



OFFICE OF
CONTROLLER

LAURA N. CHICK
CONTROLLER

200 N. MAIN STREET
ROOM 300
LOS ANGELES 90012
(213) 978-7200

June 27, 2007

The Honorable Antonio Villaraigosa
The Honorable Rockard J. Delgadillo
The Honorable Members of the City Council

As City Controller, I have scrutinized the City's contracting processes, including over-billing in public relations contracts, lack of transparency in awarding leases at the Harbor Department, inappropriate involvement of Airport Commissioners in proposal evaluations, etc...

In this audit, once again we are circling back to take a look at a Department of Transportation (DOT) contract with the Watts Labor Community Action Committee. While this contract is no longer in effect, it starkly illustrates things that the City still needs to change. Watts Labor, a local non-profit organization, was contracted to provide Dial-A-Ride services for the West Los Angeles, South Los Angeles and Harbor areas.

My audit found three problem areas:

- 1) Lack of clarity in contract requirements
- 2) More than a three year delay in awarding a new contract
- 3) Inaccuracies in contractor invoices

And what were the results of these problems? The City was overcharged approximately \$700,000 on this contract, and lost an additional potential savings of hundreds of thousands from a contract renegotiated on time.

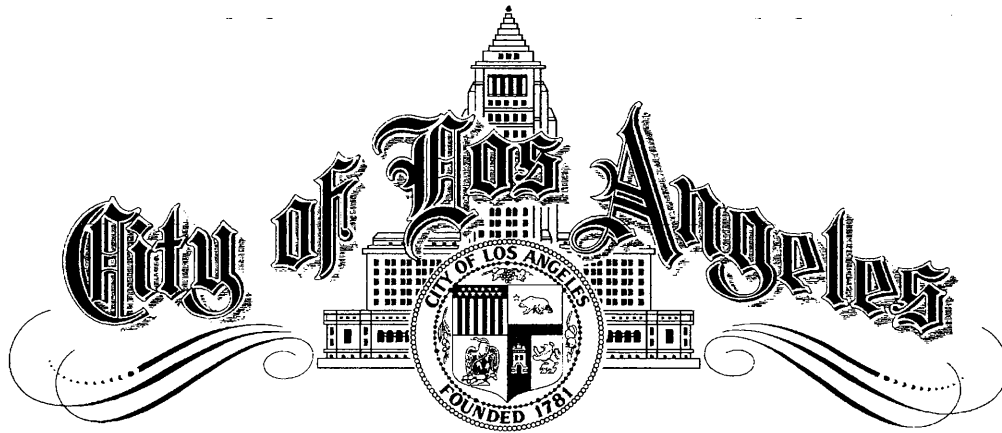
In 1998, at the contract's outset, the hourly rate was \$33.39. After 11 subsequent increases, the hourly rate was \$62.26 at the contract's close. The current contract pays \$49.63 per hour.

The City should determine up front and openly what its contract objectives are. Shouldn't our priority and goal be to always provide the best service at the best price? If so, every detail of the contract... its content, implementation, and oversight... should clearly tie in to that objective.

Sincerely,

LAURA N. CHICK
City Controller





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200 N. MAIN STREET, RM 300
LOS ANGELES 90012
(213) 978-7200
www.lacity.org/ctr

June 27, 2007

Gloria J. Jeff, General Manager
Department of Transportation
100 S. Main Street
Los Angeles, CA 90012

Dear Ms. Jeff:

Enclosed is a report entitled "Audit of the City's Contract with Watts Labor Community Action Committee (WLCAC)." A draft of this report was provided to your office on June 11, 2007. Comments provided by your Department were evaluated and considered prior to finalizing this report.

Please review the final report and advise the Controller's Office by July 27, 2007 on planned actions you will take to implement the recommendations. If you have any questions or comments, please contact me at (213) 978-7392.

Sincerely,

A handwritten signature in black ink, appearing to read 'Farid Saffar', is written over a light blue horizontal line.

FARID SAFFAR, CPA
Director of Auditing

Enclosure

cc: Robin Kramer, Chief of Staff, Office of the Mayor
Jaime de la Vega, Deputy Mayor, Office of the Mayor
Karen L. Sisson, City Administrative Officer
Frank T. Martinez, City Clerk
Gerry F. Miller, Chief Legislative Analyst
Board of Transportation Commissioners
Independent City Auditors



**City of Los Angeles
Office of the Controller**

**Audit of the City's Contract with
Watts Labor Community Action
Committee**

June 27, 2007

**Laura N. Chick
City Controller**

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AUDIT OF CONTRACT NO. 97465 WITH WATTS LABOR COMMUNITY ACTION COMMITTEE FOR DIAL-A-RIDE SERVICES

EXECUTIVE SUMMARY

The Audit Division has completed an operational and compliance audit of the Department of Transportation (DOT) contract no. 97465 with Watts Labor Community Action Committee for Dial-A-Ride services. The primary objectives of the audit were to determine: 1) Whether DOT conducted the selection and award of this contract in accordance with City policies and procedures, 2) Whether DOT properly monitored WLCAC to ensure compliance with contract provisions, 3) Whether DOT ensured that WLCAC provided services in accordance with the contract provisions, and 4) Whether DOT ensured that WLCAC submitted accurate claims for payment.

Background

Watts Labor Community Action Committee (WLCAC) is a local non-profit organization that provided Dial-A-Ride (DAR) services under contract no. 97465 between September 1998 and September 2006. WLCAC provided DAR services in areas south of the Interstate 10 Freeway, both within the City limits and including some small adjacent portions of the County of Los Angeles.

Dial-A-Ride is one of the transportation choices available to participants in the City of Los Angeles' Cityride Program. Cityride "allows seniors and persons with disabilities to use City-subsidized transit scrip to purchase transportation on Metro buses, private lift vans, City franchised taxicabs and/or City-operated dial-a-ride transportation services at a substantial discount."

The DAR component of the Cityride Program offers local transportation via a shared ride in a van. DAR and Cityride coordinate their services with the Los Angeles County Metropolitan Transportation Authority (Metro), the region's integrated transportation system.

The Los Angeles Department of Transportation administers the Cityride Program with the assistance of the Department of Aging. Most funding to subsidize operation of the Cityride Program comes from Proposition A Local Transit Assistance (PALTA) funds.

Before being awarded this contract, WLCAC oversaw approximately seven vans under a similar contract, for a smaller service area. When DOT awarded this contract to WLCAC, the CAO wrote in support of the award stating:

WLCAC is a current provider of City dial-a-ride service, and the Department [DOT] indicates that excellent service is provided. WLCAC has a commitment to hiring from the service area community, and offers an attractive wage and benefit package. WLCAC offers a cost that is \$790,000 lower than the next lowest bidder.

This new contract required WLCAC to triple the size of their operation and expand into areas their employees were unfamiliar with. Ultimately, WLCAC lost the contract in 2006 even for the smaller areas where WLCAC had once provided services.

Contract History

The City issued a Request for Proposals (RFP) on October 28, 1997. After an evaluation of eight responses that were submitted for the service area, DOT executed a five-year contract on September 25, 1998 with the Watts Labor Community Action Committee (WLCAC). The City subsequently extended this contract eight times, from its original expiration date of September 27, 2003, until its final expiration on September 30, 2006.

During the course of these contract extensions DOT released an RFP for the continued operation of the Cityride dial-a-ride services on December 2, 2003. DOT received four responsive proposals and recommended the award to one contractor to manage DAR services in all areas of the City. However, the City Council rejected DOT's recommendation and directed DOT to issue a new RFP.

DOT issued the new RFP on December 17, 2004, and subsequently awarded the contract to manage Dial-A-Ride services in all areas of the City to a different vendor, MV Transportation. The new contract took effect in September 2006.

Scope

Our audit was performed in accordance with Generally Accepted Government Auditing Standards and covered the period from July 1, 2005 to June 30, 2006. We also reviewed selected transactional data from May 2002 forward, and bidding information that dates from the contract's inception. We conducted fieldwork between January and April 2007.

In performing our audit, we interviewed responsible DOT and WLCAC personnel; and reviewed contract provisions and applicable policies, procedures, rules, and regulations. However, since this contract had expired, we could not observe WLCAC's Dial-A-Ride operations.

Our audit of this DOT contract required that we examine WLCAC documentation and interview WLCAC personnel. However, our auditee was the Department of Transportation.

Summary of Audit Results

We found that DOT complied with the City's policies and procedures in the selection and award of contract no. 97465 to WLCAC. However, WLCAC failed to comply with a key contract performance requirement and DOT overpaid WLCAC approximately \$700,000. In addition, DOT did not initiate a new selection process in a timely manner which, when combined with Council direction to reissue the RFP, resulted in a three-year extension at higher costs. Significant issues are presented below.

WLCAC charged the City more than the contract allowed.

Over 18 months, WLCAC overcharged the City approximately \$700,000 by not complying with a contract requirement. The contract required WLCAC to reduce billings when actual Revenue Service Hours were less than 65% of the monthly budgeted Revenue Service Hours. WLCAC continued to bill at the higher rate even when WLCAC failed to meet the 65% test. DOT also overlooked this requirement and overpaid WLCAC.

WLCAC erred in calculating billable Revenue Service Hours.

WLCAC mistakenly totaled the minutes portion of time calculations as decimal fractions of an hour. WLCAC invoices we examined also had other totaling errors. These errors, however, did not result in overbilling to the City. WLCAC's errors continued without detection because DOT did not sufficiently review and approve WLCAC manifests and invoicing practices.

DOT did not initiate a new contract selection process in a timely manner.

DOT issued the RFP for re-bidding this contract more than two months after the expiration date of the original contract. Ultimately, a three-year delay in obtaining a replacement for this contract resulted in over a hundred thousand dollars of lost opportunity savings to the City, since the current replacement contract is billed at a much lower rate.

WLCAC did not meet contract performance targets.

DOT set measurable outcomes as a performance requirement in the RFP. WLCAC did not meet their minimum performance goal of 2.0 passengers per Revenue Service Hour. However, the contract included conflicting terms regarding DOT's expectation of ridership performance, as either a minimum requirement or a target. The inefficient use of the Dial-A-Ride vans continued over an extended period of time.

Review of Report

We provided a draft report to DOT management on June 11, 2007, and met in an exit conference with DOT management on June 20, 2007 to discuss the draft report. We considered DOT's comments before finalizing the report. We would like to thank DOT's management and staff for their cooperation and assistance during the audit.

TABLE of RECOMMENDATIONS

RECOMMENDATIONS	PAGE REFERENCE
Section I: Billing Errors	
<p>We recommend that DOT management:</p> <ol style="list-style-type: none"> 1. Work with the City Attorney to pursue collection from WLCAC to repay all amounts charged in violation of the terms and conditions of the contract. 2. Review and approve, if they have not done so, the existing contractor's accounting and administrative procedures used in the planning, controlling, monitoring, and reporting of all fiscal matters relating to auditable documents. 3. Ensure compliance with contract provisions before payment of invoices. DOT should require the vendor to report and obtain approval for any changes to billing practices. 	<p>9</p> <p>10</p> <p>11</p>
Section II: Contract Amendments & Extensions	
<p>We recommend that DOT management:</p> <ol style="list-style-type: none"> 4. Schedule the bidding and award of contracts in a timely manner to avoid costly contract extensions. 5. Ensure that all contracts contain performance standards that are clearly stated as minimum requirements, and that vendors comply with contract provisions. 	<p>13</p> <p>14</p>

INTRODUCTION AND BACKGROUND

The Cityride Program provides subsidized transportation alternatives to City residents who are 65 years of age or older, or who are disabled. Funds are provided from the one-half percent sales tax increase authorized in 1980 by County voters with Proposition A. Cityride allows registered participants or "clients" to choose a mode of transportation that best meets their transportation needs.

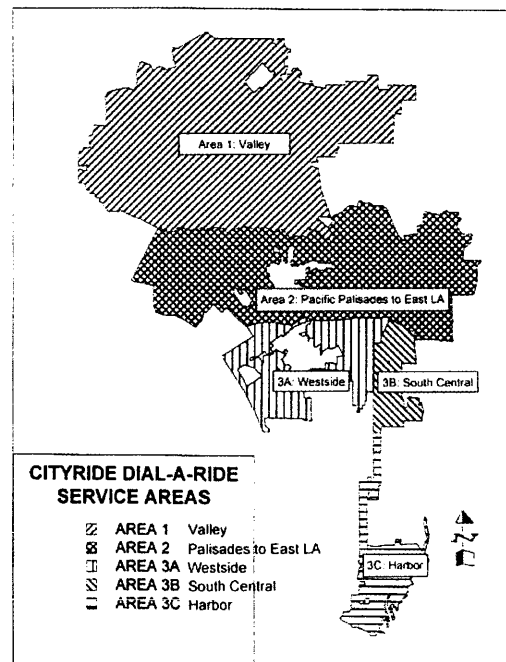
Dial-A-Ride (DAR) is the Cityride transportation alternative that allows clients to ride together in a 15-passenger van to individual destinations. Drivers normally assist passengers as they board or exit the van, so DOT calls this level of service "curb-to-curb."

Clients normally schedule a ride one or two days ahead of time and "pay" the van driver using either coupons known as "scrip," which is purchased in advance, or by paying in cash. Trips of up to ten miles require 4 scrip—equivalent to \$1. Longer trips require 6 scrip or \$1.50.

Each van is assigned a service route in one of three DAR service areas covering the City of Los Angeles. DOT further subdivided area 3 into three subsections. DAR service areas were:

- Area 1 – San Fernando Valley
- Area 2 – Westside, Central, Eastside
- Area 3A – Southwestern
- Area 3B - Southeastern
- Area 3C - Harbor

DOT reported that during 1996-97 the Cityride DAR service transported 250,000 passengers; however, by 2005, DOT reported that DAR provided 200,000 annual passenger trips.



According to DOT, in years before 1998, numerous small operators provided DAR services in communities throughout the City. From 1998 until 2006, DOT encouraged respondents interested in the DAR contract to bid on multiple service areas.

This planned “bundling” of services is consistent with an Operations Improvement Study of DOT that recommended the consolidation of existing contracts to potentially reduce contractor bid prices, and improve DOT effectiveness in its contract management function.

In 1998, DOT awarded a five-year contract to the Watts Labor Community Action Committee (WLCAC) with initial billing at a flat rate of \$33.39 per Revenue Service Hour (RSH).¹ Three years later, the contractor complained of losing money and sought a contract modification to boost WLCAC compensation.

From May 2002 until June 2005, Council approved a series of contract amendments to conditionally increase WLCAC compensation by changing the method of calculating monthly payments. Instead of using a flat rate per RSH, WLCAC could bill a fixed monthly amount plus a lower flat rate per RSH. However, under the terms of the contract, WLCAC could only apply this new calculation method during months they achieved a specific performance requirement. The new payment formula increased WLCAC compensation by upwards of \$25,000 per month.

As the City repeatedly extended this contract for six-month terms, WLCAC successfully negotiated higher payment amounts, even while WLCAC failed to meet the performance requirement. In July 2005, DOT amended the contract to remove the fixed/hourly payment structure, and go back to a significantly increased flat rate per Revenue Service Hour.

The table below compares contract maximum amounts and payment provisions, including billable rates per hour, over the contract period.

Amendment No.	Contract Period	Contract Maximum ²	Allowed RSHs	Billable Rate per Revenue Service Hour (RSH)
	1998 – 1999	\$1,905,755	44,880	\$33.39
	1999 – 2000	1,881,816	44,880	\$34.25
	2000 – 2001	2,012,692	44,880	\$36.23
	2001 – 2002	2,020,646	44,880	\$36.18
1	May – Sep 2002	2,020,646	44,880	\$71,326 ³ +\$17.54/hr
	2002 – 2003	2,073,933	44,880	\$72,929 ³ +\$18.06/hr
2	Sep03 – Mar 04	1,068,076	22,440	\$75,117 ³ +\$19.55/hr
3	Apr – Sep 2004	1,068,116	22,440	\$78,275 ³ +\$23.48/hr
4	Sep – Dec 2004	534,038	11,220	\$78,275 ³ +\$23.48/hr
5	Jan – Jun 2005	1,097,982	22,440	\$80,466 ³ +\$24.13/hr
6	Jul – Dec 2005	1,336,081	22,352	\$59.77
7	Jan – Jun 2006	1,336,081	22,352	\$59.77
8	Jul – Sep 2006	\$ 695,828	11,176	\$62.26

¹ Revenue Service Hours is the term used by DOT to define billable time, which begins at the time of the first passenger pick-up and ends when the last passenger is dropped-off, for each van in service.

² This amount includes bonus amounts contingent on exceeding specified service levels, for the period specified.

³ Fixed monthly amount.

The contractor submitted monthly claims for payment for Revenue Service Hours (RSH) provided, less fare box revenue. DOT payments under this contract exceeded \$10 million from inception in 1998 until expiration in 2006.

AUDIT FINDINGS AND RECOMMENDATIONS

Section I: Billing Errors

Finding #1: WLCAC charged the City at too high a rate, in violation of a contract requirement.

From September 2003 to February 2005, WLCAC violated the terms of the contract by invoicing the City at a higher rate than the contract allowed. DOT erroneously authorized payment of the overstated WLCAC invoices for an extended period. Upon discovery of the overpayments, in April 2005 DOT demanded repayment of \$480,000—overpayments for the prior twelve months—but WLCAC refused.

WLCAC overcharged the City by ignoring a contract requirement to revert to a lower amount when actual Revenue Service Hours were less than 65% of the monthly budgeted Revenue Service Hours. The DOT Chief of Transit stated that DOT inadvertently overlooked this requirement in approving most WLCAC invoices.

Contract no. 97465, Amendment no. 1 paragraph A.1.c states:

The City shall require the Contractor to operate a minimum of 65% of the allocated revenue service hours per month to ensure a consistent level of service. Failure to meet the 65% minimum will result in a reversion to the previous method of payment.

The demand by DOT was for \$480,000, because DOT only looked back to April 2004. The auditors' calculations put the overpayment at approximately \$700,000 by looking back to the effective date of the first contract amendment.

The DOT's Chief of Transit stated that after WLCAC refused to repay the City's \$480,000 demand, DOT forwarded background information (including copies of the WLCAC response, contract and amendments) to the City Attorney's Office for a legal opinion. He further stated that DOT does not have a paper trail on file after that point and he does not recall hearing a response from the City Attorney's Office. Representatives of the City Attorney's Office stated they had no record of this request.

Recommendation:

1. DOT management should work with the City Attorney to pursue collection from WLCAC to repay all amounts charged in violation of the terms and conditions of the contract.

Finding #2: WLCAC made mathematical errors in calculating billable hours.

We conducted an evaluation of billing procedures by reviewing all transactions in June 2006 for area 3C. We later examined WLCAC records of Revenue Service hours for August 2005 for all three areas (3A, 3B, and 3C).

We found the following errors:

- a. For area 3A in August 2005, WLCAC erred when totaling the minutes portion of time entries. The error consisted of treating minutes (sixtieths of an hour) as decimal fractions of an hour (hundredths of an hour). For example, WLCAC incorrectly billed the City for 6.50 hours (6 hours and 30 minutes) when 6 hours and 50 minutes were billable—an error of 20 minutes.

For August 2005 we examined the similar WLCAC worksheets for only one day in areas 3B and 3C and noted this same pattern of calculation errors. We also found this error when we examined WLCAC worksheets for area 3C for June 2006.

- b. WLCAC records we examined also had other totaling errors. We noted for August 2005, these errors incorrectly increased the billable hours by 6 hours.

A DOT accounting representative was unaware of these discrepancies. Detailed field reviews of WLCAC's accounting procedures had not been conducted since the early 1990s, but he described prior DOT audits of WLCAC as comprehensive. He further stated that DOT had approved the contractor's proposed system of accounting procedures submitted in response to the RFP. In addition, the DOT contract monitor stated that she did not review daily driver manifests that supported summary schedules attached to WLCAC invoices.

WLCAC billing errors continued without detection because DOT did not carefully review and approve the WLCAC manifests and invoicing practices.

We understand that DOT has executed a new contract with MV Transportation. It is essential that DOT review the contractor's accounting and administrative procedures to ensure the validity of the billing practices, conduct detailed field visits as necessary, and to review supporting documents prior to approving payment.

Recommendations:

2. DOT management should review and approve, if they have not done so, the existing contractor's accounting and administrative procedures used in the planning, controlling, monitoring, and reporting of all fiscal matters relating to auditable documents.

3. DOT management should ensure compliance with contract provisions before payment of invoices. DOT should require the vendor to report and obtain approval for any changes to billing practices.

Section II: Contract Requirements & Extensions

Through contract no. 97465 WLCAC was authorized by DOT to provide Dial-A-Ride (DAR) services for Cityride Area 3 (generally, areas of the City south of the Interstate 10 Freeway). The contract, including its integral parts such as the Request for Proposals (RFP), the proposal submitted by WLCAC, the City's standard contract provisions, the Cityride Program Manual of Policies and Procedures, and other attachments define the responsibilities of DOT and WLCAC.

DOT had a responsibility to oversee the efficient and effective use of City resources and to ensure that WLCAC provided DAR services in accordance with the contract. The RFP, an integral part of the contract, states:

"The Contractor shall provide a high quality, customer service-oriented paratransit operation. The City will monitor the service closely to ensure that all contractual responsibilities are met"⁴

It further states:

"The Contractor is required to attain certain levels of performance. Failure to achieve the performance levels . . . may result in termination of the contract."⁵

The monthly number of Revenue Service Hours provided by WLCAC declined over time, directly affecting the amount of money WLCAC could bill the City.

By the time of the original contract expiration date in September 2003, WLCAC claimed they had lost \$2 million on the contract and asked DOT for an accommodation to allow WLCAC to recoup their claimed losses. A years-long re-bidding process ensued requiring repeated extensions of the contract at a higher flat rate.

When we requested the documentation used by DOT to evaluate WLCAC's claimed losses, we were given an un-audited "Income Statement." Typically, for a non-profit organization, accountants would normally prepare a Statement of Revenues and Expenditures instead of an Income Statement.

This "Income Statement" covered only the three-month period from July 1, 2003 to September 30, 2003, and showed a "net loss" for the quarter of \$83,015.91. We saw no indication that WLCAC prepared this document using the accrual

⁴ RFP Section IV page 20

⁵ RFP Section IV.C.1 page 27

method of accounting, leading us to question whether some of the reported revenues or expenditures related to a different period than the reported quarter.

For example, upon examination of the expenditure of \$61,160 reported for Vehicle Insurance, we learned that the total amount paid for vehicle insurance for the entire fiscal year was \$109,173. Therefore, the proportionate share of vehicle insurance for the reported quarter should have been \$27,293—effecting a significant reduction in the reported “loss,” by examining just one of the many reported expenditures.

When we brought this issue to the attention of DOT, they stated that they did not have confidence in the validity of information produced by WLCAC’s accounting system. We did not audit the WLCAC “Income Statement,” but we also questioned its validity. DOT further stated that they conducted their own analysis based on their experience, without considering the financial information submitted by WLCAC. DOT stated that their internal analysis supported the final negotiated increase, which was lower than that requested by the contractor.

By the time contract no. 97465 expired on September 30, 2006 and the new vendor took over, DOT had executed a total of eight amendments to the original contract with WLCAC. In those amendments, WLCAC negotiated higher levels of compensation, finally up to a flat rate of \$62.26 per revenue service hour—nearly double the flat rate in the initial contract.

In September 2006 DOT awarded a new DAR contract, covering all areas of the City, to MV Transportation at a flat rate of \$49.63 per RSH. This is a significantly lower rate than what was paid to WLCAC and has already resulted in substantial savings to the City for these services.

Finding #3: Contract extensions resulted in lost opportunities for savings.

DOT awarded this five-year contract to WLCAC in September 1998, implying that a new contract should have been in place by September of 2003. That did not occur.⁶

On December 2, 2003, two months after the original contract expiration date, DOT released the RFP for a new five-year contract. DOT management explained that they issued more RFPs than usual that year, and that new contracting requirements drained additional staff time. In accordance with a DOT Operations Improvement Study, DOT sought to combine all DAR services under the management of a single vendor.

Proposals were submitted, including one from WLCAC, but in March 2004 DOT recommended awarding the contract to manage DAR services in all areas of the City to a different contractor. However, on September 28, 2004, Council rejected DOT’s recommendation and directed DOT to issue a new RFP and re-bid the

⁶ Appendix I A chronology of bidding events for this service.

contract, citing the strong service record of existing providers in supporting local working families.

On December 17, 2004, DOT issued a second RFP that eventually resulted in the award of a new contract to MV Transportation, the company that took over DAR operations citywide in September 2006. In the new contract with MV Transportation the flat rate is \$49.63 per RSH, more than 20% lower than the rate at the end of the WLCAC contract.

We concluded that the three-year delay in obtaining a replacement for contract no. 97465 resulted in a lost opportunity to save at least \$130,000. We arrived at this estimate by comparing the WLCAC contract service rates to the new contractor's rates, applied to the actual services provided during that period. This is in addition to the \$700,000 that was overbilled by WLCAC during a portion of the same three-year timeframe.

The DOT's Chief of Transit stated that DOT has recently implemented a contract tracking system. This system enables them to track when a contract is expiring so that DOT could start the necessary RFP process in a timely manner. However, he also stated that the delay resulting from DOT would have been only five months; the remaining extensions were necessary due to Council action to reject DOT's recommendation and issue a new RFP.

Recommendation:

4. DOT should schedule the bidding and award of contracts in a timely manner to avoid costly contract extensions.

Finding #4: A key contract performance requirement was unclear.

In their proposal, WLCAC stated they would serve a minimum of 2.0 passengers per Revenue Service Hour (RSH), which was noted as a required performance standard in the RFP:

"The contractor is required to develop and implement, throughout the term of the contract, a marketing and service plan designed to attract new riders, encourage grouped trips and effectively allocate resources necessary to maintain the minimum 2.0 passengers per service hour standard."

The contract specifies that the City may assess penalties, based on the contractor's failure to meet standards described in the RFP. However, the contract also provided performance incentive bonuses when ridership met or exceeded 2.0 passengers per RSH.

WLCAC did not meet the standard. We examined WLCAC records for the period from May 2002 to September 2006 and found that ridership averaged 1.5

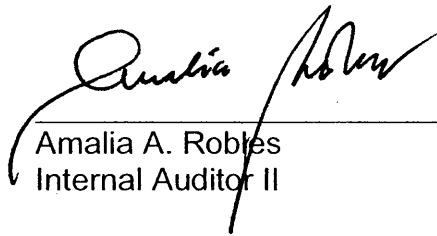
passengers per RSH. In addition, on days we examined in August 2005, WLCAC drove fewer than two-thirds of the Dial-A-Ride vans in their charge.

DOT indicated that the ridership performance standard was a target, not a minimum requirement that would have resulted in penalties and/or contract termination. However, the terms as stated in the contract appear in conflict. In addition, the inefficient use of the Dial-A-Ride vans continued over an extended period.

Recommendation:

5. DOT should ensure that all contracts contain performance standards that are clearly stated as minimum requirements, and that vendors comply with contract provisions.

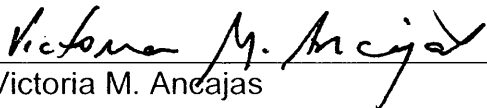
Respectfully submitted,



Amalia A. Robles
Internal Auditor II



Terry (Will) Newman, CPA, CFE
Internal Auditor III



Victoria M. Ancajas
Chief Internal Auditor



Siri Atma Khalsa, CPA
Deputy Director of Auditing



Farid Saffar, CPA
Director of Auditing

April 2007

Chronology of the bidding and re-bidding of contract no. 97465

1. In compliance with City Administrative Code Section No 10.15.b, on October 28, 1997, DOT advertised an invitation of bids or proposals in a number of daily newspapers printed and published in the City, including the Daily News, the Sentinel, and La Opinion.
2. DOT distributed over 100 Request for Proposals (RFP) and received 10 proposals; 8 proposed services for Area 3.
3. A Selection Committee was formed and included department staff, representatives from LA County Department of Public Works, and representatives from a non-profit paratransit provider (Access Services, Inc.).
 - a. The Selection Committee scored the proposals based on the following criteria:
 - Qualification of the proposer (20 points);
 - Qualification of the proposed staff (20 points);
 - Operating methodology (20 points); and
 - Cost effectiveness (40 points).
 - b. The Selection Committee evaluated proposals for 11 different service area options and determined that the recommended packaging of the service areas is the most cost effective option for the City.
4. DOT selected Watts Labor Community Action Committee (WLCAC) through a proposal process to operate three paratransit service areas (3A - Southwestern, 3B - Southeastern, and 3C - Harbor) for a maximum five-year contract amount of \$9,525,000.
5. Council approved awarding contract no. 97465 to WLCAC, and that contract became effective in September 1998, almost one year after the advertising of the invitation of the original bids.
6. On June 26, 2003, three months before the contract expired, DOT requested approval from the Mayor to extend the contract on a month-to-month basis (not to exceed six months), pending completion of the competitive bidding process that had not yet reached the RFP stage.
7. The RFP was advertised in a number of publications including the Daily Journal, La Opinion, Sentinel, and the American Public Transit Associations' Passenger Transport magazine, and was posted on the City's website.

8. On December 2, 2003, DOT circulated the RFP (to 38 potential bidders who expressed interest in receiving a copy of the RFP) to solicit proposals for the continued operation of the Cityride Dial-A-Ride services for Areas 1, 2, and 3, covering the entire City of Los Angeles.
9. DOT issued its March 3, 2004 letter addressed to Mayor James Hahn where DOT recommended to award a five-year contract to Southland Transit, Inc. (STI) to operate the Cityride Dial-A-Ride services for all three areas of the City (Area #s 1, 2, 3A, 3B, and 3C) with revenue service hourly rates of \$46.06 (Year 1), \$44.98 (Year 2), \$46.08 (Year 3), \$47.20 (Year 4), and \$48.36 (Year 5).
10. CAO submitted to the Mayor a report dated May 20, 2004 (CAO #0220-00210-0163) where CAO concurred with DOT's recommendation to award Southland Transit, Inc. (STI) a contract to operate the Cityride Paratransit (Dial-A-Ride) services in three areas of the City (Cityride Areas 1, 2, and 3). The Mayor transmitted to Council this CAO Report on June 17, 2004.
11. WLCAC issued a letter dated June 23, 2004 to LA City Council's Transportation Committee Chairperson Antonio Villaraigosa with a request to suspend a decision on the recommendation for award of the Cityride contract until such time that the Committee looked into WLCAC's claims, or had interviewed WLCAC's President Timothy Watkins.
12. At various meetings, the Transportation Committee discussed the issues raised by WLCAC and concerns by two Councilmembers.
 - a. Councilmember Eric Garcetti's letter addressed to the City Council raised concerns that the STI's offer, which allows City savings of 12%, may not reflect the true labor costs.
 - b. Councilmember Martin Ludlow's letter addressed to the City Council stating "We should support companies who have shown a strong record of supporting working families in our City," favoring Connex. Councilmember Ludlow "urged the [Transportation] Committee to carefully evaluate DOT's recommendations [to award contract to STI], which are often based solely on the most cost-effective or lowest bid proposals. The most cost effective or lowest bid is not always the best."
13. On September 28, 2004, the Council adopted the Transportation Committee's report that rejected all proposals received in response to the Cityride RFP dated December 2, 2003 and directed DOT to engage in a new selection process. Concerns contained in the Transportation Committee letter (CF #04-1166 dated September 29, 2004) include:
 - Existing versus proposed wages and benefits, and

- Service/track record of the existing providers (Connex West and WLCAC).
14. The City Council conducted a meeting on January 5, 2005 and filed DOT's report dated October 15, 2004, where the primary evaluation factor that led to DOT's recommendation to award the Cityride DAR contract to STI was not experience, but rather cost-effectiveness. STI's proposal was over \$3.5 million less expensive than the next lowest cost option, and was over \$7.8 million less expensive than the option that would have awarded contracts to incumbents Connex (Area 1 and 2) and WLCAC (Area 3).
- DOT's recommendation to award the Cityride contract to STI was based on the findings of the evaluation panel that the new contractor would provide a high quality and cost-effective service for the City. The significant experience of both the incumbent operators (Connex and WLCAC), as well as the recommended operator was considered.
15. On November 23, 2004, DOT issued a letter of solicitation of interest to over 150 firms to determine their interests in receiving a copy of a new RFP for the provision of the Dial-A-Ride services in Cityride Areas 1, 2, and 3. The RFP was advertised in a number of publications including the Daily Journal, LA Opinion, Sentinel, and the American Public Transit Associations' Passenger Transport magazine, and was posted on the City's website.
16. On December 17, 2004, DOT re-released its RFP to 35 prospective bidders to solicit proposals for the continued operation of Cityride Dial-A-Ride services for Areas 1, 2, and 3 covering the entire City of Los Angeles.
- The RFP allowed for the submittal of stand-alone proposals for each of the three individual service areas and/or any combination of the individual service areas including all three service areas.
 - A total of seven potential contract service options were available to prospective proposers.
 - The purpose of allowing proposers to submit a combined proposal for multiple service areas in response to the RFP was to provide a means of evaluating and achieving potential economies-of-scale cost saving efficiencies that could be available to the City.
17. DOT received a total of six (6) responses to its RFP by the established deadline of March 4, 2005.
18. DOT issued a letter dated November 9, 2005 to Mayor Villaraigosa where DOT recommended to award the contract to MV Transportation, Inc. to operate the Cityride Dial-A-Ride services for all three areas of the City (Area #s 1, 2, 3A, 3B, and 3C).

19. On September 18, 2006, the DOT General Manager approved the award of contract no. C-110602 to MV Transportation, Inc. to operate the Cityride Dial-A-Ride services for all three areas of the City. The new contract rate is significantly lower than the previous rate paid to WLCAC, and would realize an annualized savings of over \$300,000 based on prior year service levels.

Ranking of Recommendations

Finding Number	Description of Finding	Ranking Code	Recommendations
Section I.			
1.	WLCAC overcharged the City approximately \$700,000 by not adhering to a contract requirement to reduce billings when actual Revenue Service Hours were less than 65% of the monthly budgeted Revenue Service Hours. For 18 months, DOT inadvertently overlooked this requirement and overpaid WLCAC.	N	1. DOT management should work with the City Attorney to pursue collection from WLCAC to repay all amounts charged in violation of the terms and conditions of the contract.
2.	WLCAC mistakenly totaled the minutes portion of time calculations as decimal fractions of an hour. WLCAC invoices we examined also had other totaling errors. WLCAC's billing errors continued without detection because DOT did not sufficiently review and approve WLCAC manifests and invoicing practices.	N N	2. DOT management should review and approve, if they have not done so, the existing contractor's accounting and administrative procedures used in the planning, controlling, monitoring, and reporting of all fiscal matters relating to auditable documents. 3. DOT management should ensure compliance with contract provisions before payment of invoices. DOT should require the vendor to report and obtain approval for any changes to billing practices.
Section II.			
3.	DOT issued the RFP for re-bidding this contract more than two months after the expiration date of the original contract. Ultimately, a three-year delay in obtaining a replacement for this contract resulted in thousands of dollars of lost opportunity savings to the City, since the current replacement contract is billed at a much lower rate.	N	4. DOT should schedule the bidding and award of contracts in a timely manner to avoid costly contract extensions.

4.	DOT set measurable outcomes as a performance requirement and WLCAC did not meet the minimum performance standard of 2.0 passengers per Revenue Service Hour as required. However, the contract contained seemingly conflicting information, making it unclear on whether this was a minimum, rather than targeted, standard. Inefficient use of the Dial-A-Ride vans to continue over an extended period of time.	N	5. DOT should ensure that all contracts contain performance standards that are clearly stated as minimum requirements, and that vendors comply with contract provisions.
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Description of Recommendation Ranking Codes

N- Necessary- The recommendation pertains to a moderately significant or potentially serious audit finding or control weakness. Reasonably prompt corrective action should be taken by management to address the matter. The recommendation should be implemented within six months.