

ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Warranty Administration

Internal Audit Report No. 25-516

October 13, 2025



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Conclusion

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed an audit of warranty administration. Based on the audit, internal controls over identifying, tracking, and recording of warranty repairs and credits should be improved. Three recommendations have been made to improve methods for deriving labor hours consumed, and labor rates used, in valuing and obtaining reimbursement for warranty work performed, to improve follow-up of outstanding warranty claims, and to revise the method for valuing vendor warranty work performed on the bus video communications system and the fare validation system.

Background

The Warranty Section (Warranty) within the Contracts Administration and Materials Management (CAMP) Department is responsible for processing and reporting all warranty claims related to the directly operated bus fleet. Warranty staff includes a senior section supervisor, a senior warranty coordinator, and a warranty coordinator.

Bus manufacturer warranties include a combination of separate warranties for different components ranging from one to 12 years or more. New and refurbished parts purchased for maintaining the bus fleet may also be covered by warranty for a specified period. Additionally, add-on systems installed on each bus, such as the video communication system and the fare validation system, also carry warranties.

Bus warranty claims include warranty repairs performed by the manufacturer at their expense (vendor call outs) and warranty repairs performed by OCTA mechanics that are billed to, and reimbursed by, the manufacturer (warranty claim recovery). When a defective part is identified and replaced on a series of buses under warranty, it is referred to as a “warranty campaign” (warranty campaign). Parts that are identified as defective or fail during the warranty period (defective inventory parts) are submitted to the manufacturer for replacement and/or credit. With respect to systems installed on buses that are under warranty, such as the video communications system and the fare validation system, when the system is non-operational, OCTA mechanics remove the entire system and send it to the vendor for repair and/or replacement (inventory parts credit).

Warranty recovery values are calculated and reported monthly. Values, by category, for the past three years were as follows:

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Fiscal Year Ended	2025	2024	2023
Vendor Call Outs	\$558,902	\$562,558	\$293,417
Warranty Claim Recovery	\$362,263	\$89,717	\$230,572
Warranty Campaign	\$606,529	\$10,156	\$52,025
Defective Inventory Parts	\$149,084	\$258,487	\$226,452
Inventory Parts Credit	\$1,258,806	\$1,029,944	\$1,034,889
Total	\$2,935,584	\$1,950,862	\$1,837,355

To help ensure that parts under warranty are identified by mechanics, the Maintenance Agreement between OCTA and Teamsters Local 952 (union agreement) includes a productivity incentive bonus of \$200, up to \$500 per employee per year, based on the amount recovered, calculated on a per vehicle basis.

Objectives, Scope, and Methodology

The objectives were to assess the adequacy and effectiveness of internal controls in place for identifying, tracking, and recording of warranty repairs and credits.

The methodology consisted of testing a sample of each type of warranty claim processed to determine whether claims are properly supported and accurately recorded, testing a sample of open claims for timely follow-up, and testing the accuracy of productivity bonus calculations.

The scope included warranty claims processed during the period from July 1, 2023, through June 30, 2025. Judgmental samples were selected to provide coverage of all warranty claim types processed throughout the two-year period. The scope also included a judgmental sample of open warranty claims as of July 31, 2025, with a bias for claims open more than 60 days. Lastly, the scope included productivity incentive calculations for 2023 and 2024. Since the samples were non-statistical, any conclusions are limited to the sample items tested.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. 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.

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Audit Comments, Recommendations, and Management Responses

Value of Warranty Work Performed

Labor rates and hours used to calculate the value of warranty repairs are inconsistent and unsupported.

Claims for warranty repairs performed by OCTA staff did not reflect current labor rates calculated in accordance with agreements with the bus manufacturers. Consequently, these claims were understated for several years, until June 2025, when management updated the rates. In addition, labor hours consumed by performing reimbursable warranty work are not adequately derived and vendor adjustments to the labor hours claimed, and reimbursed, are accepted without dispute. As an example, Internal Audit identified instances where the manufacturer approved payment of two labor hours for a particular repair and, within a month, rejected a claim for the same job, approving payment of only one-half hour of labor. To date, management has not received payment for these short pays by the manufacturer.

Similarly, estimates of amounts saved resulting from warranty repairs performed by vendors are inconsistent and are not supported. Labor rates should be derived and updated annually, and labor hours should be obtained from the vendor performing the repair and/or from a vendor schedule of standard labor hours for repair work.

Recommendation 1:

Internal Audit recommends management develop and document procedures for deriving standard labor hours consumed for both in-house and vendor repair work. Labor rates should be calculated in accordance with agreements with the bus manufacturers and should be updated annually.

Management Response:

Management agrees with the recommendation and will develop procedures for deriving standard labor hours consumed for both in-house and vendor repair work.

Effective June 2025, Warranty staff updated warranty labor rates to align with the formulas in accordance with agreements with the bus manufacturers. Management will also develop procedures for updating warranty labor rates and ensure that rates are calculated on an annual basis.

Lastly, management will maintain a centralized short-pay tracking file to monitor discrepancies and ensure timely follow-up with manufacturers until issues are resolved.

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Follow-Up of Open Claims

Follow-up of outstanding claims is not consistently performed.

Approximately half of the open claims tested lacked evidence of follow-up by staff within 60 days.

Recommendation 2:

Internal Audit recommends management implement procedures for more frequent follow-up of open claims.

Management Response:

Management agrees with the recommendation. Materials Management will implement a written procedure requiring follow-up on all open claims every 30 days, tied to the monthly open-claims report. Claims unresolved after 90 days will be escalated to the materials manager. Documentation of follow-up actions, including emails, phone logs, Return Goods Authorization/Return Material Authorization requests, and vendor meetings, will be retained in claim files to ensure clear evidence of activity.

Performance Bonus Calculations

Amounts used to value warranty work related to bus surveillance video and farebox systems are inflated, impacting calculations used to determine employee incentive bonus amounts.

A productivity bonus is included in the union agreement to award maintenance staff for performing warranty work and for identifying parts under warranty that are repaired or replaced by the respective vendors or bus manufacturers. Warranty staff value the amounts recovered, or saved, resulting from these warranty claims. The amount of the incentive bonus is determined by taking the value of warranty recoveries divided by the average number of vehicles in the directly operated bus fleet, and incentive payments increase as follows:

Annual Warranty Recovered	Award
\$2,500 - \$4,999 per vehicle	\$200
> \$5,000 per vehicle	\$300
> \$6,000 per vehicle	\$400
> \$7,000 per vehicle	\$500

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Internal Audit noted that the value of warranty recoveries is heavily impacted by warranty work performed by vendors on the add-on bus surveillance system and the farebox system. When repair or update to one of these units is required, OCTA maintenance staff removes and replaces the entire unit and sends it in for repair or software update by the manufacturer. Instead of valuing this warranty work based on the actual value of repair by the vendor, Warranty staff uses the purchase price of the entire unit in their calculation of recovery. As a result, the value of warranty work related to these systems makes up over 40 percent of the total of all calculated warranty savings. The inflated repair values, in turn, impact calculation of the incentive bonuses awarded.

Recommendation 3:

Internal Audit recommends management revise the method of valuing warranty work related to add-on systems to better reflect actual savings achieved.

Management Response:

Management agrees with the recommendation and will revise its approach to valuing warranty recoveries related to add-on systems. Full unit replacement costs will no longer be used where repair details are not provided. Recovery will only be counted when itemized repair costs are available or when contracts are amended to require them.