



October 15, 2010

To: Finance and Administration Committee
From: Will Kempton, Chief Executive Officer
Subject: Fiscal Year 2010-11 Internal Audit Plan, First Quarter Update

Overview

The Orange County Transportation Authority Board of Directors adopted the Orange County Transportation Authority Internal Audit Department Fiscal Year 2010-11 Internal Audit Plan on July 26, 2010. This update is for the first quarter of the fiscal year.

Recommendation

Receive and file the first quarter update to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2010-11 Internal Audit Plan.

Background

The Internal Audit Department (Internal Audit) is an independent appraisal function, the purpose of which is to examine and evaluate the Orange County Transportation Authority's (OCTA) operations and activities to assist management in the discharge of its duties and responsibilities.

Internal Audit performs a wide range of auditing services that include overseeing the annual financial and compliance audits, and conducting operational and contract compliance reviews, internal control assessments, investigations, pre-award price reviews, and Buy America reviews. Audits initiated by entities outside of OCTA are coordinated through Internal Audit.

Discussion

The OCTA Internal Audit Department Fiscal Year (FY) 2010-11 Internal Audit Plan (Plan) (Attachment A) reflects the status of each project. As indicated, numerous projects were completed or are underway. The primary focus of Internal Audit as of September 30, 2010, is coordination of the annual financial statement audit.

In addition to seven audit reports included on the October 15, 2010 Finance and Administration Committee agenda, one additional report was issued during

the quarter. Internal Audit completed a review of progress made on implementing recommendations from a safety audit performed by the American Public Transportation Association (APTA). The review found that OCTA's Health, Safety, and Environmental Compliance (HSEC) Department has made significant progress in implementing 71 of APTA's recommendations. Internal Audit offered a recommendation to ensure accurate reporting of corrective action taken by OCTA departments. Internal Audit also recommended that future APTA safety audit be provided to the Board of Directors.

Excluding the Federal Transit Administration's fiscal year 2010 triennial review of OCTA for the quarter ended September 30, 2010, Internal Audit issued seven audit reports and provided 11 recommendations to improve operational compliance or internal controls.

Internal Audit Initiatives

Fraud Hotline

During the quarter ended September 30, 2010, Internal Audit received 12 complaints through OCTA's Fraud Hotline, www.ethicspoint.com. Two of the reports lacked sufficient information to investigate. Internal Audit requested additional information from the anonymous complainants but none was provided so the reports were closed. The remaining 10 reports were reviewed and investigated. Because none resulted in the identification of fraudulent activity, all have been closed. Internal Audit's performance goal of a 10-day response to all incoming complaints was met for the quarter.

Price Reviews

At the request of the Contracts Administration and Materials Management (CAMM) Department, and consistent with OCTA procurement policy, Internal Audit conducts reviews of prices proposed by architectural and engineering firms and sole source or single bid contracts. During the quarter ended September 30, 2010, Internal Audit initiated four price reviews. At the direction of CAMM, two were cancelled prior to completion.

One of the remaining two price reviews was a sole source contract for an information system upgrade, and the proposed price was found to be fair and reasonable.

The final price review was conducted at the request of the Public Works Department of the City of Anaheim (City) for construction management services for the Santa Ana Freeway/Gene Autry Way High Occupancy Vehicle connector. When the City was notified by the California Department of

Transportation (Caltrans) that it would take up to three months for Caltrans to complete the price review, the City contacted Internal Audit. Internal Audit entered into an agreement with the City consistent with the American Institute of Certified Public Accountant's agreed-upon-procedures standards. The price review was completed within two weeks. Under the agreement with the City, OCTA will recover costs of approximately \$4,100 for performing the price review. Internal Audit estimates that, had the City contracted with a public accounting firm for this work, the City would have incurred costs of approximately \$10,000.

Internal Audit Department Efficiency

Internal Audit measures the efficiency of the department by applying a standard efficiency or productivity ratio:

$$\frac{\text{Audit Project Time (2080 hours available less vacation, sick, holiday, professional education)}}{\text{Audit Project Time + Administrative Time (Hours)}}$$

The ratio measure the amount of time auditors spend on audit projects versus time spent on administrative duties. For FY 2010-11, Internal Audit set a target efficiency of 72 percent. For the quarter ended September 30, 2010, Internal Audit achieved efficiency of 74 percent, exceeding the target by 2 percent.

Internal Audit Department Peer Review

As part of its performance goals for FY 2010-11, Internal Audit sought to close out all findings and recommendations from its February 2010 quality assurance, or peer, review by the end of the calendar year. Internal Audit has satisfactorily implemented all peer review recommendations for the quarter ended September 30, 2010.

Findings and Recommendations Tracking

At the request of the Finance and Administration Committee, unresolved audit recommendations are included with the quarterly updates to the Plan as Attachment B. Internal Audit includes both findings and recommendations generated internally, as well as those provided by regulatory auditors and OCTA's independent financial statement auditors.

Summary

OCTA's Internal Audit Department will continue to implement the Orange County Transportation Authority Fiscal Year 2010-11 Internal Audit Plan and report on a quarterly basis the status.

Attachments

- A. Orange County Transportation Authority Internal Audit Department
FY 2010-11 Internal Audit Plan First Quarter Update
- B. Unresolved Audit Findings and Recommendations (Audit Reports Issued
Through October 15, 2010)

Approved by:



Kathleen M. O'Connell
Executive Director, Internal Audit
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**Orange County Transportation Authority
Internal Audit Department
FY 2010-11 Internal Audit Plan**

Audit Activity	Description	Primary Audit Type	Planned Staff Hours	Staff Hours to Date	Under (Over)	Status (Date to F&A)	External Auditor
Mandatory External Independent Audits							
Annual Financial Audit	Annual financial and compliance audit for fiscal year 2009-10.	Financial	425	99		In Process	
Annual Transportation Development Act Audits	Coordination of legally required annual audits of the recipients of Local Transportation Funds for fiscal year 2009-10.	Compliance	125	6		In Process	
Federal Transportation Administration (FTA) Triennial Review	Coordination of FTA triennial review to be conducted August 3 - 5, 2010.	Compliance	60	43		Complete (10/15/10)	
Orange County Council of Governments (OCCOG) Financial Statement Audit	Management of external audit of OCCOG financial statements and ad-hoc audit assistance.	Financial	20	-		In Process	
Internal Audit Projects							
Risk Assessment and Annual Audit Plan	Annual preparation of the audit plan, quarterly updates to the audit plan, periodic assessment of risk throughout the year.	Risk Assessment	125	52		Ongoing	
Quality Assurance and Self-Assessment	Update of Internal Audit Policies & Procedures. Annual self assessment of Internal Audit's compliance with Government Auditing Standards.	Quality Assurance	80	35		Ongoing	
Fraud Hotline	Investigations of reports of fraud, waste, or abuse.	Fraud Hotline	80	51		Ongoing	
Internal Audits							
<i>Human Resources and Organizational Development</i>							
Safety Monitoring	Completion of review of implementation of American Public Transportation Association (APTA) Safety Review recommendations.	Internal Controls	20	33		Complete (8/19/10)	
<i>Capital Projects</i>							
Grade Separation Projects	Review of contracts for design and preliminary engineering for the Orangethorpe Corridor Railroad Grade Separations. Project Budget is \$575 million and is funded through Measure M2, federal, state, and Proposition 1B Trade Corridors Improvement Fund(s).	Compliance	350	-			

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Interstate 5 Gateway Contracts	Completion of review of a sample of contracts and payments to contractors for the Interstate 5 Gateway Project. Project budget is \$335 million funded through Measure M and Measure M2	Compliance	40	29		Complete (10/15/10)	Wang Accountancy Corp.
Contract Retention	Review of policies, procedures, and practices for the retention and release.	Compliance	175	-			
State Route 57 Improvements	Review of contracts for design and preliminary engineering for the State Route 57 improvements.	Compliance	300	-			
Real Estate and Right-of-Way Administration	Review of right-of-way and other real estate operations and contracts.	Operational	225	250		In Process	
Metrolink Cost Sharing	Financial analysis of Metrolink contractual operating cost allocation. Internal Audit expects assistance on this review from the Internal Audit Department of the Los Angeles County Metropolitan Transportation Authority	Financial	250	-			
Metrolink Service Expansion Program (MSEP)	Review of cooperative agreement(s) with Metrolink for infrastructure improvements related to the Metrolink Service Expansion Program and related project management contracts.	Compliance	300	-			
Buena Park Metrolink Station Closeout Audit	Close-out audit of construction of Metrolink station.	Compliance	15	-			
<i>Transit Operations</i>							
Buy America	Pre-award and post-delivery reviews to ensure vendors and OCTA are in compliance with federal Buy America requirements.	Compliance	50	-			
Contracted and Paratransit Operations	Review to ensure contract stipulations are being complied with and to verify the propriety of payments.	Compliance	350	2			
<i>Government Relations and Intergovernmental Activities</i>							
Grant Close-outs	As-needed financial and compliance audits of grants at close-out to ensure propriety of expenditures.	Compliance	75	-			
<i>Finance and Accounting</i>							
Treasury	Biannual financial and compliance reviews of the treasury function, including investment and bond compliance.	Compliance	175	80		In Process	

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Cost Allocation Plan	Review of OCTA's methodology for, and application of, cost allocation.	Financial	150	76		In Process	
91 Express Lanes Collections	Completion of review of contractual compliance and performance of collections contractor Law Enforcement Services, Inc.	Compliance	30	158		Complete (10-15-10)	
Investment Management & Service Fees	Report finalization of review of services and invoices for investment and debt advisory and management services.	Compliance	25	22		Complete (10-15-10)	
<i>Contracts & Materials</i>							
Price Reviews	Cost and price analyses as required by OCTA procurement policies and procedures.	Price Review	1,000	145		2 Reviews Completed, 2 Cancelled	
Procurement Activities - Proposal Evaluations	Review of policies, procedures, protocols, and best practices for the operation of procurement selection teams.	Operational	200	-			
Bridgestone/Firestone Tire Lease	Completion of review of lease of bus tires.	Compliance	40	168		Complete (10-15-10)	
Maintenance Inventory Management	Review of inventory management policies, procedures, controls, operational efficiency, and analytic tools.	Operational	175	-			
Warranty Administration	Review of internal controls over warrantied equipment.	Internal Control	175	-			
Fuel Controls	Review of controls over dispensing of petroleum products.	Internal Control	50	20		In Process	
<i>Information Systems</i>							
Information Systems Change Management Controls	Review of information systems change management policies, procedures, and controls.	Operational	225	145		In Process	
Payment Card Industry (PCI) Data Securities Standards (DSS) Compliance	Review of OCTA's compliance with PCI DSS, including review and evaluation of annual self-assessment, to ensure protection of credit card data.	Compliance	150	-			
Telecommunications Equipment	Review of telecommunications equipment usage and internal controls.	Internal Control	150	101		In Process	

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Unscheduled Reviews and Special Requests

Unscheduled Reviews and Special Requests	Time allowed for unplanned audits and requests from the Board of Directors and management.	Varies	150	3			
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Monitoring Activities

Measure M Taxpayers Oversight Committee	Coordination of audit activities with the Audit Subcommittee of the Measure M Taxpayers Oversight Committee.	Monitoring	50	1		Ongoing	
Radio Upgrade	Ongoing monitoring of Integrated Transportation Management System upgrade by ACS Transport Solutions, Inc., and EigerTech.	Monitoring	25	2		Ongoing	
Bus Base Inspections & Inventory Testing	Participation on base inspection teams and periodic testing of base inventory records.	Monitoring	40	-		Ongoing	
Subrecipient Monitoring	Assist management in the development and implementation of policies and procedures to ensure compliance with FTA-required subrecipient monitoring.	Monitoring	60	30		In Process	

Follow-up Reviews

Follow-up reviews and reporting	Follow-up on audit findings and recommendations.		250	65		Ongoing	
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Total Audit Project Planned Hours (A) 6,185 1,615

Internal Audit Administration

Board of Directors and Board Committee Meetings			300	59			
Executive Steering Committee and Agenda Meetings			150	7			
Internal Audit Department Staff Meetings			360	15			
Other Administration			1,600	494			

Total Hours (B) 8,595 2,188

Target Efficiency (A/B) 72%

Actual Efficiency (A/B) 74%

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through October 15, 2010)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
6/25/2007	07-031	Deputy Chief Executive Officer	Records Management Assessment	OCTA should develop a plan for the implementation of a comprehensive program to manage records organization-wide. Policies and procedures for the systematic and orderly accumulation and storage of active records should be developed to provide a foundation upon which better records retention and destruction can be controlled.	Sep-10	Audit findings for this assessment have been referred to OCTA's Senior Security Analyst.	O'Connell	A Data Information Classification and Records Management study has been completed to set framework, governance, inventory, and procedures for records management. A Microsoft Sharepoint vendor has been selected and a kick-off meeting will be held the week of October 11, 2011.
6/25/2007	07-031	Deputy Chief Executive Officer	Records Management Assessment	Employee awareness of their roles and responsibilities with regard to records management should be strengthened. A formal training program should be developed to drive greater accountability.	Sep-10	Audit findings for this assessment have been referred to OCTA's Senior Security Analyst.	O'Connell	A Data Information Classification and Records Management study has been completed to set framework, governance, inventory, and procedures for records management. A Microsoft Sharepoint vendor has been selected and a kick-off meeting will be held the week of October 11, 2011.
6/25/2007	07-031	Deputy Chief Executive Officer	Records Management Assessment	OCTA should provide the technological resources necessary to allow consistent, organization-wide records retention, management, and retrieval. Electronic data and mail should be consistently classified, filed, sorted, and purged.	Sep-10	Audit findings for this assessment have been referred to OCTA's Senior Security Analyst.	O'Connell	A Data Information Classification and Records Management study has been completed to set framework, governance, inventory, and procedures for records management. A Microsoft Sharepoint vendor has been selected and a kick-off meeting will be held the week of October 11, 2011.
6/25/2007	07-031	Deputy Chief Executive Officer	Records Management Assessment	The current policy and records retention schedules should be updated to include security, third party, and electronic document considerations.	Sep-10	Audit findings for this assessment have been referred to OCTA's Senior Security Analyst.	O'Connell	A Data Information Classification and Records Management study has been completed to set framework, governance, inventory, and procedures for records management. A Microsoft Sharepoint vendor has been selected and a kick-off meeting will be held the week of October 11, 2011.

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10/27/2007	07-024	Human Resources and Organizational Development	Summary Report of Findings, Health Insurance Portability and Accountability Act (HIPAA) Privacy and Data Security Compliance Assessment	OCTA should finalize and implement HIPAA record retention policies for the Human Resources Department.	Dec-10	Management agrees with the recommendation. We will finalize and implement the HIPAA record retention policies after review with legal counsel. OCTA, under the guidance of the Information Systems (IS) Department manager and Deputy CEO, is in the process of developing an enterprise-wide data retention and classification process, that will ensure that any protected health information (PHI) is properly protected and archived.	Dunning and Aon Consulting (Aon)	Microsoft Sharepoint implementation will be used as solution. See notes above.
10/27/2007	07-024	Human Resources and Organizational Development	Summary Report of Findings, HIPAA Privacy, and Data Security Compliance Assessment	In future negotiations with the unions, OCTA should consider obtaining certification that the unions are in compliance with HIPAA's rules and regulations.	Dec-10	Management agrees with the recommendation. We will address this recommendation with the Employee Relations Department and legal counsel.	Dunning and Aon	Maintenance agreement, due to expire September 30, 2010, is under negotiation and execution.
11/19/2008	08-001A	Information Systems	Payroll Systems Controls Review	Management should develop and implement password administration controls to address weaknesses.	Jan-11	IS staff is recommending that we bind passwords to the Lightweight Directory Access Protocol (LDAP) with our Windows Active Directory, requiring the implementation of Lawson's new security model. The project is currently not scheduled but will be considered in next fiscal year's budget request.	Bonelli and Thompson Cobb Basilio and Associates (TCBA)	OCTA's IS Department is in the midst of a project to upgrade our Windows Server environment to Windows 2007. A major milestone of the project is to upgrade to Microsoft's latest Windows Active Directory. This project is scheduled to be completed by end of July of 2010. Once the Windows Active Directory component of the projects is completed, staff will solicit consulting support to bind complex passwords to LDAP. The project to bind Active Directory to LDAP should be completed by the end of this calendar year.

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11/19/2008	08-001A	Information Systems	Payroll Systems Controls Review	Management should prioritize the development of a comprehensive business continuity plan.	Jan-11	OCTA's business continuity plan will be updated in 2009.	Bonelli and Thompson Cobb Basilio and Associates (TCBA)	The Board of Directors has approved the selection of a vendor to provide real time "warm" site backup to our mission critical applications. OCTA's executive management has selected twelve software applications to be supported by the new "warm" site. The project is currently in the middle of its implementation stage. Equipment has been purchased and installed at the vendor site to house the software and we are in the process of designing and developing the plans to install the 12 applications. The planned schedule is to start installation of the software by mid-year and finish by the end of calendar year 2010.
	08-022	Accounting	2008 Audit of Agreement No. C-1-2069 between OCTA and Parsons Transportation Group for Project Management of the SR-22	GCAP Services, Inc. found that the Accounting Department verification was sufficient. However, it would be significantly improved if Accounting performed additional math checks according to contract terms and compliance. This would serve as an added internal control measure in the event that Project Controls misses an issue or error. Although there is low turnover within the Accounting Department, a written invoice review procedure/checklist should be developed.	Aug-10	A procedure/checklist detailing invoice review expectations has been developed and distributed to staff. Among other things, the procedure includes random mathematical checks and verification of charge rates to ensure contract compliance	O'Connell	Internal Audit has reviewed the checklist developed by the Accounting Department. However, additional review will be conducted with respect to development and project controls by the Orange County Business Council (OCBC) during their Measure M2 Performance Assessment. Internal Audit will review OCBC's recommendations before closing out this finding.
12/17/2009	10-006	Development	Measure M Agreed-Upon Procedures Reports, year ended 06/30/09, Newport Beach	The City of Newport Beach should update its cost allocation process.	Jan-11	The City of Newport Beach concurs and will implement a new cost allocation plan for FY 2009-10. Internal Audit will request update from the City of Newport Beach.	Sutter	Next follow-up in January 2011.

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Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
10/15/2009	10-007	Community Transportation Services	National Transit Database (NTD) Agreed-Upon Procedures	OCTA should require vendor project managements to document supervisory review by signing or initialing the tripsheets prior to forwarding the tripsheets to the OCTA NTD Analyst.	Oct-10	By the December 2009 service change, OCTA's in-house schedule checking lead person will also be required to document their pre-check review by signing or initialing the tripsheets prior to submitting the paperwork to the contracted vendor. After the schedule check assignment has been completed, OCTA will require the contracted vendor's project manager to document their post-check review by signing the completed tripsheets prior to forwarding the paperwork to OCTA. As a last post-check review, the OCTA NTD motor bus analyst will be required to sign or initial the tripsheets after receiving the completed documents from the contractor.	MHM	MHM will test tripsheets again during FY 2009-10 agreed-upon procedures.
11/11/2009	10-019	Treasury	Treasury Department Agreed-Upon Procedures	OCTA should formally document monthly investment manager monitoring reviews.	Sep-10	OCTA concurs with the recommendation. On a go-forward basis, OCTA will work with Sperry Capital to document the monthly investment manager monitoring reviews.	Bonelli / MHM	Internal Audit's Treasury audit is being conducted as of September 2010. Follow-up will occur during the audit.
10/28/2009	10-008	Finance and Administration	Appropriations Limitations Worksheets Agreed-Upon Procedures	OCTA should correct an error in the calculation of the appropriations limitation and seek approval by the Board of Directors. The calculation should undergo a secondary review and approval.	Oct-10	Management concurs with the above recommendation. The responsible section manager will review, on an annual basis, the calculation and document the review with a signature. Additionally, Financial Planning and Administration corrected the OCTA Gann Appropriation Limitation factor during the annual budget process.	MHM	MHM will review the calculation and controls during the FY 2009-10 annual financial audit.
12/21/2009	10-014	Finance and Administration	Annual Transportation Development Act (TDA) Audits for FY 2008-09	OCTA should develop a coordinated approach between the TDA Program Manager and the Accounting Department when preparing the TDA financial reports.	Oct-10	Management concurs with this recommendation and will implement a coordinated approach for reporting TDA financial information on a go forward basis.	MHM	MHM will review the annual financial reports for the TDA during the FY 2009-10 financial audit.
2/5/2010	08-010	Internal Audit	Review of Metrolink Activities	OCTA Internal Audit provided seven recommendations for improvements in Metrolink's internal audit function. Metrolink's Board of Directors will consider the report in March 2010.	Sep-10	Metrolink management concurred with all recommendations and proposed implementing action. Once the matter is reviewed by the Metrolink Board of Directors, OCTA Internal Audit will report outcomes to OCTA's Finance and Administration Committee, as directed.	Bonelli	Follow-up in process at September 30, 2010.

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

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3/5/2010	10-106	Human Resources and Organizational Development	Recruitment and Employment Practices Limited Scope Review	Human Resources management should update and enhance policies and procedures for the recruitment and employment process.	Oct-10	The Human Resources Department has drafted an updated Employment and Staffing Manual outlining the recruitment, selection, and hiring process for review, approval, and publication. It is anticipated that the final approved publication will be available June 2010.	Sutter	Follow-up in process at September 30, 2010.
3/5/2010	10-106	Human Resources and Organizational Development	Recruitment and Employment Practices Limited Scope Review	Internal Audit recommends that Human Resources consider the circumstances under which deviations from policy will be permitted and how the approvals for deviations should be obtained and documented. All information considered in candidate ranking should be documented.	Oct-10	The Human Resources Department has drafted an updated Employment and Staffing Manual outlining the recruitment, selection, and hiring process for review, approval, and publication. Processes, procedures, and policies will be included in the Employment and Staffing Manual. It is anticipated that the final approved publication will be available June 2010.	Sutter	Follow-up in process at September 30, 2010.
3/5/2010	10-106	Human Resources and Organizational Development	Recruitment and Employment Practices Limited Scope Review	Internal Audit recommends that Human Resources management draft an updated policy on Employment of Relatives and obtain approval of the CEO. The policy should be published and made available to all employees and employment candidates.	Oct-10	The OCTA policy for employment of relatives has been updated and was submitted to legal counsel for review. The policy will be presented to the CEO for signature and publication. It is anticipated that this policy will be published in April 2010.	Sutter	Follow-up in process at September 30, 2010.
4/2/2010	09-018	External Affairs	Review of Alta Resources Agreement C-6-0461, Customer Information Center Services	Internal Audit recommends that OCTA Customer Relations review the criteria for billable teletypewriter (TTY) calls and work with Alta to better define billing criteria. When revised criteria is established, it should be included in the Alta Agreement and any future Customer Information Center (CIC) contracts.	Oct-10	Management concurs. OCTA staff reviewed the language in the agreement with Alta staff and clarified the TTY call taking and billing procedures. Language will be amended into the current agreement prior to the end of fiscal year 2009-10 and included in future agreements that use similar TTY equipment.	Dunning	

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

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4/2/2010	09-018	External Affairs	Review of Alta Resources Agreement C-6-0461, Customer Information Center Services	Internal Audit recommends that printouts supporting TTY calls be retained by Alta. Internal Audit also recommends that the tapes be reviewed on a sample basis by OCTA Customer Relations staff.	Oct-10	Management concurs and as a result, Alta Resources is retaining the printouts for all billed TTY calls. The printouts will be reviewed on a monthly basis when Alta and OCTA staffs conduct the monthly meeting. The previous months billing and the TTY printouts will be reconciled during the meeting to ensure proper billing. All calls to and from the TTY machine are printed and kept on file in line with voice recording retention guidelines (currently six months).	Dunning	
4/9/2010	09-012	CAMM	Review of On-Call Development Contracts	Internal Audit recommends that independent cost estimates (ICE) be consistently prepared and submitted to CAMM prior to a request for proposal, both for contract task orders (CTOs) and other procurements. Additionally, Internal Audit recommends that CAMM require ICE's be signed and dated.	Nov-10	CAMM agrees with the finding. The CAMM Department is in the process of developing a standardized ICE form and guidelines. The new form will require a signature and date and will need to be submitted prior to starting any procurement activity. CAMM will train its staff as well as the user departments in preparation of the new ICE. CAMM will begin using the new form in July 2010	Ng	
4/9/2010	09-012	Development	Review of On-Call Development Contracts	Internal Audit recommends that all CTOs be either competed or issued sequentially in accordance with the agreement and/or the RFP. Work should not be authorized prior to procurement processing by CAMM.	Nov-10	The decision for sequential or competitive assignments is made during the RFP process to ensure that bidding firms are fully aware of the work assignment protocols in advance. Staff concurs with the recommendation that no work should be authorized prior to processing of the respective procurement approvals by the CAMM Department.	Ng	
4/9/2010	09-012	CAMM	Review of On-Call Development Contracts	Internal Audit recommends that the CAMM Department enforce CTO emergency procurement awarding requirements or revise policies and procedures for departures from these requirements.	Nov-10	CAMM agrees with the finding and will enforce CTO emergency procurement awarding requirements or revise policies and procedures for departures from these requirements.	Ng	

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4/9/2010	09-012	CAMM	Review of On-Call Development Contracts	Internal Audit recommends that all CTO proposals be reconciled to the pricing in the master agreement. The agreement pricing can be set up to reflect the pricing structure typically charged for those services and/or products.	Nov-10	CAMM is in agreement with the finding. As part of approving CTO awards, CTO proposals are reconciled to the master agreement for conformance of hourly rates. This finding is related to an isolated case of an employee, who has since retired, who did not conduct the required review of the CTO rates against the master agreement. In order to prevent such discrepancies in the future, additional staff training will be provided. Additionally, the department manager will ensure that procedures are followed prior to the issuance of all CTOs including the reconciliation of the hourly rates prior to their approval.	Ng	
5/26/2010	09-021	Financial Planning & Analysis	State Triennial Performance Audit	Booz Allen Hamilton (BAH) recommended that OCTA's TDA guidelines be updated to better reflect OCTA's process for establishing findings and processing claims, Bicycle and Pedestrian Facilities guidelines and procedures, follow-up on prior triennial audit findings, and certain other guideline references.	Nov-10	Management agrees will all recommendations and will update the TDA guidelines to better reflect requirements.	Sutter	
5/26/2010	09-021	Transit	State Triennial Performance Audit	BAH recommended that OCTA establish an ongoing performance monitoring process to compare service performance before and after the March 2010 service change to assist OCTA in identifying customer impacts and highlight opportunities to adjust resources	Feb-11	Management agreed with the recommendation. OCTA will conduct a systemwide transit study to evaluate the remaining network. The study will include analysis of performance metrics as well as public outreach. The study is expected to be complete in 2011.	Sutter	
5/26/2010	09-021	Transit	State Triennial Performance Audit	BAH recommended that OCTA study the cost drivers associated with the fixed route service and consider options to control costs.	Feb-11	Management agreed with the recommendation. OCTA will conduct a systemwide transit study to evaluate the remaining network. The study will include this sort of analysis. The study is expected to be complete in 2011. OCTA will also address system costs during labor negotiations, continue to evaluate contracting opportunities and continue legislative advocacy for improved funding.	Sutter	

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

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5/26/2010	09-021	Transit	State Triennial Performance Audit	BAH recommended that OCTA's transit system performance reporting be improved and expanded to include a high-level, annual summary of trends in key operating and financial performance.	Feb-11	Management agreed with the recommendation, citing its newly developed "Transit Division Performance Measurements" report. The report will be refined based on feedback and will continue to be modified as appropriate.	Sutter	
5/26/2010	09-021	Transit	State Triennial Performance Audit	BAH recommended that OCTA consider conducting and documenting evaluations of new vehicles and technologies to determine benefits or drawbacks.	Feb-11	Management agreed with the recommendation. OCTA currently has a configuration control team that evaluates benefits, costs, safety aspects, ergonomics, engineering, and the risks of transit-related equipment. Management will work to develop a more comprehensive approach.	Sutter	
5/26/2010	09-021	Executive Office	State Triennial Performance Audit	BAH recommended that OCTA complete its strategic planning effort, including a review of OCTA's mission, vision, goals and objectives.	Feb-11	Management confirmed its commitment to complete this initiative.	Sutter	
5/26/2010	09-021	Executive Office	State Triennial Performance Audit	BAH recommended that OCTA implement a Program Management Office to ensure consistency in the project management processes for the Measure M2 program.	Feb-11	Management agreed with the recommendation and indicated that the delivery of capital projects will be consolidated under a newly created Capital Programs Division. A Project Management Office will be established under the newly titled Planning Division for oversight of Measure M2 and a Program Management Advisory Committee will monitor program needs, policies, tools and processes.	Sutter	
6/18/2010	10-501	Finance and Administration (F&A)	Review of Revenue Agreements	Internal Audit recommends that the F&A Division consider and implement controls to ensure all revenue agreements are tracked and monitored adequately.	Jan-11	Management concurs with the recommendation and is in the process of creating a line item database to track revenue agreements. Initial line item creation will be the responsibility of the FP&A Department during the budget process. The CAMM Department will be involved in creating revenue agreements in Ellipse where appropriate, and when a revenue is due, Accounting will invoice the vendor and record the receivable in IFAS.	Ng	

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through October 15, 2010)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
6/18/2010	10-501	Transit	Review of Revenue Agreements	Internal Audit recommends that the Transit Division initiate an amendment to an Riverside Transit Agency (RTA) cost-sharing agreement reflecting new terms, as well as invoicing for underbilled amounts. Management should also implement its planned secondary review of invoices.	Jan-11	The Board of Directors approved on June 14, 2010 an amendment to the cooperative agreement that included the necessary revision to cost sharing. An invoice has been prepared and sent to RTA. To insure accuracy in invoicing, the invoice schedule will be reviewed by Operations Analysis staff to verify the use of appropriate rate calculations.	Ng	
7/8/2010	08-020	Transit	Vehicle Maintenance Review	Internal Audit recommends management undertake a review of all preventive maintenance templates against manufacturer guidelines to ensure conformance and should conduct such a review on a periodic basis.	Jan-11	A maintenance management quarterly review process is being implemented as recommended.	Sutter	
7/8/2010	08-020	Transit	Vehicle Maintenance Review	Internal Audit recommends that management implement periodic monitoring controls to ensure all scheduled maintenance is performed as required. In addition, management should consider implementing a procedure for identifying and resolving issues at the base level, such as when maintenance backlogs occur.	Jan-11	Periodic (weekly) monitoring will be implemented using Transit Technical Services staff.	Sutter	
7/8/2010	08-020	Transit	Vehicle Maintenance Review	Internal Audit recommends that management implement oversight controls to ensure that performance statistics are accurately calculated.	Jan-11	Maintenance management will implement periodic monitoring controls.	Sutter	

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7/27/2010	08-031	Human Resources and Organizational Development	Review of Safety Monitoring	Internal Audit recommends that the Health, Safety, and Environmental Compliance Department (HSEC) more closely track the status or resolution of recommendations considered "closed" by OCTA, as part of its APTA recommendation tracking process, until they are officially closed out by APTA to ensure APTA is aware of the most current action taken on the recommendation.	Feb-11	HSEC will more closely monitor and track the status of findings and their resolution which OCTA considers closed until APTA officially closes them in their next triennial audit. HSEC will accomplish this by including all responsible parties on the quarterly distribution of the corrective action plan updates. Previously, departments that had closed items were removed from the distribution list, however, this resulted in changes to the status of findings without notification to HSEC. Moving forward, HSEC will also include randomly selected "closed" items in the monthly OCTA safety inspections to verify closure status until the items are officially closed by APTA.	Ng	
7/27/2010	08-031	Human Resources and Organizational Development	Review of Safety Monitoring	For the next APTA safety audit in 2010, Internal Audit recommends that the complete final audit report be provided to the Board of Directors. Results of any post-audit visits should also be provided to the Board of Directors.	Feb-11	The final audit report of the upcoming 2010 American Public Transportation Association (APTA) Bus System Safety audit will be provided in full to the Board of Directors, as well as any post-audit follow-up visits and additional comments from APTA.	Ng	
8/25/2010	N/A	Transit	Fiscal Year 2010 Federal Triennial Review.	OCTA must submit a fleet management plan to FTA Region 9 indicating actions and timeline for meeting the 20 percent spare requirement.	Dec-10	OCTA must provide response to FTA by December 2, 2010	Sutter	
8/25/2010	N/A	Metrolink has taken lead on this.	Fiscal Year 2010 Federal Triennial Review.	OCTA must provide FTA Region 9 Program Manager (PM) and Regional Civil Rights Officer (RCRO) a program plan for meeting Americans with Disabilities Act (ADA)	Dec-10	OCTA must provide response to FTA by December 2, 2010	Sutter	
8/25/2010	N/A	Human Resources and Organizational Development	Fiscal Year 2010 Federal Triennial Review.	Provide documentation to FTA Region 9 PM and RCRO that it has obtained and reviewed Equal Employment Opportunity (EEO) plans from its contractors that meet EEO thresholds.	Dec-10	OCTA must provide response to FTA by December 2, 2010	Sutter	

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9/30/2010	08-014	Capital Programs	Interstate 5 Gateway Audit	Contract Auditor Wang Professional Corporation recommended that OCTA verify approval by the California Department of Transportation (Caltrans) senior resident engineer prior to making payments and OCTA management indicated they will do so.	Mar-11	Management concurs with the recommendation and will verify approval by the Caltrans senior resident engineer prior to payment.	Dunning	
9/30/2010	08-014	Executive Office/Legal Counsel	Limited Scope Review Performed in Relation to Audits of Interstate 5 Gateway Project Contracts	Internal Audit recommends that, effective with the distribution of the 2010 Form 700 in February 2011, the form be accompanied by a letter from the Chief Executive Officer highlighting the importance of accurate and complete reporting, as well as consequences for failure to accurately disclose. Internal Audit also recommends that consideration be given to developing a training course on provisions of the Fair Political Practices Act (FPPA), including some of the common disclosure items.	Mar-11	Management agrees with the recommendation and is committed to providing all designated employees the resources to accurately report financial interests, as required by the FPPA. Management will request that legal counsel providing training to all designated employees during the 2011 filing period and that this legal resource will be available to any designated employee who may need additional clarification or assistance.	Dunning	
9/30/2010	08-014	Capital Programs	Limited Scope Review Performed in Relation to Audits of Interstate 5 Gateway Project Contracts	Internal Audit recommends that OCTA enhance its review of invoices to ensure only approved contractor and subcontractor personnel are billed.	Mar-11	Capital Programs agrees with the recommendation that consultant invoice and payment review should be done in accordance with the provisions of the contract. Certain contracts pay invoices on a time and expense basis which are based on pre-approved, detailed lists of individual names and rates to be used by the consultant. As individuals join and leave the consultant's project team, these tables must be formally amended by CAMM to keep up to date with the personnel changes. Invoices should not be paid for individuals who have joined the consultant team until the salary tables have been updated in the contract to show the accepted rate. This fact will be clarified with Capital Programs staff responsible for reviewing and approving invoices	Dunning	

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9/30/2010	09-011	Finance and Administration	Review of Contracts and Invoices for Investment and Debt Advisory and Management Services	Internal Audit recommends that management require consultants to provide detailed descriptions of services performed and work completed or prepare and submit progress reports as required by the agreement.	Mar-11	We concur. Staff has implemented the recommendation and invoices provided by consultants now provide more descriptive information for the services performed and work completed.	Ng	
9/30/2010	09-011	Finance and Administration	Review of Contracts and Invoices for Investment and Debt Advisory and Management Services	Internal Audit recommends that amendments that extend contract terms beyond five years be approved by the Board of Directors prior to amendment execution as required by OCTA procurement policy.	Mar-11	Management agrees with this recommendation. Amendments 3 and 4 amended the agreement by extending the term at no increase in the maximum obligation to allow for time to reprocur the services. CAMM agrees that amendments that exceed five years will go to the Board of Directors as required by OCTA's Procurement Policies and Procedures.	Ng	
9/30/2010	08-016	Finance and Administration	Review of 91 Express Lanes Toll Road Collections	Cofiroute management should ensure the new 91 Express Lanes Software has sufficient controls in place to prevent Notice of Toll Evasion Violations (NTEV) from being sent to toll road violators past the deadline established in the Code.	Mar-11	Management concurs. Cofiroute will continue to run daily exception reports and investigate any exceptions to ensure NTEVs will not be sent to violators past the deadline as established in the Code.	Bonelli	
9/30/2010	08-016	Finance and Administration	Review of 91 Express Lanes Toll Road Collections	Internal Audit recommends that Cofiroute contract with an administrative hearing officer through either a public agency or a private entity that has no financial interest in the 91 Express Lanes or Cofiroute. The reviewer should be approved by OCTA's Board of Directors or Chief Executive Officer. Furthermore, Cofiroute should develop policies and procedures to ensure a fair and impartial Administrative Review of contested toll evasion violations.	Mar-11	Management concurs. In anticipation of increased requests for administrative hearings generated by Avery v OCTA et al, Cofiroute has entered into a contract with an administrative hearing officer. The hearing officer's contract is currently under review by OCTA 91 Express Lanes management and the OCTA Chief Executive Officer will designate the reviewer to perform the administrative reviews. Although Cofiroute has written procedures for conducting administrative reviews, additional procedures will be included to ensure fair and impartial reviews.	Bonelli	

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9/30/2010	08-016	Finance and Administration	Review of 91 Express Lanes Toll Road Collections	Internal Audit recommends that non-sufficient fund (NSF) fees be considered during the next contract amendment process between OCTA and Cofiroute.	Mar-11	Management concurs. The contract agreement with Law Enforcement Services, Inc. (LES) will be amended to address the NSF fees.	Bonelli	
9/30/2010	08-016	Finance and Administration	Review of 91 Express Lanes Toll Road Collections	Internal Audit recommends that 91 Express Lanes management consider expanded income statement classifications and/or notes to the financial statements to better detail the nature and amount of income and expenses in the 91 Express Lanes stand-alone financial statements. Internal Audit also recommends that management consider comparative financial statements for this enterprise fund as a means of highlighting significant fluctuations in revenue, expenses and financial position.	Mar-11	Management agrees with the recommendations and will make changes for the fiscal year ending June 30, 2011, to the income statement classifications to better detail the nature and amount of income and expenses for the 91 Express Lanes stand-alone financial statements.	Bonelli	