

**Los Angeles County
Metropolitan Transportation Authority
Office of the Inspector General**

**Review of Metrolink Outsourced
Service Areas**

Report No. 15-AUD-03

December 10, 2014





Metro

Los Angeles County
Metropolitan Transportation Authority

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December 10, 2014

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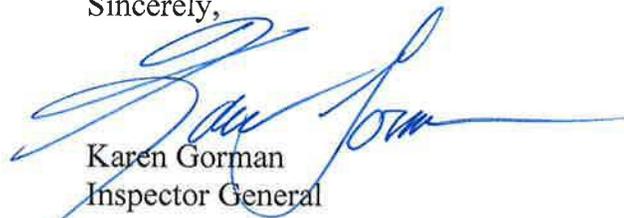
Report on the Review of Metrolink Outsourced Service Areas, Report No. 15-AUD-03

The Los Angeles County Metropolitan Transportation Authority (LACMTA) Office of the Inspector General performed a review to assess and analyze non-transit operational services Metrolink currently outsources in order to determine whether LACMTA could provide these services to Metrolink more efficiently and on a more cost-effective basis. We believe that it is beneficial for LACMTA and Metrolink to explore areas of synergy between the two agencies.

Based on our discussions with LACMTA and Metrolink officials and staff, we found a number of areas where the two agencies may cooperate to achieve operational efficiency, potential cost savings, and revenue generation. Many non-transit operational services which Metrolink currently outsources might be either performed by LACMTA or included in LACMTA contracts with vendors. Examples include the Purchase Card (P-Card) program, staff training, environmental waste, non-revenue vehicles, e-waste management, and copiers. If LACMTA is able to provide these services for Metrolink at a reduced price over what Metrolink currently pays, it could result in a “win-win” situation for both agencies: Metrolink would be able to lower its service costs and LACMTA may be able to recover or reduce a portion of its annual subsidy to Metrolink.

A draft report was provided to Metrolink and LACMTA. For most of the areas, Metrolink indicated that they would evaluate the feasibility and cost effectiveness for the two agencies to cooperate to achieve operational efficiency and cost savings for both organizations.

Sincerely,



Karen Gorman
Inspector General

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EXECUTIVE SUMMARY

Metrolink (also known as the Southern California Regional Rail Authority) is an independent commuter rail operator serving several counties in Southern California. The Los Angeles County Metropolitan Transportation Authority (LACMTA) Office of the Inspector General (OIG) performed a review to assess and analyze non-transit operational services Metrolink currently outsources in order to determine whether LACMTA could provide these services to Metrolink more efficiently and on a more cost-effective basis.

We believe that it is beneficial for LACMTA and Metrolink to explore areas of synergy between the two agencies because:

- Metrolink relocated to LACMTA's headquarters building.
- Both Metrolink and LACMTA provide public transportation services.
- Metrolink outsources a significant portion of its non-transit operational services.
- Both Metrolink and LACMTA are seeking budget enhancement opportunities.

Based on our discussions with LACMTA and Metrolink officials and staff, we found a number of areas where the two agencies may cooperate to achieve operational efficiency, potential cost savings, and revenue generation. Many non-transit operational services which Metrolink currently outsources might be either performed by LACMTA or included in LACMTA contracts with vendors. Examples include the Purchase Card (P-Card) program, staff training, environmental waste, non-revenue vehicles, e-waste management, and copiers. If LACMTA is able to provide these services for Metrolink at a reduced price over what Metrolink currently pays, it could result in a "win-win" situation for both agencies: Metrolink would be able to lower its service costs and LACMTA may be able to recover or reduce a portion of its annual subsidy to Metrolink.

The next step is for Metrolink to coordinate with appropriate LACMTA departments to determine the feasibility of having LACMTA perform certain services that are currently outsourced or use LACMTA contracts if they are more cost effective than the current method of obtaining the services. In addition, steps should be considered such as developing a detailed joint plan and designating a team to oversee the implementation of the plan.

We are available to assist Metrolink in pursuing the options discussed in this report and to facilitate meetings as necessary.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our review was to identify areas where Metrolink currently outsources non-transit operational services, or where LACMTA can perform other services for Metrolink, to

determine whether higher efficiency and cost savings could be achieved by LACMTA performing these services for Metrolink at a lower cost or on a no-charge basis.

During the review, we met with Metrolink officials to discuss potential outsourcing areas in which LACMTA’s involvement might benefit both agencies. We also made arrangements for discussions between officials of both agencies regarding the feasibility of LACMTA performing some of the services presently outsourced by Metrolink.

This review is not an audit; therefore, the requirements mandated by the Generally Accepted Government Auditing Standards (GAGAS) do not apply.

BACKGROUND

Metrolink is an independent commuter rail operator serving five Southern California counties (Los Angeles, Orange, Riverside, San Bernardino, and Ventura). Most of the Metrolink lines have a terminus at Union Station in downtown Los Angeles, where passengers can connect to other Metrolink lines or alternate transit modes operated by LACMTA or other regional operators.

Metrolink has gone through a number of organizational changes during the past several years. In the fall of 2012, the Metrolink Board of Directors appointed a new Chief Executive Officer. In addition, Metrolink moved its headquarters into the LACMTA Gateway building. We believe this move should facilitate and enhance synergy between LACMTA and Metrolink.

According to information on Metrolink’s Fiscal Year (FY) 2014-2015 operating budget totals \$221 million. Member Agency subsidy totals \$111 million of which LACMTA contributes \$59 million. Since LACMTA provides a subsidy to Metrolink, any cost savings by Metrolink will also benefit LACMTA. The Metrolink budget supports 273 full-time equivalent (FTE) positions as follows:

<u>DEPARTMENT</u>	<u>FTE</u>
Executive Office	5
Office of the General Counsel	4
Office of the Chief Auditor	6
Operations Office	112
Operation Support Office	56
Marketing and Communication Office	66
Finance Office	<u>24</u>
TOTAL	<u>273</u>

RESULTS OF REVIEW

The OIG held numerous discussions with Metrolink officials and staff. During these discussions, the following areas in which Metrolink currently outsources services were identified for potential LACMTA support or involvement:

1. Purchase Card (P-Card) Program
2. Staff Training
3. Printing Services
4. Hazardous Waste Disposal
5. Non-Revenue Vehicles
6. E-Waste Disposal
7. Copiers
8. Transit Scheduling
9. Human Resources Services
10. Accounting Services
11. Transit Court

For the above areas, the OIG provided Metrolink staff with the names of LACMTA contacts, arranged for meetings between Metrolink and LACMTA staff, and participated in discussions to facilitate coordination of the synergy areas. The following is a summary of opportunities we have identified in each area for increased efficiency and cost savings.

1. Purchase Card (P-Card) Program

Metrolink does not have a P-Card program, and currently purchases goods and services through a formal procurement process. LACMTA uses a more streamlined and efficient corporate P-Card program to procure low dollar (under \$3,000) items. As of November 2014, LACMTA had 341 P-Card holders, who spent \$16 million on small purchase items during FY 2014. We believe that it would be beneficial to Metrolink to “piggyback” on the LACMTA P-Card program. Metrolink officials expressed interest in beginning a pilot program with a few cards and possibly expanding the program at a later date.

In a meeting with appropriate LACMTA staff, we learned that setting up a process for Metrolink to participate in the P-Card program would not be difficult. However, because Metrolink is not part of the LACMTA accounting and payment system, a process for Metrolink to pay for the purchases would need to be established. Metrolink staff advised that they intend to draft a formal proposal to establish the program. A formal proposal has not been presented as of the date of this report.

LACMTA officials informed us that LACMTA is willing to allow Metrolink staff to attend regularly scheduled P-Card training sessions. This training is required for all LACMTA P-Card holders and approving officials when the P-Card is initially issued and every 2 years

thereafter. LACMTA receives rebates totaling about 0.8 percent from the P-Card provider, including a rebate for prompt payment. LACMTA might negotiate the application of the rebate received from Metrolink's proportion in the program.

In addition, LACMTA has several master agreements for office and industrial supplies that Metrolink might "piggyback" to achieve cost savings.

2. Staff Training

LACMTA conducts a wide variety of training classes for its staff, such as training on computer software, employee development, leadership, and management. LACMTA's Training and Development Department typically provides training to about 3,600 employees per year. Many of LACMTA training courses may also be applicable to Metrolink staff, such as computer software training (Microsoft Word, Excel and Access), sexual harassment prevention, ADA/disability awareness, business writing, transit terrorism awareness, ethics, and supervision.

Metrolink provides some in-house training, and contracts with outside groups for other training. Metrolink officials expressed interest in having staff attend LACMTA classes to save the cost of using outside vendors. LACMTA officials told us that Metrolink staff are welcome to attend training classes on a space-available basis. In addition, attorneys at the Metrolink Office of General Counsel have been invited to participate in the free Minimum Continuing Legal Education (MCLE) training conducted at LACMTA which will promote information, training, and coordination.

3. Printing Services

Metrolink had considered LACMTA's printing services in the past, but felt the services were too costly. We were informed by LACMTA General Services staff that subsequently they reevaluated the costs, obtained new equipment, and streamlined services. LACMTA General Services made a new presentation to Metrolink about LACMTA printing services after Metrolink moved into the LACMTA's headquarters building.

LACMTA staff informed us that Metrolink placed some printing jobs with the Copy Center in the past at a low cost. The LACMTA Copy Center performs a total of about 3,500 printing jobs a year for approximately 9 million black and white pages and 1.7 million color pages at an estimated total cost of \$1.2 million.

4. Hazardous Waste Disposal

Both Metrolink and LACMTA generate hazardous waste (such as used motor oil), and Metrolink officials expressed an interest in disposal of hazardous waste. LACMTA has contracts to have such hazardous waste picked up and hauled away from various maintenance sites throughout Los Angeles County. Further discussions would be needed to

determine whether Metrolink could be added to the contracts and, if so, how the cost would be allocated.

We discussed hazardous waste disposal with appropriate LACMTA staff to determine how LACMTA handles these substances. We provided this information on handling hazardous waste to Metrolink staff.

LACMTA disposes of hazardous waste at various costs. For some type of items, LACMTA pays a contractor to haul away the liquids; but waste antifreeze is hauled away at no charge, and used oil is hauled away with LACMTA receiving revenue for the used oil. The approximate annual amount of hazardous waste disposed by LACMTA is shown below:

<u>ITEM</u>	<u>QUANTITY (In Gallons)</u>	<u>COST</u>	<u>REVENUE</u>
Used Oil	140,000 gal.		\$63,000
Waste Antifreeze	80,000 gal.	No cost	
Non-Resource Conservation and Recovery Act (RCRA) Liquid Waste	650,000 gal.	\$500,000	
RCRA Hazardous Liquid Waste	11,000 gal.	\$13,000	

5. Non-Revenue Vehicles

Metrolink staff expressed an interest in the procurement and disposal of non-revenue vehicles (passenger cars, work trucks, etc.). We contacted the LACMTA official in charge of the non-revenue vehicle program, communicated what we learned to Metrolink, and offered to set up a meeting between them. As of the date of this report, Metrolink had not yet contacted LACMTA about the purchase or disposal of non-revenue vehicles.

LACMTA generally has a fleet of about 1,200 non-revenue vehicles of various types, and purchases about 100 new vehicles annually. The purchase price for vehicles varies with the type of vehicle. For example, full size vans cost about \$30,000 while mini vans and sedans cost about \$25,000.

The Property Sales Coordinator informed us that LACMTA disposed of 97 vehicles one year and generated revenue totaling \$368,669. Non-revenue vehicles are sold via sealed bid to the highest bidders.

6. E-Waste Disposal

Metrolink officials expressed an interest in working with LACMTA in the disposal of e-waste (for example, used computers, monitors, and other electronic items). We were informed by the LACMTA Deputy Chief Information Officer that Metrolink had contacted him regarding e-waste disposal; he referred them to appropriate LACMTA staff who informed Metrolink about LACMTA’s contracts for disposal of e-waste.

The LACMTA Information Technology Services (ITS) Department collects e-waste, and sends the e-waste to the Property Sales Coordinator for disposal. The Property Disposal Coordinator informed us that the contractor picks-up the e-waste at no cost to LACMTA; however, for a few items such as CRT monitors, servers, and laptops, the contractor pays LACMTA a small amount per pound for the e-waste. For example, in one year LACMTA disposed of 51,675 pounds of e-waste which generated revenue totaling \$1,268. The cost or revenue for certain types of e-waste are shown below:

ITEM	Cost	Revenue
CRT Monitors		\$.03/pound
CPU / Server / Laptop / Circuit Boards		\$.05/pound
Printers / Scanners / Fax / Miscellaneous	No Charge	
UPS Batteries	No Charge	
LCD Monitors	No Charge	

7. Copiers

Metrolink staff expressed an interest in obtaining copiers through LACMTA. General Services staff informed us that at the time Metrolink moved into the Gateway building, Metrolink owned their own copiers and declined to be included in LACMTA’s copier lease program. Since then, LACMTA awarded a new contract for copier leases, and are willing to meet with Metrolink representatives to explore the inclusion of Metrolink in the new contract. LACMTA General Services informed us that LACMTA has 180 convenience copiers throughout the Gateway building and other LACMTA facilities; the total lease and maintenance of this equipment during a typical year is about \$750,000. Each copier has a lease cost which varies by model. For example, Canon C5035 and C5045 copiers have a lease charge of \$156.21 per month. In addition, there is a charge for each copy of \$0.0050 for black and white and \$0.0425 for color. This price structure also includes the cost of maintenance and toner cartridges.

8. Transit Scheduling

Coordination and synchronization of Metrolink train schedules with LACMTA bus schedules for lines that stop at Metrolink stations would (a) facilitate transfers between the two

systems, (b) promote overall efficiency, and (c) create a more seamless county, regional, and interagency transit system. Staff from both agencies acknowledged the complexity of coordinating schedules. For example, Metrolink has a single purpose (commuter rail) focus and differing schedule, running more trains during regular commute times and fewer trains during other times. LACMTA has a multipurpose focus, which must consider the needs of all riders on any given route, not just those transferring between the two systems.

Consistent with the OIG's meetings with LACMTA and Metrolink, the LACMTA Board of Directors, adopted the following policy goal: "coordination and synchronization among transit agencies serving Los Angeles County of service change schedules and transfer points to provide maximum efficiency and effectiveness of transfers between transit services to improve our regional transportation system." The Board directed LACMTA to:

- "Convene the transit agencies that serve Los Angeles County to discuss implementation of this goal."
- "Develop a prioritized list of Metrolink stations, transit hubs and transfer points between agencies to guide decisions on coordinating schedules."
- "Develop an implementation plan to complete this goal."
- "Develop an MOU or similar agreement to coordinate when transit agencies schedule their service changes."

The LACMTA Operations Department presented a progress report to both the System Safety and Operations Committee and the Executive Management Committee. This report indicated that discussions with Metrolink are on-going and a further meeting was scheduled. Operations Department staff are continuing to work on scheduling and are in the process of prioritizing stations to coordinate schedules with other agencies including Metrolink. We think this is a key area for collaboration to make the transit systems in the region seamless, improve customer riding experience, and could increase ridership through smart scheduling and routing choices.

9. Human Resources Services

We are informed that it may be possible for LACMTA to provide certain Human Resources (HR) services to Metrolink. Possible services that HR could provide include compensation analysis, recruitment advertisement and screening, and similar services.

The LACMTA Deputy Executive Officer, Human Resources, told us that he believed that his department could absorb the workload to service Metrolink's staff along with approximately 10,000 LACMTA staff currently served. While he did not know the details of Metrolink's HR system, the regulatory requirements for HR services are the same. He believed that HR would need additional staff to do this, and further discussions between LACMTA and Metrolink would be needed to determine the scope of any services that could be provided.

10. Accounting Services

LACMTA is capable of providing accounting services to Metrolink. These services include Accounts Payable, Accounts Receivable, Payroll, General Accounting & Financial Reporting, Project Accounting & Capital Assets, Governmental & Fiduciary Fund Accounting, and Financial Systems.

The LACMTA's Accounting Department is responsible for the accurate and timely processing of financial transactions. The LACMTA Accounting Department's Accounts Payable processes approximately 68,000 yearly invoices and issues about \$230 million in checks and \$2 billion in electronic fund transfers. The LACMTA Controller told us that she was not familiar with Metrolink's accounting system. She said that meetings would be needed between the two agencies' accounting and information technology staff to determine if the systems were compatible with each other, or if the data could be transferred to LACMTA's system, and what resources would be needed to provide these services.

11. Transit Court

On several occasions, we discussed the possibility of LACMTA providing Transit Court services to Metrolink. LACMTA's Transit Court handles issues such as fare evasion citation appeals, and transit school for patrons. Metrolink is currently not recovering any citation fines through the State's collection of fines paid by Sheriff's citations issued on the Metrolink system. However, the cost to process citations might not be adequately offset by the fines recovery due to low collection rates for these types of citations. Also, Transit Court is located in Los Angeles County and would need to be arranged for the other counties that Metrolink serves.

LACMTA's Transit Court conducts about 5,000 appeal hearings regarding transit fare violations in Los Angeles per year.

A representative of Metrolink legal counsel met with LACMTA's Chief Ethics Officer to discuss operational matters on the Transit Court. The possibilities for use of Metro's Transit Court should periodically be evaluated to determine if circumstances develop when use of the court is feasible.

CONCLUSION

Based on our discussions with LACMTA and Metrolink officials and staff, we found that there are a number of areas where the two agencies may cooperate to achieve operational efficiency and cost savings for both organizations. Many non-transit operational services which Metrolink currently outsources might be either obtained from LACMTA or included

by LACMTA in contracts with vendors. Examples include the P-Card program, staff training, environmental waste, non-revenue vehicles, e-waste and management, and copiers.

We believe that Metrolink should coordinate with appropriate LACMTA departments to determine the feasibility of obtaining from LACMTA certain services that are currently outsourced or use LACMTA contracts if they are more cost effective than the current method of obtaining the services. In addition, steps should be considered such as developing a detailed joint plan and designating a task force to oversee the implementation of the plan.

We are available to assist Metrolink in pursuing the options discussed in this report and to facilitate meetings as necessary. The LACMTA OIG would be very interested in providing assistance in the area of transit scheduling for improved connectivity and seamless travel for riders in the region.

METROLINK MANAGEMENT COMMENTS

On November 26, 2014, Metrolink provided a response to our draft report that discussed each of the 11 areas in the draft report where there may be opportunities for increased efficiency and cost savings. For most of the areas, Metrolink indicated that they would evaluate the feasibility and cost effectiveness for the two agencies to cooperate to achieve operational efficiency and cost savings for both organizations. See Attachment A for a copy of Metrolink's response.

Metrolink Response to Draft Report

METROLINK.

Southern California Regional Rail Authority

November 26, 2014

TO: Karen Gorman, LACMTA Inspector General
FROM: Sam Joumbat, SCRRA Chief Financial Officer



SUBJECT: SCRRA Response to
LACMTA Draft Report on SCRRA Outsourced Services

Dear Ms. Gorman:

Attached please find a revised response from Southern California Regional Rail Authority (SCRRA) to your draft report dated May 2, 2013. The previous SCRRA draft response was dated July 1, 2013.

Please let me know if you would like to discuss.

One Gateway Plaza, Floor 12 Los Angeles, CA 90012 T (213) 452.0200



metrolinktrains.com

Metrolink Response to Draft Report

1. Purchase (P-Card) Program

SCRRA has the intention of establishing a P-Card Program and had its Board previously approve such a program. We are currently in the midst of closing fiscal year 2014 books, working with KPMG on an Oracle enhancement project, and preparing a three-year budget. These efforts are tying up our resources. We intend to resume our efforts to re-evaluate a P-Card Program in the second quarter of calendar 2015 and possibly “piggy-back” on the LACMTA program or negotiate a separate agreement with a bank, establish policies and procedures with proper controls, and ask the Board to re-approve the program.

2. Staff Training

SCRRA is open to having its staff attend LACMTA training sessions, especially if this results in cost savings. We will explore the logistics of getting the information timely, sign-up process, cost, etc.

3. Printing Services

In mid-2013, SCRRA had compared the cost of printing services to the fully-loaded cost if the services were to be provided by LACMTA. At the time, the conclusion was that it's more cost-effective to contract it out. We will, however, re-evaluate and compare costs again.

4. Hazardous Waste Disposal

We will compare our contracted prices with those LACMTA has to determine if we should consider switching vendors. At the same time, we will evaluate the implication to the environmental liability. Hazardous material disposal is the type of activity that is best segregated and not comingled with LACMTA's. This limits any potential environmental liability in the future.

5. Non-revenue Vehicles

We “piggy-back” on the State of California contracts with designated dealers for the purchase of non-revenue vehicles. For disposal of these vehicles, we send Requests for Proposal (RFP's) and we post them on our Planet Bids web site. SCRRA can evaluate the LACMTA contracts and determine if there is any cost savings.

6. E-Waste Disposal

SCRRA currently has a contract with Asbury Environmental Services which is a “piggy back” on a contract with the City of Los Angeles. We can evaluate the LACMTA contract and determine if there is any cost savings.

Metrolink Response to Draft Report

7. **Copiers**

SCRRA owns its copiers and printers and has a replacement schedule. Maintenance varies between flat fee and per page fee. We can evaluate LACMTA contracts and determine if there is any cost savings.

8. **Transit Scheduling**

SCRRA continues to work very diligently with all transportation agencies in the five counties we serve to coordinate bus schedules with train schedules.

9. **Human Resources Services**

SCRRA is open to areas of cross functionality with the LACMTA Human Resources function to improve processes and reduce costs. As suggested in the report, compensation analysis and recruitment advertisement could be areas of potential benefit.

Marketing LACMTA and SCRRA benefits (medical, dental and vision) packages together may result in an overall cost savings for both Metro and SCRRA.

10. **Accounting Services**

It is our understanding that LACMTA's financial system is configured differently than SCRRA's. For example, LACMTA does not use the Grants Management System (GMS) module of Oracle. Instead, an Oracle database was customized to process these transactions. For LACMTA purchase Orders (POs) encumber funds at the project level, whereas for SCRRA, POs encumber funds at the project and award level. Hence, allocation to awards for LACMTA is done at the time of processing invoices. In addition, the nature of SCRRA's business requires having many projects to many awards relationship, whereas LACMTA is generally one project to many awards relationship. These and other major differences make it very difficult to integrate accounting systems. In addition, the SCRRA Oracle R12 version upgrade is taking almost 2 years to get most of the inefficiencies eliminated. All this would be wasted resources if discarded and if a new effort to integrate with the LACMTA system is undertaken.

11. **Transit Court**

It is our understanding that the low collection rate makes the Transit Court function a break-even from a financial perspective. We can continue to evaluate any changes if it proves to be financially feasible.

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