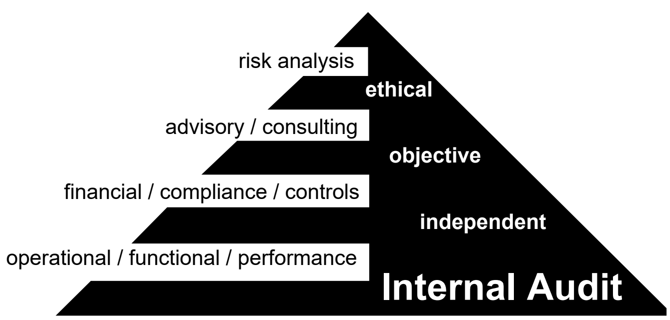
ATTACHMENT A

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT

Employee Compensation

Internal Audit Report No. 25-507

January 7, 2025



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Conclusion

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed an audit of employee compensation. Based on the audit, policies, procedures, and controls over employee compensation actions are in place and operating effectively; however, recommendations have been made to strengthen controls to ensure compliance with the Temporary Salary Increases Policy and to improve documentation supporting incentive calculations and annual determination of the cellular allowance.

Background

Compensation Philosophy

OCTA's objective is to provide competitive wages based on the market value for comparable work. Human Resources (HR) strives to administer the compensation program in a flexible but consistent manner. The purpose of the compensation program is to attract, retain, and motivate employees. Employees are recognized for their contributions through performance-based merit increases.

Salary Structure for Administrative Employees

The salary structure is designed to provide:

- salary grade ranges for classifications based upon the scope and level of responsibility of work performed in comparison to other work performed within OCTA and to the external market; and
- salaries paid to employees that reflect the level of responsibilities of the classification and the performance of the individual.

A Salary Structure Modernization Project (study) was performed in 2023 by Koff & Associates, a Gallagher Company, to ensure that employees are fairly compensated and that compensation practices remain competitive and compliant. Consistent with the results of the study, a new salary structure and salary grade assignments were included in the Personnel and Salary Resolution (PSR) for fiscal year 2024-25.

Wage Rates for Union Employees

Pursuant to the Coach Operator Agreement, coach operators are paid negotiated rates based on steps. Pursuant to the Maintenance Agreement, journeyman mechanics, body and upholstery mechanics, automotive mechanics, service workers, machinists, apprentice mechanics, and mechanic helpers are paid negotiated rates based on steps. Pursuant to the Agreement between OCTA and Transportation Communications Union/International Association of Machinists and Aerospace Workers (TCU/IAM-AW), equipment parts clerks, stock room clerks, facilities technicians, and senior facilities technicians, are paid negotiated rates based on steps.

Salary Adjustment Actions

Under the merit program for administrative employees, total merit increases are limited to the pool amount approved by the Board of Directors (Board) in conjunction with the budget and PSR. Employee salaries are limited to the maximum of the associated salary range, with merit increase amounts exceeding the salary range maximum being paid out to the employee in a lump sum.

Promotions refer to the progression of a current employee to a higher-level position through the recruitment process, whereas in-family reclassification refers to the progression of a current employee through budgeted levels of an established job family in which recruitment is not conducted.

Reclassification is a process and outcome which includes the review, analysis, evaluation, and documentation of changes in a position's job title and/or salary grade level based on a significant change in job duties and/or level of responsibility.

Equity adjustment refers to an adjustment outside the normal merit, reclassification, or promotional process to resolve a salary disparity.

When an employee is assigned duties of a different classification with the same or higher salary grade, the employee's salary may be increased by an amount not to exceed five percent per salary grade for the difference between the employee's current classification and the temporary assignment classification. These temporary assignments must last at least 30 days and will not be paid for a period in excess of 180 days, unless authorized in writing by the Chief Executive Officer (CEO).

As the union employee progresses to the next step, his or her rate is increased in accordance with the union agreement. Movement for coach operators after 12 months and 18 months includes a criterion of no disciplinary action and four or less attendance occurrences in the preceding six months.

Special Performance Awards, Allowances, and Bonuses

Administrative employees can be recognized for exceptional achievement with a non-base building lump sum award. An employee must have received a rating in the top four categories in his or her most recent performance review to qualify for a Special Performance Award (SPA).

Under the Cellular Policy, eligible administrative employees are provided with an allowance for business use of personal cellular devices. In addition, per the PSR, a monthly automobile allowance is provided to executive employees in the same amount as is provided to County of Orange managers at the department head or agency head level, as determined by the Orange County Board of Supervisors.

The Agreement between OCTA and TCU/IAM-AW includes a bonus for equipment parts clerks and stock room clerks as follows: two percent for all hours worked during calendar year 2023 to be paid on or before May 24, 2024; and once percent for all hours worked during calendar year 2024 to be paid on or before February 15, 2025. The Maintenance Agreement includes a one-time signing bonus payment in the sum of $1,250 paid to each active maintenance employee who is on the payroll on the date of ratification and Board approval, as well as productivity incentives.

<u>Compensation Reporting to State Controller's Office</u>

Under California Government Code sections 53891 and 53892, local agencies are required to submit to the California State Controller (Controller) information on annual compensation of elected officials, officers, and employees. The Controller is required under section 12463 to compile, publish, and make publicly available such information on annual compensation on its website. The Information Systems Department is responsible for submitting OCTA's compensation information to the Controller.

Objectives, Scope, and Methodology

The objectives were to assess and test policies, procedures, and controls over employee compensation actions and payments.

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 confirming that the new salary structure was implemented through review of a judgmental sample of 60 administrative employees’ pay rates against the new salary grades, testing a judgmental sample of 80 salary actions for compliance with policies, union agreements, and evidence of controls, testing judgmental samples of 40 SPA and 40 union bonus and incentive payments for compliance with policies, PSR, and/or union agreement, testing a judgmental sample of 40 automobile allowance payments for compliance with the PSR, testing a judgmental sample of 40 cellular allowance payments for compliance with policy, and confirming that OCTA’s 2023 employee compensation is reported on the State Controller’s Office website, as required. The judgmental samples were selected to capture different salary grades, different salary actions across all employee groups, provide even coverage of departments, bonuses, and incentives, provide even coverage during the period, and capture multiple departments. Since the samples were non-statistical, any conclusions are limited to the sample items tested.

The scope is limited to employee compensation activities, including salary adjustment actions, SPA, union agreement bonuses, and automobile and cellular allowances. The scope excluded recruitment and starting salaries, overtime pay, separations, benefits, performance evaluations, and allowances that are reimbursement-based. The scope included salary actions effective from June 2022 through September 2024, SPA and union bonus and incentive payments from June 2022 through September 2024, automobile allowance payments from June 2022 through September 2024, cellular

[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.

allowance payments from September 2023 through September 2024, and reporting of 2023 employee compensation.

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.

Audit Comments, Recommendations, and Management Responses

Compliance with Temporary Increases Policy

There were several instances of non-compliance with the Temporary Salary Increases Policy (Policy). Under the Policy, an employee's salary may be increased up to five percent per salary grade to compensate for taking on the duties of a different position at a higher salary grade. These assignments are limited to 180 days, unless extended through written authorization of the CEO.

One employee was initially given a ten percent temporary increase for a two-salary grade difference; however, after being permanently reclassified to a higher salary grade, and given a seven percent salary increase, the ten percent temporary increase was extended. Per Policy guidelines, the temporary increase should have been reduced to five percent to reflect a one-salary grade difference.

Another employee had several extensions of their temporary increase; however, there is no written authorization from the CEO for the first extension. A third employee was given a temporary increase for taking on responsibilities of a senior employee participating in the 14-month employee rotation program; however, the temporary increase lasted for 17 months, and extension memos approved by the CEO were not obtained. In addition, two other employees were given temporary increases that lasted one to two months beyond 180 days and extension memos approved by the CEO were not obtained.

Recommendation 1:

Internal Audit recommends that management strengthen controls to ensure compliance with the Policy requirements.

Management Response (People and Community Engagement):

The signed documents related to temporary increases were not saved as required, resulting in non-compliance with policy. However, HR staff followed the established routing and signing process for these documents. To address this issue, HR staff responsible for processing temporary increases and extensions have been reminded of the importance of saving all signed memos and Personnel Action Requests in employee files. Additionally, the Compensation team and HR Business Partners will review the employee files of individuals currently on temporary increases to ensure that all required documentation is present.

Documentation Supporting Incentive and Allowance Payments

Documentation supporting maintenance employee productivity incentive calculations and annual review of cellular allowance amount could be improved. One productivity incentive in the maintenance agreement is awarded based on meeting annual average warranty recovery per vehicle thresholds. While staff documented the calculation, supporting documentation for the numbers used in the calculation was not retained.

Also, the Cellular Policy states that the allowance amount will be determined annually; however, there was no documentation on file to support the initial amount implemented in 2023, or the annual determination of allowance amount in 2024.

Recommendation 2:

Internal Audit recommends that documentation supporting numbers used in the productivity incentive calculations and annual determinations of the cellular allowance be retained.

Management Response (Finance and Administration):

Management concurs with Internal Audit's recommendation. Documentation supporting productivity incentive calculations and annual determinations of the warranty recovery amount and the Equipment Assignment report will be saved and retained in the shared departmental drive via the below link:

L:\Camm\CAMM\MATERIALS MANAGEMENT\MAINTENANCE\Incentive Program

Access will be restricted to authorized personnel, and files will be reviewed and updated annually to ensure accuracy and compliance.

Management will retain documentation on file to support the determination of the annual cellular allowance review. Information will be provided by Information Systems annually to the Chief Financial Officer who will make a recommendation to the CEO to determine if a modification to the cellular allowance is warranted. This will occur as part of the budget cycle each year starting in January.