



***April 27, 2011***

**To:** Finance and Administration Committee  
**From:** Will Kempton, Chief Executive Officer  
**Subject:** Fiscal Year 2010-11 Internal Audit Plan, Third 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 third quarter of the fiscal year.

***Recommendation***

Receive and file the third 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, 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***

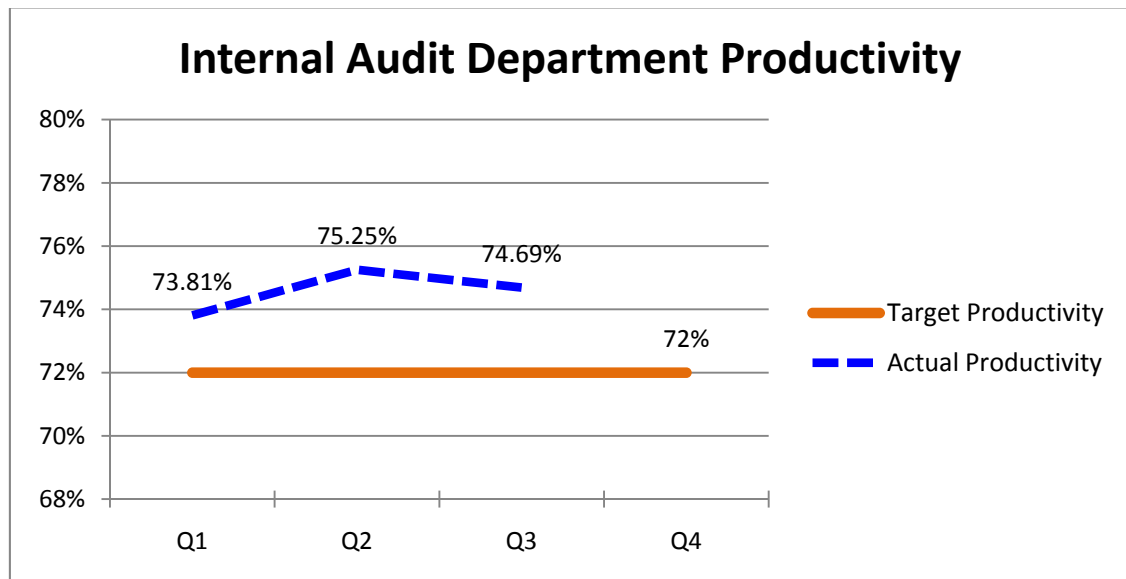
The Orange County Transportation Authority Internal Audit Department Fiscal Year 2010-11 Internal Audit Plan (Plan) (Attachment A) reflects the status of each project. As indicated, numerous projects have been completed or are underway. During the third quarter of the fiscal year, Internal Audit completed reviews of OCTA's Real Estate and Right of Way Administration and Investments: Compliance, Controls and Accounting for the period January 1 through June 30, 2010. In addition, Internal Audit issued a closeout audit of the Buena Park Metrolink Station and a financial and compliance audit

of the State Transportation Improvement Program: Planning, Programming, and Monitoring Program for Fiscal Year 2007-08. Internal Audit's primary focus during the quarter was the procurement of a consultant to conduct independent annual financial auditing services to OCTA and related agencies.

### Internal Audit Department Efficiency

Internal Audit measures the efficiency 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 each internal audit position and for the department as a whole. The department-wide target is a blended rate. For fiscal year 2010-11, Internal Audit set a department-wide target efficiency ratio of 72 percent. In setting the target, Internal Audit considered audit industry standards for these ratios.

For the quarter ended March 31, 2011, Internal Audit achieved efficiency of 75 percent.



### Price Reviews

At the request of the Contracts Administration and Materials Management Department (CAMP), 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. Internal Audit makes recommendations to adjust proposed rates where they exceed the rates per review. As part of Internal

Audit's newly implemented performance monitoring system, the value of these recommended adjustments is tracked and reported. During the quarter ended March 31, 2011, Internal Audit completed three price reviews and recommended adjustments valued at \$90,383, bringing the year-to-date total recommended adjustments to \$514,208.

Quarter	Price Reviews: Recommended Adjustments
1Q	\$ 2,069
2Q	\$ 421,756
3Q	\$90,383
4Q	
Total	\$ 514,208

#### Fraud Hotline

During the quarter ended March 31, 2011, Internal Audit received three new complaints through OCTA's Fraud Hotline, [www.ethicspoint.com](http://www.ethicspoint.com), bringing the year to date total to 23. All three of the complaints were investigated and Internal Audit was unable to substantiate fraud or other misconduct.

Internal Audit is committed to responding to all hotline complaints within eight business days. Since inception of the hotline in September 2009, Internal Audit has received a total of 38 reports and has responded to all within eight business days and, on average, responded within two business days.

#### 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 the findings and recommendations generated internally, as well as those provided by regulatory auditors and OCTA's independent financial statement auditors.

#### **Summary**

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

***Attachments***

- A. Orange County Transportation Authority Internal Audit Department  
FY 2010-11 Internal Audit Plan Third Quarter Update
- B. Unresolved Audit Findings and Recommendations (Audit Reports Issued  
Through March 28, 2011)

**Approved by:**



Janet Sutter  
Acting Executive Director, Internal Audit  
(714) 560-5591

**Orange County Transportation Authority  
Internal Audit Department  
FY 2010-11 Internal Audit Plan  
Third Quarter Update**

Audit Activity	Description	Primary Audit Type	Planned Staff Hours	Staff Hours to Date	Under (Over)	Status (Date to F&A)	External Auditor
<b>Mandatory External Independent Audits</b>							
Annual Financial Audit	Annual financial and compliance audit for fiscal year 2009-10. (Unbudgeted: Prepare Scope of Work and issue Request for Proposal for Annual Independent Auditing Services)	Financial	425	529	(104)	Complete (01/19/11)	MHM
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	126	(1)	Complete (01/19/11)	MHM
Federal Transportation Administration (FTA) Triennial Review	Coordination of FTA triennial review to be conducted August 3 - 5, 2010.	Compliance	60	44	16	Complete (1/19/11)	
Orange County Council of Governments (OCCOG) Financial Statement Audit	Management of external audit of OCCOG financial statements and ad-hoc audit assistance.	Financial	20	6	15	Complete (OCCOG Board 11/18/10)	MHM
Service Authority for Abandoned Vehicles (SAAV) Bi-annual Reviews	Coordination of Service Authority for Abandoned Vehicles biannual review.	Compliance	-	25	(25)	In Process	MHM
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	78	47	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	84	(4)	Annual Q/C Assessment Completed 04/06/11	
Fraud Hotline	Investigations of reports of fraud, waste, or abuse.	Fraud Hotline	80	75	6	Ongoing	
<b>Internal Audits</b>							
<b><i>Human Resources and Organizational Development</i></b>							
Safety Monitoring	Completion of review of implementation of American Public Transportation Association (APTA) Safety Review recommendations.	Internal Controls	20	33	(13)	Complete (8/19/10)	

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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	-	350		
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	70	(30)	Complete (10/15/10)	Wang Accountancy Corp.
Contract Retention	Review of policies, procedures, and practices for the retention and release.	Compliance	175	-	175		
State Route 57 Improvements	Review of contracts for design and preliminary engineering for the State Route 57 improvements.	Compliance	300	4	296	In Process	
Real Estate and Right-of-Way Administration	Review of right-of-way and other real estate operations and contracts.	Operational	225	360	(135)	Complete (2-23-11)	
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	-	250		
Metrolink Service Expansion Program (MSEP)	Review of cooperative agreement(s) with Metrolink for infrastructure improvements related to the MSEP and related project management contracts.	Compliance	300	-	300		
Buena Park Metrolink Station Closeout Audit	Close-out audit of construction of Metrolink station.	Compliance	15	8	7	Complete (2-23-11)	
<b><i>Transit Operations</i></b>							
Buy America	Pre-award and post-delivery reviews to ensure vendors and OCTA are in compliance with federal Buy America requirements.	Compliance	50	-	50		
Contracted and Paratransit Operations	Review to ensure contract stipulations are being complied with and to verify the propriety of payments.	Compliance	350	112	238	In Process	

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<b><i>Government Relations and Intergovernmental Activities</i></b>							
Grant Close-outs	As-needed financial and compliance audits of grants at close-out to ensure propriety of expenditures.	Compliance	75	34	41	Complete (3-14-11)	
<b><i>Finance and Accounting</i></b>							
Treasury	Bi-annual financial and compliance reviews of the treasury function, including investment and bond compliance.	Compliance	175	372	(197)	2 Complete (1/19/11, 3/28/11) In Process	
Cost Allocation Plan	Review of OCTA's methodology for, and application of, cost allocation.	Financial	150	223	(73)	In Process	
91 Express Lanes Collections	Completion of review of contractual compliance and performance of collections contractor Law Enforcement Services, Inc.	Compliance	30	163	(133)	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	26	(1)	Complete (10-15-10)	
<b><i>Contracts &amp; Materials</i></b>							
Price Reviews	Cost and price analyses as required by OCTA procurement policies and procedures.	Price Review	1,000	759	241	11 Reviews Complete, 2 Cancelled, 4 In Process	
Procurement Activities - Proposal Evaluations	Review of policies, procedures, protocols, and best practices for the operation of procurement selection teams. Review of selection criteria and related weighting.	Operational	200	183	17	In Process	
Bridgestone/Firestone Tire Lease	Completion of review of lease of bus tires.	Compliance	40	170	(130)	Complete (10-15-10)	
Maintenance Inventory Management	Review of inventory management policies, procedures, controls, operational efficiency, and analytic tools.	Operational	175	-	175		
Warranty Administration	Review of internal controls over warrantied equipment.	Internal Control	175	162	13	In Process	
Fuel Controls	Review of controls over dispensing of petroleum products.	Internal Control	50	61	(11)	In Process	

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<b><i>Information Systems</i></b>							
Information Systems Change Management Controls	Review of information systems change management policies, procedures, and controls.	Operational	225	292	(67)	Complete (01/19/11)	
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	277	(127)	In Process	
Telecommunications Equipment	Review of telecommunications equipment usage and internal controls.	Internal Control	150	116	34	In Process	
<b><i>Unscheduled Reviews and Special Requests</i></b>							
Unscheduled Reviews and Special Requests	Time allowed for unplanned audits and requests from the Board of Directors and management.	Varies	150	8	142		
<b>Monitoring Activities</b>							
Measure M Taxpayers Oversight Committee	Coordination of audit activities with the Audit Subcommittee of the Measure M Taxpayers Oversight Committee.	Monitoring	50	46	5	Ongoing	
Radio Upgrade	Ongoing monitoring of Integrated Transportation Management System upgrade by ACS Transport Solutions, Inc., and EigerTech.	Monitoring	25	3	22	Ongoing	
Bus Base Inspections & Inventory Testing	Participation on base inspection teams and periodic testing of base inventory records.	Monitoring	40	11	29	Ongoing	
Subrecipient Monitoring	Assist management in the development and implementation of policies and procedures to ensure compliance with FTA-required subrecipient monitoring.	Monitoring	60	42	18	Ongoing	
<b>Follow-up Reviews</b>							
Follow-up reviews and reporting	Follow-up on audit findings and recommendations.		250	196	54	Ongoing	
<b>Total Audit Project Hours (A)</b>			<b>6,185</b>	<b>4,695</b>			

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<b>Internal Audit Administration</b>							
	Board of Directors and Board Committee Meetings		300	190	110		
	Executive Steering Committee and Agenda Meetings		150	43	107		
	Internal Audit Department Staff Meetings		360	36	324		
	Other Administration		1,600	1,322	278		
		<b>Total Hours (B)</b>	<b>8,595</b>	<b>6,286</b>			
		<b>Target Efficiency (A/B)</b>	72%				
		<b>Actual Efficiency (A/B)</b>		75%			

**UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS**

*(Audit Reports Issued Through March 28, 2011)*

<b>Audit Issue Date</b>	<b>Report Number</b>	<b>Division / Department / Agency</b>	<b>Audit Name</b>	<b>Recommendation</b>	<b>Initiate Next Update</b>	<b>Management Response</b>	<b>Auditor</b>	<b>Notes</b>
11/19/2008	08-001A	Information Systems	Payroll Systems Controls Review	Management should develop and implement password administration controls to address weaknesses.	Jul-11	OCTA's Information Systems (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 the Lightweight Directory Access Protocol (LDAP). The project to bind Active Directory to LDAP should be completed by the end of FY2010-11. <u>Update January 2011</u> : Management indicated that the Windows Active Directory project is still underway and is scheduled to be completed by April 2011. This item will be addressed subsequent to completion of the project.	Bonelli and Thompson Cobb Basilio and Associates (TCBA)	Initiate next update in July 2011.
11/19/2008	08-001A	Information Systems	Payroll Systems Controls Review	Management should prioritize the development of a comprehensive business continuity plan.	Jul-11	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 FY 2010-11. <u>Update January 2011</u> : Management indicated that this project has been delayed due to resource constraints and a new completion date of June 2011 has been set.	Bonelli and TCBA	Initiate next update in July 2011.
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.	Jun-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. <u>Update March 2011</u> : According to the Director of Administrative Services, the project has been delayed; however, management expects to complete and implement a new cost allocation plan for FY2011.	Sutter	Next follow-up will be conducted in June 2011.

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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.	Jun-11	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.
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.	Apr-11	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	Next follow-up will be conducted in April 2011.
5/26/2010	09-021	Transit	State Triennial Performance Audit	Booz Allen Hamilton (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	Sep-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 completed in the third quarter of 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.	Sep-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 completed in the third quarter of 2011. OCTA will also address system costs during labor negotiations, continue to evaluate contracting opportunities, and continue legislative advocacy for improved funding.	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 American Public Transportation Association (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.	Apr-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	Follow-up in process.
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.	Apr-11	The final audit report of the upcoming 2010 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	Follow-up in process.
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	Follow-up in process.
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	Follow-up in process.

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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 Contracts Administration and Materials Management (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	Follow-up in process.
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	Follow-up in process.
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	Follow-up in process.
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	Follow-up in process.

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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	Follow-up in process.
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	Follow-up in process.
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	Follow-up in process.
1/5/2011	10-508	Finance and Administration	Review of Information Systems Change Management Controls	Internal Audit recommends that the IS Department establish a process improvement program to assess the performance of the change management process. The monitoring process might include a post-mortem review of rejected or failed changes and report of change control incidents in a periodic report to I.S. management.	Jun-11	The IS Department will implement a full post-mortem review of rejected or failed systems changes that have proceeded through the change control process. This process will add substantial value to IS because it will require the department to review established change controls practices and appraise its effectiveness in future change control situations. As part of the IS Department Matrices, IS also agrees to include change control incidents in its monthly report to its management.	Dunning	

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1/19/2010	N/A	Finance and Administration	Management Letter & Single Audit Report	MHM recommended that Finance and Administration staff provide additional training to ensure staff are aware of OCTA's availability period and procedures for deferring revenue.	Dec-11	The availability period for revenue recognition will be changed from 180 to 90 days. This change will allow revenues to be verified as current or deferred prior to completion of the audit. Additionally, the availability period has been reviewed with the accounts receivable section so that they understand the proper classification of revenues at year end.	Sutter	
1/19/2011	N/A	Independent Financial Statement Auditor	Transportation Development Act Article 4.5 Funds (City of Seal Beach)	Mayer Hoffman McCann PC (MHM) found that the City of Seal Beach (City) had continued to operate transportation services on an expired contract and recommended that the City establish procedures to ensure that agreements do not expire before being renewed or rebid.	Dec-11	The City has measures in place to ensure that contracts do not expire. This particular case is not representative of how the City manages contracts. In this particular case, there was turnover of personnel within the Public Works Department. Additional measures have been implemented to ensure that if turnover occurs in the future and new staff will be informed of the status of existing contracts.	Sutter	
1/19/2011	N/A	Independent Financial Statement Auditor	Transportation Development Act Article 4.5 Funds (Jewish Family Services of Orange County)	MHM found that Jewish Family Services (JFS) does not have a system in place to track deferred revenue from unused taxi vouchers. There is no mechanism in place to identify when a valid taxi voucher has been used, thus JFS is unable to determine the number of taxi vouchers outstanding and, accordingly, the amount of revenue which has not yet been earned. MHM recommended that JFS establish procedures to identify which taxi vouchers have not yet been used. MHM also recommended the implementation of a better system for the tracking of taxi voucher sales and uses.	Dec-11	During the fiscal year 2010/11, JFS met with the contracted cab company, Yellow Cab, and Yellow Cab agreed to provide receipts of all the vouchers collected by the cab drivers to support the use of taxi vouchers for billed cab rides. During the fiscal year 2010/11, JFS will be implementing a new system to improve the ability of tracking and monitoring taxi vouchers.	Sutter	
1/19/2011	N/A	Independent Financial Statement Auditor	Transportation Development Act Article 4.5 Funds (Vietnamese Community of Orange County, Inc.(VNCOC))	MHM found that VNCOC included interest expense as part of its in-kind contributions related to its program. VNCOC acquired a vehicle and finance it at 0 percent interest, but included in-kind expenses of \$1,733 for interest at a rate of 6 percent. MHM disallowed the interest expense and recommended that VNCOC exclude this expense in the future.	Dec-11	VNCOC indicated it will not be recording interest expense on the audit loan on a going forward basis.	Sutter	

**UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS**

*(Audit Reports Issued Through March 28, 2011)*

<b>Audit Issue Date</b>	<b>Report Number</b>	<b>Division / Department / Agency</b>	<b>Audit Name</b>	<b>Recommendation</b>	<b>Initiate Next Update</b>	<b>Management Response</b>	<b>Auditor</b>	<b>Notes</b>
2/23/2011	09-015	Captial Projects	Real Estate and Right of Way Administration	The Possessory Interest Annual Usage Report filed by OCTA did not include all leases.	Aug-11	ROW staff will develop a system to update possessory interest reporting (PIR) information on a monthly basis and will reconcile the annual PIR to ensure accuracy prior to submittal.	Ng	
2/23/2011	09-015	Captial Projects	Real Estate and Right of Way Administration	Management should develop procedures for fair market adjustments to lease rates.	Aug-11	ROW staff will develop policies and procedures to enforce the fair market adjustment terms and conditions for revenue-generating leases.	Ng	
2/23/2011	09-015	Captial Projects	Real Estate and Right of Way Administration	Lease rate adjustments and CPI increases should be consistently implemented.	Aug-11	ROW staff will review leases with terms greater than one year on a monthly basis to determine if a fair market adjustment is warranted. Also, staff will coordinate its efforts with Accounting staff for billing adjustments.	Ng	
2/23/2011	09-015	Captial Projects	Real Estate and Right of Way Administration	Insurance certificates should be reviewed to ensure all required insurance is maintained. Transferred leases should be reviewed to ensure agreements contain appropriate insurance requirements.	Aug-11	ROW staff will review leases to determine insurance certificate update needs and to ensure transfer language is updated. Row staff will corrdinate insurance requirements with Risk Management staff.	Ng	
2/23/2011	09-015	Captial Projects	Real Estate and Right of Way Administration	ROW staff should ensure that subcontractors are added to master agreements prior to work being performed.	Aug-11	ROW staff will be reminded to comply with requirements and management will work with CAMM to incorporate language in the initial CTO and to reduce the probability of work being performed prior to approval.	Ng	
2/23/2011	09-015	Captial Projects	Real Estate and Right of Way Administration	Contract Task Order (CTO) pricing should include subcontractor rates that are in accordance with the master agreement.	Aug-11	CAMM agrees to request that subcontractor pricing be a part of the CTO proposal to ensure that pricing is in accordance with the master agreement.	Ng	
2/23/2011	09-015	Captial Projects	Buena Park Metrolink Station Closeout Audit	OCTA should enforce cooperative agreement provisions requiring monthly progress reports be submitted to OCTA.	Aug-11	Management will remind project managers to enforce cooperative agreement provisions.	Sutter	