



February 23, 2022

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Facilities Maintenance Operations, Internal Audit Report
No. 21-507

Overview

The Internal Audit Department of the Orange County Transportation Authority has completed an audit of Facilities Maintenance operations. Based on the audit, Facilities Maintenance complies with maintenance requirements of the Facilities Maintenance Plan, with few exceptions; however, the Internal Audit Department recommended the Facilities Maintenance Plan be reviewed and updated periodically, as necessary. In addition, the Internal Audit Department made recommendations to implement a system to track parts and supplies, strengthen controls over invoice review and enforcement of contract compliance, revise bonus eligibility determinations, and enhance procedures over weekly reporting.

Recommendation

Direct staff to implement four recommendations provided in Facilities Maintenance Operations, Internal Audit Report No. 21-507.

Background

The Facilities Maintenance (FM) section reports to the Maintenance department in the Operations division. FM is staffed with one section manager, three section supervisors, and 17 facilities technicians. FM is responsible for both routine and major maintenance of all five bus base facilities, five transportation centers, and two park-and-ride facilities. FM activities include performance of preventative maintenance and repairs on underground storage tanks, fuel dispensers, bus vacuum systems, bus wash systems, air compressors, vehicle lifts, hydraulic pumps, sprinkler systems, fire alarm systems, heating, ventilation and air conditioning systems, emergency power generators, methane detection

systems, overhead garage doors, waste-water clarifiers, plumbing, electrical, elevators, and other items. FM facilities technicians are responsible for processing and/or performing, on average, 15,000 work orders per year.

The primary goal of FM is to ensure that facilities and equipment are maintained in a state of good repair while ensuring compliance with federal, state, and local regulations. FM adheres to the FM Plan (Plan) that defines maintenance schedules for critical equipment with a goal of maintaining 99 percent availability.

An enterprise asset management system, currently Ellipse, is used to schedule and track all required maintenance and repairs and to generate work orders accordingly. The work orders are assigned to the facilities technicians based on their base assignment. As the facilities technicians complete the inspections, they document actions taken, charge time to the work orders, and enter comments. If repairs are required, then an unscheduled work order will be created in Ellipse to address the issue.

FM utilizes vendor agreements to augment its resources and to procure parts and supplies as required. There are approximately 48 active agreements for parts and supplies, as well as specific services, such as electrical, fuel island equipment, fueling systems, underground power and generators, janitorial, and landscaping. FM staff purchase required parts and supplies under Blanket Purchase Orders (BPO) by phone, or in person, using the BPO number. For the past three fiscal years, FM purchased approximately \$310,000 in parts and supplies per year, on average. These parts and supplies are stored across the multiple facility locations and an inventory is not maintained. Invoices are reviewed in detail by the senior business unit analyst in the Maintenance Resource Management section and submitted to management with adequate signing authority for payment authorization.

There are three incentive bonuses included in the Transportation Communications Union/International Association of Machinists and Aerospace Workers (TCU/IAM-AW) collective bargaining agreement (CBA) for facilities technicians. The bonuses are based on criteria related to the availability of equipment, quality control over vendor services, and response time to service requests.

Discussion

There is no system in place to track the acquisition, issuance, inventory location, stock on hand, and disposal of parts and supplies purchased by FM. In addition, storage of parts and supplies is decentralized across all OCTA facilities, and physical access is not always limited to FM personnel. Under this process, the

location of needed parts is not easily identified, and shrinkage would not be detected. Additionally, the costs of parts or supplies assigned to specific work orders is not always accurate because costs of surplus items purchased are assigned to one work order and, when consumed under another work order, are not reflected against that work order. The Internal Audit Department (Internal Audit) recommended management implement a perpetual inventory system to track purchasing activity and maintain inventory of all parts and supplies. Purchasing, storage, issuance, and disposal activities should be centralized and include controls to ensure proper authorization for purchases, physical security of inventory items, and proper assignment of costs to work orders. Management concurred with Internal Audit's recommendation and was aware of the need for a perpetual inventory system to track purchasing activity and maintain inventory of all parts and supplies prior to commencement of the audit. Management had engaged in discussions with the Contracts Administration and Materials Management (CAMM) division to assume responsibility for FM parts and supplies contracts and inventory. Management indicated that Ellipse is not capable of assigning all costs to FM work orders, however, a new system capable of assigning costs by work order is in the process of being implemented.

During invoice testing, Internal Audit identified instances of invoices containing insufficient detail, billings for tests and parts not referenced in the contract, and a lack of supporting documentation for invoiced amounts. Internal Audit tested \$106,188.19 in contractor payments and found 45 percent of these costs were not supported. In addition, ten contracts covered during invoice testing contained provisions for the vendor to mark up the cost of parts and materials sold to, or used in repairs on behalf of, OCTA. Eleven of the 19 invoices tested against these contracts did not include detail required to confirm that mark-up percentages complied with contract terms. Mark-up percentages were also not included in the evaluation of contractor price proposals at the time of selection of the vendor. Internal Audit recommended management enhance its invoice review process to ensure compliance with OCTA's Vendor Payment Policy and contract payment terms. Additionally, Internal Audit suggested vendor mark-ups be discontinued from time-and-expense contracts, and if mark-ups are allowed, that mark-ups be incorporated into the evaluation of costs during the vendor selection process. Management concurred with Internal Audit's recommendation and indicated that invoice review will be enhanced to address the issues noted. Management also indicated they will work with CAMM to develop a solution to address evaluation of vendor mark-ups at the time of vendor selection if mark-ups are allowed.

Testing of facilities technicians' incentive bonuses found that the methodologies used by FM management to determine bonus eligibility do not correspond to the criteria outlined in the CBA between OCTA and the TCU/IAM-AW. Internal Audit

found that some of the bonus eligibility criteria outlined in the CBA relies on information that is not readily available to FM. For each of the bonuses, there is an eligibility calculation performed to determine whether the bonus criteria have been met; however, the methodologies used to determine eligibility are not reflective of the language in the CBA. Internal Audit recommended management ensure that bonus eligibility determinations are in line with the criteria outlined in the CBA. Management agreed and indicated that, due to system limitations, bonus criteria were measured based on the best available data. The bonus incentive Letter of Agreement was removed from the CBA during recent negotiations and the new CBA was approved by the Board of Directors on February 7, 2022.

The current Plan, last updated on March 17, 2016, was not consistent with current Federal Transit Administration (FTA) regulation regarding the conduct of a Facilities Condition Assessment (FCA). The Plan indicates a FCA should be performed every seven years; however, FTA requires the FCA every four years. While the new frequency requirement has been met, the Plan was not updated to reflect the change. Also, there was no documented evidence of the required annual assessment of building structures. Internal Audit recommended management update the Plan on a periodic basis to ensure it is reflective of current regulations and that annual assessments be documented. Management responded that the Plan had been recently revised but was not yet published. Management will ensure periodic reviews and updates to the Plan are performed. Management also concurred with Internal Audit's recommendation to document results of annual assessments going forward.

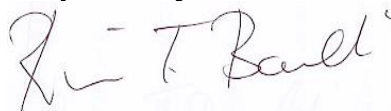
Summary

Internal Audit has completed an audit of FM operations. Four recommendations were offered to improve controls.

Attachment

A. Facilities Maintenance Operations, Internal Audit Report No. 21-507

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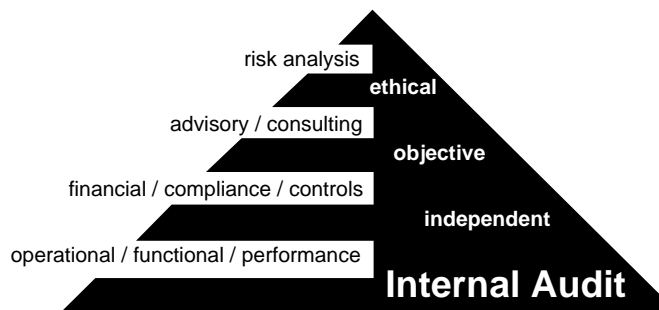
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Facilities Maintenance Operations

Internal Audit Report No. 21-507

February 9, 2022



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Conclusion

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed an audit of OCTA's Facilities Maintenance (FM) operations. Based on the audit, FM complies with maintenance requirements of the FM Plan (Plan), with few exceptions. Internal Audit recommended the Plan be reviewed and updated periodically, as necessary. In addition, Internal Audit made recommendations to implement a system to track parts and supplies, strengthen controls over invoice review and enforcement of contract compliance, revise bonus eligibility determinations, and enhance procedures over weekly reporting.

Background

The audit of FM operations was included on the Internal Audit Plan for Fiscal Year 2020-21, and approved by the OCTA Board of Directors on July 27, 2020. During the annual risk assessment process and audit plan development, discussion with the Director of Maintenance indicated that an audit in this area would be beneficial in advance of the planned implementation of a new enterprise asset management (EAM) system, during which management is evaluating policies, procedures, and processes to improve operations.

FM Section

The FM section reports to the Maintenance Department in the Operations Division. FM is staffed with one section manager, three section supervisors, and 17 facilities technicians. FM is responsible for both routine and major maintenance of all five bus base facilities, five transportation centers, and two park-and-ride facilities. Facilities technicians are responsible for processing and/or performing, on average, 15,000 work orders per year.

The primary goal of FM is to ensure that facilities and equipment are maintained in a state of good repair while ensuring compliance with federal, state, and local regulations. To accomplish these tasks, FM utilizes both in-house staff and licensed contractors. FM activities include performance of preventative maintenance and repairs on underground storage tanks, fuel dispensers, bus vacuum systems, bus wash systems, air compressors, vehicle lifts, hydraulic pumps, sprinkler systems, fire alarm systems, heating, ventilation and air conditioning systems, emergency power generators, methane detection systems, overhead garage doors, waste-water clarifiers, plumbing, electrical, elevators, and other items.

The Plan identifies the maintenance schedules for critical equipment with a goal of maintaining 99 percent availability. The Plan also documents responsibilities related to regulatory compliance, record keeping, and calibration compliance.

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Ellipse EAM System (Ellipse)

Ellipse is used to schedule and track all required maintenance and repairs and to generate work orders, accordingly. Preventative Maintenance and Inspections (PMIs) are populated into Ellipse by a FM planner in the Maintenance Resource Management (MRM) department. Work orders are generated based on required frequency (e.g. daily, weekly, monthly, semi-annually, and annually, as indicated in the Plan). At the beginning of each week, FM supervisors “raise” all the work orders due for that week. This would include seven daily work orders for each daily PMI, and any scheduled work orders (weekly, monthly, or quarterly, etc.) that fall within that one-week period. The work orders are assigned to the facilities technicians based on their base assignment. As the facilities technicians complete the inspections, they document actions taken, charge time to the work orders, and enter comments. If repairs are required, then an unscheduled work order will be created in Ellipse to address the issue.

Facilities technicians charge their time to specific work orders to track labor costs by base, asset category, equipment, etc. In addition to in-house labor costs, vendor costs related to maintenance and repairs are also assigned to specific work orders.

Vendor Support

FM utilizes vendor agreements to augment its resources and to procure parts and supplies as required. There are approximately 48 active agreements for parts and supplies, as well as specific services, such as electrical, fuel island equipment, fueling systems, underground power and generators, janitorial, and landscaping.

Invoices are reviewed in detail by the senior business unit analyst in MRM and submitted to a manager with adequate signing authority for payment authorization. Included in the invoice packages are Verification of Work (VOW) forms that are used to verify vendor services. Each VOW form requires a signature by the vendor and the facilities technician who verified the work. Work order numbers are referenced on the VOW form and/or invoice by the facilities technicians so that costs can be assigned to the correct equipment, location, etc., within Ellipse.

Parts and Supplies

FM staff purchase required parts and supplies under Blanket Purchase Orders (BPOs) with multiple vendors. Parts and supplies can be ordered by phone or in person using the BPO number. For the past three fiscal years, FM has purchased approximately \$310,000 in parts and supplies per year, on average. These parts and supplies are stored across the multiple facility locations and an inventory is not maintained.

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Incentive Bonuses

There are three incentive bonuses included in the Transportation Communications Union/ International Association of Machinists and Aerospace Workers (TCU/IAM-AW) collective bargaining agreement (CBA) for facilities technicians. The bonuses are based on criteria related to the availability of equipment, quality control over vendor services, and response time to service requests. Facilities technicians are eligible for semi-annual bonuses of \$150 each, if "...critical equipment is available 99 percent of the time it is needed for operation and non-critical equipment is available 97 percent of the time it is needed for operation". Another \$150 semi-annual bonus is awarded "...if quality control inspections of vendor-provided services are conducted 100 percent of the time at the employee's assigned facility and 98 percent of the time at assigned transit terminals." In addition, this bonus requires that "Quality control inspections must be recorded in Ellipse." The last bonus, which is also semi-annual, is related to response time and indicates that each facilities technician "...will be eligible for a \$100 incentive bonus if service requests completed within 24 hours are at 98 percent or, for a \$150 incentive bonus, if at 99 percent."

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Objectives, Scope, and Methodology

The objectives were to assess and test controls in place over facilities maintenance operations.

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.
- Risk Assessment
 - OCTA specifies with sufficient clarity to enable the identification and assessment of risks relating to objectives.
- Control Activities
 - OCTA selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
 - OCTA selects and develops general control activities over technology to support the achievement of objectives.
- Information and Communication
 - OCTA obtains or generates and uses relevant, quality information to support the functioning of other components of internal control.

The methodology consisted of testing compliance with the maintenance schedule for critical equipment listed in the Plan. This included 100 percent testing of the maintenance schedules for critical equipment identified in the Plan to determine whether the PMIs were properly scheduled in the Ellipse system. A judgmental sample of these PMIs was tested to verify whether the work orders were performed and complied with the frequency requirements outlined in the Plan. Included in the methodology was an assessment of invoice review procedures and testing a judgmental sample of invoices associated with work orders in Ellipse for compliance with policies and contract provisions. Testing was also performed on a judgmental selection of invoices associated with vendor agreements judgmentally selected. The methodology also included assessing inventory controls over FM parts and supplies, testing of bonus payments for compliance with the collective bargaining agreement and assessing the appropriateness of the bonus eligibility determination, and testing a judgmental selection of weekly management reports for accuracy. Judgmental samples were selected to ensure level coverage during each year.

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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Since the samples were non-statistical, any conclusions are limited to the sample items tested.

The scope was limited to FM operations. Several external agencies, such as the Federal Transit Administration, South Coast Air Quality Management District, Orange County Health Care Agency, Orange County Fire Authority, and the State Water Regional Quality Board, perform inspections and/or monitoring of OCTA operations including FM. As a result, the audit scope did not include an assessment of the completeness or adequacy of the Plan's compliance with external regulations. The scope included testing of calendar years 2019 and 2020 for Plan compliance, invoice review, and weekly reporting. Assessment and testing for bonus payment incentives was limited to calendar year 2020 bonuses as outlined in the CBA between OCTA and TCU/IAM-AW.

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

Inventory Controls

There is no system in place to track the acquisition, issuance, inventory location, stock on hand, and disposal of parts and supplies purchased by FM. In addition, storage of parts and supplies is decentralized across all OCTA facilities, and physical access is not always limited to FM personnel.

FM staff purchases and stores parts and supplies to facilitate the maintenance of infrastructure and equipment at OCTA facilities. In the last three fiscal years, FM expenditures related to parts and supplies were approximately \$310,000 per year. Under current practices, facilities technicians order parts by phone, or in person, from various vendors under BPOs between OCTA and the vendors. Inventory of these parts and supplies is not recorded in any system and parts are not always stored in locations secured from unauthorized access. Under this process, the location of needed parts is not easily identified, and shrinkage would not be detected.

In addition, the costs of parts or supplies assigned to specific work orders is not always accurate because costs of surplus items purchased are assigned to one work order and, when consumed under another work order, are not charged to that work order. When this occurs, the cost of repairs is either overstated or understated.

Recommendation 1:

Internal Audit recommends management implement a perpetual inventory system to track purchasing activity and maintain inventory of all parts and supplies. Purchasing, storage, issuance, and disposal activities should be centralized and include controls to ensure proper authorization for purchases, physical security of inventory items, and proper assignment of costs to work orders.

Management Response:

Management concurs with Internal Audit's recommendation and was aware of the need for a perpetual inventory system to track purchasing activity and maintain inventory of all parts and supplies prior to the audit commencement. Prior to this audit, Maintenance inventoried and identified FM parts and supplies that could be potentially managed by the Materials Management department using the existing centralized inventory system. As a result, Maintenance had engaged in discussions with Materials Management to assume responsibility for FM parts-and-supplies contracts.

Management anticipates resolving the FM parts and supplies issue over several months. As previously noted, the first step was completed by MRM, and FM parts and supplies

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have been inventoried to determine the breadth and feasibility of transferring this activity to a centralized inventory system.

In the next step, FM contracts for parts and supplies will be transferred to the Contracts Administration and Materials Management (CAMM) department. This is currently in progress and is expected to be completed by July 2022.

By February 2023, FM parts and supplies stored outside of Material Management's control will be brought into the inventory system for proper storage and issuance.

Finally, Ellipse is not capable of assigning all costs to FM work orders. In some cases, costs can be charged out appropriately as consumables. For other costs incurred, such as those from purchasing cards, new processes cannot be established until a new EAM system is implemented. Maintenance is currently in the process of implementing a new EAM system capable of properly assigning these types of costs to work orders. The new EAM system is estimated to be completed in mid-2023.

Invoice Review and Contract Compliance

Management should strengthen invoice review controls and enforce contract requirements.

Testing identified instances of invoices containing insufficient detail, billings for tests and parts not referenced in the contract, and a lack of supporting documentation for invoiced amounts. OCTA's Vendor Payment Policy states that "...All payments must be properly authorized and supported by adequate documentation prior to processing...". Testing identified numerous payments to vendors for items billed without any supporting documentation. In some instances, materials were invoiced as a lump sum amount with no description of the materials, quantity, or rates. Internal Audit tested \$106,188.19 in contractor payments, and \$48,269.99, or 45 percent of these costs, were unsupported. Out of 40 invoices tested, 25 lacked supporting documentation (62.5 percent).

In addition, ten contracts covered during invoice testing included provisions for the vendor to mark up the cost of parts and materials sold to, or used in repairs on behalf of, OCTA. Eleven of the 19 invoices tested against these contracts did not include sufficient detail required to confirm that mark-up percentages complied with contract terms. Mark-up percentages, ranging from ten percent to 45 percent, were also not included in the evaluation of contractor price proposals at the time of selection of the vendor. Had mark-ups been included in the evaluation of vendor costs, it may have impacted the outcome of these procurement awards.

Internal Audit also noted several invoices processed for payment that did not comply with contract requirements, such as signed invoice certifications, referencing the contract number on the invoice, and signed VOW forms. Payment terms in OCTA contracts state

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that all invoices must reference the agreement number and be accompanied by a signed certification from the vendor. In addition, most service contracts require a VOW form, signed by the vendor and a facilities technician, to confirm work performed and related labor hours.

Recommendation 2:

Internal Audit recommends the following:

1. Management should enhance its invoice review process to ensure compliance with OCTA's Vendor Payment Policy and contract payment terms. Such enhancements should include procedures requiring that invoices include sufficient detail as to quantity and rates and adequate supporting documentation for parts and materials billed to OCTA. Invoice review checklists should be developed to enhance the review process.
2. Vendor mark-ups should be discontinued from time-and-expense contracts. For contracts related to the purchase of parts and materials only, any items not listed on the price summary sheet should include supporting cost documentation. If mark-ups are to be allowed on parts-and-materials contracts, the proposed mark-ups should be incorporated into the evaluation of costs during the vendor selection process.

Management Response:

1. Management concurs with Internal Audit's recommendation and acknowledges the need for stronger invoice processing procedures that ensure compliance with OCTA's Vendor Payment Policy and individual contract terms. To address the issue, MRM will immediately begin working on enhancing the current invoice cover page to include a checklist that will require acknowledgement of review for sufficient detail as to quantity and rates of costs and justification.
2. Management understands the concern surrounding vendor marks-ups and agrees that improvement is needed in this area. To address the issue of providing sufficient detail and complying with contract terms, the checklist being developed by MRM will improve oversight. In terms of discontinuing vendor mark-ups in time-and-expense contracts, management will work with CAMM to develop a solution that will address the issue of vendor mark-ups as well as incorporating an evaluation of cost, if mark-ups are allowed, during the vendor selection process.

Bonus Payment Calculations

The methodologies used by FM management to determine bonus eligibility for facilities technicians do not correspond to the criteria outlined in the CBA between OCTA and the TCU/IAM-AW. Internal Audit found that some of the bonus eligibility criteria outlined in the CBA relies on information that is not readily available to FM.

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There are three incentive bonuses outlined in the CBA. The bonuses are related to availability of equipment, quality control inspections of vendor services, and timely completion of service requests. For each of the bonuses, there is an eligibility calculation performed to determine whether the bonus criteria have been met; however, the methodologies used to determine eligibility are not reflective of the language in the CBA.

In the monthly calculation to determine whether the equipment availability targets were met, the total time each equipment item is needed for operations is calculated by multiplying 24 (hours) by the number of days in the month for each item. This number is divided into the total hours that the equipment is not available; however, equipment downtime is calculated by summing the total number of labor hours charged to work orders related to fixing the equipment, not necessarily how many hours the equipment wasn't available.

For quality control inspections of vendor services, the CBA states that inspections must be conducted 100 percent of the time at the bus base facilities and 98 percent of the time at the transit centers, and these inspections must be recorded in Ellipse. Internal Audit noted that quality control inspections are not recorded in Ellipse; instead, a VOW form signed by a facilities technician is accepted as proof of a quality control inspection. Further, several vendors included in the calculation do not provide VOW forms; however, their services are included as if a quality control inspection is evidenced.

Another bonus is based on whether 99 percent of service requests are completed within 24 hours; however, the methodology used to determine eligibility for this bonus measures whether labor hours were charged to a work order, entered by FM, within two calendar days of the work order being created. For accuracy, the measurement should be from the time service is requested to when the service is completed.

Recommendation 3:

Internal Audit recommends management ensure that bonus eligibility determinations are in line with the criteria outlined in the CBA.

Management Response:

Management agrees, however, due to current EAM system limitations, bonus criteria were measured based on the best available data. The bonus incentive Letter of Agreement was removed from the CBA during recent negotiations. The new CBA was approved by the Board of Directors on February 7, 2022.

Facilities Maintenance Plan

The current Plan, last updated on March 17, 2016, is not consistent with current Federal Transit Administration (FTA) regulations. The Plan requires a Facilities Condition

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Assessment (FCA) be performed every seven years; however, as of October 2016, a FCA is now required to be performed every four years. Although the new FTA requirement has been consistently met, the Plan wasn't updated to reflect the new requirement.

In addition, the Plan requires an annual assessment of the building structures for the purpose of optimizing capital plans for the next five fiscal years; however, there is no evidence that this assessment has been performed.

Recommendation 4:

Internal Audit recommends the following:

1. Management should update the Plan on a periodic basis. The Plan should reflect current laws and regulations and operations at OCTA.
2. Management should document the results of the annual assessments of OCTA building structures.

Management Response:

1. Prior to this audit, the Plan was updated to reflect the current laws and regulations including a FCA be performed every four years. Unfortunately, the review/signature process was not completed, and the policy was not published. It is now being circulated for review/signatures and will be published soon. Management will ensure that the Plan is reviewed and update periodically.
2. Management concurs with Internal Audit's recommendation to document the results of the annual assessments. Although the process was not formally documented, the responsibility of completing site assessments annually was adhered to. FM management is in constant communication with Facilities Engineering capturing the capital needs for OCTA building structures throughout the year. Capital projects identified based on year-round communication and/or site walks are noted by Facilities Engineering and are documented and proposed during the annual budget review. Management is confident that the current practice of communicating throughout the year exceeds the policy requirements. However, going forward, management will ensure that capital needs assessments are formally documented beginning with the annual assessment from 2021.