



August 12, 2009

To: Finance and Administration Committee
From: Will Kempton, Chief Executive Officer
Subject: Draft Fiscal Year 2009-10 Internal Audit Plan

Overview

At the direction of the Orange County Transportation Authority's Board of Directors, the Internal Audit Department develops and implements an annual risk-based Internal Audit Plan. Implementation of an annual Internal Audit Plan assists management in the evaluation of the effectiveness and efficiency of projects, programs and operations while ensuring that adequate controls and safeguards are in place to protect Orange County Transportation Authority's assets and resources.

Recommendations

- A. Approve the Draft Fiscal Year 2009-10 Internal Audit Plan.
- B. Direct the Executive Director, Internal Audit to provide quarterly updates on the Internal Audit Plan.

Background

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

Discussion

The Internal Audit Department is presenting the Draft Fiscal Year 2009-10 Internal Audit Plan (Audit Plan) for the Board of Directors' approval. The Audit Plan was developed using an enterprise-wide risk assessment. The Audit Plan will be implemented using Internal Audit Department staff, on-call consultants, the independent auditors for the annual financial audit of OCTA, and other firms as needed.

During the fiscal year, priorities and circumstances may change, requiring that changes be incorporated into the Audit Plan. Internal Audit reports quarterly to the Board of Directors on the status of the Audit Plan and will revise the Audit Plan as needed to address these changes in priorities and circumstances.

Fiscal Impact

The Audit Plan has been developed within the resources available in the adopted budget for fiscal year 2009-10.

Summary

The Audit Plan has been developed to support the Board of Directors and OCTA management in the discharge of their duties and responsibilities to safeguard the assets of OCTA while ensuring those assets are used in an efficient and effective manner.

Attachment

- A. Draft Fiscal Year 2009-10 Internal Audit Plan

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ORANGE COUNTY TRANSPORTATION AUTHORITY
Internal Audit Department



Draft Fiscal Year 2009-10
Internal Audit Plan



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**ORANGE COUNTY TRANSPORTATION AUTHORITY
Internal Audit Department
Fiscal Year 2009-10 Internal Audit Plan**

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Mission of the Internal Audit Department

The mission of the Internal Audit Department (Internal Audit or Department) of the Orange County Transportation Authority (Authority or OCTA) is to assist management and the Board of Directors (Board) in the effective discharge of their duties and responsibilities to safeguard the assets of the Authority while ensuring those assets are used in an efficient and effective manner. To this end, Internal Audit serves as an independent appraisal function to examine and evaluate the Authority's operations, activities, internal controls, compliance, opportunities, and risks.

Internal Audit Department Activities

Internal Audit is responsible for examining and evaluating financial, administrative and operational activities of the Authority, and supplying management with information to assist in its control of the assets and operations for which it is responsible.

Internal Audit provides a wide range of auditing services including annual financial audit oversight, operational reviews, contract compliance reviews, internal control assessments, investigations, pre-award and post-delivery Buy America reviews, and pre-award price reviews. All audits initiated by entities outside of the Authority are coordinated through Internal Audit.

In July 2007, the Government Accountability Office (GAO) broadly defined audits as financial, attestation or performance audits. Financial audits, including financial statement audits, are assessments of, and assurances about, an entity's reported financial condition, operating results, or other defined financial criteria. Attestation engagements are both financial and non-financial and result in varying degrees of assurances about specific subject matter. Price reviews conducted by the Internal Audit Department are an example of attestation engagements whereby Internal Audit opines on specific elements of contractor price proposals.

Internal Audit's efforts, however, are focused primarily on the third category of audits, performance audits, as defined by the GAO. Performance audit objectives vary widely and include assessments of program effectiveness, economy and efficiency, internal control, compliance, and prospective analysis. To more accurately define the objectives of these performance audits, Internal Audit categorizes audit projects in a more descriptive manner as indicated below. It is important to note, however, that most audit projects include objectives consistent with one or more of these audit types.

Compliance – Compliance audits are performed to ensure that the terms and conditions of contracts, grants, memorandums of understanding or other agreements are being followed and that there is compliance with Board adopted policies and procedures, management policies and procedures, contract provisions, or regulatory requirements.

Price Review – Price reviews are conducted to determine if proposed pricing or costs are fair, reasonable, and/or necessary. Certain price reviews are mandated by federal or state statutes, and others by Authority procurement policy.

Financial - Financial audits focus on verification of financial transactions and balances. Financial audits include the financial statement audits of the Authority and related legal entities, as well as other attestation audits performed by external auditors to ensure compliance with debt covenants and restrictions, or other legally mandated requirements.

Internal Control – Internal control audits are performed to ensure that there are adequate controls in place to protect assets or resources. Internal controls include processes for safeguarding assets as well as segregating incompatible duties.

Operational - An operational audit is performed to evaluate current operating procedures and to determine if there are more efficient or effective ways to accomplish the goals of the project, program, or activity. Operational audits generally include elements of an internal control audit or a compliance audit.

Information Systems – Information systems (IS) audits are designed to evaluate controls over the accuracy and reliability of electronic data. These audits focus on the IS system life-cycles of planning and organization, acquisition and implementation, delivery and support, and monitoring and evaluation.

Monitoring - Monitoring activities are carried out to gain insight into newly developed or developing programs, or projects to allow auditors to continuously identify associated risk.

Follow-Up Activities – Activities and procedures undertaken to ensure that audit recommendations are implemented or otherwise satisfactorily addressed.

Investigations – Activities undertaken in response to a complaint or allegation.

Fiscal Year 2008-09 Accomplishments

- Coordinated and assisted external auditors with the annual financial audit, including full staff support for the National Transit Database Agreed-Upon-Procedures.
- Completed 52 audit projects and provided over 50 recommendations for improvements in operations, policies and procedures, internal controls, and compliance.
- Issued OCTA's first audit report in compliance with Government Auditing Standards issued by the GAO.
- Worked with the audit subcommittee of the Orange County Local Transportation Authority Taxpayers Oversight Committee to ensure the audit requirements of the subcommittee were achieved during the annual financial audit and assisted the subcommittee in addressing clarifications to the Measure M Ordinance or guidelines.
- Implemented the workpaper, time reporting, and risk assessment modules of the Department's audit software (Audit Leverage) and completed a full year's audit work using the system, drastically reducing the Department's paper usage and creating efficiency in the review and approval of audit work.
- Conducted follow-up reviews of the implementation of audit recommendations and reported progress quarterly to the Finance and Administration Committee.

- Participated on numerous internal and external committees and task forces, including the Professional Issues Committee of the Association of Local Government Auditors. This committee provides feedback to standards-setting bodies on exposure drafts and other proposed professional pronouncements.
- Collaborated with the Contracts Administration and Materials Management (CAMM) Department to create greater efficiency in OCTA's review of prices proposed by architectural and engineering (A&E) firms.
- Conducted a training course for the CAMM Department to assist procurement administrators in their review of smaller A&E price proposals.
- Completed the procurement of a vendor to provide 24/7 fraud hotline service.

Fiscal Year 2009-10 Goals

- Complete the implementation of OCTA's fraud hotline, including the development of a website, policies and procedures for investigation and reporting of activities, and a public outreach plan.
- Assist the Human Resources and CAMM departments in the development of a training program for OCTA's newly adopted Code of Conduct.
- Customize Audit Leverage reports to further improve the efficiency of the Department.
- Complete an in-house self assessment of Internal Audit's compliance with Government Auditing Standards and modify or update policies and procedures accordingly.
- Participate on two quality assurance (Peer) review teams to accrue reciprocal credit.
- Undergo Internal Audit's first Peer review.
- Develop a formal training assessment for each internal auditor in the Department.
- Complete the Fiscal Year 2009-10 Internal Audit Plan.

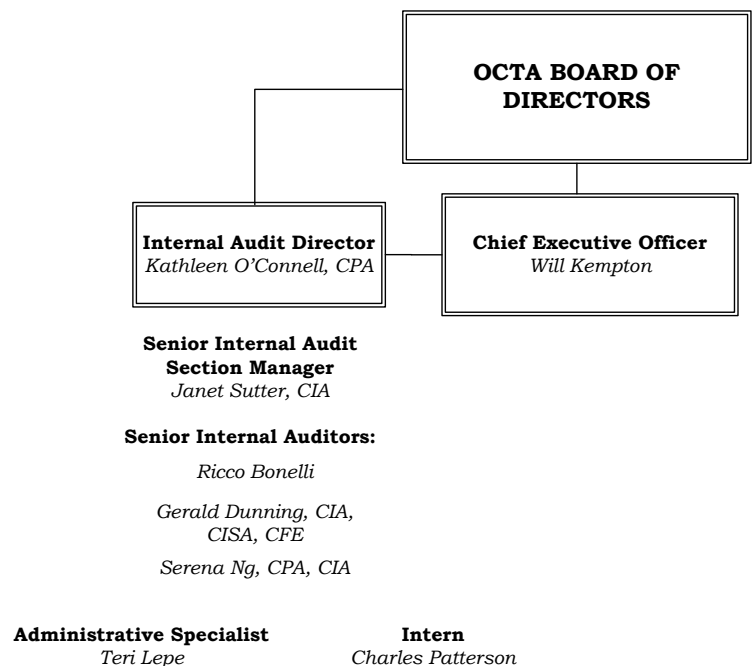
Internal Audit Organization

Government Auditing Standards require that auditors be independent in both fact and appearance with respect to the entities for which they perform audit or attestation services. Impairments to independence arise from three general classes – personal, external, and organizational. Personal impairments result from relationships or beliefs that cause auditors to limit the extent of inquiry, disclosure, or weaken or slant audit findings in any way. External impairments to independence arise from external interferences that deter auditors from acting objectively and exercising professional skepticism by pressures, actual or perceived, from management and employees of the audited entity or oversight organizations. Organizational impairments to independence result when the audit function is organizationally located within the reporting line of the areas under audit or when the auditor is assigned or takes on responsibilities that affect operations of the area under audit.

The Internal Audit Department has established mechanisms to identify and remedy personal and external impairments to independence and OCTA has established an internal audit function that is organizationally independent. The Internal Audit Department reports functionally to the Board of Directors, and administratively to the Chief Executive Officer.

Among all the organizational alternatives for government entity internal audit departments, the GAO finds a presumption of independence where the audit organization is “elected or appointed by a legislative body, subject to removal by a legislative body, and reports the results of audits to, and is accountable to, a legislative body.”

Internal Audit Departmental Organization Chart



Risk Assessment Process

It is the responsibility of management of the Authority to identify, assess, and manage risk. It is Internal Audit’s responsibility to facilitate the identification and assessment of risk, and to monitor and report on how well risks are being managed by the Authority. All organizations face risks, which are defined as those events, actions, or inactions that could cause key business objectives not to be achieved. To mitigate and manage these risks, an organization typically implements internal controls, anticipates and plans for disruptions, develops risk management programs, and engages in other risk mitigation activities.

The key business objective of the Authority is defined in its mission statement “*Enhancing the quality of life in Orange County by delivering safer, faster, and more efficient transportation solutions.*” Those solutions are imbedded in the core business units of the Authority which include transit operations, regional transportation planning, development and rail programs. These business units are supported by administrative functions. All of these services are delivered through a variety of projects, programs, and activities.

In planning for fiscal year 2009-2010 audit activities, Internal Audit began populating the department's new audit software, Audit Leverage, with risk assessment criteria by program, project or contract, along with risk weightings and ratings. This process has allowed a much more dynamic and flexible approach to risk assessment than has been used in years past.

Risk Assessment Methodology

First, Internal Audit created a comprehensive listing of projects, programs, or contracts (auditable entities). Each was then classified by type:

- Transportation Project
- Transportation Program
- Highway Project
- Rail Program
- Administrative Program
- Information System
- Account or Fund Balance
- Contract

Next, Internal Audit defined a universe of risks that could be applicable to one, some, or all of these project or program types:

Compliance Risk – The degree of regulatory oversight and the volume of regulations with substantial fines, penalties, or other sanctions for noncompliance

Financial Risk – Financial exposure to the Authority

Complexity of Operations – The number of individuals, departments, contractors, information systems, and manual processes involved in the delivery of this project or program. The degree to which transactions require professional judgment or technical expertise

Operational Risk – The severity of impact of a disruption in the operation of this Authority project or program on travelers in Orange County

Strategic Risk – The significance of this project or program to the Authority's long term success

Image and Reputation Risk – The intensity of public interest and awareness, and the visibility of the project or program to the media

Internal Controls Risk – The extent to which internal controls have been designed, implemented, and/or are operating effectively

Audit Committee Interest – Level of interest shown in this project or program by the Finance and Administration Committee or the Board of Directors

Security Risks – The impact of a security breach to Authority customers, contractors, employees, or the public

Safety Risks – The degree of severity resulting from incidents or accidents

Control Environment – The degree to which management has fostered a culture that includes appropriate internal control conscientiousness

Time Since Last Audit – The length of time since the last audit or review was conducted

The creation of a universe of project types and a compilation of all types of risk allowed Audit Leverage to create, in a “batch” manner, a risk assessment unique to each type of project or program.

Next, Internal Audit defined a five-point rating scale:

Rating	Description
5	High Risk
4	Moderate to High Risk
3	Moderate Risk
2	Low to Moderate Risk
1	Low Risk

Finally, for each project type and risk, Internal Audit assigned ratings and weighted the appropriate risks. The following tables demonstrate this process.

Example of an Administrative Program Risk Assessment:

Auditable Entity		Financial Risk	Compliance Risk	Control Environment	Safety Risk	Security Risk	Audit Committee Interest	Operational Risk	Strategic Risk	Complexity of Operations	Image & Reputation	Time Since Last Audit	Weighted Average Risk
Purchasing Cards	Risk	2	4	3	-	2	4	2	-	4	5	1	3.2
	Weight	20%	10%	10%	-	5%	5%	15%	-	10%	20%	5%	100%

Example of a Highway Project Risk Assessment:

Auditable Entity		Financial Risk	Contract Compliance Risk	Safety Risk	Audit Committee Interest	Image and Reputation	Weighted Average Risk
I-5 Gateway	Risk	5	5	4	3	5	4.6
	Weight	40%	25%	10%	15%	10%	100%

As can be seen in the first example, several of the risk factors that were pre-populated by Audit Leverage for this administrative program were not used, as they were not considered appropriate risk factors for this particular auditable entity. Neither safety nor strategic risks were considered applicable to a purchasing card program. For the I-5 Gateway highway project, all risk factors were considered relevant. However, as can be seen, fewer risks were applied to this project type. For example, operational risk, defined as the impacts of service disruptions, would generally relate to an ongoing program rather than a construction project. Thus, this risk would generally not apply to highway projects.

Like projects and programs, Internal Audit risk assessed all contracts with a term beginning June 30, 2009 and greater than \$1.5 million.

Following the risk assessment of each of approximately 200 auditable entities within OCTA, Internal Audit summarized the results on the heat chart in Appendix A. The heat chart translates the numerical risk ratings of each auditable entity into a more visually appealing format.

The Risk Assessment also includes the results of an Information Systems Risk Assessment that was conducted during fiscal year 2008-2009 by the professional services firm, Control Solutions, Inc. That risk assessment identified five major control areas within the information systems environment which should be reviewed on a periodic basis. These included system continuity, information security, systems development, change management, and information systems operations. Each has been included in the comprehensive OCTA Risk Assessment at Appendix A, along with the risk ratings as determined by Control Solutions, Inc.

The Information Systems Risk Assessment did not include an assessment of risks relevant to specific system applications. Therefore, Internal Audit bundled OCTA's approximately 100 applications by function and assessed the risk of each bundle using specifically defined information system risk assessment criteria. The results of these risk assessments are also included in Appendix A.

Internal Audit Plan Development

The Internal Audit Plan for fiscal year 2009-2010 at Appendix B calls for approximately 7,300 Internal Audit hours. Of these hours, approximately 725 relate to mandatory audit activities and 645 relate to Internal Audit Department initiatives. The budget also includes 800 hours for price review services. While the Department has external audit contractors that perform these on an on-call basis, OCTA's CAMM Department generally requests quick turnaround of these reviews so as to assist them in contract negotiations with architectural and engineering firms and in an effort to accommodate these requests, Internal Audit has been conducting more price reviews in-house. This leaves approximately 5,900 hours for traditional internal audits.

The Internal Audit Plan seeks to align limited audit resources with risk throughout the organization while considering prior audit effort as identified in the Appendix B Risk Assessment. The Internal Audit Plan also includes some subjective evaluation of other factors that were not risk rated during the risk assessment process. For example, some high risk entities in the Risk Assessment are not included in the Internal Audit Plan because they are projects in their infancy. Several highway projects, while considered high risk due to financial exposure, would be more suitably audited when more expenditures are incurred. Other high risk entities were not included in the Internal Audit Plan because of current situational factors. Such is the case with employment services. This audit project which was included in the 2008-2009 Internal Audit Plan has been cancelled due to OCTA's hiring freeze and the redeployment of employment staff to other human resources activities.

OCTA also has several on-going initiatives that are proactively addressing risks related to security and business resumption planning, therefore, these high risk auditable entities have not been included in the Internal Audit Plan. For example, the Information Systems Department is currently developing a scope of work for the preparation and implementation of a disaster recovery plan. In addition, OCTA has embarked on a multi-year security program which will address gaps found between newly developed security policies and the current OCTA environment, as well as address compliance with regulations such as the Homeland Security Act, the U.S. Patriot Act, the Health Insurance Portability Accountability Act, and payment card security requirements.

Internal Audit will continue to refine the risk assessment module of Audit Leverage to include emerging OCTA projects, programs, and contracts. Internal Audit will also continue to assess the risk ratings and weightings included in Audit Leverage to most accurately reflect risk to the organization and to allow the greatest coverage of that risk in the annual audit planning process.

APPENDIX A: Risk Assessment by Program/Project/Contract

Orange County Transportation Authority
Internal Audit Department
Risk Assessment by Program/Project/Contract
Fiscal Year 2009-10

Division	Functional Area	Project/Program	Contract	RISK ASSESSMENT	5 Year Audit History
Executive					
Clerk of the Board					
Public Records Requests				Low to Moderate	
Form 700 Disclosures				Moderate	
Public Meeting Notice				Low to Moderate	
Board of Directors Compensation and Ethics Compliance				Moderate	2009
Legal Services					
Contracts > \$1.5 million:					
Woodruff, Spradlin and Smart P.C. (\$2.8 million)				Low to Moderate	2007
Motorist Services					
Freeway Service Patrol Program and contracts (\$1.6 to \$5.1 million)				Moderate to High	2007
Call Box Program and Contracts > \$1.5 million:					
Comarco Wireless Technologies (\$3 million)				Low to Moderate	
Republic ITX (\$1.6 million)				Low to Moderate	
511 Motorist Aid Program				Moderate	
Taxicab Administration Program				Moderate to High	
Service Authority for Abandoned Vehicles				Moderate	
Planning and Development					
American Recovery and Reinvestment Act (ARRA)				Moderate to High	2010
Highway Project Delivery					
Contracts > \$1.5 million:					
I-5 Gateway					
URS (\$12 million)				High	2010
Caltrans Cooperative Agreement (\$28.3 million)				High	2010
Inspection, Survey & Public Awareness - Caltrop (\$18 million)				High	
Caltrans Cooperative Agreement (\$124 million)				High	2010
Cooperative Agreement with City of Buena Park (\$2.3 million)				Moderate	
I-5 Pico to PCH Improvements (M2 - Project C) - P/A E/D					
RMC, Inc. (\$4.7 million)				Moderate	
I-5 from I-405 to SR-55 and I-5 at Baranca					
Caltrans Cooperative Agreement for PS&E (\$2.5 million)				Low to Moderate	
I-5 Oso Parkway					
Plans, Specifications and Estimates - CH2MHill (\$1.5 million)				Low to Moderate	
I-5 / SR-55 Transitway Connector					
Caltrans Cooperative Agreement for Alternative Designs C12-054 (\$2.0 million)				Moderate	
I-405 Jamboree to SR-73 and SR-55 from I-405 to MacArthur					
Caltrans Cooperative Agreement (\$19.5 million)				High	
I-405 from SR-55 to I-605					
RFP Preparation for Improvements - PTG (\$9.6 million)				Moderate	
I-405/SR-55 Inspection Support Services for MOS-1					
Jacobs Civil Inc. (\$2.3 million)				Moderate	

Orange County Transportation Authority
Internal Audit Department
Risk Assessment by Program/Project/Contract
Fiscal Year 2009-10

	RISK ASSESSMENT	5 Year Audit History
SR-57 Improvements		
Caltrans Cooperative Agreement for ROW Support Services - Jacobs Civil (\$6.5 million)	High	
Design - CH2MHill C71247 (M2 - Project G) (\$6.0 million)	Moderate	
Design - RFB C70887 (M2 - Project G) (\$6.7 million)	Moderate	
SR-22 Projects		
SR-22 Design Build Management Contract - PTG	Moderate to High	2010
Design/Construct Thunderbird Sewer Station Improvements - GG Sanitation Dist. (1.9 million)	Low to Moderate	
Cooperative Agreement with OCFCD (\$1.5 million)	Low to Moderate	
SR-91 Improvements		
Caltrans Cooperative Agreement for Design Services (\$1.7 million)	Low to Moderate	
West County Connectors		
Design Services – Parsons Transportation Group (\$9.6 million)	High	
On-call Environmental Services - Kleinfelder (\$2.5 million)	Moderate to High	2010
On-call Design Services - Carter & Burgess, Miralles Associates, STV Inc. (\$1.9 million)	Moderate to High	2010
Project Management Consultant Services - Hatch Mott McDonald (\$1.7 million)	Moderate	
Grade Separation Projects		
Contracts > \$1.5 million:		
Kraemer Boulevard		
Design - HTNB (\$4.7 million)	Moderate to High	
Lakeview Avenue		
Design - CH2MHill (\$3.5 million)	Moderate to High	
Orangethorpe Avenue		
Design - DMJM Harris AECOM (\$6.2 million)	Moderate to High	
Tustin Avenue		
Design - Biggs Cardosa Associates \$4.4 million	Moderate to High	
Placentia Boulevard		
Design - MTK Engineering (\$1.8 million)	Moderate to High	
Raymond Avenue	Moderate to High	
State College Boulevard	Moderate to High	
Plan Check Services for 5 Grade Separation Projects - Althalye Consulting (\$2.0 million)	Moderate to High	
Highway Project Management		
Project Controls	Moderate to High	2006
Change Order Controls	High	
Highway Project Mitigation Program	Moderate to High	
Local Projects		
Combined Transportation Funding Program – Measure M Competitive	High	2010
Measure M Turnback	High	Annual
Measure M Go-Local Projects		
Contracts > \$1.5 million:		
City of Anaheim Fixed Guideway Alternatives Analysis & Env. Clearance (\$5.9 million)	Moderate to High	
City of Santa Ana Fixed Guideway (\$5.9 million)	Moderate to High	
City of Irvine Fixed Guideway Cooperative Agreement (\$5.2 million)	Moderate to High	
Measure M2 Environmental Mitigation Program	Moderate to High	
Measure M2 Water Quality Program	Moderate to High	
Measure M1/Prop 1B Signal Synchronization Program - 10 corridors	Moderate to High	
Measure M2 Regional Transportation Signal Synchronization Program	Moderate to High	

Orange County Transportation Authority
Internal Audit Department
Risk Assessment by Program/Project/Contract
Fiscal Year 2009-10

	RISK ASSESSMENT	5 Year Audit History
Facility Projects		
Facility Project Management	Moderate	
Contracts > \$1.5 million:		
Sand Canyon CNG Fueling Facility - Clean Energy (\$3.7 million)	Moderate to High	
Fullerton Parking Expansion - City of Fullerton ROW Acquisition (\$3.2 million)	Moderate to High	
Irvine Transportation Center Parking Structure	Moderate to High	2010
Sand Canyon Base Building Modifications - Dalke & Sons Construction (\$2.6 million)	Moderate	
Revenue and Revenue Sharing Contracts	High	2010
Right of Way and Real Estate Administration	High	2010

Rail Programs

Metrolink		
Contracts > \$1.5 million:		
Metrolink Cooperative Agreement for 30 Minute Service (\$87.9 million)	High	
Metrolink Cooperative Agreement for Grade Crossing/Quiet Zones (\$60 million)	High	
Atchinson, Topeka & Santa Fe Track Construction along SB Subdivision (\$26.5 million)	High	
Parsons Brinkerhoff Project Management for Metrolink Expansion (\$5 million)	Moderate to High	
Soundwall Esperanza/Orangethorpe at Imperial - City of Anaheim (\$2.3 million)	Moderate to High	
Metrolink Audit Activities	High	2010
Metrolink Ridership and Revenue & Expense Allocations	High	
High Speed Rail		
Contracts > \$1.5 million:		
CHSRA Cooperative Agreement for E.I.R. for Anaheim to Los Angeles Segment (\$7.0 million)	Low to Moderate	
Anaheim Regional Transportation and Intermodal Center (ARTIC)		
Contracts > \$1.5 million:		
City of Anaheim Cooperative Agreement (\$6.0 million)	Moderate	
Environmental & Advanced Design - Jones & Stokes (\$2.9 million)	Moderate	
Rail Right of Way Maintenance Services	Moderate	

Transit Operations

Community Transportation Services		
ACCESS Eligibility	High	2007
ACCESS Service		
Contracts > \$1.5 million:		
Veolia Transportation ACCESS, Fixed Route, etc through June 2009 (\$95.6 million)	High	2007
MV Transportation Contracted Fixed Route, etc. through 2013 (\$33.7 million)	High	2010
Senior Mobility Programs		
Contracts > \$1.5 million:		
Funding agreements with Orange County Cities for Senior Mobility Programs (\$6.0 million)	Moderate to High	
Maintenance		
Base Facilities	Moderate	
Vehicles	Moderate to High	2010
Stops & Zones	Moderate	

Orange County Transportation Authority
Internal Audit Department
Risk Assessment by Program/Project/Contract
Fiscal Year 2009-10

	RISK ASSESSMENT	5 Year Audit History
Fixed Route Operations		
Operations Training	Moderate to High	2007
Company Equipment Assigned Vehicles	Moderate	2006
Operations Field Supervision	Moderate	
Fare Evasion	Moderate	
Lost and Found Operations	Low	
Central Communications		
Radios and Dispatch	High	
Transit System Security		
Contracts > \$1.5 million:		
Orange County Sherrifs Department (\$9.9 million)	Moderate to High	
Bus Rapid Transit		
Contracts > \$1.5 million:		
Design Services Bus Stop Enhancements - IBI Group (\$2.5 million)	Moderate to High	
Bus Service Reduction Program	Moderate	
Vehicle Dispositions	Moderate	
Measure M Transit Programs	Moderate	
Project S - Shuttle Services	Moderate	
Project V - Community Circulators	Moderate	
Janitorial Service Contracts	Low to Moderate	
Security		
Security – Infrastructure	Moderate to High	
Security – Documents and Critical Information	Moderate to High	
Security – Rolling Stock	Moderate to High	
Disaster Preparedness and Business Resumption	High	

Finance and Administration

Financial Planning & Analysis		
Budget Development & Monitoring	Moderate	
Performance Measures	Moderate	
Comprehensive Business Plan	Moderate	
Treasury / Public Finance Management		
Investments	High	2010
Contracts > \$1.5 million:		
Investment Advisory & Management Fees - Saloman Smith Barney (\$3.4 million)	Moderate to High	2010
Investment Advisory & Management Fees - Bear Stearns (\$3.5 million)	Moderate to High	2010
Investment Advisory & Management Fees - Payden & Rygel (\$2.3 million)	Moderate to High	2010
Investment Advisory & Management Fees - State Street Global Advisors (\$2.1 million)	Moderate to High	2010
Arbitrage Rebates	Moderate	
Toll Roads		
Toll Road Revenue Collection	High	2010
Toll Road Contracts > \$1.5 million		
Toll Road Operations - Cofiroute USA LLC (\$30.1 million)	Moderate to High	2006
Toll Road Transponders - SIRIT Corp. (\$2.2 million)	Moderate	
Toll Road Building Lease - LBA Realty Fund (\$1.5 million)	Moderate	
Investor Relations	Moderate	

Orange County Transportation Authority
Internal Audit Department
Risk Assessment by Program/Project/Contract
Fiscal Year 2009-10

	RISK ASSESSMENT	5 Year Audit History
Accounting and Financial Reporting		
General Accounting	Moderate	
Financial Reporting	Moderate	Annual 2010
Cost Allocation Plan	Moderate to High	
National Transit Data Reporting	Moderate to High	Annual
Measure M Accounting & Reporting	Moderate	Annual
Sales Tax Revenue	High	2010
Farebox Revenue Collection and Armored Car Services	High	2008
Contracts > \$1.5 million:		
Sectran Security Armored Car and Revenue Counting (\$3 million)	Moderate to High	2008
Grants Management & Accounting	High	2009
Accounts Payable	Moderate to High	
Purchasing Cards	Moderate to High	2009
Corporate Credit Cards	Moderate to High	
Accounts Receivable	Moderate to High	
Capital Assets	Moderate to High	2009
General Services		
Printing and Reprographics	Low	
Records Management	Moderate	2007
Building Operations / Lease Administration		
Contracts > \$1.5 million		
P M Realty (Administration Building Lease)	Moderate	
Access & Identification Cards	Moderate	2007
Risk Management		
Insurance Program Administration	Moderate	
Liability Claims Management	Moderate to High	2007
Workers Compensation	Moderate to High	2006

Human Resources and Organizational Development

Employment		
Preemployment Testing and Background	High	
Performance Management and Discipline	Moderate to High	
Transfers and Terminations	Low	
Merit and Promotion	Low	
Restricted Duty	Moderate	
Personnel Records	Moderate	
Extra Help and Contract Staffing	Low	
Compensation, Payroll and Benefits		
Payroll	High	2009
Payroll – Overtime	Moderate to High	2009
Payroll – Special (Termination Pay, Lump Sum Pay, etc.)	Moderate to High	2009
Payroll – Garnishments	Low to Moderate	
Healthcare Plans		
Contracts > \$1.5 million:		
AETNA Healthcare (\$2.9 million)	Moderate to High	2006
Family Medical Leave Act	Moderate	
Flexible Benefits	Low to Moderate	
Orange County Employees Retirement System	Moderate	2008

Orange County Transportation Authority
Internal Audit Department
Risk Assessment by Program/Project/Contract
Fiscal Year 2009-10

	RISK ASSESSMENT	5 Year Audit History
Health Insurance Portability and Accountability Act	Moderate	2007
Teamsters Pension Trust Fund	Low to Moderate	
Employee Assistance Program	Low	
Employee and Labor Relations		
Contract Negotiations	Moderate	
Unemployment Claims	Low to Moderate	
Grievances	Low	
Employee Relations Training	Low	
Equal Employment Opportunity	Moderate	
Training & Development		
Mandated Training	Moderate	
Training and Development Programs	Moderate	
Safety & Environmental Compliance		
Safety Programs	High	2010
Drug and Alcohol Program	High	2009
Medical Examinations	High	2009
Loss Control and Accident Analysis	Moderate to High	
Department of Motor Vehicles Pull Notice Program	High	
Wellness Program	Low	
Environmental Compliance Program	Moderate to High	2007

Contracts & Materials

Procurement		
Procurement Activities - Contract Modifications & Terminations	Moderate	
Procurement Activities - Cost Estimates	Moderate to High	
Procurement Activities - Cost Proposal Evaluation	High	2010
Procurement Activities - IFB & RFP Development	Moderate	
Procurement Activities - Protests	Moderate	
Procurement Activities - Retainage	Moderate	
Procurement Activities - Small Purchases	Moderate	
Rolling Stock and Inventory Contracts		
Contracts > \$1.5 million:		
New Flyer 40 foot low floor CNG buses (\$130.2 million)	High	
Creative Bus Sales 31 CNG Buses (\$12.4 million)	Moderate to High	
Creative Bus Sales 33 Paratransit Cutaways (\$3.4 million)	Moderate to High	
Southern Counties Oil - Deisel fuel purchases through 2013 (\$15.2 million)	High	2008
IPC USA - Unleaded fuel purchases through 2013 (\$15.1 million)	High	
Bridgestone/Firestone Tires (\$10.2 million)	Moderate to High	2010
Applied Liquid Natural Gas Technologies	High	2007
Buy America Compliance	High	Annual
Maintenance Inventory		
Maintenance Inventory Management	Moderate to High	2010
Warranty Administration	Moderate to High	2010
Fuel Dispensing Controls	High	2010
Disadvantaged Business Enterprise Program	Moderate	2007

Orange County Transportation Authority
Internal Audit Department
Risk Assessment by Program/Project/Contract
Fiscal Year 2009-10

Information Systems	RISK ASSESSMENT	5 Year Audit History
Information Systems Continuity	High	
Information Systems Security	Moderate to High	
Information Systems Development	Moderate	
Information Systems Change Management	Moderate to High	2010
Information Systems Operations	Moderate	
Critical Information Systems Applications		
Fixed Route Radio Systems (software supporting all radio communicatinos)	High	Monitor 2010
Fixed Route Planning Information Systems (dispatch, scheduling, routing, runcutting)	High	
Fixed Route Data Information Systems (farebox data, passenger counts and reporting, etc.)	High	
Procurement and Inventory Information Systems (Ellipse, CAMMNet)	Moderate	
Time Reporting and Payroll Information Systems	High	2009
Customer Service Information Systems (Call center, Rideshare, FSP, etc.)	Moderate to High	
Safety and Security Systems (Video cameras, Hazmat tracking, etc.)	Moderate	
Financial Transactions and Records Systems (fund accounting, budgeting, data warehousing)	Moderate to High	
Interagency Communications (voice response for operations scheduling, voicemail, phone)	Moderate	
Information Systems Hardware	Moderate to High	
Telecommunications Equipment	Moderate to High	2010
External Affairs		
Communications, Customer Relations, Marketing		
Bus Advertising	Moderate	2007
Marketing Programs and Contracts	Moderate	
Media Relations	Moderate	
VanPool Program	High	2009
Web Development	Low to Moderate	
Pass Sales Programs	High	
Pass Sales – Special Programs (Reduced Fare)	Moderate to High	
Customer Service	Moderate	
Contracts > \$1.5 million:		
Customer Information Center Alta Resources (\$6.9 million)	Moderate to High	2010
Government Relations		
Federal Relations	Moderate	
State Relations	Moderate	
Local Outreach	Moderate	

APPENDIX B: Fiscal Year 2009-10 Internal Audit Plan

**Orange County Transportation Authority
Internal Audit Department
FY 2009-10 Internal Audit Plan**

Audit Activity	Project Number	Description	Primary Audit Type	Staff Hours	External Auditor(s)	Notes
Mandatory External Independent Audits						
Annual Financial Audit	FY10-000	Annual financial and compliance audit for fiscal year 2008-09.	Financial	455	Mayer Hoffman McCann	
Annual Transportation Development Act Audits	FY10-014	Coordination of legally required annual audits of the recipients of Local Transportation Funds for fiscal year 2008-09.	Compliance	80	Mayer Hoffman McCann	
Triennial Performance Audit - State	FY09-021	Finalize procurement of external auditors and manage audit contract for the State triennial performance audit for fiscal years 2007, 2008, and 2009.	Compliance	150	Procurement Underway	
Triennial Performance Audit - Renewed Measure M	FY10-020	Participate in procurement of external consultant to conduct performance assessment of the Renewed Measure M program for the triennial period November 7, 2006 through June 30, 2009.	Performance	25	Scope of Work has been developed	
Orange County Council of Governments Financial Statement Audit	FY10-011	Management of external audit of OCCOG financial statements.	Financial	15		
Internal Audit Initiatives						
Risk Assessment and Annual Audit Plan	FY10-100	Annual preparation of the audit plan for next fiscal year; periodic assessment of risk throughout the year.	Risk Assessment	125		
Quality Assurance and Self-Assessment	FY10-101	Update of Internal Audit Policies & Procedures. Self assessment of Internal Audit's compliance with Government Auditing Standards.	Quality Assurance	200		
Peer Review Participation	FY10-102	Participation as review committee members for reciprocal credit. City of Los Angeles Auditor/Controller (July 2009), City of Stockton Auditor's Office (September 2009).	Peer Review	80		
Service Efforts & Accomplishments	FY10-103	Evaluation and summarization of the value of Internal Audit activities.	Service Efforts Report	100		
Fraud Hotline	FY10-104	Implementation of an outsourced fraud hotline.	Fraud Hotline	120		
Audit Leverage Implementation	FY10-105	Continuing implementation of internal audit software.	Audit Leverage	120		
Internal Audits						
Executive						
Safety Monitoring	FY08-031	Review and follow-up on any APTA Safety Review conducted in FY 2008. Most recommendations have been implemented.	Internal Controls	100		

**Orange County Transportation Authority
Internal Audit Department
FY 2009-10 Internal Audit Plan**

Audit Activity	Project Number	Description	Primary Audit Type	Staff Hours	External Auditor(s)	Notes
<i>Planning and Development</i>						
American Recovery and Reinvestment Act (ARRA)	FY10-502	Review of Authority's compliance with ARRA reporting requirements.	Compliance	175		
SR-22 Contract Close-out	FY08-022	Close out audit to ensure contract stipulations were met. Audit hours are for review of contractor labor compliance documentation.	Compliance	10	GCAP Services	Complete (F&A 8/12/09)
I-5 Gateway Contract	FY08-014	Review to ensure contract stipulations are being complied with and to verify the propriety of payments.	Compliance	50	Wang Accountancy Corporation	Report in Draft
CTFP Project Audits/CTFP System	FY08-019	Evaluation of program process and review of a sample of projects funded by the CTFP.	Compliance	50	Mayer Hoffman McCann	In Process
On-Call Service Contracts	FY09-012	Review of on-call contracts for contract compliance and 2008 compliance with procurement policies and procedures.	Compliance	275		In Process
Real Estate and Right-of-Way Administration	FY09-015	Review of right-of-way and other real estate operations and contracts.	Operational	300		
<i>Rail Projects and Programs</i>						
Metrolink Audit Activities	FY08-010	Inventory and review of audit activities and results thereof for the Southern California Regional Rail Authority.	Operational	50		Report in Draft
Buena Park Metrolink Station Closeout Audit	FY08-007	Closeout audit of construction of Metrolink station.	Compliance	15	Mayer Hoffman McCann	Report in Draft
Irvine Transportation Center	FY09-013	Review to ensure contract stipulations are being complied with and to verify the propriety of payments.	Compliance	75		
<i>Transit Operations</i>						
Buy America	FY10-300	Pre-award and post-delivery reviews to ensure vendors and OCTA are in compliance with federal Buy America requirements.	Compliance	200		
Contracted Operations	FY10-503	Review to ensure contract stipulations are being complied with and to verify the propriety of payments.	Compliance	175		
Vehicle Maintenance	FY08-020	Review of policies, procedures, management reporting and regulatory compliance.	Operational	150		In Process
<i>Government Relations</i>						

**Orange County Transportation Authority
Internal Audit Department
FY 2009-10 Internal Audit Plan**

Audit Activity	Project Number	Description	Primary Audit Type	Staff Hours	External Auditor(s)	Notes
Grant Close-outs	FY10-400	As needed financial and compliance audits of grants at close-out to ensure propriety of expenditures.	Compliance	75		STIP-PPM FY07-08 In process.
<i>Finance</i>						
Treasury	FY10-504	Biannual financial and compliance reviews of the treasury function, including investment and bond compliance.	Compliance	250		One Semi-Annual Review In Process
Cost Allocation Plan	FY10-506	Review of OCTA's methodology for, and application of, cost allocation.	Financial	175		
Revenue Accounting	FY08-024	Review of controls over the collection and processing of sales tax receipts.	Operational	50		In Process
91 Express Lanes Collections	FY08-016	Review of contractual compliance and performance of collections contractor L.E.S.	Compliance	75		In Process
Investment Management & Service Fees	FY09-011	Review of services and invoices for investment and debt advisory and management services.	Compliance	250		In Process
<i>Contracts & Materials</i>						
Price Reviews	PR-000	Cost and price analyses as required by OCTA procurement policies and procedures.	Price Review	800	TCBA, KNL Services, Mayer Hoffman McCann, Mendoza Berger	
Procurement Activities - Proposal Evaluations	FY08-015	Review of policies, procedures, protocols and best practices for the empanelment of procurement selection teams.	Operational	250		
Revenue and Revenue Sharing Contracts	FY10-501	Review of revenue generating/sharing agreements to determine adequate controls exist to ensure collection.	Operational	300		
Bridgestone/Firestone Tire Lease	FY09-014	Review of lease of bus tires.	Compliance	175		
Maintenance Inventory Management	FY09-022	Review of inventory management policies, procedures, controls, operational efficiency and analytic tools.	Operational	175		
Warranty Administration	FY09-023	Review of internal controls over warrantied equipment.	Internal Control	175		
Fuel Controls	FY09-024	Review of controls over dispensing of petroleum products.	Internal Control	150		

Information Systems

**Orange County Transportation Authority
Internal Audit Department
FY 2009-10 Internal Audit Plan**

Audit Activity	Project Number	Description	Primary Audit Type	Staff Hours	External Auditor(s)	Notes
Information Systems Change Management Controls	FY10-508	Review of information systems change management policies, procedures and controls.	Operational	225		
Telecommunications Equipment	FY09-020	Review of telecommunications equipment usage and internal controls.	Internal Control	175		
External Affairs						
Customer Information Center (Alta Resources)	FY09-018	Review of contractually required service levels and contractor billing.	Contract Compliance	50		In process
Vanpool Program	FY08-023	The review of this program has been completed. Budgeted hours are for final workpaper review and close-out.	Operational	35		Complete (F&A 7/22/09)
Authority-Wide						
Unscheduled Reviews and Special Requests	FY10-200	Time allowed for unplanned audits and requests from the Board of Directors and management.	Varies	250		
Monitoring Activities						
Measure M Taxpayers Oversight Committee	FY09-401	Coordination of audit activities with the Audit Committee of the Measure M Taxpayers Oversight Committee.	Monitoring	75		
BRT	FY09-405	On-going monitoring to keep apprised of activities and significant issues.	Monitoring	25		
Radio Upgrade	FY10-602	Monitoring of upgrade to Radio System contemplated in FY 2010.	Monitoring	25		
Records Management	FY09-406	On-going participation with contractor on Information Classification - Document Collection project.	Monitoring	25		
Highway Projects	FY10-402	On-going monitoring of highway projects.	Monitoring	50		
Bus Base Inspections & Inventory Testing	FY10-603	Participation on base inspection teams and periodic testing of base inventory records.	Monitoring	40		
Follow-up Reviews						
Follow-up reviews and reporting	FY09-200	Follow-up on audit findings and recommendations.		300		
				7,270		