

ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Audit of Banking Services and Agreement with Bank of the West

Internal Audit Report No. 20-507

October 21, 2020



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**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Audit of Banking Services and Agreement with Bank of the West
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Table of Contents

Conclusion	1
Background	1
Objectives, Scope, and Methodology	4
Audit Comments, Recommendations, and Management Responses	6
Monthly Reviews of Bank Statements and Annual Analysis of Bank Fees	6
Bank of the West Signature Card	6

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Audit of Banking Services and Agreement with Bank of the West
October 21, 2020**

Conclusion

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed an audit of controls related to banking services and Agreement No. C-7-2159 (agreement), with Bank of the West (BofW). Based on the audit, controls, policies, and procedures over banking activities are generally adequate and operating, and BofW is in compliance with the agreement. Two recommendations were offered to further enhance controls related to bank authorized signers and bank statement analyses.

Background

Banking Services

OCTA utilizes BofW for daily commercial banking services, under the agreement. These services include deposits of 91 Express Lanes (91 EL) receipts, credit sales of bus passes, farebox collection deposits, issuance of employee payroll, payments to vendors, and investment activities. OCTA maintains a single concentration account with three zero balance accounts (ZBA) for services related to payroll, accounts payable, and the 91 EL toll revenues. There are also two reserve accounts, the 91 EL Toll Road Revenue Bonds Major Maintenance Reserve Fund and the 91 EL Toll Road Revenue Bonds Operating Reserve Fund. Finally, there is a master custodial account established between OCTA and the Riverside County Transportation Commission designated as the 91 EL Account.

Contract Terms

The agreement, executed on August 31, 2018, is for a five-year period, with an option to extend the agreement for an additional three years. The maximum obligation of the agreement is \$277,000 for the initial five-year term. BofW's fee structure, outlined in the agreement, lists specific pricing for each OCTA account (concentration, ZBAs, reserve, and master custodial) as well as online banking services known as Web Direct.

A BofW Analyzed Business Account Statement (Statement) is utilized to authorize the journal entry to record the banking fees, which are netted against an Earnings Credit, or interest, earned by OCTA during the month. The net fees are automatically deducted by BofW from OCTA's account balance.

Statement Review and Payment Authorization

On a monthly basis, OCTA downloads the BofW Statement for 91 EL operations (91 EL Master Custodial Account and 91 EL Toll Revenues Account). On a quarterly basis, OCTA downloads the BofW Statement for general banking services, which includes the concentration account, Accounts Payable account, Payroll account, Petty Cash account, the 91 EL Toll Road Revenue Bonds Major Maintenance Fund account, and 91 EL Toll

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Audit of Banking Services and Agreement with Bank of the West
October 21, 2020

Road Revenue Bonds Operating Reserve account. The Statements, reflecting all fees applied, are reviewed for reasonableness and approved by authorized personnel.

Bank Reconciliations

Bank reconciliations are performed on all BofW accounts by Accounting and Financial Reporting staff on a monthly basis, and variances between the statements and the general ledger are investigated. OCTA policy requires all reconciliations to be reviewed and approved by the preparer's supervisor and to be completed by the end of the following month.

ACH Payments

Automated Clearing House (ACH) is a United States financial network used for electronic payments and money transfers. Also known as "direct payments," ACH payments are a way to transfer money from one bank account to another without using paper checks, credit card networks, wire transfers, or cash. OCTA utilizes ACH payments for processing payroll payments to employees and members of the Board of Directors (Board) who have elected to receive payment by direct deposit. OCTA has also recently implemented a process to pay vendors and employees/Board members for business reimbursements using ACH payments.

Both processes are similar in nature with controls in place, such as segregation of duties, automated electronic ACH file transmissions, and manual control total checks, to ensure that the payments are accurate. For both processes, notifications are received from BofW when the electronic ACH file is received from OCTA and again when the control total amount is manually submitted into the BofW ACH site matching the ACH file control total.

Authorization and User Access

Banking services, performed on behalf of OCTA, is limited to key personnel based on their job duties. One vehicle of authorization is the BofW Deposit Account Signature Card, which lists the names of OCTA personnel authorized to conduct business on behalf of OCTA. The authorizations granted to the named individuals include authorization to conduct transactions on all current and future accounts, sign checks, withdraw or transfer funds, endorse, and deposit checks. BofW is obliged to honor checks, drafts, or other orders for the payment of money drawn in OCTA's name, including those payable to the individual order of any designated signer.

Web Direct, a service provided by BofW, is an online portal that provides for a range of banking services including ACH payments and wire transfers. The level of user access assigned to each user is based on his or her individual job duties. Access rights to initiate and/or approve wire transfers and ACH payments via the Web Direct portal are limited to five personnel. Each wire transfer or ACH transaction requires two users to perform the

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Audit of Banking Services and Agreement with Bank of the West
October 21, 2020**

transaction, with one user required to set-up or initiate the transfer and another user to approve or release the funds.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Audit of Banking Services and Agreement with Bank of the West
October 21, 2020**

Objectives, Scope, and Methodology

The objectives were to assess and test controls, policies, and procedures related to banking services, and to determine compliance with the agreement between OCTA and BofW.

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 considers the potential for fraud in assessing risks to the achievement 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.
 - OCTA selects and develops general control activities over technology to support the achievement of objectives.
 - OCTA deploys control activities through policies that establish what is expected and procedures that put policies into action.
- Information and Communication
 - OCTA obtains or generates and uses relevant, quality information to support the functioning of internal control.
- Monitoring
 - OCTA evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the Board, as appropriate.

The methodology consisted of testing a judgmental sample of monthly statements for compliance with invoice review and payment authorization policies and procedures, assessing user access rights to the BofW Web Direct system for appropriateness, testing the adequacy and effectiveness of controls over a judgmental sample of ACH payments, testing a judgmental sample of bank reconciliations for compliance with policies and procedures, assessing whether personnel listed on the BofW Deposit Account Signature Card are appropriate and consistent with OCTA policy, and determining whether

¹ See United States 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.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Audit of Banking Services and Agreement with Bank of the West
October 21, 2020**

executive management and members of the Board received communications on the results of the annual Independent Accountant's Report on Applying Agreed-Upon Procedures with Respect to the Treasury Department, Report on Internal Controls, and other required communications.

The scope was limited to compliance with OCTA policies related to banking services and the agreement between OCTA and BofW, and related controls. With respect to banking services related to the 91 EL operations accounts, 91 EL Master Custodial Account, and the 91 EL Toll Revenues Account, which were recently audited in Internal Audit Report No. 19-514, "91 Express Lanes Master Custodial Account and Revenue Allocation", the scope was limited to bank reconciliation and monthly statement testing. Testing of traditional wire transfers and related controls were not included in the scope due to testing performed in the semi-annual Investments: Compliance, Controls, and Reporting audit. The scope included payments for banking services made to BofW, bank reconciliations, and ACH payments from August 2018 to June 2020. For communications to executive management and members of the Board, the scope was limited to communications made for the past two fiscal years ending June 30, 2019. The judgmental samples were selected to provide coverage throughout the period. Since the samples selected were non-statistical, any conclusions are limited to the sample items tested.

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.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Audit of Banking Services and Agreement with Bank of the West
October 21, 2020**

Audit Comments, Recommendations, and Management Responses

Monthly Reviews of Bank Statements and Annual Analysis of Bank Fees

There are no procedures in place requiring a detailed review of the fees charged to OCTA by BofW.

The OCTA Payment Authorization Policy states that individuals authorizing payments are responsible for ensuring that payments pursuant to a contract comply with applicable terms, including unit rates, period of performance, contract balance, and receipt of goods and services.

The current process determines whether the available contract balance is sufficient and whether the total fees are consistent from month to month. Any noticeable variances are investigated on a line by line basis. Staff asserted that, on an annual basis, Accounting and Financial Reporting staff perform a line-by-line review confirming each fee to the agreement; however, these reviews are not documented.

Recommendation 1:

Internal Audit recommends that management develop procedures to document the monthly and annual review process and any additional investigations conducted. All documentation should be maintained as evidence of the review performed.

Management Response:

Management concurs. The Accounting Department will develop a procedure to document the monthly and annual review process and any additional investigation conducted. Documentation will be attached to the payment request and to the journal entry used to record the fees to confirm that the review process was completed as required.

Bank of the West Signature Card

OCTA did not update the BofW Signature Card (signature card) in a timely manner. The signature card lists the names of OCTA personnel authorized to conduct business on behalf of OCTA. The authorizations granted to the named individuals include authorization to conduct transactions on all current and future accounts, sign checks, withdraw or transfer funds, endorse, and deposit checks. Per the signature card, BofW is obliged to honor checks, drafts, or other orders for the payment of money drawn in OCTA's name, including those payable to the individual order of any designated signer.

The Deputy Chief Executive Officer retired on March 14, 2020; however, the signature card was not updated until April 14, 2020.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Audit of Banking Services and Agreement with Bank of the West
October 21, 2020**

Recommendation 2:

Management should implement a procedure to ensure timely update to the bank signature card to reflect changes in employment status and/or organizational structure. Management should explore implementing controls to further enhance the control environment related to cash withdrawals by authorized personnel.

Management Response:

Management concurs. The Accounting Department will develop a procedure to ensure timely updates to the bank signature card as required. The goal of this procedure will be to ensure the signature card is updated prior to the effective date of the change to the authorized signers.

The Accounting Department will work with BofW on the implementation of tools and/or procedures to improve controls related to cash withdrawals, if available.