



September 14, 2022

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Non-Revenue Vehicle Purchases and Assignment, Internal Audit Report No. 22-512

Overview

The Internal Audit Department of the Orange County Transportation Authority has completed an audit of non-revenue vehicle and accessory purchases and assignment. Based on the audit, purchases complied with most policies and procedures; however, recommendations have been made to improve controls related to invoice review, ensure motor pool vehicle reservations comply with all policy requirements, and ensure documentation is obtained to verify pricing when utilizing state contracts.

Recommendation

Direct staff to implement three recommendations provided in Non-Revenue Vehicle Purchases and Assignment, Internal Audit Report No. 22-512.

Background

The non-revenue vehicle fleet consists of vehicles that are required to conduct the business of the Orange County Transportation Authority (OCTA). The fleet includes operator relief vehicles, special purpose vehicles, motor pool vehicles, and 24-hour assigned vehicles, as well as utility vehicles used at operating bases.

A fleet of motor pool vehicles are assigned to the administrative office and the directly operated base locations for employees to use for business purposes. In order to use a motor pool vehicle, employees must possess a valid driver's license and be enrolled in the Department of Motor Vehicles' Employer Pull Notice Program. At the administrative office, the General Services section

(General Services) grants an employee's access to the reservation system after verifying the employee's eligibility to drive. Once access is granted, employees can make reservations directly through the system. At the bus bases, maintenance supervisors make the reservations in the system on behalf of staff requesting use of a vehicle. All employees using the motor pool vehicles must complete a travel sheet, indicating mileage and fuel levels.

Recently, OCTA has been purchasing vehicles using State of California contracts. The purchased vehicles are delivered to the maintenance specialty shop at the Santa Ana Bus Base. If equipment needs to be added to the vehicles, a vehicle upfitting vendor performs the work.

Discussion

Two invoices from the vehicle upfitting vendor included charges higher than allowed by contract, and one invoice, for \$6,623.86, was mistakenly paid twice. Additionally, while the contract allows for items not specifically listed to be billed at cost plus markup as well as labor charges, none of the invoices including such charges were accompanied by cost documentation and detail sufficient to validate contract compliance. Non-revenue vehicles ordered through a purchase order are paid after a three-way system match of the purchase order, receipt, and invoice; however, the invoice review policy does not specifically allow this process. Clerks are being instructed to receive the vehicles in the system without actually seeing the vehicles, and two vehicles were paid for without being received in the system. Management agreed to enhance invoice review, update the invoice review policy, require staff receiving vehicles to physically verify receipt, consistently confirm the three-way match prior to invoice payment, and to recover the identified duplicate payment.

Verification of an employee's eligibility to drive motor pool vehicles is not performed in accordance with the policy, which requires verification of eligibility prior to allowing a reservation. In addition, instances were identified where employees were allowed to reserve vehicles for multiple days or weeks at a time, contrary to policy, which states that motor pool vehicles are intended for same-day use. Finally, the bases enter data from the travel sheets into the system and discard the sheets; however, review found that all data, including the identity of the employee that reserved the vehicle, is not always reflected in the system. The Internal Audit Department (Internal Audit) recommended controls be enhanced to ensure that an employee's eligibility to drive is verified prior to granting a reservation and that all reservation information is reflected in the system prior to discarding travel sheets. In addition, management should re-evaluate whether employees should be allowed to reserve motor pool

vehicles for weeks at a time. Management agreed to implement enhancements and indicated that multi-day reservations will no longer be allowed.

For several purchases made using State of California contract pricing, the agreement files did not contain documentation evidencing that the price obtained matched the State of California contract terms. While the State of California contract allows for options to be added at dealer cost plus ten percent, cost documentation needed to verify the accuracy of these charges is not obtained, and options were actually priced higher than, or at, the manufacturer's suggested retail price in several instances. For one purchase, the dealer did not submit a vendor quote to support significant charges related to upfitting a vehicle. Internal Audit recommended that CAMM obtain all needed documentation for non-revenue vehicles purchased using State of California contracts and consider negotiating option pricing with the dealers. Management agreed to include all required support and documentation in the agreement file and negotiate option pricing for future procurements.

Summary

Internal Audit has completed an audit of non-revenue vehicle purchases and assignment and has offered three recommendations, which management agreed to implement or otherwise address.

Attachment

- A. Non-Revenue Vehicle Purchases and Assignment, Internal Audit Report No. 22-512

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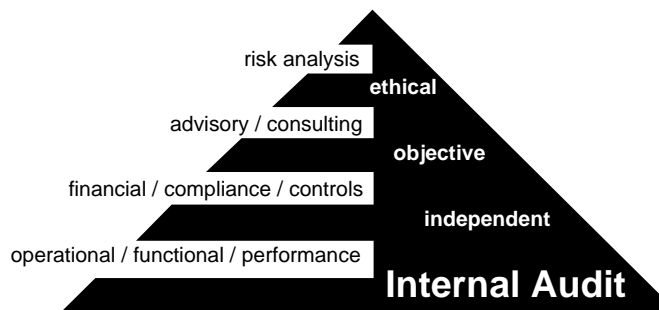
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Non-Revenue Vehicle Purchases and Assignment

Internal Audit Report No. 22-512

August 23, 2022



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Conclusion

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed an audit of non-revenue vehicle and accessory purchases and assignment. Based on the audit, purchases complied with most policies and procedures; however, recommendations have been made to improve controls related to invoice review, ensure motor pool vehicle reservations comply with all policy requirements, and ensure documentation is obtained to verify pricing when utilizing state contracts.

Background

The non-revenue vehicle fleet consists of vehicles that are required to conduct the business of OCTA. The fleet includes operator relief vehicles, special purpose vehicles, motor pool vehicles, and 24-hour assigned vehicles, as well as utility vehicles used at operating bases. The number of operator relief vehicles is calculated based on bus service levels and scheduling. Special purpose vehicles are assigned to certain groups based on business need. For example, the facilities maintenance group, responsible for maintenance at all bus bases and transit centers, is assigned special purpose work trucks. A fleet of motor pool vehicles is assigned to the administrative office and the directly operated base locations for employees to use for business purposes. In order to use a motor pool vehicle, employees must possess a valid State of California driver's license and be enrolled in the Department of Motor Vehicles' Employer Pull Notice Program. At the administrative office, the General Services section (General Services) grants employees' access to the Fleet Commander reservation system after verifying the employees' eligibility to drive an OCTA vehicle. Once access is granted, employees can make reservations directly through the system. At the directly operated bases, maintenance supervisors make the reservations in the system on behalf of staff requesting use of a vehicle. All employees using the motor pool vehicles must complete a travel sheet, indicating mileage and fuel levels. Currently, there are ten designated positions that are assigned a vehicle on a 24-hour basis. Employees who are assigned the 24-hour vehicles are required to track commute trips and report annually to the Maintenance Resources Management (MRM) section, who sends the reports to the Accounting and Financial Reporting (Accounting) Department for payroll processing as required for Internal Revenue Service reporting purposes. A non-revenue vehicle fleet listing is reviewed annually by the Director of Maintenance and the Director of Finance and Administration and updated as business needs change, with the annual review documented in a memo.

Every year, the Director of Maintenance and the MRM manager review the fleet and determine which vehicles need to be replaced, based on the years, miles, and use of the vehicles. Purchases are then budgeted to ensure that replacement vehicles are delivered and ready for use when the useful life of the vehicle being replaced is reached. MRM works with the Contracts Administration and Materials Management (CAMM) Department

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to procure non-revenue vehicles for replacement. Recently, MRM has been purchasing vehicles using State of California contracts. MRM maintains a purchase tracking schedule, which identifies purchases each fiscal year with purchase and status information, including purchase date, post-delivery steps, and in-service date. The purchased vehicles are delivered to the Maintenance Specialty Shops Administration at the Santa Ana bus base. If equipment needs to be added to the vehicles, as is the case for Transit Police Services and field supervisor vehicles, the vehicle upfitting vendor performs such work.

Non-revenue vehicles can be purchased through a purchase order (PO) or a contract. MRM instructs Parts staff to receive vehicles in the Ellipse system when they are purchased through a PO, and the receiving records in the Ellipse system interface with the Central Square accounting system. The Accounts Payable section (Accounts Payable) enters the invoice information into the Central Square system, which matches the invoice with the PO and receiving records.

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Objectives, Scope, and Methodology

The objectives were to review non-revenue vehicle and accessory purchases and assignments for compliance with policies and procedures and assess activities for economy and efficiency.

According to Generally Accepted Government Auditing Standards (GAGAS), internal control is the system of processes that an entity's oversight body, management, and other personnel implement to provide reasonable assurance that the organization will achieve its operational, reporting, and compliance objectives. The five components are control environment, risk assessment, control activities, information and communication, and monitoring.¹ The components and principles that were evaluated as part of this audit are:

- Control Environment
 - OCTA demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
- Control Activities
 - OCTA selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

The methodology consisted of reviewing the Non-Revenue Vehicle Fleet Policy, confirming that management performed both the annual determination of non-revenue vehicle replacements and the annual review of non-revenue fleet listing, reconciling the purchase tracking schedule with payments, testing compliance with selected procurement policies and procedures, assessing invoice review procedures and testing invoice payments for compliance with policies and contract provisions, confirming eligibility of employees assigned the 24-hour vehicles and testing their annual reporting, and testing a sample of motor pool vehicle reservations for compliance with policy and procedures.

The scope is limited to non-revenue vehicle purchases and assignment and excluded revenue vehicles. The audit also excluded the maintenance and disposal of non-revenue vehicles. The scope included the most recent annual determination of non-revenue vehicle replacements, the 2020 and 2021 annual reviews of non-revenue fleet listing, purchases from 2020 through May 2022 and all payments made on such purchases through May 2022, the 2021 annual reporting by employees assigned the 24-hour vehicles, and a judgmental sample of 40 motor pool vehicle reservations made from July 2021 through June 2022. The judgmental sample of motor pool vehicle reservations was selected to provide even coverage of reservations made at the administrative office and the bases. Since the sample is non-statistical, any conclusions are limited to the sample items tested.

¹ See U.S. Government Accountability Office publication, "Standards for Internal Control in the Federal Government," available at <http://www.gao.gov/products/GAO-14-704G>, for more information.

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We conducted this performance audit in accordance with GAGAS. 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.

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Audit Comments, Recommendations, and Management Responses

Invoice Review and Payment

Two invoices from the vendor responsible for upfitting vehicles included charges higher than the amounts allowed by the contract. The contract also allows for items not specifically listed to be billed at cost plus a 15 percent markup, as well as labor charges; however, none of the invoices are accompanied by cost documentation and detail sufficient to allow for validation that charges comply with contract terms. In addition, one invoice for \$6,623.86 was inadvertently paid twice.

The Accounts Payable Invoice Review Policy allows payments to be processed for inventory items without an authorized signature if the purchase order, receipt, and invoice records in the system all match. The policy does not indicate this process is allowable for the purchase of non-revenue vehicles; however, this is the practice. Testing of this process identified two non-revenue vehicles that were paid for, despite the lack of evidence of receipt in the system. In addition, parts clerks are being instructed to receive non-revenue vehicles in the system without physically verifying receipt of the vehicles.

Recommendation 1:

Internal Audit recommends that MRM's invoice review procedures be enhanced to include validation of all charges, including items not specifically listed in the contract. Accounts Payable should recover the duplicated payment. In addition, the policy should be updated to reflect whether a three-way match process is allowable for payment of non-revenue vehicles. If the three-way match process is to be used, staff that physically verify receipt of the vehicles should be responsible for receiving the vehicles in the system, and Accounts Payable should consistently confirm the three-way match prior to payment of an invoice.

Management Response (Maintenance and Accounting):

Management agrees with the recommendation. Management is in the process of implementing an invoice cover page to include a checklist that will require acknowledgement of review for sufficient detail pertaining to quantity and rates of costs and justification. This enhancement will also be applied to the vehicle upfitting contract.

The invoice review policy will be updated to allow for the three-way match process to be used for these items, and Accounts Payable will consistently confirm the information prior to payment of an invoice. Furthermore, staff receiving vehicles in the system will be required to physically verify receipt of the vehicle before accepting it in the system. In addition, Accounting will pursue recovering the duplicate payment.

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Compliance with Motor Pool Vehicle Policy

Verification of employees' eligibility to drive is not performed in accordance with the policy, which requires verification of eligibility prior to allowing reservation of a motor pool vehicle. The administrative office only verifies employee eligibility at the time the employee requests access to reserve vehicles in the Fleet Commander system, and the bases do not have a process to verify employee eligibility prior to a reservation.

In addition, a few employees have been allowed to reserve vehicles for weeks at a time, contrary to policy, that indicates motor pool vehicles are intended for same day use.

Finally, policy requires employees that reserve motor pool vehicles to complete a travel sheet, documenting details of the reservation, mileage, and fuel level. Maintenance supervisors at the bases enter data from the travel sheets into the Fleet Commander system and discard the sheets. Review found that all data, including the identity of the employee that reserved the vehicle, is not always reflected in the system.

Recommendation 2:

Internal Audit recommends management enhance controls to ensure employees' eligibility to drive prior to granting a reservation. In addition, management should re-evaluate whether employees should be allowed to reserve motor pool vehicles for weeks at a time. Finally, all relevant reservation information should be reflected in the system prior to discarding the supporting travel sheets.

Management Response (General Services and Maintenance):

Management agrees with the recommendation. Staff will work with the vendor to see if an automated solution for determining eligibility each time a vehicle is checked out is possible. If the system cannot be modified, staff will develop an internal solution that can be used at both the Orange Administration building and the operating bus bases. Once the solution is identified, policies will be updated as appropriate. Also, multi-day reservations will no longer be allowed, and necessary information will be retained in the system before trip sheets are discarded.

Purchase Support and Documentation of Pricing

For several purchases made using State of California contract pricing, the agreement files did not contain documentation evidencing that the price obtained matched the State of California contract terms. Agreement files did not include the State of California contract pricing attachment and/or break-out of the quoted pricing by base price and options.

The State of California contract also allows for options to be added at dealer cost plus ten percent; however, cost documentation needed to verify the accuracy of these charges

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is not obtained. Options, in several instances, were priced higher than, or at, the manufacturer's suggested retail price.

For one purchase, the dealer did not submit a vendor quote to support significant charges related to upfitting a vehicle.

Recommendation 3:

Internal Audit recommends CAMM obtain all needed support and documentation for non-revenue vehicles purchased using State of California contracts and retain them in the agreement files. CAMM should also consider negotiating option pricing with the dealers.

Management Response (CAMM):

Management agrees with the recommendation and will include all required support and documentation in the contract file for future non-revenue vehicle purchases using State of California contracts. CAMM staff has obtained the missing State of California pricing attachments for the audited files and will make sure to negotiate option pricing prior to contract award, as well as document negotiation efforts.