



**September 12, 2018**

**To:** Finance and Administration Committee

**From:** Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director  
Internal Audit

**Subject:** Warranty Administration, Internal Audit Report No. 18-510

### **Overview**

The Internal Audit Department has completed an audit of warranty administration. Based on the audit, controls over identification, processing, and reporting of warranty claims are adequate; however, one recommendation is being made to formalize and document procedures used to derive the value of warranty labor.

### **Recommendation**

Direct staff to implement one recommendation provided in Warranty Administration, Internal Audit Report No. 18-510.

### **Background**

Warranty claims include repairs performed by vendors at no cost to the Orange County Transportation Authority (OCTA), repairs performed by OCTA mechanics and reimbursed by vendors, claims for parts order inventory discrepancies, and claims for defective parts. Warranty Section staff within the Contracts Administration and Materials Management Department are responsible for processing warranty claims for the directly operated bus fleet.

To help ensure parts under warranty are identified, the Collective Bargaining Agreement with the Transportation Communications Union/International Association of Machinists and Aerospace Workers includes an incentive bonus of \$250 per employee, per year for equipment parts and stock room clerks when warranty recoveries total \$3,500 or more per vehicle, per year. An additional \$100 per employee may be earned when recoveries equal \$5,000 or more per vehicle.

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**Discussion**

Labor rates and labor hour estimates used to calculate the value of warranty recoveries is not always consistent or adequately documented. To address this, the Internal Audit Department (Internal Audit) recommended management formalize procedures for developing warranty claim values and maintain documentation to support the labor rates and labor hour estimates used. Management agreed and indicated that a formal process will be developed and implemented.

**Summary**

Internal Audit has completed an audit of warranty administration and offered one recommendation for improvement.

**Attachment**

A. Warranty Administration, Internal Audit Report No. 18-510

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