



May 28, 2025

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Contracted Fixed-Route Services, Internal Audit Report
No. 25-510

Overview

The Internal Audit Department of the Orange County Transportation Authority has completed an audit of contracted fixed-route services provided by Keolis Transit Services, LLC. Based on the audit, procurements and amendments were handled in accordance with procurement policies and procedures, and invoice review controls are in place and operating effectively. However, recommendations have been made to improve monitoring of contract performance standards and bond and insurance requirements.

Recommendation

Direct staff to implement two recommendations provided in Contracted Fixed-Route Services, Internal Audit Report No. 25-510.

Background

Under Agreement No. C-2-2578, Keolis Transit Services, LLC (Keolis) 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 the contracted fixed-route OC Bus service, StationLink, and iShuttle services. The Orange County Transportation Authority (OCTA) pays Keolis a fixed monthly rate and a variable rate for services, with the variable rate changing if there are greater than 20 percent revenue vehicle hour decreases or increases. Unscheduled services are paid at a variable rate based on the time a vehicle leaves the base to when

the vehicle returns to the base. Reimbursement of startup costs of up to \$2,126,464.11 were also included in the maximum obligation of \$286,286,201.

Discussion

The contract includes performance standards and other requirements. One performance standard requires Keolis to submit reports on time, with a \$250 daily penalty for each late report; however, there is no procedure in place to monitor and assess penalties, as management has not finalized a listing of the reports subject to the penalty. In reviewing the Accident Frequency Ratio performance standard, Internal Audit questioned the classification of some accidents as “non-preventable” and noted that management began applying criteria for classifying accidents that is inconsistent with the contract language. Additionally, a \$5,000 penalty for unauthorized equipment usage was not assessed. Finally, the contract states that Keolis is responsible for maintaining OCTA’s unclassified revenue percentage of 2.35 percent; however, Keolis is not meeting this standard. Internal Audit recommended management finalize the required reports listing, apply contract language in determining whether an accident is preventable, strengthen controls to ensure consistent assessment of penalties, and consider options on how to improve the unclassified revenue percentage. Management agreed to implement these recommendations.

Keolis is required to establish a performance bond in favor of OCTA and purchase and maintain insurance policies; however, evidence of review of the bond and insurance certificates for sufficiency was not included in the agreement file. In addition, the performance bond provided includes a statement that it shall not bind the surety unless the bond is accepted by the obligee (i.e., OCTA) by way of signature “below”; however, there is no OCTA signature included, nor a section for such signature. Internal Audit recommended management confirm that the performance bond is binding and ensure that documentation of the review of the performance bond and insurance certificates is included in the agreement file. Management indicated that Keolis’ surety broker is preparing a rider to remove the requirement for OCTA signature on the performance bond. Management also agreed to retain documentation of bond and insurance review in the agreement file.

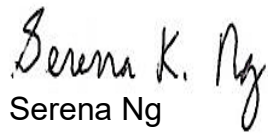
Summary

Internal Audit has completed an audit of contracted fixed-route service and has offered two recommendations for improvement.

Attachment

- A. Contracted Fixed-Route Service, Internal Audit Report No. 25-510

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