



April 25, 2018

To: Finance and Administration Committee

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

Subject: Investigation and Limited Scope Review of Take-Home Vehicle Assignment

Overview

The Internal Audit Department of the Orange County Transportation Authority has completed an investigation of a complaint alleging that a Transit Division manager used an agency-issued transponder for personal commuting and participated in the Commuter Club rideshare program, in violation of policy. The allegations were confirmed, and the details provided to management. During the investigation, control weaknesses related to the assignment of take-home vehicles and oversight of transponder use, as well as areas where oversight controls could be strengthened to better enforce compliance with policies and procedures, were identified and are reported herewith.

Recommendation

Direct staff to implement four recommendations provided in the Investigation and Limited Scope Review of Take-Home Vehicle Assignment.

Background

On February 15, 2018, a report was received alleging that an employee assigned a take-home vehicle was using an agency-issued transponder for personal commute trips and was participating in the Orange County Transportation Authority (OCTA) Commuter Club rideshare program, in violation of policy.

In accordance with the Board of Directors-approved Personnel and Salary Resolution, designated employees are provided an assigned vehicle, along with all related expenses (e.g. gas, maintenance, and wash services). Per policy, employees assigned a take-home vehicle are not eligible to participate in OCTA's Commuter Club program or to use Commuter Club pool vehicles.

Employees with take-home vehicles are required to log daily vehicle usage for purposes of Internal Revenue Service (IRS) reporting.

The OCTA Commuter Club is a rideshare incentive program that allows employees who carpool, or use other means of alternative transportation, to earn points to be used for paid days off and/or gift check awards. OCTA maintains a fleet of commuter pool vehicles for use by employees who are members of the Commuter Club. These vehicles may be used during business hours by employees who use alternative transportation and/or carpool to work and have a need to attend an off-site meeting and/or business appointment.

Discussion

The Internal Audit Department (Internal Audit) found that staff did not maintain detailed records of take-home vehicle assignments or require employees to acknowledge the rules and responsibilities of the assignment. In addition, policies were not cross-referenced and did not include all relevant information about use of the vehicle. Internal Audit recommended management enhance policies and procedures to include all relevant rules and requirements, and ensure that employees assigned a take-home vehicle are properly informed. Management agreed and indicated that policies will be improved and expanded.

In addition, procedures for monitoring toll road charges assessed to OCTA were not adequate to detect unauthorized activity. OCTA maintains a Toll Roads account and issues transponders, as needed, to revenue and non-revenue vehicles that need to travel for business using the toll roads. An analyst in the Transit Division receives activity statements, segregates charges by division, and makes payment. Internal Audit recommended that management revise procedures and require responsible departments to review and validate toll road fee charges and transponder assignments for appropriateness. Management agreed with the recommendation and indicated that this change will be implemented.

The investigation also revealed weaknesses in the collection and reporting of mileage log activity from employees assigned a take-home vehicle. Instructions about how to complete the mileage logs and who is required to complete a log under IRS rules are not provided. Internal Audit recommended management develop and distribute procedures, provide training to employees, and scan the mileage logs for obvious mistakes. Management agreed to implement these recommendations.

Finally, since employees assigned a take-home vehicle are not allowed to participate in the Commuter Club rideshare program, Internal Audit

recommended management implement system controls to prevent these employees from accessing the related website. Management agreed and indicated that this recommendation has been implemented.

Summary

Internal Audit has completed a limited scope review of take-home vehicle assignments and offered recommendations to improve controls.

Attachment

- A. Investigation and Limited Scope Review of Take-Home Vehicle Assignment

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ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Investigation and Limited Scope Review of Take-Home Vehicle Assignment

April 12, 2018



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Conclusion

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed an investigation of a complaint alleging that a Transit Division (Transit) manager used an agency-issued transponder for personal commuting and participated in the OCTA Commuter Club rideshare program, contrary to policy. Internal Audit confirmed the allegations and referred details to management. During the investigation, Internal Audit identified control weaknesses related to assignment of take-home vehicles and oversight of transponder use, as well as areas where oversight controls could be strengthened to better enforce compliance with policies and procedures.

Background

Complaints received either through the OCTA Fraud Hotline, or made directly to Internal Audit, are reviewed to determine whether an investigation can be performed and, if so, by whom. When appropriate, Internal Audit will investigate and determine whether the allegation can be substantiated. During the investigation, Internal Audit may identify control weaknesses or opportunities to enhance existing policies and procedures. Findings and recommendations resulting from these investigations are incorporated into limited scope review reports that include management's response and planned corrective actions. While these investigations are not considered audits, like internal audits, recommendations are tracked through to implementation.

On February 15, 2018, a report was received alleging that an employee assigned a take-home vehicle was using an agency-issued transponder for personal commute trips and participating in the OCTA Commuter Club rideshare program, in violation of policy.

In accordance with the Board of Directors (Board) approved Personnel and Salary Resolution, designated employees are provided an assigned vehicle, along with all related expenses (e.g. gas, maintenance, and wash services). Per policy, employees assigned a take-home vehicle are not eligible to participate in OCTA's Commuter Club rideshare program, may not use commuter pool vehicles, and are required to log daily vehicle usage for purposes of Internal Revenue Service (IRS) reporting.

The OCTA Commuter Club is a rideshare incentive program that allows employees who carpool, or use other means of alternative transportation, to earn points to be used for paid days off and/or gift check awards. OCTA maintains a fleet of commuter pool vehicles for use by employees who are members of the Commuter Club. These vehicles may be used during business hours by employees who use alternative transportation and/or carpool to work and have a need to attend an off-site meeting and/or business appointment.

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Objectives, Scope, and Methodology

The objective of the investigation and limited scope review was to determine whether the allegations could be substantiated. The scope was limited to activities in late 2015 through February 2018.

In conducting the investigation and limited scope review, Internal Audit employed the following methodology:

- Review of the Commuter Club Policy, 24-Hour Assignment of Non-Revenue Passenger Vehicles Policy, Administrative Commuter Pool Vehicles Policy, and the 24-Hour Assignment of Non-Revenue Passenger Vehicle Acknowledgement Form;
- Interview with applicable staff regarding assignment of vehicles, collection of mileage activity logs, review of fees related to OCTA-issued transponders, and monitoring of Commuter Club participation and use of commuter pool vehicles;
- Review of Toll Roads account statements for the period January 2017 through February 2018, for indications of personal use of selected transponder;
- Review of selected Mileage Log entries during the period January 2017 through February 2018;
- Review of Commuter Club system activity during the period January 2015 through November 2017, for selected employee;
- Review of IRS Publication 15B, Employer's Tax Guide to Fringe Benefits.

This report is the result of an investigation and limited review of an allegation received through the fraud hotline. It does not represent an audit conducted in accordance with Generally Accepted Government Auditing Standards.

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Observations, Recommendations, and Management Response

Procedures for Assignment of Vehicles Should be Improved

The assignment of the take-home vehicle to the employee under investigation was not documented and there was no evidence that the employee was informed of, and agreed to abide by, policies related to the assignment.

According to Transit staff responsible for vehicle assignments, a form was developed two years ago for employees assigned a take-home vehicle to sign and confirm their understanding of the rules and responsibilities associated with the assignment. Only two of 13 employees currently assigned a take-home vehicle have this signed acknowledgement form on file and there is no reference to the form in policies and procedures. The form being used does not reference all related policies, including the Commuter Club Policy and the Administrative Commuter Pool Vehicles Policy.

Additionally, the policy does not address whether take-home vehicles may be used to transport and/or commute with other OCTA employees and/or non-employees. IRS rules require all employees commuting in employer-provided vehicles be assessed the value of the fringe benefit, however, OCTA procedures do not address this situation and the value of the fringe benefit earned by the passenger employee(s) is not being assessed, as required.

Recommendation 1:

Internal Audit recommends management enhance policies and procedures to ensure that employees assigned a take-home vehicle are properly informed of related rules and requirements of the assignment and that documentation is prepared and maintained to evidence such. Also, management should include rules for use of the vehicle to provide transport to other employees and/or non-employees. If vehicles are used to provide commute trips to more than one employee, then the value of the benefit should be reported as income to the employee passengers.

Management Response (Transit):

Transit management will work with staff from Human Resources and Organizational Development (HROD) and Finance and Administration (F&A) to improve current policies and procedures as recommended. This could include incorporating the receipt of policies related to a 24-hour assigned vehicle into the Halogen process similar to other policies, developing an on-line training program to ensure that affected employees receive information regarding rules and requirements associated with a 24-hour vehicle assignment. For reporting purposes associated with the use of the vehicle as a fringe benefit, Transit management will

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work to identify a process that can be used to track this, including the transport of other employees.

Responsible Departments Should Review and Validate Transponder Fee Activity

Current procedures are not adequate to detect misuse of OCTA-issued transponders for personal commutes. Departments responsible for vehicles equipped with transponders do not receive or review the Toll Roads account statements to ensure transactions are valid and authorized.

OCTA maintains a Toll Road account and issues transponders to revenue and non-revenue vehicles for business use. During 2017, a total of \$44,000 in toll road charges were incurred. The toll road account is linked to a purchasing card held by a senior analyst (analyst) within the Maintenance Department of Transit.

The analyst receives the Toll Roads statement of charges and spends approximately six hours each month reconciling the account and manually segregating amounts by charge code based on the department that incurred the charges. For example, some transponders are assigned to revenue vehicles that utilize the toll road and these charges are attributed to Bus Operations. Other transponders are assigned to Transit Police Services within the Security and Emergency Preparedness Department. Still other transponders are assigned to non-revenue vehicles, and the analyst responsible for reviewing the transactions is not in a position to scrutinize the appropriateness of these assignments or related usage. Managers responsible for the vehicles assigned the transponders do not receive or review any of the toll road fee data.

Recommendation 2:

Internal Audit recommends that management revise procedures and require responsible departments to review and validate toll road fee charges and transponder assignments for appropriateness.

Management Response (Transit):

Transit management will implement this recommendation.

Training and Oversight of Mileage Log Reporting Should be Implemented

OCTA did not begin reporting the value of the fringe benefit received by the employee under investigation, as required by IRS rules, until several months after the assignment of the vehicle.

Under IRS rules, employers must report the value of fringe benefits, such as take-home vehicles, as income to the employee. To comply with this requirement, OCTA uses the IRS Commuting Rule, which allows the employer to multiply each one-way commute by

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\$1.50 to arrive at a value for the benefit. To use this method, the employee must maintain a record of commute trips.

Employees assigned a take-home vehicle are provided a mileage log form on which to report daily trip activity; however, there is no corresponding written procedures and/or training as to how to properly complete the mileage log form. Review of a sample of mileage logs identified instances of employees not accurately recording commute activities.

Recommendation 3:

Internal Audit recommends management develop and distribute written procedures for mileage log reporting and offer training to employees required to report. Transit staff responsible for collecting the mileage logs should scan the logs for obvious mistakes.

Management Response (Transit):

Transit management will implement this recommendation.

Additional Commuter Club System Access Controls Should be Implemented

The Commuter Club system can be set to prevent access by employees who are not eligible to participate in the program; however, this feature is not currently used.

The Commuter Club is an OCTA employee benefit program that allows employees to earn cash rewards and/or paid days off for carpooling or using other, alternative modes of transportation to get to work. Commuter Club participants register and track commute activities through a web-based system. The Commuter Club Policy does not allow employees assigned take-home vehicles to participate in the program.

Recommendation 4:

Internal Audit recommends that management implement procedures to prevent system access by employees who are ineligible to participate in the Commuter Club.

Management Response (F&A):

Management agrees with the recommendation and has already implemented procedures to address this recommendation. The Commuter Club Administrator worked with the Information System Department and was able to use a function in the software that prevents specific employees from using the Commuter Club. As of March 22, 2018, employees assigned a take home vehicle are no longer able to access the Commuter Club.