



*July 21, 2010*

**To:** Finance and Administration Committee  
**From:** Will Kempton, Chief Executive Officer  
**Subject:** Draft Fiscal Year 2010-11 Internal Audit Plan

### **Overview**

At the direction of the Orange County Transportation Authority's Board of Directors, the Internal Audit Department develops and implements an annual risk-based Internal Audit Plan. Implementation of an annual Internal Audit Plan assists management in the evaluation of the effectiveness and efficiency of projects, programs, and operations while ensuring that adequate controls and safeguards are in place to protect Orange County Transportation Authority's assets and resources.

### **Recommendation**

- A. Approve the Draft Fiscal Year 2010-11 Internal Audit Plan.
- B. Direct the Executive Director of Internal Audit to provide quarterly updates on the Fiscal Year 2010-11 Internal Audit Plan.

### **Background**

The Internal Audit Department is an independent appraisal function whose purpose is to examine and evaluate the Orange County Transportation Authority's (OCTA) operations and activities to assist management and the Board of Directors in the discharge of their duties and responsibilities.

### **Discussion**

The Internal Audit Department is presenting the Draft Fiscal Year 2010-11 Internal Audit Plan (Audit Plan) for the Board of Directors' approval. The Audit Plan was developed using an enterprise-wide risk assessment. The Audit Plan will be implemented using Internal Audit Department staff, on-call consultants, the independent auditors for the annual financial audit of OCTA, and other firms as needed.

During the fiscal year, priorities and circumstances may change, requiring that changes be incorporated into the Audit Plan. Internal Audit reports quarterly to the Board of Directors on the status of the Audit Plan and will revise the Audit Plan as needed to address these changes in priorities and circumstances.

**Fiscal Impact**

The Audit Plan has been developed within the resources available in the adopted budget for fiscal year 2010-11.

***Summary***

The Audit Plan has been developed to support the Board of Directors and OCTA management in the discharge of their duties and responsibilities to safeguard the assets of OCTA while ensuring those assets are used in an efficient and effective manner.

***Attachment***

- A. Draft Fiscal Year 2010-11 Internal Audit Plan

**Prepared by:**

A handwritten signature in cursive script that reads "Kathleen M O'Connell".

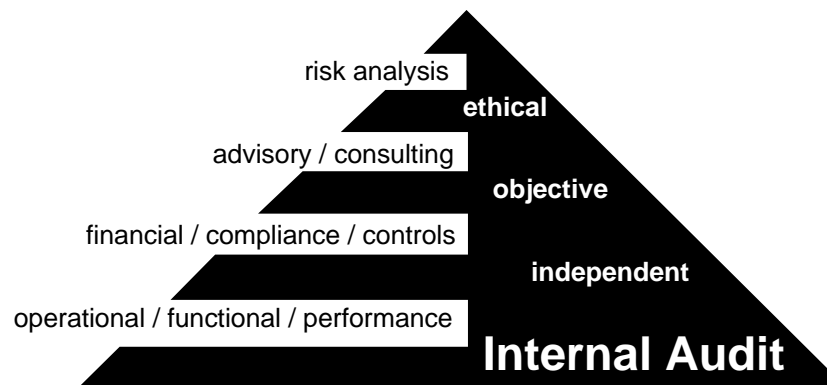
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# ORANGE COUNTY TRANSPORTATION AUTHORITY

## Internal Audit Department



## Draft Fiscal Year 2010-11 Internal Audit Plan



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**ORANGE COUNTY TRANSPORTATION AUTHORITY  
Internal Audit Department  
Fiscal Year 2010-11 Internal Audit Plan**

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## **Mission of the Internal Audit Department**

The mission of the Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) is to assist management and the Board of Directors (Board) in the effective discharge of their duties and responsibilities to safeguard the assets of OCTA while ensuring those assets are used in an efficient and effective manner. To this end, Internal Audit serves as an independent appraisal function to examine and evaluate OCTA's operations, activities, internal controls, compliance, opportunities, and risks.

## **Internal Audit Department Activities**

Internal Audit is responsible for examining and evaluating financial, administrative, and operational activities of OCTA, and supplying management with information to assist in its control of assets and operations for which it is responsible.

Internal Audit provides a wide range of auditing services including annual financial audit oversight, operational reviews, contract compliance reviews, internal control assessments, investigations, pre-award and post-delivery Buy America reviews, and pre-award price reviews. All audits initiated by entities outside of OCTA are coordinated through Internal Audit.

In July 2007, the Government Accountability Office (GAO) broadly defined audits as financial, attestation, or performance audits. Financial audits, including financial statement audits, are assessments of, and assurances about, an entity's financial condition, operating results, or other defined financial criteria. Attestation engagements are both financial and non-financial and result in varying degrees of assurances about specific subject matter. Price reviews conducted by the Internal Audit are an example of attestation engagements whereby Internal Audit opines on specific elements of contractor price proposals.

Internal Audit's efforts, however, are focused primarily on the third category of audits, performance audits, as defined by the GAO. Performance audit objectives vary widely and include assessments of program effectiveness, economy and efficiency, internal control, compliance, and prospective analysis. To more accurately define the objectives of these performance audits, Internal Audit categorizes audit projects in a more descriptive manner as indicated below. It is important to note, however, that most audit projects include objectives consistent with one or more of these audit types.

**Compliance** – Compliance audits are performed to ensure that the terms and conditions of contracts, grants, memorandums of understanding, or other agreements are being followed and that there is compliance with Board adopted policies and procedures, management policies and procedures, contract provisions, or regulatory requirements.

**Price Review** – Price reviews are conducted of architectural and engineering price proposals or sole source bids to determine if proposed pricing is fair and reasonable. Price reviews are also conducted on single bid procurements to ensure that the solicitation process was adequate to stimulate competition. Certain price reviews are mandated by federal or state statute and others by OCTA procurement policy.

**Financial** - Financial audits focus on verification of financial transactions and balances. Financial audits include the financial statement audits of OCTA and related legal entities, as well as other attestation audits performed by external auditors to ensure compliance with debt covenants and restrictions, or other legally mandated requirements.

**Internal Control** – Internal control audits are performed to ensure that there are adequate controls in place to protect assets or resources. Internal controls include processes for safeguarding assets as well as segregating incompatible duties.

**Operational** - An operational audit is performed to evaluate current operating procedures and to determine if there are more efficient or effective ways to accomplish the goals of the project, program, or activity. Operational audits generally include elements of an internal control audit or a compliance audit.

**Information Systems** – Information Systems (IS) audits are designed to evaluate controls over the accuracy and reliability of electronic data. These audits focus on the IS system life-cycles of planning and organization, acquisition and implementation, delivery and support, and monitoring and evaluation.

**Monitoring** - Monitoring activities are carried out to gain insight into newly developed or developing programs, or projects to allow auditors to continuously identify associated risk.

**Follow-Up Activities** – Activities and procedures undertaken to ensure that audit recommendations are implemented or otherwise satisfactorily addressed.

**Investigations** – Investigative activities are undertaken in response to a complaint or allegation, including those received through OCTA's Fraud Hotline.

## **Fiscal Year 2009-10 Accomplishments**

- Completed 21 price reviews of architectural and engineering, sole source, or single bid contracts exceeding \$74.6 million in contract value and provided the Contracts Administration and Materials Management (Camm) Department with price adjustment recommendations of approximately \$2.63 million.
- Completed and implemented comprehensive department policies and procedures. Conducted several training sessions for department staff. Issued several sets of revisions to clarify and improve policies and procedures to better reflect Government Auditing Standards (Yellow Book) requirements.
- Underwent OCTA Internal Audit Department's first Quality Assurance (Peer) Review in February 2010, receiving an unqualified opinion from the Association of Local Government Auditors (ALGA). Fully implemented two of three recommendations with final implementation expected by December 31, 2010.

- Contributed to ALGA by participating on Peer Review teams for the cities of Los Angeles and Stockton.
- In addition to price reviews, completed 25 audit projects, issuing over 30 recommendations for improvements in operations or contract management. Conducted follow-up on implementation of recommendations within nine months of report issuance.
- Managed the annual financial statement audits of the OCTA, the Orange County Transit District, the Orange County Local Transportation Authority, the 91 Express Lanes, and other related entities and provided reports to the State Controller's Office on time and as required.
- Coordinated the Federal Transit Administration's first audit of OCTA's procurement system.
- Implemented OCTA's Fraud Hotline in October 2009, and conducted 11 investigations of complaints since the Fraud Hotline's inception.
- Procured and managed the fiscal year 2006-07 through 2008-09 State Triennial Audit and provided the audit report to the California Department of Transportation on time and as required.
- All Internal Audit staff met continuing professional education requirements for both Yellow Book and other professional certifications (Certified Public Accountant, Certified Internal Auditor, Certified Information Systems Auditor).
- Coordinated visits by the Government Accountability Office (GAO) related to OCTA's use of American Reinvestment and Recovery Act (ARRA) funds.
- Assisted the Audit Subcommittee of the Taxpayers Oversight Committee (TOC) in the development of Agreed-Upon-Procedures for the audits of Measure M city turnback funds.
- Developed an audit charter for the Audit Subcommittee of the TOC (approved by both the Audit Subcommittee and full TOC on December 8, 2009).

### **Fiscal Year 2010-11 Goals**

- Initiate investigations of all Fraud Hotline reports within ten business days of receipt.
- Achieve an efficiency ratio of at least 72 percent for the fiscal year. Efficiency will be measured as total hours expended on audit activities and projects (after deducting for vacation, sick, holiday, and education hours) as a percentage of total hours available for audit activities and projects, plus administrative time.

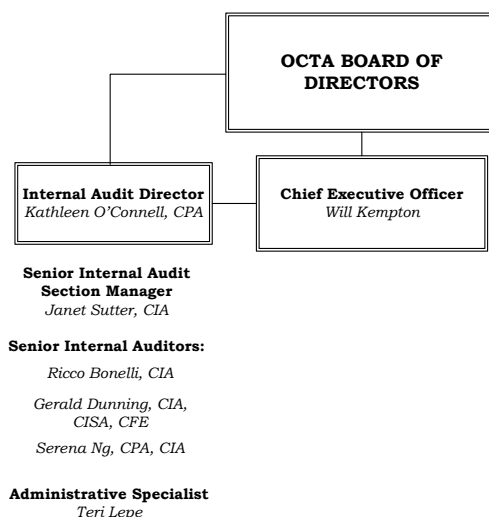
- Conduct price reviews of all architectural and engineering price proposals exceeding \$250,000 to establish the reasonableness of proposed prices and recommend price adjustments for potential savings. Quantify and report on the results of these activities and, with the assistance of the CAMM Department, measure actual savings achieved from proposed price adjustments through the contract negotiation process.
- Improve the effectiveness of Internal Audit by continuing to assess the risk profile of the organization. Expand the population of projects, programs, functions, and activities in the department's risk assessment software to include an auditable entity population of at least 400 by June 30, 2011.
- Maintain full compliance with Yellow Book continuing professional education (CPE) requirements and those of all professional certifications (Certified Public Accountant, Certified Internal Auditor, Certified Information Systems Auditor, Certified Fraud Examiner).
- Develop and conduct in-house training twice during the fiscal year, providing at least five hours of CPE to all staff.
- Fully implement all recommendations of the department's first Peer Review by December 31, 2010.
- In preparation for the department's triennial Peer Review in 2013, conduct an internal quality assurance review by January 31, 2011.
- Assist the Audit Subcommittee of the TOC with the development of agreed-upon procedures for the audit of city Measure M turnback funds by March 31, 2011.
- Review audit committee charters and recommend changes based on relevant changes in professional guidance. Audit charters for both the Finance and Administration Committee of the Board of Directors as well as the Audit Subcommittee of the TOC should be completed by February 28, 2011.

## **Internal Audit Organization**

Government Auditing Standards require that auditors be independent in both fact and appearance with respect to the entities for which they perform audit or attestation services. Impairments to independence arise from three general classes – personal, external, and organizational. Personal impairments result from relationships or beliefs that cause auditors to limit the extent of inquiry, or weaken or slant audit findings in any way. External impairments to independence arise from external interferences that deter auditors from acting objectively and exercising professional skepticism by pressures, actual or perceived, from management and employees of the audited entity or oversight organizations. Organizational impairments to independence result when the audit function is organizationally located within the reporting line of the areas under audit or when the auditor is assigned or takes on responsibilities that affect operations of the area under audit.

Internal Audit has established mechanisms to identify and remedy personal and external impairments to independence and OCTA has established an internal audit function that is organizationally independent. The Internal Audit Department reports functionally to the Board of Directors, and administratively to the Chief Executive Officer. Among all the organizational alternatives for government entity internal audit departments, the GAO finds a presumption of independence where the audit organization is “elected or appointed by a legislative body, subject to removal by a legislative body, and reports the results of audits to, and is accountable to, a legislative body.”

**Internal Audit Departmental Organization Chart**



## Risk Assessment Process

It is the responsibility of management of OCTA to identify, assess, and manage risk. It is Internal Audit's responsibility to facilitate the identification and assessment of risk, and to monitor and report on how well risks are being managed by OCTA. All organizations face risks, which are defined as those events, actions, or inactions that could cause key business objectives not to be achieved. To mitigate and manage these risks, an organization typically implements internal controls, anticipates and plans for disruptions, develops risk management programs, and engages in other risk mitigation activities.

The key business objective of OCTA is imbedded in its mission statement “*Enhancing the quality of life in Orange County by delivering safer, faster, and more efficient transportation solutions.*” Delivering these “*transportation solutions*” are several core business units of OCTA, including Transit Operations, Transportation Planning, and Capital Projects Divisions. These business units are supported by administrative functions and all of these services are delivered through a variety of projects, programs, and activities. With a budget exceeding \$1 billion, OCTA delivers transportation solutions through numerous channels, with a variety

of stakeholders, with the assistance of the private sector and for the benefit of diverse customers.

Recognizing both the enormity of OCTA's projects, programs and activities, as well as the constraints of Internal Audit Department resources, Internal Audit sought to maximize its effectiveness by engaging in a risk assessment process to establish the priorities for the department for fiscal year 2010-11. The department's audit software, Audit Leverage, was used to risk-weight a large population of OCTA's projects, programs, and activities and has allowed a much more dynamic and flexible approach to risk assessment than might otherwise be possible.

### Risk Assessment Methodology

Internal Audit established the architecture of Audit Leverage's risk assessment module by defining and categorizing all OCTA projects, programs, or contracts (Auditable Entities) into one of the following:

<b><i>Auditable Entity Type:</i></b>	Transportation Project
	Transportation Program
	Highway Project
	Rail Program
	Rail Capital Project
	Administrative Program
	Information System
	Account or Fund Balance
	Contract

Audit Leverage has also been populated with a universe of risks applicable to one, some, or all of these project or program types:

***Compliance Risk*** – The degree of regulatory oversight and/or the volume of regulation with substantial fines, penalties, or other sanctions for noncompliance.

***Financial Risk*** – Represents the magnitude of financial exposure to OCTA.

***Complexity of Operations*** – The number of individuals, departments, contractors, information systems, and manual processes involved in the delivery of this project or program. The degree to which transactions require professional judgment or technical expertise.

***Operational Risk*** – The severity of impact of a disruption in the operation of this OCTA project or program on travelers in Orange County.

***Strategic Risk*** – The significance of this project or program to OCTA's long term strategic success.

**Image and Reputation Risk** – The intensity of public interest and awareness, and the visibility of the project or program to the media.

**Internal Controls Risk** – The extent to which internal controls have been designed, implemented, and/or are operating effectively.

**Audit Committee Interest** – Level of interest shown in this project or program by the Finance and Administration Committee or the Board of Directors.

**Security Risks** – The impact of a security breach to OCTA customers, contractors, employees, or the public.

**Safety Risks** – The degree of severity (catastrophic, significant, moderate, or minimal) resulting from incidents or accidents.

**Control Environment** – The degree to which management has fostered a culture that includes appropriate internal control consciousness.

**Time Since Last Audit** – The length of time since the last audit or review was conducted.

Using the universe of Auditable Entities and the directory of risks, Internal Audit determined which risks were applicable to which Auditable Entities. Once risks for each type of Auditable Entity are established, Audit Leverage creates, in a “batch” manner, a risk assessment unique to each type of project or program.

For example, risks facing the Auditable Entity “Administrative Program” would include **Financial Risk, Compliance Risk, Control Environment, Security Risk**, and other risk factors. By contrast, the Auditable Entity “Capital Project” would not typically be subject to Control Environment risk because large capital projects are more likely to be completed by contractors outside of OCTA’s control environment.

After batch development of risk assessments for each Auditable Entity, Internal Audit developed both weights and assigned ratings for each risk:

<b>Risk Rating</b>	<b>Description</b>
5	High Risk
4	Moderate to High Risk
3	Moderate Risk
2	Low to Moderate Risk
1	Low Risk

Following are examples of the risk assessment results for two different Auditable Entity types:

Example of an Administrative Program Risk Assessment:

Auditable Entity		Financial Risk	Compliance Risk	Control Environment	Safety Risk	Security Risk	Audit Committee Interest	Operational Risk	Strategic Risk	Complexity of Operations	Image & Reputation	Time Since Last Audit	Weighted Average Risk
		<b>Administrative Program Risks</b>											
Purchasing Cards	Risk	2	4	3	-	2	4	2	-	4	5	1	3.2
	Weight	20%	10%	10%	-	5%	5%	15%	-	10%	20%	5%	100%

Example of a Highway Project Risk Assessment:

Auditable Entity		Financial Risk	Contract Compliance Risk	Safety Risk	Audit Committee Interest	Image and Reputation	Weighted Average Risk
		<b>Highway Project Risks</b>					
I-5 Gateway	Risk	5	5	4	3	5	4.6
	Weight	40%	25%	10%	15%	10%	100%

Like projects and programs, Internal Audit risk-assessed all active contracts greater than \$1.5 million. It is important to note that Audit Leverage's risk assessment module is flexible and allows the user to add or delete risk types that may or may not be applicable to a particular Auditable Entity. Customization and continued population of this very powerful and dynamic software is an Internal Audit goal for the coming year and future years.

Following the risk assessment of each of approximately 250 Auditable Entities within OCTA, Internal Audit summarized the results on the risk assessment heat chart in Appendix A. The heat chart translates the numerical risk ratings of each Auditable Entity into a more visually appealing format.

## **Internal Audit Plan Development**

The Internal Audit Plan for fiscal year 2010-11 (Audit Plan) at Appendix B calls for approximately 8,600 Internal Audit hours, exclusive of vacation, sick, holiday, and continuing professional education hours. Of the 8,600 hours, approximately 2,400 relate to administrative activities, including Board and Board Committee meetings, Internal Audit staff meetings, and other administrative tasks. While Internal Audit has always considered these administrative hours in developing its audit plan, this represents the first time that these hours will be budgeted within the audit plan and then included in quarterly updates to the Board on the status of the audit plan. The purpose of including these hours is to monitor and measure Internal Audit's productivity.

The Audit Plan includes approximately 800 hours for mandatory audit activities and another 645 for internal audit projects that are ongoing from year to year. The budget also includes 1,000 hours for price review services which is up slightly from the year prior. While actual requests for price reviews are unpredictable, Internal Audit anticipates that there will continue to be a steady number of requests from OCTA's CAMM Department.

The risk assessment developed by Internal Audit through the use of the department's audit software is the primary, but not absolute, means by which Internal Audit prioritizes and selects audit projects. There remain other factors that are not taken into account in the software package. For example, some high risk Auditable Entities are not selected because they are projects in their infancy and it would be more suitable to perform an audit after the project is further underway. Such is the case with the West County Connectors Project. Other high risk auditable entities are not included because of Internal Audit's knowledge of ongoing and progressive activities by staff to address the risks. Such is the case with some of the Auditable Entities related to security. Still other Auditable Entities are not selected due to situational factors. For example, Employment Screening and Background Checks is considered a high risk activity but very little activity is occurring within OCTA due to hiring freezes. Other subjective factors that may enter into the selection of audit projects include knowledge about external or regulatory auditor activity or interest, or project or program failures or successes.

The Audit Plan includes audits of several large OCTA capital projects including State Route 57 improvements, the Metrolink Service Expansion Program, and the Orangethorpe Grade Separation projects. These audits have been budgeted at approximately 300 hours each, which significantly limits the scope of the audit but allows auditors enough time to further identify risk, refine audit scope and perform limited testing. Based on the results of the limited scope work, it is entirely plausible that one or more of these projects will exceed its budget.

The Audit Plan also includes an audit of OCTA's paratransit contractor Veolia and fixed route operator MV Transportation. This will be the first audit of MV Transportation, a new contractor. Internal Audit is also proposing a review of the Joint Powers Agreement between OCTA and the Southern California Regional Rail Authority (SCRRA) as it relates to cost

sharing. Internal audit expects this to be a joint effort with the internal audit department of the Los Angeles County Metropolitan Transportation Authority. Finally, Internal Audit will review a cooperative agreement between OCTA and SCRRA for OCTA's Metrolink Service Expansion Program.

Other smaller audit projects have been scheduled based on the results of the risk assessment, other factors as discussed above, and staffing resources.

## **Conclusion**

The Internal Audit Plan seeks to align limited audit resources with risk throughout the organization while considering prior audit effort as identified in the Appendix A Risk Assessment. Internal Audit will continue to refine the risk assessment module of Audit Leverage to include emerging OCTA projects, programs, and contracts. Internal Audit will also continue to assess the risk ratings and weights included in Audit Leverage to best reflect the risk profile of the organization and to allow the greatest coverage of that risk in the annual audit planning process.

## **APPENDIX A: Risk Assessment by Program/Project/Contract**

Orange County Transportation Authority  
Internal Audit Department  
**Risk Assessment by Program/Project/Contract**  
Fiscal Year 2010-11

**Division**

**Functional Area**  
**Project/Program**  
**Contract**

**Executive**

**RISK  
ASSESSMENT**

5 Year  
Audit  
History

Clerk of the Board

Public Records Requests	Low to Moderate	2011
Form 700 Disclosures	Moderate	
Public Meeting Notice	Low to Moderate	
Board of Directors Compensation and Ethics Compliance	Moderate	2009

Legal Services

Contracts > \$1.5 million:		
Woodruff, Spradlin and Smart P.C. (\$2.8 million)	Low to Moderate	2007
Internal Audit Department		
Quality Assurance (Peer) Review	Moderate	2010

**Capital Projects**

Highway Projects

Contracts > \$1.5 million:

I-5 Gateway

URS (\$12 million)	High	2011
Caltrans Cooperative Agreement to widen, reconstruct, add HOV to Artesia (\$28.3 million)	High	
Inspection, Survey & Public Awareness - Caltrop (\$18 million)	High	
Caltrans Cooperative Agreement (\$124 million)	High	2011
Cooperative Agreement with City of Buena Park (\$2.3 million)	Moderate	

I-405 from SR-55 to I-605

Initiate RFP for PAVED - PTG (\$13.1 million)	Moderate
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I-405/SR-55 Inspection Support Services for MOS-1

Jacobs Civil Inc. (\$2.3 million)	Moderate
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SR-57 Improvements

Caltrans Cooperative Agreement for ROW Support Services - Jacobs Civil (\$6.5 million)	Moderate to High	2011
Caltrans Cooperative Agreement for ROW and support (\$2.7 million)	Moderate to High	2011
Design - CH2MHill C71247 (M2 - Project G) (\$6.3 million)	Moderate to High	2011
Design - RFB C70887 (M2 - Project G) (\$6.7 million)	Moderate to High	2011

SR-22 Projects

Caltrans Cooperative Agreement for Additional Soundwalls (\$3.0 million)	Low to Moderate
Cooperative Agreement with OCFCD (\$1.5 million)	Low to Moderate

SR-91 Improvements

Caltrans Cooperative Agreement for ROW services SR-241 to SR-71 (\$1.7 million)	Moderate
Caltrans Cooperative Agreement for Design Services (\$3.0 million)	Moderate

West County Connectors

Design Services - Parsons Transportation Group (\$9.6 million)	High	2010
Cooperative Agreement with the City of Seal Beach to widen Seal Beach Blvd. (\$7.2 million)	Moderate to High	
Construction - East Segment (Awaiting award)	High	
Construction - West Segment (Awaiting award)	High	
On-call Design Services - Carter & Burgess, Miralles Associates, STV Inc. (\$1.9 million)	Moderate to High	
Project Management Consultant Services - Hatch Mott McDonald (\$1.7 million)	Moderate	

Orange County Transportation Authority  
Internal Audit Department  
**Risk Assessment by Program/Project/Contract**  
Fiscal Year 2010-11

	<b>RISK ASSESSMENT</b>	5 Year Audit History
<b>Grade Separation Projects</b>		
<u>Contracts &gt; \$1.5 million:</u>		
City of Fullerton Cooperative Agreement for Two Grade Separation Projects (\$51 million)	Moderate to High	
Kraemer Boulevard		
Design - HTNB (\$4.3 million)	Moderate to High	2011
Lakeview Avenue		
Design - CH2MHill (\$3.4 million)	Moderate to High	2011
Orangethorpe Avenue		
Design - DMJM Harris AECOM (\$6.2 million)	Moderate to High	2011
Tustin Avenue		
Design - Biggs Cardosa Associates (\$3.8 million)	Moderate to High	2011
Placentia Boulevard		
Design - MTK Engineering (\$1.8 million)	Moderate to High	2011
Raymond Avenue	Moderate to High	2011
State College Boulevard	Moderate to High	2011
Plan Check Services for 5 Grade Separation Projects - Althalye Consulting (\$2.0 million)	Moderate to High	2011
<b>Highway Project Management</b>		
Project Controls	Moderate to High	2006
Change Order Controls	High	
Contract Retention	High	2011
Revenue and Revenue Sharing Contracts	High	2010
Right of Way and Real Estate Administration	High	2011
<b>Measure M Local Projects</b>		
Combined Transportation Funding Program – Measure M Competitive	High	2010
Measure M Turnback	High	Annual
<b>Measure M Go-Local Projects</b>		
<u>Go-Local Contracts &gt; \$1.5 million:</u>		
City of Anaheim Fixed Guideway Alternatives Analysis & Env. Clearance (\$5.9 million)	Moderate to High	
City of Santa Ana Fixed Guideway (\$5.9 million)	Moderate to High	
City of Irvine Fixed Guideway Cooperative Agreement (\$5.2 million)	Moderate to High	
Measure M2 Environmental Mitigation Program	Moderate to High	
<u>Environmental Contracts &gt; \$1.5 million:</u>		
NCCP/HCP/MSAA ICF Jones Stokes (\$1.6 million)	Moderate to High	
Measure M2 Water Quality Program	Moderate to High	
Measure M1/Prop 1B Signal Synchronization Program - 10 corridors	Moderate to High	
Measure M2 Regional Transportation Signal Synchronization Program	Moderate to High	
<b>Facility Projects</b>		
Facility Project Management	Moderate	
<u>Facility Contracts &gt; \$1.5 million:</u>		
Sand Canyon CNG Fueling Facility - Clean Energy (\$3.7 million)	Moderate	
Fullerton Parking Expansion - City of Fullerton ROW Acquisition (\$3.2 million)	Moderate	
City of Fullerton Parking Expansion Cooperative Agreement (\$13.0 million)	Moderate to High	
City of Orange Cooperative Agreement for Design of Parking Structures & PM (\$1.7 million)	Moderate	
Placentia Station Design - Willdan (\$1.8 million)	Moderate	

Orange County Transportation Authority  
Internal Audit Department  
**Risk Assessment by Program/Project/Contract**  
Fiscal Year 2010-11

	RISK ASSESSMENT	5 Year Audit History
Rail Programs		
Metrolink		
Metrolink Audit Activities	High	2010
Metrolink Ridership and Revenue & Expense JPA Allocations (\$27.4 million)	High	2011
Contracts > \$1.5 million:		
Metrolink Cooperative Agreement for 30 Minute Service (\$87.9 million)	High	2011
Metrolink Cooperative Agreement for Grade Crossing/Quiet Zones (\$60 million)	High	
Metrolink CMAQ Funding Cooperative Agreement (\$39.6 million)	High	
Metrolink MOU - Grade Crossing Safety Enhancements (\$8.0 million)	Moderate to High	
Right of Way Maintenance - Joshua Grading & Excavation (\$3.6 million)	Moderate	
Atchinson, Topeka & Santa Fe Track Construction along SB Subdivision (\$26.5 million)	High	2011
Project Management for Metrolink Expansion - Parsons Brinkerhoff (\$5 million)	Moderate to High	
High Speed Rail		
Contracts > \$1.5 million:		
CHSRA Cooperative Agreement for E.I.R. for Anaheim to Los Angeles Segment (\$7.0 million)	Moderate	
Anaheim Regional Transportation and Intermodal Center (ARTIC)		
Contracts > \$1.5 million:		Moderate
City of Anaheim Cooperative Agreement (\$3.6 million)	Moderate	
Environmental & Advanced Design - ICF Jones & Stokes (\$2.9 million)	Moderate	
Transit Operations		
Community Transportation Services		
ACCESS Eligibility	High	2007
ACCESS Service		
Contracts > \$1.5 million:		
MV Transportation Contracted Operations through 2013 (\$33.7 million)	High	2011
OCARC (\$1.8 million)	Moderate	
Pacific GIS Inc. (1.8 million)	Moderate	
Acacia Adult Day Services (\$2.1 million)	Moderate	
Community Senior Services (\$3.5 million)	Moderate	
Senior Mobility Programs		
Contracts > \$1.5 million:		
Funding agreements with Orange County Cities for Senior Mobility Programs (\$6.0 million)	Moderate to High	Annual
Maintenance		Moderate
Base Facilities	Moderate to High	2010
Vehicles	Moderate	
Stops & Zones		
Contracts > \$1.5 million:		
Shelterclean, Inc. (\$1.8 million)	Moderate	
Motorist Services		
Freeway Service Patrol Program and contracts (\$1.6 to \$5.5 million)	Moderate to High	2007
Caltrans Cooperative Agreement for Freeway Service Patrol Services (\$3.0 million)	Moderate to High	
Call Box Program and Contracts > \$1.5 million:	Low to Moderate	
Republic ITX (\$1.6 million)	Moderate	
511 Motorist Aid Program	Moderate to High	
Taxicab Administration Program	Moderate	

Orange County Transportation Authority  
Internal Audit Department  
**Risk Assessment by Program/Project/Contract**  
Fiscal Year 2010-11

5 Year  
Audit  
History

**RISK  
ASSESSMENT**

Service Authority for Abandoned Vehicles	Moderate	
Fixed Route Operations		
Service Planning		
Contracts > \$1.5 million:		
On-call Service Planning Support - IBI Group (\$1.7 million)	Moderate	
Operations Training	Moderate	2007
Company Equipment Assigned Vehicles	Moderate	2006
Operations Field Supervision	Moderate	
Fare Evasion	Moderate	
Lost and Found Operations	Low	
Central Communications		
Radio Dispatch	Moderate to High	
Transit System Security		
Contracts > \$1.5 million:		
Orange County Sherrifs Department (\$9.9 million)	High	2007
Security – Infrastructure	Moderate to High	
Security – Documents and Critical Information	Moderate to High	
Security – Rolling Stock	Moderate to High	
Disaster Preparedness and Business Resumption	High	
Bus Rapid Transit		
Contracts > \$1.5 million:		
Design Services Bus Stop Enhancements - IBI Group (\$2.6 million)	Moderate	
Vehicle Dispositions	Moderate	
Measure M Transit Programs	Moderate	
Project V - Community Circulators	Moderate	
Janitorial		
Contracts > \$1.5 million:		
Janitorial Service Contract - Diamond Contract Services, Inc. (\$4.1 million)	Moderate	

**Finance and Administration**

Financial Planning & Analysis		
Budget Development & Monitoring	Moderate	
Performance Measures	Moderate	
Comprehensive Business Plan	Moderate	
Treasury / Public Finance Management		
Investments	High	2011
Contracts > \$1.5 million:		
Investment Advisory & Management Fees - Saloman Smith Barney (\$3.4 million)	Moderate to High	2011
Investment Advisory & Management Fees - Bear Stearns (\$3.5 million)	Moderate to High	2011
Investment Advisory & Management Fees - Payden & Rygel (\$2.3 million)	Moderate to High	2011
Investment Advisory & Management Fees - State Street Global Advisors (\$2.1 million)	Moderate to High	2011
Arbitrage Rebates	Moderate	

Orange County Transportation Authority  
Internal Audit Department  
**Risk Assessment by Program/Project/Contract**  
Fiscal Year 2010-11

	<b>RISK ASSESSMENT</b>	5 Year Audit History
<b>Toll Roads</b>		
Toll Road Revenue Collection	High	2011
Toll Road Contracts > \$1.5 million		
Toll Road Operations and Management - Cofiroute USA LLC (\$30.8 million)	Moderate to High	2006
Toll Road Transponders - SIRIT Corp. (\$2.2 million)	Moderate	
Toll Road Equipment Upgrade - SIRIT Corp. (\$1.7 million)	Moderate	
Toll Road Building Lease - LBA Realty Fund (\$1.5 million)	Moderate	
Investor Relations	Moderate	
<b>Accounting and Financial Reporting</b>		
General Accounting	Moderate	
Financial Reporting	Moderate	Annual
Cost Allocation Plan	Moderate to High	2011
National Transit Data Reporting	Moderate to High	Annual
Measure M Accounting & Reporting	Moderate	Annual
Sales Tax Revenue	High	2010
Farebox Revenue Collection and Armored Car Services	High	2008
Accounting and Financial Reporting Contracts > \$1.5 million:		
Sectran Security Armored Car and Revenue Counting (\$3 million)	Moderate to High	2008
Grants Management & Accounting	High	2009
Accounts Payable	Moderate to High	
Purchasing Cards	Moderate to High	2009
Corporate Credit Cards	Moderate to High	
Accounts Receivable	Moderate to High	
Accounts Receivable Contracts > \$1.5 million:		
City of Placentia Loan (\$4.1 million)	Moderate	
Capital Assets	Moderate to High	2009
<b>General Services</b>		
Printing and Reprographics	Low	
Records Management	Moderate	2007
Building Operations / Lease Administration		
Contracts > \$1.5 million		
P M Realty (Administration Building Lease)	Moderate	
Access & Identification Cards	Moderate	2007
<b>Risk Management</b>		
Insurance Program Administration	Moderate	
Liability Claims Management	Moderate to High	2007
Workers Compensation	Moderate to High	2006

### Human Resources and Organizational Development

<b>Employment</b>		
Preemployment Testing and Background	High	
Performance Management	Moderate to High	
Transfers and Terminations	Low	
Merit and Promotion	Low	
Restricted Duty	Moderate	
Personnel Records	Moderate	
Extra Help and Contract Staffing	Low	

Orange County Transportation Authority  
Internal Audit Department  
**Risk Assessment by Program/Project/Contract**  
Fiscal Year 2010-11

	<b>RISK ASSESSMENT</b>	5 Year Audit History
<b>Compensation, Payroll and Benefits</b>		
Payroll	High	2009
Payroll – Overtime	Moderate to High	2009
Payroll – Special (Termination Pay, Lump Sum Pay, etc.)	Moderate to High	2009
Payroll – Garnishments	Low to Moderate	
<b>Healthcare Plans</b>		
Contracts > \$1.5 million:		
AETNA Healthcare OAMC (\$6.3 million)	Moderate to High	2006
AETNA HMO (\$3.1 million)	Moderate to High	
Family Medical Leave Act	Moderate	
Flexible Benefits	Low to Moderate	
Orange County Employees Retirement System	Moderate	2008
<b>Early Retirement Programs</b>		
Contracts > \$1.5 million:		
Phase II Systems (\$1.7 million)	Moderate	
Health Insurance Portability and Accountability Act	Moderate	2007
Teamsters Pension Trust Fund	Low to Moderate	
Employee Assistance Program	Low	
<b>Employee and Labor Relations</b>		
Contract Negotiations	Moderate	
Unemployment Claims	Low to Moderate	
Grievances	Low	
Employee Relations Training	Low	
Equal Employment Opportunity	Moderate	
<b>Training &amp; Development</b>		
Mandated Training	Moderate	
Training and Development Programs	Moderate	
<b>Safety &amp; Environmental Compliance</b>		
Safety Programs	High	2011
Drug and Alcohol Program	High	2009
Medical Examinations	High	2009
Loss Control and Accident Analysis	Moderate to High	
Department of Motor Vehicles Pull Notice Program	High	
Wellness Program	Low	
Environmental Compliance Program	Moderate to High	2007

**Contracts & Materials**

<b>Procurement</b>		
Procurement Activities - Contract Modifications & Terminations	Moderate	
Procurement Activities - Cost Estimates	Moderate to High	
Procurement Activities - Proposal Evaluation	High	2011
Procurement Activities - IFB & RFP Development	Moderate	
Procurement Activities - Protests	Moderate	
Procurement Activities - Small Purchases	Moderate	

Orange County Transportation Authority  
Internal Audit Department  
**Risk Assessment by Program/Project/Contract**  
Fiscal Year 2010-11

	<b>RISK ASSESSMENT</b>	5 Year Audit History
Rolling Stock and Inventory Contracts		
Contracts > \$1.5 million:		
Creative Bus Sales 33 Paratransit Cutaways (\$3.4 million)	Moderate to High	
Southern Counties Oil - Diesel fuel purchases through 2013 (\$15.2 million)	High	2008
IPC USA - Unleaded fuel purchases through 2013 (\$15.1 million)	High	
Bridgestone/Firestone Tires (\$10.6 million)	Moderate to High	2011
Buy America Compliance	High	Annual
Maintenance Inventory		
Maintenance Inventory Management	Moderate to High	2011
Warranty Administration	Moderate to High	2011
Fuel Dispensing Controls	High	2011
Disadvantaged Business Enterprise Program	Moderate	2007

**Information Systems**

Information Systems Continuity	High	
Information Systems Security	Moderate to High	
Payment Card Industry (PCI) Compliance	High	2011
Information Systems Development	Moderate	
Information Systems Change Management	Moderate to High	2011
Information Systems Operations	Moderate	
Information Systems Operations Contracts . \$1.5 million		
Provision of Three Senior Desktop Support Staff - Digital Intelligence Systems (\$4.2 million)	Moderate	
Critical Information Systems Applications		
Fixed Route Radio Systems (software supporting all radio communicatinos)	High	
Contracts > \$1.5 million:		
ACS Transportation Solutions, Inc. (\$1.7 million)	High	Monitor
ACS Transportation Solutions, Inc. Radio Upgrade (\$20.1 million)	High	Monitor
Fixed Route Planning Information Systems ( dispatch, scheduling, routing, runcutting)	High	
Fixed Route Data Information Systems (farebox data, passenger counts and reporting, etc.)	High	
Procurement and Inventory Information Systems (Ellipse, CAMMNet)	Moderate	
Time Reporting and Payroll Information Systems	High	2009
Customer Service Information Systems (Call center, Rideshare, FSP, etc.)	Moderate to High	
Safety and Security Systems (Video cameras, Hazmat tracking, etc.)	Moderate	
Financial Transactions and Records Systems (fund accounting, budgeting, data warehousing)	Moderate to High	
Interagency Communications (voice response for operations scheduling, voicemail, phone)	Moderate	
Information Systems Hardware	Moderate to High	
Telecommunications Equipment	Moderate to High	2011

Orange County Transportation Authority  
Internal Audit Department  
**Risk Assessment by Program/Project/Contract**  
Fiscal Year 2010-11

		<b>RISK ASSESSMENT</b>	5 Year Audit History
<b>External Affairs</b>			
Communications, Customer Relations, Marketing			
Bus Advertising	Moderate		2007
Marketing Programs and Contracts	Moderate		
Media Relations	Moderate		
VanPool Program	High		2010
Web Development	Low to Moderate		
Pass Sales Programs	High		
Pass Sales – Special Programs (Reduced Fare)	Moderate to High		
Customer Service	Moderate		
Contracts > \$1.5 million:			
Customer Information Center Alta Resources (\$6.9 million)	Moderate to High		2010
<b>Government Relations</b>			
Federal Relations	Moderate		
State Relations	Moderate		
Local Outreach	Moderate		

## **APPENDIX B: Fiscal Year 2010-11 Internal Audit Plan**

**Orange County Transportation Authority  
Internal Audit Department  
FY 2010-11 Internal Audit Plan**

<b>Audit Activity</b>	<b>Project Number</b>	<b>Description</b>	<b>Primary Audit Type</b>	<b>Planned Staff Hours</b>
<b>Mandatory External Independent Audits</b>				
Annual Financial Audit	FY11-000	Annual financial and compliance audit for fiscal year 2009-10.	Financial	425
Annual Transportation Development Act Audits	FY11-001	Coordination of legally required annual audits of the recipients of Local Transportation Funds for fiscal year 2009-10.	Compliance	125
Federal Transportation Administration (FTA) Triennial Review	FY10-003	Coordination of FTA triennial review to be conducted August 3 - 5, 2010.	Compliance	120
Orange County Council of Governments (OCCOG) Financial Statement Audit	FY11-002	Management of external audit of OCCOG financial statements and ad-hoc audit assistance.	Financial	20
<b>Internal Audit Projects</b>				
Risk Assessment and Annual Audit Plan	FY11-100	Annual preparation of the audit plan, quarterly updates to the audit plan, periodic assessment of risk throughout the year.	Risk Assessment	125
Quality Assurance and Self-Assessment	FY11-101	Update of Internal Audit Policies & Procedures. Annual self assessment of Internal Audit's compliance with Government Auditing Standards.	Quality Assurance	80
Fraud Hotline	FY11-102	Investigations of reports of fraud, waste or abuse.	Fraud Hotline	80
<b>Internal Audits</b>				
<b>Human Resources and Organizational Development</b>				
Safety Monitoring	FY08-031	Completion of review of implementation of American Public Transportation Association (APTA) Safety Review recommendations.	Internal Controls	20
<b>Capital Projects</b>				
Grade Separation Projects	FY11-501	Review of contracts for design and preliminary engineering for the Orangethorpe Corridor Railroad Grade Separations. Project Budget is \$575 million and is funded through Measure M2, federal, state, and Proposition 1B Trade Corridors Improvement Fund(s).	Compliance	350
Interstate 5 Gateway Contracts	FY08-014	Completion of review of a sample of contracts and payments to contractors for the Interstate 5 Gateway Project. Project budget is \$335 million funded through Measure M and Measure M2	Compliance	40

**Orange County Transportation Authority  
Internal Audit Department  
FY 2010-11 Internal Audit Plan**

<b>Audit Activity</b>	<b>Project Number</b>	<b>Description</b>	<b>Primary Audit Type</b>	<b>Planned Staff Hours</b>
Contract Retention	FY11-502	Review of policies, procedures, and practices for the retention and release.	Compliance	175
State Route 57 Improvements	FY11-503	Review of contracts for design and preliminary engineering for the State Route 57 improvements.	Compliance	300
Real Estate and Right-of-Way Administration	FY09-015	Review of right-of-way and other real estate operations and contracts.	Operational	225
Metrolink Cost Sharing	FY11-504	Financial analysis of Metrolink contractual operating cost allocation. Internal Audit expects assistance on this review from the Internal Audit Department of the Los Angeles Metropolitan Transportation Authority	Financial	250
Metrolink Service Expansion Program (MSEP)	FY11-505	Review of cooperative agreement(s) with Metrolink for infrastructure improvements related to the Metrolink Service Expansion Program and related project management contracts.	Compliance	300
Buena Park Metrolink Station Closeout Audit	FY08-007	Close-out audit of construction of Metrolink station.	Compliance	15
<b>Transit Operations</b>				
Buy America	FY11-400	Pre-award and post-delivery reviews to ensure vendors and OCTA are in compliance with federal Buy America requirements.	Compliance	50
Contracted and Paratransit Operations	FY10-503	Review to ensure contract stipulations are being complied with and to verify the propriety of payments.	Compliance	350
<b>Government Relations and Intergovernmental Activities</b>				
Grant Close-outs	FY11-400	As needed financial and compliance audits of grants at close-out to ensure propriety of expenditures.	Compliance	75
<b>Finance and Accounting</b>				
Treasury	FY10-504	Bi-annual financial and compliance reviews of the treasury function, including investment and bond compliance.	Compliance	175

**Orange County Transportation Authority  
Internal Audit Department  
FY 2010-11 Internal Audit Plan**

<b>Audit Activity</b>	<b>Project Number</b>	<b>Description</b>	<b>Primary Audit Type</b>	<b>Planned Staff Hours</b>
Cost Allocation Plan	FY10-506	Review of OCTA's methodology for, and application of, cost allocation.	Financial	150
91 Express Lanes Collections	FY08-016	Completion of review of contractual compliance and performance of collections contractor Law Enforcement Services, Inc.	Compliance	30
Investment Management & Service Fees	FY09-011	Report finalization of review of services and invoices for investment and debt advisory and management services.	Compliance	25
<b>Contracts &amp; Materials</b>				
Price Reviews	PR11-000	Cost and price analyses as required by OCTA procurement policies and procedures.	Price Review	1,000
Procurement Activities - Proposal Evaluations	FY08-015	Review of policies, procedures, protocols, and best practices for the operation of procurement selection teams.	Operational	200
Bridgestone/Firestone Tire Lease	FY09-014	Completion of review of lease of bus tires.	Compliance	40
Maintenance Inventory Management	FY09-022	Review of inventory management policies, procedures, controls, operational efficiency, and analytic tools.	Operational	175
Warranty Administration	FY09-023	Review of internal controls over warrantied equipment.	Internal Control	175
Fuel Controls	FY09-024	Review of controls over dispensing of petroleum products.	Internal Control	50
<b>Information Systems</b>				
Information Systems Change Management Controls	FY10-508	Review of information systems change management policies, procedures, and controls.	Operational	225
Payment Card Industry (PCI) Data Securities Standards (DSS) Compliance	FY11-507	Review of OCTA's compliance with PCI DSS, including review and evaluation of annual self-assessment, to ensure protection of credit card data.	Compliance	150
Telecommunications Equipment	FY09-020	Review of telecommunications equipment usage and internal controls.	Internal Control	150

**Unscheduled Reviews and Special Requests**

**Orange County Transportation Authority  
Internal Audit Department  
FY 2010-11 Internal Audit Plan**

<b>Audit Activity</b>	<b>Project Number</b>	<b>Description</b>	<b>Primary Audit Type</b>	<b>Planned Staff Hours</b>
Unscheduled Reviews and Special Requests	FY11-200	Time allowed for unplanned audits and requests from the Board of Directors and management.	Varies	150

### **Monitoring Activities**

Measure M Taxpayers Oversight Committee	FY11-601	Coordination of audit activities with the Audit Subcommittee of the Measure M Taxpayers Oversight Committee.	Monitoring	50
Radio Upgrade	FY11-602	Ongoing monitoring of ITMS upgrade by ACS and EigerTech.	Monitoring	25
Bus Base Inspections & Inventory Testing	FY11-603	Participation on base inspection teams and periodic testing of base inventory records.	Monitoring	40

### **Follow-up Reviews**

Follow-up reviews and reporting	FY11-700	Follow-up on audit findings and recommendations.		250
<b>Total Audit Project Planned Hours (A)</b>				<b>6,185</b>

### **Internal Audit Administration**

Board of Directors and Board Committee Meetings				300
Executive Steering Committee and Agenda Meetings				150
Internal Audit Department Staff Meeting				360
Other Administration				1,600
<b>Total Hours (B)</b>				<b>8,595</b>
<b>Target Efficiency (A/B)</b>				<b>72%</b>