



February 3, 2025

To: Executive Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Orange County Transportation Authority Contract Compliance Policies and Procedures

Overview

The Orange County Transportation Authority has established several policies and procedures to ensure contract compliance and minimize the risk of fraudulent activities throughout all stages of the contract lifecycle. This report outlines the key practices and controls that the Orange County Transportation Authority employs during the pre-award, term of contract performance, and post-contract phases, with a focus on internal processes, oversight mechanisms, and auditing functions.

Recommendation

Receive and file as an information item.

Discussion

The Orange County Transportation Authority (OCTA) is committed to maintaining the highest standards of integrity, transparency, and accountability in all aspects of its contracting processes. To ensure effective contract management and minimize the risk of fraudulent activities, OCTA has established a comprehensive framework of policies, procedures, and oversight mechanisms. These practices span the entire lifecycle of each contract, from pre-award through performance and post-contract review.

This report provides an overview of the key practices and controls that OCTA employs during the pre-award, term of contract performance, and post-contract phases. It highlights the robust internal processes, oversight structures, and auditing functions that ensure contracts are executed in compliance with OCTA's policies and contractual obligations. Special attention is given to the role of transparent and competitive procurement, project management, invoice

validation, and the critical role of both internal and external auditing in maintaining the integrity of OCTA's contracting processes.

Through these mechanisms, OCTA ensures that public resources are used efficiently, ethically, and in full compliance with legal and regulatory requirements.

Pre-Award Phase

OCTA has a centralized procurement department called Contracts Administration and Materials Management (CAMM). This department is responsible for overseeing all contracting activities and adheres strictly to Board of Directors (Board)-approved policies and procedures to ensure transparency and fairness. As part of this structure, all contracts, with the exception of real estate contracts, must go through CAMM. Real estate contracts are managed by the Real Property Department within the Capital Programs Division consistent with the Board-approved Real Property Manual, which prescribes the process for all real estate transactions including legal and Board review. This centralized process ensures that no single individual has the discretion to direct or issue a contract independently, promoting accountability and oversight. Contracts are generally awarded through a competitive process, except in cases of sole source contracts which are allowed and follow a prescribed process outlined in the policies and procedures, where the project manager must demonstrate that no other vendor can reasonably perform the required work. An independent review of the project manager's sole source justification is conducted by the Director of CAMM. Furthermore, OCTA staff from the Internal Audit Department applies agreed upon procedures to sole source proposals exceeding \$50,000 to ensure that proposed rates appear fair and reasonable and determine that an independent cost estimate was prepared by the project manager.

For contracts valued over \$5,000, a selection panel is required to ensure multiple stakeholders are involved in the decision-making process. The size of the panel varies, ranging from as few as two people for informal contracts budgeted at \$100,000 or less to as many as six or more for larger contracts. A representative from CAMM is included on every panel, ensuring that procurement processes align with OCTA's standards. To further limit the risk of undue influence, there are strict restrictions on panel composition. Specifically, supervisor-subordinate relationships are not permitted, and no more than two individuals from any single department can be on the same panel. If there are two individuals from the same department on the panel, additional stakeholders will be invited to ensure an unbiased evaluation is conducted. This structure enhances fairness and mitigates potential conflicts of interest.

Additionally, any non-public work contract valued over \$500,000 requires approval by the Board, providing an additional layer of oversight and ensuring that significant commitments undergo rigorous scrutiny. To safeguard financial prudence, OCTA typically structures contracts to be paid on a reimbursement basis or upon the completion of defined milestones, with minimal exceptions for advance payments. This approach ensures that contractors are paid for completed work, reducing the risk of improper disbursement of funds.

Term of Contract Performance Phase

During this phase, each contract is assigned a designated project manager who is responsible for ensuring that the contractor delivers the services outlined in the scope of work. This individual plays a key role in ensuring that all terms and conditions are met throughout the duration of the project. When a contractor submits an invoice for payment, they are required to attest in writing that the work was completed as specified and that the invoice is true and accurate. This written attestation is essential for verifying the validity of the contractor's claims and ensures that payment is only made for work that has been properly completed.

The project manager is tasked with verifying that the work has been satisfactorily completed before recommending any payment. This may involve inspecting the deliverables, confirming milestones, or cross-referencing with other documentation. Depending on the size of the invoice, additional approvals are often required before the invoice can be sent to the Accounts Payable department for processing. In some cases, invoices may need approval from a department manager or even a division executive director to ensure that the expenditure is justified and aligns with the contract's terms.

For particularly large contracts, such as those in the Operations Division (Contracted Fixed Route/OC ACCESS) or Capital Programs Division, additional layers of oversight are implemented. In the case of transit contracts, a dedicated group within the Finance and Administration Division separately reviews each invoice to confirm compliance with the contract's terms and conditions. Similarly, for large Capital Programs Division contracts, the Project Control Department conducts a detailed review of each invoice to ensure that it meets all contractual requirements before payment is authorized.

Once the invoice has passed all internal reviews and approvals, it is sent to Accounts Payable for final processing. The Accounts Payable team conducts a thorough review to ensure that all necessary signatures and approvals have been obtained and that the payment is valid, with available budget funds for disbursement. This comprehensive process ensures that all payments are made in accordance with OCTA's policies, reducing the risk of errors and ensuring financial accountability.

Post-Contract Phase

During the post-contract phase, OCTA is subject to thorough oversight to ensure compliance with all contractual obligations, particularly when state or federal funds are involved. For contracts that include state or federal funding, OCTA is subject to audits conducted by the respective agencies. For instance, the Federal Transit Administration performs triennial reviews, which often include scrutiny of individual contracts, as well as an examination of OCTA's procurement policies and procedures. This external oversight is designed to ensure that public funds are used appropriately and that OCTA's practices align with regulatory standards.

In addition to external audits, OCTA has a robust Internal Audit function that provides an additional layer of oversight. The Internal Auditor has the authority to review any function within OCTA at any time, ensuring that all operations, including procurement and contract management, are compliant with organizational policies and legal requirements. The Internal Auditor reports directly to the Board, maintaining independence and transparency in the audit process. Every year, the Internal Auditor develops a risk-based audit plan, which is approved by the Board. This plan focuses on areas of higher risk, with larger contracts often being subject to detailed compliance reviews. Once audits are completed, their findings, including any corrective actions taken by OCTA, are presented to the Board, ensuring full accountability.

Moreover, OCTA enforces its Code of Conduct, which all employees are required to acknowledge. This code outlines the ethical standards and expectations for conduct, including policies related to fraud prevention. To further enhance accountability, OCTA has established an anonymous fraud hotline, managed by the Internal Audit Department, where employees, contractors, or the public can report concerns about fraudulent activities. Each complaint submitted through the hotline is thoroughly investigated, ensuring that OCTA maintains a high standard of integrity and transparency in its operations. These combined internal and external review processes help protect OCTA from fraud, mismanagement, and non-compliance, promoting ongoing improvement and accountability throughout the organization.

Summary

The Orange County Transportation Authority's policies and procedures throughout the pre-award, term of contract performance, and post-contract phases are designed to ensure robust contract compliance and mitigate the risk of fraud. Through a combination of centralized procurement, competitive bidding processes, project management, internal and external audit oversight, and a strong ethics program, OCTA is committed to maintaining integrity and accountability in its contracting processes.

Attachment

None.

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