October 24, 2018

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit

Subject: ACCESS Service, Internal Audit Report No. 18-514

Overview

The Internal Audit Department has completed an audit of ACCESS services provided by MV Transportation, Inc. Based on the audit, the reservation and scheduling process, invoice approval procedures, and drug and alcohol program monitoring are adequate. However, improvements to contract amendment policies, calculation of call center hold-times, and monitoring of preventive maintenance, performance bond requirements, and farebox revenue reconciliations are recommended.

Recommendation

Direct staff to implement five recommendations provided in ACCESS Service, Internal Audit Report No. 18-514.

Background

The Orange County Transportation Authority (OCTA) and MV Transportation, Inc. (MV) entered into Agreement No. C-2-1865 (contract), with an initial term of July 1, 2013 through June 30, 2017, and a contract maximum obligation (contract maximum) of $156,690,376. Under the contract, MV provides management and operating services for ACCESS paratransit. OCTA pays MV a fixed monthly rate plus a variable rate per revenue vehicle hour (RVH), and OCTA pays for supplemental service by Yellow Cab of Greater Orange County (Yellow Cab) on a per-trip basis.

The contract establishes performance standards including standards for on-time performance, passengers per revenue vehicle hour, missed and excessively late trips, valid complaints, accident reporting, preventive maintenance, miles between road calls, and call center maximum hold times. Penalties and/or incentives are applied based on MV's achievement of these standards.

Discussion

In April 2018 staff processed an amendment to the contract that obligated OCTA to additional costs totaling $513,333 that were not subject to Board of Directors (Board) approval. Under current policy, amendments that increase the contract maximum by $250,000 or more require Board approval; however, the policy does not address amendments to pricing that result in increased costs of $250,000 or more, but can be accommodated within the contract maximum. In addition, the value of the amendment to compensate MV for increased call volume for Same Day Taxi (SDT) reservations was overstated. Staff prepared two estimates for $513,333 and $270,400. The higher estimate was based on total reservationists needed to field SDT calls and the lower estimate was based on additional reservationists needed to field calls after volume increased beyond the level originally anticipated in the contract. The Internal Audit Department (Internal Audit) recommended management consider updating policies to require Board approval for amendments to contract pricing that result in additional costs of $250,000 or more. In addition, management should ensure the validity of cost assumptions and document the reason for the cost estimate selected when valuing amendments. Management agreed to consider a policy change and to implement changes to process for preparing and selecting cost estimates.

With regard to performance standards, Internal Audit found MV's calculation of the call center maximum hold-time performance standard (standard) to be flawed. The standard requires 98 percent of calls to be answered within five minutes, with a $5,000 penalty when the percentage is 94.1 to 96 percent, increasing to a $10,000 penalty when the percentage is less than 94 percent. MV staff prepares the calculation using data from an OCTA-purchased system. However, when calculating performance, MV staff include SDT calls answered in five minutes or more as being answered within five minutes, resulting in an overstatement of performance. In April 2018, MV reported that 96.07 percent of calls were answered within five minutes; however, when properly calculated, the percentage was 95.73 percent, which should have triggered a $5,000 penalty. Internal Audit recommended that management instruct MV to correct the calculation and implement oversight controls to periodically validate the data and the calculation. Management agreed to correct the calculation and enhance monitoring procedures.

Internal Audit also found that OCTA staff had not performed monthly preventative maintenance inspections (PMI) reviews for seven months, including five consecutive months in 2017. The contract requires that PMI be performed at required intervals, and OCTA staff typically reviews the records of about 20 vehicles per month to monitor PMI performance. Internal Audit recommended that staff consistently perform monthly monitoring of PMI. Management agreed to perform consistent inspections going forward.

Internal Audit also observed that the performance bond provided by MV for the initial four-year term was insufficient to meet contract requirements. Internal Audit recommended that management review performance bonds provided at contract inception and ensure that the bonds meet contract requirements. Management agreed with the recommendation and advised that a third-party vendor has recently been retained to review bond and insurance documentation for compliance with contract terms.

Finally, Internal Audit noted that staff's monitoring of ACCESS fare revenues should be improved. Internal Audit recommended that management enhance procedures to include monitoring of coupons collected by both MV and Yellow Cab and to require investigation of variances exceeding a stated threshold. Management agreed to implement these recommendations.

Summary

Internal Audit has completed an audit of ACCESS service and offered five recommendations for improvement.

Attachment

A. ACCESS Service, Internal Audit Report No. 18-514

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ATTACHMENT A

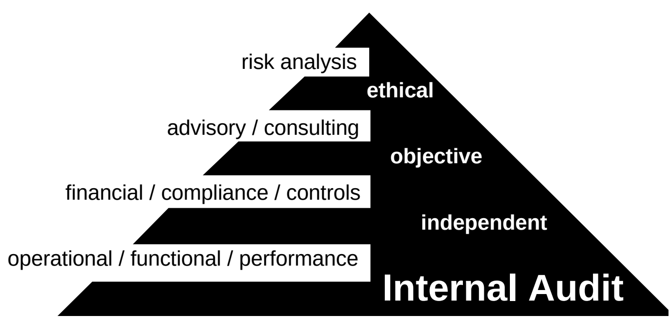
ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT

OCTA

ACCESS Service

Internal Audit Report No. 18-514

October 10, 2018



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ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
ACCESS Service
October 10, 2018

Table of Contents

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
ACCESS Service
October 10, 2018

Conclusion

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed an audit of ACCESS services provided by MV Transportation, Inc. (MV). Based on the audit, reservation and scheduling procedures, invoice approval procedures, and drug and alcohol program monitoring activities are adequate. However, improvements to contract amendment policies, calculation of call center hold times, performance of monthly reviews of preventive maintenance records, and monitoring of performance bond requirements and farebox revenue reconciliations are recommended.

Specifically, an amendment to change payment terms, resulting in increased costs of $513,333, was not subject to Board of Directors' (Board) approval because the contract maximum obligation was not changed. Internal Audit recommended this policy be revised to require such approval.

In addition, calculations of call center hold-time performance are flawed, and monthly reviews of preventive maintenance records were not always performed. Other findings included insufficient performance bond values and incomplete monitoring of farebox revenue reconciliations.

Finally, Internal Audit identified issues related to documentation of penalty waivers and pre-approval of major mechanical repairs; however, these issues and related recommendations were reported in the audit of Contracted Fixed Route Services, and subsequently addressed by management. As a result, the recommendations are not repeated in this report.

Background

The Americans with Disabilities Act of 1990 (ADA) requires agencies that operate fixed route operations to provide complementary paratransit service for individuals who are unable to use the fixed route system. The Orange County Transportation Authority (OCTA) responded to this civil rights legislation with the implementation of ACCESS service in 1993. ACCESS service is an advanced reservation service, for travel within areas comparable to OCTA's fixed route bus services, for persons who have been certified as ADA eligible.

OCTA and MV entered into Agreement No. C-2-1865, effective April 3, 2013. Under the contract, MV provides management and operation services including all management, personnel, reservations and scheduling, dispatching, operations, insurance, record-keeping and reporting, computer hardware and administrative software, and vehicles for driver relief and road supervision, as necessary, for the operation of ACCESS service. MV collects cash fares and coupons, and handles, accounts for, and reports all fare revenues received during operation of the service. Yellow Cab of Greater Orange

County (Yellow Cab) is a named subcontractor as a supplemental ACCESS service provider. The term of the contract runs from July 1, 2013 through June 30, 2017, with two, two-year option terms, and an original maximum obligation of $156,690,376. Under the payment terms, OCTA pays MV a fixed monthly rate plus a variable rate per revenue vehicle hour (RVH), and OCTA pays for supplemental service by Yellow Cab on a per-trip basis. Amendment No. 1 revised key personnel and language in the scope of work. Effective June 2014, Amendment No. 2 added the decommissioning of vehicles to be utilized in the Senior Mobility Program (SMP) at an increase of $37,853.52. Effective December 2015, Amendment No. 3 continued the inspections, general maintenance, and painting services of vehicles utilized in the SMP at an increase of $60,000. Effective August 2016, Amendment No. 4 increased the maximum obligation by $7,841,232, to accommodate the costs associated with an increased demand for service. In June 2017, Amendment No. 5 was executed to exercise the first option term, extending the contract through June 30, 2019, at an increase of $90,982,108. In April 2018, Amendment No. 6 was executed to reimburse MV for increased call center service for Same Day Taxi and to revise contract language related to penalties and major maintenance, with no increase to the maximum obligation.

The contract establishes performance standards including standards for on-time performance, passengers per revenue vehicle hour, missed and excessively late trips, valid complaints, accident reporting, preventive maintenance, miles between road calls, and call center maximum hold times. Penalties and/or incentives are applied based on MV's achievement of these standards.

With regard to vehicle maintenance, the contract outlines preventive maintenance requirements for OCTA-owned vehicles. The contract requires MV to perform preventative maintenance inspections (PMI) in accordance with manufacturer's recommended intervals and in compliance with California Highway Patrol terminal inspection requirements. PMI's are to be performed on each OCTA vehicle at 5,000-mile intervals. The manufacturer requires engine oil and filter changes every 5,000 miles, six months, or 200 hours of operation, whichever occurs first. OCTA Transit Division (Transit) staff performs monthly reviews of work order history files for around 20 vehicles out of a fleet of 248, in order to monitor MV's compliance with preventive maintenance requirements.

OCTA Transit staff attends MV's new employee orientations and selected safety meetings. Transit staff is responsible for oversight of MV's safety and drug and alcohol programs, and also performs periodic reviews of MV's driver records, including pull-notices with medical cards and driver's daily logs. When an accident occurs, the coach operator notifies MV Dispatch Services and MV then informs OCTA. Within 24 hours, MV will generate accident reports and send them to OCTA Transit staff and others.

Each month, MV sends a preliminary invoice package to OCTA Financial Planning & Analysis (FP&A) staff that includes a draft invoice, deposit slips for MV's cash fares, and work orders for major maintenance costs. FP&A staff then pulls the billing reports from a reporting site, with the report data coming from the Trapeze system. FP&A staff goes through a data reconciliation process where certain filters are run to identify anomalies and compares such anomalies to the ones MV has identified. When the data reconciliation process is complete, the summary reports feed the invoice with the RVH's as well as the passenger counts used in the performance standards. FP&A staff compares the major maintenance expenses to maintenance summaries and reconciles MV's cash fares to the deposit slips. For two pre-selected days, FP&A staff counts the coupons and compares it to MV's counts. FP&A staff runs various reports from the reporting site and BOXI system, pulls information from maintenance summaries and work audit summaries, and obtains call center summary reports, to populate the performance standard calculations in the invoice. Finally, the invoice is submitted for review and signature approval by both FP&A and Transit management.

Objectives, Scope, and Methodology

The objectives were to assess and test invoice controls, contract compliance, and monitoring controls, and to assess reservation and scheduling effectiveness and efficiency.

The scope was limited to ACCESS service program activities from July 2015 through April 2018, and the current provider, MV. The scope excluded fixed route services.

The methodology included observation and review of reservation and scheduling processes. It also included testing for compliance with selected contract terms, including provision of performance bonds, insurance, and fare revenue reconciliations. Testing of monitoring controls, including evidence of reviews of driver records, drug and alcohol program monitoring reviews, and monthly reviews of vehicle preventive maintenance records, was performed. Internal Audit also performed limited review of MV's achievement of performance standards and OCTA's oversight of these performance standards including appropriate application of related penalties and/or incentives. Finally, Internal Audit reviewed all invoices paid for compliance with payment terms and for evidence of invoice review controls. The testing period was selected to cover more recent activities. For all judgmental samples, any conclusions are limited to the sample items tested since sampling is non-statistical.

We conducted this 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Comments, Recommendations, and Management Responses

Contract Cost Increases Exceeding $250,000

Amendment No. 6 to the MV contract obligated OCTA to additional costs exceeding $250,000 that were not subject to Board approval. In addition, the estimate used to value the price increase appears to be overstated.

The contract includes a fixed monthly payment plus a variable component, based on RVH, and a contract maximum obligation amount (maximum). Under current procurement policy, Board approval is required for contract amendments that increase the contract maximum by more than $250,000; however, the policy does not address changes to the underlying pricing that increases costs without affecting the contract maximum.

Prior to exercise of the option term, MV requested price adjustments due to higher wage costs. While this request was denied, OCTA management did agree to reimburse MV for increased call center hours for Same Day Taxi reservations. Call center hours were expanded after implementation of OC Bus 360°, which included significant changes to bus service.

In April 2018, the contract was amended to reimburse MV for increased call center service from October 2016 through June 2018, for $513,333. Board approval was not required by policy because the additional costs could be accommodated within the existing contract maximum.

To arrive at the cost estimate, due to increased call volume, OCTA staff used assumptions provided by MV for calls per booking and calls per shift without validation. Staff then prepared two estimates; $513,333 and $270,400. The higher estimate was based on total reservationists needed to field Same Day Taxi calls and the lower estimate was based on additional reservationists needed after call volume increased. The original contract scope of work included call center services for Same Day Taxi reservations. While call volume increased dramatically, it appears unreasonable to reimburse for the cost of all reservationists, rather than just those that were added to address call volume increases.

Recommendation 1:

Internal Audit recommends that management consider policies be updated to require Board approval for amendments that obligate OCTA to additional costs exceeding $250,000, even when the increase can be accommodated within the contract maximum. Internal Audit also recommends that staff ensure the validity of consultant assumptions before relying on them to derive cost estimates. Finally, the justification and responsibility for selecting between various cost estimates should be documented and approved.

Management Response (Finance and Administration (F&A) and Transit):

Management agrees with the recommendation to consider a policy change to require Board approval for amendments where individual tasks may increase beyond $250,000, but the overall contract maximum value does not increase or change. As part of this consideration, the F&A division will present a proposed policy change to OCTA's Executive Management Team to apprise them of the possible change and to solicit their input and the potential impacts to their divisions if such a policy change is made.

Regarding the recommendation for staff to ensure the validity of consultant assumptions before relying on them to derive cost estimates, management agrees to comply with the recommendation.

Lastly, management agrees that the justification and responsibility for selecting between various cost estimates should be documented and approved in writing by the project manager. The F&A division will require that the procurement staff in the Contracts Administrating and Materials Management Department (CAMM) obtain written confirmations and/or directions from project managers when consultants are being asked to provide additional services. Project managers will be required to indicate that they agree with the additional work and with the cost estimate to perform the work.

Flawed Calculation of Call Center Performance Standard

MV's calculation of the call center maximum hold time performance standard is based on a flawed methodology, and there has been insufficient oversight by OCTA staff.

The contract includes a performance standard that requires 98 percent of calls be answered within five minutes, with a $5,000 penalty when only 94.1 to 96 percent of calls are answered within five minutes, increasing to a $10,000 penalty when less than 94 percent of calls are answered within five minutes.

To measure performance, MV prepares the calculation using data from OCTA's IC Business Manager system. The calculation is flawed because Same Day Taxi calls answered in five minutes or more are counted as being answered within five minutes. This method overstates MV's performance and could result in avoidance of penalties. For example, according to MV, 96.07 percent of calls were answered within five minutes during April 2018; however, when properly calculated, only 95.73 percent of calls were answered within five minutes, which would have triggered a penalty of $5,000.

OCTA staff accepts MV's calculation and uses the number in its assessment of the performance standard without validation.

Recommendation 2:

Internal Audit recommends that management instruct MV to correct the calculation of percentage of calls answered within five minutes. Further, management should increase oversight of the performance standard by periodically validating the data and the calculation.

Management Response (Transit):

Management agrees with Internal Audit's recommendation. Management will correct the calculation of percentage of calls answered within five minutes. In addition, management will enhance procedures for monitoring the calculation of percentage of calls answered within five minutes.

Monitoring of Preventive Maintenance

OCTA staff did not perform monthly PMI reviews for seven months, including five consecutive months in 2017.

The contract requires that PMI be performed at required intervals, with penalties of $100 per day for each vehicle operated past the scheduled PMI, increasing to $200 per day for vehicles operated more than three days or 500 miles past scheduled PMI. Monitoring compliance with PMI standards helps to ensure safe and dependable service and helps reduce costs related to major mechanical maintenance, which is paid for by OCTA under the contract.

To monitor PMI performance, OCTA staff selects and reviews the records of about 20 vehicles per month, out of a fleet of 248. However, staff passed on performing PMI reviews in May, July, August, September, October, and November 2017, and January 2018.

Recommendation 3:

Internal Audit recommends that staff consistently perform monthly monitoring of PMI.

Management Response (Transit):

Management agrees with the finding and will perform consistent inspections of preventive maintenance records to ensure compliance with all regulatory agencies and contract requirements. During this audit period, July 1, 2015 to April 1, 2018, a review of the PMI program indicated that MV had consistently performed PMIs at 99.89 percent; notably, this performance is well above industry standards.

Insufficient Performance Bond

The performance bond provided by MV for the initial four-year term was insufficient to meet contract requirements.

The contract required MV to establish a performance bond in the amount of ten percent of the first four contract years, or initial term, amounts. In addition, if the contract value is amended, the amount of the bond must be increased or decreased accordingly.

At contract inception, MV established an annually renewable performance bond of $3,041,252, equal to ten percent of the estimated costs of services for the first year of the contract. MV then continued the bond in the amount of $3,041,253, for each of the next three years of the initial term. However, use of an annually renewable performance bond did not meet contract requirements. Rather, the contract value for the initial term was $156,690,376, which would have required a bond set at $15,669,038.

Even if use of an annually renewable performance bond was allowed, the annual bond amount was insufficient, as the estimated costs increased each year, totaling $2,917,957 of additional costs from the first year. Also, the bond amount did not factor in the estimated costs for supplemental service performed by Yellow Cab, initially projected at $32,122,309, or 21 percent of the contract amount.

Finally, the bond was not increased for Amendments No. 2, No. 3, and No. 4, which collectively increased the contract amount by $7,939,086; however, when the option term was subsequently exercised, the performance bond provided met contract requirements.

Recommendation 4:

Internal Audit recommends that management review performance bonds at contract inception to ensure that the bonds meet the contract requirements. When amendments to increase the contract amount are executed, management should ensure that the bonds are increased accordingly.

Management Response (F&A):

Management concurs with this recommendation. CAMM's standard procurement practice for a contract that requires a performance bond is to send the bond to OCTA's Risk Manager for review and approval at contract inception. CAMM management will review each contract file to ensure approval from the Risk Management Department is documented as appropriate.

To ensure proper adjustments to bond requirements when amendments are executed, CAMM has recently implemented services from a third-party vendor, Insurance Tracking Services, Inc. (ITS), to review bond and insurance documentation for compliance to ensure contract requirements are met. CAMM management will review the bond amount in the ITS system following amendment execution to ensure accuracy of the bond requirements, as well as the bond amount provided.

Monitoring of ACCESS Fare Revenue

Staff's monitoring of ACCESS fare revenues should be improved.

MV provides monthly farebox reconciliation documents as part of its invoice package. The reconciliations compare the scheduled farebox revenues from the Trapeze system to the actual cash and coupon fares collected by MV, as well as the recorded no-pays. Cash fares collected by MV and Yellow Cab are credited to OCTA through the invoice.

OCTA staff pre-selects two days in the month, requests MV's coupon counts along with the actual coupons for those days, and verifies the coupon counts; however, staff does not always reconcile the counts back to the monthly farebox reconciliation document. Internal Audit identified several instances where the coupon counts did not agree to the amounts listed on the farebox reconciliation document.

In addition, Internal Audit compared the June 2018 coupon counts to the figures recorded on the monthly farebox reconciliation and found that totals did not match on most days, although the month-end total agreed. It appears that the daily quantities in the farebox reconciliation may be pulled from a separate log or there may be adjustments to the daily quantities to smooth out differences.

While OCTA staff looks at the monthly farebox reconciliations including the variances, there is no established threshold for investigation. In comparison, OCTA's threshold for investigating variances in farebox revenue for fixed route services is set at one percent.

Further, MV does not provide the coupons and coupon counts by Yellow Cab, and OCTA staff does not perform any independent counts of these coupons.

Recommendation 5:

Internal Audit recommends that management enhance procedures for monitoring of ACCESS fare revenue. Procedures should include monitoring of coupons collected by both MV and Yellow Cab, reconciliation of MV's daily coupon count sheets to the farebox reconciliation document, and investigation of variances exceeding a stated threshold.

Management Response (F&A and Transit):

Management agrees with Internal Audit's recommendation. Management agrees to enhance procedures for monitoring of ACCESS fare revenue and coupons collected by both MV and Yellow Cab. In addition, management will continue to reconcile count sheets to the farebox reconciliation report and will establish a threshold for researching variances.