



AGENDA

Finance and Administration Committee Meeting

Committee Members

*Bill Campbell, Chairman
Carolyn Cavecche, Vice Chairman
Patricia Bates
Arthur C. Brown
Peter Buffa
Dan Hansen
John Moorlach*

*Orange County Transportation Authority Headquarters
600 South Main Street, First Floor - Room 154
Orange, California
Wednesday, February 17, 2010, at 9:00 a.m.*

Any person with a disability who requires a modification or accommodation in order to participate in this meeting should contact the OCTA Clerk of the Board, telephone (714) 560-5676, no less than two (2) business days prior to this meeting to enable OCTA to make reasonable arrangements to assure accessibility to this meeting.

Agenda descriptions are intended to give members of the public a general summary of items of business to be transacted or discussed. The posting of the recommended actions does not indicate what action will be taken. The Committee may take any action which it deems to be appropriate on the agenda item and is not limited in any way by the notice of the recommended action.

All documents relative to the items referenced in this agenda are available for public inspection at www.octa.net or through the Clerk of the Board's office at the OCTA Headquarters, 600 South Main Street, Orange, California.

Call to Order

Invocation

Committee Chairman Campbell

Pledge of Allegiance

Director Hansen

1. Public Comments

Special Calendar

There are no Special Calendar matters.



AGENDA

Finance and Administration Committee Meeting

Consent Calendar (Items 2 through 7)

All items on the Consent Calendar are to be approved in one motion unless a Committee Member or a member of the public requests separate action or discussion on a specific item.

2. Approval of Minutes

Of the January 27, 2010, Finance and Administration Committee meeting.

3. Audit Responsibilities of the Finance and Administration Committee

Kathleen M. O'Connell

Overview

The Finance and Administration Committee of the Board of Directors of the Orange County Transportation Authority has functioned as an audit committee in its oversight of audit activities. In December 2007, the Board of Directors adopted Audit Responsibilities of the Finance and Administration Committee to formally establish the responsibilities of the Finance and Administration Committee with regard to audits. The responsibilities include an annual affirmation of the roles and responsibilities of the Finance and Administration Committee in fulfilling this function.

Recommendation

Affirm the Audit Responsibilities of the Finance and Administration Committee.

4. Evaluation of Independent Auditor and Consideration of Contract Amendment to Extend Audit Services through the Fiscal Year Ending June 30, 2010

Kathleen M. O'Connell

Overview

The Internal Audit Department has prepared an evaluation of the Orange County Transportation Authority's independent auditor, Mayer Hoffman McCann P.C. and, based on the evaluation, is recommending that the Board of Directors authorize the execution of an amendment to Agreement No. C-6-0667 to exercise the first option term to provide audit services for the fiscal year ending June 30, 2010.



AGENDA

Finance and Administration Committee Meeting

4. (Continued)

Recommendations

- A. Approve draft evaluation findings and comments prepared by the Internal Audit Department for the Finance and Administration Committee.
- B. Authorize the Chief Executive Officer to execute Amendment No. 4 to Agreement No. C-6-0667 between the Orange County Transportation Authority and Mayer Hoffman McCann P.C., to exercise the first option term, in an amount not to exceed \$339,500, for the annual financial audit for the fiscal year ending June 30, 2010, for a total contract amount of \$1,307,380.

5. Orange County Transportation Authority Internal Audit Department Peer Review Report

Kathleen M. O'Connell

Overview

An external quality assurance, or peer, review has been completed of the Internal Audit Department of the Orange County Transportation Authority. The peer review found that the Internal Audit Department's quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with Government Auditing Standards for the year ended December 31, 2009. The peer review team also provided a management letter with recommendations to further strengthen the internal quality control system.

Recommendation

Direct the Internal Audit Department to implement recommendations provided by the Association of Local Government Auditors in a letter dated February 5, 2010.

6. Investments: Compliance, Controls, and Accounting, January 1 through June 30, 2009

Kathleen M. O'Connell

Overview

The Internal Audit Department has completed a review of investments for the period January 1, 2009 through June 30, 2009. Based on the review, it appears that the Orange County Transportation Authority is in compliance with its debt, investment, and accounting policies and procedures. There were no audit findings or recommendations resulting from this review.



AGENDA

Finance and Administration Committee Meeting

6. (Continued)

Recommendation

Receive and file Investments: Compliance, Controls, and Accounting, January 1 through June 30, 2009, Internal Audit Report No. 10-505.

7. Second Quarter Fiscal Year 2009-10 Procurement Status Report Virginia Abadessa/Ken Phipps

Overview

The second quarter procurement status report summarizes the procurement activities for information purposes to the Orange County Transportation Authority Board of Directors. This report focuses on procurement activity from October 1, 2009 through December 31, 2009, with a dollar value greater than \$250,000. The second quarter procurement status report also projects future procurement activity for the third quarter as identified in the fiscal year 2009-10 annual budget.

Recommendation

Receive and file as an information item.

Regular Calendar

8. Customer Information Center Financial Challenges Marlon Perry/Ellen S. Burton

Overview

The Orange County Transportation Authority provides telephone call center operations 365 days each year using a contractor, Alta Resources. Given the substantial scale of bus service changes, the proliferation of cell phones, and the reduction of on-street and printed public information, and the delay of 511 integrated voice response, call volumes have grown to record levels. This has impacted the call center budget and, as reported in December 2009, requires the reallocation of funds from savings in other communication program areas to fund call center operations. However, these funds are not sufficient. Staff is requesting Board of Director's approval to revisit the operating model, renegotiate the terms of the Alta Resources contract, and/or re-bid the contract.



AGENDA

Finance and Administration Committee Meeting

8. (Continued)

Recommendations

- A. Maintain hours of operation through March 2010 to provide sufficient customer information through the March service change time period when significant reductions are planned.
- B. Effective April 1, 2010, reduce call center hours of operation but maintain service seven days per week operating from 8:00 a.m. to 5:00 p.m. and close the call center on six holidays.
- C. Direct staff to revisit the terms of Alta Resources' Agreement No. C-6-0461 to provide for a lower average cost per call rate and a mechanism to meter call volume. Return to the Board of Directors before the end of March 2010 with results of these negotiations and/or a scope of work for a rebid of customer information center services.

9. Review of Metrolink Audit Activities

Kathleen M. O'Connell

Overview

The Internal Audit Department of the Orange County Transportation Authority has completed a review of the audit activities of the Southern California Regional Rail Authority. The review was conducted in response to a recommendation made during the Orange County Transportation Authority's fiscal year 2004-06 state triennial audit. Recommendations have been made to enhance the internal audit function at the Southern California Regional Rail Authority and management has indicated that they will be implemented.

Recommendation

Receive and file Review of Metrolink Audit Activities, Internal Audit Report No. 08-010.



AGENDA

Finance and Administration Committee Meeting

Discussion Items

10. Update on City of Stanton's Compliance with Combined Transportation Funding Program Guidelines

Kathleen M. O'Connell

Staff will update the Committee on documentation provided to auditors subsequent to an audit that found that the city of Stanton could not support expenditures for a Combined Transportation Funding Program project in the amount of \$84,417.

11. Proposition 116 Funding

Kirk Avila/Kenneth Phipps

Staff will discuss with committee members risks related to the availability of Proposition 116 funds.

12. 91 Express Lanes' Property Insurance Policy Renewal Quotes

Al Gorski/Patrick J. Gough

Staff will discuss recently received property insurance quotes and seek direction from the Committee to bind coverage for the property insurance renewal for the policy period of March 1, 2010 to March 1, 2011.

13. Chief Executive Officer's Report

14. Committee Members' Reports

15. Closed Session

Pursuant to Government Code Section 54957.6 to meet with designated OCTA representative, Paddy Gough, to discuss fringe benefits for unrepresented employees, and negotiations with Teamsters Local 952; negotiator, Patrick Kelly, will represent the coach operators and maintenance employees.

16. Adjournment

The next regularly scheduled meeting of this Committee will be held at **9:00 a.m. on Wednesday, March 17, 2010**, at the OCTA Headquarters.



MINUTES

Finance and Administration Committee Meeting

Committee Members Present

*Bill Campbell, Chairman
Carolyn Cavecche, Vice Chairman
Patricia Bates
Peter Buffa
Dan Hansen
John Moorlach*

Staff Present

*Will Kempton, Chief Executive Officer
Laurena Weinert, Assistant Clerk of the Board
Tammy Doran, Deputy Clerk of the Board
Kennard R. Smart, Jr., General Counsel
OCTA Staff and members of the General Public*

Committee Members Absent

Arthur C. Brown

Call to Order

The January 27, 2010, regular meeting of the Finance and Administration Committee was called to order by Committee Vice Chairman Cavecche at 10:35 a.m.

Invocation

Director Moorlach gave the invocation.

Pledge of Allegiance

Director Bates led in the Pledge of Allegiance.

1. Public Comments

No public comments were received.

Special Calendar

2. Committee Meetings Dates and Time

Committee Members discussed options for meeting days and times.

A motion was made by Committee Chairman Campbell, seconded by Director Buffa, and declared passed by those present, to meet on the third Wednesday of each month at 9:00 a.m.



MINUTES

Finance and Administration Committee Meeting

Consent Calendar (Items 2 through 15)

3. Approval of Minutes

A motion was made by Director Buffa, seconded by Director Moorlach, and declared passed by those present, to approve minutes of the December 23, 2009, meeting.

Director Hansen abstained from voting on this item.

Committee Chairman Campbell was not present to vote on this item.

4. Reports on the Annual Transportation Development Act Audits for Fiscal Year 2008-09

A motion was made by Director Buffa, seconded by Director Moorlach, and declared passed by those present, to:

- A. Approve corrective action proposed by the City of Lake Forest, the City of Seal Beach and non-profit organization, Jewish Family Services of Orange County, in response to auditor findings and recommendations resulting from the Transportation Development Act program audits performed for fiscal year 2008-09.
- B. Direct staff to implement a coordinated approach to providing Transportation Development Act program financial information.

Committee Chairman Campbell was not present to vote on this item.

5. Fiscal Year 2008-09 Annual Financial Reports

A motion was made by Director Buffa, seconded by Director Moorlach, and declared passed by those present, to:

- A. Receive and file the fiscal year 2008-09 annual financial reports as information items.
- B. Direct staff to implement auditor recommendations related to review of tripsheets, documentation of monthly investment manager monitoring reviews, and controls to ensure appropriations limits are properly calculated.

Committee Chairman Campbell was not present to vote on this item.



MINUTES

Finance and Administration Committee Meeting

6. Fiscal Year 2008-09 Auditor's Communication with Those Charged with Governance

A motion was made by Director Buffa, seconded by Director Moorlach, and declared passed by those present, to receive and file the Fiscal Year 2008-09 Auditor's Communication with Those Charged with Governance.

Committee Chairman Campbell was not present to vote on this item.

7. Fiscal Year 2008-09 Management Letter

A motion was made by Director Buffa, seconded by Director Moorlach, and declared passed by those present, to receive and file the Fiscal Year 2008-09 Management Letter.

8. Orange County Local Transportation Authority Measure M Agreed-Upon Procedures Reports, Year Ended June 30, 2009

Committee Vice Chairman Cavecche noted there was a correction to Recommendation A on page 1 of the staff report. The reports to receive and file should be for the year ended June 30, 2009.

With the noted correction, a motion was made by Director Moorlach, seconded by Director Buffa, and declared passed by those present, to:

- A. Receive and file the Orange County Local Transportation Authority Measure M Agreed-Upon Procedures Reports, Year Ended June 30, 2009.
- B. Direct staff to monitor implementation of recommendations related to timely expenditure of turnback funds, indirect cost allocations and inclusion of Measure M projects in City Capital Improvement Programs.

Committee Chairman Campbell was not present to vote on this item.

9. Local Agency Investment Fund - November 2009

A motion was made by Director Buffa, seconded by Director Moorlach, and declared passed by those present, to receive and file as an information item.

Committee Chairman Campbell was not present to vote on this item.



MINUTES

Finance and Administration Committee Meeting

10. Orange County Transportation Authority Investment and Debt Programs Report - November 2009

A motion was made by Director Buffa, seconded by Director Moorlach, and declared passed by those present, to receive and file as an information item.

Committee Chairman Campbell was not present to vote on this item.

11. Orange County Treasurer's Management Report - November 2009

A motion was made by Director Buffa, seconded by Director Moorlach, and declared passed by those present, to receive and file as an information item.

Committee Chairman Campbell was not present to vote on this item.

12. Local Agency Investment Fund - December 2009

A motion was made by Director Buffa, seconded by Director Moorlach, and declared passed by those present, to receive and file as an information item.

Committee Chairman Campbell was not present to vote on this item.

13. Orange County Transportation Authority Investment and Debt Programs Report - December 2009

Director Moorlach pulled this item to inquire about the performance of the managed investments with State Street Global Advisors (State Street).

Rodney Johnson, Deputy Treasurer, responded that State Street is under-performing slightly, relative to other investment managers, because theirs is a more conservative investment portfolio.

Mr. Johnson noted that State Street does continue to out-perform the benchmark, although close to it. OCTA Treasury staff had a recent discussion with State Street, and the consensus was to add more "spread product" to the portfolio, including high-quality agency, corporate, and asset-backed securities.

A motion was made by Director Moorlach, seconded by Director Buffa, and declared passed by those present, to receive and file as an information item.

Committee Chairman Campbell was not present to vote on this item.



MINUTES

Finance and Administration Committee Meeting

14. Orange County Treasurer's Management Report - December 2009

A motion was made by Director Buffa, seconded by Director Moorlach, and declared passed by those present, to receive and file as an information item.

Committee Chairman Campbell was not present to vote on this item.

15. Bond Counsel Services

Director Moorlach pulled this item and asked for the names of the bidders on this procurement.

Kirk Avila, Treasurer, provided the following names of the six firms that provided proposals:

- Ballard Spahr, LLP,
- Brownstein Hyatt Farber Schreck,
- Chapman and Cutler LLP,
- Gonzalez Saggio Harlan LLP,
- Kutak Rock LLP, and
- Nossaman LLP.

A motion was made by Director Moorlach, seconded by Director Bates, and declared passed by those present, to:

- A. Authorize the Chief Executive Officer to negotiate and execute Agreement No. C-9-0767 with Nossaman, LLP, to provide bond counsel services to the Orange County Transportation Authority for a period of three years with two one-year option terms.
- B. Authorize the Chief Executive Officer to negotiate and execute Agreement No. C-9-0913 with Kutak Rock, LLP, to provide bond counsel services to the Orange County Transportation Authority for a period of three years with two one-year option terms.

Committee Chairman Campbell was not present to vote on this item.



MINUTES

Finance and Administration Committee Meeting

Regular Calendar

16. Financial and Compliance Audits of Eight Combined Transportation Funding Program Projects

Kathleen O'Connell, Executive Director of Internal Audit, gave an overview of the audits and discussed the guidelines for the documentation that is required for the reimbursement of expenditures.

Ms. O'Connell reported that at the time of the audit, the Cities of Stanton and Westminster did not have sufficient documentation to support their expenditures, but added that the City of Stanton recently supplied their documentation for review, and noted that the City of Westminster could only supply summary records of labor charges to the project because detailed timesheets were not retained. Ms. O'Connell stated staff would like to retract Recommendation B regarding the reimbursement of \$84,417 from the City of Stanton and forego recovery of the \$11,868 from the City of Westminster.

Public comments were heard from Carol Jacobs, City of Stanton, and Marwan Youssef, City of Westminster.

A motion was made by Director Moorchach, seconded by Director Bates, and declared passed by those present, to adopt Recommendations A, C, and D:

- A. Receive and file financial and compliance audits of eight Combined Transportation Funding Program projects, Internal Audit Report 08-019.
- C. Direct OCTA staff to implement recommendations related to jurisdictions' submission of final reports within 180 days of project completion and clarification of allowable overhead cost allocations.
- D. Direct OCTA staff to enhance final project review procedures to include additional scrutiny of possible excess right of way.

Subsequent to the motion, a separate motion was made by Director Buffa, seconded by Committee Vice Chairman Cavecche, and declared passed by those present, to accept the changes made to Recommendation B as follows:

- B. Direct staff to review the documents submitted by the City of Stanton regarding expenditures invoiced under the Combined Transportation Funding Program and report back to Committee and forego recovery of the \$11,868 from the City of Westminster.

Committee Chairman Campbell was not present to vote on this item.



Discussion Items

17. Proposition 116 Funding

Will Kempton, Chief Executive Officer, gave opening comments and provided introductory information for this item.

Kirk Avilla, Treasurer, and Barney Allison, Bond Counsel – Nossaman Guthner & Elliot, discussed options related to the availability of the Proposition 116 funds and provided information on the risks associated with the different options.

18. Fiscal Year 2010-11 Budget Assumptions

Andy Oftelie, Manager of Financial Planning & Analysis, presented the fiscal year 2010-11 budget assumptions and discussed the guiding principles to preserve service, maximize operational efficiencies, and minimize layoffs.

There was additional discussion regarding service levels, sales tax rates, fare revenue, fuel prices, and salary and benefits costs.

Mr. Oftelie indicated that healthcare costs are likely to increase by 20 percent. Director Bates speculated that the projected increase was due to political reasons related to the prospect of healthcare reform. Director Bates suggested that the projected increases should not be accepted by businesses without question.

Director Buffa inquired about OCTA's options of "re-procurement" for health care providers, and commented that if this were a viable option, it could stimulate a response from OCTA's current carriers to reexamine the speculated 20 percent increase.

Committee Chairman Campbell asked if OCTA should be planning another round of bus service reductions due to the potential loss of the Proposition 42 funds. Chief Executive Officer, Will Kempton, recommended that staff begin the review process in March 2010 regarding the necessity of the second element of the bus service reductions that were previously approved by the Board.

Public comment was heard from Roy Shabazian – a resident of Orange, who voiced his appreciation for OCTA's commitment to preserve the current level of bus service. Mr. Shabazian commented on the Bristol Street widening project and the reduction of administrative staff.



MINUTES

Finance and Administration Committee Meeting

18. (Continued)

At Committee Chairman Campbell's request, Will Kempton (CEO) shared information that was provided to employees at recent meetings regarding the severity of the fiscal crisis and addressed concerns regarding potential layoffs.

19. Chief Executive Officer's Report

Chief Executive Officer, Will Kempton, reported on upcoming meetings and events.

20. Committee Members' Reports

There were no Committee Members' reports.

21. Closed Session

A Closed Session was held pursuant to Government Code Section 54957.6 to meet with designated OCTA representative, Paddy Gough, to discuss fringe benefits for unrepresented employees, and negotiations with Teamsters Local 952; negotiator, Patrick Kelly, will represent the coach operators and maintenance employees.

22. Adjournment

The meeting adjourned at 12:30 p.m. The next regularly scheduled meeting of this Committee will be held at **9:00 a.m. on Wednesday, February 17, 2010**, at the OCTA Headquarters.

ATTEST

Tammy Doran
Deputy Clerk of the Board

Bill Campbell
Committee Chairman



February 17, 2010

To: Finance and Administration Committee
From: Will Kempton, Chief Executive Officer *Will Kempton*
Subject: Audit Responsibilities of the Finance and Administration Committee

Overview

The Finance and Administration Committee of the Board of Directors of the Orange County Transportation Authority has functioned as an audit committee in its oversight of audit activities. In December 2007, the Board of Directors adopted Audit Responsibilities of the Finance and Administration Committee to formally establish the responsibilities of the Finance and Administration Committee with regard to audits. The responsibilities include an annual affirmation of the roles and responsibilities of the Finance and Administration Committee in fulfilling this function.

Recommendation

Affirm the Audit Responsibilities of the Finance and Administration Committee.

Background

The Internal Audit Department (Internal Audit) is an independent appraisal function whose purpose is to examine and evaluate the Orange County Transportation Authority's (OCTA) operations and activities. Internal Audit also monitors the activities of external auditors, including the independent financial statement auditors. The Finance and Administration Committee (Committee) has served as OCTA's audit committee, having primary responsibility for the oversight of all audit activities.

Discussion

The Committee receives and reviews the annual internal audit plan, all audit reports and management responses, and quarterly updates to the internal audit plan. The Committee reviews the independently audited financial statements of

OCTA and related entities, as well as the external auditor's required communications, including the management letter.

The Board of Directors adopted Audit Responsibilities of the Finance and Administration Committee to establish the responsibilities of the Finance and Administration Committee with regard to audit. The responsibilities include an annual affirmation of the roles and responsibilities of the Committee in fulfilling this role. These roles and responsibilities were developed using guidance provided by the American Institute of Certified Public Accountants, the national professional organization for certified public accountants.

At this time, Internal Audit is making no recommendations for revisions to the document.

Summary

Audit Responsibilities of the Finance and Administration Committee include Committee review of OCTA's audited financial statements, oversight of its Internal Audit function, and communication with its external auditors. These responsibilities are presented for Committee affirmation.

Attachment

- A. Orange County Transportation Authority Audit Responsibilities of the Finance and Administration Committee

Prepared by:

A handwritten signature in cursive script, reading "Kathleen M. O'Connell".

Kathleen M. O'Connell
Executive Director, Internal Audit
(714) 560-5669

**Orange County Transportation Authority
Audit Responsibilities of the Finance and Administration Committee**

The Finance and Administration Committee (Committee) of the Board of Directors of the Orange County Transportation Authority (OCTA) will assist the Board of Directors in fulfilling its audit oversight responsibilities with regard to (1) the integrity of OCTA's financial statements, (2) OCTA's compliance with legal and regulatory requirements, (3) the independent auditor's qualifications and independence, and (4) the performance of OCTA's internal audit function. In providing this assistance to the Board of Directors, the Committee will assume audit responsibilities as provided herein and recommend action on all audit matters to the full Board of Directors.

All Committee members will participate in fulfilling these responsibilities. At least one of the Committee members will have financial experience sufficient to provide guidance and assistance to other Committee members on matters related to accounting, auditing, budgeting, and finance.

Audit responsibilities of the Committee will include, but not be limited to, the following:

Financial Statements

- Review with management and the external auditors:
 - The annual financial audit reports and related footnotes, schedules, unadjusted differences, and management letter, including OCTA accounting principles and significant estimates or judgments impacting the financial statements.
 - Any serious difficulties or disputes with management encountered during the audit.
 - Matters required to be discussed by Statements on Auditing Standards issued by the Auditing Standards Board of the American Institute of Certified Public Accountants or other state or federal agencies.
- Inquire of the Chief Executive Officer and the Executive Director of Finance and Administration regarding the fiscal health of OCTA as well as the financial status of OCTA in relation to its adopted budget.

External Audit

- Review the external auditors' proposed audit scope and approach, including coordination of audit effort with the Internal Audit Department.
- Inquire of the external auditors, internal auditors, and management about significant risks or exposures facing OCTA and assess the steps management has taken or proposes to take to minimize such risks.
- Review the performance of the external auditors, including any issues arising during their most recent quality-control or peer review, their independence as it relates to OCTA and recommend to the Board of Directors the appointment or discharge of the external auditors.

Orange County Transportation Authority
Audit Responsibilities of the Finance and Administration Committee

Internal Audit

- Review with management and the Executive Director of the Internal Audit Department the Annual Audit Plan and quarterly reports of audit activity.
- Review the activities, staffing, budget, independence, and organizational structure of the internal audit function, including the effectiveness of the function and its compliance with the Government Accountability Office's *Government Auditing Standards* (Yellow Book).
- Review all internal audit reports, including management responses thereto.
- Ensure there are no unjustified restrictions or limitations placed upon the Internal Audit Department.
- Review and concur in the appointment, replacement, or dismissal of the Executive Director of the Internal Audit Department.

Internal Control

- Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.
- Consider the effectiveness of the OCTA's internal control system, including information technology security and control.


Other

- Review the Audit Responsibilities of the Finance and Administration Committee annually to reassess their adequacy and recommend any proposed changes.
- Review the Committee's effectiveness in carrying out its responsibilities.
- Other matters deemed appropriate by the Committee Chairman or as directed by the Chairman of the Board of Directors.



February 17, 2010

To: Finance and Administration Committee

From: Will Kempton, Chief Executive Officer 

Subject: Evaluation of Independent Auditor and Consideration of Contract Amendment to Extend Audit Services through the Fiscal Year Ending June 30, 2010

Overview

The Internal Audit Department has prepared an evaluation of the Orange County Transportation Authority's independent auditor, Mayer Hoffman McCann P.C. and, based on the evaluation, is recommending that the Board of Directors authorize the execution of an amendment to Agreement No. C-6-0667 to exercise the first option term to provide audit services for the fiscal year ending June 30, 2010.

Recommendations

- A. Approve draft evaluation findings and comments prepared by the Internal Audit Department for the Finance and Administration Committee.
- B. Authorize the Chief Executive Officer to execute Amendment No. 4 to Agreement No. C-6-0667 between the Orange County Transportation Authority and Mayer Hoffman McCann P.C., to exercise the first option term, in an amount not to exceed \$339,500, for the annual financial audit for the fiscal year ending June 30, 2010, for a total contract amount of \$1,307,380.

Discussion

On January 24, 2007, the Finance and Administration Committee (Committee) of the Orange County Transportation Authority's (Authority) Board of Directors (Board) conducted interviews of two short-listed accounting firms to provide independent financial audits of the Authority and its related entities. The Committee has responsibilities equivalent to that of an audit committee and is, therefore, charged with recommending the selection of the independent financial auditors.

The Committee recommended that the Board select Mayer Hoffman McCann P.C. (MHM) as the Authority's independent auditors, succeeding Macias Gini & O'Connell LLP. The Board selected MHM on February 12, 2007, and a contract was executed for a three-year term with two one-year options.

MHM completed independent financial audits of the Authority for fiscal years ended June 30, 2007, 2008, and 2009. The contract's first option term will be for independent audit services for the fiscal year ending June 30, 2010. A decision as to whether or not to exercise the first option term should be made through a recommendation by the Committee, in its audit committee capacity, to the Board.

The American Institute of Certified Public Accountants (AICPA) provides several tools to assist audit committees in fulfilling their responsibilities. Attachment A, *Evaluating the Independent Auditors: Questions to Consider*, is the AICPA's recommended format for the evaluation of an organization's independent auditors.

The tool suggests that input be obtained from four sources including the audit committee, the chief audit executive, the chief financial officer, and the independent auditor. Internal Audit has drafted responses on behalf of the Committee and will incorporate any changes the Committee provides. The Internal Audit Department has provided comments relative to its relationship and experience with MHM and collected responses from the Authority's Accounting & Financial Reporting Department in response to questions typically posed to the chief financial officer. Finally, responses from MHM have been incorporated in the evaluation, as well as MHM's peer review report (Attachment B).

The evaluation indicates that MHM's performance over the contract period has met expectations. Strengths identified include good communication and coordination with Authority staff, responsiveness, good technical knowledge of accounting and auditing matters, timely delivery of required reports, a high degree of professionalism, and continuity of MHM management.

Two areas will require additional monitoring to ensure there are no impacts to the quality of audit services provided the Authority. First, MHM has experienced some turnover of its staff during the contract term. Staff turnover can result in inefficiency and inconvenience to Authority staff. Secondly, MHM performs work under several other audit contracts with the Authority. Internal Audit will continue to monitor the quantity and type of other services provided

by MHM to ensure that the firm's independence with regard to its financial statement opinions is not impaired, in fact or appearance.

Procurement Approach

This procurement was originally handled in accordance with the Authority's procedures for professional and technical services. The original agreement was awarded on a competitive basis. On February 12, 2007, the Board of Directors approved a contract for a three-year initial term with two one-year option terms with MHM, in the amount of \$937,880. Internal Audit has amended the scope of work several times since the contract was first executed to include additional audit requirements totaling \$30,000. Option year pricing was negotiated in the original agreement as firm fixed price. As a result of price renegotiation by the Contracts Administration and Materials Management Department, MHM has agreed to keep the same firm fixed price for the first option term as the final year of the initial term. This results in a 5 percent reduction in price, which equates to \$16,770 cost savings to the Authority. The initial term will expire March 31, 2010, requiring the first option term to be exercised and extend the term through March 31, 2011, in an amount not to exceed \$339,500, bringing the total contract to \$1,307,380 (Attachment C). Extending the term of the agreement will allow MHM to provide independent audit services of the Authority's financial statements for the fiscal year ending June 30, 2010.

Fiscal Impact

Funds to exercise the option year were not included in the Authority's fiscal year 2009-10 budget. Funds, in the amount of \$324,315, have been identified and reallocated from Contracts Administration and Materials Management, Account 1270-7519-A5150-6J7.

Summary

Based on the results of an evaluation of the Authority's independent auditor, MHM, the Internal Audit Department is recommending that the Board approve Amendment No. 4 to Agreement No. C-6-0667 with MHM, to exercise the first option term from April 1, 2010 to March 31, 2011, for audit services for the fiscal year ending June 30, 2010, in an amount not to exceed \$339,500.

Attachments

- A. Evaluating the Independent Auditor: Questions to Consider
- B. AICPA Peer Review Report by Davis, Kinard & Co., P.C.
- C. Mayer Hoffman McCann P.C. Agreement No. C-6-0667 Fact Sheet

Prepared by:



Kathleen M. O'Connell
Executive Director, Internal Audit
(714) 560-5669



Virginia Abadessa
Director, Contracts Administration and
Materials Management
(714) 560-5623

Evaluating the Independent Auditor: Questions to Consider

Purpose of This Tool. The audit committee (or its equivalent) may have the responsibility to hire, fire, and evaluate the independent auditor. If the audit committee (or its equivalent) has this responsibility, the audit committee should answer a series of questions about its relationship with the independent auditor and should ask key executives in the government organization for their comments as well.

In considering information gathered through the process of evaluating the independent auditors, it is important that the audit committee give consideration to the source of the information. For example, if the chief financial officer (CFO) or controller comments that he or she believes the auditor went too far in certain areas, that would probably carry less weight in your deliberations than if the CFO or controller comments that certain areas were not tested adequately or that auditor independence had been breached. As with all deliberative processes, the different perspectives and motivations of those having input into the deliberations should be considered.

Instructions for Using This Tool. The sample questions included in this tool are only a starting point in evaluating the performance and effectiveness of the independent auditors. Audit committee members should ask follow-up questions as appropriate and required.

Evaluation of the Independent Auditors <i>Questions for Audit Committee Members</i>	Yes	No	Not Sure	Comments
1. Did the auditor meet with the audit committee when requested?	X	<input type="checkbox"/>	<input type="checkbox"/>	DRAFT MHM has met with the Finance and Administration Committee on numerous occasions to discuss audit planning, timing, scope and the results of the audits.
2. Did the auditor address issues of “tone at the top,” and antifraud programs and controls in place in the government organization?	X	<input type="checkbox"/>	<input type="checkbox"/>	DRAFT In their management letter for the fiscal year ended 06/30/07, MHM recommended that OCTA develop a policy on misconduct which led to OCTA’s development and adoption of a Code of Conduct.
3. Did the auditor inform the audit committee of any risks of which the committee was not previously aware?	X	<input type="checkbox"/>	<input type="checkbox"/>	DRAFT Due to their involvement in numerous committees and/of the Board of Directors, Committee members are well aware of the risks facing the organization. MHM has provided management letters which provide recommendations to improve controls to mitigate operational or internal control risks.
4. Did the auditor adequately discuss issues of the quality of financial reporting, including the applicability of new and significant accounting principles? Did the auditor adequately discuss issues relating to the government’s conformance with local laws, regulations, and oversight requirements?	X	<input type="checkbox"/>	<input type="checkbox"/>	DRAFT - MHM meets with the Committee annually to discuss their financial statement opinions, their management letter and other issues of accounting and auditing significance, including OCTA’s compliance with FTA and TDA requirements.

Evaluation of the Independent Auditors <i>Questions for Audit Committee Members</i> <i>(continued)</i>	Yes	No	Not Sure	Comments
5. Did the auditor communicate issues freely with the audit committee, or did they seem protective of management?	X	<input type="checkbox"/>	<input type="checkbox"/>	DRAFT MHM has been forthright in its comments to the Committee and has shared all significant findings in its annual management letters to the Board of Directors.
6. Does it appear that management exercises undue influence on the independent auditors?	<input type="checkbox"/>	X	<input type="checkbox"/>	DRAFT It does not appear that management exercises undue influence on the independent auditors. OCTA's contract with the independent auditors is managed by the Internal Audit Department to mitigate the risk of management influence.
7. Does it appear that the independent auditors are reluctant or hesitant to raise issues that would reflect negatively on management?	<input type="checkbox"/>	X	<input type="checkbox"/>	DRAFT This would not appear to be the case, as comments provided by the independent auditor in its management letters have been professionally critical of certain policies and procedures.
8. Is the audit committee satisfied with the planning and conduct of the audit, including the financial statements and internal control over financial reporting (as applicable)?	X	<input type="checkbox"/>	<input type="checkbox"/>	DRAFT Yes, the audit committee is satisfied with the planning, conduct, and evaluations of internal controls over financial reporting.

Evaluation of the Independent Auditors <i>Questions for Audit Committee Members</i> <i>(continued)</i>	Yes	No	Not Sure	Comments
9. Review all audit-related and nonaudit services conducted by the independent auditor in the prior year. Are you satisfied that the independent auditor remains independent and objective both in fact and appearance?	X	<input type="checkbox"/>	<input type="checkbox"/>	DRAFT MHM has not provided any nonaudit services during fiscal year 2008-2009. However, they have provided audit services under several contracts. MHM performs OCTA's annual TDA audits. The annual fee for these audits is approximately \$60,000. MHM also performs on-call price reviews. During FY 2008-2009, the firm completed 2 price reviews in the total amount of \$36,656. Finally, MHM competed under the Internal Audit Department's general on-call auditing contract and was awarded one contract task order for audits of Combined Transportation Funding Program (CTFP) projects in the amount of \$53,360. Total fees, therefore, for additional audit related work amounted to approximately \$150,000. While this is a substantial sum, it is still far less than the financial statement opinion engagement for which fees amount to approximately \$350,000. The Internal Audit Department and Finance and Administration Committee will monitor this situation to ensure that MHM's fees for work done on projects other than the financial statement audits do not create an impairment or the appearance thereof.

Evaluation of the Independent Auditors <i>Questions for Audit Committee Members</i> <i>(continued)</i>	Yes	No	Not Sure	Comments
10. Understand the size of the firm and its total revenues firm-wide, for the office(s) providing a substantial amount of services to the government, and the book-of-business of the partner-in-charge of the audit. Is the firm, the office, or the partner dependent on the government engagement for a material percentage of its fee income? If so, the audit committee should consider whether this impairs the appearance of independence with respect to the government.	<input type="checkbox"/>	X	<input type="checkbox"/>	DRAFT MHM is a national CPA firm with approximately 250 shareholders and over 35 offices throughout the United States. OCTA's audit is managed by shareholder Marc Davis of the Irvine Office. Mr. Davis is the "partner-in-charge" of numerous government clients both within and outside of Orange County, including cities, special districts and the federal government. His extensive book of business helps ensure that he remains independent, in both fact and appearance.
11. Is the audit committee satisfied with its relationship with the auditor? In making this determination, the audit committee should consider (a) whether the partner-in-charge of the audit participated in audit committee meetings, (b) whether the auditor was frank and complete in the required discussions with the audit committee, (c) whether the auditor was frank and complete during executive sessions with the audit committee, (d) whether the auditor was on time in the delivery of services to the government.	X	<input type="checkbox"/>	<input type="checkbox"/>	DRAFT The Committee is satisfied with its relationship with MHM. The engagement shareholder participates in Committee meetings, appears technically knowledgeable about accounting and auditing matters, is honest and forthright with the Committee and appears to work well with OCTA management and staff.
13. Was the audit fee fair and reasonable in relation to what the audit committee knows about fees charged to other government organizations, and in line with fee benchmarking data the audit committee might have available?	X	<input type="checkbox"/>	<input type="checkbox"/>	DRAFT OCTA goes through a competitive procurement for independent auditing services. During a 2006 procurement, MHM proposed \$322,900 as fees for fiscal year 2008-2009. The second rated firm, Macias Gini & O'Connell, proposed fees of \$411,495. The other four proposing firms scored well below the top two ranked firms as to qualifications and experience.

Evaluation of the Independent Auditors	Yes	No	Not Sure	Comments
12. Did the independent auditor provide constructive observations, implications, and recommendations in areas needing improvement, particularly with respect to the organization's internal control system over financial reporting? How constructive are the key issues communicated in the management letter and other disclosures on audit findings and recommendations?	X	<input type="checkbox"/>	<input type="checkbox"/>	DRAFT MHM provides meaningful and useful recommendations in its annual management letter. The findings and recommendations have had impact in the areas of (1) financial reporting, (2) internal controls, (3) compliance with laws and regulations and (4) program efficiencies.

Following are some questions the audit committee (or its equivalent) should ask different individuals in the government organization to assist in evaluating the performance of the independent auditors.

Evaluation of the Independent Auditors	Yes	No	Not Sure	Comments
Chief Audit Executive				
1. From your perspective in working with the independent auditors, are you satisfied with the scope, nature, extent, and timing of the testing performed by the independent auditor?	X	<input type="checkbox"/>	<input type="checkbox"/>	MHM, internal auditors, and staff from the Accounting and Financial Reporting Department meet annually for a more in-depth “kick-off” of the annual audit. The scope, nature, extent and timing of planned testwork is discussed. Auditors are informed of current issues and events which could impact the scope, nature, extent and timing of audit procedures.
2. Did the independent auditor work with you to ensure the coordination of audit efforts to assure the completeness of coverage, reduction of redundant efforts, and the effective use of audit resources?	X	<input type="checkbox"/>	<input type="checkbox"/>	During the planning phase of the audit, MHM reviews all of the work performed by the Internal Audit Department to ensure there is no duplication of effort and to understand the nature and results of Internal Audit work. Through its contract with OCTA, MHM receives some assistance (in the way of staff time) from Internal Audit and plans for the most effective and efficient use of that time.
3. a. Are you satisfied with the knowledge, skills, and abilities of the staff assigned to do the audit work?	X	<input type="checkbox"/>	<input type="checkbox"/>	MHM’s reputation as a strong presence in the government arena is evident to Internal Audit. MHM staff are well versed in current Government Accountability Office (GAO) and Government Accounting Standards Board (GASB) standards and pronouncements, as well as other technical guidance. This knowledge is very helpful in interpreting the effect of these rules and standards on OCTA. MHM staff’s experience with other government entities within the region provides perspective that results in useful advice and sound recommendations.

Evaluation of the Independent Auditors	Yes	No	Not Sure	Comments
<i>Chief Audit Executive (continued)</i>				
<i>b.</i> Are you satisfied with the engagement leadership assigned, including the partner(s), manager(s), and fieldwork leaders?	X	<input type="checkbox"/>	<input type="checkbox"/>	The engagement shareholder has a consistent presence during the audit. He attends all weekly status meetings with his staff and that of OCTA. He is responsive to phone calls and emails and is timely in following up on questions and requests.
4. <i>a.</i> Did the independent auditors work with the internal auditors according to the plan?	X	<input type="checkbox"/>	<input type="checkbox"/>	The coordination between MHM and Internal Audit has been excellent throughout the contract period.
<i>b.</i> Was the cooperative work conducted in the spirit of professionalism and mutual respect?	X	<input type="checkbox"/>	<input type="checkbox"/>	Communication and cooperation between MHM, Internal Audit and OCTA staff is consistently professional and respectful.
5. Are you satisfied that the independent auditors remain independent of the government in spite of any audit-related or nonaudit services the auditor provides to the government?	X	<input type="checkbox"/>	<input type="checkbox"/>	MHM, in addition to the financial audit, provides other audit related services under on-call price review and general audit contracts. While fees from the other activities are less than 50% of the financial audit fee, Internal Audit will remain alert to the potential for the appearance of a lack of independence.
6. <i>a.</i> Are you aware of any other information that might impair the independence of the independent audit firm?	<input type="checkbox"/>	X	<input type="checkbox"/>	No other information has come to Internal Audit's attention which could indicate an impairment of MHM's independence.
<i>b.</i> Are you aware of any individuals on the audit team that might not be independent with respect to the government for whatever reason?	<input type="checkbox"/>	X	<input type="checkbox"/>	No information has come to Internal Audit's attention which could indicate an impairment in the independence of MHM's staff.
7. <i>a.</i> If the choice were yours, would you hire the firm to conduct next year's audit?	X	<input type="checkbox"/>	<input type="checkbox"/>	Internal Audit has been pleased with the professionalism, responsiveness and technical expertise of MHM.
<i>b.</i> What changes would you make?	<input type="checkbox"/>	<input type="checkbox"/>	X	None at this time.

Evaluation of the Independent Auditors	Yes	No	Not Sure	Comments
<i>CFO and Controller</i>				
1. From your perspective in working with the independent auditor, are you satisfied with the scope, nature, extent, and timing of the testing performed by the independent auditors?	X	<input type="checkbox"/>	<input type="checkbox"/>	
2. Are you satisfied with the knowledge, skills, and abilities of the staff assigned to the audit work? Did the auditor appear to have sufficient knowledge of the most recent generally accepted government auditing standards (GAGAS) as set forth by the Government Accountability Office (GAO), as well as AICPA auditing standards?	X	<input type="checkbox"/>	<input type="checkbox"/>	
3. Are you satisfied with the engagement leadership assigned, including the partner(s), manager(s), and fieldwork leaders?	X	<input type="checkbox"/>	<input type="checkbox"/>	The engagement principal and team leads were easily accessible and responsive.
4. a. If the choice were yours, would you hire the firm to conduct next year's audit?	X	<input type="checkbox"/>	<input type="checkbox"/>	
b. What changes would you make?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	The Accounting and Financial Reporting Department has requested that the auditors provide tentative materiality levels by fund to assist staff in making accrual/adjustment decisions.
5. Did the auditor comply with the requirements as set forth in the request for proposal and/or subsequent contract for auditor services?	X	<input type="checkbox"/>	<input type="checkbox"/>	
<i>Independent Auditor</i>				
1. What were the results of the firm's peer review?	X	<input type="checkbox"/>	<input type="checkbox"/>	In our most recent peer review report dated September 26, 2008, MHM received an unqualified opinion on the design of the firm's system of quality control so as to provide reasonable assurance of complying with applicable professional standards.

Evaluation of the Independent Auditors	Yes	No	Not Sure	Comments
<i>Independent Auditor (continued)</i>				
2. Does the audit organization have a quality control system for monitoring compliance with independence requirements?	X	<input type="checkbox"/>	<input type="checkbox"/>	MHM's system of quality control includes procedures for evaluating compliance with independence requirements.
3. Does the audit organization have a quality control system for monitoring compliance with continuing professional education requirements?	X	<input type="checkbox"/>	<input type="checkbox"/>	MHM's system of quality control includes procedures for monitoring compliance with continuing professional education requirements.



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Certified Public Accountants

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400 Pine Street, Suite 600
Abilene, Texas 79601-5138
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1-800-588-2525

September 26, 2008

To the Shareholders of
Mayer Hoffman McCann P.C.
and the Center for Public Company Audit Firms Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Mayer Hoffman McCann P.C. (the firm) applicable to non-SEC issuers in effect for the year ended April 30, 2008. The firm's accounting and auditing practice applicable to SEC issuers was not reviewed by us since the Public Company Accounting Oversight Board (PCAOB) is responsible for inspecting that portion of the firm's accounting and auditing practice in accordance with PCAOB requirements. A system of quality control encompasses the firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of complying with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (the AICPA). The design of the system, and compliance with it, are the responsibilities of the firm. Our responsibility is to express an opinion on the design of the system, and the firm's compliance with that system based on our review.

Our review was conducted in accordance with standards established by the Peer Review Committee of the Center for Public Company Audit Firms and included procedures to plan and perform the review that are summarized in the attached description of the peer review process. Our review would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it since it was based on selective tests. Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the accounting and auditing practice applicable to the non-SEC issuers of Mayer Hoffman McCann P.C. in effect for the year ended April 30, 2008, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA, and was complied with during the year then ended to provide the firm with reasonable assurance of complying with applicable professional standards.

As is customary in a system review, we have issued a letter under this date that sets forth comments relating to certain policies and procedures or compliance with them. The matters in the letter were not considered to be of sufficient significance to affect the opinion expressed in this report.

Davis, Kinard & Co., P.C.
DAVIS, KINARD & CO., P.C.

FOR MORE INFORMATION CONTACT:

American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, North Carolina 27707-8110

Attachment to the Peer Review Report of Mayer Hoffman McCann P.C.

Description of the Peer Review Process

Overview

Firms enrolled in the AICPA Center for Public Company Audit Firms (the Center) Peer Review Program have their system of quality control periodically reviewed by independent peers. These reviews are system and compliance oriented with the objective of evaluating whether:

The reviewed firm's system of quality control for its accounting and auditing practice applicable to non-SEC issuers has been designed to meet the requirements of the Quality Control Standards established by the AICPA.

The reviewed firm's quality control policies and procedures applicable to non-SEC issuers were being complied with to provide the firm with reasonable assurance of complying with professional standards.

A peer review is based on selective tests and directed at assessing whether the design of and compliance with the firm's system of quality control for its accounting and auditing practice applicable to non-SEC issuers provides the firm with reasonable, but not absolute, assurance of complying with professional standards. Consequently a peer review on the firm's system of quality control is not intended to, and does not, provide assurance with respect to any individual engagement conducted by the firm or that none of the financial statements audited by the firm should be restated.

The Center's Peer Review Committee (PRC) establishes and maintains peer review standards. At regular meetings and through report evaluation task forces, the PRC considers each peer review, evaluates the reviewer's competence and performance, and examines every report, letter of comments, and accompanying response from the reviewed firm that states its corrective action plan before the peer review is finalized. The Center's staff plays a key role in overseeing the performance of peer reviews working closely with the peer review teams and the PRC.

Once the PRC accepts the peer review reports, letters of comments, and reviewed firms' responses, they are maintained in a file available to the public. In some situations, the public file also includes a signed undertaking by the firm agreeing to specific follow-up action requested by the PRC.

Firms that perform audits or play a substantial role in the audit of one or more SEC issuers, as defined by the Public Company Accounting Oversight Board (PCAOB), are required to be registered with and have their accounting and auditing practice applicable to SEC issuers inspected by the PCAOB. Therefore, we did not review the firm's accounting and auditing practice applicable to SEC issuers.

Planning the Review of the Firm's Accounting and Auditing Practice Applicable to Non-SEC Issuers

To plan the review of Mayer Hoffman McCann P.C., we obtained an understanding of (1) the nature and extent of the firm's accounting and auditing practice, and (2) the design of the firm's system of quality control sufficient to assess the inherent and control risks implicit in its practice. Inherent risks were assessed by obtaining an understanding of the firm's practice, such as the industries of its clients and other factors of complexity in serving those clients, and the organization of the firm's personnel into practice units. Control risks were assessed by obtaining an understanding of the design of the firm's system of quality control, including its audit methodology, and monitoring procedures. Assessing control risk is the process of evaluating the effectiveness of the reviewed firm's system of quality control in preventing the performance of engagements that do not comply with professional standards.

Performing the Review of the Firm's Accounting and Auditing Practice Applicable to Non-SEC Issuers

Based on our assessment of the combined level of inherent and control risks, we identified practice units and selected engagements within those units to test for compliance with the firm's system of quality control. The engagements selected for review included engagements performed under *Government Auditing Standards*, audits of Employee Benefit Plans and audits of engagements subject to the Federal Deposit Insurance Corporation Improvement Act. The engagements selected for review represented a cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. The engagement reviews included examining working paper files and reports and interviewing engagement personnel.

The scope of the peer review also included examining selected administrative and personnel files to determine compliance with the firm's policies and procedures for the elements of quality control pertaining to independence, integrity, and objectivity; personnel management; and acceptance and continuance of clients and engagements. Prior to concluding the review, we reassessed the adequacy of scope and conducted an exit conference with firm management to discuss our findings and recommendations.



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1-800-588-2525

September 26, 2008

To the Shareholders of
Mayer Hoffman McCann P.C.

We have reviewed the system of quality control for the accounting and auditing practice of Mayer Hoffman McCann P.C. (the firm) applicable to non-SEC issuers in effect for the year ended April 30, 2008, and have issued our report thereon dated September 26, 2008. The matters described below were not considered to be of sufficient significance to affect the opinion expressed in that report, which should be read in conjunction with this letter.

Engagement Performance

Comment – The firm's quality control policies and procedures require the engagement shareholder, among others, to review the firm's reports and engagement documentation for compliance with professional standards prior to report issuance. We noted instances where it was evident that a careful review was not performed. As a result, in several situations (1) the report issued did not contain all of the language required by professional standards and/or the circumstances, and (2) management representation letters were not appropriately tailored to the engagement. None of the deficiencies noted were of such significance, however, to require additional action by the firm.

Recommendation – We recommend the firm reemphasize to all professionals, particularly engagement shareholders, the importance of carefully reviewing the firm's reports and engagement documentation, as required by the firm's quality control policies and procedures, to ensure that the reports and documentation comply with professional standards. Further, we recommend this matter be given additional emphasis as a part of the firm's monitoring procedures.

Davis, Kinard & Co., P.C.

DAVIS, KINARD & CO., P.C.

**Mayer Hoffman McCann P.C.
Agreement No. C-6-0667 Fact Sheet**

1. February 12, 2007, Agreement No. C-6-0667, \$937,880, approved by Board of Directors.
 - To provide annual financial audits of the Orange County Transportation Authority and related agencies for the fiscal year ending June 30, 2007, 2008, and 2009.
 - The initial term is effective February 12, 2007 through March 31, 2010.
2. July 2, 2008, Amendment No. 1 to Agreement No. C-6-0667, \$6,100, was approved by Contracts Administration and Materials Management.
 - Amendment to revise the scope of work.
3. February 2, 2009, Amendment No. 2 to Agreement No. C-6-0667, \$17,300, was approved by Contracts Administration and Materials Management.
 - Amendment to revise the scope of work.
4. January 25, 2010, Amendment No. 3 to Agreement No. C-6-0667, \$6,600, was approved by Contracts Administration and Materials Management.
 - Amendment to revise the scope of work.
5. February 22, 2010, Amendment No. 4 to Agreement No. C-6-0667, \$339,500, pending approval by Board of Directors.
 - Amendment to exercise the first option term and extend the agreement through March 31, 2011.

Total committed to Mayer Hoffman McCann P.C., Agreement No. C-6-0667: \$1,307,380.



February 17, 2010

To: Finance and Administration Committee

From: Will Kempton, Chief Executive Officer

Subject: Orange County Transportation Authority Internal Audit Department Peer Review

Overview

An external quality assurance, or peer, review has been completed of the Internal Audit Department of the Orange County Transportation Authority. The peer review found that the Internal Audit Department's quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with Government Auditing Standards for the year ended December 31, 2009. The peer review team also provided a management letter with recommendations to further strengthen the internal quality control system.

Recommendation

Direct the Internal Audit Department to implement recommendations provided by the Association of Local Government Auditors in a letter dated February 5, 2010.

Background

Government Auditing Standards (Standards), issued by the United States Government Accountability Office (GAO), set professional standards for the performance of government audits. One of the Standards is that audit departments undergo an external quality assurance, or peer, review once every three years. Internal audit departments may either engage an independent audit firm to have the peer review performed, or participate in a peer review program of a recognized professional association.

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) sought the assistance of the Association of Local Government Auditors (ALGA) to perform the peer review. ALGA's peer review program is well developed and is rotational in nature. In volunteering

80 hours of service on peer review teams during 2009, Internal Audit received this reciprocal peer review at minimal cost to OCTA.

The peer review was performed during the week of February 1, 2009. The peer review team consisted of two auditors from other government agencies. The review period was January 1, 2009 through December 31, 2009, and represents Internal Audit's first such review. Henceforth, peer reviews will be conducted triennially.

Discussion

The peer review process began approximately six months prior to the site visit. Internal Audit worked with an ALGA peer review coordinator to schedule the review. The coordinator solicited volunteers nationally and evaluated those volunteers' independence with regard to OCTA and Internal Audit personnel. The peer review team assembled for OCTA's peer review included an auditor from the City of Palo Alto and another from the Central New Mexico Community College system.

Prior to the site visit, the peer review team was provided with Internal Audit's policies and procedures manual, organizational chart and staff information, OCTA background information, an inventory of all audits completed during the year, and a description of Internal Audit's quality control system. The quality control system consists of processes in place to ensure Internal Audit's consistent compliance with the Standards.

Once on site, the peer review team conducted interviews of staff, reviewed workpapers, audit reports, price review reports, and other documents produced by Internal Audit. The peer review team evaluated Internal Audit's independence and the impact that non-audit services provided by Internal Audit may have on its independence, tested training records, and reviewed procedures for Internal Audit's follow-up of outstanding audit recommendations.

Peer reviews under GAO Standards result in one of three opinions. Full compliance means that the system of quality control of the reviewed audit organization was adequately designed and complied with during the period reviewed to provide reasonable assurance of conforming with the Standards. A modified opinion is one in which the peer review team concludes that, except for the effects of deficiencies described in the report, the system of quality control was adequately designed and complied with during the period. An adverse opinion is a conclusion that the system of quality control was not adequately designed and complied with to provide reasonable assurance of

compliance with the Standards. OCTA's peer review team concluded that Internal Audit was in full compliance during the 12 months ended December 31, 2009 (Attachment A).

In addition to issuing its report on compliance with the Standards, ALGA's peer review team provided Internal Audit with a management letter (Attachment B). The peer review team recognized Internal Audit for providing value through quick turn-around of requests for price reviews and Buy America reviews, developing professional expertise in certain technical areas, and for productivity. The peer review team also recognized the Finance and Administration Committee (Committee) for its role in promoting Internal Audit's independence and the Committee's support and engagement in the internal audit function.

The review team also included three observations and suggestions. The peer review team questioned Internal Audit's classification of price reviews and Buy America reviews as audit services and recommended that Internal Audit investigate whether these types of projects might actually be non-audit services. The distinction is important in the peer review process because non-audit, or consulting-type, services are subject to minimal review. The Standards focus almost exclusively on whether or not an auditor's independence and objectivity is impaired by providing non-audit services.

In contrast, the Standards for audits are extensive and are the foundation of a quality work product. Internal Audit has classified price reviews as audits because of both the technical nature of the work and the desire to have these subjected to the same quality control as performance audits. It is clear, however, that some of the Standards do not apply or would be inefficient to implement for these routine projects. The peer review team suggested that reclassification of these projects to non-audit services might be appropriate. Internal Audit agreed to investigate the classification and seek guidance from the GAO.

The peer review team also noted that Internal Audit did not implement a quality control checklist until mid-year and indicated that it should be better tailored to address price review engagements. Internal Audit agreed with the recommendation and will develop improved checklists by June 30, 2010.

Finally, the peer review team found that Internal Audit did not clearly identify elements of an audit finding within the audit workpapers. These elements include the condition (the situation that exists), criteria (benchmarks or requirements against which performance is compared), cause (factors or

reasons for the condition), effect (outcomes or consequences of the condition), and recommendations (suggestions to eliminate the condition). While Internal Audit explores and discusses these elements in the workpapers, the elements were not clearly visible to the peer review team. As such, the peer review team recommended a worksheet to centrally document these elements. Internal Audit agreed with the recommendation and will implement a solution within the department's audit workpaper software.

Internal Audit's response to the external quality assurance review can be found in Attachment C.

Summary

A peer review has been completed of the Internal Audit Department. The peer review found that Internal Audit's quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with Government Auditing Standards for the year ended December 31, 2009. The peer review team also provided recommendations to further strengthen the internal quality control system.

Attachments

- A. External Quality Control Review of the Orange County Transportation Authority Internal Audit Department
- B. Association of Local Government Auditors February 5, 2010, Management Letter to Kathleen M. O'Connell
- C. Letter of Response to Management Letter from Kathleen M. O'Connell to Allen Leatherwood, CPA and Edwin S. W. Young, dated February 5, 2010

Prepared by:

Kathleen M. O'Connell
Executive Director, Internal Audit
(714) 560-5669



External Quality Control Review

of the
Orange County Transportation
Authority Internal Audit Department

Conducted in accordance with guidelines of the
**Association of Local Government
Auditors**

For the period January through December 2009



Association of Local Government Auditors

February 5, 2010

Ms. Kathleen M. O'Connell, Executive Director
Orange County Transportation Authority
Internal Audit Department
600 S. Main Street – 12th Floor
Orange, California 92863

Dear Ms. O'Connell

We have completed a peer review of the Orange County Transportation Authority Internal Audit Department for the period January through December 2009. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide* published by the Association of Local Government Auditors (ALGA).

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine if your internal quality control system operated to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States. Due to variances in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of our review, it is our opinion that the Orange County Transportation Authority Internal Audit Department internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits and attestation engagements during the period January through December 2009.

We have prepared a separate letter offering suggestions to further strengthen your internal quality control system.

Allen Leatherwood, CPA, CIA
Team Leader
Central New Mexico Community College

Edwin Young, CIA, CFE, CGFM
Team Member
City of Palo Alto, CA



Association of Local Government Auditors

February 5, 2010

Ms. Kathleen M. O'Connell, Executive Director
Orange County Transportation Authority
Internal Audit Department
600 S. Main Street – 12th Floor
Orange, California 92863

Dear Ms. O'Connell

We have completed a peer review of the Orange County Transportation Authority (OCTA) Internal Audit Department for the period January through December 2009 and issued our report thereon dated February 5, 2010. We are issuing this companion letter to offer certain observations and suggestions stemming from our peer review.

We would like to mention some of the areas in which we believe your Audit function excels:

- The Internal Audit Department adds value to the organization by providing rapid turn-around to organizational requests for Price Reviews and Buy America Reviews.
- Internal audit staff has professional expertise in sophisticated technical areas and is very productive.
- The role of the Finance and Administration Committee promotes independence of the Audit function and the Committee is both supportive and engaged.

We offer the following observations and suggestions to enhance your organization's demonstrated adherence to *Government Auditing Standards*:

Classification of Audit Services. GAS 3.20 through 3.30 address issues related to performing professional (non-audit) services to an organization. These types of services augment the value an internal audit function can bring to an organization.

During our review we noted that certain services provided at the request of OCTA's Contracts and Materials Management Department (CMM) could be considered non-audit services. GAS Standards were followed for OCTA's Internal Audit Price Reviews however, classification of these services as GAS attestation audits creates additional work due to strict requirements of *Governmental Auditing Standards*.

Suggestion: OCTA's Internal Audit Department should investigate whether services provided to OCTA's Contracts and Materials Management Department could be classified as non-audit services.

Use of Checklists: The Department did not implement Quality Control Checklists until July 2009, representing half of the period under review. In addition, the Checklist is not adequately tailored to address price review engagements.

Suggestion: OCTA's Internal Audit Department should continue to utilize the Quality Control Checklist for audit work; however, in order to enhance controls, should consider developing a Quality Control Checklist specific to price review work.

Development Worksheets: *Government Auditing Standards* require the development of certain elements in an audit finding. These elements are: condition, criteria, cause, effect, and recommendation. Our review of a performance audit required reading the entire report and the supporting workpapers to clearly identify these elements.

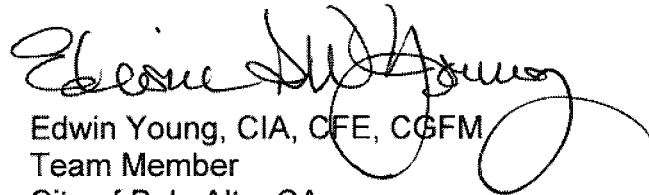
Suggestion: OCTA Internal Audit should prepare formal development finding worksheets that clearly identify each of the elements of a finding as prescribed in *Government Auditing Standards* which would facilitate supervisory review, quality control, and report writing.

We extend our thanks to you, your staff and the other Orange County Transportation Authority officials we met for the hospitality and cooperation extended to us during our review.

Sincerely,



Allen Underwood, CPA, CIA
Team Leader
Central New Mexico Community College



Edwin Young, CIA, CFE, CGFM
Team Member
City of Palo Alto, CA



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CHIEF EXECUTIVE OFFICE

Will Kempton
Chief Executive Officer

February 5, 2010

Allen Leatherwood, CPA
Central New Mexico Community College
Albuquerque, New Mexico

Edwin S. W. Young
Office of the City Auditor, City of Palo Alto
Palo Alto, California

Dear Mssrs. Leatherwood and Young:

I have reviewed your report dated February 4, 2010, containing the results of your External Peer Review of the Internal Audit Department (Department) of the Orange County Transportation Authority (OCTA), performed using guidelines established by the Association of Local Government Auditors (ALGA). As this was the first such review of the Department, it was reassuring to learn that you have concluded that the Department conducts its audit work in accordance with *Government Auditing Standard* (GAS). In addition, I appreciate your recognition of some of the positive accomplishments you found during your review.

While an opinion on the Department's compliance is important, it is also important to identify ways in which to improve operations. In your management letter, you have offered recommendations intended to help the Department enhance compliance with the Standards. Following are my responses to your suggestions.

Suggestion 1: Investigate Classification of Price Reviews and Buy America Reviews

The Department agrees with the recommendation and will investigate the appropriate classification of the Department's work with respect to pre-award price reviews and Buy America reviews. In conducting the investigation, we will contact the Government Accountability Office (GAO) for guidance.

This classification matter has been the subject of many healthy debates in our Department over the year as we attempted to comply with GAs while recognizing the unique features of this work that make strict GAO compliance inefficient. For example, GAS require audit planning, yet such a procedure is not applicable to price reviews because they are performed using routine procedures suggested by Federal Acquisition Regulations. To plan a price review would be an inefficient exercise. Despite the inapplicability of some standards, we have leaned towards the classification of price reviews and Buy America reviews as "audit services" because we believe that this work is of such vital importance in the government contracting process that it should be subjected to the same sort of rigorous peer review scrutiny as other financial and performance audits.

Suggestion 2: Develop a Quality Control Checklist

The Department agrees with this recommendation and will implement new quality control checklists by June 30, 2010. Since June 2009, the Department has been using ALGA's quality control checklist as the method by which we ensure consistent compliance with the Standards. We recognize, however, that this checklist is neither tailored to the unique policies or procedures of the Department, nor comprehensive in its consideration of all GAS. As such, we will develop a more detailed and thorough checklist of all required workpaper elements to ensure consistent compliance.

SUGGESTION 3: Develop a Worksheet to Identify Condition, Criteria, Cause, Effect and Recommendation for Each Audit Finding

The Department agrees with this recommendation. While we believe the required elements of audit findings are identified in our workpapers and audit reports, we recognize that they are not clearly labeled. Labeling the elements would both enable peer reviewers to identify them easily, as well as serve as a training tool for less experienced auditors as they gain experience drafting audit reports that include these elements. Rather than develop a checklist, however, we will use the Department's recently implemented software package and create tabs in the "Findings" module for each of the elements. We will amend our policies and procedures accordingly. We expect to complete these modifications by June 30, 2010.

February 5, 2010

Page 3

Staff in the Internal Audit Department found the ALGA External Peer Review to be a very valuable and constructive process. We very much appreciate the time you took away from your own departments to review our operation. Thank you for the professional and thorough manner in which you conducted this work, and for the opportunity to share ideas that we can apply in our respective audit organizations.


Sincerely,

A handwritten signature in cursive script, reading "Kathleen M. O'Connell". The signature is written in dark ink and is positioned above the printed name and title.

Kathleen M. O'Connell, CPA
Executive Director, Internal Audit



February 17, 2010

To: Finance and Administration Committee
From: Will Kempton, Chief Executive Officer 
Subject: Investments: Compliance, Controls, and Accounting, January 1 through June 30, 2009

Overview

The Internal Audit Department has completed a review of investments for the period January 1, 2009 through June 30, 2009. Based on the review, it appears that the Orange County Transportation Authority is in compliance with its debt, investment, and accounting policies and procedures. There were no audit findings or recommendations resulting from this review.

Recommendation

Receive and file Investments: Compliance, Controls, and Accounting, January 1 through June 30, 2009, Internal Audit Report No. 10-505.

Background

The Treasury/Public Finance Department is responsible for management of the Orange County Transportation Authority's (OCTA) investment portfolio. On June 30, 2009, the investment portfolio's book value was approximately \$906.4 million. The portfolio consists of two managed portfolios: liquid assets for OCTA's daily operations and the short-term portfolio for future budgeted expenditures. External investment managers administer the short-term portfolio, and OCTA's treasurer manages the liquid assets portfolio. OCTA also has funds invested in debt service reserve funds for various outstanding debt obligations. OCTA's Accounting Department is responsible for recording all debt and investment transactions and reconciling all bank and custodial accounts monthly.

Discussion

OCTA's investment activities are reviewed on a periodic basis by Internal Audit. The objective of this review was to determine if OCTA is in compliance

with OCTA's debt, investment, and accounting policies and procedures for the review period of January 1, 2009 through June 30, 2009.

Summary

Based on the review, investments were in compliance with OCTA's debt, investment, and accounting policies and procedures.

Attachment

- A. Investments: Compliance, Controls, and Accounting, January 1 through June 30, 2009

Prepared by:

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

Kathleen M. O'Connell
Executive Director, Internal Audit
(714) 560-5669

ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Investments: Compliance, Controls, and Accounting January 1 through June 30, 2009

INTERNAL AUDIT REPORT NO. 10-505

January 25, 2010



Internal Audit Team:

Kathleen M. O'Connell, CPA, Executive Director
Janet Sutter, CIA, Internal Audit, Section Manager
Serena Ng, CPA, Senior Internal Auditor

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT**

**Investments: Compliance, Controls, and Accounting
January 1 through June 30, 2009
January 25, 2010**

Conclusion.....	1
Background	1
Objectives, Scope and Methodology.....	1

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT**

**Investments: Compliance, Controls, and Accounting
January 1 through June 30, 2009
January 25, 2010**

Conclusion

The Internal Audit Department has completed a review of investments for the period January 1, 2009 through June 30, 2009. Based on the review, it appears that the Orange County Transportation Authority (OCTA) is in compliance with its debt, investment, and accounting policies and procedures.

Background

The Treasury/Public Finance Department is responsible for management of OCTA's investment portfolio. On June 30, 2009, the investment portfolio's book value was approximately \$906.4 million. The portfolio consists of two managed portfolios: liquid assets for OCTA's daily operations, and the short term portfolio for future budgeted expenditures. External investment managers administer the short-term portfolio, and OCTA's Treasurer manages the liquid assets portfolio. OCTA also has funds invested in debt service reserve funds for various outstanding debt obligations. OCTA's Accounting Department is responsible for recording all debt and investment transactions and reconciling all bank and custodial accounts monthly.

Objectives, Scope and Methodology

The primary objective of the review was to determine if OCTA was in compliance with its debt, investment, and accounting policies and procedures.

Additional audit objectives included determining if:

- Internal controls over OCTA's investment activities were adequately designed;
- OCTA was in compliance with California Government Code;
- Investment transactions were adequately supported; and
- OCTA was in compliance with investment requirements of debt issuances.

OCTA's independent auditors, Mayer Hoffman McCann P.C. (MHM), performed agreed-upon procedures with respect to the Treasury Department for the year ended June 30, 2009, and issued their report dated November 11, 2009. Internal Audit limited the scope of this review to procedures not performed by MHM during the course of their agreed-upon procedures.

The methodology consisted of reviewing a judgmental sample of daily cash worksheets prepared by the Accounting Department and the Treasury/Public Finance Department, reviewing a judgmental sample of wire transfers, and reviewing two quarterly debt and investment reports provided to OCTA's Board of Directors. The review period was January 1, 2009 through June 30, 2009.


**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT**

**Investments: Compliance, Controls, and Accounting
January 1 through June 30, 2009
January 25, 2010**

This review was conducted in accordance with Generally Accepted Government Auditing Standards, except for the triennial peer review requirement which has not yet been fulfilled. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



February 17, 2010

To: Finance and Administration Committee
From: Will Kempton, Chief Executive Officer 
Subject: Second Quarter Fiscal Year 2009-10 Procurement Status Report

Overview

The second quarter procurement status report summarizes the procurement activities for information purposes to the Orange County Transportation Authority Board of Directors. This report focuses on procurement activity from October 1, 2009 through December 31, 2009, with a dollar value greater than \$250,000. The second quarter procurement status report also projects future procurement activity for the third quarter as identified in the fiscal year 2009-10 annual budget.

Recommendation

Receive and file as an information item.

Background

The Board of Directors (Board) approved the Orange County Transportation Authority (OCTA) Fiscal Year (FY) 2009-10 Budget, which identifies the goods and services that will be purchased during the fiscal year. A quarterly procurement report has been prepared detailing the procurement activity greater than \$250,000 that occurred during the second quarter of FY 2009-10. The report also provides a "look-ahead" of upcoming procurement activity by Board committee. The quarterly procurement report identifies contractual activity, not dollars spent.

Discussion

During the second quarter of FY 2009-10, the Contracts Administration and Materials Management Department handled 314 different contractual documents. Of the total, 189 procurements, valued at \$28,510,477, were completed; the remaining 125 procurements will be executed during the third quarter.

In the second quarter, the Board took action on 51 procurements. The 51 procurements included 26 new agreements valued at \$14,779,716, 15 cooperative agreements valued at \$82,946,807, one purchase order valued at \$500,000, and eight amendments valued at \$8,923,000. One option term was exercised during this period for a total value of \$80,000. Many of these items require either negotiations or cost and price reviews not all Board approved procurements are completed within the same quarter. Many will be carried over and completed in the third quarter. Attachment A shows a list of Board-approved procurements during the second quarter that have a value greater than \$250,000.

Looking forward to the third quarter of FY 2009-10 (January through March), the Board committees will be asked to take action on several consultant selections for bond counsel, on-call architectural and engineering services and freeway service patrol services; cooperative agreements with several cities, for the freeway access studies and parking structure design, as well as a cooperative agreement with Southern California Regional Rail Authority (Metrolink) for design for safety enhancements; and a sole source for project management services for the fixed route radio upgrade. Estimated value of these upcoming procurements is \$134,141,450. Attachments B through E identify procurement activity anticipated in the third quarter of FY 2009-10 by the committee that will review the items.

Summary

This report provides an update of the procurement activity for the second quarter of FY 2009-10, October through December 2009, as well as a look ahead at anticipated procurement activity for the third quarter of FY 2009-10. Staff recommends that this report be received and filed as an information item.

Attachments

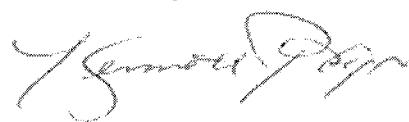
- A. Board-approved Contracts Over \$250,000 During Second Quarter Fiscal Year 2009-10
- B. Highways Committee – Third Quarter Outlook (January 1, 2010 – March 31, 2010)
- C. Transit Committee – Third Quarter Outlook (January 1, 2010 – March 31, 2010)
- D. Finance and Administration Committee – Third Quarter Outlook (January 1, 2010 – March 31, 2010)
- E. Transportation 2020 Committee – Third Quarter Outlook (January 1, 2010 – March 31, 2010)

Prepared by:



Virginia Abadessa
Director, Contracts Administration and
Materials Management
714-560-5623

Approved by:



Kenneth Phipps
Executive Director,
Finance and Administration
714-560-5637

Board-approved Contracts Over \$250,000 During Second Quarter Fiscal Year 2009-10

AGREEMENTS

Prime Vendor	Contract #	Contract Description	Effective Date	Expiration Date	Amount
Arellano Associates	C90250	Public outreach services for right-of-way final design and construction phases of five grade separation projects	12/8/2009	6/30/2013	\$ 610,000
GFI Genfare	C90515	Implementation of farebox computing infrastructure upgrade	12/28/2009	12/31/2009	349,218
FusionStorm, Inc.	C90552	Implementation of disaster recovery solution for critical Authority information technology systems	11/1/2009	10/31/2010	366,287
Dell Marketing	C90607	Microsoft Enterprise software, licenses and maintenance to support computing infrastructure for the Authority	11/2/2009	10/31/2012	802,766
David Evans and Associates, Inc.	C90612	On-call right-of-way engineering and surveying services	11/9/2009	11/30/2012	750,000 (Aggregate total)
Guida Surveying, Inc.	C90780	On-call right-of-way engineering and surveying services	11/9/2009	11/30/2012	750,000 (Aggregate total)
Huitt-Zollars, Inc.	C90781	On-call right-of-way engineering and surveying services	11/9/2009	11/30/2012	750,000 (Aggregate total)
Hunsaker and Associates Irvine, Inc.	C90782	On-call right-of-way engineering and surveying services	11/9/2009	11/30/2012	750,000 (Aggregate total)
Psomas	C90783	On-call right-of-way engineering and surveying services	11/9/2009	11/30/2012	750,000 (Aggregate total)
RBF Consulting	C90784	On-call right-of-way engineering and surveying services	11/9/2009	11/30/2012	750,000 (Aggregate total)
ShelterCLEAN	C80728	Bus stop maintenance	11/30/2009	11/30/2012	1,739,236
Joshua Grading and Excavating, Inc.	C90698	Maintenance services for OCTA railroad right-of-way	12/1/2009	1/31/2009	360,000
California Property Specialists, Inc.	C90822	On-call right-of-way services for transit and highway projects	11/23/2009	11/30/2013	1,000,000 (Aggregate total)
Epic Land Solutions, Inc.	C90452	On-call right-of-way services for transit and highway projects	11/23/2009	11/30/2013	1,000,000 (Aggregate total)
HDR Engineering, Inc.	C90747	On-call right-of-way services for transit and highway projects	11/23/2009	11/30/2013	1,000,000 (Aggregate total)
Overland, Pacific and Cutler, Inc.	C90748	On-call right-of-way services for transit and highway projects	11/23/2009	11/30/2013	1,000,000 (Aggregate total)
Paragon Partners, Ltd.	C90749	On-call right-of-way services for transit and highway projects	11/23/2009	11/30/2013	1,000,000 (Aggregate total)
Stantec Consulting, Inc.	C90453	On-call utility coordination and support services	11/23/2009	11/30/2013	900,000 (Aggregate total)
Spec Services	C90751	On-call utility coordination and support services	11/23/2009	11/30/2013	900,000 (Aggregate total)
Utility Specialists California, Inc.	C90751	On-call utility coordination and support services	11/23/2009	11/30/2013	900,000 (Aggregate total)

Board-approved Contracts Over \$250,000 During Second Quarter Fiscal Year 2009-10

Prime Vendor	Contract #	Contract Description	Effective Date	Expiration Date	Amount
APA Engineering, Inc.	C90752	On-call utility coordination and support services	11/23/2009	11/30/2013	\$ 900,000 (Aggregate total)
Berg & Associates	C90753	On-call utility coordination and support services	11/23/2009	11/30/2013	900,000 (Aggregate total)
Greater Southern California, Inc.	C90719	Freeway service patrol (Beat 1)	1/1/2010	11/30/2013	1,414,500
Top Towing	C90840	Freeway service patrol (Beat 2)	1/1/2010	11/30/2013	1,157,184
A & B Towing	C90841	Freeway service patrol (Beats 3 and 10)	1/1/2010	11/30/2013	2,394,005
California Coach Orange, Inc.	C90842	Freeway service patrol (Beats 4 and 5)	1/1/2010	11/30/2013	2,936,520
TOTAL NUMBER OF CONTRACTS					26
TOTAL DOLLAR VALUE					\$ 14,779,716

COOPERATIVE AGREEMENTS

Prime Vendor	Contract #	Contract Description	Effective Date	Expiration Date	Amount
United States Fish and Wildlife Service; California Department of Fish and Game; California Department of Transportation	C90278	Memorandum of agreement for conservation planning efforts	11/23/2009	11/23/2013	\$ -
United States Fish and Wildlife Service; California Department of Fish and Game; California Department of Transportation	C90279	Planning agreement for conservation planning efforts	11/23/2009	11/23/2013	-
City of Fullerton	C90576	Railroad grade separation projects	12/31/2009	8/1/2016	50,982,000
City of La Habra	C90729	Service planning of bus/shuttle proposal	11/13/2009	5/13/2011	300,000
California Department of Transportation (Caltrans)	C90816	Right-of-way certification services for the northbound Orange Freeway (State Route 57) widening between Katella Avenue and Lincoln Avenue	11/9/2009	7/1/2015	2,743,000
City of Placentia	C90864	Repayment of funds to the California Department of Transportation	7/1/2011	6/30/1930	4,100,000
City of Anaheim	C90802	Assignment of all rights and responsibilities of Agreement No. C90230 with ICF International (formerly Jones and Stokes Associates, Inc.) for support in completing environmental clearance of phase one of Anaheim Regional Transportation Intermodal Center (ARTIC)	11/23/2009	N/A	-

Board-approved Contracts Over \$250,000 During Second Quarter Fiscal Year 2009-10

Prime Vendor	Contract #	Contract Description	Effective Date	Expiration Date	Amount
City of Anaheim	C90821	Completion of environmental clearance of phase one of ARTIC	11/23/2009	12/31/2014	\$ 3,645,307
City of Irvine	C90830	Service planning of bus/shuttle proposals	11/23/2009	5/23/2011	500,000
City of Laguna Woods	C90831	Service planning of bus/shuttle proposals	11/23/2009	5/23/2011	100,000
Caltrans	C90829	Construction of west segment of West County Connectors Project	11/23/2009	12/31/2015	13,912,500
City of Long Beach	C90815	Traffic mitigation measures	11/23/2009	12/31/2014	1,510,000
City of Fullerton	C90839	Preliminary planning and environmental work on transportation center expansions	11/23/2009	6/30/2012	875,000
City of Santa Ana	C90823	Preliminary planning and environmental work on transportation center expansions	11/23/2009	6/30/2012	3,000,000
California Department of Transportation (Caltrans)	C90778	Landscape construction of the Interstate 5 gateway project from State Route 91 to north of Orange/Los Angeles County line	1/8/2010	3/1/2016	1,279,000
TOTAL NUMBER OF CONTRACTS					15
TOTAL DOLLAR VALUE					\$ 82,946,807

PURCHASE ORDERS

Prime Vendor	Contract #	Contract Description	Effective Date	Expiration Date	Amount
Marsh Risk Insurance, Inc.	A15270	91 Express Lanes property insurance renewal	3/1/2010	3/1/2011	\$ 500,000
TOTAL NUMBER OF CONTRACTS					1
TOTAL DOLLAR VALUE					\$ 500,000

Board-approved Contracts Over \$250,000 During Second Quarter Fiscal Year 2009-10

AMENDMENTS

Prime Vendor	Contract #	Contract Description	Effective Date	Expiration Date	Amount
AT&T Mobile (formerly Cingular Wireless)	C52927	Digital wireless service for freeway emergencies call box system	3/27/2006	12/31/2010	\$ 75,000
Kaiser Foundation Health Plan, Inc.	C50455	Prepaid medical services	1/1/2010	12/31/2010	1,500,000
Aetna	C81054	Prepaid medical services	1/1/2010	12/31/2010	753,000
Aetna	C81055	Open access managed choice medical services	1/1/2010	12/31/2010	410,000
MetLife Insurance Company	C52862	Preferred provider organization dental services	1/1/2010	12/31/2010	1,756,000
Vision Service Plan	C60657	Vision services	1/1/2010	12/31/2010	3,400,000
California Department of Transportation (Caltrans)	C90628	Increase funding commitment for West County Connectors project	11/9/2009	2/1/2015	924,000
California Department of Transportation (Caltrans)	C52358	Reimburse City of Buena Park for maintenance of Orange County monument sign	12/14/2009	12/31/2015	105,000
TOTAL NUMBER OF CONTRACTS					8
TOTAL DOLLAR VALUE					\$ 8,923,000

OPTION YEARS

Prime Vendor	Contract #	Contract Description	Effective Date	Expiration Date	Amount
Mercer	C41271	Exercise second option term for health insurance brokerage services	12/9/2009	11/30/2010	\$ 80,000
TOTAL NUMBER OF CONTRACTS					1
TOTAL DOLLAR VALUE					\$ 80,000

HIGHWAYS COMMITTEE - Third Quarter Outlook (January 1, 2010 - March 31, 2010)

<u>Committee Date</u>	<u>Item Description</u>	<u>Estimated Budget</u>	<u>Division</u>
January 18, 2010	Amendment to Agreement for Riverside Freeway (State Route 91) westbound lane addition between Santa Ana Freeway (Interstate 5) and the Orange Freeway	\$ 689,000	Development
	Amendment to Agreement for the Integration of the San Diego Freeway (Interstate 5) Avenida Pico interchange project	350,000	Development
	Amendment to Agreement for report on traffic and revenue analysis for the San Diego Freeway (Interstate 5) improvement project	1,000,000	Development
	Freeway Service Patrol Program Fund transfer agreement	3,727,010	Executive Office
February 1, 2010	Cooperative agreement with City of Costa Mesa for the Costa Mesa Freeway access study	800,000	Development
	Amendment to cooperative agreement with the California Department of Transportation for northbound Orange Freeway (State Route 57) widening project.	964,475	Development

HIGHWAYS COMMITTEE - Third Quarter Outlook (January 1, 2010 - March 31, 2010)

<u>Committee Date</u>	<u>Item Description</u>	<u>Estimated Budget</u>	<u>Division</u>
February 1, 2010	Amendment to agreement with Parsons Transportation Group to perform preliminary engineering for two additional alternatives on the San Diego Freeway (Interstate 5)	\$ 4,500,000	Development
March 1, 2010	Consultant selection for Freeway Service Patrol services for the West County Connectors Construction Project	1,350,000	Executive Office

TRANSIT COMMITTEE - Third Quarter Outlook (January 1, 2010 - March 31, 2010)

<u>Committee Date</u>	<u>Item Description</u>	<u>Estimated Budget</u>	<u>Division</u>
January 14, 2010	Amendment to agreement for bus system schedule checking	\$ 188,366	Transit
	Sole Source agreement for project management, technical consulting and support for the procurement and implementation of the Intelligent Transit Management System	427,565	Transit
	Amendment to agreement for security upgrades at Anaheim, Garden Grove, Irvine Construction Circle, and Irvine Sand Canyon bus bases	71,134	Rail
	Agreement for construction of a pedestrian access and fencing at the Tustin Metrolink Station	212,400	Rail
<hr/>			
February 11, 2010	Cooperative agreement with the City of Orange for the design of a parking structure at the Orange Transportation Center	2,100,000	Rail
	Selection of project management consultant services for the project study report for the at-grade rail-highway crossings along the Los Angeles/San Diego Rail Corridor (LOSSAN)	550,000	Rail

TRANSIT COMMITTEE - Third Quarter Outlook (January 1, 2010 - March 31, 2010)

<u>Committee Date</u>	<u>Item Description</u>	<u>Estimated Budget</u>	<u>Division</u>
March 11, 2010	Cooperative agreement with the City of Laguna Niguel for parking expansion at the Laguna Niguel/Mission Viejo Metrolink Station	\$ 6,000,000	Rail
	Consultant selection for on-call architectural and engineering services for facility modifications	2,000,000	Rail
	Upgrade of OCTA's radio system to the integrated transportation management system	20,400,000	Transit
	Award of contract for concrete repairs at the Anaheim Base	61,500	Rail
	Amendment to cooperative agreement with the Southern California Regional Rail Authority for at-grade rail-highway grade crossing safety enhancement design and construction along the Los Angeles/San Diego Rail Corridor (LOSSAN)	87,400,000	Rail

FINANCE AND ADMINISTRATION COMMITTEE - Third Quarter Outlook (January 1, 2010 - March 31, 2010)


<u>Committee Date</u>	<u>Item Description</u>	<u>Estimated Budget</u>	<u>Division</u>
January 13, 2010	Committee Meeting cancelled		
January 27, 2010	Consultant Selection for Bond Counsel Services	\$ 200,000	Finance and Administration
February 10, 2010	No procurement items on agenda		
February 24, 2010	No procurement items on agenda		
March 10, 2010	No procurement items on agenda		

TRANSPORTATION 2020 COMMITTEE - Third Quarter Outlook (January 1, 2010 - March 31, 2010)

<u>Committee Date</u>	<u>Item Description</u>	<u>Estimated Budget</u>	<u>Division</u>
February 1, 2010	Consultant selection for the preparation of a natural community conservation plan/ habitat conservation plan/master streambed alteration agreement	\$ 1,150,000	Development



February 17, 2010

To: Finance and Administration Committee
From: Will Kempton, Chief Executive Officer 
Subject: Customer Information Center Financial Challenges

Overview

The Orange County Transportation Authority provides telephone call center operations 365 days a year using a contractor, Alta Resources. Given the substantial scale of bus service changes, the proliferation of cell phones, the reduction of on-street and printed public information, and the delay of 511 integrated voice response, call volumes have grown to record levels. This has impacted the call center budget and, as reported in December 2009, requires the reallocation of funds from savings in other communication program areas to fund call center operations. However, these funds are not sufficient. Staff is requesting Board of Directors' approval to revisit the operating model, renegotiate the terms of the Alta Resources contract, and/or re-bid the contract.

Recommendations

- A. Maintain hours of operation through March 2010 to provide sufficient customer information through the March service change time period when significant reductions are planned.
- B. Effective April 1, 2010, reduce call center hours of operation but maintain service seven days per week operating from 8:00 a.m. to 5:00 p.m. and close the call center on six holidays.
- C. Direct staff to revisit the terms of Alta Resources' Agreement No. C-6-0461 to provide for a lower average cost per call rate and a mechanism to meter call volume. Return to the Board of Directors before the end of March 2010 with results of these negotiations and/or a scope of work for a rebid of customer information center services.

Background

The Orange County Transportation Authority (OCTA) telephone Customer Information Center (CIC) assists customers with trip planning by providing travel itineraries and general information to bus riders seven days a week, 365 days a year. CIC operations are provided by Alta Resources, located in Brea California. Call center hours of operation are:

Monday – Friday	7:00 a.m. to 8:00 p.m.
Saturday – Sunday	7:00 a.m. to 7:00 p.m.
Holidays	8:00 a.m. to 5:00 p.m.

Over the past year, call volumes have continued to surpass expectations with an increase of 26 percent in the first half of this fiscal year as compared with the same period the previous year.

For fiscal year (FY) 2009-10 the average budgeted call volume was 61,000 calls per month. When budget assumptions were developed in January 2009, this was the call volume at the time and it was assumed reduced levels of ridership would result in reductions in calls. In addition, it was assumed the 511 integrated voice response (IVR) system would be operational in the first half of the fiscal year and a minimum of 10 percent of calls would be diverted to the IVR system. The 511 transit IVR, being developed by the Los Angeles County Metropolitan Transportation Authority, is currently not deployed. It is scheduled for deployment by May 2010; however, this date is not certain.

Actual CIC call volume in FY 2009-10 has fluctuated between 74,000 and 84,000 calls per month. Given the magnitude of the service change in March 2010, call volume could spike even further. This increasing call volume has had a negative budget impact. As reported on December 14, 2009, the original CIC budget estimate was \$1.45 million – about 730,000 annual calls. Given the current rate of increase, annual call volumes could reach 1,000,000 calls and, given the existing service delivery model, costs would be \$2.0 million.

A portion of savings from other communications programs have been redirected to the CIC to cover some of these additional costs. This includes:

- Bus books are being printed twice annually versus four times per year
- Timetables are being produced and printed in-house
- On-street signage has been reduced

With these changes, staff was able to redirect \$200,000 to the call center operation; however, other actions are needed as there is no additional funding in the communications budget. This could include reducing the hours of

operation, eliminating call center service on holidays, and/or continuing to work through the CIC pilot program to adjust staffing, thereby adjusting the average speed of answer as required to remain within available revenues.

Volatility of call volume has been an ongoing issue at OCTA. On June 22, 2009, the OCTA Board of Directors (Board) directed staff to implement a pilot program designed to increase the average speed of answering calls from less than 30 seconds to 60 seconds (or more). The goal was to assess the impact of wait times on the call abandonment rate. While average monthly wait times have increased to 85 seconds, call volume has not decreased. In addition, there have been no complaints about increases in wait times.

On December 14, 2009, an update on call volume was presented to the Board. That report noted the total number of calls handled continued to increase in double digit percentages and reported the budget issues. Staff has further assessed the impacts and is seeking Board approval to change the operating model to better manage call center volume and reduce operating costs.

Discussion

Alta Resources has provided OCTA with CIC services for the past eight years. Contract terms have remained fairly constant for this duration with an emphasis on serving customers, maintaining low abandonment rates, and processing calls. The current contract terms include a \$2.00 per call cost with no ceiling on the number of calls processed.

Based in Brea, California, Alta provides CIC management staff and operators, CIC training, the telephone system, and computer hardware. OCTA provides HASTUS software and a T-1 line telephone connection.

The table below reflects the contractual terms with Alta Resources for the initial four and one-half year term with three one-year option terms.

Alta Resources Contract No. C-6-0461	
Initial Contract Term 4.5 Years	1/1/2007 - 6/30/2011
3 One-Year Option Terms	7/1/2011 - 6/30/2014
Maximum Cumulative Obligation	\$6,917,366.00
Total Contract Cost to Date	\$5,398,376.87
Contract Balance	\$1,518,989.13

December 2009 marked the third complete year of the four and one-half year initial contract term for the CIC contract. At that time, 67 percent of the initial

contract term had expired and 78 percent of contract funding had been expended. Staff reported that at the current rate of expenditure, the maximum cumulative obligation will be attained in the first quarter of FY 2010-11, approximately September 2010 – about nine months earlier than anticipated.

Options to Manage Costs

Staff has explored several options to manage call center costs through the pilot program. As of the end of December 2009, the CIC experienced no greater than a 10 percent abandonment rate. This means that if a customer calls the CIC, nine times out of 10, the call will be processed. One time out of ten, the caller will hang up (for a variety of reasons) before he/she reaches an operator. Staff is exploring the tolerance for increasing wait times and, while people are on hold, promoting the new Text4Next short message system (SMS), and other less expensive means for customers to obtain information.

The second issue relates to hours of operation. Call center demand would likely be reduced if the CIC reduced its hours of operation. For example, reducing hours of operation to 8:00 a.m. to 5:00 p.m. seven days per week, could result in fewer calls. The chart below identifies the impact if 50 percent of existing calls outside the 8:00 a.m. to 5:00 p.m. window were reduced.

Call Volume Outside 8 a.m. to 5 p.m. Window (Oct- Dec 2009)	Number Annual Calls	Potential Savings \$2.00 Per Call Assume 50% diversion
Weekday Calls	141,080	\$ 141,080
Saturday	6,280	\$ 6,280
Sunday	4,352	\$ 4,352
Total	151,712	\$ 151,712

Holidays

The current hours of operation on all holidays are 8 a.m. to 5 p.m. Eliminating call center service on the following six holidays – New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving, and Christmas, provides an estimated cost savings as shown below.

Average Daily Calls Handled	Total Holiday Call Volume	Annualized Cost Savings
1,670	10,020	\$ 20,040

Staffing to Budget

Another option is to renegotiate the Alta Resources agreement that provides for fixed staffing levels. This could result in longer wait times. On-hold messages could promote other alternatives to obtain schedule information, including on-line resources, such as the e-bus book, "Just Click" trip planner, OCTA Connections (email notices), SMS text messaging, bus book, and individual route maps. The pros and cons of staffing to budget are identified below.

Pros:

- Financial/budget certainty
- Reduced long-term contractual costs
- Promotes use of less expensive communications

Cons:

- Longer wait times
- Higher abandonment rates
- Limited ability to increase staffing to meet increased call demand

511 IVR System

In the previous update to the Board, staff reported on the Regional 511 IVR system. The launch date tentatively scheduled for January 2010 has been revised to Spring 2010. It is expected that diverting CIC calls to the 511 IVR will be a gradual process and full utilization of the trip planning system may not be realized until the end of 2010.

Summary

The call volume for the CIC continues to exceed expected service levels and fiscal year and contractual budgets are being consumed at a higher than planned rate. Staff is seeking policy direction from the Board to address these issues. Staff is proposing modifying hours of operation and closing the call center on six holidays. Staff is also recommending to renegotiate the existing terms of the current agreement and report back to the Board in March 2010.

Attachment

A. Customer Information Center Financial Challenges

Prepared by:



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Manager, Customer Relations
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Approved by:



Ellen S. Burton
Executive Director, External Affairs
(714) 560-5923



Customer Information Center Financial Challenges

Current Operating Model

- Contracted service, Alta Resources provider
 - Alta - staff, phones, computer hardware
 - OCTA - software, T-1
- Hours of Operation:
 - Mon-Fri 7 a.m. – 8 p.m.
 - Sat-Sun 7 a.m. – 7 p.m.
 - Holidays 8 a.m. – 5 p.m.

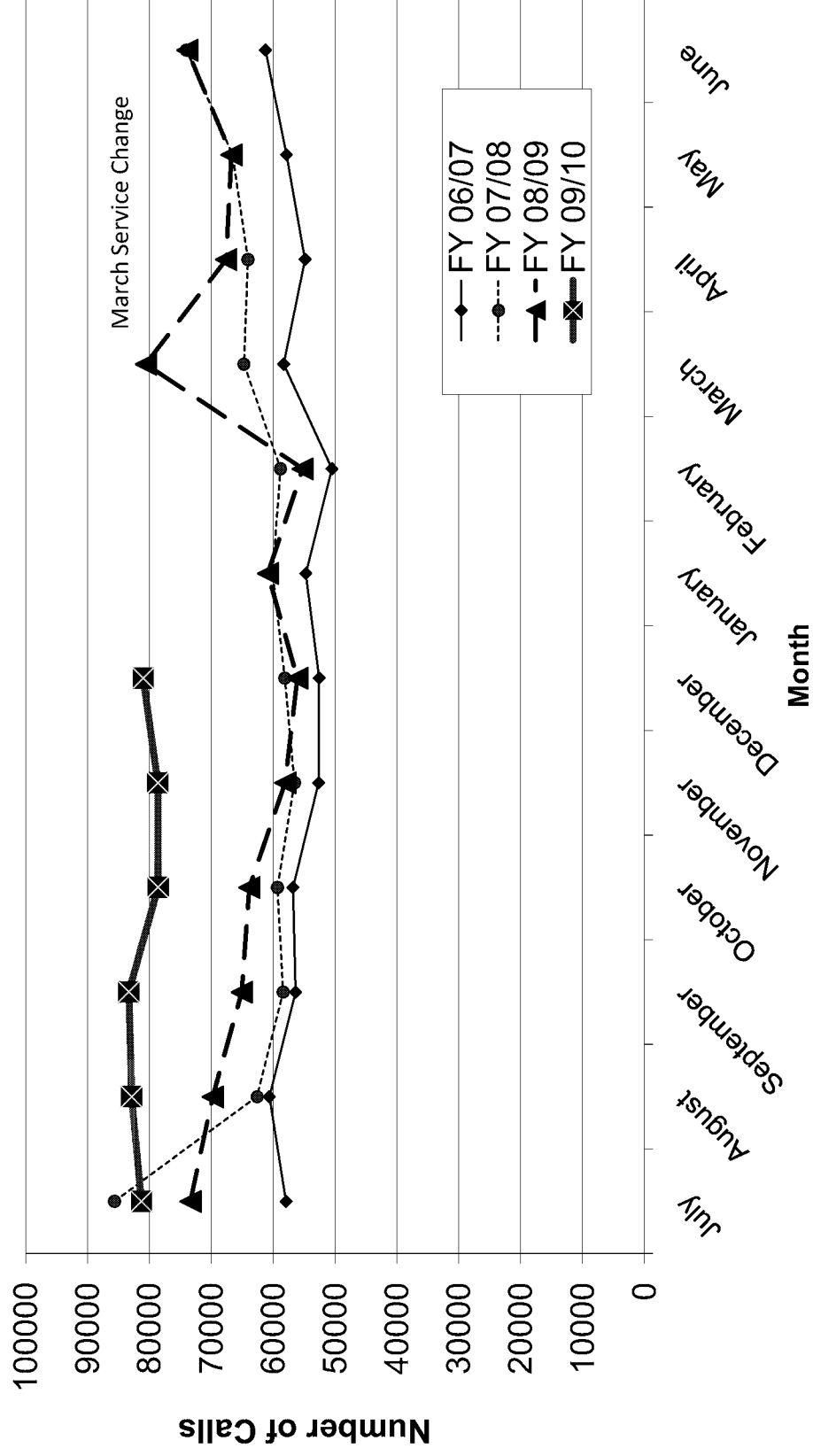
The Challenge

- Unpredictable / high call volumes
 - Average calls FY 2008-2009 ~ 66,000/month
 - Average calls FY 2009-2010 ~ 80,000 – 90,000/month*
- Budget assumptions
 - Call volume ~ 61,000/month
 - 511 implemented
 - Minimum 10% calls diverted to Integrated Voice Response
 - Original budget \$1.45 million for CIC + \$200,000 = \$1.65 million
 - Assuming status quo operations, shortfall \$350,000

* Projected, March 2010 uncertain due to magnitude of service change

CIC Monthly Call Volumes

FY 2006-2007 – Dec FY 2009-2010



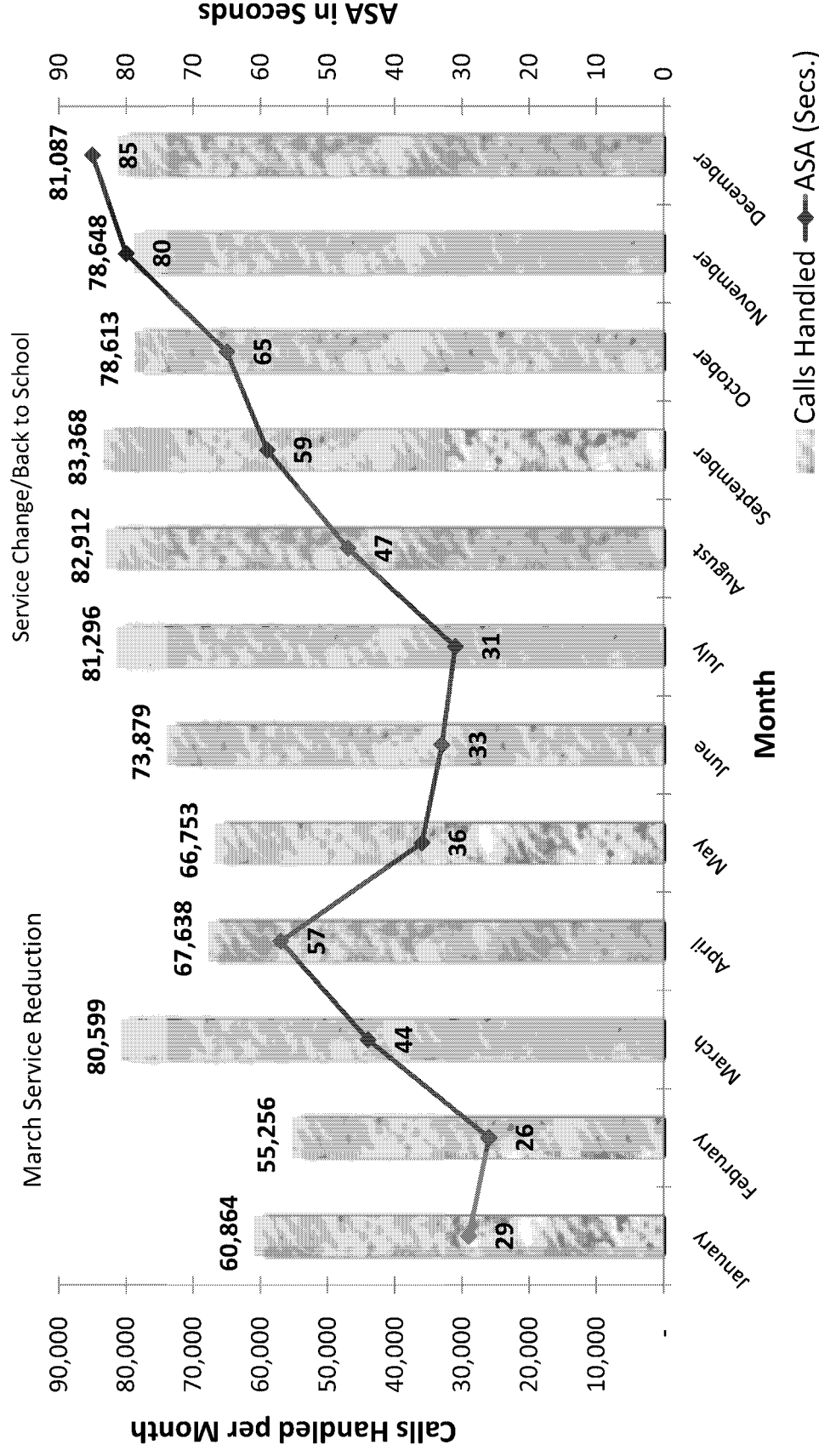
Actions Taken

- | | |
|--|-----------|
| ■ Modified hours of operation | June 2008 |
| ■ Changed speed of answer | Aug 2009 |
| ■ Expand web info | Ongoing |
| ■ Initiated SMS texting | Nov 2009 |
| ■ Changing on-hold message | Feb 2010 |
| ■ “Experiencing high call volumes, here are your options...” | |
| ■ Promote Text4Next | |
| ■ Promote E-BusBook | |

Pilot To Modify Average Speed of Answer (ASA)

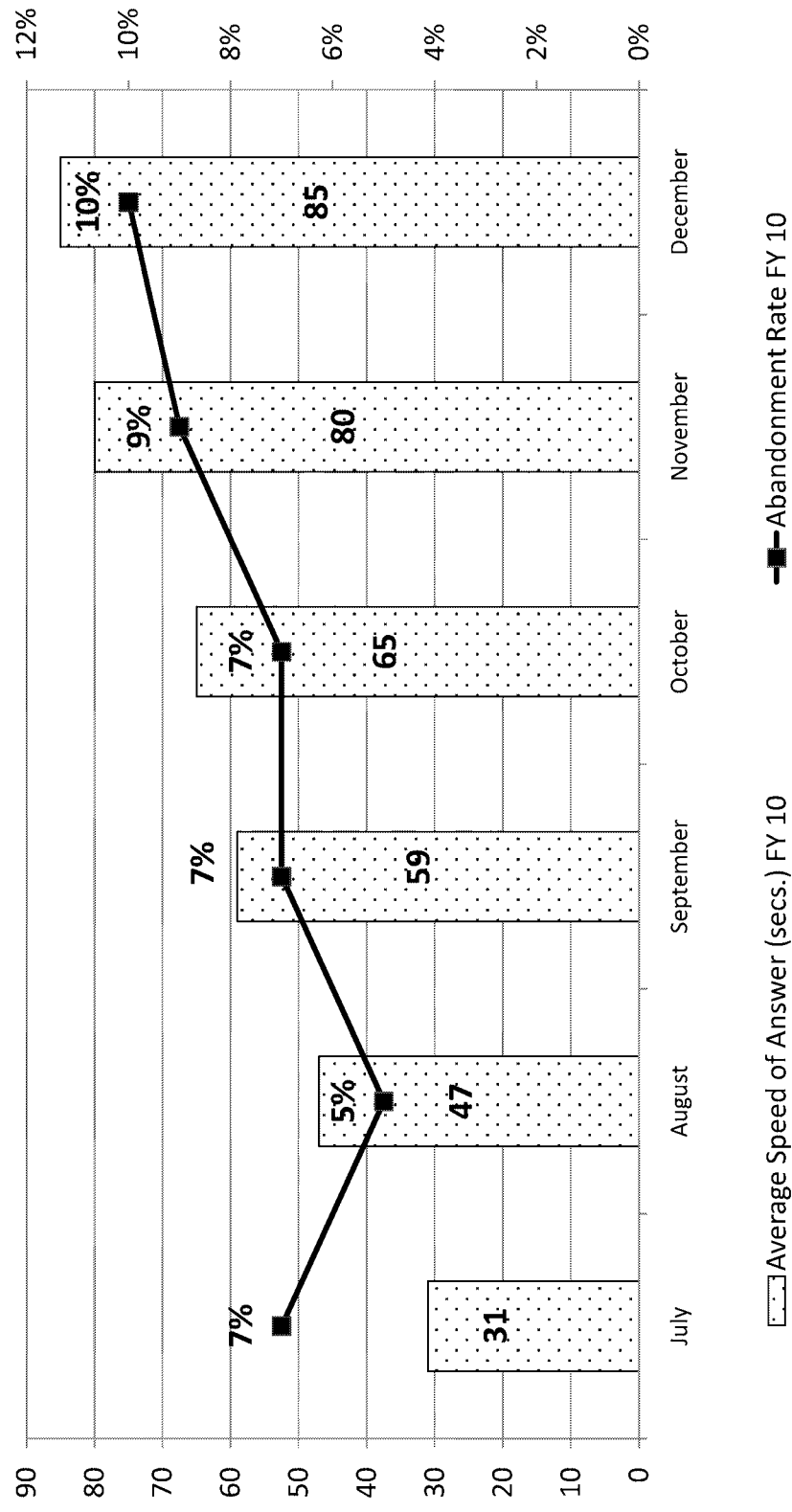
Calls Handled and ASA

Jan – Dec 2009



CLC Pilot

Average Speed of Answer versus Abandonment Rate FY 2009-10



Upcoming Challenges

- Large scale service reductions
- Budget reductions for printed information
- Increasing information needs
- 511 integrated voice response for transit delayed

Options

- Cut hours of operation
- Renegotiate Alta contract
 - Staff to budget, firm fixed price
 - Cap call volume
- Rebid contract

Cut Hours of Operation

Modify Service Hours to 8 a.m. to 5 p.m.	Monthly Calls	Monthly Cost Savings @ 50% Diversion	April - June 2010 (3 months)
Weekday	11,757	\$ 11,757	\$ 35,271
Saturday	523	\$ 523	\$ 1,569
Sunday	363	\$ 363	\$ 1,089
Total	12,643	\$ 12,643	\$ 37,929

Savings based on \$2.00 per call

Lower Rate, Staff to Budget

Cost Per Call, Annual Cost			
Avg Monthly Call Volume	\$2.00	\$1.75	\$1.50
90,000	\$ 2,160,000	\$ 1,890,000	\$ 1,620,000
80,000	\$ 1,920,000	\$ 1,680,000	\$ 1,440,000
70,000	\$ 1,680,000	\$ 1,470,000	\$ 1,260,000
60,000	\$ 1,440,000	\$ 1,260,000	\$ 1,080,000

Recommendations

- Maintain hours of operation through March 2010
- Modify hours of operation effective April 1, 2010
- Revisit Alta Resources contract
- Return to Board in March with contract amendment or scope of work for rebid



February 17, 2010

To: Finance and Administration Committee

From: Will Kempton, Chief Executive Officer

Subject: Review of Metrolink Audit Activities

Overview

The Internal Audit Department of the Orange County Transportation Authority has completed a review of the audit activities of the Southern California Regional Rail Authority. The review was conducted in response to a recommendation made during the Orange County Transportation Authority's fiscal year 2004-06 state triennial audit. Recommendations have been made to enhance the internal audit function at the Southern California Regional Rail Authority and management has indicated that they will be implemented.

Recommendation

Receive and file Review of Metrolink Audit Activities, Internal Audit Report No. 08-010.

Background

In September 2006, the Orange County Transportation Authority (OCTA) engaged an independent consultant to perform a state-mandated triennial performance review of OCTA, the Orange County Transit District, and the Laguna Beach Municipal Transit Lines. In April 2007, the consultant issued its review reports which included 38 recommendations for improvements to OCTA operations.

Among the recommendations was one that suggested that, as a member agency of the Southern California Regional Rail Authority (Metrolink), OCTA conduct periodic audits of Metrolink operations. In response, OCTA's Internal Audit Department (OCTA Internal Audit) proposed an initial evaluation of the audit activities of Metrolink.

Discussion

The purpose of conducting a review of the audit activities of Metrolink was to assess the level of audit activity, review the internal audit function's compliance with applicable professional standards, and evaluate the need for the inclusion of Metrolink operations in future OCTA annual internal audit plans.

In conducting this review, OCTA Internal Audit relied on publicly available audit reports, audit status reports, Board of Directors (Board) and Board committee agendas and minutes, and inquiries and discussions with Metrolink staff.

OCTA Internal Audit noted that the independence of Metrolink's internal audit function could be improved. Through inquiry with Metrolink staff and review of the results of audits performed by Metrolink's contract audit firm, OCTA Internal Audit observed that Metrolink staff have input into the scope and procedures performed by the contract audit firm. An outsourced audit function creates greater reliance by auditors on the expertise and knowledge of the staff who oversee the programs under audit. As such, OCTA Internal Audit recommended that the Safety and Operational Oversight Committee (Committee) of Metrolink's Board, acting as Metrolink's audit committee, create a stronger firewall between staff and auditors through revisions to Metrolink's audit charter. Metrolink agreed with the recommendation and will modify its audit charter and procedures accordingly.

OCTA Internal Audit also observed that audits performed by Metrolink's on-call audit firms are not provided to the Committee or Board. These audits generally consist of contract audits or price and cost reviews. Through review of these reports, OCTA Internal Audit noted that the reports include financial claims and recommendations for improvements to Metrolink operations. OCTA Internal Audit recommended that all audit reports, regardless of audit contractor, be provided to the Committee and Board. Metrolink agreed and will provide all audits, with the exception of price reviews, to the Committee and Board.

Through review of a 2003 Metrolink audit risk assessment, OCTA Internal Audit determined that the Metrolink's internal audit function was obtaining only limited coverage of business processes identified as high risk. Furthermore, professional audit standards require that the risk assessment be updated annually, which has not been the case. OCTA Internal Audit recommended that a comprehensive risk assessment be conducted annually and that limited internal audit resources be directed toward those operations considered high risk. Management agreed, indicating that a risk assessment and audit plan is under development and is expected to be completed by April 2010.

Metrolink staff is charged with monitoring the status of internal audit findings and recommendations and closing them out when implemented. Professional standards require that follow-up procedures be independently performed and include testing and documentation. OCTA Internal Audit recommended that follow-up procedures be performed by Metrolink's contract auditors and that they be performed according to professional standards. Management indicated that policies will be developed to establish the protocols for follow-up of audit recommendations.

The final three recommendations are related to improvements in Metrolink's audit charter, its internal audit quality assurance program, and its internal audit policies and procedures. OCTA Internal Audit recommended that the Committee periodically review and update its audit charter, that staff and the Committee evaluate their contract audit firm for compliance with professional audit standards, and that core policies and procedures related to Metrolink's internal audit function be developed. Metrolink management agreed with all the recommendations and will revise its audit charter and policies and procedures.

OCTA Internal Audit recognized that this review was conducted during a period of organizational changes and while Metrolink is launching numerous safety initiatives and programs that stretch staff resources and availability. As such, OCTA Internal Audit is appreciative of the cooperation of Metrolink management and staff, and their resolve to make improvements to Metrolink's internal audit function.

Summary

OCTA Internal Audit has completed a review of the audit activities of Metrolink. Based on the review, OCTA Internal Audit has offered recommendations for improving the internal audit function of Metrolink and ensuring its compliance with Government Auditing Standards. Metrolink management provided responses, indicating that all would be implemented.

Attachment

- A. Review of Metrolink Audit Activities, Internal Audit Report No. 08-010 dated February 5, 2010.

Approved by:

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

Kathleen M. O'Connell
Executive Director, Internal Audit
(714) 560-5669

Orange County Transportation Authority Internal Audit Department



Review of Metrolink Audit Activities

INTERNAL AUDIT REPORT NO. 08-010

February 5, 2010



Internal Audit Team:

Kathleen M. O'Connell, CPA, Internal Audit Manager
Ricco Bonelli, Senior Internal Auditor

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Conclusion

The Internal Audit Department of the Orange County Transportation Authority (OCTA Internal Audit) has completed a review of audit activities of the Southern California Regional Rail Authority (Metrolink or SCRRA). The review was conducted in response to an OCTA state triennial audit recommendation that OCTA, as a member agency in a six county Joint Powers Agreement (JPA), audit Metrolink activities. Rather than conducting audits of Metrolink, OCTA Internal Audit proposed an initial evaluation of the audit function of Metrolink.

Based on this review, OCTA Internal Audit determined that Metrolink established an internal audit function in 1998. The Metrolink Board of Directors (Board) has adopted an internal audit charter, established an audit committee, contracted with an external firm to perform independent audits, and implemented procedures over reporting and communication of audit results.

Despite a formally established audit function, Metrolink's audit activities have been limited. OCTA Internal Audit noted only four audit engagements were completed by Metrolink's internal audit contractor between April 2004 and November 2009. Numerous other audits, primarily contract close out audits, have been performed by other on-call contract auditors at the direction of Metrolink staff; however, these audit reports have not been provided to the Board or audit committee.

In addition to the limited number of internal audits performed, it does not appear that Metrolink's audit function is obtaining adequate coverage of high-risk operations or business functions, as defined in a risk assessment conducted in November 2003. Furthermore, Metrolink's audit function requires improvement to be fully compliant with the International Standards for the Professional Practice of Internal Auditing (Standards) as required by its Internal Audit Charter (Charter).

During this review, OCTA Internal Audit observed areas where the audit function could be enhanced:

- Auditor Independence
- Audit Report Distribution
- Annual Risk Assessment and Audit Plan
- Audit Activity Monitoring and Follow-up Reviews
- Quality Assurance and Improvement Program
- Internal Audit Charter
- Policies and Procedures

As a party to the JPA establishing Metrolink, OCTA has no direct control over this separate and distinct legal entity. In addition, the JPA only requires that Metrolink

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provide for an annual independent audit.¹ However, as a result of this review, OCTA's Internal Audit Department has concluded that OCTA is exposed to financial risks that are not addressed by Metrolink's internal audit function. Consequently, during the development of OCTA's annual audit plan, OCTA Internal Audit will consider several audits as they relate to Metrolink. In particular, OCTA Internal Audit will include all OCTA cooperative agreements with Metrolink in the annual risk assessment, as well as a financial review of the revenue and expense allocations to OCTA by Metrolink.

OCTA Internal Audit has offered recommendations for Metrolink's consideration and Metrolink management has provided responses which are included herein. OCTA Internal Audit appreciates the assistance of Metrolink staff in conducting this review.

Background

Review Purpose

As a recipient of State Transportation Development Act funds, OCTA is required to have a performance audit conducted every three years. In the Fiscal Year 2004 through 2006 Triennial Performance Audit of OCTA, dated May 31, 2007, the consultant recommended "OCTA conduct periodic audits and reviews of Metrolink activities on a regular basis to assure integrity in the use of funds spent for rail services affecting Orange County." OCTA's management response indicated that OCTA Internal Audit would include a review of Metrolink's audit activities in its fiscal year 2007-08 Internal Audit Plan. The review would include an inventory of the audit activities of Metrolink and evaluate the reasonableness and comprehensiveness of those audit efforts.

Metrolink

In 1991, Metrolink, a Joint Powers Authority, consisting of five county transportation planning agencies, was formed to develop a regional transit service to reduce congestion on highways and improve mobility throughout the Southern California region. Metrolink's five-agency membership includes the Los Angeles County Metropolitan Transportation Authority, OCTA, the Riverside County Transportation Commission, the San Bernardino Associated Governments, and the Ventura County Transportation Commission. Metrolink operates an average of 149 weekday trains, serving 55 stations, and carries approximately 45,000 riders per day. OCTA's total operating contribution to Metrolink for fiscal year 2007-08 was \$14,176,000.

¹ Section 14.0 of the JPA states "The AUTHORITY shall provide for the accountability of all funds and shall provide for an annual independent audit."

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Metrolink Audits

Metrolink did not establish an internal audit function upon formation in 1991. On June 10, 1998, a Metrolink Peer Review Audit Group (Peer Group), consisting of financial officers and staff support from the five member agencies was established to perform a general review of Metrolink policies, practices, and procedures to ascertain whether the internal control environment and structure was appropriate for the evolving role of Metrolink. The Peer Group reviewed the following areas:

- a. Policies, Procedures and Internal Controls
- b. Personnel Management
- c. Finance/Treasury Functions
- d. Contracting Functions
- e. Risk Management Functions
- f. Performance Audit, Classification Study, and Management Study

In its report to Metrolink's Board, the Peer Group recommended the establishment of an internal audit function. In response to this recommendation, on June 11, 1999, the Metrolink Board awarded an internal audit contract to the public accounting firm of Ernst & Young, LLP. In December 1999, the Metrolink Board formally adopted Metrolink's Internal Audit Charter. The Charter defined the purpose, independence, authority, scope, and reporting of Metrolink's Internal Audit function. The Charter's purpose states "reviews performed by Internal Audit will comply with the *Code of Ethics* and the [International] *Standards for the Professional Practice of Internal Audit*." See Metrolink's Charter at Appendix A.

Since June 11, 1999, Metrolink's internal audit function has been out-sourced to an external firm (Internal Audit Firm). The Internal Audit Firm reports to the Safety and Operational Oversight Committee that serves as Metrolink's audit committee. Metrolink's Controller is designated as the day-to-day staff coordinator for internal audit matters. Metrolink's Internal Audit Firm submits audit reports to the Safety and Operational Oversight Committee and the Metrolink Board.

The Safety and Operational Oversight Committee is responsible for overseeing Metrolink's operational and financial performance. This includes review of internal and external audit reports and oversight of management's corrective action. Metrolink staff provides updates of the results of audits to members of the Safety and Operational Oversight Committee and Metrolink's Board using Audit Activity Status Reports (Status Reports).

In addition to the Internal Audit Firm, Metrolink has on-call contracts with audit firms for use on an ad-hoc basis. Staff has the ability to solicit assistance from these auditors to address emerging issues or problems staff has identified, to conduct audits of contracts or inventory, and to perform other routine audit activities like price and cost reviews.

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Metrolink Audit Status Reports

Status Reports are presented to the Safety and Operational Oversight Committee and the Board of Directors about once every three months and list unresolved findings of recent audits, including all externally mandated audits. In addition to the findings, the Status Reports document the Internal Audit Firm's recommendations, responses provided by Metrolink's management, and the implementation status of management's corrective actions. As findings are satisfactorily resolved and implemented, they are removed from the Status Report. The Status Report also provides notification of upcoming audits as well as the status of audits in progress.

Management Audit Committee

In addition to the audit committee responsibilities of the Safety and Operational Oversight Committee, Metrolink staff has established an Engineering & Construction Audit Committee to deal with contract audit issues. The committee meets quarterly and is comprised of the assistant executive officers, as well as staff from the capital programs, engineering, and procurement and accounting departments.

Risk Assessment

In November 2003, then Internal Audit Firm Thompson, Cobb, Bazilio and Associates, PC (TCBA) submitted a risk assessment of Metrolink's business processes/functions by major functional area to the Safety and Operational Oversight Committee. This risk assessment listed 17 business processes that were determined by TCBA to warrant high-level risk status. The following functions/processes were identified:

- Railroad Services
- Program Control
- Contract Administration & Procurement
- Materials Management
- Information Systems
- Signal & Communication Contract Management
- Maintenance of Way
- Public Projects
- Grants Development & Administration
- Accounts Payable/Invoice Processing
- Payroll & Timekeeping
- Fixed Asset & Inventory Control Management
- Grant Accounting
- Recollectables
- Financial Reporting
- Employee Relations
- Project Management

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This list, which was presented to Metrolink in no specific priority order, was utilized in the selection of audits to be performed by the Internal Audit Firm. According to Metrolink staff, the internal audits selected were based on this initial risk assessment along with input from Metrolink management and Board members. See Appendix B for the Risk Assessment of Significant Key Business Processes, prepared by TCBA.

Internal Audits

OCTA Internal Audit has identified the following audit reports submitted by Metrolink's Internal Audit Firm since April 2004:

<u>Title of Audit Report</u>	<u>Report Issued</u>	<u>Findings</u>
Fare Collection Services	July 2006	6
Grants Management & Administration	October 2005	2
Project and Program Controls	August 2005	6
Cash Receipts and Accounts Receivable	April 2004	4

Detailed information concerning each audit performed by Metrolink's Internal Audit Firm can be found at Appendix C. An inventory of Metrolink's on-call audits can be found at Appendix D: Summary of On-Call Audit Results.

Review Objectives, Scope and Methodology

The objective of this review was to evaluate Metrolink's internal audit activities including its annual audit planning process, the nature, frequency, and results of audits performed, and the reporting and follow-up of audit findings and recommendations.

The review scope considers Metrolink audit activities from April 2004 to November 2009.

The review methodology included obtaining an understanding of Metrolink's internal audit function and activities. Through interviews with Metrolink and OCTA staff and review of documents and reports, we gained an understanding of Metrolink's audit process, the selection and performance of internal audits, and the communication of audit results. OCTA Internal Audit also reviewed all Status Reports and Audit Reports submitted to Metrolink's Board and its Safety and Operational Oversight Committee since April of 2004.

This review was conducted in accordance with generally accepted government auditing standards, except for the triennial peer review requirement, which has not yet been fulfilled. Those standards require that OCTA Internal Audit plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on audit objectives. OCTA Internal Audit believes that the evidence obtained provides a reasonable basis for these findings and conclusions based on the audit objectives.

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Compliance with these standards relates to the work performed by OCTA Internal Audit in assessing the internal audit activities of Metrolink and does not intend to, and does not, constitute an audit of Metrolink's financial condition, results of operations, or system of internal controls. Furthermore, because OCTA has no governance responsibilities for Metrolink, management responses to recommendations provided herein will not be assessed for accuracy, adequacy, or implementation.

In performing this review, OCTA Internal Audit relied on Metrolink documents, reports, and Board and Committee minutes. As these records were unaudited, their accuracy or completeness could have a material effect on the findings and conclusions contained herein.

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Review Observations and Recommendations

Acknowledgements

OCTA Internal Audit recognizes that this review was conducted during a period of organizational change at Metrolink and while the organization was launching numerous safety initiatives and programs that stretched staff resources and availability. Some of the initiatives and programs cited by management include the installation of inward-facing cameras, grade crossing safety enhancements, and the implementation of a public safety program, including the establishment of an independent Commuter Rail Safety Review Panel. Metrolink is also moving forward with the installation of automatic train stop technology at speed sensitive locations and is operating under a strategy to accelerate the implementation of Positive Train Control three years ahead of a federal mandate.

Management also expressed their commitment to improved internal controls, with plans to augment contractor oversight, safety and compliance staff. Management also indicated that it is conducting workshops with staff to train them on proper controls over contract management.

Despite competing priorities, Metrolink management committed valuable time and assistance to OCTA Internal Audit during this review. Furthermore, as demonstrated in management's responses to the recommendations below, Metrolink has committed to implementing all proposed recommendations for its internal audit function in a timely manner and concurrently with on-going safety enhancement initiatives.

Auditor Independence

As discussed in the Background section, Metrolink outsources its internal audit function to a contractor (Internal Audit Firm). According to Metrolink's Audit Charter, internal audit reports functionally to the Safety and Operational Oversight Committee (Committee) and the Board of Directors (Board). Presumably, this means that only administrative functions related to the contract with the Internal Audit Firm will be handled by Metrolink staff.

However, Metrolink staff is involved in directing the work of the Internal Audit Firm. This has resulted, in part, from staff's disappointment in the performance of the Internal Audit Firm. Staff indicated that the Internal Audit Firm required advice on program risks, audit scope, audit procedures, and findings and recommendations.

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While it appears that this direction from staff is well intentioned and resulted in increased scrutiny of the performance of the Internal Audit Firm, staff direction or involvement in audit scope and procedures jeopardizes the independence of the internal audit function.

Recommendation 1:

OCTA's Internal Audit Department recommends that the Metrolink Internal Audit Charter be revised to specifically address the administrative support that Metrolink staff may provide the Internal Audit Firm. Furthermore, the Audit Charter should incorporate a periodic evaluation of audit contractors by the Committee and Board. Such a mechanism would allow Metrolink staff, the Committee, and the Board to provide input into the performance of audit contractors, thus preserving auditor independence. A formalized performance evaluation process for the Internal Audit Firm would also ensure that performance issues with an audit contractor are elevated and addressed in a timely manner. The American Institute of Certified Public Accountants (AICPA) and the Government Finance Officers Association (GFOA) are two professional organizations that provide "best practice" tools and templates for a thorough evaluation of audit firms.

Some of the problems staff encountered with the Internal Audit Firm related to the audit firm's lack of familiarity with the industry, the Metrolink organization and its projects and programs. This leaves a contract audit firm heavily reliant on the very staff whose functions it audits. While it is strictly a matter of Board policy, OCTA's Internal Audit Department recommends that Metrolink consider an in-house internal auditor to improve the quality of internal audit work.

Management Response to Recommendation 1:

Metrolink management concurs with this recommendation. The involvement of Metrolink staff in the internal audit process, at times, has been required when staff has the knowledge necessary to assist and impart information to the auditors that they might find beneficial during their audit process; information they may not have been able to gain otherwise. While it was never staff's intent to hinder auditor independence, internal audit policies will incorporate proper follow up procedures when the results of an audit contradict what is known to staff or other parties regarding Agency's business processes or practices. As part of best practice recommendations, management will incorporate into internal audit policies and the auditor charter procedures for the receipt, retention or treatment of concerns regarding accounting, internal controls, or auditing matters. Such procedures will specifically provide for the confidential, anonymous submission by employees regarding questionable business practices and accounting or auditing matters. The audit committee also should monitor controls performed directly by senior management, as well as controls designed to prevent or detect senior management override of other controls. Metrolink's audit charter, to be revised no later

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than June 30, 2010, will help govern the internal audit process effectively and efficiently whether it's done in-house or by an external third party.

Audit Report Distribution

In addition to the Internal Audit Firm, Metrolink engages on-call audit firms for use on an ad-hoc basis. Management may solicit assistance from these auditors to address emerging issues or problems staff have identified, to conduct audits of contracts or inventory, or to perform other routine audit activities like pre-award price and cost reviews. A summary of audit reports reviewed by OCTA Internal Audit may be found at Appendix D.

OCTA Internal Audit noted that many of these audit reports include findings that result in financial claims against contractors. In fact, on-call auditors questioned costs of over \$2.6 million in the reports reviewed by OCTA Internal Audit. They also include findings related to contractors' compliance with other contract terms. For example, there were several instances where contractors had billed for unapproved subcontractors. OCTA Internal Audit also noted an instance where a contractor had not carried the appropriate amount of insurance, as required by the contract.

OCTA Internal Audit also noted findings and recommendations related to Metrolink's system of internal control. For example, an audit performed of Contract C3078-05 included recommendations related to Metrolink's approval of contract payment vouchers and compliance checklists. The same audit report suggested that Metrolink needs to improve controls over progress payment verifications.

Audit reports and communications from these on-call audit firms are not currently provided to the Committee or Board.

Recommendation 2:

OCTA's Internal Audit Department recommends that Metrolink's Audit Charter be revised to require that all audit or review reports or communications, regardless of auditor or audit contract, be provided to the Committee and Board, with the exception, perhaps, of reviews of price and cost proposals. This distribution will ensure that all audit recommendations are evaluated as to significance by the Committee and Board, that they are tracked, that corrective action is taken and that the implementation of recommendations is validated. Furthermore, OCTA Internal Audit recommends that Metrolink staff advise the Committee and Board of the status of each of the recommendations identified in Appendix D, and any other audits reports prepared during that period or since.

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Management Response to Recommendation 2:

Metrolink management concurs with this recommendation. All audits, with the exception of price reviews, will be presented to the Safety and Operational Oversight Committee for review and approval. Additionally, staff will advise the Committee and the Board of the status of each of the recommendations identified in Appendix D. In an effort to mitigate risk to the Agency and properly address any operational deficiencies, several years ago Metrolink staff formed an ad-hoc audit committee that is comprised of Directors, Managers and other staff of the Agency. The primary goal was to address audit issues as they arose from various on-call audit activities. On-call audit activities consist of contract close out audits, interim audits, and operational audits and other audits or reviews as deemed necessary or required. During the start-up phase of the audit committee, meetings were conducted monthly to assess the status of completed and pending audits and provide guidance and resolution to management and staff. Staff-conducted audit committee meetings continue to be held on a quarterly basis in order to address audit issues, mitigate risk to the Agency, and ensure compliance of staff with proper business practices.

Annual Risk Assessment, Audit Plan, and Audit Activities

Metrolink's Internal Audit Charter requires that all reviews be conducted in compliance with the [International] Standards for the Professional Practice of Internal Audits (Standards). These Standards, commonly referred to as the "Red Book," are issued by the Institute of Internal Auditors and are one of two sets of standards with which government auditors generally comply. The Standards require that the organization establish risk-based plans to determine the priorities of the internal audit function, consistent with the organization's goals. The internal audit function's plan of engagements must be based on a documented risk assessment, undertaken at least annually.

Metrolink does not develop an annual risk based audit plan. In November 2003, Metrolink's Internal Audit Firm submitted a "Risk Assessment of Significant Key Business Processes" (Risk Assessment) to Metrolink's Safety and Operational Oversight Committee. The Risk Assessment identified 17 business processes/functions assessed as high-risk. OCTA Internal Audit noted that the Risk Assessment did not adequately define or describe Metrolink's 48 business processes/functions or the 13 risk factors utilized and that it has not been updated since its development in 2003.

OCTA Internal Audit identified four audit reports issued by Metrolink's Internal Audit Firm between 2003 and 2009. Two of the audits performed relate to business processes/functions identified as high-risk in the Risk Assessment; however, the other two relate to business processes/functions identified as medium risk in the Risk Assessment. Furthermore, both the Fare Collection Services audit and the Grants

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Management & Administration audit appear to be repeats of prior audits performed three to six years earlier.

Based on OCTA Internal Audit's review of the Risk Assessment and the four audit reports issued since 2004, it appears that Metrolink's audit function is obtaining limited coverage of its operations or those business functions considered high-risk. It also appears that there is little correlation between the risk assessment and audits performed.

Recommendation 3:

Because Metrolink's Internal Audit Charter requires compliance with the Standards for the Professional Practice of Internal Audit, OCTA's Internal Audit Department recommends that Metrolink require an annual risk assessment and internal audit plan. The methodology used to conduct the risk assessment should be explained and the business processes or functions sufficiently detailed. Risk factors should also be defined.

Risk-based audit plans establish the priorities of an entity's internal audit function. To help ensure adequate audit coverage, the timing and results of prior audits should be considered when assessing risk. Additionally, priority of audits should be directed toward business functions/processes evaluated as high-risk to ensure efficient use of limited internal audit resources.

Management Response to Recommendation 3:

Metrolink management concurs with this recommendation. Metrolink's current internal auditors from Macias Consulting Group are in the process of developing a comprehensive risk assessment and internal audit plan. They anticipate completing this process and presenting their assessment to the Safety and Operational Oversight Committee April 2010. Upon review and approval by the Safety and Operational Oversight Committee the internal auditors will begin the internal audit process on Metrolink's highest risk areas. On an annual basis the internal auditors, in accordance with Standards for the Professional Practice of Internal Audit and the Metrolink Audit Charter, will update the risk assessment and audit plan to ensure that areas of high risk are constantly being reviewed and audited. This will enable Metrolink Board of Directors and management to mitigate areas of high risk through the development of new practices or enhanced policies and procedures.

Audit Activity Monitoring and Follow-up Reviews

Metrolink monitors the disposition of audit report findings and recommendations. On a quarterly basis, the Metrolink Board of Directors (Board) and its Safety and Operational Oversight Committee (Committee) members receive a Status Report, which includes

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unresolved findings of recent audits and the status of Metrolink management's corrective action. The report includes an estimated month of completion for each open item and notifies the Board and Committee of ongoing and upcoming audits, including external audits and state/federal mandated audits.

It does not appear, however, that specific follow-up procedures are performed to evaluate whether management's corrective action has been effectively implemented. Follow-up is a process by which internal auditors evaluate the adequacy, effectiveness, and timeliness of actions taken by management on reported observations and recommendations, including those made by external auditors. Follow-up procedures must be evidenced by documentation demonstrating the procedures performed, results of procedures, and conclusions reached.

Metrolink management provides the status updates for the corrective action plans noted in the Status Reports, but there does not appear to be independent evaluation performed by Metrolink's Internal Audit Firm to corroborate management's status update. OCTA Internal Audit observed that both the Fare Collection Services (2006) audit report and the Grants Management & Administration (2005) audit report, performed by Thompson, Cobb, Bazillo & Associates, included follow-up testing on previously reported audit findings; however, the time elapsed between the original audits and subsequent audits was approximately six years and three years, respectively.

Recommendation 4:

OCTA Internal Audit recommends that Metrolink conduct follow-up reviews in a timely manner and that these follow-ups be conducted in accordance with the same professional standards as other audit work. Specifically, follow-up procedures should be independently performed. Metrolink's Internal Audit Firm should conduct the follow up, rather than staff. Policies and procedures establishing when a follow-up must be initiated and the protocols, documentation, and close-out process should also be developed.

Management Response to Recommendation 4:

Metrolink management concurs with this recommendation. It is staff's goal to continue to update the audit status activity report given to the Committee on a monthly basis and the Board quarterly. Follow up audits, to be conducted six months after the issuance of an audit report, and every six months thereafter until all recommendations have been satisfactorily addressed, will include an update memo and periodic close out memorandums to management and the Safety and Operational Oversight Committee. An internal audit policy will be developed no later than June 30, 2010, that will establish protocols for audit procedures and appropriate follow up.

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Internal Audit Charter

In December 1999, the Metrolink Board of Directors formally adopted Metrolink's Charter. Metrolink's Charter defines the purpose, independence, authority, scope, and reporting requirements of Metrolink's internal audit function. During OCTA Internal Audit's review of Metrolink Board and Safety and Operational Oversight Committee agenda meetings, we noted that the Charter has not been reaffirmed. According to the Standards, the Charter should be periodically reviewed and presented to senior management and the Board for affirmation.

The Charter's purpose states, "All reviews comply with the Code of Ethics and the [International] Standards for the Professional Practice of Internal Audit;" however, none of the audit reports submitted by the Internal Audit Firm indicate compliance with either the Code of Ethics or the Standards. Compliance with the Standards should be disclosed in the audit report, if applicable. For non-compliant engagements, the audit report should disclose which Standard(s) was/were not met as well as the reason and impact of non-compliance on the engagement.

Recommendation 5:

OCTA Internal Audit recommends that Metrolink update its Audit Charter and provide it to the Committee and Board for approval. The Audit Charter itself should establish the requirement that it be periodically reviewed, updated and approved.

Metrolink's Internal Audit Firm should also be advised of the requirement that it conduct its audits or reviews in compliance with the Code of Ethics and Red Book Standards, and that it cite compliance therewith in its reports.

Management Response to Recommendation 5:

Metrolink management concurs with this recommendation. The audit charter, to be updated no later than June 30, 2010, will incorporate the requirement that Metrolink's internal audit firm conduct its audits or reviews in compliance with the applicable Government Auditing Standards and professional Code of Ethics, and that it cite compliance therewith in its reports. Metrolink will present the updated internal audit policies and charter to the Safety and Operational Oversight Committee and the Board of Directors and seek approval no later than June 30, 2010.

Quality Assurance and Improvement Program

Metrolink does not have a Quality Assurance and Improvement (QA) Program as required by the Standards. A QA Program is designed to evaluate the internal audit function's compliance with the Standards and the Code of Ethics. A QA Program also

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assesses the efficiency and effectiveness of internal audit activity and identifies opportunities for improvement.

Using an independent audit firm as the internal auditor for an organization relieves the organization of some, but not all, of the requirements of a QA Program. For example, the organization need not conduct an evaluation of the internal auditors' compliance with the Standards as long as the organization verifies that the audit firm has a QA Program in place and it is operating effectively. This is accomplished by obtaining and reviewing the results of the firm's periodic "peer review".

An organization that outsources its internal audit function must evaluate and document an assessment of the audit firm's independence periodically. Audit firms that become too reliant on fees from certain clients may compromise their independence and objectivity, in either fact or appearance.

Recommendation 6:

OCTA Internal Audit recommends that Metrolink establish policies and procedures for its Quality Assurance Program. Among other things, the policies and procedures should include a periodic review of the Internal Audit Firm's "peer review" report. The policies and procedures should include action Metrolink should take when peer review findings indicate a lack of compliance by the Internal Audit Firm to the Standards. Metrolink's policies and procedures for a Quality Assurance Program should also include a periodic evaluation of the Internal Audit Firm's independence.

Management Response to Recommendation 6:

Metrolink management concurs with this recommendation. Management will develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity's conformance with the definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program will also assesses the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement. The quality assurance and improvement program will include both internal and external assessments. The quality assurance and improvement will be developed in conjunction with the internal audit policies and audit charter.

Policies and Procedures

The Standards require that organizations develop policies and procedures to guide the internal audit function. The form and content of written policies and procedures should

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be appropriate to the size and structure of the internal audit activity and the complexity of its work.

In situations where the internal audit function is out-sourced, detailed policies and procedures for the performance of audits and reviews are obviously unnecessary. However, several other considerations are relevant:

- Internal Audit Firm Selection, Evaluation, Retention and Dismissal
- Reporting and Communication Requirements
- Protocols and Requirements for Adjustments to the Annual Internal Audit Plan
- Audit Records - Access and Retention
- Evaluation of Impairments, Including Those Caused by Non-Audit Services
- Confidentiality Requirements
- Responsibilities with Regard to Fraud, Illegal Acts, and Violations of Provisions of Contracts, Grant Agreements, and Waste or Abuse Investigations

Recommendation 7:

OCTA Internal Audit recommends that Metrolink develop core policies and procedures to govern the Internal Audit function, including some of the considerations identified above.

Management Response to Recommendation 7:

Metrolink management concurs with this recommendation. Since Metrolink outsources its internal audit function, management will incorporate the relevant considerations listed as they relate to the outsourced internal audit function. A complete set of internal audit policies and procedures, updated audit charter, and quality assurance program will be available no later than June 30, 2010.

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Appendix A: Metrolink's Internal Audit Charter

ITEM 6

DECEMBER 3, 1999

TO: MEMBERS AND ALTERNATES - 12/10 MEETING

FROM: CHIEF EXECUTIVE OFFICER

SUBJECT: INTERNAL AUDIT CHARTER

Member Agencies:
Los Angeles County
Metropolitan Transportation
Authority.
Orange County
Transportation Authority.
Riverside County
Transportation Commission.
San Bernardino
Associated Governments.
Ventura County
Transportation Commission.
Ex Officio Members:
Southern California
Association of Governments.
San Diego Association
of Governments.
State of California.

ISSUE

The Audit Committee (Committee), at its September 24, 1999 meeting, formally adopted an Internal Audit Charter, which must be approved by the SCRRA Board.

RECOMMENDATION

The Committee recommends the SCRRA Board approve the adoption of the Internal Audit Charter.

BACKGROUND

As a result of the Audit Peer Group report issued in September 1998, the Committee recommended (to the Board) the establishment of an internal audit function within SCRRA. On June 11, 1999, the Board awarded the Internal Audit contract to Ernst & Young LLP, which signified the official start of the internal audit function within SCRRA.

To assist both the Audit Committee and the Internal Auditor in discharging their respective duties, at its September 24, 1999 meeting the Committee adopted an Internal Audit Charter. At its November 19, 1999 meeting, the Committee revised the original Internal Audit Charter to include recommendations of legal counsel (See Attachment A).

Highlights of the Internal Audit Charter are:

1. Purpose - The Charter defines the purpose of Internal Audit to review the Authority's operations as a service to management and the Board of Directors.
2. Independence - The Charter specifies that Internal Audit is an independent appraisal function that examines and evaluates activities within the Authority. Internal Audit must maintain an independent and objective mental attitude and therefore, cannot have direct authority over any operation or activity it may review.

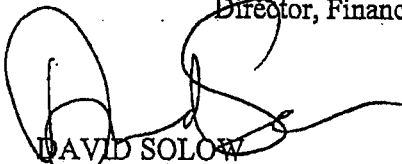
3. Authority – Except for confidential files or files that are attorney/client work product, privileged, the Charter gives Internal Audit unlimited access to all authority activities, records, property and employees.
4. Scope - The Charter defines the scope of Internal Audit as examining and evaluating the adequacy and effectiveness of the Authority's system of internal control and the quality of performance in carrying out assigned responsibilities.
5. Reporting - The Charter specifies that the Internal Auditor reports functionally to the Committee and to the Board. The Charter requires reporting of significant findings to Senior Management and the Audit Committee. Management is responsible for taking action on audit recommendations, and internal audit will report quarterly to the Audit Committee on the status of these actions.

In summary, the Internal Audit Charter gives the Internal Audit function the authority necessary to carryout its responsibilities to the Committee and to the Board.

BUDGET IMPACT

There is no budget impact.

Prepared by: Paul Sakamoto
Director, Finance



DAVID SOLOW
Chief Executive Officer

ATTACHMENT A

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY INTERNAL AUDIT CHARTER

This Charter defines the purpose, authority, scope and reporting requirements of Internal Audit.

Purpose

Internal Audit independently reviews the SCRRA's operations as a service to Management and the Audit Committee on behalf of the Board of Directors. All reviews comply with the *Code of Ethics* and the *Standards for the Professional Practice of Internal Audit*.

AUTHORITY and SCOPE

The Internal Audit is an independent appraisal function established by the SCRRA Board of Directors to examine and evaluate the activities within the organization. It reports functionally to the Audit Committee and to the SCRRA Board of Directors. This reporting relationship ensures independence, promotes comprehensive audits and assures audit recommendations get proper consideration. The Internal Auditor has a duty to the Board of Directors to notify the Audit Committee regarding any irregularity or suspicion of irregularity.

Except for confidential personnel files or files that are attorney/client work product privileged, Internal Auditors will have unlimited access to all authority activities, records, property, and employees. Access may be considered and approved upon written justification or be determined by recommendation of the Committee and directions from the Board with advice of counsel. Limitations of scope must be reported immediately to the Audit Committee and the Chief Executive Officer.

The scope of internal auditing will encompass the examination and evaluation of the adequacy and effectiveness of the authority's system of internal control and the quality of performance in carrying out assigned responsibilities. Internal Audit will:

- Review the reliability and integrity of financial and operation information and the means used to identify, measure, classify and report such information.
- Review the established systems to ensure compliance with policies, plans, procedures, laws, regulations, and contracts.
- Review the means of safeguarding assets and verify existence of such assets, as appropriate.
- Appraise the economy and efficiency with which resources are employed.
- Review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried as planned.

Internal Audit must maintain an independent and objective mental attitude. Therefore, it cannot have direct authority over any operation or activity it may review. Designing, installing, or operating systems, policies, procedures, and standards are not audit functions. Performing such activities impairs objectivity and independence. However, reviewing procedures and controls as they are designed into manual or automated systems is appropriate.

Reviews by Internal Audit do not relieve Management of their responsibilities. It is the responsibility of management to ensure that proper controls are in place and policies and procedures are being followed.

REPORTING

Internal auditors will meet with Audit Committee at least quarterly. Management will respond, in writing, to Internal Audit's finding and recommendations within 10 working days of being presented with them. Such responses must include the actions Management will take to comply with the findings and a timetable for completing them. When Management disagrees with a recommendation, an explanation must be given regarding the disagreement by Management, and a description of the compensating controls must be provided. An alternative recommendation may be proposed by management. Internal Audit will issue a draft report, including Management's responses to the Management of the area reviewed. If Internal Audit does not receive a response from Management within the 10 working day period, the draft report will be issued indicating Management did not respond. A final report will be issued after appropriate Management review.

Internal Audit will report significant outstanding findings to Senior Management and to the Audit Committee. Management must update Internal Audit, in writing, on the status of any outstanding findings. Management is responsible for taking action on audit recommendations. Internal Audit will report quarterly to the audit committee on the status of these actions.

All findings are issued to Senior Management and the Audit Committee.

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Appendix B: Risk Assessment of Significant Key Business Processes

THOMPSON, COBB, BAZILIO & ASSOCIATES, PC
Certified Public Accountants and Management, Systems and Financial Consultants

✶ Main Office:
 1101 15th Street, N.W.
 Suite 400
 Washington, DC 20005
 (202) 737-3300
 (202) 737-2684 Fax

□ Regional Office:
 100 Pearl Street
 14th Floor
 Hartford, CT 06103
 (860) 249-7246
 (860) 275-6504 Fax

■ Regional Office:
 21250 Hawthorne Boulevard
 5th Floor
 Torrance, CA 90503
 (310) 792-7001
 (310) 792-7004 Fax

November 4, 2003

Mr. Ron Roberts, Chairman, Operational Oversight Committee
 Southern California Regional Railroad Authority
 700 South Flower Street, Suite 2600
 Los Angeles, CA 90017-4101

Re: Risk Assessment of SCRRA Business Processes/Functions

Dear Mr. Roberts:

Thompson, Cobb, Bazilio & Associates, PC (TCBA) is pleased to present the attached risk assessment of SCRRA's business processes/functions by major functional area. Please note that a high-level risk designation should not be construed as an indication that specific problems or internal control weaknesses have been identified, but rather that a potential for high-level risk exists. A high-level risk assessment means that the potential of a significant loss in terms of dollars, productivity and/or efficiency are high if the business process is not adequately controlled or designed.

The major functional areas and applicable managerial responsibility are as follows:

<u>Division</u>	<u>Director/Manager</u>
Equipment	Bill Lydon
Support Services	Steve Wylie
Engineering & Construction	Mike McGinley
Communications & Development	Steve Lantz
Finance	Mark Dubeau
Operations	John Kerins
Human Resources	Irene Shapiro

This risk assessment is based in part upon interviews with the seven SCRRA Directors/Managers listed above. We also interviewed the following six SCRRA Directors/Managers to obtain their input and views on SCRRA's business processes/functions that they believe are of high risk:

<u>Division</u>	<u>Director/Manager</u>
Grants Administration	Joanna Capelle
Railroad Services	Bruce Ferguson
Safety	Fred Jackson
Contracts Admin. & Procurement	Cheryl Johns
Public Projects	Ron Mathieu
Engineering & Construction	Harold Watson

Coupled with the input we received from the interviews with the 13 SCRRA Directors/Managers above, we also assessed each business process/function using the 13 risk factors listed in the attached risk assessment analysis. Each of the 13 risk factors was rated as low, medium, or high for each business process/function. An overall risk assessment of low, medium or high was then assigned to each business process/function based on the majority of the ratings assigned to the 13 risk factors assessed.

Based on TCBA's risk assessment approach discussed above, we have identified the following 17 SCRRA business processes/functions that we believe warrant a high-level risk assessment at this time. The listing below is in no specific priority order.

1. Railroad Services
2. Program Control
3. Contract Administration & Procurement
4. Materials Management
5. Information Systems
6. Signal & Communication Contract Management
7. Maintenance of Way
8. Public Projects
9. Grants Development & Administration
10. Accounts Payable/Invoice Processing
11. Payroll & Timekeeping
12. Fixed Asset & Inventory Control Management
13. Grant Accounting
14. Recollectables
15. Financial Reporting
16. Employee Relations
17. Project Management

The matrices by functional area detailing the 17 high-level risk processes and the factors or reasons contributing to this high-risk assessment are attached.

Mr. Ron Roberts
November 4, 2003
Page 3

After SCRRRA management's review and concurrence of this risk assessment, TCBA will then prepare an internal audit work plan that will identify the internal audits to be performed over the next 18 months.

If you have any questions, please feel free to contact me at 310-792-7001.

Respectfully,

A handwritten signature in black ink, appearing to read "Michael J. de Castro", written over a horizontal line.

Michael J. de Castro
Principal

Cc: Mr. Bill Alexander, Chairman, Board of Directors

RISK ASSESSMENT OF SIGNIFICANT KEY BUSINESS PROCESSES

Prepared by Thompson, Cobb, Bazilio, and Associates

R i s k F a c t o r s	Overall Risk Assessment												
		Medium	Medium	Medium	Low								
SCRRRA Business Process/Function (LYDON) EQUIPMENT Equipment Contract Management Facilities Maintenance Fleet Maintenance Equipment Engineering & Purchases	Extent Regulated and Impact of Non-compliance	L	L	M	L								
	Visibility and Effect on Reputation	H	M	M	H								
	Extent of reliance on Computerized Data	L	M	M	L								
	Recent or Pending Changes in systems or procedures	L	M	L	L								
	Dependence on Or by Others for Information or Outputs	M	M	M	M								
	Poor Alignment of Organization responsibilities	M	M	L	L								
	Vacant positions or Known Staffing Shortages	L	L	L	L								
	Complexity of Operation on Decision-making	M	M	L	M								
	Outdated and/or Unwritten Procedures	M	M	M	M								
	Elapsed Time Since Last Audit or Review	L	M	M	L								
	Management's Concerns and Attitudes About Process	L	L	L	L								
	Known Internal Control Weaknesses	L	L	L	L								
	Size of Unit or Resources Affected/Controlled	H	M	M	H								

Prepared by Thompson, Cobb, Bazilio, and Associates

[illegible]

Prepared by Thompson, Cobb, Bazilio, and Associates

[illegible]

Prepared by Thompson, Cobb, Bazilio, and Associates

[illegible]

RISK ASSESSMENT OF SIGNIFICANT KEY BUSINESS PROCESSES

Prepared by Thompson, Cobb, Bazilio, and Associates

R i s k F a c t o r s		Overall Risk Assessment												
		Medium	HIGH	Medium	HIGH	HIGH	Medium	HIGH	HIGH	HIGH	Medium			
SCRR Business Processes/ Functions (DUBEAU) FINANCE	Cash & Fund Management	L	M	L	H	H	M	L	H	H	M	L		
	Accounts Payable/Invoice Processing	H	H	L	H	H	M	L	H	H	M	L		
	Accounts Receivable	H	M	L	H	H	M	L	H	H	M	L		
	Payroll & Timekeeping	H	H	H	H	H	M	L	H	H	M	L		
	Fixed Asset & Inventory Control Management	H	H	H	H	H	M	L	H	H	M	L		
	Fare Collection Services Administration	H	H	H	H	H	M	L	H	H	M	L		
	Grant Accounting	H	H	H	H	H	M	L	H	H	M	L		
	Recollectables	H	H	H	H	H	M	L	H	H	M	L		
	Financial Reporting	H	H	H	H	H	M	L	H	H	M	L		
	Budgets	H	H	H	H	H	M	L	H	H	M	L		

Prepared by Thompson, Cobb, Bazilio, and Associates

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Prepared by Thompson, Cobb, Bazilio, and Associates

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Appendix C: Summary of Internal Audit Findings and Recommendations

Review of Metrolink Audit Activities

Summary of Internal Audit Findings and Recommendations

April 2004 - August 2008

Audit (Date)	Audit Firm	Findings/Observations	Recommendation
Fare Collection Services (July 2006)	TCBA	<p>SCRRA lacks a comprehensive set of policies and procedures for the Fare Collection Services (FCS) area.</p> <p>Annual physical inventory records did not include an inventory of cash boxes, bill vaults, bucos, and coin drums maintained at their site. This equipment is not inventoried and reconciled on a periodic basis.</p> <p>The credit card refund process would be strengthened if the Passenger Services Department required a supervisory signature for approval of refunds. Also, we found that Passenger Services does not research transaction numbers of all refund requests.</p> <p>Controls over cash at Union Station were generally adequate, but could be improved by ensuring that cash deposits are made on a daily basis. We also found that security procedures governing the dual combination safes located at the Union Station ticket offices could be improved.</p> <p>L.A. Federal prepares reports daily for FCS and the Finance Department. The accuracy over information contained in the reports prepared by L. A. Federal could be improved if that information was periodically verified to system-generated data.</p> <p>Controls over the charge-back process could be strengthened if the investigator's findings required a second or supervisory review before they are sent to the credit card company. Additionally, since credit card refund and charge-back processes are performed by separate departments, there exists the risk that both a refund and charge-back could be issued for the same transaction.</p> <p>Project control policies and procedures for Railroad Services and the procedures for the review of engineering and construction management invoices within the Engineering & Construction Department are not documented, nor do any written manuals or desk procedures exist.</p>	<p>FCS management should complete the documentation of their management processes and procedures in formal written format. The development of policies and procedures has been, and continues to be, an important activity of SCRRA.</p> <p>Implementation of the new Fare Collection inventory system should be accompanied by a thorough inventory recount of all Fare Collection equipment. Procedures should be developed to corroborate the inventory information.</p> <p>Refund decisions by Passenger Services require review and approval by an additional official within that Department and 2) Transaction numbers for all refund requests should be researched and matched to data found in the CMS database.</p> <p>Ticket agents should prepare and submit cash deposits daily as part of the comprehensive cash collection control procedures. Additionally, dual combination locks on safes located at the Union Station ticket offices should be changed to ensure that the safes could be opened only with a SCRRA representative's combination and L.A. Federal guard combination.</p> <p>We recommend that SCRRA verify on a periodic basis the amount of currency and coin that should have been collected as shown in the Deposit by TVM Report and the BUCOs Installed/Removed Report to the source data on the Money and Change Cards Reports.</p> <p>We recommend that 1) investigation decisions by FCS should require review and approval by an additional official within that Department to assure that decisions are reasonable and consistent, and 2) the Passenger Services Department and FCS should develop formal procedures for exchanging credit card refund and charge back data to reduce or eliminate the risk of refunding an individual twice for the same transaction.</p> <p>Recommend that SCRRA management complete the development of written policies and procedures for project control functions.</p>

Review of Metrolink Audit Activities

Summary of Internal Audit Findings and Recommendations

April 2004 - August 2008

Audit (Date)	Audit Firm	Findings/Observations	Recommendation
Project and Program Controls (August 2005)	TCBA	<p>Expenditure data for SCRRA's operating and capital project activity is not being entered into the Oracle System until after review and approval of contractor invoices, resulting in a delay of up to one month or more in recording the expenditure. Despite an established contractual requirement requiring that all contractors submit invoices directly to Accounts Payable, we found that this requirement is neither being adhered to nor enforced by SCRRA management.</p> <p>Only one individual is responsible for the recording, review, and approval of invoice coding for various SCRRA contracts under the control of the Railroad Services Division. The current flow of the invoice review process results in the coding of invoices after the project manager's review. This internal control weakness could result in the charging of project costs to the wrong funding source going undetected, resulting in the potential of disallowed costs or loss of State and Federal funding.</p> <p>We found that not all project managers were notified or aware of costs charged against their respective project budgets. We also noted certain project managers have found that retroactive cost adjustments were made to their project budgets without their prior knowledge and/or approval.</p>	<p>Recommend that SCRRA management enforce the requirement that all contractors submit invoices directly to Accounts Payable. Also recommend that upon receipt of an invoice by Accounts Payable, expenditure data should be entered into the Oracle System and established as an accrual.</p>
		<p>Only one individual is responsible for the recording, review, and approval of invoice coding for various SCRRA contracts under the control of the Railroad Services Division. The current flow of the invoice review process results in the coding of invoices after the project manager's review. This internal control weakness could result in the charging of project costs to the wrong funding source going undetected, resulting in the potential of disallowed costs or loss of State and Federal funding.</p>	<p>We recommend that contractors be instructed as to the proper coding of invoices and forward coded invoices directly to Accounts Payable for prompt recording (accrual) into the Oracle financial system. When a contract, purchase order, CTO or other authorization to perform work is issued, detailed invoice coding instructions should be provided to the contractors. Project managers should then be responsible for review and approval of the invoices as to both proper coding and authorized costs.</p>
		<p>We found that not all project managers were notified or aware of costs charged against their respective project budgets. We also noted certain project managers have found that retroactive cost adjustments were made to their project budgets without their prior knowledge and/or approval.</p>	<p>We recommend that the approval of the project manager responsible for funding and budget oversight of a project be required prior to processing CTO's. Procedures should also be implemented to ensure that all cost transfers and/or retroactive cost adjustments are made only after the written approval of the project manager whose project will be incurring the cost. In addition, journal entries for these project changes should only be processed with the appropriate supporting documentation such as an adjusted invoice.</p>
		<p>Noted that the Request for Proposal form was used infrequently to initiate an Engineering CTO. Not using the RFP form is a violation of internal procurement policy as outlined in the Engineering Department's own Design Procedures Manual. Without this documentation on file, Federal and State auditors could question and disallow all costs associated with a CTO.</p>	<p>We recommend that engineering CTO's not be processed unless the Request for Proposal form has been properly prepared, reviewed, and authorized by the appropriate project manager.</p>
		<p>There are no formal criteria or detailed procedures in existence detailing how Estimates-at-Completion for SCRRA capital projects should be prepared. Consequently, in the absence of formal procedures, the resulting effect is Estimates-at-Completion that do not accurately include all costs and the expected time projection for those costs.</p>	<p>Since the time of our audit fieldwork, the Engineering Department has made improvements to the Estimates-at-Completion procedures by modifying their project management report summary format. We recommend that this report format be further improved by adding a column showing the anticipated value of future work to be authorized.</p>

Review of Metrolink Audit Activities

Summary of Internal Audit Findings and Recommendations

April 2004 - August 2008

Audit (Date)	Audit Firm	Findings/Observations	Recommendation
Grant Management & Administration (October 2005)	TCBA	<p>Contracts Administration & Procurement (CA&P) department has difficulty obtaining timely grant information for use in procurements and contracting. This is particularly pertinent in cases where one contract might be necessary for more than one project. Since information on the Grant Summary Report is arranged by specific project titles, it is often difficult to obtain in these cases. Alternatively, CA&P must obtain required grant information details from project managers, and/or individuals in GRANTS and the Budget Division via e-mail and/or phone contact often resulting in conflicting information being disseminated.</p> <p>During Invoice testing , Auditors noted the following: Supporting documentation (invoices) amounts did not match reimbursement billings to grantor agency; no evidence of payment authorization for invoices which exceeded authorized Contract Task Order (CTO) amounts; and lack of an audit trail for certain adjustments made to invoice payments.</p>	<p>We recommend that departments such as CA&P and others communicate their specific grant information needs to GRANTS for incorporation in the current report format or provide suggestions for development in alternative formats. We also recommend that GRANTS continue its outreach efforts throughout the organization to increase awareness as to the type of information available on the current report and how it can be more effectively utilized.</p> <p>We recommend that Finance should establish the practice of maintaining duplicate copies of the supporting documentation for State invoices for a period of at least one year. Also, in cases where an estimated invoice from a contractor is issued for purpose of verifying the actual quantities, the original invoice should always be adjusted to reflect the adjustments/changes that have occurred after review and approval of the invoice by Construction management. Furthermore, Finance should always ensure that all invoices are within the authorized CTO limits before processing for payment.</p>
Cash Receipts and Accounts Receivable (April 2004)	TCBA	<p>SCRRA should prepare and analyze the accounts aging report on a consistent basis.</p> <p>SCRRA should document past due receivable follow-up and analysis</p> <p>SCRRA does not have formal procedures for writing off uncollectible accounts receivable.</p> <p>SCRRA should establish a reserve for bad debt and write-off uncollectible receivables.</p>	<p>Account receivables aging reports should be consistently prepared and generated on a monthly basis for management review and analysis and the appropriate follow-up of all past due receivables.</p> <p>Follow-up action on all outstanding past due receivables should be adequately documented.</p> <p>SCRRA should establish procedures and approval requirements for the write-off of uncollectible receivables.</p> <p>The June 30, 2003 account receivables balance for all categories needs to be reviewed for potential collection. Accounts deemed to be uncollectible should be reserved for bad debt and eventually written-off after all collection efforts are exhausted.</p>

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Review of Metrolink Audit Activities
February 5, 2010**

Appendix D: Summary of On-Call Audit Results

Review of Metrolink Audit Activities Summary of On-Call Audit Results January 2005 - April 2009

Audit	Audit Type	Date	Audit Firm		Findings/Observations	Recommendations
Close-out Audit of Costs Claimed - Contract No. E0720C (STV, Inc.)	Close-out Audit	1/24/05	MHM		Contractor billed SCRRA excess overhead, excess subcontractor overhead, unauthorized subcontractor premium time, and other direct costs were not adequately supported.	Recover questioned costs of \$8,711.
Close-out Audit of Costs Claimed - Contract No. E0720B (Hanson-Wilson, Inc.)	Close-out Audit	2/1/05	MHM		Contractor billed SCRRA excess labor costs, excess labor overhead, unsupported subcontractor costs, and unapproved fixed fees.	Recover questioned costs of \$21,083.
Close-out Audit of Costs Claimed - Contract Number EO720A (Commuter Rail Engineering Team)	Close-out Audit	12/15/05	MHM		Questioned costs relate to excess labor costs, excess labor overhead, unsupported subcontractor costs, unsupported other direct costs, and unapproved fixed fees.	Recover questioned costs of \$96,971.
Close-out Audit of invoiced costs under Contract No. JO101-05. (Herzog Contracting Corporation, Inc.)	Close-out Audit	4/16/06	TCBA		Finding 1: Contractor did not meet all insurance requirements. Herzog could not provide an insurance certificate for Transportation Management Systems, Inc., a subcontractor responsible for miscellaneous trucking and hauling. Finding 2: Certified payroll records were not always attached to invoice. Five invoices totaling \$1,115,782 did not have certified payroll records attached as required by the contract.	Auditor provided no recommendations.
Review and recalculation of equipment rates and charges under Contract No. MS196-03. (Mass Electric Construction Company)	Contract Compliance Review	5/17/06	TCBA		Contractor was paid \$384,089 more than the amount allowed for equipment charges under the contract's equipment rental provisions.	Recover \$384,089 of overpaid equipment charges. SCRRA should establish, through a contract amendment, equitable overtime rates for certain specialty equipment items.
Review of Change Order No. 13, 14 and 15 under Contract No. C3079 (J.S. Meek Company)	Change Order Review	6/19/06	TCBA		Price negotiated for change orders No. 13, 14 and 15 was found to be fair and reasonable and adequately supported.	No recommendations provided.
Contract Compliance Review of Invoiced Costs (J. L. Patterson & Associates)	Contract Compliance Review	8/9/06	TCBA		Contractor's invoiced costs were reasonable, adequately supported, and in compliance with the terms of the Contract, except for \$64,848 in vehicle costs.	Seek reimbursement from the Contractor the amount of \$64,848 for over-billed vehicle costs.
Review of Change Order # 2 for Contract No. C3084-06 (Johnson Western Gunite Company)	Change Order Review	8/17/06	TCBA		Contractor's proposed grout rate increase for quantities in excess of 25% of the contract schedule was not supported.	Grout costs should be paid at the stipulated contract rate of \$15.20 per bag resulting in a reduction of \$54,135 for Change Order # 2.
Review of Change Orders 16, 17 and 19 under Contract No. C3079 (J.S Meek Company, Inc.)	Change Order Review	8/31/06	TCBA		Review of supporting documents for three change orders resulted in questioned total of \$23,595.	Auditor provided no recommendations.

Review of Metrolink Audit Activities
Summary of On-Call Audit Results
January 2005 - April 2009

Audit		Audit Type	Date	Audit Firm	Findings/Observations	Recommendations
Close-out Audit of Invoiced Costs under Contract No. CM 100-01, Contract Task Orders 13, 15, 17, 20 and 26. (The Culver Group)		Close-out Audit	12/21/06	TCBA	Invoiced amounts included costs beyond the authorized period of performance, some invoiced labor charges were not supported by employee timesheets, amounts billed for 4 labor categories were not included in the contract, and 5% of the timesheets reviewed did not have supervisor approval.	Auditor questioned costs of \$68,500, representing work performed beyond the authorized task order period, unsupported labor, and labor categories and rates not stipulated in the contract.
Contract No. E730-05 Report on Agreed-Upon Procedures - Review of Direct Labor Rates		Cost/Price Analysis	3/6/07	MHM	Various adjustments to contractor and subcontractors relating to escalation and billing rates.	Recommendations are for contract negotiation only.
Analysis of Overhead Rates Contract No. E730-05		Cost/Price Analysis	4/17/07	MHM	Various adjustments to contractor and subcontractors relating to escalation and billing rates.	Recommendations are for contract negotiation only.
Closeout audit of invoiced costs under Contract No. C3086-06. (John S. Meek Company, Inc.)		Close-out Audit	6/18/07	TCBA	Invoiced costs were reasonable, allowable, allocable and in compliance with the terms of the contract.	SCRRA should comply with appropriate procedures in closing out the contract using the \$379,130 as the final contract value and releasing the retention amount of \$18,956 to the contractor.
Review of direct labor rates and equipment rate increases applicable to Contract Number MS148 for the period July 1, 2007 through June 30, 2008		Cost/Price Analysis	6/27/07	MHM	Various adjustments to Contractor's proposed labor and equipment rate increases.	Recommendations are for contract negotiation only.
Close-out audit of invoiced costs under Contract No. C3079-04. (John S. Meek Company, Inc.)		Close-out Audit	6/28/07	TCBA	<p>Finding 1: The retention portion, in an amount of \$220,322, remains to be paid. The Contractor did not invoice SCRRA for Change Order 12, but the Contractor did perform the work. Therefore, SCRRA owes the contractor \$9,897 for Change Order 12.</p> <p>Finding 2: Twelve of sixteen subcontractors used were not in accordance with the approved list in the contract. Seven of these twelve unapproved subcontractors had subcontract values that exceeded 1/2 % of the contract value and therefore required approval by SCRRA.</p>	<p>Recommendation 1: SCRRA should comply with appropriate procedures in closing out the contract using the \$4,416,339 as the final contract value and releasing the retention amount of \$220,322 plus \$9,897 for Change Order 12 for a total amount of \$230,219 to the contractor.</p> <p>Recommendation 2: SCRRA should improve its oversight of the contractor's use of subcontractors to ensure that subcontractors not on the approved list in the contract are properly approved prior to the subcontractor beginning work.</p>

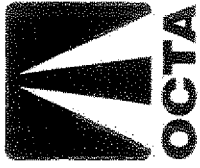
Review of Metrolink Audit Activities Summary of On-Call Audit Results January 2005 - April 2009

Audit		Audit		Findings/Observations		Recommendations	
Audit	Audit Type	Date	Firm	Findings/Observations		Recommendations	
Close-out Audit of Costs Claimed under Contract Number C3078-05. (J.A. Placek Construction Company, Inc.)	Close-out Audit	6/29/07	MHM	<p>Finding 1: Failure to properly complete and approve contract payment vouchers, invoice review and compliance checklists, and progress payment applications in accordance with SCRRA policies.</p> <p>Finding 2: Failure to complete and approve progress payment verification logs.</p>		<p>Recommendation 1: SCRRA should instruct all individuals in the processing of vendor invoices to comply with Policy Number 8.1, Invoice Processing and Accounts Payable Policy.</p> <p>Recommendation 2: The contractor serving in the capacity of Construction Manager on behalf of the SCRRA should ensure that all progress payment verification logs are completed and approved to properly support the performance of completed tasks.</p>	
Review of Change Order No. 16 (CN-87) under Contract No. C3074-6. (FCI Constructors, Inc.)	Change Order Review	10/26/07	TCBA	The Resident Engineer's Fair Cost Estimate of \$515,600 was reasonable, adequately supported and priced in accordance with contract terms.		Auditor recommended approval of the global settlement at \$550,000.	
Close-out audit of invoiced costs under Contract No. C3074-06. (FCI Constructors, Inc.)	Close-out Audit	12/3/07	TCBA	A railroad crossing at Fairhaven and Lincoln Ave, as designed and constructed, creates a safety hazard for large trucks in the 18 wheeler 55 ton category, resulting in a temporarily closure of the railroad crossing.		SCRRA should assess whether or not the design contractor was at fault for the safety hazard at the Fairhaven railroad crossing and whether SCRRA should seek recovery of damages through the errors and omissions provisions of the design contractor's contract with SCRRA.	
Pre-award cost / price analysis of RAM Industrial Services, Inc.	Cost/Price Analysis	2/22/08	KNL Support Services	Auditor recommended adjustments to contractor and subcontractor rates for direct labor, escalation, material costs, etc.		Recommendations are for contract negotiation only.	
Close-out audit of invoiced costs under Job Orders 103-6 and 104-6. (Herzog Contracting Corp's)	Close-out Audit	3/5/08	TCBA	Invoiced fees under No. 103-6 and No. 104-6 were found reasonable, allowable, allocable and in compliance with the terms of the contract and the Federal Acquisition Regulations.		No recommendations provided	
Interim close-out audit of costs invoiced under Contract No. OP120-03. (Bombardier Transportation)	Close-out Audit	5/28/08	TCBA	Audited overhead rates for years 2 through 5, computed in accordance with FAR 31.2, were less than the overhead rates billed to SCRRA by the contractor, resulting in an over-billing of \$798,131.		<p>Recommendation 1: SCRRA should seek reimbursement of the \$798,131 of overhead and G&A costs billed in excess of audited overhead and G&A rates for years 2 through 5 of the contract.</p> <p>Recommendation 2: SCRRA should establish a lower provisional overhead and G&A rate below the 14.2% contract ceiling percentage. The provisional rate should be the average of the audited overhead and G&A rates for years 1 through 5, which is approximately 11%.</p>	

Review of Metrolink Audit Activities
Summary of On-Call Audit Results
January 2005 - April 2009

Audit	Audit Type	Audit		Findings/Observations	Recommendations
		Date	Firm		
Contract close-out audit of invoiced fees under Contract No. MS146-00. (Herzog Contracting Corporation, Inc.)	Close-out Audit	2/9/09	TCBA	Invoiced fees were found reasonable, allowable, allocable and in compliance with the terms of the contract, except for \$2,357 of equipment rental costs overcharged.	SCRRA should seek reimbursement from the contractor in the amount of \$2,357 for the overcharged equipment rental charges on invoice number. 85.
Cost and price analysis of Change Order No. 005 under Contract No. C3092-08. (Lim & Nascimento Engineering Corp's)	Cost/Price Analysis	4/6/09	KNL Support Services	Based on the analysis, we took no exceptions to the increase to the original quantities and total contract price.	No recommendations provided.

91 Express Lanes' Property Insurance Policy Renewal Quotes

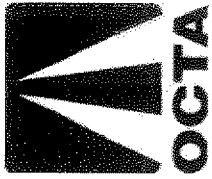


Orange County Transportation Authority

91 Express Lanes
Property and Earthquake Insurance
Marketing Summary

Effective: 3/1/10-11

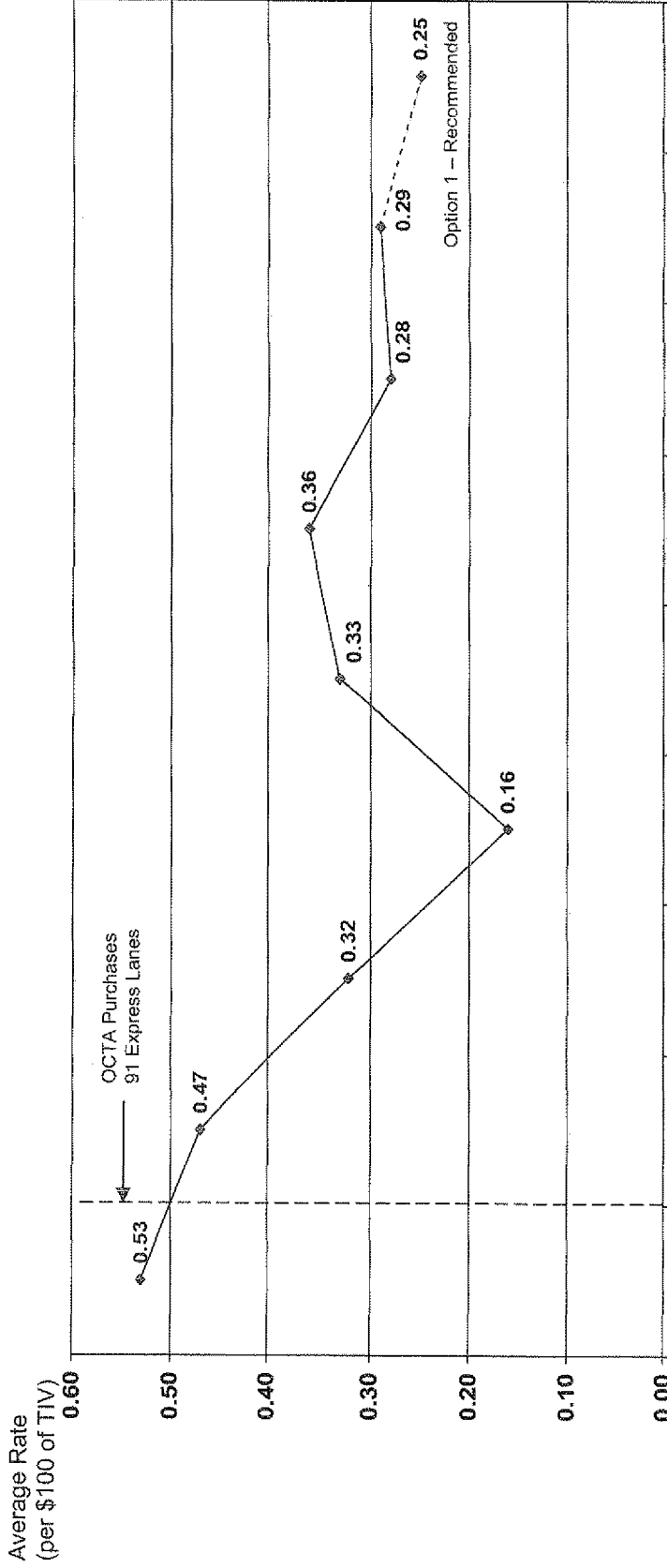
Markets	Program	Comments	Response
AXIS	Property	Incumbent Insurer - Provided a 10% rate decrease, agreed to increasing sublimits, provided option for lower policy limit	Quoted
Travelers	Property	Provided competitive proposal, but cannot provide some of the required coverage	Quoted
Empire Indemnity	Earthquake	Incumbent Insurer - Agreed to maintain the \$1M SIR, provided slight renewal rate increase of 7%, and another option for \$2M SIR with savings	Quoted
Endurance	Earthquake	\$15M xs \$20M for \$35,000 annual premium, but other insurers approached have not been willing to participate	Quoted
ACE	Property	Not a market for roadways	Declined
Affiliated FM	Property	Cannot provide required coverage. Would need to limit coverage for pavement and roadways to \$5M	Declined
Allied World	Property	Not a market for roadways	Declined
Beazley	Property	Not a market for roadways	Declined
C N A	Property	Not a market for roadways	Declined
Charlis	Property	Not a market for roadways	Declined
Crum & Forster	Property	Not a market for roadways	Declined
Liberty Mutual	Property	Not a market for roadways	Declined
The Hartford	Property	Not a market for roadways	Declined
XL	Property	Not a market for roadways	Declined
AXIS Capital	Earthquake	Current pricing is too low for earthquake based upon their Probable Maximum Loss	Declined
Insurance Company of the West	Earthquake	Current pricing is too low - would need excess of \$1M premium. Cannot provide a flat earthquake deductible.	Declined
Max Specialty	Earthquake	Expressed no interest in participating on this risk	Declined



Orange County Transportation Authority

91 Express Lanes

Historical Property and Earthquake Insurance Average Rate

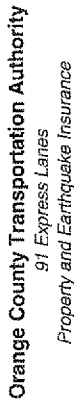


	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total Insurable Values (TIV)	\$95,000,000	\$98,851,200	\$105,800,014	\$108,974,011	\$112,243,232	\$120,916,610	\$133,096,597	\$135,410,416	\$137,099,810
Annual Premium*	\$500,000	\$463,835	\$341,765	\$178,863	\$367,783	\$433,417	\$368,596	\$390,153	\$345,678
Average Rate (per \$100 of TIV)	0.53	0.47	0.32	0.16	0.33	0.36	0.28	0.29	0.25

*excluding Surplus Lines Taxes & Fees

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MARSH, MERCER, KROH
INSURANCE COMPANY OF AMERICA



Renewal Program Option 2
3/1/10-11

Renewal Program Option 1
3/17/10-11

Expiring Program
3/1/09-10

General	
Property Insurance Company & A.M. Best Rating	
Earthquake Insurance Company & A.M. Best Rating	
Limits of Liability	
Any one Occurrence	
Business Interruption (Toll Revenue)	
Earthquake (per Occurrence and Annual Aggregate)	
Flood (per Occurrence and Annual Aggregate)	
Demolition and Increased Cost of Construction	
Extra Expense	
Utility Service Interruption	
Ingress/Egress	
Civil Authority	
Debris Removal	
Underground Fiber Optic Cable	
Deductibles	
Any one Occurrence	
business interruption (Toll Revenues) and Extra Expense	
Earthquake	
Flood	
Business Personal Property Transit	
Utility Service Interruption	
Insured Value	
Roadway, Paving & Structures	
Personal Property, Improvements, Equipment, Transponders	
Business Interruption (Toll Revenue)	
Total Insurable Values	
Composite Rate (per \$100 of Insured value)	
Property	
Earthquake	
Combined	
Premium	
Property Premium	
Earthquake Premium	
Surplus Lines Taxes & Fees	
Combined Total Premium	

AXIS Insurance Company - A XV		AXIS Insurance Company - A XV	
Empire Indemnity - A XV		Empire Indemnity - A XV and Endurance - A XV	
\$125,000,000	\$125,000,000	\$125,000,000	
\$40,000,000	\$40,000,000	\$44,500,000	
\$35,000,000	\$35,000,000	\$35,000,000	
\$25,000,000	\$25,000,000	\$25,000,000	
\$10,000,000	\$10,000,000	\$10,000,000	
\$5,000,000	\$5,000,000	\$5,000,000	
\$5,000,000	\$5,000,000	\$7,500,000	
60 days not to exceed \$7,500,000 subject to a 2.5 mile distance limitation	60 days not to exceed \$7,500,000 subject to a 2.5 mile distance limitation	60 days not to exceed \$7,500,000 subject to a 2.5 mile distance limitation	
60 days not to exceed \$7,500,000 subject to a 2.5 mile distance limitation	60 days not to exceed \$7,500,000 subject to a 2.5 mile distance limitation	60 days not to exceed \$7,500,000 subject to a 2.5 mile distance limitation	
\$5,000,000	\$5,000,000	\$5,000,000	
Not Covered	Not Covered	Not Covered	
\$50,000	\$50,000	\$50,000	
24 hours	24 hours	24 hours	
\$1,000,000	\$1,000,000	\$1,000,000	
\$250,000	\$250,000	\$250,000	
\$5,000	\$5,000	\$5,000	
24 hours	24 hours	24 hours	
\$82,349,410	\$82,349,410	\$82,349,410	
\$13,061,005	\$13,061,005	\$10,250,400	
\$40,000,000	\$40,000,000	\$44,500,000	
\$135,410,415	\$135,410,415	\$137,099,810	
0.1000	0.1000	0.0900	
0.1884	0.1884	0.1570	
0.2945	0.2945	0.2521	
\$135,400	\$135,400	\$123,390	
\$255,150	\$255,150	\$215,300	
\$8,224	\$8,224	\$6,988	
\$398,774	\$398,774	\$345,678	

	Change from from expiring
\$128,727,962	0.0%
\$44,500,000	-21.5%
\$35,000,000	11.3%
\$25,000,000	1.2%
\$5,000,000	
Included in Business Interruption limit shown above	
Not Covered	
Not Covered	
Not Covered	
\$1,000,000	
Not Covered	
\$50,000	
72 hours	
\$1,000,000	
\$250,000	
\$50,000	
72 hours	
\$82,349,410	-10.0%
\$10,250,400	-16.7%
\$44,500,000	-14.4%
\$137,099,810	-8.9%
	-15.6%
	-15.0%
	-13.3%
	-31.0%
	-16.7%
	-21.5%
	-30.2%
	-15.6%
	-15.0%
	-20.5%
	\$316,831

Reduce Policy Limit from \$125M to \$100M

Limit

Option not available

-\$9.597

\$335,081