



October 23, 2024

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Fiscal Year 2024-25 Internal Audit Plan, First Quarter Update

Overview

The Orange County Transportation Authority Board of Directors adopted the Orange County Transportation Authority Internal Audit Department Fiscal Year 2024-25 Internal Audit Plan on July 22, 2024. This report provides an update of activities for the first quarter of the fiscal year.

Recommendation

Receive and file the first quarter update to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2024-25 Internal Audit Plan as an information item.

Background

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

Internal Audit performs a wide range of auditing services that include overseeing the annual financial and compliance audits, conducting operational and contract compliance reviews, investigations, pre-award price reviews, and Buy America reviews. In addition, audits initiated by entities outside of OCTA are coordinated through Internal Audit.

Discussion

The OCTA Internal Audit Department Fiscal Year (FY) 2024-25 Internal Audit Plan (Plan) (Attachment A) reflects the status of each project.

During the first quarter of the FY, Internal Audit issued results of an audit of OC ACCESS services provided by First Transit, Inc. Based on the audit, oversight, contract compliance, and invoice review controls are generally adequate; however, four recommendations were made to correct contract and policy language, improve enforcement of contract provisions, enhance review of accident logs, and improve regularity of inspections. Management agreed to implement all of the recommendations.

Also, during the quarter, an audit of revenue agreement identification, tracking, and reporting was finalized and found that controls are adequate and functioning.

An audit of Agreement No. C-4-1816 with Woodruff & Smart (WS), for legal services, concluded that WS complies with the terms of the agreement and invoice review controls are generally adequate but should be enhanced to include verification that pre-approval of legal subcontractors is obtained as required by the contract. Management agreed to revise invoice review procedures to include this verification prior to payment.

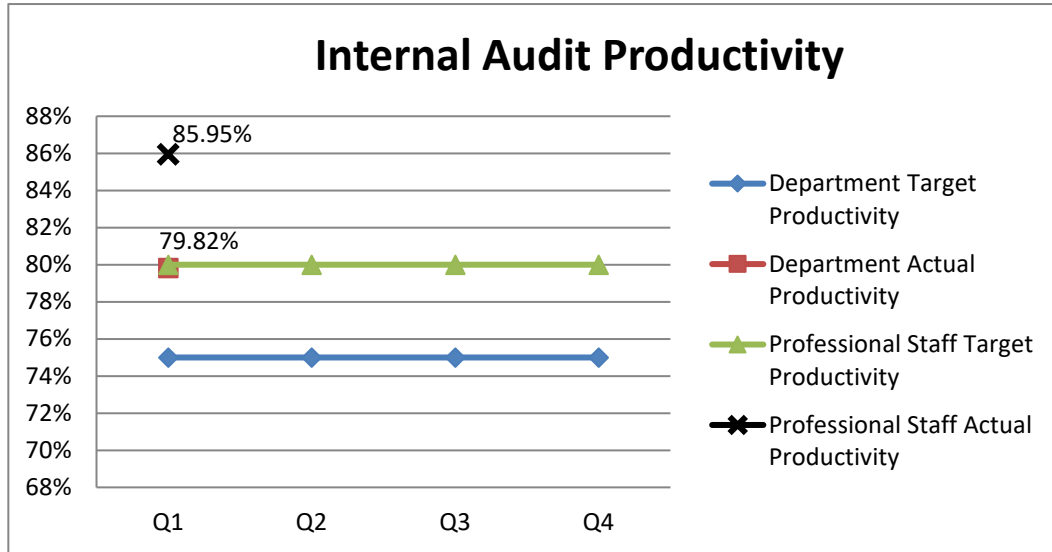
Finally, the semi-annual audit of investments for the period January 1 through June 30, 2024, was completed and found that OCTA complied with its debt, investment, and reporting policies and procedures; however, two recommendations were made to periodically update revenue estimates and to update the Treasury Department manual to reflect current practices. Management agreed and will implement these recommendations.

The primary focus of Internal Audit in the ensuing months will be to provide coordination of the annual financial audits and agreed-upon procedures reviews conducted by OCTA's independent auditor, Crowe LLP.

Internal Audit Productivity

Internal Audit measures the productivity of the department by calculating a productivity ratio. The ratio, used broadly throughout the audit industry, measures the amount of time auditors spend on audit projects versus time spent on administrative duties. Productivity goals are established for both the professional staff and for the department as a whole. Because the executive director regularly participates in non-audit management activities such as planning and committee meetings, the department-wide target is set at 75 percent. The target for internal audit professional staff, not including the executive director, is 80 percent.

For the first quarter ended September 30, 2024, Internal Audit achieved productivity of 80 percent, and the professional staff achieved productivity of 86 percent.



Price Reviews

At the request of the Contracts Administration and Materials Management (CAMM) Department, and consistent with OCTA’s procurement policy, Internal Audit applies agreed-upon procedures (AUP) to single-bid procurements to ensure that CAMM handled the procurement in a fair and competitive manner. Internal Audit also applies AUP’s to prices proposed by architectural and engineering firms, as well as sole source contractors, to ensure that the prices are fair and reasonable. During the first quarter, Internal Audit issued results of eight price reviews.

Buy America Reviews

At the request of CAMM, Internal Audit applies pre-award and post-delivery AUPs to revenue vehicle purchases to ensure compliance with Buy America regulations. During the first quarter, Internal Audit issued results of two Buy America reviews.

Fraud Hotline

During the quarter ended September 30, 2024, Internal Audit received three reports through OCTA’s Fraud Hotline, www.ethicspoint.com. Two complaints were referred to customer relations for follow-up and were resolved. Another complaint involved criminal allegations unrelated to OCTA and the reporter was

advised to contact the local police department. As part of the administration of the hotline, Internal Audit maintains documentation of each complaint and its disposition.

Internal Audit is committed to responding to all hotline complaints within eight business days. During the quarter ended September 30, 2024, Internal Audit made initial contact within two business days.

Findings and Recommendations Tracking

At the request of the Finance and Administration Committee, unresolved audit recommendations are included with the quarterly updates to the Plan (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 September 30, 2024, Internal Audit completed follow-up reviews of 23 outstanding recommendations and closed 15. Four recommendations from the audit of cybersecurity, one from the audit of physical access security, two from the audit of transit police services, and one from the audit of agreements with the Regional Center of Orange County and My Day Counts, had not been fully implemented and will be reviewed again in six months. Follow-up reviews of another four recommendations were in progress as of the quarter-end. Seven recommendations were added to the listing as a result of audits issued during the first quarter, as summarized above.

Summary

Internal Audit will continue to implement the Plan, report on performance metrics, follow up on outstanding audit recommendations, and report progress on a quarterly basis.

Attachments

- A. Orange County Transportation Authority Internal Audit Department
Fiscal Year 2024-25 Internal Audit Plan, First Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through
September 30, 2024
- C. Audit Recommendations Closed During First Quarter, Fiscal Year 2024-25

Approved by:



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

**Orange County Transportation Authority
Internal Audit Department
Fiscal Year 2024-25 Internal Audit Plan
First Quarter Update**

ATTACHMENT A

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours To Date	Under (Over)	Status (Date Issued)
Mandatory External Independent Audits							
Annual Financial Audits and Agreed-Upon Procedures (AUP) Reviews	FY25-001 through FY25-005	Coordinate and report on annual financial and compliance audits and AUP reviews for FY 2023-24.	Financial	425	73	352	
External Regulatory Audits	FY25-006	Coordinate and report on audits by regulatory or funding agencies.	Compliance	40	1	39	
State Triennial Review	FY24-007	Procure independent audit firm and coordinate and report on results of the required State Triennial Performance audits of the Orange County Transportation Authority (OCTA), Orange County Transit District, and Laguna Beach Municipal Transit Lines.	Compliance	220	48	172	
Internal Audit Department Projects							
Risk Assessment and Annual Audit Plan	FY25-100	Preparation of the annual audit plan, quarterly updates to the audit plan, and periodic assessment of risk throughout the year, including monitoring the audit results of related entities.	Audit Plan and Updates	180	14	166	
Quality Assurance and Self-Assessment	FY25-101	Update of Internal Audit Policies & Procedures to reflect Generally Accepted Government Auditing Standards (GAGAS). Annual self assessment of the Internal Audit Department's (Internal Audit) compliance with GAGAS.	Quality Assurance	160	53	107	
Fraud Hotline Activities	FY25-102	Administrative duties related to maintenance of the OCTA Fraud Hotline and work related to investigations of reports of fraud, waste, or abuse.	Fraud Hotline	120	5	115	
Peer Review	FY25-103	Participate in peer reviews of other internal audit agencies in exchange for reciprocal credit towards required peer review of OCTA's Internal Audit Department for calendar years 2022, 2023, and 2024. Report results of peer review to the Finance and Administration Committee and the Board of Directors (Board).	Peer Review	160	1	159	
Automated Workpaper Solution	FY25-104	System updates/training related to automated workpaper solution.	Workpaper System	40	1	39	
Internal Audits							
Organization-Wide							
Legal Services	FY25-503	Assess and test contract compliance and invoice review controls related to the contract with Woodruff and Smart for legal services.	Compliance	200	140	60	Issued 9-9-24
Express Lanes Program							
Operations and Management	FY24-508	Assess and test selected oversight, contract compliance, and/or invoice review controls related to the provision of services by Cofiroute USA, LLP.	Operational/ Compliance	200	92	108	In Process

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Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours To Date	Under (Over)	Status (Date Issued)
Toll Integrator System	FY25-5XX	Assess and test oversight, contract compliance, and invoice review controls related to the contract with Kapsch Trafficom USA, Inc., for the design, implementation, installation, operation, and maintenance of a toll collection system for the existing 91 Express Lanes and 405 Express Lanes.	Internal Control/ Compliance	220		220	
People and Community Engagement							
Compensation	FY25-507	Assess and test policies, procedures, and controls over employee compensation actions.	Operational	320	40	280	In Process
Public Outreach - OC Streetcar	FY25-5XX	Assess and test oversight controls, contract compliance, and invoice review controls related to the agreement for public outreach for the OC Streetcar project.	Internal Control/ Compliance	180		180	
Capital Programs							
Interstate 5 (I-5) Improvement Project: Oso Parkway to Alicia Parkway	FY25-501	Assess and test oversight controls, contract compliance, and invoice review controls related to the I-5 Improvement Project: Segment 2 - Oso Parkway to Alicia Parkway.	Internal Control / Compliance	320	266	54	In Process
Project Controls	FY25-5XX	Assess and test operating controls of the project controls function within the Capital Programs Division.	Operational	240		240	
Real Estate Administration	FY25-506	Assess and test real estate administration and controls, including management of contracts.	Operational	240	10	230	In Process
Operations							
OC ACCESS Service	FY24-512	Assess adequacy of oversight controls and test oversight, contract compliance, and invoice review controls related to the agreement with First Transit/TransDev for OC ACCESS transportation services.	Operational / Compliance	24	15	9	Issued 8-1-24
OC Streetcar Vehicles	FY25-5XX	Assess and test procurement, oversight, contract, and/or invoice review controls related to the contract with Siemens for OC Streetcar vehicles.	Operational / Compliance	280		280	
Contracted Fixed Route	FY25-5XX	Assess adequacy of oversight controls and compliance with key provisions of the agreement with Keolis North America, performance standards measurement and reporting, and invoice review controls.	Operational / Compliance	320		320	
Field Supervision	FY25-5XX	Evaluate and test field supervision activities for compliance with policies and procedures.	Operational	240		240	

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Finance and Administration							
Treasury	FY25-502	Semi-annual review of investments: compliance, controls, and reporting.	Compliance	250	190	60	1 Report Issued
Budget Development and Monitoring	FY25-5XX	Assess and test controls over budget development, monitoring and reporting.	Operational	240		240	
Revenue Agreements	FY24-513	Assess and test controls over identification, tracking, and reporting of external revenue agreements.	Operational	60	61	(1)	Issued 7-24-24
Investment Management Contracts	FY25-504	Assess and test oversight, contract compliance, and invoice review controls related to short-term investment management services provided by Chandler Asset Management, MetLife, Payden & Rygel, and PFM Asset Management, LLC.	Operational / Compliance	180	100	81	In Process
Purchasing Cards	FY25-505	Assess and test controls over purchasing card activities.	Operational / Compliance	240	117	123	In Process
Price Reviews	PR25-XXX	As requested by the Contracts Administration and Materials Management (CAMM) Department, apply AUP to sole source, single bid, and architectural and engineering firm proposals.	Price Review	700	93	607	
Buy America	FY25-5XX	As requested by the CAMM Department, apply AUP to determine compliance with Buy America requirements.	Buy America	320	150	170	2 Reports Issued

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Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours To Date	Under (Over)	Status (Date Issued)
Unscheduled Reviews and Special Requests							
Unscheduled Reviews and Special Requests	FY25-800	Time allowed for unplanned audits and requests from the Board or management.	Varies	180		180	
Monitoring Activities							
Measure M2 Taxpayer Oversight Committee (TOC)	FY25-601	Coordination of audit activities on behalf of the Audit Subcommittee of the TOC.	Administrative Support	50	5	45	
Metrolink Audit Activities	FY25-602	Review/monitor audit results of Metrolink activities.	Non-Audit Service	8		8	
Capital Asset Inventory Observation	FY24-604	At the request of the Finance and Administration Division, observe and apply limited procedures related to the bi-annual capital asset inventory counts.	Non-Audit Service	20	15	5	
Follow-Up Reviews							
Follow-Up Reviews and Reporting	FY25-700	Follow-up on the status of management's implementation of audit recommendations.	Follow-Up	320	198	122	
Total Audit Project Planned Hours (A)				6,697	1688	5,010	

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Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours To Date	Under (Over)	Status (Date Issued)
Internal Audit Administration							
Board and Committee Meetings				180	34	147	
Executive Steering and Agenda Setting Meetings				170	31	139	
Internal Audit Staff Meetings				150	66	85	
Other Administration				1,500	308	1,192	
Total Hours (B)				8,697	2,126		
Department Target Efficiency (A/B)				75%	79.82%		
Target Efficiency - Professional Staff				80%	85.95%		

Contingency Audits: Internal

Warranty Administration	FY25-5XX	Assess the adequacy and effectiveness of internal controls in place for identifying, tracking, and recording of warranty repairs and credits.					
Right-of-Way (ROW) Maintenance	FY25-5XX	Assess and test the adequacy and effectiveness of controls related to maintenance of the railroad ROW and the contract with Joshua Grading and Excavating Incorporated.					

**Outstanding Audit Recommendations
Audit Reports Issued Through
September 30, 2024**

ATTACHMENT B

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Internal Audit Status
1/26/22	21-511	Executive Office	Physical Access Security	Internal Audit recommends management develop and implement written policies, procedures, and protocols that address the timely issuance, termination, and use of badges. These procedures should be referenced in contracts with Contracted Transportation Services (CTS) providers and be communicated to Orange County Transportation Authority (OCTA) staff. Management should also ensure secondary controls are operating as intended.	Jan-25	Management is reviewing the issuance and termination of access badges in order to document processes. Management will work with other departments, including CTS, to advise of procedures for issuing and terminating access badges and encourage those departments to include procedures in their contracts, as appropriate. Additionally, management is currently reviewing and documenting procedures to ensure secondary controls are being utilized. Review and updating of procedures will conclude with the creation of a new Physical Access Policy to be completed by June 30, 2022.	<u>Update August 2022</u> : Management has not yet developed policies, procedures, and protocols to address timely issuance, termination, and use of access badges. An Access Control Policy (Policy) was originally expected to be completed by June 30, 2022, but has taken longer than expected. <u>Update March 2023</u> : Management expects an updated Policy to be completed soon, and updates to agreements with CTS providers are in process. <u>September 2023</u> : Significant progress has been made; however, monitoring controls outlined in the newly-developed Policy have not yet been implemented. <u>Update March 2024</u> : Monitoring controls related to access control have been implemented; however, further improvement is needed. <u>Update August 2024</u> : Management is updating distribution lists for the System Validation Report to ensure the appropriate managers receive the report and can validate access rights. Management expects improvements to be completed by October 2024.
2/9/22	21-507	Operations Division (Operations)	Facilities Maintenance (FM) Operations	Internal Audit recommends management implement a perpetual inventory system to track purchasing activity and maintain inventory of all parts and supplies. Purchasing, storage, issuance, and disposal activities should be centralized and include controls to ensure proper authorization for purchases, physical security of inventory items, and proper assignment of costs to work orders.	Aug-24	FM contracts for parts and supplies will be transferred to the Contracts Administration and Materials Management (CAMM) Department by July 2022. By February 2023, FM parts and supplies stored outside of CAMM's control will be brought into the inventory system for proper storage and issuance.	<u>Update September 2022</u> : Management has completed transferring contracts to CAMM and a process to bring FM parts inventory into CAMM for proper storage and issuance has been established and is on track to be completed by February 2023. <u>Update March 2023</u> : Management is still in the process of implementing a centralized inventory system and expects that physical transfer of all inventory may take up to two years. <u>Updated August 2023</u> : Management is still in the process of transferring parts inventory to centralized CAMM control. <u>Update March 2024</u> : FM inventory for three bases has been transferred to centralized inventory. Transfer of inventory from the remaining two bases is expected to take six months to a year. <u>Update September 2024</u> : Follow-up in process.

**Outstanding Audit Recommendations
Audit Reports Issued Through
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Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Internal Audit Status
2/9/22	21-507	Operations and Finance and Administration Division (F&A)	FM Operations	Management should enhance its invoice review process to ensure compliance with OCTA's Vendor Payment Policy and contract payment terms. Vendor mark-ups should be discontinued from time-and-expense contracts. For contracts related to the purchase of parts and materials only, any items not listed on the price summary sheet should include supporting cost documentation. If mark-ups are to be allowed on parts-and-materials contracts, the proposed mark-ups should be incorporated into the evaluation of costs during the vendor selection process.	Aug-24	Management will immediately begin working on enhancing the current invoice cover page to include a checklist that will require acknowledgement of review for sufficient detail as to quantity and rates of costs and justification. To address the issue of providing sufficient detail and complying with contract terms, the checklist being developed will improve oversight. In terms of discontinuing vendor mark-ups in time-and-expense contracts, management will work with CMM to develop a solution that will address the issue of vendor mark-ups as well as incorporating an evaluation of cost, if mark-ups are allowed, during the vendor selection process.	<p><u>Update September 2022</u>: Management has enhanced the invoice checklist to include review for sufficient detail as to quantity and rates. CMM has implemented an evaluation methodology to assign a percentage of the cost score for items not listed on the price summary sheet. Management and CMM continue to explore options including discounts from price sheets and using fair market values to justify and validate price mark-ups.</p> <p><u>Update March 2023</u>: FM has enhanced its invoice review; however, CMM staff needs to enhance its review of invoices for contracts that have been transferred to their control. <u>Update August 2023</u>: CMM staff has implemented an invoice review checklist; however, Internal Audit identified some payments that do not comply with contract terms and some vendors that do not have published list prices, required in order to validate discounts.</p> <p><u>Update March 2024</u>: CMM has hired a contract analyst to manage and review invoices and implement enhancements to invoice review.</p> <p><u>Update September 2024</u>: Follow-up in process.</p>
5/31/23	22-513	F&A	OCTA's Cybersecurity Program	Management should adopt and implement a policy that governs asset management and associated activities.	Jan-25	Management agreed to develop and implement a policy.	<p><u>Update February 2024</u>: Management has drafted requirements of an asset management system and plans to utilize a module of the FreshService system (system). Once implemented, an Asset Management Policy will be developed and implemented by October 2025. <u>Update August 2024</u>: Management has launched the system and is in the process of collecting data for all computing assets. Management expects full implementation, including a finalized policy, to be complete by October 31, 2025.</p>

**Outstanding Audit Recommendations
Audit Reports Issued Through
September 30, 2024**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Internal Audit Status
5/31/23	23-509	F&A	OCTA's Cybersecurity Program	Management should implement a comprehensive vulnerability management program that includes identifying, assessing, prioritizing, remediating, and/or documenting vulnerabilities as "accepted risks" in a timely manner.	Jan-25	Management agreed and indicated that the current Vulnerability Policy will be enhanced and all issues will be remediated or documented as "accepted risks" in a timely manner going forward.	<u>Update February 2024:</u> Management is working to build dashboards to identify vulnerabilities and a reporting system to monitor remediation efforts. Management estimates full implementation of this recommendation by June 2024. <u>Update August 2024:</u> The estimated completion date has been extended due to delays in procuring a consultant to conduct health check services. Dashboards to assist in prioritizing vulnerabilities will then be developed. The revised expected completion date is October 31, 2024.
5/31/23	23-509	F&A	OCTA's Cybersecurity Program	Management should update OCTA's Business Impact Analysis with direct input from the Cybersecurity Office and use results to inform the development, implementation, and maintenance of an updated Continuity of Operations Plan (COOP) and Disaster Recovery Plan (DRP), and test the DRP annually.	Jan-25	Management responded they are currently working with the SEP Department to review and update the COOP. Management plans to create playbooks to further improve the business continuity and disaster recovery processes to ensure business requirements are met.	<u>Update February 2024:</u> Management indicated that an initial portion of the disaster recovery runbook of core infrastructure applications has been completed and that a tabletop exercise of the incident response plan is planned for June 2024. Management will obtain an updated COOP and update its disaster systems recovery plans accordingly and implement annual testing of data and critical systems recovery by July 2024. <u>Update August 2024:</u> An updated COOP was delivered in May 2024 and management is updating the recovery runbook to restore applications. A tabletop exercise was completed in June 2024. Full implementation is expected by September 30, 2024.
5/31/23	23-509	F&A	OCTA's Cybersecurity Program	Management should strengthen the data protection and privacy program by adopting a comprehensive policy, designating an individual to define and communicate data and privacy requirements, and perform user access reviews at least every 90 days for all internal employees and third party contractors that have OCTA user accounts and/or access to internal resources.	Jan-25	Management committed to implementing a comprehensive data protection and privacy program for all protected data and to designate the cybersecurity manager as the individual responsible to define and communicate data and privacy requirements. In addition, management agreed to implement user access reviews at least every 90 days.	<u>Update February 2024:</u> Management indicated they have begun to meet with departments that handle protected data to identify where the data is stored and who has access. Once completed, management plans to develop policies and processes to properly secure such data. In addition, management is working with Microsoft to implement a governance platform to control user access during the entire employment life cycle. Management estimates full implementation by April 30, 2025. <u>Update August 2024:</u> Management continues to work on identifying protected data and the users that should have access to the data. Work on implementing a governance platform is in progress and full implementation is expected by April 2025.

**Outstanding Audit Recommendations
Audit Reports Issued Through
September 30, 2024**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Internal Audit Status
11/14/23	24-502	Operations and F&A	Cooperative Agreements with Regional Center of Orange County (RCOC) and My Day Counts (MDC)	Management should implement procedures to investigate and take action to address RCOC disputed trips and ensure timely submission and receipt of payments and related credit memos. Accounts Receivable (AR) staff should communicate with RCOC to obtain sufficient information to ensure payments are accurately recorded, remaining errors are corrected, and input a due date on invoices. AR staff should also establish a process to monitor and collect overdue balances.	Nov-24	RCOC billing procedures have been improved and disputed trips are now investigated and reconciled. The new process includes a tracking log to ensure timely submission of invoice requests. The new process should eliminate the need for credit memos. AR staff will communicate directly with RCOC to correct remaining errors and ensure due dates are included on all future invoices. Staff has also established a process for monitoring overdue balances and notifying project managers accordingly.	<u>Update July 2024:</u> Management has improved billing procedures and invoice balances have been substantially cleared. Under a newly implemented process there will be no need for credits. Management implemented new procedures for collection; however, the procedures require improvement to include aging categories and outline, and communicate responsibilities of project managers for follow-up. As such, Internal Audit will follow-up again in six months.
12/5/23	24-503	Executive Office	Transit Police Services (TPS)	Management should implement a process to evaluate, estimate, and document the methodology of assigning TPS costs on an annual basis. Management should also consider implementing a process to accumulate and report all costs of providing transit security.	Dec-24	Management will collaborate with the Orange County Sheriffs-Coroner Department to estimate and document contract costs on an annual basis. In addition, management will work with the Financial Planning and Analysis (FP&A) Department to ensure the ability for each department responsible for an aspect of providing or supporting TPS, to accumulate and consolidate transit security costs for a better understanding of the overall cost of transit security. Management will work with Financial Planning and Analysis to consolidate TPS associated costs and reporting by July 2024.	<u>Update August 2024:</u> Management is coordinating with FP&A to implement a process to periodically review contract cost allocations for reasonableness and make adjustments as necessary. Management is also working with FP&A and Maintenance Resource Management to implement a process to accumulate all costs of providing transit security.
12/5/23	24-503	Executive Office	TPS	Management should implement procedures to document agreements for enhanced services, including the type, time, and place of services, and obtain a cost estimate for services. Management should reconcile invoices for special services to these documents and obtain support, or include in the contract, the rates to be charged prior to authorizing payment.	Dec-24	Management will establish procedures to better document the estimates, agreed cost, and occurrence of special services performed. Management will also seek rates for services to be documented in annual contract amendments moving forward with the 2024-2025 TPS contract amendment. Work should conclude by May 2024.	<u>Update August 2024:</u> Management has obtained annual cost estimate memos from TPS that document each type of enhanced service, the overtime billing rates by position, and the estimate of hours and positions required for each service; however, the contract requires documentation of the type, time, and place for each of these services, as scheduled, along with a cost estimate. Management should obtain a memo with all of the required information for each of the scheduled services.

**Outstanding Audit Recommendations
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Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Internal Audit Status
3/11/24	24-506	People and Community Engagement Division (PACE)	College Pass Program	Agreements should be amended to accurately reflect all responsibilities and requirements for program operation, and management should enforce agreement requirements. Management should also develop, document, and implement procedures for administration of the program, including procedures for verifying the reasonableness of enrollment data provided by colleges for invoicing purposes and timely preparation of invoices. Management should implement procedures developed in December 2023, to monitor and collect outstanding receivables.	Sep-24	Management agrees that the agreements need to be more specific to each college, and procedures need to be formalized to administer the program beyond the pilot phase. Management will review and enhance agreement language by August 31, 2024. In addition, management will ensure the documentation and implementation of specific procedures for each aspect of program administration and will outline specific responsibility area(s) for program implementation and oversight by September 30, 2024.	<u>Update September 2024</u> : Follow-up in process.
3/11/24	24-506	PACE	College Pass Program	Internal Audit recommends management update agreements to include requirements for security, inventory, distribution, and reporting of paper passes and implement monitoring controls to ensure colleges are complying with the requirements. Management should also strengthen controls to ensure all college bus passes are properly coded in the system.	Sep-24	Management will develop improved controls and a formal procedure for paper pass distribution to ensure proper security, accurate coding, reporting, and reconciliation, and amend agreements to include the procedures.	<u>Update September 2024</u> : Follow-up in process.
4/9/24	24-507	Capital Programs Division	Interstate 405 Improvement Project: Design-Build Contract	Internal Audit recommends that management file stop payment and release notices, daily extra work reports, and supporting tickets, and other supporting documentation with the invoice payment records. Also, management should ensure meeting minutes with sign-in sheets are consistently filed in the project files.	Oct-24	Management agrees and will work with F&A to include relevant supporting documents with invoice records going forward. Management will also ensure minutes and sign-in sheets are consistently filed with the project files.	
5/29/24	24-511	PACE	Flexible Spending Account Program	Management should implement a process for regular tracking of custodial account contributions, distributions, and running account balance and ensure the balance is updated for purposes of financial reporting.	Nov-24	Management will create a process to ensure the balance is updated and reported to accounting at the end of each fiscal year. In addition, a process will be established to regularly track account balance and activities.	

**Outstanding Audit Recommendations
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8/1/24	24-512	Operations	OC ACCESS Service	Management should revise the performance standards exhibit in the contract to reflect the correct 5,000-mile Preventative Maintenance Interval (PMI) and adjust the miles in the penalty column accordingly. Management should also enforce prior approval requirements for repair or replacement of major mechanical components.	Feb-25	Management will amend the contract as recommended and will reiterate the prior approval requirements with First Transit.	
8/1/24	24-512	Operations	OC ACCESS Service	Management should implement a secondary review of the accident log to ensure all accidents are correctly classified.	Feb-25	Management will create and implement a formal review report and confirm the receipt and classification of each incident.	
8/1/24	24-512	Operations	OC ACCESS Service	Management should perform inspections in accordance with the established frequency schedule.	Feb-25	Management will perform inspections in accordance with the established frequency schedule and will implement a review to confirm that inspections have taken place.	
8/1/24	24-512	F&A	OC ACCESS Service	Management should enforce the requirement to include "Approval to Pay Invoice" in the email subject line when forwarding an invoice for payment, or should revise the policy to remove this requirement.	Feb-25	Management will remove this requirement from the policy.	
9/9/24	25-503	F&A, PACE, and Executive Office	Agreement No. C-4-1816 with Woodruff & Smart for Legal Services	Management should enhance invoice review controls to include verification that pre-approval of legal subcontractors was obtained as required.	Mar-25	Management will update invoice review procedures to include the recommended verification.	
9/13/24	25-502	F&A	Investments: Compliance, Controls, and Reporting January 1 through June 30, 2024	Management should implement a process to periodically update revenue estimates.	Mar-25	Management will update the estimates based on the adopted budget each year.	
9/13/24	25-502	F&A	Investments: Compliance, Controls, and Reporting January 1 through June 30, 2024	Management should update the Treasury manual to reflect current practices.	Mar-25	Management will update the manual as recommended.	

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ATTACHMENT C

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Internal Audit Status Comments
1/26/22	21-511	Executive Office	Physical Access Security	The Internal Audit Department (Internal Audit) recommends the Security and Emergency Preparedness (SEP) Department management develop, maintain, and test a comprehensive, appropriate, and up-to-date set of physical security plans, policies, and procedures. A written Access Control Policy and related procedures should be developed and published, and management should address requirements included in the Physical Security Policy for implementing gate controls at all facilities. Finally, management should implement a regular training program to inform employees as to security policies, procedures, and protocols.	<u>Update August 2022</u> : Updates to security plans, policies, and procedures have not yet been prepared and are expected to be completed between August and December 2022. <u>Update March 2023</u> : Certain policy updates are in process. Development of an updated Master Security Plan (MSP) has been delayed and is now expected to be complete by the end of 2023. <u>Update September 2023</u> : Significant progress has been made; however, development of a MSP and a physical security training program are not yet complete. The contractor has experienced delays in producing these deliverables. <u>Update March 2024</u> : A final draft of the MSP was delivered in November 2023 but has not been finalized, and signed/accepted by the Chief Executive Officer. A training program has been implemented starting in the first quarter of 2024. <u>Update August 2024</u> : The MSP was finalized and accepted by the Chief Executive Officer on July 27, 2024.
5/8/23	23-508	Planning Division (Planning)	Measure M2 Comprehensive Transportation Funding Programs (CTFP) Project Audits	Management should enforce timely use of funds requirements or obtain Board of Directors' (Board) approval for exceptions to CTFP guidelines.	<u>Update February 2024</u> : Management's response indicated that staff is currently conducting an off-cycle review to update timely use of funds requirements and contract award verbiage, and that presentation of the revisions to the Board has been delayed to spring 2024. <u>Update July 2024</u> : Management updated CTFP guidelines to revise timely use of funds requirements, allowing for encumbrance dates to be reset at each phase of a project. Board approval of the revised guidelines was obtained in May 2024.
5/8/23	23-508	Planning	Measure M2 CTFP Project Audits	Management should perform follow-up with the County of Orange (County) and the cities of Costa Mesa, Laguna Beach, and San Clemente on actions taken to address recommendations, including repayment of overcharges and duplicate charges by the City of Laguna Beach.	<u>Update February 2024</u> : Management response indicated staff was in communication with the City of Laguna Beach to recover amounts due related to overcharges and indirect cost charges and to recalculate indirect costs; however, no evidence of communication was provided and city staff indicated no communications have occurred. Follow-up with the County and other cities has been performed. <u>Update July 2024</u> : Management provided evidence of follow-up with cities and has obtained repayment of overcharges and duplicate charges from Laguna Beach.
5/31/23	23-509	Finance and Administration Division (F&A)	Orange County Transportation Authority (OCTA) Cybersecurity Program	Management should strengthen third-party security management by requiring third-party consultants working with OCTA data to be subject to the same training as OCTA employees and be required to acknowledge OCTA information technology and cybersecurity policies. In addition, access reviews of these third-party consultants should be conducted.	<u>Update February 2024</u> : Management has compiled a list of third-party vendors, along with contact information for each, and has developed a questionnaire for distribution to vendors. The Information Systems (IS) cybersecurity team will review responses and follow-up accordingly. This process will be repeated annually. In addition, IS has implemented a process to ensure all consultants/vendors receive and acknowledge cybersecurity training prior to being granted credentials in OCTA. Management estimates 75 percent progress to-date and full completion by March 2024. <u>Update August 2024</u> : Management provided evidence of communications with vendors and receipt and review of vendor responses.
8/7/23	23-505	People and Community Engagement Division (PACE)	Life Insurance Benefits	Management should develop procedures to ensure that benefit entries into the payroll system are reviewed for accuracy and the monthly invoice process be enhanced to include reconciliation of premiums collected versus premiums paid.	<u>Update February 2024</u> : Management responded that enhanced procedures have been implemented; however, since VOYA has not provided invoices for January and February 2024, Internal Audit was unable to confirm new procedures are being performed. <u>Update August 2024</u> : Management has implemented the new procedures for validating premium invoice payments and is reviewing system entries as recommended.

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8/7/23	23-505	PACE	Life Insurance Benefits	Management should implement controls to properly coordinate the timing of annual premium updates and calculation and processing of invoices to ensure accuracy. Additionally, management should reconcile the employee payroll deductions for supplemental life insurance with the payroll system data detailing premiums paid to VOYA and investigate any variances	<u>Update February 2024:</u> Management responded that controls to ensure timely system updates have been implemented and will reconcile premiums to payroll deductions; however, since VOYA has not provided invoices for January and February 2024, Internal Audit was unable to confirm new control procedures are being performed. <u>Update August 2024:</u> Management has updated its invoice process to include a three-way reconciliation between the invoice template-calculated premiums, the Human Resources Information System-calculated premiums, and the Lawson system Paycheck Deduction Report.
8/31/23	23-516	PACE	Bus Advertising Revenue Program	Management should implement controls to verify accurate and complete reporting of revenues, enforce reporting requirements, monitor free advertisements, and require the contractor to certify statements and the project manager to document reviews.	<u>Update March 2024:</u> The project manager now verifies that remittances include required certification language and details as to bonuses. Also, management has documented procedures for a semi-annual verification of a sample of underlying advertising contracts. However, since these procedures have not yet been implemented, Internal Audit will follow-up again in six months to confirm procedures. <u>Update September 2024:</u> Management is enforcing requirements for contractor certification on invoices and reporting of bonuses. Management has also implemented a semi-annual verification process for advertising contracts to review advertising sales, insertion date, and quantity.
11/14/23	24-502	Operations Division (Operations)	Cooperative Agreements with Regional Center of Orange County (RCOC) and My Day Counts (MDC)	Management should reconsider the current arrangement with MDC and, if continued, should amend contracts with RCOC and MDC to obligate RCOC to pay OCTA for pass-through amounts and to ensure disputed amounts are charged to MDC. Evaluation of per-trip subsidy amounts should include consideration of the pass-through payments going forward. Also, pass-through payment arrangements should be approved by the Board going forward. Management should also consider recovering from MDC amounts paid by OCTA for which RCOC reimbursement was not obtained.	<u>Update September 2024:</u> The pass-through arrangement with MDC has been discontinued.
11/14/23	24-502	Operations and F&A	Cooperative Agreements with RCOC and MDC	Accounts Payable (AP) staff should ensure that invoices are properly authorized and verify that invoices are applied to the current agreement, and Accounts Receivable staff should ensure invoices are created against the current agreement. Operations should review invoices from MDC and reconcile trips before submitting invoices for payment.	<u>Update September 2024:</u> Refresher training on correct signature authority has been provided to AP staff, and a system control has been implemented to issue a warning when an invoice is posted to an expired agreement. In addition, Operations implemented new billing procedures to perform data reconciliation in advance of payment to MDC.
12/5/23	24-503	Executive Office	Transit Police Services (TPS)	Management should ensure annual work plans are developed and documented as required by the contract.	<u>Update August 2024:</u> An annual work plan for 2024 was developed and documented as outlined in the contract.
12/5/23	24-503	Executive Office	TPS	Management should strengthen controls over canine-related expense tracking and ensure all eligible costs are identified and submitted for grant reimbursement. Management should also review fiscal year (FY) 2022-23 eligible expenses that were not submitted and request reimbursement.	<u>Update August 2024:</u> Management claimed and received \$11,889.05, in grant reimbursement for costs not previously claimed. The recommendation to improve tracking of grant-reimbursable expenses is no longer applicable, as the Transportation Security Administration Canine Program was defunded by Congress as of April 30, 2024.

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1/15/24	23-504	F&A	AP Operations	Management should separate the ability to create or edit vendors from the ability to process payments, require a Computer Access Request form for all user access requests, enhance the annual accounting system access review, and restrict the number of users granted administrative rights in the accounting system.	<u>Update August 2024</u> : Management has developed a policy to ensure access requests are reviewed by Accounting Department management for approval. The number of system administrators has been reduced and segregation of duties is now being enforced as recommended.
1/15/24	23-504	F&A	AP Operations	Management should review and update the Payment Request (PR) Policy, as necessary, and consider updating the PR form to include a checklist and details as to the types of allowable payments. Project managers should also be reminded of the proper use of PR's and staff should not process exceptions without approval.	<u>Update August 2024</u> : Management updated the PR Policy and the PR Form (PRF) to increase the PR threshold amount to \$5,000, and additional clarity was provided to the exception category descriptions. Further, the PRF has been enhanced to include a checklist for payment type and a drop-down box for exception categories when the payment request amount is over \$5,000. The PR Policy was distributed to all project managers.
3/13/24	24-509	F&A	Investments: Compliance, Controls, and Reporting: July 1 through December 31, 2023	Internal Audit recommends management utilize month-end bank statements when preparing monthly reports.	<u>Update August 2024</u> : Management is now reconciling the report amounts to the bank statements.
3/13/24	24-509	F&A	Investments: Compliance, Controls, and Reporting: July 1 through December 31, 2023	Internal Audit recommends OCTA discontinue paying fees associated with accounts whose portfolio values are not automatically updated in the Clearwater system.	<u>Update August 2024</u> : Beginning in March 2024, Clearwater excluded the portfolio values of these accounts from its calculation of fees.