

MTC TRANSIT SYSTEM PERFORMANCE AUDIT GUIDE

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Table of Contents

I.	Background.....	1
II.	Statutory Requirements.....	1
III.	Roles and Responsibilities of Audit Participants.....	3
IV.	Published Guidance, Documentation and References	6
V.	Final Audit Report Format – Audit of MTC.....	7
VI.	Approaches to the Development of an Audit Work Program.....	8
VII.	Considerations in Auditing Small-Scale and Very Small-Scale Operators	9
VIII.	Audit Report Recommendations and MTC’s PIP Program	12
IX.	Other Performance Review Professional Services	12

I. Background

As the transportation planning agency charged with administering Transportation Development Act (TDA) funds for the San Francisco Bay Area, MTC is legally required to conduct triennial performance audits of each transit operator to whom it allocates TDA Article 4 funds. The performance audits involve a systematic review, performed by independent and qualified professionals using formal audit procedures, to determine the extent to which an operator has complied with pertinent laws and regulations, and conducted operations in an efficient and economical manner.

MTC's objective in overseeing these audits is to meet the legal audit requirements while at the same time to provide transit operators with constructive and useful recommendations for improving the efficiency and effectiveness of their transit systems. MTC believes that the performance audits should be a cooperative exercise among the auditor, the operator and MTC.

This guide has been developed to clarify the performance audit purpose and process for the participating entities. Included in the guide are descriptions of the statutory and administrative requirements for the audit and roles and responsibilities of the participants.

II. Statutory Requirements

A. Transportation Development Act (Public Utilities Code)

The statutory requirements for conducting triennial performance audits are embodied in the following California Public Utilities Code sections (shown in pertinent parts):

Section 99246, Performance Audits of Planning Entities and Operators:

- (a) The transportation planning agency shall designate entities other than itself, a county transportation commission, a transit development board, or an operator to make a performance audit of its activities and the activities of each operator to whom it allocates funds. The transportation planning agency shall consult with the entity to be audited prior to designating the entity to make the performance audit.
- (b) The performance audit shall evaluate the efficiency, effectiveness, and economy of the operation of the entity being audited and shall be conducted in accordance with the efficiency, economy, and program results portions of the Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions." Performance audits shall be conducted triennially pursuant to a schedule established by the transportation planning agency, transit development board, or county transportation commission having jurisdiction over the operator.
subpart (c) purposely omitted
- (d) With respect to an operator providing public transportation services, the performance audit shall include, but not be limited to, a verification of the

operator's operating cost per passenger, operating cost per vehicle service hour, passengers per vehicle service hour, passengers per vehicle service mile, and vehicle service hours per employee, as defined in Section 99247. The performance audit shall include, but not be limited to, consideration of the needs and types of passengers being served and the employment of part-time drivers and the contracting with common carriers of persons operating under a franchise or license to provide services during peak hours, as defined in subdivision (a) of Section 99260.2. The performance audit may include performance evaluations both for the entire system and for the system excluding special, new, or expanded services instituted to test public transportation service growth potential.

Section 99247, Performance Measure Definitions

For purposes of section 99246:

- (a) "Operating cost" means all costs in the operating expense object classes exclusive of the costs in the depreciation and amortization expense object class of the uniform system of accounts and records adopted by the Controller pursuant to Section 99243, and exclusive of all subsidies for commuter rail service operated under the jurisdiction of the Interstate Commerce Commission and of all direct costs for providing charter services, and exclusive of all vehicle lease costs.
- (b) "Operating cost per passenger" means the operating cost divided by the total passengers.
- (c) "Operating cost per vehicle service hour" means the operating cost divided by the vehicle service hours.
- (d) "Passengers per vehicle service hour" means the total passengers divided by the vehicle service hours.
- (e) "Passengers per vehicle service mile" means the total passengers divided by the vehicle services miles.
- (f) "Total passengers" means the number of boarding passengers, whether revenue producing or not, carried by the public transportation system.
- (g) "Transit vehicle" means a vehicle, including, but not limited to, one operated on rails or tracks, which is used for public transportation services funded, in whole or in part, under this chapter.
- (h) "Vehicle service hours" means the total number of hours that each transit vehicle is in revenue service, including layover time.
- (i) "Vehicle service miles" means the total number of miles that each transit vehicle is in revenue service.
- (j) "Vehicle service hours per employee" means the vehicle service hours divided by the number of employees employed in connection with the public transportation system, based on the assumption that 2,000 person-hours of work in one year constitute one employee. The count of employees shall also include those individuals employed by the operator which provide services to the agency of the

operator responsible for the operation of the public transportation system even though not employed in that agency.

B. Comptroller General's Standard for Audit of Governmental Organizations, Programs, Activities, and Functions

The Comptroller General's Standards referred to in Public Utilities Code section 99246 are contained in the U.S. General Accounting Office, *Government Auditing Standards, August 2011*. This publication can be accessed on the Internet at: <http://www.gao.gov/govaud/iv2011gagas.pdf>.

As stated in the *Government Auditing Standards, 2011*.*

Performance audits are defined as audits that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability. The term "program" is used in GAGAS to include government entities, organizations, programs, activities, and functions.

Performance audit objectives vary widely and include assessments of program effectiveness, economy, and efficiency; internal control; compliance; and prospective analyses. These overall objectives are not mutually exclusive. Thus, a performance audit may have more than one overall objective. For example, a performance audit with an objective of determining or evaluating program effectiveness may also involve an additional objective of evaluating internal controls to determine the reasons for a program's lack of effectiveness or how effectiveness can be improved.

**Government Auditing Standards, August 2011, Sections 2.10 – 2.11*

In applying the guidance in the Comptroller General's Standards to the TDA performance audit, it can generally be stated that a TDA triennial performance audit involves a systematic review, performed by an independent and qualified professional firm, using formal audit procedures to evaluate the extent to which a transit operator, or a regional transportation planning agency, has met certain statutory and regulatory requirements, established and achieved program goals and objectives, and conducted its operations in an efficient, effective and economical manner.

III. Roles and Responsibilities of Audit Participants

MTC intends for the performance audit to be conducted cooperatively between the staffs of the auditor, the transit operator and MTC. Roles and responsibilities are as follows:

MTC:

1. Prepares the Request for Proposal to hire the auditor, and, in consultation with a representative of the transit operators, selects the auditor.
2. Manages the audit contract(s) and deliverables, and provides technical assistance to the auditor.
3. Provides information and materials, which in the opinion of the auditor, are necessary to conduct the audits of the transit operators, and/or the audit of MTC.
4. Prior to the start of the audits, the Project Manager explains MTC's TDA-STA fund application procedure to the auditing team at a meeting at MTC's offices. This explanation will include a "walk-through" of the MTC claim application, which is a Microsoft Excel workbook containing numerous worksheets, each of which is an application form (the forms are labeled in the workbook as "documents").
5. Confers with the operator's management and the auditor, concerning key issues to be examined as an optional task.
6. Mediates any disagreements between the auditor and the operator.
7. Assists the auditor in scheduling and coordinating entrance and exit conferences with the transit operators and MTC, and in scheduling briefing meetings with MTC management regarding the findings, conclusions, and recommendations of the draft audit reports.
8. Assists the auditor in conducting the conferral process between the auditor, transit operator staff and MTC staff (required for review of identified key issues).
9. Ensures the completion of the draft audit report and the final audit report within the required timeframe.
10. Transmits copies of final audit reports to transit operators' management.
11. Certifies to the California Department of Transportation that the audit has been completed.
12. Cooperatively develops with the operator's staff, Productivity Improvement Program (PIP) projects based on the findings and recommendations in the final audit report.
13. Responsible for annually making a finding (requisite to the allocation of TDA and STA funds) that the operator has made reasonable effort in the implementation of its PIP projects(s).

Transit Operator:

1. Participates in the auditor selection process (through a representative of the region's transit operators).
2. Provides information and materials, which in the opinion of the auditor, is necessary to conduct the audit.

3. Provides adequate access to operator staff, who in the opinion of the auditor, should be interviewed in conducting the audit.
4. Reviews and responds to all audit work products.
5. Required to provide MTC with a written response to the final audit report, including information regarding how and when audit recommendations will be pursued as Productivity Improvement Program projects.

Auditor:

1. Adheres to the scope of work for the audit and satisfactorily completing, according to the schedule agreed to between the auditor and MTC, each of the deliverables under the scope of work.
2. Conducts a thorough, objective evaluation of the operator's performance, in accordance with the scope of work.
3. Adheres to professional standards, as described in the *Government Auditing Standards, August 2011*.
4. Affords all parties who might be affected by the audit findings and recommendations (e.g., governing body members, management and staff, labor union members, contractor representatives) the opportunity to verify the information which serves as the basis for the audit findings and recommendations. The auditor must, while maintaining an objective interpretation of issues and potential remedies, provide adequate means to discuss the draft audit report findings and conclusions with the operator's management and staff.
5. Produces concise, well-written reports (draft audit report and final audit report), including well-substantiated findings and recommendations.
6. Develops final audit report recommendations which lend themselves to the development of Productivity Improvement Program projects that are responsive to the operator's needs and reasonable for the operator to implement.
7. Collects and maintains documentation and data that supports the discussion, findings and recommendations contained in the final audit report.
8. Conducts an audit entrance conference with the operator's management and staff, to explain and discuss the audit approach, and solicit documentation, reports and other materials necessary to conduct the audit.
9. Responsible for conducting project and program management services during the audits, and for developing a written proposal for the scope of work and cost for conducting work proposed under Tasks 1 and 2 of the RFP.
10. Conducts an audit exit conference with the operator's management and staff prior to the publication of the final audit report. The exit conference is intended to provide the means to discuss the draft audit report findings and conclusions with the operator's management and staff and MTC staff.

11. Responsible for conducting a briefing of MTC executive management and the Project Manager on the major findings, conclusions, and recommendations of the draft audit reports prior to finalizing the reports.

12. Responsible (if requested to do so by MTC or the operator) for making a presentation on the final audit report to the operator's governing body.

13. Responsible for making a summary presentation to MTC or one of its committees, on the final audit reports of the operators included in the annual cycle of audits.

IV. Published Guidance, Documentation and References

The audits must be conducted in accordance with the *Government Auditing Standards, August 2011*. Guidance in conducting the audits is also provided in the RFP. The use of any other published guidance in conducting the audits is subject to review and approval by MTC.

As used in this RFP, "statutory" and "regulatory" compliance, unless otherwise noted, refer respectively, to California Public Utilities Code section 99200 et seq. Transportation Development Act, and to the California Code of Regulations section 6600 et seq.

Current statutes and regulations are available in a publication titled, *Transportation Development Act, Statutes and California Code of Regulations, March 2009*, published by Caltrans, which is available on the Internet at:

<http://www.dot.ca.gov/hq/MassTrans/Docs-Pdfs/STIP/TDA6-5-2012.pdf>

Care should be taken by the auditor to assure that the review and assessment of statutory and regulatory compliance requirements (for both the audit of a transit operator and the audit of MTC) is based on statutes and regulations in effect each year of the three year audit period.

To this extent, prior year editions of the Caltrans publication *Transportation Development Act, Statutes and California Code of Regulations*, are on file in the MTC-ABAG Library, located on the first floor of the Joseph P. Bort Metro Center, 101 Eighth Street, Oakland, California, 94607. The telephone number of the MTC-ABAG Library is (510) 817-5836, and the e-mail address is library@mtc.ca.gov.

Likewise, the last year of three fiscal year audit period for the audit of transit operators conducted in the third fiscal year of the contract under this RFP will include fiscal year 2013-14. Care should be taken by the auditor to assure that the review and assessment of statutory and regulatory compliance requirements is based on statutes and regulations in effect in this final year of the three year audit period.

Reference documents for conducting the audits include, but are not limited to:

- MTC Productivity Improvement Program, Administrative Procedures Manual.
- MTC Short Range Transit Plan Guidelines (MTC Resolution No. 3532, Revised).
- The MTC Productivity Improvement Program as contained in MTC Resolution Nos. 3927, Revised and 3973 and 4037.
- MTC's Overall Work Program, as adopted for fiscal years 2009-10, 2010-11 and 2011-12 (MTC Resolution Nos. 3907, 3953, 4010, respectively).
- MTC's Overall Work Program, as adopted for fiscal year 2012-13 (MTC Resolution No. 4057).
- MTC (internal) Quarterly Progress Reports.
- MTC (internal) weekly "Management Staff" meeting agendas.
- MTC's TDA/STA Claim Forms and Instructions.
- The fiscal audits of MTC, covering fiscal years 2009-10, 2010-11, and 2011-12.
- Transit operator's Short Range Transit Plans covering the three year audit period for each operator.
- Transit operator's most recently completed prior TDA Triennial Performance Audit report.
- Transit operator's financial audits covering the three year audit period.
- Transit operator's adopted budgets for the three year audit period.
- Transit operator's TDA-STA claim applications covering the three year audit period.
- Transit operator's National Transit Database reports for the three year audit period (for operators that receive FTA section 5307 operating funds).
- Transit operator's service contracts (for services provided under contract with a private transportation company or other agency): contracts in affect during the three year period of the audit and current contracts.
- Transit operator's labor agreement(s) in effect for the three year audit period, and current agreement(s).

V. Final Audit Report Format – Audit of MTC

The Audit Survey and Detailed Audit phases of the audit of MTC will result in an audit report. A draft report will pertain to the results of the Audit Survey phase, and a draft and final report will pertain to the combined results of the Audit Survey phase and the Detailed Audit phase. Reports must be formatted to present a logical flow of information. The report format should be consistent with the Publication Standards for the Metropolitan Transportation Commission (available from the MTC-ABAG library), and shall include:

1. Cover and Title Page

The cover and title page must identify the reports as: "Draft Audit Survey Report of the Triennial Performance Audit of MTC," "Draft Performance Audit Report of MTC," and "Final Performance Audit Report of MTC." In each case, the cover and title page must identify the three fiscal years which are covered by the audit, the name of the auditing firm, the statement

“Prepared for the Metropolitan Transportation Commission,” and the month and year of publication.

2. Executive Summary

An Executive Summary of the audit should extract the findings and recommendations of the audit and present them in such a way that their relative importance is clear. The findings and recommendations should cross-reference page numbers in the main report to enable a reader to easily locate additional information about items discussed in the summary.

3. Introduction

The main body of the report should start with an introduction, briefly stating the purpose of the audit and the content of the report. The introduction should include:

- A basic description of the MTC and its roles;
- A brief description of the performance audit process, citing the legal requirements for conducting the audit;
- A brief discussion of the structure and content of the report, including the topics covered.

4. Results, Compliance Audit

This section of the report should describe the audit approach, outline the audit process as described in the scope of work in the RFP, and describe the results of the Audit. In addition to the narrative, the use of graphic formats is encouraged. Any recommendations must be well-substantiated by the content of this section.

5. Conclusions and Recommendations

This section of the report should detail the final recommendations of the performance audit. For each recommendation, reference should be made to the conclusions and commentary presented in the results of the Audit that form the basis for and substantiate the recommendation. Key issues which may merit more in-depth assessment should also be identified.

VI. Approaches to the Development of an Audit Work Program

The essential element of the audit work program is to determine the critical elements or problems related to the audit objective with respect to the management process, expected results and specific issues involved in management decision-making. A variety of analytical techniques can be used to assess these critical elements. These activities include one or more of the following:

- Detailed documentation of current procedures can be prepared using flowcharting or similar techniques. For example, flowcharting might be used to describe the purchasing process for vehicle parts inventory items in order to determine the causes of delays associated with parts acquisition.

- Evaluation of transit operator data used to calculate performance statistics can be performed to validate the actual performance against reported performance and to create a performance statistic where none previously existed. An example of this might be the sampling of dispatcher logs to determine the rate of operator absenteeism.
- Selected cost analyses, statistical or special investigations may be appropriate for certain investigating needs. For example, an analysis of labor union contracts and the actual transit operator costs associated with the provision of a typical day's service can provide insight into the major items of costs that are controllable. This analysis can lead either to revised scheduling or dispatching processes or to suggested modifications in labor contracts to produce productivity results.
- Detailed investigative analysis through interviews and review of selected management documentation can often be used to define management coordination problems and lead to improvement recommendations. Examples of this would be the tracing of reasons for delays in maintenance due to part unavailability, leading to the purchasing process, and hence leading back to be a useful procedure to define trends which have been adverse and unrecognized and that, when corrected, can improve results and efficiency. An example of this might be a review of current and historic staffing levels and personnel work descriptions.
- Analysis of detailed internal management statistics over time can be a useful procedure to define trends which have been adverse and unrecognized and that, when corrected, can improve results and efficiency. An example of this might be a review of current and historic staffing levels and personnel work descriptions.
- Selected industrial engineering analyses may also be conducted to determine if alternative procedures for repetitive activities can be found to reduce time and costs. An example might be the procedures used in washing and cleaning vehicles.

VII. Considerations in Auditing Small-Scale and Very Small-Scale Operators

Compliance audits are required under TDA law of both multi-modal systems with more than 1000 vehicles (San Francisco MUNI) and small Dial-A-Ride programs (Rio Vista) that receive TDA Article 4 funds. While the overall approach described in this guide apply equally, in practice the focus and conduct of the audits of smaller scale systems must take into account their special needs and characteristics. Flexibility is allowed in determining the extent of the key issue analysis of the small operators. The audit process for small operators is described in detail below.

Compliance Audit

The TDA performance measures analysis required under the compliance audit can be more challenging for small operations. The data management and reporting procedures are not sophisticated, often manual rather than computerized. The actual base data needed to construct the five TDA performance measures may not be systematically collected, may not conform to the formal TDA definitions, or in some cases, may not be

available at all. Consequently, greater care must be taken to verify the validity and reliability of the data used to develop the performance measures.

However, once the auditors are assured that the information is accurate, the performance measure analysis itself may prove more valuable for smaller scale systems. Compared to larger systems where many extraneous, intervening factors hinder the analysis, the reduced size and complexity of these operations often make it easier to identify the causes of observed trends. Therefore, if sound data are available to the auditor, it may be useful to expand the performance indicator analysis beyond the five measures required under TDA law. The auditor should discuss the possibility of an expanded analysis when setting the scope of work with MTC and the consultant.

Conduct of the Audit

For small, municipally run systems, operating a transit system is often only one of many administrative responsibilities of the city or county.

Persons charged with various transit related tasks (e.g. data collection and reporting, finance marketing) may be scattered throughout the city organization, and they are probably also responsible for many non-transit tasks. As a result, individuals dealing with transit functions may not possess extensive knowledge, and may have limited time to spend to address auditor's questions, compared to the staffs of specific transit districts, authorities, or departments of large operations.

The auditors should therefore take particular care to review the purpose and scope of the audit with city or county personnel, and identify the individuals within the administrative structure who are responsible for needed information. This is especially critical in the case of contract services, where the private operator may possess data the city itself does not maintain. Auditors should also be considerate in defining terminology carefully, to assure that persons involved understand the nature of requests made of them. Early clarification should reduce unnecessary duplication of effort by both auditors and city staff, and help to establish communication and cooperation between the two parties.

Table 1
Functional Areas of Transit Operators

1. Transportation Operations
 - a. Service Delivery
 - b. Vehicle Utilization
 - c. Operator Utilization
 - d. Safety and Training
2. Revenue Vehicle Maintenance
 - a. Vehicle Effectiveness
 - b. Maintenance Activity Effectiveness
 - c. Maintenance Activity Efficiency
 - d. Inventory Control
3. General Maintenance
 - a. Guideway and Station Maintenance (rail and trolley-bus only)
 - b. Power Distribution Systems Maintenance (electrified systems only)
 - c. Signal and Vehicle Control System Maintenance (rail only)
 - d. Shop Maintenance
 - e. Buildings, Grounds, and Equipment Maintenance
 - f. Non-Revenue Vehicle Maintenance
 - g. Inventory Control
4. Planning and Marketing
 - a. Service Planning and Market Analyses
 - b. Fare Policy
 - c. Scheduling
 - d. Public Relations and Advertising
 - e. Budgeting and Financial Planning
 - f. Capital Project Planning
5. General Administration
 - a. Purchasing
 - b. Inventory Control
 - c. Risk Management and Insurance
 - d. Personnel Management and Labor Relations
 - e. Information Technologies
 - f. Administration Services
6. Management and Organization
 - a. Organizational Effectiveness
 - b. Management Decision-Making Process

VIII. Audit Report Recommendations and MTC's PIP Program

The audit report recommendations must lend themselves to the development of MTC Productivity Improvement Program ("PIP") projects which address identified deficiencies or recommended changes or improvements, and which are reasonable for the operator to implement. Though PIP projects are positioned in statute as addressing changes and improvements which could "lower operating costs," PIP projects may address changes or improvements that otherwise affect system efficiency, effectiveness and economy.

Each recommendation must include a summary description of the steps the operator would need to take to implement the related project, and must also provide an estimate of the resources necessary to implement the project. Resources in this regard pertain to whether the recommendation can be implemented using the operator's staff, and/or consultant assistance, an estimate of the time that would be required to implement the recommendation, and the estimated cost to both implement and if applicable maintain the results of the project (e.g., in cases where the creation of a new procedure, program or staff position is recommended). The auditor must substantiate that the benefits of implementing a recommendation outweigh its costs, or if this is not the case, provide overriding considerations.

IX. Other Performance Review Professional Services

The RFP reflects MTC's intent to allow the auditor to undertake project and program management services related to, but beyond the scope of work of the performance audit, and which would benefit from the knowledge gained by the auditor in conducting the audit. Work performed would be expected to result in substantive policy and/or managerial guidance on region-wide performance metrics and on specific projects or progress in implementing Productivity Improvement Program Projects and would by definition address current conditions and circumstances. As part of Task 3, the Project Manager may ask the Consultant to assist in reviewing progress in implementing or establishing PIP projects based on:

1. Agency Goals, Objectives and Standards established through Short Range Transit Plans or other agency adopted policy documents;
2. Past TDA Audits;
3. Recommendations from the MTC Transit Sustainability Project, MTC Resolution 4060.

Any project and program management services work would be conducted under a task order (as an amendment to the contract between MTC and the auditor), and constitute work in addition to the scope of work shown in the RFP.