ATTACHMENT A

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT

Contracted Fixed-Route Services

Internal Audit Report No. 25-510

May 14, 2025

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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 services provided by Keolis Transit Services, LLC (Keolis). 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.

Background

OCTA and Keolis entered into Agreement No. C-2-2578 (contract), effective upon written Notice to Proceed (NTP), with services commencing June 11, 2023, and continuing through June 30, 2027, with two, two-year option terms. Under the contract, Keolis provides management and operation services including, but not limited to, all management, personnel, operations, insurance, record keeping and reporting, computer hardware, 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. Under the payment terms, OCTA pays Keolis a fixed monthly rate and a variable rate for services, with the variable rate changing if there is a greater than 20 percent revenue vehicle hour (RVH) decrease or increase. Unscheduled services, provided at the request of OCTA, are paid at a variable rate based on the time a vehicle leaves the base to when the vehicle returns to the base. Startup costs of $2,126,464.11 are also included in the pricing exhibit. The maximum obligation is set at $286,286,201. The contract requires Keolis to establish a performance bond in favor of OCTA in the amount of ten percent for the initial term of the contract, with the bond amount increasing or decreasing accordingly with any amendments. The contract also requires the purchase and maintenance of certain insurance. The scope of work includes a provision that if during the course of normal employee turnover, any of the key personnel positions remain open for a period more than 30 calendar days, OCTA may deduct the salary and benefits plus a penalty of $1,000 per calendar day for every day in which the position remains unfilled beyond the first 30 calendar days. The scope of work also states that the contractor is responsible for maintaining the unclassified revenue percentage to OCTA's standard, which is 2.35 percent. Performance standards are established in the scope of work, with a process for waiving penalties at OCTA's sole discretion. Three amendments to the contract made revisions, including adding of subcontractors, change in key personnel, removal of the route coverage performance standard that assessed a $1,000 per trip penalty for a non-coach operator driving in revenue service, revisions to the performance standards for valid complaints, road supervisor coverage, and data probe, allowing reimbursement for the incremental additional costs associated with the maintenance of older vehicles operated in revenue service outside of the provided fleet plan, and adding reimbursement for a maintenance software system with support equipment and labor from the NTP until OCTA's new enterprise asset management system is fully functioning.

The Maintenance Administration (Maintenance) Department performs monthly preventive maintenance inspection (PMI) file reviews, post-PMI inspections, vehicle interior inspections, and brake-pit inspections. The Contracted Services Administration (Contracted Services) Department performs monthly field observations, monthly temporary badge reviews, quarterly re-training records reviews, quarterly safety compliance reviews, quarterly driver uniform and credentials reviews, quarterly drug and alcohol program reviews, and annual mock collection site audits. Every quarter, Maintenance and Contracted Services perform vehicle pull-out inspections. Regular contracted fixed-route project status meetings are held to discuss items affecting Keolis' performance.

Keolis submits an invoice on an Excel template set up by the Financial Planning and Analysis (FP&A) Department. Keolis updates fixed cost and variable rate amounts as needed, populates the scheduled revenue hours and added service hours, and inputs lost service hours and missed trip data. Credits are provided for badge replacement and waste collection fees. Keolis provides support for added service, such as iShuttle end time exception (ETE) schedules, and driver timesheets for service added as a result of train delays. FP&A confirms that the scheduled revenue hours are consistent with the line summary report, checks that total lost hours match the lost time log, and reconciles the iShuttle ETE schedule to the driver timesheets and paddles. At the end of the year, FP&A reviews the RVH to determine if the hours are over or under by more than 20 percent, triggering a change in the RVH rate. To update the performance standard calculations in the invoice, FP&A runs various reports from the dashboards and obtains reports and logs from Keolis, Contracted Services, and Maintenance.

The Chief Operating Officer sends weekly performance updates to the Chief Executive Officer (CEO), with data on contracted fixed-route's average weekday on-time performance and miles between road calls. Performance measures for directly operated fixed-route, contracted fixed-route, and OC ACCESS service were summarized and reported quarterly to the Board of Directors (Board) in 2023, with the last report going to the Board in November 2023, for results through June 2023. A new bi-monthly transit performance reporting process began in July 2024, with PowerPoint presentations being provided to the Transit Committee.

Objectives, Scope, and Methodology

The objectives were to assess the adequacy of oversight controls and test contract compliance, performance standards measurement and reporting, and invoice review controls related to the contract.

The methodology consisted of reviewing the procurement and contract amendments, assessing invoice review procedures and testing invoices for compliance with policies and contract provisions, assessing Keolis' 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 Contracted Services and Maintenance, confirming regular reporting of performance measures to the Transit Committee, and testing compliance with contract requirements for performance bonds, insurance, staffing requirements, and unclassified revenue standards.

The scope was limited to contracted fixed-route operations and the current provider, Keolis. The scope included all contract amendments distributed through March 2025, the performance bond on file and current insurance certificates, unclassified revenue percentages reported from June 2023 through December 2024, and all invoices for services from contract inception through December 2024. The scope also included testing of performance standards from contract inception through December 2024, including reconciliation to dashboard reports, testing of supporting documentation, testing of a judgmental sample of 40 accident reports for timely reporting, and reviewing accident reports for accidents classified as non-preventable but with descriptions that may indicate otherwise. The scope included all monthly and quarterly inspections and reviews performed and project status meetings held from June 2023 through December 2024. The scope also included contracted fixed-route reporting to the Transit Committee or Board from June 2023 through March 2025, and weekly update reporting to the CEO from June 2023 through December 2024. The judgmental sample of the accident reports was selected with a bias to provide even coverage throughout the period. Since the sample was 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.

Audit Comments, Recommendations, and Management Responses

Contract Performance Standards and Other Requirements

The contract requires Keolis to submit reports on time, with a $250 daily penalty for each late, inaccurate, or insufficient report. However, the scope of work does not clearly identify which reports are subject to the penalty and Contracted Services has not finalized a listing of such reports. As a result, there is no procedure in place to monitor and assess late report penalties.

Another contract performance standard is the Accident Frequency Ratio (AFR). The contract defines an accident as any occurrence where a vehicle makes physical contact with any other vehicle, person, or object. A preventable accident is one in which it is determined that the coach operator did not do everything that was reasonable to avoid the accident. After reviewing accident logs and reports, Internal Audit questioned the classification of some accidents as “non-preventable” based on the descriptions and the classifications reflected in the accident reports by Keolis. Had these accidents been classified as preventable, the following AFR penalties would have been assessed: $5,000 in April 2024, $5,000 in June 2024, $10,000 in July 2024, $5,000 in August 2024, and $5,000 in December 2024. Starting in early 2024, Contracted Services began classifying accidents with “slight, inadvertent” contact as “non-preventable”; however, this is inconsistent with contract language that only requires physical contact to be considered an accident.

A $5,000 penalty for unauthorized equipment usage should have been assessed in January 2024. Under this performance standard, the contractor should not utilize agency equipment without prior written authorization or approval, with a $1,000 penalty per occurrence. Keolis used five buses for training that had not been authorized for such usage and no penalty was assessed.

Finally, the contract states that Keolis is responsible for maintaining the unclassified revenue percentage to OCTA’s standard of 2.35 percent; however, Keolis has not met the standard in any month since the contract began. 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 1:

Internal Audit recommends that Contracted Services finalize the required reports listing to allow monitoring and application of penalties, in accordance with the contract. Additionally, Contracted Services should follow contract language in determining whether an accident is preventable and adjust the contractor’s AFR accordingly. Contracted Services should also consider options on how to improve the unclassified revenue percentage, including requiring Keolis to provide refresher farebox training to its coach operators and creating a performance standard in future contracts. Finally, FP&A should strengthen controls to ensure that penalties are consistently assessed.

Management Response (Contracted Services):

Contracted Services has initiated working with partner departments to identify a list of required reports to monitor and subject to the report penalty. Once identified, the list will be shared via written communication with Keolis with a start date for implementation. The list of applicable reports will be incorporated into the contract with Keolis via the next available amendment.

To mimic what management understood to be the classification criteria used by directly operated service, Contracted Services staff began to exclude curb strike brushes. Contracted Services will rectify the situation by notifying Keolis of the date the classification of preventable accidents will return to following the contract language and no longer exclude curb brushes.

Keolis will be directed to include this topic of unclassified revenue percentage at the next available safety meeting to address all coach operators. Going forward, staff will include in the next contract a performance standard with corrective measures.

Management Response (FP&A):

FP&A is strengthening its existing controls by formalizing the process for tracking and resolving pending penalties tied to project milestones. A new tracking tool will be used to log outstanding assessments, which will be reviewed monthly during the invoicing cycle. In addition, staff will conduct regular follow-ups with project managers and stakeholders to ensure timely resolution and clear documentation. These improvements aim to enhance communication, increase visibility, and reduce the risk of future oversights.

Bond and Insurance Requirements

Under the contract, Keolis is required to establish a performance bond in favor of OCTA. Inspection of the performance bond on file noted that the bond 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.

Keolis is also required to purchase and maintain insurance policies; however, evidence of review of these certificates against contract requirements was not included in the agreement file.

Recommendation 2:

Internal Audit recommends that 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 Response (Contracts Administration and Materials Management Department):

Contracts Administration and Materials Management Department management contacted the Vice President of Insurance, Claims, and Risk Management at Keolis to confirm the validity of the performance bond. Keolis verified with its surety that the bond is valid and provided written confirmation. Paragraph 7 of the bond, which incorrectly required OCTA's signature, was included in error, as it is not part of the surety's standard form. Obligee signatures are typically only required if the bond is being drawn upon. To correct this, Keolis will issue a rider removing Paragraph 7, effective as of the bond's original issuance date. The rider is being prepared by Keolis' surety broker and will be sent to OCTA.

OCTA's Risk Management Department and legal counsel reviewed and approved the performance bond and insurance certificates during the procurement and contract award process. Their approval emails are now saved in the SharePoint contracts repository.