



# Paratransit Operations Assessment Phase II Final Report on Additional Testing Supplement to Auditor General Report No. 2015-7

June 24, 2016



## EXECUTIVE SUMMARY

### Background

Americans with Disabilities Act (ADA) paratransit services are federally-mandated special transportation services for people with disabilities who cannot utilize fixed-route bus and rail service. VTA has contracted with Outreach & Escort, Inc. (Outreach) since 1993 to provide ADA paratransit brokerage services.

VTA's ADA paratransit services are budgeted to cost approximately \$20 million dollars in Fiscal Year (FY) 2016, and the contract with Outreach for brokerage services is one of VTA's largest contracts. Last year, Outreach reported providing 720,000 ADA passenger trips.

A component project in the Board-approved FY 2016 Internal Audit Work Plan is this Paratransit Operations Assessment. The objective was to evaluate the overall design and operating effectiveness of VTA's ADA paratransit operations. This included evaluating the effectiveness of the design and operation of internal controls related to paratransit operations, including financial billing and operational and performance reporting.

Based on the work performed through October 2015 (Phase I), it was determined that the ADA processes were more numerous, less straightforward, and more intertwined with other programs than anticipated. More importantly, there was also a high prevalence of unsatisfactory data and reporting.

Given these concerns, the Governance & Audit Committee, at its November 5, 2015 meeting, approved the Auditor General's request for additional funding to perform supplemental testing to independently substantiate historical invoiced amounts and operational data reported to VTA (the Phase II portion of this report).

Please see our initial Phase I report dated December 3, 2015 for all detailed comments and background information.

This assessment, as are all Auditor General (AG) audits, reviews and assessments, was performed in accordance with the Standards for Consulting Services issued by the American Institute of Certified Public Accountants.

### Objective and Scope

Due to the contract size and complexity of Outreach's brokerage services business model, the Auditor General sought to achieve the following objectives in the course of the review:

Phase I (previously reported to G&A Committee in November 2015)

- Obtain an understanding of VTA's paratransit services processes and controls
- Assess the effectiveness of the design and operation of internal controls related to paratransit operations, including financial billing and reporting
- Assess whether reasonable safeguards are in place to minimize VTA exposure to paratransit service related liabilities
- Identify potential opportunities for process and control improvements

Phase II (this report)

- Assess the accuracy of Outreach invoices to VTA for vendor operations, brokerage services and eligibility services
- Assess the underlying invoice support to verify that it complied with the contract
- Perform analytical testing of client trip data from Trapeze PASS transportation software, and eligibility data from OTR, which is Outreach's platform for all ADA eligibility records



## Executive Summary (continued)

### Overall Summary and Review Highlights

#### ADA Paratransit Service and Operations (Initial Audit; called Phase I)

We assigned an overall rating for the phase I report of *High* to help management understand our assessment of the overall design and operating effectiveness of VTA's ADA paratransit operations. This rating was based on six observations rated *High* and one *Medium*. Overall, we noted consistent, pervasive concerns pertaining to the paratransit services agreement and supporting processes and controls, including VTA's management of the agreement as well as supporting processes and controls.

### Overall Report Rating & Observations (See Appendix A for definitions)

	Report Rating	Number of Observations by Risk Rating		
		High	Medium	Low
<b>ADA Paratransit Testing (Phase II)</b>	<b>High</b>	<b>2</b>	<b>0</b>	<b>0</b>

Specifically, we observed that the contracted ADA paratransit brokerage service model between VTA and Outreach is unnecessarily complex, which often results in unclear data and inconsistent documentation. Further, VTA does not currently have access to its ADA data for independent verification which by contract they own. We encountered issues with the transparency, clarity and consistency of data throughout the Phase I review. As a result, the information and reports provided were not readily verifiable or reconcilable.

The observations pertaining to the complex reporting of the ADA paratransit services program and unsatisfactory quality of data are a result of (1) the structure of VTA's contract with Outreach and (2) VTA's suboptimal contract administration and oversight of Outreach's performance. The Auditor General's initial Phase I report was issued on December 3, 2015. VTA management agreed with our recommendations and has implemented many corrective actions and initiated others.

#### ADA Paratransit Testing (Phase II)

There were lengthy delays in receiving ADA source data and supporting information from Outreach. Upon analysis of source data eventually provided by Outreach, we noted significant inconsistencies and potential errors. Therefore, we assigned an overall report rating of *High* to help management understand our assessment of the overall design and operating effectiveness of Outreach's practices. We have two summary observations, both of which are rated *High*, as shown in the Detailed Observations section on Page 3. Overall, we continued to notice consistent, pervasive, significant concerns pertaining to Outreach's overall billing process.

Specifically, we observed that the Outreach invoicing process is unnecessarily complex and lacks support necessary to validate expenses through third party or system generated schedules and reports. This approach often results in too little, too much, or inconsistent documentation to adequately validate the authenticity of ridership and underlying costs. Any invoicing should be based on underlying support that can be independently verified. Additionally, we encountered issues with the transparency, clarity and consistency of data throughout the review. As a result, the information and reports provided were not initially verifiable or reconcilable. The nature of our audit inquiries and the documentation requested is consistent with other audits we have performed for VTA, as well as other governmental entities.

The Auditor General has coordinated with VTA's Legal Department regarding these issues, and Outreach's compliance with the contract.

VTA management agreed with the Auditor General Office's recommendations and has agreed to take corrective actions by Board direction. Several corrective actions have already been accomplished, others have been initiated, while some are pending Board decision.

#### Closing

This report was prepared for use by VTA's Board of Directors, Governance & Audit Committee, and management. Recommendations for improvement are presented for management's consideration, and management is responsible for the effective implementation of corrective action plans.

Questions should be addressed to Bill Eggert in the VTA Auditor General's Office at [Auditor.General@VTA.org](mailto:Auditor.General@VTA.org).



## OBSERVATIONS SUMMARY—PHASE II

Following is a summary of observations noted in the areas reviewed. Definitions of the observation rating scale are included in Appendix A

Ratings by Observation	
Observation Title	Rating
<b>1. LACK OF ADA SYSTEM SOURCE DATA</b>	<b>High</b>
<b>2. SOURCE DATA INCONSISTENCIES AND POTENTIAL ERRORS</b>	
2.1 INCONSISTENT TRAPEZE TRIP AND TOTAL RECORD COUNT	
2.2 TRAPEZE TRIP/RECORD MODIFICATIONS	
2.3 INCOMPLETE TRAPEZE TRIP/RECORD DATA	
2.4 ABNORMAL USERNAME DISTRIBUTION FOR TRAPEZE TRIP CREATION AND MODIFICATION	
2.5 MISSING TRAPEZE RECORDS	
2.6 TRIPS WITH ABNORMAL TRAPEZE APPLICATIONS ACTIONS	
2.7 MISREPORTED TRIP/RECORD COUNT	
2.8 IMPACT OF COUNTY CONTRACTS WITH OUTREACH	



## DETAILED OBSERVATIONS—PHASE II

### Lack of ADA System Source Data

<p><b>Ref. #1</b></p> <p><b>Observation:</b>          Auditor General’s Office repeatedly requested source data or native files (i.e. unmodified trip data directly from the system) from the paratransit provider’s Trapeze PASS and OTR (Eligibility) databases. However, we did not receive the data timely and/or in a consistent and unmodified format. Once received, the AG’s Office was unable to independently determine the completeness or accuracy of a majority of the trip data.</p>	<p><b>Recommendation:</b>          We recommend that VTA terminate the paratransit provider’s contract for convenience, and begin the process of an RFP to evaluate qualified providers. These actions will protect VTA’s assets and reputation, and allow the most efficient and effective operation and oversight of the important paratransit program.</p> <p>We recommend that VTA develop a corresponding plan to continue to provide ADA-eligible rides to prevent any community or service impacts.</p>
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### Observation Rating: High

<p><b>1.1</b> VTA’s contract with Outreach states that VTA owns all ADA data. As previously noted in our Phase I report, VTA does not have access to or a copy provided of any ADA source data (from Outreach’s Trapeze PASS and OTR systems). For Phase II, we made multiple requests for the native or source data files from Outreach to independently confirm the authenticity of client trips.</p> <p>Outreach initially provided Excel spreadsheets, then subsequently cited the need to protect their business model and non-ADA clients. After VTA signed a Non-Disclosure Agreement (NDA), we ultimately were provided copies of the Trapeze PASS databases for fiscal years 2014 and 2015.</p> <p>We have also been given inconsistent data. For example, one data set received during the Phase I audit reported 46,410 Personal Care Attendant (PCA) and 10,193 companion trips. A second data set received in January 2016 reported 112,441 PCA and 94,384 companion trips. Upon inquiry, the Outreach CEO indicated that the initial PCA and companion dataset was a “working copy.” This raises more questions about why there are two sets of reports and concerns about the reporting processes.</p>	<p><b>1.1</b> The risk associated with VTA not receiving access to or a copy of all ADA data has increased substantially.</p> <p>We recommend VTA take appropriate legal action(s) to obtain a copy of all ADA data, both current and archived, both for their records and to protect their assets.</p> <p>Without adequate independent review controls and access to Trapeze client trip data and eligibility data, VTA risks potentially paying inaccurate invoice amounts to the vendor as well as submitting inaccurate federal transportation data.</p> <p>We also recommend VTA consider housing the ADA software/data on VTA servers and allow the third party vendor to have access to all relevant systems and applications to deliver ADA paratransit services.</p>
<p><b>1.1</b> VTA management concurs with the recommendation to terminate the paratransit provider contract for convenience as well as the other recommendations.</p> <p>Should the Board decide to terminate the contract, staff has developed an Operations and Communications plan for transition of paratransit service to ensure uninterrupted service to the paratransit community. It has also begun initial development of the scope for an RFP.</p> <p><b>Responsible Party:</b> Chief Operating Officer  <b>Target Date:</b> 7/31/17</p>	



## DETAILED OBSERVATIONS—PHASE II (CONTINUED)

### Source Data Inconsistencies and Potential Errors

<b>Ref. #2</b>	<p><b>Observation:</b>          The Auditor General's Office performed statistical sampling, analytical review, reasonableness testing and other procedures on the source data received from Outreach.          We detected a number of inconsistencies and potential errors. Given the magnitude of these issues, the AG's Office was unable to independently determine the completeness or accuracy of the majority of the trip data.</p>
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<p><b>Recommendation:</b>          We recommend evaluating the risk of overbilling by the paratransit provider, and seek recovery of funds where appropriate.          VTA should continue to meet with the paratransit provider to resolve these matters.</p>
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### Observation Rating: High

<b>2.1 Inconsistent Trapeze Trip and Total Record Count</b>	<p>The paratransit provider (Outreach) provided Trapeze files which included 513,810 total trips invoiced to VTA between July 2014 and June 2015. The Trapeze backup production database included 502,662 total ADA labeled trips between July 2014 and June 2015. The difference is 11,148 trips. The difference in trip totals approximates the number of the County's Senior Nutrition Program trip totals (11,200) noted in the Trapeze backup production database.</p>
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<b>2.1</b>	<p>We recommend that VTA develop a process to better analyze and reconcile total trips reported and billed by Outreach.          VTA's ADA department should communicate with VTA's Grants department regarding invoices and supporting documentation from Outreach to ensure accurate reporting of trips.</p>
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<p><b>2.1</b> VTA management agrees with the recommendations. Staff will implement procedural processes that clearly address measures of how data reconciliation and total trip statistics are to be monitored, reported and billed. The success of the process is predicated on full TRAPEZE data access and contractor cooperation.  <u>Responsible Party:</u> Chief Operating Officer  <u>Target Date:</u> 9/30/16</p>
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## DETAILED OBSERVATIONS—PHASE II (CONTINUED)

Source Data Inconsistencies and Potential Errors (continued)		
<p><b>2.2 Trapeze Trip / Record Modification</b></p> <p>Approximately 60,000 trips (for the period of December 1, 2014 through June 30, 2015) were modified between the dates of January 26, 2016 through February 7, 2016.</p> <p>These modifications by Outreach occurred within one day of when the AG requested a better understanding of trip data discrepancy from the paratransit provider.</p>	<p><b>2.2</b></p> <p>Modified records that resulted in trips billed to VTA should be assessed to determine if they are valid, or if they should be charged back to the paratransit provider.</p>	<p><b>2.2</b> VTA management agrees with the recommendation. Staff will implement procedural processes that clearly address measures of how data reconciliation and total trip statistics are to be monitored, reported and billed. Trip modification will only be permitted with requirements of proper coding and modification action tracker notes supported within the TRAPEZE scheduling software. Implementation of these changes is predicated on full TRAPEZE data access, contractor cooperation and amendment of the current contract.</p> <p><u>Responsible Party:</u> Chief Operating Officer</p> <p><u>Target Date:</u> 9/30/16</p>
<p><b>2.3 Incomplete Trapeze Trip/Record Data</b></p> <p>Trapeze data includes 119,000 trips where the actual pickup and drop-off time is noted as “-1”. This could be a code or it could indicate that there was no actual pickup time. Per discussion with VTA, “-1” is typically used to identify an incomplete booking.</p> <p>Standard procedure is to remove incomplete booking records when creating an invoice. Approximately 38% of the trip records include a “-1” value in the actual pickup time field.</p>	<p><b>2.3</b></p> <p>We recommend VTA clarify how actual pick-up and drop-off times are recorded in the Trapeze PASS system by the paratransit provider.</p> <p>We also recommend following up with Outreach to confirm how “-1” is used by the paratransit provider and make any corrective action if needed.</p>	<p><b>2.3</b> VTA management agrees with the recommendations. Staff will implement procedural processes that clearly address measures of how data reconciliation and total trip statistics are to be monitored, reported and billed. The success of the process is predicated on full TRAPEZE data access, contractor cooperation and amendment of the current contract.</p> <p><u>Responsible Party:</u> Chief Operating Officer</p> <p><u>Target Date:</u> 9/30/16</p>



## DETAILED OBSERVATIONS—PHASE II (CONTINUED)

Source Data Inconsistencies and Potential Errors (continued)		
<p><b>2.4 Abnormal Username Distribution for Trapeze Trip Creation and Modification</b></p> <p>Approximately 560,000 client trip/records were created in Trapeze by a total of 69 Outreach usernames.</p> <p>Outreach employee(s) with the Username of “Active” inputted approximately 90,000 records (client trips). The records/trips input by “Active” may be a system generated procedure that loads subscription based customer trips on a periodic basis.</p> <p>A separate Username created approximately 32,000 records. That is 128 records per day. That is one record every 3.75 minutes (8 hour day).</p> <p>Further, Username JESSEV modified approximately 208,000 records and Username TRANH modified approximately 176,000 records. They each modified more than one trip every minute.</p>	<p><b>2.4</b></p> <p>We recommend clarifying with the paratransit provider how and why this very high volume of modifications occur, as well as who performs modifications.</p> <p>We recommend determining if it is possible to modify this many trips via manual keys, why there would need to be that many modifications, and what would drive a system upload.</p>	<p><b>2.4</b> VTA management agrees with the recommendations. Staff will implement procedural processes that clearly address measures of how data reconciliation and total trip statistics are to be monitored, reported and billed. Trip modification will only be permitted with requirements of proper coding and modification action tracker notes supported within the TRAPEZE scheduling software. Successful implementation of these changes is predicated on full TRAPEZE data access, contractor cooperation and amendment of the current contract.</p> <p><u>Responsible Party:</u> Chief Operating Officer</p> <p><u>Target Date:</u> 9/30/16</p>
<p><b>2.5 Missing Trapeze Records</b></p> <p>Trapeze PASS creates a unique, sequentially numbered booking ID when trip information is entered into the application. Similar to a check register, there should not be gaps in the booking ID sequence. After reviewing the database extract, we identified a significant number of missing booking ID's.</p> <p>There are 117,462 gaps with a total of 294,706 records that are missing/deleted. In a typical transit agency and industry best practice, standard operating procedure would prohibit deleting trip/records from the application.</p>	<p><b>2.5</b></p> <p>We recommend clarifying with the paratransit provider how and why trips are deleted from the system, as well as who has access to delete records.</p> <p>We recommend determining if it is possible to delete this many trips via manual intervention, and why there would be a need to delete records.</p>	<p><b>2.5</b> VTA management agrees with the recommendations. Staff will implement procedural processes that clearly address measures of how data reconciliation and total trip statistics are to be monitored, reported and billed. Best practices will be properly identified and explained that prohibit deletion of any records.</p> <p><u>Responsible Party:</u> Chief Operating Officer</p> <p><u>Target Date:</u> 9/30/16</p>





## DETAILED OBSERVATIONS—PHASE II (CONTINUED)

### Source Data Inconsistencies and Potential Errors (continued)

#### 2.6 Trips with Abnormal Trapeze Application Actions

Trapeze PASS application records actions taken to schedule and administer trips. Actions would include scheduling, recording pick-ups and drop-offs, ride adjustments for unscheduled PCA or companion pick-ups, etc. Trip records should typically have 7 to 12 actions noted in the “NumLogActions” field.

We noted that approximately 16,000 trips (dated in December 2014) had zero actions and approximately 35,000 trips (from dates year round) had one action.

Trips records with zero actions could indicate that the trip was uploaded directly into the database and was not recorded through the normal Trapeze interface. Trip records with one action could indicate that the trip was added to Trapeze but never physically taken because there are no actions to record pick-up or drop-off.

#### 2.6

We recommend investigating why Outreach is not using a consistent methodology to record trips.

We recommend assessing the risk of overbilling as a result of this incomplete data, and seeking recovery of funds where appropriate.

2.6 VTA management agrees with the recommendations. Staff will implement process and procedures that address procedures on how data reconciliation and total trip statistics are to be reported and billed. Implementation of this change will require amendment of the current contract. It will then be the responsibility of the contractor to make certain all sub-contracted providers are aware of these policies and procedures and adhere to them accordingly.

Responsible Party: Chief Operating Officer

Target Date: 9/30/16

#### 2.7 Misreported Trip / Record Count

The trip count reported to the National Transit Database (NTD) is inconsistent with the trip count in the Trapeze production database extract.

Trip totals reported to NTD are greater than trip totals in the Trapeze production database extract. Client trip totals are over-reported by approximately 11,148 trips. Outreach, and by extension VTA, is over-reporting client trips, and therefore passenger trips, to the Federal government.

#### 2.7

There is a risk of incorrect reporting to the NTD. We recommend VTA evaluate the effect of over-reporting the number of trips and inform the Federal Transit Administration (FTA) of its findings.

2.7 VTA management agrees with the recommendation. Staff will implement process and procedures that address procedures on how data reconciliation and total trip statistics are to be reported and billed. Additional requirements will address how mandatory source data is to be reported to conform to NTD and FTA requirements. Implementation of these changes will require amendment of the current contract.

Responsible Party: Chief Operating Officer

Target Date: 9/30/16



## DETAILED OBSERVATIONS—PHASE II (CONTINUED)

### Source Data Inconsistencies and Potential Errors (continued)

#### 2.8 Impact of County Contracts with Outreach

Outreach is a state-designated consolidated transportation services agency (CTSA), and also manages multiple Santa Clara County programs focused on providing health and human services transportation.

Santa Clara County has a “STARS” contract with Outreach that provides payment for transportation services for ADA eligible participants in the Senior Nutrition Program (SNP). Outreach certifies that the SNP participants require an ADA paratransit ride and bills the County.

The County reimburses Outreach with a “subsidy” of \$6.25 for each one-way ADA ride. It appears that some of these trips were also billed to VTA.

#### 2.8

VTA should consider the impact of comingled data which is prohibited in the contract with Outreach.

VTA should investigate the potential double billing of VTA’s ADA trips and the County’s social service programs for the same riders.

2.8 VTA management agrees with the recommendations. Staff will request and review Outreach’s policies and procedures that identify how data for separate billing sources are controlled to prevent double billing. Should procedures lack sufficient protocols to prevent potential billing mistakes, staff will request specific changes with the expectation of immediate implementation.

Responsible Party: Chief Operating Officer

Target Date: 9/30/16



## APPENDIX A—RATING DEFINITIONS

Observation Risk Rating Definitions		Report Rating Definitions	
Rating	Definition	Rating	Explanation
Low	Process improvements exist but are not an immediate priority for VTA. Taking advantage of these opportunities would be considered best practice for VTA.	Low	Adequate internal controls are in place and operating effectively. Few, if any, improvements in the internal control structure are required. Observation should be limited to only low risk observations identified or moderate observations which are not pervasive in nature.
Medium	Process improvement opportunities exist to help VTA meet or improve its goals, meet or improve its internal control structure, and further protect its brand or public perception. This opportunity should be considered in the near term.	Medium	Certain internal controls are either: <ul style="list-style-type: none"> <li>• Not in place or are not operating effectively, which in the aggregate represent a significant lack of control in one or more of the areas within the scope of the review.</li> <li>• Several moderate control weaknesses in one process, or a combination of high and moderate weaknesses which collectively are not pervasive.</li> </ul>
High	Significant process improvement opportunities exist to help VTA meet or improve its goals, meet or improve its internal control structure, and further protect its brand or public perception presents. This opportunity should be addressed immediately.	High	Fundamental internal controls are not in place or operating effectively for substantial areas within the scope of the review. Systemic business risks exist which have the potential to create situations that could significantly impact the control environment. <ul style="list-style-type: none"> <li>• Significant/several control weaknesses (breakdown) in the overall control environment in part of the business or the process being reviewed.</li> <li>• Significant non-compliance with laws and regulations.</li> <li>• High risk observations which are pervasive in nature.</li> </ul>
		Not Rated	Opportunity to improve efficiency or profitability of operations, but does not indicate an internal control weakness or a material inefficiency.



## APPENDIX B—DETAIL BACKGROUND INFORMATION

Paratransit service is required by the Federal Americans with Disabilities Act (ADA) to complement fixed route transit by offering an equivalent level of transportation service for persons who are unable to use fixed route transit due to their disabilities. Federal regulations require ADA paratransit to meet the following criteria:

- Service must be available in an area within  $\frac{3}{4}$  of a mile of VTA's fixed route system;
- Eligible customers are able to schedule trips for service next week;
- The paratransit trip fare cannot be greater than twice the fare for a trip of similar length, at a similar time of day, on VTA's fixed route system;
- There are no restrictions on trip purpose or priorities;
- Service is available during the same hours and days as fixed route service; and
- The availability of paratransit service to eligible customers is not limited.

VTA has contracted with Outreach since 1993 to provide ADA paratransit brokerage services. Although the contract has been amended since its inception, the brokerage services contract has not been competitively bid by VTA since 1993, a period exceeding 20 years. Most recently, on December 12, 2013, VTA's previous general manager and chief operating officer both recommended that the Outreach Paratransit contract be extended without VTA completing a competitive bid process or comprehensive cost analysis. Based on this recommendation, VTA's Board of Directors approved the contract extension on December 23, 2013, whereby the period of performance was to continue in effect through June 30, 2021. Then, beginning July 1, 2021 and every other July 1 thereafter, the agreement will automatically renew for another two-year term, effectively affording the ADA paratransit brokerage services agreement evergreen status.

The primary functions of Outreach as the paratransit broker include: (A) determining eligibility of customers to use the ADA paratransit service; (B) managing customer fare payment accounts; (C) scheduling customer reservations for service; (D) dispatching paratransit trips; (E) monitoring and resolving customer issues; (F) managing the vehicle fleet; and (G) procuring and establishing contracts with transportation service providers and other ADA paratransit service sub-contractors.

Transportation service providers are responsible for providing actual ADA paratransit service trips that are scheduled by Outreach. As of FY 2016, Outreach contracts with MV Transit as the primary, dedicated transportation provider. Additionally, Outreach utilizes non-dedicated transportation providers (typically local taxi companies) to provide additional ADA transportation services.

For FY 2016, Outreach expects to deliver 754,000 trips and incur gross capital and operating expenses of approximately \$23 million, with an approved net cost (less fares and other revenue) to VTA of \$19.8 million. As a designated consolidated transportation services agency (CTSA), Outreach also manages multiple programs that are focused on providing health and human services transportation within Santa Clara County for populations such as low income persons, older adults, Cal WORKS participants, homeless persons, veterans and persons with disabilities.

In 2011, VTA's Auditor General's Office conducted a contract compliance audit, the objective of which was to assess Outreach's contract compliance, processes and controls regarding invoicing and compensation, reporting to VTA, ADA eligibility, third-party subcontracting and vendor management. Audit results were submitted to VTA's then Audit Committee. The report identified three findings that, as discussed in the December 2013 Board recommendation presented by VTA management, were said to have been fully addressed. However, as described in the detailed observations and recommendations section of this report, it is clear that any remediation was not sustained over time. The prior audit findings are still present and potentially more pervasive than previously identified.