ORANGE COUNTY TRANSPORTATION AUTHORITY
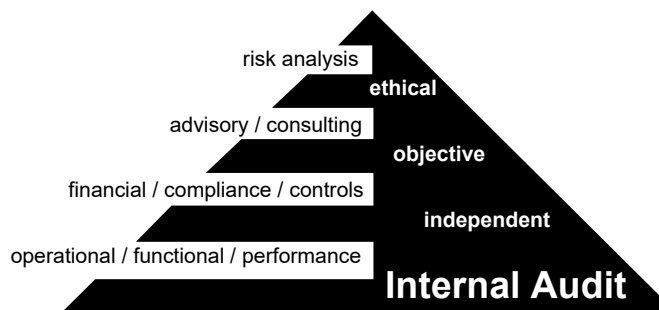# INTERNAL AUDIT DEPARTMENT

College Pass Program

Internal Audit Report No. 24-506

March 11, 2024

Audit Team:	Gabriel Tang, CPA, Principal Internal Auditor
	Janet Sutter, CIA, Executive Director
Distributed to:	Maggie McJilton, Executive Director, People and Community Engagement
	Andrew Oftelie, Chief Financial Officer, Finance and Administration
	Alice Rogan, Stella Lin, Sean Murdock, Sam Kaur, Katie Gagnon, Rima Tan, Nicole Sanchez

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
College Pass Program
March 11, 2024

Table of Contents

Conclusion

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed a review of the College Pass Program (Program). Based on the audit, grant compliance controls are adequate; however, two recommendations have been made to improve contract language, to establish invoice and collection controls, and to develop and enforce controls over paper passes.

Background

In 2017, OCTA initiated a pilot Program with Santa Ana College (SAC) to allow all their students to ride any OC Bus at a very low cost (the fee is part of their semester registration fee) to help students access higher education, employment, and recreational opportunities.

Following the successful launch with SAC in 2017, OCTA staff began working with other community colleges to assess interest and program parameters that would work for their participation. As of fall 2022, all nine Orange County community colleges are participating in the Program, along with the Rancho Santiago Canyon Community College District Continuing Education (RSCCDCE).

To incentivize community colleges to participate, the first year of the Program is funded by the Low Carbon Transit Operations Program (LCTOP) grant, and years two and three are funded by the colleges, or through student fees collected as part of tuition.

The Marketing and Customer Engagement (MCE) Department within the People and Community Engagement (PACE) Division is responsible for administration and oversight of the Program and works with Finance and Administration (F&A) Division staff on invoicing, data warehousing, and grant revenue management.

OCTA has entered into ten agreements with the nine community colleges and the RSCCDCE, to provide bus passes to registered full-time and part-time students. There are currently three agreement cost structures: (1) colleges that choose to pay a flat annual fee, (2) colleges that pay a fee per student based on final enrollment counts each semester, and (3) colleges that are assessed a fee per student boarding, calculated at end the end of each semester.

Colleges upload a refreshed list of student identification numbers, along with student email addresses, to OCTA each day. Students can then generate a mobile ticket by downloading the OC Bus Mobile Ticketing Application (mobile App) to their smartphone, or colleges can encode the student's identification (ID) card, allowing them to swipe their college ID card to board the bus. Not all colleges have implemented the infrastructure for activation of student ID cards. Several of the colleges were provided an inventory of 30-day paper passes for distribution to students during the pandemic for essential travel

needs, and more recently, to distribute to students that do not have a smart phone or in the event the mobile App is not functioning properly.

Boarding activity is captured through the farebox on the bus, as well as through the mobile App. Boarding activity is available in OCTA's data warehouse for performance analysis, reporting and billing purposes. Data recorded includes date, time, location, route, driver ID, vehicle ID, ticket type, etc.

Invoice Process

Colleges that are assessed a flat annual fee are billed twice per year. The Revenue Administration Department (Revenue) generates an invoice request, and the invoice is generated by the Accounts Receivable (AR) Section within F&A.

Colleges that are assessed a fee per student are billed after receipt of the final enrollment count each semester. The project manager forwards enrollment data to Revenue for preparation of the invoice request. The invoice request is sent to AR and an invoice is generated.

Colleges that are assessed a fee per boarding are billed at the end of each semester. Revenue obtains boarding information from the OCTA data warehouse and prepares an invoice request and AR generates the invoice.

Each quarter, Revenue calculates the amount eligible for LCTOP funding and requests a drawdown. Annually, Revenue will prepare and submit the required LCTOP Project Activity Report for the College Pass Program to the California Department of Transportation.

Objectives, Scope, and Methodology

The objectives were to assess and test oversight and compliance controls related to administration of the College Pass Program.

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 Activities
  - OCTA deploys control activities through policies that establish what is expected and procedures that put policies into action.
- Information and Communication
  - OCTA communicates with external parties regarding matters affecting the functioning of internal control.

The methodology consisted of evaluating compliance with key contract terms, testing invoices and remittances for evidence of billing controls and contract compliance, assessing oversight controls, and performing selected tests to identify misuse of passes and reasonableness of enrollment data provided by colleges. Internal Audit also assessed and tested controls over inventory and reconciliation of paper passes distributed to colleges, and tested LCTOP reimbursement drawdowns for accuracy and tested compliance with required annual report submission.

The scope was limited to Agreement No. C-7-1871 with the RSCCDCE, Agreement No. C-7-1833 with SAC, Agreement No. C-8-1790 with Rancho Santiago Canyon College, Agreement No. C-9-1418 with Fullerton College, Agreement No. C-9-1401 with Golden West College, Agreement No. C-0-2423 with Saddleback College, Agreement No. C-0-2696 with Cypress College, Agreement No. C-1-3440 with Irvine Valley College, Agreement No. C-1-3439 with Coastline College, Agreement No. C-2-2529 with Orange Coast College, and all amendments to the agreements. The scope included all invoices paid from July 2022 through October 2023, data warehouse ridership data of student ID numbers with both mobile App activity and paper pass activity during the period January 2023 through October 2023, as well as excessive daily activity during the period August 2023 through October 2023. The scope also included all paper pass distributions during the period January 2020 through October 2023. Lastly, the scope included all quarterly drawdowns from July 2022 through October 2023, and the LCTOP Project Activity Report for fiscal year 2023.

---

[1] See U.S. 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.

Internal Audit 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.

Audit Comments, Recommendations, and Management Responses

Inadequate Agreement Language, Invoicing, and Collection Controls

Agreements do not include sufficient, accurate information outlining requirements and responsibilities of the Program. In addition, enrollment information used to prepare invoices is not validated for reasonableness, invoices are not prepared promptly, and amounts due are not collected timely.

Agreements with colleges include standard language outlining responsibilities and requirements for coding student ID cards, providing detailed statements of registered students, submitting payments within specified timeframes, and submitting certified statements with payments; however, the language is not tailored to address the different cost structures of the colleges, is not reflective of current practices for invoicing and payment receipt, and compliance with the stated requirements is not enforced.

Enrollment data provided by colleges as a basis for preparing invoices is not compared to available data of enrolled students for reasonableness. Testing of 11 invoices issued based on a fee per enrolled student identified discrepancies between the number of enrolled students reported by the college and the number of students registered to utilize the mobile App. Upon inquiry, one college confirmed that enrollment data was overstated by 59 percent, resulting in an overbilling of approximately $92,000. Another college understated enrollment by 32 percent resulting in an underbilling of approximately $6,000. OCTA staff has access to data reflecting the total number of students provided with mobile App access; however, staff do not currently compare those figures to the number reported by the colleges for billing purposes.

Further, the testing noted significant delays in the preparation of invoices and collection of related receivables. Twenty-two of 25 invoices tested were prepared from two to nine months late. In addition, despite the fact that invoices are marked "Due Upon Receipt", and nine of ten agreements include required timelines for colleges to submit payments, testing found eight of 25 invoices were collected between 34 to 159 days after invoice issuance and another 11 invoices, totaling $676,058, remained uncollected at the conclusion of the audit, ranging from 61 days to 357 days after invoice issue date. AR\staff acknowledged there was no system in place to monitor outstanding receivables at the time of the testing period; however, AR staff asserted that a procedure for collecting payment on aging receivables was implemented in December 2023.

Recommendation 1:

Internal Audit recommends agreements be amended to accurately reflect all responsibilities and requirements for Program operation. Agreement language should sufficiently and accurately outline procedures and management should enforce agreement requirements. Management should also develop, document, and implement

procedures for administration of the Program, including procedures for verifying the reasonableness of enrollment data provided by colleges for invoicing purposes and timely preparation of invoices. Management should implement procedures developed in December 2023, to monitor and collect outstanding receivables.

Management Response (PACE):

Management concurs with the recommendations. Since 2017, the pilot Program has grown from one college to all nine Orange County community colleges. Management agrees that the agreements need to be more specific to each college, and procedures need to be formalized to administer the program beyond the pilot phase. Management will review and enhance agreement language by August 31, 2024. In addition, management will ensure the documentation and implementation of specific procedures for each aspect of Program administration and will outline specific responsibility area(s) for Program implementation and oversight by September 30, 2024.

Management Response (F&A):

Management agrees and has implemented new AR procedures to more effectively monitor and collect outstanding receivables.

Inadequate Controls over Paper Passes

The MCE Department has provided several colleges with paper 30-day college bus passes; however, agreements do not address requirements for security, inventory, distribution, or reporting controls. In addition, Internal Audit found some bus passes that were not coded as college passes for purposes of activity tracking, and most of the issued passes were not associated with a student. Only two colleges had submitted distribution reports identifying the students to whom passes were issued, and, at the time of the audit, none of the colleges had instituted inventory and reconciliation controls. Over the last few years, passes valued at approximately $398,000 have been provided to these colleges.

Recommendation 2:

Internal Audit recommends management update agreements to include requirements for security, inventory, distribution, and reporting of paper passes and implement monitoring controls to ensure colleges are complying with the requirements. Management should also strengthen controls to ensure all college bus passes are properly coded in the system.

Management Response:

Management concurs with the recommendation. At the inception of the pilot Program, management did not anticipate the need to distribute paper passes for the program since the preferred method of fare collection is student ID card or the mobile App. However, once it became necessary to provide the colleges with paper passes during the pandemic, implementation of more formal controls for the colleges should have been established.

Management will develop improved controls and a formal procedure for paper pass distribution to ensure proper security, accurate coding, reporting, and reconciliation, and amend agreements to include the procedures.

Management has worked with the colleges that received paper passes to gather reporting for confirmation of reconciliation and validation of the paper passes that were distributed to students. In addition, most of the paper passes that were not distributed to students were accounted for and returned to OCTA. Some of the colleges elected to keep a moderate inventory on hand with safe storage mechanisms in place. As of February 29, 2024, most distributed paper passes with a total worth of $396,382, have been reconciled, returned, or remain in their inventory.