

**EAST BAY PARATRANSIT**

Consulting Report

Period of April 1, 2017 through March 31, 2019



Crowe LLP  
Independent Member Crowe Global

Management and Finance and Audit Committee  
Alameda-Contra Costa Transit District  
Oakland, California

The purpose of this project was to assist the Alameda-Contra Costa Transit District and the Bay Area Rapid Transit District, working together as the East Bay Paratransit Consortium (EBPC) in evaluating contract compliance, testing supporting documentation of transactions, and recalculating incentives and disincentives, in connection with the contract between East Bay Paratransit, and Transdev Services, Inc. ("Transdev"), and the sub-contracts between Transdev and service providers, from information you provide.

The services were performed in accordance with the Standards for Consulting Services established by the American Institute of Certified Public Accountants. The extent and sufficiency of the services and procedures performed were determined with you and are solely the responsibility of the management of the East Bay Paratransit.

Because these services do not constitute an audit, review, or examination in accordance with standards established by the American Institute of Certified Public Accountants, we do not express an opinion on any of the financial information or reports provided to us by management. We have no obligation to perform, and did not perform, any services beyond those listed below. If we would have performed additional services, other matters might come to our attention that would be reported to you. We make no representations as to the adequacy of these services for your purposes.

A handwritten signature in black ink that reads "Crowe LLP".

Crowe LLP

San Francisco, California  
October 2, 2019

## SCOPE OF WORK

The period of this testing spans twenty-four (24) months, three (3) fiscal years and two (2) contracts. Expenses totaled approximately \$85 million.

### ***Phase 1***

- Obtain and read all contracts between the East Bay Paratransit Consortium (EBPC) and Transdev, and between Transdev and any service providers utilized during the period of performance
- Obtain and read current documentation of key business processes and internal control policies and procedures provided to or by Transdev and/or the service providers
- Conduct interviews with the AC Transit Project Manager, the Bay Area Rapid Transit Project Manager, the Transdev General Manager, the Transdev Accounting and Finance Manager, and any key managers of the service providers, as needed
- Perform a walk-through of disbursement process and the cost/payment request process for each of the service providers
- Perform a walk-through of the EBPC disbursement review process
- Provide written feedback to management on any observations for improvement or best practices

### ***Phase 2***

- Obtain a population of service provider invoices for the period of April 1, 2017 through March 31, 2019
- Test a sample of 26 service provider invoices by:
  - Requesting underlying supporting documentation for each sample invoice
  - Recalculating the amounts on the invoice
  - Agree the operating activity used in the calculation of cost to supporting documentation
  - Perform analytical comparison of costs by month vs. NTD operating data as applicable
- Obtain a population of invoices from Transdev for the period of April 1, 2017 through March 31, 2019
- Test a sample of 5 Transdev invoices by:
  - Requesting underlying supporting documentation for each sample invoice
  - Recalculating the amounts on the invoice
- Obtain a population of fuel transactions for the period of April 1, 2017 through March 31, 2019
- Test a sample of 10 fuel cost invoices by:
  - Requesting underlying supporting documentation for each transaction
  - Recalculating the amounts on the invoice or supporting documentation
  - Perform analytical comparison of fuel costs by week or month vs. vehicle revenue miles data
- Obtain a listing of all incentives and disincentives and the periodic calculations and payouts and agree to the terms listed in the contracts
- Test a sample of 5 of the weekly incentives and disincentives calculations for the period of April 1, 2017 through March 31, 2019 by:
  - Agreeing the amounts to underlying supporting documents
  - Recalculating the incentive or disincentive
- Provide a report on results of testing

## RESULTS AND RECOMMENDATIONS

### Phase 1

During Phase 1 we completed each of the tasks outlined in the scope of work above and identified two recommendations, in addition to gaining an understanding as to our testing approach for Phase 2.

#### ***Findings and Recommendations:***

- During our walkthrough it was communicated to us that approximately 15-20% of manifests included errors, primarily related to issues with the conversion of hours. While we were unable to test or gain an understanding of the financial impact of these errors, with such a large amount of errors, management should consider the options they have available to ensure the drivers provide accurate information. This could include providing financial incentives or disincentives for the service providers to provide accurate manifests.
- Transdev's internal policy for preparing service provider invoices includes checking 100% of the manifests manually prepared by drivers. There are approximately 270 manifests produced a day and they are all reviewed for mathematical accuracy and reasonableness. We recommend that management quantify the potential financial impact of the errors noted in the first recommendation and then preparing a cost/benefit analysis of testing 100% of the manifests versus applying some type of sampling methodology.

#### ***Client's Response:***

Service Providers do not spend the time to review every trip on the manifest. Rather, their invoice to Transdev simply uses the time as recorded on the manifest by the driver. Not all driver entries are in error. We estimate the review performed in the Accounting and Finance Department results in a savings of about \$350,000 to \$500,000 per year. The auditor's recommendation is noted, and we will consider it when the next RFP for Broker and Provider services is prepared.

### Phase 2

In this phase we performed the following testing procedures and noted the following recommendations:

#### **1. Service Provider Invoices**

Under the contract between Transdev and the EBPC, Transdev is required to submit one invoice per week for service provider expenses, based on agreed-to rate applied against total billable hours performed. Crowe selected a sample of 26 weekly invoices between April 2017 and March 2019 and tested per the Phase 2 outlined above.

Crowe also compared the total revenue hours for 2 months (February 2018 and December 2018) to the NTD data.

#### ***Testing Results:***

No exceptions were noted.

#### ***Findings and Recommendations:***

None noted.

---

## 2. Broker Invoices

Under the contract between Transdev (the Broker) and the EBPC, Transdev is required to submit one invoice per month for expenses associated with the broker's office in downtown Oakland. Crowe selected a sample of 5 weekly invoices between April 2017 and March 2019 and tested per the Phase 2 outlined above, specifically looking at each of the 10 expense sub-categories included on the invoice.

### ***Testing Results:***

For one of the invoices selected, May 2017, there was a discrepancy in the on-site labor amount invoiced vs the actual expenses that occurred. The invoice included an excess of \$8,154 in payroll expenses. The calculation for the invoice included an accrued expense amount which should have been backed out during finalization. A formula error resulted in the estimated or accrued payroll amount being included in the invoice rather than actual amount. The overcharge was not identified prior to these testing procedures and has subsequently been corrected with a credit on the July 2019 broker invoice.

### ***Findings and Recommendations:***

- When reviewing the listing of employees and payroll information included with the invoice the information was found to sometimes be inaccurate. As described above, the schedule can be subject to formula errors. Additionally, for one invoice, the listing excluded several individuals from the printed listing due to an issue with page cutoff. As this schedule is manually prepared and used for review of the invoice management should develop controls to ensure the schedule is complete and accurate. Example controls to consider include locking formula cells from editing and incorporating a check for completeness such as a count of employees.
- During the walkthrough it was communicated that Broker invoices are reconciled to Transdev's income statement (provided by the Transdev corporate office) for the specific company code. As the financial statements can be subject to adjustments (such as the accrual identified above) or corrections, management should consider also conducting a quarterly and/or annual reconciliation. Conducting a look back at this level may be helpful in identifying any overbillings or under billings should they occur.

***Client's Response:*** Noted.

During the period tested, approximately \$85 million worth of invoices were processed and invoiced. This \$8,154 in the sample was the only amount that required a correction.

## 3. Fuel Invoices

Under the contract between Transdev and AC Transit and BART, Transdev is required to submit two invoices per month for costs to fuel the Service Provider vehicles. Crowe selected a sample of 10 weekly invoices between April 2017 and March 2019 and tested per the Phase 2 outlined above. This detailed testing included testing the fuel invoices for each service provider for each invoice.

### ***Testing Results:***

No exceptions were noted.

### ***Findings and Recommendations:***

- One of the service providers established on-site fueling in 2015 and began including a 5% surcharge in June 2015 to cover expenses associated with the system. Under the service provider agreement, fuel is a direct cost pass-through line item not subject to a surcharge, however, the surcharge was not discovered by Transdev until early 2016.

Subsequently they credited the amount that was incorrectly charged over a 10 month period, however, we recommend that Transdev closely review the invoices and all charges to ensure each charge is allowable under the contract.

***Client's Response:*** Noted.

#### **4. Incentive and Disincentives**

Each month, productivity and on-time performance metrics are assessed to determine whether incentive/disincentive thresholds have been achieved. Crowe selected a sample of 5 weekly invoices between April 2017 and March 2019 and tested per the Phase 2 outlined above.

***Testing Results:***

No exceptions were noted.

***Recommendations:***

None noted.

#### **5. Analytical Comparison of Activity**

Crowe performed four analytical comparisons related to service provider costs, broker costs, and fuel costs.

- A. Fuel costs as a % of service provider costs would be consistent. Crowe inquired about any variances outside of a 3% range.
- B. Broker costs as a % of service provider costs would be consistent. Crowe inquired about any variances outside of a 10% range.
- C. Service provider costs will be relatively consistent from month to month. Crowe will inquire about any monthly variances +/-10%.
- D. Service provider costs per billable hours will be consistent with the average hourly rate per the contract. Crowe will inquire about any variances greater than \$1 per hour.

***Testing Results:***

For tests A and B, Crowe did not identify any variances outside of the expectation range. For tests C and D, Crowe identified 5 variances each that were outside of the expected range. Management provided general responses to the variances which seemed to be reasonable, however, Crowe did not investigate or test management's responses.

***Recommendations:***

None noted.