



January 24, 2018

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer
Janet Sutter, Executive Director
Internal Audit Department

Subject: Fiscal Year 2017-18 Internal Audit Plan, Second Quarter Update

Overview

The Orange County Transportation Authority Board of Directors adopted the Orange County Transportation Authority Internal Audit Department Fiscal Year 2017-18 Internal Audit Plan on August 14, 2017. This update is for the second quarter of the fiscal year.

Recommendation

Receive and file the second quarter update to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2017-18 Internal Audit Plan as an information item.

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, conducting operational and contract compliance reviews, investigations, pre-award price reviews, and Buy America reviews. Audits initiated by entities outside of OCTA are coordinated through Internal Audit.

In compliance with Government Auditing Standards, Internal Audit contacts OCTA legal counsel, prior to initiating audits, to inquire about any ongoing legal proceedings or investigations with respect to the audit topic. Where legal or investigation activities are underway, Internal Audit will evaluate the impact to the audit and consider deferring all, or a portion, of the planned audit.

Discussion

The OCTA Internal Audit Fiscal Year 2017-18 Internal Audit Plan (Plan) (Attachment A) reflects all planned audits and the status of each project. During the quarter, Internal Audit issued the results of an audit of employee health benefits. Based on the audit, controls in place to ensure proper enrollment, accounting, and compliance with laws, regulations, policies, and procedures are generally adequate; however, recommendations were made to develop and implement procedures for verification of Health Savings Account contribution payments and for collection of insurance premiums in arrears. Also, Internal Audit recommended that management consider clarifying the policy governing health plan participation.

Also during the quarter, Internal Audit issued results of a pre-award Buy America agreed-upon procedures review of the purchase of six, 40-foot compressed natural gas buses from New Flyer. Based on the procedures performed, the vehicles will contain domestically manufactured components representing costs of at least 60 percent of the cost of the vehicle.

The primary focus of Internal Audit during the quarter was to provide coordination of the annual financial audits and agreed-upon procedure reviews by OCTA's independent financial statement auditor, Vavrinek, Trine, Day & Company, LLP (VTD). All audits and agreed-upon procedures reviews, except for those related to individual cities, were issued during the quarter. In connection with the audits, VTD made five recommendations to management for improvement to internal controls. Four of the recommendations related to enhanced information system security and one related to compliance with procurement procedures. Management agreed with the recommendations and outlined actions to address the issues.

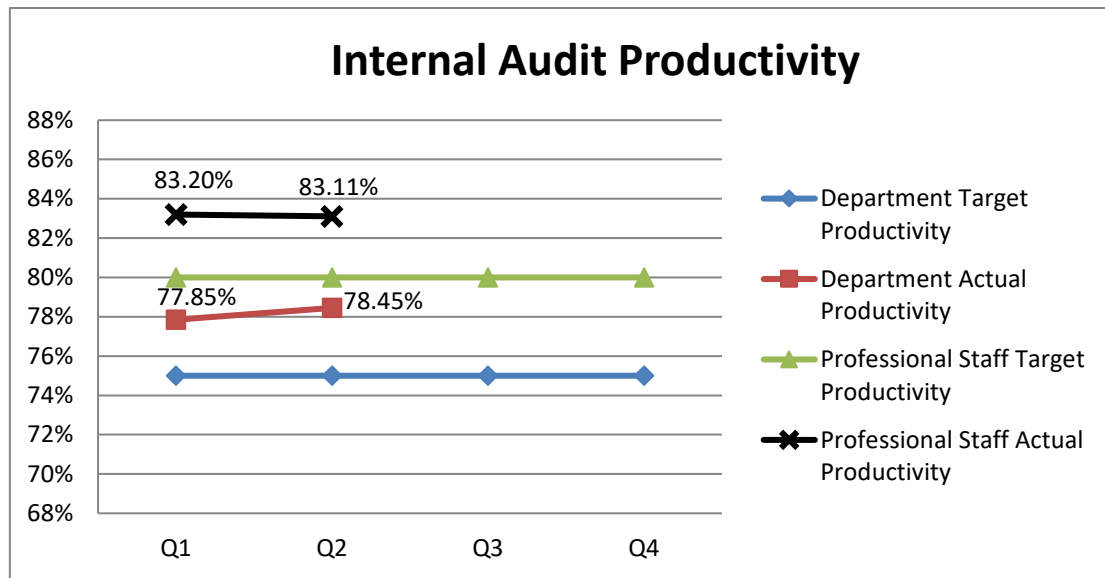
Several audit projects are underway at quarter end, and the procurement of an expert consultant to conduct a risk assessment of the OCTA information systems environment is in progress.

Internal Audit Productivity

Internal Audit measures the productivity of the department by calculating a productivity ratio. The ratio, used broadly throughout the audit industry, measures the amount of time auditors spend on audit projects versus time spent on administrative duties. Productivity goals are established for both the professional staff and for the department as a whole. Because the Executive Director regularly participates in non-audit management activities such as planning and committee meetings, the department-wide target is set at

75 percent. The target for internal audit professional staff, not including the Executive Director, is 80 percent.

For the second quarter ended December 31, 2017, Internal Audit achieved productivity of 78 percent, and the professional staff achieved productivity of 83 percent.



Price Reviews

At the request of the Contracts Administration and Materials Management Department (CAMM), and consistent with OCTA procurement policy, Internal Audit conducts reviews of single bid procurements to ensure that CAMM handled the procurement in a fair and competitive manner. Internal Audit also reviews prices proposed by architectural and engineering firms and sole source contractors to ensure that the prices are fair and reasonable. Internal Audit makes recommendations to adjust proposed rates where they exceed the rates per review. When the value of recommended adjustments can be estimated, Internal Audit tracks and reports the potential savings, as noted below. During the quarter ended December 31, 2017, Internal Audit conducted seven pre-award agreed-upon procedures reviews and recommended price adjustments, as indicated below:

| Quarter | Recommended Price Adjustments |
|---------|-------------------------------|
| 1st | \$ 4,069 |
| 2nd | 538,528 |
| 3rd | |
| 4th | |
| Total | \$ 542,597 |

Fraud Hotline

During the quarter ended December 31, 2017, Internal Audit received eight reports through OCTA's Fraud Hotline, www.ethicspoint.com, and completed an investigation related to a report received during the first quarter. Of the new reports, one concerned an issue that had been recently identified and reported during an audit of Contracted Fixed-Route Services. The remaining seven reports were referred to the police, another agency, and/or customer service as appropriate, based on the subject matter. As part of the administration of the hotline, Internal Audit maintains documentation of each complaint and its disposition.

During the quarter, based on concerns expressed by the Transit Division, an Investigation and Limited Scope Review of the Senior Mobility Program (SMP) operated by the Korean American Senior Association of Orange County (KASA) was issued. The investigation confirmed that KASA had not made trips available to those requiring wheelchair accessibility and that some trips provided were not outlined in the current service plan agreement. Internal Audit also identified unsupported costs charged to the SMP and non-compliance with the program's minimum age requirement. Internal Audit recommended that management continue oversight activities and report any future non-compliance to the Board of Directors for consideration as to future funding of the program. Management responded they are not confident that compliance can be ensured, even with an enhanced level of oversight. Management is recommending that the agreement with KASA be terminated and that a 90-day termination notification be sent to KASA.

Internal Audit is committed to responding to all hotline complaints within eight business days. During the quarter ended December 31, 2017, Internal Audit made initial contact within two business days.

Outstanding Audit Recommendations Tracking

At the request of the Finance and Administration Committee, a listing of unresolved audit recommendations is included with the quarterly updates to the Plan as Attachment B. Internal Audit includes the findings and recommendations generated internally, as well as those provided by outside regulatory auditors.

During the quarter ended December 31, 2017, Internal Audit completed follow-up reviews of nine outstanding audit recommendations. Seven recommendations had been appropriately addressed by management and were removed from the list. Two recommendations from audits of OCTA Policies and Procedures and Investment Management Service Contracts remain open pending further actions by management. Follow-up of an additional three recommendations is in-process at quarter end.

Seven recommendations from the Audit of Employee Health Benefits and the Investigation and Limited Scope Review of the Senior Mobility Program operated by the Korean American Senior Association were added to the list.

Summary

Internal Audit will continue to implement the Plan, report on performance metrics, follow-up on outstanding audit recommendations, and report progress on a quarterly basis.

Attachments

- A. Orange County Transportation Authority Internal Audit Department Fiscal Year 2017-18 Internal Audit Plan, Second Quarter Update
- B. Outstanding Audit Recommendations (Audit Reports Issued Through December 31, 2017)

Prepared by:



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**Orange County Transportation Authority
Internal Audit Department
Fiscal Year 2017-18 Internal Audit Plan
Second Quarter Update**

| Audit Activity | Project Number | Description | Primary Audit Type | Planned Staff Hours | Staff Hours to Date | Under (Over) | Status (Date Issued) | External Auditor |
|--|---------------------------|---|---------------------------|----------------------------|----------------------------|---------------------|-----------------------------|-------------------------|
| Mandatory External Independent Audits | | | | | | | | |
| Annual Financial Audits and Agreed-Upon Procedures Reviews | FY18-001 through FY18-004 | Coordinate and report on annual financial and agreed-upon procedures reviews for fiscal year 2017-18. | Financial | 375 | 204 | 171 | Complete | |
| External Regulatory Audits | FY18-005 | Coordinate and report on external audits by regulatory or funding agencies. | Compliance | 60 | 33 | 27 | Ongoing | |
| Internal Audit Department Projects | | | | | | | | |
| Risk Assessment and Annual Audit Plan | FY18-100 | Annual preparation of the audit plan, quarterly updates to the audit plan, periodic assessment of risk throughout the year, including the monitoring of audit results of related entities. | Audit Plan and Updates | 200 | 39 | 161 | | |
| Information Systems Risk Assessment | FY18-104 | Engage a firm to conduct an information systems risk assessment for the Orange County Transportation Authority (OCTA) environment. Review should include identification and evaluation of threats, vulnerabilities and safety characteristics of the OCTA information technology environment. | Audit Plan and Updates | 120 | 21 | 99 | In Process | |
| Quality Assurance and Self-Assessment | FY18-101 | Update of Internal Audit Policies & Procedures. Annual self assessment of the Internal Audit Department's compliance with Government Auditing Standards. | Quality Control | 160 | 26 | 134 | | |
| Fraud Hotline Activities | FY18-102 | Administrative duties related to maintenance of the Fraud Hotline and work related to investigations of reports of fraud, waste, or abuse. | Fraud Hotline | 320 | 149 | 171 | 17 Reports Received | |
| Automated Workpaper Solution | FY18-103 | System updates/training related to automated workpaper solution. | Workpaper System | 80 | 24 | 56 | Ongoing | |
| Internal Audits | | | | | | | | |
| Clerk of the Board | | | | | | | | |
| Public Meetings / Brown Act Compliance | FY18-5XX | Assess systems and controls in place to ensure compliance with the Brown Act. | Compliance | 160 | 24 | 136 | In Process | |
| Security and Emergency Preparedness | | | | | | | | |
| Transit Police Services Contract | FY17-512 | Review oversight controls and contract compliance with agreement for provision of Transit Police services. | Compliance | 80 | 110 | (30) | Complete 8-31-17 | |
| Human Resources and Organizational Development | | | | | | | | |
| Benefits: Health Insurance Plans and Health Savings Accounts | FY17-506 | Review controls in place to ensure proper enrollment, accounting, and compliance with laws, regulations, policies, and procedures. | Operational | 100 | 278 | (178) | Issued 10-19-17 | |
| Storm Water Pollution Prevention Plan | FY17-505 | Review oversight controls, policies, and procedures to ensure compliance with Environmental Protection Agency regulations. | Compliance | 32 | 18 | 14 | Complete 8-23-17 | |

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|---|-----------------------|--|---------------------------------|----------------------------|----------------------------|---------------------|-----------------------------|-------------------------|
| Capital Programs | | | | | | | | |
| Interstate 405 (I-405) Improvement Project: Project Management Contract | FY18-505 | Assess and test contract compliance and oversight controls of project management services provided for the I-405 Improvement Project. | Compliance | 300 | 72 | 228 | In Process | |
| Interstate 5 (I-5) Improvements: Pacific Coast Highway (PCH) to San Juan Creek (SJC) Road | | Assess adequacy of contract compliance, oversight, and reporting controls related to the I-5 Improvement Project between PCH and SJC Road. | Internal Control | 300 | - | 300 | | |
| Project K: Right-of-Way Acquisition Activities | FY18-502 | Assess and test compliance with reporting requirements related to acquisition of property rights for the I-405 Project K. | Compliance | 240 | 195 | 45 | Complete 9-27-17 | |
| Metrolink Cooperative Agreement for Control Point: 4th Street - Santa Ana | FY18-504 | Review and testing of compliance with the cooperative agreement with Metrolink for design and construction of a control point at 4th Street in the City of Santa Ana and a new power turnout to the Union Pacific Railroad spur track. | Compliance | 240 | 381 | (141) | In Process | |
| Planning | | | | | | | | |
| Comprehensive Transportation Funding Programs Projects | FY18-5XX | Review selected projects for compliance with Measure M Ordinance, policies, and procedures. | Compliance | 240 | - | 240 | | |
| Transit Operations | | | | | | | | |
| Contracted Fixed Route Operations | FY17-508 | Assess adequacy of oversight controls and contract compliance with key provisions of the agreement with First Transit. | Internal Control/ Compliance | 80 | 84 | (4) | Complete 8-30-17 | |
| Fleetwatch Fluid Management System | FY18-506 | Assess adequacy of system controls and data reporting related to dispensing of fuel. | Operational | 240 | 175 | 66 | In Process | |
| ACCESS Service | FY18-5XX | Review and test compliance with key contract provisions, with consideration of program effectiveness and efficiency. | Internal Control/ Compliance | 320 | - | 320 | | |
| Finance and Accounting | | | | | | | | |
| Treasury | FY18-501 | Semi-annual review of investments, compliance, controls, and reporting. | Compliance | 200 | 138 | 62 | Complete 8-30-17 | |
| Grant Closeouts | FY17-511 | As-needed financial and compliance audits of grants at closeout to ensure propriety of expenditures. | Compliance | 40 | 30 | 10 | Complete 8-4-17 | |

**Orange County Transportation Authority
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Second Quarter Update**

| Audit Activity | Project Number | Description | Primary Audit Type | Planned Staff Hours | Staff Hours to Date | Under (Over) | Status (Date Issued) | External Auditor |
|--|-----------------------|--|---------------------------|----------------------------|----------------------------|---------------------|-----------------------------|-------------------------|
| Contract Administration and Materials Management (CAMM) | | | | | | | | |
| Price Reviews | PR18-XXX | Cost and price analyses as requested by OCTA's CAMM Department. | Agreed Upon Procedures | 1,000 | 443 | 557 | 12 Reports Issued | |
| Buy America | FY18-XXX | Pre-award and post-delivery reviews to ensure vendors and OCTA are in compliance with federal Buy America requirements. | Compliance | 280 | 127 | 154 | Complete 12-7-17 | |
| Warranty Administration | FY18-5XX | Assess adequacy of controls in place for tracking and recording of warranty repairs and credits. | Internal Control | 240 | - | 240 | | |
| Purchasing Cards | FY18-503 | Assess and test controls over purchasing cards. | Internal Control | 240 | 470 | (230) | In Process | |
| Unscheduled Reviews and Special Requests | | | | | | | | |
| Unscheduled Reviews and Special Requests | FY18-8XX | Time allowed for unplanned audits, coordination of external agency audits, and requests from the Board of Directors and management. | Varies | 320 | 10 | 310 | | |
| Monitoring Activities | | | | | | | | |
| Measure M Taxpayer Oversight Committee (TOC) | FY18-601 | Coordination of audit activities on behalf of the Audit Subcommittee of the TOC. | Non-Audit Activities | 80 | 15 | 65 | Ongoing | |
| Metrolink Audit Activities | FY18-602 | Obtain and review audit results of Metrolink activities. | Non-Audit Activities | 40 | 27 | 13 | Ongoing | |
| Bus Base Inspections | FY18-603 | At the request of the Transit Division, participation on annual base inspection teams. | Non-Audit Activities | 32 | 64 | (32) | As Requested | |
| Capital Asset Inventory Observation | FY18-604 | At the request of the Finance and Administration Division, observe and apply limited procedures related to the bi-annual capital asset inventory counts. | Non-Audit Activities | 80 | - | 80 | As Requested | |
| Follow-up Reviews | | | | | | | | |
| Follow-up Reviews and Reporting | FY17-7XX, FY18-7XX | Follow-up on audit findings and recommendations. | Follow-up | 320 | 234 | 86 | | |
| Total Audit Project Planned Hours (A) | | | | 6,519 | 3,390 | 3,129 | | |

Orange County Transportation Authority
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Second Quarter Update

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|--|----------------|-------------|---|---------------------|---------------------|--------------|----------------------|------------------|
| Internal Audit Administration | | | | | | | | |
| Board of Directors and Committee Meetings | | | | 260 | 78 | 183 | | |
| Executive Steering and Agenda Setting Meetings | | | | 180 | 82 | 98 | | |
| Internal Audit Staff Meetings | | | | 150 | 49 | 101 | | |
| Other Administration | | | | 1,500 | 723 | 778 | | |
| | | | Total Hours (B) | 8,609 | 4,321 | 4,288 | | |
| | | | Department Target Efficiency | 75% | | | | |
| | | | Target Efficiency - Professional Staff | 80% | | | | |

**Outstanding Audit Recommendations
Audit Reports Issued through December 31, 2017**

| Audit Issue Date | Report Number | Division/ Department/ Agency | Audit Name | Recommendation | Initiate Next Update | Management Response | Auditor | Notes |
|-------------------------|----------------------|-------------------------------------|---|--|-----------------------------|--|----------------|--------------|
| 1/4/17 | FY17-502 | Finance and Administration (F&A) | Payment Card Industry/Data Security Standard (PCI-DSS) Compliance | Management should evaluate resources and controls to ensure full compliance and develop a proposal to achieve compliance and/or provide a reasonable approach moving forward. Management should implement oversight controls to assess the accuracy, timeliness, and sufficiency of Cofiroute USA's (Cofiroute) PCI DSS compliance information. | Jan-18 | Management will take the following actions: (1) engage a third party PCI Security Assessor to perform Self-Assessment Questionnaires (SAQ) going forward; (2) assess the remediation items identified in the SAQ and address items that fall into existing security improvement efforts; (3) perform a yearly assessment of Cofiroute's PCI DSS compliance information; (4) undergo a review to determine if OCTA should take the steps necessary to become fully PCI compliant; (5) continue to allocate and prioritize resources to cybersecurity risks while addressing PCI compliance concerns. <u>Update August 2017</u> : Management has not achieved compliance or fully implemented an approach to address non-compliance. | Dunning | In Process |
| 1/4/17 | FY17-502 | F&A | PCI-DSS Compliance | Management should implement procedures to ensure that quarterly network scans are performed and remediation efforts are identified and addressed accordingly. Management should also implement procedures for oversight and monitoring of Cofiroute's activities and incorporate their system scan results into submissions to American Express. | Jan-18 | Management agrees with Internal Audit's recommendation and will implement procedures to ensure quarterly network scans are performed. Management will also identify items to be remediated and implement them based on risk and cost. Management will allocate resources to perform periodic assessments of Cofiroute's PCI DSS compliance information. <u>Update August 2017</u> : Quarterly scans are not performed and submitted as management continues to assign resources to areas of non-compliance. | Dunning | In Process |

**Outstanding Audit Recommendations
Audit Reports Issued through December 31, 2017**

| Audit Issue Date | Report Number | Division/ Department/ Agency | Audit Name | Recommendation | Initiate Next Update | Management Response | Auditor | Notes |
|------------------|---------------|------------------------------|---|---|----------------------|---|---------|-----------------------------------|
| 2/15/17 | FY16-509 | F&A | Budget Development, Monitoring, and Reporting | Procedures should be developed and documented for the budget development and transfer processes. Management should also ensure project variances exceeding the threshold are investigated in accordance with the budget to actual reporting procedures, or alternatively clarify the investigation requirements in such procedures. | Jun-18 | Management agrees with the recommendation and will re-evaluate and document all salary and benefit budget assumptions at a lower level of detail. Also, management will ensure project variances exceeding the threshold continue to be investigated in accordance with the budget to actual reporting procedures, and will clarify investigation requirements in such procedures. <u>Update October 2017</u> : Management has addressed the recommendations related to budget development and transfers. However, since changes to the budget to actual reporting procedures will be fully implemented in the first quarter, Internal Audit will follow up on this part of the recommendation by the end of the fiscal year. | Ng | Initiate next update by June 2018 |
| 2/15/17 | FY16-509 | F&A | Budget Development, Monitoring, and Reporting | Management should implement procedures to ensure that changes to salary grade levels are based on reasonable and consistent methodologies and that documentation is maintained. Changes should also be communicated to management prior to seeking Board of Director (Board) approval. | Jun-18 | Human Resources (HR) management will ensure that Personnel and Salary Resolution (P&SR) changes are communicated to management prior to seeking Board approval. During the budget process, salary grade level changes to the P&SR will be presented to the Executive Steering Committee prior to Board approval. Current documentation methods for classification salary grade changes will be reviewed to determine the best practice for documenting these actions. HR is in the process of obtaining a compensation and market salary data system. This system will be utilized to enhance data collection, consistency, and documentation. <u>Update June 2017</u> : Internal Audit found that recommended upgrades to a job family were not supported by the data collected and stated criteria and documentation supporting grade change recommendations requires improvement. As such, this recommendation will remain open. | Ng | Initiate next update June 2018 |

**Outstanding Audit Recommendations
Audit Reports Issued through December 31, 2017**

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|-------------------------|----------------------|-------------------------------------|---|---|-----------------------------|---|----------------|--------------------------------|
| 2/15/17 | FY16-509 | F&A | Budget Development, Monitoring, and Reporting | Management should clarify the Position Control Policy (Policy) with regard to Board approved positions, develop procedures to ensure that the total number of employees does not exceed the Board-approved number, and obtain Chief Executive Officer (CEO)-approval for dual-filled positions. Management should also develop controls to ensure compliance with the Policy. | Jun-18 | The Policy will be reviewed and revised to clarify the approval process by OCTA's Board. Current procedures will be reviewed to determine if further action is required to ensure the total number of employees do not exceed the Board-approved number. In addition, recruitments that will result in a dual-fill will require the authorization of the CEO. <u>Update October 2017</u> : Since revisions to the Policy have not been finalized, Internal Audit will keep this recommendation open and return by the end of the fiscal year. | Ng | Initiate next update June 2018 |
| 2/15/17 | FY16-509 | F&A | Budget Development, Monitoring, and Reporting | Actual budgeted amounts should be shown on the Sole Source List. For services that could be performed by multiple vendors, the budget package should provide an explanation and justification for using the selected vendors. | Jun-18 | Management agrees with Internal Audit's recommendation and will show the actual budgeted amount for software and hardware maintenance when the Sole Source List is presented to the Board for approval. Management also will develop a budget justification for emergency malware support in the budget package. <u>Update October 2017</u> : Management added the budget amounts to the Sole Source List in accordance with the first part of the recommendation. However, management did not address the second part of the recommendation, regarding the explanations and justifications for using the selected emergency malware support vendors. We will return at the end of the fiscal year to follow-up on the second part of the recommendation. | Ng | Initiate next update June 2018 |

**Outstanding Audit Recommendations
Audit Reports Issued through December 31, 2017**

| Audit Issue Date | Report Number | Division/ Department/ Agency | Audit Name | Recommendation | Initiate Next Update | Management Response | Auditor | Notes |
|-------------------------|----------------------|-------------------------------------|----------------------------|--|-----------------------------|---|----------------|---------------------------------|
| 3/9/17 | FY17-507 | F&A | OCTA Policies & Procedures | Management should update procedures to include a communications plan to ensure that employees expected to comply with policies are properly notified. Communication should occur, as appropriate, for both new and revised policies. | Mar-18 | Management agrees with the recommendation and has taken steps to ensure communication is made to all employees when new policies are created or existing policies are updated. <u>Update October 2017</u> : Policy and procedure updates are being communicated to administrative employees via e-blasts; however, updates applicable to base personnel are not being properly communicated. Management indicated that there are future plans to communicate these policies via digital signage at the bus bases. | Dunning | Initiate Next Update March 2018 |
| 3/9/17 | FY17-507 | F&A | OCTA Policies & Procedures | Management should implement controls to help ensure the accuracy and completeness of the master list of policies and procedures. | Mar-18 | Management agrees with the recommendation and will implement procedures to ensure that the master list of policies and procedures is maintained with accuracy and completeness. <u>Update October 2017</u> : Management indicated that an automated system will be implemented to assist in the approval, distribution, and management of policies and procedures. | Dunning | Initiate Next Update March 2018 |

**Outstanding Audit Recommendations
Audit Reports Issued through December 31, 2017**

| Audit Issue Date | Report Number | Division/ Department/ Agency | Audit Name | Recommendation | Initiate Next Update | Management Response | Auditor | Notes |
|-------------------------|----------------------|-------------------------------------|---|--|-----------------------------|---|----------------|---------------------------------|
| 4/12/17 | FY17-504 | F&A | Investment Management Service Contracts | Management should ensure compliance with procurement policies and ensure that decisions to accept deviations from the Request for Proposals (RFP) are documented, along with the calculations and methodologies used when cost estimates are prepared by staff. Documentation on file should justify the reasons for changes to the RFP after proposals are received and the value of the cost proposal estimate should translate to the value of the contract issued. Finally, management should consider developing a policy with guidelines for the use of OCTA's logo by vendors, staff-provided testimonials, or staff participation in vendor case studies for marketing purposes. | Apr-18 | The Contracts Administration and Materials Management Department (CAMM) will ensure an Independent Cost Estimate is provided as required and will re-enforce this requirement with staff during meetings and training exercises. CAMM will remind staff that project managers may not conduct direct negotiations without CAMM staff being present. If the evaluation committee recommends for award a pricing model and methodology that differs from the RFP, the contract administrator will be required to clearly indicate such in the procurement memo along with the reason for the recommendation. CAMM management will ensure that staff understands the need for documentation which demonstrates the method for calculating final pricing as well as how the pricing criteria was scored. Additionally, contracts will be issued consistent with the cost estimate on file. Documentation will be required in the contract file if a contract is issued in an amount that varies greatly from the cost estimate. Lastly, management agrees to consider developing a policy with guidelines for the use of OCTA's logo by vendors, staff-provided testimonials, or staff participation in vendor case studies for marketing purposes. <u>Update December 2017</u> : CAMM has reviewed procedures and provided training as indicated and management has developed a policy on the use of OCTA's logo. Human Resources and Organizational Development (HROD) management plans to incorporate a policy on testimonials into the Code of Conduct in April 2018. | Tang | Initiate Next Update April 2018 |
| 8/1/17 | FY17-505 | HROD | Storm Water Pollution Prevention Plan (SWPPP) | Continue efforts to eliminate the unauthorized non-storm water discharges related to the bus washes. | Feb-18 | Bus wash water track-out capturing systems are expected to be finished and operable by August 2017. | Bonelli | |

**Outstanding Audit Recommendations
Audit Reports Issued through December 31, 2017**

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|-------------------------|----------------------|-------------------------------------|-------------------|---|-----------------------------|---|----------------|--------------|
| 8/1/17 | FY17-505 | HROD | SWPPP | Continue efforts to expand the use of the Ellipse system to include additional storm water-related tasks. | Feb-18 | Current Ellipse work orders related to storm water pollution prevention have been updated and modified. New expanded work orders will be established within Ellipse by August 2017. | Bonelli | |
| 8/1/17 | FY17-505 | Capital Programs | SWPPP | Enhance oversight of contractors and personnel carrying out SWPPP related monitoring activities, particularly related to site inspections, sampling, reporting, etc. OCTA should also ensure that agreements with contractors tasked with SWPPP activities include retention requirements. | Feb-18 | Enhanced oversight of contractors and construction management teams will be implemented and monitored. OCTA will ensure current and future agreements with contractors include retention requirements. | Bonelli | |
| 8/1/17 | FY17-505 | HROD | SWPPP | Ensure that a copy of the SWPPP is maintained at each bus base facility. | Feb-18 | Hard copies of SWPPP will be maintained at each bus base facility in addition to electronic copies. Each hard copy will be singularly identifiable and OCTA SWPPP members will be notified/trained of their locations. | Bonelli | |
| 8/1/17 | FY17-505 | HROD | SWPPP | Increase the Health, Safety, and Environmental Compliance (HSEC) group's participation with construction projects and activities to help ensure compliance with the Construction General Permit (CGP). | Feb-18 | HSEC will continue to participate in CGP compliance efforts and will identify/allocate necessary resources to ensure compliance with the CGP in partnership with OCTA's Capital Programs group via project planning efforts. | Bonelli | |
| 8/1/17 | FY17-505 | Capital Programs | SWPPP | Ensure cooperative agreements specifically clarify the roles and responsibilities of all individuals and entities associated with compliance with the CGP. | Feb-18 | Management doesn't agree that the roles and responsibilities of all individuals and entities should be included in the cooperative agreements. However, management will implement a procedure to document these roles and responsibilities in a project memo. | Bonelli | |

**Outstanding Audit Recommendations
Audit Reports Issued through December 31, 2017**

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|-------------------------|----------------------|-------------------------------------|-----------------------------------|--|-----------------------------|--|----------------|--------------|
| 8/1/17 | FY17-505 | HROD | SWPPP | Establish a formal process in which technicians maintain documentation supporting why samples could not be collected during a sampling period. | Feb-18 | Monitoring forms used by technicians will be revised to provide supporting documentation/verbiage on why samples could not be collected during a qualified sampling event. | Bonelli | |
| 8/1/17 | FY17-505 | Capital Programs | SWPPP | Ensure contractors adhere to training required by the CGP by periodically requesting to review training records. | Feb-18 | Periodic reviews of training records will be implemented. | Bonelli | |
| 8/1/17 | FY17-505 | HROD | SWPPP | Document in the SWPPPs the time periods when the bus bases conduct any function related to industrial activity. | Feb-18 | SWPPPs will be revised to describe time periods when bus bases conduct industrial activity. Maintenance staff will be included as SWPPP team members. | Bonelli | |
| 8/1/17 | FY17-505 | HROD | SWPPP | Document the date that each SWPPP was initially prepared. | Feb-18 | SWPPPs will be revised to include the date that each SWPPP was initially prepared. | Bonelli | |
| 8/30/17 | FY17-508 | F&A | Contracted Fixed-Route Operations | Internal Audit recommends that CAMM develop procedures for monitoring of performance bond requirements and certificates of insurance to ensure that performance bonds are appropriately adjusted with amendments and insurance requirements are met. | Feb-18 | CAMM concurs with this recommendation and has taken steps proactively to review and track bond and insurance documentation for compliance to ensure contract requirements are met. OCTA's Risk Management department recently procured insurance brokerage services and the scope of work includes a requirement for insurance review and certificate tracking system for all contracts. OCTA will seek to include an additional feature related to monitoring bond value adjustments as an enhancement to this service. | Ng | |

**Outstanding Audit Recommendations
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|-------------------------|----------------------|-------------------------------------|-----------------------------------|---|-----------------------------|--|----------------|--------------|
| 8/30/17 | FY17-508 | Transit | Contracted Fixed-Route Operations | Internal Audit recommends management reconcile accident reports to monthly reports and develop procedures for progressive enforcement actions to be taken when contract requirements are not being met. | Feb-18 | Management agrees to conduct a monthly reconciliation of accident reports. To ensure that contract language permits reimbursement regardless of when the work is initiated, management proposes a modification in the contract language to remove the requirement for OCTA's pre-approval and reflect the process used: "The contractor will not be reimbursed for the replacement or repair of any major mechanical components without the written approval of OCTA's project manager or his/her designee." For unclassified revenue, a process is already in place to monitor unclassified revenue on a weekly and monthly basis and management feels that including documentation related to the oversight including follow-up actions taken with the monthly invoice package would be a valuable addition. | Ng | |
| 8/30/17 | FY17-508 | Transit | Contracted Fixed-Route Operations | Internal Audit recommends that management consistently apply penalties as outlined in the contract. Any request to waive a penalty should be documented and accompanied by adequate documentation to support and justify how the failures could not have reasonably been prevented. | Feb-18 | Management agrees with the finding and will amend the contract to allow for appropriate discretion with regard to penalty waivers. In the future, documentation, including a written request from the contractor and justification for the action, will be maintained. | Ng | |

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| 8/30/17 | FY17-508 | Transit | Contracted Fixed-Route Operations | Internal Audit recommends that management consistently apply penalties and consider non-payment of revenue hours for vehicles that have exceeded preventive maintenance intervals. Penalties should only be waived at the request of First Transit and with adequate justification and documentation demonstrating that the failures could not have reasonably been prevented. Finally, management should implement a secondary review of incentives and penalties during the invoice review process to determine that they are consistent with the contract. | Feb-18 | <p>Management agrees with the finding and will implement more consistent application of penalties; however, the contract will also be amended to allow for appropriate discretion with regard to penalty waivers. In the future, documentation, including a written request from the contractor and justification for the action, will be maintained.</p> <p>Management will coordinate a monthly meeting to review invoice penalty and incentive amounts for accuracy prior to payment.</p> | Ng | |

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| 8/30/17 | FY17-508 | Transit | Contracted Fixed-Route Operations | Internal Audit recommends that contracted fixed route performance standards be measured consistent with the standards set forth in the contract. Management should implement procedures to ensure changes to performance standards are processed as formal contract amendments and that notice and justification for the changes is documented. Management should also consider implementing procedures that require Board notification and/or approval for changes to contracted fixed route performance standards. At a minimum, presentations and performance reports provided to the Board should clearly outline changes to the measurement standards and/or methodology. | Feb-18 | Management agrees with the finding. The on-time performance window as measured and reported through the automated systems on-board all fixed route vehicles has been adjusted to reflect a zero to five minute window. This change has been made retroactive back to February 2016 when the change to five minutes, 30 seconds was implemented. Future quarterly performance measure reports will outline the methodologies used to collect data and if methodologies change, the report will identify the change. | Ng | |

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| 8/30/17 | FY17-508 | F&A | Contracted Fixed-Route Operations | <p>Internal Audit recommends that the Price Summary be amended as needed to accurately reflect the agreed-upon rates and costs that will be invoiced to the contract. If rates or costs increase due to additional service added in amendments, the amendments should include a revised Price Summary. Management should also ensure that the increases in maximum obligations be calculated correctly based only on additional costs that will be incurred, without double-counting of costs.</p> <p>Finally, Internal Audit recommends that CAMM review all RFP addendums to determine if there have been changes in attachments and exhibits, before finalizing contracts.</p> | Feb-18 | <p>Management concurs that the Price Summary be amended to capture the agreed-upon rates associated with each added service to the contract. Management will ensure the Price Summary is revised to reflect any future costs for additional services.</p> <p>CAMM's standard practice when conforming agreements is to review all RFP addendums to ensure all technical and contractual changes are incorporated in the final agreement. For added quality assurance, conformed agreements are sent to the requesting departments for review and concurrence prior to contract final execution.</p> | Ng | |

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| 8/30/17 | FY18-501 | F&A | Investments: Compliance, Controls, and Reporting | Internal Audit identified a discrepancy between the detailed investment portfolio listing and the investment summary report in the 2017 First Quarter Debt and Investment Report. Also, the Orange County Investment Pool balance reflected in the Second Quarter 2017 Debt and Investment Report was misstated by a minor amount. Internal Audit recommended management enhance review procedures to ensure line items are validated and schedules are reconciled before finalizing the report. | Feb-18 | Management agreed and indicated that reconciliation procedures would be developed. | Tang | In Process |
| 9/27/17 | FY18-502 | Capital Programs | Right-of-Way Acquisition Activities for the Interstate 405 (I-405) Project K | Internal Audit recommends that management develop written procedures for the reporting of administrative settlements and contracts executed under the Incentive Payment Program (Program) for the I-405 Project. The procedures should identify the frequency and method of reporting. | Mar-18 | The Real Property Department has drafted a written procedure for the reporting of administrative settlements and contracts executed under the Program for the I-405 Project. The procedure identifies the frequency and method of reporting and includes two exhibits illustrating the format of each report. The I-405 Modified Settlement Delegation Authority Administrative Settlements Authorized Report format will now reflect the appraisal amount, additional compensation amount, total contract amount, and the calculated percentage of the settlement. | Ng | |
| 10/19/17 | 17-506 | HROD | Employee Health Benefits | Management should develop and implement written procedures to ensure that all qualified Health Savings Account (HSA) enrollees receive their employer-paid contribution. Further, OCTA should make the required HSA contributions, plus reasonable interest, to the employees identified in the audit. | Apr-18 | The contributions have been remediated and processed to the two employee Health Savings Accounts. Reasonable interest will be calculated and deposited. As these transactions are processed as payroll earnings, benefits will work with payroll to establish written procedures. | Bonelli | |

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| 10/19/17 | 17-506 | HROD | Employee Health Benefits | Management should develop a written policy and procedures for collection of premiums in arrears. | Apr-18 | The participant that owed \$1,336.40 as of December 2016, has paid this amount to OCTA. Management will work on a written policy and procedure to collect unpaid medical premiums. | Bonelli | |
| 10/19/17 | 17-506 | HROD | Employee Health Benefits | Management should seek Board member input and clarify the policy to address benefits eligibility for Board members that receive cash payments in-lieu of health benefits from the public entity they serve. | Apr-18 | Management will consider revisions to the Fiscal Year 2018-2019 (FY19) P&SR to clarify the policy. The FY19 P&SR will be presented for Board of Directors approval in June 2018, along with the annual budget. | Bonelli | |
| 12/26/17 | N/A | Transit | Investigation and Limited Scope Review of the Senior Mobility Program (SMP) operated by the Korean American Senior Association (KASA) | KASA violated the SMP requirement to provide wheelchair-accessible vehicles. Internal Audit recommends management continue oversight activities and report any continued non-compliance to the Board for consideration as to future funding of this program. | Jun-18 | Based on performance over the past year, contact with the program administrator on a variety of issues regarding compliance, as well as the current audit findings, staff is not confident that even with an enhanced level of oversight, compliance can be ensured. Management recommends that a 90-day termination notification be sent to KASA and funding be discontinued at the end of that period. | Ng | |

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| 12/26/17 | N/A | Transit | Investigation and Limited Scope Review of the SMP operated by the KASA | Unallowable and unsupported costs are charged to the SMP, and costs reported for June 2017 did not agree to KASA's financial records. Internal Audit recommends that the OCTA coordinator review with KASA program guidelines for allowable direct and indirect costs. The coordinator should disallow all indirect costs charged directly to the SMP and any costs that are not adequately supported. The coordinator should also train KASA on monthly reporting requirements. Finally, any continued non-compliance should be reported to the Board for consideration as to future funding of this program. | Jun-18 | Funds disbursed to KASA for service provided in 2018 will be adjusted, with the overstated \$1,564 deducted from the disbursement. If support for the program is discontinued as recommended by staff, KASA will receive a portion of the funds left for the current fiscal year through the date of termination. | Ng | |
| 12/26/17 | N/A | Transit | Investigation and Limited Scope Review of the SMP operated by the KASA | The age requirement to join KASA is currently set at 55 years and older; however, the SMP program defines eligible participants as 60 years and older. Internal Audit recommends that management require KASA to develop procedures to ensure only qualified trips are charged to the SMP. | Jun-18 | If support for the program is continued, OCTA staff will monitor this during the site visits. | Ng | |

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| 12/26/17 | N/A | Transit | Investigation and Limited Scope Review of the SMP operated by the KASA | Documentation on file indicates that KASA provides some trips outside their approved service plan. Internal Audit recommends that the coordinator disallow costs related to trips outside the service plan. The Coordinator should also instruct KASA to reconcile monthly reports to trips sheets prior to submittal. Any continued non compliance should be reported to the Board for consideration as to future funding of this program. | Jun-18 | If support for the program is continued, OCTA staff will monitor this during the site visits. | Ng | |