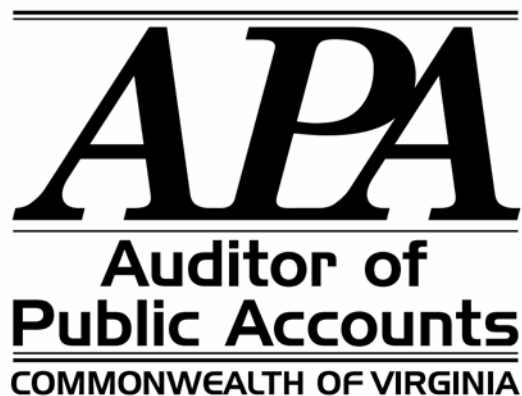


**DEPARTMENT OF  
RAIL AND PUBLIC TRANSPORTATION**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2005**



## **AUDIT SUMMARY**

Our review included an examination of the accounts and activities of the Department of Rail and Public Transportation for the year ended June 30, 2005. Specifically, our objectives were to:

- review and analyze the adequacy of the Department's internal controls over its financial operations;
- review and determine the adequacy of the Department's policies and procedures used to decide which projects to fund; and
- review the Department's policies regarding grants management, capital projects, and operations.

Included in our report are several observations regarding the operations and programs administered by the Department. Overall, we concluded that the Department has adequate controls over its administration of grant allocations and review and the current project management processes provide adequate oversight and ensure compliance with applicable laws, rules, and regulations. We do have some concerns about the Department's ability to retain qualified staff to maintain the current level of project management.

We also observed that the Department currently allocates operating assistance funding to recipient public transit providers based on eligible operating expenses as the sole criteria for awarding funding. In order to set forth specific, measurable objectives for statewide mass transit, the General Assembly may wish to reconsider how they currently fund mass transit. By implementing tiered performance measures as a gauge for allocating state operating assistance for public transportation, the Commonwealth could more accurately track the progress of an integrated, statewide mass transit plan.

We found that, overall, the Commonwealth of Virginia does not have a clear statement of the objectives that the rail and public transportation programs should achieve. To date, most of the designed and implemented plans have been a response to a specific problem rather than part of an intricate statewide plan with specific and measurable objectives. Specific objectives for mass transit could include providing a seamless transportation network throughout a region by improving interconnections among all transportation modes.

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## **HISTORY, MISSION, AND STATUTORY REQUIREMENTS**

The Code of Virginia established the Department of Rail and Public Transportation (DRPT) as an agency effective July 1, 1992. Prior to this date, DRPT was a division of the Department of Transportation (Transportation). DRPT's mission is to improve mobility and expand transportation choices in the Commonwealth.

The Code of Virginia requires DRPT to determine the present and future needs and implement plans and programs for public transportation and demand management and increase, improve, and preserve passenger and freight rail transportation. DRPT must coordinate with Transportation to conduct research, policy analysis, and planning for the rail and public transportation modes to ensure effective, safe, and efficient public transportation and passenger and freight rail services.

DRPT also develops uniform financial and operating data and criteria for evaluating all public transportation activities for the Commonwealth, and develops methodologies for the collection of this data. Additionally, DRPT maintains liaisons with state, local, district, and federal agencies or other entities, private and public, having responsibilities for passenger and freight rail, transportation demand management, ridesharing, and public transportation programs. DRPT has evolved to include project management responsibilities with the Dulles Corridor Metrorail Project and certain rail improvement projects.

### Observations on Mass Transportation in the Commonwealth

We found the Commonwealth, as a whole, lacks a statement of clear objectives regarding mass transportation plans. To date, most of the designed and implemented plans have been a response to a specific problem rather than part of an intricate statewide plan with specific and measurable objectives. Specific objectives for mass transit could include:

- providing a seamless transportation network throughout a region by improving interconnections among all transportation modes;
- offering alternative forms of transportation that will reduce traffic on the major roads to relieve the demand for new construction;
- ensuring the availability of mass transit to the transportation-disadvantaged, including the elderly, persons with disabilities, and economically-disadvantaged; and
- promoting and developing the use of mass transit in order to eliminate spatial barriers to employment opportunities.

The current formula grants provide mass transit funding with little accountability to statewide goals. In order to set forth specific, measurable objectives for statewide mass transit, the General Assembly must reconsider how they currently fund mass transit. The General Assembly may wish to re-examine the use of allocation formulas for setting mass transit project priorities and funding. One possible alternative is a tiered system with consideration given to the demographics of the areas served by public transportation. One tier could be formula-based operating grants that would require the recipients to submit performance reports responding to specific measures that align to the demographics in their region. Another tier would include funding of innovative projects that are transferable among mass transit systems.

A change to a tiered system would assist in developing a statewide approach for determining multi-modal transportation priorities. Such a process would facilitate distribution and coordination of limited federal and state funds towards mass transit projects, which best address regional issues and transportation goals.

### Organizational Structure

DRPT has five divisions, listed below, which correspond to the agency's program areas and support functions. A director heads each division with support provided by supervisors and staff. The division directors, along with the agency director, make up the executive staff. The agency director reports to the Secretary of Transportation and is a non-voting member of the Commonwealth Transportation Board (CTB). Further, the agency director is a board member of the Virginia Railway Express, Northern Virginia Transportation Commission, and some metropolitan planning organizations to provide the state's perspective to transportation decision makers. Below is a brief description of the division. The agency's organizational chart is presented in Appendix A.

Public Transportation Division - This division is comprised of four sections: Rural Transit, Urban Transit, Planning, and Transportation Demand Management. These sections administer and manage state and federal grant programs and work to support ridesharing operations and alternative commute options.

Rail Division - Comprised of three sections: Rail Passenger Operations, the Rail Industrial Development Program, and Rail Development and Special Projects, this division supports rail transit improvements and industrial rail access. The staff also provides assistance and conducts studies for passenger rail operations including commuter and intercity services.

Dulles Corridor Metrorail Project - DRPT has designated the Dulles Corridor Metrorail Project as a completely separate division of DRPT due to the size and considerable differences from those grants and projects for which DRPT is typically responsible. The project director is responsible for the overall management and direction of the delivery of services and functions, such as preliminary engineering plans and specifications, budget and schedule control, and dispute resolution. Other responsibilities include overall management of environmental agreements, grant administration, and managing and updating the project management plan on an ongoing basis.

Administration and Capital Projects Division - This division, comprised of five sections: Public Information, Policy and Procedures, Safety and Security Programs, Records Management, and Human Resources, is responsible for general administration and the planning and coordination of departmental activities. This division also collects and publishes data for internal and external users.

Fiscal and Information Technology Division - This division is responsible for all financial activities for the agency, as well as the procurement and information technology functions.

### Budgeting

Each December, the Governor, the Secretary of Finance, and the Department of Taxation release their formal revenue estimate for the Commonwealth, which includes Commonwealth Transportation Fund-related revenues. This estimate becomes the basis of all transportation appropriations. Using this

estimate, Transportation calculates the revenue DRPT should expect to receive. DRPT uses the results of this calculation to develop their budget as it relates to the Mass Transit Trust Fund. Transportation's Innovative Financing and Revenue division provides the revenue estimate for Dulles toll revenues. Using this information, the Chief Financial Officer develops a budget based on historical costs and adjustments needed for expected activity. Appendix B illustrates fiscal year 2005 actual and fiscal year 2006 budgeted sources and uses of funds.

DRPT's fiscal year 2006 budget contains two significant changes from the prior year's budget. First, the General Assembly established the Rail Enhancement Fund to implement rail projects consistent with VTrans2025, the Commonwealth of Virginia's statewide long-range multi-modal transportation plan, and the Virginia State Rail Plan in conjunction with public and private entities. Additionally, the General Assembly established the Mass Transit Capital Fund using \$40 million in General Funds and \$35 million from the Highway Construction Fund as part of the Governor's 2005 Transportation Initiative.

### Funding Sources

As illustrated in Table 1, both state and federal revenues are primary funding sources for DRPT. State revenues consist of various taxes and fees that support the primary transportation funds, which DRPT receives through Transportation. There are also other sources of revenues including Dulles toll revenues and Federal Reimbursement Anticipation Note (FRAN) proceeds. In fiscal year 2005, DRPT received over \$187 million, including \$116 million in mass transit funds through statutory allocation of the Transportation Trust Fund (TTF). DRPT also receives funding from the Federal Transit Administration and transfers from Transportation's Priority Transportation Fund for the Virginia Transportation Act of 2000 (VTA 2000) and Dulles Corridor Metrorail projects. Over the next several years, DRPT expects its funding to increase significantly, particularly for capital projects.

Table 1

### Funding Sources for Fiscal Years 2004 and 2005

	<u>2005</u>	<u>2004</u>
Federal grants and contracts	\$ 33,295,587	\$ 16,765,592
Taxes	113,201,248	109,410,893
Fees, licenses, and permits	2,972,362	3,003,363
Fines and assessments	4,451	4,120
Interest, dividends, and rents	822,196	753,456
Other	-	981
Receipts from cities, counties, and towns	544,595	354,987
Transfers	<u>88,064,362</u>	<u>30,599,805</u>
Total	<u>\$238,904,801</u>	<u>\$160,893,197</u>

DRPT receives its primary funding through an allocation of the TTF, of which the Mass Transit Fund receives 14.7 percent. DRPT annually allocates these funds in accordance with the Code of Virginia and Appropriations Act. First, DRPT allocates \$800,000 for "paratransit" capital projects, which promote public transit for the elderly. DRPT then allocates the remainder as follows: 73.5 percent for formula assistance or operating grants, 25 percent for capital assistance grants, and 1.5 percent for special programs grants. In fiscal year 2005, \$84.8 million was allocated to operating grants, \$29.9 million for capital assistance grants, and \$1.7 million for special programs.

Initially, Commonwealth of Virginia FRANs provided funding for the Dulles Corridor Metrorail, High Speed Rail, and Public Transit projects. To better meet the cash flow of these projects, in April 2005, VDOT substituted the use of FRAN proceeds for the High Speed Rail and Public Transit projects, with Priority Transportation Funds. Transportation transfers these funds to DRPT on a reimbursement basis.

DRPT receives federal revenues directly from the Federal Transit Administration (FTA) and Federal Railroad Administration. DRPT also receives flexible funds indirectly from the Federal Highway Administration (FHWA). The federal government established the Highway Trust Fund as a mechanism to collect revenues that fund various surface transportation programs. The Highway Trust Fund is comprised of a mass transit account and a highway account. The FTA disburses mass transit funds and the FHWA disburses highway funds.

The FTA sends most urban mass transit funds directly to local transit operators, while DRPT administers rural mass transit funds. The FHWA distributes highway program funds to Transportation, which allocates these funds to urban and rural areas based on local priorities and needs. Federal legislation allows the use of certain highway program funds for either highway or transit projects. This “flexible funding” is primarily available through FHWA’s Surface Transportation Programs (STP), the Congestion Mitigation and Air Quality Improvement Program (CMAQ), and the Minimum Guarantee Program. The General Assembly has mandated that the Commonwealth make available six percent of STP and ten percent of Minimum Guarantee Program funds for transit programs. When the Commonwealth determines the amount to be used for transit, FHWA “flexes” the money to FTA who allocates the funds to mass transit properties in the Commonwealth. Transportation and DRPT allocate these funds to specific transit projects and certain transportation projects with a mass transit component.

DRPT also receives Dulles Toll Road revenues to fund the Dulles Corridor Metrorail Project and other public transportation programs in the Dulles corridor. Prior to May 2005, the Dulles Corridor Metrorail Project received 85 percent of the excess revenues after deducting toll facility operating expenses, debt service, and maintenance replacements. On May 22, 2005, the toll increased by 25 cents at the main toll plaza and up to 25 cents at the ramps. Transportation applies 100 percent of the increase towards the Dulles Metrorail Project. Transportation transfers Dulles Toll Road revenues to DRPT on a quarterly reimbursement basis.

In addition to specific appropriations made by the General Assembly, the Highway Construction Fund provides funding to match federal funds and for the Rail Preservation, the Transportation Efficiency Improvement, and Special Programs. The Rail Preservation Program provides grants to improve railways, equipment, and related facilities for shortline railroads. The Transportation Efficiency Improvement Program supports initiatives at the state, regional, and community level that demonstrate innovative approaches to reducing traffic congestion. Special programs are project grants in Transportation’s portion of Virginia’s Transportation Six-Year Plan that are managed by DRPT. For these programs, DRPT receives reimbursement from Transportation after disbursement to grantees.

The Highway Maintenance and Operating Fund funds DRPT’s general administrative and operating expenses, which totaled \$3.5 million in fiscal year 2005. It also provides funds for transfers to other agencies such as the Virginia Information Technologies Agency and Department of General Services. Appendix B illustrates the sources and uses of DRPT’s funds.

## New Funding Sources

### *Mass Transit Capital Fund*

DRPT's fiscal year 2006 budget contains two additional funding sources. First, the General Assembly established the Mass Transit Capital Fund using \$40 million in General Funds and \$35 million from the Highway Construction Fund as part of the Governor's 2005 transportation initiative. This fund will provide \$10 million for a bus rapid transit system in Virginia Beach, \$20 million for Virginia Railway Express passenger car purchases, \$5 million for statewide bus purchases, and \$40 million to Washington Metropolitan Area Transit Authority for rail car purchases.

### *Rail Enhancement Fund*

The 2005 General Assembly established the Rail Enhancement Fund to support initiatives by passenger and freight rail operators to preserve and develop the railway transportation systems of the Commonwealth. These projects must support the implementation of rail projects consistent with VTRANS, the Commonwealth's multimodal transportation plan, and the Virginia State Rail Plan.

The funding source is the state portion of vehicle rental taxes collected in the TTF, which had been directed to the General Fund. Forecasted revenues for fiscal year 2006 are \$23.2 million. DRPT will distribute these funds to passenger and/or freight rail operators who propose projects that will either improve existing or create new rail lines within the Commonwealth. Rail operators must commit a minimum 30 percent match on any project proposal. Currently, DRPT has developed a draft of the Policy Goals and Implementation Guidelines and expects to accept and review project applications in October 2005.

The legislation also established a nine-member Rail Advisory Board to develop project allocation recommendations for CTB approval. DRPT will award funds to the most qualified applicants only after completing a cost benefit analysis, which reflects that the benefit the Commonwealth will receive exceeds the 70 percent funding they will be providing. The analysis consists of review of both quantitative and qualitative measures with regard to each applicant's proposed project. Once DRPT management evaluates each of the applications, they will determine which proposals meet the minimum criteria required for award. The DRPT Director will then recommend project proposals to the Rail Advisory Board who will evaluate the proposed projects and make recommendations of their own. The CTB must approve the recommendations before DRPT can enter into any project agreement with the rail operator.

## Expenses

As indicated by the schedule of expenses in Table 2, to accomplish its mission and statutory requirements, DRPT primarily distributes and administers federal and state grants for public, passenger rail, and freight rail transportation through statutory allocation or competitive application processes. DRPT also manages certain capital projects including the Dulles Corridor Metrorail Project.



Table 2

Expenses for Fiscal Years 2004 and 2005

	<u>2005</u>	<u>2004</u>
Transfer payments	\$154,764,421	\$153,144,190
Contractual services	28,296,072	3,908,686
Personal services	3,545,147	2,549,308
Continuous charges, including rent	288,423	306,689
Equipment	137,073	80,418
Supplies and materials	<u>23,033</u>	<u>20,936</u>
Total	<u>\$187,054,169</u>	<u>\$160,010,227</u>

In fiscal year 2005, DRPT disbursed over \$187 million, including \$83 million in state formula operating assistance grants and \$21 million in state capital assistance grants to local transportation providers. In addition, DRPT expended \$19 million and \$25 million for the Virginia Transportation Act of 2000 (VTA 2000) and the Dulles Corridor Metrorail Project, respectively. Remaining expenses include disbursements for other state and federal grants and \$4 million in operating expenses.

During the prior year's audit, we identified internal control weaknesses in DRPT's budgeting and accounting support functions and recommended that DRPT management consider partnering with another larger or several smaller agencies to obtain support services. Because of the detailed project accounting required to track funding, disbursements, and obligations for over 400 project grants to over 75 grantees, DRPT management has decided to keep the budgeting and accounting support functions within the agency. The agency hired a chief financial officer and a controller with the experience and ability to implement proper internal controls. During fiscal year 2005, DRPT progressed significantly in this area and we encourage this improvement to continue.

Grant Management

In order to perform its mission, DRPT manages state and federal grants and certain capital projects. In the following sections, we discuss DRPT procedures for managing grants and capital projects. Specific grant descriptions are listed in Appendix D.

As previously reported, DRPT disburses over \$115 million of the Mass Transit Fund as grants (formula assistance, capital assistance grants, or special projects grants). The grant type, program area, and population served by the transportation provider determine DRPT's role and responsibility regarding grant award and management procedures. DRPT administers formula grants and competitive application grants. Program areas include rail or public transportation. Urbanized areas have populations greater than 50,000 while nonurbanized areas have populations less than 50,000.

Formula Assistance Grants

Formula assistance grants are state operating assistance grants, which DRPT awards based on the total annual amount of state funds available expressed as a percent of the total amount of transit operating expenses. For example, transit operating expenses across the state totaled \$444 million for fiscal year 2004. The amount of formula assistance available for fiscal year 2006 is \$98 million (22 percent). Therefore, in fiscal year 2006, most transit systems will receive state formula assistance grants in the amount of 22 percent of their total fiscal 2004 expenses. Currently, 50 transit providers, such as local governments and private nonprofit agencies, receive formula assistance grants.

A variety of factors, including total statewide operating expenses and total transportation dollars available, determine the amount of formula assistance grants a transportation provider receives annually. The state share fluctuates from year to year, but has remained within 20 to 24 percent over the last five years.

Annually, transportation providers must submit a grant application, certify their operating expenses, and provide an independent auditor's report. DRPT staff review the application, calculate formula grant assistance using certified operating expenses, investigate significant variances between current and prior year calculated assistance amounts, and submit the proposed formula grants to CTB for approval. After CTB approval, DRPT drafts a grant agreement and the transportation provider signs the agreement. The transportation providers then supply an actual expense schedule and receive formula assistance quarterly or monthly.

Although DRPT collects the independent audit reports, it does not have the resources to track or review these reports, which could provide assurance that transportation providers record transactions properly, have adequate internal controls, and report certified operating expenses that are reasonable based on the entity's financial activity. DRPT should develop a methodology to obtain assurance that certified operating expenses submitted by the transportation providers is correct to ensure proper allocation of formula assistance.

#### Observation on Grants Management

DRPT currently allocates operating assistance funding to recipient public transit providers based on eligible operating expenses as the sole criteria for awarding funding. Recipients submit a certified statement presenting their operating expenses for the year after receiving the grant award. Grant award allocations use the prior year certified operating expenses.

By awarding recipients operating assistance without having specific and measurable operating objectives, the Commonwealth has no method to track statewide mass transit initiatives. Decision makers should develop a set of measures that can be monitored by the agency, fulfilled by recipients, and considered in the award allocation process.

It is evident that the goals of urban and rural transit providers vary significantly and, therefore, the performance requirements should seek to appropriately serve both rural and urban public transportation providers. The measures should also ensure that those providers who receive the largest share of state funding have critical, area-specific objectives such as reducing traffic congestion are actually doing so. By using performance measures as a gauge for allocating state operating assistance for public transportation, the Commonwealth can track the progress of an integrated, statewide mass transit plan.

#### Capital Assistance Grants

DRPT allocates 25 of Mass Transit Funds to capital assistance grants. Transit providers may use capital assistance grants for vehicle purchases, shop equipment, preventive maintenance, bus stop shelters, IT software and hardware, and other items. Since multiple federal and state grants may fund these efforts, DRPT has a process in place to allocate these grants.

When a transit provider identifies a public transportation need, they apply for federal funds through their Metropolitan Planning Organization (MPO) if they serve an urban area or DRPT if they serve a rural area. At this point, projects receive federal awards primarily through the Regional Surface Transportation Program (RSTP) or Congestion Mitigation and Air Quality Program (CMAQ).

DRPT then reviews both urban and rural projects and determines if the project needs additional federal funding. Transportation receives additional federal funds through the Surface Transportation Program and the Appropriations Act requires that public transportation projects receive a percentage of these funds annually. In addition, local governments, MPOs, and the CTB may also dedicate highway construction funding to a public transportation project. DRPT distributes the funds among eligible public transportation projects each year, giving priority to areas that do not have access to RSTP and CMAQ funds.

Once federal funding is determined, DRPT allocates state funds. If the project receives RSTP or CMAQ federal funds, the Highway Construction Fund provides the matching state funds for these programs. DRPT then allocates Paratransit and Mass Transit Capital Fund grants among the projects. Paratransit grants provide public transportation improvements for the elderly or disabled. The Appropriations Act specifies the allocation for the Mass Transit Capital Fund grants.

DRPT allocates Capital Assistance Grants using a uniform state share percentage, which DRPT calculates by dividing the amount of capital assistance available by the amount needed to support the nonfederal share of all transit capital projects for the year. The state share of capital expenses is 63 percent and 38 percent for fiscal years 2006 and 2005, respectively. The increased funding in fiscal year 2006 comes from the additional \$75 million provided by the Mass Transit Capital Fund.

#### Special Project Grants

DRPT allocates 1.5 percent of the Mass Transit Trust Fund to four grant programs. First are the TDM/Ridesharing Assistance Grants, which support administration of existing or new local and regional transportation demand management and ride sharing programs. Second are the Demonstration Project Assistance Grants, which assist communities in preserving and revitalizing public or private transportation service by implementing innovative projects for one year of operation. Finally, Special Project Grants also include Intern Project Grants and Technical Assistance Grants, which support planning or technical assistance to help improve or initiate public transportation services.

#### Rail/Public Transportation Studies

DRPT manages and performs studies requested by metropolitan planning organizations and localities for localities to assess the needs for public transportation and rail construction and/or improvements. Upon receipt of a transportation study request, DRPT evaluates the feasibility of the study in the area. If the Director deems it useful, DRPT will perform a Rail/Public Transportation study to determine the advantages and disadvantages of introducing mass transit to the area.

#### Relationship with the Department of Transportation

In performing our review, we identified an area of concern related to DRPT's relationship with Transportation and transactions occurring between the two agencies. Because both agencies have transportation objectives, much of the federal and state funding and disbursement process is interrelated.

When DRPT separated from Transportation in 1992, both agencies agreed on a Memorandum of Understanding and Transportation developed policies and procedures to address transaction processing between the two agencies. Since certain grant programs and projects focused more on public transportation, Transportation delegated management of these programs and projects to DRPT, who would act as the grant administrator and disburse funds to the grantee. Because the funding flowed through Transportation, DRPT would request reimbursement from Transportation quarterly. In order to make these payments, DRPT would simply borrow from one fund to make the disbursement to the

grantee and repay the fund when it received reimbursement from Transportation. At the time, the programs involved were minimal and these transactions amounted to less than \$5 million annually.

Over time, the amount of programs and dollars involved has increased significantly. Currently, DRPT receives reimbursement from transportation for VTA 2000 and the Dulles Corridor Metrorail Project, transit projects funded with federal funds, and certain projects delegated to DRPT in Virginia's Six-Year Transportation Plan. VTA 2000 and Dulles Corridor Metrorail Project fiscal year 2005 expenditures alone totaled \$19 million and \$26 million, respectively. Consequently, the quarterly reimbursement process may be impracticable, increase the risk of accounting errors, and negatively affect DRPT's cash flow.

Inefficiencies and errors in the process further complicate this issue. For each project grant, there is a DRPT grant manager and a Transportation grant manager. Depending on the grant requirements, the DRPT grant manager performs administrative functions including site visits, review of invoices, and other required reviews. Upon approval, DRPT disburses funds to the grantee and submits a reimbursement request to Transportation's Financial Planning Division.

The Financial Planning Division forwards the reimbursement request to the Transportation grant manager for review and approval. Upon approval, the Financial Planning Division transfers funds to DRPT using an expenditure credit. For grants funding the transit component of a larger transportation project, identifying the project manager is easy, and the Financial Planning Division may process these reimbursement requests quickly. However, for specific transit program grants, the Financial Planning Division may have difficulty in identifying the Transportation grant manager. Without the Transportation grant manager approval, Transportation will not reimburse DRPT. Because the division was unable to identify the Transportation grant manager, some reimbursement requests have been outstanding since 2003 for certain project grants.

Because of this issue and an error in which the Financial Planning Division misplaced DRPT reimbursement requests, DRPT recorded over \$15 million in past due receivables at the end of December 2004. DRPT and Transportation have identified these inefficiencies in the current process and are currently working on a resolution.

### Project Management

DRPT is currently responsible for the management of a number of projects as part of VTA 2000. Of the nine projects proposed in the Act, DRPT directly manages five projects: one in Bristol; High Speed Rail Capital Projects in Fredericksburg, Northern Virginia, and Richmond; as well as the \$1.84 billion Dulles Corridor Metrorail Project. With the exception of the Dulles Corridor Metrorail Project, which has a large project management team and a detailed project management plan to monitor contractor performance on a daily basis, these projects do not have any formal project management guidelines.

Project managers for the remaining VTA 2000 projects have been effectively monitoring contractor expenditures and performance through invoice review, non-systematic site-visits, and reliance on structured contracts between DRPT and the contractor. However, there is no central guidance as to how often or to what extent project manager should perform, document, and report on their monitoring of contractor performance. Project managers do not document site visits nor keep records of progress with the exception of invoices from the contractor. Managers are very aware of the status of those projects for which they are responsible, but do not document that status.

DRPT's largest capital project is the Dulles Corridor Metrorail Project, which extends the existing Washington D.C. Metrorail system 23.1 miles from Tysons Corner to Loudoun County. The project will be built in two phases. During the final environmental impact statement, the Phase 1 cost estimate was \$1.5 billion. Following completion of the environmental impact statement and a majority of the preliminary engineering, the project cost estimate increased to \$2.4 billion. In August 2005, the contractor and DRPT reduced the proposed estimate to \$1.84 billion by reducing the tunnel length, raising a station above ground, redesigning the elevated support system, and designing a more cost effective power system. The Commonwealth will provide 25 percent of the funding through Dulles Toll Road revenues and a \$75 million VTA 2000 allocation, the federal government will provide 50 percent, and area counties affected by the project together with the Metro Washington Airports Authority (MWAA) will provide the remaining 25 percent of the funding. DRPT expects Phase 1 of the project to be completed by 2011. A detailed history of this project is presented in Appendix C.

### Observations on Project Management

With the increased demand for public transportation and mass transit, DRPT can expect to manage more capital projects in the future and should develop and implement a set of standard operating procedures for project management. Failure to develop a standard set of guidelines may cause problems in the event that any of the current project managers depart from the agency or the number of capital projects for which DRPT is responsible for managing substantially increases.

DRPT manages the Dulles Corridor Metrorail Project and has hired an experienced management team to accomplish the task. The Washington Metropolitan Area Transit Authority (WMATA) serves as DRPT's technical manager. DRPT also hired an engineering consultant to assist with the preparation of cost confidence studies and review the contractor's cost estimates for reasonableness and other matters. Additionally, because the project receives New Start federal funds, the Federal Transit Administration (FTA) performs monthly reviews and provides approval before the project can proceed from one milestone to the next.

Based on the information obtained during our review, the proper management structure, experience, and oversight exists for the Dulles Corridor Metrorail Project, which is the largest and most complex project DRPT has ever undertaken. Considering the long-term nature, complexity, and cost of the project, continuous high-quality management and oversight is critical to its success. DRPT is providing oversight to the project with employees and a contractor that have limited experience with the Commonwealth and there exists a risk that critical personnel changes would affect the effectiveness of the project's management.

# ORGANIZATIONAL STRUCTURE

## Virginia Department of Rail and Public Transportation

Revised October 19, 2005

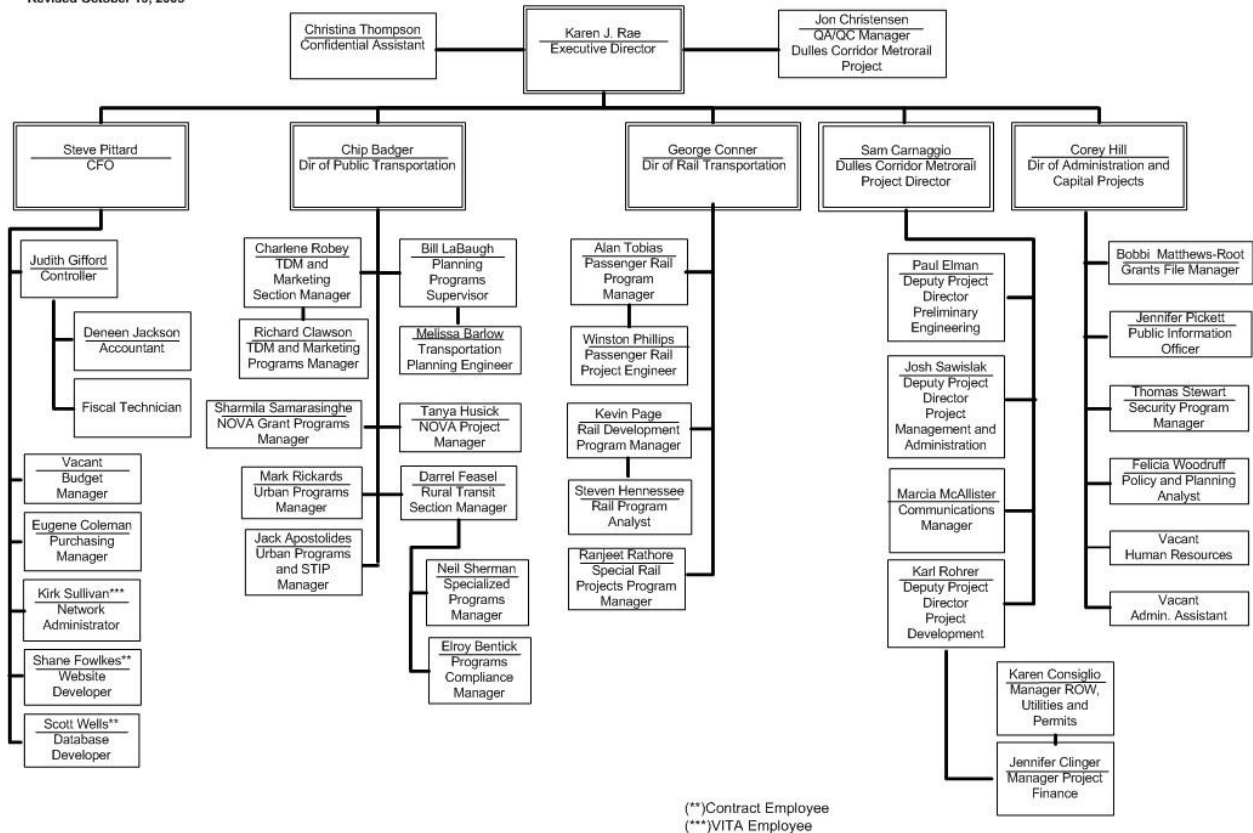
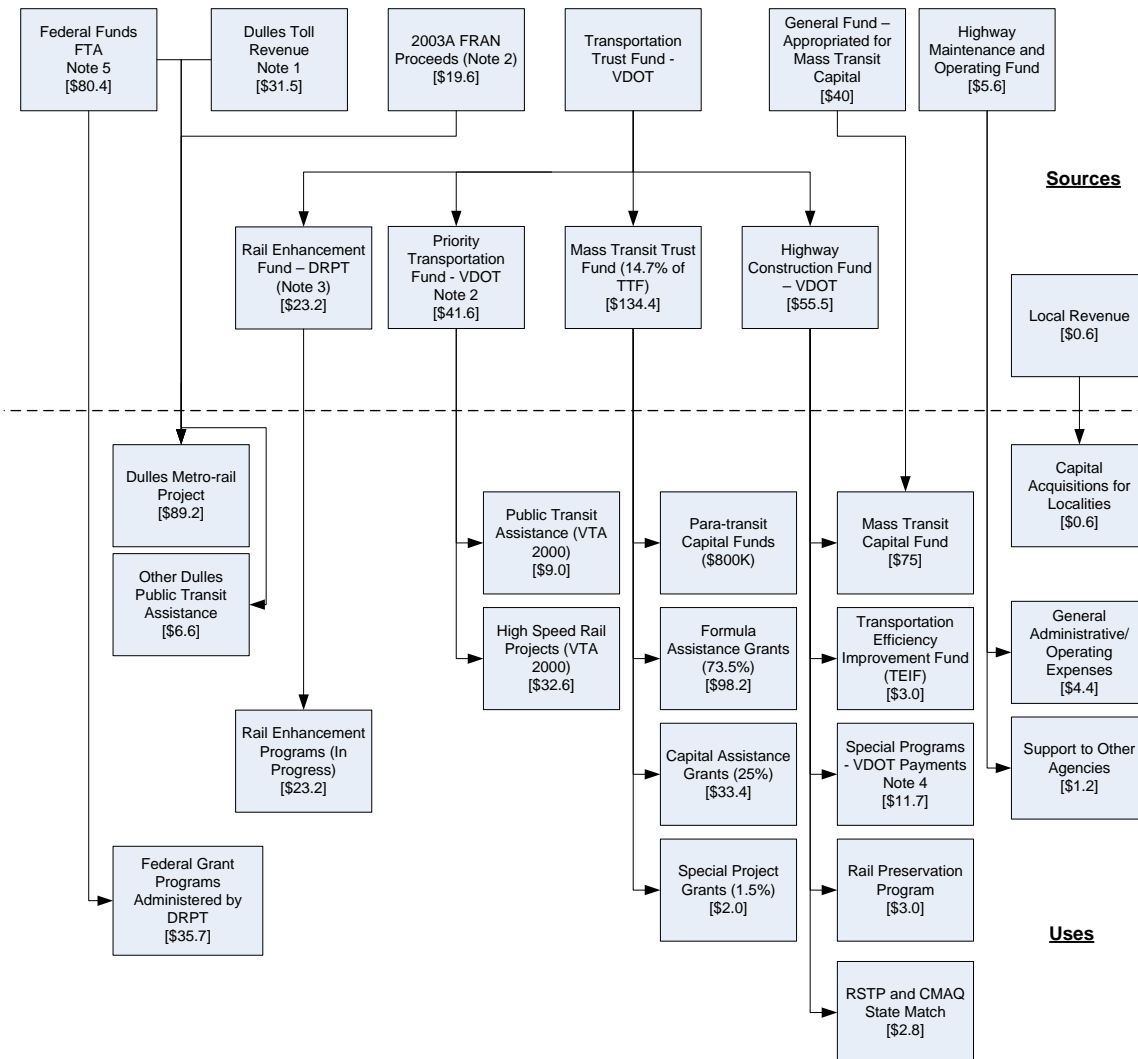


Figure 1

FISCAL YEAR 2006 BUDGETED ACTIVITY

(in millions)

<sup>1</sup>Prior to May 22, 2005, the Dulles Corridor Metrorail Project received 85% of the excess revenues from the Dulles Toll Road (after operating expenses by the toll facility deducted). On May 22, 2005, the toll increased by 25 cents at the main toll plaza and ramps and 100% of the increase goes toward the Dulles Corridor Metrorail Project.

<sup>2</sup>Virginia Transportation Act 2000 authorized the use of FRAN proceeds for both the Dulles Corridor Metrorail Project and High Speed Rail and Public Transit Projects. To better meet the cash flow of these projects, in April 2005, VDOT substituted the use of FRAN proceeds for High Speed Rail and Public Transit Projects, with Priority Transportation Funds.

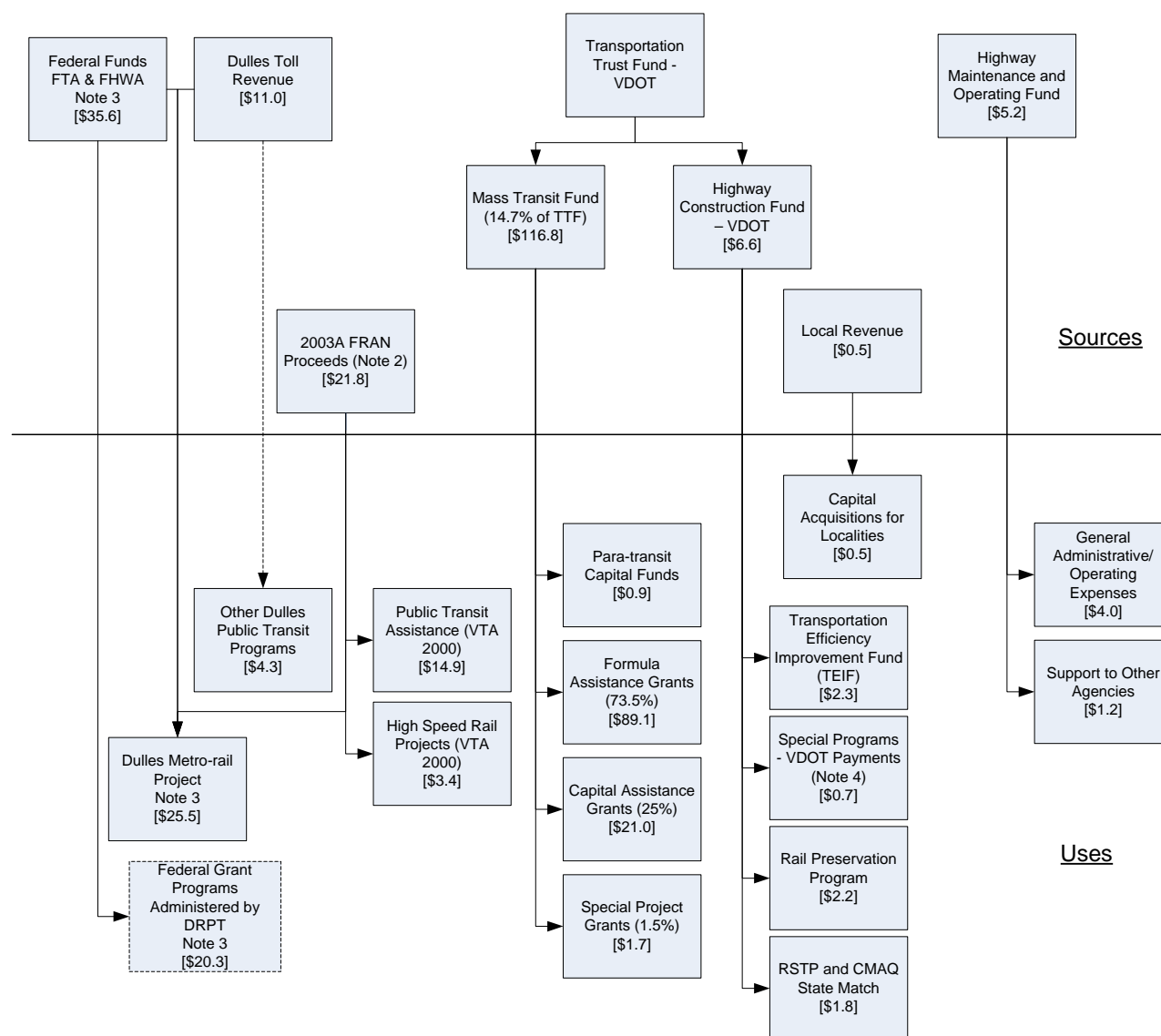
<sup>3</sup>Due to new legislation, DRPT will receive \$23.2 million from the state portion of vehicle rental taxes collected in the Transportation Trust Fund. This is in addition to the 14.7 percent statutory allocation the agency receives for the Mass Transit Trust Fund.

<sup>4</sup>Special Programs are project grants in the Department of Transportation's portion of the Transportation Six-Year Improvement Plan relating to public transportation and managed by DRPT. DRPT receives reimbursement from Transportation for disbursements made to grantees.

<sup>5</sup>Includes expenditures for 6% Surface Transportation Programs (STP), 10% Minimum Guarantee Funds, Congestion Mitigation and Air Quality Funds (CMAQ) in addition to FTA grant money and FTA New Starts funding for the Dulles Corridor Metrorail Project.

## FISCAL YEAR 2005 FINANCIAL ACTIVITY

Figure 2



(in millions)

<sup>1</sup>Prior to May 22, 2005, the Dulles Corridor Metrorail Project received 85% of the excess revenues from the Dulles Toll Road (after operating expenses by the toll facility deducted). On May 22, 2005, the toll increased by 25 cents at the main toll plaza and ramps and 100% of the increase goes toward the Dulles Corridor Metrorail Project.

<sup>2</sup>Virginia Transportation Act of 2000 authorized the use of FRAN proceeds for both the Dulles Corridor Metrorail and High Speed Rail and Public Transit Projects. To better meet the cash flow of these projects, in April 2005, VDOT substituted the use of FRAN proceeds for High Speed Rail and Public Transit Projects, with Priority Transportation Funds.

<sup>3</sup>Includes expenditures for 6% Surface Transportation Programs (STP), 10% Minimum Guarantee Funds, Congestion Mitigation and Air Quality Funds (CMAQ) in addition to FTA grant money and FTA New Starts funding for the Dulles Corridor Metrorail Project.

<sup>4</sup>Special Programs are project grants in the Department of Transportation's portion of the Transportation Six-Year Improvement Plan relating to public transportation and managed by DRPT. DRPT receives reimbursement from Transportation for disbursements made to grantees.

<sup>5</sup>Amounts presented using a cash-basis of accounting.



## DULLES CORRIDOR METRORAIL PROJECT

DRPT's largest capital project is the Dulles Corridor Metrorail Project, which extends the existing Washington DC Metrorail system 23.1 miles through Tysons Corner to Loudoun County. The project is being implemented in two phases. During the final environmental impact study the cost estimate for Phase 1 of the project was \$1.5 billion. Following completion of 50 percent of the preliminary engineering, the project cost estimate increased to \$2.4 billion. In August 2005, the contractor and DRPT reduced the proposed estimate to \$1.84 billion by reducing the tunnel length, raising a station above ground, redesigning the elevated support system, and designing a more cost effective power system. The Commonwealth will provide 25 percent of the funding through Dulles Toll Road revenues and a \$75 million VTA 2000 allocation. The federal government will provide 50 percent, and area counties affected by the project and MWAA will provide the remaining 25 percent of the funding. DRPT expects completion of phase 1 of the project by 2011.

The total estimated project cost is \$3.5 billion split into two separate phases. The Commonwealth will fund \$875 million, local governments and MWAA will fund \$875 million, and the federal government will provide \$1.75 billion. Phase 1, addressed above, will extend the Metro Orange Line 11.6 miles through Tysons Corner to Wiehle Avenue in Reston and will include five new stations at an estimated cost of \$1.84 billion. Phase 2, currently scheduled for completion in 2015, will further extend the Orange Line from Wiehle Avenue 11.5 miles to Route 772/Ryan Road in Loudoun County and will include six additional stations.

### History

The initial planning for the Dulles Corridor Metrorail Project began once the Commonwealth Transportation Board (CTB) approved the Dulles Corridor Plan in 1992, and when Congress provided a federal earmark of \$86 Million toward an extension of the current Metro to the Dulles Airport. Since the CTB approval of the project, there have been a number of other milestones which brought the project to where it is now. Following the completion of a Major Investment Study in 1997, Congress provided a federal earmark of \$86 million for the project. DRPT working with the Federal Transit Administration began the federal environmental review and advanced the project through the New Starts Program.

The New Starts Program (Section 5309) differs substantially from those administered by the Federal Highway Administration (FHWA) to VDOT for road construction. While typical federal programs, like those administered by the FHWA and some other programs administered by the FTA, a Federal appropriation goes to a state agency. Once the funds are available, the agency may draw down federal funds as needed in order to progress through the project. In the case of the FTA New Starts Program, funding occurs in incremental amounts. At each stage of engineering and construction, the recipient (DRPT) must obtain FTA approval in order to receive the Federal funding appropriated for their project. In other words, with most Federal Project funding, the state agency would receive the funding up-front and test of compliance would occur after-the-fact whereas with the FTA New Starts program, the state agency does not receive the funds until each specific requirement is met along the path of the project life.

The international contractor, Raytheon Infrastructure, was the first to submit an unsolicited Conceptual Proposal in December of 1998 for the construction of the Extension. The same month DRPT publicly posted the notice of Conceptual Proposal and invited competing proposals from any interested parties. In January of 1999, DRPT received a single competing proposal for the project from the Tysons-Dulles Corridor Group; a conglomerate composed of two firms: Bechtel Infrastructure – a global construction contractor; and West\*Group – a commercial real estate developer in Northern Virginia. In February 2000, DRPT's analysis of the two proposals led them to select Raytheon for further

consideration. The Commonwealth Transportation Board's approval of that selection allowed DRPT to invite Raytheon to submit a detailed proposal for the completion of the project.

In October of 2000, DRPT was notified that Raytheon had expanded its organization by adding the principles of the competing partnership; Bechtel Infrastructure and West\*Group and would further be known as Dulles Transit Partners (DTP). In February 2001, the PPTA Advisory Panel acknowledged Dulles Transit Partners as successor-in-interest to Raytheon. By December 2002, the advisory panel recommended that DRPT enter into negotiations with DTP.

In March 2003, DRPT entered into negotiations with DTP for the planning, engineering, and construction of the Dulles Corridor Metrorail Project. By June 2004, a Comprehensive Agreement between DRPT and DTP was developed and executed. The following month the FTA issued approval to enter Preliminary Engineering which led DRPT to authorize DTP to begin work through a "Notice-to-Proceed" in July 2004.

The preliminary budget provided by WMATA and its consultants before any preliminary engineering work was \$1.5 billion for the construction of Phase 1 of the Extension. Following the Final Environmental Impact Statement and 50 percent of Preliminary Engineering work, DTP estimated the cost to be \$2.4 billion. All parties involved considered this budget unacceptable and DRPT began negotiating and working with DTP to bring the budget back in-line with an acceptable amount for all parties.

In August 2005, DTP and DRPT reduced the proposed estimate for the project down from \$2.4 billion to \$1.84 billion by reducing the tunnel length, raising a station above ground, redesigning the elevated support system, and designing a more cost effective power system. Once the new estimated budget was determined, DRPT submitted a status update on the Project to the FTA in August of 2005.

### Funding

As part of the FTA New Starts Program, the Federal Government will provide 50% of the funding for the Dulles Corridor Metrorail Project. The remaining 50% will be the responsibility of the Commonwealth, MWAA, and the area counties affected by the project; Fairfax County, Loudoun County, and the Town of Herndon. With the proposed \$1.84 billion budget, the Commonwealth's expected obligation will be for \$450 million for Phase 1. Funding for the Commonwealth's portion of the project (25%) will come from two sources. DRPT will fund most of their obligation for the Extension with the increase in Dulles Toll Road Revenues of which they receive 100% of the 25-cent increase effective May 22, 2005 and 85% of the remaining excess Toll revenue. The Commonwealth, through VTA 2000, has allocated an additional \$75 million to the extension. Fairfax County will receive funding for its portion of the Project budget through the creation of two special commercial tax districts (one for each phase).

Federal funding for the project will come from the New Starts Program administered by the FTA. As a stipulation for federal funding, the US Congress will not appropriate any more than \$100 million per year for construction. To avert this temporary cash shortage, DRPT is examining a number of financing options including advancing state and local contributions, temporary treasury loans, and FRANs.

### Comprehensive Agreement

The detailed comprehensive agreement between DRPT and DTP establishes a number of specific deliverables. The most notable deliverable occurs at the end of preliminary engineering near the beginning of construction. DTP is required under contract to produce working engineering plans that any construction firm may use to complete the construction portion of the project. Through this option in the

agreement, DRPT has the ability to terminate the agreement with DTP and re-bid the proposal for construction if they are dissatisfied with DTP's construction costs.

Also, Bechtel Systems and Infrastructure and Washington Group, the two firms that together form Dulles Transit Partners, have provided parent guarantees. This leaves both companies responsible for ensuring that DTP fulfills its duties to the Commonwealth as described in the Comprehensive Agreement.

The Project Management Plan, a requirement of the FTA, details responsibilities for other parties involved in the Project. The Washington Metropolitan Area Transit Authority (WMATA), who currently own and operate the existing Metro facilities, will play a large role in the planning, design, engineering, and construction phases of the Project as they will take ownership of as well as maintain and operate the rail and facilities upon completion of construction. DRPT has also contracted with Booz Allen Hamilton as a General Engineering Consultant to assist with some of the more tedious tasks in managing the Project including the preparation of cost confidence studies and reviewing DTP estimates for reasonableness.

GRANTSPublic Transportation – State

Type of Assistance	Program Description	Eligible Recipients
Formula assistance	Support costs borne by eligible recipients for related public transportation operating expenses	Local and state governments; transportation district commissions; and public services corporations
Capital assistance	Support costs borne by eligible recipients for public transportation capital projects	Local and state governments; transportation district commissions; and public services corporations
TDM/ridesharing assistance	Support administration of existing or new local and regional Transportation Demand Management and Ridesharing Programs	Local and state governments; transportation district commissions; public service corporations; and planning district commissions
Demonstration project assistance	Assists communities in preserving and revitalizing public or private public transportation service by implementing innovative projects for one year of operation	Local and state governments; transportation district commissions; and public service corporations
Technical assistance	Supports planning or technical assistance to help improve or initiate public transportation related services	Local and state governments; transportation district commissions; public service corporations; and planning district commissions
Intern program	Supports increased awareness of public transportation as a career choice for aspiring managers	Local and state governments; transportation district commissions; public service corporations; and planning district commissions
Transportation efficiency improvement funds (TEIF)	Supports reduction in demand for new/expanded transportation facilities that serve single occupant vehicles including initiatives at the state, regional and community level that demonstrate innovative approaches to reducing traffic congestion	Local and state governments; transportation district commissions; public service corporations; and planning district commissions

Public Transportation – Federal

Type of Assistance	Program Description	Eligible Recipients
FTA Section 5303	Supports transit planning expenses	Metropolitan planning organizations
FTA Section 5310	Supports the purchase of vehicles and equipment	Private non-profit operators of services for the elderly and persons with disabilities.
FTA Section 5309	Supports capital costs for transit new starts projects	Transportation District Commissions and Public Service Corporations
FTA Section 5311	Supports operating and capital costs of transit operators in non-urbanized areas	Local and state governments, transportation district commissions, public service corporations, and private non-profit agencies that provide public transportation
FTA Section 5313(b)	Supports local and statewide transit planning projects	Local and state governments, transportation district commissions, public service corporations, and planning district commissions
FTA jobs access and reverse commute program	Supports the operating and capital costs of special programs designed to connect unemployed people to jobs	Recipients of FTA Section 5311 and FTA Section 5307 Program Fund
Federal highway administration	Supports capital planning and Transportation Demand Management	Local and state governments, transportation district commissions

Rail Transportation

Type of Assistance	Program Description	Eligible Recipients
Rail preservation and development	Support the costs of improving railways, equipment, or related facilities specific to rail operations on public or private property and to acquire lease railway properties for transportation purposes	Existing or potential short line railroads or loans for Class I railroads
Rail industrial access	Support costs borne by eligible recipients for the construction of rail access to industrial sites	Business, commercial, or industrial enterprises; municipal and county governments; local departments of economic development; railroads
Operation lifesaver	Supports educational programs that promote railroad-crossing safety	Virginia Operation Lifesaver coordinator and council-approved expenditure



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

**Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218**

October 20, 2005

The Honorable Mark R. Warner  
Governor of Virginia  
State Capitol  
Richmond, Virginia

The Honorable Lacey E. Putney  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

Gentlemen:

We have completed our review and audit of the Virginia Department of Rail and Public Transportation's fiscal and other operations, including grants and capital project management practices, for the year ended June 30, 2005, and are pleased to submit our report. We conducted our review in accordance with the standards for performance audits set forth in Government Auditing Standards, issued by the Comptroller General of the United States.

## Objectives

We had three objectives for our review of the Department. These objectives were to:

- review and analyze the adequacy of the Department's internal controls over its financial operations;
- review and determine the adequacy of the Department's policies and procedures used to decide which projects to fund; and
- review the Department's policies and procedures regarding grants and capital projects management and other operations.

## Scope

In conducting this review and audit, we examined various planning documents, contractual agreements, and documented management plans and procedures related to the Dulles Corridor Metrorail Project. We conducted interviews with the Department's DRPT personnel to document various processes related to funding and financing sources, allocations, development of the Six- Year Program, cash flow and forecasting, capital project management, grants management, and automated information systems. We researched the Code of Virginia and federal regulations for statutes that govern these processes. We also met with the Department of Transportation to document the relationship between the two agencies.

## Audit Conclusions

We found the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and in the Department's accounting records. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System and the Department's accounting records.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

The Department has taken adequate corrective action with respect to audit findings reported in the prior year.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

We would like to thank the Department of Rail and Public Transportation's management and staff for their cooperation and professionalism throughout this review. Without their knowledge and contributions, this report would not be possible.

We discussed this report with the Department of Rail and Public Transportation's management on October 19, 2005 and their response follows.

AUDITOR OF PUBLIC ACCOUNTS

NJG



# COMMONWEALTH of VIRGINIA

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October 19, 2005

Mr. Walter J. Kucharski  
Auditor of Public Accounts  
P. O. Box 1295  
Richmond, Virginia 23218

Dear Mr. Kucharski,

We appreciate the opportunity to work with you and your staff during this special review. As documented in your report, the Department of Rail and Public Transportation (DRPT) is successfully performing its mission within the current limits on resource availability. We believe that a coordinated rail and public transit program at the Commonwealth level can accomplish significant improvements in meeting mobility needs.

The report highlights the benefits that could be derived from more oversight of grantees through performance measures. DRPT is in the process of developing common performance criteria for our funding recipients. However, under the current program the majority of funding is provided by local providers which results in the decision making process residing at that level. Therefore, it is important to note that significant legislative changes to our funding levels and our allocation language will be required to advance the idea of funding decisions based on grantee performance measures. Additionally, the need for DRPT to further strengthen the financial analysis of our grantees is identified. Prior to receiving this report, we submitted a budget request to add a field auditor position to perform this exact endeavor.

Once again, thanks to you and your staff for your efforts and their patience in allowing DRPT to communicate its message.

Sincerely,

A handwritten signature in blue ink that reads "Karen J. Rae".

Karen J. Rae



DEPARTMENT OF RAIL AND PUBLIC TRANSPORTATION

SECRETARIAT OFFICIALS

Secretary of Transportation

Pierce Homer

Department of Rail and Public Transportation

Karen J. Rae, Director

Department of Transportation

Gregory A. Whirley, Acting Commissioner

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