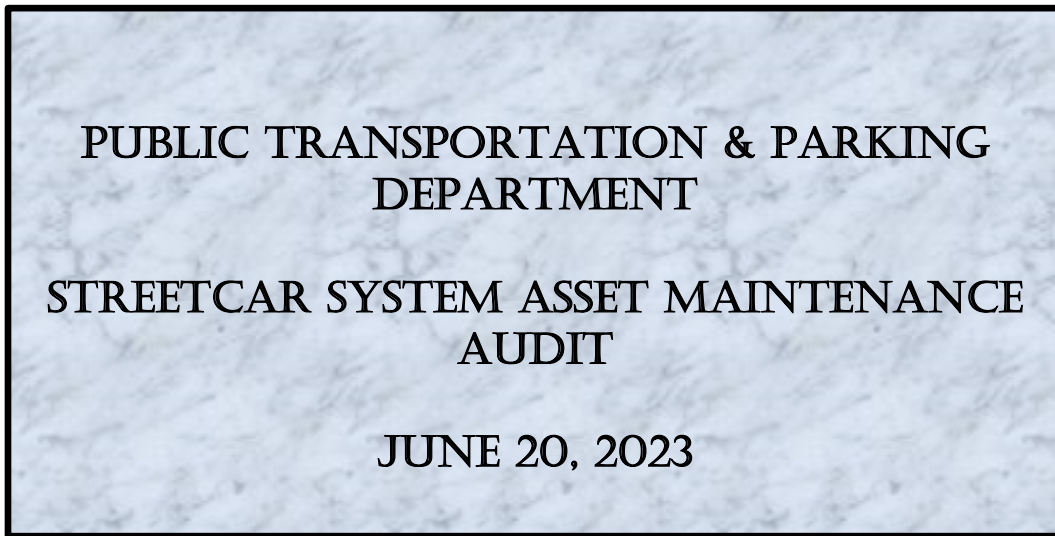


AUDIT TEAM
Matt Weller, CPA, City Auditor
Christy Barron, CPA, Audit Manager



MAYOR AND CITY COUNCIL

<i>David Holt</i>	<i>Mayor</i>
<i>Bradley Carter</i>	<i>Audit Committee, Ward 1</i>
<i>James Cooper</i>	<i>Ward 2</i>
<i>Barbara Peck</i>	<i>Audit Committee, Ward 3</i>
<i>Todd Stone</i>	<i>Audit Committee, Ward 4</i>
<i>Matt Hinkle</i>	<i>Ward 5</i>
<i>JoBeth Hamon</i>	<i>Ward 6</i>
<i>Nikki Nice</i>	<i>Ward 7</i>
<i>Mark K. Stonecipher</i>	<i>Ward 8</i>



June 20, 2023

The Mayor and City Council:

The Office of the City Auditor has completed an audit of the Public Transportation & Parking Department's (EMBARC) controls ensuring streetcar system assets are maintained in accordance with the third-party contract for streetcar system operation and maintenance during the fiscal year ended June 30, 2022.

Based on the results of our audit, we believe that EMBARK's controls were adequate and effective to ensure streetcar system assets were maintained by the third-party contractor during the fiscal year ended June 30, 2022, except for controls ensuring adequate and effective management of operational expense reimbursements.

Related recommendations, discussed in more detail in the attached report, are summarized as follows:

- A documented budget for reimbursable expenses should be agreed upon by the parties annually and monthly budget-to-actual reporting required. See Recommendation 1.
- Compliance with EMBARK purchasing policies should be routinely monitored to ensure the contractor is pursuing the best possible purchase prices. See Recommendation 2.
- Prior written approval should be considered for individual contractor purchases exceeding \$5,000. See Recommendation 3.
- Parts inventory transactions should be reviewed monthly to compensate for assignment of related custody and recordkeeping to one contractor employee. See Recommendation 4.

All comments, recommendations, suggestions and observations arising from our audit have been discussed in detail with appropriate representatives from management. These discussions were held to assure a complete understanding of the content and emphasis of items in this report. Responses to this report from management are attached.

Handwritten signature of Matt Weller in black ink.

Matt Weller
City Auditor

Handwritten signature of Christy Barron in black ink.

Christy Barron
Audit Manager

**PUBLIC TRANSPORTATION & PARKING DEPARTMENT
STREETCAR SYSTEM ASSET MAINTENANCE AUDIT**

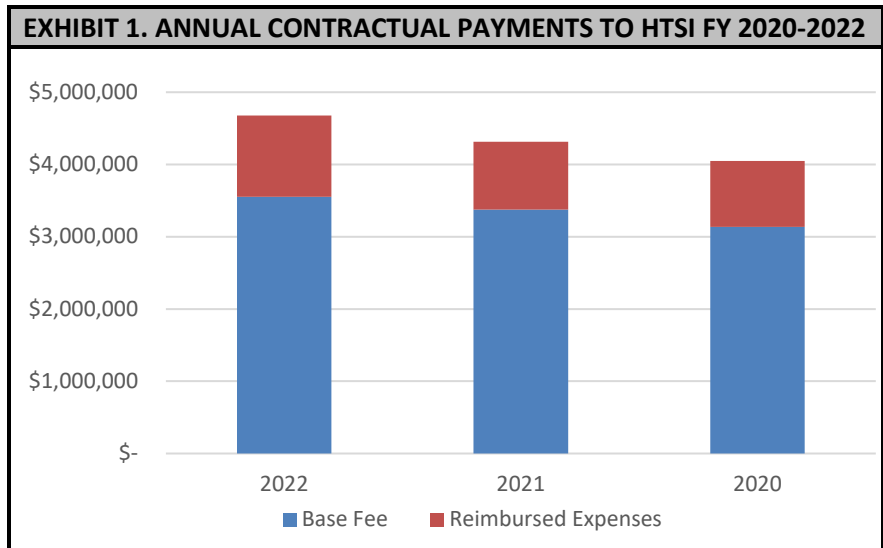
AUDIT OBJECTIVE, BACKGROUND, SCOPE, AND METHODOLOGY

The objective of this audit was to evaluate the adequacy and effectiveness of controls ensuring streetcar system assets are maintained in accordance with the third-party contract for streetcar system operation and maintenance during the fiscal year ending June 30, 2022.

The streetcar system, including construction and purchase of related assets, was completed in December 2018 through the MAPS 3 sales tax initiative at a total cost of approximately \$130 million. The City’s Public Transportation and Parking Department (EMBARK) is responsible for the operation and maintenance of the streetcar system.

EMBARK contracts for these services with a third-party vendor, Herzog Transit Services, Inc. (HTSI). HTSI is responsible for maintaining all streetcar system assets in accordance with plans approved by EMBARK under the contract. Streetcar system assets include the streetcars, track, stop platforms with shelters and ticketing kiosks, the overhead contact system, traction power sub-stations, and the streetcar storage and maintenance facility.

HTSI receives a fixed monthly base fee for their services plus allowance payments for subcontracted services and reimbursements for repair parts purchased and other operational expenses excluded from the base fee in the contract¹. Annual payments to HTSI for the first three full years of streetcar operations have averaged over \$4.3 million as shown in Exhibit 1 below and have increased by an average of over 7% annually.



Procedures performed during this audit included interviews of EMBARK and HTSI staff; review of the HTSI contract, approved maintenance plans, and standard operating procedures; examination of documentation relating to maintenance procedures performed, and related performance reporting; review of selected reimbursed expenses and allowance payments for validity and compliance with contractual requirements; reviews of inventory records for accuracy and completeness; and physical inspection of inventories.

¹ HTSI is contractually allowed to subcontract certain services. The costs associated with subcontracted work is reimbursed as an allowance payment. For the purposes of discussion in the audit report, allowance payments are included as reimbursed expenses.

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 audit 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.

The following section of this report includes recommendations intended to provide constructive suggestions for improving controls ensuring streetcar system assets are adequately and economically maintained. Each recommendation included in this report is immediately followed by *management's response*, which is also attached to this report in its entirety.

RESULTS OF WORK PERFORMED

The results of our audit indicate that controls were adequate and effective to ensure streetcar system assets were maintained by the third-party contractor during the fiscal year ending June 30, 2022, except for controls ensuring adequate and effective management of operational expense reimbursements.

Comment 1

A documented annual budget for reimbursable operational costs beyond the base fee is not agreed upon by the parties or used to monitor actual reimbursed expenses. Non-base fee payments to the contractor have averaged approximately \$1 million annually over the first three years of operations.

Though the contract contemplates such budgets and monthly budget-to-actual reporting, current budgeting is limited to reimbursed expense totals that do not allow for any meaningful monitoring of reimbursed expenses and there is no routine budget-to-actual reporting. Excessive reimbursed expenses might not be timely detected if no documented budget is agreed upon and actual expenses are not routinely compared to budgeted amounts.

Recommendation 1

EMBARK and HTSI should annually agree on a documented budget for reimbursable expenses. The budget should include amounts for each significant cost specified in the contract as over and above the base fee (e.g., parts, supplies, repairs, allowances by subcontractor). EMBARK should also obtain budget-to-actual reports with explanations for significant variances from HTSI monthly and review the reasonableness of the variances and related explanations.

EMBARK Response 1

Agree with recommendation. Fiscal year 2024 budget amounts have already been established under the previous approach. However, EMBARK will work with HTSI to develop a fiscal year 2024 budget that will include parts, supplies, repairs, and allowances using previous year

historical data. Herzog will begin supplying monthly budget-to-actual reports to EMBARK in fiscal year 2024. This will ensure immediate budget-to-actual review with explanations for significant variances.

Comment 2

Evidence that competitive prices are pursued on purchases is not consistently retained by HTSI as required by the contract. The contract requires that evidence of compliance with EMBARK purchasing policies (e.g., documentation of three price quotations for non-contract purchases exceeding \$2,500, solicitation of competitive bids for purchases exceeding \$25,000, documentation justifying non-competitive sole source purchases) be retained by HTSI².

Three documented price quotations or documentation justifying non-competitive sole source purchasing was not available for seven of nine tested HTSI purchases exceeding \$2,500 during the audit period. Additionally, documentation evidencing solicitation of competitive bids for janitorial and snow removal services subcontracted during the audit period was incomplete.

Though bi-annual EMBARK reviews of HTSI purchase documentation for purchasing policy compliance are contemplated in the contract, there is no evidence that such reviews are occurring. Reimbursed HTSI expenses could become excessive if the best possible purchase prices are not pursued.

Recommendation 2

EMBARK should review HTSI purchase documentation for compliance with EMBARK purchasing policies at least bi-annually and document the results, including corrective actions agreed upon with HTSI when such are deemed necessary.

EMBARK Response 2

Agree with recommendation. EMBARK will set up a bi-annual audit schedule for fiscal year 2024 with HTSI to review purchasing documentation for compliance to include corrective actions when such are deemed necessary. Dates scheduled October 9, 2023 and April 2, 2024. This will ensure compliance with EMBARK's purchasing policy.

Comment 3

Higher dollar HTSI purchases are not subject to prior written EMBARK approval. Of 558 HTSI purchases reimbursed by EMBARK during the audit period, 42 exceeded \$5,000 individually and five of those purchases exceeded \$25,000 individually.

EMBARK purchasing policies do not require documented prior approval via approved purchase orders for purchases under \$5,000, instead mandating purchasing card use for those purchases

² EMBARK follows the City's purchasing policies and procedures. The threshold for soliciting competitive bids was increased from \$25,000 to \$50,000, as allowed by State statute, in the City's purchasing policies and procedures approved by City Council on February 28, 2023.

whenever possible. Though prior written EMBARK approval is required by the contract before unforeseen repairs exceeding \$2,500 are undertaken and for all spare part purchases, there is no evidence that such prior approvals are occurring.

Excessive reimbursed costs could occur without timely detection if EMBARK approval of higher dollar HTSI purchases occurs after the purchases are made.

Recommendation 3

EMBARK should consider amending the HTSI contract to require that all purchases exceeding \$5,000 in cost individually be subject to prior written EMBARK approval and that such written approvals be retained by HTSI. Requiring such written approvals would be consistent with EMBARK's purchasing policies and allow for effective management of reimbursed costs without creating a significant administrative burden.

EMBARK Response 3

Agree with recommendation. HTSI has revised their SOP 100.13 Procurement to now include a signature line for the EMBARK Streetcar manager or their designee to sign for purchases of \$2,500 - \$25,000, with the required three quotes or sole source letter prior to order. EMBARK will save on the city server under TS-Streetcar-inventory-purchasing quotes. This will ensure HTSI's policies are consistent with EMBARK's purchasing policies.

Comment 4

EMBARK oversight of HTSI's parts inventory is not adequate to effectively manage related reimbursed costs given weaknesses identified in HTSI inventory controls. The contract requires HTSI to maintain an inventory of EMBARK provided parts and provides for EMBARK to directly reimburse HTSI for the cost of purchased parts. Parts inventory with cost information was valued at nearly \$2.1 million as of June 30, 2022, and EMBARK reimbursements to HTSI for purchased parts during fiscal year 2022 totaled approximately \$610,000.

The following weaknesses were identified in HTSI parts inventory controls during the audit:

- One employee orders, receives, and stores parts, and records ordered parts received in the inventory system, allowing for receipts to go intentionally unrecorded without detection.
- Inventory access is not restricted to only employees with a legitimate need for access resulting in an increased risk of undetected theft.
- Part costs are not consistently entered in the inventory system resulting in missing cost information for 16% of the individual parts with recorded quantities.
- Count sheets printed from the inventory system and used by HTSI to conduct year-end inventory counts were incomplete resulting in incomplete year-end counts.

EMBARK oversight of HTSI's parts inventory is limited to procedures implemented during the audit to recount HTSI year-end inventory counts on a sample basis. Inadequate oversight of

HTSI's parts inventory could result in inventory mismanagement or losses going undetected, and, as a result, increased reimbursed costs.

Recommendation 4

EMBARK should first work with HTSI to add costs to inventory records with missing costs, then work with HTSI to address the other identified control weaknesses. Until each identified weakness is completely addressed, EMBARK should enhance parts inventory oversight by:

- Obtaining a report summarizing all parts inventory transaction quantities and values (e.g., receipts, issuances, adjustments, etc.) for each previous month from HTSI,
- Reviewing the monthly report for reasonableness given operational knowledge, requesting support for any questioned amounts, and assessing the validity of support provided, and
- Supplementing year-end inventory recount procedures with procedures to ensure count sheets used by HTSI for inventory counts include all parts included in the inventory system.

EMBARK Response 4

Agree with modification. HTSI is currently working to update inventory in M-5. This should be completed by May 31, 2023. Inventory Access has now been limited to EMBARK Streetcar Manager, HSTI General Manager, Maintenance Manager, Maintenance Supervisor, and Inventory Specialist. The doors have been re-keyed.

- *Due to limited HTSI staffing, adequate separation of duties is not currently possible except with respect to inventory adjustments made in M-5 which will be pursued by July 2023. By July 2023, EMBARK will work with HTSI to set up M-5 to generate monthly inventory reports for the parts issued, received, and adjusted for review each month.*
- *EMBARK will supply all year-end inventory count sheets to HTSI to ensure all parts included in the M-5 inventory system are included in the count sheets.*

Comment 5

HTSI equipment and tool inventories are not complete and consist mostly of lower cost items while consumable supply inventories are limited to only COVID-related cleaning supplies.

Inventory records could not be located for 10 of 13 tested equipment and tool items and cost information was not included in the inventory records for 16% of items with recorded quantities. Additionally, of equipment and tool inventory items with recorded values, totaling almost \$545,000 as of June 30, 2022, more than 80% of the items represented less than 15% of the total inventory value.

The contract requires HTSI to maintain an inventory of EMBARK provided equipment and tools and contemplates use of a supply inventory in developing supply budgets. However, HTSI has not developed policies and procedures specifically addressing these inventories and inventory records are not routinely created when these items are purchased.

The risk of excessive reimbursed costs resulting from replacement of lost or stolen assets or unnecessary supply replenishment is increased without well maintained inventory records.

Recommendation 5

EMBARC should work with HTSI to ensure policies and procedures for maintaining accurate and complete equipment, tool and supply inventories are developed by HTSI. EMBARK should also consider establishing per item dollar amount thresholds for requiring inventory of these items that reduce HTSI's administrative burden but still allow for effective management of the related reimbursed costs.

EMBARC Response 5

Agree with recommendation. Herzog will enter tools into M-5 prior to yearend inventory occurring June 2023. EMBARK will work with Herzog to create an SOP/policy to ensure accurate and complete equipment, tool and supply inventories are developed.

Comment 6

HTSI Mean Distance Between Failures (MDBF) performance measure data collection is not efficient and a performance target for the measure is needed³. Currently, HTSI must manually search all daily driver reports to ensure all streetcar failures are identified for calculation of the MDBF measure. Additionally, a performance target has not been established because initial failure frequencies exceeded industry standards and historical failure data was not available as a starting point for developing a realistic target.

The MDBF measure is intended to provide EMBARK with an overall indicator of HTSI streetcar maintenance effectiveness, and HTSI is contractually required to submit a corrective action plan when the performance target is not met.

Manual collection of performance measure data is inefficient and subject to errors while measures without established targets are of limited usefulness for managing performance.

Recommendation 6

EMBARC should work with HTSI to:

- Determine if all streetcar failures, including those not resulting in a repair, can be recorded in the M5 fleet management system to allow for automated identification of all failures, and
- Establish a reasonable MDBF performance target based on operating results since inception to use in assessing the overall effectiveness of HTSI's streetcar maintenance efforts.

³ EMBARK included a 2021 performance target for this measure in their FTA-required Public Transportation Agency Safety Plan approved by the Central Oklahoma Transportation and Parking Authority in November 2021. However, EMBARK management reports that the included target is a long-term goal and is not currently realistic for managing performance given performance of the streetcars to date.

EMBARC Response 6

Agree with recommendation. EMBARK is currently in the process of purchasing new software. The new Clever CAD/Maior software will more accurately track mileage, ridership, and mean distance between failures (MDBF), and other NTD reporting. The system will capture all daily maintenance logs into the M-5 system, including failures occurring while in service, and will generate daily repair tickets, monthly inspections, and other preventative repairs. The installation is scheduled for December of 2023. This will ensure more accurate collection of data. The MDBF goal established in our Public Transit Agency Safety Plan will be the target used to assess performance.

Comment 7

HTSI's monthly performance reporting to EMBARK could be enhanced to be more useful for assessing the adequacy of preventative maintenance completed. Currently, daily counts and monthly totals of preventative maintenance procedures performed are reported without the number of required procedures and there is no way to determine the extent to which required procedures were performed.

HTSI's current performance reporting reflects broader reporting required for the Federal Transit Administration's National Transit Database rather than reporting specifically designed for use in managing contractor performance. HTSI's monthly performance reporting to EMBARK should be useful for managing performance.

Inadequate routine assessment of required preventative maintenance completed increases the risk that maintenance not completed will go undetected and premature replacement of assets affected will be required.

Recommendation 7

EMBARC should work with HTSI to require total preventative maintenance procedures required daily and monthly or the percentage of preventative maintenance procedures completed on time be added to current monthly performance reporting.

EMBARC Response 7

Agree with recommendation. HTSI will work with EMBARK to set preventative maintenance procedures required daily, monthly, etc. in M-5. A monthly report will be submitted to EMBARK to verify preventative maintenance was performed in accordance with manufacturing and industry standards. This will be set-up and implemented for the month of July 2023. This will ensure preventative maintenance has been completed.



MEMORANDUM



DATE **Monday, June 05, 2023**

TO **Matt Weller, City Auditor**

THROUGH **Craig Freeman, City Manager**

FROM **Jason Ferbrache, Public Transportation and Parking Director /Assistant City Manager**

SUBJECT **Audit Number 21-03 /
Public Transportation and Parking Department Streetcar System Asset Maintenance Audit**

ACTION NEEDED **Read and File**

The following are management's response to recommendations outlined in the recent Public Transportation and Parking department OKC Streetcar system asset maintenance audit.

EMBARK Response 1

Agree with recommendation. Fiscal year 2024 budget amounts have already been established under the previous approach. However, EMBARK will work with HTSI to develop a fiscal year 2024 budget that will include parts, supplies, repairs, and allowances using previous year historical data. Herzog will begin supplying monthly budget-to-actual reports to EMBARK in fiscal year 2024. This will ensure immediate budget-to-actual review with explanations for significant variances.

EMBARK Response 2

Agree with recommendation. EMBARK will set up a bi-annual audit schedule for fiscal year 2024 with HTSI to review purchasing documentation for compliance to include corrective actions when such are deemed necessary. Dates scheduled October 9th, 2023 and April 2, 2024. This will ensure compliance with EMBARK's purchasing policy.

EMABRK Response 3

Agree with recommendation. HTSI has revised their SOP 100.13 Procurement to now include a signature line for the EMBARK Streetcar manager or their designee to sign for purchases of \$2,500 - \$25,000, with the required three quotes or solo source letter prior to order. EMBARK will save on the city server under TS-Streetcar-inventory-purchasing quotes. This will ensure HTSI's policies are consistent with EMBARK's purchasing policies. Please see attached HTSI - SOP 100.13.

EMBARK Response 4

Agree with modification. HTSI is currently working to update inventory in M-5. This should be completed by May 31, 2023. Inventory Access has now been limited to EMBARK Streetcar Manager, HTSI General Manager, Maintenance Manager, Maintenance Supervisor, and Inventory Specialist. The doors have been re-keyed.

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- EMBARK will supply all year-end inventory count sheets to HTSI to ensure all parts included in the M-5 inventory system are included in the count sheets.

EMBARK Response 5

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EMBARK Response 7

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EMBARK appreciates the professional review of this program.