



April 13, 2016

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Investigation and Limited Scope Review of the Procurement for Mobile Bus Routers

Overview

The Internal Audit Department of the Orange County Transportation Authority has completed an investigation of a report received through the Fraud Hotline related to the scope of work included in the procurement for mobile router retrofit, Request for Proposals 6-0957. The reporter alleged that the scope of work was written in favor of a specific, brand name product, citing that the technical specifications were copied directly from the brand name product's specification sheet and salient characteristics of the product were not outlined to allow potential bidders to offer alternatives. The reporter also alleged predisposition toward this product since it was already being installed on recently purchased buses.

The Internal Audit Department confirmed the allegations and identified additional concerns. Specifically, management requested the addition of this specific, brand name product to the new buses. In addition, management was in the process of hiring the radio system vendor to write an interface specific to the brand name router.

Recommendation

Direct staff to implement the two recommendations provided in the Investigation and Limited Scope Review of the Procurement for Mobile Bus Routers.

Background

The Internal Audit Department (Internal Audit) administers the Fraud Hotline, which is operated by a third party and provides both a toll free phone number and an internet site for filing anonymous complaints of fraud, waste, or abuse.

On March 3, 2016, Internal Audit received an anonymous complaint alleging a lack of competitiveness in the procurement of mobile router retrofits.

Discussion

Internal Audit confirmed that the scope of work (SOW) included in the Request for Proposals had been copied directly from the brand name product (Cradlepoint) specification sheets. Also, the SOW required offerors to demonstrate that an “equivalent” product would integrate seamlessly into the radio system. This requirement also appears to favor Cradlepoint, since the Orange County Transportation Authority was in the process of hiring the radio system vendor to write an interface specific to the Cradlepoint router. Internal Audit recommended that management cancel the procurement and revise the SOW, to invite more competition. Management immediately cancelled the procurement and will develop a revised SOW including the salient characteristics of a mobile router to meet the functional requirements. Management indicated that a new solicitation will be released.

During the course of the investigation, Internal Audit also confirmed that the Cradlepoint mobile routers are being added to 16, sixty-foot compressed natural gas (CNG) articulated buses and 206, forty-foot CNG buses through amendments. Two years ago, management researched routers and selected the Cradlepoint routers to test in mobile ticketing pilot projects with satisfactory results. After the agreements for the purchases of the sixty-foot and forty-foot CNG buses were executed, management decided to add these mobile routers to the bus orders. Management provided the part numbers for the Cradlepoint router to the bus manufacturer and requested pricing. Seven weeks later, management added that the requested parts could be of “equivalent” brand, but did not identify salient characteristics. Internal Audit recommended that management develop an action plan to mitigate the risk that these amendments are viewed as violations of Federal Transit Administration rules. Management concurred and cancelled the installation of mobile routers on both the sixty-foot and forty-foot bus builds. Management indicated that mobile routers will be competitively procured and installed after the new buses are accepted.

Summary

Internal Audit has completed an investigation and limited scope review of the procurement for mobile bus routers and has offered two recommendations.

Attachment

- A. Investigation and Limited Scope Review of the Procurement for Mobile Bus Routers

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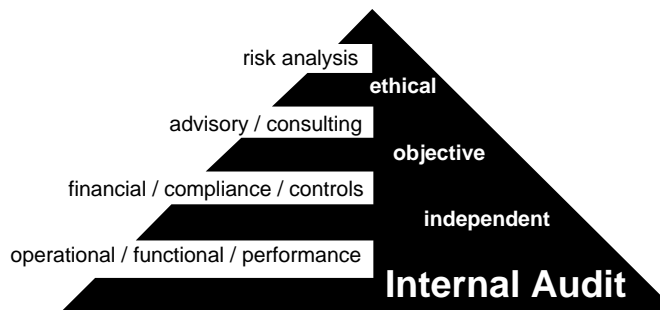
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ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Investigation and Limited Scope Review of the Procurement for Mobile Bus Routers

March 24, 2016



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Conclusion

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed an investigation of a report received through OCTA's Fraud Hotline (Hotline) related to the scope of work (SOW) included in the procurement for mobile router retrofit, Request for Proposal (RFP) 6-0957. The reporter alleged that the SOW was written in favor of a specific, brand name product (Cradlepoint COR IBR1100LPE-VZ), citing that the technical specifications were copied directly from the brand name product's specification sheet and salient characteristics of the product were not outlined to allow potential bidders to offer alternatives. The reporter also alleged predisposition toward this product since it was already being installed on recently purchased buses.

Internal Audit confirmed the allegations and identified additional concerns. Specifically, OCTA staff requested the addition of this specific, brand name product to the new buses. Also, OCTA management was in the process of hiring the radio system vendor to write an interface specific to the brand name router.

Background

Internal Audit administers the Hotline, which is operated by a third party and provides both a toll free phone number and an internet site for filing anonymous complaints of fraud, waste, or abuse.

Complaints received through the Hotline are reviewed by Internal Audit to determine whether an investigation can be performed and, if so, by whom. When appropriate, Internal Audit will investigate and determine whether the allegation can be substantiated. In the course of conducting these investigations, Internal Audit may identify control weaknesses or opportunities to enhance existing policies and procedures. Findings and recommendations resulting from these investigations will be incorporated into limited scope review reports and will include management corrective action. Like any other Internal Audit report, recommendations will be tracked through implementation.

On March 3, 2016, Internal Audit received an anonymous complaint alleging a lack of competitiveness in the procurement for mobile router retrofits.

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Objectives, Scope, and Methodology

The objective of the investigation and limited scope review was to determine whether the allegations could be substantiated. The scope was limited to procurement of mobile routers.

In conducting the investigation and limited scope review, Internal Audit employed the following methodology:

- Reviewed the RFP and the specification sheets for the Cradlepoint router and antenna;
- Interviewed CAMM personnel and management responsible for the subject procurement;
- Reviewed email and other supporting documentation for RFP 6-0957 as well as for the addition of the Cradlepoint mobile routers to the sixty-foot and forty-foot compressed natural gas (CNG) buses; and
- Reviewed guidance from Federal Transit Administration (FTA).

This report is the result of investigation of complaints received through the OCTA Hotline, and does not represent an audit conducted in accordance with Generally Accepted Government Auditing Standards.

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Observations, Recommendations, and Management Response

Restrictive Specifications in the RFP

Review of the RFP 6-0957 and the specification sheets for the Cradlepoint router and antenna confirmed the reporter's allegation that the technical specifications in the RFP's SOW had been copied directly from the Cradlepoint specification sheets.

The SOW names the specific Cradlepoint router and antenna, by model number, and then states, "or approved equivalent." Under FTA Circular 4220.1F, a "brand name or equal" description can only be used when it is impractical or uneconomical to write a clear and accurate description of the technical requirements. When "brand name or equal" is used, the specific features or salient characteristics of the named brand must be clearly stated to allow for other potential products to be offered.

Internal Audit concluded that the reproduction of Cradlepoint specifications, rather than developing the technical specifications or, at minimum, identifying salient characteristics of a named product, is not in the spirit of competition. Also, the SOW required offerors to demonstrate that an "equivalent" product would integrate seamlessly into the radio system. This requirement also appears restrictive, since OCTA was in the process of hiring the radio system vendor to write an interface specific to the named Cradlepoint router.

Recommendation 1:

Internal Audit recommends management cancel the procurement and revise the SOW to invite more competition.

Management Response:

The procurement was immediately cancelled and the SOW revised to include the salient characteristics of a mobile router to meet the functional requirements. A new solicitation will be released.

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Addition of Mobile Routers to New Sixty-Foot and Forty-Foot CNG Buses

Internal Audit confirmed that the Cradlepoint mobile routers were being added to 16, sixty-foot CNG articulated buses through an executed amendment and to 206, forty-foot CNG buses through an amendment in process.

Two years ago, management researched routers and selected the Cradlepoint routers to test in mobile ticketing pilot projects with satisfactory results. After the agreements for the purchases of the sixty-foot and forty-foot CNG buses were executed, management decided to add these mobile routers to the bus orders. Management provided the part numbers for the Cradlepoint router to the bus manufacturer and requested pricing. Seven weeks later, management added that the requested parts could be of “equivalent” performance/brand/configuration, but did not identify salient characteristics. Pricing was negotiated, and the Cradlepoint mobile routers were added to the agreement for the sixty-foot CNG buses through an amendment. The amendment to add the mobile routers to the forty-foot CNG buses is not yet executed; however, the manufacturer has begun installing the Cradlepoint mobile routers in the buses. The first buses are expected to be delivered in late-March 2016.

Recommendation 2:

Internal Audit recommends management develop an action plan to mitigate the risk that these amendments are viewed as violations of FTA rules.

Management Response:

Management concurs with Internal Audit’s findings. The installation of mobile routers has been cancelled on both the 60-foot and 40-foot bus builds. Mobile routers will be competitively procured and installed after the new buses are accepted.