



July 22, 2009

To: Finance and Administration Committee
From: Jim Kenan, Interim Chief Executive Officer
Subject: Review of Vanpool Program

Overview

The Internal Audit Department has completed a review of the Orange County Transportation Authority's Vanpool Program. Internal Audit provided four recommendations to improve contract management and strengthen internal controls. Management implemented one recommendation during the review and indicated the remaining three recommendations will be implemented or otherwise satisfactorily addressed.

Recommendation

Direct staff to implement recommendations made in the Review of Vanpool Program, Internal Audit Report No. 08-023.

Background

In July 2007, the Orange County Transportation Authority (OCTA) launched the Vanpool Program (Program) to offer commuters to worksites in Orange County a transportation option for their daily commute and to assist Orange County employers in meeting South Coast Air Quality Management District regulations. The Program, approved by the OCTA Board of Directors on June 11, 2007, was developed by OCTA's External Affairs Division and is managed by staff in its Marketing Department.

Vanpool service providers act as leasing agents to vanpools, providing vehicles through lease agreements. The vanpool's lease payment includes use of the vehicle, vehicle maintenance, and insurance. Each vanpool operates independently and maintains its own operating and financial records. OCTA offers a \$400 monthly subsidy per van, effectively reducing the amount of the monthly lease payment to vanpools. The subsidy is paid to the vanpool service providers after they submit monthly invoices summarizing the active vans in the program.

At December 31, 2008, there were 275 vans in the program serving 48 unique worksites. The monthly subsidy for 275 vans is \$110,000. OCTA developed a web-based Vanpool Program Reporting System to collect the data needed for National Transit Database reporting and to monitor compliance with Program requirements.

Discussion

The primary objective of the review was to determine that OCTA has implemented adequate monitoring and oversight of contracts with vanpool service providers. The scope of the review included a review of current Program policies and procedures and compliance with the terms of the agreements with vanpool service providers.

During the review, Internal Audit determined that subsidy payments made by OCTA for the Program are, with one minor exception, properly supported and consistent with the terms of the Agreements. Internal Audit has made recommendations related to compliance with automobile liability insurance and drug and alcohol contract requirements. Internal Audit also recommended enhancements to security over the Vanpool Program Reporting System.

Summary

Based on the review, Internal Audit offered four recommendations and management has indicated they have been, or will be, implemented.

Attachment

- A. Review of Vanpool Program, Internal Audit Report No. 08-023

Prepared by:

Kathleen M. O'Connell
Executive Director, Internal Audit
(714) 560-5669



INTEROFFICE MEMO

June 29, 2009

To: Ellen Burton, Executive Director
External Affairs Division

From: Gerry Dunning, Senior Internal Auditor
Internal Audit

A handwritten signature in purple ink, appearing to read "GD", is written over the name "Gerry Dunning" in the "From:" field.

Subject: **Review of Vanpool Program, Internal Audit Report No. 08-023**

Attached hereto is the Vanpool Program Review, Internal Audit Report No. 08-023. Management responses to the three recommendations made in the review have been incorporated into the attached final audit report. Internal Audit concurs with the responses.

Internal Audit appreciates the cooperation received during this review and will follow up on management's planned corrective action in six months.

Appendix: Vanpool Program Review, Internal Audit Report No. 08-023

c: Stella Lin
Sandy Boyle
Kathleen O'Connell

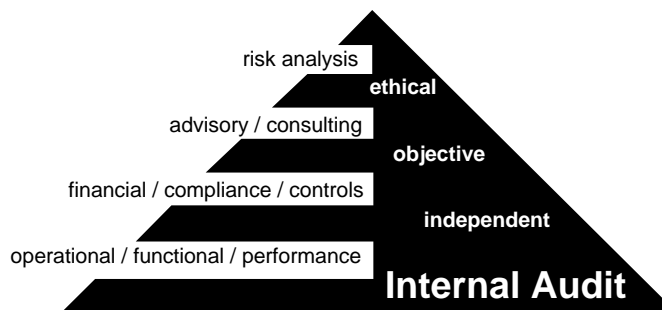
Orange County Transportation Authority Internal Audit Department



Review of Vanpool Program

INTERNAL AUDIT REPORT NO. 08-023

June 26, 2009



Internal Audit Team:

Kathleen M. O'Connell, CPA, Executive Director, Internal Audit
Gerald Dunning, CIA, CISA, CFE, Senior Internal Auditor
Charles Patterson, Intern, Internal Audit.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Review of Vanpool Program
June 26, 2009**

CONCLUSION	1
BACKGROUND.....	1
OBJECTIVES, SCOPE, AND METHODOLOGY	4
Noteworthy Accomplishments.....	5
Compliance with Alcohol and Drug Policy Requirements.....	5
Vanpool Service Providers Automobile Liability Insurance Requirements.....	6
Access to the Vanpool Program Reporting System.....	6
Monthly Subsidy Limit Exceeded for One Vanpool.....	7

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Review of Vanpool Program
June 26, 2009**

CONCLUSION

The Internal Audit Department (Internal Audit) has completed a review of the Orange County Transportation Authority's (OCTA) Vanpool Program (Program). The Program was implemented using third-party vanpool service providers through Agreement No. C-7-0272 with Enterprise Rent-A-Car Company (Enterprise), Agreement No. C-7-0734 with Midway Rent-A-Car Company (Midway), and Agreement No. C-7-0735 with VPSI, Inc. (VPSI) (collectively, Agreements).

Based on this review, Internal Audit has determined that subsidy payments made by OCTA for the Program are, with one minor exception, properly supported and consistent with the terms of the Agreements. However, Internal Audit has made recommendations related to compliance with automobile liability insurance and drug and alcohol contract requirements. Internal Audit also recommended enhancements to computer security.

BACKGROUND

In July 2007, OCTA launched the Program to offer commuters to worksites in Orange County a transportation option for their daily commute and to assist Orange County employers in meeting South Coast Air Quality Management District regulations. The Program, approved by the OCTA Board of Directors on June 11, 2007, was developed by OCTA's External Affairs Division and is managed by staff in its Marketing Department.

Vanpool Service Providers

When the Program was launched in July 2007, OCTA contracted with three vanpool service providers, including Enterprise, Midway, and VPSI, to provide vehicles and other services for the program. In January 2008, Midway requested removal from the list of providers due to lack of participation and were removed through a contract amendment effective May 30, 2008.

The vanpool service providers act as leasing agents to vanpools, providing vehicles through lease agreements. The vanpool's lease payment includes use of the vehicle, vehicle maintenance, and insurance. The monthly lease ranges from \$750 to \$1,750, depending on the type and size of the vehicle and its daily mileage. OCTA provided seed funding for the startup of the Program using funding provided through the Congestion Mitigation and Air Quality (CMAQ) improvement program. OCTA includes vanpool statistics in the National Transit Database (NTD). NTD transit data forms the basis for generating Federal Section 5307 grant funding. Based on federal apportionments rates, OCTA is expected to receive Federal Section 5307 funding at a rate of slightly more than two dollars for every dollar expended on the Vanpool Program. These funds will be received approximately 18 months following the completion of the first fiscal year of operation.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Review of Vanpool Program
June 26, 2009**

Vanpool Operations

Each vanpool operates independently and maintains its own operating and financial records. Costs, including the subsidized monthly lease payment, fuel, car washes, parking fees, and toll road costs are accumulated and allocated to each participant. Generally, there is a primary driver and a backup driver for each vehicle. Drivers may get a reduced allocation of the total monthly cost in exchange for their service. In some cases, employers provide additional subsidies to encourage ridesharing or they may assist in the coordination of the vanpools.

Financial Subsidies

OCTA offers a \$400 monthly subsidy per van, effectively reducing the amount of the monthly lease payment to vanpools. The subsidy is paid to the vanpool service providers after they submit a monthly invoice summarizing the active vans in the program.

Based on the Agreements with the vanpool service providers, OCTA's target is to subsidize 20 to 30 percent of total vanpool operating costs including the monthly lease, fuel, car washes, parking fees, and toll road costs. The Agreements state that in no case shall the subsidy amount paid by OCTA exceed 50 percent of the total monthly lease for each van.

For fiscal year (FY) 2007-08, the total subsidy to the Program was \$670,519. Of this, \$451,733 was paid to VPSI, \$214,506 was paid to Enterprise, and \$4,280 was paid to Midway. At June 30, 2008, there were 205 vans in the program. The program continues to grow and at December 31, 2008, there were 275 active vans serving 48 unique worksites. The monthly subsidy for 275 vans brings the monthly total to \$110,000.

OCTA Developed Program Guidelines

OCTA's Vanpool Program guidelines require that vehicles accommodate a minimum of 7 and no more than 15 people. In order to receive subsidy payments, vanpools must have a minimum of 80 percent of the available seats filled to be accepted in the program. This minimum criteria requires a ten-passenger van to have at least eight riders to be accepted in the program. After the van is accepted in the program, a ten-passenger van must maintain a minimum of six riders, or 60 percent of the available seats to be eligible for the subsidy. Vehicles that fail to fill at least 60 percent of available seats for three consecutive months may be changed to a more appropriately sized vehicle or terminated from the Program. Monthly reports allow the Program to monitor the actual attendance for each trip taken by each rider in the van. The attendance records show the name of each rider and reports by month and day if they rode to work and rode home on the van. This information is reported on the web-based Vanpool Program Reporting System, each month, by each vanpool.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Review of Vanpool Program
June 26, 2009**

The vanpool service providers send monthly reports to OCTA on the vans being leased. The service providers facilitate the application process for new vans and any changes to existing vans. Vanpools are also required to be open to the public and must accept any person wishing to join the vanpool provided work schedules and routes are compatible.

National Transit Database and Program Reporting

OCTA includes vanpool statistics in the NTD. NTD transit data forms the basis for generating Federal Section 5307 grant funding. Based on federal apportionments rates, OCTA is expected to receive Federal Section 5307 funding of at least \$1,533,486 for FY 2007-08 against subsidy payments of only \$670,519. This is the result of the private sector contribution to the Program operating cost and results in OCTA receiving the equivalent of more than 200 percent return for every dollar paid in subsidy.

OCTA, with the assistance of a third-party contractor, developed a web-based Vanpool Program Reporting System (System) to collect the data needed for NTD reporting and to monitor compliance with Program requirements. The System allows collection of data from multiple sources. Individual vans report data to OCTA on a monthly and annual basis. On a monthly basis, vanpools must report the passengers' trips for both inbound and outbound trips and a summary of unreimbursed expenses, including fuel, car washes, parking fees, and toll road costs. Vanpool service providers do not have access to the System.

Insurance Requirements

The vanpool service providers have specific insurance requirements including commercial general liability, automobile liability, workers' compensation, and employers' liability. Proof of the required insurance coverage is required at the initiation of each Agreement and on an annual basis thereafter.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Review of Vanpool Program
June 26, 2009**

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of this review was to determine that OCTA has implemented adequate monitoring and oversight of Agreements with vanpool service providers. The scope of the review included the period from inception of the program in July 2007 through June 30, 2008. The review included verifying and testing current operating policies and procedures as well as testing compliance with the terms of the Agreements and testing paid invoices for the fiscal year ended June 30, 2008, for compliance with the terms of the Agreements. The review methodology included, but was not limited to, the following:

- Interview of the OCTA Vanpool Program Manager
- Review of Vanpool Program policies and procedures
- Review of contracts and amendments with vanpool service providers
- Review of information on the vanpool program reporting system
- Testing of paid invoices and supporting documentation
- Testing of liability insurance required by the vanpool service providers
- Review of alcohol and drug policies required by the vanpool service providers
- Testing of the reports required by the vanpool service providers
- Site visits and interviews of Enterprise and VPSI staff to review the invoice preparation process

This review was conducted in accordance with Generally Accepted Government Auditing Standards, except for the triennial peer review requirement, which has not yet been fulfilled. 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 Vanpool Program
June 26, 2009**

Audit Comments, Recommendations and Management Responses

Noteworthy Accomplishments

The Program has grown from its inception in June of 2007, to 275 vans in December of 2008. During this time, the Program has employed three vanpool service providers, engaged at least forty-eight Orange County employers, processed several hundred individual van applications, and assisted several thousand individual vanpool riders in their commute to and from work. According to management, the Program is on track to return more than two dollars for every dollar invested when the Federal Section 5307 funding is received. Considering this is a relatively new Program with new service providers and a new System, Internal Audit is reporting only a few minor findings.

The External Affairs Division and its Marketing Department have done an excellent job of establishing a new Program that has a goal of getting drivers out of their cars and into vanpools. At the same time, the Program has developed an efficient on-line internet based application to capture the data needed to do required reporting. This application allowed the Program to be “green” from the start by reducing the amount of paper files required to support the reporting requirements.

Internal Audit noted that policies and procedures for the Program were developed in February 2007, and have been revised as needed during the course of startup of the Program. Having written policies and procedures ensures that the Program is administered in a consistent and appropriate manner. It also provides guidance to staff for training purposes.

Compliance with Alcohol and Drug Policy Requirements

The Agreements with Enterprise and VPSI require that the vanpool service providers establish and implement a drug and alcohol program that complies with 49 Code of Federal Regulations Part 655. This regulation requires that the contractors have a drug and alcohol-testing program in place for all safety-sensitive employees. The Agreements require that the vanpool service providers certify their compliance annually.

Through review of the Agreements and interviews of the OCTA Vanpool Program Manager and Enterprise and VPSI staff, Internal Audit determined that neither provider has a drug and alcohol program that complies with 49 Code of Federal Regulations Part 655. The providers indicated that they do not have any safety-sensitive employees. The vanpool drivers for the 275 vans are volunteers and are specifically excluded from this regulation according to the Federal Transit Administration.

It appears that the requirement to establish and implement a drug and alcohol program that complies with 49 Code of Federal Regulations Part 655 may not be appropriate for these Agreements.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Review of Vanpool Program
June 26, 2009**

Recommendation 1: Internal Audit recommends that the Vanpool Program Manager consult with the Contracts Administration and Materials Management Department, legal counsel, or other appropriate OCTA departments to determine if this requirement is appropriate for these Agreements and amend the contract as appropriate.

Management Response: Management concurs. A requisition to change the Drug and Alcohol requirements to comply with 41 U.S.C. sections 701-707 (the Drug Free Workplace Act of 1988) which was approved by legal counsel in October 2008 for all OCTA federally funded contracts has been processed.

Vanpool Service Providers Automobile Liability Insurance Requirements

VPSI has not met the Agreement requirement for automobile liability insurance.

The VPSI Agreement includes a requirement that the vanpool service provider carry \$5,000,000 of automobile liability coverage and provide proof of this insurance to OCTA's Contracts Administration and Materials Management (CAMM) Department. The certificate of insurance for VPSI indicates that they have \$3,000,000 in total automobile liability coverage.

Recommendation 2: Internal Audit recommends that VPSI be required to provide the insurance coverage required by the Agreement.

During the course of the audit, Program management requested that proof of the required insurance be provided and it was provided by VPSI. No additional action or response is needed from Program management.

Access to the Vanpool Program Reporting System

One password and one user identification (I.D.) are being used for all Vanpool Program administrative staff at OCTA. The System is not capable of assigning unique user I.D.'s and passwords for the administrative users at OCTA. To ensure adequate controls over system access and input, the System should have the ability to track user activity through unique user I.D.'s and passwords.

OCTA Access Control Security Policy #900.07, Section V.E.2. states, "All users and systems shall be uniquely identified and authenticated to OCTA networks, network devices, operating systems, and applications."

Recommendation 3: Internal Audit recommends that the System be enhanced to include the capability to have unique user I.D.'s and passwords for all administrative users. The System should comply with the Access Control Security Policy, Policy #900-07.

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Review of Vanpool Program
June 26, 2009

Management Response: Management concurs. The vanpool on-line reporting tool was created by a consultant. During the development of the system, staff requested that multiple user names and passwords be established. The consultant informed staff that it was not possible for the system to have multiple administrators. Staff is currently working with OCTA Information System (IS) staff who believe it is possible to set up multiple administrators. However, implementing this recommendation will require changes to program source coding provided by the contractor. IS would like us to defer implementation of this request until they have developed competencies in manipulating the source code. Expected timeline for implementation is less than 12 months.

Monthly Subsidy Limit Exceeded for One Vanpool

The \$400 monthly subsidy amount exceeded the program guidelines for Vanpool #277. The monthly van lease charge by the vanpool service provider is \$750 per month for this van. This puts the subsidy percentage at 53.33 percent, or \$25 per month over the contract limit.

Recommendation 4: Internal Audit recommends that the monthly subsidy for this van be reduced to meet the program guidelines. The guidelines require the subsidy amount paid by OCTA not exceed 50 percent of the total lease charge for each van unit.

Management Response: Management concurs that the Scope of Work for the vanpool contracts did contain this limit however the intent of the program, as approved by the Board, was a flat \$400/monthly subsidy. A requisition to revise the Scope of Work for the vanpool contracts has been processed. The revision replaces the 50 percent limit with the flat subsidy of \$400 per month.