



***April 24, 2013***

**To:** Finance and Administration Committee  
**From:** Darrell Johnson, Chief Executive Officer  
**Subject:** Fiscal Year 2012-13 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 2012-13 Internal Audit Plan on July 23, 2012. 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 2012-13 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 OCTA Fiscal Year 2012-13 Internal Audit Plan (Plan) (Attachment A) reflects the status of each audit project. During the third quarter, Internal Audit completed a review of the Wholesale Pass Sales program. The review found that operating controls are adequate; however, recommendations were offered to improve inventory controls and follow-up of past due accounts. Internal Audit also completed a review of the Orange County Taxicab Administration Program. The review found operating controls to be adequate and identified

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key improvements in operations that have resulted in improved recordkeeping and enforcement.

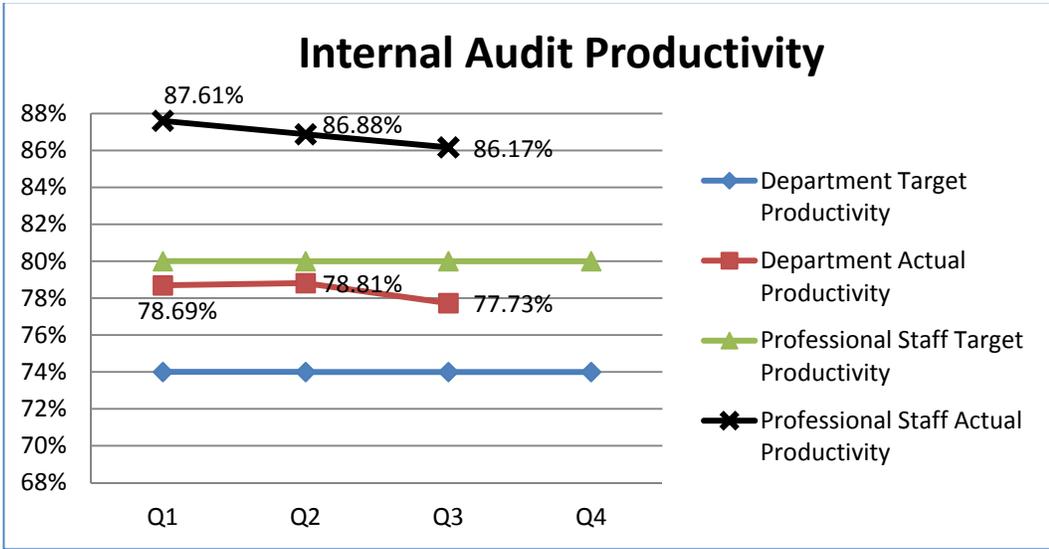
Also during the quarter, Internal Audit issued the results of a performance audit of the Measure M2 Environmental Mitigation Program performed by Sjoberg Evashenk Consulting, Inc. The auditors found the program to be well-run, consistent, deliberative, and compliant with relevant laws, rules, ordinance, policies, and procedures.

There are several external reviews of OCTA underway or planned for the fiscal year, and Internal Audit is serving as coordinator for these. First, CH2M Hill has conducted the state-mandated triennial performance reviews of OCTA, the Orange County Transit District, and the Laguna Beach Municipal Transit Lines; draft reports have been delivered. The reports will be finalized in the next few weeks and delivered to the Board of Directors and the State Controller's Office by June 2013, as required. All of the annual financial and agreed-upon procedures reviews conducted by Vavrinek, Trine, Day and Company, LLP, were issued by the end of the second quarter and, as applicable, provided to the State Controller and the State Department of Transportation, as required. The schedule accompanying one report for the City of Mission Viejo was updated to reflect the correction of one figure; however, this change did not affect the results of the agreed upon procedures performed. The Department of Homeland Security – Federal Emergency Management Agency will conduct a financial monitoring review of the Transit Security Grant Program in May. Finally, OCTA is expecting contact from the Federal Transit Administration related to the required Federal Triennial Review for the fiscal years ending 2010, 2011, and 2012.

#### Internal Audit Department Productivity

Internal Audit measures the productivity of the department by calculating a productivity ratio. The ratio, used broadly throughout the audit industry, measures the amount of time auditors spend on audit projects versus time spent on administrative duties. Productivity goals are established for both the professional staff and for the department as a whole. Because the Executive Director regularly participates in non-audit management activities such as planning and committee meetings, the department-wide target is set at 74 percent. The target for Internal Audit professional staff, not including the Executive Director, is 80 percent.

As of the third quarter ended March 31, 2013, Internal Audit has achieved productivity of 78 percent, and the professional staff achieved productivity of 86 percent.



Price Reviews

At the request of the Contracts Administration and Materials Management Department (CAMM), and consistent with OCTA procurement policy, Internal Audit performs agreed-upon procedures reviews (reviews) of single bid procurements to ensure that CAMM handled the procurement in a fair and competitive manner. Internal Audit also performs reviews of prices proposed by architectural and engineering firms (A&E) and sole source contractors to ensure that prices are fair and reasonable. Internal Audit makes recommendations to adjust proposed rates when they exceed the rates per review. When the value of recommended adjustments can be estimated, Internal Audit tracks and reports these savings, as noted below. During the quarter ended March 31, 2013, Internal Audit conducted one single bid review, one sole source review, and one A&E price review. The value of recommended price adjustments is indicated below:

Quarter	Price Reviews: Recommended Adjustments
1Q	\$ 0
2Q	\$291,586
3Q	\$2,994,028
4Q	
Total	\$3,285,614

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**Fraud Hotline**

During the quarter ended March 31, 2013, Internal Audit received two complaints through OCTA's Fraud Hotline, [www.ethicspoint.com](http://www.ethicspoint.com). Neither of the reports related to fraud. The complaints were referred to appropriate management staff; the reporters were contacted and the issues were resolved.

Internal Audit is committed to responding to all hotline complaints within eight business days. Internal Audit responded to both reports within three 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. Internal Audit schedules follow-up of outstanding recommendations every six months and, as a result of these efforts, may close the item or provide a brief update as to status and schedule another follow-up in six months.

**Summary**

The Orange County Transportation Authority's Internal Audit Department will continue to implement the Orange County Transportation Authority Fiscal Year 2012-13 Internal Audit Plan, monitor performance metrics, and report the status on a quarterly basis.

**Attachments**

- A. Orange County Transportation Authority Internal Audit Department FY 2012-13 Internal Audit Plan Third Quarter Update
- B. Unresolved Audit Findings and Recommendations (Audit Reports Issued Through March 31, 2013)

**Approved by:**



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

**Orange County Transportation Authority  
Internal Audit Department  
FY 2012-13 Internal Audit Plan  
Third Quarter Update**

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours to Date	Under (Over)	Status (Date to F&A)	External Auditor
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**Mandatory External Independent Audits**

Annual Financial and Compliance Audits	FY13-001, FY13-006, FY13-008, FY13-009	Coordination and oversight of annual financial and compliance audits for fiscal year ended June 30, 2012, including financial statement audits of the Orange County Transportation Authority (OCTA), the Orange County Local Transportation Authority, the Orange County Council of Governments, and the 91 Express Lanes, and various agreed-upon procedures reviews.	Financial	450	350	101	FY12 Complete	Vavrinek, Trine, Day & Co.
Annual Transportation Development Act (TDA) Audits	FY13-002	Coordination of required annual audits of the recipients of Transportation Development Act funds for the fiscal year ended June 30, 2012.	Compliance	40	45	(5)	FY12 Complete	Vavrinek, Trine, Day & Co.
Service Authority for Abandoned Vehicles	FY13-005	Coordination of the biennial financial and compliance audit of the Orange County Service Authority for Abandoned Vehicles and each of its member jurisdictions.	Compliance	40	82	(42)	Complete	Vavrinek, Trine, Day & Co.
Triennial Review - Federal	FY13-003	Coordination of Federal Transportation Authority triennial review for fiscal years ended 2010, 2011, and 2012.	Compliance	80	-	80		
Triennial Performance Audit - State	FY13-004	Finalize procurement of external audit firm and coordinate the State triennial performance audit for fiscal years ended 2010, 2011, and 2012.	Compliance	150	173	(23)	In process	CH2M Hill

**Internal Audit Projects**

Risk Assessment and Annual Audit Plan	FY13-100	Annual preparation of the audit plan and quarterly updates to the audit plan; periodic assessment of risk throughout the year.	Risk Assessment	180	42	139	Ongoing	
Quality Assurance and Self-Assessment	FY13-101	Updates to Internal Audit Policies & Procedures. Annual self-assessment of Internal Audit's compliance with Government Auditing Standards.	Quality Assurance	150	68	82	Ongoing	
Fraud Hotline	FY13-102	Investigations of reports of fraud, waste, or abuse.	Fraud Hotline	200	92	109	Ongoing	7 complaints received 1 report issued
Audit Leverage Software System	FY13-103	Deploy updates/upgrades to Audit Leverage software.	Audit Software Updates	24	-	24	Ongoing	
Peer Review Participation	FY13-104	Participation as review committee members for reciprocal credit through the Association of Local Government Auditors. Facilitation and participation in the Internal Audit Department Peer Review for calendar years 2010 through 2012.	Peer Review	88	181	(93)	Complete 3-11-13	

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<b>Internal Audits</b>								
<b>Human Resources and Organizational Development</b>								
Employment and Compensation Review	FY12-510	Review of policies, procedures, and controls over recruitment, hiring, and compensation administration.	Operational	240	453	(213)	Complete (10-24-12)	
Flexible Benefits Program Administration	FY12-5XX	Review policies, procedures, and controls in place over the employee program.	Internal Control	180	-	180		
Grievance Process	FY13-513	Review to determine whether procedures are adequate to ensure compliance with union agreements and OCTA policies for disposition of employee grievances.	Compliance	160	205	(45)	Complete (11-14-12)	
<b>Capital Programs</b>								
Orangethorpe Corridor Grade Separation Projects	FY11-501	Review of administration and management of selected contracts for project management, design, preliminary engineering, and construction for the Orangethorpe Corridor railroad grade separations.	Internal Control	300	361	(61)	In process	
Combined Transportation Funding Program (CTFP) Project Audits	FY12-508	Preliminary risk assessment, selection of projects, and coordination with outside firm for review of selected CTFP projects for compliance with Measure M requirements.	Compliance	24	48	(24)	Complete (8-8-12)	
Metrolink Service Expansion Program	FY13-510	Review of cooperative agreement with Metrolink for infrastructure improvements related to the implementation of 30 minute service.	Compliance	260	108	153	In process	
Tustin Parking Expansion	FY13-5XX	Review of project administration and management of selected contracts for project management, design, engineering, and construction of the Tustin Parking Expansion project.	Compliance	240	0	240		
Project Controls	FY13-5XX	Assess the adequacy and effectiveness of internal controls over payment processing and project oversight exercised by the Project Controls section of Capital Projects.	Compliance	160	-	160		
<b>Planning</b>								
Environmental Mitigation Program Review	FY13-520	Review of the Measure M2 Environmental Mitigation Program; including controls and process for acquisition of properties.	Compliance	60	76	(16)	Complete 3-25-13	
<b>Transit Operations</b>								
Orange County Taxicab Administration Program (OCTAP)	FY13-516	Review of the operations and related internal controls of the OCTAP.	Internal Control	180	238	(58)	Complete 3-25-13	
Schedule Checkers (Southland Car Counters)	FY13-512	Review of the contract with Southland Car Counters for compliance with contract provisions.	Compliance	180	193	(13)	Complete (9-26-12)	

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ACCESS Service - Growth Management Program	FY13-514	Review of the operations and related internal controls of the ACCESS Service Growth Management Program administration and assess level of compliance by participants.	Operational	180	189	(9)	In process	
<b>Finance and Accounting</b>								
Treasury	FY13-515	Bi-annual financial and compliance reviews of the treasury function, including investments and bond compliance.	Compliance	200	213	(13)	1 Complete (12-13-12)	1
Grant Closeouts	FY13-511	As needed financial and compliance audits of grants at closeout to ensure propriety of expenditures.	Compliance	40	40	-	Complete (9-24-12)	
Payroll - Overtime	FY13-5XX	Review controls in place to monitor and reduce overtime costs. Assess reasonableness of overtime costs incurred.	Internal Control	160		160		
Investment Management Contracts: Bond Proceeds	FY13-5XX	Review of services and invoices for bond proceeds investment management services provided by Cutwater Asset Management and Logan Circle Partners.	Compliance	180	97	84	In Process	
<b>Contract Administration &amp; Materials Management</b>								
Buy America	FY13-517, FY13-518	Pre-award and post-delivery reviews to ensure vendors and OCTA are in compliance with federal Buy America requirements.	Compliance	240	168.5	72	3 Complete (9-14-12, 9-28-12, 11-21-12)	
Price Reviews	PR13-000	Cost and price analyses as required by OCTA procurement policies and procedures.	Price Review	1,000	758	242	8 Complete Cancelled	2
<b>Information Systems</b>								
Information Systems Hardware	FY13-5XX	Review adequacy of policies, procedures, and controls over acquisition, maintenance, and disposition of Information Systems hardware.	Internal Control	180	137	44	In Process	
<b>External Affairs</b>								
Pass Sales	FY13-519	Review of the operations and related controls over the Pass Sales program.	Operational	180	318	(138)	Complete 11-13	3-

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<b>Unscheduled Reviews and Special Requests</b>								
Unscheduled Reviews and Special Requests	FY13-800	Time allowed for unplanned audits and requests from the Board of Directors and management.	Varies	40	4	36		
	FY13-801	Review of Agreement with ShelterCLEAN, Inc.	Management Request	120	209	(89)		
<b>Monitoring Activities</b>								
Measure M Taxpayers Oversight Committee	FY13-601	Coordination of audit activities with the Audit Subcommittee of the Measure M Taxpayers Oversight Committee.	Monitoring	180	107	73		
Bus Base Inspections and Inventory Testing	FY13-602	Participation on annual base inspection teams.	Monitoring	32	30	2		
Metrolink Member Agency Allocation	FY13-603	Review of scope of work and results of Los Angeles County Metropolitan Transportation Authority's annual independent audit of Metrolink member agency allocation.	Monitoring	24	5	20		
<b>Follow-up Reviews</b>								
Follow-up Reviews and Reporting	FY13-700	Follow-up on audit findings and recommendations.		240	298	(58)		
<b>Total Audit Project Planned Hours (A)</b>				<b>6,382</b>	<b>5,283</b>	1,100		
<b>Internal Audit Administration</b>								
Board of Directors and Board Committee Meetings				380	172	209		
Executive Steering Committee and Agenda Meetings				160	95	65		
Internal Audit Department Staff Meetings				240	52	188		
Other Administration				1,500	1,195	305		
<b>Total Hours (B)</b>				<b>8,662</b>	<b>6,796</b>	1,866		
<b>Department-Wide Target Efficiency (A/B)</b>				74%				
<b>Department-Wide Actual Efficiency (A/B)</b>				<b>78%</b>				
<b>Professional Staff Target Efficiency</b>				80%				
<b>Professional Staff Actual Efficiency</b>				<b>88%</b>				

**UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS**  
*(Audit Reports Issued Through March 31, 2013)*

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
2/5/2010	08-010	Metrolink	Review of Metrolink Audit Activities	The Orange County Transportation Authority (OCTA) Internal Audit Department (Internal Audit) provided seven recommendations for improvements in Metrolink's internal audit function. Metrolink's Board of Directors (Board) will consider the report in March 2010.	Mar-13	Metrolink management concurred with all recommendations and proposed implementing action. <u>Update April 2011</u> : Metrolink management continues to work to address these findings. Metrolink staff plans to bring detailed recommendations to the Executive Management and Audit Committees by June 2011. <u>Update January 2012</u> : Management expects to hire a Chief Internal Auditor (CIA) by March 2012. The CIA will assist in addressing the findings related to risk assessment, audit plan, compliance with standards, policies and procedures, etc. <u>Update August 2012</u> : The CIA position has not been filled and is on hold, pending the hire of a new Chief Executive Officer (CEO). Findings have not been addressed.	Bonelli	In process.
2/14/2011	09-015	Capital Programs	Real Estate and Right-of-way (ROW) Administration	Management should develop procedures for fair market adjustments to lease rates.	Jul-13	ROW staff will develop policies and procedures to enforce the fair market adjustment terms and conditions for revenue-generating leases. <u>Update August 2011</u> : Policies and procedures have not yet been developed. Management plans to update the policies and procedures manual in its entirety by the first quarter of 2012. <u>Update March 2012</u> : Management is in the process of hiring a consultant to update the ROW policies and procedures manual and to address insurance language. <u>Update January 2013</u> : An updated policies and procedures manual has not yet been approved by OCTA's Board.	Ng	Initiate next follow-up July 2013.

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2/14/2011	09-015	Capital Programs	Real Estate and ROW Administration	Lease rate adjustments and Consumer Price Index (CPI) increases should be consistently implemented.	Jul-13	ROW staff will review leases with terms greater than one year on a monthly basis to determine if a fair market (FM) adjustment is warranted. Also, staff will coordinate its efforts with Accounting staff for billing adjustments. <u>Update August 2011:</u> Staff has added a column for FM adjustment dates in its tickler files and is developing procedures for FM adjustments. <u>Update March 2012:</u> Management is in the process of hiring a consultant to update the ROW policies and procedures manual and to address insurance language. <u>Update January 2013:</u> Procedures for consistent application of CPI adjustments have not yet been demonstrated. In addition, management has not developed and documented procedures for reviewing properties and implementing fair market adjustments.	Ng	Initiate next update July 2013.
2/14/2011	09-015	Capital Programs	Real Estate and ROW Administration	Insurance certificates should be reviewed for compliance with lease requirements. For non-revenue generating leases, a review of insurance certificates should be done on a periodic, or cycle, basis. Additionally, transferred leases should be reviewed to ensure agreements contain appropriate insurance requirements.	Jul-13	Staff will review leases to determine insurance certificate update needs and that transfer lease language is updated. Staff will coordinate insurance requirements with Risk Management staff. <u>Update August 2011:</u> Staff has reviewed the insurance requirements of approximately 18 percent of the revenue-generating leases and has requested required certificates. The initial review of all leases is expected to be completed by February 2012, and the process will then be ongoing. <u>Update March 2012:</u> Management is in the process of hiring a consultant to update the ROW policies and procedures manual and to address insurance language. <u>Update January 2013:</u> Management plans to send letters to over 1,000 active tenants requesting evidence of insurance by December 31, 2012. Follow-up for insurance certificates will then be performed on a monthly basis prior to expiration of the certificates.	Ng	Initiate next update July 2013.

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1/19/2011	11-005	Measure M City Audits: City of San Juan Capistrano	San Juan Capistrano	Auditors recommended that the City of San Juan Capistrano (SJC) submit a request for extension to the Orange County Local Transportation Agency (OCLTA) for funds not spent within three years, and that SJC ensures interest is allocated to unspent turnback monies.	Nov-13	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. <u>Update September 2011</u> : SJC did not submit a request for extension; however the excess funds were spent during fiscal year 2010-11. In addition, as of the follow up review date, SJC had not yet segregated Measure M funds to ensure proper interest allocation. <u>Update March 2012</u> : Turnback funds will be segregated from other grant funds and interest properly allocated by fiscal year end June 30, 2012. <u>March 2013</u> : SJC will segregate Measure M funds no later than March 31, 2013.	Bonelli	Initiate next update November 2013.
11/7/2011	09-024	Transit	Review of Fuel Controls	Internal Audit recommends that management implement controls and enhance policies and procedures to ensure fueling transactions are valid and authorized, and that appropriate monitoring and follow-up is performed.	May-13	There are a number of steps underway to address these findings, including: (1) Limiting access to the system; (2) Developing a process to update contractor staff in the system; (3) Ensuring that vehicle transmitters are functioning; (4) Revising the procedures to fuel non-revenue vehicles; and (5) Working with EJ Ward to address system glitches. <u>Update February 22, 2012</u> : Additional weaknesses were noted and all issues have not yet been addressed. <u>Update July 2012</u> : Internal Audit believes that management has adequately addressed all recommendations; however, Internal Audit offered an additional recommendation for management to formalize certain administrative and monitoring procedures. <u>March 2013</u> : Internal Audit reviewed written procedures provided; however, they do not address the recommendation made. Internal Audit will follow-up again in 2 months.	Bonelli	Initiate next update May 2013.

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1/18/2012	11-503	Capital Programs	Contract and Project Management Controls: State Route 57 Improvement Projects	Management should adhere to standard procedures for obtaining approval of Architectural and Engineering (A&E) contracts. Otherwise, management should obtain Board approval of revised amounts rather than excluding known costs. Also, If management needs a method to authorize consultant work prior to amendment execution, procedures with appropriate parameters should be developed and implemented. Otherwise, staff should not authorize consultant work and/or costs prior to amendment execution, and invoices for labor services or other direct costs that pre-date contract amendments should be questioned.	Jul-12	In the future, standard practice for selecting consultants to provide A&E services will be adhered to and related staff reports will not include not-to-exceed amounts. In addition, Capital Programs and Contract Administration and Materials Management (CAMM) staff will implement procedures in the first quarter of 2012 to address situations when consultant work needs to be authorized prior to amendment execution.	Ng	In process.
1/18/2012	11-503	Capital Programs	Contract and Project Management Controls: State Route 57 Improvement Projects	If management determines that in certain circumstances and/or for certain contracts work must be authorized prior to amendment execution, then management should develop procedures and make any necessary adjustments to policy to address these situations. In addition, amendments should be executed in a more timely fashion.	Jul-12	Capital Programs and CAMM staff will implement procedures in the first quarter of 2012 to address situations when consultant work needs to be authorized prior to amendment execution.	Ng	In process.
1/18/2012	11-503	Capital Programs	Contract and Project Management Controls: State Route 57 Improvement Projects	CAMM should perform cost analysis of rates included in amendments to A&E agreements. The cost analysis should include review of labor rates and documentation should be maintained to describe the review performed. Where the reasonableness of other direct cost rates is not reviewed or cannot be readily determined, CAMM should negotiate these items at cost.	Jul-12	CAMM agrees to conduct a review of labor rates and, where reasonable, other direct costs for all contract amendments. The amendments will include the names and labor rates of key personnel plus other labor categories and labor rates that may be needed during the course of the work. CAMM will request documentation from the consultant showing the payment records of the personnel to be added. Regarding other direct costs, reimbursement will be at the actual cost with supporting documentation, or at reviewed unit rates.	Ng	In process.

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1/18/2012	11-503	Capital Programs	Contract and Project Management Controls: State Route 57 Improvement Projects	Consultant contracts should not be used to purchase items for the California Department of Transportation (Caltrans) or OCTA staff when they are not necessary, reasonable, or required in the contract. When developing the scope of work in request for proposals with field office requirements, the requirements should be assessed for reasonableness and there should be direction on the final ownership and disposition of computers, furniture, and equipment.	Jul-12	Computers will not be purchased for Caltrans and OCTA staff use in field offices. The desktop computer and laptops that have been purchased through the State Route 57 construction management contracts will be made available for project personnel to use in the field office and out on the construction job site. In addition, Capital Programs will work with CAMM to ensure that final ownership and disposition of field office furniture and equipment will be noted in the scope of work as the responsibility of the consultant. The consultant will determine the most cost-effective method of furnishing and equipping the office by evaluating both purchase and lease options.	Ng	In process.
3/1/2012	12-507	Finance and Administration	Corporate Credit Cards	Internal Audit recommends that policies be enhanced to address follow-up for reimbursement of personal expenses.	Apr-13	The Corporate Credit Card Policy will be updated to include a requirement that an Accounts Receivable be set up for balances due for personal expenses. Also, the Tablet Policy will be updated to provide guidance on actions to be taken when a program participant terminates or is no longer eligible to participate in the program. If a reimbursement is due to OCTA, the policy will also include a provision requiring the program administrator to send a request to the Accounts Receivable section to invoice the participant for the balance due. <u>Update September 2012:</u> Management has updated Corporate Card Policy; however, has not yet updated the Board-approved Tablet Policy.	Ng	In process.

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3/1/2012	12-507	Finance and Administration	Corporate Credit Cards	Internal Audit noted a few practices and/or incidents that conflict with written policy: (1) Policy restricts the issuance of corporate cards to members of the Board and executive management; however, two cardholders do not meet this definition. (2) Monthly reconciliations of Board members' corporate cards did not consistently evidence authorization by the Deputy CEO as required. (3) Reconciliations are often submitted late because the corporate card statements are not received until a week or two after the statement date.	Apr-13	(1) The Corporate Credit Card Policy will be modified to expand eligibility with authorization of the CEO. (2) Responsibility for processing corporate cards within the Accounts Payable section has been transferred to a new staff member and compliance with the authorization requirement has been emphasized. (3) OCTA will retain the 14-day requirement for submitting reconciliations, but will transition to electronic statements to eliminate mailing delays. <u>Update September 2012</u> : Management has addressed issues except the observation related to late submission of reconciliations. Internal Audit noted that corporate card reconciliations are still submitted beyond the required due date.	Ng	In process.
6/27/2012	FY09-020	Finance and Administration	Telecommunications Equipment	Information Systems (IS) management should continue to encourage employees to elect to receive a cell phone allowance in lieu of an OCTA cell phone and, in those instances where an OCTA issued cell phone is necessary, implement a process by which the employees' managers can also review and monitor activity to ensure personal usage is de minimis. Management may want to consider the time and resources necessary to properly enforce the cell phone reimbursement requirement and determine whether the cost outweighs the reimbursement benefit.	Sep-13	IS will discontinue the process of distributing the monthly cell phone bills and in its place take the following actions: (1) implement imports of cell phone records into the Avotus system so that the same direct oversight by supervisors and managers used for desk phones will be possible for cell phones. Estimated completion is June 1, 2012. (2) Continue to provide outreach to OCTA cell phone users to encourage the return of agency provided cell phones in exchange for the cell phone allowance. <u>Update March 2013</u> : IS has not yet updated the OCTA Cellular Telephone Policy to reflect changes to practices.	Bonelli	Initiate next update September 2013.
8/27/2012	N/A	Planning	Financial and Compliance Audits of Nine Combined Transportation Funding Program Projects	Staff should amend master funding agreements and update language regarding the right to audit. In addition, staff should implement procedures to ensure timely closeout of projects.	Aug-13	Staff will work to amend master funding agreements as appropriate and will implement procedures to ensure timely closeout of projects. <u>Update February 2013</u> : Management indicated that amendments to Measure M2 master funding agreements should be executed between February and June 2013.	Thompson, Cobb, Bazilio, and Associates (Ng)	Initiate next update August 2013.
10/17/2012	12-510	Human Resources and Organizational Development	Employment and Compensation Review	Management should develop written procedures for processing compensation and personnel actions.	Apr-13	Management will develop and document procedures by February 2013.	Tang	

**UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS**

*(Audit Reports Issued Through March 31, 2013)*

<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>
10/17/2012	12-510	Human Resources and Organizational Development	Employment and Compensation Review	Evidence of compensation analysis is not on file for all actions and, when it is performed, increases often exceed recommendations without documentation. Management should develop written procedures for processing these actions and for making exceptions.	Apr-13	Effective immediately, exceptions will require documentation. In addition, management will develop and document procedures by February 2013.	Tang	
10/17/2012	12-510	Human Resources and Organizational Development	Employment and Compensation Review	Management should amend the Personnel and Salary Resolution to specifically address equity adjustments. Also, written procedures should be developed to govern these actions.	Apr-13	Management will update the Personnel and Salary Resolution to specifically address equity adjustments and will develop and document procedures by February 2013.	Tang	
10/17/2012	12-510	Human Resources and Organizational Development	Employment and Compensation Review	Certain lateral transfers were accompanied by salary increases. Procedures to address employee transfers should be documented.	Apr-13	Management will ensure that transfers with a salary increase are processed only by exception, and that approval authority and parameters are clearly defined and documented.	Tang	
10/17/2012	12-510	Human Resources and Organizational Development	Employment and Compensation Review	Some job titles were not accompanied by a written job description. Management should require that all job titles be formally defined and analyzed for grade placement prior to obtaining Board approval and placing employees into the positions.	Apr-13	Management will ensure that job descriptions for incumbent positions are on file and will ensure that a new job description is created before an employee is moved into a new position. Job descriptions for the filled positions identified will be developed by February 2013.	Tang	
10/17/2012	12-510	Human Resources and Organizational Development	Employment and Compensation Review	Several employees remained in the Special Assignment category for over a year. There are no defined qualifications, education, experience, or duties for these positions. Management should develop procedures for the use of this title and controls for monitoring the period of time employees remain in the title.	Apr-13	Management will develop and document procedures by February 2013.	Tang	
10/17/2012	12-510	Human Resources and Organizational Development	Employment and Compensation Review	Procedures should be developed to address demotions and/or reclassifications to lower salary grade levels, and CEO approval should be obtained as required. In addition, management should develop procedures for "extra help" employees, including how salary rates are set for these positions.	Apr-13	Management will ensure CEO approval is obtained as required. Also, management will define "extra help" employees with the next update to the Personnel and Salary Resolution and will include guidelines as to their salary rates.	Tang	

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10/17/2012	12-510	Human Resources and Organizational Development	Employment and Compensation Review	Documented CEO approval for all executive salaries was not on file. Management should implement controls to ensure CEO approval is evidenced for all executive salaries. In addition, one employee file was missing and two others lacked current salary documentation.	Apr-13	Management will obtain CEO approval on all executive salaries and will work to improve security over employee files by February 2013.	Tang	
10/17/2012	12-510	Human Resources and Organizational Development	Employment and Compensation Review	CEO approval was not on file (as required) for some new employees hired above the midpoint of salary grade V. In addition, Budget Review Committee approval was not on file for all new positions, a practice implemented in late 2010.	Apr-13	Management has enhanced controls to ensure necessary approvals are obtained for new personnel requisitions. In addition, the 'verbal offer' document has been revised to include a signature space for the CEO when required.	Tang	
10/17/2012	12-510	Human Resources and Organizational Development	Employment and Compensation Review	Controls to ensure that new and promoted employees file a Form 700 within 30 days were not in effect.	Apr-13	Management has created a system to ensure that the Clerk of the Board is notified of any new hires or promotions that require a Form 700 filing.	Tang	
10/17/2012	12-510	Human Resources and Organizational Development	Employment and Compensation Review	CEO approval was not obtained, as required, for employees placed in temporary assignments exceeding six months. Management should implement monitoring controls to ensure CEO approval is obtained as required.	Apr-13	Management will implement monitoring controls by December 2012.	Tang	
10/17/2012	12-510	Human Resources and Organizational Development	Employment and Compensation Review	Procedures for recall of coach operators previously laid off have not been documented.	Apr-13	Management will update the Employment and Staffing Manual to include procedures for processing coach operators who are recalled.	Tang	
10/17/2012	12-510	Human Resources and Organizational Development	Employment and Compensation Review	Management should enhance monitoring controls to ensure CEO approval is obtained when required for special performance awards.	Apr-13	Management has enhanced controls to ensure proper approval is obtained.	Tang	

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10/29/2012	N/A	Finance and Administration	Management Letter	OCTA should implement enhanced password management controls, including automatic lockout after a specified number of login attempts. Also, OCTA procedures indicate password expiration occurs every 60 days; however, passwords are set to expire after 180 days.	Jan-14	Management indicated that OCTA procedures will be updated to reflect current practice for password expiration. Also, management is working to resolve technical issues before implementing automatic lockout controls.	Vavrinek, Trine, Day & Co., LLP	
10/25/2012	13-513	Human Resources and Organizational Development	Grievance and Arbitration Process	Management should obtain documentation of union agreement for delayed responses to grievances filed.	Apr-13	Management will obtain evidence of written mutual agreement of the parties for any delays to time limits set by union agreement.	Dunning	
10/29/2012	N/A	Finance and Administration	Management Letter	OCTA should utilize security configuration checklists to emphasize hardening of systems against software flaws and configuring systems securely to help reduce the risk of attack.	Jan-14	Management indicated that OCTA lacks the resources to fully implement this recommendation; however, management agreed to return to the Board with a plan to address this recommendation.	Vavrinek, Trine, Day & Co., LLP	
12/14/2012	N/A	Finance and Administration	Agreed Upon Procedures with Respect to the OCTA and OCLTA Appropriations Limits Worksheets	In calculating both the OCTA and OCLTA appropriation limits for fiscal year 2011-12, staff used a population change factor of 0.77 rather than 0.70. The error had no impact because appropriations were well below the limit.	Jan-14	Management agreed to correct the error during the fiscal year 2012-13 budget process.	Vavrinek, Trine, Day & Co., LLP	
12/3/2012	N/A	Finance and Administration and Transit	Measure M2 Agreed Upon Procedures Reports	OCTA should monitor implementation of recommendations related to the cities of Anaheim, Costa Mesa, Huntington Beach, Santa Ana, and the County of Orange.	Jan-14	Management agreed to follow-up with cities to ensure corrective action is taken.	Vavrinek, Trine, Day & Co., LLP	
2/8/13	N/A	Internal Audit	External Quality Control Review	Internal Audit should ensure that auditors consistently document their preliminary assessment of internal controls in the Audit Planning Memorandum.	Aug-13	Internal Audit will revise the Audit Planning Memorandum template to specifically outline an area for such documentation.	Association of Local Government Auditors	

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2/8/13	N/A	Internal Audit	External Quality Control Review	Audit conclusion statements should be tied to audit workpapers to ensure consistent language and definitions and that the report presents sufficient, appropriate evidence to support conclusions in relation to audit objectives	Aug-13	Internal Audit will update procedures and quality control checklists to include a more detailed review of the report conclusion in relation to the identified audit objectives, scope and methodology.	Association of Local Government Auditors	
2/14/2013	13-519	Finance and Administration	Review of Wholesale Pass Sales	With regard to physical inventory, documentation should be maintained to reflect the total number of keys and individuals to who keys are assigned. Where the total number of keys cannot be determined the locks should be changed. Common overhead storage cabinets should not be used to store inventory. Also, management should consider more frequent verification of inventory.	Aug-13	Management has changed the lock to the inventory storage room and now maintains documentation of assigned keys. The supervisor has documented the existence and assignment of all keys to the locked storage bin and the overhead storage bin is no longer used to store inventory. A pass stock inventory was conducted on November 27, 2012, and future inventories will be conducted semi-annually.	G. Dunning	
2/14/2013	13-519	Finance and Administration	Review of Wholesale Pass Sales	Collection efforts should be performed as required by procedures and efforts should be documented.	Aug-13	Effective immediately, staff will document all follow-up efforts in the pass sales system.	G. Dunning	