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REPORT BY THE

Comptroller General

OF THE UNITED STATES

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Information On Alleged Conrail Mismanagement Of Contracting And Track Rehabilitation In Its Toledo And Ft. Wayne Divisions

GAO could not substantiate allegations that Conrail had mismanaged (1) contracts for derailment and crew transportation services and (2) track rehabilitation. According to Conrail studies, contracting for derailment and crew transportation services is generally economical because the services are required infrequently or sporadically. GAO did not find evidence of poor rehabilitation on three track sections, and concludes the allegation was based on incomplete and/or inaccurate information.

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GED-79-41

FEBRUARY 23, 1979



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-164497(5)

FEBRUARY 23, 1979

The Honorable Richard Bolling
Chairman, Joint Economic Committee
Congress of the United States

Dear Mr. Chairman:

You and Senator McGovern requested in an August 14, 1978, letter that we assess the validity of allegations of mismanagement and fraud by Conrail executives. The request was prompted by allegations Conrail employees and a Transport Workers Union official made during hearings before the Subcommittee on Economic Growth and Stabilization of the Joint Economic Committee on July 24, 1978. In a subsequent meeting with your office, we agreed to focus on examples which had occurred in Conrail's Toledo, Ohio, and Ft. Wayne, Indiana, Divisions relating to (1) Conrail's practice of contracting for derailment and crew transportation services and (2) the adequacy of track rehabilitation. Our findings follow. (More details are in app. I.)

Conrail, as well as other railroads, generally contracts for derailment and crew transportation services because its studies show that occasional contracting is more economical than equipping, staffing, and operating its own derailment and transportation services. Our study indicated that Conrail management is monitoring its contracting costs and tries to obtain required services at minimum cost.

Conrail's use of contractor-supplied cranes and crews for rerailling appeared reasonable. However, Conrail could probably handle routine derailments more economically with its own employees and equipment. Conrail wants additional cranes and other equipment, but its monetary resources are limited.

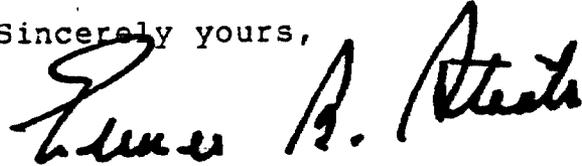
Our review of allegedly poor rehabilitation on three track sections showed no evidence of poorly performed rehabilitation, and indicates that the allegation was based on incomplete and/or inaccurate information.

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Since we could find no evidence of mismanagement in the Toledo and Ft. Wayne Divisions, we have decided not to pursue this matter elsewhere in Conrail. However, as noted in our prior reports, "Conrail's Attempts To Improve Its Use of Freight Cars" (CED-78-23, Jan. 24, 1978) and "Conrail Faces Continuing Problems" (CED-78-174, Oct. 6, 1978), Conrail management must overcome significant problems to become financially self-sufficient. Accordingly, we will continue to evaluate Conrail's efforts along these lines.

We discussed our findings with Conrail officials, and considered their views in preparing this report. As arranged with your office, we are making this report available to other interested parties.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "James A. Stroh".

Comptroller General
of the United States

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INFORMATION ON ALLEGATIONS
OF CONRAIL MISMANAGEMENT

BACKGROUND

In an August 14, 1978, letter, the Chairman, Joint Economic Committee and Senator George McGovern, asked us to assess the validity of allegations of mismanagement and possible fraud by Conrail executives. The allegations were made by Conrail employees and a Transport Workers Union official at a hearing on national railroad problems July 24, 1978. We agreed to concentrate on the alleged mismanagement involving (1) Conrail's practice of contracting for derailment and crew transportation services and (2) the adequacy of track rehabilitation.

During the hearings, Conrail employees and the union official said that Conrail contracts for derailment and crew transportation services when Conrail employees and/or other means would be more economical. They identified Conrail's Toledo and Ft. Wayne Divisions as examples of locations where improprieties in contracting had occurred. The employees also alleged that Conrail's track rehabilitation program was in "shambles," as evidenced by poorly rehabilitated track.

We agreed to assess the validity of allegations about Conrail's Toledo and Ft. Wayne Divisions. The study would determine if further review throughout Conrail was necessary.

CONTRACTING FOR DERAILMENT AND
CREW TRANSPORTATION IN CONRAIL'S
TOLEDO AND FT. WAYNE DIVISIONS

The Toledo and Ft. Wayne Divisions generally contract for derailment and crew transportation services. Details concerning contracting in these divisions follow.

Contracting for derailment service at Stanley Yard

All railroads require equipment and personnel to re-rail cars and locomotives derailed because of accidents, bad weather conditions, or other causes.

For the past 10 years, Conrail's Toledo Division has obtained derailment service from area contractors. Conrail officials said it is generally more economical to

contract for needed services than to equip, staff, and operate a wreck force capable of taking care of all its derailments. Officials of two other major railroads operating in the Toledo area (the Norfolk and Western and the Chessie System Railroads) said they also contract for derailment services and use the same contractors Conrail uses.

The contractors mainly used by the three railroads are Hulcher Emergency Wrecking; Fondessy Enterprises, Inc.; and Isringhausen Co. Officials of all three railroads said they use Hulcher for clearing major mainline derailments because it is best equipped to clear track quickly. They said they used the other two contractors for less urgent situations because their services are less expensive. Officials of all three railroads said they use Fondessy most frequently. Conrail's payments to the three principal contractors for the period January 1 through August 31, 1978, were as follows:

Fondessy	\$286,000
Hulcher	70,000
Isringhausen	10,000
	<u>\$366,000</u>

During the hearing, a union official alleged that (1) derailment equipment at the Toledo Division Stanley Yard (which would enable Conrail employees to do more of the work) "disappeared," (2) Conrail violated the union wrecking agreement by using contractors rather than available Conrail employees, and (3) Conrail made improper payments to a contractor for work not performed.

In past years, Conrail generally handled minor yard derailments with its own work force. However, in 1977 Conrail's Stanley Yard crane was declared obsolete and unsafe. Since then, the Toledo Division has contracted for all derailment service requiring a crane. Conrail's own work force still handles minor derailments that can be corrected without a crane.

Unlike mainline derailments, yard derailments occur in one geographical area and are more frequent. A Toledo Division study concluded that some derailments could be handled more economically by Conrail employees if they had a crane. As a result, the Toledo Division requested headquarters approval of a 75-ton yard crane for its Stanley Yard. This request is in Conrail's \$2.8 million proposed crane acquisition program for 1979. Conrail headquarters

officials told us, however, that 1979 requests for equipment total over \$500 million--\$300 million more than Conrail has for equipment purchases. Consequently, Conrail would only be able to approve high priority requests, made on the basis of "rate of return," safety considerations, and other factors.

When contractor derailment services are used, Conrail, under union agreement, must call its designated wreck force members to assist the contractors. Under the agreement, the members are entitled to pay even if they are not called for assistance. Designated wreck force members are normally union employees with high seniority, as assignment to the wreck force is coveted as a means of earning extra income.

Both union and non union employees at Conrail's Stanley Yard told us they were unaware of any significant violation of the union agreement. A review of the yard's pay records for the period January 1 through August 31, 1978, confirmed that there was only one derailment reported where the Conrail wreck force was not called for assistance. In that instance, the wreck force was paid in accordance with the union agreement. During the same period, the Toledo Division's Labor Relations Section had not received or processed any grievance pertaining to violations of the union wrecking agreement for any of its three yards.

We could not substantiate the allegation that contractors were paid for work not performed at the Stanley Yard. The allegation was based, in part, on the fact that a contractor had submitted a number of invoices for identical amounts for a 7-day period in early 1978. During this period, the Toledo area was hit with a severe winter storm and the contractor was retained on a 24-hour basis for most of the period. The contractor billed identical amounts for each 12 hours of service. For example, each billing for 12 hours' (overtime rate) use of a 90-ton crane and crew amounted to \$2,013.

The only discrepancy we found was that the yard's documentation for contractor services could not be reconciled exactly to Fondessy's billings. In fact, the yard's documentation indicated that the contractor may have undercharged for its services.

Conrail has attempted to improve its documentation and payment procedures. New instructions, effective September 1, 1978, require that separate purchase orders be issued each time a contractor is used, and the services must be documented by a receiving report. The new procedures

should provide better control over payments to contractors, although, at the time of our review, Conrail management was having problems getting the new procedures implemented properly.

Contracting for crew transportation
in the Ft. Wayne Division

Conrail and other railroads must provide transportation to (1) move crews between terminals to correct train scheduling imbalances, (2) relieve crews whose workday is complete, and (3) move crews from terminals to lodgings. In the Ft. Wayne Division, Conrail contracts for such transportation with private cab or transit companies. For the period January 1 through August 31, 1978, Conrail's Ft. Wayne Division paid about \$220,000 to transportation contractors. Conrail employees alleged that Conrail's Ft. Wayne Division was using cabs to transport crews in lieu of less expensive means of transportation, and that favoritism had been shown in selecting a cab company in the Ft. Wayne area.

Contracting for crew transportation is common throughout Conrail. The Conrail official responsible for monitoring crew transportation costs in several divisions, including Ft. Wayne, told us that Conrail generally contracts with local cab or transit companies because this is the most economical means of obtaining required transportation. According to the official, scheduled public transportation normally (1) does not provide service to and from Conrail terminals or to points along Conrail routes where crews must be relieved and (2) is untimely. Timely transportation is critical because Conrail must pay crews awaiting transportation and in transit. The other railroads we asked also contracted with local cab companies and agreed that such contracting is generally more economical than the alternatives.

Conrail's Industrial Engineering Department has made several studies on how transportation could be obtained most economically. A 1977 study showed that operating company-owned vehicles in Cleveland, Ohio, would cost \$188,000 a year more than contracting. While no similar study has been performed for Ft. Wayne, the industrial engineer responsible for monitoring Ft. Wayne's crew transportation costs believes the factors that make company vehicles uneconomical in Cleveland--salaries, vehicle purchase cost, and maintenance--also would apply for Ft. Wayne.

As part of its responsibilities for monitoring crew transportation costs, the Industrial Engineering Department attempts to reduce contractor rates where possible. The department, concerned that it was paying too much for transportation in the Ft. Wayne area, negotiated a 1977 contract with a new contractor for \$0.35 less per mile than the rate charged by the previous contractor for the same service (and significantly less than rates available to the general public). This contract apparently prompted the allegation of favoritism in selecting contractors in Ft. Wayne. (To win back the business which it claims to have had for over 50 years, the original contractor recently threatened Conrail with a lawsuit charging favoritism.)

For the year ended June 30, 1978, Conrail spent about \$13 million on crew transportation. Conrail officials acknowledge that these costs are substantial and are considering implementing a new operating control system which may improve crew scheduling. GAO has already suggested prompt action to implement this system. (See CED-78-23.)

ADEQUACY OF TRACK REHABILITATION

Conrail is in the third year of a track rehabilitation program to correct bad tracks caused by years of deferred maintenance. While Conrail claims to be significantly improving its tracks, it acknowledges that bad tracks and many "slow orders" still permeate Conrail.

During the hearings, a Conrail employee claimed that tracks were the same or worse after rehabilitation. The employee based his allegation, in part, on three sections of track on the Chicago-Pittsburgh mainline:

- A 10-mile section between Crestline and Bucyrus, Ohio, allegedly rehabilitated in March 1978, and now under a 10 miles per hour (mph) slow order.
- A 12-mile section between Valparaiso and Hobart, Indiana, allegedly rehabilitated in May and June 1978, and still under a 30 mph slow order.
- A section near milepost 391, allegedly rehabilitated so poorly in the fall of 1977 that a derailment occurred in July 1978.

Our examination of rehabilitation of the three track sections showed the following:

- From Crestline to Bucyrus (milepost 190 to 200), track 2 was recently rehabilitated from milepost 191.3 to 200.0. No slow orders are in effect on the rehabilitated track. A 30 mph slow order is in effect on an unrehabilitated section of track 2 from milepost 190.5 to 191.0 because the rail is old and needs replacing. Incomplete rehabilitation of an interlocking track section necessitated a 10 mph slow order from milepost 191.1 to 191.3 on both tracks 1 and 2. As of October 16, 1978, work had still not been completed, but the slow order had been changed to 40 mph. Completion of this work is scheduled for late 1978.
- From Valparaiso to Hobart (milepost 423 to 435) track 2 was rehabilitated in June and July 1978. A 30 mph slow order, which was in effect pending completion of work, has been removed. A 50 mph slow order is currently in effect on part of this track because of rail fractures unrelated to the rehabilitation work. Track 1 is scheduled for rehabilitation in late 1978 to remove a 30 mph slow order from milepost 423.7 to 424.3.
- Bad tracks caused a derailment in July 1978 on track 1 at mile post 391. This derailment occurred on track which Conrail had not rehabilitated. Track 2 was recently rehabilitated around milepost 391, and no slow orders are in effect on the rehabilitated section.

A Federal Railroad Administration track inspector, who inspected one of the track sections with us, said that he knew of no instances of improper rehabilitation on the Chicago-Pittsburgh line.

SCOPE OF REVIEW

We reviewed Conrail's contracting for derailment and crew transportation and the adequacy of track rehabilitation. We made our review at Conrail's Ft. Wayne and Toledo Divisions. Additional information was obtained from Conrail headquarters and other Conrail locations, the Federal Railroad Administration, and other railroads.

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