



November 29, 2023

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit

Subject: Cooperative Agreements with Regional Center of Orange County and My Day Counts, Internal Audit Report No. 24-502

Overview

The Internal Audit Department of the Orange County Transportation Authority has completed an audit of cooperative agreements with the Regional Center of Orange County and My Day Counts. Based on the audit, contract, oversight, and monitoring, controls should be improved. Recommendations were made to reconsider or strengthen the pass-through trip arrangement, implement procedures to reconcile and resolve trips disputed by the Regional Center of Orange County, and improve the timeliness of invoicing and collection processing, as well as recording and monitoring of receivable amounts.

Recommendation

Direct staff to implement the three recommendations provided in Cooperative Agreements with the Regional Center of Orange County and My Day Counts, Internal Audit Report No. 24-502.

Background

The Orange County Transportation Authority (OCTA) entered into Cooperative Agreement No. C-8-1735 with the Regional Center of Orange County (RCOC agreement) effective July 1, 2018, with an initial term through June 30, 2020, and option terms through June 30, 2024. Under the RCOC agreement, RCOC arranges subscription trips for its OC ACCESS-eligible clients directly with OCTA's contracted OC ACCESS transportation service provider, TransDev, and, in return, agrees to pay a \$8.64 per person, per one-way trip fee to OCTA. On a monthly basis, OCTA sends detailed trip data and an invoice to RCOC.

OCTA entered into Cooperative Agreement No. C-8-1921 with the Orange County Adult Achievement Center, doing business as My Day Counts (MDC agreement) effective July 1, 2019, with a term through June 30, 2024. Under the MDC agreement, MDC provides transportation services to OC ACCESS-eligible riders traveling to/from its facility, and OCTA pays a one-way trip rate, currently set at \$16.76. In addition to this subsidy, OCTA agrees to pay MDC \$6.31 per trip, for trips provided to RCOC clients (“pass-through trips”). MDC supplies trip information to OCTA, OCTA pays MDC, and OCTA then invoices RCOC \$6.31 for the trips provided to RCOC clients.

Discussion

Contracted Transportation Services (CTS) staff did not investigate and resolve trips disputed by RCOC. Every invoice included disputed trips and a short pay by RCOC, and invoicing and payment time requirements were often not met. In addition, staff did not always properly and timely apply payments and credit adjustments to the related invoices. There is also no process to monitor and collect unpaid invoices from RCOC. The Internal Audit Department (Internal Audit) recommended management implement procedures to investigate and take appropriate action to address disputed trips and ensure timely submission of invoices and payment receipts. Management should also improve procedures for recording payments and establish a process to monitor and collect overdue balances. Management agreed and indicated that procedures for investigating disputed trips have been implemented and improvements to accounts receivables procedures will also be implemented.

The current arrangement for OCTA to pass-through payments to MDC on behalf of RCOC is outlined in the MDC agreement, but not in the RCOC agreement. Further, the prior contract amendment to add the pass-through to MDC was processed without Board of Directors (Board) approval. RCOC regularly disputes trips and short-pays OCTA, and the amounts are not recovered from MDC. Internal Audit recommended that management reconsider the current arrangement or amend both agreements appropriately. Internal Audit recommended management consider recovering from MDC amounts paid by OCTA that were not reimbursed by RCOC. Management agreed and indicated that recommendations will be addressed in the renewal of the RCOC and MDC agreements that expire in June 2024. Management also advised that, in review of contractual language, staff has determined there is no support to recover amounts OCTA paid to MDC which were not reimbursed by RCOC.

Four invoices from MDC were not authorized by staff with sufficient signature authority, and several invoices were charged to the wrong agreement. In addition, several invoices from MDC were paid before verifying trips were

provided to OC ACCESS-eligible individuals, resulting in the need to request credits in subsequent invoices. Internal Audit recommended that accounts payable staff ensure invoices are properly authorized and applied to the current agreement and accounts receivable staff ensure invoices are created against the current agreement. Management should also verify trips provided are for OC ACCESS-eligible individuals prior to remitting payment to MDC. Management agreed and indicated refresher training will be provided to staff processing invoices and that procedures have been revised to include full verification of OC ACCESS-eligible trips prior to payment.

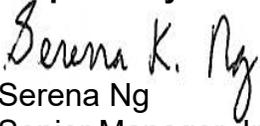
Summary

Internal Audit has completed an audit of the cooperative agreements with RCOO and MDC and has offered three recommendations for improvement.

Attachment

- A. Cooperative Agreements with Regional Center of Orange County and My Day Counts, Internal Audit Report No. 24-502

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ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Cooperative Agreements with Regional Center of Orange County and My Day Counts

Internal Audit Report No. 24-502

November 14, 2023



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**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Cooperative Agreements with Regional Center of Orange County and
My Day Counts
November 14, 2023**

Table of Contents

Conclusion	1
Background	1
Objectives, Scope, and Methodology	3
Audit Comments, Recommendations and Management Responses	4
RCOC Invoicing, Payments, and Cash Receipts	4
Pass-Through Payment Arrangement	5
Invoice Controls	7

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Cooperative Agreements with Regional Center of Orange County and
My Day Counts
November 14, 2023**

Conclusion

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed an audit of the cooperative agreements with Regional Center of Orange County (RCOC) and My Day Counts (MDC). Based on the audit, contract, oversight, and monitoring controls should be improved. Recommendations are being made to reconsider or strengthen the current pass-through payment arrangement with MDC, to implement procedures to reconcile and resolve disputed trips and short pays by RCOC, and to improve timeliness of invoicing and collection processing, and recording and monitoring of receivable amounts.

Background

Agreements

OCTA entered into Cooperative Agreement No. C-8-1735 (RCOC agreement) with the RCOC effective July 1, 2018, with an initial term through June 30, 2020, and option terms through June 30, 2024. Under the agreement, RCOC arranges subscription trips for its OC ACCESS-eligible clients directly with OCTA's contracted OC ACCESS transportation service provider, TransDev, and, in return, agrees to pay a per person, per one-way trip fee to OCTA for the trips provided. Annual amendments to the agreement are executed to revise the fee during the option terms. The fee is currently set at \$8.64 per trip.

OCTA entered into Cooperative Agreement No. C-8-1921 (MDC agreement) with the Orange County Adult Achievement Center, doing business as MDC, effective July 1, 2019, with a term through June 30, 2024, and a maximum obligation of \$1,705,660.24. After amendments, the maximum obligation is currently set at \$3,371,618.93. Under the agreement, MDC provides transportation services to OC ACCESS-eligible riders traveling to/from its facility, and OCTA pays a one-way trip rate, currently set at \$16.76. In addition to this subsidy, OCTA also agrees to pay MDC \$6.31 per trip, for trips provided to RCOC clients ("pass-through trips"). MDC supplies trip information to OCTA, OCTA pays MDC, and OCTA then invoices RCOC \$6.31 for the trips provided to RCOC clients.

Trip Invoicing and Payments

Subscription trips ordered by RCOC, and completed by TransDev, are coded within the Trapeze system with a funding code of "6." OCTA Contracted Transportation Services Department (CTS) staff prepare monthly invoice requests for the RCOC trips by querying trips marked with a funding code of "6" in the Trapeze system and creating a detailed report. Invoices and trip data are sent to RCOC.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Cooperative Agreements with Regional Center of Orange County and
My Day Counts
November 14, 2023**

MDC sends trip data to CTS. CTS runs a query in the Trapeze system to verify that trips were provided to OC ACCESS-eligible riders. Once any ineligible trips are identified and removed, and CTS identifies trips taken by RCOC clients, CTS notifies MDC that an invoice can be submitted. Upon receipt of the invoice, CTS staff confirms that the invoiced rate matches the agreement rate, and the invoiced trips are consistent with the reviewed trips. CTS then authorizes payment of the subsidy and pass-through amounts to MDC.

CTS then submits an invoice request to Accounts Receivable (AR) to claim reimbursement from RCOC for the pass-through trips provided by MDC. Once the invoice is received from AR, CTS sends the invoice and MDC trip data to RCOC.

RCOC reviews the invoices and trip details and sends a list of disputed trips with descriptions such as “no authorization in place,” “not a RCOC person,” “exceeds authorized trips,” etc., and short pays the invoices. CTS then initiates a credit memo for the disputed trips. AR applies check and electronic fund receipts based on RCOC’s detail and/or based on instructions from CTS or RCOC.

Policies Related to Invoices

The Payment Authorization Policy requires the proper authorization of all payments prior to disbursement. The Accounts Payable Invoice Review Policy includes staff procedures to verify the signature on the invoice to ensure that the employee authorizing the payment has the appropriate signature authority and to verify that the purchase order or contract number is correct.

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Cooperative Agreements with Regional Center of Orange County and
My Day Counts
November 14, 2023

Objectives, Scope, and Methodology

The objectives were to evaluate contract compliance and related oversight controls, and the adequacy of controls to ensure compliance with OCTA policies and procedures for invoice review.

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 testing OCTA invoicing to RCOC for compliance with agreement terms and evidence of controls, testing cash receipts from RCOC, testing MDC invoices to OCTA for compliance with agreement terms and policy provisions as well as evidence of controls, and reviewing history of the pass-through trip arrangement involving MDC and RCOC, including confirmation that the arrangement is identified in the agreements and approved by the Board of Directors (Board) and that OCTA is being reimbursed for all pass-through trips.

The scope is limited to the RCOC agreement and the MDC agreement. The scope included all OCTA invoices and credit memos charged to the RCOC agreement through August 16, 2023, and all related cash receipts through September 30, 2023. The scope included all MDC invoices charged to the MDC agreement and paid through September 30, 2023.

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.

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.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Cooperative Agreements with Regional Center of Orange County and
My Day Counts
November 14, 2023**

Audit Comments, Recommendations, and Management Responses

RCOC Invoicing, Payments, and Cash Receipts

CTS staff did not investigate and resolve trips disputed by RCOC. Every invoice during the audit period included disputed trips and a short pay by RCOC. In addition, invoicing and payment time requirements outlined in the RCOC agreement are often not met. Finally, recording and monitoring of receivables should be improved.

During the audit period, OCTA did not have a process in place to obtain and review the trips disputed by RCOC for validity. Instead, OCTA prepared credit memos for trips disputed and short-paid by RCOC. OCTA staff had also not prepared credits memos for 17 invoices, dating back to October 2021, even though it appears OCTA has accepted the disputed trips and short pay by RCOC. Out of 43 invoices tested, OCTA did not send 35 invoices (82 percent) within 45 days after the billing period-end, and RCOC did not pay 26 (61 percent) within 45 days of invoice receipt, as required.

RCOC often submitted payments covering multiple invoices and AR staff did not always apply these payments to the specific invoices in a timely manner due to lack of payment information from RCOC. While AR made a couple of adjustments in August 2023 to correct the application of payments based on input from CTS, a few errors remain. There is also no process to monitor and collect unpaid invoices from RCOC.

Recommendation 1:

Internal Audit recommends CTS implement procedures to investigate and take appropriate action to address RCOC disputed trips and to ensure timely submission of invoices and receipt of payments. CTS should also submit credit memos in a timely manner.

Internal Audit recommends AR staff communicate with RCOC to obtain sufficient information to ensure payments are accurately recorded, correct remaining errors, and input a due date on invoices consistent with requirements. Staff should also establish a process to monitor and collect overdue balances.

Management Response (CTS and Accounting):

Management agrees with the recommendations. AR staff will communicate directly with RCOC to obtain sufficient information to ensure payments are accurately recorded. AR staff will communicate with RCOC to correct the remaining errors and ensure due dates are included on all future invoices. AR staff has an established process of monitoring overdue AR balances which includes notifying project managers of outstanding invoices.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Cooperative Agreements with Regional Center of Orange County and
My Day Counts
November 14, 2023**

AR staff will document this process and ensure project managers are aware of the process that needs to be followed to ensure payments are collected in a timely manner.

CTS staff reviewed RCOC billing procedures in March 2023, and identified areas of improvement. Prior to March 2023, an invoice and supporting trip data were sent to RCOC simultaneously. RCOC would reconcile the data and issue payment, which was often less than the invoiced amount due to trips disputed by RCOC for which payment was not rendered. On March 21, 2023, CTS staff issued notification via email to RCOC that the billing procedures would be revised to the following:

1. OCTA will submit billable trip data to RCOC
2. RCOC will confirm and reconcile the trip data
3. RCOC notify OCTA of the eligible and ineligible trips
4. OCTA will acknowledge receipt of RCOC's reconciliation and data confirmation
5. OCTA will then submit an official invoice based on confirmed eligible trips to RCOC for payment
6. RCOC will remit payment on invoices

The intent of CTS staff's notification to RCOC was to eliminate the need for credit memos, as both parties would review and agree to the reconciled trip data and the invoice total. Secondly, it would allow OCTA the opportunity to investigate trips deemed ineligible by RCOC and provide supporting documentation and/or justification to support payment of those disputed trips in advance of remittance of payment by RCOC. When the results of the disputed trips review have been agreed upon by both parties, OCTA will include a report as an attachment to the invoice to formally document the review and evidence trips OCTA accepts as disputed.

These new billing procedures were implemented by staff beginning with the March 2023 invoice, and each step of the invoice process is tracked in a log maintained by CTS to ensure timely submission of invoice requests.

Pass-Through Payment Arrangement

The current arrangement for OCTA to pass-through payments to MDC on behalf of RCOC is not outlined in the agreement with RCOC and was processed by staff without Board approval. In addition, RCOC regularly disputes trips and provides a short pay to OCTA, resulting in a loss to OCTA.

While the MDC agreement obligates OCTA to pay a pass-through trip fee on RCOC's behalf, the RCOC agreement does not include a provision requiring reimbursement to OCTA for these pass-through trips. In practice, MDC provides trips to OC ACCESS-eligible riders and OCTA pays a per-trip subsidy of \$16.76. For the trips that are to/from an RCOC-sponsored program, OCTA pays an additional \$6.31 per trip

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Cooperative Agreements with Regional Center of Orange County and
My Day Counts
November 14, 2023**

subsidy and requests RCOC reimbursement. For the trips that qualify for both the OCTA subsidy and the RCOC pass-through, MDC's reimbursements cover 99 percent of the entire cost of the trip, estimated to be \$23.26 by MDC.

The pass-through arrangement with MDC was established in 2015 through a zero-dollar amendment to the prior contract without requesting approval for the arrangement. While no increase to the contract maximum obligation was requested, the amendment effectively obligated OCTA to pay additional amounts. Currently, the cost to pay MDC for the RCOC-qualified trips amounts to approximately \$25,000 to \$30,000 per month. Rather than request a change to the contract maximum obligation, which would require Board approval, staff incorporated the increased obligation into the following amendment to exercise the option term without explaining the pass-through arrangement.

RCOC consistently disputes multiple pass-through trips and short pays OCTA. For the period August 2021 through October 2022, OCTA paid approximately \$39,000 more to MDC than it collected from RCOC for the pass-through arrangement. The MDC agreement does not include provision for MDC to reimburse OCTA for disputed trips and short pays by RCOC.

Recommendation 2:

Internal Audit recommends management reconsider the current arrangement. If the arrangement is continued, management should amend contract to obligate RCOC to reimburse amounts to OCTA, ensure disputed amounts are charged to or collected from MDC, and include evaluation of future per-trip subsidy amounts in light of the additional pass-through payments to MDC. In addition, management should seek Board approval of such arrangements going forward.

Management should also consider recovering from MDC amounts paid by OCTA for which RCOC reimbursement was not obtained.

Management Response (CTS):

Management agrees with the recommendation. At the time of the amendment for the MDC pass-through arrangement, management believed the change to represent a zero-dollar amendment. Beginning with the July 2023 invoice, CTS staff has revised billing procedures with respect to MDC pass-through trips where OCTA will not remit payment to MDC for pass-through trips until the data is reviewed by RCOC. Any pass-through trips disputed by RCOC will be deducted from the MDC pass-through invoice, at which point OCTA will remit payment. These billing procedures will continue throughout the term of the existing agreement.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Cooperative Agreements with Regional Center of Orange County and
My Day Counts
November 14, 2023**

In review of contractual language, staff has determined that there is no support to recover amounts OCTA paid to MDC which were not reimbursed by RCOC. However, as noted above, the updated billing procedures effective July 2023 will prevent future short-pay situations.

The current agreement with MDC will expire on June 30, 2024, and staff is considering discontinuation of the pass-through arrangement in the next agreement as well as the per-trip subsidy amount in coordination with Financial Planning and Analysis. If staff continues the pass-through arrangement in the upcoming MDC agreement, staff will include language in the next RCOC agreement, with an anticipated start of July 1, 2024, to require reimbursement for pass-through trips. The new agreement will be subject to Board approval.

Invoice Controls

Four invoices from MDC were not properly authorized for payment. OCTA policies require that all payments be properly authorized, and that Accounts Payable (AP) staff verify signature authority; however, the OCTA employee's signature authority of \$75,000 was insufficient to approve four invoices over that limit.

Payments pursuant to a contract should be charged to the contract; however, one invoice from MDC relating to the prior agreement was charged to the current agreement, and two invoices that should have been charged to the current agreement, were instead charged to the prior agreement. OCTA invoices to RCOC were incorrectly charged to the prior agreement for the first seven months of the agreement, and no formal invoices were created for the next 17 months even though RCOC was aware of the amounts due and made payments. Where invoices were charged to the wrong agreements, project staff had referenced the agreement numbers.

Additionally, OCTA paid several MDC invoices before fully reconciling the trips and later requested corrections through credit memos or credits in subsequent invoices.

Recommendation 3:

Internal Audit recommends that AP ensure that invoices are properly authorized and verify that invoices are applied to the current agreement. AR staff should ensure that OCTA invoices are created against the current agreement. Finally, CTS should review invoices from MDC and reconcile trips before submitting invoices for payment.

Management Response (Accounting and CTS):

Management agrees with the recommendation. Accounting management will provide refresher training to AP staff on the requirements of the Accounts Payable Invoice Review

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Cooperative Agreements with Regional Center of Orange County and
My Day Counts
November 14, 2023**

Policy to ensure all requirements are being met, including that invoices are processed with the correct signature authority and are applied to active agreements. Accounting has implemented a system control within the accounts payable software that will prompt a warning when an invoice is posted to an expired agreement, which will help to reduce the chance of this error in the future. Going forward AR staff will check the agreement number provided by the project manager to ensure invoices are created against the correct agreement.

CTS staff reviewed billing procedures for MDC in April 2022, and noted areas of improvement. Since the start of the agreement, CTS had established a process to reconcile data to ensure trip counts, mileage, revenue hours, and rider eligibility was accurate. As noted in the recommendation, though a reconciliation process was in place, some invoices were paid prior to reconciliation and a credit memo was issued later to address errors found after reconciliation was complete. Beginning May 2022, MDC trip data was fully reconciled by staff prior to remittance of payment, and the process of creating credit memos was discontinued. The invoices referenced in the recommendation above were processed and paid prior to CTS staff's review and revision of billing procedures in April 2022.