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INSPECTOR GENERAL

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August 31, 2023

By Electronic Mail

David Panagore
Chief Administrative Officer
Massachusetts Bay Transportation Authority
10 Park Plaza
Boston, MA 02116
DPanagore@mbta.com

Re: MBTA Agreement with MassChallenge, Inc.

Dear Mr. Panagore:

The Office of the Inspector General's Internal Special Audit Unit (ISAU) has completed a review of the Massachusetts Bay Transportation Authority's (MBTA or authority) decision to be a sponsor for MassChallenge, Inc. (MassChallenge), a nonprofit organization that "connects startups, experts, corporations, and communities to grow and transform businesses and economies."¹

The MBTA executed a sponsorship agreement with MassChallenge in 2018. MassChallenge presented a platform through which sponsors such as the MBTA could pursue a partnership with a startup company that would offer innovative solutions to a perceived problem or challenge the sponsor faced.

The ISAU found that the authority did not have a clear objective in pursuing the sponsorship agreement and did not appropriately oversee the contract and vendor by assigning a contract administrator. Furthermore, the ISAU found nothing to indicate that the MBTA followed through with its chosen startup to leverage the agreement's anticipated benefits.

The ISAU's review ultimately concluded that the sponsorship did not yield any discernible benefits for the MBTA, even though the authority paid \$75,000 in public funds for the sponsorship and additionally committed to \$250,000 in complimentary advertising for MassChallenge.

¹ MASSCHALLENGE, <http://masschallenge.org/mission/> (last visited August 28, 2023).

MBTA Procurement and Sponsorship

The authority's former director of revenue, Evan Rowe, worked with the MBTA Procurement Department to conduct a sole-source procurement for MassChallenge. At the time, Rowe informed then-MBTA General Manager Luis Ramirez by email that the procurement would introduce the MBTA to creative ideas to address challenges it had experienced, such as developing requests for proposals and extending the infrastructure of the AFC 2.0 platform. Ramirez approved the sole-source procurement and the Revenue Department provided the funding.

On September 19, 2018, the MBTA published a due diligence posting for the MassChallenge sponsorship on COMMBUYS. The Commonwealth requires due diligence postings so that other potential qualified bidders may offer their goods or services to meet the agency's desired specifications. In the posting, agencies must explain why they are seeking to post notice of the offer rather than conducting a competitive procurement. As required, the MBTA posted the due diligence for 14 days. No additional vendors responded to the posting.

The MBTA and MassChallenge then signed a one-year memorandum of agreement in November 2018 under which the MBTA paid MassChallenge \$75,000. The agreement also included up to \$250,000 in MBTA advertising opportunities at no cost to MassChallenge.

The agreement stated that MassChallenge would provide the MBTA with "sponsorship benefits," such as participation in two recruiting panel events, access to startups in the MassChallenge program, and access to exclusive networking events.

Through its participation in a panel of startup presentations, the MBTA selected a startup company, Catapult, to pursue a partnership. The goal of the partnership was for Catapult to present ideas to improve the MBTA's process for developing requests for proposals. Catapult was to recommend methods to improve scope management, template development and the bid process, while also suggesting ways to enhance communication with vendors and facilitate bid evaluations.

ISAU Review

The ISAU commenced an investigation of this engagement after receiving a hotline complaint in July 2020. The ISAU met with current and former MBTA employees, including employees in the Revenue Department. The ISAU found that the employees had minimal, if any, knowledge of the sponsorship. The former deputy director of fare products and strategy, who processed the payment to MassChallenge, told the ISAU that he did not know what the sponsorship entailed. He also stated that, to his knowledge, the MBTA received no products or services through the sponsorship.

Rowe, the primary individual with direct knowledge of the agreement, pursued and facilitated the sponsorship in 2018. By the time of the ISAU's review, Rowe had left the MBTA's employ and had moved out of state. The ISAU was unsuccessful in its attempts to contact Rowe

to discuss the anticipated benefits of the procurement he arranged. You will recall that you were similarly unable to elicit a response when trying to contact this individual on the ISAU's behalf.

The ISAU met with MassChallenge to gain an understanding of the services it offers and what the company provided to the MBTA. Acting Chief Executive Officer Cait Brumme and Chief Operating Officer Lauren Dougherty stated that MassChallenge's role is to understand what problems a sponsor (such as the MBTA) faces and then seek a startup that may be able to assist. MassChallenge confirmed that there were no agreed-upon deliverables that the startup company, Catapult, would provide the MBTA. The ISAU subsequently reviewed documents provided by MassChallenge that demonstrated that neither MassChallenge nor Catapult produced concrete work products or deliverables.

The ISAU met with the founder and CEO of Catapult, Justin Witz, and similarly found that the startup did not create deliverables or work products for the MBTA during the partnership. While Catapult provided the MBTA with access to a dashboard for a trial use of its product, the MBTA did not pursue that opportunity.

Conclusions and Recommendations

Despite paying \$75,000, it is not clear what the MBTA was purchasing through the procurement, how the startup and MBTA would interact, or what the final deliverables would be. Ultimately, the MBTA did not pursue a relationship with Catapult following its initial partnering, and the agreement did not produce any deliverables for the authority. The stated primary benefit of having an outside entity "disrupt the status quo" did not materialize. The only ancillary activities that could be discerned consisted of networking opportunities for which the value was unclear at best and certainly not worth the fee that the MBTA paid with public funds.²

Moreover, although it does not appear that MassChallenge ever leveraged the "free advertising," the procurement had the potential to be a \$325,000 commitment for the MBTA.

The MBTA could produce few records pertaining to this engagement. While the authority provided the due diligence posting of the sponsorship, it could not provide the ISAU with records related to the procurement decision-making process or the outcome of the agreement. The MBTA's own procurement manual emphasizes the importance of maintaining records of procurement history.

This review highlights the significance of effective procurement, contract development, contract administration and records management practices, themes that have appeared in previous ISAU reviews of the MBTA's procurements and contracts.

² To be clear, the ISAU offers no indictment of MassChallenge's work in matching entrepreneurs and sponsoring entities in the spirit of "collaborative innovation." Rather, as previously stated, the ISAU found no evidence that the MBTA used its pairing with Catapult to glean the benefits of the sponsorship.

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In sum, the MBTA affiliated with an outside entity without a clear purpose or process. Public time and funding were dedicated to an effort with unclear deliverables or discernible benefits, and the MBTA's approval process and associated recordkeeping were poor. The MBTA should have a clear purpose and should establish expected deliverables before entering a contract with a vendor or committing public funds to the effort, especially for agreements that do not provide actual goods or services. The agreement with MassChallenge did not provide a clear benefit to the authority.

The ISAU appreciates the cooperation and assistance from the MBTA during this review. It is our hope and expectation that the MBTA will act upon the recommendations the ISAU outlined in its three recent privatization reviews to improve the MBTA's procurement, contract development, vendor administration and records management practices. Those recommended actions would benefit all future MBTA procurements.

Should you have questions related to this review or if you need assistance in improving the MBTA's procurement or contract administration practices, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Emily Pedersen". The signature is fluid and cursive, with the first name "Emily" being more prominent than the last name "Pedersen".

Emily Pedersen
Director
Internal Special Audit Unit

cc (by email):

Phillip Eng, General Manager, MBTA
Katie Choe, Acting Chief of Staff, MBTA
Douglas McGarrah, General Counsel, MassDOT/MBTA
Kevin Scanlon, Chief Counsel, MBTA
Jeffrey Cook, Chief Procurement and Contracts Administration Officer, MBTA
Jeffrey S. Shapiro, Inspector General
Susanne M. O'Neil, General Counsel, OIG