



**August 10, 2011**

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

**Recommendation**

Receive and file the fourth 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.

Total budgeted hours for the FY 2010-11 Plan was approximately 8,600, which represents total staff time available for audits after deducting for holidays, sick time, vacation, and continuing professional education. As reflected in the Plan, a vacancy in the Executive Director position resulted in a shortage of approximately 500 audit project hours. This loss of resources impacted Internal

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Audit's ability to complete the Plan and, as of June 30, 2011, five audits are in various phases of completion and another five have not yet been initiated. All projects not yet complete or not yet initiated will be carried forward to the OCTA FY 2011-12 Internal Audit Plan (FY 2011-12 Plan).

For the Plan year, Internal Audit completed 44 projects, including 22 pre-award price reviews (price reviews). Internal Audit conducts price reviews of architectural and engineering (A&E) cost proposals where price was not considered in the evaluation of contractor proposals. Reviews are also conducted of sole source and single bid contracts. For A&E price proposals, Internal Audit verifies direct labor rates to payroll registers, analyzes components of contractors' overhead rates, evaluates the reasonableness of other direct costs, and reviews contractors' proposed escalation rates and profit elements. For sole source contracts, Internal Audit reviews rates to determine whether they appear fair and reasonable and, for single bid contracts, Internal Audit reviews procedures to ensure a fair and competitive process was employed.

The 22 price reviews conducted by Internal Audit represented approximately \$74.8 million in proposed costs for contracts that have been, or are expected to be, executed by OCTA. Internal Audit proposed downward adjustments to cost proposals exceeding \$1 million, or about 1.34 percent of the proposed contract pricing.

The FY 2010-11 Plan incorporated administrative duties into the budget, as this category of time is used in the computation of department efficiency. This performance metric is established for each position, but is also calculated for the department as a whole. It is a measure of the department's use of its controllable time in performing audit projects versus less productive activities. For FY 2010-11, Internal Audit achieved its goal of 72 percent efficiency, computed as:

Audit Project Time

Audit Project Time + Administrative Time (Hours)

Several projects completed during FY 2010-11 were over budget. Those that were over budget by more than 100 hours included the Annual Financial Audit project. This condition resulted from hours spent developing a scope of work, issuing a Request for Proposals, and evaluating firms to perform the independent financial and compliance audits of OCTA and related entities. These services were re-procured at the direction of the Finance and Administration Committee.

The Real Estate and Right of Way Administration review was over budget by 135 hours. This was the result of issues noted during that review that required additional research and from the transfer of supervision of this project upon the

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departure of the Executive Director. Another project, Payment Card Industry Data Security Standards, is over budget by 192 hours due to information that came to light at the exit meeting for the review and, again, from the transfer of supervision of the project.

The semi-annual Treasury reviews were over budget 369 hours. While only two reviews were budgeted, in an effort to produce the reports in a timely manner, a third review was undertaken and is in draft form as of June 30, 2011. In addition, control weaknesses noted in the wire transfer process led to additional review and testing. The 91 Express Lanes Collections review exceeded the original budget by 133 hours. This overrun resulted from the project being delayed and restarted. The reason for delay related to pending litigation and eventual settlement of a class action lawsuit regarding toll assessments and penalties. Finally, the Bridgestone/Firestone Tire Lease project experienced an overrun of 130 hours. This budget overrun related to internal audit staff's training on, and analysis of, information in OCTA's E.J. Ward system. This system is used to account for tire maintenance and usage, and the budget for this project did not anticipate this information systems work.

Price review projects were also over budget by 193 hours. Budget variances in this work are not uncommon as the volume and type of price review work fluctuates from year to year, so it is difficult for Internal Audit to establish a budget when developing an audit plan. To save both time and money, Internal Audit often elects to perform these in-house, rather than contract out the work to an on-call audit firm, even when it results in an over-budget condition. All other projects completed or underway as of June 30, 2011, are within reasonable variances of the budgeted hours.

#### Quality Assurance and Self-Assessment

As required by Government Auditing Standards (Standards), Internal Audit must have both policies and procedures guiding all of its work as well as a process to periodically evaluate compliance with those policies and procedures. In addition to quality control checklists completed for each audit project, Internal Audit performs an Annual Quality Control Review to assess compliance with policies, procedures, and Standards.

#### Fraud Hotline

Twenty three reports were filed through OCTA's fraud hotline during FY 2010-11. Seventeen reports were submitted through the internet site, [www.ethicspoint.com](http://www.ethicspoint.com), and six through the Ethicspoint toll free phone number. All complaints have been reviewed and those with sufficient detail have been investigated and closed. For those with insufficient detail, Internal Audit has

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asked the reporter to provide additional information and will take appropriate action when and if additional information is provided.

#### 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.

On occasion, while performing follow-up procedures or investigating complaints received through OCTA's Fraud Hotline, auditors will identify additional opportunities for improvement that are not included in audit reports. Internal Audit has adopted a policy whereby these must be communicated to management in writing, with a response requested, unless the recommendation is clearly inconsequential. To ensure compliance with Government Auditing Standards, Attachment B in the quarterly updates to the annual audit plan includes these findings and recommendations.

#### **Summary**

The Orange County Transportation Authority Fiscal Year 2010-11 Internal Audit Plan is being closed-out. Projects not yet initiated or in process will be carried forward to the Orange County Transportation Authority Fiscal Year 2010-11 Internal Audit Plan.

#### **Attachments**

- A. Orange County Transportation Authority Internal Audit Department FY 2010-11 Internal Audit Plan Fourth Quarter Update
- B. Unresolved Audit Findings and Recommendations (Audit Reports Through June 30, 2011)

**Approved by:**



Janet Sutter  
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**Orange County Transportation Authority  
Internal Audit Department  
FY 2010-11 Internal Audit Plan  
Fourth 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	549	(124)	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	132	(7)	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	7	14	Complete (OCCOG Board 11/18/10)	MHM
Service Authority for Abandoned Vehicles (SAAV) Bi-annual Reviews	(Unbudgeted: Coordination of SAAV biannual review)	Compliance	-	85	(85)	Complete (06/08/11)	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	112	14	Complete	
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	92	(12)	Complete (04/06/11)	
Fraud Hotline	Investigations of reports of fraud, waste, or abuse.	Fraud Hotline	80	79	2	Ongoing	
<b>Internal Audits</b>							
<b>Human Resources and Organizational Development</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	<b>Carryover</b>	
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	<b>Carryover</b>	
State Route 57 Improvements	Review of contracts for design and preliminary engineering for the State Route 57 improvements.	Compliance	300	118	182	In Process <b>Carryover</b>	
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	<b>Carryover</b>	
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	<b>Carryover</b>	
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	None Required for FY10-11	
Contracted and Paratransit Operations	Review to ensure contract stipulations are being complied with and to verify the propriety of payments.	Compliance	350	315	36	In Process <b>Carryover</b>	

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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	43	32	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	544	(369)	2 Complete (1/19/11, 3/28/11) <b>1 In Draft</b>	
Cost Allocation Plan	Review of OCTA's methodology for, and application of, cost allocation.	Financial	150	234	(84)	Complete (5-11-11)	
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. (Unbudgeted: Prepare Scope of Work and issue Request for Price Review and Buy America Review Services	Price Review	1,000	1,193	(193)	22 Reviews Complete, 2 Cancelled	
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	194	6	Complete (6-8-11)	
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	<b>Carryover</b>	
Warranty Administration	Review of internal controls over warrantied equipment.	Internal Control	175	228	(53)	Complete (6-8-11)	
Fuel Controls	Review of controls over dispensing of petroleum products.	Internal Control	50	64	(14)	In Process <b>Carryover</b>	

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<b>Information Systems</b>							
Information Systems Change Management Controls	Review of information systems change management policies, procedures, and controls.	Operational	225	294	(69)	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	342	(192)	Complete (07/13/11)	
Telecommunications Equipment	Review of telecommunications equipment usage and internal controls.	Internal Control	150	116	34	In Process <b>Carryover</b>	
<b>Unscheduled Reviews and Special Requests</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	67	(17)	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	24	17	Ongoing	
Subrecipient Monitoring	Assist management in the development and implementation of policies and procedures to ensure compliance with FTA-required subrecipient monitoring.	Monitoring	60	43	17	Ongoing	
<b>Follow-up Reviews</b>							
Follow-up reviews and reporting	Follow-up on audit findings and recommendations.		250	248	3	Ongoing	
<b>Total Audit Project Hours (A)</b>			<b>6,185</b>	<b>6,002</b>			

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<b>Internal Audit Administration</b>							
	Board of Directors and Board Committee Meetings		300	231	70		
	Executive Steering Committee and Agenda Meetings		150	83	68		
	Internal Audit Department Staff Meetings		360	49	311		
	Other Administration		1,600	1,544	56		
		<b>Total Hours (B)</b>	<b>8,595</b>	<b>7,908</b>	<b>504</b>		
		<b>Target Efficiency (A/B)</b>	72%				
		<b>Actual Efficiency (A/B)</b>	76%				

**UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS**

*(Audit Reports Issued Through June 30, 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.	Sep-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 September 2011.
11/19/2008	08-001A	Information Systems	Payroll Systems Controls Review	Management should prioritize the development of a comprehensive business continuity plan.	Sep-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 OCTA is 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 September 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.	Nov-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. <u>Update April 2011:</u> There is significant, ongoing work effort by Metrolink management to address all outstanding audit findings and implement corrective actions recommended by the audits where necessary. Metrolink staff plans to bring detailed recommendations to the Executive Management and Audit Committee by June 2011.	Bonelli	Next follow-up will be conducted in November 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	Next follow-up scheduled for September 2011.
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	Next follow-up scheduled for September 2011.
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.	Nov-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. <u>Update:</u> Cofiroute continues to work on the development of the new 91 Express Lanes software. The new software will have controls in place to prevent NTEVs from being sent to toll road violators past the deadline established in the code. In addition, Cofiroute continues to run exception reports on a daily basis and to investigate any exceptions.	Bonelli	Next follow-up will be conducted in November 2011.

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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.	Nov-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	Next follow-up will be conducted in November 2011.
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. <u>Update:</u> Management will implement this recommendation when preparing the fiscal year ending June 30, 2011 financial reports. The reports are anticipated to be completed by October 31, 2011.	Dunning	Follow-up in process.
1/19/2010	N/A	Finance and Administration	Management Letter & Single Audit Report	Mayer Hoffman McCann, PC (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	

**UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS**

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1/19/2011	N/A	Independent Financial Statement Auditor	Transportation Development Act Article 4.5 Funds (City of Seal Beach)	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 as 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 financed it at 0 percent interest, but included in-kind expenses of \$1,733 for interest at a rate of six 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	
2/23/2011	09-015	Capitol Projects	Real Estate and Right of Way (ROW) 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	Capitol Projects	Real Estate and ROW 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	

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2/23/2011	09-015	Capital Projects	Real Estate and Right of Way Administration	Lease rate adjustments and Consumer Price Index 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	Capital Projects	Real Estate and ROW 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 coordinate insurance requirements with Risk Management staff.	Ng	
2/23/2011	09-015	Capital Projects	Real Estate and ROW 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 CMM to incorporate language in the initial Contract Task Order (CTO) and to reduce the probability of work being performed prior to approval.	Ng	
2/23/2011	09-015	Capital Projects	Real Estate and ROW Administration	CTO pricing should include subcontractor rates that are in accordance with the master agreement.	Aug-11	Contracts Administration and Materials Management (CMM) 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	Capital 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	
4/13/2011	11-005	Measure M City Audits	Westminster	The auditors recommended the City of Westminster (Westminster) reimburse the turnback fund for \$44,955 in General Administrative Fees and \$23,859.45 in interest expense.	Dec-11	Westminster agreed to reimburse the amounts.	Sutter	
4/13/2011	11-005	Measure M City Audits	Tustin	Auditors recommended that the City of Tustin (Tustin) reimburse the turnback fund \$50,000 in unsupported, indirect charges, and that an additional entry of \$148,366 be made to reflect charges to the fund for allowable direct labor expenditures. Auditors also noted expenditures for one project that were included in an amended Seven-Year Capital Improvement Plan (CIP) that was not submitted to the Orange County Local Transportation Authority (OCLTA) as required.	Dec-11	Tustin agreed and indicated a net entry of \$98,366 would be made for the FY2010. Also, Tustin agreed to submit the amended CIP to OCLTA.	Sutter	

**UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS**

*(Audit Reports Issued Through June 30, 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>
4/13/2011	11-005	Measure M City Audits	San Juan Capistrano	Auditors recommended that the City of San Juan Capistrano (SJC) submit a request for extension to OCLTA for funds not spent within three years and that SJC ensure interest is allocated to unspent turnback monies.	Dec-11	SJC responded that a request for extension would be submitted to OCLTA and that turnback funds will be segregated to ensure accurate interest allocation to the fund in the future.	Sutter	
6/8/2011	11-007	Service Authority for Abandoned Vehicles (SAAV)	Financial and Compliance Audits of the SAAV and related Member Agencies	Auditors noted several exceptions and, as a result, the Board approved the following recommendations: (1) Direct staff to offset a future payment to the City of Westminster in the amount of \$13,450.64. (2) Direct staff to monitor implementation of recommendations related to refunds from the cities of Anaheim and Costa Mesa in the amounts of \$1,436.84 and \$706.00, respectively. (3) Direct staff to monitor implementation of recommendation related to restoration of funds by the cities of La Habra, Los Alamitos, and Orange. (4) Direct staff to enhance the User Guide for Member Agencies to include additional guidance on supporting documentation for expenditures and allocation of interest.	Jan-11	Management concurred and agreed to implement the recommendations.		