



**October 24, 2012**

**To:** Finance and Administration Committee  
**From:** Will Kempton, Chief Executive Officer  
**Subject:** Fiscal Year 2012-13 Internal Audit Plan, First 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 first quarter of the fiscal year.

**Recommendation**

- A. Approve request from Metrolink to suspend the in-process review of the Metrolink Service Expansion Program for 90 days.
- B. Receive and file the first 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 (FY) 2012-13 Internal Audit Plan (Plan) (Attachment A) reflects the status of each audit project. As noted in the Plan, a review of the Metrolink Service Expansion Program is underway. On September 17, 2012, a request (Attachment B) was received from Metrolink to suspend the review for

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90 days, until after completion of the Metrolink 2012 Comprehensive Annual Financial Report and the Metropolitan Transit Authority audit of Measure R. Staff is seeking Finance and Administration Committee approval of this request.

During the first quarter of the FY, Internal Audit issued the results of Financial and Compliance Audits of Nine Combined Transportation Funding Program Projects that were conducted by Thompson, Cobb, Bazilio, and Associates (TCBA). TCBA questioned costs of \$677,015 incurred by the City of Stanton and offered recommendations to the cities of Costa Mesa, Irvine, Laguna Niguel, Placentia, and Santa Ana to ensure compliance. In addition, TCBA issued a recommendation to OCTA staff to enhance procedures related to timely project closeout. Internal Audit issued an additional recommendation to OCTA staff to amend language in master funding agreements and update guidelines to ensure clarity with regard to the right to audit.

Internal Audit also issued the results of the Financial and Compliance Audit of the State Transportation Improvement Program Planning, Programming, and Monitoring Program for the FY 2009-10, also performed by TCBA. The audit found that expenditures claimed by OCTA were eligible and adequately supported.

Also during the quarter, Internal Audit provided coordination and oversight of an audit conducted by the Orange County Employees Retirement System (OCERS) Internal Audit group. The audit found that OCTA has adequate controls to ensure complete, accurate, efficient, and timely transmittal of payroll data to OCERS.

Finally, Internal Audit completed the procurement of an independent consultant to conduct the required State Triennial Performance audit for the FY ending 2010, 2011, and 2012.

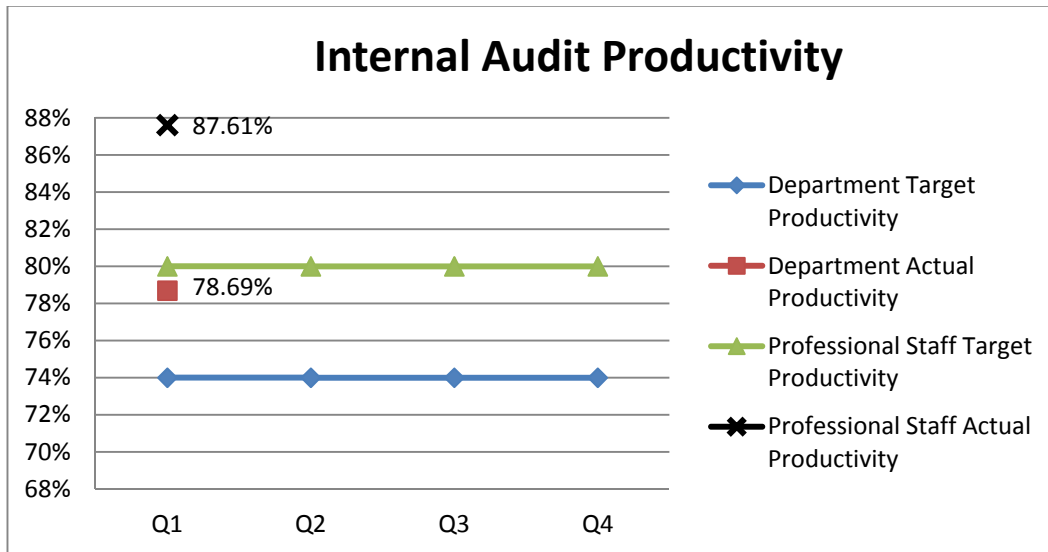
The primary focus of Internal Audit as of September 30, 2012, and in the ensuing months, will be to provide coordination of the State Triennial Performance audit and the annual financial statement and related audits.

#### 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.

For the first quarter ended September 30, 2012, Internal Audit achieved productivity of 79 percent, and the professional staff achieved productivity of 88 percent.



Price Reviews

At the request of the Contracts Administration and Materials Management Department (CAMM), and consistent with OCTA procurement policy, Internal Audit conducts reviews of single bid procurements to ensure that CAMM handled the procurement in a fair and competitive manner. Internal Audit also reviews prices proposed by architectural and engineering firms and sole source contractors to ensure that the prices are fair and reasonable. Internal Audit makes recommendations to adjust proposed rates where they exceed the rates per review. When the value of recommended adjustments can be estimated, Internal Audit tracks and reports these savings, as noted below. During the quarter ended September 30, 2012, Internal Audit conducted one single bid price review. Since these reviews do not include review of the prices proposed, there were no recommended price adjustments, as indicated below:

| Quarter | Price Reviews: Recommended Adjustments |
|---------|--|
| 1Q      | \$ 0                                   |
| 2Q      |  |
| 3Q      |  |
| 4Q      |  |
| Total   | \$ 0                                   |

### Fraud Hotline

During the quarter ended September 30, 2012, Internal Audit received four complaints through OCTA's Fraud Hotline, [www.ethicspoint.com](http://www.ethicspoint.com). Two of the complaints were referred to OCTA management for proper disposition. One complaint was investigated by Internal Audit and could not be substantiated. The final complaint was investigated by Internal Audit, and the results of the investigation were reported to appropriate management for proper disposition.

Internal Audit also issued a limited scope review report related to a complaint received in the prior quarter against Greater Southern California Towing, Inc. (GS Towing). The complaint alleged that GS Towing, a contractor under the OCTA Freeway Service Patrol Program, regularly failed to compensate employees for time worked before and after scheduled shifts, in violation of California Labor Law. The investigation found that GS Towing had violated state and federal laws and recommended that OCTA management take appropriate action. OCTA management noted that GS Towing subsequently implemented a timekeeping system and procedures and issued payment of back wages to employees. OCTA management also required GS Towing to report its violations to the United States Department of Labor and the California Labor Commissioner. Finally, OCTA management indicated that contract language would be reviewed with CAMM to ensure that appropriate safeguards are included in future agreements.

Internal Audit is committed to responding to all hotline complaints within eight business days. During the quarter ended September 30, 2012, Internal Audit responded to all complaints within eight business days and, on average, responded within two business days.

### Findings and Recommendations Tracking

At the request of the Finance and Administration Committee, unresolved audit recommendations are included with the quarterly updates to the Plan as Attachment C. Internal Audit includes the findings and recommendations generated internally, as well as those provided by regulatory auditors and OCTA's independent financial statement auditors.

### **Summary**

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

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**Attachments**

- A. Orange County Transportation Authority Internal Audit Department  
FY 2012-13 Internal Audit Plan First Quarter Update
- B. Letter from Don O. Del Rio, General Counsel, Metrolink, dated  
September 17, 2012, to Mr. Will Kempton, Chief Executive Officer, Orange  
County Transportation Authority
- C. Unresolved Audit Findings and Recommendations (Audit Reports Issued  
Through September 30, 2012)

**Approved by:**



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

**Orange County Transportation Authority  
Internal Audit Department  
FY 2012-13 Internal Audit Plan  
First 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                         |
|--|--|--|------------------------|---------------------|---------------------|--------------|----------------------|--|
| <b>Mandatory External Independent Audits</b>       |  |  |                        |                     |                     |              |                      |  |
| 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, 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                 | 43                  | 407          | In process           | 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                  | -                   | 40           | In process           | 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                  | 3                   | 37           | In process           | 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                 | 53                  | 97           | In process           | CH2MHill                                 |
| <b>Internal Audit Projects</b>                     |  |  |                        |                     |                     |              |                      |  |
| 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                 | 17                  | 163          | 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                 | 6                   | 144          | Ongoing              |  |
| Fraud Hotline                                      | FY13-102                               | Investigations of reports of fraud, waste, or abuse.   | Fraud Hotline          | 200                 | 73                  | 127          | Ongoing              | 4 complaints received<br>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.  | Peer Review            | 88                  | -                   | 88           |                      |  |

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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                 | 421                 | (181)        | In Process           |                  |
| 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                 | 185                 | (25)         | In Process           |                  |
| <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                 | 194                 | 107          | 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                 | 78                  | 183          | 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 - Acquisition                | FY13-5XX       | Review of the Measure M2 Environmental Mitigation Program; specifically, controls and process for acquisition of properties.  | Compliance         | 60                  | -                   | 60           |                      |                  |
| <b>Transit Operations</b>                                     |                |   |                    |                     |                     |              |                      |                  |
| OCTAP Taxicab Administration Program                          | FY13-516       | Review of the operations and related internal controls of the Orange County Taxicab Administration Program.   | Internal Control   | 180                 | 57                  | 123          | In process           |                  |
| 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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FY 2012-13 Internal Audit Plan  
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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                        | 41                         | 139                 | 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                        | 6                          | 194                 |                                 |                         |
| Grant Closeouts   | FY13-511              | As needed financial and compliance audits of grants at closeout to ensure propriety of expenditures.  | Compliance                | 40                         | 39                         | 1                   | 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                        | -                          | 180                 |                                 |                         |
| <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                        | 88                         | 152                 | 2 Complete (9-14-12, 9-28-12)   |                         |
| Price Reviews   | PR13-000              | Cost and price analyses as required by OCTA procurement policies and procedures.  | Price Review              | 1,000                      | 45                         | 955                 | 1 Complete                      |                         |
| <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                        | -                          | 180                 |                                 |                         |
| <b>External Affairs</b>                                   |                       |   |                           |                            |                            |                     |                                 |                         |
| Pass Sales  | FY13-519              | Review of the operations and related controls over the Pass Sales program.  | Operational               | 180                        | 11                         | 169                 | In Process                      |                         |



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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             | 160                 | 4                   | 156          |                      |                  |
| <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                 | 18                  | 163          |                      |                  |
| Bus Base Inspections and Inventory Testing       | FY13-602       | Participation on annual base inspection teams.  | Monitoring         | 32                  | -                   | 32           |                      |                  |
| 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                  | -                   | 24           |                      |                  |
| <b>Follow-up Reviews</b>                         |                |   |                    |                     |                     |              |                      |                  |
| Follow-up Reviews and Reporting                  | FY13-700       | Follow-up on audit findings and recommendations.  |                    | 240                 | 131                 | 110          |                      |                  |
| <b>Total Audit Project Planned Hours (A)</b>     |                |   |                    | <b>6,382</b>        | <b>1,750</b>        | <b>4,632</b> |                      |                  |
| <b>Internal Audit Administration</b>             |                |   |                    |                     |                     |              |                      |                  |
| Board of Directors and Board Committee Meetings  |                |   |                    | 380                 | 40                  | 341          |                      |                  |
| Executive Steering Committee and Agenda Meetings |                |   |                    | 160                 | 34                  | 126          |                      |                  |
| Internal Audit Department Staff Meetings         |                |   |                    | 240                 | 15                  | 225          |                      |                  |
| Other Administration                             |                |   |                    | 1,500               | 386                 | 1,115        |                      |                  |
| <b>Total Hours (B)</b>                           |                |   |                    | <b>8,662</b>        | <b>2,224</b>        | <b>6,438</b> |                      |                  |
| <b>Department-Wide Target Efficiency (A/B)</b>   |                |   |                    | 74%                 |                     |              |                      |                  |
| <b>Department-Wide Actual Efficiency (A/B)</b>   |                |   |                    | <b>79%</b>          |                     |              |                      |                  |
| <b>Professional Staff Target Efficiency</b>      |                |   |                    | 80%                 |                     |              |                      |                  |
| <b>Professional Staff Actual Efficiency</b>      |                |   |                    | <b>88%</b>          |                     |              |                      |                  |

**METROLINK®**



Southern California Regional Rail Authority

September 17, 2012

Mr. Will Kempton  
Chief Executive Officer  
Orange County Transportation Authority  
550 South Main Street - P.O Box 14184  
Orange, CA 92863-1584

Re: OCTA Measure "M" Audit on MSEP

Dear Will:

The purpose of this letter is to request an extension of time for the proposed OCTA Measure M audit on the Metrolink Service Expansion Project Review.

We are in the process of reconciling past audit findings. We acknowledge that past auditors and the FTA have pointed out financial weaknesses and deficiencies. We are currently engaged in two significant audits: 1) completion of the 2012 year end CAFR, and 2) MTA Measure R. Both audits are taking significant staff time and are occurring simultaneously with the Financial Information System (FIS) upgrade to our Oracle Financial System.

Therefore, we respectfully request that this proposed OCTA audit be delayed for 90 days. This delay will insure that the audit goes well and appropriate staff has time to be responsive to the OCTA auditors.

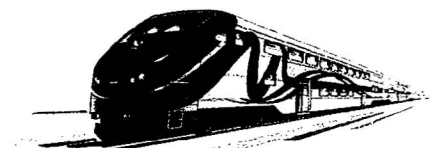
Thank you for your consideration.

Sincerely,

Don O. Del Rio  
General Counsel/Co-Interim Chief Executive Officer

cc: SCRRA: Richard Katz, Chair, Board of Directors  
Nancy Weiford, Chief Financial Officer

OCTA: Janet Sutter, OCTA Auditor



**UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS**

*(Audit Reports Issued Through September 30, 2012)*

| <b>Audit Issue Date</b> | <b>Report Number</b> | <b>Division / Department / Agency</b> | <b>Audit Name</b>                                 | <b>Recommendation</b>  | <b>Initiate Next Update</b> | <b>Management Response</b>   | <b>Auditor</b> | <b>Notes</b>                           |
|-------------------------|----------------------|---------------------------------------|---|--|-----------------------------|--|----------------|--|
| 2/5/2010                | 08-010               | Metrolink                             | 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. | Feb-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 by March 2012. The chief auditor 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 Chief Auditor position has not been filled and is on hold, pending the hire of a new CEO. Findings relating to the need for an audit function have not been addressed. | Bonelli        | Initiate next follow-up February 2013. |
| 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.   | Sep-12                      | 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.   | Ng             | Follow-up in process.                  |
| 2/14/2011               | 09-015               | Capital Programs                      | Real Estate and ROW Administration                | Lease rate adjustments and Consumer Price Index increases should be consistently implemented.  | Sep-12                      | 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 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.   | Ng             | Follow-up in process.                  |

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|-------------------------|----------------------|--|---|---|-----------------------------|--|----------------|--|
| 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. | Sep-12                      | 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. | Ng             | Follow-up in process.                  |
| 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 ensure interest is allocated to unspent turnback monies.   | Dec-12                      | 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 the FY2010-11. 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.  | Bonelli        | Initiate next follow-up December 2012. |
| 9/2/2011                | 10-503               | Transit  | Review of MV Transportation, Inc. Agreement | Internal Audit recommends that agreement language be reviewed and amended as appropriate to properly outline required versus desired training and qualifications.   | Sep-12                      | Concurrent with a future amendment to the agreement, contract language will be amended to outline the training and qualification requirements. <u>Update March 2012</u> : Contract language will be addressed at the next amendment which is scheduled for June 2012.  | Dunning        | In process.                            |

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|-------------------------|----------------------|---------------------------------------|--|--|-----------------------------|---|---------------------------------|-----------------------------------|
| 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.  | Jan-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. | Bonelli                         | Initiate next update January 2013 |
| 10/31/2011              | 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 2010-11, staff used a population change factor of 1.03 rather than 1.01. The error had no impact because appropriations were well below the limit.   | Jan-13                      | Management agreed to correct the error during the fiscal year 2011-12 budget process.   | Vavrinek, Trine, Day & Co., LLP |                                   |
| 10/31/2011              | N/A                  | Finance and Administration            | Single Audit Report  | Auditors noted that agreements between OCTA and federal subrecipients did not include required federal award information, such as the Catalog of Federal Domestic Assistance (CFDA) award title and number, American Recovery and Reinvestment Act (ARRA) information, award name, and federal agency. | Jan-13                      | Management agreed to correct the omissions and to include required information in future awards   | Vavrinek, Trine, Day & Co., LLP |                                   |
| 10/31/2011              | N/A                  | Finance and Administration            | Single Audit Report  | OCTA should modify its policies and procedures for accounting for compensated absences.  | Jan-13                      | Only compensated absences for terminations will be reported in the General Fund. Additionally, an analysis of employees eligible for termination payments in future periods will be performed. Accounting procedures will be modified.  | Vavrinek, Trine, Day & Co., LLP |                                   |
| 10/31/2011              | N/A                  | Finance and Administration            | Single Audit Report  | OCTA should formally incorporate a procedure to evaluate the beginning equity impact of any change in accounting principles adopted during the current period.   | Jan-13                      | Staff will include a procedure at year-end to review the impact on beginning fund equity of any changes in accounting principles.   | Vavrinek, Trine, Day & Co., LLP |                                   |

**UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS**

*(Audit Reports Issued Through September 30, 2012)*

| <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> |
|-------------------------|----------------------|---------------------------------------|---------------------|--|-----------------------------|--|---------------------------------|--------------|
| 10/31/2011              | N/A                  | Finance and Administration            | Single Audit Report | OCTA should identify to subrecipients the Award Identification at time of award. The information should include the CFDA number, award name, name of federal agency and whether the grant was funded from ARRA sources. In addition, OCTA should identify that the funds are ARRA at the time of disbursement. | Jan-13                      | OCTA has already taken steps to correct the omission of the CFDA number from the existing subrecipient reporting. Moving forward, OCTA will include all required information in the award report. In addition, OCTA will identify that the funds are ARRA at the time of disbursement (as appropriate).                          | Vavrinek, Trine, Day & Co., LLP |              |
| 10/31/2011              | N/A                  | Finance and Administration            | Management Letter   | OCTA should reconcile the Additional Retiree Benefits Account (ARBA) Trust Account in a more timely manner.  | Jan-13                      | Staff will reconcile the ARBA Trust Account within two weeks of receipt of the ARBA Statement.   | Vavrinek, Trine, Day & Co., LLP |              |
| 10/31/2011              | N/A                  | Finance and Administration            | Management Letter   | OCTA should require a <i>Service Organization Report (SOC 1, Type II report)</i> from Cofiroute on an annual basis or OCTA should perform periodic reviews of Cofiroute's internal controls.   | Jan-13                      | OCTA will commence discussions with the operator to require that they provide this report.   | Vavrinek, Trine, Day & Co., LLP |              |
| 10/31/2011              | N/A                  | Finance and Administration            | Management Letter   | OCTA should perform periodic reviews to confirm access rights to the financial reporting systems and verify that employee access remains commensurate with job responsibilities.   | Jan-13                      | Information Systems (IS) will provide the Accounting Department with reports containing user access data to the financial reporting systems twice yearly. Accounting will perform a logical access review and any discrepancies will be documented and corrected.  | Vavrinek, Trine, Day & Co., LLP |              |
| 10/31/2011              | N/A                  | Finance and Administration            | Management Letter   | OCTA should consider implementing the following best practices: (1) passwords that expire after 90 days; (2) automatic lockout after a specified number of failed login attempts; and (3) passwords that are complex.  | Jan-13                      | Recommended password management practices will be in place by January 2012.  | Vavrinek, Trine, Day & Co., LLP |              |
| 10/31/2011              | N/A                  | Finance and Administration            | Management Letter   | While no formal time period is recommended, the risk assessment and cost/benefit analysis of both desktop and server patch management should be reviewed to ensure risks are adequately addressed.   | Jan-13                      | IS will continue to follow its current practice of reviewing patches to determine the impact to OCTA business operations and will document this assessment. Emergency or out of band patches sent by any vendor will be attended to immediately. Other patches, of a less critical nature, will be applied on a quarterly basis. | Vavrinek, Trine, Day & Co., LLP |              |

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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             | Follow-up 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             | Follow-up 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             | Follow-up 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 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 the California Department of Transportation 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 CMM 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             | Follow-up 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 Accounts Receivable procedures; however, has not yet updated the Board-approved Tablet Policy.                | Ng             | Initiate next update April 2013. |



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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 Chief Executive Office (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. | Sep-12                      | (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             | Initiate next update April 2013. |
| 5/9/2012                | 12-501               | Finance and Administration            | Investments: Compliance, Controls, and Accounting July 1 through December 31, 2011 | Management should reconcile Debt and Investment Report language to terminology in the Investment Policy.  | Nov-12                      | The Treasury/Toll Roads department concurs with the recommendation. During the next scheduled investment policy revision, the policy shall further define Bank Deposits to include Cash or Cash Equivalents and will be so reflected in the investment reports.  | Tang           |                                  |
| 6/27/2012               | FY09-020             | Finance and Administration            | Telecommunications Equipment   | 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.                                   | Dec-12                      | 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.   | Bonelli        |                                  |

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| 7/11/2012               | N/A                  | Transit                               | Limited Scope Review of Greater Southern California Towing, Inc.                         | The contractor was found in violation of federal and state laws. Internal Audit recommended that OCTA management take action with regard to the contractor and review contract language to ensure that appropriate safeguards are included. | Jan-13                      | OCTA management will require the contractor to implement a timekeeping system and will also require that the contractor self-report its violations to the United States Department of Labor and the California Labor Commissioner. OCTA management will also work with the CAMM Department to make appropriate changes to contract language in future procurements. | Ng   |              |
| 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.  | Feb-13                      | Staff will work to amend master funding agreements as appropriate and will implement procedures to ensure timely closeout of projects.  | Thompson, Cobb, Bazilio, and Associates (Ng) |              |