



**February 27, 2013**

**To:** Finance and Administration Committee

**From:** Will Kempton, Chief Executive Officer

**Subject:** Review of Wholesale Pass Sales

### **Overview**

The Internal Audit Department has completed a review of Wholesale Pass Sales operations. Based on this review, the Internal Audit Department has determined that controls in place are generally adequate; however, two recommendations were made to improve security over inventory and to improve follow-up of past due accounts receivable.

### **Recommendation**

Direct staff to implement recommendations provided in the Review of Wholesale Pass Sales, Internal Audit Report No. 13-519.

### **Background**

The purpose of the Orange County Transportation Authority's wholesale pass sales program is to provide convenient points of purchase for bus riders and to expedite the fare collection process on-board the bus. There are approximately 195 locations in Orange County that sell passes to the general public. In addition, there are ten employers, three universities, and 18 colleges enrolled in the program.

Wholesale Pass Sales are handled by the Revenue Section of the Finance and Administration Division and the Marketing and Customer Engagement Department of the External Affairs Division. Revenue Section staff set up new vendors, process orders, maintain inventory, and monitor accounts and Marketing staff develops new pass programs and identifies new locations to sell passes.

**Discussion**

The Internal Audit Department (Internal Audit) found no records of the key inventory or assignment of keys to the primary or working inventory locations of passes. In addition, a physical inventory of passes was last performed over a year ago. Internal Audit recommended that management improve security over the inventory by maintaining records of the total number of keys and assignment of keys that access inventory locations. In addition, Internal Audit recommended that management consider conducting physical inventories on a more frequent basis. Management agreed and indicated that key records have been created and that physical inventories will be conducted semi-annually.

As of October 23, 2012, six accounts reflected past due balances more than 90 days. There was no documentation on file to evidence collection efforts had been performed on four of the six accounts, and the remaining two accounts, with past due balances ranging from 138 to 258 days, evidenced only one follow-up contact. Internal Audit recommended that management regularly review and perform follow-up of past due accounts and that documentation of follow-up efforts be maintained. Management agreed and indicated that all future follow-up efforts will be documented within the pass sales system.

**Summary**

Based on the review, Internal Audit has determined that controls in place are generally adequate; however, two recommendations were made to improve security over inventory and to improve follow-up of past due accounts receivable.

**Attachment**

- A. Review of Wholesale Pass Sales, Internal Audit Report No. 13-519

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# Orange County Transportation Authority Internal Audit Department



## Review of Wholesale Pass Sales

**INTERNAL AUDIT REPORT NO. 13-519**

February 14, 2013



**Internal Audit Team:**

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**CONCLUSION**

The Internal Audit Department (Internal Audit) has completed a review of Wholesale Pass Sales operations. The primary purpose of the review was to evaluate the adequacy of controls, policies, and procedures over wholesale pass sales.

Based on this review, Internal Audit has determined that controls in place are generally adequate; however, two recommendations were made to improve security over inventory and to improve follow-up of past due accounts receivable.

**BACKGROUND**

Wholesale Pass Sales are handled by the Revenue Section of the Finance and Administration Division and the Marketing and Customer Engagement Department (Marketing) of the External Affairs Division. Revenue Section staff set up new vendors, process orders, maintain inventory, and monitor accounts and Marketing staff develop new pass programs and identify new locations to sell passes.

The purpose of the Orange County Transportation Authority's (OCTA) pass sales program is to provide convenient points of purchase for bus riders and to expedite the fare collection process on-board the bus. Riders can purchase daily, monthly, and ACCESS passes from vendors who maintain wholesale accounts with OCTA. In addition, OCTA partners with employers and educational institutions to provide Employer Passes (Epass), University Passes (Upass), and College Passes (Cpass).

There are approximately 195 locations in Orange County that sell passes to the general public. Each pass seller must purchase a minimum of \$1,000 of pre-encoded passes with each order to qualify for the program. Discounts are provided for each \$1,000 purchased and range from 2 percent for \$1,000, to 5 percent for \$4,001 or more. Payment is due within 30 days of receipt of the invoice.

Under the Epass and Upass programs, employers and/or universities are invoiced monthly for each bus boarding using their passes. Cpasses are encoded for a fixed period of either 75 or 120 days and payment is due within 30 days of receipt of the invoice.

The dollar value of passes sold by category over the last two years is as follows:

12-Months Ending:	College Pass	University Pass	Employer Pass	ACCESS Pass	All other Passes	Total
September 2012	\$312,750	\$554,141	\$630,737	\$1,681,864	\$13,767,333	\$16,946,825
September 2011	\$308,455	\$568,799	\$630,497	\$1,690,968	\$13,664,248	\$16,862,967

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**OBJECTIVES, SCOPE, AND METHODOLOGY**

The objective of this review was to evaluate the adequacy of controls, policies, and procedures related to wholesale pass sales. The scope of the review covered the period November 1, 2011 through October 31, 2012. The review methodology included, but was not limited to, the following:

- Interview of the Customer Engagement Section Manager, the Accounting Operations Section Manager, and the Revenue Section Supervisor to gain an understanding of the wholesale pass sales process;
- Review of OCTA Policies and Procedures related to wholesale pass sales;
- Review of the listing of retail locations in Orange County;
- Review of a random sample of ten accounts from the total of 98 active accounts at October 2012, to determine that required account setup documentation was on file;
- Review of the access rights for all six Great Plains (GP) users in the Finance and Administration Division, to determine that access rights are reasonable and appropriate based on job duties;
- Review of Accounts Receivable documentation related to all six accounts that were past due more than 90 days as of October 23, 2012, to determine that follow-up on past due accounts is performed as required by procedures;
- Review of the procedures for write off of past due accounts and review of write off activity for the period November 1, 2011 through October 31, 2012;
- Review of a judgmental sample of 71 pass sales transactions for the week ending September 14, 2012, to verify that supporting invoices agree to total sales posted in the financial system;
- Review of a judgmental sample of six monthly Accounts Receivable Reconciliation Summaries to verify that pass sales transactions are reconciled monthly and reviewed by the Revenue Section Supervisor as required.

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 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**

**Inventory Security**

The primary inventory of passes is maintained in a locked storage room in the Orange administrative building. A small, working supply of passes is also maintained in a cubicle within the Revenue Section, in both a locked storage bin and in an overhead cabinet.

Documentation of the number of keys and assignment of keys to the storage room, as well as the storage bin within the Revenue Section, was not on file. Also, the overhead storage compartment used for working inventory is equipped with a common furniture key.

The last physical inventory of passes was performed in October 2011.

**Recommendation 1:**

To improve security over the inventory, Internal Audit recommends that documentation be maintained to reflect the total number of keys and individuals to whom keys are assigned. Where the total number of keys cannot be determined, the locks should be changed. Common overhead storage compartments should not be used to store inventory.

Management should also consider more frequent physical inventories.

**Management Response:**

Management agrees with the recommendation. Since management was unable to determine the number of keys that were outstanding for the storage room, the door locks have been changed. The section supervisor has also documented the existence and assignment of all keys to the storage room and to the locked storage bin. The overhead cabinet is no longer being used to store pass inventory.

The section supervisor conducted a pass stock inventory on November 27, 2012, and no discrepancies were noted. In the future, physical inventories of pass stock will be conducted on a semiannual basis.

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**Follow-up of Past Due Accounts**

As of October 23, 2012, a total of six accounts reflected past due balances more than 90 days, ranging from \$1,723 to \$4,433. There was no documentation on file to evidence collection efforts had been performed on four of the six accounts that reflected past due balances ranging from 92 to 350 days. The remaining two accounts with past due balances ranging from 138 to 258 days, evidenced only one follow-up contact.

Procedures require that collection efforts be performed on accounts with balances that are over 30 days past due and that efforts continue on a regular basis.

**Recommendation 2:**

Internal Audit recommends that staff regularly review and perform follow-up of past due accounts. Documentation of follow-up efforts should be maintained.

**Management Response:**

Management agrees with the recommendation. Staff will continue to generate and analyze monthly aging schedules, regularly following-up on past due invoices, with the debtor or with the applicable program or project manager. Effective immediately, staff will also document all follow-up efforts in the pass sales system to maintain an audit trail.

As of January 31, 2013, four of the six delinquent accounts noted in the audit have been paid in full, including the two that were outstanding the longest. Staff continues to work with the remaining two vendors, both of which have verbally committed to paying in full. As added protection to OCTA, the Pass Sales policy prohibits additional pass sales to any vendor with an account over 60 days past due.