

ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Right-of-Way Maintenance

Internal Audit Report No. 25-515

September 23, 2025



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Conclusion

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed an audit of right-of-way (ROW) maintenance. Based on the audit, controls exist to oversee and monitor maintenance of the operating railroad ROW and other properties owned by OCTA; however, these activities are not currently documented. Internal Audit recommends that oversight and monitoring activities be documented, and contract management, invoice review, and procurement file documentation be improved.

Background

OCTA owns and maintains approximately 47 miles of operating railroad ROW, with 42 miles along the Orange Subdivision and 5.5 miles along the Olive Subdivision. The Orange Subdivision begins in the City of Fullerton at Fullerton Junction and extends 42 miles south to the San Diego County Line. The Olive Subdivision begins in the City of Placentia at Atwood Junction and extends south 5.5 miles, connecting with the Orange Subdivision. The Southern California Regional Rail Authority is responsible for operations of this corridor, which hosts Metrolink and Amtrak passenger trains in addition to the BNSF Railway Company and Union Pacific Railroad Company freight trains. To allow for the safe and efficient operation of passenger and freight service, the operating railroad ROW needs to comply with federal, state, and local regulations regarding weed abatement, fire prevention, and nuisance liability standards. OCTA also owns 13 miles of non-operating ROW, formerly used by the Pacific Electric Railway. Two miles of the Pacific Electric Right-of-Way (PEROW) will be used for the OC Streetcar, when it opens in Spring 2026. Other OCTA-owned properties relate to transit and freeway projects.

Agreement for Maintenance Services (Operating ROW)

OCTA entered into Agreement No. C-1-3684 with Joshua Grading & Excavating, Inc. (Joshua), effective April 21, 2022, for maintenance services on OCTA's operating railroad ROW. The agreement is a time and expense contract with a maximum obligation of \$9,635,364, retention of five percent on labor, and an initial term through April 30, 2027. Amendment No. 1, effective August 28, 2023, revised the agreement number to C-2-2972, modified personnel, added flagmen services, and amended the scope of work to include maintenance services on a portion of the non-operating PEROW that will be used by the OC Streetcar.

Agreement for Property Maintenance and Related Services

OCTA entered into Agreement No. C-3-2283 with Joshua, effective December 22, 2023, for on-call property maintenance and related services on the PEROW and at other properties owned by OCTA. The agreement is a time and expense contract with a maximum obligation of \$2,300,000, retention of ten percent, and a contract term through

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December 30, 2028. Amendment No. 1, effective April 1, 2024, revised the OCTA project manager, added labor classifications, and added Caltrans Labor Surcharges and Equipment Rental Rates. Amendment No. 2, effective July 15, 2024, reduced retention to five percent on labor only, and revised emergency work language to include reimbursement for callouts from Joshua's main office in Phelan, California.

Rail Maintenance of Way Team

The section manager and the Rail Maintenance of Way administrator (collectively the Rail Maintenance of Way team) are out in the field every day. The Rail Maintenance of Way administrator oversees the Joshua crew on the operating railroad ROW. The section manager drives the operating railroad ROW and, about once per week, drives the PEROW, to identify and address areas needing attention. The section manager also responds to concerns raised by Metrolink staff, cities, and residents.

Invoice Review

Joshua invoices are reviewed by Mott MacDonald (MM) consultant staff utilizing a detailed invoice review checklist. MM staff check that the billed hours are supported by Daily Manpower & Equipment Reports, verify labor rates are consistent with the contract schedule, review reimbursement receipts, and check that dates are within the invoice billing period. Invoices are approved by the section manager and the Chief Operating Officer.

Objectives, Scope, and Methodology

The objectives were to assess the adequacy and effectiveness of controls related to maintenance of the railroad ROW and compliance with the contracts with Joshua.

The methodology consisted of testing compliance with selected procurement policies and procedures, observing staff's functional and oversight activities, assessing invoice review controls and testing invoices for compliance with controls, policies, and contract provisions.

The scope was limited to Agreement No. C-2-2972 for maintenance services on the operating ROW and Agreement No. C-3-2283 for on-call property maintenance and related services. The scope included invoices paid on both contracts from inception through June 2025. Scope also included observation of Rail Maintenance of Way team member activities on April 24 and May 7, 2025.

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

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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

Documentation of Daily Monitoring and Oversight Activities

The Rail Maintenance of Way team (team) does not document their daily activities and does not reconcile Daily Manpower & Equipment reports from Joshua to daily reports submitted with monthly invoices.

The team spends most of their time each day in the field reviewing/monitoring activities of Joshua, identifying areas of the ROW requiring maintenance services, and addressing homeless encampments/trespassers, etc. Currently, the team does not record their daily activities and inspections.

Joshua provides Daily Manpower & Equipment Reports, identifying work location, staff on site with hours worked, and equipment used. The team asserted that these reports are reviewed for consistency with daily observations; however, the reports are not retained for validation to invoices received each month.

Recommendation 1:

Internal Audit recommends that the team prepare detailed reports to record daily field activities, and reconcile Daily Manpower & Equipment Reports to monthly invoices to ensure accuracy.

Management Response (Operations):

Management agrees with the recommendation. In May 2025, the team began recording their daily field activities, inspections, and observations for tracking and historic reference.

The contractor's Daily Manpower & Equipment Reports are reviewed by the team daily for accuracy based on their field observations and will be utilized to reconcile the contractor's monthly invoices to ensure accuracy.

Contract Management and Invoice Review

Joshua billed for work performed by companies that are not named subcontractors under the respective contracts. One company, B&D Equipment Rental, Inc. (B&D), charged \$1,257,524 to transport and dispose of over 24,000 tons of contaminated non-hazardous soil from the OC Streetcar project to the Azusa and Chiquita landfills, outside Orange County. B&D is not a named subcontractor under the contract, and contract terms require disposal of refuse at specified dump sites within Orange County. There was also no evidence that B&D's rates and pricing for this work were evaluated for reasonableness. Finally, costs for the work were incorrectly charged to Facilities Engineering, rather than to the OC Streetcar project.

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In addition, a few invoices included charges for overtime rates for foreman and laborer positions or subcontractor other direct costs that were not authorized under the respective contract. Another two invoices included billings by a subcontractor that lacked support detailing hours worked and loads disposed of at rates established in the contract schedule. Joshua also double billed for work performed totaling \$1,433.96.

Finally, Accounts Payable did not withhold retention of \$3,308.80 from one invoice.

Recommendation 2:

Internal Audit recommends management ensure subcontractors are authorized under the contracts, rates are evaluated for reasonableness, and costs are attributed to the appropriate project. Management should also ensure invoice reviews are sufficient to ensure compliance with contract terms. Finally, management should obtain a refund from Joshua for the overbilling and request Accounts Payable staff to correct retention issues.

Management Response (Operations):

Management agrees with the recommendation. OCTA's project manager will ensure only approved subcontractors will be utilized prior to authorization of any work to be performed. The disposal costs have been charged to the appropriate OC Streetcar account. In addition, OCTA's project manager will ensure the accurate use of the invoice review checklist to verify rates, reimbursements, dates within the invoice period, and all information provided in the invoice is compliant with the terms of the contract. Staff reviewed and confirmed the double billing; the contractor has been notified, and the cost will be deducted from contractor's July invoice.

Management Response (Finance and Administration):

Management agrees with the recommendation. The missed retention withholding occurred because the retention terms were not properly interfaced from Ellipse, and this oversight was not identified during the Accounts Payable review process. The Accounts Payable system has since been corrected, and the missed retention amount of \$3,308.80 will be automatically deducted when the next invoice is processed.

Procurement File Documentation

The Contract Administration and Materials Management (CAMM) Department could not find signed impartiality and confidentiality forms for five of the six evaluators on the operating ROW maintenance procurement. In addition, one proposal evaluation form had not been updated to capture final ratings used to score the proposal, and there was a minor formula error in the calculation used to generate cost and price ratings.

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Multiple documents were not in the CAMM contract file for the procurement of the on-call property maintenance and related services contract. These documents, which were subsequently provided by staff, included proposal evaluation forms that had not been updated to reflect final ratings and evaluator comments.

Recommendation 3:

Internal Audit recommends CAMM implement controls to ensure procurement documents are complete and filed in a timely manner.

Management Response (Finance and Administration):

Management agrees with the recommendation. CAMM management will conduct refresher training at the next team meeting to review the evaluation process outlined in the CAMM Procedures Manual, as well as procedures for maintaining the electronic contract file.

In addition, CAMM management will ensure the following actions are taken:

- All signed impartiality and confidentiality forms are properly saved in the electronic file.
- The formulas used to calculate the price rating are reviewed and confirmed during meetings between CAMM management and the contract administrator, as part of the initial proposal evaluation review.
- The complete electronic contract file is uploaded to the designated library at the time of contract execution.