



January 8, 2020

To: Finance and Administration Committee

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

Subject: Bus Marketing, Internal Audit Report No. 19-512

Overview

The Internal Audit Department has completed an audit of bus marketing activities. Based on the audit, compliance with procurement and invoice review procedures should be improved and documentation of marketing programs should be enhanced. The Internal Audit Department has made three recommendations to improve compliance and to better document marketing program efforts and effectiveness.

Recommendation

Direct staff to implement three recommendations provided in Bus Marketing, Internal Audit Report No. 19-512.

Background

The Internal Audit Plan for Fiscal Year (FY) 2018-19 included an audit of bus marketing. The audit was identified at the annual risk assessment meeting between the Internal Audit Department (Internal Audit) and the Executive Director of External Affairs.

The Marketing and Customer Engagement Department (Department) is responsible for public communications related to bus operations and marketing of bus and Metrolink promotions and programs, such as the Angels Express service, OC Flex, and mobile ticketing. Bus marketing project managers use a combination of internal support staff and competitively-procured consultants to implement marketing projects and programs.

During FY 2018-19, expenditures for bus marketing communications and promotions were approximately \$1.1 million.

A documented Marketing Plan, including the purpose, goals and objectives, target audience, timeline, and evaluation criteria, for each marketing project/program is required.

Discussion

Evaluation of procurement activities of the Department noted that contracts are frequently issued for short, one to two-year terms, and for values just below the threshold requiring Board of Directors' approval. In addition, multiple contracts with the same firm were issued during overlapping time periods. Internal Audit recommended management revise practices to combine contracts for similar services and issue contracts for recurring services for longer time periods. Management agreed and indicated that practices are being revised, project management training will be obtained, and additional controls over the procurement process have been implemented.

Internal Audit also identified weaknesses in the invoice review process, including the use of pre-typed invoice review checklists. Several invoices lacked required information and/or included costs not covered by the contracts. Internal Audit recommended that management provide training to project managers responsible for invoice review and approval. Management agreed and indicated that a program controls review has been implemented effective November 2019, and project management training will be provided.

Finally, Internal Audit found that compliance with Department procedures for development, execution, and approval of marketing programs was not always documented and evident. Internal Audit recommended written procedures be reviewed with project managers and documentation, including source and support for program evaluation criteria and results, be maintained. Management agreed to update procedures accordingly and to provide training.

Summary

Internal Audit has completed an audit of bus marketing activities and has offered three recommendations for improvement.

Attachment

- A. Bus Marketing, Internal Audit Report No. 19-512

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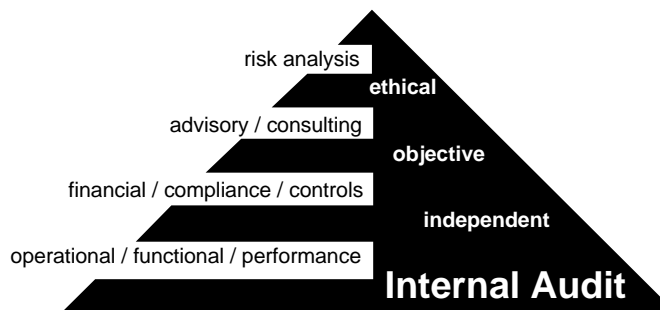
ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Bus Marketing

Internal Audit Report No. 19-512

December 5, 2019



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Conclusion

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed an audit of bus marketing activities. Based on the audit, compliance with procurement policy and invoice review procedures should be improved, and documentation of marketing programs should be expanded. Internal Audit has made three recommendations to improve compliance and to better document marketing program efforts and effectiveness.

Background

The Marketing and Customer Engagement Department (Department) within the External Affairs Division, is responsible for public communications related to bus operations and marketing of bus and Metrolink promotions and/or new programs, such as the Angels Express service, OC Flex, and the implementation of mobile ticketing. Bus marketing staffing within the Department includes a manager, section manager, and three marketing specialists that act as project managers for the various bus marketing programs. Bus marketing project managers use a combination of internal support staff and consultants to implement marketing projects.

During fiscal year (FY) 2018-19, expenditures for bus marketing communications and promotions was approximately \$1.1 million. The budget includes bus book design and printing, diversity outreach efforts, targeted bus route promotions, and promotions specific to the OC Fair Express, OC Flex, Bravo, Mobile Ticketing, and the Summer Youth programs, among others.

Department procedures require a Marketing Plan (Plan) be developed and documented for each marketing program, including the purpose, goals and objectives, target audience, elements, timeline, and evaluation criteria. The procedures include, but are not limited to, approval of the Plan by the Department manager, development and approval of a budget, and periodic traffic reports documenting project status. Finally, projects should include documented evaluation of the results, using criteria and measurements outlined in the Plan.

The Department maintains time-and-expense contracts with several consultants to assist in developing and executing marketing promotions.

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Objectives, Scope, and Methodology

The objectives were to evaluate bus marketing operations and to assess and test controls in place to ensure compliance with procurement and invoice review policies and contract terms.

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 testing a judgmental sample of 3 (out of 12) open contracts, with a bias toward the larger-value contracts, for compliance with selected procurement policies and procedures; evaluation of open contract terms and values; testing a judgmental sample of 40 invoices, with a bias toward including 20 percent of the invoices against each of six contracts, for compliance with invoice review procedures and contract terms; and testing of a judgmental sample of five marketing programs, with a bias toward including different programs/promotions, for compliance with marketing plan policies and procedures.

The scope was limited to bus marketing activities and invoices during FY 2017-18 and 2018-19, and open bus marketing contracts as of May 2019.

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

Procurement Practices Should be Improved

Evaluation of the Department's procurement activities noted that contracts are frequently issued at or below \$250,000 (the maximum level before Board of Director's approval is required) and often for short, one or two-year terms. In addition, multiple contracts with the same firm have been issued during overlapping time periods. In most cases, if only one contract were used to provide all marketing services, the contract maximum would exceed \$250,000.

Recommendation 1:

Management should revise practices to ensure that contracts for similar services are combined and contract terms are set for longer periods when recurring services are sought. Management should train staff and perform monitoring, to ensure procurements are not being designed to fall under approval thresholds.

Management Response:

Management concurs and has begun to implement practices to have longer terms and consolidate future contracts for similar services to support Bus Marketing needs. External consulting expertise will be procured to provide Project Management training and provide updated guidance to staff. Management has additionally implemented an updated and streamlined requisition process with added controls that will ensure procurements are not being designed to fall under approval thresholds.

Invoice Review Practices Should be Improved

Invoice Review Checklists, used to document verification of invoice elements against contract terms, appear to be pre-typed templates that do not represent actual validation of charges.

All invoices were accompanied by Invoice Review Checklists that were completed and approved, indicating that charges were adequately supported and that labor rates and Other Direct Cost (ODC) charges were consistent with contract terms; however, Internal Audit noted several exceptions, as follows:

- Several invoices tested included ODC's that were not covered by the contract; however, the accompanying Invoice Review Checklists indicated that ODC's were "per contract rate schedules".

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- Invoices for labor charges did not identify staff names (or other support to allow for validation of hours) as required by the contract; however, accompanying Invoice Review Checklists indicate “Employee labor hours being invoiced are adequately supported”.
- Invoices that included only ODC’s or only labor were accompanied by Invoice Review Checklists that indicate both ODC’s and labor charges were verified.
- Several invoices lacked required elements, such as a signed certification that the invoice is a true, complete, and correct statement of reimbursable costs, and the relevant contract number.

Recommendation 2:

Management should undergo training to reiterate the responsibilities of those charged with reviewing and approving invoices. Invoice Review Checklists should be blank and completed as invoices are reviewed.

Management Response:

Management agrees and has implemented a Program Controls function for all Marketing and Customer Engagement contracts in November 2019. This new function will ensure thorough and accurate reviews, approvals, and payments of contract invoices. Additionally, external consulting expertise will be procured to provide Project Management training and provide updated guidance to staff.

Compliance with Program Administration Procedures Should be Documented

Discussion with project and Department management, and review of the files for five marketing promotions noted that compliance with all Department procedures for development, execution, and approval of marketing programs is not always evident and documented.

Department procedures outline requirements for each marketing program, including development of a documented Plan, obtaining approval of the Plan, obtaining consultant budget estimates prior to start of work, final art approval, maintenance of traffic reports reflecting project status, and documented evaluation of results. The promotions tested did have written Plans, however, budget estimates and required approvals were not documented. Also, there was no evidence of regular traffic reports prepared to reflect the status of projects. Finally, the source and support of Plan evaluation criteria was not maintained in the files.

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Recommendation 3:

Internal Audit recommends written procedures be reviewed with project managers and management require documented compliance with requirements. In addition, documentation should include the source and support of stated evaluation criteria and related results.

Management Response:

Management concurs. With the assistance of external consulting expertise, Management will evaluate and update the current processes and procedures manual to reflect current needs and work environment to include the source and support of stated evaluation criteria and related results. It is expected that the new processes, procedures, and training will be completed the end of December 2020.