



January 22, 2014

To: Finance and Administration Committee
From: Darrell Johnson, Chief Executive Officer
Janet Sutter, Executive Director
Internal Audit Department
Subject: Fiscal Year 2013-14 Internal Audit Plan, Second Quarter Update

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Overview

The Orange County Transportation Authority Board of Directors adopted the Orange County Transportation Authority Internal Audit Department Fiscal Year 2013-14 Internal Audit Plan on August 12, 2013. This update is for the second quarter of the fiscal year.

Recommendation

Receive and file the second quarter update to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2013-14 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, 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) 2013-14 Internal Audit Plan (Plan) (Attachment A) reflects the status of each audit project.

During the second quarter of the FY, Internal Audit issued the results of a review of administrative employee overtime and concluded that controls to monitor employee overtime and to ensure compliance with OCTA policies and regulatory requirements are adequate. Internal Audit also issued the results of a review of the OCTA Bus Advertising Revenue Program and the related agreement with Titan Outdoor, LLC (Titan). This review found that Titan provides accurate and timely payments to OCTA; however, a recommendation was made to improve controls to ensure compliance with contract terms related to safety and the use of subcontractors.

There are several internal audit reviews underway at quarter end, including a review of employee protected leaves. That audit was initiated on September 23, 2013, but has been on hold due to access restrictions imposed by management until legal opinions could be obtained.

Also during the quarter, Internal Audit provided coordination and oversight of Vavrinek, Trine, Day & Company, LLP, independent certified public accountants performing the annual OCTA financial statement audits and agreed-upon procedures reviews. All of the annual financial and agreed-upon procedures reviews have been issued and provided to the State Controller and the State Department of Transportation, as required.

Region IX of the Grants Management Division of the Department of Homeland Security's Federal Emergency Management Agency issued results of a financial monitoring review of Transit Security Grant Program funds and recommended the return of \$624,275 in grant funds awarded in 2009. In the course of coordinating this review, Internal Audit noted weaknesses in the process and made a recommendation to improve controls over monitoring and reporting of grant funds and related projects.

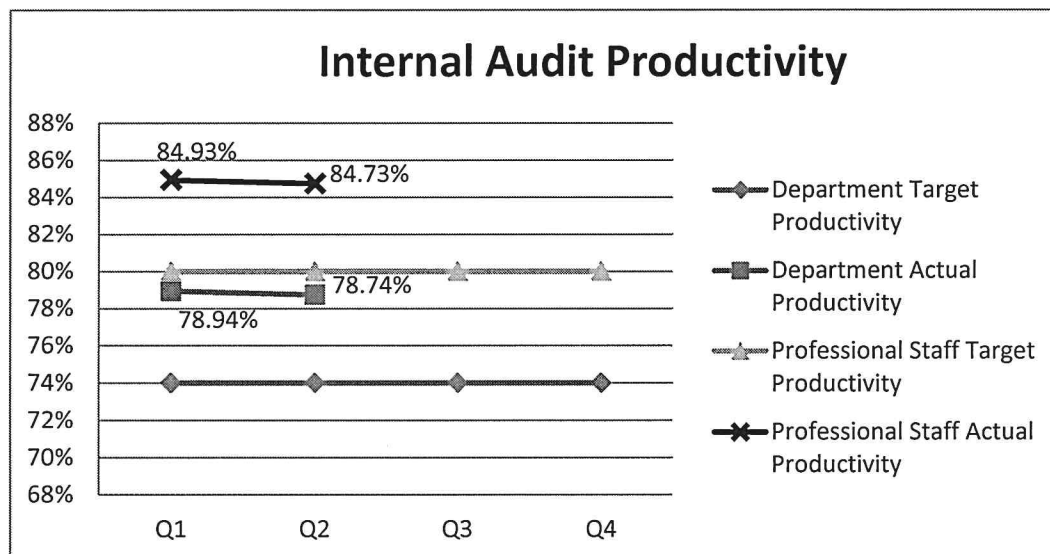
Last quarter, Internal Audit reported on a review by professional accounting firm Simpson & Simpson, of the memorandum of understanding between the Southern California Regional Rail Authority (SCRRA) and the Los Angeles County Metropolitan Transportation Authority. The review cited two variances between the SCRRA's Consolidated Annual Financial Report and the Subsidy Allocation by County Report for the fiscal year 2012. Two of the primary objectives of the audit relate to SCRRA's allocation methods and are applicable to all member agencies. As such, Internal Audit continues to monitor the status of these audit findings and will provide an update when available.

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. The target for Internal Audit professional staff, not including the Executive Director, is 80 percent.

As of the second quarter ended December 31, 2013, Internal Audit achieved productivity of 79 percent, and the professional staff achieved productivity of 85 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 December 31, 2013, Internal Audit conducted three pre-award agreed-upon procedures reviews and recommended price adjustments, as indicated below:

| Quarter | Price Reviews Recommended Adjustments |
|---------|---------------------------------------|
| 1 | \$ 868,085 |
| 2 | \$ 107,208 |
| 3 | |
| 4 | |
| Total | \$ 975,293 |

Fraud Hotline

During the quarter ended December 31, 2013, Internal Audit received four complaints through OCTA's Fraud Hotline, www.ethicspoint.com. Three customer complaints were referred to OCTA management and/or customer relations for proper disposition. One complaint is currently under investigation.

Internal Audit is committed to responding to all hotline complaints within eight business days. During the quarter ended December 31, 2013, Internal Audit made initial contact within two business days.

Findings and Recommendations Tracking

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

During the quarter ended December 31, 2013, Internal Audit performed follow-up and removed 11 unresolved audit findings from the list. Another 20 unresolved audit findings are in the process of being reviewed to determine whether management has taken appropriate action to address the findings. One recommendation was added as a result of audits performed and issued during the quarter.

Summary

The Orange County Transportation Authority's Internal Audit Department will continue to implement the Orange County Transportation Authority Fiscal Year 2013-14 Internal Audit Plan, monitor performance metrics, and report the status on a quarterly basis.

Attachments

- A. Orange County Transportation Authority Internal Audit Department
Fiscal Year 2013-14 Internal Audit Plan, Second Quarter Update
- B. Unresolved Findings and Recommendations, Audit Reports Issued
through December 31, 2013

Prepared by:



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**Orange County Transportation Authority
Internal Audit Department
Fiscal Year 2013-14 Internal Audit Plan
Second 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 |
|---|------------------------------|--|--------------------|---------------------|---------------------|--------------|----------------------|----------------------------|
| Mandatory External Independent Audits | | | | | | | | |
| Annual Financial Audit | FY14-001, FY14-002, FY14-003 | Coordination and oversight of annual financial and compliance audits for fiscal year (FY) 2013-14. | Financial | 450 | 260 | 191 | | Vavrinek, Trine, Day & Co. |
| Annual Transportation Development Act Audits | FY14-004 | Coordination of required annual audits of the recipients of Transportation Development Act funds for FY 2013-14. | Compliance | 40 | 58 | (18) | | Vavrinek, Trine, Day & Co. |
| Triennial Review - Federal | FY14-005 | Coordination of Federal Transit Administration triennial review. | Compliance | 160 | 86 | 74 | | Vavrinek, Trine, Day & Co. |
| Internal Audit Department Projects | | | | | | | | |
| Risk Assessment and Annual Audit Plan | FY14-100 | Annual preparation of the audit plan, quarterly updates to the audit plan, and periodic assessment of risk throughout the year. | Risk Assessment | 180 | 43 | 137 | Ongoing | |
| Quality Assurance and Self-Assessment | FY14-101 | Update of Internal Audit Policies & Procedures. Annual self-assessment of Internal Audit's compliance with Government Auditing Standards. | Quality Assurance | 120 | - | 120 | Ongoing | |
| Fraud Hotline | FY14-102 | Administrative duties related to maintenance of the Fraud Hotline and work related to investigation of reports of fraud, waste, or abuse. | Fraud Hotline | 200 | 77 | 124 | Ongoing | 16 Reports Received |
| Automated Workpaper System | FY14-103 | Procure and implement automated workpaper and timekeeping software. | Audit Software | 240 | - | 240 | | |
| Internal Audits | | | | | | | | |
| Organization-Wide | | | | | | | | |
| Performance Metrics | FY14-XXX | Review efforts to track and report performance metrics and assess the accuracy and timeliness of reporting. | Operational | 180 | - | 180 | | |
| Business Resumption and Continuity of Operations | FY14-XXX | Assess whether business resumption/continuity of operations plans provide the framework for an effective response and recovery from any business interruption. | Operational | 180 | - | 180 | | |
| Human Resources and Organizational Development | | | | | | | | |
| Flexible Benefits Program Administration | FY13-525 | Review of policies, procedures, and controls in place over this employee benefit program. | Internal Control | 24 | 80 | (56) | Issued 09-13-13 | |
| Family Medical Leave Act | FY14-XXX | Review controls in place to ensure compliance with policies, procedures, and regulations related to the Family Medical Leave Act. | Compliance | 180 | 308 | (128) | On Hold | |
| Training | FY14-XXX | Assess the adequacy of operations related to employee training and educational reimbursements and determine compliance with regulations, policies, and procedures. | Operational | 180 | | 180 | | |

**Orange County Transportation Authority
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Second Quarter Update**

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|---|-----------------------|--|---------------------------|----------------------------|----------------------------|---------------------|---------------------------------|-------------------------|
| Capital Projects | | | | | | | | |
| Metrolink Service Expansion Program | FY11-510 | Review of cooperative agreement with Metrolink for infrastructure improvements related to the implementation of 30 minute service. | Compliance | 160 | 262 | (102) | In Process | |
| Tustin Parking Expansion | FY13-527 | Review of the Tustin Parking Expansion project, including project administration, oversight controls, and contract compliance. | Internal Control | 240 | 209 | 32 | In Process | |
| West County Connectors: Mitigation Funding | FY14-XXX | Review and test compliance with cooperative agreements for mitigation funding related to the West County Connectors project. | Operational | 180 | 120 | 60 | In Process | |
| Planning | | | | | | | | |
| Combined Transportation Funding Program Project Audits | FY14-XXX | Review selected projects for compliance with Measure M Ordinance, policies, and procedures. | Compliance | 180 | - | 180 | | |
| Transit Operations | | | | | | | | |
| Coach Operator Overtime: Scheduled and Unscheduled | FY14-XXX | Review of selected processes and controls involved in the budgeting and reporting of coach operator overtime, both scheduled and unscheduled. | Operational | 240 | - | 240 | | |
| Veolia Contract Closeout | FY14-XXX | Assess the adequacy and effectiveness of controls employed in the closeout of the Veolia contract for ACCESS services. | Internal Control | 180 | - | 180 | | |
| Finance and Accounting | | | | | | | | |
| Treasury | FY14-501 | Semi-annual review of investments compliance, controls, and accounting. | Compliance | 200 | 122 | 78 | Issued 09-30-13 | |
| Grant Closeouts | FY14-507 | As-needed financial and compliance audits of grants at closeout to ensure propriety of expenditures. | Compliance | 40 | 31 | 9 | Issued 08-15-13 | |
| Commuter Club | FY14-504 | Review controls in place to ensure compliance with policies, procedures, and regulations related to this employee program. | Compliance | 120 | 163 | (43) | In Process | |
| Administrative Employee Overtime | FY14-504 | Review controls in place to monitor and reduce overtime costs. Assess reasonableness of overtime costs incurred. | Internal Control | 120 | 124 | (4) | Issued 10-25-13 | |
| Contract Administration & Materials Management | | | | | | | | |
| Buy America | FY14-503, FY14-505 | Pre-award and post-delivery reviews to ensure vendors and the Orange County Transportation Authority (OCTA) are in compliance with federal Buy America requirements. | Compliance | 360 | 290 | 70 | 3 Issued | |
| Price Reviews | PR14-XXX | Cost and price analyses as required by OCTA procurement policies and procedures. | Price Review | 1,000 | 463 | 537 | 4 Complete | |
| Purchase Order Issuance and Oversight | PR14-XXX | Review controls, policies, and procedures over Purchase Order/Blanket Purchase Order issuance and oversight. | Internal Controls | 180 | 240 | (60) | 6 Complete | |

**Orange County Transportation Authority
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Fiscal Year 2013-14 Internal Audit Plan
Second 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 |
|---|----------------|---|--------------------|---------------------|---------------------|--------------|----------------------|------------------|
| External Affairs | | | | | | | | |
| Bus Advertising | FY14-XXX | Review and assess compliance with revenue-sharing agreements in place for bus advertising. | Operational | 160 | 256 | (96) | Issued 10-30-13 | |
| OCTA Store | FY14-XXX | Review OCTA store operations to ensure adequate controls are in place to safeguard assets. | Operaitonal | 180 | 108 | 72 | In Process | |
| Unscheduled Reviews and Special Requests | | | | | | | | |
| Unscheduled Reviews and Special Requests | FY14-800 | Time allowed for unplanned audits and requests from the Board of Directors and management. | Varies | 156 | - | 156 | | |
| | FY14-801 | Federal Emergency Management Agency - Region IX - Financial Monitoring Review -Transit Security Grant Program FY 2009 - FY 2012. | Compliance | 20 | 32 | (12) | In Process | |
| | FY14-802 | California Office of Emergency Services FY 2009-10 Proposition 1B Transit Grant Award Compliance Review | Compliance | 24 | 5 | 19 | | |
| Monitoring Activities | | | | | | | | |
| Measure M Taxpayers Oversight Committee | FY14-601 | Coordination of audit activities with the Audit Subcommittee of the Measure M Taxpayers Oversight Committee. | Monitoring | 160 | 21 | 139 | | |
| Bus Base Inspections and Inventory Testing | FY14-602 | Participation in annual bus base inspections. | Monitoring | 32 | - | 32 | | |
| Metrolink Member Agency Allocation | FY14-603 | Review of results of Los Angeles County Metropolitan Transportation Authority's annual audit of Metrolink member agency allocation. | Monitoring | 24 | 18 | 6 | | |
| Follow-up Reviews | | | | | | | | |
| Follow-up Reviews and Reporting | FY14-700 | Follow-up on audit findings and recommendations. | | 300 | 145 | 156 | | |
| Total Audit Project Planned Hours (A) | | | | 6,390 | 3,518 | 2,872 | | |

Orange County Transportation Authority
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Second Quarter Update

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|--|----------------|-------------|--|---------------------|---------------------|--------------|----------------------|------------------|
| Internal Audit Administration | | | | | | | | |
| Board of Directors and Board Committee Meetings | | | | 380 | 79 | 301 | | |
| Executive Steering Committee and Agenda Meetings | | | | 160 | 59 | 102 | | |
| Internal Audit Department Staff Meetings | | | | 240 | 36 | 205 | | |
| Other Administration | | | | 1,500 | 773 | 728 | | |
| | | | Total Hours (B) | 8,670 | 4,464 | 4,207 | | |
| | | | Department-Wide Target Efficiency (A/B) | 74% | | | | |
| | | | Department-Wide Actual Efficiency (A/B) | | 79% | | | |
| | | | Professional Staff Target Efficiency | 80% | | | | |
| | | | Professional Staff Actual Efficiency | | 85% | | | |

UNRESOLVED FINDINGS AND RECOMMENDATIONS
(Audit Reports Issued Through December 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. | Nov-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. <u>Update May 2013</u> : Management expects to hire an internal auditor in 6-8 weeks. Also, the Oracle system update is in its final stages. | Bonelli | In process. Awaiting response from Metrolink. |
| 2/14/2011 | 09-015 | Capital Programs | Real Estate and Right of Way (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. | Jan-14 | 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 proof 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. <u>Update June 2013</u> : Letters have been sent to 658 tenants. Additional letters will be prepared and sent. Internal Audit will return in six months to review progress. | Ng | Initiate next update January 2014. |

UNRESOLVED FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through December 31, 2013)

| Audit Issue Date | Report Number | Division / Department / Agency | Audit Name | Recommendation | Initiate Next Update | Management Response | Auditor | Notes |
|-------------------------|----------------------|--|------------------------------------|--|-----------------------------|---|----------------|--------------|
| 6/27/2012 | 12-510 | Human Resources and Organizational Development | Employment and Compensation Review | Management should develop written procedures for processing compensation and personnel actions. | Dec-13 | Management will develop and document procedures by February 2013. <u>Update June 2013</u> : Procedures have not yet been finalized. | Tang | In process. |
| 8/27/2012 | 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. | Dec-13 | Effective immediately, exceptions will require documentation. In addition, management will develop and document procedures by February 2013. <u>Update June 2013</u> : Procedures have not yet been finalized. | Tang | In process. |
| 10/17/2012 | 12-510 | Human Resources and Organizational Development | Employment and Compensation Review | Management should amend the Personnel and Salary Resolution (P&SR) to specifically address equity adjustments. Also, written procedures should be developed to govern these actions. | Dec-13 | Management will update the P&SR to specifically address equity adjustments and will develop and document procedures by February 2013. <u>Update June 2013</u> : The P&SR approved by the Board of Directors (Board) in June 2013 was updated to address equity adjustments. Internal Audit will return in six months to test compliance. | Tang | In process. |
| 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. | Dec-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. <u>Update June 2013</u> : The P&SR approved by the Board of Directors (Board) in June 2013 specifically addresses employee transfers. Internal Audit will return in six months to test compliance. | Tang | In process. |
| 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. | Dec-13 | Management will develop and document procedures by February 2013. <u>Update June 2013</u> : The P&SR approved by the Board in June 2013 eliminated the Special Assignment title. Five employees that are in this category should be moved to new position titles. Internal Audit will return in six months to test compliance. | Tang | In process. |

UNRESOLVED FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through December 31, 2013)

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|-------------------------|----------------------|--|------------------------------------|---|-----------------------------|---|----------------|--------------|
| 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. | Dec-13 | Management will ensure CEO approval is obtained as required. Also, management will define "extra help" employees with the next update to the P&SR and will include guidelines as to their salary rates. <u>Update June 2013</u> : Procedures have not yet been finalized. | Tang | In process. |
| 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. | Dec-13 | Management will obtain CEO approval on all executive salaries and will work to improve security over employee files by February 2013. <u>Update June 2013</u> : Internal Audit made three additional recommendations based on review: (1) Executive and Human Resources and Organizational Development employee files are not properly secured; (2) Policy and procedures governing the merit program for fiscal year 2012-13 have not been approved and finalized; and (3) Executive salaries on the OCTA website have not been updated since March 2013. | Tang | In process. |
| 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. | Dec-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. <u>Update June 2013</u> : Management has updated the templates for the verbal offer and letter offer; however these have not been incorporated into written procedures. Internal Audit could not test compliance as there were no actions during the period reviewed. Internal Audit recommends management incorporate templates into finalized procedures and/or the Employment and Staffing Manual. | Tang | In process. |
| 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. | Dec-13 | Management will implement monitoring controls by December 2012. <u>Update June 2013</u> : There was one employee during the period that required CEO approval to remain in a temporary assignment and approval was obtained; however, written procedures have not been approved and finalized. | Tang | In process. |

UNRESOLVED FINDINGS AND RECOMMENDATIONS
(Audit Reports Issued Through December 31, 2013)

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|-------------------------|----------------------|--|--|--|-----------------------------|---|--------------------------------|--------------|
| 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. | Dec-13 | Management will update the Employment and Staffing Manual to include procedures for processing coach operators who are recalled. <u>Update June 2013</u> : Procedures have been written and incorporated into the hard copy manual; however, the version of the manual available on the intranet is dated June 2010. Management should ensure timely update of manuals maintained on the intranet. | Tang | In process. |
| 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 (SPA). | Dec-13 | Management has enhanced controls to ensure proper approval is obtained. <u>Update June 2013</u> : Review noted the following: (1) Policy and procedures for SPA's have not been approved and finalized; (2) The SPA for an executive employee was not approved by the CEO as required; and (3) the ACCESS database used to track all SPA's is incomplete; (4) two data entry errors in the payroll system were noted. Internal Audit recommended the following: (1) Management should obtain approval and finalize policies and procedures prior to implementation; (2) Management should improve SPA tracking by performing periodic follow-up on outstanding requests; (3) Management should strengthen controls to ensure the accuracy of input to the payroll system. | Tang | In process. |
| 10/29/2012 | 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 | Nov-14 | Management agreed to monitor to ensure reports are submitted timely. | Vavrinek, Trine, Day & Company | In process. |
| 5/10/2013 | N/A | Finance & Administration | Fiscal Years 2010-12 Triennial Performance Audit of the Orange County Transportation Authority | Management should (1) clarify reporting requirements for Article 4.5 claims; (2) require Article 4 claimants to provide updates on prior audit recommendations; (3) update and redistribute the Transportation Development Act (TDA) claim form to Laguna Beach Municipal Transit Lines (LBMTL) to ensure the form they use includes current requirements and references; and (4) ensure that all 16 performance measures listed in the OCTA TDA guidelines are calculated and included in claims. | Dec-13 | Management agrees with the recommendations and has created a checklist for use in documenting Article 4.5 claims and has updated the TDA guidelines to ensure all performance measures listed are included in each claim going forward. Also, management will ensure that LBMTL is provided with an updated TDA claim form and follow-up of prior audit recommendations is documented with future claims. | R. Bonelli | In process. |

UNRESOLVED FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through December 31, 2013)

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|-------------------------|----------------------|---|--|---|-----------------------------|--|----------------|--------------|
| 5/10/2013 | N/A | Finance & Administration | Fiscal Years 2010-12 Triennial Performance Audit of the LBMTL | The following recommendations were provided: (1) Monitor system performance against performance benchmarks developed for the transit system as part of the update to the Short Range Transit Plan. (2) Properly report full time equivalents in State Controller's Report in compliance with state statute. (3) Assess alternative cost-allocation methods for the Mainline and Summer Festival service modes. (4) Adopt formalized on-time performance monitoring procedures. (5) Enhance the delivery and quality of supplemental local demand-response and taxi service. | Dec-13 | Management from the Finance and Administration Division will perform follow-up with LBMTL to ensure recommendations are being addressed. | R. Bonelli | In process. |
| 5/22/2013 | 13-524 | Finance & Administration | Review of Information Systems Hardware | Management should implement periodic inventories to verify the accuracy of the information maintained in the Cherwell system | Jan-14 | A physical hardware inventory will be conducted every two years. The next hardware inventory is scheduled to begin in January 2014, after completion of the Windows 7 migration project. Future hardware inventories will be completed on a bi-annual basis to coincide with the Capital Asset Inventory schedule. | G. Dunning | |
| 5/22/2013 | 11-501 | Finance & Administration and Capital Programs | Limited Review of Oversight Controls and Contract Compliance Related to the Orangethorpe Grade Separation Projects | Internal Audit recommends that an entity-wide invoice review policy and procedures be established. | Dec-13 | Management agrees with the recommendation and proposes the following: (1) The Payment Authorization Policy (FA-ACCT-340.09PAYAUTH) will be reissued as a policy of the CEO. (2) A new Contract Invoice Review Policy will be issued by the CEO that delineates responsibility for ensuring that contract invoices are accurately paid in compliance with all applicable contract provisions and disbursed on a timely basis. | Ng | In process. |

UNRESOLVED FINDINGS AND RECOMMENDATIONS

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|-------------------------|----------------------|---------------------------------------|--|--|-----------------------------|---|----------------|--------------|
| 6/26/2013 | 11-501 | Finance & Administration | Limited Review of Oversight Controls and Contract Compliance Related to the Orangethorpe Grade Separation Projects | Internal Audit recommends that procedures be updated to address the authorization of consultant staffing changes prior to processing of amendments or letter agreements adding staff. Procedures should include the parameters for back-dating these amendments and letter agreements. | Dec-13 | Management agrees that procedures for authorizing contractor staffing changes and parameters for establishing an effective date on letter amendments should be strengthened. There are existing procedures in place; however, staff will revise the procedures to clarify any ambiguities that may exist. Staff will also work with project managers to ensure notification of these types of staffing changes are reported to the Contracts Administration and Materials Management Department (CAMM) in a timely manner. | | In process. |
| 6/26/2013 | 11-501 | Capital Programs | Limited Review of Oversight Controls and Contract Compliance Related to the Orangethorpe Grade Separation Projects | Internal Audit recommends that OCTA project management establish consistent requirements for quantity sheets (q-sheets), as well as spot-check construction management's q-sheets for accuracy and compliance with OCTA requirements. | Dec-13 | Management has determined that the identified inconsistencies are due to field adjusted quantities that were not updated on the q-sheets. Management agrees with the recommendation and will ensure that the construction program management personnel reinforces with the construction management teams the requirements of updating the q-sheets frequently, and checking the q-sheets for accuracy and compliance with OCTA requirements. In addition, the Construction Management Procedures Manual will be updated by June 18, 2013, to strengthen the procedures regarding updates and reviews of the q-sheets. | | In process. |
| 6/26/2013 | 11-501 | Finance & Administration | Limited Review of Oversight Controls and Contract Compliance Related to the Orangethorpe Grade Separation Projects | Internal Audit recommends that CAMM develop policy and procedures over Schedule II and the billing of other direct costs (ODC). Once written procedures are prepared, CAMM should train staff and advise project management of the requirements. | Dec-13 | Management agrees and procedures will be developed that address the requirements for adding ODC items to the contract. Management also agrees to train staff on the new procedure and to notify project management of the procedures. | | In process. |

UNRESOLVED FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through December 31, 2013)

| Audit Issue Date | Report Number | Division / Department / Agency | Audit Name | Recommendation | Initiate Next Update | Management Response | Auditor | Notes |
|-------------------------|----------------------|--|--|--|-----------------------------|--|----------------|--------------|
| 6/26/2013 | 11-501 | Capital Programs | Limited Review of Oversight Controls and Contract Compliance Related to the Orangethorpe Grade Separation Projects | Internal Audit recommends management request credits for these, and any other identified duplicate payments. | Dec-13 | A credit for the total of the duplicate payments was applied to the contractor's May 2013 invoice. The construction management teams will also check other past payments to ensure there were no additional duplicate payments. The construction program management team will strengthen their communication with the construction management teams to conduct accurate invoice reviews before approving future invoices for payment | Ng | In process. |
| 9/13/2013 | 13-525 | Human Resources and Organizational Development | Flexible Spending Account Program Review | Internal Audit recommends that management implement controls to ensure reconciliation of bi-weekly payroll payments and the annual statement of deposit account | Mar-14 | Management has created a report that is updated on a bi-weekly basis that will be used to document the reconciliation process for the payroll payments. Also, management has created a report to document the reconciliation of the annual statement of deposit account. | Tang | |
| 9/30/2013 | FY14-501 | Finance and Administration | Investments: Compliance, Controls, and Accounting Review, January 1 through June 30, 2013 | Internal Audit recommends management develop formal back-up procedures to ensure that review and monitoring responsibilities are met. Management should also revise the OCTA Debt and Investment Management Manual (Manual) to reflect procedures to be performed in the absence of one or both individuals. | Apr-14 | Management concurs with the recommendations and will develop formal back up procedures, electronically archive copies of the daily investment sheets, and revise the Manual to reflect the new processes. | Tang | |
| 10/10/2013 | N/A | Planning | Follow-up to Financial and Compliance Audits of Nine Combined Transportation Funding Program Projects | Internal Audit recommends management revise the Audit and Inspection article of the M2 Master Funding agreements to allow an audit period of five years after the expenditure of Local Fair Share funds. | Jul-14 | Management agreed and indicated that this change will be incorporated with other updates planned for June 2014. | Ng | |

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| 10/30/2013 | FY14-506 | External Affairs | Review of Bus Advertising Revenue Program and Agreement with Titan Outdoor, LLC (Titan) | Internal Audit recommends that management implement controls to ensure only authorized subcontractors are allowed access to bus bases and are named in the agreement. Further, management should ensure that all required safety documentation is obtained and OCTA rules and regulations are communicated. | May-14 | Management will add all subcontractors to the bus advertising contract. In addition, management is working with OCTA's construction safety officer to obtain appropriate safety rules and regulations in order to develop the policy and procedures for bus advertising installation. These tasks are targeted to be completed and added to the Titan contract by the end of December, 2013. Management will also work with the Health, Safety & Environmental Compliance Department to conduct safety training with Titan's subcontractors upon completion of the bus advertising installation policy and procedures. | Dunning | |