



October 22, 2025

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Warranty Administration, Internal Audit Report No. 25-516

Overview

The Internal Audit Department of the Orange County Transportation Authority 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 of valuing vendor warranty work performed on the bus video communications system and the fare validation system.

Recommendation

Direct staff to implement three recommendations provided in Warranty Administration, Internal Audit Report No. 25-516.

Background

The Warranty Section (Warranty) within the Contracts Administration and Materials Management (CAMM) 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 to maintain the bus fleet may also be covered under 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.

To help ensure that parts under warranty are identified by mechanics, the Maintenance Agreement with 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.

Discussion

Labor rates and hours used to calculate the value of warranty repairs are inconsistent and unsupported. Claims for warranty repairs performed by Orange County Transportation Authority (OCTA) staff did not reflect current labor rates calculated in accordance with agreements with the bus manufacturers. 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. Similarly, estimates of amounts saved resulting from warranty repairs performed by vendors are inconsistent and are not supported. The Internal Audit Department (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 agreed and will develop procedures for deriving standard labor hours consumed for both in-house and vendor repair work.

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. Internal Audit recommends management implement procedures for more frequent follow-up of open claims. Management agreed and will implement a written procedure requiring follow-up of all open claims every 30 days.

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. 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. 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. Internal Audit recommends management revise the method of valuing warranty work related to add-on

systems to better reflect actual savings achieved. Management agreed and will revise its approach to valuing warranty recoveries related to add-on systems.

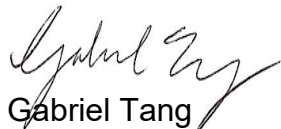
Summary

Internal Audit has completed an audit of warranty administration and has offered three recommendations for improvement.

Attachment

A. Warranty Administration, Internal Audit Report No. 25-516

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