



January 22, 2025

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, Second 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 on activities for the second quarter of the fiscal year.

Recommendation

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

During the second quarter of the FY, Internal Audit issued results of an audit of design and construction management contracts for the Oso Parkway to Alicia Parkway segment of the Interstate 5 Improvement Project. Based on the audit, oversight controls are in place and operating effectively and contract compliance and invoice review controls are generally adequate; however, one recommendation was made to enforce contract pre-approval requirements for other direct costs not included in the contract schedule. Management agreed to remind the consultant about this requirement and to make every effort to ensure the inclusion of all potential other direct costs in the contract schedule.

Also, during the quarter, an audit of investment manager contracts was finalized and concluded that oversight, contract compliance, and invoice review controls are generally adequate; however, two recommendations were made to improve compliance with contract terms related to replacing key personnel and to improve the timeliness of invoice processing. Management agreed to remind investment managers of the requirements for replacing key personnel, to periodically verify key personnel, and to enhance controls to ensure timely payment of invoices.

An audit of purchasing cards found that controls to ensure transactions are valid, allowable, authorized, and in compliance with policies, and procedures are generally adequate. One recommendation was made to update policies and practices to better ensure compliance and avoid errors. Management agreed to make recommended updates to procedures.

A planned audit of OC Streetcar vehicles has been placed on hold on the advice of legal counsel and to comply with Government Auditing Standards requiring Internal Audit to consider interference with possible legal proceedings.

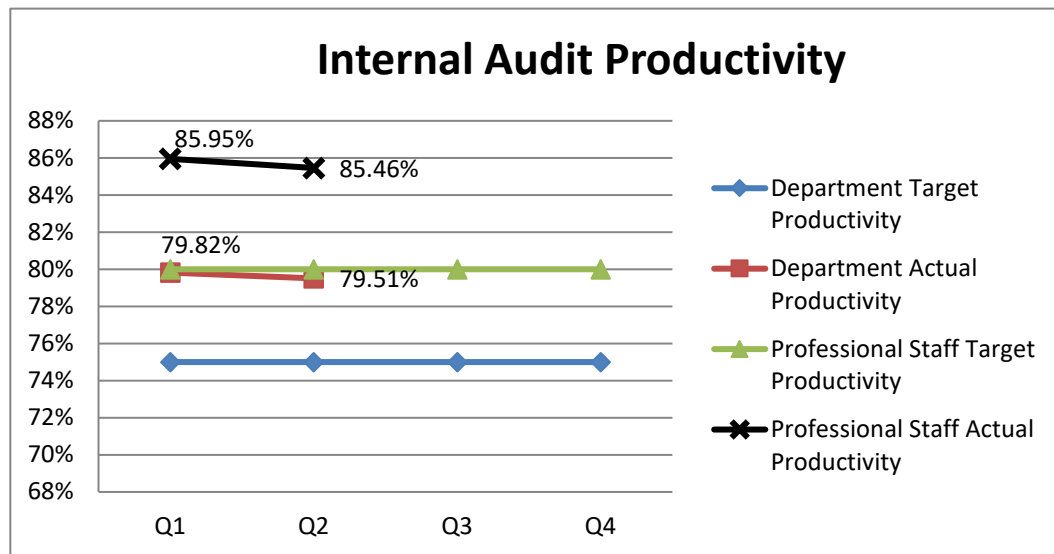
Another focus of Internal Audit during the quarter was to provide coordination and assistance related to the annual financial audits and agreed-upon procedures reviews (reviews) conducted by OCTA's independent financial statement auditor, Crowe LLP. All audits and reviews, except the Measure M2 (M2) compliance audit and the reviews related to individual cities, were issued during the quarter. The M2 compliance audit and city reviews will be performed and issued during the third quarter.

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.

As of the second quarter, ended December 31, 2024, Internal Audit has achieved productivity of 80 percent, and the professional staff have 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 AUPs to prices proposed by architectural and engineering firms and sole source contractors to ensure that the prices are fair and reasonable. During the second quarter, Internal Audit issued results of eight price reviews.

Internal Audit Quality Assurance/Management

During the quarter, Internal Audit evaluated newly issued Government Auditing Standards and designed and implemented procedures to comply with requirements for an internal quality management system.

Fraud Hotline

During the quarter ended December 31, 2024, Internal Audit received five reports through OCTA's Fraud Hotline, www.ethicspoint.com. Two complaints were referred to customer relations for follow-up. Another complaint was referred to human resources, and two complaints lacked sufficient information to perform follow-up or investigation. 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 December 31, 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 December 31, 2024, Internal Audit completed follow-up reviews of nine outstanding recommendations and closed two. Four recommendations from the audits of facilities maintenance and the college pass program have not yet been fully implemented and will be reviewed again in six months. Follow-up review of three recommendations is in process as of 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, Second Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through
December 31, 2024
- C. Audit Recommendations Closed During Second 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
Second Quarter Update**

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	210	215	In Process
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	87	133	In Process
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	32	148	
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	73	87	
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	12	108	8 Reports Received
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	2	158	
Automated Workpaper Solution	FY25-104	System updates/training related to automated workpaper solution.	Workpaper System	40	6	34	
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	398	(198)	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	314	7	In Process
Public Outreach - OC Streetcar	FY25-512	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	271	49	Issued 10-10-24
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	218	22	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	FY25-509	Assess and test procurement, oversight, contract, and/or invoice review controls related to the contract with Siemens for OC Streetcar vehicles.	Operational / Compliance	280	21	259	ON HOLD
Contracted Fixed Route	FY25-510	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	31	289	In Process
Field Supervision	FY25-508	Evaluate and test field supervision activities for compliance with policies and procedures.	Operational	240	171	70	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)
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	102	79	Issued 10-11-24
Purchasing Cards	FY25-505	Assess and test controls over purchasing card activities.	Operational / Compliance	240	341	(101)	Issued 11-22-24
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	303	398	16 Reports Issued
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

**Orange County Transportation Authority
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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	8	42	
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	280	40	
Total Audit Project Planned Hours (A)				6,697	3450	3,247	

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Second Quarter Update**

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	76	105	
Executive Steering and Agenda Setting Meetings				170	61	109	
Internal Audit Staff Meetings				150	104	46	
Other Administration				1,500	660	840	
Total Hours (B)				8,697	4,351		
Department Target Efficiency (A/B)				75%	79.51%		
Target Efficiency - Professional Staff				80%	85.46%		

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
December 31, 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 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. <u>Update March 2023</u> : Management expects an updated Access Control Policy (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 that 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.	Feb-25	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. The current Enterprise Asset Management (EAM) system is not capable of assigning all costs to FM work orders; however, a new EAM system is being implemented and should be capable of properly assigning costs to work orders. The new EAM system is estimated to be fully implemented in mid-2023.	<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. As stated in the original response, the current asset management system is not capable of assigning all costs to work orders. A new system will be implemented in mid-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 from three of the five bases has been transferred to the centralized inventory system. <u>Update September 2024</u> : FM inventory for four bases has been transferred. Inventory from the last base should be transferred within six months.

Outstanding Audit Recommendations
Audit Reports Issued Through
December 31, 2024

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.	Feb-25	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 CAMM 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. CAMM has implemented an evaluation methodology to assign a percentage of the cost score for items not listed on the price summary sheet. Management and CAMM 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, CAMM staff needs to enhance its review of invoices for contracts that have been transferred to their control. <u>Update August 2023:</u> CAMM 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> CAMM has hired a contract analyst to manage and review invoices and implement enhancements to invoice review.</p> <p><u>Update September 2024:</u> Management has developed price validation procedures; however, the procedures are not being applied consistently on every invoice. Internal Audit encouraged staff to include documentation evidencing price validation in the invoice payment package.</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
December 31, 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
December 31, 2024

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Internal Audit Status
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 Sheriff's-Coroner Department to estimate and document contract costs on an annual basis. In addition, management will work with the Financial Planning and Analysis 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 Financial Planning and Analysis Department (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. <u>Update December 2024:</u> In process.
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. <u>Update December 2024:</u> In process.
3/11/24	24-506	Operations	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.	Mar-25	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> Management has updated agreements with some colleges; however, the agreement with Golden West College has not been tailored to address its annual fee structure. Agreements with the remaining colleges are in the process of update. Procedures for administration and oversight of the program are also underway.

**Outstanding Audit Recommendations
Audit Reports Issued Through
December 31, 2024**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Internal Audit Status
3/11/24	24-506	Operations	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.	Mar-25	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> Management has developed paper pass procedures and incorporated these into four out of seven agreements. The remaining three agreements are in the process of being updated. Management has also strengthened controls to ensure passes are properly coded, and to monitor usage.
5/29/24	24-511	People and Community Engagement (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.	<u>Update December 2024:</u> In process.
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.	

**Outstanding Audit Recommendations
Audit Reports Issued Through
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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.	

**Audit Recommendations Closed During
Second Quarter, Fiscal Year 2024-25**

ATTACHMENT C

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Internal Audit Status Comments
11/14/23	24-502	Operations Division and Finance and Administration	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.	<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. <u>Update November 2024</u> : The Accounting and Financial Reporting Department has updated procedures to include a requirement to notify the project manager to take actions for invoices in the >180 days and >1 year categories, along with examples of appropriate action.
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.	<u>Update October 2024</u> : Management is including stop payment release notices, daily extra work reports, and supporting work tickets with the invoice payment records filed in the accounting system. Meeting minutes have been added to the project files.