

**Limited Review of the
Port Authority of Allegheny County
for the Period July 1, 2000
through December 31, 2007**

Report #3



December 22, 2008

*A Review by
Allegheny County Controller
Mark Patrick Flaherty*

Contents

Letter	1
Executive Summary	3
Introduction	11
Scope and Methodology	14
Findings and Recommendations:	
Finding #1: Port Authority is not in Compliance with its Preventative Maintenance and Sanitizing Policies and Procedures	16
Finding #2: Expenses Not Directly Related to the Port Authority's Operations	31
Finding #3: North Shore Connector Project To Exceed Budget	37
Finding #4: Organizational Self-Assessment Program to Improve the Port Authority's Performance Postponed Indefinitely	40
Schedule I: Preventative Maintenance for Buses and Small Transit Vehicles (STVs)	42
Schedule II: Preventative Maintenance for Light Rail Vehicles	48
Response from the Port Authority of Allegheny County Chief Executive Officer	49
Addendum to the Report: Effect of the New ATU Local 85 Agreement on Port Authority's OPEB Liability	55



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May 28, 2008

Mr. Stephen G. Bland
Chief Executive Officer
Port Authority of Allegheny County
Heinz 57 Center
345 Sixth Avenue
Third Floor
Pittsburgh, PA 15222-2527

Subject: Limited Review of the Port Authority of Allegheny County
for the Period July 1, 2000 through December 31, 2007

Dear Mr. Bland:

We conducted a limited review of the Port Authority of Allegheny County (Port Authority) for the period July 1, 2000 through December 31, 2007. The purpose of our review was to analyze the Port Authority's operations regarding the maintenance of its vehicles, operational expenses, and bidding procedures. We also conducted an organizational assessment to identify strengths and opportunities for improvement, provide a structure for improvement, and help guide organizational planning and learning.

Our review disclosed that maintenance personnel are not performing the required maintenance procedures in the specified amount of time provided for by Port Authority policies. By delaying the completion of a certain task, the system effectively skips over tasks that should have been performed. As a result, various required preventive maintenance and cleaning procedures are not being performed. Our testing also revealed that maintenance personnel at the light rail garage circumvented established controls by utilizing a manual process instead of using the streamlined automated work order system. In addition to the weakened controls, they have created a duplication of effort with the creation of two systems. We also identified numerous expenses which appeared to be unsupported, excessive and non essential to the operations of the Port Authority.

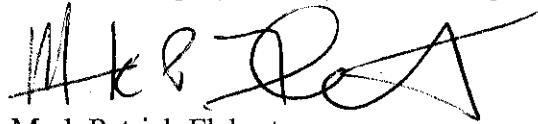
May 28, 2008
Page 2

Our findings and recommendations are provided in detail in the attached report. Our recommendations provide a framework to help the Port Authority make changes and become a viable transit authority.

Very truly yours,



Lori A. Churilla
Assistant Deputy Controller, Auditing



Mark Patrick Flaherty
Controller

cc: Honorable Rich Fitzgerald, President, County Council
Honorable William Russell Robinson, County Council
Honorable Dan Onorato, Chief Executive, Allegheny County
Mr. James M. Flynn Jr., County Manager
Ms. Amy Griser, Budget Director
Mr. Joseph Catanese, Director of Constituent Services, County Council
Ms. Jennifer Liptak, Budget Director, County Council
Port Authority of Allegheny County, Board of Directors
Honorable Jack Wagner, Auditor General, Commonwealth of Pennsylvania
Mr. Patrick McMahon, President-Business Agent, Amalgamated Transit Union
Mr. Guy A. Tumolo, Deputy Controller, County Controller's Office
Mr. Robert J. Lentz, Assistant Deputy, Accounting, County Controller's Office
Ms. Pamela Goldsmith, Communications Director, County Controller's Office

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Background:

The Port Authority of Allegheny County receives its funding from the federal, state and county governments as well as from passenger fares. A report issued in November 2006 by the Transportation Funding and Reform Commission confirmed that a funding crisis exists for transportation facilities in the Commonwealth. State and Federal funding levels for transportation have not increased with the rate of inflation. Lawmakers and experts agree that alternative funding solutions are needed in Pennsylvania and across the nation.

In July 2007, the Pennsylvania General Assembly passed and Governor Rendell signed Act 44. This legislation was intended to provide funds for public transportation and included increasing turnpike tolls, issuing bonds, and authorization to begin tolling Interstate 80. However, the Federal government has to approve tolling I-80. It is estimated by the Pennsylvania Turnpike Commission that over the next ten years, mass transit would receive an average of \$414 million annually if I-80 tolls are approved. However, if the tolls are not approved mass transit will only receive about \$250 million.

Allegheny County passed a ten percent Alcoholic Drink Tax (Ordinance 54-07) which took effect on January 1, 2008 to generate revenue to support transit. The drink tax was estimated to generate \$28 million annually. A \$2 a day car rental tax was also passed which was estimated to generate \$4 million annually. The Allegheny County Chief Executive has placed a stipulation on the use of drink tax revenue for the Port Authority. He requires that PAAC gain meaningful concessions in upcoming labor union negotiations.

The Port Authority has begun construction of the North Shore Connector, a 1.2 mile extension of the Port Authority's Light Rail Transit System, the "T", to Pittsburgh's North Shore which is scheduled to open in 2011. The total cost of this project is estimated at \$435 million of which 80% is federally funded, 16 2/3% will come from state funds and 3 1/3% of the funding is to come from local resources.

Purpose of Review:

The purpose of our review was to analyze the Port Authority's operations regarding the maintenance of its vehicles, operational expenses, bidding procedures

EXECUTIVE SUMMARY

regarding contracts, and to conduct an organizational self assessment to identify strengths and opportunities for improvement, provide a structure for improvement, and help guide organizational planning and learning.

Results in Brief:

Our testing disclosed:

Finding #1:

We tested compliance with the policies and procedures established by Port Authority regarding cleaning and preventative maintenance for 20 buses, five small transit vehicles, and five light rail vehicles for the period January 1, through December 31, 2007. PAAC personnel do not perform the motor washes, wheelchair maintenance, climate control maintenance, or the Pennsylvania State Inspections on the small transit vehicles because they are leased.

Testing of the 20 buses and five small transit vehicles (STVs) revealed:

- Interior Cleaning- Five (20%) of the vehicles were in compliance with the cleaning schedule and 20 of the vehicles (80%) were not. Of these 20 vehicles, between one and eight cleanings were missed per vehicle throughout the year.
- Motor Washes- Of the 20 buses tested, only one bus was in compliance and had all of the required motor washes performed. Nineteen or 95% of the buses were not in compliance. Of these nineteen buses, between one and five motor washes were missed per bus throughout the year.
- Wheelchair Maintenance- Of the 20 buses tested, only one bus (5%) was in compliance and had all the required wheelchair maintenance procedures performed. Nineteen (95%) of the buses were not in compliance. Of these 19, between one and three procedures were missed per bus throughout the year.
- Oil Changes and Lubrications- All 25 vehicles tested were in compliance. However, of the 130 changes performed, 16 (12%) were performed late.
- Climate Control Maintenance- Of the 20 buses tested, five (25%) buses were in compliance. Fifteen of the buses (75%) were not in compliance. Of these fifteen buses, between one and three of the four required procedures were missed per bus.

EXECUTIVE SUMMARY

- Pennsylvania State Inspections- Of the 20 buses tested, 19 or 95% had the required inspection performed. One bus (5%) had one inspection missed. This occurred at the Harmar garage. According to Port Authority management, the system showed this bus as being in the shop, however, this was incorrect because the bus was running and accumulating miles. There is no indication in the work order system that this state inspection was completed. However, management feels the inspection was completed and not recorded in the system.
- Overall, our testing revealed that garage personnel are not performing the required maintenance procedures in the specified amount of time provided for by Port Authority policies. In addition, we noted that there are limitations in the computerized work order system. For instance, Port Authority could not provide detailed records regarding when vehicles are out of service. We had to reconstruct the dates based on the limited information in their work order system.

Testing of five light rail vehicles (LRVs) revealed:

- Interior Cleaning- None of the five LRVs had all the required cleanings performed. Between four and eight cleanings were missed per LRV.
- Weekly Inspections- Only 57 (24%) of the 235 weekly inspections were recorded in the computerized work order system. The Manager indicated the garage may perform the inspection and not record it. However, he was unable to provide documentation to verify that the remaining 178 weekly inspections were completed.
- 5,000 Mile Inspections- All 25 required inspections were performed on time and were properly recorded in the automated work order system.
- Gear Oil Changes- All five of the required gear oil changes were performed throughout the year and were recorded in the computerized work order system. However, we noted that these changes were performed between 8,962 and 9,656 miles beyond the 30,000 mile mark.
- HVAC System Maintenance Inspection- Only three (30%) of the ten required HVAC inspections were recorded in the automated work order system.

EXECUTIVE SUMMARY

- Pennsylvania State Inspections- All ten of the inspections were completed and properly recorded in the computerized work order system.
- The SHVRC garage personnel are circumventing the established controls by utilizing a manual process instead of using the streamlined automated work order system. In addition to the weakened controls, they have created a duplication of effort with the creation of two systems.

We also noted that 17 of the 25 buses/STVs (68%) in our sample were out of service at least one day during 2007, the number of days ranged from one to 92. None of the LRVs were out of service during 2007.

As of November 30, 2007, 290 mechanics and service personnel were assigned to the five bus garages. A total of 533,600 hours, allowing six weeks off, are available in a year. Based on the work order system, approximately 81,186 hours (15% of the total available) should be needed to complete the required tasks on the buses and STVs leaving approximately 452,414 hours to perform any additional work. We also noted that there are 127 additional mechanics and service personnel not assigned to a particular garage and 42 technicians who work on the LRVs.

Finding #2

We examined a sample of expenses for the period July 1, 2000 through June 30, 2007. Of the 4,372 expenses sampled, Port Authority management was unable to locate 113 of the invoices totaling \$238,046. Therefore our sample was reduced to 4,259 invoices. Our testing revealed that the following invoices did not appear to be directly related to the essential operation of the business:

- Invoices totaling \$16,417 for Comcast and Dish Network for cable television at all of the Port Authority facilities including the five bus garages.
- Invoices totaling \$7,461 for Port Authority vehicles taken to three private car washes even though the bus garages have facilities to wash the vehicles.
- Invoices totaling \$54,251 for charity events and donations which included \$14,181 for the Boy Scouts, and \$4,600 to the John Christian Charity Golf Classic for sponsorships, tickets and registration fees.

EXECUTIVE SUMMARY

- Invoices totaling \$240,520 for employee events which include \$202,603 for Kennywood picnics, \$7,577 for Pirate games, \$3,096 for United Way Thank You events, \$2,139 for balloons, and \$565 for five Super Bowl XL footballs. Although management stated that employees reimburse some of the cost of certain events, they were unable to provide details and documentation of the amounts repaid for each event.
- Invoices totaling \$29,985 for flowers, memorial contributions and gifts for employees, retirees and employees' family members.
- Invoices totaling \$30,248 which included \$1,250 for a 50 inch big screen television which was given away as a prize, \$571 in parking tickets, \$6,563 at Sam's Club for gas grills, digital camera, and a refrigerator and \$140 for a car seat. The Port Authority was unable to provide documentation of who received the items.
- Invoices totaling \$792,974 paid for advertising which included \$411,420 paid to the Pittsburgh Steelers, \$82,529 paid to the Pittsburgh Penguins, \$71,697 paid to the Pittsburgh Pirates, \$46,075 to WZPT FM Star 100.7 and \$12,100 to Fox Sports Net Pittsburgh for advertising during the All Star game. We noted that the Steelers and Penguins include event tickets as one of the benefits of the advertising costs. We were told that the tickets were raffled off to monthly pass-holders.

Finding #3:

Port Authority decided to award a separate contract package for each of the six construction segments of the North Shore Connector. We inquired with Port Authority management to determine why the entire project was not put out for bid at one time. They indicated that the Authority decided to follow the traditional design-bid-build method as compared to an alternative delivery method. Specifically, Port Authority did not consider the at-risk construction management method. Under the "at-risk" delivery method, the construction manager is committed to complete the project within a Guaranteed Maximum Price. They indicated this alternative method was not within the philosophy of the Authority.

EXECUTIVE SUMMARY

Currently, the Port Authority has started construction of the tunnel which is the first of six segments for the North Shore Connector. As a result of the delivery method selected, Port Authority has bid the next two segments of the project. The lowest bid for the underground Gateway Station shell is \$48.9 million or \$20 million (69%) over the \$28.9 million budget for the shell. Additionally, the lowest bid for the aerial Allegheny Station shell is \$39.8 million or \$10 million (31%) over the \$30.3 million budget.

Finding #4:

Although the CEO of the Port Authority initially agreed to the organizational self-assessment evaluation to identify strengths and opportunities for improvement, he postponed consideration of engaging in this project to a more opportune time.

Recommendations:

We recommend the Port Authority Management:

Finding #1:

- Ensure that preventive maintenance is being performed in a timely manner and tasks are not being missed.
- Reconcile the due date of the preventive maintenance for each vehicle with the date the task was actually completed and approved. Resolve any discrepancies in a timely manner.
- Properly utilize the computerized maintenance work order system. This will ensure that all inspections are being properly scheduled and the vehicles will operate more smoothly and be less apt to fail.
- Update the policies and procedures for all vehicles inspections to ensure compliance with the FTA and other applicable regulations and warranties.
- Make certain that the employees understand the maintenance policies and procedures including the number of inspections required for the various vehicles. This will also ensure compliance with application regulations.
- Ensure that there is oversight of the maintenance work to guarantee the work was completed properly, in a timely manner, and is adequately documented.
- Explore options to reduce the problems surrounding the computerized work order system.

EXECUTIVE SUMMARY

Additionally, for light rail vehicles, we also recommend the Director of the SHVRC together with the Manager of Rail Car Service and Delivery and the Manager of Rail Car Maintenance:

- Ensure that appropriate time intervals for all cleaning and preventative maintenance procedures are recorded in and triggered by the work order system.
- Establish a policy that discourages SHVRC personnel from evading utilization of the work order system for cleaning and preventative maintenance procedures.
- Establish limits on the time when gear oil changes and HVAC whole system inspections are required to be completed.

Finding #2:

- Conduct a reassessment of its policies and procedures regarding the incurring of expenses to ensure that only expenses related to the essential operations of the Port Authority are approved, paid and have the rationale documented.
- Ensure that meal and entertainment expenses are properly approved and include the business purpose and a list of attendees.
- Develop a policy through the Board relative to donating to charitable organizations, contributing to employee events and conducting raffles and promotional activities. Eliminate spending on catering, floral arrangements and services that can be provided internally, for example car washes, and similar items unless reasonable justification is provided.
- Enhance the accountability regarding the oversight of the expense process to reassure to the public that every dollar is spent on improving the operations of the Port Authority.

Finding #3:

- Explore alternative options to ensure projects are completed within the approved budget. Since government agencies have historically provided the necessary funding, management has the responsibility to prudently manage public monies.

EXECUTIVE SUMMARY

Finding #4:

- The Port Authority's Chief Executive Officer, the Board of Directors, Executive staff and key employees should participate in a self-assessment workshop to identify and strengthen the Port Authority's goals, objectives and performance.

INTRODUCTION

I. Introduction

The Port Authority of Allegheny County (Port Authority) was established under the Second-Class County Port Authority Act of 1956 and is responsible for the management and operation of certain transit facilities serving Allegheny County and portions of adjacent areas. The Authority is a component unit of Allegheny County for financial reporting purposes. The County's Chief Executive appoints the Authority's Board of Directors and the County provides substantial operating subsidies and capital funding. The Port Authority of Allegheny County receives its funding from the federal, state and county governments as well as from passenger fares.

A report issued in November 2006 by the Transportation Funding and Reform Commission confirmed that a funding crisis exists for transportation facilities in the Commonwealth. State and Federal funding levels for transportation have not increased with the rate of inflation. Lawmakers and experts agree that alternative funding solutions are needed in Pennsylvania and across the nation.

In July 2007, the Pennsylvania General Assembly passed and Governor Rendell signed Act 44. This legislation was intended to provide funds for public transportation and included increasing turnpike tolls, issuing bonds, and authorization to begin tolling Interstate 80. However, the Federal government has to approve tolling I-80. It is estimated by the Pennsylvania Turnpike Commission that over the next ten years, mass transit would receive an average of \$414 million annually if I-80 tolls are approved. However, if the tolls are not approved mass transit will only receive about \$250 million.

The County funded a local operating match to the Port Authority totaling \$15,858,500 for the year ended December 31, 2006 and \$24,358,500 for the year ended December 31, 2007. This money comes from the County's general fund and is disclosed in Allegheny County's Schedule of Expenditures.

Allegheny County passed a ten percent Alcoholic Drink Tax (Ordinance 54-07) which took effect on January 1, 2008 to generate revenue to support transit. The drink tax was originally estimated to generate \$28 million annually. A \$2 a day car rental tax was also passed which was estimated to generate \$4 million annually. The Allegheny

I. Introduction

County Chief Executive has placed a stipulation on the use of drink tax revenue for PAAC that requires the Port Authority to gain meaningful concessions in upcoming labor union negotiations. These concessions are to reduce current costs and future healthcare costs for retirees in order to reduce the Port Authority's legacy costs. There has never been a designated tax in Allegheny County for transportation funding until now.

Review of the Port Authority's operating expenses revealed an increase of \$42.8 million from fiscal year 2006 to fiscal year 2007. Employee wages and salaries expense increased \$3.3 million from fiscal year 2006. Employee benefits increased by \$1.7 million and the new classification of Other Post Employment Benefits (OPEB) expense of \$39.4 million accounted for the majority of the increase. Statement 45 of the Governmental Accounting Standards Board (GASB) requires governments for the first time to report annual OPEB cost and disclose its unfunded actuarial accrued liabilities for past service costs. Materials and supplies also increased by \$2.3 million which was attributed to fuel costs.

The provision for Injuries and Damages category of expenses decreased from fiscal year 2006 levels by \$2.0 million. This was due to a decrease in Worker's Compensation Indemnity payments and litigated settlements. Purchased services decreased by \$809,568 and utilities by \$639,419.

Operating revenues for fiscal year 2007 comprised 40% of total revenues required to support the operating budget. Operating revenue increased by \$1.5 million from fiscal year 2006 to fiscal year 2007. Passenger revenues increased by \$340,777, ACCESS program services decreased by \$362,506 and other income increased by \$1.5 million for fiscal year 2007.

Overall, ridership decreased by .1% from 69,914,746 in 2006 to 69,839,049 in 2007. Specifically, the bus, light rail and the incline paid ridership increased by 139,620 or 1% for fiscal year 2007. Contracted services with local universities for student ride programs increased 1.96% or by 139,937 rides. However, senior citizen ridership decreased by 6% or 363,522 rides. The Port Authority is reimbursed for senior citizen riders by the Commonwealth

I. Introduction

of Pennsylvania. Ridership through ACCESS also declined by 52,113 rides. The Port Authority contracts through ACCESS Transportation Systems, Inc. to provide door-to-door, demand response transportation for elderly and handicapped citizens. The Commonwealth of Pennsylvania also reimburses the Port Authority for a portion of the costs incurred in providing this program. Free ridership increased by 3.3% or 60,381 rides.

The Port Authority has begun construction of the North Shore Connector, a 1.2 mile extension of the Port Authority's Light Rail Transit System, the "T", to Pittsburgh's North Shore which is scheduled to open in 2011. This project begins at the Gateway Subway Station underneath Stanwix Street and the Allegheny River in twin bored tunnels below the river to the North Shore. Continuing underground along the North Shore, the alignment would travel adjacent to Bill Mazerowski Way to access a station near PNC Park. The connector will then continue below grade adjacent to Reedsdale Avenue to a station along Allegheny Avenue near Heinz Field before terminating near the West End Bridge. The total cost of this project is estimated at \$435 million of which 80% is federally funded, 16 2/3% will come from state funds and 3 1/3% of the funding is to come from local resources. A 0.3 mile light rail line from the Steel Plaza Subway Station to a subway station at the David L. Lawrence Convention Center, along with the purchase of four light rail vehicles, was removed from the project due to rising construction costs.

SCOPE AND METHODOLOGY

II. Scope and Methodology

We reviewed the Port Authority's operations surrounding expenses, professional contracts, staffing, and vehicle maintenance for the period July 1, 2000 through December 31, 2007. Specifically, we performed the following:

- Interviewed the Authority's personnel and various employees involved in the operations of the Authority to gain an understanding of the internal control structure, operating and capital expenses, professional service contracts, vehicle maintenance, and employee staffing levels.
- Examined operating and capital expenses to determine if they were properly approved, adequately supported, appeared reasonable, and had a valid business purpose.
- Analyzed staffing levels to determine the number of positions throughout the years and inquire as to the variances.
- Performed a review of professional service contracts.
- Reviewed functions performed by the Port Authority personnel in relation to the scope of work contracted with professional service consultants to determine if the agreements were necessary.
- Reviewed the computerized work order maintenance system to determine if vehicles were being serviced according to the policies, procedures and contracts.
- Reviewed the number of work hours for mechanics and service personnel and documented how often the owned buses versus the leased buses were out of service.
- Worked in conjunction with consultants to conduct a preliminary assessment of the Port Authority's organization. This included an analysis of how the organization is performing from various perspectives including customer and marketplace,

II. Scope and Methodology

employee morale and involvement, productivity, efficiency, and financial performance.

We conducted this review from January through May 2008. We provided a draft copy of this report for comment to the Chief Executive Officer for comment. His response begins on page 49.

FINDINGS AND RECOMMENDATIONS

III. Findings and Recommendations

Finding #1

Port Authority is not in Compliance with its Preventative Maintenance and Sanitizing Policies and Procedures

The Port Authority of Allegheny County (Port Authority) operates a fleet of approximately 813 buses, 83 light transit vehicles (LRV) and 48 leased small transit vehicles (STV) providing transit service in Allegheny County as well as portions of Beaver, Butler, Washington, Westmoreland and Armstrong Counties. The majority of the fleet was purchased with Federal Transit Administration (FTA) grant funds. The FTA requires Port Authority to maintain a written vehicle maintenance plan that includes maintenance goals and objectives. The Port Authority is also required to comply with Federal Railroad Administration requirements for light rail vehicle (LRV) maintenance. In addition, the Department of Transportation American Disabilities Act regulations require wheelchair accessibility features to be maintained and operational.

An effective vehicle preventive maintenance program ensures that federally funded equipment is kept in good operating order. The program should make certain there is proper care to extend vehicle life, reduce the number of road calls, safeguard the public and prevent premature mechanical failures. For vehicles under warranty, there are a series of preventative maintenance actions that are required to keep the warranty valid. Actual maintenance practices should be consistent with the written plan. In addition vehicle interior cleanliness is vital for customer satisfaction. Overall, proper maintenance saves money and fuel and reduces downtime for the vehicles.

BUSES AND SMALL TRANSIT VEHICLES (STVs)

To meet these requirements and maintain customer satisfaction, Port Authority has established cleaning and preventative maintenance goals and objectives. Port Authority utilizes a computerized work order system designed to alert each garage that a particular bus or STV is scheduled for a particular maintenance procedure. The system is pre-programmed with designated time intervals between each successive task completion to ensure

III. Findings and Recommendations

compliance with Port Authority's policies. However, we noted that there are limitations in the computerized work order system. For instance, Port Authority could not provide detailed records regarding when vehicles are out of service. We had to reconstruct the dates based on the limited information in their work order system.

It is the responsibility of the frontline foreman to ensure that the work scheduled for completion is performed in a timely manner and the date of completion is accurately recorded in the work order system in order to close out the work order and start the clock running again for the next task.

We tested compliance with the policies and procedures established by Port Authority for interior cleaning, motor washes, wheelchair maintenance, oil changes and lubrications, climate control maintenance, and Pennsylvania State inspections for four buses and one STV at each garage during the period January 1, 2007 through December 31, 2007. See Schedule I on pages 42 through 47 for our detailed results. A table summarizing the results by task and by garage is shown on page 22. The following is an analysis of our testing for the 25 vehicles.

Interior Cleaning

The work order system alerts the garage every 25th day that a particular bus or STV needs to be cleaned. The garage has five days to complete the cleaning once notified. The work order system starts counting the days for the next cleaning from the date the previous task is completed. Port Authority indicated that there are instances when they must perform additional cleanings. If the operator indicates there is a condition such as a spillage on the bus, the vehicle is cleaned earlier. Once notified, the garage has five days to complete the requested cleaning. However, we were told by PAAC management that the bus should not be returned to vehicle service before the bus is cleaned. The next cleaning is required 30 days from this additional cleaning. If the bus or STV is in the shop, the work order system continues counting days but will not trigger a cleaning until the bus or STV is entered back into service. Therefore, although a cleaning is required every 30 days, there may be more or less than 12 cleanings in a year.

III. Findings and Recommendations

We tested compliance for 25 buses and STVs. Of the vehicles tested:

- Five (20%) were in compliance and had all of the required cleanings performed.
- 20 (80%) of the buses/STVs were not in compliance.
 - Between one and eight cleanings were missed per bus throughout the year.

We also noted that the cleanings which were completed were not done in a timely manner. For the 25 buses and STVs tested, 243 cleanings were performed.

- 124 (51%) cleanings were completed on time.
- 119 (49%) were completed between one and 71 days late.

It appears that the Harmar garage had the most instances of noncompliance.

- Only 29 of the 58 (50%) required cleanings were completed.
 - 20 of these 29 cleanings (69%) performed were done late.
- The remaining 29 (50%) cleanings were not performed.

Motor Washes and Wheelchair Maintenance

Motor washes enhance engine performance and extend engine life. Garage personnel use a motor wash spray gun to clean the engine, transmission and related parts and components. Wheelchair maintenance involves an inspection of various lift mechanisms for wear and damage and the cleaning and rust prevention of the platform and other areas. Both motor washes and wheelchair maintenance are to be performed once every 45 days. The work order system alerts garage personnel every 40th day that a specific bus needs a motor wash or wheelchair maintenance. The garage has five days to complete the particular procedure. According to the contract with Hunters Truck Sales & Service, Inc. (Hunters), Port Authority personnel do not perform these tasks on the STVs because they are leased.

We tested 20 buses for compliance with the policies for motor washes. Of the vehicles tested:

- Only one bus (5%) was in compliance and had all of the required motor washes performed.
- 19 (95%) of the buses were not in compliance.

III. Findings and Recommendations

- Between one and five motor washes were missed per bus throughout the year.

We also noted that the motor washes which were completed were not done in a timely manner. For the 20 buses tested, a total of 100 motor washes were performed.

- 11 (11%) of these were completed on time.
- 89 (89%) were completed between two and 106 days late.

The East Liberty, Harmar, and West Mifflin garages all had less than 60% of the required motor washes completed. Between 75%-100% of the washes that were completed were done late.

We also tested 20 buses for compliance with the wheelchair maintenance policies. Of the vehicles tested:

- Only one bus (5%) was in compliance and had all of the required wheelchair maintenance procedures performed.
- 19 (95%) of the buses were not in compliance.
 - Between one and three procedures were missed per bus throughout the year.

We also noted that the wheelchair maintenance procedures which were completed were not done in a timely manner. For the 20 buses tested, a total of 118 procedures were performed.

- 23 (19%) of these were completed on time.
- 95 (81%) were completed between one and 68 days late.

The East Liberty and Ross garages only had approximately 70% of the required wheelchair maintenance procedures completed. Between 81%-84% of these procedures were done late.

Oil Changes and Lubrications

Oil changes and lubrications are to be performed once every 6,000 miles. The work order system triggers at 5,200 miles for buses and 4,800 miles for STVs allowing the bus/STV to operate up to 800 or 1,200 miles respectively before the oil change is completed.

We tested compliance for 25 buses and STVs. Of the vehicles tested:

III. Findings and Recommendations

- All 25 (100%) were in compliance and had all of the required oil changes and lubrications performed.
- Of the 130 changes performed, only 16 (12%) were performed late.

The Harmar garage had all their oil changes/lubrications performed and all of them were performed on time.

Climate Control Maintenance

Climate control maintenance should be performed four times a year (spring, summer, fall and winter). Each seasonal inspection involves different component cleaning, examination and filter replacements. The work order system alerts garage personnel on February 1st, May 1st, August 1st, and November 1st respectively. Port Authority policy allows one month after the garage is alerted to complete the task on buses. According to the contract with Hunters, Port Authority personnel do not perform these tasks on the STVs because they are leased.

We tested 20 buses for compliance with these policies for climate control maintenance. Of the vehicles tested:

- Five buses (25%) were in compliance and had all of the required climate control maintenance procedures performed.
- 15 (75%) of the buses were not in compliance
 - Between one and three of the four required procedures were missed per bus.

We also noted that the procedures which were completed were not done in a timely manner. For the 20 buses tested, a total of 55 climate control maintenance procedures were performed.

- 21 (38%) of these were completed on time.
- 34 (62%) were completed between one and 61 days late.

The Ross garage appears to have had the most instances of noncompliance.

- Only eight of the 16 (50%) required procedures were completed.
 - Five of these eight procedures (63%) performed were done late.
- The remaining eight (50%) climate control maintenance procedures were not performed.

III. Findings and Recommendations

Pennsylvania State Inspections

Pennsylvania State inspections are required twice a year per vehicle. Stickers for even numbered buses expire on April 30 and October 31 and stickers for odd numbered buses expire on January 31 and July 31. The work order system activates the task for completion on February 1st and August 1st for even numbered buses and May 1st and November 1st for odd numbered buses allowing three months to complete each inspection. According to the contract with Hunters, Port Authority personnel do not perform these tasks on the STVs because they are leased.

We tested compliance for 20 buses.

- 19 (95%) of the buses had the required inspections performed.
 - Of the 38 inspections completed, three (8%) were performed between three and 22 days late. However, Port Authority indicated these vehicles were in the shop and were not returned to service until the inspection was completed.
- One bus (5%) had one inspection missed.
 - This occurred at the Harmar garage. According to Port Authority Management, the system showed this bus as being in the shop, however, this was incorrect because the bus was running and accumulating miles. There is no indication in the work order system that this state inspection was completed. However, management feels the inspection was completed and not recorded in the system.

Bus Summary

Overall, our testing revealed that garage personnel are not performing the required maintenance procedures in the specified amount of time provided for by Port Authority policies. We noted the date the task was recorded in the work order system as completed and approved was significantly longer than the allotted time established by Port Authority's policies to complete a specific task. By delaying the completion of a certain task, the system effectively skips over tasks that should have been performed. As a result, various required preventative maintenance and cleaning procedures are not being performed.

III. Findings and Recommendations

Preventative Maintenance for Buses and Small Transit Vehicles

	Tasks Required	Tasks Missed	Tasks Completed	% Completed	<u>Completed</u> On Time Late		Range of Days/Miles Late
<u>Interior Cleaning</u>							
East Liberty	60	11	49	82%	21	28	1-53 days
Harmar	58	29	29	50%	9	20	3-71 days
Collier	60	19	41	68%	6	35	2-70 days
West Mifflin	72	12	60	83%	41	19	1-71 days
Ross	68	4	64	94%	47	17	1-31 days
Total All Garages	318	75	243	76%	124	119	1-71 days

<u>Motor Wash</u>							
East Liberty	29	12	17	59%	0	17	2-59 days
Harmar	30	14	16	53%	4	12	13-106 days
Collier	30	6	24	80%	2	22	2-96 days
West Mifflin	30	13	17	57%	0	17	5-72 days
Ross	33	7	26	79%	5	21	4-23 days
Total All Garages	152	52	100	66%	11	89	2-106 days

<u>Wheelchair Maintenance</u>							
East Liberty	30	9	21	70%	4	17	2-55 days
Harmar	30	6	24	80%	4	20	2-25 days
Collier	30	6	24	80%	6	18	1-68 days
West Mifflin	30	6	24	80%	5	19	1-48 days
Ross	35	10	25	71%	4	21	2-29 days
Total All Garages	155	37	118	76%	23	95	1-68 days

<u>Oil Changes and Lubrication</u>							
East Liberty	23	0	23	100%	13	10	3-597 miles
Harmar	29	0	29	100%	29	0	-
Collier	26	0	26	100%	25	1	169 miles
West Mifflin	27	0	27	100%	24	3	40-162 miles
Ross	25	0	25	100%	23	2	456-900 miles
Total All Garages	130	0	130	100%	114	16	3-900 miles

<u>Climate Control Maintenance</u>							
East Liberty	14	3	11	79%	4	7	1-61 days
Harmar	16	6	10	63%	6	4	23-58 days
Collier	16	3	13	81%	4	9	14-48 days
West Mifflin	16	3	13	81%	4	9	18-60 days
Ross	16	8	8	50%	3	5	7-48 days
Total All Garages	78	23	55	71%	21	34	1-61 days

<u>Pennsylvania State Inspections</u>							
East Liberty	7	0	7	100%	7	0	-
Harmar	8	1	7	88%	7	0	-
Collier	8	0	8	100%	7	1	4 days
West Mifflin	8	0	8	100%	8	0	-
Ross	8	0	8	100%	6	2	3-22 days
Total All Garages	39	1	38	97%	35	3	3-22 days

III. Findings and Recommendations

LIGHT RAIL VEHICLES (LRVs)

The South Hills Village Rail Center (SHVRC) also utilizes the computerized work order system for Light Rail Vehicles (LRVs) designed to alert garage personnel that a particular LRV is scheduled for a particular preventive maintenance procedure. The system is pre-programmed with designated time intervals between each successive task completion to ensure compliance with Port Authority's policies.

We tested compliance with the policies and procedures established by Port Authority for interior cleaning, weekly inspections, 5,000 mile inspections, gear oil changes, HVAC whole system inspections and Pennsylvania State inspections for five Light Rail Vehicles during the period January 1, 2007 through December 31, 2007. See Schedule II on page 48 for our detailed results. A table summarizing the results by task is shown on page 27. The following is an analysis of our testing for the five LRVs.

Interior Cleaning

As of November 1, 2007 it is Port Authority's policy that an interior cleaning is completed once every 30 days on every LRV. The work order system alerts the preventive maintenance foreman every 25th day that a particular LRV needs an interior cleaning. From January 1, 2007 through October 31, 2007 of our testing period, it was Port Authority's policy that an interior cleaning be completed once every 45 days. The work order system alerted the preventive maintenance foreman on the 40th day and the garage had five days to complete the task once notified.

We tested five LRVs for compliance.

- None of five had all the required cleanings performed.
 - Between four and eight cleanings were missed per LRV.
- For the five LRVs tested, only 10 of the 44 required cleanings (23%) were performed.

According to the Manager of Rail Car Maintenance, the foreman used a manual system to identify which LRVs needed to be cleaned. However, the manual log may not have always been updated to document that the work was actually performed. Although the Manager agreed that

III. Findings and Recommendations

they need to strengthen controls, he feels there were more cleanings performed than were documented.

Weekly Inspections

Weekly inspections involve the inspection of the roof area, interior system, doors, lighting, and truck system and under the LRV in order to detect, repair/replace or correct any defects found. Weekly inspections should be performed once every 7 days (Sunday to Saturday) unless the LRV is in for one of the 5,000 mile inspections (see below) or out of service. Therefore, there could be less than 52 inspections required in a year.

According to Port Authority's Information System Specialist, rail center management requested that the triggers for the Weekly Inspections be turned off in the computerized work order system. The Foreman considered the weekly inspection optional and created a manual work order when they considered it necessary to perform a weekly inspection. This is not in accordance with Port Authority's preventive maintenance policy. The Manager of Rail Car Maintenance acknowledged they were not in compliance with Port Authority's policy and has begun to address the problem in 2008.

Our testing of the five LRVs found:

- Only 57 of the 235 weekly inspections (24%) were recorded in the computerized work order system.
- The Manager indicated the garage may perform the inspection and not record it. However, he was unable to provide documentation to verify that the remaining 178 weekly inspections were completed.

5,000 Mile Inspections

Inspections are required every 5,000 miles. Each successive 5,000 mile inspection involves an increase in the number of components examined in the roof area, interior system, doors, lighting, and truck system and under the LRV in order to detect, repair/replace or correct any defects found. There are additional special procedures performed at the 10,000, 15,000, 30,000 and 60,000 mile points. The work order system alerts garage personnel every 4,000 miles which LRV needs an inspection. The garage can run the LRV up to 1,500 miles after it is alerted before each

III. Findings and Recommendations

inspection is due to be completed. This is in accordance with both Port Authority and Penn Dot requirements.

Our testing of these inspections found:

- All 25 required inspections (100%) were performed on time and were properly recorded in the automated work order system.

Gear Oil Changes

Gear oil changes should be performed every 30,000 miles. The Manager of Rail Car Maintenance said the SHVRC garage maintains a manual log book and manually generates work orders when they considered it necessary to perform a gear oil change. The manually created work order should be recorded in the computerized work order system. However, the Manager couldn't guarantee if the work performed was actually recorded. In addition, Port Authority has not established a time limit for completion of the gear oil change.

Our testing of five LRVs found:

- All five of the required gear oil changes (100%) were performed throughout the year and were recorded in the computerized work order system.
- However, we noted that these changes were performed between 8,962 and 9,656 miles beyond the 30,000 mile mark.

HVAC System Maintenance Inspections

HVAC (heating and cooling) whole system maintenance inspections are to be performed twice a year in the spring and fall by certified HVAC technicians. According to Port Authority's Information System Specialist, rail center management requested that the triggers for the HVAC Inspections be turned off in the computerized work order system. The SHVRC garage maintains a manual log book and manually prepares a work order. The manually created work order should be recorded in the work order system but the Manager of Rail Car Maintenance couldn't guarantee whether they actually were recorded or whether the completed inspection was documented in the log book. The Manager of Rail Car Maintenance indicated that they use the timeframe for the buses as a guideline, however, Port Authority has not established a time limit to complete the HVAC whole system maintenance inspection.

III. Findings and Recommendations

Our testing found:

- Only three of the ten (30%) required HVAC inspections were recorded in the automated work order system.
- Since the garage does not always document the completion of the inspection, Port Authority was unable to confirm if the remaining 7 inspections were completed.

Pennsylvania State Inspections

Pennsylvania State inspections are required twice a year per vehicle. Stickers for odd numbered LRVs expire on April 30 and October 31 and stickers for even numbered LRVs expire on January 31 and July 31. The work order system activates the task for completion on February 1st and August 1st for odd numbered LRVs and May 1st and November 1st for even numbered LRVs allowing three months to complete each inspection.

Our testing found:

- All ten (100%) of the inspections were completed and properly recorded in the computerized work order system.

LRV Summary

Overall, our testing revealed that the SHVRC garage personnel are circumventing the established controls by utilizing a manual process instead of using the streamlined automated work order system. In addition to the weakened controls, they have created a duplication of effort with the creation of two systems.

Without proper documentation of the work performed, essential tasks may be missed or inadvertently done twice, consuming more resources than needed. If the work was performed, it is crucial to document it in the computerized work order system. It is the responsibility of the SHVRC management to ensure that established policies and procedures for preventive maintenance work scheduled for completion are performed in a timely manner. It is also the responsibility of SHVRC management to ensure that the date of completion is accurately recorded in the computerized work order system in order to close out the

III. Findings and Recommendations

current work order and begin the count for the next inspection or cleaning.

The work order system was created to ensure that planned procedures are properly performed and performed within the time limits established by management. When management and garage personnel circumvent the use of the computerized work order system and do not establish limitations to complete a procedure, there is no accountability of the work to ensure it was actually performed and performed on a timely basis. If Port Authority is maintaining the manual system due to limitations of the computerized work order system, management should work to resolve the issues surrounding the computerized system.

Preventative Maintenance for Light Rail Vehicles

	Tasks Required	Tasks Missed	Tasks Completed	% Completed	Completed		Range of Days/Miles Late
					On Time	Late	
Interior Cleaning	44	34	10	23%	2	8	14-285 days
Weekly Inspection	235	178	57	24%	n/a	n/a	n/a
5,000 Mile Inspection	25	0	25	100%	25	0	0
Gear Oil Change	5	0	5	100%	0	5	8,962- 9,656 miles
HVAC	10	7	3	30%	n/a	n/a	n/a
PA State Inspection	10	0	10	100%	9	1	13 days

SUMMARY

In September 2006, the US Department of Transportation Federal Transit Administration issued an FTA 2006 Triennial Review Report of Port Authority's compliance with requirements to keep federally funded equipment and facilities in good operating order. A deficiency was found with the FTA maintenance requirements. The finding indicated that preventative maintenance inspections were not performed in accordance

III. Findings and Recommendations

with maintenance schedules. The finding noted that only 70% of preventative maintenance for the entire bus fleet was performed on schedule. In addition, only 31% of inspections for LRV's were performed in a timely manner. Our testing for 2007 revealed similar results.

Port Authority issued a corrective action plan in December 2006. They provided a description of the changes made to the maintenance procedures.

As of June 30, 2007, the Port Authority employed 502 mechanics, technicians, and service personnel, which was the highest level of staff in the last five years. After the 15% service cuts, the number of mechanics, technicians, and service personnel was reduced by approximately 9% to 459.

of Mechanics, Technicians,
and Services Personnel as of:

June 30, 2003	489
June 30, 2004	484
June 30, 2005	488
June 30, 2006	486
June 30, 2007	502
November 30, 2007	459

Based on the 290 mechanics and service personnel assigned to the five bus garages as of November 30, 2007, a total of 533,600 hours, allowing six weeks off, are available in a year. Port Authority's work order system details the number of hours each required task should take to complete.

- Approximately 81,186 hours (15% of the total available) should be needed to complete the required tasks on the buses and STVs.
- This leaves approximately 452,414 hours to perform any additional work.
- We also noted that there are 127 additional mechanics and service personnel not assigned to a particular garage resulting in an additional 233,680 hours.
- This does not include the 42 technicians who work on the LRVs.

During our review of the work order system, we also documented the days that the buses, STVs, and LRVs in

III. Findings and Recommendations

our sample were out of service. Seventeen of the 25 buses/STVs (68%) in our sample were out of service at least one day during 2007, the number of days ranged from one to 92 (See table below). None of the LRVs were out of service during 2007.

Garage / Vehicle #	Total Days	Garage / Vehicle #	Total Days
East Liberty		West Mifflin	
1546	57	1536	69
2698	92	2672	0
2700	0	2690	4
5333	0	5425	0
8631 (STV)	0	8654 (STV)	11
East Liberty Total	149	West Mifflin Total	84
Harmar		Ross	
1930	35	1509	50
2753	62	2612	21
5138	26	5017	33
5140	11	5409	0
8628 (STV)	22	8643 (STV)	0
Harmar Total	156	Ross Total	104
Collier		SHVRC (LRV)	
2468	7	4214	0
2590	7	4239	0
2633	19	4225	0
2645	0	4314	0
8615 (STV)	1	4325 (STV)	0
Collier Total	34	SHVRC Total	0

GRAND TOTAL 527 Days

Overall, money is lost when maintenance is not able to do its job right. Neglected equipment and vehicles produce more downtime and very expensive repairs. Running in reactive mode and putting out fires only reduces the time that employees spend on proper maintenance and the Port Authority's overall productivity suffers.

Recommendations

We recommend that the Port Authority Maintenance Management:

III. Findings and Recommendations

- Ensure that preventive maintenance is being performed in a timely manner and tasks are not being missed.
- Reconcile the due date of the preventive maintenance for each vehicle with the date the task was actually completed and approved. Resolve any discrepancies in a timely manner.
- Properly utilize the computerized maintenance work order system. This will ensure that all inspections are being properly scheduled and the vehicles will operate more smoothly and be less apt to fail.
- Update the policies and procedures for all vehicles inspections to ensure compliance with the FTA and other applicable regulations and warranties.
- Make certain that the employees understand the maintenance policies and procedures including the number of inspections required for the various vehicles. This will also ensure compliance with applicable regulations.
- Ensure that there is oversight of the maintenance work to guarantee the work was completed properly, in a timely manner, and was adequately documented.
- Explore options to reduce the problems surrounding the computerized work order system.

Additionally, for light rail vehicles, we also recommend that the Director of the SHVRC together with the Manager of Rail Car Service and Delivery and the Manager of Rail Car Maintenance:

- Ensure that appropriate time intervals for all cleaning and preventative maintenance procedures are recorded in and triggered by the work order system.
- Establish a policy that discourages SHVRC personnel from evading utilization of the work order system for cleaning and preventative maintenance procedures.
- Establish limits on the time when gear oil changes and HVAC whole system inspections are required to be completed.

III. Findings and Recommendations

Finding #2
Expenses Not Directly Related to
the Port Authority's Operations

The Port Authority receives its funding from the federal, state and county governments as well as from passenger fares. In the past, the Port Authority has had to raise fares and eliminate bus routes due to operating deficits. As part of our review we examined a sample of expenses, which included 4,259 invoices for the period July 1, 2000 through June 30, 2007. The purpose of our review was to determine if the expenses appeared to be directly related to the essential operation of the business and were properly supported. Of the 4,372 invoices, the Port Authority management was unable to locate 113 or 3% of these invoices totaling \$238,046. Therefore, our sample was reduced to 4,259 invoices.

	# of Invoices	%	Amount	%
Invoices Selected	4,372		\$5,655,606	
Invoices Missing	<u>(113)</u>		<u>(\$ 238,046)</u>	
Invoices Tested	<u>4,259</u>		<u>\$5,417,560</u>	
Appeared Reasonable	3,203	75%	\$4,080,024	75%
Unsupported, Excessive or Not Directly Related to Operations	<u>1,056</u>	25%	<u>\$1,337,536</u>	25%
Total	<u>4,259</u>		<u>\$5,417,560</u>	

Specifically, we found the following during our review of expenses from July 2000 through June 2007.

- We sampled 243 Comcast and Dish Network invoices totaling \$16,417 for cable television at all of the Port Authority facilities including the five bus garages. We could find no direct relationship between these

III. Findings and Recommendations

expenditures and the operation of the business. We also noted there were an additional 28 invoices totaling \$2,126 paid to these two vendors during our review period. The amount paid to these two vendors totaled \$18,543.

- We sampled 37 invoices totaling \$7,461 for Port Authority vehicles taken to three private car washes, even though the bus garages have facilities to wash the vehicles. We found that all 37 invoices (100%) did not appear necessary for the operation of the business. We also noted that there were an additional 48 invoices totaling \$8,128 paid to these same vendors during our review period. These invoices totaled \$15,589.
- We reviewed a sample of 226 invoices totaling \$87,987 for catering for various meetings and events. We found that 50 invoices totaling \$9,615 appeared to be reasonable and listed a detailed business purpose and the attendees. However, 176 invoices (78%) totaling \$78,372 (89%) did not provide a detailed purpose or were not directly related to operations. We also noted there were an additional 459 invoices totaling \$190,384 that were paid to these same vendors during our review period. If you apply the percentages from our sample, an additional 358 invoices totaling \$169,442 would be unsupported or not necessary for the operation of the business. Examples of expenses for which no business purpose or list of attendees was documented included \$10,668 paid to Omni William Penn, \$2,832 paid to Little Giant, \$1,735 paid to Eat’N Park for cookies for a thank you celebration, \$1,420 for breakfast and lunch meetings at the Duquesne Club, \$988 paid to Flora’s catering, and \$855 paid to the Boulevard Café.
- Our sample included 114 invoices totaling \$55,526 for charity events and donations. We found that four invoices totaling \$1,275 were reasonable. However, 110 invoices (96%) totaling \$54,251 did not appear to be necessary for the operation of the business. This total includes \$14,181 for sponsorships, fundraisers, banquets and donations for the Boy Scouts, \$4,600 to the John Christian Charity Golf Classic for sponsorships, tickets, and registration fees, \$2,500 for an annual dinner for the Epilepsy Foundation of Western Pennsylvania, and \$7,445 for Leadership

III. Findings and Recommendations

Banquets for the Urban League of Pittsburgh for several years. Although these may be worthwhile organizations, the Port Authority should identify the benefit to the transit program derived from these expenditures. The management of the Port Authority should ensure that the participation in community programs contributes to the mission of the Authority.

- We tested 89 invoice totaling \$281,569 for employee events. We found that 31 invoices totaling \$41,049 were reasonable. However, 58 invoices (65%) totaling \$240,520 did not appear to be directly related to the operation of the business. These events included \$202,603 for Kennywood picnics, \$7,577 for Pirate games, \$3,096 for United Way Thank You events, \$2,139 for balloons, and \$565 for five Super Bowl XL footballs. The Port Authority indicated that the employees reimbursed the cost for some of these events. However, management could not provide details of the amounts repaid for each event. Port Authority management also indicated that they are not reimbursed for the United Way thank you event, and that current year retirees attend the banquet at no charge.
- We sampled 809 expense reimbursements and travel invoices totaling \$926,173. We found that 770 invoices totaling \$910,566 appeared to be reasonable. However, 39 invoices (5%) totaling \$15,607 were not properly supported or did not appear to be essential to the operation of the business. These expenses included \$1,330 for a Christmas luncheon for the senior staff, \$433 for Dinosaur books and \$154 for stuffed bears and Valentine's candy.
- We sampled 121 invoices totaling \$29,985 that were paid for flowers, memorial contributions and gifts. We found that all 121 invoices (100%) did not appear to be directly related to the operation of the business. The flowers were for funeral arrangements for employees, retirees, or employees' family members. Memorial contributions were given in lieu of flowers. We noted there were an additional 146 invoices totaling \$42,949 paid to these vendors during our review period. These invoices totaled \$72,934.

III. Findings and Recommendations

- We sampled 181 payments to miscellaneous vendors totaling \$106,788. We found that 138 invoices totaling \$76,540 were reasonable. However, 43 invoices (24%) totaling \$30,248 were not properly supported or did not appear to be directly related to the operation of the business. These invoices included \$1,250 for a 50 inch big screen television which was given as a prize, \$571 in parking tickets, \$6,563 at Sam's Club for gas grills, digital camera, and a refrigerator, and \$140 for a car seat. The Port Authority management was unable to provide documentation of who received the items.
- We sampled 31 invoices totaling \$51,041 for rental fees. We found that 13 invoices totaling \$10,436 were reasonable. However, 18 (58%) invoices totaling \$40,605 did not appear to be directly related to the operation of the business. Port Authority paid \$9,998 to rent tents, tables, chairs, and a sound system for an unspecified event, and paid \$9,087 to install and rent Christmas decorations.
- We reviewed a sample of 21 invoices totaling \$25,914 for the "Roadeo", which is a multi transit authority competition. We noted that all 21 invoices (100%) did not appear to be necessary for the operation of the business. We did note that this event has not been funded for 2006 and 2007.
- We reviewed a sample of 631 invoices totaling \$1,241,540 for services and fees. We found that 612 invoices totaling \$1,236,358 were reasonable. Nineteen invoices (3%) totaling \$5,182 were primarily paid to Green Apple Barter Network. Green Apple refers new clients to purchase available inventories or services. Port Authority offered advertising on the buses. In return, the trade dollars generated were used by Port Authority to make purchases. We noted that Port Authority had a credit balance of \$55,981 in this account as of January 2007. Throughout this time period purchases through Green Apple consisted of numerous restaurant and golf fee credits as well as prizes for giveaways which included scooters, grills, cameras, bikes, rafts, and golf clubs. The use of this type of arrangement can lead to misuse of the Authority's resources due to the nature of the products purchased.

III. Findings and Recommendations

- We sampled 171 invoices totaling \$792,974 paid for advertising. These invoices included \$411,420 paid to the Pittsburgh Steelers, \$82,529 paid to the Pittsburgh Penguins, \$71,697 paid to the Pittsburgh Pirates, \$46,075 to WZPT FM Star 100.7, and \$12,100 to FSN (Fox Sports Net) Pittsburgh for advertising during the All Star game. We noted that the Steelers and Penguins include event tickets as one of the benefits of the advertising cost. We were told that the tickets were raffled off to monthly pass-holders.
- We also sampled 1,585 invoices totaling \$1,794,185 for claims, equipment, parts & supplies, payroll deductions, photography, refunds, rent, water, and training. All of these were found to be reasonable.
- Of the 4,372 invoices chosen in the sample, the Port Authority was unable to locate 113 or 3% of these invoices totaling \$238,046 for fiscal years 2001 through 2006. Some of the missing support included four invoices for the former CEO, Paul Skoutelas totaling \$12,522, two invoices to Pittsburgh Lawn Care totaling \$7,607, 21 invoices to former Port Authority employee Stephen Banta, totaling \$7,242, and six invoices to James Barthen totaling \$6,488.

Our review revealed that a vast amount of expenses are recorded in a general ledger account as Miscellaneous. Therefore, we categorized the expenses based on the information documented on the invoice.

Recommendations

We recommend that the Port Authority management:

- Conduct a reassessment of its policies and procedures regarding the incurring of expenses to ensure that only expenses related to the essential operations of the Port Authority are approved, paid and have the rationale documented.
- Ensure that meal and entertainment expenses are properly approved and include the business purpose and a list of attendees.
- Develop a policy through the Board relative to donating to charitable organizations, contributing to employee events and conducting raffles and

III. Findings and Recommendations

promotional activities. Eliminate spending on catering, floral arrangements and services that can be provided internally, for example car washes, and similar items unless reasonable justification is provided.

- Enhance the accountability regarding the oversight of the expense process to reassure the public that every dollar is spent on improving the operations of the Port Authority.

III. Findings and Recommendations

Finding #3 North Shore Connector Project To Exceed Budget

The Port Authority has a full-funding grant agreement with the Federal Transit Administration for a \$435 million North Shore Connector project. Through this grant, 80 percent of the project's funding will come from federal dollars, 16 2/3 percent will come from state funds and 3 1/3 percent of the funding will come from local resources. Construction began in the fall of 2006 and is scheduled to conclude in 2011.

The Port Authority developed the North Shore Connector budget based on base year dollars with a built in contingency for each cost category of the project and then added an inflation factor to arrive at the \$435 million dollar estimate for the project.

The construction is divided into six segments which include:

- the boring and lining of the tunnels and the underground North Side Station shell,
- the underground Gateway Station shell,
- the aerial Allegheny Station shell,
- the installation of the train system which includes the tracks, signals, communication, and overhead track system,
- the finishing work for the Gateway, North Side and Allegheny Avenue Stations, and
- the installation of elevators and escalators.

A separate contract package will be awarded for each segment of the construction. Currently, the Port Authority has a contract with North Shore Constructors for \$159.8 million, including executed change orders, for the tunnels and North Side Station shell.

Only two bids were received for the Gateway Station shell segment. The lowest bid was submitted by the current contractor at \$48.9 million, which is \$20 million or 69% over the \$28.9 million budget. The second bid was nearly \$56 million or 94% over the budget.

III. Findings and Recommendations

Four bids were received in June 2008 for the aerial structure at Allegheny Station. The lowest bid was submitted by Brayman Construction Corporation at \$39.8 million, which is 31% over the \$30.3 million budget.

Port Authority has not yet awarded the contract for the Gateway Station shell or the aerial structure at Allegheny Station. Additionally, Port Authority still has to solicit bids for the final three segments of the construction. Port Authority Management indicated that the project will exceed the \$435 million budget, but they do not know by how much. At this time they are in the process of developing a new project budget and they could not identify the source of any additional funding.

Port Authority decided to award a separate contract package for each of the six construction segments. As noted above, bids on the second segment are well above the budgeted amounts. We inquired with Port Authority management to determine why the entire project was not put out for bid at one time. They indicated that the Authority decided to follow the traditional design-bid-build method as compared to an alternative delivery method. Specifically, Port Authority did not consider the at-risk construction management method. They indicated this alternative method was not within the philosophy of the Authority.

Although the traditional design-bid-build is common and provides significant control, there are drawbacks. For instance, during the project design, scheduling and cost ramifications may not be available which can result in higher costs. Additionally, the contractor may employ a “least-cost approach” which requires greater review and oversight. The project/construction manager typically provides impartial advice and assistance during a construction project. However, they do not have a vested financial interest in the project.

Under the “at-risk” delivery method, the construction manager typically provides professional advice during the planning stages and acts as the general contractor throughout the construction, working with subcontractors to complete the project. An advantage is that the construction manager is committed to complete the project within a guaranteed maximum price. Additionally, the

III. Findings and Recommendations

contractor is involved prior to construction and important changes can be made early on. However, the contractual relationship can become stressed as issues surface over construction quality, budget and schedule changes, and design errors or interpretations.

Although there are advantages and weaknesses associated with each of the delivery methods, Port Authority should have explored other options to ensure the project was completed within the approved budget.

Recommendations

We recommend the Port Authority Management explore alternative options to ensure projects are completed within the approved budget. Since government agencies have historically provided the necessary funding, management has the responsibility to prudently manage public monies.

III. Findings and Recommendations

Finding #4

Organizational Self-Assessment Program to Improve the Port Authority's Performance Postponed Indefinitely

As part of the final review phase of the Port Authority of Allegheny County, the Controller's Office, with the assistance of a Consultant, proposed to conduct an organizational self-assessment of the Port Authority to help the Port Authority identify strengths and opportunities for improvement, provide a structure for improvement, and help guide organizational planning and learning.

Consultants certified in the Malcolm Baldrige criteria for performance excellence agreed to conduct a three-day workshop at the Port Authority with the Board of Directors, Executive staff and various employees. The purpose of the workshop was to conduct a full organizational self-assessment using the Baldrige criteria and to assist the Port Authority in action planning. The self-assessment is designed to help organizations:

- Jump start change initiatives
- Energize improvement initiatives
- Focus the organization on common goals
- Assess performance against other transit authorities
- Align resources with strategic objective

The assessment tools provided through the evaluation inform management if the organization is effectively setting and communicating its strategy, goals and key messages as well as if the key messages sent by senior management are being effectively received.

Although the CEO of the Port Authority initially agreed to the evaluation he postponed the assessment mid-way through the meeting. The CEO did not feel it was advisable to critique management at this time due to the upcoming collective bargaining negotiations and potential restructuring within the Authority. Therefore, we were unable to continue with the workshop and the self-assessment to help the Port Authority create an action plan for improvement.

III. Findings and Recommendations

Recommendations

We recommend that the Port Authority's Chief Executive Officer, the Board of Directors, Executive staff and key employees participate in a self-assessment workshop to identify and strengthen the Port Authority's goals, objectives and performance.

SCHEDULE I

**Preventative Maintenance for
Buses and Small Transit Vehicles (STVs)**

INTERIOR CLEANINGS: Required every 30 days and as Additional Cleanings are Needed

Garage	Bus #	Tasks Required	Tasks Missed	Tasks Completed	Percent Completed	# of Tasks Completed		Range of Days late	Avg Days Late
						On Time	Late		
East Liberty	1546	11	0	11	100%	6	5	9-24 days	7
	2698	10	3	7	70%	3	4	1-53 days	16
	2700	13	4	9	69%	2	7	9-25 days	11
	5333	14	3	11	79%	5	6	1-20 days	8
	8631	12	1	11	92%	5	6	4-15 days	4
East Liberty Total		60	11	49	82%	21	28	1-53 days	
Harmar	1930	10	5	5	50%	1	4	10-71 days	30
	2753	12	8	4	33%	1	3	45-69 days	43
	5138	11	6	5	45%	2	3	15-65 days	37
	5140	13	8	5	38%	1	4	36-65 days	41
	8628	12	2	10	83%	4	6	3-40 days	9
Harmar Total		58	29	29	50%	9	20	3-71 days	
Collier	2468	12	3	9	75%	2	7	5-30 days	12
	2590	12	7	5	42%	0	5	4-70 days	38
	2633	12	2	10	83%	2	8	3-30 days	12
	2645	12	3	9	75%	1	8	2-19 days	11
	8615	12	4	8	67%	1	7	2-69 days	15
Collier Total		60	19	41	68%	6	35	2-70 days	
West Mifflin	1536	11	2	9	82%	5	4	1-36 days	8
	2672	18	3	15	83%	10	5	1-66 days	6
	2690	13	0	13	100%	10	3	4-28 days	3
	5425	14	5	9	64%	5	4	15-60 days	16
	8654	16	2	14	88%	11	3	2-71 days	5
West Mifflin Total		72	12	60	83%	41	19	1-71 days	
Ross	1509	12	0	12	100%	8	4	1-8 days	1
	2612	15	0	15	100%	12	3	1-10 days	1
	5017	15	1	14	93%	11	3	1-7 days	1
	5409	13	0	13	100%	11	2	4-13 days	1
	8643	13	3	10	77%	5	5	9-31 days	9
Ross Total		68	4	64	94%	47	17	1-31 days	
OVERALL TOTAL		318	75	243	76%	124	119	1-71 days	

**Preventative Maintenance for
Buses**
MOTOR WASH: Required every 45 days

Garage	Bus #	Tasks Required	Tasks Missed	Tasks Completed	Percent Completed	# of Tasks Completed		Range of Days late	Avg Days Late
						On Time	Late		
East Liberty	1546	6	2	4	67%	0	4	31-49 days	42
	2698	6	3	3	50%	0	3	25-59 days	37
	2700	9	4	5	56%	0	5	15-54 days	30
	5333	8	3	5	63%	0	5	2-39 days	24
	8631	<i>Note 1</i>	-	-	-	-	-	-	-
East Liberty Total		29	12	17	59%	0	17	2-59 days	
Harmar	1930	8	5	3	38%	1	2	46-59 days	62
	2753	7	3	4	57%	1	3	13-106 days	36
	5138	8	4	4	50%	0	4	23-81 days	42
	5140	7	2	5	71%	2	3	18-81 days	25
	8628	<i>Note 1</i>	-	-	-	-	-	-	-
Harmar Total		30	14	16	53%	4	12	13-106 days	
Collier	2468	8	2	6	75%	0	6	2-40 days	15
	2590	6	2	4	67%	0	4	5-96 days	57
	2633	8	1	7	88%	1	6	3-47 days	12
	2645	8	1	7	88%	1	6	3-24 days	10
	8615	<i>Note 1</i>	-	-	-	-	-	-	-
Collier Total		30	6	24	80%	2	22	2-96 days	
West Mifflin	1536	5	1	4	80%	0	4	5-51 days	31
	2672	8	4	4	50%	0	4	28-72 days	46
	2690	9	4	5	56%	0	5	26-64 days	41
	5425	8	4	4	50%	0	4	22-60 days	39
	8654	<i>Note 1</i>	-	-	-	-	-	-	-
West Mifflin Total		30	13	17	57%	0	17	5-72 days	
Ross	1509	8	2	6	75%	2	4	5-23 days	8
	2612	8	2	6	75%	0	6	5-12 days	9
	5017	8	0	8	100%	2	6	5-19 days	8
	5409	9	3	6	67%	1	5	4-15 days	7
	8643	<i>Note 1</i>	-	-	-	-	-	-	-
Ross Total		33	7	26	79%	5	21	4-23 days	
OVERALL TOTAL		152	52	100	66%	11	89	2-106 days	

Note 1: This is a Small Transit Vehicle (STV). Per contract, PAAC personnel do not perform this task for STVs

**Preventative Maintenance for
Buses**

WHEELCHAIR MAINTENANCE: Required every 45 days

Garage	Bus #	Tasks Required	Tasks Missed	Tasks Completed	Percent Completed	# of Tasks Completed		Range of Days late	Avg Days Late
						On Time	Late		
East Liberty	1546	8	3	5	63%	0	5	5-29 days	12
	2698	6	1	5	83%	3	2	13-38 days	10
	2700	8	3	5	63%	0	5	7-55 days	25
	5333	8	2	6	75%	1	5	2-34 days	14
	8631	<i>Note 1</i>	-	-	-	-	-	-	-
East Liberty Total		30	9	21	70%	4	17	2-55 days	
Harmar	1930	7	1	6	86%	1	5	3-20 days	10
	2753	7	2	5	71%	1	4	9-22 days	12
	5138	8	2	6	75%	0	6	3-24 days	10
	5140	8	1	7	88%	2	5	2-25 days	8
	8628	<i>Note 1</i>	-	-	-	-	-	-	-
Harmar Total		30	6	24	80%	4	20	2-25 days	
Collier	2468	8	3	5	63%	0	5	1-53 days	19
	2590	6	0	6	100%	2	4	16-24 days	10
	2633	8	2	6	75%	2	4	3-68 days	16
	2645	8	1	7	88%	2	5	1-53 days	14
	8615	<i>Note 1</i>	-	-	-	-	-	-	-
Collier Total		30	6	24	80%	6	18	1-68 days	
West Mifflin	1536	7	1	6	86%	2	4	15-46 days	14
	2672	8	2	6	75%	1	5	7-48 days	25
	2690	8	2	6	75%	1	5	6-38 days	18
	5425	7	1	6	86%	1	5	1-48 days	15
	8654	<i>Note 1</i>	-	-	-	-	-	-	-
West Mifflin Total		30	6	24	80%	5	19	1-48 days	
Ross	1509	9	3	6	67%	1	5	3-29 days	9
	2612	9	2	7	78%	0	7	4-19 days	12
	5017	8	2	6	75%	2	4	2-26 days	9
	5409	9	3	6	67%	1	5	7-24 days	10
	8643	<i>Note 1</i>	-	-	-	-	-	-	-
Ross Total		35	10	25	71%	4	21	2-29 days	
OVERALL TOTAL		155	37	118	76%	23	95	1-68 days	

Note 1: This is a Small Transit Vehicle (STV). Per contract, PAAC personnel do not perform this task for STVs

**Preventative Maintenance for
Buses and Small Transit Vehicles (STVs)**
OIL CHANGES AND LUBRICATION: Required every 6,000 miles

Garage	Bus #	Tasks Required	Tasks Missed	Tasks Completed	Percent Completed	# of Tasks Completed		Range of Miles late	Avg Miles Late
						On Time	Late		
East Liberty	1546	5	0	5	100%	4	1	212 miles	42
	2698	4	0	4	100%	3	1	309 miles	77
	2700	3	0	3	100%	3	0	-	0
	5333	8	0	8	100%	3	5	3-597 miles	159
	8631	3	0	3	100%	0	3	186-443 miles	283
East Liberty Total		23	0	23	100%	13	10	3-597 miles	
Harmar	1930	4	0	4	100%	4	0	-	0
	2753	5	0	5	100%	5	0	-	0
	5138	6	0	6	100%	6	0	-	0
	5140	7	0	7	100%	7	0	-	0
	8628	7	0	7	100%	7	0	-	0
Harmar Total		29	0	29	100%	29	0	-	
Collier	2468	5	0	5	100%	5	0	-	0
	2590	3	0	3	100%	3	0	-	0
	2633	6	0	6	100%	6	0	-	0
	2645	5	0	5	100%	5	0	-	0
	8615	7	0	7	100%	6	1	169 miles	24
Collier Total		26	0	26	100%	25	1	169 miles	
West Mifflin	1536	4	0	4	100%	4	0	-	0
	2672	5	0	5	100%	4	1	162 miles	32
	2690	4	0	4	100%	4	0	-	0
	5425	8	0	8	100%	7	1	40 miles	5
	8654	6	0	6	100%	5	1	135 miles	23
West Mifflin Total		27	0	27	100%	24	3	40-162 miles	
Ross	1509	4	0	4	100%	4	0	-	0
	2612	4	0	4	100%	4	0	-	0
	5017	5	0	5	100%	5	0	-	0
	5409	8	0	8	100%	6	2	456-900 miles	170
	8643	4	0	4	100%	4	0	-	0
Ross Total		25	0	25	100%	23	2	456-900 miles	
OVERALL TOTAL		130	0	130	100%	114	16	3-900 miles	

**Preventative Maintenance for
Buses**

CLIMATE CONTROL MAINTENANCE: Required four times a year

Garage	Bus #	Tasks Required	Tasks Missed	Tasks Completed	Percent Completed	# of Tasks Completed		Range of Days late	Avg Days Late
						On Time	Late		
East Liberty	1546	3	1	2	67%	1	1	61 days	31
	2698	3	0	3	100%	0	3	16-30 days	21
	2700	4	1	3	75%	0	3	1-42 days	18
	5333	4	1	3	75%	3	0	-	0
	8631	<i>Note 1</i>	-	-	-	-	-	-	-
East Liberty Total		14	3	11	79%	4	7	1-61 days	
Harmar	1930	4	2	2	50%	0	2	51-58 days	55
	2753	4	2	2	50%	0	2	23-25 days	24
	5138	4	1	3	75%	3	0	-	0
	5140	4	1	3	75%	3	0	-	0
	8628	<i>Note 1</i>	-	-	-	-	-	-	-
Harmar Total		16	6	10	63%	6	4	23-58 days	
Collier	2468	4	0	4	100%	2	2	38-39 days	19
	2590	4	3	1	25%	1	0	-	0
	2633	4	0	4	100%	1	3	14-41 days	20
	2645	4	0	4	100%	0	4	14-48 days	35
	8615	<i>Note 1</i>	-	-	-	-	-	-	-
Collier Total		16	3	13	81%	4	9	14-48 days	
West Mifflin	1536	4	1	3	75%	0	3	50-60 days	54
	2672	4	1	3	75%	0	3	25-39 days	30
	2690	4	0	4	100%	2	2	18-46 days	16
	5425	4	1	3	75%	2	1	44 days	15
	8654	<i>Note 1</i>	-	-	-	-	-	-	-
West Mifflin Total		16	3	13	81%	4	9	18-60 days	
Ross	1509	4	2	2	50%	0	2	7-20 days	14
	2612	4	1	3	75%	2	1	48 days	16
	5017	4	3	1	25%	1	0	-	0
	5409	4	2	2	50%	0	2	8-16 days	12
	8643	<i>Note 1</i>	-	-	-	-	-	-	-
Ross Total		16	8	8	50%	3	5	7-48 days	
OVERALL TOTAL		78	23	55	71%	21	34	1-61 days	

Note 1: This is a Small Transit Vehicle (STV). Per contract, PAAC personnel do not perform this task for STVs

**Preventative Maintenance for
Buses**
PENNSYLVANIA STATE INSPECTIONS: Required twice a year per vehicle

Garage	Bus #	Tasks Required	Tasks Missed	Tasks Completed	Percent Completed	# of Tasks Completed		Range of Days late	Avg Days Late
						On Time	Late		
East Liberty	1546	2	0	2	100%	2	0	-	0
	2698	1	0	1	100%	1	0	-	0
	2700	2	0	2	100%	2	0	-	0
	5333	2	0	2	100%	2	0	-	0
	8631	<i>Note 1</i>	-	-	-	-	-	-	-
East Liberty Total		7	0	7	100%	7	0	-	
Harmar	1930	2	0	2	100%	2	0	-	0
	2753	2	1	1	50%	1	0	-	0
	5138	2	0	2	100%	2	0	-	0
	5140	2	0	2	100%	2	0	-	0
	8628	<i>Note 1</i>	-	-	-	-	-	-	-
Harmar Total		8	1	7	88%	7	0	-	
Collier	2468	2	0	2	100%	2	0	-	0
	2590	2	0	2	100%	1	1	4 days	2
	2633	2	0	2	100%	2	0	-	0
	2645	2	0	2	100%	2	0	-	0
	8615	<i>Note 1</i>	-	-	-	-	-	-	-
Collier Total		8	0	8	100%	7	1	4 days	
West Mifflin	1536	2	0	2	100%	2	0	-	0
	2672	2	0	2	100%	2	0	-	0
	2690	2	0	2	100%	2	0	-	0
	5425	2	0	2	100%	2	0	-	0
	8654	<i>Note 1</i>	-	-	-	-	-	-	-
West Mifflin Total		8	0	8	100%	8	0	-	
Ross	1509	2	0	2	100%	1	1	22 days	11
	2612	2	0	2	100%	2	0	-	0
	5017	2	0	2	100%	1	1	3 days	2
	5409	2	0	2	100%	2	0	-	0
	8643	<i>Note 1</i>	-	-	-	-	-	-	-
Ross Total		8	0	8	100%	6	2	3-22 days	
OVERALL TOTAL		39	1	38	97%	35	3	3-22 days	

Note 1: This is a Small Transit Vehicle (STV). Per contract, PAAC personnel do not perform this task for STVs

SCHEDULE II

**Preventative Maintenance for
Light Rail Vehicles (LRV)**

Schedule II

LRV #	Tasks Required	Tasks Missed	Tasks Completed	Percent Completed	# of Tasks Completed		Range of Days late	Avg Days Late
					On Time	Late		
Interior Cleaning: Required every 45 days (January through October); every 30 days (November & December)								
4214	9	4	5	56%	2	3	20-166	43
4239	9	8	1	11%	0	1	285	285
4225	7	6	1	14%	0	1	90	90
4314	10	8	2	20%	0	2	14-216	115
4325	9	8	1	11%	0	1	237	237
Total	44	34	10	23%	2	8	14-285 days	
Weekly Inspection: Required every 7 days (Sunday - Saturday)								
4214	46	37	9	20%	n/a	n/a	n/a	n/a
4239	48	38	10	21%	n/a	n/a	n/a	n/a
4225	47	34	13	28%	n/a	n/a	n/a	n/a
4314	47	34	13	28%	n/a	n/a	n/a	n/a
4325	47	35	12	26%	n/a	n/a	n/a	n/a
Total	235	178	57	24%	n/a	n/a	n/a	n/a
5,000 Mile Inspections								
4214	6	0	6	100%	6	0	-	0
4239	4	0	4	100%	4	0	-	0
4225	5	0	5	100%	5	0	-	0
4314	5	0	5	100%	5	0	-	0
4325	5	0	5	100%	5	0	-	0
Total	25	0	25	100%	25	0	-	0
Gear Oil Change: Required every 30,000 miles								
4214	1	0	1	100%	0	1	9,656	9,656
4239	1	0	1	100%	0	1	9,477	9,477
4225	1	0	1	100%	0	1	9,595	9,595
4314	1	0	1	100%	0	1	9,330	9,330
4325	1	0	1	100%	0	1	8,962	8,962
Total	5	0	5	100%	0	5	8,962-9,656 miles	47,020
HVAC: Required twice a year (spring, fall)								
4214	2	2	0	0%	n/a	n/a	n/a	n/a
4239	2	1	1	50%	n/a	n/a	n/a	n/a
4225	2	1	1	50%	n/a	n/a	n/a	n/a
4314	2	2	0	0%	n/a	n/a	n/a	n/a
4325	2	1	1	50%	n/a	n/a	n/a	n/a
Total	10	7	3	30%	n/a	n/a	n/a	n/a
Pennsylvania State Inspections: Required twice a year per vehicle								
4214	2	0	2	100%	2	0	-	0
4239	2	0	2	100%	2	0	-	0
4225	2	0	2	100%	2	0	-	0
4314	2	0	2	100%	2	0	-	0
4325	2	0	2	100%	1	1	13	7
Total	10	0	10	100%	9	1	13	

**RESPONSE FROM THE
PORT AUTHORITY
CHIEF EXECUTIVE
OFFICER**

October 10, 2008

The Honorable Mark Patrick Flaherty
Controller
104 Courthouse
436 Grant Street
Pittsburgh, PA 15219-2498

Dear Mr. Flaherty:

The purpose of this letter is to document our responses to the findings noted in your Limited Review of the Port Authority of Allegheny County for the period July 1, 2000 through December 31, 2007.

Finding One: "Untimely Preventative Maintenance and Sanitizing of Port Authority Vehicles Does Not Adequately Safeguard the Public."

Response: Port Authority recognizes that certain cleaning activities and non-safety related activities either appear to be, or are in reality, falling behind established goals and schedules. It should be noted that the Authority's goals and schedules in this arena in all cases meet, and in many cases exceed established industry standards. It should also be noted, as evidenced by the high level of performance in these areas, that safety related preventive maintenance are, and shall remain, the highest priority for the Authority, as evidenced by the Authority's continued improvement in "Miles Between Road Failures" measure. In response to this finding, the Authority intends to undertake the following activities:

1. ***Reassignment of Maintenance Staff to Cleaning*** – The Controller's Office correctly points out that "more intense" interior cleanings of revenue vehicles have fallen behind Authority established goals. In mid-2007, during periods of service reduction and cost reduction, a number of cleaning positions were among the over 400 positions eliminated by Port Authority. Within the next six to nine months, the Authority will reassign positions from other areas of Authority operations to revenue vehicle cleaning to improve performance in this area.
2. ***Replacement of Work Order Based Maintenance Management System*** – In a number of areas, the Controller's Office points to shortcomings in the Authority's current work order based maintenance management system. In addition, many of the findings of the Controller's staff were attributable to a lack of documentation in the work order system, not due to a missed maintenance activity itself. The Authority concurs that limitations in

the design of this system make it extremely difficult to track many maintenance activities, and all but impossible to track certain "unusual" occurrences (i.e., status of vehicles removed from revenue service for lengthy periods of time for extensive repair operations, giving the impression that inspection intervals are not met). This system, similarly, is extremely cumbersome for operating personnel to utilize in a manner that promotes proactive maintenance management. As a result, many crucial maintenance monitoring activities are still conducted on "paper-based" systems. The Authority will intend to program (through its capital budget process) a replacement of this system with a more robust maintenance management system, specifically designed for this type of operation. As the accumulation of funds for such a system will require a longer lead time, it will likely take up to three years for such a system to be implemented. In the interim, Authority staff will continue to place their emphasis on safety and reliability maintenance activities, and to augment the current system wherever feasible.

3. ***Examination of Current Maintenance Intervals and Goals*** – The Controller's Report clearly identifies the major finding in this segment of its report as a failure to meet Authority established goals in several areas. As stated above, in many areas, the Authority's goals well exceed industry standards. Although these standards may be appropriate when resources are plentiful, it is appropriate that they be re-examined in a time of overall financial constraint. Toward that end, the Authority will examine its maintenance and cleaning schedules in order to determine if they should be adjusted to more realistic schedules. The Authority will not, however, adjust schedules that would compromise safety, reliability or endanger manufacturer's warranties.

Finding two: "Expenses Not Directly Related to the Port Authority's Operations."

Response: We are pleased that after a year of auditing that began in April 2007, the County Controller could not find any questionable expenditures to report in his "Limited Review of the Port Authority" except those that were already eliminated several years ago. His findings demonstrate that the Port Authority continually reviews the appropriateness of its expenditures and adjusts its policies as necessary.

The County Controller's Auditors requested and were provided with every voucher, along with supporting documentation, which was paid by the Port Authority dating back to fiscal year 2000. Because of their age, the overwhelming majority of these vouchers is maintained in an off-site storage facility and was recovered for the County Controller at a substantial delivery cost to the Port Authority. This provided the entire universe of source documents for transactions during that time period for the Controller's unsupervised and unrestricted use. The Controller's staff stated that they were examining every transaction.

Over the seven years the Limited Review covered, the expenses the Controller has questioned account for six one hundreds of one percent of Port Authority's operating budget, confirming that 99.994% of the Port Authority's expenditures have been justifiable and warranted.

We greatly appreciate that the Controller has gone to such extensive efforts during the "Limited Review of the Port Authority" to identify and reaffirm our cost cutting efforts on behalf of taxpayers and transit riders.

With regard to some of the items mentioned within the report.

- The Port Authority is very open in providing information to auditors and freely provided files to the auditors without requiring that they make copies and immediately return them to storage. Over the years, many audits of the Port Authority have happened concurrently.

As we have provided open, unrestricted access to the County Controller and the other auditors who have conducted audits that targeted the same information prior to the County Controller, there is a reasonable likelihood that some of the documents were inadvertently not returned to the proper storage location.

- Providing Comcast and Dish Network service for employees in the break rooms at several locations is a valid and legitimate business policy that does not result in additional cost to the Port Authority. The cost of this service is paid via revenue from concessions from machines in the break rooms that far exceed the cost of Comcast and Dish Network services that are provided. By providing Comcast and Dish Network services as well as the concession machines, our employees are encouraged to remain on-site during their breaks and time in between shifts.

If such services were not provided, these employees would likely take their breaks and time between shifts away from our facilities thereby resulting in less concession income for the Port Authority, possible service delays and employee relations issues for not providing these services for them.

- The only cars that are cleaned through a carwash contract are the Port Authority police vehicles. All other non-revenue vehicles are cleaned by service persons at the location where the vehicles are assigned. Non-revenue vehicles are also cleaned in the auto shop by service persons assigned to the Junction.

It was determined to be more cost-efficient and practical to take the police vehicles to a designated off-site car wash that is easily accessible from the Port Authority Police station.

- Business lunches, catering and payments for meeting rooms are all normal and reasonable business expenditures that are incurred during the course of any business. The documentation process used by the Port Authority has withstood previous scrutiny and tests of reasonableness for the periods covered during audits conducted by the Federal Transportation Administration, State Auditor General and our external auditors prior to the County Controller's "Limited Review".
- The Port Authority agrees with the County Controller that cash donations to charitable organizations are not appropriate. While donations have been made in the past, it is the policy of the Port Authority to not make such donations. Any current expenditures identified as donations by the County Controller would have been memorial contributions made on behalf of deceased employees in lieu of flowers. Current expenditures related to sponsorships at events for charitable organizations represent advertising not donations.

- It is completely reasonable for the Port Authority to spend money on advertising in order to communicate to riders and inform the public about its services, initiatives, public input opportunities and operational changes.
- The Port Authority has reduced its marketing budget by 53.3% since 2002. The effectiveness of this budget is enhanced by advertising at events attended by tens of thousands of people, such as Steelers, Pirates and Penguins games. Fifty percent of the advertising contract amounts with the Steelers, Pirates and Penguins are in advertising trade.
- While most of the expenses related to employee relations, recognition and activities as well as expenditures related to openings and milestones on major construction projects cited in the Controller's report have been eliminated over the past few years, it is beneficial to Port Authority morale and to the customers we serve to offer cost conscious employee recognitions and activities.

The Port Authority recently experienced a major milestone as it broke through to the receiving pit in Gateway Center. As evidence of the change in policy in recent years, no funds were expended for any celebration to commemorate this historic event.

Employee activities represent only a small subset of the expenditures that are covered by the line item in the budget for Employee Expense. Employee expense also includes travel expenses and in total is only 0.012% of the total operating budget for FY 2007 and 0.018% for FY2008.

- With regard to specific employee activities-related expenditures identified in the controllers report.
 - The Kennywood expenditures noted in the County Controller's review occurred in 2000, 2001, 2002 and 2003. Due to regular examination of the policy by Port Authority management, the expenditure for this activity decreased by 7.1% from 2000 to 2001, decreased by 94.6% from 2001 to 2002, remained equal to the 2002 level in 2003 and was completely eliminated after 2003. It should be noted that employees also contributed to this event.
 - Expenditures such as Pirate Tickets are expenditures for events in which the Port Authority received reimbursement from organizations such as APTA or the employees. The reimbursements would not be reflected in the voucher where the expense was paid. They would be recorded in many different bank deposits with many other miscellaneous income items not related to the questioned events. The manpower required to identify the specific reimbursements as they related to the vouchers identified by the auditors was an unwarranted, unproductive and cost prohibitive use of Port Authority manpower. The Port Authority provided complete access and opportunity for the auditors to perform the steps necessary to trace the reimbursements on their own. The County Controller's office chose not to perform these tasks with their own staff.

- If the County Controller's audit had occurred within a period more recent to when these events occurred, a specific log of the reimbursements would have been available to assist in identifying them. Retaining this type of log indefinitely is not required under any external reporting jurisdiction of the Port Authority. Therefore, it would have been appropriately destroyed under normal records retention policy.
- Most Port Authority employees have dedicated many years of service to the organization. To recognize their passing, or the passing of family members, through a purchase of flowers or a contribution in lieu of flowers is an appropriate and reasonable expense in preserving the morale of the organization and to show appreciation for the person who has dedicated themselves to the service of Port Authority and the people who depend upon transit.

Finding three: "North Shore Connector Project to Exceed Budget."

Response: Port Authority utilized the traditional design-bid-build method for project delivery, which is used by most agencies, and approved by the Federal Transit Administration and PennDOT. It is illegal for Port Authority to use the design-build method for constructing its major capital projects. Also, the design-build method would not necessarily be more cost effective in the high escalation construction cost environment.

The current North Shore Connector budget was developed in early 2006 before the unusual escalation in construction material and energy costs. The Authority is not immune from the realities of skyrocketing energy and construction materials costs, which have been national and globally experiences. In the last year alone, the cost of structural fabricated steel has risen nearly 60 percent and structural cement concrete has increased 48 percent. While the recent bids have exceeded estimates, the project remains within the \$435 budget. To date, approximately \$300 million in contracts have been bid or let, and the first and largest contract (\$164 million) for the construction of the twin tunnels and North Side Station shell is on time and on budget.

Given the uncertainty in construction material and energy costs, it is hard to predict the final project cost. To do so would be pure speculation. Instead, Port Authority is focused on finding ways to mitigate the skyrocketing costs of construction materials without compromising quality. During the last year Port Authority has identified \$25 million in cost mitigations. Port Authority is exploring alternative funding sources if the need arises, including reallocation of capital resources.

Finding Four: "Organizational Self-Assessment Program to Improve the Port Authority's Performance Postponed Indefinitely."

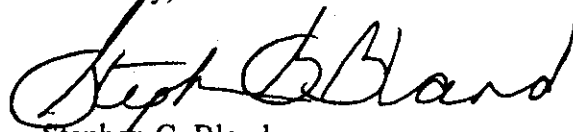
Response: Management concurs that directed, honest self-assessments of organizational performance are useful in leading organizational change. This has been a hallmark of the current Authority Board and management team, as evidenced by recent Board operations restructuring in line with current non-profit Board governance thinking, last year's "Service Scorecard" process and our ongoing Transit Development Plan. Management also concurs that the Baldrige process is a well-established long-term process that has proven successful in many organizations over a period of many years. Management entered into this process willingly, and with the agreement of the Baldrige consultants and the Controller's Office that this process was

independent of the Controller's ongoing review of the Port Authority. When the initial workshop was attended by staff of the Controller's Office, and that session was leading toward honest discussion among Port Authority staff, Port Authority management and the certified consultant assigned by the Controller's Office jointly agreed that this was an inappropriate application of their methods, and never intended by the designers of the Baldrige process. In a follow up conversation with Controller's Office staff, the Controller's Office indicated that they understood this approach. Management never stated to anyone that discontinuation of this process had anything to do with upcoming collective bargaining.

Port Authority Management and Board remain committed to continuing the change initiatives we have begun. It is our understanding that the County Controller is initiating the Baldrige process within its own office, and the Port Authority would appreciate ongoing dialogue relative to how this process is working.

If you have any questions or comments on the above responses, please contact me at 412-566-5311.

Sincerely,

A handwritten signature in black ink that reads "Step Bland". The signature is written in a cursive, flowing style.

Stephen G. Bland
Chief Executive Officer

/dmw

ADDENDUM TO THE REPORT

**Effect of the New ATU Local 85
Agreement on Port Authority's
OPEB Liability**

Addendum to the Report:

Effect of the New ATU Local 85 Agreement on Port Authority's OPEB Liability

On November 25, 2008, Port Authority representatives and ATU Local 85 leadership tentatively agreed to a collective bargaining agreement. ATU Local 85 members voted to accept this tentative agreement on December 7, 2008 and the Port Authority Board of Directors ratified the agreement on December 15, 2008. The four year agreement is in effect from July 1, 2008 through June 30, 2012. A summary of the major provisions of the agreement includes:

- Wages will increase 3%, 2%, 3%, 3% each January 1, beginning in 2009.
- Healthcare contributions for active employees will increase to 2% of base wages beginning January 1, 2009 and will increase to 3% of base wages beginning January 1, 2011.
- Implementing a tiered structure for post-retirement healthcare benefits. Retirement at age 60 with 30 years of service is the most favorable tier. These retirees will receive medical insurance at no cost. The other tiers provide benefits based on years of service and retirement age.
- Continuing the \$500 monthly cash supplement.
- Provision to increase employee contributions to the pension plan if the Authority's annual contributions exceed \$20 million.

Other Post Employment Benefits (OPEBs) include post-retirement healthcare and life insurance. The total actuarial accrued liability of these future benefits is calculated and amortized. GASB 45 requires the annual OPEB cost to be recognized each year. Although the expense does not have to actually be paid each year, it is an accrued liability on the financial statements. The new bargaining agreement reduces the future cost of post-retirement healthcare benefits, thus reducing the future OPEB liability. Over the four year contract period, the new agreement is projected to reduce the liability by \$92.7 million.

This agreement is also projected to result in approximately \$100,000 in net "cash" savings over the four year period. Later retirements, increased employee healthcare and pension contributions, and changes to the healthcare plan design will reduce costs. However, wages will increase.

Overall, this new agreement is estimated to reduce costs by \$92.8 million over the four year period.