



**Orange County Transportation Authority  
Employer Audit**

**Report Date: June 6, 2024**

**Internal Audit Department**

**OCERS Internal Audit  
Orange County Transportation Authority  
Employer Audit  
June 6, 2024**

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## Audit Objective and Scope

The objective of this audit was to provide an independent review of the completeness and accuracy of Orange County Transportation Authority (OCTA) payroll transmittal data. This includes, but is not limited to, the controls OCTA and OCERS management have in place over the payroll transmittals.

The scope of the audit included OCTA’s payroll data submitted to OCERS between January 2022 and December 2023 on a sample basis.

The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.

## Conclusion / Executive Summary

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| <b>Opinion: <i>Opportunities for Improvement</i></b> |
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Overall, Internal Audit found the controls at OCTA to be operating and designed effectively to help ensure accurate and complete payroll transmittals. Internal Audit did identify an opportunity for OCTA to correct payroll records related to one specific premium pay item and to improve its controls related to compliance with OCERS *Membership Eligibility Requirements Policy*. For further detail of the below observations please see page three.

|  |   |
|--|---|
| <p style="color: red; margin: 0;"><b>Priority Observations</b></p> <div style="background-color: #4a7ebb; color: white; text-align: center; width: 40px; height: 40px; margin: 10px auto; border-radius: 5px; display: flex; align-items: center; justify-content: center;">0</div> <p style="color: orange; margin: 10px 0;"><b>Important Observations</b></p> <div style="background-color: #4a7ebb; color: white; text-align: center; width: 40px; height: 40px; margin: 10px auto; border-radius: 5px; display: flex; align-items: center; justify-content: center;">2</div> | <p style="color: red; margin: 0;"><b>Priority Observations</b></p> <p style="margin: 10px 0;"><b>None</b></p> <p style="color: orange; margin: 10px 0;"><b>Important Observations</b></p> <ol style="list-style-type: none"> <li>1. <b>In three of our 60 sample transactions, OCTA over-collected contributions on a non-pensionable pay item (e.g., VAN pay, or van pool incentive pay).</b></li> <br/> <li>2. <b>OCTA does not determine hours worked by Extra-Help and rehired retirees based on a fiscal year or calendar year in accordance with OCERS Membership Eligibility Requirements Policy (Policy) for determining membership eligibility.</b></li> </ol> |
|--|---|

Internal Audit sampled 60 payroll transactions from OCTA’s approximately 65,000 payroll transactions during our audit scope:

- Internal Audit reviewed, on a sample basis, OCTA’s support documentation for the pensionable pay reported in its payroll transmittals to OCERS.
- Verified that base pay reported by OCTA through payroll transmittals matched OCTA human resource records and publicly available pay schedules for completeness and accuracy.
- Recalculated contributions collected from OCTA to ensure that contributions were paid according to Segal contribution rates as approved by the OCERS’ Board.
- Reconciled OCTA employee headcount from the payroll system against OCERS annual actuarial extract of members.
- Reviewed Member Affidavits for completeness.
- Reviewed OCTA’s controls in place to ensure its compliance with OCERS’ Board Membership Eligibility Requirements Policy.

### **Background**

OCTA serves Orange County residents and commuters by providing countywide bus and paratransit service, Metrolink commuter rail service, freeway improvements, street and road improvements, the 91 Express Lanes, motorist aid services, and taxi program regulation.

OCTA and its employees contributed approximately \$42 million and \$43 million to OCERS for the years ended December 31, 2022, and December 31, 2023, respectively. It has 1,262 active members. An audit of OCTA was last presented to the Audit Committee on December 17, 2018.

#### **Copies to OCERS:**

|            |                         |
|------------|-------------------------|
| S. Delaney | J. Lamberson            |
| S. Jenike  | S. Ardeleanu            |
| M. Murphy  | Audit Committee Members |
| B. Shott   |                         |
| M. Serpa   |                         |

#### **Copies to Employer:**

A. Oftelie, Chief Financial Officer  
 J. Sutter, Executive Director of Internal Audit  
 M. McJilton, Executive Director of People and Community Engagement  
 C. Finona, Payroll Manager  
 B. Masseli, Benefits Manager

| Observations   | Action Plan / Responsible Party / Completion Date   |
|--|---|
| <b>Important Observations</b>  |   |
| <p><b>1. In three of our 60 sample transactions, OCTA over-collected contributions on a non-pensionable pay item (e.g., VAN pay, or van pool incentive pay).</b></p> <p>In June 2019, the OCERS Board approved an updated list of all employer pay items, including pensionable attribute determinations for Legacy and PEPRA members based upon conclusions from Member Service’s Pay Item project undertaken several months prior to the Board approval.</p> <p>OCERS Board decision above included a change to OCTA’s vanpool incentive pay item (i.e., VAN pay), changing it from a pensionable pay item to a non-pensionable pay item. Upon making this determination, contributions for this pay item no longer needed to be collected.</p> <p>In our audit sample, OCTA over collected contributions on VAN pay from two employees over three payroll cycles (pay periods #2, #5, and #8 of 2023). The total over-collected contributions were \$43 in employee contributions and \$163 in employer contributions.</p> <p>Internal Audit estimates that approximately \$11,000 in employee contributions and \$37,000 in employer contributions were over collected from all 41 Legacy OCTA members who were paid VAN pay from 2019 to late 2023.</p> | <p><b>Action Plan:</b><br/>Information on over-collected amounts will be gathered and provided to OCTA from OCERS by the end of May. OCERS will handle refunds to retirees, deceased, terminated, and deferred retirees. Once information has been received from OCERS on amounts due to active OCTA employees, OCTA staff will process refunds within one month.</p> <p><b>Responsible Party:</b><br/>Cherie Finona, Payroll Manager, OCTA</p> <p><b>Completion Date:</b><br/>July 1, 2024</p> |

| Observations  | Action Plan / Responsible Party / Completion Date  |
|---|--|
| <p>While the Pay Item project was completed in 2019, OCTA asserts they were not made aware of the final decision regarding the VAN pay item until 2023. OCERS Member Services asserts that there were communications regarding the Pay Item project, however, Member Services lacks evidence of the communication specific to VAN pay in 2019.</p> <p>OCTA corrected the pay item in late 2023, however, employee and employer contributions on the VAN pay item were collected between June 2019 and late 2023 and are in the process of being refunded.</p> <p><b>Risk:</b> Pay items not configured correctly in an employer's payroll system can lead to underpaid or overpaid contributions being collected.</p> |  |
| <p><b>2. OCTA does not determine hours worked by Extra-Help and rehired retirees based on a fiscal year or calendar year in accordance with OCERS Membership Eligibility Requirements Policy (Policy) for determining membership eligibility.</b></p> <p>OCTA employs both Extra-Help and rehired retirees classified as Extra-Help, but they are managed under different criteria. While the required criteria in the Policy guides employers to determine eligibility based on a fiscal or calendar year, OCTA is using a 12-month work period calculated from the date of hire as their basis for measurement.</p>   | <p><b>Action Plan:</b></p> <p>Human Resources will create a new report to monitor Extra-Help and rehired retirees on a calendar year basis. The new report will begin monitoring hours worked from January 1, 2024, for the 2024 calendar year. In addition, Human Resources will investigate creating a new status code for rehired retirees to ensure that their hours do not exceed 960.</p> <p><b>Responsible Party:</b></p> <p>Beatrice Maselli, Benefits Manager, OCTA</p> |

| Observations  | Action Plan / Responsible Party / Completion Date |
|---|---|
| <p><u>Extra-Help</u></p> <p>As per OCERS Policy, membership in OCERS is determined in part by employment classification and hours worked per year. As defined in the Policy, a “year” refers to a fiscal year or a calendar year, whichever is used by the Participating Employer for employment purposes. For Extra-Help employees, 1,600 hours worked in a fiscal or calendar year is the limit set forth in OCERS Policy.</p> <p>OCTA’s HR function has automated the monitoring of hours worked by Extra-Help employees and notifies managers of Extra-Help employees approaching 1,000-hours. However, instead of using a fiscal or calendar year basis, OCTA uses a person’s hire date to measure the hours. While the approach used by OCTA would prevent the Extra-Help employees from exceeding 1,600 hours, the use of the anniversary hire date does not comply with OCERS Policy.</p> <p><u>Extra-Help Rehired Retirees</u></p> <p>OCTA’s Extra-Help and College Intern Policy states that a rehired retiree (someone who is retired from OCTA and collecting retirement benefits from OCERS) may not work more than 960 hours in a fiscal year. OCTA’s HR function has automated the monitoring of hours worked and notifies managers of Extra-Help rehired retirees approaching the 960-hour threshold which is also set forth in OCERS Policy.</p> | <p><b>Completion Date:</b><br/>July 31, 2024</p>  |

| Observations   | Action Plan / Responsible Party / Completion Date |
|--|---|
| <p>However, instead of using a fiscal year as allowed by OCERS Policy, OCTA uses an Extra-Help rehired retiree's anniversary hire date to begin measurement of hours worked for compliance with the 960-hour rule.</p> <p><u>Misclassified rehired-retiree</u></p> <p>We also identified one individual on OCTA HR's Extra-Help report noted above who was not correctly classified as a rehired retiree subject to the 960-hour limit, but instead subject to OCTA's 1,000 hour limit for non-retiree Extra Help.</p> <p><b><u>Risk:</u></b> Incorrectly measuring hours worked could lead to non-compliance with OCERS Policy.</p> |   |



### **Categories of Observations (Control Exceptions):**

#### **Priority Observations:**

These are observation(s) that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise OCERS' reputation or integrity. Management is expected to address Priority Observations brought to its attention immediately.

#### **Important Observations:**

These items are important to the process owner and they do impact the control environment and/or could be observations for improving the efficiency and/or effectiveness of OCERS' operations. Management is expected to address within six to twelve months.

### **Management's Responsibility for Internal Control**

Management has primary responsibility for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls. Control systems shall be continuously evaluated by Management and weaknesses, when detected, must be promptly corrected. The criteria for evaluating an entity's internal control structure are the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework. Our Internal Control Audit enhances and complements, but does not substitute for department management's continuing emphasis on control activities and self-assessment of control risks.

### **Internal Control Limitations**

Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in the department's operating procedures, accounting practices, and compliance with OCERS' policies.

### **Audit Report Opinions:**

**Satisfactory:**

No issues or a limited number of “Important Observations” (typically no more than two Important Observations).

**Opportunities for Improvement:**

Multiple issues classified as “Important Observations” (typically two or more Important Observations) with no more than one “Priority Observation”.

**Inadequate:**

Usually rendered when multiple issues are classified as “Priority” (typically one or more Priority Observations), together with one or more other issues classified as “Important Observations”. The Priority Observations identified have a major effect on processes, plan sponsors/members, financials, and/or regulatory requirements.