



October 15, 2010

To: Finance and Administration Committee
From: Will Kempton, Chief Executive Officer
Subject: Review of Bridgestone/Firestone Agreement No. C-4-1065 Bus Tire Lease and Services

Overview

The Internal Audit Department has completed a review of the Orange County Transportation Authority's agreement with Bridgestone/Firestone to provide bus tire lease and services. Internal Audit provided one recommendation to improve contract management and strengthen internal controls. Management has indicated that the recommendation has been implemented.

Recommendation

Receive and file Review of Bridgestone/Firestone Agreement No. C-4-1065, Bus Tire Lease and Services, Internal Audit Report No. 09-014.

Background

The Orange County Transportation Authority (OCTA) Board of Directors (Board) approved Agreement No. C-4-1065 (Agreement) between OCTA and Bridgestone/Firestone on April 25, 2005, in an amount not to exceed \$10,238,647, for the lease of tires and full-service tire maintenance for an initial three-year term with two one-year options. The two one-year options were exercised and the contract expired April 30, 2010. On March 22, 2010, during the course of Internal Audit's review, a new agreement (C-9-0766) with Bridgestone/Firestone was approved by the Board. The new agreement is in an amount not to exceed \$10,649,375, for the five-year period May 1, 2010 through April 30, 2015.

The Agreement provided for a fixed rate per mile for tires. There were also fixed rates for painting steel wheels and a monthly labor charge for Bridgestone/Firestone staff to change and balance wheels, keep tires inflated to recommended pressure, and make repairs to tires to keep them in proper operating condition.

Discussion

The objective of the review was to determine that OCTA has implemented adequate monitoring controls to ensure services invoiced by Bridgestone/Firestone were supported and within the terms of the Agreement. The scope of the review included an evaluation of current policies and procedures and testing of compliance with the terms of the Agreement.

During the course of the review, Internal Audit noted that Bridgestone/Firestone staff was not signing in or out at the Construction Circle or Sand Canyon bases. Because the Agreement requires certain staffing levels for a fixed monthly fee, there should be controls in place to monitor compliance similar to the process used at the Anaheim, Santa Ana, and Garden Grove bases. Internal Audit recommended that the Transit Division ensure that Bridgestone/Firestone staff sign in and out at the Construction Circle and Sand Canyon bases as well, and that these records be reviewed prior to invoice approval. Transit Division management implemented these controls during the course of the review and Internal Audit verified that the controls were in place and operating effectively. As such, Internal Audit has closed out the finding.

Summary

Based on a review of the contract between OCTA and Bridgestone/Firestone for the provision of tires and related services, Internal Audit recommended that the Transit Division require Bridgestone/Firestone staff to sign in and out at all bases and that these records be reviewed prior to invoice approval. Management has implemented the recommendation and Internal Audit has closed out the finding.

Attachment

- A. Review of Bridgestone/Firestone Agreement No. C-4-1065, Bus Tire Lease and Services

Approved by:



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

Orange County Transportation Authority Internal Audit Department



Review of Bridgestone/Firestone Agreement No. C-4-1065 Bus Tire Lease and Services

INTERNAL AUDIT REPORT NO. 09-014

September 27, 2010



Internal Audit Team:

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

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Review of Bridgestone/Firestone
Agreement No. C-4-1065
Bus Tire Lease and Services
September 27, 2010**

CONCLUSION	1
BACKGROUND	1
OBJECTIVES, SCOPE, AND METHODOLOGY	3
Noteworthy Accomplishments	4
Procedure for Monitoring Tire Contract Staff	4

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Review of Bridgestone/Firestone
Agreement No. C-4-1065
Bus Tire Lease and Services
September 27, 2010**

CONCLUSION

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed a review of Agreement No. C-4-1065 between OCTA and Bridgestone/Firestone North American Tire, LLC (Bridgestone/Firestone) for bus tire lease and services. The purpose of the review was to verify that services invoiced to OCTA under the Agreement are supported and within the terms of the Agreement.

Based on this review, Internal Audit has offered one recommendation to improve contract management by monitoring contractor staff availability.

BACKGROUND

The Internal Audit Plan for fiscal year 2009-10 included a review of the Bridgestone/Firestone tire lease and service agreement for bus tires.

OCTA's Board of Directors (Board) approved Agreement C-4-1065 (Agreement) between OCTA and Bridgestone/Firestone on April 25, 2005, in an amount not to exceed \$10,238,647, for the lease of tires and full service tire maintenance for an initial three-year term of May 1, 2005 through April 30, 2008, with two one-year option terms. The two one-year options were executed and the contract expired April 30, 2010.

On March 22, 2010, during the course of this review, a new agreement (C-9-0766) with Bridgestone/Firestone was approved by the Board. The new agreement is in an amount not to exceed \$10,649,375, for the five year period May 1, 2010 through April 30, 2015.

The Agreement provided for a fixed rate per mile for tires. The rate per mile depends on tire size and varied from .004568 to .007085 per mile for the first year. There were also fixed rates for painting steel wheels, and a monthly labor charge for Bridgestone/Firestone staff to perform wheel changes, balance front wheels, keep tires inflated to recommended pressure, and make repairs to tires to keep them in proper operating condition.

Staffing required by the Agreement included nine tire technicians and one supervisor. The staffing included two tire technicians each at Anaheim, Garden Grove, Irvine-Sand Canyon and Santa Ana bases. There is one service worker at Irvine-Construction Circle West and one supervisor for a total of ten Bridgestone/Firestone staff.

The Agreement was managed by staff in the Transit Division, Maintenance Resource Management (MRM) Section. The OCTA Project Manager coordinated scope-of-work changes, amendments to the Agreement and addressed any other problems that arose. The new contract with Bridgestone/Firestone operates similarly.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Review of Bridgestone/Firestone
Agreement No. C-4-1065
Bus Tire Lease and Services
September 27, 2010**

The EJ Ward Fuel Management System (EJ Ward) provides odometer readings generated through a transponder at OCTA fuel islands in Anaheim, Garden Grove, and Santa Ana. A spreadsheet is developed from the EJ Ward data and is maintained by staff in MRM for tracking tire mileage. OCTA staff provides the mileage to Bridgestone/Firestone on a monthly basis for their use in preparing invoices.

Odometer readings for paratransit service buses managed by Veolia Transportation Services, Inc. (Veolia) and contracted fixed route, Stationlink, and Express buses managed by MV Transportation, Inc. (MV) at the Irvine bases are provided to OCTA Community Transportation Services (CTS) staff by Veolia, and MV OCTA CTS staff reviews the mileage prior to sending the information to MRM staff for inclusion in the invoice data. CTS staff monitors the mileage to ensure that maintenance required by the agreements with Veolia and MV is performed on OCTA buses according to the specified mileage increments in the agreements. They review the monthly mileage report before it is provided to MRM staff for inclusion in the spreadsheet that summarizes monthly odometer readings for tire mileage.

The number of tires in use varies from month to month and was approximately 6,500 in January 2010. The average monthly mileage invoiced for the twenty months ending December 2009 was 16,672,560 miles and the average cost per month for the mileage portion of the agreement for this period was \$108,719. The monthly cost for Bridgestone/Firestone staff was \$56,719 effective July 1, 2009. The average total monthly cost of the Agreement was \$175,580 for the twenty months ending December 2009.

For the period May 2008 through December 2009, the mileage portion of Agreement costs was approximately 62 percent and staffing was approximately 29 percent of the monthly cost. The labor charges are based on a fixed monthly rate for a fixed staffing level for all five bases. The balance of approximately 9 percent of the agreement costs were for damaged tires, sold tires, tax, recycling fees, and painting of rims.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Review of Bridgestone/Firestone
Agreement No. C-4-1065
Bus Tire Lease and Services
September 27, 2010**

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of this review was to determine that OCTA has implemented adequate monitoring and oversight of the Agreement with Bridgestone/Firestone to verify that services invoiced to OCTA were supported and within the terms of the Agreement. The scope of the review was the period May 2008 to December 2009. The review methodology included, but was not limited to, the following:

- Interview of OCTA Transit Division MRM staff managing the Agreement
- Interview of OCTA Transit Division CTS staff managing the agreements with Veolia and MV Transit at the two Irvine bases
- Review of the Agreement and all amendments to determine allowable costs and other requirements
- Testing of paid invoices and supporting documentation
- Review of the implementation of recommendations from a prior audit
- Review of the invoice preparation process
- Testing of mileage invoiced by month through comparison to the EJ Ward Fuel Management System data
- Review of the Invitation for Bids (IFB) for Agreement C-9-0766

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

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Review of Bridgestone/Firestone
Agreement No. C-4-1065
Bus Tire Lease and Services
September 27, 2010**

Audit Comments, Recommendations and Management Responses

Noteworthy Accomplishments

Internal Audit noted during this review that MRM staff provides the majority of the detail information to Bridgestone/Firestone for their preparation of invoices. Odometer readings are automatically recorded by a transponder at OCTA fuel islands and mileage information is tracked by OCTA's EJ Ward Fuel Management System for buses at the Santa Ana, Garden Grove, and Anaheim bases. The mileage for CTS buses at the two Irvine bases is from odometer readings monitored by OCTA CTS staff managing contracts with Veolia and MV.

OCTA's involvement in the collection of data for preparation of invoices serves as a good control over these expenditures. In addition, both OCTA's Maintenance and CTS staff monitor compliance with tire service requirements on a regular basis to ensure that OCTA pays for only services provided.

Procedure for Monitoring Tire Contract Staff

The Agreement requires certain Bridgestone/Firestone staffing levels to ensure prompt and reliable tire service. Bridgestone/Firestone employees are required by the Agreement to check in and out with an OCTA supervisor at each base at the beginning and end of their shift. OCTA's primary means of verifying that staffing is maintained at required levels is through a sign in/out mechanism.

Sign in/out sheets for Bridgestone/Firestone staff are not being maintained at the Irvine, Sand Canyon and the Irvine, Construction Circle Bases. This finding is repeated from an audit in 2006 and MRM indicated at that time it would incorporate a sign in/out program for tire contract employees.

Recommendation: Internal Audit recommends that the Transit Division comply with the sign in/out monitoring procedures at all five OCTA bases where Bridgestone/Firestone staff work. Internal Audit also recommends that the sign in/out sheets be forwarded to the MRM staff for review prior to approving monthly invoices for labor.

Action Taken: During the course of this review, MRM staff worked with Bridgestone/Firestone staff and OCTA contractor staff at the two Irvine bases to implement the use of sign in/out sheets. MRM staff now receive and review sign in/out sheets for all Bridgestone/Firestone staff prior to approving monthly invoices for labor. No additional response is required from Transit Division Management.