



**Department of Legislative Services
Office of Legislative Audits**

**Department of Transportation
Maryland Transit Administration**

Report dated February 13, 2015



Department of Legislative Services Office of Legislative Audits

Overview

The Maryland Transit Administration (MTA) is responsible for the construction, operation, and maintenance of the Baltimore metropolitan area transit system and for commuter services in the suburban areas of the State.

Transit modes in operation include Metro subway, bus, light rail and the Maryland Rail Commuter (MARC) service. MTA also operates the federally mandated Mobility Paratransit Program (MPP).

MTA has approximately 3,100 employees and its fiscal year 2013 operating and capital expenditures totaled approximately \$1.06 billion.

The audit report included 9 findings, 1 of which was repeated from the preceding audit report (**Finding 9**).



Department of Legislative Services Office of Legislative Audits

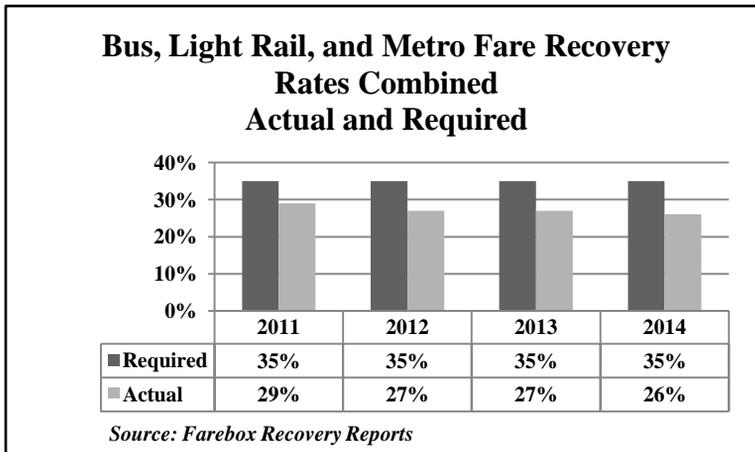
Key Audit Issues

- MTA did not exercise sufficient oversight of the costs incurred with respect to contractors who are used to develop the Red and Purple light rail line projects, operate the Mobility Paratransit Program (MPP), and provide commuter rail service (MARC).
 - Architectural and engineering (A&E) firms' direct labor rates were not sufficiently verified.
 - MTA overpaid its MPP vendors approximately \$10 million for fuel.
 - MTA accepted a \$24 million MARC service contract change order without preparing an independent cost analysis.

- MTA did not always comply with State procurement regulations and effective controls were not established over fare collections, purchases and disbursements, and equipment inventory.



Farebox Recovery



MTA failed to meet legally required farebox recovery levels. Required levels have not been attained since fiscal year 2005.

During fiscal year 2014, net passenger fare revenues totaled \$83 million and net operating expenses totaled \$319 million. To have met the required 35 percent farebox recovery rate, MTA would have needed to realize additional passenger fare revenues of \$28.6 million or reduce its system operating costs by \$81.6 million (or a combination thereof).



Light Rail Line Capital Projects - Background

- In 2010, MTA contracted with four architectural and engineering (A&E) joint venture entities for two light rail transit capital projects under development – the Baltimore Red Line and the Washington Area Purple Line.
 - The original maximum not-to-exceed amounts for the four A&E contracts totaled \$280 million. In July 2013 the value of the A&E contracts was increased to \$547.1 million.
 - According to MTA's project reports, as of September 2014, A&E expenditures totaled approximately \$302.4 million (\$170.2 million for the Red Line and \$132.2 million for the Purple Line).
 - Both projects have experienced increases in estimated A&E and construction costs and changes to the scope and schedules since the preliminary engineering phase. Collectively, the total original estimated cost of both projects has increased from \$4.1 billion to \$5.4 billion.
-



Light Rail Line Capital Projects (continued)

- MTA did not sufficiently verify the accuracy of contractor-billed direct labor rates for the Red and Purple Lines' four A&E contracts. Specifically, MTA did not periodically review contractor payroll records to substantiate those rates (**Finding 1**).

Consequently, there was a lack of assurance that the billed rates agreed with the actual labor rates the contractors used to pay their employees. The contractors' overhead and profit are determined using a formula based on direct labor costs. The total potential contract costs impacted by these direct labor charges were \$232.8 million.



Mobility Paratransit Program - Background

- MTA operates the federally mandated Mobility Paratransit Program (MPP) for individuals who are unable to use the MTA's fixed route bus, Metro subway, or light rail services due to a disability.
- The MPP provides door-to-door service within a three-quarter mile range from any fixed route system. Participants must generally pay the \$1.85 fare or provide the driver with an MTA prepaid fare ticket to obtain a ride. According to MTA records, there were 24,860 certified participants as of June 30, 2013.
- MTA contracted with three vendors in February 2013 to provide MPP services for a three-year period at a total cost of \$231.9 million. The vendors provide services using MTA-owned vehicles and provide the drivers, fuel, and vehicle maintenance. As of July 2014, vendor payments totaled \$89.9 million.



Mobility Paratransit Program (continued)

- MTA's error in calculating the vendors' service hour billing rates resulted in vendors being overpaid for fuel costs by approximately \$10 million during the period from February 2013 to August 2014 (**Finding 2**).

Even though MTA separately pays for actual vehicle fuel costs, MTA incorrectly included estimated fuel costs in the service hour billing rate calculations, resulting in the overpayments.

MTA made certain retroactive adjustments for the July and August 2014 bills which recouped \$1.2 million.

As of November 2014, MTA, in consultation with its legal counsel, was assessing potential actions to be taken to pursue recovery of the remaining \$8.8 million it overpaid for fuel during the months prior to July 2014.



Mobility Paratransit Program (continued)

- MTA lacked adequate procedures and controls over the MPP eligibility process (**Finding 3**). The eligibility process includes verifying an application signed by a healthcare professional documenting the applicant's disability and the reason(s) the applicant is unable to use MTA's fixed route transportation services. MTA provides a photo identification (ID) card to each approved applicant.
 - The employee performing the daily independent reviews to verify that ID cards were properly issued and accounted for did not document the completion of the reviews.
 - The eligibility database identifying the population of applicants who received approval was not used by MTA when selecting eligibility determinations to review for propriety.



Department of Legislative Services Office of Legislative Audits

Mobility Paratransit Program (continued)

- MTA continued to pay State excise taxes to the Comptroller of Maryland for fuel used in MPP service vehicles, although MTA may be tax exempt. During fiscal year 2012, MTA reimbursed vendors approximately \$498,300 for State excise taxes (**Finding 4**).

According to State law, with the exception of water and sewer charges imposed by the State or any of its agencies or political subdivisions, MTA (including its activities and the property it owns or controls) is exempt from all State and local taxes, assessments, and charges.

MTA's legal counsel agreed that the law applied to MPP service vehicles and, as of October 2014, was planning to request a formal legal opinion from the Office of the Attorney General to resolve the issue.



Department of Legislative Services Office of Legislative Audits

Contract Procurement, Monitoring, and Payments

- MTA accepted a \$24 million change order on a \$204.7 million MARC train service contract without preparing an independent cost analysis to determine whether the price provided by the contractor was reasonable. Also, certain billed charges were not adequately verified to supporting documentation (**Finding 5**).
 - MTA did not always comply with State procurement regulations for sole source contracts, recording bids received on competitive bid contracts, and publishing contract awards (**Finding 6**). For example, MTA did not record the date of receipt of bid documents nor publish the award of a \$156.5 million contract.
 - The security features available on the State's Financial Management Information System were not fully used by MTA to establish proper internal control over certain purchasing and disbursement transactions (**Finding 7**).
-



Other Issues

- MTA did not have adequate procedures to ensure all fare collections were deposited and security over the collections needs improvement (**Finding 8**). FY 2013 cash collections totaled approximately \$47.6 million, with an additional \$7.2 million from credit cards. For example, MTA did not ensure that all recorded fares were transferred to the money room for deposit or ensure that all recorded collections and credit card receipts were deposited to its bank account.
 - MTA did not adequately control its equipment and properly maintain the related records (**Finding 9 - repeat**). MTA's equipment inventory totaled approximately \$1.4 billion as of June 30, 2013, the majority of which was rolling stock (such as buses and rail cars). For example, MTA had not conducted a complete physical inventory of sensitive equipment items since December 2010 and certain equipment items recorded could not be located by OLA during testing.
-



Conclusions

MTA should

- perform verifications of the billed direct labor rates with the contractors' records of rates used to pay its employees;
 - take appropriate action to recover the overpayments for fuel from the MPP vendors;
 - ensure that recommended controls are established and followed over the MPP eligibility process;
 - obtain a formal legal opinion from the Office of Attorney General to determine if MTA is exempt from the payment of State excise taxes for fuel used in MTA's MPP service vehicles;
 - ensure independent cost estimates are prepared to support and evaluate change order amounts, perform a documented review of the supporting documentation for billed costs, and comply with State procurement regulations; and
 - ensure that appropriate controls are established and followed over fare collections, purchases and disbursements, and equipment inventory.
-