



*July 13, 2022*

**To:** Finance and Administration Committee

**From:** Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director  
Internal Audit Department

**Subject:** Revenue Vehicle Procurement Audit, Internal Audit Report  
No. 22-508

### **Overview**

The Internal Audit Department of the Orange County Transportation Authority has completed an audit of the revenue vehicle procurement process. Based on the audit, revenue vehicle acceptance procedures and invoice review controls are generally adequate and operating; however, recommendations were made to update policy and procedures related to cooperative procurements and ensure that regulatorily-required resident inspector reports are prepared.

### **Recommendation**

Direct staff to implement two recommendations provided in Revenue Vehicle Procurement Audit, Internal Audit Report No. 22-508.

### **Background**

Since January 1, 2019, the Orange County Transportation Authority (OCTA) has conducted five revenue vehicle procurements. These procurements ranged from the purchase of three OC Flex Vans to the acquisition of 165, 40-foot compressed natural gas buses.

OCTA's Vehicle Acceptance Policy and Procedures (VA Policy) defines the tasks and responsibilities for revenue vehicle procurement, contract deployment, and acceptance of revenue vehicles. The VA Policy follows a chronological sequence of events including the Federal Transit Administration (FTA) Buy America requirements, in-plant inspection activities, delivery, on-property acceptance inspection, repairs, and preparation for service.

The majority of the responsibilities outlined in the VA Policy are carried out by the Maintenance Department and the Contracts Administration and Materials Management (CAMM) Department, with additional support from the Internal Audit and Safety and Environmental Departments.

CAMM Policy and Procedures (CAMM P&Ps) govern the conduct of OCTA procurement activity, including revenue vehicle procurements. One means for procuring revenue vehicles is through the use of cooperative procurements, which is allowed by CAMM P&Ps when it is deemed to be in the best interest of OCTA. Use of cooperative purchasing contracts, such as the California Association for Coordinated Transportation / Morongo Basin Transit Authority or the State of California Department of General Services Zero-Emission Transit Buses, enables transit agencies to procure buses directly off the agency contract without having to conduct a full procurement.

### ***Discussion***

The Internal Audit (Internal Audit) Department tested three revenue vehicle procurements and found that all three procurements were conducted under a cooperative procurement and a Request for Quotes (RFQ) was issued to obtain quotes from the vendors. CAMM P&Ps state that RFQs are to be limited to solicitations of \$50,000 or less. All three procurements exceeded \$50,000. In addition, RFQ procedures require award to the lowest bidder; however, one contract was not awarded to the lowest bidder. According to the procurement file, the vendor was selected after consideration of vehicle operational benefits and advantageous warranties. In this case, factors other than price that are typically outlined as criteria with weightings, were used in the evaluation of bids but were not provided to proposers as part of the solicitation or documented in Board of Directors' reports requesting approval to release the solicitation.

CAMM P&Ps related to cooperative procurements require documentation be maintained to evidence the rationale for using a cooperative procurement method, and documentation validating that the underlying agency contract was a competitive solicitation that did not restrict competition. In one of three procurements tested, the file lacked documentation of a detailed rationale for using the cooperative procurement method. None of the three procurement files included documentation validating that the agency's contract was awarded on a competitive basis and did not restrict competition

Internal Audit recommended management update and expand P&Ps to fully address revenue vehicle cooperative procurements, including allowable methods for issuance of the solicitation, establishment of approval thresholds,

and ensuring that the basis of award be clearly defined. Management agreed to update procedures and enhance file documentation.

Internal Audit also found that a formal Resident Inspector's Report (Report) is not prepared, as required by the FTA for federally funded revenue vehicle procurements. While there is evidence that in-plant inspection contractors are performing all required resident inspector activities, a formal Report is not prepared. Internal Audit recommended that management amend the in-plant inspection service agreements to include a requirement for preparation of a Report that complies with FTA Buy America requirements. Management agreed to amend the service agreements as recommended.

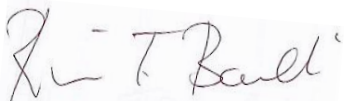
***Summary***

Internal Audit made recommendations to update P&Ps related to cooperative procurements and ensure that regulatorily-required Reports are prepared as required.

***Attachment***

- A. Revenue Vehicle Procurement Audit, Internal Audit Report No. 22-508

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# ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



## Revenue Vehicle Procurement Audit

### Internal Audit Report No. 22-508

June 29, 2022



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## **Conclusion**

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed an audit of the revenue vehicle procurement process. Based on the audit, revenue vehicle acceptance procedures and invoice review controls are generally adequate and operating; however, recommendations were made to update policy and procedures related to cooperative procurements and ensure that regulatorily-required resident inspector reports are prepared.

## **Background**

### OCTA's Revenue Vehicle Fleet

As of February 2022, the OCTA revenue vehicle fleet profile is comprised of a total of 807 buses, including gasoline powered cutaway buses, compressed natural gas (CNG) buses, diesel buses, and compressed hydrogen buses.

Funding for revenue vehicle replacement is comprised of both grant and local sources. Grant funding includes sources from federal, state, and local agencies that typically cover up to 80 percent of the asset cost. The local portion, or 20 percent match, is paid from the capital replacement fund. OCTA maintains a useful life of 18 years for 40-foot and 60-foot buses, and seven years for mid-size buses and the paratransit fleet. Adherence to a capital replacement cycle enables OCTA to maintain high equipment standards and plan for subsequent costs on an annual basis.

### Revenue Vehicle Procurement and Acceptance

The Vehicle Acceptance Policy and Procedures (VA Policy) defines tasks and responsibilities for vehicle procurement, contract deployment, and acceptance of vehicles. The VA Policy follows a chronological sequence of events including the Federal Transit Administration (FTA) Buy America requirements, in-plant inspection activities, delivery, on-property acceptance inspection, repairs, and preparation for service. The in-plant inspection and final acceptance inspection may be provided by consultant services, OCTA staff, or a combination of both.

The majority of the responsibilities outlined in the VA Policy are carried out by the Maintenance Department and the Contracts Administration and Materials Management (CAMP) Department. Additional support is provided by the Internal Audit and Safety and Environmental (S&E) Departments. Key responsibilities of the departments/sections are as follows:

- The Maintenance Department is responsible for all activity associated with planning, quality control and quality assurance, host site, staffing, and the equipment exchange necessary for placement of new vehicles into service.

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- The Transit Technical Services Section within the Maintenance Department is responsible for overall execution, including preparation of a budget, technical specifications, and acceptance plan, as well as ensuring compliance with FTA Buy America requirements.
- CAMM is responsible for overall procurement and contract administration.
- Internal Audit, at the request of CAMM, performs agreed-upon procedures to determine compliance with FTA pre-award and post-delivery Buy America requirements.
- The S&E Department is responsible for providing an ergonomic assessment of the vehicle and vehicle system safety recommendations for items affecting safe operation of the vehicle. S&E also participates in review of the final acceptance plan and inspection and review of first article.

CAMM Policy and Procedures

CAMM Policy and Procedures (P&Ps) allow for cooperative procurements when it is deemed to be in the best interest of OCTA. Use of cooperative purchasing contracts, such as the California Association for Coordinated Transportation / Morongo Basin Transit Authority (CALACT/MBTA) and the State of California (California) Department of General Services (DGS) Zero-Emission Transit Buses (ZEB), enables transit agencies to procure buses directly off the agency contract without having to conduct a full procurement.

Since January 1, 2019, OCTA initiated four revenue vehicle procurements under the CALACT/MBTA purchasing cooperative and one procurement under the California DGS ZEB purchasing cooperative. The resulting agreements are as follows:

- Agreement No. C-0-2165 with New Flyer of America, Inc., to purchase up to ten, 40-foot battery electric buses,
- Agreement No. C-9-1836 with Gillig, LLC, to purchase up to 165, 40-foot CNG buses, with an option to purchase up to 134 additional buses,
- Agreement No. C-9-1570 with Creative Bus Sales, Inc., to purchase up to 117, 22-foot gas-powered cutaway buses, with an option to purchase up to ten additional buses,
- Agreement No. C-9-1001 with Gillig, LLC, to purchase up to 12, 30-foot CNG buses, with an option to purchase up to five additional buses (I-Shuttle), and
- Agreement No. C-0-2182 (4/24/20) with RO Bus Sales, to purchase three, Ford 350 XL gasoline powered vans (OC Flex).

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## **Objectives, Scope, and Methodology**

The objectives were to determine compliance with vehicle acceptance, procurement, and invoice review policies and procedures and to assess related internal 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.<sup>1</sup> 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.
  - OCTA deploys control activities through policies that establish what is expected and procedures that put policies into action.
- Information and Communication
  - OCTA obtains or generates and uses relevant, quality information to support the functioning of internal control.

The methodology consisted of testing a judgmental sample of revenue vehicle procurements and related in-plant inspection service agreements for compliance with the VA Policy and CAMM P&Ps, assessing invoice review procedures and testing revenue vehicle and in-plant inspection invoices for compliance with policies and contract provisions, and comparing the VA Policy to the Buy America Handbook, the Fixing America's Surface Transportation Act, and CAMM P&Ps for consistency and compliance.

The scope was limited to the revenue vehicle purchase process and related compliance with the VA Policy, CAMM P&Ps, invoice review policies, and compliance with contract terms for revenue vehicle procurements and related in-plant inspection agreements. The scope included a judgmental selection of revenue vehicle and in-plant inspection agreements executed from January 1, 2019, to present. The judgmental sample was selected with a bias for including both federally funded and non-federally funded revenue vehicle procurements. The scope also included all invoices paid through March of 2022, against the selected agreements.

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<sup>1</sup> 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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We 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**

### **Cooperative Procurement Procedures**

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CAMM P&Ps should be updated to fully address revenue vehicle procurements conducted through cooperative agreements.

Currently, policies and procedures include steps and approval thresholds for Request for Proposals (RFP) and Invitation for Bids (IFB), as well as thresholds for use of Requests for Quotes (RFQ). Policies and procedures also address the methodology and steps for cooperative procurements, when it is deemed to be in the best interest of OCTA.

Testing of three revenue vehicle procurements found that all three were conducted under a cooperative procurement and an RFQ was issued to obtain quotes from the vendors; however, policy states that RFQs are to be limited to solicitations of \$50,000 or less. All three procurements exceeded \$50,000 and two exceeded \$1,000,000. While the policy for cooperative procurements does not outline approval thresholds or the basis of award, Board of Directors' (Board) approval was obtained for the procurement solicitations and contract awards over \$1,000,000.

RFQ policy requires award to the lowest bidder; however, in one case, the contract was not awarded to the lowest bidder. According to the procurement file, the vendor was selected after consideration of vehicle operational benefits and advantageous warranties offered by the proposer. In this case, criteria used in the evaluation of bids was not provided to proposers as part of the solicitation or documented in Board reports requesting approval for release of the solicitation and approval of contract award.

Finally, policy and procedures for cooperative procurements state that "All documentation, including the agency's contract, all correspondence, all audit information (if applicable), and a detailed rationale for using the agency's contract will be included with the contract file." The procedures further state that the agency contract can only be used if it was competitively procured, and the solicitation did not restrict competition. In one of the three procurements tested, the procurement file lacked documentation of a detailed rationale for using the agency contract and none of the files included documentation validating that the agency's contract was awarded on a competitive basis and did not restrict competition.

#### **Recommendation 1:**

Internal Audit recommends management update and expand policies and procedures to fully address revenue vehicle cooperative procurements. Allowable methods for issuance of the solicitation, establishment of approval thresholds, and basis of award should be clearly defined. In addition, management should enhance documentation to reflect that the requirements for use of agency contracts.

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**Management Response (Camm):**

Camm agrees and will update the cooperative procurement procedures to include a specific process for revenue vehicle procurements and apply the RFP method and corresponding thresholds rather than the RFQ procurement method previously used.

Moving forward, Camm will also document in the contract file the rationale, as well as validation that the contract was awarded on a competitive basis and did not restrict competition.

**Resident Inspector's Report**

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Staff confirmed that a formal Resident Inspector Report (Report), required by the FTA for federally funded procurements, is not prepared.

Internal Audit reviewed the scopes of work (SOW) for the in-plant inspection vendors, which serve as OCTA's resident inspectors, noting that there is no requirement to provide a Report. The Report provides a written record of all vehicle construction activities and a summary of how the construction and operation of the vehicles meet contract specifications. While there is evidence that the in-plant inspection vendors are performing required activities, a formal Report is not prepared.

**Recommendation 2:**

Internal Audit recommends management revise the SOW for in-plant inspection service agreements to include a requirement for preparation of a Report that complies with FTA Buy America requirements.

**Management Response (Maintenance):**

Although in-plant inspection service SOWs do include providing a written record of all vehicle construction activities, management concurs with Internal Audit's recommendation to revise the SOWs for in-plant inspection service agreements to include a requirement for a formal Report. Management will begin by pursuing amendments to the current in-plant inspection service agreements.