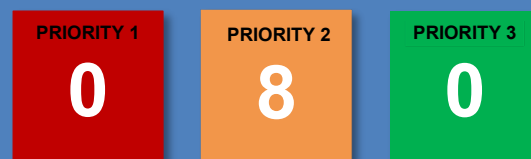


BEELINE FIXED ROUTE TRANSIT SERVICES AGREEMENT AUDIT

*City of Glendale
Internal Audit*

02.12.2024

NUMBER OF RECOMMENDATIONS



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Acknowledgment

We would like to thank staff from the Public Works Department for the support and assistance provided to us throughout this project.

For questions regarding the contents of this report, please contact the lead auditor, Natalie Minami-Valdivia, Principal Internal Auditor at InternalAudit@glendaleca.gov
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A. Overview

Key Outcomes

The City of Glendale (City) Public Works Department (PWD) Transit Division is responsible for the contract management of the City’s Beeline Fixed Route Transit Professional Services Agreement (Agreement). PWD Transit Division has established Agreement tracking worksheets to monitor contractor performance and requirements. Internal Audit reviewed the Agreement provisions and current contract administration controls and noted eight improvement opportunities related to the 1) accuracy and completeness of the farebox revenue reconciliation; 2) removal and repair of buses with safety defects; 3) performance of minimum staffing coverage and certifications review; 4) adherence with the minimum position requirements in the staffing plan; 5) documentation and communication of liquidated damages; 6) compliance with the triennial bus operator background check requirement; 7) evaluation and documentation of the additional monthly progress invoices; and 8) attachment of invoice supporting documentation within the financial accounting system to facilitate the review process.

Impact Dashboard

This table summarizes the applicable value-added categories (total 17) for the eight recommendations based on their priority rankings.¹

	Value-Added Categories			
	Compliance	Cost Saving	Efficiency	Risk Reduction
Priority 1 0	0	0	0	0
Priority 2 8	8	0	1	8
Priority 3 0	0	0	0	0

¹ Each audit recommendation may have more than one value-added category. The Definitions of Priority Rankings and Value-Added Categories are located at Appendix 1.

B. Action Plan and Target Completion Dates

The action plan and target completion dates are summarized in the table below. Internal Audit will perform quarterly status follow-up to provide assurance that management is taking appropriate and timely corrective action to address audit recommendations.

Ref.	Management Action Plan	Completion Date
Priority 2		
1.	Improve the Farebox Revenue Reconciliation accuracy and completeness by including farebox system supporting documentation and detailing the daily reconciling items. <i>Value added:</i> Compliance , Risk Reduction	07/31/2024
2.	Ensure that buses identified with safety defects are immediately taken out-of-service, repaired timely, documented in work orders, and communicated to PWD Transit. <i>Value added:</i> Compliance , Risk Reduction	07/31/2024
3.	Improve compliance with minimum staffing coverage and certification requirements by performing periodic reviews of the staffing schedule and certifications. <i>Value added:</i> Compliance , Risk Reduction	07/31/2024
4.	Document agreed upon staffing plan changes by amending the agreement and monitor compliance by periodically comparing staffing schedules to the staffing plan. <i>Value added:</i> Compliance , Risk Reduction	07/31/2024
5.	Improve compliance with Agreement provisions by updating the Liquidated Damages Checklist for the current Agreement provisions and documenting and communicating the status of the monthly performance standards. <i>Value added:</i> Compliance , Efficiency , Risk Reduction	07/31/2024
6.	Enforce compliance with the triennial bus operator fingerprint and/or background check requirements by implementing controls such as periodic review of a Contractor provided bus operator fingerprint and/or background check report. <i>Value added:</i> Compliance , Risk Reduction	07/31/2024
7.	Evaluate the progress payment and discount percentage practice and amend the Agreement accordingly. <i>Value added:</i> Compliance , Risk Reduction	07/31/2024
8.	Improve invoice payment accuracy by requiring supporting documentation to be uploaded with the invoice to the financial accounting system and agreed to the amounts invoiced. <i>Value added:</i> Compliance , Risk Reduction	07/31/2024

C. Background

Internal Audit has completed a contract compliance audit of the Beeline Fixed Route Transit Services Agreement. This Agreement is under the administration of the PWD Transit Division. The audit focused on MV Transportation, Inc.'s compliance with the Agreement and PWD Transit's administration of the Agreement.

Agreement Overview

The City entered into an agreement with MV Transportation, Inc. (Contractor) for the operation and maintenance of the City's fixed-route transit service for an initial six-year period with two one-year extension options not to exceed \$60,203,494 beginning on July 1, 2015. There has been a total of five amendments to this Agreement. The amendments provided additional fixed-route transit services, capital expenses as approved with the December 10, 2019 Transit Route Analysis, and extended the Agreement to July 31, 2024. The final operation and maintenance of the City's fixed-route transit service for the total 9 years and one month included within this Agreement may not exceed \$74,443,627.

Key Agreement Provisions

The key provisions from the Agreement include the following:

- Invoices - Contractor shall submit an original, itemized invoice to the City for approval, before receiving compensation. Contractor shall submit the invoice at no more than monthly intervals.
- Fare Collection - On a monthly basis, Contractor will audit farebox functionality to assure quality fare collection and data processing.
- Mechanic Automotive Service Excellence (ASE) Certifications - Within 15 months of the contract, the Contractor must have at least one mechanic, maintenance supervisor, or maintenance manager as part of the dedicated Glendale Beeline team who maintains an ASE Master Transit Bus Technician certification. Additionally, within three years of the contract, the remaining maintenance staff should jointly possess the different components that comprise the ASE Master Transit Bus Technician certification.
- The City will monitor compliance through semi-annual reviews of the mechanic certifications as submitted by the Contractor. The Agreement provides liquidated damages (LD) of \$5,000 for each semi-annual reporting period if the Contractor does not have maintenance staff with the required certifications.
- City Inspections - The City, through a third-party contract, performs quarterly inspections on City vehicles. Based upon the third-party inspector report, a Class "A" defect is a safety-related defect that requires immediate removal from service and keeps the vehicle from returning to revenue service until the defect is corrected. To ensure a quality operation, the Contractor is expected to pass all

third-party and City inspections. The Agreement provides LD of \$500 for each vehicle that fails a third-party or City vehicle inspection or re-inspection for safety.

- California Highway Patrol (CHP) Inspections - The Contractor must make the bus terminal and all vehicles available for inspection by the CHP as necessary. The Agreement provides LD of \$2,500 for each vehicle placed out-of-service during a CHP vehicle inspection or re-inspection.

D. Objective, Scope and Methodology

The objective of this audit is to determine whether the City has established adequate controls to ensure that the Agreement provisions are followed by the Contractor and properly administered by the PWD Transit Division.

The scope of the audit covered the period of July 1, 2022 to June 30, 2023.

In order to accomplish the audit objective, Internal Audit performed the following:

- Reviewed the Agreement and identified key provisions.
- Interviewed PWD Transit and Contractor personnel regarding the Beeline Fixed Route Transit Services Agreement provisions and processes.
- Reviewed farebox revenue receipts for the audit period.
- Conducted detailed testing of the third-party vehicle inspection identified Class “A” safety defects or CHP safety violations to ensure that repairs were documented and performed timely.
- Conducted detailed testing of the Contractor’s Operations and Maintenance staffing schedules and Vehicle Inventory to ensure compliance with the minimum staffing and vehicle requirements.
- Conducted detailed testing of the Contractor’s driver records to ensure compliance with the Agreement’s fingerprint, background check, DMV violations screening, and medical evaluations requirements.
- Conducted detailed testing of Contractor invoices, including deductions for LD, to ensure accuracy and completeness.

As a result of these audit procedures performed, eight observations were identified and are detailed in the Observations, Recommendations, and Management Responses Matrix beginning on the following page.

E. Observations, Recommendations, & Management Responses Matrix

Ref	Observation	Recommendation	Management Response
1. Revenue Testwork			
Priority 2	<p>Review of the Contractor performed June 2023 Farebox Revenue Reconciliation (Reconciliation) identified the following:</p> <ul style="list-style-type: none"> a. The Reconciliation supporting documentation is not provided monthly by the Contractor. b. Although farebox revenue amounts are downloaded from the buses daily, some funds are unable to be physically removed from the bus due to mechanical issues. These amounts are not noted within the Reconciliation. c. There is no mechanism to verify the number of fareboxes were deposited. d. The list of fareboxes that could not be removed and deposited does not agree to the Daily Probe Log for the sampled date. e. The work orders could not be provided for the buses with farebox probing issues for the sampled date. f. The City's five newest buses acquired in 2020 have not had fareboxes installed. 	<p>PWD Transit perform the following:</p> <ul style="list-style-type: none"> a. Request Contractor to include monthly Farebox Revenue Reconciliation supporting documentation, including the Daily Probing Log and Farebox Route Summary. b. Request Contractor to list the revenue reported within the Daily Farebox Route Summary reports that could not physically be removed from the bus fareboxes within the Reconciliation. c. Determine the feasibility of procuring a farebox vault that would enable the Contractor to confirm the count of daily fareboxes deposited. d. Review the Reconciliation and confirm the fareboxes listed as "Unable to probe" agree to the Daily Probe Log. e. Confirm that all fareboxes noted with issues have a corresponding work order. f. Equip the five new buses with fareboxes. 	<p>Agreed and will implement by July 31, 2024.</p> <p>a.-f. (In Progress) PWD Transit is in the process of acquiring fareboxes and a cash vault and anticipates them to be installed by July 31, 2024. Farebox revenue reconciliation procedures will be reviewed once the new fare collection system is implemented. New standard operating procedures for fare revenue collection and reconciliation will be devised and implemented with the new service contract.</p>

Ref	Observation	Recommendation	Management Response
2. Third-Party Related Inspection Failures			
Priority 2	<p>According to third-party inspection reports, there were 25 Class “A” safety defects and 1 CHP safety violation found on 22 buses inspected. Internal Audit requested and reviewed work order copies for the defect repairs and noted the following:</p> <ul style="list-style-type: none"> a. 4 defects on 4 buses were repaired within two weeks of the inspection. However, based upon a review of the documentation for these buses, it appears that 3 (75%) buses were not taken out-of-service before the repair was completed. b. 22 defects on 18 buses did not have completed work orders to document the repair of the defect(s) identified. Per PWD Transit staff, the Contractor’s mechanics are on site and generally perform immediate repairs at the time of inspection. However, these repairs were not captured in work orders and the repair dates could not be verified. In response to audit inquiry, the Contractor inspected and retroactively documented these defect repairs. 	<p>PWD Transit perform the following:</p> <ul style="list-style-type: none"> a. Ensure that buses are immediately taken out-of-service for safety defects and that repairs are documented timely. b. Document the process for taking a bus out-of-service for safety defects and returning a bus to service after the repairs are completed. c. Ensure that the Contractor follows its post audit procedures including repair documentation and progress update reporting to PWD Transit. 	<p>Agreed and will implement by July 31, 2024.</p> <ul style="list-style-type: none"> a. (Implemented) Contractor was following the CHP Safety Defect guidelines that follow the Vehicle Out-of-Service Criteria specified in Section V.3.M that includes any violation of the North American Standard Out-of-Service Criteria and now has been informed that it is also required to follow the expanded third-party inspector guidelines as specified in Section V.3.K. The current contract had conflicting “Out-of-Service Criteria” that will be rectified in the next transit services agreement. b. (In Progress) The Contractor has been informed to follow the expanded third-party inspector guidelines and will update their Maintenance Manual. c. (Implemented) PWD Transit sends a list of all identified defects and requests the Contractor to provide all applicable work orders. The Contractor has already begun to provide a summary table with all applicable work orders attached.

Ref	Observation	Recommendation	Management Response
3. Minimum Staffing Coverage Requirements			
Priority 2	<p>Detailed testwork identified the following:</p> <ul style="list-style-type: none"> a. The Agreement stipulates that at least one manager-level staff is required to be on site for a defined number of hours, however, it does not define “manager level staff” positions. b. Contractor did not comply with the minimum supervision staffing coverage requirements. For example, there is no dedicated dispatcher on Mondays from 17:00-21:00. c. The Safety & Training Manager’s California Department of Motor Vehicles (DMV) Employer Testing Program Examiner Skill Test Certification expired as of August 5, 2020. 	<p>PWD Transit work with the Contractor to ensure the following:</p> <ul style="list-style-type: none"> a. Define “manager level staff” positions in the Agreement. b. Ensure that there is at least one road supervisor in the field and one dedicated dispatcher is scheduled in accordance with the Agreement or amend the Agreement to reflect operational needs. c. The Safety & Training Manager has the required current training/certifications, including a current California DMV Employer Testing Program Examiner Skill Test Certification. 	<p>Agreed and will implement by July 31, 2024.</p> <ul style="list-style-type: none"> a. (In Progress) PWD Transit will work with the contractor to identify their “manager level staff” positions. b. (In Progress) Staffing and supervision language will be clarified in the new transit services agreement. c. (In Progress) The Safety & Training Manager’s California DMV Employer Testing Program Examiner Skill Test Certification expired during the start of the COVID pandemic. DMV suspended the classes and testing which has only recently been reinstated. However, with the number of participants in the state, classes are full. The contractor’s corporate team are in communications with the state to try and secure spots for their affected employees and contracts including Glendale’s.

Ref	Observation	Recommendation	Management Response
3. Minimum Staffing Coverage Requirements (continued)			
Priority 2	<p>d. None of the vehicle maintenance staff have an ASE Master Transit Bus Certification and the remaining staff do not jointly have the eight ASE Master Transit Bus Technician certifications or the equivalent.</p> <p>e. Daily Bus Assignment Lists, Daily Bus Equipment Lists, and Operations & Maintenance Staffing Schedules, are provided by the Contractor but are not reviewed by PWD Transit.</p>	<p>d. The vehicle maintenance staff possess the required ASE certifications or amend the Agreement language to specify that the ASE certifications are desired rather than required.</p> <p>e. Daily Bus Assignment Lists, Daily Bus Equipment Lists, and Operations & Maintenance Staffing Schedules are periodically reviewed to ensure that daily minimum staffing requirements are met.</p>	<p>d. (In Progress) Possession of ASE certifications will be clarified in the new transit services agreement. As maintenance needs change with the implementation of battery-electric buses, PWD Transit staff will review requirements and incorporate and necessary certifications into the contract as needed.</p> <p>e. (In Progress) Staffing lists were requested and reviewed twice a year while all other lists are reviewed daily. Staff will implement a monthly review of the Staffing list for the current contract.</p>

Ref	Observation	Recommendation	Management Response
4. Annual Operation and Maintenance Staffing			
Priority 2	<p>Based upon a review of the initial Beeline Fixed Route Transit Maintenance and Operations staffing lists, it was noted that these lists included employees from both the Beeline Fixed Route Transit and Dial-A-Ride agreements. Based upon a review of the combined minimum staffing requirements for the Beeline Fixed Transit Services and Dial-A-Ride Professional Service agreements, the Contractor is under-staffed by the following positions:</p> <ul style="list-style-type: none"> ▪ 2 F/T Dispatcher ▪ 1 F/T General Manager ▪ 1 P/T Mechanic C ▪ 1 F/T Operations Supervisor ▪ 1 P/T Utility Worker ▪ 2 P/T Maintenance Clerk <p>Upon further inquiry, it was noted that, in practice, certain positions including the General Manager position were consolidated between the Beeline Fixed Route Transit and Dial-A-Ride contracts; these changes are not reflected through contract amendments.</p>	<p>PWD Transit perform the following:</p> <ol style="list-style-type: none"> a. Amend the agreements to document the agreed upon changes to the minimum staffing requirements for each separate agreement. b. Regularly request and review the Maintenance and Operations staffing lists/schedules. c. Establish provisions, such as LD, within future Agreements to address extended short staffing. 	<p>Agreed and will implement by July 31, 2024.</p> <ol style="list-style-type: none"> a. (In Progress) A Letter of Understanding will be incorporated into the current contract file by July 31, 2024. b. (In Progress) Staffing lists were requested and reviewed twice a year. Staff will implement a monthly review for the current contract. c. (Implemented) LD have been established for the next transit service agreement.

Ref	Observation	Recommendation	Management Response
5. Liquidated Damages			
Priority 2	<p>PWD Transit uses a LD Checklist to monitor Contractor performance. A review of the LD Checklists identified the following:</p> <ul style="list-style-type: none"> a. The LD Checklist is missing 5 of 21 (23%) performance standards, 6 contain errors in the LD terms and assessments and one performance standard was not within the current agreement. b. LD for performance standards were not consistently documented, monitored, assessed² and/or communicated to the Contractor. c. Supporting documentation to validate the 99% trip completion target could not be readily provided. d. Other Mechanical System Failures are recorded separately on the Federal Transit Administration’s Form R-20, but not documented in the Missed Service Incident Log to support LD. e. The number of valid complaints within the LD Checklist were less than those within the complaint log. 	<p>PWD Transit perform the following:</p> <ul style="list-style-type: none"> a. Review and update the LD Checklist to ensure that it agrees with the terms for the current and any future agreement. b. Consistently monitor, document, communicate, and assess performance standard related LD. Any waived LD should be documented with an explanation and communicated to the Contractor. Additionally, review the instances of missed LD and determine the appropriate resolution. c. Include the source document for the total trips that is used to calculate the trip completion target. d. Add the Other Mechanical Service Failures to the Missed Service Incident Log to support LD. e. Ensure that all valid complaints are captured within the LD Checklist for the complete reporting period. 	<p>Agreed and will implement by July 31, 2024.</p> <ul style="list-style-type: none"> a. (Implemented) Agreed and has been done for current agreement. Will be reviewed for new service agreement. b. (In Progress) For an audit trail, PWD Transit staff will implement a documentation methodology for waived LD. The contract is clear in stating that LD “may” be assessed not that they will/shall be assessed. c. (Implemented) Trip information was added to the data sheet to calculate trip information by month. d. (In Progress) All Other Mechanical Service Failures will be included within the Missed Service Incident Log to support LD. e. (In Progress) As noted in item b. above, for audit trail purposes, any waived items or LD will be documented.

² The potential missed and/or waived LD estimated at \$27,000 includes \$13,000 for Failed Vehicle Inspections, \$10,000 for ASE Certifications, \$3,000 for On-Time-Performance, and \$1,000 for Late Customer Service Forms. Additionally, it was noted that the Contractor did not have the appropriate ASE certifications since the inception of the Agreement which would result in an additional \$70,000 in LD.

Ref	Observation	Recommendation	Management Response
6. Triennial Bus Operator Fingerprinting and Background Checks			
Priority 3	<p>The Agreement requires that the Contractor perform fingerprint and background checks for each bus operator every three years. According to the Contractor, a pre-employment background check is performed based upon the applicant's name and social security number. However, the Contractor does not fingerprint and/or background check each bus operator every three years.</p>	<p>PWD Transit perform the following:</p> <ol style="list-style-type: none"> a. Determine if fingerprinting should be required for pre-employment screening. b. Establish controls to enforce the fingerprinting and background check every three years. These controls may include the periodic review of a Contractor provided report that includes each bus operator and the date of their last fingerprint and/or background check. c. Work with the City Attorney's Office to determine whether background checks based on an applicant's name and social security number are sufficient; amend the contract to remove the fingerprinting requirement if it is determined not to be required. 	<p>Agreed and will implement by July 31, 2024.</p> <p>a.-f. (In Progress) This will be implemented in the new services contract set to begin on August 1, 2024.</p>

Ref	Observation	Recommendation	Management Response
7. Invoice Submissions			
Priority 2	<p>The Agreement specifies that the Contractor shall submit the invoice at no more than monthly intervals.</p> <p>Based upon detailed testwork performed, it was noted that the Contractor submits two invoices on a monthly basis. The first invoice is a \$250,000 monthly progress billing and the second invoice is an itemized invoice that includes a credit for the \$250,000 progress payment and a 0.5% discount on the total actual monthly Glendale Beeline Service fee. Per PWD Transit, this option was provided in the previous 2005 Contractor Agreement and was continued but was not included in the current Agreement.</p>	<p>PWD Transit review this practice, evaluate the discount percentage, and amend the contract to document the monthly progress payment and the agreed upon discount rate.</p>	<p>Agreed and will implement by July 31, 2024.</p> <p>(In Progress) If a progress payment and discount are agreed to with the new contractor, it will be memorialized in the new agreement set to begin on August 1, 2024.</p>

Ref	Observation	Recommendation	Management Response
8. Pass-through Expenses			
Priority 2	<p>Currently, the Contractor does not provide supporting documentation when submitting invoices. Instead, the required supporting documentation for invoice review is separately provided within the monthly reports packet to PWD Transit.</p> <p>Additionally, a detailed review of the invoice supporting documentation identified that one pass-through invoice submitted by the Contractor to the City omitted a 10% tax included on the Contractor's original invoice.</p>	<p>PWD Transit perform the following:</p> <ol style="list-style-type: none"> a. Work with the Contractor to ensure that all pass-through invoice supporting documentation is uploaded and agrees with the invoice. b. Review the invoicing error and determine the appropriate resolution. 	<p>Agreed and will implement by July 31, 2024.</p> <ol style="list-style-type: none"> a. (In Progress) PWD Transit staff will communicate to the Contractor that all pass-through invoices should be uploaded as invoice supporting documentation. b. (In Progress) PWD Transit will work with the Contractor to correct this error.

Appendix 1: Definitions of Priority Rankings and Value-Added Categories

Definitions of Priority Rankings

The priority rankings are assigned by internal auditors based on their professional judgment. They are also agreed to by management based on their evaluation of the alignment with the strategic goals, priorities and available resources. A timeline has been established based on each priority ranking:

- a. **PRIORITY 1** - Critical control weakness that exposes the City to a high degree of combined risks. Priority 1 recommendations should be implemented within **3 months** from the first day of the month following report issuance or sooner if so directed.
- b. **PRIORITY 2** - Less than critical control weakness that exposes the City to a moderate degree of combined risks. Priority 2 recommendations should be implemented within **6 months** from the first day of the month following the report issuance or sooner if so directed.
- c. **PRIORITY 3** - Opportunity for good or better practice for improved efficiency or reduce exposure to combined risks. Priority 3 recommendations should be implemented within **9 months** from the first day of the month following the report issuance or sooner if so directed.

Definitions of Value-Added Categories

The four value-added impact categories are defined based on their impact from the audit recommendations:

- a. **COMPLIANCE** - adherence to laws, regulations, policies, procedures, contracts, or other requirements.
- b. **COST SAVING** - lower the costs related to conducting City business.
- c. **EFFICIENCY** - ability to avoid wasting resources (money or time) in achieving goals.
- d. **RISK REDUCTION** - lower the risks related to strategic, financial, operations and compliance.