



Metropolitan Council

Program Evaluation and Audit

COUNTY CONTRACTOR ADA COST REVIEW – DARTS AND SCOTT COUNTY

October 27, 2006

INTRODUCTION

Background

The Metropolitan Council contracts with four County governments (Anoka, Dakota, Scott and Washington) or their designees to provide paratransit services, as required by the Americans with Disabilities Act (ADA). For Hennepin and Ramsey County, the Council contracts directly for paratransit services with contractors selected through a competitive bidding process.

Metropolitan Transit Services (MTS) manages and monitors the ADA paratransit contracts, as well as other contracted transportation services such as Performance Based Funding (PBF) and Dial-a-Ride (DAR) programs.

On April 4, 2006 an audit report on contracted services was released that recommended, among other things, that MTS consider competitive procurement in county contracting to ensure that services are provided both efficiently and effectively. As a follow-up to that report, MTS asked Program Evaluation and Audit to review the expenditures of the ADA programs for two of their county contractors, Dakota Area Resources and Transportation for Seniors (DARTS) for Dakota County and Scott County Transportation, which provides its own services. MTS intends to use this information to assist them in assessing the costs of ADA service and determining the most cost-effective way to provide those services.

Purpose

The purpose of this review was to determine if contractor identified ADA paratransit costs are adequately documented and appropriate for the services delivered.

Scope

The reported expenditures for 2005 were reviewed for DARTS. Scott County expenditures were reviewed for the period of January 2005 to May 2006. Reported costs for the other providers were examined for comparison purposes.

Methodology

To assess the appropriateness and amount of costs incurred by providers for ADA paratransit services, the following activities were completed:

- Council and Contractor staff were interviewed,
- Annual management plans submitted by the contractors were reviewed,
- Monthly and annual reported ADA paratransit expenditures were analyzed, along with PBF expenditures where the two could not be reliably separated,
- Reported expenditures were assessed and reconciled with provider and MTS data,
- Audited financial statements were reviewed,
- Prior audit work papers were examined.

From this information, operational and non-operational costs were assessed, administrative rates determined and overall costs established for both providers. Cost data was shared with each provider and MTS in advance of this report.

Assurances

This audit was conducted in accordance with the Institute of Internal Auditors *Standards for the Professional Practice of Internal Auditing* and the US GAO's *Governmental Auditing Standards*.

OBSERVATIONS

DARTS

DARTS was founded 32 years ago. Their mission statement reads, “DARTS, a volunteer-based organization, works with others to pioneer and deliver high-quality services that support the full participation of seniors and all generations in community life.” DARTS has provided rides for seniors since 1974 and is currently the ADA paratransit provider for Dakota County.

DARTS has a Performance Based Funding contract as well as a contract to provide ADA paratransit services for Dakota County. For the year ending December 31, 2005, DARTS reported total revenues of \$5,550,830 of which \$3,439,722 was from government contracts (\$2,339,594 in Metropolitan Council subsidies) and \$795,528 from transit fares, program fees and rents.

During calendar year 2005, DARTS provided rides to 54,414 PBF customers and 111,447 ADA customers. DARTS does not segregate ADA costs from PBF costs because riders on individual buses are often a blend of PBF and ADA customers. ADA paratransit service is provided from 5am to 11pm Monday through Friday and from 6:45 am to 11pm on Saturdays, Sundays and Holidays. PBF services are provided from 8am to 4:30 pm Monday- Friday.

DARTS’ reported expenditures were difficult to trace to DARTS’ general ledger.

On a monthly basis, DARTS provides the Council with a report of operating expenditures for PBF and ADA services. This report breaks expenditures into the following categories: Vehicle Operations, Vehicle Maintenance, Non Vehicle Maintenance and General Administration. Within each of these categories the expenses are further broken down into operator wages, other salaries and wages, fringe benefits, services, fuel and lubricants, tires and tubes, other materials and supplies, utilities, insurance, taxes, and miscellaneous expenses. A final year end report is to be provided to the Council by February 28 of the following year.

Program Evaluation and Audit selected October 2005 expenditures for an in-depth review. DARTS general ledger numbers were tied to the amounts reported to the Council for October 2005. The general ledger numbers were then tied to DARTS’ supporting documentation. For October 2005, we were able to reconcile the reported payroll and fringe benefits amounts to both the general ledger and supporting documentation. Other expenses were difficult to trace due to the timing of entries and reports. The grand total reported did reconcile, but it was difficult to determine where general ledger expenses were carried on the report to the Council.

We also attempted to tie out the year end reported expenditure totals between DARTS’ general ledger and the DARTS’ year end report to the Council. DARTS’ staff at first said they were not required to provide the Council a detailed breakdown of what went into its reported number, but did eventually provide it. When DARTS attempted to reconcile their general ledger expenditures to the reported expenditures, the result was

higher actual expenses than were initially reported to the Council. In non-administrative costs, DARTS had seven categories with more expense and two categories with lower expenses than had been reported. In the general administration area they showed lower expenses than what had been reported to the Council.

Per generally accepted accounting principles, all reported expenditures should be easily traceable to the DARTS' general ledger and supporting documentation to ensure accurate accounting for the funds, in accordance with state and federal laws and rules.

DARTS' reported expenditures included depreciation.

DARTS' reported expenditures included depreciation on the transportation building, the administrative building, furniture, computers and on land improvements. The depreciation costs identified as operational totaled \$100,488 and the administrative depreciation costs totaled \$19,791. DARTS does not have an account dedicated to the replacement of these assets. Depreciation monies flow into cash reserves, which are unrestricted. Further, NTD reporting no longer allows for depreciation as an expense. Therefore, depreciation was not allowed as an expense for PBF or ADA.

DARTS general administrative costs are based on a percentage of specific costs.

DARTS currently charges 62% of administrative costs to the transportation program. Although it is an estimate, the resulting rate seems reasonable, given what other providers report.

DARTS operates a for profit vehicle maintenance service.

DARTS has leased part of their transportation building to a for profit related party organization, DARTS Vehicle Maintenance Services (VMS), created in 2005. The DARTS' organization chart shows a direct reporting relationship between the DARTS President and both the VMS Board and the VMS General Manager.

The rent for 2005 was recorded as a notes receivable of \$146,211. The lease for this property was not executed until March 17, 2006 although it covered occupancy from January 1, 2005 through December 31, 2007.

DARTS' staff provides services to VMS. Staff has been instructed to report all time worked for VMS, and then that amount is billed to VMS. In reviewing costs and in interviews with DARTS' staff, we found that DARTS was making a significant effort to segregate expenses between the two organizations.

DARTS' staff indicated that it was not decided if profits from VMS will be put back into transportation or used for other purposes.

DARTS' staff is duplicating services provided by Metro Mobility.

DARTS office staffing was as follows:

Dispatch shift coverage:

5am-1:30pm M-F	1 employee
7am-5:30pm M-F	1 employee
3:30pm-11pm M-F	1 employee

6:45am-11pm Sat, Sun, Holiday 1 employee

Customer Service, Reservations shift coverage:

7am-3:30pm M-F	2 employees
8:30am-5pm M-F	2 employees
1pm-5pm M W F	1 employee
8:30am-5pm Sat	2 employees

At the time of our review, DARTS was adding an additional person for 19 hours per week to work strictly with ADA recertification. The rationale for the additional staff was to relieve the customer service staff from having to deal with certification issues.

Metro Mobility staff is responsible for all ADA certification in Dakota County and throughout the Twin Cities Metropolitan Region, as designated by the Federal Transit Authority. DARTS staff said that Metro Mobility does not always get the information to their clients and they are providing this service to fill the gap. The President of DARTS said they would be providing the certification information regardless of whether or not they provided the ADA service since they are an organization serving senior citizens. Given that, this position would not be chargeable to transportation contracts with the Council.

DARTS reorganization should reduce costs for 2006.

DARTS reorganized its operational structure in 2006. As a part of this reorganization one position was eliminated and the duties absorbed into existing positions. This provides a salary reduction of approximately \$105,000 per year which equates to \$0.63 per ride.

Council subsidy and program revenues exceeded program expense.

The Council provided a subsidy of \$18.50 per ADA ride to DARTS for calendar year 2005. The Council subsidy is based on the estimated expenditures for the program less estimated revenues.

DARTS generated \$359,814 from fares and contributions in 2005. This equates to \$2.17 per PBF/ADA ride. The rental income from VMS equates to \$0.88 per ride. The per ride revenue from fares and rental income equates to \$3.04 (note there is a rounding difference).

DARTS reported a total of \$3,273,528 of ADA/PBF expense for 2005. We determined that depreciation costs in the amount of \$120,280 should be disallowed, leaving an adjusted expense total for 2005 of \$3,153,239. That equates to an average cost of \$19.01 per ADA/PBF ride.

Since the ADA and PBF program revenues and expenditures are not segregated it is necessary to determine how much more an ADA ride costs versus a PBF ride. In interviews with DARTS staff they identified additional ADA costs as the extended hours of service and the potential for a longer load time for wheelchair passengers. Since DARTS PBF serves only senior citizens there was agreement that the additional trip time was minimal. We decided to calculate the costs based on a weighted expenditure formula. Depending on what weight is placed on the ADA rides the amount of subsidy and fares in

excess of costs varies from \$0.63 to \$2.53. Table 1 shows the costs on a weighted basis and the corresponding subsidy and fares.

Table 1. DARTS Weighted ride cost versus revenues 2005

ADA Rides Weighted At:	100%	105%	110%
ADA Ride Cost	\$19.01	\$19.96	\$20.91
PBF Ride Cost	\$19.01	\$17.06	\$15.12
ADA Subsidy	\$ 18.50	\$ 18.50	\$ 18.50
Fares and Contributions	\$ 3.04	\$ 3.04	\$ 3.04
Total Subsidy, Fares and Contributions	\$ 21.54	\$ 21.54	\$ 21.54
Subsidy and Contributions in Excess of Costs per Ride	\$ 2.53	\$ 1.58	\$ 0.63

DARTS will not refuse service to anyone based on ability to pay.

DARTS has a policy of not refusing service to anyone based on their ability to pay. If they believe the person is ADA eligible, they will recommend that the rider apply for ADA certification. Otherwise, they will allow the individual to ride at no cost.

DARTS vehicles display the names of companies who are DARTS’ sponsors.

The DARTS vehicles have the names of various corporate sponsors on their vehicles. The displays are a part of an agreement with donor organizations who give significant amounts of money to DARTS to fund its services.

The PBF contract with DARTS identifies operating revenue as “all income or revenues generated by, derived from, attributable to, or related to the operation of the transit service subsidized under this agreement, regardless of the date of collection, including, without limitation, passenger fares, passenger donations, advertising, and revenue grants from any other sources made available to the Contractor for the transit services provided by the Contractor.” Sponsorship revenue is not currently recognized or reported as transportation revenue, even though the sponsor’s information is prominently displayed on the vehicles.

DARTS staff told us that if they were required to recognize the revenue for the ads on their vehicles, that all of the fundraising costs would be recognized in the transportation budget as well. Fundraising clearly is not a part of the PBF or paratransit service. However, to the extent that ads or displays are placed on buses used for services subsidized by the Council, the contract would require that the associated revenues for those displays be reported as transportation revenue.

DARTS vehicles lack visible service identity marking, as required by the contracts with the Council.

Contract requirements for vehicles include, “the contractor shall ensure that all vehicles when providing service subsidized under this agreement, including back-up vehicles, shall have a clearly visible service identity marking.” Currently, other providers have a marking on the sides and/or back of the buses that says, “A service of the Metropolitan

Council.” DARTS vehicles do not indicate any participation by the Council in providing services.

DARTS provides weekend and holiday dispatch and customer service for Scott County.

Scott contracts with DARTS for weekend and holiday dispatch and customer service. Scott County pays DARTS \$75 for each weekend day, \$112.50 for each holiday and \$35 per month for a phone line. DARTS records these funds under fares and contributions. We suggested that it should be recorded as an offset to the expense of these services. However, DARTS states that they have incurred no additional costs for providing these services; their staff was already in place and able to absorb the Scott County work without additional resources. Nonetheless, such revenues should not be reported as “fares and contributions.”

Scott County

Scott County provides ADA and PBF services in the county. Prior to June 2005, Scott County did not provide ADA services. As a part of the contracted county transportation service audit completed in April 2006, expenditures reported to the Council were tested and reconciled with Scott County’s general ledger.

Scott County provided 29,887 PBF rides during the 2005 audit time period. They provided 25,769 PBF rides and 8,352 ADA rides during the 2006 audit time period.

Since the ADA and PBF program revenues and expenditures are not segregated it is necessary to determine how much more an ADA ride costs versus a PBF ride. We applied a weighted amount of expenses to the ADA rides to determine costs.

Scott County did not recognize any general administrative expenses.

During calendar year 2005, Scott County did not report any general administrative expense to the Council. In order to have their reported expenditures more accurately reflect the true costs of the program, MTS staff worked with Scott County to help them identify appropriate administrative costs. As a result, Scott County currently reports annual administrative costs of \$484,881. At the time of this audit, that number was being finalized.

Scott County service is expanding.

Scott County is working on establishing ADA service for the City of Prior Lake. This service is planned to begin in 2007. Current Scott County transit staff members say that they have absorbed as much work as they believe they can handle and that with the addition of Prior Lake, they will need more staff to meet the needs of the ADA paratransit service.

Council subsidy and program revenues exceeded program expenses.

The Council provided a subsidy of \$19.00 per ADA ride to Scott County for the period of January 1, 2006 through June 30, 2006. The Council and Scott County mutually agreed to lower the subsidy to \$15.00 per ADA ride for the period of July 1, 2006 through December 31, 2006.

Scott County received an average of \$3.06 per PBF/ADA ride from January 2006 through May 2006.

A weighted average was used to ascertain the cost of ADA paratransit rides. Since Scott County is a relatively new paratransit provider, the costs may be somewhat higher than PBF due to start-up costs and initial inefficiency. Then as the ADA paratransit rider ship grows, greater efficiencies may be achieved. For the time period reviewed, 24% of the rides provided by Scott County were ADA trips. Depending on the weighted cost factor used, the ADA subsidy and fares exceeded the ride cost by \$2.29 to \$4.87 per ride. It should be noted that the subsidy was adjusted down to \$15.00 per ride in July 2006 due to concerns about payments above actual costs. Table 2. shows the costs on a weighted basis and the corresponding subsidy and fares.

Table 2. Scott County Weighted ride costs versus revenue January to May 2006

ADA Rides Weighted At:	100%	105%	110%	115%
ADA Ride Cost	\$17.19	\$18.05	\$18.91	\$19.77
PBF Ride Cost	\$17.19	\$16.91	\$16.63	\$16.35
ADA Subsidy	\$19.00	\$19.00	\$19.00	\$19.00
Fares and Contributions	\$ 3.06	\$ 3.06	\$ 3.06	\$ 3.06
Total Subsidy and Contributions	\$22.06	\$22.06	\$22.06	\$22.06
Subsidy and Contributions in Excess of Costs per Ride	\$ 4.87	\$ 4.01	\$ 3.15	\$ 2.29

Metropolitan Transportation Services Project Management

MTS has one project manager for all ADA contracts. PBF contracts are managed by several different project managers. Contractors who provide ADA and PBF services have separate agreements for each of the services. The ADA and PBF contracts reference an annual management plan which is submitted by the contractor.

The PBF contracts are based on annual dollar amount and are generally paid in 12 equal payments. The ADA contracts are paid based on a negotiated subsidy per each ADA reported ride. On a monthly basis, the contractors submit their transit expenditures to the PBF contract manager. These numbers are then used for NTD reporting. At this time, ADA providers are not required to submit detailed ADA expenditure reports to MTS project managers.

CONCLUSIONS

- 1. The ADA project manager is not provided with adequate financial information from the contractors to determine ADA ride costs and subsidies.**

ADA subsidies are intended to cover the portion of the ADA ride that exceeds the amount of fares and contributions. To determine the amount of subsidy required, the MTS project manager should be provided with detailed, itemized expenditure and ridership reports monthly. The current practice of having the contractors report expenditures in a summarized form does not provide a direct tie to the contractors general ledger accounts, and does not provide the necessary detail for an objective analysis.

- 2. Determination of actual ADA costs requires an analysis of multiple factors for contractors who are also providing PBF services.**

ADA cost determination requires determining how much more an ADA ride cost is compared to a PBF ride cost. Since county ADA providers are also providing PBF services, MTS project managers may need to determine an appropriate weight for ADA ride costs. This determination requires consideration of how many ADA and PBF rides there are, the staffing level of the operation, the history of ADA ridership for the contractor, the hours of operation, the average trip length, and other contractors' costs for the services.

- 3. DARTS policy of providing service regardless of the ability of the person to pay for the service may create a perception of inequity with clients of other Council contracted ADA providers.**

DARTS policy on payment of fares differs from the other ADA paratransit providers when it provides rides for free to clients who cannot pay. Although well-intended, allowing riders to ride for free may create at least the perception of inequity for clients served by other ADA paratransit providers. Fare requirements and guidelines should be set by the Council for all of the paratransit contracts it administers in a fair and equitable fashion.

- 4. The subsidies for DARTS for 2005 and Scott County for 2006 exceeded the amounts required to fully fund the respective ADA programs.**

As previously stated in the observations both providers received subsidies that when combined with fare contributions exceeded the ADA costs. The ADA contracts in prior years were like block grants. The switch to per ride subsidies requires more analysis to determine an adequate subsidy. The contracted subsidies are agreed to prior to the expenditure of funds.

RECOMMENDATIONS

1. MTS should require PBF/ADA contractors to provide detailed expenditure information to project managers on a monthly basis.

To monitor and assess the costs of ADA programs, it is necessary to have contractors provide detailed expenditure reports to project management. These reports must reconcile with the contractors general ledger detail. The contractor should be able to provide a crosswalked report tying their general ledger detail to the required NTD report categories. With more detailed reporting of expenditures, MTS management can make determinations as to the actual costs of transportation operations.

Management Response: Metropolitan Transportation Services will require, as of 1/1/2007, all county PBF/ADA providers to submit detailed expenditure information using a standardized form provided by Metropolitan Transportation Services and approved by Internal Audit. All county based providers will submit this report with each invoice presented to Metropolitan Transportation Services for payment as a condition of payment.

2. Contractors should be required to provide documentation supporting their general administrative costs.

Both DARTS and Scott County have determined general administrative costs based on percentages of specific costs. MTS should review the base for these costs on annual basis to determine the reasonableness of expenses. The contractor should maintain documentation to support the percentages applied.

Management Response: All county providers will be required to submit, on an annual basis in a format approved by Metropolitan Transportation Services, all general administrative costs attributable to service provided to the Metropolitan Council. The format for this information will also conform to the reporting requirements of the National Transit Database.

3. MTS should review DARTS practice of placing sponsor's names on the ADA vehicles.

The PBF contract implies that the revenue DARTS obtains for ad placement on its buses is a transportation revenue and should be reported accordingly. MTS should review the issue to ensure that proper revenue is recognized.

Management Response: Metropolitan Transportation Services will review all advertising contracts or arrangements to ensure that all revenues derived from such are recorded as transportation revenues.

4. DARTS vehicles should have visible service identity marking.

DARTS vehicles do not currently show any sign of their service being funded by the Metropolitan Council. Most customers probably do not realize that the Council funds the services they receive. Under the terms of the contract, DARTS is required to mark

all vehicles, including back-up vehicles with signage denoting that the service is provided by the Metropolitan Council.

Management Response: *DARTS (and any other county) vehicles used for the provision of services to the Metropolitan Council will display an identifying set of markings approved by Metropolitan Transportation Services. These markings (painted or decal) will be displayed in such a fashion as to not be obscured by livery, advertising, or other required permit markings (US DOT, MnDOT, etc) at all times the vehicle is in service, being prepared for or withdrawn from service, or parked or stored at any location visible to the general public.*

5. DARTS' policy of allowing clients to ride regardless of ability to pay should be reviewed with the Office of General Counsel to ensure that it does not present an equity issue for passengers across the metro.

DARTS' transportation management plan clearly states that "DARTS will not refuse service for anyone who is unable to pay." The Metropolitan Council is the FTA designated ADA provider for the region. Ultimate responsibility for ADA operations lies with the Council. DARTS is unique in allowing people to ride, regardless of payment. Such a policy could cause clients of other providers to raise questions of the equity of the service provided regionally.

Management Response: *DARTS (and any other county providers) will be required to reconcile all fare revenue to passenger counts monthly. The report will distinguish between peak and off-peak fares by type i.e. cash fares, pre-paid fares, transfers, and Metropolitan Council approved fare media. All fares charged must conform to regional fare policy by time of day regardless of source or type including revenue derived from group trips.*

6. DARTS should report operating revenue by source and fund.

DARTS records payments from Scott County for contracted customer service and dispatch services as "fares and contributions." They are payment for services rendered and not contributions. Initially, we recommended that DARTS record the payments as a credit against the expenses for the customer service and dispatch. However, DARTS management told us that they incurred no additional costs for providing the service to Scott County, so they didn't feel it was correct to report it as a payment against their fixed expenses. In any case, Program Evaluation and Audit would recommend categorizing the payments as payment for services or something similar, rather than fares and contributions.

Management Response: *DARTS (and any other county providers) will be required to report annually all revenues derived from subcontracting to perform transportation services for other entities. These revenues will be recorded as payment for services rendered under contract so as to conform to the requirements for reporting such arrangements in the management plan. Schedules for services will be clearly defined in the contract to provide such services.*

7. **DARTS should correlate passenger counts with fare counts.**

The management plan for DARTS states that DARTS “does not correlate fare counts with passenger counts.” It indicates that “MDC’s on each bus will assist in accurately recording passenger counts and those donating, being paid for by third parties or being billed individually.” To determine that fares are accurately recorded and paid, DARTS should reconcile passenger counts with fare revenues and report the results to the contract administrator at MTS.

Management Response: *See #5 above.*