



September 26, 2012

To: Finance and Administration Committee
From: Will Kempton, Chief Executive Officer
Subject: Review of the Transit Division Schedule Check Function and the Agreement with Southland Car Counters, Incorporated

Overview

The Internal Audit Department has completed a review of the Orange County Transportation Authority schedule check function of the Service Planning and Customer Advocacy Department of the Transit Division.

Based on the review, the Internal Audit Department has determined that controls over the collection and recording of fixed-route trip data are generally adequate; however, recommendations have been made to improve invoice review and to ensure that the consultant is providing required supervision of staff. In addition, the Internal Audit Department is recommending management consider automating the data collection process.

Recommendation

Direct staff to implement recommendations provided in the Review of the Transit Division Schedule Check Function and the Agreement with Southland Car Counters, Incorporated, Internal Audit Report No. 13-512.

Background

The primary objectives of the schedule check function are to document bus passenger loads, observe bus running times, record the type and amount of fare paid, comply with mandatory Federal Transit Administration National Transit Database reporting requirements, and report any additional information that would assist in improving operations and service planning. Information collected is used to make running time adjustments and to adjust trip distribution to help equalize passenger loads. The data is also used to measure the effectiveness of previous schedule and/or route adjustments.

The Orange County Transportation Authority (OCTA) employs a senior schedule checker to administer the work of both OCTA staff and contractor staff. Schedule checks are performed by one full-time and three part-time OCTA staff, and by part-time staff of Southland Car Counters, Incorporated (Southland). Southland also provides one full-time data entry person, one supervisor, and one project manager.

Discussion

The review found that for the first six months of 2011, Southland continued to charge hourly rates and other charges applicable to a contract that expired in December 2010, rather than using the pricing in the new agreement. As a result, OCTA was undercharged for labor hours and overcharged for medical and communication charges. The Internal Audit Department (Internal Audit) recommended that management recover \$6,500 due to OCTA, and that project management and Accounts Payable staff be provided additional training related to review of invoices. Management responded that the amount was recovered and that staff would be provided additional training.

Internal Audit noted that the agreement with Southland requires that supervisor reports be provided to OCTA to evidence their supervision of staff. OCTA pays approximately \$3,600 per month for project management; however, no supervisor reports are provided. Internal Audit recommended that management ensure supervisor reports are received as required. Management responded that the reports have been reinstated and are being reviewed and retained.

The current process of schedule checks is performed manually using pre-printed paper check sheets, bus run summary reports, and street corner check sheets. The sheets are completed by hand and then entered into the Passenger Counting and Reporting database by an employee of Southland. OCTA pays \$37,565 per year for these data entry services. Internal Audit recommended that management consider automating the data collection process utilizing a tablet or handheld device to reduce manual errors and to save costs.

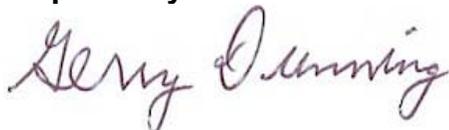
Summary

Based on the review, Internal Audit has determined that controls to ensure the accurate collection and recording of trip data are generally adequate; however, recommendations have been offered to improve invoice review and to ensure required reports are obtained. Internal Audit also recommended that management consider automating the data collection process.

Attachment

- A. Review of the Transit Division Schedule Check Function and the Agreement with Southland Car Counters, Incorporated, Internal Audit Report No. 13-512.

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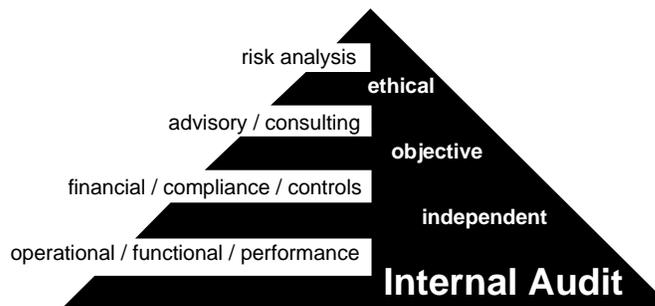
Orange County Transportation Authority Internal Audit Department



Review of the Transit Division Schedule Check Function and the Agreement with Southland Car Counters, Incorporated

INTERNAL AUDIT REPORT NO. 13-512

September 13, 2012



Internal Audit Team:

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CONCLUSION

The Internal Audit Department (Internal Audit) has completed a review of the Orange County Transportation Authority (OCTA) schedule check function of the Service Planning and Customer Advocacy (SPCA) Department of the Transit Division. The primary purpose of the review was to determine the adequacy of controls in place for collecting and recording fixed route trip data and to assess the adequacy of oversight of a related agreement with Southland Car Counters, Incorporated (Southland).

Based on this review, Internal Audit has determined that controls to ensure the accurate collection and recording of trip data are generally adequate; however, recommendations have been made to improve invoice review and to ensure that Southland is providing required supervision of staff. In addition, Internal Audit is recommending management consider automating the data collection process.

BACKGROUND

The primary objectives of the schedule check function are to document bus passenger loads, observe bus running times, record the type and amount of fare paid, comply with mandatory Federal Transit Administration (FTA) National Transit Database (NTD) reporting requirements, and report any additional information that would assist in improving operations and service planning. Information collected is used to make running time adjustments (RTA) and to adjust trip distribution to help equalize passenger loads. The data is also used to measure the effectiveness of previous schedule and/or route adjustments.

Schedule checks involve three tasks: on board ride checks, FTA random schedule checks, and street corner checks. On board ride checks are performed regularly and include the collection of passenger loads, running times, and fare media. FTA random schedule checks collect data for NTD reporting purposes. Street corner checks collect data on ridership and time checks at a particular location such as the Orange County Fair to determine the level of usage of the special fair service.

The current process of schedule checks is performed manually using pre-printed paper check sheets, bus run summary reports, and street corner check sheets. The sheets are completed by hand and then entered into the Passenger Counting and Reporting (PCR) database by an employee of Southland.

OCTA employs one full-time senior schedule checker to administer the work of both OCTA staff and contractor staff. Schedule checks are performed by one full-time and three part-time OCTA staff, and by part-time staff of Southland. Southland provides approximately 12 part-time schedule checkers, one full-time data entry person, one supervisor, and one project manager.

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The current agreement with Southland commenced on January 1, 2011, for a two year term with a maximum obligation of \$465,100. Payments through June 2012, totaled \$333,765.97, for an average of \$18,542.55 per month.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of this review was to determine the adequacy of controls in place for collecting and recording trip data and to assess the adequacy of oversight of the related contract with Southland. The scope of the review included all payments made on Agreement No. C-0-1706 (Agreement) from the effective date of the Agreement on January 1, 2011 through June 30, 2012. The review methodology included, but was not limited to, the following:

- Interview of OCTA's section manager and senior schedule checker to obtain an overview of the schedule check process;
- Review of Agreement between OCTA and National Data & Surveying Services, Doing Business As Southland Car Counters, Incorporated, to identify contract requirements;
- Review of Procedures Manual For Schedule Checkers - Revised January 15, 2009, to identify procedures and controls;
- Review of all paid invoices to determine compliance with contract terms and to verify evidence of review and approval;
- Review of a sample of invoices to determine that hours invoiced agreed to the scheduled hours;
- Review of documentation related to supervisor oversight of Southland employees.

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

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Audit Comments, Recommendations and Management Responses

Invoice Review

For the first six months of 2011, Southland continued to charge hourly rates and other charges applicable to a contract that expired in December 2010, rather than using the pricing in the new Agreement. As a result, OCTA was undercharged for labor hours and overcharged for medical and communication charges. In July 2011, Southland realized the errors and began using the correct hourly rates and ceased the medical and communication charges. Southland also included an adjustment on the July 2011 invoice to recover \$1,842 in revenues resulting from undercharging labor hours; however, an adjustment to credit OCTA for \$6,500 in medical and communication overcharges was not included.

In addition, the April 2012 invoice included parking charges of \$18.75 that are not allowable per the Agreement. Also, the first invoice under the new Agreement term was approved for payment against the prior Agreement No. C-7-1115, that had expired.

The OCTA section manager and senior schedule checker in SPCA review and approve all invoices. In addition, the OCTA Accounts Payable Invoice Review Policy requires Accounts Payable staff to verify billing rates on the first invoice of a contract and randomly thereafter, and to initial next to the rates to evidence review. None of the invoices reflected evidence of review by Accounts Payable staff.

Recommendation 1:

Internal Audit recommends management recover the amounts owed to OCTA and enhance project management review procedures to include review of the rates and other charges included on each invoice.

In addition, Internal Audit recommends that both project management and Accounts Payable staff be provided additional training on reviewing contract invoices to ensure that rates and other charges comply with contract terms.

Management Response (Transit Division):

Upon notification in July 2012, Southland provided two overcharge credits of \$6,500 for medical/communications and \$18.25 for parking.

The Section Manager III and Senior Schedule Checker in SPCA will be provided additional training on reviewing contract invoices to ensure rates and other charges comply with contract terms. In order to provide additional support in this area, the Section Manager II responsible for monitoring SPCA budget matters will be trained as well.

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Management Response (Finance and Administration Division):

Management agrees with the recommendation. A reimbursement from Southland totaling \$6,500 was applied to an invoice received on August 15, 2012.

On September 6, the Accounts Payable supervisor provided staff with additional training on reviewing contract invoices. The Accounts Payable supervisor will also review the first invoice payment against all new contracts (with rates) executed between September 1 and December 31, 2012, to ensure compliance.

Supervisor Reports Not Provided

Southland is not providing OCTA with monthly supervisor reports as required by the Agreement.

The Agreement requires Southland to have supervisors in the field to observe checkers at random times and in random locations and to submit to OCTA a supervisor report that identifies the checkers observed, their locations and times, and verification that data is being accurately recorded. OCTA pays approximately \$3,600 per month for project management but does not receive any evidence of required supervisory efforts.

Recommendation 2:

Internal Audit recommends that OCTA management require evidence of supervision be provided by Southland. These reports should be reviewed by the project manager, initialed, and retained for a reasonable period of time.

Management Response (Transit Division):

OCTA management worked with Southland to reinstate the supervisor reports as required by the contract. The first report was completed for the week ending August 3, 2012. The reports will be retained for a minimum of two years.

Consider Automating the Schedule Check Function

The current process for collecting trip data is a manual process whereby the schedule checker records data by hand on data collection sheets. Information recorded on the data collection sheets is then keyed into the PCR database by an employee of Southland.

According to information systems personnel, the PCR application may have the capability to run using a remote access device, such as a tablet or hand held device.

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Recommendation 3:

Internal Audit recommends that management consider automating the data collection process. If data can be collected and entered into the PCR application from the field, the data entry process can be eliminated and the possibility of manual errors reduced. The current annual cost of data entry by the Southland employee is approximately \$37,565. In addition, if data is entered in real time, it can be made available sooner for use by the scheduling section and others that have a need for the most current information.

Management Response (Transit Division):

Automated data collection and entry processes are used by other transit properties and management agrees this recommendation should be considered. OCTA staff from SPCA, Information Systems, Transit Programs Management, and Planning will be assembled to discuss the future implementation of this recommendation. This will require consideration of the priority of this project compared with other technology efforts underway, financial resources to implement and maintain this type of system, and whether staff resources exist to both implement and support the ongoing maintenance and operation of such a system.