



May 12, 2021

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Review of Oversight Controls and Contract Compliance Related to the Bridgestone/Firestone Tire Lease and Services Agreement No. C-9-1354, Internal Audit Report No. 21-506

Overview

The Internal Audit Department of the Orange County Transportation Authority has completed a review of oversight controls and contract compliance related to the Bridgestone American Tire Operations, LLC, tire lease and services agreement. Based on the review, the procurement of tire lease and services was handled in accordance with Orange County Transportation Authority procurement policies and procedures, and payments are properly reviewed and authorized by Orange County Transportation Authority staff. However, Bridgestone American Tire Operations, LLC, has not provided minimum staffing levels required by the contract, did not provide documents required to be submitted upon contract award, and was unable to provide certain required documents upon request. Additionally, contract requirements for torque re-check of new tires installed on ACCESS buses has not been implemented. Orange County Transportation Authority management has also not implemented monitoring controls to ensure contract compliance.

Recommendation

Direct staff to implement four recommendations provided in the Review of Oversight Controls and Contract Compliance Related to the Bridgestone/Firestone Tire Lease and Services Agreement No. C-9-1354, Internal Audit Report No. 21-506.

Background

On January 13, 2020, after a competitive procurement process, a Blanket Purchase Order No. C-9-1354 (contract) with Bridgestone American Tire Operations, LLC (Bridgestone), was approved by the Board of Directors (Board). The contract is in an amount not to exceed \$10,245,764, for the five-year period from May 1, 2020 through April 30, 2025. Pricing includes a fixed rate per tire mile, and a fixed rate for tire disposal and painting steel wheels. In addition, a monthly labor charge is assessed to cover a minimum number of assigned Bridgestone staff that perform inspections, wheel changes, tire balancing, and make repairs to tires.

Minimum staffing required by the contract includes ten tire technicians and one leadsman. Each of the five bus bases is assigned two staff to cover a two-shift operation. Bridgestone is required to post a work schedule at each location reflecting shifts, hours, and employees assigned. Bridgestone staff perform regular and routine fleet checks of tire pressure and tread depth to ensure tires are inflated to recommended pressure and meet regulatory standards. The contract requires that Bridgestone re-check the torque on all wheels that have been removed and re-installed within 500 miles of installation. Bridgestone is required to provide properly trained employees to perform tire services and safely operate vehicles. Employees must be subjected to a criminal background check upon hire and must hold and maintain a valid California driver's license. Bridgestone is also responsible for complying with all applicable federal, state, and local laws and regulations pertaining to a drug and alcohol-free workplace, including an employee alcohol/drug testing program.

Safety specifications incorporated into the contract require Bridgestone to submit copies of safety-related policies, procedures, and programs to OCTA prior to mobilization on OCTA properties. In addition, upon OCTA request and within 72 hours, Bridgestone must provide copies of their weekly site safety inspection reports, training records for assigned staff, and monthly reports of assigned staff and recordable workplace injuries and illnesses. Finally, Bridgestone is required to promptly notify OCTA and submit an accident/incident investigation report to OCTA within 24 hours of any accidents/incidents that occur in the course of OCTA service.

Discussion

Bridgestone has not provided the minimum staffing required by the contract, and two Bridgestone employees worked several 17-hour shifts to cover shortages, which could present safety issues. Further, the assigned leadsman has worked

several technician shifts, leaving a gap in the supervision of work. In addition, Bridgestone has not provided weekly work schedules reflecting shifts, hours, and employees assigned to each of the bases, as required by the contract. Despite the staffing shortages, Bridgestone continued to bill the contracted fixed rate for the full staff complement. Internal Audit recommended management strengthen monitoring controls to ensure required staffing and work schedules are provided as required. Management should also consider actions to address violations of contract terms and consider adjustments to invoices to account for staffing shortages. Finally, management should evaluate whether 17-hour shifts worked by contractor staff present safety concerns that should be addressed. The Maintenance Department (Maintenance) management agreed and advised that the Contracts Administration and Material Management (CAMM) Department was engaged to formally address the noted contract violations and to explore adjustments to invoices to account for staffing shortages. Maintenance will continue to closely monitor the Bridgestone contract to ensure proper staffing levels are maintained, work schedules are posted and adhered to, and that all employee procedures are followed as specified in the terms of the contract. Maintenance will also work with OCTA's Health, Safety, and Environmental Compliance (HSEC) Department to ensure safe work practices are being followed by Bridgestone.

At the time of audit, Bridgestone had not complied with requirements for submission of documents to be provided upon contract award and prior to mobilization on OCTA property. Bridgestone was also unable to provide copies of weekly site safety inspection reports, staff training records, and monthly staffing and recordable injuries reports within 72 hours of request by Internal Audit. In addition, an accident/incident report was not submitted by Bridgestone, as required, for an incident that occurred on November 22, 2020. The incident involved damage to OCTA equipment caused by a Bridgestone technician. OCTA facilities maintenance staff estimated the cost to repair the equipment at \$600; however, reimbursement had not yet been requested. Finally, per contract terms, Bridgestone is required to keep a reserve supply of tires adequate to ensure proper service at each of the bus bases. Bridgestone staff acknowledged that, due to staffing shortages, tire inventories were not being maintained. Internal Audit recommended that OCTA management review and enforce all contract terms. In addition, management should monitor to ensure tire inventories are maintained so that timely service can be provided at each of the bus bases. Finally, management should seek reimbursement from Bridgestone for the damaged equipment. Maintenance agreed and immediately worked with Bridgestone and HSEC to ensure all required safety documentation was provided. Maintenance has advised Bridgestone of the requirement to maintain all documentation pertaining to safety inspections, training, staffing,

and recordable injuries. Maintenance will monitor for compliance. Finally, Bridgestone has committed to provide documented tire inventory levels to Maintenance each month.

The contract requires Bridgestone to re-check torque on all wheels that have been removed and re-installed, within 500 miles of installation. This service is currently not performed on ACCESS vehicles. A process for creation of a work order in the MV Transit maintenance system had not been implemented and, as a result, these re-checks are not performed on ACCESS vehicles. Internal Audit recommended management collaborate with Bridgestone and MV Transit to develop a process to ensure that wheel torque is re-checked as specified in the contract. Maintenance agreed and has requested that Bridgestone re-torque the wheels on the entire fleet at the Irvine Construction Circle Base to ensure all wheels are torqued to specification. Maintenance has also asked that Bridgestone maintain documentation of all re-torque occurrences at the Irvine Construction Circle Base and provide monthly reports to the Maintenance Project Manager.

OCTA has not implemented controls to monitor Bridgestone's compliance with requirements for employee qualifications and regulations pertaining to a drug and alcohol-free workplace. Internal Audit recommended management implement monitoring controls to ensure Bridgestone complies with contract requirements for employee qualifications and regulations pertaining to a drug and alcohol-free workplace. Maintenance agreed and indicated that Bridgestone will be required to provide an on-boarding checklist that documents that background checks are conducted and qualifications requirements are met. Maintenance will also implement monitoring controls to ensure Bridgestone complies with regulations pertaining to a drug and alcohol-free workplace.

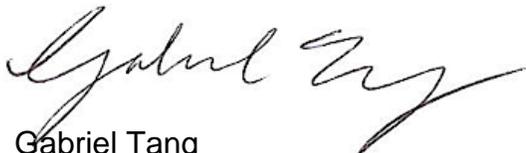
Summary

Internal Audit has completed an audit of oversight and contract compliance controls related to the contract with Bridgestone tire lease and services, and has offered four recommendations for improvement.

Attachment

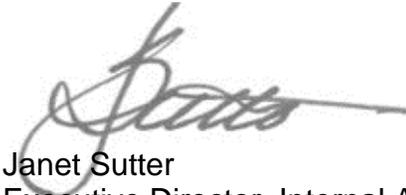
- A. Review of Oversight Controls and Contract Compliance Related to the
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Internal Audit Report No. 21-506

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ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Review of Oversight Controls and Contract Compliance Related to the Bridgestone/Firestone Tire Lease and Services Agreement No. C-9-1354

Internal Audit Report No. 21-506

April 27, 2021



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Conclusion

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed a review of oversight controls and contract compliance related to the Bridgestone American Tire Operations, LLC (Bridgestone) tire lease and services agreement. Based on the review, the procurement of tire lease and services was handled in accordance with OCTA procurement policies and procedures, and payments are properly reviewed and authorized by OCTA staff. However, Bridgestone has not provided minimum staffing levels required by the contract, did not provide documents required to be submitted upon contract award, and was unable to provide certain required documents upon request. Additionally, contract requirements for torque re-check of new tires installed on ACCESS buses has not been implemented. OCTA management has also not implemented monitoring controls to ensure contract compliance.

Background

On January 13, 2020, after a competitive procurement process, Blanket Purchase Order No. C-9-1354 (contract) with Bridgestone was approved by the Board of Directors (Board). The contract is in an amount not to exceed \$10,245,764, for the five-year period from May 1, 2020 through April 30, 2025. Pricing includes a fixed rate per tire mile, and a fixed rate for tire disposal and painting steel wheels. In addition, a monthly labor charge is assessed to cover a minimum number of assigned Bridgestone staff that perform inspections, wheel changes, tire balancing, and make repairs to tires.

Minimum staffing required by the contract includes ten tire technicians and one leadsman. Each of the five bus bases is assigned two staff to cover a two-shift operation. Currently, the day shift is scheduled Monday through Friday from 8:00 a.m. to 4:30 p.m., and the night shift is scheduled Sunday through Thursday from 6:00 p.m. to 2:30 a.m.

Bridgestone is required to post a work schedule in the tire shop at each location reflecting shifts, hours, and employees assigned. Bridgestone employees are required to check in and out with the OCTA supervisor on duty and sign in and out on sheets provided.

Key Contract Requirements and Safety Specifications

Bridgestone is required to provide properly trained employees to perform tire services and safely operate required vehicles. Employees must be subjected to a criminal background check upon hire and must hold and maintain a valid California driver license.

Upon contract award, the contract requires Bridgestone to provide OCTA with written procedures, including a Preventative Maintenance Plan, setting for the proper use, maintenance, and service of tires. In addition, Bridgestone is required to provide a daily

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tire on/off report, weekly fleet inspection reports, and monthly Fleet Summary of Tire Condition reports throughout the period.

Safety specifications incorporated into the contract require Bridgestone to submit copies of safety-related policies, procedures, and programs to OCTA prior to mobilization on OCTA properties. Documents required include: the resume and qualifications of the assigned on-site Health, Safety, and Environmental (HSE) representative, a project-specific HSE Work Plan, an Injury Illness Prevention Program, an HSE Policy/Procedure Manual, and a Policy or Substance Abuse Prevention Program. In addition, upon OCTA request and within 72 hours, Bridgestone must provide copies of their weekly site safety inspection reports, training records for assigned staff, and monthly reports of assigned staff and recordable workplace injuries and illnesses. Finally, Bridgestone is required to promptly notify OCTA of any accidents/incidents that occur in the course of OCTA service, including damage to OCTA property, reportable and/or recordable injuries, or incidents impacting the environment (such as spills, etc.). An accident/incident investigation report is required to be submitted to OCTA within 24 hours of any event.

Routine Activities and Inspections

Bridgestone staff perform regular and routine fleet checks of tire pressure and tread depth to ensure tires are inflated to recommended pressure and meet regulatory standards.

The contract requires that Bridgestone re-check the torque on all wheels that have been removed and re-installed within 500 miles of installation. To ensure torque is re-checked as required, OCTA and contractor staff set a timer in their respective work order systems that will generate a work order based on vehicle mileage. Bridgestone staff then perform the service and complete the work order.

Invoice Review

OCTA Maintenance Resource Management (MRM) staff provide mileage figures to Bridgestone for their use in preparing monthly invoices. MRM staff validates the billed service rates against the contracted rates. Invoices are signed by an authorized OCTA employee and are submitted to Accounts Payable for processing.

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Objectives, Scope, and Methodology

The objectives were to evaluate and test oversight controls and contract compliance related to the contract with Bridgestone for lease of tires and related services and compliance with OCTA policies and procedures related to procurement and invoice review.

According to generally accepted government auditing standards, internal control is the system of processes that an entity's oversight body, management, and other personnel implement to provide reasonable assurance that the organization will achieve its operational, reporting, and compliance objectives. The five components are control environment, risk assessment, control activities, information and communication, and monitoring.¹ The components and principles that were evaluated as part of this audit are:

- Control Environment
 - OCTA demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
- Control Activities
 - OCTA selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- Information and Communication
 - OCTA obtains or generates and uses relevant, quality information to support the functioning of internal control.
- Monitoring
 - OCTA selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.

The methodology consisted of testing procurement of the contract for compliance with selected procurement policies and procedures, testing for submission of selected reports required by the contract, testing for evidence of oversight and compliance with key contract terms and safety specification requirements, and testing of paid invoices for contract compliance and evidence of invoice review controls.

The scope was limited to oversight controls and contract compliance related to the contract with Bridgestone for lease of tires and related services. The scope included the procurement file for the Bridgestone American Tire lease and full service of bus tires contract. The scope also included contract requirements for submission of required reports and evidence of monitoring and compliance with key contract terms related to employee qualifications and drug-free workplace regulations. The scope also included all invoices from inception through October 2020. A judgmental sample of daily check-in

¹ See U.S. Government Accountability Office publication, "Standards for Internal Control in the Federal Government," available at <http://www.gao.gov/products/GAO-14-704G>, for more information.

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sheets, weekly mileage tire fleet inspection reports, and daily on/off reports was selected to provide coverage of all base locations. Since the samples were non-statistical, any conclusions are limited to the sample items tested.

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.

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Audit Comments, Recommendations, and Management Responses

Bridgestone Staffing Shortfalls

Bridgestone has not provided the minimum staffing required by the contract, and two Bridgestone employees worked several 17-hour shifts to cover shortages, which could present safety issues. Further, the assigned leadsman has worked several technician shifts, leaving a gap in the supervision of work. In addition, Bridgestone has not provided weekly work schedules reflecting shifts, hours, and employees assigned to each of the bases, as required by the contract. Despite the shortages, Bridgestone continued to bill the contracted fixed rate for full staff complement.

The contract requires Bridgestone to provide a minimum of ten technicians plus a supervising leadsman, with two technicians assigned to each of the five bases to cover the day and night shifts. The contracted rate for staffing is \$55,935.14 per month.

At the Garden Grove Base, four out of six months tested reflected inconsistent and/or short work shifts. Specifically, 72 out of 240 shifts reflected less than the contract-required 8.5 hours per shift. At the Irvine Sand Canyon Base, three out of six months tested reflected inconsistent and/or short work shifts. Specifically, 12 out of 240 shifts reflected less than the contract-required 8.5 hours per shift, and three shifts were missing coverage in October.

Due to staffing shortages since contract inception, one technician regularly worked 17-hour shifts, and the assigned leadsman regularly worked as a technician and also worked 17-hour shifts, on multiple occasions.

Recommendation 1:

Internal Audit recommends management strengthen monitoring controls to ensure required staffing and work schedules are provided as required. Management should also consider actions to address violations of contract terms and consider adjustments to invoices to account for staffing shortages. Finally, management should evaluate whether 17-hour shifts worked by contractor staff presents safety concerns that should be addressed in the contract.

Management Response:

The Maintenance Department (Maintenance) acknowledges that a minimum of ten Bridgestone employees, plus a leadsman, are contractually required to cover a two-shift operation at each of the five base facilities. Maintenance has engaged Contracts Administration and Material Management (CAMM) to formally address the noted contract violations and to explore adjustments to invoices to account for staffing shortages. As a

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result, a Notice to Cure letter was sent to Bridgestone to address the one current vacancy at the Irvine Sand Canyon Base, and to remind Bridgestone of the terms of the contract related to staffing levels. Additionally, the 17-hour shifts performed by some of their employees was raised as creating a potentially unsafe work environment. Bridgestone has responded by committing to fill the vacancy within 30 days of the Notice to Cure letter.

Maintenance will continue to closely monitor the Bridgestone contract to ensure proper staffing levels are maintained, work schedules are posted and adhered to, and that all employee procedures are followed as specified in the terms of the contract. Maintenance will also work with OCTA's HSE Compliance (HSEC) Department to ensure safe work practices are being followed by Bridgestone.

Documents Required by the Contract not Provided

At the time of audit, Bridgestone had not complied with contract requirements for submission of documents to be provided upon contract award and prior to mobilization on OCTA property. Required documents included: written procedures for preventative maintenance, a project-specific HSE Work Plan, copies of Bridgestone's HSE Policy and Procedures and Injury and Illness Prevention Program, and copies of a Policy on Substance Abuse Prevention Program. In addition, Bridgestone had not provided the resume and list of qualifications and certifications for a project-designated HSE representative. Bridgestone was also unable to provide copies of weekly site safety inspection reports, staff training records, and monthly staffing and recordable injuries reports within 72 hours of request by Internal Audit.

In addition, an accident/incident report was not submitted by Bridgestone, as required, for an incident that occurred on November 22, 2020. The contract requires immediate verbal notification and a written report within 24 hours of any accident/incident. The incident involved damage to OCTA equipment caused by a Bridgestone technician. Bridgestone indicated that the failure to file a report resulted from a change in leadership at the field and division levels. OCTA facilities maintenance staff estimated the cost to repair the equipment at \$600; however, reimbursement has not yet been requested from Bridgestone.

Finally, per contract terms, Bridgestone is required to keep a reserve supply of tires adequate to ensure proper service at each of the bus bases. Bridgestone staff acknowledged that due to staffing shortages, tire inventories were not being maintained. Failure to maintain tire inventories could result in tires not being available to service buses.

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Recommendation 2:

Internal Audit recommends that OCTA management review and enforce all contract terms. In addition, management should monitor to ensure tire inventories are maintained so that timely service can be provided at each of the bus bases. Finally, management should seek reimbursement from Bridgestone for the damaged equipment.

Management Response:

Maintenance acknowledges that not all required documents related to contractual Safety Specifications were provided by Bridgestone at the time of contract award. Maintenance immediately worked with Bridgestone and HSEC to ensure all required safety documentation was provided. In addition, the resume and list of qualifications and certifications for a project-designated HSE representative have also been secured. As a result, Bridgestone is now in compliance. Maintenance has advised Bridgestone of the requirement to maintain all documentation pertaining to safety inspections, training, staffing, and recordable injuries. Maintenance will monitor for compliance. Bridgestone acknowledged and accepted responsibility for the incident that occurred on November 22, 2020. Maintenance will invoice Bridgestone for the cost of the repair (\$600). Maintenance has also reminded Bridgestone of contract reporting requirements related to accidents/incidents. Maintenance will monitor for compliance.

In terms of maintaining tire inventories, Bridgestone has maintained a sufficient reserve supply of tires adequate to service the OCTA bus fleet as no bus has ever been placed out of service for lack of tires. Nevertheless, Maintenance concurs that proper documentation of tire inventories has not been maintained by Bridgestone. Bridgestone will be conducting a physical inventory of all tires at all five bases April 20 through 22, 2021, in order to properly document tire inventories for Maintenance review. Bridgestone has committed to provide documented tire inventory levels each month.

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Torque Re-check Requirement is Not Being Performed on ACCESS Vehicles

The contract requires Bridgestone to re-check torque on all wheels that have been removed and re-installed, within 500 miles of installation. This service is currently not performed on ACCESS vehicles.

For all other vehicles, this requirement is accomplished through the creation of a work order in the OCTA or First Transit maintenance system, that notifies staff of the upcoming 500-mile mark. However, a similar process for creation of a work order in the MV Transit maintenance system had not been implemented and, as a result, these re-checks are not performed on ACCESS vehicles.

Recommendation 3:

Internal Audit recommends management collaborate with Bridgestone and MV Transit to develop a process to ensure that wheel torque is re-checked, as specified in the contract.

Management Response:

Bridgestone has been notified through the above-mentioned Notice to Cure letter that all required torque and re-torque procedures are to be followed, as per vehicle manufacturers guidelines. In addition, Maintenance has requested that Bridgestone re-torque the wheels on the entire fleet at Irvine Construction Circle Base to ensure all wheels are torqued to specification. Bridgestone is required to provide proof of completion. Maintenance has asked that Bridgestone maintain ongoing documentation of all re-torque occurrences at the Irvine Construction Circle Base, and provide monthly reports to the OCTA Project Manager.

Bridgestone responded to the Notice to Cure letter, ensuring compliance and proper documentation will be provided and kept, going forward. Maintenance will monitor for compliance.

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Contractor Compliance Monitoring

OCTA has not implemented controls to monitor Bridgestone's compliance with requirements for employee qualifications and regulations pertaining to a drug and alcohol-free workplace.

The Contractor is required to conduct criminal background checks of all personnel assigned to OCTA bases and to identify whether any convictions would disqualify personnel from working on OCTA property. In addition, all employees are required to maintain a valid California driver license. Bridgestone is also responsible for complying with all applicable federal, state, and local laws and regulations pertaining to a drug and alcohol-free workplace, including an employee alcohol/drug testing program.

Recommendation 4:

Internal Audit recommends management implement monitoring controls to ensure Bridgestone complies with contract requirements for employee qualifications and regulations pertaining to a drug and alcohol-free workplace.

Management Response:

Bridgestone has assured Maintenance that all required background checks and qualifications are met during their hiring process and are on file with their corporate HR department. Going forward, Maintenance will require Bridgestone to provide an on-boarding checklist to ensure all requirements are met. This checklist will be maintained for OCTA records.

Maintenance will also implement monitoring controls to ensure Bridgestone complies with regulations pertaining to a drug and alcohol-free workplace.