

OFFICE OF THE STATE INSPECTOR GENERAL  
Report to Director Jennifer Mitchell

*PERFORMANCE REVIEW  
OF THE DEPARTMENT OF RAIL  
AND PUBLIC TRANSPORTATION*

November 2016



June W. Jennings, CPA  
State Inspector General  
Report No. 2016-PR-007



*COMMONWEALTH OF VIRGINIA*  
*Office of the State Inspector General*

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November 21, 2016

Jennifer L. Mitchell  
Director  
Department of Rail and Public Transportation  
600 East Main Street, Suite 2102  
Richmond, VA 23219

Dear Ms. Mitchell:

The Office of the State Inspector General (OSIG) is empowered, under § [2.2-309](#) [A](10) of the *Code of Virginia*, to conduct performance reviews of state agencies to ensure that state funds are spent as intended and to evaluate the efficiency and effectiveness of programs in accomplishing their purposes. The Department of Rail and Public Transportation (DRPT) review covers the period of July 1, 2015, through June 30, 2016, and focused on the following three risk areas:

- Rail Industry
- Agency Operations
- Strategic Planning

DRPT was selected for review based on a 2013 statewide risk assessment completed by Deloitte LLP. The planning phase of the review consisted of conducting interviews with selected members of executive and divisional management, assessing the risks identified during those interviews, and creating a detailed review plan to accomplish the review objectives.

The steps in the review plan were executed, and the results were discussed with DRPT management throughout the review process. Additionally, an exit conference was held on Thursday, September 29, 2016 to discuss the draft report.

Observations identified during the review are included in the attached report. In addition, the agency plan of action has been included.

OSIG staff appreciates the assistance provided by DRPT leadership team and staff during this review.

If you have any questions or require further information, please contact me at 804-625-3255 or [june.jennings@osig.virginia.gov](mailto:june.jennings@osig.virginia.gov).

Respectfully,

June W. Jennings, CPA  
State Inspector General

CC: Paul J. Reagan, Chief of Staff to Governor McAuliffe  
Suzette P. Denslow, Deputy Chief of Staff to Governor McAuliffe  
Aubrey L. Layne Jr., Secretary of Transportation  
Charles W. Carrico Sr., Chairman of the Senate Transportation Committee  
Ronald A. Villanueva, Chairman of the House Transportation Committee

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## Executive Summary

The Office of the State Inspector General (OSIG) identified opportunities to improve efficiency and effectiveness in the areas reviewed. OSIG reviewed the following areas: rail industry, agency operations, and strategic planning. OSIG staff reached this conclusion after:

- Gaining an understanding for the aforementioned review areas' processes by reviewing policies and procedures, conducting interviews with agency personnel, and by researching public/private sources to gather and analyze data.
- Conducting observations and walk-throughs of the various processes and assessing them for efficiency and effectiveness.
- Benchmarking the agency's business processes and performance metrics to other states' similar agencies and to industry best practices.

During the review OSIG staff made a number of observations, the most significant of which are listed below, where current processes could be improved:

<b>Program Observations</b>
DRPT Should Maintain Focus on the Quantitative and Qualitative Factors Impacting High Speed Rail Implementation within the Commonwealth (Observation No. 1)
Revenue and Cost Data Should Continue to be Reviewed on a Regular Basis to Ensure Maximum Value for the Commonwealth of Virginia (Observation No. 2)
DRPT Advertising is Not Targeting Specific Geographic Areas to Address Ridership Needs (Observation No. 3)

## Purpose and Scope of the Review

OSIG conducted a performance review of DRPT pursuant to *Code of Virginia (Code)* § [2.2-309](#) [A](10) whereby the State Inspector General shall have power and duty to:

“Conduct performance reviews of state agencies to assess the efficiency, effectiveness, or economy of programs and to ascertain, among other things, that sums appropriated have been or are being expended for the purposes for which the appropriation was made and prepare a report for each performance review detailing any findings or recommendations for improving the efficiency, effectiveness, or economy of state agencies, including recommending changes in the law to the Governor and the General Assembly that are necessary to address such findings.”

This review was not designed to be a comprehensive review of DRPT. Instead, the focus was on certain risk areas identified through a statewide risk assessment of state agencies and interviews with agency management. The scope and objectives of the review were established through interviews with management concerning DRPTs’ risks in these areas:

- Rail Industry
- Agency Operations
- Strategic Planning.

The review period was from July 1, 2015, through June 30, 2016. The review objectives were to:

- Evaluate the adequacy of the grant expenditure reimbursement and accounts payable processes throughout the agency to ensure efficiency, effectiveness, and economy of operations.
- Evaluate the grants process (application review cycle, post award oversight, etc.) to ensure efficiency, effectiveness, and economy of the grants process throughout the agency.
- Determine whether DRPT staff throughout the agency is obtaining sufficient training to meet the needs of the agency.
- Determine whether rail industry activities (high speed rail spending, statewide rail plan review, and demographic studies) are administered in the most efficient and effective manner.
- Determine whether revenue and expenditures, advertising techniques, and security efforts at the six trains that DRPT funds and that run out of four Amtrak locations (Lynchburg, Newport News, Norfolk, and Richmond) are efficient and effective.
- Confirm that the existing performance measures in place provide an adequate means by which to assess the operating efficiency, effectiveness, and economy of DRPT operations.
- Determine whether DRPT management adequately considers the risk environment (i.e. economy, technology, political environment, organizational structure, human resources, etc.) during the formulation of long term strategy and planning activities.
- Assess for indicators or opportunities for Fraud, Waste, or Abuse in the risk areas.

## Background

DRPT is an agency of the Commonwealth of Virginia that focuses on the movement of people and goods via rail activity, public transportation, and commuter services. DRPT works with local, regional, state, and federal governments, as well as private entities to provide support for projects and programs by:

- Assessing feasibility and environmental impacts of new and expanding services;
- Conducting statewide rail and public transportation studies;
- Planning and programming new services and capital improvement projects; and
- Providing leadership, technical assistance and funding.

Rail transportation involves the movement of people and goods on railways owned and operated by private railroad companies. More than a dozen railroad companies provide services in Virginia, including Norfolk Southern, CSX, Amtrak, VRE, and several short-line railroads. Freight rail programs help ensure the economic vitality of businesses and communities with a cost-effective, reliable way to bring goods to market. Passenger rail programs relieve congestion on highways and offer travelers more transportation choices. DRPT supports both passenger and freight rail initiatives through funding options, expert advice, and research.

Public transportation systems help manage traffic congestion and provide transportation choices while safely transporting people to destinations across the Commonwealth. Public transportation systems in Virginia range in size from two-bus programs in small towns to larger regional systems like WMATA (Metrorail) in Northern Virginia and HRT in Hampton Roads. By advising, supporting, and funding public transportation programs statewide, DRPT helps provide safe, reliable transportation options to the Commonwealth.

Commuter services programs work to promote carpools, vanpools, telework, and other alternative modes of transportation to Virginia's commuters. These programs save people (and employers) time and money, along with helping manage traffic congestion and benefiting the environment. DRPT partners with commuter service programs operating in the Commonwealth to provide people with information, business incentives, and ride matching services at no charge.

## Review Methodology

OSIG staff conducted this review by:

- Examining the detailed results of Deloitte’s statewide risk assessment;
- Reviewing pertinent documents; and
- Conducting interviews to gain insight into the specific concerns from the Deloitte assessment with the Auditor of Public Accounts (APA) and DRPT:
  - Executive Management Team
  - Key Units’ Personnel.

As a result of the interviews, OSIG staff identified associated risks for each of the risk areas, established performance review objectives (see specific objectives within each risk area below), and developed detailed review procedures to address these objectives. In addition, indicators or opportunities for Fraud, Waste, or Abuse were assessed in the risk areas.

The performance review procedures included:

1. Conducting interviews and observations/walk-throughs, and examining policies and procedures to gain an understanding of the review areas’ processes, assessing the processes for efficiency and effectiveness;
2. Collecting and analyzing relevant data; and
3. Benchmarking business processes, activities, and performance metrics against similar activities in other states.

## Review Results

Overall, OSIG found opportunities to improve efficiency and effectiveness in the areas reviewed – rail industry, agency operations, and strategic planning functions. Specifics regarding the review performed are reported by risk area below.

### *Risk Area 1 – Rail Industry*

Rail industry operations at DRPT focus on the six Amtrak trains that operate in the Commonwealth. OSIG’s review focused on the profitability of the trains, advertising efforts, and the steps being taken to assess whether it is feasible for them to be upgraded to higher speed rail.

### Review Objectives and Steps

The review objectives included determining whether rail industry activities are administered in the most efficient and effective manner, and determining whether revenue, expenditures, advertising techniques, and security efforts at the six DRPT trains are efficient and effective.

OSIG staff performed the following:

- Assessed the reasonableness of spending funds on high speed rail projects;
- Reviewed the statewide rail plan;
- Researched the efficiency and effectiveness of the high speed rail section of DRPT;
- Reviewed and documented the process for the outsourced rail industry demographic studies conducted;
- Reviewed revenue and expenditure information for the six trains DRPT is responsible for operating;
- Documented the process of ensuring ridership safety on each DRPT train;
- Reviewed DRPT’s advertising efforts and compared them to other states; and
- Determined if there were other train services within Virginia that could benefit from DRPT’s advertising strategy.

The following observations were noted:

#### **OBSERVATION NO. 1 – DRPT SHOULD MAINTAIN FOCUS ON THE QUANTITATIVE AND QUALITATIVE FACTORS IMPACTING HIGH SPEED RAIL IMPLEMENTATION WITHIN THE COMMONWEALTH**

The United States has embarked on a program of building high speed rail (HSR) corridors in the nation’s most urbanized corridors and regions. HSR is classified into the following [categories by the Federal Rail Association](#):

<b>Federal Rail Association Categories</b>	
<i>Category</i>	<i>Speed Characteristics</i>
Emerging High Speed Rail	Top speeds of 90-110 mph
Regional High Speed Rail	Top speeds of 110-150 mph on grade-separated track
Express High Speed Rail	Top speeds of at least 150 mph on grade-separated track dedicated to passenger service

As part of the Southeast High Speed Rail (SEHSR) segment, Virginia is working to create an “emerging high speed rail” that is efficient, competitive with auto and air travel, and improves the overall intercity passenger rail service in Virginia and throughout the east coast. In order to achieve this goal, DRPT has partnered with the North Carolina Department of Transportation (NCDOT), the Federal Rail Association (FRA), the Federal Highway Administration (FHWA), and the transportation supplier CSX to complete various Environmental Impact Statements ([EIS](#)) to determine the viability of installing HSR within the Commonwealth. The EIS study was funded via a three-way split among the FRA (\$44,308,000 or 80 percent), the DRPT (\$8,101,000 or 15 percent), and CSX (\$2,976,000 or 5 percent). Tier I of this study was completed in 2012 and recommended the following for the Commonwealth:

- Use an incremental development approach;
- Minimize impacts by using existing rail-infrastructure corridors and railroad right-of-way;
- Reduce expected initial capital investment;
- Generate benefits of higher speeds in achievable timeframes; and
- Add four higher-speed intercity round trips to the corridor.

These issues along with any other recommendations will be considered in determining the viability of HSR in the Commonwealth. Per DRPT management, Tier II of the study is on-going and a record of decision is anticipated in 2017 when the study is completed. The goals of Tier II EIS are as follows:

- Update and confirm the purpose and need as established in the Tier I EIS for the Washington, DC to Richmond, VA portion of the SEHSR corridor;
- Develop site-specific rail alternatives for placement of a third track and other improvements;
- Conduct a detailed evaluation of environmental impacts for the alternatives; and
- Select a preferred alternative.

According to the [Development of High Speed Rail in the United States: Issues and Recent Events](#) study performed by Congressional Research Services (CRS), the biggest risk surrounding HSR implementation relates to projecting actual costs and funding. On average, the study estimates costs around \$7 million per mile to upgrade existing tracks to HSR. Projecting this per-mile amount to the Commonwealth, it will cost about \$1.2 billion to install 170 miles of higher-speed tracks in Virginia, assuming the track approximately parallels I-95. However, it is difficult to

obtain an accurate estimate of the cost of constructing HSR due to varying factors such as train speed, corridor topography, right-of-way cost, and other factors. Due to these varying factors, transportation projects of this type are routinely underestimated as exhibited in the same study, where Congressional Research Services examined 258 global transportation infrastructure projects and found that in nearly 90 percent of the cases, costs were underestimated. Actual costs on average were 28 percent higher than estimated, and rail projects, in particular, were the most severely underestimated, costing on average 45 percent more than estimated. In regards to funding, the study mentions increased concerns over long-term financing because the federal government does not possess a dedicated funding source for HSR. As a result, projects that take multiple years to build will be vulnerable to year-to-year changes in discretionary budget allocations. These fluctuations could have an impact upon Virginia because funding for HSR may have various matching requirements.

In order to fund these projects, governments typically pay the construction costs, and in many cases have subsidized the operating costs as well. Many governments, including Virginia, have subsidized Amtrak operations to provide intercity passenger-rail services. Based on research data provided by the [Congressional Budget Office](#) (CBO), Amtrak has cost the United States and state and local governments more than \$45 billion cumulatively in subsidies over the past 44 years. In fiscal year 2015, for Virginia specifically, Amtrak officials stated that expenditures totaled \$42 million, while revenues generated were only \$35 million. Research done by the CBO has shown that although these operations are not breaking even, the subsidies are justified because they provide social benefits of relieving congestion, reducing pollution, increasing energy efficiency, and contributing to employment and economic development.

As evidenced by research performed by [America 2050](#) and discussions with DRPT management, there generally is a Federal push for HSR, with initial ideas of the concept spanning multiple presidential administrations. Despite the political pushback, states such as Florida, Wisconsin, and Ohio have opposed HSR due to the substantial spending such projects entail, particularly for capital and operating costs. A key aspect of the debate concerns prospects for the continued development of HSR if no more federal funds are forthcoming. Because of this, OSIG staff inquired with DRPT management to determine if HSR is a viable option for the Commonwealth. DRPT informed OSIG that since Tier II of the EIS study is on-going, DRPT has not reached a conclusion on whether HSR is feasible in Virginia. Furthermore, management confirmed that analysis over various aspects of the project — such as profitability and required Virginia contributions — has not yet been determined. Data including ridership forecast, revenue forecast, and estimated cost of construction are expected as part of the outcome of the study.

#### **Observation No. 1 Recommendation**

DRPT management should continue to consider quantitative and qualitative factors encountered by the federal and other state governments while performing the feasibility

analysis for HSR in Virginia. Long-term funding, underestimating actual costs, estimating social benefits, and required annual Virginia contributions are all major issues that have halted other entities attempting to upgrade to HSR. Furthermore, because of political factors impacting HSR implementation nationwide, DRPT management should continue to maintain a nonpartisan view on the subject as the agency continues its feasibility study.

**Observation No. 1 Management Response**

DRPT agrees with the conditions observed and recommendation as presented.

DRPT continues to work with the Federal Railroad Administration (FRA) to complete the Tier II Environmental Impact Statement (EIS) for the DC to Richmond HSR project. This effort includes a vigorous feasibility analysis for HSR which considers costs and long term funding as well as social and economic benefits.

DRPT will continue to maintain a nonpartisan view as it conducts its HSR studies.

**OBSERVATION NO. 2 — REVENUE AND COST DATA SHOULD CONTINUE TO BE REVIEWED ON A REGULAR BASIS TO ENSURE MAXIMUM VALUE FOR THE COMMONWEALTH OF VIRGINIA**

In 2009 and 2010, the General Assembly and the Commonwealth Transportation Board (CTB), in response to the Passenger Rail Investment and Improvement Act of 2008 (PRIIA), determined that Virginia should provide financial support for passenger rail service in the state, declaring it to be in the public interest to develop and continue intercity passenger rail operations. Multiple CTB resolutions affirmed the state’s financial commitment to supporting passenger rail and the Commonwealth’s Six-Year Improvement Plan has consistently programmed funds for this purpose since 2009. Under this authority and direction, DRPT currently funds four Amtrak routes – Lynchburg/Route 46, Newport News/Route 47, Norfolk/Route 50), and Richmond/Route 51) — consisting of six round trips per day using 12 train sets. These trains connect the Commonwealth to destinations in the Northeast. Expenditures listed below also include time (number of times not provided) when the trains run empty, carrying employees to assignments.

A review of the revenue and expenditures for all four trains for Federal fiscal year (FFY) 2015 (October 1, 2014 – September 30, 2015) and 2016 (as of February, October 1, 2015 – February 29, 2016) was conducted.

<b>Federal Fiscal Year 2015 Revenue &amp; Expenditures for DRPT-Funded Routes</b>					
	<i>Lynchburg/ Route 46</i>	<i>Newport News/ Route 47</i>	<i>Norfolk/ Route 50</i>	<i>Richmond/ Route 51</i>	<i>Total</i>
Total Revenues	\$8,030,785	\$14,988,873	\$6,146,636	\$6,509,139	\$35,675,433
Total Expenditures	\$7,972,355	\$18,191,908	\$8,201,462	\$8,082,401	\$42,448,126
Net Surplus (Shortfall)	<b>\$58,430</b>	<b>(\$3,203,035)</b>	<b>(\$2,054,826)</b>	<b>(\$1,573,262)</b>	<b>(\$6,772,693)</b>

<b>Federal Fiscal Year 2016 Revenue &amp; Expenditures for DRPT-Funded Routes</b>					
<i>Totals as of February 2016</i>	<i>Lynchburg/ Route 46</i>	<i>Newport News/ Route 47</i>	<i>Norfolk/ Route 50</i>	<i>Richmond/ Route 51</i>	<i>Total</i>
Total Revenues	\$3,155,003	\$5,983,168	\$2,586,577	\$2,536,570	\$14,261,318
Total Expenditures	\$3,324,771	\$7,642,295	\$3,315,629	\$3,361,329	\$17,644,024
Net Surplus (Shortfall)	<b>(\$169,768)</b>	<b>(\$1,659,127)</b>	<b>(\$729,052)</b>	<b>(\$824,759)</b>	<b>(\$3,382,706)</b>

Ridership information for each route was obtained and identified that ridership for each route has decreased. Ridership decreases are being experienced nationwide, largely due to lower gasoline prices. The following chart shows the decrease between FY15 and FY16 for October through February of each year:

<b>FY15 &amp; FY16 Ridership Decreases</b>				
<i>Month</i>	<i>Lynchburg/ Route 46 Differences</i>	<i>Newport News/ Route 47 – Differences</i>	<i>Norfolk/ Route 50 – Differences</i>	<i>Richmond/ Route 51 Differences</i>
October	(1,291)	(2,740)	(963)	(585)
November	(1,570)	(2,337)	(1,032)	136
December	(2,487)	(3,545)	(1,768)	(2,146)
January	(1,899)	(3,616)	(2,367)	(1,632)
February	(24)	(507)	(80)	911

OSIG compared the expenditures per route to the total number of riders and identified the average cost-per-rider for FY15 was \$48 and for FY16 was \$54. Currently, Amtrak charges between \$25 and \$30 per ticket (one-way). The following is a breakdown per route by fiscal year:

<b>Federal Fiscal Year 2015</b>					
	<i>Lynchburg/ Route 46</i>	<i>Newport News/ Route 47</i>	<i>Norfolk/ Route 50</i>	<i>Richmond/ Route 51</i>	<i>Total</i>
<b>Total Expenditures</b>	\$7,972,355	\$18,191,908	\$8,201,462	\$8,082,401	\$42,451,126
<b>Total # of Riders</b>	189,598	348,581	155,329	186,268	1,066,044
<b>Cost per Rider to Cover Expenses</b>	\$42	\$52	\$53	\$43	\$48

<b>Federal Fiscal Year 2016</b>					
<i>As of February 2016</i>	<i>Lynchburg/ Route 46</i>	<i>Newport News/ Route 47 (Newport News)</i>	<i>Norfolk/ Route 50</i>	<i>Richmond/ Route 51</i>	<i>Total</i>
<b>Total Expenditures</b>	\$3,324,771	\$7,642,295	\$3,315,629	\$3,361,329	\$17,644,024
<b>Total # of Riders</b>	72,647	128,221	57,472	70,177	328,517
<b>Cost per Rider to Cover Expenses</b>	\$46	\$60	\$58	\$48	\$54

According to DRPT, ridership fluctuates throughout the year the same as airports and highways. January and February are typically the lowest months for revenue because there are no major holidays and winter storms are more frequent during this time. February is the shortest month of

the year, which affects total revenue captured in that month; February is typically their lowest-grossing month for all four routes.

The contract that DRPT has with Amtrak is a fixed cost that fluctuates according to the number of days in a month because their fixed costs are charged on a per-diem basis. The agreement allowed for cost inflation in FY16 over FY15, which is standard practice. There have been small increases to ridership costs due to inflation, but this year DRPT and Amtrak agreed not to increase ticket costs because the gas prices were low, and less people were taking the trains.

The contract with Amtrak is coming up for renewal, which will give DRPT management the opportunity to discuss the potential for lowering the fixed expenditure rates, as well as going from a multi-year to an annual contract, which will help DRPT manage their expenditures better going forward. Furthermore, DPRT has begun implementing new procedures for analyzing Amtrak revenue, cost, and ridership data.

### **Observation No. 2 Recommendation**

DRPT management should continually conduct trend analyses on ridership and expenditures per route to ensure negotiations in Amtrak's contract address any need to adjust ticket prices, reduce fixed expenditure costs, make changes in train service, etc.

### **Observation No. 2 Management Response**

DRPT agrees with the conditions observed with the following comment:

Virginia's state-supported Amtrak train service enjoys a relatively high farebox recovery rate when compared with other state-supported service in other states; and the state has required a much lower subsidy for Virginia's state-supported Amtrak service than what has been authorized based on expected revenues and costs. Whereas the CTB authorized a subsidy allocation of \$9,966,582 for FFY 2015 based on expected expenditures and revenues, only \$6,772,693 was required. For FFY 2015, this represents a positive variance against budget of \$3,193,889 or 32 percent. For FFY 2016, the CTB authorized an allocation of \$11,362,911, and DRPT is on track to beat that budgeted allocation. Virginia's farebox recovery rates for state-supported Amtrak trains in Virginia compare favorably against other state-supported Amtrak service, as follows

- Virginia — 81 percent
- Washington State — 66 percent
- California — 50 percent
- Maine — 55 percent

DRPT agrees with the recommendation as presented.

DRPT has hired a manager to monitor quantitative and qualitative factors from Amtrak performance, as well as provide comparison from other states to measure relative performance. Virginia will continue its quarterly service performance reviews with Amtrak.

**OBSERVATION NO. 3 — DRPT ADVERTISING IS NOT TARGETING SPECIFIC GEOGRAPHIC AREAS TO ADDRESS RIDERSHIP NEEDS**

DRPT contracts with an outside vendor to assist in marketing its state-sponsored Amtrak passenger rail services throughout the Commonwealth, specifically the “take the train” campaign. The marketing strategy is to boost awareness and increase ticket sales on trains to and from Virginia.

Specific marketing strategy goals were:

- Increase conversion rates of ads to reach eight percent in 2015 (a two percent increase from 2014). [Note: In electronic commerce, conversion marketing is the act of converting site visitors into paying customers.]
  - This goal was met and surpassed for the April-December 2015 period, as conversion rates for both the “Downtime” and “Productivity” web-based marketing campaigns were 8.55 percent.
- Increase conversion rates of promotions to reach 26 percent (a two percent increase from 2014).
  - This goal was met and significantly surpassed for the 2015 period, as conversion rates for specific promotions had a conversion rate of 46 percent, which is approximately seven million views.
- Increase ridership and revenue three percent — both from riders traveling to Virginia and Virginia residents traveling to points north.
  - The three-percent goal was not met due to a variety of external variables affecting overall Amtrak ridership. However, state-supported passenger rail service did see an increase in ridership in FY15, with a 1.2 percent increase in the Washington, DC to Newport News route and a 1.1 percent increase in the Washington, DC to Norfolk route.

In reviewing the advertising strategies per route, it was determined that DRPT does not track specific marketing dollars per area or route because the marketing pieces typically can be used throughout the Commonwealth. Per DRPT management, the agency does keep all routes in mind when planning campaigns and looking for opportunities, and is mindful to be geographically balanced in the location-specific ad pieces.

DRPT's Policy and Communications Division receives ridership and revenue information from Amtrak as part of the quarterly updates. Management stated that moving forward, now that the Intercity Passenger Rail Operating and Capital Fund (IPROC) program (started in 2011) is starting to mature, the Division will begin gathering and analyzing more in-depth data regarding specific ridership, expenditures, and revenues per route which will allow the agency to strategically target its marketing dollars.

DRPT partners with private and public entities to cross-promote utilizing the train, but does not specifically solicit those entities to promote their businesses and earn revenue for these advertisements/sponsorships.

### **Observation No. 3 Recommendations**

DRPT management should utilize trend-analysis information (revenues, expenditures, and ridership per route) to identify specific locations where marketing strategies to promote riding the train (i.e. weekend travels, specific events, routes, etc.) should be focused to help increase ridership and revenues.

The agency should promote the use of the DRPT/Amtrak website to private and public entities (i.e. colleges, corporations, tourism groups, etc.) to potentially increase revenues.

### **Observation No. 3 Management Response**

DRPT agrees with the conditions observed and recommendation as presented.

As part of the 2016-17 DRPT annual operating agreement renewal with Amtrak, both parties agreed to revised terms regarding marketing that will require better reporting from Amtrak's national corporation on marketing efforts being done in Virginia and on services Virginia sponsors (i.e. Northeast Corridor). This will enable DRPT to better target state resources to Virginia based markets and marketing efforts, and will be reviewed quarterly by both parties.

Additionally, the quarterly updates from Amtrak will include planned marketing efforts based upon ridership trends and data analyses (rather than previous updates focusing only on past efforts).

DRPT has also revised its 2016-17 marketing strategies to better incorporate earned media in targeted markets.

DRPT revised marketing efforts now include outreach to the Virginia Tourism Corporation, as well as public colleges and universities in Virginia, for

opportunities for cost effective co-branding and marketing of train services with events and target audiences.

## ***Risk Area 2 – Agency Operations***

Agency operations cover all administrative functions of DRPT, and relate to how these functions are handled. Within the scope of this review, OSIG staff focused on the grant application and reimbursement processes, along with training provided to employees. DRPT is commended for recognizing need for employee development plans and allowing staff to participate in a variety of training from basics such as Microsoft Office, Leadership, and Ethics, to more specialized training in their particular areas.

### **Review Objective and Steps**

The review objectives included determining whether the grant expenditure and accounts payable processes and processing of grants was efficient, effective, and economical, and whether staff were obtaining sufficient training to meet agency needs.

OSIG staff performed the following:

- Documented the review process for handling grant expenditure reimbursements;
- Reviewed the annual rail, transit, and planning grant application review cycle processes;
- Researched potential for outsourcing grant expenditure reimbursement and accounts payable processes to DOA;
- Analyzed and documented post-grant award oversight procedures for rail, transit, and planning grants;
- Compared the Virginia rail industry funding with other states; and
- Reviewed training provided to staff in each division.

The following observations were noted:

#### **OBSERVATION No. 4 — DRPT SHOULD IMPROVE ITS MONITORING OF INTERAGENCY RECEIVABLE BALANCES**

DRPT did not properly monitor certain assets that were held in trust for another state agency. DRPT states these credit balances were a result of refunds due to VDOT because a project had completed with a balance remaining or due to a project not moving forward.

OSIG identified that DRPT held cash balances owed to VDOT for an extended amount of time. From July 1, 2015, to April 30, 2016, DRPT had credits netted against receivables totaling \$628,710 that had been held from 91 to 989 days. DRPT and VDOT had agreed that the credit balances owed to VDOT would be repaid by offsetting them against future amounts owed by VDOT to DRPT.

It was determined that DRPT submitted a listing of these project balances owed to VDOT on a quarterly basis, and items that could offset new receivables were processed. The credit balances did not always have an offsetting new receivable which resulted in these credit balances growing.

Despite the lack of financial risk to DRPT and VDOT — as they are sister agencies governed by the same Board — the effect of not remitting these funds caused undue administrative processing for both agencies. Additionally, the DRPT Quarterly Financial reports showed these credit balances netted against actual receivables due from VDOT. This resulted in the aging of both the credits, as well as actual receivables being muted when upper management reviewed the quarterly report.

### **Actions Taken**

As a result of this condition identified by OSIG, DRPT has developed the following plan going forward to manage receivables and credits with VDOT:

- To clear the outstanding credits and receivables over 90 days
  - DRPT has transferred all of the outstanding credits and receivables over 90 days to the new VDOT forms for processing.
  - DRPT has requested a conference call with VDOT personnel to discuss any questions on the forms submitted and the timing of payments of receivables and processing of credits.
  - DRPT and VDOT have cleared out the outstanding credits and receivables over 90 days.
- To maintain timely payments of DRPT receivables and processing of credits by VDOT
  - DRPT will continue to invoice VDOT on a monthly basis.
  - On a quarterly basis, DRPT will monitor and follow up on any receivables over 90 days or credits not taken.
  - DRPT will send a letter to VDOT on any receivables over 90 days or credits not taken.
  - Continued issues will trigger a communication between DRPT's and VDOT's Chief Financial Officers.

### **Observation No. 4 Recommendation**

OSIG staff concurs that the plan will resolve the current condition and mitigate future outstanding credit issues. We recommend the implementation of the proposed plan.

### **Observation No. 4 Management Response**

DRPT agrees with the conditions observed and recommendation as presented.

#### **OBSERVATION NO. 5 — DRPT SHOULD IMPROVE HOW IT MEASURES PROJECT CLOSE-OUTS**

According to the DRPT's Procedures for Closing Projects in ICAPS, "If the balance remaining in a project is greater than or equal to \$1,500, and the end date plus the 90-day grace period has passed, the project can be closed, and remaining funds de-obligated." The 90-day grace period offers the grantee and DRPT sufficient time to process all reimbursement requests before the project is officially closed. In discussion with DRPT's management the goal is to close federal, state, and other projects at the conclusion of this 90 day period.

OSIG identified that DRPT has implemented excellent tools to alert project staff and managers of projects' upcoming and pending closeout dates. The agency's Information Technology (IT) Division has also been capturing projects' status data, which includes start, end, and status change dates, since July 2014. Prior to that change, the system did not capture the actual date a project was officially closed.

Using the IT data provided, all projects that were closed after the 90-day period during 2013 through 2016 were identified as a population of 277 projects. OSIG reviewed the four projects with the longest closing period, from that population. The agency's Budget Audit Report was requested for each project to verify the actual dates the projects were closed.

- One project was verified as taking 2,727 days to close after the project end date and \$89,505 remained on the project — without any activity — during that time. According to DRPT, "This project was actually an internal placeholder for an allocation of VDOT funding to support the Hampton Roads Transit (HRT) Rail Safety Oversight Program. The project was not closed due to ongoing efforts to have the Memorandum of Understanding (MOU) with VDOT extended."
- Two of the projects' statuses were archived, and the actual close dates were unavailable.
- One project was classified as an un-obligated project and was not assigned a specific end date. According to DRPT, several of the projects are classified as internal projects and are not assigned "meaningful" end dates.

Currently, DRPT does not have performance metrics to identify the length of time it takes to close out a project. Without project closeout performance measures, the agency will be unable to identify whether they are meeting their goals, identify closeout issues, trends, etc. Potentially, delays in the closeout of qualifying projects could result in unobligated funds left on projects that are not being reallocated to appropriate mission-critical projects because of a lack of funding.

#### **Observation No. 5 Recommendations**

Project managers should periodically examine project status data, budget audit reports, or other relevant data to identify whether there are problems with closing projects in the established timeframes, investigate reasons for delays, and develop strategies to achieve project closeout goals.

Additionally, DRPT should develop attainable closeout dates and goals for internal projects so that performance can be measured.

#### Observation No. 5 Management Response

DRPT agrees with the conditions observed and recommendation as presented.

To ensure effective project management and timely project closeout:

- DRPT Program administrators will perform a quarterly review of projects, flagging projects with potential issues for more detailed review with project managers.
- DRPT will add project closeout to the performance measures for grant/project management.

#### ***Risk Area 3 – Strategic Planning***

Strategic planning for DRPT includes establishing the direction, making decisions, and allocating resources in order to pursue agency goals. These goals include:

- Assisting in managing the growth in congestion on Virginia’s highways;
- Improving access for the general public and businesses through transportation choices;
- Providing access and improvements to Virginia’s railways to encourage economic development and reduce traffic on Virginia’s highways; and
- Increasing communications to the general public, businesses, and community decision makers on alternative transportation choices.

Review of the area included looking at various aspect of the strategic plan, including performance measures, long-term strategy, and planning activities.

#### **Review Objectives and Steps**

The review objectives included determining whether existing performance measures in place provided an adequate means by which to assess the efficiency, effectiveness, and economy of DRPT operations, and management adequately considered the risk environment during the formulation of long term strategy and planning activities.

OSIG staff analyzed the seven agency performance measures in place to determine whether they are adequate, and compared the agency’s performance measures with other states to determine if other measures should be considered.

No observations were noted during the review of the Strategic Planning area.