



August 14, 2024

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit

Subject: OC ACCESS Service, Internal Audit Report No. 24-512

Overview

The Internal Audit Department has completed an audit of OC ACCESS services provided by First Transit, Inc., now known as Transdev. Based on the audit, oversight, contract compliance, and invoice review controls are generally adequate; however, recommendations have been made to correct contract and policy language, improve enforcement of contract provisions, enhance review of accident logs, and improve regularity of inspections.

Recommendation

Direct staff to implement four recommendations provided in OC ACCESS Service, Internal Audit Report No. 24-512.

Background

OC ACCESS was created in response to the requirements of the Americans with Disabilities Act (ADA). OC ACCESS is a shared-ride service for people who are unable to use the regular fixed-route bus service because of a disability.

Effective October 20, 2021, the Orange County Transportation Authority (OCTA) entered into Agreement No. C-0-2150 (contract) with First Transit, Inc. (First Transit), to provide turnkey management and operation of the OC ACCESS paratransit service. OCTA pays First Transit a fixed monthly rate and a per trip rate. The contract establishes performance standards, and penalties and/or incentives are applied based on First Transit's achievement of these standards.

To monitor First Transit's conformance with contract requirements, the Maintenance Administration (Maintenance) Department performs monthly inspections and file reviews, and the Specialized Transportation Services (STS) Department performs monthly reviews and field observations. In addition, every quarter, Maintenance and STS perform vehicle pull-out inspections.

Every month, First Transit submits an invoice to the Financial Planning and Analysis (FP&A) Department. FP&A proceeds with a data reconciliation process, reviews major maintenance expenses against approval forms and work orders, and reconciles First Transit's cash fares to deposit slips. To perform performance standard calculations, FP&A runs reports from the reporting site, dashboard, and data warehouse, and obtains reports and summaries from First Transit, STS, and Maintenance.

Discussion

There is a conflict in the preventive maintenance inspection (PMI) interval identified in different parts of the contract scope of work, with the vehicle maintenance section correctly identifying a 5,000-mile PMI interval whereas the performance standards exhibit uses a 6,000-mile PMI interval. The Internal Audit Department (Internal Audit) recommended that the performance standards exhibit be revised to reflect the correct 5,000-mile PMI interval and that the penalty column be adjusted accordingly. Internal Audit also recommended that staff enforce the requirement that OCTA's written approval be obtained prior to First Transit initiating repair or replacement of major mechanical components. Management agreed to amend the contract to reflect the correct 5,000-mile PMI interval and to reiterate with First Transit the OCTA pre-approval requirement for major mechanical components.

Staff logs accidents based on First Transit's accident reports, and the log is then used to evaluate the preventable accidents per 100,000 miles performance standard. Testing noted that staff misclassified five preventable accidents as non-preventable accidents, resulting in missed penalties totaling \$5,000. Internal Audit recommended that management implement a secondary review of the accident log to ensure accidents are correctly classified. Management agreed to implement a secondary review.

Staff missed two quarterly vehicle pull-out inspections and several monthly field observations during the period from January 2022 through March 2024. Internal Audit recommended staff perform inspections and reviews in accordance with established frequency schedules. Management agreed and indicated that a secondary review to confirm reviews are performed as scheduled will be implemented.

Finally, management's electronic invoice approval does not follow the format dictated by the Accounts Payable Invoice Review Policy (Policy), which requires the statement "Approval to Pay Invoice" to be included in the email subject line. Internal Audit recommended, and management agreed, to revise the Policy.

Summary

Internal Audit has completed an audit of OC ACCESS service and has offered four recommendations for improvement.


Attachment

- A. OC ACCESS Service, Internal Audit Report No. 24-512

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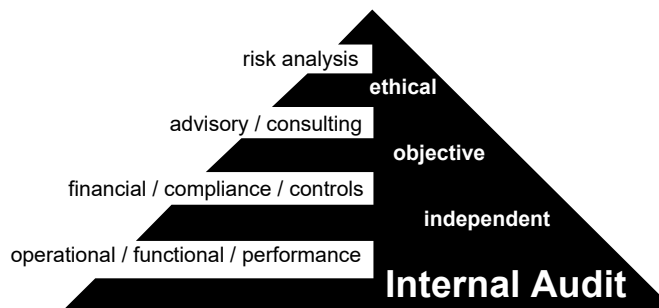
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OC ACCESS Service

Internal Audit Report No. 24-512

August 1, 2024



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Conclusion

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed an audit of OC ACCESS services provided by First Transit, Inc. (First Transit), now known as Transdev. Based on the audit, oversight, contract compliance, and invoice review controls are generally adequate; however, Internal Audit made recommendations to correct contract and policy language, improve enforcement of contract provisions, enhance review of accident logs, and improve regularity of inspections.

Background

OC ACCESS was created in response to the requirements of the Americans with Disabilities Act (ADA). OC ACCESS is a shared-ride service for people who are unable to use the regular fixed-route bus service because of a disability. OC ACCESS customers must be certified by OCTA as meeting specific eligibility criteria. A person may be eligible for OC ACCESS service if the person is unable to board or exit a fixed-route bus, unable to get to or from a bus stop due to physical and/or environmental barriers, and/or does not understand how to ride the bus due to a cognitive disability. OC ACCESS is provided within three quarters of a mile of and during similar hours as, OCTA's regular fixed-route service. The base fare for OC ACCESS service is \$3.60 for each one-way trip.

Effective October 20, 2021, OCTA entered into Agreement No. C-0-2150 with First Transit to provide turnkey management and operation of the OC ACCESS paratransit and OC Flex microtransit service. The contract term commenced upon Notice to Proceed and continues through December 31, 2025, with two, two-year option terms. OCTA pays First Transit a fixed monthly rate and a per trip rate for the OC ACCESS paratransit service, with a maximum obligation of \$242,579,221. The contract establishes performance standards, including standards for on-time performance, missed trips, excessively late pick-up trips, excessively early arrival trips, call center average and maximum hold time, valid complaints, preventable accidents and incidents, accident and incident notification, trip denials, miles between road calls, and preventive maintenance. Penalties and/or incentives are applied based on First Transit's achievement of these standards.

OCTA has a written Contract Transportation Penalty Assessment Policy that identifies approvals required to waive penalties for maintenance standards, safety standards, operational standards, and contractual standards. Project manager and department manager and director-level approvals are required, along with final approval by the Chief Operating Officer.

The Maintenance Administration (Maintenance) Department performs monthly preventive maintenance inspection (PMI) file reviews, post-PMI file reviews, vehicle interior inspections, and pit inspections. The Specialized Transportation Services (STS)

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Department performs monthly driver/road supervisor credential reviews, field observations, phone observation reviews, safety compliance reviews, and new call center representative file reviews. Every quarter, Maintenance and STS perform vehicle pull-out inspections. STS also performs quarterly subcontractor oversight reviews.

Every month, First Transit submits an invoice to the Financial Planning and Analysis (FP&A) Department. FP&A proceeds with a data reconciliation process and then runs reports from a reporting site, with report data coming from the Trapeze system. FP&A reviews major maintenance expenses against approval forms and work orders and reconciles First Transit's cash fares to the deposit slips. For two pre-selected days, FP&A counts the coupons of First Transit and subcontractors and reconciles the counts to those of First Transit and subcontractors. To perform the performance standard calculations in the invoice, FP&A runs various reports from the reporting site, dashboard, and data warehouse, and obtains reports and summaries from First Transit, STS, and Maintenance.

OC Bus and OC ACCESS service updates are presented to the Transit Committee. Through 2023, performance measures for OC Bus, OC ACCESS, and OC Flex services were also summarized and reported quarterly to the Board of Directors (Board). The quarterly reporting to the Board stopped in 2024, and was replaced with a new bi-monthly reporting process to the Transit Committee beginning in July 2024.

The Accounts Payable section of the Accounting and Financial Reporting (Accounting) Department administers an Accounts Payable Invoice Review Policy (policy) to ensure that vendors are accurately paid in accordance with OCTA policies and procedures. The policy provides requirements for electronic approval of invoices, including a requirement that the subject line of the email read "Approval to Pay Invoice – Vendor Name."

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Objectives, Scope, and Methodology

The objectives were to evaluate contract compliance and assess and test oversight and invoice review controls.

According to generally accepted government auditing standards (GAGAS), 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.
- Monitoring
 - OCTA evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the Board, as appropriate.

The methodology consisted of testing compliance with bond and insurance contract requirements, assessing invoice review procedures and testing invoices for compliance with policies and contract provisions, assessing First Transit's achievement of performance standards and OCTA's oversight of these performance standards including appropriate application of related incentives and/or penalties, testing evidence of monthly and quarterly inspections and oversight reviews performed by STS and Maintenance, and confirming monthly OC ACCESS service updates to the Transit Committee and quarterly reporting of OC ACCESS performance measures to the Board.

The scope is limited to OC ACCESS service provided by First Transit under Agreement No. C-0-2150. The scope excluded the part of the First Transit contract related to OC Flex microtransit service. The scope included all invoices paid from January 2022 through March 2024, and performance standards assessed on such invoices. The scope included all monthly and quarterly inspections and oversight reviews performed from January 2022 through March 2024. The scope also included OC ACCESS reporting to the Transit Committee and Board from January 2022 through March 2024.

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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Internal Audit conducted this performance audit in accordance with GAGAS. 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

Contract Language

The contract scope of work includes a section on vehicle maintenance as well as an exhibit of performance standards; however, there is a conflict in the PMI interval identified. The vehicle section correctly identifies a 5,000-mile PMI interval and states that the PMI shall not occur beyond plus ten percent of the required interval, whereas the performance standards exhibit uses a 6,000-mile PMI interval and establishes penalties at 500 miles past the scheduled PMI, after 6,500 miles. FP&A staff refer to the performance standards exhibit, with the higher 6,000-mile PMI interval, in its review of performance standards and assessment of penalties.

The vehicle maintenance section also includes a requirement that repair, or replacement of major mechanical components be initiated by First Transit only on the written approval of OCTA's maintenance administrator or designee; however, First Transit did not obtain the required written pre-approval for several major replacements.

Recommendation 1:

Internal Audit recommends that the performance standards exhibit be revised to reflect the correct 5,000-mile PMI interval and to adjust the miles in the penalty column accordingly. Internal Audit also recommends staff enforce the requirement that OCTA's written approval be obtained prior to First Transit initiating repair or replacement of major mechanical components.

Management Response (Maintenance):

Management agrees with the recommendations. Staff will amend the contract to reflect the correct 5,000 PMI interval and will adjust the penalty amounts accordingly. Additionally, staff will formally reiterate the requirement with First Transit that written approval from the OCTA maintenance administrator, or designee, must be granted before initiating the repair or replacement of a major mechanical component.

Accident Classification

STS misclassified five preventable accidents as non-preventable accidents due to typos, resulting in missed penalties totaling \$5,000. STS logs accidents, including the classification as preventable or non-preventable, based on First Transit's accident reports. The log is used in calculating the preventable accidents per 100,000 miles performance standard.

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Recommendation 2:

Internal Audit recommends management implement a secondary review of the accident log to ensure that all accidents are correctly classified.

Management Response (STS):

Management agrees with the recommendation. Staff will create and implement a formal review report to be distributed to the contractor which will confirm the receipt of each incident and accident report and the determination of preventability. The formal review report will include the accident and incident log as an attachment for the purpose of a secondary review by both STS and the contractor. This report will be added as an attachment to monthly invoices beginning with the July 2024 invoice.

Regular Inspections and Reviews

There are nine quarters in the period from January 2022 through March 2024; however, STS and Maintenance staff performed only seven quarterly vehicle pull-out inspections. STS also missed several monthly field observations.

Recommendation 3:

Internal Audit recommends that STS and Maintenance staff perform inspections and reviews in accordance with the established frequency schedule.

Management Response (STS and Maintenance):

Management agrees with the recommendation. STS and Maintenance staff will perform inspections and reviews in accordance with the established frequency schedule. In addition, management will perform reviews to confirm that inspections have taken place as scheduled.

Invoice Approval Requirements

Management's electronic invoice approval does not follow the format dictated by policy, which requires the statement "Approval to Pay Invoice" in the email subject line.

Recommendation 4:

Internal Audit recommends that Accounting either enforce the requirement to use "Approval to Pay Invoice" in the email subject line or revise the policy accordingly.

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Management Response (Accounting):

Accounting management agrees with the recommendation. The Accounts Payable Invoice Review Policy will be revised. The requirement to include "Approval to Pay Invoice" in the email subject line for electronically approved invoices will be removed from the policy.