



Program Evaluation and Audit

Senior Community Services PBF Contract Audit

September 19, 2007

BACKGROUND

Minnesota Statute 473.371 defines the transit goal for the Metropolitan Council as providing a basic level of mobility for all citizens within the metropolitan area. To assist in this objective, the Council uses Performance-Based Funding (PBF) contracts to support Dial-a-Ride (DAR) paratransit services in areas that lack regular route public transportation services. Currently, the Council administers 18 contracts to provide PBF subsidies to 11 local governments, non-profits and private providers of DAR services. The Minnesota Department of Transportation (MnDOT) initiated eight of these contracts in the 1970s and early 1980s; however administration of the contracts transferred to the Regional Transit Board in 1988. The Regional Transit Board was the predecessor of Metro Transit and Metropolitan Transportation Services. In 2006, PBF contractors were paid \$3,062,808 in subsidies from the Council.

PBF contracts have not been put out for bid since their original assignment. To continue to receive funding, each PBF contractor must submit an annual management plan that outlines the service area, target population, promotion of services, expected ridership and estimated financial assistance necessary to operate. Contract administrators in the Metropolitan Transportation Services (MTS) division review these management plans and determine any necessary changes prior to contract renewal. Contracted PBF providers are required to operate according to their stated management plan.

Furthermore, PBF providers must adhere to the National Transit Database (NTD) standards applicable to public transportation providers. According to the NTD, the PBF transportation program is 'Purchased Transportation' and is obligated in advance to be public transportation. All ridership statistics associated with PBF programs are reportable to the NTD. PBF contractors are required to submit ridership statistics including hours of service, number of miles operated (revenue and non-revenue), passengers carried, operating revenue collected, and costs of service to MTS each month. Monthly reports to MTS also serve as requests for payment from PBF providers; contractors are only paid upon the receipt of a monthly report.

Senior Community Services (SCS), a non-profit, currently has five PBF contracts with the Council as either a contractor or subcontractor. Directly contracted programs include the Westonka Rides Program (Westonka), Reach for Resources (Reach), and Delano Transportation Program (Delano). SCS is the subcontractor for agreements with the City of Edina (Edina) and Senior Transportation Program (STP). Table 1 includes summary information on the five PBF contracts held by SCS.

Table 1. PBF Contracts with Senior Community Services (SCS)

Contract #	Contractor	Subcontractor	Service Area	Contract Duration	2007 Contract Amt.
SG2007-016	Senior Transportation Program	Senior Community Services	Brooklyn Park, Champlin, Dayton, Osseo, Rogers, & Maple Grove	1989-present	\$96,772.00
SG2007-018	Senior Community Services (Westonka Rides Prgm)		Spring Park, St. Bonifacius and Minnetonka Beach, Minnetrista, Mound, Orono and Independence	1989-present	\$74,177.00
SG2007-001	City of Edina	Senior Community Services	Edina	2001-present	\$22,028.00
SG2007-017	Senior Community Services (Reach for Resources)		Excelsior, Plymouth, Crystal, Maple Grove, St. Louis Park, Golden Valley, Brooklyn Park, New Hope and Minnetonka	1999-present	\$11,818.00
SG2007-012	Senior Community Services (Delano Transportation Prgm)		Maple Plain, Loretto, western Medina, Delano, Rockford, Greenfield, Independence and Franklin Township	1989-present	\$76,875.00

Purpose

The purpose of this audit is to review Senior Community Services' PBF contracts and examine contractor adherence to agreed upon terms of service. This audit will specifically examine reported ridership statistics, population served by PBF programs, fare collection policies and systems, use of Council owned vehicles (where applicable), promotion of PBF programs, and adherence to public transportation requirements.

Scope

The scope of the engagement will include all current PBF contracts with SCS as outlined in Table 1. The audit will focus on the following processes:

- assignment and renewal of PBF contracts,
- promotion of DAR services and ridership population served,
- use of Council provided vehicles in providing services (where applicable),
- DAR service area
- reported ridership and expenses, and
- fare collection

Methodology

To determine contractor adherence to agreed upon terms of service, audit activities included:

- Federal and State public transportation statutes and guidelines were reviewed.
- PBF contracts, management plans and master lease agreements were analyzed.
- City, County, Council and PBF provider websites were viewed to determine what kinds of information are provided for potential DAR passengers,
- Advertisement materials published by SCS were collected and reviewed,
- Interviews with MTS staff and SCS staff were conducted.
- Backup documentation to reported ridership statistics was collected and reviewed.
- Review PBF provider contracts and management plans according to public transit statute and guideline requirements, both State and Federal, with particular emphasis on advertisement of services and target ridership population
- Compare promotional activities stated in the management plan to distributed and transmitted promotional products, to include pamphlets, websites, newspapers and other periodicals
- Compare fare policies as stated in management plans to advertised fare policies as well as reported fares
- Compare reported ridership statistics to source documentation
- Evaluate a subset of providers for adherence to strict public use of Council vehicles, according to the Master Lease Agreement

Assurances

This review was conducted in conformance with *Government Auditing Standards* and the *Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors. Findings are reported to auditee, senior management, the Regional Administrator and the Audit Committee of the Metropolitan Council.

FINDINGS

1. SCS reports inaccurate operating revenue and assumes the maximum contract subsidy amount in monthly reporting, in violation of the PBF contract.

Section 7.01 of the PBF contract states that “the Council agrees to reimburse the Contractor for subsidized transit service provided during the Contract Term the lesser of: the “Net Service Cost,” or the Maximum Subsidy Amount.... For the purposes of this Article VII, “Net Service Cost” means the Total Service Cost less Operating Revenue.” According to section 1.04 of the contract, operating revenue includes fares, donations, and any other grants or funds received for the transit services provided by the contractor. The PBF program is a partnership between the Council and local governments wherein both provide financial support. Section 1.04 indicates that local government funds for contracted transportation must be accurately reported as operating revenue. According to the PBF contract, Council payments should be based on the following formula:

$$\text{Operating Cost} - \text{Fares} - \text{Donations} - \text{Other Local Funding} = \text{Council Payment}$$

The Westonka Program Manager fills out the monthly reports for all five PBF contracts. According to the Program Manager, she is provided operating cost data by the SCS accounting office. Fare and ridership information comes from the individual field offices (Delano, STP, Westonka). The Program Manager reports that she enters expenses, fares, and the maximum Council subsidy in the report. The costs that are not covered by the Council subsidy and fares are then entered as the local funds portion. Thus, the formula that SCS is using to determine Council payment is as follows:

$$\text{Operating Cost} - \text{Fares} - \text{Donations} - \text{Council Payment} = \text{Other Local Funding}$$

SCS is assuming the maximum Council subsidy in order to determine the local funding needed to balance costs and revenues. This poses two deficiencies: 1) reported SCS operating revenue is inaccurate, and 2) this practice violates section 7.03 of the PBF contract which states that “the Maximum Subsidy Amount is neither a block grant for assistance nor a minimum guarantee.”

2. SCS reported inaccurate operating costs and failed to correct reported costs upon discovery of the mistake.

According to PBF contract clause 6.02, all contractors are required to submit monthly reports of operational data to include hours of service, number of miles operated, passengers carried, operating revenue collected, and costs of service. The Program Evaluation and Audit department (Audit) reviewed general ledger backup data to verify reported costs for March and April 2007. The review found one exception in the reporting involving double-billing for a portion of drivers’ wages. In April, driver wages in the amount of \$967 were attributed to the Westonka program but were reported for both the Reach and the Westonka program. According to SCS accounting staff, the wages should have been attributed only to the Reach program and were mistakenly assigned to Westonka due to staff turnover. The mistake has since been corrected in the SCS general ledger and the \$967 driver wages are listed under the Reach program.

However, SCS did not alert MTS to the mistake even though the April 2007 reported costs for Westonka should be decreased by \$967.

3. Certain direct costs of program services are reported as estimates.

Audit intended to review operator payroll data to backup the general ledger, however SCS accounting staff informed Audit that all driver wages are allocated as a percentage based on program budgets. Drivers are generally assigned to different sites and programs, and their time is billable to specific programs. However SCS chooses to base operator salary allocation on an estimated budget. Driver wages are the largest direct operating cost, and Federal cost reporting standards require actual as opposed to estimated direct costs.

4. NTD required mileage documentation is inconsistent or missing.

NTD reporting requires statistics on revenue and non-revenue mileage for all transit systems. PBF providers are required to report revenue and non-revenue mileage in each monthly report. Audit found that Westonka drivers do not consistently keep track of revenue miles for vehicles. According to Audit calculations, revenue miles were tracked only 27% of the time in the month of April. The STP program also failed to consistently record mileage. Audit identified eight exceptions where van mileage was either not recorded or incomplete. No record of mileage is kept for the Reach program.

5. Ridership numbers were consistently inaccurate when comparing SCS documentation to MTS monthly reports, generally favoring the contractor by over-reporting riders. Ineligible ridership, such as charter trips, and rides outside the approved service area were also reported.

PBF contractors are required to report ridership numbers to MTS each month. According to PBF contract section 6.03, the contractor is required to “maintain accurate, detailed, and complete separate books, accounts, financial records, documentation, and other evidence pertaining to...the transit service subsidized under this agreement.” Audit reviewed SCS backup documentation for ridership numbers reported to MTS. Types of documentation varied from program to program and included daily driver logs, weekly/monthly ridership spreadsheets, fare envelopes and a calendar.

Using backup documentation maintained by SCS, Audit found consistent discrepancies between reported ridership and documented rides, as shown in Tables 2 and 3. Only the Edina program provided documentation consistent to reported numbers. In addition, Audit found evidence of inappropriate trips being reported to MTS. Private charter trips and rides outside the approved service area were reported in the months examined, in violation of both NTD and contract requirements. Audit finds that these errors consistently benefit the contractor, calling into question the accuracy and accountability of payments made to SCS under past, current and pending agreements.

Table 2. Comparison of Ridership Numbers, April 2007

	MTS Reported #	Driver Log	% Difference
Edina	248	245	1.21%
Reach	170	188	-10.59%
STP	1,098	968	11.84%
Westonka	776	676	12.89%

Table 3. Comparison of Ridership Numbers, January 2006-April 2007

	MTS Reported #	Driver Log	% Difference
Delano	16,467	11,155	32.26%

- a. *The Delano program did not maintain accurate ridership documentation, and the ridership documentation provided to Audit shows consistent, ongoing ridership inflation.*

Audit was given driver logs documenting ridership numbers that were 32% less than those reported to MTS. For example, Delano reported 126 rides given on October 11, 2006, however driver manifests for the same day document only 80 rides. On December 13, 2006, Delano reported 364 rides whereas driver logs document only 50. Obviously these are some of the worst examples displaying the general trend of ridership inflation. Given that the Council pays PBF contractors based on ridership, the inflation of ridership numbers could be construed as fraudulent billing.

According to the Delano program manager, the driver logs given to Audit are not accurate as they are not the manifests that drivers use when picking up and dropping off passengers. Drivers use separate manifests from those given to Audit when picking up and dropping off passengers, and these manifests would show additional stops and clients. However drivers dispose of these manifests after entering daily ridership into a ridership spreadsheet. The fact that drivers dispose of the supposedly more accurate trip log presents a serious deficiency in maintaining proper documentation.

- b. *Ridership documentation for the Westonka program was inadequate to tie to reported ridership.*

Westonka driver logs do not provide adequate documentation of ridership as they do not consistently indicate whether a trip was one-way or return. Riders are written onto the log with just a first name or incomplete destination and pickup information. The Westonka program also reports rides categorized as North Lake, trips, volunteer and church that lack any sort of driver log.

- c. *The Westonka program reports rides that occur outside the service area approved by MTS.*

North Lake is an SCS transportation program whose ridership, costs and revenues are reported to MTS as part of the Westonka program. The North Lake program service area includes the cities of Long Lake, Medina and Wayzata which are not included in the

approved Westonka service area as specified in the management plan. PBF contracts specify that the Council will only support the transportation services specified in the approved management plan.

d. SCS programs reported rides to MTS that are considered charter service rides and are not NTD reportable.

The NTD defines charter service as “a vehicle hired for exclusive use that does not operate over a regular route, on a regular schedule and is not available to the general public.” Ridership numbers, expenses and revenues attributable to charter service trips are not reportable. Furthermore, Council vehicles may not be used for any charter services. Audit found that SCS reported rides attributable to private charter trips for several programs.

The Delano transportation program is run out of the Delano Senior Center, and the same staff organize transportation and all other programming for the senior center. Delano staff regularly organize activities for senior center clients that require transportation. For example, the senior center organized four social trips for its clients in March and April 2007. Three of these outings were to plays, and one was a trip for the Senior Center choir to sing at a nursing home, resulting in 112 rides. Delano reported the 112 rides attributable to these trips to MTS in its monthly reports. These kinds of trips are for private senior center activities and are not considered general public transportation.

STP provided two charter services on Saturday, April 28, 2007. The STP program transported 15 passengers to Bethel University, and 23 passengers to the Orpheum Theater in Minneapolis. STP reported 76 trips attributable to these two services, both of which were outside the Council approved service area and service times.

Westonka reports rides categorized as trips that constituted 160 reported rides for April 2007. A trip to the Guthrie Theater, clearly a charter service trip and outside the service area, made up 72 of these rides. It is questionable whether the rides attributed to the other trips are legitimate or charter service.

e. STP did not consistently document the number of people in group trips.

As Table 2 shows, Audit found a difference of 130 rides when comparing STP driver logs to reported ridership. This discrepancy is due to group trips where the driver failed to note the number of persons in the group. There were five instances where drivers failed to note the number of people in a group trip on the driver log in April 2007.

6. Reported fares differ from SCS fare documentation, and in some cases documentation is insufficient or missing.

Audit compared reported fares to fare deposits and other available documentation. Each program documents fares differently. Edina, Delano and Westonka track fares on a spreadsheet, STP records fares received from each passenger on driver logs, and Reach record fares on envelopes. Audit found that fares reported to MTS do not tie to SCS documentation.

Table 4. Comparison of Fares, April 2007

	MTS Reported #	SCS Deposit	Other Documentation*
Edina	494.00	597.00	583.00
Reach	322.00	322.00	526.15
STP	4,363.00	-	4,153.00
Westonka	359.00	397.25	359.00

Table 5. Comparison of Fares, January 2006-April 2007

	MTS Reported #	SCS Deposit	Other Documentation*
Delano	16,463.87	17,269.38	-

*Other documentation includes fare envelopes, spreadsheets and driver logs depending on availability.

a. Edina, Reach and Westonka programs lack sufficient fare documentation.

Edina program drivers turn in fares once a week in an envelope. Envelopes generally document cash, check and card punches collected as fares. However envelopes are not consistently maintained by SCS staff. Audit analyzed envelopes from April 2007 that were kept in a file drawer, and total fares reported on maintained envelopes equaled \$546. SCS could not find envelopes for six days.

Reach program drivers turn in fare envelopes at the end of their shift. The amount of cash and card punches are generally indicated on the envelope. These fare envelopes are not consistently maintained by SCS staff, and Audit was unable to document fares received for all Reach rides. Available fare envelopes for April 2007 indicate \$245 in fares, however this number excludes six days where Reach provided 70 rides. Audit estimates that the 70 rides would have brought in \$281 in fares.

Westonka drivers enter fare information into a spreadsheet. Fare spreadsheets for April 2007 provided to Audit are missing fare and ridership information for April 6th, 12th and 13th. Fare spreadsheets indicated 355 rides, whereas a ridership worksheet used by the program manager indicates 402 rides. There is no fare documentation for the 47 rides missing from the spreadsheet.

b. Delano reported no fare income for two months in contradiction to backup documentation.

The Delano program deposits its own fares and then sends a check to the SCS office for the fares it collected at the end of the month. Delano reported no fare income to MTS for January 2006 and February 2007, despite fare checks totaling \$2,188.35 being sent to SCS. While Delano seems to have over reported fares in other months, the over reporting fails to balance to the underreported amounts. Since MTS does not currently require detailed documentation for fare collections with its reporting, fare shortages were not noted nor investigated.

c. SCS underreported fares to MTS by \$1,086 in the month of April, 2007.

According to its bank deposits, SCS received payments of \$1,086 in the month of April for trips. Trip rides are reported to MTS in the Westonka program, but none of the fare revenue attributable to the trips was reported. Audit finds that Westonka revenue was underreported to MTS by \$1,086.

7. SCS internal controls over cash handling are inadequate.

The Westonka program manager handles fare deposits for Westonka, Edina and Reach programs. STP and Delano handle their own fares and deposits. Each of the SCS programs presents some deficiency in how fares are managed.

- Both Edina and Reach drivers leave fares at the Westonka office after hours. Fares are left on the counter in an envelope. Fare amounts are written on the envelope most but not all of the time.
- Westonka drivers bring cash into the office at the end of every shift, count the cash themselves, and place it in the safe. Westonka drivers do not fill out a receipt for fares, however fares are entered on their ridership spreadsheet.
- At the Delano office, drivers bring fares in at the end of every shift, count the fares themselves and put the money in a lock box in a file cabinet. The lock box is next to a tub of loose cash, presenting a risk that Delano revenues are mixed together.
- STP drivers bring fares into the program office at the end of their shift, count fares themselves, and leave fares in an unlocked box in an unlocked cabinet. The driver's daily log is folded around the cash.

a. SCS fare documentation displays evidence of inappropriate cash handling.

Edina fare documentation shows signs of improper cash handling. Several fare envelopes had the fare, \$3, times the number of rides to equal total fares paid. For example, on April 5, 2007, the driver wrote "3 x 7 = \$21" indicating that the driver multiplied the seven rides given that day by the official fare rather than counting out the actual fares received. This indicates a serious deficiency in controls.

In April, 2007, the Westonka program manager deposited \$5,951.53 in fares, \$400 of which the program manager has no record. Despite the fact that the manager had no record of which program the money was for, the manager attributed the \$400 to trip fares, and the fares were never reported to MTS. Audit finds this to be yet another indication of poor cash handling controls.

b. SCS fare punch cards are not numbered or tracked.

All SCS transportation programs sell punch cards as a fare medium. These cards are sold mainly by drivers. Punch cards are not numbered or inventoried. Only one of the SCS programs, STP, keeps track of how many punch cards are given to drivers.

c. STP did not bill a group trip in April, 2007.

STP bills certain organizations that use their service regularly for group trips. Audit found evidence of a group trip that was not billed. The STP program manager confirmed

that the group trip had not been billed, however the bill has been sent to the appropriate organization since Audit's discovery.

8. Certain SCS transportation programs refuse service to the general public

According to MTS staff, PBF providers have been instructed that they cannot refuse rides based on age, ability or income if they have capacity. Audit contacted all PBF providers in order to schedule a ride on their transit service. The Audit caller identified herself as a resident of the program service area, and asked about the service provided by the program. Reach informed the Audit caller that they did not provide any DAR service. STP told the Audit caller that only seniors and people with disabilities were eligible to use their service. The Audit caller was not eligible for STP services according to these criteria.

- a. *PBF contracts include language requiring contractors to provide transit services to the general public, however some SCS program management plans do not specify the general public as client.*

PBF contracts require that contracted services be general public through the incorporation of NTD reporting standards. Section 6.01 of the PBF contract states that "to maintain its status as an eligible recipient of federal transit funding, the Council and its contractors providing subsidized transit service must report certain data and operation statistics to the National Transit Database. Accordingly, the reporting requirements of the National Transit Database are incorporated in this agreement by this reference." The Council is a recipient of FTA Urbanized Area Formula Program funds and all recipients of these funds are required to report transit statistics to the NTD for both directly operated and purchased transportation services. PBF contracts are categorized as purchased transportation according to NTD standards. Providers of purchased transportation are "obligated in advance to operate public transportation services" according to NTD standards language.

Management plans submitted by Reach and STP indicate their service users as only seniors or disabled individuals. These same two programs refused service when Audit called to schedule a ride because the Audit caller was neither disabled or a senior citizen. According to the PBF contract, "the Contractor shall provide those transit services specified in the Management Plan." Due to inconsistent language in contracts and management plans, Reach and STP programs could argue that by following their management plan, they are adhering to the contract. However, they are not adhering to contract requirements as they need to provide transportation services that both follow an approved management plan and are available to the general public.

According to discussions with MTS staff, PBF contractors have been told that they are to provide service to the general public in that they cannot refuse rides if they have capacity. MTS has documented that PBF providers are expected to provide general public service in PBF contract business items to the Transportation Committee and Metropolitan Council. Business items containing PBF contract funding requests state that all PBF providers "offer general public service." PBF contractors are being subsidized to provide public transit and the current contract requires them to do so, therefore contractor management plans and contractor services must reflect these requirements.

b. SCS programs do not advertise to the general public.

According to MTS staff, PBF contractors are not required to advertise to the general public, however contractors have been told that they cannot turn down a ride based on age, ability or income. Audit reviewed advertising materials published by SCS programs. Advertising materials included pamphlets and several newsletters. Delano's advertising materials do not indicate that they serve the general public. In describing the service, the Delano pamphlet states that the "program is designed to serve senior citizens." Edina, Westonka and STP ad materials do not limit their services to specific groups. However the Reach program is only advertised in the Reach for Resources non-profit newsletter, and only existing clients of the non-profit see the transit advertisements.

While MTS staff have said contractors are not required to advertise to the general public, it is the opinion of Audit that some basic level of marketing to all residents is necessary in order to let the general public know there is a DAR service in their area that they can access. Metro Transit maintains a website of DAR services and contact information. This website advertises the services of all SCS transportation programs except Reach. As the clearing house for all public transportation information in the metropolitan area, Metro Transit should include information on all the services funded by the Council on its transit websites. MTS should include advertisement on Metro Transit websites as a provision for all PBF contracts in order to ensure that general public is aware of all DAR services.

9. The Reach program is a private charter service and is not eligible for PBF contracts.

The Reach program is a private transportation service to the non-profit "Reach for Resources." Reach transportation services are limited to driving the clients of the non-profit to and from social events planned by the non-profit. These events include dances, bowling, movies and other social activities.

The NTD defines charter service as "a vehicle hired for exclusive use that does not operate over a regular route, on a regular schedule and is not available to the general public." The Reach program is a charter service as it only provides rides to clients of the Reach non-profit, and only to events planned by the non-profit. FTA guidelines specify that charter services are not considered public transit and are not NTD reportable. The Reach program is an inappropriate recipient of PBF funds as it not NTD reportable and therefore in violation of PBF contract guidelines.

a. Use of Council vehicles for the Reach program violates the Master Lease Agreement.

The Reach program uses SCS vehicles for its activities as these usually occur after SCS program hours and the vehicles are not in use. Audit finds the Reach service to be a charter service and not general public. The master lease contract states in section 3.02 that Council vehicles are only to be used for public transit purposes. No Council vehicles should be used for Reach programs as they are not public transportation. Audit did not directly observe use of Council vehicles for Reach activities; however the Westonka Program Manager acknowledged in an interview that the Reach program uses Westonka vehicles in the evening and occasionally during the day for its activities.

10. The majority of Delano program ridership is Wright County residents, in contradiction to what SCS has reported to MTS, and in violation of the Delano contract and Minnesota statute.

The Delano program is unusual as part of its service area is in Wright County, which is outside the Metropolitan Area as defined by Minnesota statute. According to MN Stat. 473.123, subd. 1, the Metropolitan Council only has jurisdiction in the Metropolitan Area. The Metropolitan Area includes the counties of Anoka, Carver, Dakota (excluding Northfield), Hennepin (excluding Hanover and Rockford), Ramsey, Scott (excluding New Prague), and Washington as defined by MN Stat. 473.121, subd. 2. The cities of Delano, Rockford and Franklin Township, while in the program service area, are outside of the Council's jurisdiction and ineligible to receive Council funding. Language to this effect has been incorporated in the Delano program contract (SG2007-012). According to section 1.03 of the contract, "the Contractor may not use the financial assistance to fund or provide transit service for residents of Delano, Rockford and Franklin Township. Financial assistance made available under this agreement may be used to fund or provide transit service for residents of Maple Plain, Loretto, Medina, Greenfield and Independence...."

According to the SCS Program Administrator, Delano program staff subtract rides that are given to Wright County residents. Audit confirmed that Delano staff subtracted 9.27% of rides for all months examined. However, Audit found no evidence that Delano subtracted any of the operating costs of the program. The SCS Program Administrator has stated that the "Council is not being asked to fund service beyond the metropolitan area."

Audit analyzed the residency of all Delano ridership between January 2006 and April 2007. Most Delano transportation clients' residency could be established through reverse phone number queries using the white pages. Others were identified by addresses on driver logs, and some residency was established by searching the person's name. Audit was unable to identify the residency of only 1.62% of ridership. This unidentified percentage is as likely to be from Wright County as Hennepin County. According to Audit analysis, 79.84% of all rides between January 2006 and April 2007 were provided to residents outside the metropolitan area. Only 20.16% of rides in this time period were provided to metro area residents.

Minnesota residents outside the metropolitan area make up the overwhelming majority of Delano ridership. Furthermore, the base of operations for the program is a senior center in the city of Delano, outside the metropolitan area, and many program rides are provided to or from the center.

CONCLUSIONS

1. SCS is not meeting PBF contract requirements.

Violation of contract requirements includes inaccurate and insufficient documentation of ridership statistics, reporting charter service rides, supporting ridership outside the metropolitan area, poor cash handling and controls, inaccurate revenue and cost reporting, failure to correct inaccurate reporting, and assuming the maximum contract subsidy amount in monthly reporting. Current SCS management of PBF contracts is completely inadequate and needs considerable revision in order to comply with contract standards and remain eligible to receive PBF funding.

2. SCS may have been paid in excess of the actual services provided and in excess of the actual operating costs and revenues attributable to those services.

It was not within the scope of this audit to assess the actual cost of SCS services. However, most operating costs examined by Audit appear to be estimated rather than actual program costs. Furthermore, SCS does not make any attempt to accurately report to the Council revenues received from other funding partners. Audit found reported fares to be generally understated, while ridership was generally overstated. Overall, the numerous inaccuracies found in SCS reporting favor the contractor and not the Council. The budget for PBF services is based on ridership, revenues and expenses reported by PBF providers in past years. It is probable that the inaccuracies described here have positively influenced budgets for the PBF services provided by SCS in that inflated ridership numbers coupled with low revenues has made the payment to SCS for PBF services higher than the actual cost of services. The Council is prohibited from paying more than the cost of service, and particularly so with a contract that is considered sole source.

3. The Delano program PBF contract is an improper use of Council funds as the program predominantly occurs and serves residents outside the metropolitan area.

The Delano contract states that PBF funds are not to be used to support ridership outside the metropolitan area. SCS reported to MTS that only a small portion, less than 10%, of Delano ridership involved residents outside the metro area. Audit analysis finds this to be completely inaccurate; almost 80% of Delano ridership comes from Wright County residents. Furthermore, the base of Delano operations is a senior center in Wright County, and much of its ridership is going to or from that center for senior lunches and other activities. Due to the composition of Delano ridership, the program is not eligible to receive funding for more than 20% of program costs. However, given the nature and location of the program, Audit believes the Delano program is outside Council jurisdiction.

4. The Reach program is a private transportation service that is not NTD reportable and therefore ineligible to receive PBF funding.

The Reach program is a private transportation service that provides rides to and from social events planned by the non-profit "Reach for Resources". Rides are only provided

to clients of the non-profit. According to NTD guidelines, the Reach transportation program is a charter service and is not reportable to the NTD because it is not public transportation. The PBF contract requires that all contractor services be NTD reportable. The Reach program is an inappropriate recipient of PBF funds since it cannot comply with the PBF contract as a private transportation program.

RECOMMENDATIONS

Program Evaluation and Audit recommendations are categorized according to the level of risk they pose for the Metropolitan Council. The categories are:

- **Essential** – Steps must be taken to avoid the emergence of critical risks to the Council or to add great value to the Council and its programs. Essential recommendations are tracked through the Audit database and status is reported twice annually to the Council’s Audit Committee and the Regional Administrator,
- **Significant** – Adds value to programs or initiatives of the Council, but is not necessary to avoid major control risks or other critical risk exposures. Significant recommendations are also tracked with status reports to the Audit Committee and Regional Administrator.
- **Considerations** – The recommendation would be beneficial, but may be subject to being set aside in favor of higher priority activities for the Council, or it may require collaboration with another program area or division. Considerations are not tracked. Their implementation is solely at the hands of the management.

1. (Essential) MTS should discontinue financial support of the Reach transportation program.

The Reach program is a private transportation service to the non-profit “Reach for Resources.” Reach transportation services are limited to driving the clients of the non-profit to and from social events planned by the non-profit. The Reach program is not public transit, is not NTD reportable, and is non-compliant with PBF contract requirements. Therefore, the Reach program is an inappropriate recipient of PBF funds and MTS should cancel any future Reach contracts.

2. (Essential) MTS should communicate to the Senior Transportation Program (STP) Joint Powers Board that the program is required to provide general public transportation according to the PBF contract. Failure to comply with this requirement should be met with appropriate penalties up to and including cancellation of contract.

The Council has a significant financial interest in only subsidizing transportation services available to the general public. Ridership statistics submitted to the NTD directly affect the level of federal funding provided to the Council. Transit services not available to the general public are not NTD reportable and reduce the amount of federal grants to the Council. PBF contractors must comply with general public requirements as failure to do so results in revenue loss for the Council. MTS should enforce the general public requirement.

Audit finds that STP is not currently providing general public Dial-a-Ride service in violation of the PBF contract. MTS should communicate to STP that their current services are not eligible for PBF subsidy, and failure to come into compliance with contract terms should be met with appropriate penalties up to and including cancellation of contract.

3. (Essential) MTS should ensure that SCS retains complete and accurate backup documentation to reported ridership statistics to include fare and donation receipts, driver logs, fare media inventories, mileage logs, operating costs and revenues as required by the PBF contract.

Accurate records of the above type are already required by section 6.02 and 6.03 of the PBF contract, however Audit finds SCS in violation of these sections as none of the five programs provided complete or accurate information to document reported data. SCS should revise current documentation practices to bring them in line with contract requirements. MTS should ensure that changes have occurred that bring SCS in line with current contract requirements. Furthermore, MTS should impose any and all penalties necessary to achieve contract compliance, up to and including cancellation of contract.

4. (Essential) MTS should insist on the improvement of internal controls over cash and other fare media on the part of SCS.

Audit found many deficiencies in SCS handling of fares. All fare cards should be numbered and periodically inventoried. All fares should be kept in a locked box or safe in a secure location; managers should count fares to verify that expected fares are turned in; and some form of fare receipt should be maintained by SCS staff. For example, it is commendable that STP records expected and paid fares for each rider on driver logs, and these logs are turned in with daily cash. Such practices should be in place at all SCS transportation program offices.

5. (Essential) MTS should follow the current contract and require that SCS accurately report operating revenue from local governments and other funding partners.

SCS does not report the contributions of its funding partners to the Council. Currently, the monthly report field for local funding is used to balance the costs and revenues of the program in order to receive the maximum subsidy amount from the Council. This practice violates PBF contract rules. SCS should provide accurate data on local funding, including direct support for transportation services as well as funding provided for multiple services including transit. SCS is not entitled to the maximum subsidy amount if it results in SCS collecting more operating revenue than the cost of services.

6. (Essential) MTS should communicate to SCS that they are required to either resubmit monthly reports or alert MTS when inaccurate data is reported.

The same driver wages were mistakenly reported for two separate programs. SCS acknowledged the mistake and had fixed it in their general ledger, but SCS never reported the inaccuracy to MTS. SCS should report all mistakes and inaccuracies to MTS in future in order to comply with NTD reporting standards.

7. (Essential) MTS should communicate to SCS that mileage logs need to be completed consistently by SCS staff, including both revenue and non-revenue miles. MTS should ensure that SCS accurately reports mileage in the future.

Audit discovered inconsistencies in the recording of mileage data. NTD reporting requires revenue and non-revenue mileage data for all transit providers. This requirement is incorporated in section 6.02 of the PBF contract and is subject to all contractors.

8. (Essential) MTS should recoup inappropriate payments made to SCS for the Delano transportation program, and discontinue any future financial support. MTS should also cancel master lease agreements with Delano for the two Council provided buses.

The Delano program is run from a senior center in Wright County, many rides are to or from that senior center, and 79.84% of ridership is residents of Wright County. Only 20% of rides between January 2006 and April 2007 involved residents of the metropolitan area. These findings directly contradict what MTS was told by SCS management.

According to MN Stat. 473.371, subd. 2, (a), the goal of the Metropolitan Council is to “provide, to the greatest feasible extent, a basic level of mobility for all people in the metropolitan area.” The Delano program detracts from the Council’s ability to fulfill this goal, as funds that should be spent enhancing the mobility of metropolitan area residents are instead spent on those outside of the Council’s jurisdiction. Given that 79.84% of rides were provided to non-Metropolitan Area residents, and the contract states that the Council must not fund services outside the Metropolitan Area, Audit finds that MTS is owed 79.84% of all payments made to SCS for Delano service from January 2006 to April 2007. This amounts to \$80,982.63. Also, MTS should recover the two buses given to the Delano program as they are mainly being used to transport non-metropolitan area residents.

Furthermore, Audit finds that the Delano program displays signs of fraudulent behavior. Ridership numbers are overstated by almost a third, and there are indications that these numbers were purposefully inflated. Also, SCS management lied to MTS about the proportion of metropolitan area residents that make up Delano ridership. Audit believes that MTS should immediately cancel the current contract as well as any future funding arrangements.

9. (Essential) PBF contracts should be amended to include language emphasizing that PBF contractors are being funded to provide general public transportation services only. Contract language should incorporate the NTD definition of public transit, including the exclusion of charter services as reportable.

Current contract language could be clearer in requiring PBF contractors to provide general public transportation services. MTS should incorporate the NTD definition of public transportation into all future contracts and the provision that PBF providers will provide public transit according to that definition. Contract language should also clearly define charter service and exclude all costs, revenues and ridership attributable to charter service as reportable. The contract language requiring general public transit should supersede any language to the contrary in the contractor’s management plan.

10. (Significant) MTS should conduct periodic reviews of SCS documentation to reported ridership and operations statistics.

The PBF contracts held by SCS had never been audited previously, and back up documentation had never been reviewed until now. Given the importance of NTD reporting for the Council, MTS should determine an appropriate model of reviewing monthly report data to assure contract compliance.

11. (Significant) MTS should direct SCS to standardize driver logs to better document ridership statistics and comply with contract requirements.

Driver logs differ for every SCS transportation program and some offer more complete information than others. SCS should revise driver logs so that they are consistent across programs. Driver logs should include the following items:

- Full name of rider
- Pick up location
- Destination
- Fare expected (where applicable)
- Fare paid

It is preferable that all driver logs be typed and all hand written logs should be legible. All driver logs should clearly show whether rides are one-way or return, and logs should list all stops that occur during the ride in order to count them as separate trips.

12. (Significant) MTS should advertise all PBF subsidized transportation services on the Metro Transit website.

Metro Transit maintains a website including dial-a-ride information for the general public. MTS should include service area, fare and contact information for all dial-a-ride programs subsidized by PBF contracts on Metro Transit websites so that members of the general public can access PBF contractor services.

13. (Significant) MTS should assess whether the inclusion of the North Lake program in the Westonka contract is appropriate.

Currently SCS includes operating statistics from the North Lake program in its monthly report for Westonka. However, the Westonka management plan does not include parts of the North Lake service area. SCS cannot add service area without the prior consent of MTS. The North Lake program should be reviewed by MTS in order to determine if its services are in line with the goals of MTS.



DATE: September 25, 2007
TO: Metropolitan Council Audit Committee
FROM: *AM* Arlene McCarthy, Director Metropolitan Transportation Service (651)602-1754
SUBJECT: Management Responses to Senior Community Services PBF Contract Audit

Management responses are developed and submitted with the following key objectives:

1. Protect the customers of the Metropolitan Council.
2. Ensure financial integrity and appropriate use of public transportation funds.

MTS provides funding for transit services delivered by Senior Community Services under the terms of five agreements. Because the service delivered under these contracts varies, management will take the following contract-specific action:

<u>Program Title</u>	<u>Agreement #</u>	<u>Contracting Entity</u>
Senior Transportation Program (STP)	SG2007-16	Joint Powers Board between Maple Grove, Osseo, Rogers, Brooklyn Park, Champlin, Dayton
Action: The Council will terminate SG2007-016 effective November 30, 2007, pursuant to section 8.02 (Termination for Convenience) of the 2007 agreement. The Council will commit to future funding contingent upon selection of a new operator.		
<u>Program Title</u>	<u>Agreement #</u>	<u>Contracting Entity</u>
Edina Dial-A-Ride	SG2007-001	City of Edina
Action: The Council will terminate SG2007-001 effective November 30, 2007, pursuant to section 8.02 (Termination for Convenience) of the 2007 agreement. The Council will commit to future funding contingent upon selection of a new operator.		
<u>Program Title</u>	<u>Agreement #</u>	<u>Contracting Entity</u>
Westonka Rides Program	SG2007-018	Senior Community Services
Action: The Council will terminate SG2007-018 as soon as possible per the terms of the agreement, but no later than November 30, 2007. Termination of the 2007 agreement is pursuant to section 8.03 (Default and Termination) and 8.02 (Termination for Convenience).		

Program Title**Agreement #****Contracting Entity**

Delano
Transportation
Program

SG2007-012

Senior Community Services

Action: The Council will terminate SG2007-012 as soon as possible per the terms of the agreement, but no later than November 30, 2007. Termination of the 2007 agreement is pursuant to section 8.03 (Default and Termination) and 8.02 (Termination for Convenience). The Council will pursue reimbursement of overpayments from Jan 2006 to April 2007 totaling \$80,982.63 plus all subsequent overpayments. The Council will exercise its option under section 7.07 (Reconciliation after Audit) to recover funds.

Program Title**Agreement #****Contracting Entity**

Reach for Resources

SG2007-017

Senior Community Services

Action: The Council will terminate SG2007-017 as soon as possible per the terms of the agreement, but no later than November 30, 2007. Termination of the 2007 agreement is pursuant to section 8.03 (Default and Termination) and 8.02 (Termination for Convenience).

In addition to these contract specific actions, the Council will:

1. Identify and enter into an agreement(s) with new service provider(s) to assure continuity of general public transit services.
2. Repossess all Council owned assets from Senior Community Services and assign to replacement provider(s).
3. Prescribe a driver manifest format for use by all PBF contractors.
4. Amend PBF contracts to include language emphasizing that PBF contractors are being funded to provide general public transportation services only. The contract language will include the definition of public transit, including the exclusion of charter services as reportable.
5. Work toward listing all Council sponsored general public programs on the Metro Transit web site.