



September 14, 2011

To: Finance and Administration Committee
From: Will Kempton, Chief Executive Officer
Subject: Review of MV Transportation, Inc., Agreement No. C-8-1326, Contracted Fixed-Route, StationLink, and Express Bus Services

Overview

The Internal Audit Department of the Orange County Transportation Authority has completed a review of the Orange County Transportation Authority's Agreement No. C-8-1326 with MV Transportation, Inc. for contracted fixed-route, StationLink, and Express Bus services. Based on the review, management oversight of these services is generally adequate and invoices are properly supported and within the terms of the agreement; however, the Internal Audit Department offered two recommendations related to non-compliance with agreement terms and one recommendation for improvement to contract language.

Recommendation

Direct staff to implement recommendations made, including implementation of procedures to monitor compliance with the Orange County Transportation Authority's unclassified revenue percentage requirements, insurance coverage requirements, and amending conflicting agreement language related to Mechanics Training Requirements and Special Qualifications.

Background

The Orange County Transportation Authority (OCTA) Fiscal Year 2010-11 Internal Audit Plan included a review of contracted fixed route and paratransit operations. MV Transportation, Inc (MV) provides contracted fixed-route, StationLink, and Express Bus services.

MV operates the services under Agreement No. C-8-1326 (Agreement) from OCTA's Sand Canyon base in Irvine. OCTA provides the facility, the buses, and the fuel, as well as the facility maintenance, landscape, and janitorial services. MV recruits, hires, and trains personnel, including the administrative

staff, bus operators, and mechanics necessary to operate the service. MV is a privately held company with headquarters in Fairfield, California. The average monthly cost of this Agreement for the first twenty months from July 2009 through February 2011 is \$575,700 per month, for a total of \$11,514,005.

The Agreement is administered by the Transit Division, Community Transportation Services (CTS) Department, which includes a department manager, section manager, senior maintenance field administrator, field administrator, and a community transportation coordinator.

Discussion

The Internal Audit Department (Internal Audit) found that MV is not in compliance with Agreement terms related to maintaining the unclassified revenue percentage at or below 2.35 percent per month. When money is deposited into the farebox and it is not properly identified as to the type of fare, the amount becomes unclassified revenue. MV's unclassified revenue percentage ranges from 3.32 percent to 7.95 percent per month. Internal Audit recommended that CTS develop a process to monitor compliance with the standard. Management agreed and indicated that a process has been implemented.

Insurance certificates on file for 2010 and 2011 did not reflect the minimum insurance requirements. The Contract Administration and Materials Management (CAMM) Department requests vendors provide updated certificates at the time of renewal; however, the certificates are not reviewed for compliance with Agreement terms. Internal Audit confirmed with the insurance broker that MV actually carried the required minimums; however, the certificates were issued incorrectly. Internal Audit is recommending that CAMM enhance procedures to include review of these renewal certificates for compliance with Agreement terms prior to filing them. Management agreed and indicated that procedures have been updated to include review of certificates for compliance with contract language.

Internal Audit found that the Agreement contains conflicting language with regard to Mechanics Training Requirements and Special Qualifications. The Agreement is unclear as to whether the listed topics and certifications are required or desired. Internal Audit is recommending that the Agreement language be reviewed and amended as appropriate. Management agreed and indicated that the language will be revised with the next amendment to this Agreement.

Summary

Based on the review, management oversight of the contracted services is generally adequate and invoices are properly supported and within the terms of the Agreement; however, Internal Audit offered two recommendations related to monitoring compliance with Agreement terms and one recommendation for improvement to Agreement language.

Attachment

- A. Review of MV Transportation, Inc. Agreement No. C-8-1326, Contracted Fixed-Route, StationLink and Express Bus Services, Internal Audit Report No. 10-503

Approved by:



Janet Sutter
Executive Director, Internal Audit
714-560-5591

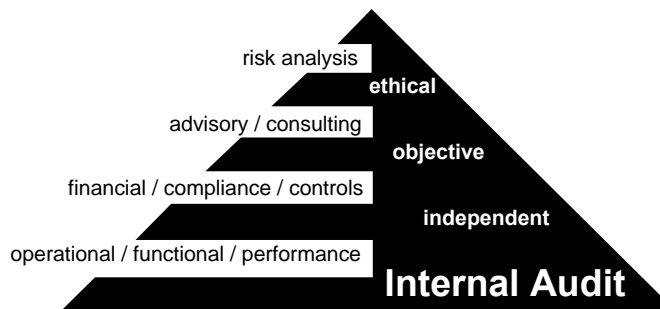
Orange County Transportation Authority Internal Audit Department



Review of MV Transportation, Inc. Agreement No. C-8-1326, Contracted Fixed Route, StationLink and Express Bus Services

INTERNAL AUDIT REPORT NO. 10-503

September 2, 2011



Internal Audit Team:

Janet Sutter, CIA, Executive Director, Internal Audit
Gerry Dunning, CIA, CISA, CFE, Senior Internal Auditor

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Review of MV Transportation, Inc. Agreement No. C-8-1326, Contracted
Fixed Route, StationLink, and Express Bus Services
September 2, 2011**

CONCLUSION	1
BACKGROUND	1
OBJECTIVES, SCOPE, AND METHODOLOGY	2
Noteworthy Accomplishments	3
Unclassified Farebox Revenue	3
Insurance Requirements	4
Mechanics Training Requirements and Special Qualifications	4

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Review of MV Transportation, Inc. Agreement No. C-8-1326, Contracted
Fixed Route, StationLink, and Express Bus Services
September 2, 2011**

CONCLUSION

The Internal Audit Department (Internal Audit) has completed a review of the Orange County Transportation Authority's (OCTA) Agreement No. C-8-1326 (Agreement) with MV Transportation Inc. (MV) for contracted fixed route, StationLink, and Express Bus services. The primary purpose of the review was to ensure contract compliance, evaluate the adequacy of OCTA oversight of the contracted services, and verify the propriety of payments made to MV.

Based on the procedures performed, Internal Audit has concluded that management oversight is generally adequate and that services invoiced to OCTA are properly supported and within the terms of the Agreement. However, Internal Audit offered two recommendations related to non-compliance with Agreement terms and one recommendation for improvement to the Agreement language.

BACKGROUND

The OCTA Fiscal Year (FY) 2010-11 Internal Audit Plan included a review of contracted and paratransit operations. MV provides contracted fixed route, StationLink, and Express Bus services. The OCTA Board of Directors (Board) approved the Agreement between OCTA and MV on April 27, 2009, in an amount not to exceed \$33,702,256, for contracted fixed route, StationLink, and Express Bus services for an initial four year term beginning July 1, 2009, with two, one-year option terms.

MV operates the services under this Agreement from OCTA's Sand Canyon base in Irvine. OCTA provides the facility, the buses, and the fuel, as well as, the facility maintenance, landscape, and janitorial services. MV recruits, hires, and trains personnel, including the administrative staff, bus operators, and mechanics necessary to operate the service. MV is a privately held company with headquarters in Fairfield, California.

The Agreement is administered by the Transit Division, Community Transportation Services (CTS) Department, which includes a department manager, section manager, senior maintenance field administrator, field administrator, and a community transportation coordinator.

The average monthly cost of this Agreement for the first twenty months from July 2009 through February 2011, is \$575,700 per month for a total of \$11,514,005.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Review of MV Transportation, Inc. Agreement No. C-8-1326, Contracted
Fixed Route, StationLink, and Express Bus Services
September 2, 2011**

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of this review was to determine the adequacy of management oversight of the Agreement with MV and to ensure that services invoiced to OCTA are properly supported and within the terms of the Agreement. The scope of the review included the period from inception of the Agreement in July 2009 through February 2011. The review methodology included, but was not limited to, the following:

- Review of Agreement and Amendment No. 1. July 1, 2009
- Interviews with OCTA's department manager of Community Transportation Services (CTS), section manager, senior maintenance field administrator, field administrator, and community transportation coordinator
- Interview with OCTA's business unit analyst within the Operations Analysis group of the Transit Programs Department
- Review of compliance with Disadvantaged Business Enterprise and drug and alcohol requirements
- Review of compliance with vehicle maintenance requirements
- Review of compliance with insurance and performance bond requirements
- Review of compliance with the OCTA unclassified revenue standard
- Review of a sample of paid invoices and supporting documentation
- Review of compliance with mechanics' qualifications and training requirements
- Review of the most recent Terminal Inspection Report by the California Highway Patrol

This review was conducted 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Review of MV Transportation, Inc. Agreement No. C-8-1326, Contracted
Fixed Route, StationLink, and Express Bus Services
September 2, 2011**

Audit Comments, Recommendations and Management Responses

Noteworthy Accomplishments

The majority of the revenue hours that are invoiced each month are based on scheduled hours included in the Agreement and any additional service that OCTA requests during the course of the month. OCTA radio dispatch notifies CTS staff on a daily basis of any additional hours or missed trips. CTS staff track these adjustments so that monthly invoices can be verified for accuracy.

Unclassified Farebox Revenue

MV is not in compliance with Agreement terms related to maintaining the unclassified revenue percentage within OCTA standards.

Unclassified revenue relates to monetary deposits to the farebox that are not properly recorded. For example, when a passenger inserts money into the farebox, if the operator does not press the proper farebox key, or no key is pressed, the revenue will be identified in the GFI Genfare (GFI) farebox application as unclassified revenue.

The Agreement requires MV to train all operators on proper GFI farebox usage and to maintain the unclassified revenue percentage at, or below, OCTA's standard of 2.35 percent per month. MV's unclassified revenue percentage has ranged from 3.32 percent to 7.95 percent per month for the first twenty months of the Agreement.

Recommendation 1:

Internal Audit recommends that CTS develop a process to monitor compliance with this contract provision.

Management Response:

Unclassified revenue relates to the training of operators to properly utilize the GFI fare box to account for all passenger fare types. CTS has implemented a monitoring protocol which includes the review of fare activity reports identifying individual operators who require additional instruction on the proper fare box procedures. CTS staff will meet with MV management weekly to review reporting information and ensure compliance with standard.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Review of MV Transportation, Inc. Agreement No. C-8-1326, Contracted
Fixed Route, StationLink, and Express Bus Services
September 2, 2011**

Insurance Requirements

Review of insurance certificates on file noted that MV's 2010 and 2011 certificates did not reflect the minimum insurance requirements. The Agreement requires \$10,000,000 of automobile liability and \$2,000,000 of garage keepers liability insurance; however insurance certificates on file reflected \$2,000,000 for automobile liability insurance and \$1,000,000 for garage keepers liability insurance. Follow up with MV's insurance agent confirmed that MV carries the required minimums; however the certificates were issued incorrectly.

Insurance certificate expiration dates are monitored by the Contract Administration and Materials Management (CAMM) Department. The CAMM Department requests that vendors provide updated certificates at the time of renewal; however, the certificates are not reviewed for compliance with Agreement terms.

Recommendation 2:

Internal Audit recommends that CAMM implement enhanced procedures to include review of these renewal certificates for compliance with the contract terms.

CAMM Management Response:

Management concurs with this recommendation. CAMM has updated their procedure for Insurance Requirements to include review of annual insurance certificates to ensure they comply with the minimum levels set forth in the contract.

Mechanics Training Requirements and Special Qualifications

The Agreement contains conflicting language with regard to Mechanics Training Requirements and Special Qualifications.

Under the Mechanics Training Requirements the contract states that mechanics training "...**should include** ASE [Automotive Service Excellence] certification training, vendor training, and maintenance safety training" and "...the training shall include **at a minimum:** Brake Inspection Certification training; electromagnetic braking systems (brake retarder) training; wheelchair lift and ramp manufacturers training; Hazmat [hazardous materials] and storm water training; alternative fuel system training....." While the language indicates that these training topics are required, discussion with both MV and OCTA management indicates that these training topics are desired but not required, and review of a sample of employee files indicates that these training topics are not all provided.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Review of MV Transportation, Inc. Agreement No. C-8-1326, Contracted
Fixed Route, StationLink, and Express Bus Services
September 2, 2011**

Under Special Qualifications, the Agreement states, “All mechanics shall meet the following **minimum** qualifications:

- **Prefer** automotive or medium/heavy truck ASE certifications in the following areas: brakes, compressed natural gas engines, steering/suspension, HVAC [heating, ventilation, and air conditioning], and electrical/electronics.
- “Air Conditioning certified...”

It is unclear from this language whether automotive or medium/heavy truck ASE certifications are required or preferred. Again, discussion with both MV and OCTA management indicates that these items are not required but desired, and review of a sample of employee files confirmed that not all employees hold these certifications.

Recommendation 3:

Internal Audit recommends that Agreement language be reviewed and amended as appropriate to properly outline required versus desired training and qualifications.

Management Response:

Concurrent with a future amendment to the Agreement with MV, contract language will be amended to outline the training and qualification requirements of technicians performing maintenance on Authority-owned vehicles.