director, Transportation Issues
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Mead:

Enclosed are two copies of the Department of Transportation's comments concerning the U.S. General Accounting Office draft report entitled, "Mass Transit Grants: If Properly Implemented, FTA Initiatives Should Improve Oversight," RCED-92-221.

Thank you for the opportunity to review this report. If you have any questions concerning our reply, please contact Martin Gertel on 366-5145.

Sincerely,


Jon H. Seymour

Enclosures

DEPARTMENT OF TRANSPORTATION (DOT) REPLY
TO
GENERAL ACCOUNTING OFFICE (GAO) DRAFT REPORT
ON
MASS TRANSIT GRANTS:
"If Properly Implemented,
FTA Initiatives Should Improve Oversight"
RCED-92-221

SUMMARY OF GAO FINDINGS AND RECOMMENDATIONS

The GAO draft report summarizes findings and recommendations from prior GAO reviews of Federal Transit Administration (FTA) program oversight in four regions. In addition, the report assesses recent FTA and legislative initiatives designed to further refine and strengthen oversight, and examines FTA staffing allocation and use of contractors to conduct oversight activities.

The GAO maintains that FTA's oversight has not effectively detected and corrected deficiencies in grantees' management controls. However, the report also found that actions underway to improve grantees' accountability and strengthen FTA's monitoring and enforcement will significantly reduce the risk of non-compliance.

The draft report recommends that the Administrator, FTA:

- (1) fully implement GAO's prior recommendations;
- (2) implement procedures to ensure that FTA's contractors have adequate guidance for performing oversight tasks; and
- (3) develop consistent standards for staffing triennial reviews and other monitoring tasks to ensure that the new oversight strategy is implemented as FTA headquarters envisions.

SUMMARY OF THE DEPARTMENT OF TRANSPORTATION POSITION

The Department appreciates GAO's efforts to help ensure effective program oversight of Federal mass transportation programs. We share with GAO the objective of ensuring compliance with Federal requirements and proper use of funds. The report properly reflects the intensive efforts FTA initiated to improve grantees' accountability and to strengthen FTA's monitoring and enforcement. We wish to acknowledge the unprecedented level of cooperation and advice GAO staff have provided regarding implementing improvements recommended by the FTA Administrator's

task force on program oversight. We fully agree with GAO that these changes, if properly implemented, should better safeguard future transit grants from risk of fraud, waste, abuse, and mismanagement. In addition, the FTA Administrator is examining the organizational structure and will take steps to ensure that resources are appropriately allocated to provide adequate attention to oversight functions.

DETAILS OF THE DEPARTMENT OF TRANSPORTATION POSITION

As the Department has responded in detail to both the draft and final reports for each of the four regional reports upon which this draft is based, we will not reiterate previously identified concerns with individual statements in the draft report. However, it should be noted that FTA's past oversight was fully consistent with applicable laws, regulations and other Federal directives. Actions underway by the FTA to modify certain aspects of grantee oversight represent additional fine tuning and strengthening of the oversight function.

See comment 1.

FTA's Oversight Refinements

The FTA's oversight philosophy is built upon fundamental principles of Federalism and recognizes the legitimate roles of Federal, state and local governments in meeting the Nation's mass transportation needs. It is inaccurate to characterize the FTA Administrator's adoption of the task force recommendations to improve grant oversight as an unexpected reversal and a 180 degree change in FTA's oversight philosophy. Significant as the plan and its implementation are to FTA's future oversight program, it is fully consistent with the oversight philosophy established in the Triennial Review Scoping Paper developed in 1984. As stated in the Department's responses to the individual regional reports, reduced staffing and unrealized expectations under the Single Audit Act, coupled with increased statutory and regulatory responsibilities since 1984, inhibited the agency's ability to carry out the program as envisioned. The FTA's current efforts will enhance but do not contradict the agency's historic view of its oversight responsibility.

See comment 2.

FTA Oversight Identifies Noncompliance

Contrary to the findings in the GAO regional reports and brought forward in this GAO summary report, FTA's oversight activities during the period covered by GAO's review, which include consideration of audits performed by others, did in fact identify the weaknesses in grantee management systems and instances of non-compliance with Federal requirements described by GAO. Where GAO brings forward findings from the regional reports, better balance could be achieved by also bringing forward applicable portions of the Department's responses as provided.

See comment 3.

FTA's Enforcement Approach

The Department continues to disagree with GAO that FTA's measured approach to using available enforcement tools is indicative of a reluctance to use those tools. The FTA's oversight task force confirmed the appropriateness of employing a range of enforcement tools with graduated severity. The FTA has recognized, however, the need for greater uniformity between regions in using available enforcement remedies to address instances of non-compliance and establishing milestones for their application. Effort is currently underway to establish guidance which will identify the most common non-compliance characteristics for each major requirement, along with available enforcement remedies and milestones in which grantees will be expected to take corrective action or be subject to increased sanctions.

Single Audits and FTA's Oversight Strategy

In accordance with the Single Audit Act of 1984 and OMB Circular A-128, the single audit is designed to be the definitive audit of Federal assistance programs by state and local governments. While the Act does not prohibit Federal agencies from conducting additional audits, the Act does require Federal auditors to rely upon single audit findings and base any supplementary audits upon them. Thus single audits should continue to be used to close out grants in all but limited situations.

The success of FTA's oversight strategies, both as originally expressed in the 1984 Triennial Review Scoping Paper and in the 1992 task force report, relies heavily upon the adequacy of audit coverage provided under the Single Audit Act. The task force found that the guidance contained in the Office of Management and Budget (OMB) Compliance Supplement for Single Audits of State and Local Governments for use in auditing FTA programs is largely inadequate, resulting in audit reports of little or no practical value to FTA management. In response FTA is revising the guidance with input from GAO, the Department of Transportation's Office of the Inspector General, the American Institute of Certified Public Accountants, and others.

Implementation of improved single audit coverage is critical to the success of the FTA oversight strategy. Given the level of cooperation this effort has received to date, the Department is confident that this can be accomplished. The FTA intends to exercise its statutory authority to obtain the required audit services for those non-major programs which are not subject to the Single Audit Act. Taken together with the other planned improvements, these actions will address concerns over material weaknesses in FTA oversight.

See comment 4.

See comment 5.

Appendix VI
Comments From the Department of
Transportation

FTA Will Emphasize Oversight

From a survey of FTA's regional oversight practices GAO found that there is little consistency from region to region in the allocation of oversight resources. The findings of the FTA oversight task force support the GAO finding. The oversight task force plan includes specific action to improve the distribution of staff resources. In addition, the FTA Administrator is examining the organizational structure and will take steps to ensure that resources are appropriately allocated to provide adequate attention to oversight functions.

RESPONSE TO GAO RECOMMENDATIONS

RECOMMENDATION: FTA should fully implement our prior recommendations.

RESPONSE: FTA has committed to full implementation of 16 of the 20 recommendations contained in the four regional reports. Partial or alternative actions on the remaining four recommendations are expected to achieve the desired oversight objectives.

RECOMMENDATION: Implement procedures to ensure that FTA's contractors have adequate guidance for performing oversight tasks.

RESPONSE: Concur. This recommendation is consistent with FTA's enhanced oversight strategy. FTA will review all existing guidance and initiate action to modify or supplement it as necessary.

RECOMMENDATION: Develop consistent standards for staffing triennial reviews and other monitoring tasks to ensure that the new oversight strategy is implemented as FTA headquarters envisions.

RESPONSE: Concur. As part of the task force report implementation, detailed staffing analyses currently planned will provide necessary data to further refine oversight resource allocations. In addition, the FTA Administrator is examining the organizational structure and will take steps in the near term to ensure that resources are appropriately allocated to provide adequate attention to oversight functions.

See comment 6.

See comment 6.

See comment 6.

The following are GAO's comments on the Department of Transportation's (DOT) letter dated September 16, 1992.

GAO Comments

1. DOT states that FTA's past oversight was fully consistent with applicable laws, regulations, and directives. However, FTA has not been performing the "... full review and evaluation of the performance of a [grant] recipient in carrying out the recipient's program, with specific reference to compliance with statutory and administrative requirements . . ." as the law requires for a triennial review. FTA believes that single audits have not been particularly useful in determining the adequacy of grantees' internal controls or actual compliance and attributes these shortcomings to the limited detail on audit work suggested in the current compliance supplement. Also, although FTA procedures require submission of quarterly progress and financial reports, FTA has not consistently reviewed the reports' contents or required their submission. As a result, we view the changes FTA has made as both positive and significant and believe that, in fact, they represent more than fine tuning.

2. DOT contends that it is inaccurate to characterize the new oversight initiatives that FTA is adopting as a 180-degree change in its oversight philosophy. However, we believe that FTA's current efforts are a significant departure from its previous oversight approach. Our reviews in four regions and survey of regional oversight activities confirmed that FTA's oversight has been superficial, ineffective, inconsistent, and unfocused, thereby placing federal transit funds at risk of fraud, waste, abuse, and mismanagement. FTA's new oversight initiatives, if fully implemented, should substantially improve grantees' compliance and better safeguard federal transit dollars. Nevertheless, to address DOT's concerns about our characterization of the changes that have been or are being taken at FTA, we replaced the term "180-degrees" with the word "significant" in this final report.

3. DOT asserts that FTA's oversight identified weaknesses in grantees' management systems and instances of noncompliance. Nonetheless, the examples of serious and long-standing problems that we cited from our four regional reports resulted in the waste and mismanagement of millions of dollars of federal transit grants. If FTA's oversight had been effective, the agency would have ensured that grantees had controls to prevent problems from occurring in the first place.

4. DOT disagrees that FTA has been reluctant to use the full range of its enforcement tools. However, we reported several instances where significant grantee noncompliance went uncorrected for a decade or longer. We noted that FTA's use of notification letters and memorandums alone could not be construed as appropriate and timely oversight. And apparently FTA agrees. As part of its new oversight initiatives, FTA is setting guidelines for appropriate enforcement sanctions when grantees fail to take timely corrective actions.

5. We agree with DOT that better execution of audit plans and increased guidance on FTA requirements in the compliance supplement for FTA's program may increase the usefulness of single audits for grant-monitoring purposes. We have advised FTA to coordinate with OMB in its efforts to revise the compliance supplement. However, we continue to believe that circumstances are likely to arise in the future where FTA will need to supplement single audits in order to ensure that grant closeouts are properly performed.

6. Our response appears at the end of chapter 3.

Major Contributors to This Report

**Resources,
Community, and
Economic
Development Division,
Washington, D.C.**

**John H. Anderson, Jr., Associate Director
Mary Ann Kruslicky, Assistant Director
J. Erin Bozik, Assignment Manager
Shazia Rafiullah, Evaluator-in-Charge**

Related GAO Products

Special Report on contractor improprieties at an FTA Region II transit authority (GAO/OSI-92-7, Sept. 10, 1992).

Mass Transit Grants: Risk of Misspent and Ineffectively Used Funds in FTA's Chicago Region (GAO/RCED-92-53, Mar. 4, 1992).

Mass Transit Grants: Noncompliance and Misspent Funds by Two Grantees in UMTA's New York Region (GAO/RCED-92-38, Jan. 23, 1992).

Mass Transit Grants: Improved Management Could Reduce Misuse of Funds in UMTA's Region IX (GAO/RCED-92-07, Nov. 15, 1991).

Mass Transit Grants: Development Time Frames for Selected UMTA Projects (GAO/RCED-91-184FS, July 11, 1991).

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

Mass Transit: Significant Federal Investment Is Not Adequately Protected (GAO/T-RCED-91-68, June 12, 1991).

Mass Transit: Reauthorization Offers Opportunity to Address the Appropriate Federal Role (GAO/T-RCED-91-41, Apr. 24, 1991).

Mass Transit: Historical Patterns and Future Outlook (GAO/T-RCED-91-15, Mar. 5, 1991).

UMTA Project Oversight and Mass Transit Issues (San Jose, Calif.) (GAO/T-RCED-90-102, Aug. 8, 1990).

UMTA Project Oversight and Mass Transit Issues (Los Angeles, Calif.) (GAO/T-RCED-90-103, Aug. 7, 1990).

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

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

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

**U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20877**

Orders may also be placed by calling (202) 275-6241.

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

**Official Business
Penalty for Private Use \$300**

**First-Class Mail
Postage & Fees Paid
GAO
Permit No. G100**
