OCTA

September 13, 2017

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Contracted Fixed-Route Operations, Internal Audit Report No. 17-508

Overview

The Internal Audit Department has completed an audit of contracted fixed-route operations provided by First Transit, Inc. The audit found that, in April 2016, Transit Division management changed the threshold used to measure on time performance for both contracted and directly-operated fixed-route bus service. This change, which resulted in more favorable performance results, was not disclosed to the Board of Directors. In addition, penalties for failure to meet preventative maintenance standards and missed trips have been waived without adequate justification and documentation. Calculation errors in contract amendments and weaknesses in monitoring and enforcement of other contract requirements were also observed.

Recommendation

Direct staff to implement six recommendations provided in Contracted Fixed-Route Operations, Internal Audit Report No. 17-508.

Background

The Orange County Transportation Authority (OCTA) and First Transit, Inc. (First Transit) entered into Agreement No. C-4-1737 (Agreement) in June 2015, in an amount not to exceed $143,487,171. Under the Agreement, First Transit provides management and operation of fixed-route, StationLink, and Express Bus services. Amendments No. 2 and 3 added operation of iShuttle and expanded Project V services, with an increase to the maximum obligation of $3,476,956, and $1,838,402, respectively.

The Agreement establishes performance standards including standards for on-time performance (OTP), valid complaints, accidents, preventive maintenance, miles between road calls, and missed trips. Penalties and/or incentives are applied based on First Transit's achievement of performance standards. Additional requirements and standards not tied to penalties and/or incentives are also included in the Agreement.

Discussion

The contractual OTP standard requires buses to depart between zero minutes early and five minutes late, 85 percent of the time. Performance results for all transit services, including the OTP, are transmitted to the Transit Committee (Committee) and the Board of Directors (Board) on a quarterly basis. In January 2016, citing concerns with First Transit's performance, the Committee directed staff to provide monthly updates of performance results. Effective February 2016, Transit management directed a change to the OTP threshold from five minutes to five minutes and thirty seconds, resulting in a two percent improvement to OTP results. An update was presented to the Committee the day following the change; however, staff did not disclose this during the presentation, nor in ensuing monthly updates or quarterly performance reports provided to the Committee and the Board. During the period March through December 2016, the Internal Audit Department (Internal Audit) estimates that $13,000 in OTP penalties were avoided as a result of the change. Internal Audit recommended that performance standards be measured consistent with the Agreement or be processed as amendments to the Agreement, and Board notification and/or approval be obtained prior to the change. Management agreed and responded that the OTP measurement has been retroactively adjusted to reflect a zero to five minute window. Management also responded that any changes in methods used to collect data will be reported in the quarterly performance reports provided to the Board.

Additionally, penalties for failure to meet preventative maintenance (PMI) standards have been regularly waived without adequate justification and documentation. To date, Transit staff has not exercised the option to withhold payment of service hours operated with vehicles that have exceeded required PMI intervals. To monitor PMI performance, Transit staff selects and reviews records of about 20 vehicles per month. Although numerous vehicles were identified as exceeding the PMI intervals, staff assessed penalties only one month during the period from inception through December 2016. The Agreement states that the contractor may be given an opportunity to demonstrate that the failure could not have reasonably been prevented, and to provide documentation to support such claims; however, there was no documentation on file that First Transit requested the penalty waivers or the reasons that penalties were not assessed. Internal Audit recommended that management consistently apply penalties and consider non-payment of revenue hours for vehicles that exceed PMI intervals. Penalties should only be waived at First Transit's request and with adequate evidence demonstrating that the failures could not have reasonably been prevented. Management agreed to implement more consistent application of penalties and to document and justify the decisions. Management also indicated that the Agreement will be amended to allow for appropriate discretion with regard to penalty waivers.

Similarly, missed trip penalties of $16,000 related to Orange County (OC) Fair trips were waived without adequate justification. First Transit management had requested 12 of 14 missed OC Fair trips be waived, claiming that when they contacted OCTA Central Communications (CC) to report a lack of drivers, they were told "not to worry," and OCTA drivers completed the trips. First Transit acknowledged that the first two trips would have been missed by the time of the call, but implied that efforts to identify coverage for the remaining trips would have continued had OCTA not offered to cover the service. Review of OCTA CC recordings did not substantiate this assertion. On August 5, 2016, First Transit missed another two OC Fair trips. Penalties for these missed trips were also not assessed, and there was no waiver request or justification. Again, Internal Audit recommended that management consistently apply penalties and requests for penalty waivers include documentation to justify how the failures could not have reasonably been prevented. Management agreed to require written requests from the contractor as well as supporting documentation for penalties waived. Management also indicated that the contract will be amended to allow for appropriate discretion with regard to penalty waivers.

Internal Audit observed that staff erroneously incorporated fleet projections from the original request for proposal (RFP) into the final contract, rather than using updated fleet projections that had been issued through an RFP addendum. Also, contract Price Summary Exhibits, which reflect agreed-upon rates and costs, were not properly prepared to reflect updates resulting from contract amendments. Lastly, Internal Audit identified errors in the calculation of contract maximum obligation amounts for two amendments. The errors resulted in an overstatement of the contract maximum obligation of $285,581. Recommendations were made to ensure proper update to contract exhibits and review of final contract packages for inclusion of the latest attachments and/or exhibits. Management agreed to update contract exhibits as needed, and indicated that Contracts Administration and Materials Management (CAMM) staff reviews contracts and circulates them to requesting departments for review and concurrence prior to final execution.

First Transit’s performance bond amount was not increased with amendments as required, and the insurance certificate on file did not reflect all required coverage. Upon notice, First Transit obtained the required increases in the performance bond and provided evidence of adequate insurance coverage. Internal Audit recommended that CAMM develop monitoring procedures to ensure contract bond and insurance requirements are met. Management agreed and has taken steps to review and track bond and insurance documents for compliance with contract terms. Management also responded that a recently procured insurance brokerage services contract includes responsibilities for tracking of insurance certificates.

With regard to performance requirements that are not tied to penalties and/or incentives, Internal Audit also made recommendations for improvement. First, the Agreement requires an accident report be submitted within 24 hours of the time of an accident or incident, and that monthly summary reports be prepared and submitted. Review found that First Transit regularly fails to send all accident reports and identified two incidents that were omitted from a monthly report. Another requirement is that repair or replacement of major mechanical components be initiated only upon OCTA’s written approval; however, multiple instances of repairs being initiated prior to written approval were observed. Finally, First Transit did not meet the unclassified revenue percentage standard for eight of 19 months reviewed. To improve monitoring and compliance, Internal Audit recommended that accident reports be reconciled to monthly summary reports and that procedures be developed for progressive enforcement actions. Management agreed to conduct monthly reconciliations of accident reports. With regard to pre-approval of major mechanical repairs, management indicated that contract language will be amended to eliminate the pre-approval requirement. Finally, management indicated that documentation will be maintained to evidence ongoing monitoring and actions taken to address performance results related to the unclassified revenue percentage.

Summary

Internal Audit has completed an audit of contracted fixed-route operations provided by First Transit and has offered several recommendations for improvement.

Attachment

A. Contracted Fixed Route Operations, Internal Audit Report No. 17-508

Prepared by:

Serena K. Ng

Serena Ng
Senior Manager, Internal Audit
714-560-5938

Approved by:

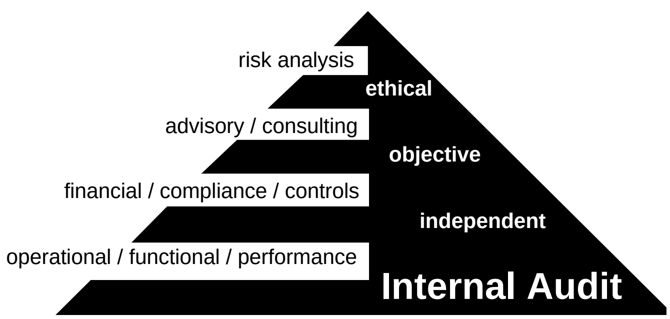
Janet Sutter
Executive Director, Internal Audit
714-560-5591

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT

Contracted Fixed-Route Operations

Internal Audit Report No. 17-508

August 30, 2017



Performed by: Serena Ng, CPA, Senior Manager, Internal Audit
Janet Sutter, CIA, Executive Director, Internal Audit

Distributed to: Beth McCormick, General Manager, Transit
Andrew Oftelie, Executive Director, Finance and Administration
Sean Murdock, Virginia Abadessa, Curt Burlingame, Pia Veesapen, Victor Velasquez, Scott Arbuckle, Dale Fuchs, Michael Jackson

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Conclusion

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed an audit of contracted fixed-route operations provided by First Transit, Inc. (First Transit). Internal Audit found that management changed the threshold used to measure on-time performance (OTP), leading to more favorable performance results, without disclosing the change to the Board of Directors (Board). In addition, management has waived penalties related to preventative maintenance and missed trip standards without adequate justification and documentation. Internal Audit also identified calculation errors in contract amendments and weaknesses in monitoring and enforcement of performance bond and insurance requirements, major mechanical work authorizations, accident reporting, and unclassified revenue percentage standards.

Background

OCTA and First Transit entered into Agreement No. C-4-1737 (contract) for the provision of fixed-route transit services beginning in June 2015. Under the contract, First Transit provides management and operation services including, but not limited to, all management, personnel, 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 Contracted Fixed-Route, StationLink, and Express Bus services. The term of the contract runs from June 1, 2015 through May 31, 2019, with two, 2-year option terms, and an original maximum obligation of $143,487,171. Under the contract, OCTA pays First Transit a firm-fixed monthly rate plus a variable rate based on service levels. In August 2016, Amendment No. 2 was executed to add the operation of iShuttle service, with an increase to the maximum obligation of $3,476,956. In February 2017, Amendment No. 3 was executed to increase the operation of Project V services, with an increase to the maximum obligation of $1,838,402.

The contract establishes performance standards including standards for OTP, valid complaints, accidents, preventive maintenance, miles between road calls, and missed trips. Penalties and/or incentives are applied based on First Transit's achievement of these standards.

With regard to vehicle maintenance, the contract outlines preventive maintenance requirements for OCTA owned vehicles. The contract requires that First Transit perform preventive maintenance in accordance with vehicle manufacturer's recommended inspection intervals, in compliance with California Highway Patrol terminal inspection requirements, and in compliance with all air resource compliance agencies. Preventive maintenance inspections for OCTA-owned vehicles, excluding the mid-sized transit buses, are required at 6,000 mile intervals. In addition, inspection intervals have been established for transmission, differential, and other vehicle sub-systems. OCTA Transit Division (Transit) staff performs monthly reviews of work order history files for around 20 vehicles out of a fleet of 272, in order to monitor First Transit's compliance with preventive maintenance requirements. Staff also prepares and reviews road call reports based on daily road call activities recorded by OCTA's Central Communications and First Transit's Infor system.

OCTA Transit staff is responsible for oversight of First Transit's safety and drug and alcohol programs. When an accident occurs, the First Transit coach operator is required to first notify OCTA's Central Communications. OCTA's Central Communications will then notify First Transit's window dispatcher, who notifies OCTA Transit staff overseeing the safety program. Within 24 hours, First Transit will generate and send accident reports to OCTA Transit staff. At the end of each month, First Transit provides a monthly report of all accidents and calculates an accident frequency ratio (AFR). Transit staff attends First Transit's new employee orientations and selected safety meetings. Transit staff also performs periodic reviews of First Transit's driver records, including pull notices, medical certifications, and driver's daily logs.

As part of service performance monitoring, OCTA Transit staff prepares a lost service log that identifies missed trips and lost service based on road call reports and incident notifications. Each month, OCTA Transit staff meets with First Transit staff to confirm missed trips and lost service or to obtain supporting documentation evidencing that a trip was not missed and/or service was not lost.

Each month, an analyst in Financial Planning and Analysis Department (FP&A) obtains and enters certain performance standard data provided by Transit staff. The invoice template is pre-populated with the monthly fixed costs, variable rate, and penalty/incentive calculations outlined in the contract. The template is then provided to First Transit, who enters revenue vehicle hours (RVH) and other data. The analyst then reconciles the RVH provided by First Transit to a line summary scheduling report provided by the Service Planning and Customer Advocacy Department within Transit. Finally, the invoice is submitted for review and signature approval by both FP&A and Transit management.

Every quarter, Transit prepares and presents a performance measurement report to the Transit Committee and the Board. The report summarizes actual performance compared to the required performance standards for both directly operated and contracted fixed-route services. These performance measures are intended to gauge the safety, courtesy, reliability, and overall quality of public transit services.

At the direction of the Transit Committee, management also provided monthly updates of contracted fixed-route performance data during the period January through June 2016.

Objectives, Scope, and Methodology

The objectives were to assess contract compliance with key provisions of the contract and Contracts Administration and Materials Management (CAMM) policies and procedures, and to assess the adequacy of OCTA's oversight and invoice review controls.

The scope is limited to the contracted fixed-route operations and the current provider, First Transit. The scope excluded the contract with the prior provider of contracted fixed-route operations. The scope also excluded ACCESS services.

The methodology included review of the procurement, including review of evaluation committee composition and the committee member's Declaration of Impartiality and Confidentiality Forms. Contract compliance was reviewed for selected key contract terms, including requirements for performance bonds, insurance, staffing requirements, and unclassified revenue standards. Internal Audit reviewed monitoring controls, including evidence of reviews of driver records, drug and alcohol program monitoring reviews, and monthly reviews of vehicle history records. Internal Audit also performed limited review of First Transit's achievement of performance standards and OCTA's oversight of these performance standards including appropriate application of related penalties and/or incentives from contract inception through December 2016. Finally, Internal Audit reviewed all invoices paid from contract inception through December 2016, for compliance with payment terms of the contract and for evidence of invoice review controls. 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

Undisclosed Change to OTP Measurement Standard

One key performance standard is OTP, which requires buses to depart between zero minutes early and five minutes late 85 percent of the time. In January 2016, the Transit Committee directed staff to provide monthly updates regarding contracted fixed-route service, due to concerns about performance results, including OTP results. Effective February 2016, Transit staff directed a change to the OTP measurement standard from five minutes to five minutes and 30 seconds, resulting in a two percent improvement to OTP results. An update was presented to the Transit Committee the day following the change; however, staff did not disclose this during the presentation, nor was it disclosed during the ensuing monthly updates or quarterly Transit Performance Measurement reports provided to the Transit Committee and the Board.

Transit management indicated that the 30-second addition to the OTP standard was necessary to accommodate near-sided stop scenarios, where bus stops are located before the intersections at which the time point is collected. Since the system measures time points at intersections, Transit management asserted that a bus could depart a bus stop on time but be flagged as late if the bus was stopped at a red light. This rationale does not appear reasonable. First, the reverse would hold true for late-sided stops where bus stops are located after the intersection, with the possibility that a bus could pass the intersection on time but depart the bus stop late. Further, late-sided stop scenarios are three times more common than near-sided stop scenarios. Finally, according to Information Systems staff, time points have been measured at intersections since implementation of automated data collection in August 2012.

The contract requires buses to depart between zero minutes early and five minutes late 85 percent of the time, with incentives of $1,000 for each full percentage above 86 percent and penalties of $1,000 for each full percentage below 84 percent. While early departures are not allowed by the contract, they are currently not monitored or captured as part of the OTP calculation. This, combined with the recent change to the five-minute OTP measurement, conflicts with contract requirements and assessment of appropriate penalties. A penalty originally assessed in February 2016, was refunded by Transit staff after retroactive implementation of the OTP measurement change. During the period March through December 2016, Internal Audit estimates that $13,000 in OTP penalties have been avoided as a result of the change. Finally, the OTP interval defined in the quarterly Transit Performance Measurement reports remains at five minutes.

Recommendation 1:

Internal Audit recommends that contracted fixed-route performance standards be measured consistent with the standards set forth in the contract. Management should implement procedures to ensure changes to performance standards are processed as formal contract amendments and that notice and justification for the changes is documented. Management should also consider implementing procedures that require Board notification and/or approval for changes to contracted fixed-route performance standards. At a minimum, presentations and performance reports provided to the Board should clearly outline changes to the measurement standards and/or methodology.

Management Response (Transit):

Management agrees with the finding. The OTP window as measured and reported through the automated systems on-board all fixed-route vehicles has been adjusted to reflect a zero to five minute window. This change has been made retroactive back to February 2016 when the change to five minutes and 30 seconds was implemented. Future quarterly performance measure reports will outline the methodologies used to collect data and if methodologies change, the report will identify the change.

Waived Penalties related to Required Preventive Maintenance

Transit management often waives penalties relating to the performance of preventive maintenance inspections (PMI) and has not exercised the option to withhold payment of service hours operated with vehicles that have exceeded the required PMI intervals. Ensuring 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.

The contract requires that PMI be performed at required intervals, with penalties of $100 per day for each vehicle operated after the scheduled PMI, increasing to $200 per day for vehicles operated more than three days or 500 miles past scheduled PMI. The contract also allows for nonpayment of service hours operated by a vehicle that has exceeded PMI; however, management has not, to date, exercised this option under the contract.

To monitor PMI performance, Transit staff selects and reviews the records of about 20 vehicles per month, out of a fleet of 272. From contract inception through December 2016, management assessed PMI-related penalties only once, in December 2015. Staff had reviewed 20 vehicles and assessed penalties related to seven of the twelve vehicles that were identified as out of compliance. For the remainder of the period, there were 47 other instances of vehicles that were identified as having exceeded the PMI interval without penalty. Three instances of vehicles exceeded the PMI interval for transmission or differential service, and another 62 instances of vehicles that exceeded PMI for supplemental stand-alone fire suppression and/or tune-up inspections were identified but not penalized.

The contract states that the contractor may be given an opportunity to demonstrate that the failure could not have reasonably been prevented, and to provide documentation to support such claims; however, there was no documentation provided, or on file, to evidence that First Transit requested the waivers and/or the reasons that penalties were not assessed.

In addition, Internal Audit identified an error in the formula used by OCTA staff to calculate penalties related to the "miles between road call" performance standard. The formula was designed to calculate an incentive when there are less road calls than the monthly maximum, while the contract does not allow such an incentive. This error resulted in a $200 incentive being inappropriately applied in April 2016.

Recommendation 2:

Internal Audit recommends that management consistently apply penalties as stated in the contract and should consider non-payment of revenue hours for vehicles that have exceeded PMI intervals, as allowed by the contract. Penalties should only be waived at the request of First Transit and with adequate justification and documentation demonstrating that the failures could not have reasonably been prevented. Finally, management should implement a secondary review of incentives and penalties during the invoice review process to determine that they are consistent with the contract.

Management Response (Transit):

Management agrees with the finding and will implement more consistent application of penalties; however, the contract will also be amended to allow for appropriate discretion with regard to penalty waivers. In the future, documentation, including a written request from the contractor and justification for the action, will be maintained.

Management will coordinate a monthly meeting to review invoice penalty and incentive amounts for accuracy prior to payment.

Waived Penalties for Missed OC Fair Trips

The contract includes penalties of $1,000 per missed trip. A missed trip is defined as a trip that is not serviced in its entirety; where every stop on the trip route is missed.

During the period August 2015 through December 2016, penalties for missed trips averaged $12,000 per month. During August 2016, First Transit was assessed $39,000 in missed trip penalties; however, another $16,000 in missed trip penalties relating to OC Fair trips were waived without adequate justification.

First Transit management requested a waiver for 12 of 14 missed OC Fair trips on August 13, 2016. First Transit claimed that when they contacted OCTA Central Communications the afternoon of August 13, 2016, to report a lack of drivers, they were told "not to worry" and OCTA arranged to service the trips. First Transit acknowledged that the first two trips would have been missed by the time of the call, but implied that efforts to identify coverage for the remaining trips would have continued had OCTA not offered to cover the service themselves. A review of the Central Communications recordings for August 13, 2016, did not substantiate First Transit's claim.

On August 5, 2016, First Transit missed another two OC Fair trips. Penalties for these missed trips were also not assessed and no documentation was found to evidence a request for waiver and/or justification.

Recommendation 3:

Internal Audit recommends that management apply penalties as outlined in the contract. Any request to waive a penalty should be documented and accompanied by adequate documentation to support and justify how the failures could not have reasonably been prevented.

Management Response (Transit):

Management agrees with the finding and will amend the contract to allow for appropriate discretion with regard to penalty waivers. In the future, documentation, including a written request from the contractor and justification for the action, will be maintained.

Contract and Amendment Errors

The Price Summary Exhibit to the original contract included an error in the amount reflected as the fixed rate cost per month for Year 1 of the contract. The error stemmed from utilizing 12 months instead of 12.5 months for Year 1 defined as June 14, 2015 through June 30, 2016. In addition, Internal Audit found errors in the calculation of revised contract maximum obligation amounts for Amendment Nos. 2 and 3, resulting in an overstatement of the contract maximum obligation by approximately $285,581. The errors resulted when Transit staff included re-allocated fixed cost amounts as part of the maximum obligation. Further, staff did not revise the contract Price Summary to reflect the new amounts. Effective January 2017, responsibility for calculating costs and maximum obligation amounts has been transferred to the Finance and Administration Division.

Finally, the contract includes fleet projections from the original Request for Proposal (RFP) rather than revised fleet projections issued through an RFP addendum. The fleet projections from the original RFP contained several discrepancies between total buses and the sum of individual sub-fleets, and these discrepancies carried forward into the contract.

Recommendation 4:

Internal Audit recommends that the Price Summary be amended as needed to accurately reflect the agreed-upon rates and costs that will be invoiced to the contract. If rates or costs increase due to additional service added in amendments, the amendments should include a revised Price Summary. Management should also ensure that the increases in maximum obligations be calculated correctly based only on additional costs that will be incurred, without double-counting of costs.

Finally, Internal Audit recommends that CAMM review all RFP addendums to determine if there have been changes in attachments and exhibits, before finalizing contracts.

Management Response (Finance and Administration):

Management concurs that the Price Summary be amended to capture the agreed-upon rates associated with each added service to the contract. Management will ensure the Price Summary is revised to reflect any future costs for additional services.

CAMM's standard practice when conforming agreements is to review all RFP addendums to ensure all technical and contractual changes are incorporated in the final agreement. For added quality assurance, conformed agreements are sent to the requesting departments for review and concurrence prior to contract final execution.

Monitoring of Contract Performance Bond and Insurance Requirements

The performance bond amount was not increased with Amendment Nos. 2 and 3, as required by the contract. In addition, the insurance certificate on file did not evidence all required coverage per the contract.

Upon notice to CAMM, First Transit obtained the required increases in the performance bond and provided evidence of adequate insurance coverage.

Recommendation 5:

Internal Audit recommends that CAMM develop procedures for monitoring of performance bond requirements and certificates of insurance to ensure that performance bonds are appropriately adjusted with amendments and insurance requirements are met.

Management Response (Finance and Administration):

CAMM concurs with this recommendation and has taken steps proactively to review and track bond and insurance documentation for compliance to ensure contract requirements are met. OCTA's Risk Management Department recently procured "Insurance Brokerage Services". Included in the scope of work for this procurement was a requirement for insurance review and certificate tracking system for all contracts. Agreement No. C-7-1585 with Marsh USA, Inc. doing business as Marsh Risk and Insurance Services, which was approved by the Board of Directors on May 22, 2017, includes the following services:

- Oversight and compliance with the insurance requirements for each contracted vendor
- Notification of applicable insurance discrepancies to each party required to provide insurance protection
- A website containing scanned certificate images and insurance compliance reports, accessible 24/7
- Web-based contract archiving system providing the ability to store and retrieve contracts and addendums from a secure site
- Customer support through a toll free telephone number

OCTA will seek to include an additional feature related to monitoring bond value adjustments as an enhancement to this service. Management expects that this new service will successfully ensure contractor insurance compliance.

Monitoring and Enforcement of Contract Requirements

Monitoring and enforcement of several contract requirements not associated with penalties and/or incentives could be improved, as follows:

- Staff does not reconcile accident reports to monthly summary reports provided to ensure all accidents are reported and included in performance measure calculations. The contract scope of work requires First Transit to submit a report within 24 hours of an accident or incident and to provide a monthly summary report of all accidents. Based on the review, First Transit regularly fails to send all accident reports. For eight of the nine months tested, between one and six accident reports were not submitted. Conversely, two incidents were omitted from the monthly summary report provided for July 2016.
- The contract requires First Transit to obtain written approval from OCTA's Maintenance Administrator before initiating the repair or replacement of major mechanical components; however, Internal Audit identified multiple instances of repairs that were initiated prior to written approval being obtained.
- First Transit did not meet the required unclassified revenue percentage standard for eight of 19 months reviewed. The unclassified revenue refers to fares collected but not properly recorded in the farebox system, resulting in variances between actual fares collected versus fare revenue recorded.

Recommendation 6:

Internal Audit recommends management reconcile accident reports to monthly reports and develop procedures for progressive enforcement actions to be taken when contract requirements are not being met.

Management Response (Transit):

Management agrees with the observation that other contract requirements not associated with penalties/incentives could be improved. Internal Audit recommended improvements could be made in three areas.

Accident reporting – staff agrees with the recommendation that a more formal process should be used to receive accident reports within 24 hours of the occurrence and that a monthly reconciliation should be conducted. Efforts are underway to implement improvements to this process. If the improvements require changes to the language in the agreement, staff will submit modified language to CAMM to describe any changes to the roles and responsibilities for OCTA and/or the contractor.

Approval of major maintenance – OCTA approves the reimbursement of expenses for major maintenance when the maintenance is required due to the normal wear and tear on a vehicle. Major maintenance is not approved for reimbursement when it is determined that the need for that major maintenance could have been avoided or is only needed because the contractor had failed to diagnose problem correctly, or was negligent in some manner. In all cases, with or without OCTA reimbursement, the major maintenance would have to be performed and time is of the essence to ensure that there are enough vehicles available for service each day, with some vehicles on hold for regularly scheduled maintenance. Because of this, it is sometimes necessary for the contractor to begin major maintenance before OCTA has been able to determine if the reimbursement is appropriate. To ensure that the contract language permits reimbursement regardless of when the work is initiated, staff proposes a modification in the language to reflect the process used: The contractor will not be reimbursed for the replacement or repair of any major mechanical components without the written approval of OCTA's Project Manager or his/her designee.

Monitoring unclassified revenue – while staff appreciates the sensitive nature of fare collection, a process is in place to monitor unclassified revenue on a weekly and monthly basis. This information is reviewed with the contractor and follow-up actions are requested as appropriate. Staff does not believe the addition of an incentive or penalty would enhance the oversight process currently in place. However, staff feels that including documentation related to the oversight of unclassified revenue including follow-up actions taken with the monthly invoice package would be a valuable addition.