



April 27, 2016

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Fiscal Year 2015-16 Internal Audit Plan, Third Quarter Update

Overview

The Orange County Transportation Authority Board of Directors adopted the Orange County Transportation Authority Internal Audit Department Fiscal Year 2015-16 Internal Audit Plan on July 27, 2015. This update is for the third quarter of the fiscal year.

Recommendation

Receive and file the third quarter update to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2015-16 Internal Audit Plan as an information item.

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 includes overseeing the annual financial audits and agreed-upon procedures reviews, conducting operational and contract compliance reviews, investigations, pre-award price reviews, and Buy America reviews. All audits initiated by entities outside of OCTA are coordinated through Internal Audit.

Discussion

The OCTA Internal Audit Fiscal Year (FY) 2015-16 Internal Audit Plan (Plan) (Attachment A) reflects the status of each audit project.

During the third quarter of the FY, Internal Audit issued the semi-annual audit of investments for the period July 1 through December 31, 2015, and identified a minor error in the monthly and quarterly reports provided to the Finance and Administration Committee (Committee) and the Board of Directors (Board) for the period ending December 31, 2015. A recommendation was made to implement controls to validate balances reported and to update procedures to reflect current practices related to tracking account balances. Management agreed and indicated that procedures would be updated within 60 days.

Also, an audit of oversight controls, contract compliance, and billings related to the Bristol Street Widening project was completed. The audit identified overbillings from inaccurate calculation of labor rates, duplicated charges, and weaknesses in timekeeping practices by the City of Santa Ana. Internal Audit also found that OCTA project management staff does not review supporting documentation for costs charged to Agreement No. C-6-0069 or reconcile funding amounts. Six recommendations were made to improve controls and make adjustments for inaccurate and/or duplicated charges. Management agreed and proposed appropriate actions to address the recommendations.

An audit of accounts payable controls found that system assignments do not provide for adequate segregation of duties, and procedures for utilizing payment requests and invoice review were not consistently adhered to. In addition, Cofiroute USA, LLC, the contracted operator of the 91 Express Lanes, is not required to competitively procure goods and services on behalf of OCTA. Internal Audit made three recommendations to improve controls and enhance procedures, and management agreed to take action to address the concerns.

In January, all of the required annual financial and compliance audits by OCTA's independent financial statement auditor, Vavrinek, Trine, Day & Company, LLP (VTD) were presented to the Committee, the Board, and the Audit Subcommittee of the Taxpayer Oversight Committee. In addition to providing coordination and review of these draft reports, Internal Audit performed follow-up activities related to findings identified by VTD during city audits performed at the direction of the Measure M2 Taxpayer Oversight Committee.

In February, Internal Audit underwent its required triennial external quality assurance, or peer, review. The peer review found that the Internal Audit's quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with Government Auditing Standards for the period January 1, 2013 through December 31, 2015. The peer review team provided a management letter, recognizing the department for its comprehensive policies and procedures, the productivity of staff, and the respect and support for the audit function exhibited by both management and the Board. One suggestion was made related to the use of the word "review" in

audit and agreed-upon procedures reports. Internal Audit has already implemented this suggestion.

In March, the Federal Transit Administration conducted the on-site portion of the FY 2016 Federal Triennial Review. The final report is expected to be issued in April 2016.

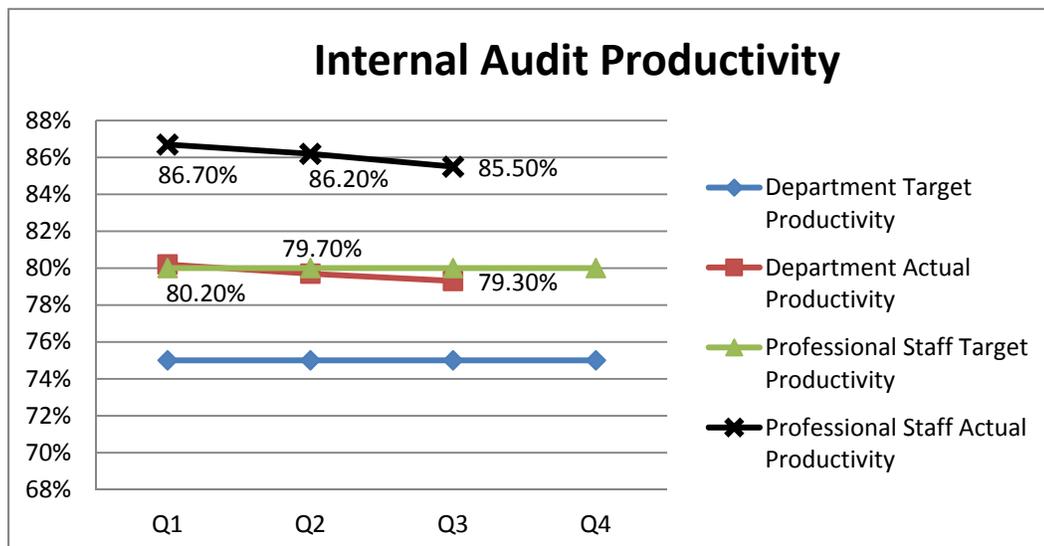
Draft reports of required State Triennial Reviews of OCTA, the Orange County Transit District, and the Laguna Beach Municipal Transit Lines were also received and reviewed, and final reports are expected in April 2016.

Also in March, Internal Audit conducted an annual quality control system self-review. This exercise is designed to help ensure the department's ongoing compliance with professional standards.

Internal Audit 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 75 percent. The target for Internal Audit professional staff, not including the Executive Director, is 80 percent.

For the third quarter ended March 31, 2016, Internal Audit achieved productivity of 79 percent, and the professional staff achieved productivity of 85.5 percent.



Price Reviews

At the request of the Contracts Administration and Materials Management Department (CAMM), and consistent with OCTA procurement policy, Internal Audit conducts agreed-upon procedures reviews of single bid procurements to ensure that CAMM handled the procurement in a fair and competitive manner. Internal Audit also conducts agreed-upon procedures reviews of 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 potential savings, as noted below. During the quarter ended March 31, 2016, Internal Audit conducted five pre-award agreed-upon procedures reviews and recommended price adjustments, as indicated below:

Quarter	Price Reviews Recommended Adjustments
1	\$ 2,620,546
2	390,504
3	17,408
4	
Total	\$ 3,028,458

Fraud Hotline

During the quarter ended March 31, 2016, Internal Audit received seven reports through OCTA's Fraud Hotline, www.ethicspoint.com. Six reports were referred to OCTA management and/or customer relations for proper disposition and one was investigated by Internal Audit.

The investigation related to the scope of work included in the procurement for mobile router retrofit, Request for Proposals 6-0957. The reporter alleged that the scope of work was written in favor of a specific, brand name product, citing that the technical specifications were copied directly from the brand name product's specification sheet and salient characteristics of the product were not outlined to allow potential bidders to offer alternatives. The reporter also alleged predisposition toward this product since it was already being installed on recently purchased buses. Internal Audit confirmed the allegations and identified additional concerns. Specifically, management had also requested the addition of this specific, brand name product to recently purchased buses.

Additionally, management was in the process of hiring the radio system vendor to write an interface specific to the brand name router. As a result of these findings, management cancelled the procurement and two amendments to the bus purchase contracts. Management indicated that a new procurement would be issued with a scope of work that will invite competition.

Internal Audit is committed to responding to all hotline complaints within eight business days. During the quarter ended March 31, 2016, Internal Audit made initial contact within two business days.

Findings and Recommendations Tracking

At the request of the 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 March 31, 2016, Internal Audit performed follow-up and removed five audit recommendations from the list. Review of the status of another four other recommendations is still underway as of the quarter end, and a total of twelve recommendations were added to the list relating to audits issued during the quarter

Summary

Internal Audit will continue to implement the Plan, monitor performance metrics, and report the status on a quarterly basis.

Attachments

- A. Orange County Transportation Authority Internal Audit Department Fiscal Year 2015-16 Internal Audit Plan, Third Quarter Update
- B. Unresolved Audit Findings and Recommendations (Audit Reports Issued Through March 31, 2016)

Prepared by:



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

**Orange County Transportation Authority
Internal Audit Department
Fiscal Year 2015-16 Internal Audit Plan
Third Quarter Update**

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours to Date	Under (Over)	Status (Date Issued)	External Auditor
Mandatory External Independent Audits								
Annual Financial Audit	FY16-001 through FY16-003	Develop scope of work and procure independent audit services for Fiscal Year (FY) 2016-17, FY 2017-18, and FY 2018-19, and coordinate annual financial and compliance audits for FY 2015-16.	Financial	425	394	31	Completed	Vavrinek, Trine, Day & Co.
Annual Transportation Development Act (TDA) Audits	FY16-004	Coordination of required annual audits of the recipients of TDA Funds for FY 2015-16.	Compliance	12	1	11	Completed	Vavrinek, Trine, Day & Co.
State Triennial Audit	FY16-005	Procure external audit firm and coordinate the State Triennial Performance audit for FY ended 2013, 2014, and 2015.	Compliance	120	193	(73)	In Process	
California Department of Transportation (Caltrans) Incurred Cost Audit	FY16-006	Coordinate Incurred Cost Audit initiated by Caltrans for funding of various highway and grade separation projects.	Compliance	56	30	26	In Process	
Internal Audit Department Projects								
Risk Assessment and Annual Audit Plan	FY16-100	Annual preparation of the audit plan, quarterly updates to the audit plan, periodic assessment of risk throughout the year, including the monitoring of audit results of related entities.	Audit Plan and Updates	180	34	146	Ongoing	
Quality Assurance and Self-Assessment	FY16-101	Update of Internal Audit Policies & Procedures. Annual self assessment of the Internal Audit Department's (Internal Audit) compliance with Government Auditing Standards.	Quality Assurance	180	158	22	Completed	
Fraud Hotline	FY16-102	Administrative duties related to maintenance of the Fraud Hotline and work related to investigations of reports of fraud, waste, or abuse.	Fraud Hotline	250	207	43	Ongoing	15 Reports Received
Automated Workpaper Solution	FY16-103	Purchase, training, and implementation of a new automated workpaper solution.	Automated Workpaper Solution	230	281	(51)	In Process	
Peer Review Participation	FY16-104	Participation on peer reviews of other internal audit departments in exchange for reciprocal credit towards peer review of the Orange County Transportation Authority's (OCTA) Internal Audit.	Peer Review	120	102	18		
Internal Audits								
Human Resources and Organizational Development								
Benefits: Health Insurance Plans and Health Savings Accounts	FY16-5XX	Review controls in place to ensure proper enrollment, accounting, and compliance with laws, regulations, policies, and procedures.	Operational	300		300		
Storm Water Pollution Prevention Plan	FY16-5XX	Review oversight controls, policies, and procedures to ensure compliance with Environmental Protection Agency regulations.	Compliance	220		220		

**Orange County Transportation Authority
Internal Audit Department
Fiscal Year 2015-16 Internal Audit Plan
Third Quarter Update**

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours to Date	Under (Over)	Status (Date Issued)	External Auditor
Capital Programs								
Bristol Street Widening	FY15-515	Assess oversight controls and contract compliance with related cooperative agreements for the Bristol Street widening.	Compliance	300	391	(91)	Issued 2-29-16	
Project Controls	FY16-5XX	Assess and test operating controls of the project controls function within the Capital Projects Division.	Compliance	200	38	162	In Process	
Planning								
Competitive Transportation Funding Program Projects	FY16-5XX	Review selected projects for compliance with the Measure M Ordinance, policies, and procedures.	Compliance	80		80		
Transit Operations								
Equipment Assignment, Tracking, and Reporting	FY16-505	Assess and test controls in place over the assignment, tracking, and reporting of vehicles.	Internal Control	180	345	(165)	In Process	
Finance and Accounting								
Treasury	FY16-501 FY16-506	Semi-annual review of investments compliance, controls, and reporting.	Compliance	200	228	(28)	2 Reports Issued	
Grant Closeouts	FY16-502	As-needed financial and compliance audits of grants at closeout to ensure propriety of expenditures.	Compliance	40	44	(4)	Issued 8-6-15	
Budget Development and Monitoring	FY16-XXX	Review and test controls in place over the preparation, monitoring, and reporting related to the annual OCTA budget.	Operational	300		300		
Accounts Payable	FY15-513	Review adequacy of controls over the accounts payable operation.	Operational	300	629	(329)	In Process	
Information Systems								
Technology and User Support	FY16-503	Review procedures in place for handling and tracking of request for in-house technology support.	Operational	200	311	(111)	Issued 11-6-15	
Contract Administration & Materials Management								
Price Reviews	PR16-XXX	Cost and price analyses as required by OCTA procurement policies and procedures.	Price Review	1,000	886	115	8 Reports Issued	
Buy America	FY16-XXX	Pre-award and post-delivery reviews to ensure vendors and OCTA are in compliance with federal Buy America requirements.	Compliance	250		250		
Bidder Protest Process	FY16-504	Review and test compliance with policies and procedures for bidder protests.	Operational	150	128	22	Issued 10-23-15	

**Orange County Transportation Authority
Internal Audit Department
Fiscal Year 2015-16 Internal Audit Plan
Third Quarter Update**

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours to Date	Under (Over)	Status (Date Issued)	External Auditor
External Affairs								
Customer Relations	FY16-508	Review in-house Customer Relations operation.	Operational	240	11	229		
Public Outreach - West County Connectors Project	FY16-5XX	Review of oversight controls and contract compliance related to agreement for public outreach.	Compliance	200		200		
Unscheduled Reviews and Special Requests								
Unscheduled Reviews and Special Requests	FY16-800	Time allowed for unplanned audits and requests from the Board of Directors and management.	Varies	240	104	136		
Monitoring Activities								
Measure M Taxpayer Oversight Committee	FY16-601	Coordination of audit activities with the Audit Subcommittee of the Measure M Taxpayer Oversight Committee.	Administrative Support	120	28	92		
Capital Asset Inventory Observation	FY16-602	At the request of Finance and Administration Division, observe and apply limited procedures related to the bi-annual capital asset inventory counts.	Non-Audit Service	60		60		
Bus Base Inspections and Inventory Testing	FY15-602	Participation in annual bus base inspections.	Non-Audit Service	32		32		
Follow-up Reviews								
Follow-up Reviews and Reporting	FY16-700	Follow-up on audit findings and recommendations.		300	465	(165)		
Total Audit Project Planned Hours (A)				6,485	5,007	1,479		

**Orange County Transportation Authority
Internal Audit Department
Fiscal Year 2015-16 Internal Audit Plan
Third Quarter Update**

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours to Date	Under (Over)	Status (Date Issued)	External Auditor
Internal Audit Administration								
Board of Directors and Board Committee Meetings				280	133	148		
Executive Steering Committee and Agenda Meetings				180	111	70		
Internal Audit Department Staff Meetings				150	34	116		
Other Administration				1,500	1,031	470		
			Total Hours (B)	8,595	6,314	2,281		
			Department-Wide Target Efficiency (A/B)	75%				
			Department-Wide Actual Efficiency (A/B)	79%				
			Professional Staff Target Efficiency	80%				
			Professional Staff Actual Efficiency	86%				

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through March 31, 2016)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
3/26/2014	14-509	General Services	Review of Purchase Order (PO) Issuance and Oversight	The Internal Audit Department (Internal Audit) recommends that General Services review invoiced pricing for compliance with PO pricing terms. PO's should be amended to include all required items and their negotiated prices.	Dec-15	General Services will add language to PO's to cover items that were not included in the original scope of work. <u>Update November 2014:</u> General Services has not yet implemented this recommendation. <u>Update June 2015:</u> General Services has recently renewed PO's and is planning to implement a semi-annual review of invoices to assess if new, recurring purchased items need to be added to the price list.	Ng	In Process
5/29/2014	14-511	Finance and Administration (F&A)	Review of the OCTA Store	Internal Audit recommends management ensure that the new system is designed to provide appropriate segregation of duties and that access is limited as appropriate. Detailed records of the access levels should be maintained and periodically reviewed for appropriateness. Procedures should be developed to address system access assignments and related controls to prevent and/or detect suspicious transactions.	Dec-15	The replacement point of sale system is expected to be fully implemented by the end of the calendar year. The new system will resolve access controls by providing multiple layers of administration functions allowing management the ability to turn on, or turn off, posting abilities to match the levels of access required by staff. Procedures will be developed to outline access assignments and secondary reviews and approval. Records of access levels will be maintained and periodically reviewed. <u>Update December 2014:</u> Management plans to build controls into the new system that is expected to be implemented in January 2015. <u>Update June 2015:</u> System implementation has been rescheduled to July 31, 2015. As such, follow-up will be performed again in six months.	Dunning	In Process

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through March 31, 2016)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
9/24/2014	14-510	Human Resources and Occupational Development (HROD)	Review of Administrative Employee Training and Educational Reimbursement	Internal Audit recommends management enhance policy and procedures for administrative employee training to allow the department to exercise oversight and institute standardization of training programs.	Jun-16	HROD will create guidelines for the identification, development, and procurement of training. Training and Development will then reach out to departments that provide training with the guidelines. <u>Update April 2015</u> : Management has issued a revised training policy and intends to implement oversight to ensure follow-up is performed with employees that require training. Management also intends to implement a form to be used to help standardize training classes that are implemented and/or purchased by departments. Since recommendation has not been fully implemented, Internal Audit will return in six months. <u>Update December 2015</u> : Management has revised the policy and developed a form to standardize training; however, use of the form has not yet been implemented.	Dunning	Initiate next update in June 2016
12/21/2015	15-503	Clerk of the Board	Second Follow-up, Review of the Administration of Public Records Requests	Internal Audit recommends that controls be enhanced to ensure compliance with the legal requirement to notify the requestor of its decision on whether to comply with the request within ten days.	Jun-16	This recommendation was identified during the second follow-up review to Internal Audit Report No. 15-503. As a result, the recommendation was communicated through a memo to management and a formal response will not be required until Internal Audit performs follow-up of this recommendation in six months.	Ng	Initiate next update in June 2016

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through March 31, 2016)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
10/3/2014	N/A	F&A and Transit	Performance Audit of the Orange County Transportation Authority's (OCTA) Continuity Plan	Auditors recommended that management update the Business Impact Analysis (BIA) and the Continuity of Operations Plan (Plan) to address the 13 weaknesses noted.	Sep-16	Management responded that efforts are underway to update certain portions of the BIA and the Plan. Also, at the direction of the F&A Committee Chairman, staff has agreed to specifically address each issue and planned corrective actions with the Security Working Group of the Board of Directors. <u>Update September 2015</u> : Management has taken actions to adequately address seven of the thirteen weaknesses noted in the audit. The remaining six are expected to be corrected upon completion of the Threat and Hazard Identification and Risk Assessment project and the comprehensive revision of the BIA. Internal Audit will follow-up on the remaining issues in one year.	Bonelli	Initiate next update in September 2016.
12/18/2015	N/A	Planning Division and Transit	Measure M2 Agreed-Upon Procedures Reports for Fiscal Year 2015	Internal Audit recommended staff monitor implementation of auditor recommendations related to submitting revised Capital Improvement Programs and ensuring timely and accurate submission of monthly Senior Mobility Program reports.	Jun-16	Management agreed to monitor the cities' implementation of these recommendations.	Sutter	

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through March 31, 2016)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
12/23/2014	N/A	HROD	Limited Scope Review of Recruitment, Selection, and Compensation	Internal Audit recommends that procedures be developed to ensure that newly created job descriptions are properly scrutinized to ensure consistency and equity.	Feb-16	Management agrees and the Human Resources (HR) manager will review any newly created job descriptions to ensure consistency and equity. Update <u>August 2015</u> : During the follow-up review, Internal Audit identified two reclassifications of employees to new positions at higher salary grades with job descriptions that require the same or less experience than the prior positions. The current Job Families listing is outdated and inconsistent with the Personnel and Salary Resolution. Therefore, Internal Audit kept this recommendation open and further recommended that the Job Families listing be updated periodically and posted on-line and that review of new job descriptions include a review of all existing job descriptions within the same job family for consistency and equity.	Ng	In Process
8/10/2015	N/A	HROD	First Follow-up, Limited Scope Review of Recruitment, Selection, and Compensation	Internal Audit recommends, for future hiring of internal candidates, that HR verify education and experience that were not reviewed in past background checks and are required to meet the qualifications of the new position.	Feb-16	This recommendation was identified during a follow-up review. As a result, the recommendation was communicated through a memo to management and a formal response will not be required until Internal Audit performs follow-up of this recommendation in six months.	Ng	In Process

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through March 31, 2016)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
10/15/2015	N/A	HROD	Investigation and Limited Scope Review of Administration of the Deferred Compensation Plan and the Plan Revenue Reimbursement Account	Internal Audit recommends management formalize and document the plan governance structure and committee structure. Committee configuration should be reviewed and consideration given to appointing a member to represent employee groups participating in the plan. Committee members should be appointed and policies should be approved by OCTA.	Apr-16	The Investment Policy (IP) Statement will be formally approved and made available to participants electronically. Management will also post the quarterly meeting minutes, the quarterly reports, and the Account Policy. The committee composition will be included in the IP Statement, with consideration given to expanding the committee. These tasks will be completed by the end of calendar year 2015.	J. Sutter	
10/15/2015	N/A	HROD	Investigation and Limited Scope Review of Administration of the Deferred Compensation Plan and the Plan Revenue Reimbursement Account	Internal Audit recommends management: 1. Obtain reimbursement for \$15,000 in overcharges. 2. Notify Nationwide Retirement Solutions (NRS) that distributions from the account may only be authorized by two employees. 3. Amend policies to include eligible expenditures, ensure that disbursements comply with OCTA policy, and require approval of any distributions from the account by the committee 4. Require routine account reconciliations to be performed and documented. 5. Assign responsibility for reconciling this account to an appropriate individual that does not also direct disbursements from the account.	Apr-16	1. NRS reimbursed the account \$15,000 plus lost earnings effective August 31, 2015. 2. OCTA will notify NRS that distributions from the account may only be authorized by two designated OCTA employees. 3. Management will expand the Account Policy to include common qualified expenses and will require that all future travel related to the plan be governed by the OCTA Travel Policy. Finally, the committee will review any distributions from the account in their quarterly meetings and document such distributions in the meeting minutes. 4. Account reconciliations will be performed and documented on a quarterly basis. 5. Account reconciliation will be performed by a staff member within the F&A Division who does not also direct disbursements from the account.	J. Sutter	

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through March 31, 2016)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
10/15/2015	N/A	HROD	Investigation and Limited Scope Review of Administration of the Deferred Compensation Plan and the Plan Revenue Reimbursement Account	Internal Audit recommends management: 1. Ensure ommittee members annually reaffirm the IP Statement. 2. Provide training and require committee members to monitor fees charged to the plan and its participants and, when applicable, attempt to negotiate fees to a reasonable level. 3. Exercise oversight of Benefit Funding Services Group (BFSG) to ensure all deliverables required by the agreement are provided. 4. Review invoices for compliance with the agreement terms and obtain proper approval before submitting to NRS for payment.	Apr-16	1. The IP Statement will be annually reaffirmed by the committee. 2. BFSG will provide training to committee members on an annual basis and committee members will review annual reports provided by BFSG and will work with the Contracts Administration and Materials Management Department (CMM) to negotiate fees if they are deemed unreasonable. 3. Management will ensure that OCTA receives all deliverables specified in the contract. Management will ensure that required annual fee reports are provided by BFSG. 4. Management concurs. BFSG will be required to include the appropriate certification language on all future invoices. All future BFSG invoices will be properly reviewed for compliance with the agreement terms and two authorized parties will approve the invoices before submitting to NRS for payment.	J. Sutter	

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through March 31, 2016)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
10/23/2015	16-504	F&A	Review of the Bidder Protest Process	Internal Audit recommends that Financial Planning & Analysis (FP&A) establish procedures to ensure notification is provided as required and documentation of this communication is maintained. Procedures should include a process to ensure the Federal Transit Administration (FTA) is also provided periodic status updates, as required.	Apr-16	Upon receiving notification from CAMM of a protest related to a contract required to comply with FTA Circular 4220.1E, the FP&A Grant Manager (GM) will log the protest and email the FTA Regional Office notifying them of such protest. In terms of monitoring the status of a protest, the FP&A GM will utilize the Quarterly FTA Milestone Progress Report as a means to communicate the pending status to the FTA Regional Office. Upon receiving resolution of the protest from CAMM, the FP&A GM will log the protest resolution and email the FTA Regional Office notifying them of such protest resolution. All protests supporting documentation will be made available to the FTA Regional Office consistent with FTA Circular 4220.1E.	G. Tang	
1/19/2016	N/A	Transit	City of Santa Ana, Senior Mobility Program (SMP)	Internal Audit recommends management: (1) Advise city staff that fees collected relating to SMP trips must be recorded as revenue to the program and monitor to ensure compliance.(2) Revise monthly report forms to include reporting of revenues.(3) Develop and implement requirements for collection and recording of program related revenues.	Jul-16	Management will review the current agreement language and scopes of work for each SMP and revise to address the collection and recording of program fees/revenue. In addition, the SMP monthly report template will be revised to specifically document fares/revenue received, the source of city contributions, and documentation to identify how revenues collected are used to support the program. During the annual visit, staff will review the process used to collect and report fares/revenues received.	J. Sutter	

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through March 31, 2016)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
1/19/2016	N/A	Transit	City of Santa Ana, SMP	Internal Audit recommends management: (1) Develop detailed program guidelines, including but not limited to, definition of allowable trip types, requirements for collection and reporting of revenues, acceptable methods for allocation of costs, and retention of adequate supporting documents. (2) Amend cooperative agreements to include detailed information on program requirements.(3) Provide training to cities and exercise oversight to determine whether activities comply with the Ordinance, cooperative agreements, and program guidelines.	Jul-16	Management will review the current agreement language and scopes of work for each SMP and revise to address the collection and recording of program fees/revenue. In addition, the SMP monthly report template will be revised to specifically document fares/revenue received, the source of city contributions, and documentation to identify how revenues collected are used to support the program. During the annual visit, staff will review the process used to collect and report fares/revenues received.	J. Sutter	
2/29/2016	FY15-515	Capital Programs	Oversight Controls, Contract Compliance, and Billings Related to the Bristol Street Widening Project	Internal Audit recommends that management obtain credit of \$261,764 to the gas tax agreement and ensure labor billing rates are corrected. Monitoring controls should be implemented to ensure reasonable and accurate labor charges going forward.	Aug-16	Management agrees and will take the following actions: (a) The gas tax agreement will be credited \$261,764 and the city will be required to utilize revised rates going forward. (2) The gas tax agreement will be amended to require the city to certify with signature that the quarterly city reconciliation report of actual expenses versus monthly payment requests, including labor billing rates charged, are true and correct.ation report of actual expenses versus monthly payment requests, including labor billing rates charged, are true and correct.	S. Ng	

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through March 31, 2016)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
2/29/2016	FY15-515	Planning and Capital Programs Division	Oversight Controls, Contract Compliance, and Billings Related to the Bristol Street Widening Project	Internal Audit recommends management require the city to revise its claim for final payment downward by \$58,371. Management should also implement controls to ensure that costs charged to the gas tax agreement and Combined Transportation Funding Program (CTFP) projects are not duplicated.	Aug-16	The Planning Division will reduce the CTFP final payment by \$58,371 and all future gas tax agreement invoices processed by the Capital Programs Division will be coordinated and reviewed with the Planning Division.	S. Ng	
2/29/2016	FY15-515	Capital Programs	Oversight Controls, Contract Compliance, and Billings Related to the Bristol Street Widening Project	Internal Audit recommends that the gas tax agreement be amended to strengthen requirements regarding excess right-of-way property including the addition of a requirement to sell or credit the value of excess property to the agreement. Also, Internal Audit recommends management either request the city credit the gas tax agreement for \$443,078 or implement controls to ensure that sales proceeds of excess property sold are applied to eligible project costs.	Aug-16	The gas tax agreement will be amended to strengthen requirements for compliance with applicable gas tax use statutes and the gas tax agreement will be credited for \$443,078. The gas tax agreement will also be amended to require that quarterly city reconciliation reports include tracking and accounting of excess property. Upon disposal, the value of these remnant properties will be credited to the gas tax agreement.	S. Ng	
2/29/2016	FY15-515	Capital Programs	Oversight Controls, Contract Compliance, and Billings Related to the Bristol Street Widening Project	Internal Audit recommends management request the city strengthen controls over timekeeping and periodically review supporting documentation to ensure accuracy of labor charges to the project. Management should also consider disallowing sub-consultant markups through update of contract language in cooperative agreements.	Aug-16	The gas tax agreement will be amended to require the city to certify that the quarterly city reconciliation report of actual expenses versus monthly payment requests, including labor hours charged, are true and correct. Staff will review a sample of supporting documents to verify actual expenses and that labor hours billed are supported by time sheets on file. The gas tax agreement will be amended to specifically disallow sub-consultant markups.	S. Ng	

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through March 31, 2016)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
2/29/2016	FY15-515	Capital Programs	Oversight Controls, Contract Compliance, and Billings Related to the Bristol Street Widening Project	Internal Audit recommends that management design and implement a cost review process that includes review of a sample of city costs charged to the gas tax agreement. Internal Audit also recommends management instruct the city to correct its quarterly reconciliation reports and implement procedures to reconcile city reports with OCTA records.	Aug-16	Staff will periodically sample supporting documentation for costs charged to verify the charges are project-related, supported, and reasonable. Also, the city will be instructed to correct quarterly reconciliation reports based on these audit findings and staff will reconcile each quarterly report with records of payments made under the gas tax agreement.	S. Ng	
2/29/2016	FY15-515	Capital Programs	Oversight Controls, Contract Compliance, and Billings Related to the Bristol Street Widening Project	Internal Audit recommends that management amend the gas tax agreement to update the payment schedule and implement controls to enforce the payment provisions.	Aug-16	The gas tax agreement will be amended to reflect the reconciliation of the pro-rated invoicing and the payment schedule will be updated accordingly.	S. Ng	
3/24/2016	N/A	Transit	Investigation and Limited Scope Review of the Procurement of Mobile Bus Routers	Internal Audit recommends management cancel the procurement (#6-0957) and revise the scope of work (SOW) to invite more competition.	Sep-16	The procurement was immediately cancelled and the SOW revised to include the salient characteristics of a mobile router to meet the functional requirements. A new solicitation will be released.	S. Ng	
3/24/2016	N/A	Transit	Investigation and Limited Scope Review of the Procurement of Mobile Bus Routers	Internal Audit recommends management develop an action plan to mitigate the risk that amendments to the agreements for purchase of 60 foot and 40 foot compressed natural gas buses are viewed as violations of Federal Transit Administration rules.	Sep-16	Management concurs with Internal Audit's findings. The installation of mobile routers has been cancelled on both the 60-foot and 40-foot bus builds. Mobile routers will be competitively procured and installed after the new buses are accepted.	S. Ng	
3/24/2016	N/A	F&A	Investments: Compliance, Controls and Reporting July 1, 2015 through December 31, 2015	Internal Audit recommends the Treasury Department implement controls to validate balances reported in monthly and quarterly reports and comply with, or update, the Debt and Investment Management Manual (Manual) to reflect the current practices.	Sep-16	The Treasury/Toll Roads Department agrees with Internal Audit's recommendation to implement controls to validate balances reported and will revise the Debt and Investment Management Manual within 60 days to reflect current practices.	G. Tang	