



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report – Issued January 30, 2019

Pioneer Valley Transit Authority

For the period July 1, 2015 through June 30, 2017





Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

January 30, 2019

Ms. Sandra Sheehan, Administrator
Pioneer Valley Transit Authority
2808 Main Street
Springfield, MA 01107

Dear Ms. Sheehan:

I am pleased to provide this performance audit of the Pioneer Valley Transit Authority. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2015 through June 30, 2017. My audit staff discussed the contents of this report with management of the agency, whose comments are reflected in this report.

I would also like to express my appreciation to the Pioneer Valley Transit Authority for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMBump".

Suzanne M. Bump
Auditor of the Commonwealth

cc: Stephanie Pollack, Secretary of Transportation and Chief Executive Officer, Massachusetts Department of Transportation
Sally Atwell, Director of Internal Special Audit, Massachusetts Department of Transportation
Mayor David Narkewicz, Chair, Pioneer Valley Transit Authority

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LIST OF ABBREVIATIONS

ACL	Audit Command Language
EAM	Enterprise Asset Management
EOAF	Executive Office for Administration and Finance
FTA	Federal Transit Administration
MassDOT	Massachusetts Department of Transportation
MBTA	Massachusetts Bay Transportation Authority
OSA	Office of the State Auditor
PVTA	Pioneer Valley Transit Authority
RTA	regional transit authority
RTD	Rail and Transit Division
UMass	University of Massachusetts

EXECUTIVE SUMMARY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of the Pioneer Valley Transit Authority (PVTA) for the period July 1, 2015 through June 30, 2017. In this performance audit, we assessed certain aspects of PVTA's preventive maintenance activities related to its fleet of vehicles, including equipment and vehicles for transporting passengers with disabilities under the requirements of the Americans with Disabilities Act of 1990. We also examined PVTA's use of its non-revenue-producing vehicles, as well as its compliance with the General Laws regarding providing its financial records to the Secretary of Administration and Finance for public disclosure.

Below is a summary of our findings and recommendations, with links to each page listed.

Finding 1 Page 11	PVTA did not submit required financial information to the Commonwealth to be made available to the public on a searchable website.
Recommendations Page 12	<ol style="list-style-type: none">1. PVTA should develop formal policies and procedures for submitting this required information to the Executive Office for Administration and Finance.2. PVTA should establish monitoring controls to ensure that the staff members assigned to this task adhere to these policies and procedures.
Finding 2 Page 12	PVTA did not properly document the use of its non-revenue-producing vehicles by its employees and vendors.

Recommendations Page <u>13</u>	<ol style="list-style-type: none">1. PVTA should establish policies and procedures, consistent with those established by the Massachusetts Department of Transportation, for its non-revenue-producing vehicles that require a log that documents the following:<ol style="list-style-type: none">a. the name and driver's license expiration date of the employee who used the vehicleb. the trip's intended destination and purposec. the date and time the vehicle was picked upd. the date and time the vehicle was returnede. the vehicle's license plate numberf. the vehicle descriptiong. the beginning odometer readingh. the condition of the vehicle before and after usei. any damagej. any maintenance issues identified during use2. PVTA should ensure that these policies and procedures include monitoring controls to ensure that they are adhered to.
Finding 3 Page <u>14</u>	PVTA's administration of its inventory of vehicle parts was deficient.
Recommendations Page <u>15</u>	<ol style="list-style-type: none">1. PVTA should establish policies and procedures regarding the administration of its vehicle parts inventory and require First Transit Inc. to adhere to them.2. PVTA should establish monitoring controls to ensure that First Transit Inc. complies with all the terms and conditions of its contract regarding the administration of vehicle parts and with PVTA's policies and procedures in this area.

OVERVIEW OF AUDITED ENTITY

Regional Transit Authorities

Chapter 161B of the Massachusetts General Laws established regional transit authorities (RTAs) to provide a public transportation system under the control of municipalities. Each RTA supports a number of communities (member communities) and is governed by an advisory board composed of the chief elected officials from those communities. Chapter 161B of the General Laws gives the Commonwealth certain oversight responsibilities, and it defines the process by which RTAs may be formed or expanded within the Commonwealth, as well as the duties, powers, and limitations of these RTAs. This law also outlines the membership of RTA advisory boards and their authority to appoint administrators, approve budgets, and approve significant changes in service fares. Currently, there is a network of 15 RTAs (12 urban and 3 rural) operating in the Commonwealth, in addition to the transit services provided by the Massachusetts Bay Transportation Authority (MBTA). These RTAs serve a total of 262 cities, suburban municipalities, and rural communities outside the greater Boston area and provide transportation via buses and minibuses operated by private transit service companies. RTAs, which are locally controlled, manage their own operations but must hire private operating companies to provide their services in accordance with Chapter 161B of the General Laws.

Section 53 of Chapter 6C of the General Laws makes the Rail and Transit Division (RTD) of the Massachusetts Department of Transportation (MassDOT) “responsible for overseeing, coordinating and planning all transit and rail matters throughout the commonwealth,” including intercity buses, the MBTA, and RTAs. RTD carries out its responsibility of providing and managing financial assistance for RTAs through its Community Transit Program Unit, which oversees the federal, state, and local programs that financially support RTAs. State appropriations for the 15 RTAs increased from approximately \$70 million in fiscal year 2014 to approximately \$80 million in fiscal years 2016 through 2018.

The Pioneer Valley Transit Authority

The Pioneer Valley Transit Authority (PVTA) was established in 1974 and reports to RTD under Chapter 25 of the Acts of 2009, “An Act Modernizing the Transportation Systems of the Commonwealth.” According to an email from PVTA’s administrator, the agency’s mission is as follows:

The PVTA is committed to providing the highest quality of convenient and accessible public transportation service that meets the needs of our customers in an efficient, cost effective

manner [and] assisting the Pioneer Valley in making our communities more livable through transportation services.

The administrator is responsible for day-to-day administration of the agency, which had 35 full-time staff members during our audit period. PVTA’s operations are overseen by an advisory board made up of one member from each of the 24 communities¹ the agency serves. The advisory board is responsible for hiring an administrator, setting fares, establishing service levels, and authorizing real-estate purchases. During our audit period, PVTA contracted with First Transit Inc.; Hulmes Transportation Services, Ltd.; and the University of Massachusetts (UMass) to provide fixed-route and demand-response² transportation services, including maintenance and administrative functions.

In fiscal years 2016 and 2017, PVTA received revenue from a variety of sources, including rider fares and assistance from various federal, state, and local sources. The largest source is state contract assistance,³ followed by local assessment payments,⁴ fixed-route income, and Federal Transit Administration (FTA) grants. The table below shows the types of funding PVTA received during the audit period.

PVTA Operating Funding Sources

Type of Funding	Fiscal Year 2016	Fiscal Year 2017
State Contract Assistance	\$ 23,554,939	\$ 23,554,939
Local Assessments	8,309,002	8,516,727
Fixed-Route Income	7,118,707	6,533,362
FTA Grants	5,107,467	5,702,070
Paratransit Income	803,792	734,004
MassDOT Grants	289,517	176,813
Other Revenue*	367,178	290,512
Shuttle Service Income	28,249	26,357
Total	<u>\$ 45,578,851</u>	<u>\$ 45,534,784</u>

* Other revenue comprises advertising income, income from insurance claims, and interest income.

1. The communities are Agawam, Amherst, Belchertown, Chicopee, Easthampton, East Longmeadow, Granby, Hadley, Hampden, Holyoke, Leverett, Longmeadow, Ludlow, Northampton, Palmer, Pelham, South Hadley, Springfield, Sunderland, Ware, Westfield, West Springfield, Wilbraham, and Williamsburg.
2. Demand-response transportation services are those that run on a flexible schedule and on flexible routes based on the needs of RTA passengers with special needs.
3. Under Section 23 of Chapter 161B of the General Laws, the Commonwealth, through the Executive Office for Administration and Finance, can contract with an RTA to fund 50% of the net cost of the service the RTA provides. Known as state contract assistance, this funding is provided through the Commonwealth Transportation Fund and the Massachusetts Transportation Trust Fund.
4. Under Section 9 of Chapter 161B of the General Laws, annual local assessment payments are adjusted based on the “loss” (operating cost minus revenue) for each specific transit route and the activity and the share of that loss attributable to each town or city.

During our audit period, PVTA’s operating costs were as follows.

PVTA Operating Expenses

Type of Expense	Fiscal Year 2016	Fiscal Year 2017
Fixed-Route Services	\$ 33,472,495	\$ 33,853,451
Paratransit Services	8,669,159	8,231,868
Shuttle Services	244,670	235,765
Administrative Salaries	2,884,694	2,843,361
Other Administrative Expenses	1,987,856	1,857,252
Reimbursable Depreciation	4,777	4,477
Total	<u>\$ 47,263,651</u>	<u>\$ 47,026,174</u>

Vehicle Fleet and Service Route Area

PVTA operates local fixed-route and demand-response services within the 600-square-mile Springfield area, serving a population of more than 582,000. It operates a network of 41 local transit routes and 7 community routes. The local fixed-route service operates seven days a week; service is provided Monday through Wednesday from 5:00 a.m. to 1:35 a.m., Thursday through Saturday from 5:00 a.m. to 3:00 a.m., and Sunday from 7:00 a.m. to 10:30 p.m. Buses and minibuses provide transit services to the vast majority of PVTA passengers, and its vanpool provides paratransit services. The table below shows the number of revenue-producing and non-revenue-producing vehicles⁵ used at PVTA during fiscal years 2016 and 2017.

Number of PVTA Vehicles

Vehicle Type	Fiscal Year 2016	Fiscal Year 2017
Revenue-Producing	356	352
Non-Revenue-Producing	52	54
Total	<u>408</u>	<u>406</u>

Vehicle Maintenance

PVTA operates its administrative office and a maintenance facility in an approximately 113,912-square-foot building at 2808 Main Street in Springfield. There is also a 45,000-square-foot garage at 255 Governor’s Drive in Amherst and a 27,755-square-foot bus terminal/garage at 54 Industrial Park Drive in

5. Non-revenue-producing vehicles are light-duty vehicles for temporary use by PVTA employees for agency-related business.

Northampton. At the end of our audit period, PVTA had a total of 406 vehicles in its fleet. The table below shows the types and average ages of the vehicles in PVTA's fleet during the audit period.

PVTA Vehicle Fleet Average Age

Make and Model	Vehicle Type	Vehicle Count	Average Age (Years)
Ford E450	Minibus	8	4
Ford E350	Minibus	142	4
Ford Cutaway	Van	9	8
Ford Econoline	Van	23	7
Gillig Low Floor	Bus	111	10
International HCCB	Bus	1	21
New Flyer Xcelsior	Bus	71	4
Proterra BE40	Bus	3	1
Toyota Prius	Car	3	5
Chance AH-28	Trolley	1	16
Ford F350	Truck	18	8
Ford F250	Truck	1	9
Ford F550	Truck	1	1
Chevrolet Silverado	Truck	2	9
Ford Super Duty	Truck	1	17
Ford Taurus	Car	1	5
Ford Escape	SUV	26	5
Ford Explorer	SUV	7	5
Total		<u>429*</u>	

* This total includes all vehicles that received maintenance work during the audit period, including ones that were purchased and/or disposed of during that time.

Below are the actual mileage and maintenance costs per vehicle for fiscal year 2017.

PVTA Vehicle Mileage and Maintenance Expenses

Make and Model	Vehicle Count	Total Mileage	Labor Cost	Parts Cost	Total Maintenance Cost	Average Maintenance Cost per Vehicle
Ford E450	8	367,170	\$ 11,459	\$ 16,812	\$ 28,271	\$3,534
Ford E350	142	6,563,702	199,616	193,195	392,811	\$2,766
Ford Cutaway	9	25,949	3,210	3,124	6,334	\$704
Ford Econoline	23	355,589	16,587	11,467	28,054	\$1,220
Gillig Low Floor	111	5,532,890	969,188	1,142,019	2,111,207	\$19,020
International HCCB	1	1	82	0	82	\$82
New Flyer Xcelsior	71	5,211,883	486,589	589,895	1,076,484	\$15,162

Make and Model	Vehicle Count	Total Mileage	Labor Cost	Parts Cost	Total Maintenance Cost	Average Maintenance Cost per Vehicle
Proterra BE40	3	27,508	1,040	153	1,194*	\$398
Toyota Prius	3	17,793	178	15	193	\$64
Chance AH-28	1	119	27	404	431	\$431
Ford F350	18	409,610	19,919	17,844	37,763	\$2,098
Ford F250	1	1,042	1,506	912	2,418	\$2,418
Ford F550	1	4,831	27	0	27	\$27
Chevrolet Silverado	2	31,508	965	583	1,548	\$774
Ford Super Duty	1	8,531	424	104	529*	\$529
Ford Taurus	1	6,334	41	10	51	\$51
Ford Escape	26	373,305	8,889	1,766	10,655	\$410
Ford Explorer	7	76,800	1,889	345	2,234	\$319
Total	429	19,014,565	\$ 1,721,636	\$ 1,978,648	\$ 3,700,286	

* Discrepancies in totals are the result of rounding.

FTA requires all RTAs to report to it any information related to their transit vehicle inventories and maintenance and repairs that they conduct. This information is included in FTA's National Transit Database. During the audit period, PVTA used the Trapeze Enterprise Asset Management software to document all of its vehicle asset and expense information and report it to FTA. PVTA contracted with two vendors to perform maintenance work and document vehicle asset and expense information: First Transit Inc. at its facilities in Springfield and Northampton and UMass (operating as UMass Transit Services) at its facility in Amherst.

PVTA Community Programs

To assist elderly and disabled residents, PVTA provides paratransit services in the Pioneer Valley area. In 2017, PVTA launched the Northampton and Tri-Town Trolley Pilot Program, which provides discounted van services to senior residents. PVTA has an ongoing food drive through which it collects nonperishable food donations on buses and distributes the donations to the Food Bank of Western Massachusetts and the Amherst Survival Center. PVTA also provides educational programs about its fixed-route services at the Veteran Stand Down event for homeless veterans. PVTA also provides paid internships to UMass students, allowing them to gain experience in the transportation industry.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of the Pioneer Valley Transit Authority (PVTA) for the period July 1, 2015 through June 30, 2017.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Below is a list of our audit objectives, indicating each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. Did PVTA maintain a cost maintenance log for each vehicle to ensure that preventive maintenance for vehicles and equipment for transporting passengers with disabilities under the requirements of the Americans with Disabilities Act of 1990 was up to date per Federal Transit Administration (FTA) guidelines?	Yes
2. Did PVTA submit all required financial records to the Commonwealth for inclusion on the Commonwealth's searchable website as required by Section 14C of Chapter 7 of the General Laws?	No; see Finding <u>1</u>
3. Did PVTA properly manage the use of its non-revenue-producing vehicles?	No; see Finding <u>2</u>

To achieve our audit objectives, we gained an understanding of PVTA's internal controls that we deemed significant to our audit objectives through inquiries and observations, and we evaluated the design of controls over cost maintenance logs, financial reporting to the Commonwealth, and non-revenue-producing vehicles. In reviewing PVTA's maintenance records, we identified an issue regarding its inventory of vehicle parts (Finding 3).

In addition, we performed the following procedures to obtain sufficient, appropriate audit evidence to address the audit objectives.

- We extracted fleet inventory lists and maintenance records for all three of the maintenance facilities from Trapeze Enterprise Asset Management (EAM). Using Audit Command Language (ACL) software, we grouped the work orders based on the associated vehicle license plate numbers and then generated a list that identified the number of work orders per vehicle for each facility. We used ACL to select a nonstatistical random sample of 30 out of 347 revenue-producing vehicles and tested whether they were in PVTA's fleet during the audit period. We also tested a nonstatistical random sample of 15 out of 50 non-revenue-producing vehicles that were in PVTA's fleet during the audit period. We compared records of the mileage traveled per vehicle to records of oil changes performed during the audit period and tested to determine whether PVTA followed specific vehicles' manufacturer guidelines and the required FTA preventive maintenance guidelines.
- We reconciled the inventory of vehicles provided to us with the inventory of vehicles in the Trapeze EAM database. Using ACL, we extracted data and searched for various anomalies when testing for completeness and accuracy of the database: transactions without work order numbers, work orders for parts without labor, and work orders without vehicles assigned. We reviewed all 48 transactions without work order numbers from the database. We reviewed a nonstatistical judgmental sample of 10 out of 72 transactions that did not have labor associated with the work orders, including all 9 transactions valued at over \$800 and 1 transaction under \$200. We reviewed all 188 work orders that did not have vehicles assigned. We reviewed the work orders that required physical labor to be performed, issue logs that helped track the issues that arose, and supporting documentation.
- We asked PVTA management about the use of non-revenue-producing vehicles and the process of lending a non-revenue-producing vehicle from the motor pool to determine whether PVTA had policies in place for these processes.
- We asked PVTA management whether the keys to non-revenue-producing vehicles were in the possession of the general manager of First Transit Inc. or PVTA personnel or were left in the vehicles to determine what controls PVTA had implemented over the use of its non-revenue-producing vehicles.
- We obtained and reviewed PVTA, First Transit Inc., and University of Massachusetts sign-in/sign-out logs for non-revenue-producing vehicles to determine whether mileage was recorded and use was detailed. Using Trapeze EAM, we extracted the mileage information for all non-revenue-producing vehicles from agency records and totaled the miles they were driven during our audit period.
- We examined the state's publicly available, searchable website to determine whether it included data for PVTA appropriations, grants, and expenditures (including payroll) to ensure transparency with regard to the agency's spending.
- Using ACL, we queried vehicle identification and maintenance information in PVTA's database and determined whether all maintenance performed during the audit period was associated with a vehicle. When we found vehicle identification numbers for vehicles that were no longer listed in PVTA's inventory records, and when we found work orders that listed parts but did not list the vehicles on which they were used, we discussed the matter with management and reviewed other source documentation related to the issue.

We used a nonstatistical sampling approach for our testing, and therefore we could not project the results of the test to the entire population.

We obtained a full copy of the Trapeze EAM database and assessed the reliability of the data. We analyzed Trapeze EAM data by performing validity and integrity tests, including testing for missing data and scanning for duplicate records. We performed a source documentation review of the inventory vehicle lists to ensure that each vehicle matched the information in the maintenance facilities' inventory system. Additionally, we performed source documentation reviews of the original hardcopy work orders to ensure that they matched the information in the facilities' inventory system. We determined that the data from the Trapeze EAM database were sufficiently reliable for the purposes of our audit.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. The Pioneer Valley Transit Authority did not submit required financial information to the Commonwealth to be made available to the public on a searchable website.

The Pioneer Valley Transit Authority (PVTA) did not submit required financial information about its operations (e.g., expenditures) to the Executive Office for Administration and Finance (EOAF) so this information could be made available to the public on a searchable website. Therefore, PVTA did not allow the Commonwealth to give the public a sufficient level of transparency regarding PVTA's operations, including its overall financial health and the nature and extent of its expenses.

Authoritative Guidance

Section 14C of Chapter 7 of the Massachusetts General Laws requires agencies, including quasi-public independent entities such as PVTA, to report their "appropriations, expenditures, grants, subgrants, loans, purchase orders, infrastructure assistance and other forms of financial assistance" to the Secretary of EOAF for inclusion on the Comptroller of the Commonwealth's searchable website. Section 14C(e) states, "All agencies shall provide to the secretary all data that is required to be included in the searchable website not later than 30 days after the data becomes available to the agency."

Reasons for Noncompliance

In its response to our draft report, PVTA senior management stated,

The RTAs as a group proposed a low cost alternative to their participation in this initiative, which involved publication of the financial data on the RTAs' individual websites. Chapter 7, Section 14C under clause (g) contemplates and provides for the redirection of the public from the State's Open Checkbook website to other government websites as long as each of those websites complies with the requirements of this section.

PVTA has made a concerted effort over the years to comply with the spirit and transparency goal of the Chapter 7, Section 14C "Open Checkbook (CTHRU)" initiative through the publication of its payroll and financial payment information, audited financial statements, and approved fiscal year budgets on its website in a searchable format. We believe the financial information currently contained on our website provides the public with a sufficient level of transparency regarding PVTA'S operations, including its overall financial health and the nature and extent of its expenses. As a matter of routine, we direct public requests for PVTA's financial information to the Open Government section of our website, which in most instances satisfies the public's request for information. In those rare cases a request for information is not contained on our website, we

treat it as a Public Information Request and quickly respond to the individual, generally at no cost.

Recommendations

1. PVTA should develop formal policies and procedures for submitting this required information to EOAF.
2. PVTA should establish monitoring controls to ensure that the staff members assigned to this task adhere to these policies and procedures.

Auditee's Response

PVTA with all other RTAs met with the State Comptroller's Office on Tuesday June 12, 2018, to determine the best way to get the data quickly on the EOAF website, the first step taken was to immediately place the PVTA's website URL for the open government data as a link. The next step to be taken is to work out the data submission time lines as the state offices have differing schedules of submission. PVTA will develop its policy and monitoring controls once the time lines and final delivery criteria have been agreed to with the State Comptroller's Office. PVTA is committed to open government and transparency.

Auditor's Reply

Based on its response, PVTA is taking measures to ensure that it reports this required information to EOAF.

2. PVTA did not properly document the use of its non-revenue-producing vehicles by its employees and vendors.

PVTA did not properly document the use of its non-revenue-producing vehicles by its employees and vendors. Specifically, it did not properly document information, such as the name and driver's license expiration date of the employee who used the vehicle, the trip's intended destination and purpose, the date and time the vehicle was picked up, the date and time it was returned, its license plate number, its description, its beginning odometer reading, its condition before and after use, any damage, and any maintenance issues identified during use, for every trip for all of its non-revenue-producing vehicles. According to PVTA's records, its non-revenue-producing vehicles were driven a combined total of 298,916 and 322,752 miles during fiscal years 2016 and 2017, respectively. As a result of the lack of monitoring of use, there is a higher-than-acceptable risk that these vehicles may be used for non-business purposes without detection.

Authoritative Guidance

PVTA's oversight agency, the Massachusetts Department of Transportation (MassDOT), has a Motor Vehicles Policy, No. P-D0032-01, dated October 5, 2016, regarding the use of MassDOT's non-revenue-producing vehicles by its staff. This policy requires MassDOT management to maintain a log that documents the name and driver's license expiration date of the employee who used the vehicle, the trip's intended destination and purpose, the date and time the vehicle was picked up, the date and time it was returned, its license plate number, its description, its beginning odometer reading, its condition before and after use, any damage, and any maintenance issues identified during use. Although PVTA is not required to follow this policy, it represents a best practice in vehicle fleet management that PVTA should follow because it will allow the agency to more effectively manage the maintenance and proper use of these vehicles.

Reasons for Noncompliance

PVTA did not have a policy in place during our audit period for the use of its non-revenue-producing vehicles.

Recommendations

1. PVTA should establish policies and procedures, consistent with those established by MassDOT, for its non-revenue-producing vehicles that require a log that documents the following:
 - a. the name and driver's license expiration date of the employee who used the vehicle
 - b. the trip's intended destination and purpose
 - c. the date and time the vehicle was picked up
 - d. the date and time the vehicle was returned
 - e. the vehicle's license plate number
 - f. the vehicle description
 - g. the beginning odometer reading
 - h. the condition of the vehicle before and after use
 - i. any damage
 - j. any maintenance issues identified during use

2. PVTA should ensure that these policies and procedures include monitoring controls to ensure that they are adhered to.

Auditee's Response

PVTA's non-revenue vehicle policies and procedures will incorporate best practices from other RTAs and MassDOT. The policy and procedure will include a log for those non-revenue-producing vehicles requiring such. Alternative monitoring procedures will be used for non-revenue vehicles assigned to the Maintenance Department [whose] functions are dedicated to responding to road calls, snow plowing, etc. The non-revenue vehicle log will include all pertinent information regarding use, operator, and required vehicle information. The PVTA policy and procedure will include monitoring controls to ensure compliance.

Auditor's Reply

Based on its response, PVTA is taking measures to address our concerns in this area.

3. PVTA's administration of its inventory of vehicle parts was deficient.

We identified some problems with the way PVTA acquired and disposed of parts for its vehicle fleet. During our audit period, First Transit Inc. was contracted to manage PVTA's vehicle parts inventory. In our review of vehicle maintenance information in PVTA's database, we identified three work orders that were used to remove vehicle parts from PVTA's inventory because they were obsolete. These three work orders listed 2,521 vehicle parts with a total original cost of \$118,257, constituting more than 7% of the total dollar value of PVTA's parts inventory as of January 28, 2017. This raises concerns about whether First Transit Inc. properly managed the acquisition of vehicle parts to minimize the costs associated with obsolete inventory.

Further, according to PVTA management, when First Transit Inc. designated these parts obsolete, PVTA gave them away or sold them, but did not properly document their disposal. PVTA gave us a receipt for \$1,750 for eight pallets of vehicle parts sold, but could not provide us with the details of the parts that made up the eight pallets, raising concerns about whether all 2,521 parts were properly disposed of. Because it improperly administered the inventory of its vehicle parts, PVTA faces a higher-than-acceptable risk of incurring unnecessary costs because of obsolete inventory and losing parts through theft.

Authoritative Guidance

Section XXXIII(K) of Exhibit A of PVTA's contract with First Transit Inc. states, "Inventories shall be consistent with good business practices, and shall not contain excessive amounts of equipment and parts."

The Commonwealth's Operational Services Division, the state agency responsible for administering the disposal of state property, has established a formal process that state agencies must follow when transferring or disposing of surplus, damaged, or obsolete property that was purchased with state funds. The process requires agencies to make formal requests for disposal using a specific form, "OSD 25: Declaration of Surplus State Personal Property," that lists each item's description, age, condition, acquisition cost, and current value. The process also requires the disposal or sale of such property to be properly documented and recorded. Although PVTA is not required to follow this process, the Office of the State Auditor (OSA) believes it represents a best practice that the agency should follow.

Another best practice OSA believes PVTA should follow is Section 7(b)(1) of Chapter III of Federal Transit Administration Circular 5010.E, which states that records related to equipment that has been disposed of should be retained for three years.

Reasons for Noncompliance

PVTA did not have any written policies and procedures that detailed how its vehicle parts were to be acquired, replaced, deemed obsolete, and disposed of or how all of these processes should be documented. Further, PVTA did not have monitoring controls in place to ensure that First Transit Inc. properly administered its inventory process for vehicle parts.

Recommendations

1. PVTA should establish policies and procedures regarding the administration of its vehicle parts inventory and require First Transit Inc. to adhere to them.
2. PVTA should establish monitoring controls to ensure that First Transit Inc. complies with all the terms and conditions of its contract regarding the administration of vehicle parts and with PVTA's policies and procedures in this area.

Auditee's Response

PVTA has maintained long-standing, highly institutionalized practices and processes relative to the oversight and monitoring of inventory levels, physical accounting and the disposal of obsolete

parts and supplies. This oversight has included an annual review by PVTA's independent auditors of accounting systems, management practices, procedures and controls. Additionally, the review has also encompassed procurement practices as well as inventory procedures and controls.

The items comprising the obsolete material referenced above were associated with the RTS bus fleet which ended its service life at PVTA in 2015. PVTA was one of the first and last transit properties to operate the RTS Series transit bus model originally produced by General Motors (and later by two other manufacturers) and operated by public transit systems over a time span covering more than five decades beginning in the late 1970s. PVTA maintained and operated an RTS fleet for nearly 37 years. For that time, the RTS was the backbone of the PVTA bus fleet which, not surprisingly, comprised the largest proportion of the fleet until the fleet composition began to change at an appreciable, accelerating rate following the discontinuance of the RTS transit bus model.

During this period, even with advanced systems in place to assist with inventory levels and the management of reorder requirements, as the replenishment rate of spare parts and supplies fell and/or ended altogether during the phaseout of the RTS, the impact of elevated maintenance levels and resultant inventory levels required during the latter years of RTS operation, could not be reasonably mitigated in its entirety as the RTS proportion of the bus fleet, which had numbered nearly 200 vehicles, rapidly dwindled to a relative handful on its path to eventual elimination of the final 12 in 2015. We believe that the combined results of long life and elevated maintenance requirements as the fleet neared the end of its operating life at PVTA, led to the consequence of the relatively high level of obsolete parts and supplies associated with the demise of the RTS. It is our view, however, that the rate of obsolescence at PVTA, with its long reliance on advanced computer systems with inventory optimizing algorithms was likely to have been at the lower end of the range of potential transitional outcomes given the circumstances of this unique period.

The parts and supplies associated with the above were identified as obsolete and removed from the active inventory during a review process in accordance with a standard operating practice. All items were placed in transparent plastic bags or boxes with an identifying label applied or tagged if a container was not practical. The material was then loaded into a series of eight storage boxes and placed on pallets for storage. A manifest was generated utilizing the work order system, and expressions of interest were sought by means of a national posting. While this advertisement has been corroborated by the first-hand knowledge of members of the Contractor staff present at the time, file documentation of the advertisement was not properly retained as required and was unable to be reproduced in our subsequent review. Not a single expression of interest was received in response to the listing, as the RTS, to our knowledge, was no longer active among public transit fleets by that time; it also confirmed that the items had little if any residual material value which is typical of obsolete transit bus parts. Subsequently, an internal posting was made in January 2017 seeking offers among interested employees willing to take possession of the material and remove it from the property. Three offers were received, all representing only a nominal salvage valuation. The material was subsequently sold to the respondent with the highest offer and removed from the property in January 2017.

PVTA has formalized its policy with respect to the disposition of inventory.

Auditor's Reply

Although PVTA asserts in its response that it “has maintained long-standing, highly institutionalized practices and processes relative to the oversight and monitoring of inventory levels, physical accounting and the disposal of obsolete parts and supplies,” we found that it did not have any written policies and procedures that detailed how its vehicle parts were to be acquired, replaced, deemed obsolete, and disposed of or how all of these processes should be documented, and it did not have monitoring controls in place to ensure that First Transit Inc. properly administered its inventory process for vehicle parts. In OSA's opinion, if PVTA had had such controls in place, it might have been able to mitigate, to some extent, the problems we identified with how it acquired and disposed of parts for its vehicle fleet. Further, although PVTA describes in its response how the parts in question were disposed of, PVTA cannot substantiate this because it did not properly document their disposal, which raises concerns about whether all 2,521 parts were properly disposed of.

Based on its response, PVTA is taking measures to address our concerns in this area, but we again urge PVTA to fully implement our recommendations.