



January 8, 2020

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer
Janet Sutter, Executive Director
Internal Audit Department

Subject: 91 Express Lanes Master Custodial Account and Revenue Allocation, Internal Audit Report No. 19-514

Overview

The Internal Audit Department has completed an audit of 91 Express Lanes Master Custodial Account activities and revenue allocation. Based on the audit, revenues are allocated to the Orange County Transportation Authority in accordance with the cooperative agreement between the Orange County Transportation Authority and the Riverside County Transportation Commission. The audit also found controls over wire transfers from the 91 Express Lanes Master Custodial Account are adequate and effective.

Recommendation

Receive and file 91 Express Lanes Master Custodial Account and Revenue Allocation, Internal Audit Report No. 19-514, as an information item.

Background

In 2008, the Riverside County Transportation Commission (RCTC) received authority to extend the 91 Express Lanes from the Riverside County Line to Interstate 15. This section of the 91 Express Lanes opened in 2017, providing customers with eight additional miles of travel-time certainty. The Orange County Transportation Authority (OCTA) and RCTC entered into an agreement with the current 91 Express Lanes operator, Cofiroute USA (Cofiroute), to service both segments of the 91 Express Lanes.

OCTA, RCTC, and Bank of the West entered into a Master Custodial Account (MCA) Agreement in 2017, with Bank of the West serving as the account custodian. OCTA and RCTC also entered into a cooperative agreement (Cooperative Agreement) in December 2011. This agreement, along with a

detailed revenue-split schedule, outlines how revenues are to be allocated between OCTA and RCTC. As the 91 Express Lanes operator, Cofiroute tracks all trip activity through its Revenue and Account Management System, which is configured to allocate revenues by agency in accordance with the Cooperative Agreement. Tolls and violation fees collected for trips registered on the OCTA 91 Express Lanes side are assigned to OCTA, while tolls and violation fees collected for trips registered on the RCTC side are assigned to RCTC. Other administrative fees, miscellaneous non-toll revenue, and bad debt expenses are allocated by Cofiroute according to the Cooperative Agreement and detailed revenue-split schedule. OCTA's share of the revenues from the MCA averaged \$4.8 million per month during the audit period.

Discussion

The audit of the 91 Express Lanes MCA was included in the Fiscal Year 2018-19 Internal Audit Plan to evaluate controls and test activities to ensure proper allocation and deposit of revenues to OCTA. Internal Audit performed testing of revenues received and allocated from the 91 Express Lanes MCA to OCTA's 91 Express Lanes Operating Account and found that revenues were allocated in accordance with the Cooperative Agreement between OCTA and RCTC. Internal Audit also performed an assessment and testing of the MCA wire transfer control environment and determined that controls in place were adequate and effective.

Summary

Internal Audit has completed an audit of 91 Express Lanes MCA and Revenue Allocation.

Attachment

- A. 91 Express Lanes Master Custodial Account and Revenue Allocation, Internal Audit Report No. 19-514

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ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



91 Express Lanes Master Custodial Account and Revenue Allocation

Internal Audit Report No. 19-514

December 10, 2019



Performed by: Ricco Bonelli, CIA, Principal Internal Auditor
Janet Sutter, CIA, Executive Director

RTB

Distributed to: Kirk Avila, General Manager, 91 Express Lanes
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Conclusion

The Internal Audit Department (Internal Audit) has completed an audit of 91 Express Lanes Master Custodial Account (Custodial Account) activities and revenue allocation. Based on the audit, revenues are allocated to the Orange County Transportation Authority (OCTA) in accordance with the account agreement and the cooperative agreement between OCTA and the Riverside County Transportation Commission (RCTC). The audit also found controls over wire transfers from the Custodial Account are adequate and effective.

Background

The 91 Express Lanes is a four-lane, 18-mile toll road built in the median of State Route (SR) 91 (SR-91) between the SR-55/SR-91 interchange and the SR-91/Interstate (I) 15 (I-15) interchange. The 91 Express Lanes uses congestion management pricing to adjust tolls quarterly based on the number of vehicles utilizing the toll road. Motorists pay tolls via a transponder that automatically deducts the toll amount from a prepaid account.

In 2008, the RCTC received authority to extend the 91 Express Lanes to I-15. This section of the 91 Express Lanes opened in 2017, providing customers with eight additional miles of travel time certainty. OCTA and RCTC entered into an agreement with the current 91 Express Lanes operator, Cofiroute USA (Cofiroute), to service both segments of the 91 Express Lanes.

OCTA, RCTC, and Bank of the West entered into a Master Custodial Account Agreement (MCA Agreement) in 2017, with Bank of the West serving as the custodian for the Custodial Account. Deposits into the Custodial Account include all revenues and transponder-holder deposits received by the custodian in connection with the 91 Express Lanes, which refer jointly to the OCTA 91 Express Lanes and the RCTC 91 Express Lanes.

OCTA and RCTC also entered into a cooperative agreement (Cooperative Agreement) in December 2011. This agreement, along with a detailed revenue-split schedule, outlines how revenues and bad debt expenses are allocated between OCTA and RCTC. As the 91 Express Lanes operator, Cofiroute tracks all trip activity on the 91 Express Lanes through its Revenue and Account Management System (RAMS). RAMS is configured to track trip activity by agency (OCTA or RCTC) in order to allocate revenues in accordance with the Cooperative Agreement. Tolls and violation fees collected for trips registered on the OCTA 91 Express Lanes side are assigned to OCTA, while tolls and violations fees collected for trips registered on the RCTC side are assigned to RCTC. Other administrative fees, miscellaneous non-toll revenue, and bad debt expenses are allocated according to the Cooperative Agreement and detailed revenue-split schedule.

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In accordance with the MCA Agreement, funds in the 91 Express Lanes account are disbursed to the designated OCTA and RCTC operating bank accounts. Each business day, Cofiroute staff prepare a daily wire package. The package consists of wire transfer instructions for the Bank of the West and journal entries for OCTA and RCTC recording the daily prepaid tolls, deposits, and miscellaneous revenue and bad debt expense activity. Detailed documentation of daily activity by agency is provided to support the journal entries.

When the daily wire packages are received from Cofiroute, OCTA Accounting Department (Accounting) staff review the journal entries for accuracy and completeness, agree the journal entries to the supporting documentation, and confirm the wire transfer amount was deposited into the OCTA 91 Express Lanes Toll Revenue Account. Accounting staff prepare the journal entries to record the daily wire transfers. On a monthly basis, Accounting staff perform bank account reconciliations for both the Custodial Account and the 91 Express Lanes Toll Revenue Account.

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Objectives, Scope, and Methodology

The objectives were to assess the adequacy and effectiveness of controls over wire transfers from the Custodial Account and to determine whether 91 Express Lanes revenues were allocated to OCTA in accordance with the MCA Agreement and the Cooperative Agreement between OCTA and RCTC.

According to Generally Accepted Government Auditing Standards (GAGAS), internal control, in the broadest sense, encompasses the plans, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal controls significant within the context of the audit objectives were evaluated as part of this audit.

The methodology consisted of an evaluation of controls over the wire transfer process, testing of controls for appropriate authorization and correct beneficiary bank account information, and testing of wire transfer disbursements for accuracy, adequate support, and compliance with revenue sharing agreed to in the Cooperative Agreement between OCTA and RCTC. The methodology also included testing of bank account reconciliations for compliance with OCTA policy.

The scope was limited to evaluation and testing of controls related to compliance with the MCA Agreement and the Cooperative Agreement between OCTA and RCTC. The scope included a judgmental sample of 40 wire transfers made from January 1, 2018 through June 30, 2019. The sample was selected to ensure at least two wire transfers were selected for each month during the 18-month period. Since the sample was non-statistical, any conclusions are limited to the sample items tested.

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.