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STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

December 26, 2024

Janno Lieber  
Chairman and Chief Executive Officer  
Metropolitan Transportation Authority  
2 Broadway  
New York, NY 10004

Re: Transforming the Procurement  
Function  
Report 2023-S-6

Dear Mr. Lieber:

Pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution and Section 2803 of the Public Authorities Law, we have conducted an audit of the Metropolitan Transportation Authority's Procurement Function to determine whether it took action to comply with the Board-approved Transformation Plan, resulting in improved service levels for the customer, process efficiencies, and reduced costs. The audit covered the period from January 2017 through August 2023.

**Background**

The Metropolitan Transportation Authority (MTA) is North America's largest transportation network, serving a population of 15.3 million people across a 5,000-square-mile travel area surrounding New York City through Long Island, southeastern New York State, and Connecticut. The MTA network comprises the nation's largest bus fleet and more subway and commuter rail cars than all other U.S. transit systems combined. The MTA's operating agencies are New York City Transit (Transit), MTA Bus Company (MTA Bus), Long Island Rail Road (LIRR), Metro-North Railroad (Metro-North), and MTA Bridges and Tunnels (B&T). As of December 2023, the MTA reported a total of 70,000 employees.

In April 2019, New York State enacted Section 1279-e(1)(a) of the Public Authorities Law, which required the MTA to "develop and complete a personnel and reorganization plan" (Transformation) by June 30, 2019. The plan would identify the common functions of the MTA's agencies "including, but not limited to the New York City Transit, the Long Island Rail Road, Metro North Commuter Railroad Company, MTA Capital Construction, MTA New York City Bus, Triborough Bridge and Tunnel Authority and the MTA Staten Island Railway in a manner consistent with the provisions of this section. Such plan shall identify common functions and assign, transfer, share or consolidate in whole or in part, such function between the authority and its subsidiaries."

The legislation required that the plan be approved by the MTA Board no later than July 30, 2019, and the Board approved the plan on July 24, 2019. After the plan was submitted, the Transformation consultant would have 90 days to incorporate any changes made into the plan.

As part of the Transformation, the “Post & Hire” process was used to fill high-level managerial positions in consolidated functions through the posting of job vacancy notices and interviewing and selecting candidates to fill positions. The “Lift and Shift” process was used to move employees and tasks from one agency and place them in the newly consolidated function. These employees were not required to apply for positions in the consolidated function.

The plan called for all support functions to be merged to drive higher service levels at lower costs due to elimination of redundancies and duplications, standardization and simplification of processes across the MTA for accountability, and improved performance levels. The end result would be one Procurement Function for the five operating agencies, MTA Construction & Development (formerly MTA Capital Construction), and MTA Headquarters. Transit’s Department of Subways operates the Staten Island Railway (the only rapid transit line on Staten Island). The majority of the Transformation effort would be front-loaded in the initial 6–9 months, with some aspects completed over an additional 18–24 months.

The MTA spends over \$7 billion annually on procurement, ranging from office supplies and market research to rail cars and construction contracts. As of May 2022, the Procurement Function had approximately 1,050 employees. As a result of what was verbally described as the “consolidated, restructured, and reorganized” Procurement Function, there is currently only one Chief Procurement Officer (CPO) instead of five (one for each MTA operating agency). The Procurement Function has four units:

- Procurement Operations handles direct procurements, which are core procurements that run the MTA in terms of rolling stock (e.g., parts for cars and buses, rolling stock [buses and rail cars]), and indirect core procurements, which provide support to the organization (e.g., IT, hardware, software, building supplies).
- Material Management & Distribution (MM&D) is responsible for the management and operation of 85 warehouses and storerooms for Transit, LIRR, MTA Bus, and Metro-North but not B&T. As of February 2023, MM&D stocked \$800–\$850 million in materials for these agencies.
- Supply Chain Strategy (SCS) updates policies and prepares regulatory reports, performs cost-price analysis, and manages asset recovery, which is responsible for sales of obsolete and surplus materials.
- Rolling Stock Strategy (RSS) facilitates the planning of procuring rolling stock and does market outreach to increase the number of qualified manufacturers that can and are interested in providing the rolling stock.

## **Results of Audit**

The effective date of the Procurement Function consolidation was October 28, 2021. As a result of what was verbally described as the “consolidated, restructured, and reorganized” Procurement Function, there was only one CPO instead of five. However, Procurement Function officials stated that, while the consolidation of staff has been completed, Transformation is a continuous, ongoing process and there is no set timeline for completion.

According to documents provided, the Procurement Function intended to implement a Category Management Strategy—the practice of buying common goods and services as an organized enterprise to improve the efficiency and effectiveness of acquisition activities. However, the Procurement Function did not change its procedures or most of its practices to

reflect the new business model. Under the new CPO, operating practices, for the most part, were not changed in Procurement Operations and MM&D. While RSS and SCS are new units, their practices are a mix of old and new. Consequently, service levels for Procurement Function customers, which include staff from the other agencies that are now under one CPO, still follow most of the old policies and procedures. MM&D changes to the warehouse operations were limited to adding a dashboard, and RSS did not provide us with any changes to the processes for procuring rolling stock to address issues such as delays of train cars. Although the effective date of the consolidation of the Procurement Function was October 28, 2021, it was mostly operating under the same practices in September 2023, almost 2 years later.

While the MTA took action to comply with the Board-approved Transformation Plan, overall, the actions taken did not result in the full implementation of improved service levels for the customer, process efficiencies, and cost reduction—the three key Transformation principles. Among the conditions we noted:

- Procurement Operations reported cost savings of \$152 million for calendar year 2022. However, we concluded that none of the \$37.3 million in savings we sampled can be attributed to Transformation or consolidation actions. In fact, only \$4.29 million was the result of Procurement Operations actions.
- With few exceptions, MM&D procedures date back to the 1990s. However, as part of the Transformation, MM&D expanded the use of Transit’s inventory management dashboard to all agencies, allowing them to see all agencies’ inventory of so-called Fast Movers—commodity items that are ordered at least 4 out of 6 months or once a week for 52 weeks across the MTA.
- The Procurement Function intended to implement a Category Management Strategy; however, it did not change its procedures or most of its practices to reflect the new business model. SCS, however, did provide an example of three agencies that use car parts coming together and using category management to negotiate a price reduction from the major supplier of the rail car parts.
- RSS officials indicated that, partly due to lack of staff, the unit did not achieve results since consolidation.

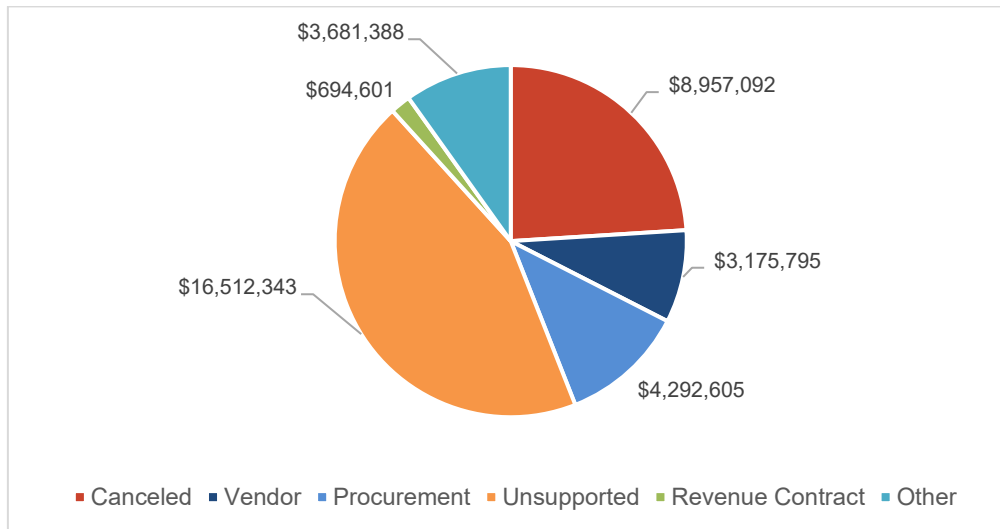
The Procurement Function, while making some improvements, has not demonstrated that it achieved the objectives of improved service levels for the customer, process efficiencies, and cost reductions.

### ***Procurement Operations***

Procurement Operations is using the same procurement processes it was using prior to the Transformation. As of February 2023, 16 months after consolidation, Procurement Operations officials stated they were working on new policies and procedures. Notwithstanding, Procurement Operations reported \$152 million in savings for calendar year 2022. On March 6, 2023, Procurement Operations provided an All-Agency Savings Procurement Tracker (Tracker) to show cost savings and cost avoidance due to the Transformation. The Tracker showed 530 items totaling \$107.5 million for cost savings and 143 items totaling \$44.5 million for cost avoidance. We sampled 37 items totaling \$37.3 million (26 items in cost savings totaling \$30.8 million and 11 items in cost avoidance totaling \$6.5 million) to determine if these items were the result of the Transformation. We concluded that none of the savings sampled were related to the Transformation. Rather, they were due to actions such as canceled orders for

parts no longer manufactured, bottled water, and services that were no longer needed such as subway car cleaning and IT services. Moreover, only seven of the 37 items sampled, totaling \$4.29 million of the \$37.3 million, were attributable to Procurement Operations actions. The following chart illustrates the results of the 37 items sampled.

### Sampled Cost Savings and Cost Avoidance



We categorized our results as follows:

- **Vendor-initiated Actions:** This includes savings due to vendor rather than Procurement Operations actions—14 items totaling \$3.18 million. As an example, at the time of purchase, one vendor’s price was lower than the agency-estimated amount and the difference was reported as a cost savings of \$178,470.
- **Canceled Contract:** This includes savings from cancellation of a contract by the user because the goods or services were no longer needed for nine sampled items totaling \$8.96 million. For example, contracts were canceled for cleaning services that were no longer needed, resulting in \$4.79 million in cost savings.
- **Procurement Negotiations:** This includes savings achieved through Procurement Operations efforts. For seven sampled items, price negotiations resulted in reductions totaling \$4.29 million. For example, Procurement Operations hired a consultant to negotiate with a health insurance carrier, achieving a savings of \$1.01 million.
- **Revenue Contracts:** This includes revenue from the sale and recycling of scrap and obsolete equipment. Three items totaling \$694,601 were revenue contracts and thus not a cost savings or avoidance.
- **Unsupported:** This includes three sampled items totaling \$16.51 million for cost savings or cost avoidance that did not have supporting documentation (e.g., a \$968,616 cost avoidance for which no documentation was provided to support the amount).
- **Other:** This includes costs for one deferred contract. For example, a \$1.69 million cost avoidance was a deferral, with the expense moved from 2022 to 2023.

In response to our preliminary findings, MTA officials advised us that they are not required to define which, if any, portions of cost savings and cost avoidances at the MTA are related to the Transformation, including any cost savings or avoidances cataloged by the Procurement Function for any purpose. However, understanding the basis of identified cost savings is critical to evaluating performance, sustaining such efforts/practices going forward, and estimating future cost savings.

### ***Material Management & Distribution***

MM&D had not completed its Transformation as of September 2023. However, we found that MM&D mostly follows the Transit Policy Instruction Manual created in the 1990s. The latest revision in 2018 pertained to two policies.

Prior to the Transformation, the agencies had their own inventory management systems that operated independently of each other, and this did not change after the Transformation. Officials advised that these practices allow for faster and better reporting for management. However, MM&D did expand the use of dashboards, which allows all the warehouses to see each other's Fast Movers (commodity items that are ordered at least 4 out of 6 months or once a week for 52 weeks) to better manage inventory for these items across agencies. The Fast Movers concept originated with Transit. However, according to MM&D, prioritizing the expanded use of the dashboards across the agencies delayed the documentation of the new policies.

Another new practice that MM&D plans to implement is uniform inventory codes across the agencies.

In response to our preliminary findings, MM&D officials disagreed with a statement that the unit did not have an end date for the Transformation. While they provided documentation of the unit's goals for 2022 and 2023, requests for additional documentation of Key Performance Indicators, the tangible benefits that the Transformation of MM&D achieved, and support for the timelines and deliverables went unanswered.

### ***Supply Chain Strategy***

SCS was created as part of the Transformation. In July 2023, SCS had five subunits: Analytics, Strategic Planning, Supplier Relations, Supplier Diversity, and Supplier Management. These subunits set forth 15 initiatives, along with their descriptions and progress statuses. We reviewed seven of the 15 initiatives to determine whether the initiatives were related to the Transformation. Of the seven, we determined that two were related and the other five were either pre-Transformation or a regulatory requirement.

SCS officials claimed Transformation savings of \$3.75 million for uniforms and \$3.2 million for vendors that supply rail car parts. Prior to the Transformation, each operating agency procured its own uniforms; post-Transformation, a procurement was consolidated for uniform pants but not shirts (officials stated that the shirts were too difficult to procure because each operating agency has its own requirements). However, documentation was not provided to support these savings.

SCS reported an estimated \$2.4 million savings for the rail car parts contract, not the 2022 Tracker amount of \$3.2 million. However, the supporting cost price analysis and contract show additional negotiated savings. SCS explained the difference was a rebate triggered when a minimum threshold of purchases was met, and the agreement stated it had to be paid within 90 days of calendar year end. However, this rebate was paid in March 2022, likely too early to

apply to any purchases made for 2022. Therefore, the rebate should not have been included in the 2022 Tracker. Excluding the rebate, the savings was \$2.4 million.

### ***Rolling Stock Strategy***

RSS is a new unit in the Procurement Function. It had no staff as of September 2023, but it was working to fill its vacant positions. Officials advised that RSS meets with representatives from prospective rail car and bus manufacturers to seek potential new builders and helps them navigate eligibility requirements to do business with the MTA. RSS is also responsible for coordinating purchases for MTA's agencies; however, documentation to support these activities was not provided.

When we asked about cost savings achieved with new contracts through June 2023, RSS officials advised us that there were no cost savings. Further, they provided no documentation of the frequency with which the RSS acted in an advisory capacity or led negotiations. Additionally, RSS did not provide us with any changes to the processes for procuring rolling stock to address issues such as delays of train cars.

In response to our preliminary findings, MTA officials gave us a Modification to Purchase document summarizing a pricing options negotiation for subway cars to support the claim that RSS was involved in operating or capital budget procurement savings. However, this document did not support that RSS was involved in negotiating savings, as the contract referred to was awarded in 2018 and does not mention RSS. Instead, the contract is included in the 2020–2024 Capital Program, which was approved prior to the creation of RSS, and the actual modification provided is undated. As a result, it cannot be determined whether the option was exercised prior to or after the Transformation.

In response to our preliminary findings, we were also informed that documentation could not be provided due to confidentiality of the information. However, the documents we requested included a calendar with scheduled meetings and tickets for travel by train, plane, or other mode of transportation to support that there was some type of activity.

### **Recommendations**

1. Define and distinguish Transformation-related from non-Transformation-related initiatives required to achieve Transformation goals, and formally monitor the progress toward their completion.
2. Clearly define cost savings and cost avoidance for the Procurement Function, and maintain documentation to support the basis for reporting cost savings and cost avoidance.
3. Develop and issue new procedures that can be used by all agencies, where appropriate.

### **Audit Scope, Objective, and Methodology**

The objective of our audit was to determine whether the Procurement Function took action to comply with the Board-approved Transformation Plan, resulting in improved service levels for the customer, process efficiencies, and reduced costs. The audit covered the period from January 2017 through August 2023.

To accomplish our objective and assess the related internal controls, we interviewed MTA Procurement Function management and staff responsible for the procurement of goods and services for the MTA. In addition, we reviewed applicable laws, procedures, and guidelines.

We used a non-statistical sampling approach to provide conclusions on our audit objective and to test internal controls and compliance. We selected judgmental samples. However, because we used a non-statistical sampling approach for our tests, we cannot project the results to the respective populations. Our samples, some of which are discussed in detail in the body of our report, include:

- A random sample of 36 items (i.e., contracts, purchase requisitions, and purchase orders) totaling \$22.6 million (25 items for cost savings of \$16.1 million and 11 items for cost avoidance totaling \$6.5 million) and one large cost savings item—the paratransit contract—which reported the highest amount of savings at \$14.7 million. Procurement Operations provided its Tracker totaling \$152 million for 2022. There were 530 items totaling \$107.5 million for cost savings and 143 items totaling \$44.5 million for cost avoidance. We established a minimum threshold of \$100,000 per item to focus on the higher amounts reported as savings for calendar year 2022. There were 491 items costing \$100,000 or less totaling \$8,772,972. The results were 182 items (125 for cost savings and 57 for cost avoidance). We selected 20% from each category. This resulted in 25 items for cost savings and 11 for cost avoidance to determine if there were actual cost savings or avoidance due to the Transformation.
- A judgmental sample of four of 85 MM&D facilities selected based on size, type of facility, and operating agency responsible for the facility to observe the changes due to the Transformation. MM&D has 85 warehouses (56 in Transit, eight in MTA Bus, 10 in LIRR, and 11 in Metro-North).
- We judgmentally selected two of the five SCS subunits to review, as they were responsible for seven of the 15 initiatives.

We obtained the data used to select our samples and conduct audit work and determined it was sufficiently reliable for the purposes of our audit objective.

## **Statutory Requirements**

### ***Authority***

This audit was performed pursuant to the State Comptroller’s authority as set forth in Article X, Section 5 of the State Constitution and Section 2803 of the Public Authorities Law.

We conducted our performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State, including some duties on behalf of public authorities. For the MTA, these include reporting the MTA as a discrete component unit in the State’s financial statements and approving selected contracts. These duties could be considered management functions for purposes of evaluating

organizational independence under generally accepted government auditing standards. In our professional judgment, these duties do not affect our ability to conduct this independent audit of the MTA's oversight and administration of its transforming the Procurement Function.

### ***Reporting Requirements***

We provided a draft copy of this report to MTA officials for their review and formal comment. Their comments were considered in preparing this final report, and they are attached in their entirety at the end of the report.

MTA officials replied to our draft report that the transformation was completed by in-house management under challenging conditions. We recognize that MTA officials faced obstacles, but they did not provide documentation to support measurable results that address the key principles in the MTA Board-approved Transformation Plan during the audit field work or in their response.

Within 180 days after the final release of this report, as required by Section 170 of the Executive Law, the Chairman of the Metropolitan Transportation Authority shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees advising what steps were taken to implement the recommendations contained herein, and where the recommendations were not implemented, the reasons why.

Major contributors to this report were Robert C. Mehrhoff, Joseph F. Smith, Marsha Millington, Danielle Marciano, Natalia Khanoukhova, Jeffrey Louissaint, and Sebastian Palka.

We wish to thank the management and staff of the Metropolitan Transportation Authority for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,



Carmen Maldonado  
Audit Director

cc: M. Murray, Metropolitan Transportation Authority  
D. Jurgens, Metropolitan Transportation Authority



# Agency Comments

2 Broadway  
New York, NY 10004  
212 878-7000 Tel

**Janno Lieber**  
Chairman and Chief Executive Officer



**Metropolitan Transportation Authority**

State of New York

October 28, 2024

**VIA E-MAIL**

Ms. Carmen Maldonado  
Audit Director  
The Office of the State Comptroller  
Division of State Government Accountability  
59 Maiden Lane, 21<sup>st</sup> Floor  
New York, NY 10038

**Re: Draft Report #2023-S-6 (Transforming the Procurement Function)**

Dear Ms. Maldonado:

This is in reply to your letter requesting a response to the above-referenced draft report.

I have attached for your information the comments of Lisette Camilo, MTA Chief Administrative Officer, which address this report.

Sincerely,

A handwritten signature in blue ink, appearing to read "Janno Lieber".

Janno Lieber

c: Laura Wiles, MTA Chief of Staff  
Monica Murray, Auditor General, MTA Audit Services

*The agencies of the MTA*

MTA New York City Transit  
MTA Long Island Rail Road

MTA Metro-North Railroad  
MTA Bridges and Tunnels

MTA Construction & Development  
MTA Bus Company

2 Broadway  
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October 28, 2024

Janno Lieber  
Chairman and Chief Executive Officer  
Metropolitan Transportation Authority  
2 Broadway  
New York, NY 10004  
[Janno.Lieber@mtacd.org](mailto:Janno.Lieber@mtacd.org)

Re: Response to OSC's Draft Report 2023-S-6 – Transforming the Procurement Function

Dear Chair Lieber:

I provide the enclosed response to the Office of the New York State Comptroller's (OSC) draft audit report 2023-S-6 – Transforming the Procurement Function issued on September 27, 2024. To begin, I assure you that MTA Procurement has been responsive and collaborative with the OSC's team throughout the audit process.

The OSC's efforts have in part been directed at determining whether the consolidation has led or will lead to improvements in efficiency at the MTA. We have assured the OSC that making improvements to efficiency is a top priority of the MTA Procurement team.

Sincerely,

*Lisette Camilo*

Lisette Camilo  
Chief Administrative Officer & Acting Procurement Officer  
Metropolitan Transportation Authority

cc: Monica Murray  
Darren Jurgens

Enclosure

*The agencies of the MTA*

MTA New York City Transit  
MTA Long Island Rail Road

MTA Metro-North Railroad  
MTA Bridges and Tunnels

MTA Construction & Development  
MTA Bus Company

**MTA Procurement’s Response**  
**Draft Report 2023-S-6**  
**Transforming the Procurement Function**

**Transformation Context and**  
**Response to Statement in Background Section:**

Some statements in the Background section of the Office of the State Comptroller’s (“OSC”) Draft Report (No. 2023-S-6) Transforming the Procurement Function issued September 27, 2024 (“Draft Report”) require additional context. They are addressed under the two sub-headings below.

**2019 Amendments to the Public Authorities Law (PAL)**

While the OSC’s discussion of the statutory nature of the MTA transformation in the Draft Report recounts many important features of the 2019 PAL amendments, the MTA submits that the summary below provides clarity and captures additional elements and nuances.

As an initial matter, the MTA refers to PAL §§ 1279-e (Assignment, transfer, sharing or consolidating powers, functions or activities), 1279-f (Independent forensic audit), and 1279-l (Right to share employees) for a complete and accurate statement of their contents.

In summary, PAL 1279-e(1)(a) required the MTA to “develop and complete a personnel and reorganization plan” by June 30, 2019, to “in whole or in part, assign, transfer, share, or consolidate any one or more of its powers, duties, functions, or any department, division or office established therewith, or any of those of their subsidiaries, or affiliates or their subsidiaries ... in a manner consistent with the provisions of this section.” The personnel and reorganization plan was required to “identify common functions and assign, transfer, share or consolidate, in whole or in part, such functions between the MTA and its subsidiaries and affiliates” and to “be accompanied by an independent evaluation of existing personnel within or between itself, its subsidiaries, or affiliates or their subsidiaries in coordination with the authority’s senior management.” PAL § 1279-e(1)(a) required the board to approve the Transformation Plan by July 30, 2019.

In addition, PAL § 1279-f(1) required MTA to contract with a financial advisory firm to provide a review of “(a) any fraud, waste, abuse, or conflicts or interest occurring within any department, division, or office of the authority, its subsidiaries, affiliates, and subsidiaries of affiliates; (b) any duplication of functions or duties between the departments, divisions or office of the authority, its subsidiaries, affiliates, and subsidiaries of affiliates; (c) options for potential cost efficiencies and savings that could be achieved through changes in internal controls and management reforms, functional and process streamlining, internal procurement process reforms; (d) the two thousand fifteen to two thousand nineteen capital plan for cost overages and duplication; (e) the development of standardized performance metrics for planning, design, approvals, change orders, project management and delivery; and (f) cash flow and accounting of expenditures of the authority, its subsidiaries, affiliates, and subsidiaries of affiliates for the

preceding three fiscal years.” Under PAL §1279-e(1)(b), upon receipt of this review, the MTA was authorized to revise the personnel and reorganization plan to incorporate those findings within 90 days.

PAL § 1279-1 was enacted “to provide systematic authority for the sharing of employees within and between” the various MTA entities. The legislature recognized that granting “powers to effectuate and ensure such entities continued financial viability” was “necessary and proper.” PAL § 1279-1(1). The statute granted the MTA and its subsidiaries and affiliates the right to “share employees within and between” the entities provided nothing impeded, infringed, or diminished collectively bargained rights or benefits or an employee’s membership in a bargaining unit. See PAL § 1279-1(2).

#### AlixPartners and the Transformation Plan

AlixPartners was retained by the MTA to aid in the creation of the statutorily mandated personnel and reorganization plan (the “Transformation Plan”), which included recommendations for MTA-wide reorganization activities, improvements to business processes, and other cost reduction activities. As noted by AlixPartners, activation of the Transformation Plan and achievement of the desired benefits would “require detailed opportunity assessment and implementation planning.” See Transformation Plan, dated June 30, 2019. In addition, due to the size and scope of the MTA, AlixPartners anticipated that to achieve the cost savings opportunities identified in the Transformation Plan “third party implementation support such as initiative planning and design, project management, benefits tracking and other services” could be required.

The Transformation Plan highlighted significant structural challenges to full implementation that the MTA needed to manage, including collective bargaining agreements and work rules, Civil Service Law requirements, and legacy agreements.

The Transformation Plan was prepared based upon information available and assessments conducted during the 12 weeks prior to the June 30, 2019, deadline for development and completion of the plan. See Transformation Plan, at 2; PAL §1279-e(1)(a). Consequently, the Transformation Plan, at page 23, contains a “Disclaimer – Important Information Regarding This Transformation Plan” that notes that the Transformation Plan “reflects conditions and the views of the MTA and AlixPartners as of this date, all of which are subject to change.” The Disclaimer further notes that the “Transformation Plan may be based, in whole or in part, on projections which may prove to be wrong.” Finally, the Disclaimer notes that “[i]tems which could impact actual results include, but are not limited to, unforeseen micro or macro economic developments, business or industry events, personnel changes, casualty losses, or the inability of the MTA to implement plans or programs.” The AlixPartners Final Report Pursuant to Section 1279-f of the Public Authorities Law (“PAL § 1279-f Report”), dated July 31, 2019, also contains similar disclaimer language. See PAL 1279-f Report, at 25, 41, 71, and 80.

The Transformation Plan was approved by the MTA Board on July 24, 2019, as required under PAL § 1279-e(1)(a). The Transformation Plan was not revised following receipt of the PAL § 1279-f Report.

Effective August 12, 2019, the MTA contracted with a firm to provide MTA Transformation Plan roadmap support services, including a “blueprint” for implementing the Transformation Plan, and development of a separate implementation Request for Proposals. In August 2019, a Steering Committee was established to guide the implementation of the Transformation Plan, make decisions regarding recommendations in the Transformation Plan, and assure that the transformation occurred in a manner that advanced the MTA’s operations. The Steering Committee reviewed and approved the organizational design proposals for the consolidated administrative functions.

In March 2020, the COVID-19 pandemic struck. New York City, an early epicenter of the crisis, suffered a staggering loss of life, including the deaths of approximately 176 MTA employees. The MTA experienced unprecedented ridership declines, revenue losses, and additional costs caused by the pandemic. Only with emergency funding and the efforts of the MTA’s workforce was the MTA able to continue to operate and provide critical transportation services for essential workers while ensuring that the MTA stood ready to support the recovery of the city, state, and nation.

The pandemic and ensuing financial crisis necessitated the cancellation of Board-approved awards for transformation support services. Instead, a small team of transformation management staff worked during the remaining months of 2020 through November of 2021 to complete the consolidation of support functions. The consolidation of the Procurement Function was effective on October 28, 2021. This work achieved milestones in the Transformation Plan and laid the foundation for the consolidated departments to better serve the needs of the operating agencies and ultimately the MTA’s customers.

As to business process improvements and standardizations, department Chiefs have taken on these challenges using the resources available within those functional areas and other internal MTA resources. The functional areas, like many employers, have experienced challenges in hiring and retaining the staff because of changes in the labor market following the pandemic. This reduced capacity in personnel presented challenges to developing and implementing business process improvements and standardizations on the timeline anticipated under the Transformation Plan, while remaining focused on performing all the essential services necessary to support the MTA’s operations in an environment that has been profoundly changed as a result of the pandemic.

Having brought together strategic and core support functions from across the MTA into unified all-Agency departments within MTA Headquarters, the MTA has been able to focus efforts on improving efficiency wherever possible, which has always been a top priority for the organization. Leadership in the consolidated departments, including Procurement, provided the audit team with information and documentation concerning how they have taken advantage of transformation to share best practices from across the organization, operate more efficiently, and continue to deliver first-rate services to the organization. This, of course, is an ongoing endeavor and the MTA will continue to make improvements to its business processes whenever possible.

**Response to Results of Audit Section:**

Some statements in the Results of Audit section of the Draft Report require additional context and clarification. They are addressed under the three sub-headings below:

**1. On Transformation**

OSC indicated in the Draft Report that "...Procurement Function officials stated that, while the consolidation of staff has been completed, Transformation is a continuous, ongoing process and there is no set timeline for completion." This is an inaccurate statement. While Transformation has been completed, the work on business improvement is a continuous and ongoing effort.

[Comment 1](#)

**2. On Policy and Procedures**

The Draft Report states that "...the Procurement Function did not change its procedures or most of its practices to reflect the new business model...Although the effective date of the consolidation of the Procurement Function was October 28, 2021, it was mostly operating under the same practices in September 2023, almost 2 years later." The MTA operates under the principle of continuous improvement, and as such, updates its policies and procedures as needed. All of the agencies already operate under the MTA All-Agency Procurement Guidelines. That said, as a part continuous improvement, we promulgate additional guidance as appropriate.

[Comment 2](#)

**3. Statement regarding RSS Officials**

The Draft Report states that "RSS officials indicated that, partly due to lack of staff, the unit did not achieve results since consolidation."

[Comment 3](#)

While Procurement did share that it has faced staffing challenges, it is not accurate that RSS officials indicated that the unit has not achieved results since consolidation due to lack of staff. Rather supporting the activity of onboarding new vendors, advising on negotiations and informally leading negotiations have been ongoing activities, independent of the level of staffing of the unit.

**Procurement Operations:**

The Draft Report states:

"Procurement Operations is using the same procurement processes it was using prior to the Transformation. As of February 2023, 16 months after consolidation, Procurement Operations officials stated they were working on new policies and procedures. Notwithstanding, Procurement Operations reported \$152 million in savings for calendar year 2022. On March 6, 2023, Procurement Operations provided an All-Agency Savings Procurement Tracker (Tracker) to show cost savings and cost avoidance due to the Transformation. The Tracker showed 530 items totaling \$107.5 million for cost savings and 143 items totaling \$44.5 million for cost avoidance. We sampled 37 items totaling \$37.3 million (26 items in cost savings totaling \$30.8 million and 11 items in cost avoidance totaling \$6.5 million) to determine if these items were the

result of the Transformation. We concluded that none of the savings sampled were related to the Transformation. Rather, they were due to actions such as canceled orders for parts no longer manufactured, bottled water, and services that were no longer needed such as subway car cleaning and IT services. Moreover, only seven of the 37 items sampled, totaling \$4.29 million of the \$37.3 million, were attributable to Procurement Operations actions....

In response to our preliminary findings, MTA officials advised that they are not required to define which, if any, portions of cost savings and cost avoidances at the MTA are related to the Transformation, including any cost savings or avoidances catalogued by the Procurement Function for any purpose. However, understanding the basis of identified cost savings is critical to evaluating performance, sustaining such efforts/practices going forward, and estimating future cost savings.”

**MTA’s Response to Procurement Operations Section:**

First, the audit continues to misunderstand Procurement’s treatment of savings, suggesting that certain savings, for example, subway car cleaning programs, merely resulted from simple contract cancellations that required no deliberate effort and decision-making on the part of Procurement. These cancellations were the result of a strategic, multi-supplier approach whereby contracted services needed to be scaled down over a specific period of time without compromising scheduled cleaning services that were to continue until final termination. Additionally, Procurement conducted widescale efforts throughout the subway car cleaning program to renegotiate contracts, resulting in lower hourly rates and reductions in level of effort that generated significant savings.

[Comment 4](#)

Second, the Draft Report cites savings and cost avoidance efforts that were reported by MTA Procurement Operations and mistakenly indicates that the savings were the result of the transformation efforts, but that was not the case; Procurement did not present the savings as having been due to Transformation. The savings slide referenced was part of a general Procurement briefing prepared by the Chief Procurement Officer for purposes outside of the audit. The briefing was produced to the auditors as a representation of Procurement activities and achievements, not specifically related to Transformation. This was stated to the auditors on a number of occasions.

[Comment 5](#)

**Material Management & Distribution:**

The Draft Report states:

“MM&D had not completed its Transformation as of September 2023. However, we found that MM&D mostly follows the Transit Policy Instruction Manual created in the 1990s. The latest revision in 2018 pertained to two policies.

Prior to the Transformation, the agencies had their own inventory management systems that operated independently of each other, and this did not change after the Transformation. Officials advised that these practices allow for faster and better reporting for management. However, MM&D did expand the use of dashboards, which allows all the warehouses to see each other’s Fast Movers (commodity items that are ordered at least 4 out of 6 months or once a

week for 52 weeks) to better manage inventory for these items across agencies. The Fast Movers concept originated with Transit. However, according to MM&D, prioritizing the expanded use of the dashboards across the agencies delayed the documentation of the new policies.

Another new practice that MM&D plans to implement is to standardize inventory codes across the agencies.

In response to the preliminary findings, MM&D officials disagreed with a statement that the unit did not have an end date for the Transformation. While they provided documentation of the unit's goals for 2022 and 2023, requests for additional documentation of Key Performance Indicators, the tangible benefits that the Transformation of MM&D achieved, and support for the timelines and deliverables went unanswered.”

**MTA's Response to Material Management & Distribution Section:**

The consolidation of Materials Management & Distribution (MM&D) functions from across the MTA is complete and business practice improvements continue. Common standards and practices have been implemented wherever possible, making improvements to efficiency the top priority of Material Management & Distribution (MM&D) and its leadership team going forward. Business process improvements include Power BI-based dashboards monitoring: Top 300 items; Fast Mover items; Central Warehouse to Satellite Replenishment lead times; and Dock-to-Stock timeframes, providing each agency with standardized Key Performance Indicators. MM&D will continue to optimize its business practices on an ongoing basis to continually improve its operations.

[Comment 6](#)

**Supply Chain Strategy:**

The Draft Report states:

“SCS was created as part of the Transformation. In July 2023, SCS had five subunits: Analytics, Strategic Planning, Supplier Relations, Supplier Diversity, and Supplier Management. These subunits set forth 15 initiatives, along with their descriptions and progress statuses. We reviewed seven of the 15 initiatives to determine whether the initiatives were related to the Transformation. Of the seven, we determined that two were related and the other five were either pre-Transformation or a regulatory requirement.

SCS officials claimed Transformation savings of \$3.75 million for uniforms and \$3.2 million for vendors that supply rail car parts. Prior to the Transformation, each operating agency procured its own uniforms; post-Transformation, a procurement was consolidated for uniform pants but not shirts (officials stated that the shirts were too difficult to procure because each operating agency has its own requirements). However, documentation was not provided to support these savings.

SCS reported an estimated \$2.4 million savings for the rail car parts contract, not the 2022 Tracker amount of \$3.2 million. However, the supporting cost price analysis and contract show additional negotiated savings. SCS explained the difference was a rebate triggered when



a minimum threshold of purchases was met, and the agreement stated it had to be paid within 90 days of calendar year end. However, this rebate was paid in March 2022, likely too early to apply to any purchases made for 2022. Therefore, the rebate should not have been included in the 2022 Tracker. Excluding the rebate, the savings was \$2.4 million.”

**MTA’s Response to Supply Chain Strategy Section:**

The use of the Procurement Tracker was not a result of the Transformation but an ongoing task to track cost savings and cost avoidance in Procurement. It entails ongoing efforts and business planning to accomplish efficiencies and economies of scale.

**Rolling Stock Strategy:**

The Draft Report states:

“RSS is a new unit in the Procurement Function. It had no staff as of September 2023, but it was working to fill its vacancy positions. Officials advised that RSS meets with representatives from prospective rail car and bus manufacturers to seek potential new builders and helps them navigate eligibility requirements to do business with the MTA. RSS is also responsible for coordinating purchases for MTA’s agencies; however, documentation to support these activities was not provided.

When we asked about cost savings achieved with new contracts through July 2023, RSS officials advised us that there were no cost savings. Further, they provided no documentation of the frequency with which the RSS acted in an advisory capacity or led negotiations. Additionally, RSS did not provide us with any changes to the processes for procuring rolling stock to address issues such as delays in the delivery of train cars.

In response to our preliminary findings, MTA officials gave us a Modification to Purchase document summarizing a pricing options negotiation for subway cars to support the claim that RSS was involved in operating or capital budget procurement savings. However, this document did not support that RSS was involved in negotiating savings, as the contract referred to was awarded in 2018 and does not mention RSS. Instead, the contract is included in the 2020-2024 Capital Program, which was approved prior to the creation of RSS, and the actual modification provided is undated. As a result, it cannot be determined whether the option was exercised prior to or after the Transformation.

In response to our preliminary findings, we were also informed that documentation could not be provided due to confidentiality of the information. However, the documents we requested included a calendar with scheduled meetings and tickets for travel by train, plane, or other mode of transportation to support that there was some type of activity.”

**MTA Response to Rolling Stock Strategy Section:**

Procurement’s position regarding the availability of documentation reflecting the activities of the Rolling Stock Strategy Division referenced in this section of the Draft Report (seeking new manufacturers, providing information regarding MTA’s eligibility requirements,

discussions with prospective vendors) was presented to OSC during the audit. OSC was advised that minutes of meetings between an employee and their supervisor are not made. Nor are minutes of meetings made where the RSS acted in an advisory capacity on negotiations. RSS also advised OSC that it is not standard practice to prepare minutes of all meetings with vendors and internal stakeholders regarding possible expansion of the marketplace or pool of eligible vendors. Finally, OSC was advised that only some discussions and meetings are reflected in calendar entries; many informal discussions are not.

[Comment 7](#)

We note that changes with respect to processes to address issues such as delays in the delivery of train cars were not discussed with the auditors.

[Comment 8](#)

With respect to the issue of delivery schedule of train cars, it is negotiated and agreed to pre-award and adherence to the schedule by the contractor is overseen by the project office after award of the contract; this is not a procurement function. Further, penalties for late delivery are included in all rolling stock contracts.

Finally, the modification document referenced by the OSC has a title “2022 October Board – R211 Option 1\_.pdf” indicating the Board at which the option was presented for approval and included in the publicly available materials for that board. Based on this date it should be clear that the option was exercised after the transformation, but the transformation is not relevant to any negotiated savings reported in the document.

#### **OSC’s Recommendations**

1. Define and distinguish Transformation-related from non-Transformation-related initiatives required to achieve Transformation goals, and formally monitor the progress toward their completion.
2. Clearly define cost savings and cost avoidance for the Procurement Function, and maintain documentation to support the basis for reporting cost savings and cost avoidance.
3. Develop and issue new procedures that can be used by all agencies, where appropriate.

**MTA's Response to OSC's Recommendations:**

**Recommendation 1: Disagree.**

As discussed above, the consolidation of departments, including Procurement, pursuant to the Transformation Plan is complete. Chiefs of the consolidated departments have the on-going responsibility of achieving business process improvements and standardizations using the resources available within those functional areas and other internal MTA resources. As initiatives are evaluated and implemented, timelines and deliverables are tracked as part of Procurement's regular business practices. It would be of no utility to the MTA to attempt to categorize these initiatives as either Transformation-related or non-Transformation related.

[Comment 9](#)

**Recommendation 2: Acknowledge; already implemented.**

Procurement measures cost savings and cost avoidance using a methodology that was explained to the OSC and maintains supporting documentation. Please refer to the specific responses provided above regarding cost savings and cost avoidance. MTA's PeopleSoft system contains records of each procurement action, which includes solicitations, awards, and cancellations of contracts. In addition to PeopleSoft, the procurement files contain details and supporting documentation of each procurement action. The MTA staff spent several weeks reviewing the samples presented to us by the OSC team to explain and demonstrate how the cost savings or avoidance calculations were arrived at and documented. While the OSC did not agree on the classification and or accounting of these items, we have explained our methodologies and still believe that the savings presented are correct.

**Recommendation 3: Agree.**

All of the agencies already operate under the MTA All-Agency Procurement Guidelines. That said, as a part of continuous improvement, we promulgate, additional guidance as is appropriate.

# State Comptroller's Comments

1. Based on the section of the Public Authorities Law cited by the MTA in its response, the purpose of the plan included not only a consolidation of staff but a transformation of the accompanying functions. We maintain our position that the Procurement Function consolidated under one Chief Procurement Officer, but the function did not transform. Our focus was not simply if consolidation of staff occurred, but whether this achieved the intended purpose related to improved efficiency and the effectiveness of the function.
2. Although the MTA agencies operate under the All-Agency Guidelines, these guidelines are high level and are not specific enough for the individual departments or functions to carry out their work.
3. Officials did not provide documentation to support the achievements or results by RSS. Instead, they stated that they did not achieve such results due to staffing shortages.
4. For the example mentioned, we examined what information the MTA provided to us during the course of the audit. When asked about this procurement, the MTA simply provided documentation showing that Transit's Field Operations: Facilities and Safety notified Procurement to cancel the subway car cleaning contract—no other documentation was provided. Despite being made aware of this finding during the course of the audit, the MTA did not provide any additional information to support the strategic nature of this decision.
5. Neither in response to our preliminary findings nor at subsequent meetings where this was discussed, was there any mention that these efforts were not part of the cost savings/cost avoidance for Transformation. Rather, this information was provided to us to demonstrate the benefits of Transformation, and without it or a breakdown of Transformation-related cost savings, no evidence was provided of any Transformation-related benefits. This supports our conclusion. Further, we were not told of any improved operating efficiencies or service to customers.
6. As stated in what the MTA has quoted from our report, "support for the timelines and deliverables went unanswered." Officials did not provide any documentation that could be used to support their claims regarding business process improvements.
7. We recognize that all discussions and meetings won't be documented; however, it is important to note that we did not receive any documentation regarding these discussions and meetings.
8. We revised our report based on the MTA's response.
9. Based on its response, the MTA has limited data to assess the impact of the changes made on its operations and will not collect any additional data that would enable it to evaluate the initiative's impact. Without the necessary data, it is unclear how the MTA will perform promised evaluations.