



May 14, 2014

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

A handwritten signature in black ink, appearing to be "D. Johnson", is written over the "From:" line and extends into the name of Janet Sutter.

Subject: Fiscal Year 2013-14 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 2013-14 Internal Audit Plan on August 12, 2013. 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 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 third quarter of FY 2013-14, Internal Audit issued the results of a review of the Employee Commuter Club program and found that controls for the processing of incentive awards are adequate; however, monitoring and system controls are inadequate and policies, procedures, and training are in need of improvement. Recommendations were made to enhance system and monitoring controls, to update policies and procedures, and provide training to employees.

A review of oversight controls and contract compliance related to the Metrolink Service Expansion Program was also issued. Based on the review, the Southern California Regional Rail Authority (SCRRA) complied with provisions of the related cooperative agreement; however, Internal Audit recommended that SCRRA management implement controls to effectively manage cost-plus fixed-fee agreements. In addition, two recommendations were offered to OCTA project management to strengthen controls over consultant rates and escalation, and to improve consultant oversight and invoice review controls.

An audit of cooperative agreements and mitigation funding payments made to corridor cities for the West County Connectors Project found that disbursements were properly supported and in compliance with the agreements.

Finally, a review of oversight controls and contract compliance related to the Tustin Metrolink Parking Expansion Project was issued and concluded that controls to monitor and report project status were adequate and consultants provided services in accordance with their contracts; however, recommendations were made to improve change order procedures, strengthen monitoring of contract expiration dates, and develop written project management procedures.

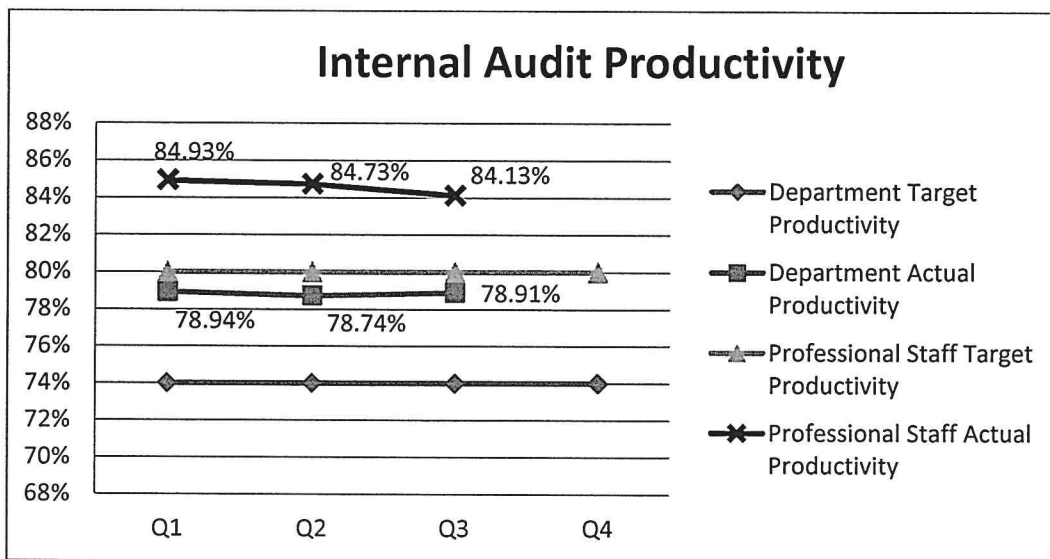
Region IX of the Grants Management Division of the Department of Homeland Security's Federal Emergency Management Agency completed a financial monitoring review of Transit Security Grant Program funds awarded to OCTA in 2009, 2010, 2011, and 2012. The review cited non-compliance with regard to the expenditure of \$624,275 in grant funds which were returned on January 27, 2014. Internal Audit made a supplemental recommendation to management to improve controls over the implementation, monitoring, and reporting of grant funds and related projects.

Also during the quarter, Internal Audit provided coordination and oversight of the Federal Transit Administration's FY 2013 Triennial Review. Milligan & Company, LLP conducted the on-site portion of this review in late February and provided a final report on March 26, 2014. The report was presented to the Finance and Administration Committee at its meeting on April 9, 2014.

Internal Audit Department Productivity

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

As of the third quarter ended March 31, 2014, Internal Audit achieved productivity of 79 percent, and the professional staff achieved productivity of 84 percent.



Price Reviews

At the request of the Contracts Administration and Materials Management Department (CAMM), and consistent with OCTA's 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 third quarter, 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	\$ 2,062
4	
Total	\$ 977,355

Fraud Hotline

Internal Audit received twelve complaints through OCTA's Fraud Hotline, www.ethicspoint.com, during the quarter ended March 31, 2014. Nine complaints were referred to OCTA management and/or customer relations for proper disposition; two complaints were investigated and the results provided to management for action; and one complaint remains under investigation.

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 March 31, 2014, Internal Audit performed follow-up of 22 unresolved audit recommendations. Sixteen have been adequately addressed and were removed from the list. Two recommendations have not yet been fully implemented and follow-up will be performed again in six months. Follow-up of four recommendations identified additional exceptions and resulted in additional recommendations to management. These recommendations will also be reviewed again in six months.

A total of seven recommendations were added to the list relating to audits that were issued during the quarter.

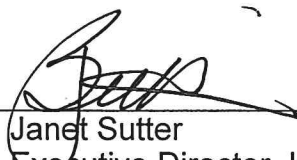
Summary

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 2013-14 Internal Audit Plan, Third Quarter Update
- B. Unresolved Findings and Recommendations, Audit Reports Issued
through March 31, 2014

Prepared by:



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

**Orange County Transportation Authority
Internal Audit Department
Fiscal Year 2013-14 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
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Mandatory External Independent Audits

Annual Financial Audit	FY14-001, FY14-002, FY14-003, FY14-006 FY14-004	Coordination and oversight of annual financial and compliance audits for fiscal year (FY) 2013-14.	Financial	450	348	103		Vavrinek, Trine, Day & Co.
Annual Transportation Development Act Audits		Coordination of required annual audits of the recipients of Transportation Development Act funds for FY 2013-14.	Compliance	40	61	(21)		Vavrinek, Trine, Day & Co.
Triennial Review - Federal	FY14-005	Coordination of Federal Transit Administration triennial review.	Compliance	160	173	(13)	Issued 3-26-14	Milligan & Company LLP

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	60	120	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	117	3	Complete	
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	450	(250)	Ongoing	27 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	FY14-514	Assess whether business resumption/continuity of operations plans provide the framework for an effective response and recovery from any business interruption.	Operational	180	28	152	In Process	

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	FY14-502	Review controls in place to ensure compliance with policies, procedures, and regulations related to the Family Medical Leave Act.	Compliance	180	312	(132)	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		

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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	302	(142)	Issued 3-4-14	
Tustin Parking Expansion	FY13-527	Review of the Tustin Parking Expansion project, including project administration, oversight controls, and contract compliance.	Internal Control	240	248	(8)	Issued 3-4-14	
West County Connectors: Mitigation Funding	FY14-508	Review and test compliance with cooperative agreements for mitigation funding related to the West County Connectors project.	Operational	180	139	41	Issued 2-24-14	
Planning								
Combined Transportation Funding Program 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	FY14-512	Assess the adequacy and effectiveness of controls employed in the closeout of the Veolia contract for ACCESS services.	Internal Control	180	38	142	In Process	
Finance and Accounting								
Treasury	FY14-501, FY14-513	Semi-annual review of investments compliance, controls, and accounting.	Compliance	200	227	(27)	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	165	(45)	Issued 2-5-14	
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	286	74	3 Issued	
Price Reviews	PR14-XXX	Cost and price analyses as required by OCTA procurement policies and procedures.	Price Review	1,000	667	333	10 Completed	
Purchase Order Issuance and Oversight	PR14-509	Review controls, policies, and procedures over Purchase Order/Blanket Purchase Order issuance and oversight.	Internal Controls	180	286	(106)	Issued 3-26-14	

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External Affairs								
Bus Advertising	FY14-509	Review and assess compliance with revenue-sharing agreements in place for bus advertising.	Operational	160	256	(96)	Issued 10-30-13	
OCTA Store	FY14-511	Review OCTA store operations to ensure adequate controls are in place to safeguard assets.	Operaitonal	180	408	(228)	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	148	4	144		
	FY14-801	Federal Emergency Management Agency - Region IX - Financial Monitoring Review -Transit Security Grant Program FY 2009 - FY 2012.	Compliance	20	46	(26)	Issued 10-25-13	
	FY14-802	California Office of Emergency Services FY 2009-10 Proposition 1B Transit Grant Award Compliance Review	Compliance	24	5	19	In Process	
	FY14-803	State Controller's Office Audit of Highway Railroad Crossing Safety Account - Dana Point and San Clemente Crossing Safety Enhancements, Project Agreement No. 75GS019	Compliance	8	-	8	In Process	
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	33	127		
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	434	(134)		
Total Audit Project Planned Hours (A)				6,390	5,343	1,047		

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Internal Audit Administration							
	Board of Directors and Board Committee Meetings		380	120	260		
	Executive Steering Committee and Agenda Meetings		160	92	68		
	Internal Audit Department Staff Meetings		240	47	193		
	Other Administration		1,500	1,175	326		
	Total Hours (B)		8,670	6,777	1,894		
	Department-Wide Target Efficiency (A/B)			74%			
	Department-Wide Actual Efficiency (A/B)			79%			
	Professional Staff Target Efficiency			80%			
	Professional Staff Actual Efficiency			84%			

UNRESOLVED FINDINGS AND RECOMMENDATIONS
(Audit Reports Issued Through March 31, 2014)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
10/17/2012	12-510	Human Resources and Organizational Development (HROD)	Employment and Compensation Review	Management should develop written procedures for processing compensation and personnel actions.	Sep-14	Management will develop and document procedures by February 2013. <u>Update June 2013</u> : Procedures have not yet been finalized. <u>Update April 2014</u> : The Internal Audit Department (Internal Audit) found that HROD does not always abide by written procedures when processing actions for its own employees. Internal Audit also made three additional recommendations related to competitive recruitments and written procedures.	Tang	Initiate next update September 2014.
10/17/2012	12-510	HROD	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.	Sep-14	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. <u>Update April 2014</u> : Testing identified two instances involving salary counter-offers that exceeded the top of the salary range developed through compensation analysis and no written business justification was provided as required. Management should monitor to ensure procedures are followed.	Tang	Initiate next update September 2014.
10/17/2012	12-510	HROD	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.	Sep-14	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. <u>Update April 2014</u> : Only one equity adjustment, for an HROD employee, was processed during the review period and required forms were not on file. Management should monitor to ensure compliance with procedures.	Tang	Initiate next update September 2014.
10/17/2012	12-510	HROD	Employment and Compensation Review	Procedures should be developed to address demotions and/or reclassifications to lower salary grade levels, and Chief Executive Officer (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.	Sep-14	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. <u>Update April 2014</u> : Procedures have been developed; however, testing identified instances whereby HROD did not comply with procedures for actions involving their own employees.	Tang	Initiate next update September 2014.

UNRESOLVED FINDINGS AND RECOMMENDATIONS
(Audit Reports Issued Through March 31, 2014)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
5/22/2013	13-524	Finance & Administration (F&A)	Review of Information Systems Hardware	Management should implement periodic inventories to verify the accuracy of the information maintained in the Cherwell system	May-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. <u>Update March 2014:</u> An inventory of IS hardware is underway.	Dunning	Initiate next update May 2014.
5/22/2013	11-501	F&A 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.	Aug-14	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. <u>Update March 2014:</u> Management has developed an organization-wide policy; however, the Capital Programs Division needs to develop its own Invoice Review Policy.	Ng	Initiate next update August 2014.
9/13/2013	13-525	HROD	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	
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	

UNRESOLVED FINDINGS AND RECOMMENDATIONS
(Audit Reports Issued Through March 31, 2014)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
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	
10/25/2013	N/A	F&A	Federal Emergency Management Agency Financial Monitoring Review	Internal Audit recommends that management improve controls over the implementation, monitoring, and reporting of grant funds and related projects.	Jun-14	Staff is developing a policy and procedures to address each of the issues identified. The policy will formalize roles and responsibilities and will clearly detail the responsible parties for ensuring that project milestones are met, who is responsible for the various reporting requirements, and who will have the final decision on determining whether OCTA will apply for a particular grant and for which projects. The procedures will include a formal review prior to applying for a grant that will help ensure that OCTA only applies for grant funds that are reasonably expected to be complete.	Sutter	
10/31/2013	N/A	F&A	Single Audit Report on Federal Awards, FY13	Auditors identified one significant deficiency related to a failure to report sub-awards granted on or after October 1, 2010, as required by the Federal Funding Accountability and Transparency Act.	Jan-15	Management responded that all required reporting has since been made and that procedures have been updated to ensure all future sub-awards are reported as required.	Tang	
1/22/2014	N/A	F&A	Supplemental Recommendation Related to the Federal Emergency Management Agency, Region IX Grants Management Review	Internal Audit recommends management improve controls over the implementation, monitoring, and reporting of grant funds and related projects. Procedures for project selection, project management, monitoring, and reporting should be formalized with roles and responsibilities clearly defined. Further, staff should apply for grant funds for only those projects that they can reasonably expect to complete.	Jul-14	Staff is developing an authority-wide policy and accompanying set of procedures for the entire grants process that will address each of the issues identified in the Internal Audit recommendation. The policy will formalize roles and responsibilities and will include a formal review prior to applying for a grant that will help ensure that OCTA only applies for grant funds that is reasonably expected to be complete.	Sutter	

UNRESOLVED FINDINGS AND RECOMMENDATIONS
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2/5/2014	14-507	F&A	Review of Employee Commuter Club Program	Internal Audit recommends management revise policy and procedures to be consistent and to comply with Southern California Air Quality Management District (SCAQMD) rules.	May-14	Management indicated that policy and procedures will be updated as appropriate.	Tang	
		F&A	Review of Employee Commuter Club Program	Internal Audit recommends management adjust employee accounts for identified errors and develop and implement monitoring controls to help identify errors or irregularities in the future.	May-14	Management indicated that appropriate adjustments will be made and staff will look to modify the current system, build an in-house system, or purchase a new system that will include appropriate monitoring controls and reporting	Tang	
		F&A	Review of Employee Commuter Club Program	Internal Audit recommended management strengthen existing system controls or develop a new system with adequate access and parameter controls, audit trails, and exception reporting.	May-14	Management indicated that steps have already been taken to update parameter controls, monitor audit trails, and limit administrative access to the system	Tang	
3/4/2014	11-510	F&A	Review of Oversight Controls and Contract Compliance Related to the Metrolink Service Expansion Program	Internal Audit recommends that the appropriate overhead rate be used when establishing contract rates; agreements should include a limit on escalation; procedures for the use of rate ranges be formalized; consultant staff be added to agreements prior to performing work; and only invoices that reflect rates effective at the time work was performed should be authorized.	Sep-14	Management indicated that procedures will be updated to address issues related to establishing overhead rates, the use of labor rate ranges, and escalation.	Bonelli	
3/4/2014	11-510	F&A	Review of Oversight Controls and Contract Compliance Related to the Metrolink Service Expansion Program	Internal Audit recommends that project management require evidence of work performed when authorizing after-hours work where there are few deliverables. Also, management should question costs that are not part of the agreement as well as costs that appear higher than reasonable.	Sep-14	Management agrees and currently requires daily reports, field logs, or other supporting documentation for after-hours work. Management agrees that costs should be reviewed for reasonableness. The consultant, Hatch Mott McDonald, has reimbursed OCTA \$990.87 for the charges that should not have been reimbursed.	Bonelli	
3/4/2014	13-527	Capital Programs	Review of Oversight Controls and Contract Compliance Related to the Tustin Metrolink Station Parking Expansion	Internal Audit recommends that independent cost estimates for construction change orders be prepared prior to receipt of contractor's quotes and prior to performance of work.	Sep-14	Management agrees and will update the Construction Management Procedures Manual to integrate specific guidance.	Ng	

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3/4/2014	13-527	Capital Programs	Review of Oversight Controls and Contract Compliance Related to the Tustin Metrolink Station Parking Expansion	Internal Audit recommends that project management monitor the expiration dates of contracts and extend contract terms prior to contract expiration.	Sep-14	Management agrees and will issue a memorandum to project managers reminding them to monitor consultant support contract expiration dates to assure the term of the construction contract and construction closeout effort is accounted for.	Ng	
3/4/2014	13-527	Capital Programs	Review of Oversight Controls and Contract Compliance Related to the Tustin Metrolink Station Parking Expansion	Internal Audit recommends that the Rail Programs Department develop written project management procedures tailored to the types of projects handled in the department.	Sep-14	The Highway Programs Department maintains a Program Management Procedures manual which serves as a set of procedures to effectively manage and monitor projects and develop strategies for delivering the entire capital improvement program. This manual will be appended to integrate any specific guidance needed for projects managed by the Rail Programs Department.	Ng	

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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	FY14-512	Assess the adequacy and effectiveness of controls employed in the closeout of the Veolia contract for ACCESS services.	Internal Control	180	38	142	In Process	
Finance and Accounting								
Treasury	FY14-501, FY14-513	Semi-annual review of investments compliance, controls, and accounting.	Compliance	200	227	(27)	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	165	(45)	Issued 2-5-14	
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	286	74	3 Issued	
Price Reviews	PR14-XXX	Cost and price analyses as required by OCTA procurement policies and procedures.	Price Review	1,000	667	333	10 Completed	
Purchase Order Issuance and Oversight	PR14-509	Review controls, policies, and procedures over Purchase Order/Blanket Purchase Order issuance and oversight.	Internal Controls	180	286	(106)	Issued 3-26-14	

**Orange County Transportation Authority
Internal Audit Department
Fiscal Year 2013-14 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								
Bus Advertising	FY14-509	Review and assess compliance with revenue-sharing agreements in place for bus advertising.	Operational	160	256	(96)	Issued 10-30-13	
OCTA Store	FY14-511	Review OCTA store operations to ensure adequate controls are in place to safeguard assets.	Operaitonal	180	408	(228)	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	148	4	144		
	FY14-801	Federal Emergency Management Agency - Region IX - Financial Monitoring Review -Transit Security Grant Program FY 2009 - FY 2012.	Compliance	20	46	(26)	Issued 10-25-13	
	FY14-802	California Office of Emergency Services FY 2009-10 Proposition 1B Transit Grant Award Compliance Review	Compliance	24	5	19	In Process	
	FY14-803	State Controller's Office Audit of Highway Railroad Crossing Safety Account - Dana Point and San Clemente Crossing Safety Enhancements, Project Agreement No. 75GS019	Compliance	8	-	8	In Process	
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	33	127		
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	434	(134)		
Total Audit Project Planned Hours (A)				6,390	5,343	1,047		

Orange County Transportation Authority
Internal Audit Department
Fiscal Year 2013-14 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				380	120	260		
Executive Steering Committee and Agenda Meetings				160	92	68		
Internal Audit Department Staff Meetings				240	47	193		
Other Administration				1,500	1,175	326		
			Total Hours (B)	8,670	6,777	1,894		
			Department-Wide Target Efficiency (A/B)	74%				
			Department-Wide Actual Efficiency (A/B)		79%			
			Professional Staff Target Efficiency	80%				
			Professional Staff Actual Efficiency		84%			

UNRESOLVED FINDINGS AND RECOMMENDATIONS
(Audit Reports Issued Through March 31, 2014)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
10/17/2012	12-510	Human Resources and Organizational Development (HROD)	Employment and Compensation Review	Management should develop written procedures for processing compensation and personnel actions.	Sep-14	Management will develop and document procedures by February 2013. <u>Update June 2013</u> : Procedures have not yet been finalized. <u>Update April 2014</u> : The Internal Audit Department (Internal Audit) found that HROD does not always abide by written procedures when processing actions for its own employees. Internal Audit also made three additional recommendations related to competitive recruitments and written procedures.	Tang	Initiate next update September 2014.
10/17/2012	12-510	HROD	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.	Sep-14	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. <u>Update April 2014</u> : Testing identified two instances involving salary counter-offers that exceeded the top of the salary range developed through compensation analysis and no written business justification was provided as required. Management should monitor to ensure procedures are followed.	Tang	Initiate next update September 2014.
10/17/2012	12-510	HROD	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.	Sep-14	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. <u>Update April 2014</u> : Only one equity adjustment, for an HROD employee, was processed during the review period and required forms were not on file. Management should monitor to ensure compliance with procedures.	Tang	Initiate next update September 2014.
10/17/2012	12-510	HROD	Employment and Compensation Review	Procedures should be developed to address demotions and/or reclassifications to lower salary grade levels, and Chief Executive Officer (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.	Sep-14	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. <u>Update April 2014</u> : Procedures have been developed; however, testing identified instances whereby HROD did not comply with procedures for actions involving their own employees.	Tang	Initiate next update September 2014.

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Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
5/22/2013	13-524	Finance & Administration (F&A)	Review of Information Systems Hardware	Management should implement periodic inventories to verify the accuracy of the information maintained in the Cherwell system	May-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. <u>Update March 2014:</u> An inventory of IS hardware is underway.	Dunning	Initiate next update May 2014.
5/22/2013	11-501	F&A 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.	Aug-14	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. <u>Update March 2014:</u> Management has developed an organization-wide policy; however, the Capital Programs Division needs to develop its own Invoice Review Policy.	Ng	Initiate next update August 2014.
9/13/2013	13-525	HROD	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	
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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Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
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	
10/25/2013	N/A	F&A	Federal Emergency Management Agency Financial Monitoring Review	Internal Audit recommends that management improve controls over the implementation, monitoring, and reporting of grant funds and related projects.	Jun-14	Staff is developing a policy and procedures to address each of the issues identified. The policy will formalize roles and responsibilities and will clearly detail the responsible parties for ensuring that project milestones are met, who is responsible for the various reporting requirements, and who will have the final decision on determining whether OCTA will apply for a particular grant and for which projects. The procedures will include a formal review prior to applying for a grant that will help ensure that OCTA only applies for grant funds that are reasonably expected to be complete.	Sutter	
10/31/2013	N/A	F&A	Single Audit Report on Federal Awards, FY13	Auditors identified one significant deficiency related to a failure to report sub-awards granted on or after October 1, 2010, as required by the Federal Funding Accountability and Transparency Act.	Jan-15	Management responded that all required reporting has since been made and that procedures have been updated to ensure all future sub-awards are reported as required.	Tang	
1/22/2014	N/A	F&A	Supplemental Recommendation Related to the Federal Emergency Management Agency, Region IX Grants Management Review	Internal Audit recommends management improve controls over the implementation, monitoring, and reporting of grant funds and related projects. Procedures for project selection, project management, monitoring, and reporting should be formalized with roles and responsibilities clearly defined. Further, staff should apply for grant funds for only those projects that they can reasonably expect to complete.	Jul-14	Staff is developing an authority-wide policy and accompanying set of procedures for the entire grants process that will address each of the issues identified in the Internal Audit recommendation. The policy will formalize roles and responsibilities and will include a formal review prior to applying for a grant that will help ensure that OCTA only applies for grant funds that is reasonably expected to be complete.	Sutter	
2/5/2014	14-507	F&A	Review of Employee Commuter Club Program	Internal Audit recommends management revise policy and procedures to be consistent and to comply with Southern California Air Quality Management District (SCAQMD) rules.	May-14	Management indicated that policy and procedures will be updated as appropriate.	Tang	

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Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
		F&A	Review of Employee Commuter Club Program	Internal Audit recommends management adjust employee accounts for identified errors and develop and implement monitoring controls to help identify errors or irregularities in the future.	May-14	Management indicated that appropriate adjustments will be made and staff will look to modify the current system, build an in-house system, or purchase a new system that will include appropriate monitoring controls and reporting	Tang	
		F&A	Review of Employee Commuter Club Program	Internal Audit recommended management strengthen existing system controls or develop a new system with adequate access and parameter controls, audit trails, and exception reporting.	May-14	Management indicated that steps have already been taken to update parameter controls, monitor audit trails, and limit administrative access to the system	Tang	
3/4/2014	11-510	F&A	Review of Oversight Controls and Contract Compliance Related to the Metrolink Service Expansion Program	Internal Audit recommends that the appropriate overhead rate be used when establishing contract rates; agreements should include a limit on escalation; procedures for the use of rate ranges be formalized; consultant staff be added to agreements prior to performing work; and only invoices that reflect rates effective at the time work was performed should be authorized.	Sep-14	Management indicated that procedures will be updated to address issues related to establishing overhead rates, the use of labor rate ranges, and escalation.	Bonelli	
3/4/2014	11-510	F&A	Review of Oversight Controls and Contract Compliance Related to the Metrolink Service Expansion Program	Internal Audit recommends that project management require evidence of work performed when authorizing after-hours work where there are few deliverables. Also, management should question costs that are not part of the agreement as well as costs that appear higher than reasonable.	Sep-14	Management agrees and currently requires daily reports, field logs, or other supporting documentation for after-hours work. Management agrees that costs should be reviewed for reasonableness. The consultant, Hatch Mott McDonald, has reimbursed OCTA \$990.87 for the charges that should not have been reimbursed.	Bonelli	
3/4/2014	13-527	Capital Programs	Review of Oversight Controls and Contract Compliance Related to the Tustin Metrolink Station Parking Expansion	Internal Audit recommends that independent cost estimates for construction change orders be prepared prior to receipt of contractor's quotes and prior to performance of work.	Sep-14	Management agrees and will update the Construction Management Procedures Manual to integrate specific guidance.	Ng	
3/4/2014	13-527	Capital Programs	Review of Oversight Controls and Contract Compliance Related to the Tustin Metrolink Station Parking Expansion	Internal Audit recommends that project management monitor the expiration dates of contracts and extend contract terms prior to contract expiration.	Sep-14	Management agrees and will issue a memorandum to project managers reminding them to monitor consultant support contract expiration dates to assure the term of the construction contract and construction closeout effort is accounted for.	Ng	

UNRESOLVED FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through March 31, 2014)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
3/4/2014	13-527	Capital Programs	Review of Oversight Controls and Contract Compliance Related to the Tustin Metrolink Station Parking Expansion	Internal Audit recommends that the Rail Programs Department develop written project management procedures tailored to the types of projects handled in the department.	Sep-14	The Highway Programs Department maintains a Program Management Procedures manual which serves as a set of procedures to effectively manage and monitor projects and develop strategies for delivering the entire capital improvement program. This manual will be appended to integrate any specific guidance needed for projects managed by the Rail Programs Department.	Ng	