



February 26, 2020

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Interagency Fare Revenue Agreements, Internal Audit Report No. 20-505

Overview

The Internal Audit Department of the Orange County Transportation Authority has completed an audit of interagency fare revenue agreements with the Southern California Regional Rail Authority and the Los Angeles-San Diego-San Luis Obispo Rail Corridor Agency. Based on the audit, controls in place to ensure collection of revenues in accordance with these agreements are adequate and functioning.

Recommendation

Receive and file Interagency Fare Revenue Agreements, Internal Audit Report No. 20-505, as an information item.

Background

In an effort to improve integration and the free flow of transit riders, the Orange County Transportation Authority (OCTA) maintains cooperative agreements with other area transit agencies. These agreements allow riders to transfer from one system to another without purchasing an additional ticket. For bus-to-bus transfers, the agreements provide for the bus system that collected the fare to retain the fare, eliminating the need for billing between the agencies. For transfers of Metrolink or Amtrak riders to the OCTA bus system, OCTA maintains interagency fare revenue agreements with the Southern California Regional Rail Authority (SCRRA) and the Los Angeles-San Diego-San Luis Obispo Rail Corridor Agency (LOSSAN). These interagency fare revenue agreements call for billing and collection of revenues from SCRRA and LOSSAN at established rates. During fiscal year 2018-19, OCTA collected \$448,095 from SCRRA for 332,154 transfers, and \$18,386 from LOSSAN for 13,494 transfers.

Discussion

When a Metrolink or Amtrak passenger boards a connecting OC Bus or iShuttle, the driver visually validates the rail pass and pushes a corresponding button in the GFI Farebox (identifying the passenger as a Metrolink or Amtrak rider, as applicable). The GFI Farebox data is uploaded nightly to a data warehouse, where it can be retrieved for purposes of preparing the invoice. For riders using OC Flex, the driver will visually validate the rail pass and will log the trip on a manually-prepared trip sheet. These trips are later summarized on a spreadsheet and forwarded to the Finance and Administration Division for invoicing.

Based on the audit, controls in place to ensure collection of revenues in accordance with interagency fare agreements are adequate and functioning.

Summary

The Internal Audit Department has completed an audit of interagency fare revenue agreements.

Attachment

A. Interagency Fare Revenue Agreements, Internal Audit Report No. 20-505

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ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Interagency Fare Revenue Agreements

Internal Audit Report No. 20-505

February 5, 2020



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**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
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Conclusion

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed an audit of interagency fare revenue agreements between OCTA and the Southern California Regional Rail Authority (SCRRA) and the Los Angeles-San Diego-San Luis Obispo Rail Corridor Agency (LOSSAN). Based on the audit, controls in place to ensure collection of revenues in accordance with these agreements are adequate and functioning.

Background

In an effort to improve integration, and the free flow of transit riders, OCTA maintains cooperative agreements with other area transit agencies. These agreements allow riders to transfer from one system to another without purchasing an additional ticket. For bus-to-bus transfers, the agreements provide for the bus system that collected the fare to retain the fare, eliminating the need for billing between the agencies. However, OCTA maintains interagency fare revenue agreements with SCRRA and LOSSAN, which govern transfers between Metrolink or Amtrak riders to the OCTA bus system. These interagency fare revenue agreements call for the billing and subsequent collection of revenues for these rides. OCTA bus services include OC Bus, OC Flex and iShuttle, which is operated by OCTA. The cost of each trip is based on established rates that are billed by OCTA to the rail agency on a quarterly basis.

When a Metrolink or Amtrak passenger boards a connecting OC Bus or iShuttle, the driver visually validates the rail pass and pushes a corresponding button in the GFI Farebox (identifying the passenger as a Metrolink or Amtrak rider, as applicable). The GFI Farebox data is uploaded nightly to a data warehouse, where it can be retrieved for purposes of preparing an invoice. For riders using OC Flex, the driver will visually validate the rail pass and will log the trip on a manually-prepared trip sheet. These trips are later summarized on a spreadsheet and forwarded to a financial analyst in OCTA's Finance and Administration Division for invoicing.

Each quarter, the financial analyst will retrieve ridership data from the data warehouse and from the OC Flex spreadsheet, and will prepare invoice requests. The revenue administrator, within the Revenue Administration Department, will review the invoice request and supporting documentation and forward it to an accounting specialist for processing. The invoice is prepared and the receivable posted to the general ledger. Receivables are monitored by the accounting specialist and follow-up performed for any amounts outstanding beyond 90 days.

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Objectives, Scope, and Methodology

The objectives were to assess and test controls in place to ensure proper billing and collection of revenues in accordance with interagency fare agreements between OCTA and SCRRA/LOSSAN.

According to generally accepted government auditing standards, 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
 - Management establishes, with Board of Director oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
- Control Activities
 - OCTA selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- Information and Communication
 - OCTA obtains or generates and uses relevant, quality information to support the functioning of internal control.

The methodology consisted of testing to determine whether interagency fare revenues are properly identified, billed, and posted to general ledger receivable, and testing to ensure cash receipts are properly recorded and aging receivables are monitored, and follow-up performed, as necessary.

The scope was limited to Interagency Fare Revenue Agreement Nos. C-1-2502 and C-6-1239, with SCRRA and LOSSAN, respectively, and all amendments to the agreements. The scope included all quarterly invoices prepared during the period July 2017 through June 2019, and all payments from SCRRA and LOSSAN during the period July 2017 through June 2019.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. 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.