



AGENDA

Finance and Administration Committee Meeting

Committee Members

Bill Campbell, Chairman

Jerry Amante, Vice Chairman

Patricia Bates

Arthur C. Brown

Peter Buffa

Cathy Green

John Moorlach

Orange County Transportation Authority Headquarters

600 South Main Street, First Floor - Room 154

Orange, California

Wednesday, August 12, 2009, at 10:30 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

Director Moorlach

Pledge of Allegiance

Committee Vice Chairman Amante

1. Public Comments

Special Calendar

There are no Special Calendar matters.



AGENDA

Finance and Administration Committee Meeting

Consent Calendar (Items 2 through 5)

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 July 22, 2009, Finance and Administration Committee meeting.

3. Fiscal Year 2008-09 Internal Audit Plan, Fourth Quarter Update

Kathleen M. O'Connell

Overview

The Orange County Transportation Authority Board of Directors adopted the Orange County Transportation Authority Internal Audit Department Fiscal Year 2008-09 Internal Audit Plan on August 13, 2008. This update is for the fourth quarter of the fiscal year.

Recommendation

Receive and file the fourth quarter update to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2008-09 Internal Audit Plan.

4. Draft Fiscal Year 2009-10 Internal Audit Plan

Kathleen M. O'Connell

Overview

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

Recommendations

- A. Approve the Draft Fiscal Year 2009-10 Internal Audit Plan.
- B. Direct the Executive Director, Internal Audit to provide quarterly updates on the Internal Audit Plan.



AGENDA

Finance and Administration Committee Meeting

5. Agreement for Oniqua Analytic Suite Maintenance Implementation

Annette L. Hess/Kenneth Phipps

Overview

As part of the Orange County Transportation Authority's Fiscal Year 2010 Budget, implementation of the Oniqua Maintenance Analytics Software System is planned. A proposal was solicited and received from Oniqua, Inc. in accordance with the Orange County Transportation Authority's sole source procurement procedures.

Recommendation

Authorize the Chief Executive Officer to execute Agreement No. 9-0555 between the Orange County Transportation Authority and Oniqua, Inc., in an amount of \$129,700, for implementation assistance and expertise with the maintenance module of the Oniqua Analytic Suite. The scope of this effort will include project management, design, configuration, programming, training, testing, and go-live support.

Regular Calendar

6. 2008 Audit of Agreement C-1-2069 Between Orange County Transportation Authority and Parsons Transportation Group, Inc. - Project Management Services for Garden Grove Freeway (State Route 22) Design-Build Project

Kathleen M. O'Connell

Overview

At the direction of the Internal Audit Department of the Orange County Transportation Authority, a close-out audit of Agreement No. C-1-2069 between the Orange County Transportation Authority and Parsons Transportation Group, Inc. for project management services for the Garden Grove Freeway (State Route 22) Design-Build Project has been completed. Recommendations have been offered to improve contract management and administration.



AGENDA

Finance and Administration Committee Meeting

6. (Continued)

Recommendations

- A. Direct Orange County Transportation Authority staff to implement recommendations in the 2008 Audit of Agreement No. C-1-2069 Between Orange County Transportation Authority and Parsons Transportation Group, Inc. - Project Management Services for the Garden Grove (State Route 22) Freeway Design-Build Project.
- B. Direct staff to refer finding and recommendation number two related to prevailing wage compliance to the California Department of Industrial Relations, if satisfactory evidence of compliance has not been provided by Parsons Transportation Group, Inc. to the Orange County Transportation Authority Internal Audit Department by August 29, 2009.

Discussion Items

7. Audit Leverage Software Demonstration Kathleen M. O'Connell

8. Chief Executive Officer's Report

9. Committee Members' Reports

10. Closed Session

There is no Closed Session scheduled.

11. Adjournment

The next regularly scheduled meeting of this Committee will be held at **10:30 a.m. on Wednesday, August 26, 2009**, at the OCTA Headquarters.



MINUTES

Finance and Administration Committee Meeting

Committee Members Present

*Bill Campbell, Chairman
Jerry Amante, Vice Chairman
Arthur C. Brown
Peter Buffa
Cathy Green
John Moorlach*

Staff Present

*Patrick J. Gough, Acting Interim 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

Patricia Bates

Call to Order

The July 22, 2009, regular meeting of the Finance and Administration Committee was called to order by Committee Chairman Campbell at 10:32 a.m.

Invocation

Committee Chairman Campbell gave the invocation.

Pledge of Allegiance

Director Brown led in the Pledge of Allegiance.

1. Public Comments

No public comments were received.

Consent Calendar (Items 2 through 13)

2. Approval of Minutes

A motion was made by Director Green, seconded by Director Brown, and declared passed by those present, to approve minutes of the June 24, 2009, meeting.

3. Review of Vanpool Program

Committee Chairman Campbell pulled this item and voiced his concern regarding the lack of drug and alcohol testing of the vanpool drivers as it relates to safety-sensitive employees and requested that staff return to the appropriate Committee with discussion regarding the drug and alcohol testing requirements for drivers participating in the Vanpool program.



MINUTES

Finance and Administration Committee Meeting

3. (Continued)

A motion was made by Committee Chairman Campbell, seconded by Director Moorlach, and declared passed by those present, to direct staff to implement recommendations made in the Review of Vanpool Program, Internal Audit Report No. 08-023.

4. Grants Management and Accounting Review

A motion was made by Director Green, seconded by Director Brown, and declared passed by those present, to direct staff to implement recommendations in the Grants Management and Accounting Review, Internal Audit Report No. 08-018.

5. Amendment to Agreements for Price Review Audit Services

A motion was made by Director Green, seconded by Director Brown, and declared passed by those present, to authorize the Chief Executive Officer to execute the first of two option terms for price review services through amendments to the following agreements: Agreement No. C-8-0309 with Thompson, Cobb, Bazilio & Associates, PC; Agreement No. C-8-0935 with Mayer Hoffman McCann, PC; Agreement No. C-8-0936 with KNL Support Services; and Agreement No. C-8-0937 with Mendoza Berger & Company, LLP in an aggregate amount not to exceed a total of \$80,000 for fiscal year 2009-10, bringing the total of each contract to \$200,000.

6. Orange County Treasurer's Management Report - May 2009

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

7. Orange County Treasurer's Management Report - June 2009

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

8. Local Agency Investment Fund - June 2009

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



MINUTES

Finance and Administration Committee Meeting

9. Orange County Transportation Authority Investment and Debt Programs Report - June 2009

Staff pulled this item to discuss financing options for the Measure M2 (MM2) Freeway Mitigation Program.

Kirk Avila, Treasurer and 91 Express Lanes' General Manager, provided a handout and discussed six different financing scenarios. These scenarios were put together in response to discussions held at both the Environmental Oversight Committee and the Transportation 2020 Committee regarding how much of the MM2 Freeway Mitigation Program could be financed up-front.

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

10. Second Quarter 2009 Debt and Investment Report

A motion was made by Director Green, seconded by Director Brown, and declared passed by those present, to receive and file the Quarterly Investment Report prepared by the Treasurer as an information item.

11. Transit Security Grant Award Authorization for 2008 and 2009

A motion was made by Director Green, seconded by Director Brown, and declared passed by those present, to adopt Orange County Transportation Authority Resolutions No. 2009-47 and No. 2009-48 authorizing the Chief Executive Officer to accept grant funds and file grant-related agreements with the United States Department of Homeland Security to update security and preparedness plans, conduct staff training, exercises, and public awareness campaign.

12. Approval of the Amended and Restated Orange County Council of Governments Joint Powers Agreement

A motion was made by Director Green, seconded by Director Brown, and declared passed by those present, to:

- A. Approve the Amended and Restated Joint Powers Agreement Establishing the Orange County Council of Governments.
- B. Authorize the Chief Executive Officer to execute the Amended and Restated Joint Powers Agreement Establishing the Orange County Council of Governments.

Director Moorlach abstained from voting on this item.



MINUTES

Finance and Administration Committee Meeting

13. Excess Liability Insurance Renewal

Director Moorlach pulled this item and asked how OCTA can be assured that no commission or gifts are received by Marsh Risk and Insurance Services, Inc., from insurance carriers for the purchase of insurance coverage.

Craig Morris, Senior Vice President, Marsh Risk and Insurance Services, Inc., OCTA's insurance broker of record, responded that all transactions are completely transparent and approval from the proper authority is obtained prior to making any transaction.

Al Gorski, Manager of Risk Management, stated that if a commission is applied, it is accepted by Marsh on behalf of the client to reduce the total premium cost. There is a transparency document that is provided to OCTA and is signed by OCTA at every renewal.

A motion was made by Director Moorlach, seconded by Director Brown, and declared passed by those present, to authorize the Chief Executive Officer to issue Purchase Order No. A14151, in an amount not to exceed \$550,000, to Marsh Risk and Insurance Services, Inc., for the purchase of excess liability insurance for the period November 1, 2009 to November 1, 2010.

Regular Calendar

14. Excess Workers' Compensation Insurance Policy

Al Gorski, Manager of Risk Management, and Craig Morris, Senior Vice President, Marsh Risk and Insurance Services Inc., OCTA's insurance broker of record, provided information regarding the renewal of the Excess Workers' Compensation insurance policy.

Committee Chairman Campbell commented that it had been reported that Governor Schwarzenegger is proposing to sell a portion of the State Compensation Insurance fund for \$1 billion and asked if Mr. Morris could offer any insight into who the buyer might be. Mr. Morris responded that at this point, it was too early to tell what the transaction might look like.

Director Brown inquired whether the State of California still does the disability rating on the number of jobs a person can or cannot hold or the actual medical disability. Mr. Gorski responded that with State Bill 899, the disability rating is medically-based.



MINUTES

Finance and Administration Committee Meeting

14. (Continued)

A motion was made by Director Green, seconded by Committee Vice Chairman Amante, and declared passed by those present, to authorize the Chief Executive Officer to execute Purchase Order No. A14027 for the renewal of the Excess Workers' Compensation Insurance Policy at the current guaranteed rate of \$0.4300 at statutory limits with a \$500,000 self-insured retention or less, for an annual premium not to exceed \$500,000, for the policy period of October 1, 2009 through October 1, 2010.

15. Fiscal Year 2008-2009 Procurement Status Report

Virginia Abadessa, Director of Contracts Administration and Materials Management, provided background on the procurement status report and stated this report covers the third and fourth quarters for fiscal year 2009.

Ms. Abadessa added that the report includes a look at the planned procurement activities that are listed by each of the different Board Committees and dates.

Committee Chairman Campbell complimented staff on the updated format of the report.

A motion was made by Committee Vice Chairman Amante, seconded by Director Green, and declared passed by those present, to receive and file as an information item.

Discussion Items

16. Interim Chief Executive Officer's Report

Acting Interim Chief Executive Officer, Patrick J. Gough, reported on upcoming events and meetings.

Committee Vice Chairman Amante asked what the impact would be to the OCTA budget if the gas tax revenue stream is lost. Ken Phipps, Acting Executive Director of Finance and Administration, responded that the immediate effect would be to the cooperative agreement with the City of Santa Ana for the Bristol Street widening project and as a result of that, the City has been informed that the revenue stream is in jeopardy, and the project should be placed on hold pending the outcome.

Mr. Phipps added that it would not immediately affect bus operations. OCTA had anticipated four more years of \$23 million in gas tax revenues, the next three years are earmarked for the Bristol Street widening project and the fourth year the gas tax revenues return to bus operations.



MINUTES

Finance and Administration Committee Meeting

17. Committee Members' Reports

There were no Committee Members' reports.

18. Closed Session

A Closed Session was not conducted at this meeting.

19. Adjournment

The meeting adjourned at 11:16 a.m.

The next regularly scheduled meeting of this Committee will be held at **10:30 a.m. on Wednesday, August 12, 2009**, at the OCTA Headquarters.


ATTEST

Tammy Doran
Deputy Clerk of the Board

Bill Campbell
Committee Chairman



August 12, 2009

To: Finance and Administration Committee
From: Will Kempton, Chief Executive Officer 
Subject: Fiscal Year 2008-09 Internal Audit Plan, Fourth Quarter Update

Overview

The Orange County Transportation Authority Board of Directors adopted the Orange County Transportation Authority Internal Audit Department Fiscal Year 2008-09 Internal Audit Plan on August 13, 2008. This update is for the fourth quarter of the fiscal year.

Recommendation

Receive and file the fourth quarter update to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2008-09 Internal Audit Plan.

Background

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

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

Discussion

The OCTA Internal Audit Department FY 2008-09 Internal Audit Plan (Plan) (Attachment A) reflects the status of each project. As indicated in Attachment A, numerous projects were completed or are still underway.

For the Plan year, Internal Audit completed 54 projects, including 32 pre-award price reviews. Staff hours, as reflected in Attachment A, represent total hours available annually for audit activities and are budgeted by project as a

preliminary estimate of the effort required to meet the audit objective. Actual staff hours for the fiscal year 2008-09 Plan were under budget by approximately 500 hours due to a vacancy in the department's intern position and numerous smaller projects undertaken in response to management, Board of Directors (Board), or other public requests that are of an administrative nature and were not charged to audit projects.

There are 22 audit projects open at June 30, 2009. Four of these are internal audits which have been completed with draft reports under development or in circulation. Nine are in various phases of completion, and six have not yet been initiated. Internal Audit will carry forward all 19 of these projects to the OCTA Fiscal Year 2009-10 Internal Audit Plan (FY 2009-10 Plan).

Internal Audit is proposing that three projects not be carried forward to the FY 2009-10 Plan. The first is a planned audit of the Employment Section of the Division of Human Resources and Organizational Development. The Employment Section is responsible for the recruitment, selection, and hiring of OCTA employees and the objective of the review was to ensure that adequate internal controls govern these processes and that the processes are efficient. With significant reductions in employment activity during fiscal year 2008-09, Internal Audit believes that such a review would be more appropriately scheduled when activity resumes.

Secondly, Internal Audit is proposing that the Business Resumption Planning review be cancelled. The Information Systems Department received approval from OCTA's Chief Executive Officer to proceed with a project to develop a comprehensive business resumption plan. The project, including consultant services, has been included in OCTA's Fiscal Year 2009-10 Budget. A scope of work has been developed and a request for proposal is expected to be issued in the next few months.

Finally, Internal Audit is proposing that the call box maintenance review be cancelled as a result of OCTA's continuing efforts to reduce the number of call boxes in Orange County.

Internal Audit continues to conduct a vast majority of price reviews in-house which contributes to delays in completing other scheduled work. While Internal Audit has a bench of four on-call firms available to conduct these reviews, staff has found that using the firms can add to the time it takes to complete the reviews. OCTA's Contracts Administration and Materials Management (Camm) Department generally requests quick turnaround of these reviews so that Camm may begin negotiations with contractors. Internal Audit appreciates this urgency and therefore, commits or redirects resources

quickly to meet these requests. Internal Audit will incorporate more hours for these reviews in the FY 2009-10 Plan and continue to work with the CAMM Department to improve the timeliness of the price review process.

Internal Audit Initiatives

Fraud Hotline

In March 2009, the Board authorized the outsourcing of a fraud hotline. The hotline will provide an anonymous reporting mechanism for employees, contractors, and the public to report suspected waste, abuse, or fraud. Internal Audit has contracted with a vendor to provide this service 24 hours a day, seven days a week. Internal Audit staff is working with the vendor to develop and implement the hotline.

Quality Assurance and Self-Assessment

As required by Government Auditing Standards (Standards), Internal Audit must have both policies and procedures guiding all of its work as well as a process to periodically evaluate compliance with those policies and procedures. Staff has made a considerable effort in the last six months in conducting this self assessment and refining policies and procedures.

Peer Review Participation

In preparation for its first peer review in early 2010, Internal Audit has volunteered to participate on peer reviews of the City of Los Angeles' Auditor/Controller office and the City of Stockton's Internal Audit Department. This participation will serve as both opportunities to gain a better understanding of the peer review process as well as opportunities to glean some best practices from other audit departments. Because the Association of Local Government Auditor's Peer Review Program is entirely voluntary, Internal Audit's participation will earn reciprocal credit for its first peer review.

Service Efforts and Accomplishments

In an effort to communicate the value or effectiveness of the internal audit function, Internal Audit is reviewing various methodologies used by other departments in the industry to collect, value, summarize, and communicate internal audit efforts and results. These summations, generally called Service Efforts and Accomplishments Reports, communicate the mission, goals, and major accomplishments of an internal audit function.

Audit Software Implementation

Internal Audit continues to work towards full implementation of Audit Leverage, the department's audit software. Internal Audit has fully implemented the workpaper and timekeeping modules of the software and has prepared the FY 2009-10 Plan using the software's risk assessment module. Internal Audit will continue to populate the database and fine tune reports and other available software features.

Findings and Recommendations Tracking

At the request of the Finance and Administration Committee, unresolved audit recommendations are included with the quarterly updates to the Plan as Attachment B. Internal Audit includes both findings and recommendations generated internally, as well as those provided by regulatory auditors and OCTA's independent financial statement auditors, Mayer Hoffman McCann P.C.

Summary

The Orange County Transportation Authority Fiscal Year 2008-09 Internal Audit Plan is being closed-out. Three projects will be cancelled and other incomplete projects will be carried forward to the Orange County Transportation Authority Fiscal Year 2009-10 Internal Audit Plan.

Attachments

- A. Orange County Transportation Authority Internal Audit Department
FY 2008-09 Internal Audit Plan Fourth Quarter Update
- B. Unresolved Audit Findings and Recommendations (Audit Reports Through
June 2009)

Prepared by:



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

Orange County Transportation Authority
Internal Audit Department
FY 2008-09 Internal Audit Plan
Fourth Quarter Update

Audit Activity		Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours to Date	Under (Over)	Outsourced Cost / Estimate to Complete (E)	Status (Date to F&A)	Notes (Contract Auditor)
Mandatory External Independent Audits										
Annual Financial Audit		FY09-001-4	Annual contracted financial and compliance audits for fiscal year 2007-08	Financial	325	471	(146)	\$ 307,490	Complete (01/28/09)	(Mayer Hoffman McCann)
Annual Transportation Development Act Audits		FY09-005	Coordination of legally required annual audits of the recipients of Local Transportation Fund for fiscal year 2007-08.	Compliance	100	74	26	\$ 59,900	Complete (01/28/09)	(Mayer Hoffman McCann)
Triennial Performance Audits		FY09-027	Initiate procurement of external auditors to conduct the state triennial performance audit and Renewed Measure M performance assessment for fiscal years 2007, 2008, and 2009	Compliance	50	21	29		Scopes of Work developed. Requisition with CAMM.	
Internal Audit Initiatives										
Risk Assessment and Annual Audit Plan		FY09-006	Annual preparation of the audit plan for next fiscal year; periodic assessment of risk throughout the year.	Risk Assessment	100	135	(35)		Complete (08/12/09)	
Quality Assurance and Self-Assessment		FY09-007	Self assessment of Internal Audit's compliance with Government Auditing Standards.	Quality Assurance	175	236	(61)		Ongoing	
Peer Review Participation		FY09-008	Participation as a review committee member for reciprocal credit.	Peer Review	80	-	80		Ongoing	OCTA will participate in reviews of the cities of Los Angeles and Stockton
Service Efforts & Accomplishments		FY09-025	Evaluation and summarization of the value of Internal Audit activities.	Service Efforts Report	100	14	86		Ongoing	
Price Review Process Improvements (unscheduled)			Evaluation of Internal Audit and CAMM Department price review process, research related to requirements, development of more efficient procedures, and training for CAMM Department staff.	Price Reviews	-	85	(85)		Complete	
Audit Software Implementation (unscheduled)			Implementation of Audit Leverage and troubleshooting	Audit Software	-	149	(149)		Ongoing	
Fraud Hotline (unscheduled)			Board concept approval, vendor solicitation, selection, and implementation plan.	Fraud Hotline	-	69	(69)		Ongoing	
Internal Audits										
Authority-Wide Price Reviews		PR09-300	Cost and price analyses as required by OCTA procurement policies and procedures.	Price Review	500	1,133	(633)	\$ 94,821	32 completed	(Four on-call audit firms)

Orange County Transportation Authority
Internal Audit Department
FY 2008-09 Internal Audit Plan
Fourth Quarter Update

Audit Activity		Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours to Date	Under (Over)	Outsourced Cost / Estimate to Complete (E)	Status (Date to F&A)	Notes (Contract Auditor)
Other unscheduled Reviews and Special Requests		FY09-100	Time allowed for unplanned audits and requests from the Board of Directors and management.	Varies	250	160	90		Ongoing	
Executive										
Safety Monitoring		FY08-031	Review and follow-up on any American Public Transportation Association (APTA) Safety Review conducted in FY 2008.	Internal Controls	100	1	99		Carryover	Not started
Assembly Bill (AB) 1234 Compliance		FY09-021	Review of Authority recordkeeping evidencing compliance with AB1234 requirements.	Compliance	150	130	20		Complete (02/25/09)	
Planning and Development										
Metrolink		FY08-010	Inventory and review of audit activities and results thereof for the Southern California Regional Rail Authority.	Operational	200	160	40		Carryover	Report in Draft
SR-22 Contract Close-out		FY08-022	Review to ensure contract stipulations were complied with and to verify the propriety of payments.	Compliance	25	74	(49)	\$ 45,102	Complete (08/12/09)	(GCAP Services)
I-5 Gateway Contract		FY08-014	Review to ensure contract stipulations are being complied with and to verify the propriety of payments.	Compliance	50	163	(113)	\$ 27,470	Carryover	Report in Draft (Wang Professional Corp.)
Caltrans Cooperative Agreement for I-405/SR-55		FY08-011	Review to ensure contract stipulations were complied with and to verify the propriety of payments.	Compliance	50	86	(36)	\$ 19,790	Complete (01/28/09)	(Mayer Hoffman McCann)
Combined Transportation Funding Program (CTFP) Project Audits/CTFP System		FY08-019	Evaluation of program process and review of a sample of projects funded by the CTFP.	Compliance	100	97	3	\$ 53,360	Carryover	Reports in Draft (Mayer Hoffman McCann)
Buena Park Metrolink Station Closeout Audit		FY08-007	Closeout audit of construction of Metrolink station.	Compliance	25	21	4	\$ 23,700	Carryover	Report in Draft (Mayer Hoffman McCann)
On-Call Service Contracts		FY09-012	Review of on-call contracts for contract compliance and 2008 compliance with procurement policies and procedures.	Compliance	300	22	278		Carryover	In process
Irvine Transportation Center		FY09-013	Review to ensure contract stipulations are being complied with and to verify the propriety of payments.	Compliance	75		75	(E) \$ 20,000	Carryover	Not started
Real Estate and Right-of-Way Administration		FY09-015	Review of right-of-way and other real estate operations and contracts.	Operational	300		300		Carryover	Not started
Transit Operations										
Buy America		FY08-027	Pre-award and post-delivery reviews to ensure vendor is in compliance with federal Buy America requirements.	Compliance	100	313	(213)		4 complete	
Vehicle Maintenance		FY08-020	Review of policies, procedures, management reporting, and regulatory compliance.	Operational	250	103	147		Carryover	In process

Audit Activity		Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours to Date	Under (Over)	Outsourced Cost / Estimate to Complete (E)	Status (Date to F&A)	Notes (Contract Auditor)
Government Relations	Grant Close-outs	FY09-026	As needed financial and compliance audits of grants at close-out to ensure propriety of expenditures.	Compliance	75	21	54	\$ 12,275	One Complete (10/08/08)	1 in process (Thompson, Cobb, Bazillio & Associates)
		FY09-019	Biannual financial and compliance reviews of the treasury function, including investment and bond compliance.	Compliance	200	126	74		1 Complete (03/25/09)	1 in process
	Revenue Accounting	FY08-024	Review of controls over the collection and processing of sales tax receipts.	Operational	275	287	(12)		Carryover	In process
Finance	Treasury	FY08-018	Review of policies, procedures and regulatory compliance with grant requirements.	Operational	150	287	(137)		Complete (07/22/09)	
		FY08-017	Review of policies and procedures for capital assets, including capitalization policy, classifications, depreciation, disposal.	Internal Controls	75	125	(50)		Complete (10/08/08)	
	Grants Management and Accounting	FY08-016	Review of contractual compliance and performance of collections contractor Law Enforcement Services (L.E.S.)	Compliance	200	117	83		Carryover	In process
	Capital Assets	FY09-029	Review of internal controls over purchasing cards	Internal Controls	120	176	(56)		Complete (02/25/09)	
	91 Express Lanes Collections	FY09-011	Review of services and invoices for investment and debt advisory and management services	Compliance	250		250		Carryover	In Process
	Purchasing Cards									
Human Resources	Investment Management & Service Fees									
	Payroll	FY08-001	Audit of the payroll function including internal controls and analytics.	Operational	155	180	(25)		Complete (10/22/08)	
	Payroll Information Systems	FY08-001	Information Systems Audit of Lawson payroll system	Operational				\$ 48,790	Complete (12/10/08)	(Thompson, Cobb, Bazillio & Associates)
	Medical Examinations	FY08-006	Review of contracted services for medical examinations and programs.	Compliance	75	318	(243)		Complete (11/12/08)	
	Veolia Drug and Alcohol Program Monitoring (Unscheduled)		Board initiated unscheduled review of monitoring of Veolia's drug and alcohol program and that of other transportation contracts and programs.	Operational	0	190	(190)		Complete (04/22/09)	
Employment Division	FY09-017	Review of controls and efficiency of candidate recruitment, selection and hiring.	Operational	350		350		Cancel	Employment activity reduction	

Orange County Transportation Authority
Internal Audit Department
FY 2008-09 Internal Audit Plan
Fourth Quarter Update

Audit Activity		Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours to Date	Under (Over)	Outsourced Cost / Estimate to Complete (E)	Status (Date to F&A)	Notes (Contract Auditor)
Contracts & Materials	Contract Administration	FY08-015	Operational review to identify efficiencies and determine compliance with established policies and procedures. Scope to be further refined.	Operational	200	16	184		Carryover	In process
	Southern Counties Oil Company	FY08-026	Contract compliance review of C-5-0467 - diesel and unleaded fuel supply.	Compliance	95	153	(58)		Complete (11/26/08)	
	Bridgestone/Firestone Tire Lease	FY09-014	Review of lease of bus tires.	Compliance	175		175		Carryover	Not started
	Maintenance Inventory Management	FY09-022	Review of inventory management policies, procedures, controls, and operational efficiency.	Operational	300		300		Carryover	In Process
	Warranty Administration	FY09-023	Review of internal controls over warranted equipment.	Internal Control	175		175		Carryover	Not started
	Fuel Controls	FY09-024	Review of controls over dispensing of petroleum products.	Internal Control	150		150		Carryover	Not started
Information Systems										
	Business Resumption Planning (BRP)	FY09-009	Review of information systems recovery policies and procedures, testing, and post-event review.	Operational	75		75	(E) \$20,000	Cancel	BRP Plan under development by Information Systems Department
	Telecommunications Equipment	FY09-020	Review of telecommunications equipment usage and internal controls.	Internal Control	175	8	167		Carryover	In process
External Affairs										
	Vanpool Program	FY08-023	Review of first year operations and contract compliance.	Operational	175	531	(356)		Complete (07/22/09)	
	Customer Information Center (Alta Resources)	FY09-018	Review of contractually required service levels and contractor billing.	Contract Compliance	225	245	(20)	(E) \$25,000	Carryover	In Process
Motorist Services										
	Call Box Maintenance Services	FY09-028	Review of contract for call box maintenance	Contract Compliance	150		150		Cancel	Call box program under reduction

Monitoring Activities

Measure M Citizens Oversight Committee/Taxpayers Oversight Committee (COC/TOC) and Administrative Issues	FY09-401	Coordination of audit activities with the Audit Subcommittee of the Measure M COC/TOC.	Monitoring	25	209	(184)			Ongoing
91 Express Lanes	FY09-402	Ongoing monitoring of 91 Express Lanes activities and participation in roundtables.	Monitoring	25	5	20			Ongoing

Orange County Transportation Authority
Internal Audit Department
FY 2008-09 Internal Audit Plan
Fourth Quarter Update

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours		Staff Hours to Date	Under (Over)	Outsourced Cost / Estimate to Complete (E)	Status (Date to F&A)	Notes (Contract Auditor)
				Staff Hours	Hours					
I-5 Gateway Project	FY09-403	Ongoing monitoring to keep apprised of activities and significant issues.	Monitoring	25	8		17		Ongoing	
Compressed Natural Gas (CNG) Station Project	FY09-404	Ongoing monitoring to keep apprised of activities and significant issues.	Monitoring	100	24		76		Ongoing	
Bus Rapid Transit (BRT)	FY09-405	Ongoing monitoring to keep apprised of activities and significant issues.	Monitoring	25	14		11		Ongoing	
Records Management	FY09-406	Ongoing participation on Records Management Task Force.	Monitoring	25	6		19		Ongoing	
Follow-up Reviews										

Follow-up reviews and reporting	FY09-200	Follow-up on audit findings and recommendations.		250	426		(176)			
Total Audit Hours				7,700	7,185		515			

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS
(Audit Reports Issued Through June 2009)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
8/2/2006	06-021	Finance and Administration	Cofiroute Contract Compliance and Operational Audit	The contract with the California Highway Patrol (CHP) should be updated to reflect current billing rates, level of service, responsibilities of each party, and other factors as necessary. In addition to Cofiroute's review of CHP invoices for accuracy, the invoices should be reviewed by OCTA staff for propriety with contract terms.	Jun-09	Management concurs. Contracts Administration and Materials Management (CMM) will meet with the CHP to obtain current rates, level of service, responsibilities of each party and incorporate those items into a new contract.	Ng	A contract amendment will take place which will incorporate the contract changes. Not yet executed as of January 2009.
8/2/2006	06-021	Finance and Administration	Cofiroute Contract Compliance and Operational Audit		Jun-09	Management concurs. Management will review all CHP invoices for propriety with contract terms.	Ng	CHP invoice review process will begin once the CHP contract is amended.
6/15/2007	07-032	Finance and Administration	Liquefied Natural Gas (LNG) Contract Review	CMM should revise its policies and procedures to require formal Chief Executive Officer (CEO) approval for substantial changes to terms of inventory contracts.	Sep-09	CMM agrees to review the procurement policies and procedures as they relate to inventory and to update the Procurement Manual as needed. Funds have been budgeted in the fiscal year 2008 budget for this activity. It is anticipated that this effort will start in the September time frame and will include a procedure for handling inventory purchases as well as amendments to inventory contracts.	Bonelli	OCTA's procurement manual is being revised with expected completion in September 2009. Internal Audit will follow up with this item at that time.
6/25/2007	07-031	Deputy Chief Executive Officer	Records Management Assessment	OCTA should develop a plan for the implementation of a comprehensive program to manage records organization-wide. Policies and procedures for the systematic and orderly accumulation and storage of active records should be developed to provide a foundation upon which better records retention and destruction can be controlled.	Aug-09	Audit findings for this assessment were referred to the Deputy CEO and a Records Management Task Force.	O'Connell	A consultant (Strativa) is under contract to review OCTA's records management process. Internal Audit will monitor progress through completion.
6/25/2007	07-031	Deputy Chief Executive Officer	Records Management Assessment	Employee awareness of their roles and responsibilities with regard to records management should be strengthened. A formal training program should be developed to drive greater accountability.	Aug-09	Audit findings for this assessment were referred to the Deputy CEO and a Records Management Task Force.	O'Connell	A consultant (Strativa) is under contract to review OCTA's records management process. Internal Audit will monitor progress through completion.

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through June 2009)

Audit Issue Date	Report Number	Division / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
6/25/2007	07-031	Deputy Chief Executive Officer	Records Management Assessment	OCTA should provide the technological resources necessary to allow consistent, organization-wide records retention, management, and retrieval. Electronic data and mail should be consistently classified, filed, sorted, and purged.	Aug-09	Audit findings for this assessment were referred to the Deputy CEO and a Records Management Task Force.	O'Connell	A consultant (Strativa) is under contract to review OCTA's records management process. Internal Audit will monitor progress through completion.
6/25/2007	07-031	Deputy Chief Executive Officer	Records Management Assessment	The current policy and records retention schedules should be updated to include security, third party, and electronic document considerations.	Aug-09	Audit findings for this assessment were referred to the Deputy CEO and a Records Management Task Force.	O'Connell	A consultant (Strativa) is under contract to review OCTA's records management process. Internal Audit will monitor progress through completion.
10/27/2007	07-024	Human Resources and Organizational Development	Summary Report of Findings, Health Insurance Portability and Accountability Act (HIPAA) Privacy and Data Security Compliance Assessment	OCTA should finalize and implement HIPAA record retention policies for the Human Resources Department.	May-09	Management agrees with the recommendation. We will finalize and implement the HIPAA record retention policies after review with legal counsel. OCTA, under the guidance of the Information Systems (IS) Department manager and Deputy CEO, is in the process of developing an enterprise-wide data retention and classification process, that will ensure that any protected health information (PHI) is properly protected and archived.	Dunning and Aon Consulting (Aon)	A consultant (Strativa) is under contract to review OCTA's records management process. Data classification will be included as part of that project. Internal Audit will monitor progress through completion.
10/27/2007	07-024	Human Resources and Organizational Development	Summary Report of Findings, HIPAA Privacy and Data Security Compliance Assessment	In future negotiations with the unions, OCTA should consider obtaining certification that the unions are in compliance with HIPAA's rules and regulations.	Mar-10	Management agrees with the recommendation. We will address this recommendation with the Employee Relations Department and legal counsel.	Dunning and Aon	The next coach operator agreement (4/30/10) and maintenance agreement (9/30/10) will address this.

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through June 2009)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
4/24/2008	08-005	Transit	Review of Agreement No. C-5-3021 with Veolia Transportation Services, Inc.	The Community Transportation Services (CTS) Department should clarify the maximum trips specified in the contract or the contract should be amended to be consistent with the terms of the Yellow Cab contract.	May-09	The maximum obligation of the contract with Yellow Cab of North Orange County for the provision of same day taxi service was developed using a maximum number of trips per day. There have been few occasions that the maximum number has been exceeded. There are many occasions that the number of trips requested under this program fall far below the maximum, particularly on weekends. Because of this, trips in excess of the maximum are generally accommodated because this can be done without exceeding the maximum obligation of the contract. The contract language could be clarified to specify that the maximum number of trips is an estimate.	Dunning	Follow-up in process as of July 2009. A contract amendment was approved by the Board on May 11, 2009. Internal Audit workpapers must be prepared and reviewed to close this item out.
10/13/2008	08-006	Human Resources and Organizational Development	Medical Examinations and Services Contract Compliance Review	OCTA should ensure that clinical laboratories are submitting semi-annual reports as required by the contracts. The summary reports should then be reconciled to OCTA data and exceptions should be documented and investigated.	Apr-09	Pharmatech, the clinical laboratory used by Pacific Medical Clinic (PMC) for specimen analysis has provided OCTA with the semi-annual statistical summaries as required by the contracts. The last report received was for the period 1/1/08 through 6/30/08. This report was reviewed and verified by Human Resources. We are in the process of establishing this process with Golden West Medical Center (GWMC). We will have this in place by November 15, 2008.	Dunning	Follow-up in process as of July 2009. Management has completed corrective action. Internal Audit workpapers must be prepared and reviewed to close this item out.
10/13/2008	08-006	Human Resources and Organizational Development	Medical Examinations and Services Contract Compliance Review	Human Resources should work with PMC and GWMC to develop a method for obtaining and processing blind urine specimens as required by the contracts. OCTA staff should document the results of the blind urine specimens and investigate any exceptions.	Apr-09	OCTA's contracts with Pacific Medical Clinic (PMC) and Golden West Medical Center (GWMC) require they submit three blind specimens for every 100 OCTA employee specimens tested. PMC had performed 497 drug tests for OCTA for the period of 1/1/08 through 6/30/08. They submitted 15 blind quality control samples and the reported result was the same as the expected result. GWMC has purchased the blind specimens and is in the process of submitting them to the laboratory. GWMC will provide the results to us by November 1, 2008.	Dunning	Follow-up in process as of July 2009. Management has completed corrective action. Internal Audit workpapers must be prepared and reviewed to close this item out.

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through June 2009)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
10/13/2008	08-006	Human Resources and Organizational Development	Medical Examinations and Services Contract Compliance Review	Human Resources should exercise the contract provision allowing for independent quality assurance (QA) inspections of the medical services and specimen collection requirements of OCTA's contract. Furthermore, due to the safety implications of the Department of Transportation standards and protocols, Internal Audit recommends that the Safety Department monitor the results of such a quality assurance program to ensure all safety issues are addressed in a timely and effective manner.	Apr-09	Management agrees. It is an acceptable practice in the industry for the Human Resources staff to conduct such inspections. Periodically we have conducted inspections of the clinics. Our next inspections which will take place in January 2009 will be conducted without prior notice to the clinics.	Dunning	Follow-up in process as of July 2009. Management has completed corrective action. Internal Audit workpapers must be prepared and reviewed to close this item out.
10/13/2008	08-006	Human Resources and Organizational Development	Medical Examinations and Services Contract Compliance Review	OCTA should work with the contractors to ensure that contract terms related to invoice submittals are followed.	Apr-09	Invoices from PMC do include certifications. We are in the process of establishing this process with GWMC. They will have this in place for the next billing cycle. We will also make some changes to the invoicing procedure. We have requested that PMC and GWMC send duplicate invoices to OCTA. The invoice to Accounts Payable will contain only the total amount due. The invoice to Human Resources will have the total amount due along with the itemized charges. Human Resources made this request to change the procedure due to the confidential information contained in the invoices.	Dunning	Follow-up in process as of July 2009. Management has completed corrective action. Internal Audit workpapers must be prepared and reviewed to close this item out.
10/13/2008	08-006	Human Resources and Organizational Development	Medical Examinations and Services Contract Compliance Review	Internal Audit recommends that OCTA work with the contractor to ensure that only the last four digits of the social security number are included on the invoice.	Apr-09	This has been corrected and is in place as of May 1, 2008. The invoices for Agreement No. C-6-0135 with GWMC no longer include the employee social security numbers. Employees are identified by their badge number.	Dunning	Follow-up in process as of July 2009. Management has completed corrective action. Internal Audit workpapers must be prepared and reviewed to close this item out.

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through June 2009)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
10/13/2008	08-006	Resources and Organizational Development Human	Medical Examinations and Services Contract Compliance Review	Internal Audit recommends that Human Resources include the contract number on all patient authorization forms in order to expedite the process and reduce the possibility of the wrong service being provided or the wrong contract being invoiced.	Apr-09	Through our invoice reconciliation process, all charges are reviewed and verified to be correct before being processed to accounts payable. Any charges which appear on the invoice that do not pertain to services rendered under Agreement No. C-6-0339 with PMC are first reviewed and verified with the clinic and then removed from the invoice. Human Resources will prepare a separate patient authorization form that the Employment Section will use for pre-employment (post offer) exams and drug/alcohol testing when applicable.	Dunning	Follow-up in process as of July 2009. Management has completed corrective action. Internal Audit workpapers must be prepared and reviewed to close this item out.
10/24/2008		General Manager of the 91 Toll Roads	2008 Management Letter / Single Audit Report of Federal Awards, Year Ended 2006-07	The third-party contractor should establish procedures to strengthen information systems controls associated with the OCTA contract.	Sep-09	Staff agrees with the auditors' recommendation regarding backup tapes, which are now being stored at a secure, offsite location. Staff agrees with the auditors' recommendation regarding password controls. The system developer of TollPro will be modifying the password complexity to match industry best practices. Staff agrees with the auditors' recommendation of removing user access to systems immediately following termination. Cofiroute will implement a policy to ensure all terminated employees are removed by the close of the following business day.	Suttler and Mayer Hoffman McCann LLC (MHM)	Contractor has submitted documentation to OCTA's external financial auditors which will be reviewed when the auditors return in September 2009.
10/24/2008		Development	2008 Management Letter / Single Audit Report of Federal Awards, Year Ended 2006-07	The Project Delivery Department should ensure proper documentation is maintained regarding any withholding or delay of payments resulting from a lack of documentation provided by the entity awarded Combined Transportation Funding Program (CTFP) funds.	Jun-09	Staff is currently developing an electronic tracking system that will address this recommendation. This effort was in process prior to the audit report. Once completed, the system will provide an electronic log of invoice issues, missing documentation, correspondence with the cities, and will track the dates missing documentation is both requested and received.	Suttler and MHM	Contractor has submitted documentation to OCTA's external financial auditors which will be reviewed when the auditors return in September 2009.
10/24/2008		Development	2008 Management Letter / Single Audit Report of Federal Awards, Year Ended 2006-07	OCTA should establish procedures or protocols to ensure that all information of a financial nature is communicated to the Financial Planning and Analysis (FP&A) Department or Accounting Department, as appropriate.	Jun-09	This unique situation resulted from revisions to a standard Caltrans funding agreement. Had an amendment been executed to the original cooperative agreement, a copy would have been transmitted to FP&A. The normal processing and transmittal of agreements and amendments by CAMM should provide the required financial information needed by FP&A.	Suttler and MHM	Contractor has submitted documentation to OCTA's external financial auditors which will be reviewed when the auditors return in September 2009.

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through June 2009)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
10/30/2008	08-026	CAMM	Southern Counties Oil Company Contract Compliance Review	Future procurements of inventory products priced on indexes should be limited to quotes on discounts, premiums, mark-ups, or mark-downs. CAMM should implement a review process to ensure that the language and requirements in invitations for bid (IFB) are clear, concise, and relevant to better enhance bidding and the subsequent evaluation processes. CAMM should also immediately solicit bids for fuel.	May-09	CAMM is currently preparing a new solicitation for unleaded and diesel fuels. The invitation for bid (IFB) is scheduled for release on November 14, 2008, with the bids being submitted on December 11, 2008. The bidders will be required to quote only their discounts, delivery charges and any applicable taxes. CAMM management will also ensure that the IFB package is thoroughly reviewed prior to being released and that the recommended bid is inspected to ensure compliance with all IFB requirements.	Bonelli	Follow-up in process as of July 2009.
10/30/2008	08-026	CAMM	Southern Counties Oil Company Contract Compliance Review	Procurement policies and procedures should be enhanced to require independent verification of inconsistencies in bids. They should also require CAMM management review and approval for awards of contracts of this magnitude and nature.	May-09	CAMM agrees to strengthen the procurement procedures for all types of purchases to require an independent verification of all bids received to ensure that there are no inconsistencies in the bids and that the lowest responsive bidder has met all requirements. Currently a CAMM section manager is required to review the IFB package before it is released. CAMM will formalize this procedure.	Bonelli	Follow-up in process as of July 2009.
10/30/2008	08-026	CAMM	Southern Counties Oil Company Contract Compliance Review	Contract provisions related to temperature control should be enforced. Unnecessary or inapplicable provisions should be amended out of the contract.	May-09	The requirement was originally placed in the contract as a safeguard. However, OCTA's experience is that only full loads of fuel are delivered and accepted. In the solicitation being developed to reprocur the fuel, this requirement has been removed.	Bonelli	Follow-up in process as of July 2009.
11/19/2008	08-001A	Information Systems	Payroll Systems Controls Review	Management should develop and implement password administration controls to address weaknesses.	Jun-09	Information Systems (IS) staff is recommending that we bind passwords to the Lightweight Directory Access Protocol (LDAP) with our Windows Active Directory, requiring the implementation of Lawson's new security model. The project is currently not scheduled but will be considered in next fiscal year's budget request.	Bonelli and Thompson Cobb Bazilio and Associates (TCBA)	Follow-up in process as of July 2009.

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through June 2009)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
11/19/2008	08-001A	Information Systems	Payroll Systems Controls Review	Management should ensure that adequate controls exist within the payroll and human resources process, including policies restricting pay rate changes and personnel data changes to only authorized personnel and establishing an audit trail and independent reviews of edits made to data.	Jun-09	Management will implement mitigating controls in the form of new variance reports and review processes. A "Variance Audit Report" will be developed and provided to Human Resources, a "Rate Change Personnel Action Form Audit" report will be provided to Payroll, and a "Dollars Only Payments" report will be provided to Human Resources.	Bonelli and TCBA	Follow-up in process as of July 2009.
11/19/2008	08-001A	Information Systems	Payroll Systems Controls Review	Timesheets should be completed in ink, changes should be properly authorized and Payroll should maintain documentation in the file authorizing any changes made.	Jun-09	Management will require that all timesheets be completed in ink and that all corrections be initiated by the person making the change. If the change is made by Payroll staff, the basis of the change will be noted and communicated back to the employee. Once on-line entry of timesheets is implemented, manual timesheets will no longer be required.	Bonelli and TCBA	Follow-up in process as of July 2009.
11/19/2008	08-001A	Information Systems	Payroll Systems Controls Review	Payroll should ensure that all changes made to employee records are independently reviewed and verified as authorized. Changes to employee files that are accepted verbally should be properly documented.	Jun-09	Payroll will ensure that all changes in direct deposit status for active employees are fully documented and that verbal requests are verified. Payroll will also change the direct deposit flag to NO for terminated employees.	Bonelli and TCBA	Follow-up in process as of July 2009.
11/19/2008	08-001A	Information Systems	Payroll Systems Controls Review	The IS Department is dependent on one employee for all critical Lawson administration functions. Management should develop and implement a knowledge transfer and training program.	Jun-09	OCTA maintains an annual service agreement with Hitachi Consulting, the original developer of many of the data interfaces involving Lawson. They are capable of providing programming services and this is the planned means of providing backup support for interfaces in the absence of this employee. However, IS may also implement one of five other strategies to address this issue.	Bonelli and TCBA	Follow-up in process as of July 2009.
11/19/2008	08-001A	Information Systems	Payroll Systems Controls Review	Management should strengthen access controls to the Lawson databases to ensure that unauthorized access and modification of data in the databases is prevented or detected.	Jun-09	For those passwords for which IS staff has control, strengthened controls will be implemented. However, some of these parameters are imbedded in the application and IS staff will be unable to modify.	Bonelli and TCBA	Follow-up in process as of July 2009.

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through June 2009)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
11/19/2008	08-001A	Information Systems	Payroll Systems Controls Review	IS Help Desk service level agreements should be developed and documented.	Jun-09	Management concurs with the concept; however, management believes that current service levels meet business unit requirements. If they do not, Information Systems will meet with the affected business units to develop such agreements.	Bonelli and TCBA	Follow-up in process as of July 2009.
11/19/2008	08-001A	Information Systems	Payroll Systems Controls Review	Management should ensure that all requests for service go through the IS Help Desk.	Jun-09	Current policies and procedures require that all requests go through the IS Help Desk for proper logging, documentation and problem resolution. IS management will reinforce this through communication with staff.	Bonelli and TCBA	Follow-up in process as of July 2009.
11/19/2008	08-001A	Information Systems	Payroll Systems Controls Review	Management should adopt security measures for laptops including hard drive encryption and Bios passwords.	Jun-09	Staff is currently developing a new user policy which outlines OCTA's current security policies, standards and processes for securing laptops and smart phones. IS staff will review current laptop hard drive encryption technologies as well as other security measures and, if feasible, may implement these on select or all laptops.	Bonelli and TCBA	Follow-up in process as of July 2009.
11/19/2008	08-001A	Information Systems	Payroll Systems Controls Review	Management should prioritize the development of a comprehensive business continuity plan.	Jun-09	OCTA's business continuity plan will be updated in 2009.	Bonelli and TCBA	Follow-up in process as of July 2009.
10/31/2007 and 10/24/2008	07-030	Transit	2007 and 2008 Management Letters / Single Audit Reports of Federal Awards	MHM recommends that OCTA adhere to the Buy America requirements and ensure that all documentation is contained in the procurement files to support OCTA's compliance.	Sep-09	OCTA Transit Division Maintenance Department will follow the Buy America guideline. OCTA will ensure that contract administration has the necessary paperwork on file for the closing of contracts for the post filings.	Sutter, Bonelli and MHM	Vehicle procurement and acceptance policies are being developed to address several issues related to OCTA's compliance with Buy America. Internal Audit has taken the lead in reviewing these, once complete.
2/18/2009	09-021	Clerk of the Board	Assembly Bill 1234 Review	Management should revise procedures to ensure Director's are requested to review, sign and return these forms to the Clerk of the Board's (COB) office and that timely follow-up for receipt of these forms is performed and documented.	Aug-09	In January 2009, the COB's office will implement follow-up procedures to ensure all forms are signed and returned in a timely manner.	Sutter	
2/18/2009	09-021	Clerk of the Board	Assembly Bill 1234 Review	Management should develop and document written procedures outlining the requirements for submission and approval of expense reimbursements.	Aug-09	The COB will revise practices to require expense reimbursement forms to be signed by Directors and will develop desk procedures whereby the forms are signed by the COB or a designee to evidence verification of receipts provided and compliance with policies. Any concerns will be escalated to the CEO for resolution.	Sutter	

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through June 2009)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
2/18/2009	09-021	Clerk of the Board	Assembly Bill 1234 Review	Internal Audit recommends that management develop and document procedures for timely follow-up to ensure training records are on file. Management should also ensure that required communications related to available ethics training be provided annual to the directors.	Aug-09	The COB will develop and implement more detailed procedures for the tracking and monitoring of training requirements to ensure compliance. The COB will also provide training material to Directors annually as required by Assembly Bill 1234.	Sutter	
2/18/2009	09-021	Clerk of the Board	Assembly Bill 1234 Review	Internal Audit recommends that the Board of Directors clarify the policy with regard to ethics training for Directors who do not receive or accept compensation or reimbursement of expenses.	Aug-09	Upon direction from the Board of Directors, legal counsel will recommend revisions to the policy with regard to Directors who do not receive or accept compensation or reimbursement of expenses.	Sutter	
2/9/2009	09-029	Development	Purchasing Card Program Review	Internal Audit recommends management take appropriate action with an employee and supervisor related to inappropriate purchasing card activity and work schedule.	Aug-09	Management has taken corrective action with regard to vehicle usage and will take appropriate disciplinary action with both the employee and supervisor.	Sutter	
2/9/2009	09-029	CAMM	Purchasing Card Program Review	Internal Audit recommends that the purchasing card administrator develop procedures to review selected transaction and examine related documentation in an effort to determine whether transactions are valid, allowable, and properly supported.	Aug-09	CAMM will revise the current policies and procedures relative to reviewing monthly transactions, selecting only a sample of transactions for in-depth audit. A form will be developed that requires the cardholder's manager to sign confirming the transaction being approved are consistent with policy. The revised policies will also address action to be taken in the event of non-compliance.	Sutter	
2/9/2009	09-029	CAMM	Purchasing Card Program Review	CAMM management should review the due dates assigned for submitting monthly purchasing card packages to determine whether additional time is required or take appropriate action to enforce due dates.	Aug-09	CAMM will review the due date requirement and determine if enough time is being given to submit purchasing card packages on time and will revise the current policies and procedures along with enforcing appropriate action.	Sutter	

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through June 2009)

Audit Issue Date	Report Number	Division / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
2/9/2009	09-029	CAMM	Purchasing Card Program Review	Internal Audit recommends that management enhance procedures to include a specific review of cardholder activity so that cards that are not used or needed can be closed. The purchasing card administrator should forward activity reports on a periodic basis to department managers for their review. The purchasing card administrator should require positive confirmation from department managers that cardholder assignments are appropriate and necessary.	Aug-09	CAMM will revise the policies and procedures to include a semi-annual review of cardholder activity so that cards that are not used or needed can be closed. The purchasing card administrator will forward activity reports on a periodic basis to department managers for their review and will require positive confirmation from department managers that cardholder assignments are appropriate and necessary.	Sutter	
2/9/2009	09-029	CAMM	Purchasing Card Program Review	Internal Audit recommends that management revise procedures to include a semi-annual inventory of cards.	Aug-09	CAMM has been performing card inventory informally. CAMM will revise the current procedure to allow for a formal written review of cardholder activity levels and assignments.	Sutter	
2/9/2009	09-029	CAMM	Purchasing Card Program Review	Internal Audit recommends that management implement available automated restrictions to enhance the control environment and prevent purchasing card misuse or abuse.	Aug-09	CAMM and the Accounting Department are currently working with Bank of America to enhance and automate the purchasing card system. These available automated restrictions will be implemented to control the environment and prevent purchasing card misuse.	Sutter	
3/25/2009		Special Projects	Measure M Agreed-Upon Procedures Reports, year ended 06/30/08	Staff should clarify, through an ordinance amendment, the requirement that Measure M projects be included in cities' Capital Improvement Program plans, and additional clarification on lending activity related to Measure M turnback funds.	Sep-09	The Board of Directors has directed staff to clarify the ordinance through amendment.	Sutter	
3/3/2009	09-019	Treasury Department	Investment Activities January 1 through June 30, 2008	While the misstatement of OCTA's total investment portfolio value resulted from a custodial bank error, Internal Audit recommends that the Treasury Department investigate anomalies in the custodial bank statements prior to preparing the quarterly debt and investment reports.	Sep-09	The Treasury Department notified the bank of the error. Upon investigation by the bank, it was determined that the bank had not properly cleared a security. Moving forward, the Treasury Department shall make every effort to thoroughly investigate anomalies in the bank statements during the report-writing process to ensure an accurate and timely debt and investment report.	Ng	As of June 2009, Internal Audit is conducting another Investment Activities review and will follow-up during the course of the review.

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through June 2009)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
3/3/2009	09-019	Treasury Department	Investment Activities January 1 through June 30, 2008	Internal Audit recommends that the Treasury Department update the Debt & Investment Management Manual with all individuals authorized to initiate and approve wire transfers.	Sep-09	Staff is currently updating the manual to reflect recent changes. The changes will include the addition of the Principal Transportation Analyst within the Treasury/Public Finance Department, updated vendor relationships as well as any other relevant changes.	Ng	As of June 2009, Internal Audit is conducting another Investment Activities review and will follow-up during the course of the review.
3/3/2009	09-019	Treasury Department	Investment Activities January 1 through June 30, 2008	Internal Audit recommends that Accounts Payable require the CTS Department to submit complete invoice packages for payment and file these complete packages.	Sep-09	Accounting is working with the CTS Department to ensure that payment packages include original invoices and other relevant documentation prior to disbursement of funds.	Ng	As of June 2009, Internal Audit is conducting another Investment Activities review and will follow-up during the course of the review.
4/1/2009	09-032	CAMM and Maintenance	New Flyer of America, Inc. Post-Delivery Buy America Review	Internal Audit recommends that the CAMM Department develop policies and procedures to ensure that OCTA complies with pre-award and post-delivery requirements with respect to the purchase of vehicles.	Oct-09	CAMM and Maintenance are working cooperatively to develop a procedure that fully complies with the audit findings and ensure that the Federal Transit Administration (FTA) requirements are met. This corrective action will be implemented to ensure that FTA Buy America standards are adhered to in all future procurements. Any amendment change in parts will trigger a request for a post-award Buy America audit prior to the amendment being initiated.	Bonelli	Vehicle procurement and acceptance policies are being developed to address several issues related to OCTA's compliance with Buy America. Internal Audit has taken the lead in reviewing these, once complete.
3/4/2009	09-104	Human Resources and Organizational Development	Review of Contractor Drug and Alcohol Program Monitoring	Internal Audit recommends that OCTA develop a centralized and coordinated approach to oversight of drug and alcohol programs. Furthermore, Internal Audit recommends that management evaluate all transportation programs and related contracts for drug and alcohol program components to ensure there is adequate OCTA monitoring and oversight.	Sep-09	Human Resources recommends that OCTA create a Contractor Drug and Alcohol Program Monitoring Committee. Under direction of the Executive Director of Human Resources and Organizational Development, he will chair the committee. The committee members would include representatives from Human Resources, CAMM, Health, Safety, and Environmental Compliance, Risk Management, Transit, and OCTA's legal counsel. This committee would meet on a quarterly basis or more frequently if necessary. It would be the committee's responsibility to monitor contractors' drug and alcohol programs.	Dunning	

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through June 2009)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
3/4/2009	09-104	CAMM Department	Review of Contractor Drug and Alcohol Program Monitoring	Internal Audit recommends that the Human Resources and Organizational Development and CAMM, together with legal counsel, evaluate the necessity and appropriateness of contract boiler plates related to drug and alcohol, and then establish monitoring or follow-up procedures as appropriate.	Sep-09	Human Resources recommends the evaluation of the necessity and appropriateness of contract boiler plates related to drugs and alcohol be reviewed by the newly created Contractor's Drug and Alcohol Program Monitoring Committee.	Dunning	
3/4/2009	09-104	CTS Department	Review of Contractor Drug and Alcohol Program Monitoring	Internal Audit recommends that the CTS Department enhance formal monitoring procedures of Veolia's compliance with its drug and alcohol policy and related related regulatory requirements.	Sep-09	The Transit Division in CTS has established a Drug and Alcohol Instruction Manual intended to clarify the instructions for administering the drug and alcohol audit process.	Dunning	



August 12, 2009

To: Finance and Administration Committee
From: Will Kempton, Chief Executive Officer
Subject: Draft Fiscal Year 2009-10 Internal Audit Plan

Overview

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

Recommendations

- A. Approve the Draft Fiscal Year 2009-10 Internal Audit Plan.
- B. Direct the Executive Director, Internal Audit to provide quarterly updates on the Internal Audit Plan.

Background

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

Discussion

The Internal Audit Department is presenting the Draft Fiscal Year 2009-10 Internal Audit Plan (Audit Plan) for the Board of Directors' approval. The Audit Plan was developed using an enterprise-wide risk assessment. The Audit Plan will be implemented using Internal Audit Department staff, on-call consultants, the independent auditors for the annual financial audit of OCTA, and other firms as needed.

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

Fiscal Impact

The Audit Plan has been developed within the resources available in the adopted budget for fiscal year 2009-10.

Summary

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

Attachment

- A. Draft Fiscal Year 2009-10 Internal Audit Plan

Prepared by:

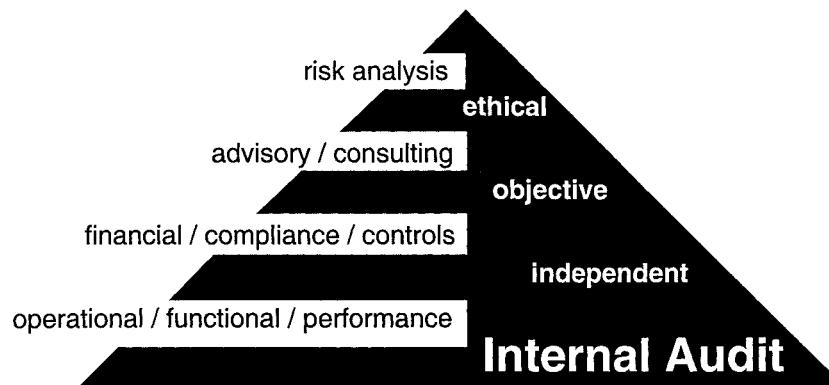


Kathleen M. O'Connell
Executive Director, Internal Audit
(714) 560-5669

ORANGE COUNTY TRANSPORTATION AUTHORITY
Internal Audit Department



Draft Fiscal Year 2009-10
Internal Audit Plan



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

550 South Main Street
P.O. Box 14184
Orange, CA 92863-1584

**ORANGE COUNTY TRANSPORTATION AUTHORITY
Internal Audit Department
Fiscal Year 2009-10 Internal Audit Plan**

Table of Contents

Mission of the Internal Audit Department.....	1
Internal Audit Department Activities	1
Fiscal Year 2008-09 Accomplishments	2
Fiscal Year 2009-10 Goals	3
Internal Audit Organization	3
Risk Assessment Process.....	4
Internal Audit Plan Development	8
APPENDIX A: Risk Assessment by Program/Project/Contract.....	9
APPENDIX B: Fiscal Year 2009-10 Internal Audit Plan.....	10

Mission of the Internal Audit Department

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

Internal Audit Department Activities

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

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

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

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

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

Price Review – Price reviews are conducted to determine if proposed pricing or costs are fair, reasonable, and/or necessary. Certain price reviews are mandated by federal or state statutes, and others by Authority procurement policy.

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

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

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

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

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

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

Investigations – Activities undertaken in response to a complaint or allegation.

Fiscal Year 2008-09 Accomplishments

- Coordinated and assisted external auditors with the annual financial audit, including full staff support for the National Transit Database Agreed-Upon-Procedures.
- Completed 52 audit projects and provided over 50 recommendations for improvements in operations, policies and procedures, internal controls, and compliance.
- Issued OCTA's first audit report in compliance with Government Auditing Standards issued by the GAO.
- Worked with the audit subcommittee of the Orange County Local Transportation Authority Taxpayers Oversight Committee to ensure the audit requirements of the subcommittee were achieved during the annual financial audit and assisted the subcommittee in addressing clarifications to the Measure M Ordinance or guidelines.
- Implemented the workpaper, time reporting, and risk assessment modules of the Department's audit software (Audit Leverage) and completed a full year's audit work using the system, drastically reducing the Department's paper usage and creating efficiency in the review and approval of audit work.
- Conducted follow-up reviews of the implementation of audit recommendations and reported progress quarterly to the Finance and Administration Committee.

- Participated on numerous internal and external committees and task forces, including the Professional Issues Committee of the Association of Local Government Auditors. This committee provides feedback to standards-setting bodies on exposure drafts and other proposed professional pronouncements.
- Collaborated with the Contracts Administration and Materials Management (CAMM) Department to create greater efficiency in OCTA's review of prices proposed by architectural and engineering (A&E) firms.
- Conducted a training course for the CAMM Department to assist procurement administrators in their review of smaller A&E price proposals.
- Completed the procurement of a vendor to provide 24/7 fraud hotline service.

Fiscal Year 2009-10 Goals

- Complete the implementation of OCTA's fraud hotline, including the development of a website, policies and procedures for investigation and reporting of activities, and a public outreach plan.
- Assist the Human Resources and CAMM departments in the development of a training program for OCTA's newly adopted Code of Conduct.
- Customize Audit Leverage reports to further improve the efficiency of the Department.
- Complete an in-house self assessment of Internal Audit's compliance with Government Auditing Standards and modify or update policies and procedures accordingly.
- Participate on two quality assurance (Peer) review teams to accrue reciprocal credit.
- Undergo Internal Audit's first Peer review.
- Develop a formal training assessment for each internal auditor in the Department.
- Complete the Fiscal Year 2009-10 Internal Audit Plan.

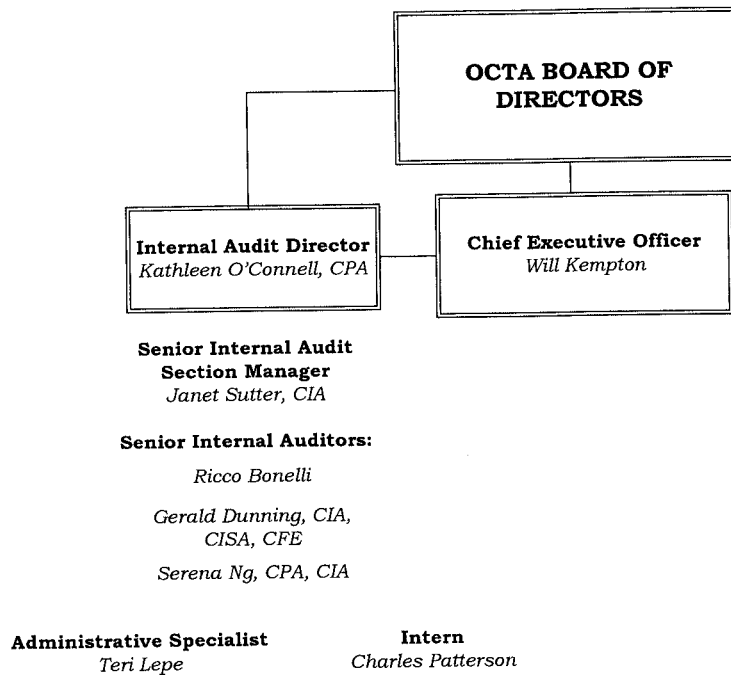
Internal Audit Organization

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

The Internal Audit Department has established mechanisms to identify and remedy personal and external impairments to independence and OCTA has established an internal audit function that is organizationally independent. The Internal Audit Department reports functionally to the Board of Directors, and administratively to the Chief Executive Officer.

Among all the organizational alternatives for government entity internal audit departments, the GAO finds a presumption of independence where the audit organization is “elected or appointed by a legislative body, subject to removal by a legislative body, and reports the results of audits to, and is accountable to, a legislative body.”

Internal Audit Departmental Organization Chart



Risk Assessment Process

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

The key business objective of the Authority is defined in its mission statement “*Enhancing the quality of life in Orange County by delivering safer, faster, and more efficient transportation solutions.*” Those solutions are imbedded in the core business units of the Authority which include transit operations, regional transportation planning, development and rail programs. These business units are supported by administrative functions. All of these services are delivered through a variety of projects, programs, and activities.

In planning for fiscal year 2009-2010 audit activities, Internal Audit began populating the department's new audit software, Audit Leverage, with risk assessment criteria by program, project or contract, along with risk weightings and ratings. This process has allowed a much more dynamic and flexible approach to risk assessment than has been used in years past.

Risk Assessment Methodology

First, Internal Audit created a comprehensive listing of projects, programs, or contracts (auditable entities). Each was then classified by type:

- Transportation Project
- Transportation Program
- Highway Project
- Rail Program
- Administrative Program
- Information System
- Account or Fund Balance
- Contract

Next, Internal Audit defined a universe of risks that could be applicable to one, some, or all of these project or program types:

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

Financial Risk – Financial exposure to the Authority

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

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

Strategic Risk – The significance of this project or program to the Authority's long term success

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

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

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

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

Safety Risks – The degree of severity resulting from incidents or accidents

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

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

The creation of a universe of project types and a compilation of all types of risk allowed Audit Leverage to create, in a “batch” manner, a risk assessment unique to each type of project or program.

Next, Internal Audit defined a five-point rating scale:

Rating	Description
5	High Risk
4	Moderate to High Risk
3	Moderate Risk
2	Low to Moderate Risk
1	Low Risk

Finally, for each project type and risk, Internal Audit assigned ratings and weighted the appropriate risks. The following tables demonstrate this process.

Example of an Administrative Program Risk Assessment:

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

Example of a Highway Project Risk Assessment:

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

As can be seen in the first example, several of the risk factors that were pre-populated by Audit Leverage for this administrative program were not used, as they were not considered appropriate risk factors for this particular auditable entity. Neither safety nor strategic risks were considered applicable to a purchasing card program. For the I-5 Gateway highway project, all risk factors were considered relevant. However, as can be seen, fewer risks were applied to this project type. For example, operational risk, defined as the impacts of service disruptions, would generally relate to an ongoing program rather than a construction project. Thus, this risk would generally not apply to highway projects.

Like projects and programs, Internal Audit risk assessed all contracts with a term beginning June 30, 2009 and greater than \$1.5 million.

Following the risk assessment of each of approximately 200 auditable entities within OCTA, Internal Audit summarized the results on the heat chart in Appendix A. The heat chart translates the numerical risk ratings of each auditable entity into a more visually appealing format.

The Risk Assessment also includes the results of an Information Systems Risk Assessment that was conducted during fiscal year 2008-2009 by the professional services firm, Control Solutions, Inc. That risk assessment identified five major control areas within the information systems environment which should be reviewed on a periodic basis. These included system continuity, information security, systems development, change management, and information systems operations. Each has been included in the comprehensive OCTA Risk Assessment at Appendix A, along with the risk ratings as determined by Control Solutions, Inc.

The Information Systems Risk Assessment did not include an assessment of risks relevant to specific system applications. Therefore, Internal Audit bundled OCTA's approximately 100 applications by function and assessed the risk of each bundle using specifically defined information system risk assessment criteria. The results of these risk assessments are also included in Appendix A.

Internal Audit Plan Development

The Internal Audit Plan for fiscal year 2009-2010 at Appendix B calls for approximately 7,300 Internal Audit hours. Of these hours, approximately 725 relate to mandatory audit activities and 645 relate to Internal Audit Department initiatives. The budget also includes 800 hours for price review services. While the Department has external audit contractors that perform these on an on-call basis, OCTA's CAMM Department generally requests quick turnaround of these reviews so as to assist them in contract negotiations with architectural and engineering firms and in an effort to accommodate these requests, Internal Audit has been conducting more price reviews in-house. This leaves approximately 5,900 hours for traditional internal audits.

The Internal Audit Plan seeks to align limited audit resources with risk throughout the organization while considering prior audit effort as identified in the Appendix B Risk Assessment. The Internal Audit Plan also includes some subjective evaluation of other factors that were not risk rated during the risk assessment process. For example, some high risk entities in the Risk Assessment are not included in the Internal Audit Plan because they are projects in their infancy. Several highway projects, while considered high risk due to financial exposure, would be more suitably audited when more expenditures are incurred. Other high risk entities were not included in the Internal Audit Plan because of current situational factors. Such is the case with employment services. This audit project which was included in the 2008-2009 Internal Audit Plan has been cancelled due to OCTA's hiring freeze and the redeployment of employment staff to other human resources activities.

OCTA also has several on-going initiatives that are proactively addressing risks related to security and business resumption planning, therefore, these high risk auditable entities have not been included in the Internal Audit Plan. For example, the Information Systems Department is currently developing a scope of work for the preparation and implementation of a disaster recovery plan. In addition, OCTA has embarked on a multi-year security program which will address gaps found between newly developed security policies and the current OCTA environment, as well as address compliance with regulations such as the Homeland Security Act, the U.S. Patriot Act, the Health Insurance Portability Accountability Act, and payment card security requirements.

Internal Audit will continue to refine the risk assessment module of Audit Leverage to include emerging OCTA projects, programs, and contracts. Internal Audit will also continue to assess the risk ratings and weightings included in Audit Leverage to most accurately reflect risk to the organization and to allow the greatest coverage of that risk in the annual audit planning process.

APPENDIX A: Risk Assessment by Program/Project/Contract

Orange County Transportation Authority
Internal Audit Department
Risk Assessment by Program/Project/Contract
Fiscal Year 2009-10

Division

Functional Area
Project/Program
Contract

		RISK ASSESSMENT	5 Year Audit History
Executive			
Clerk of the Board			
Public Records Requests	Low to Moderate		
Form 700 Disclosures	Moderate		
Public Meeting Notice	Low to Moderate		
Board of Directors Compensation and Ethics Compliance	Moderate		2009
Legal Services			
Contracts > \$1.5 million:			
Woodruff, Spradlin and Smart P.C. (\$2.8 million)	Low to Moderate		2007
Motorist Services			
Freeway Service Patrol Program and contracts (\$1.6 to \$5.1 million)	Moderate to High		2007
Call Box Program and Contracts > \$1.5 million:			
Comarco Wireless Technologies (\$3 million)	Low to Moderate		
Republic ITX (\$1.6 million)	Low to Moderate		
511 Motorist Aid Program	Moderate		
Taxicab Administration Program	Moderate to High		
Service Authority for Abandoned Vehicles	Moderate		
Planning and Development			
American Recovery and Reinvestment Act (ARRA)	Moderate to High		2010
Highway Project Delivery			
Contracts > \$1.5 million:			
I-5 Gateway			
URS (\$12 million)	High		2010
Caltrans Cooperative Agreement (\$28.3 million)	High		2010
Inspection, Survey & Public Awareness - Caltrans (\$18 million)	High		
Caltrans Cooperative Agreement (\$124 million)	High		2010
Cooperative Agreement with City of Buena Park (\$2.3 million)	Moderate		
I-5 Pico to PCH Improvements (M2 - Project C) - P/A E/D			
RMC, Inc. (\$4.7 million)	Moderate		
I-5 from I-405 to SR-55 and I-5 at Baranca			
Caltrans Cooperative Agreement for PS&E (\$2.5 million)	Low to Moderate		
I-5 Oso Parkway			
Plans, Specifications and Estimates - CH2MHill (\$1.5 million)	Low to Moderate		
I-5 / SR-55 Transitway Connector			
Caltrans Cooperative Agreement for Alternative Designs C12-054 (\$2.0 million)	Moderate		
I-405 Jamboree to SR-73 and SR-55 from I-405 to MacArthur			
Caltrans Cooperative Agreement (\$19.5 million)	High		
I-405 from SR-55 to I-605			
RFP Preparation for Improvements - PTG (\$9.6 million)	Moderate		
I-405/SR-55 Inspection Support Services for MOS-1			
Jacobs Civil Inc. (\$2.3 million)	Moderate		

Orange County Transportation Authority
Internal Audit Department
Risk Assessment by Program/Project/Contract
Fiscal Year 2009-10

	RISK ASSESSMENT	5 Year Audit History
SR-57 Improvements		
Caltrans Cooperative Agreement for ROW Support Services - Jacobs Civil (\$6.5 million)	High	
Design - CH2MHill C71247 (M2 - Project G) (\$6.0 million)	Moderate	
Design - RFB C70887 (M2 - Project G) (\$6.7 million)	Moderate	
SR-22 Projects		
SR-22 Design Build Management Contract - PTG	Moderate to High	2010
Design/Construct Thunderbird Sewer Station Improvements - GG Santitation Dist. (1.9 million)	Low to Moderate	
Cooperative Agreement with OCFCD (\$1.5 million)	Low to Moderate	
SR-91 Improvements		
Caltrans Cooperative Agreement for Design Services (\$1.7 million)	Low to Moderate	
West County Connectors		
Design Services – Parsons Transportation Group (\$9.6 million)	High	
On-call Environmental Services - Kleinfelder (\$2.5 million)	Moderate to High	2010
On-call Design Services - Carter & Burgess, Miralles Associates, STV Inc. (\$1.9 million)	Moderate to High	2010
Project Management Consultant Services - Hatch Mott McDonald (\$1.7 million)	Moderate	
Grade Separation Projects		
Contracts > \$1.5 million:		
Kraemer Boulevard		
Design - HTNB (\$4.7 million)	Moderate to High	
Lakeview Avenue		
Design - CH2MHill (\$3.5 million)	Moderate to High	
Orangethorpe Avenue		
Design - DMJM Harris AECOM (\$6.2 million)	Moderate to High	
Tustin Avenue		
Design - Biggs Cardosa Associates \$4.4 million	Moderate to High	
Placentia Boulevard		
Design - MTK Engineering (\$1.8 million)	Moderate to High	
Raymond Avenue	Moderate to High	
State College Boulevard	Moderate to High	
Plan Check Services for 5 Grade Separation Projects - Althalye Consulting (\$2.0 million)	Moderate to High	
Highway Project Management		
Project Controls	Moderate to High	2006
Change Order Controls	High	
Highway Project Mitigation Program	Moderate to High	
Local Projects		
Combined Transportation Funding Program – Measure M Competitive	High	2010 Annual
Measure M Turnback	High	
Measure M Go-Local Projects		
Contracts > \$1.5 million:		
City of Anaheim Fixed Guideway Alternatives Analysis & Env. Clearance (\$5.9 million)	Moderate to High	
City of Santa Ana Fixed Guideway (\$5.9 million)	Moderate to High	
City of Irvine Fixed Guideway Cooperative Agreement (\$5.2 million)	Moderate to High	
Measure M2 Environmental Mitigation Program	Moderate to High	
Measure M2 Water Quality Program	Moderate to High	
Measure M1/Prop 1B Signal Synchronization Program - 10 corridors	Moderate to High	
Measure M2 Regional Transportation Signal Synchronization Program	Moderate to High	

Orange County Transportation Authority
Internal Audit Department
Risk Assessment by Program/Project/Contract
Fiscal Year 2009-10

	RISK ASSESSMENT	5 Year Audit History
Facility Projects		
Facility Project Management	Moderate	
Contracts > \$1.5 million:		
Sand Canyon CNG Fueling Facility - Clean Energy (\$3.7 million)	Moderate to High	
Fullerton Parking Expansion - City of Fullerton ROW Acquisition (\$3.2 million)	Moderate to High	
Irvine Transportation Center Parking Structure	Moderate to High	2010
Sand Canyon Base Building Modifications - Dalke & Sons Construction (\$2.6 million)	Moderate	
Revenue and Revenue Sharing Contracts	High	2010
Right of Way and Real Estate Administration	High	2010

Rail Programs

Metrolink		
Contracts > \$1.5 million:		
Metrolink Cooperative Agreement for 30 Minute Service (\$87.9 million)	High	
Metrolink Cooperative Agreement for Grade Crossing/Quiet Zones (\$60 million)	High	
Atchinson, Topeka & Santa Fe Track Construction along SB Subdivision (\$26.5 million)	High	
Parsons Brinkerhoff Project Management for Metrolink Expansion (\$5 million)	Moderate to High	
Soundwall Esparanza/Orangethorpe at Imperial - City of Anaheim (\$2.3 million)	Moderate to High	
Metrolink Audit Activities	High	2010
Metrolink Ridership and Revenue & Expense Allocations	High	
High Speed Rail		
Contracts > \$1.5 million:		
CHSRA Cooperative Agreement for E.I.R. for Anaheim to Los Angeles Segment (\$7.0 million)	Low to Moderate	
Anaheim Regional Transportation and Intermodal Center (ARTIC)		
Contracts > \$1.5 million:		
City of Anaheim Cooperative Agreement (\$6.0 million)	Moderate	
Environmental & Advanced Design - Jones & Stokes (\$2.9 million)	Moderate	
Rail Right of Way Maintenance Services	Moderate	

Transit Operations

Community Transportation Services		
ACCESS Eligibility	High	2007
ACCESS Service		
Contracts > \$1.5 million:		
Veolia Transportation ACCESS, Fixed Route, etc through June 2009 (\$95.6 million)	High	2007
MV Transportation Contracted Fixed Route, etc. through 2013 (\$33.7 million)	High	2010
Senior Mobility Programs		
Contracts > \$1.5 million:		
Funding agreements with Orange County Cities for Senior Mobility Programs (\$6.0 million)	Moderate to High	
Maintenance		
Base Facilities	Moderate	
Vehicles	Moderate to High	2010
Stops & Zones	Moderate	

Orange County Transportation Authority
Internal Audit Department
Risk Assessment by Program/Project/Contract
Fiscal Year 2009-10

	RISK ASSESSMENT	5 Year Audit History
Fixed Route Operations		
Operations Training	Moderate to High	2007
Company Equipment Assigned Vehicles	Moderate	2006
Operations Field Supervision	Moderate	
Fare Evasion	Moderate	
Lost and Found Operations	Low	
Central Communications		
Radios and Dispatch	High	
Transit System Security		
Contracts > \$1.5 million:		
Orange County Sheriffs Department (\$9.9 million)	Moderate to High	
Bus Rapid Transit		
Contracts > \$1.5 million:		
Design Services Bus Stop Enhancements - IBI Group (\$2.5 million)	Moderate to High	
Bus Service Reduction Program	Moderate	
Vehicle Dispositions	Moderate	
Measure M Transit Programs	Moderate	
Project S - Shuttle Services	Moderate	
Project V - Community Circulators	Moderate	
Janitorial Service Contracts	Low to Moderate	
Security		
Security – Infrastructure	Moderate to High	
Security – Documents and Critical Information	Moderate to High	
Security – Rolling Stock	Moderate to High	
Disaster Preparedness and Business Resumption	High	

Finance and Administration

Financial Planning & Analysis		
Budget Development & Monitoring	Moderate	
Performance Measures	Moderate	
Comprehensive Business Plan	Moderate	
Treasury / Public Finance Management		
Investments	High	2010
Contracts > \$1.5 million:		
Investment Advisory & Management Fees - Saloman Smith Barney (\$3.4 million)	Moderate to High	2010
Investment Advisory & Management Fees - Bear Stearns (\$3.5 million)	Moderate to High	2010
Investment Advisory & Management Fees - Payden & Rygel (\$2.3 million)	Moderate to High	2010
Investment Advisory & Management Fees - State Street Global Advisors (\$2.1 million)	Moderate to High	2010
Arbitrage Rebates	Moderate	
Toll Roads		
Toll Road Revenue Collection	High	2010
Toll Road Contracts > \$1.5 million		
Toll Road Operations - Cofiroute USA LLC (\$30.1 million)	Moderate to High	2006
Toll Road Transponders - SIRIT Corp. (\$2.2 million)	Moderate	
Toll Road Building Lease - LBA Realty Fund (\$1.5 million)	Moderate	
Investor Relations	Moderate	

Orange County Transportation Authority
Internal Audit Department
Risk Assessment by Program/Project/Contract
Fiscal Year 2009-10

	RISK ASSESSMENT	5 Year Audit History
Accounting and Financial Reporting		
General Accounting	Moderate	Annual 2010
Financial Reporting	Moderate	
Cost Allocation Plan	Moderate to High	
National Transit Data Reporting	Moderate to High	Annual
Measure M Accounting & Reporting	Moderate	Annual
Sales Tax Revenue	High	2010
Farebox Revenue Collection and Armored Car Services	High	2008
Contracts > \$1.5 million:		
Sectran Security Armored Car and Revenue Counting (\$3 million)	Moderate to High	2008
Grants Management & Accounting	High	2009
Accounts Payable	Moderate to High	2009
Purchasing Cards	Moderate to High	
Corporate Credit Cards	Moderate to High	
Accounts Receivable	Moderate to High	2009
Capital Assets	Moderate to High	
General Services		
Printing and Reprographics	Low	2007
Records Management	Moderate	
Building Operations / Lease Administration		
Contracts > \$1.5 million		
P M Realty (Administration Building Lease)	Moderate	2007
Access & Identification Cards	Moderate	
Risk Management		
Insurance Program Administration	Moderate	2007
Liability Claims Management	Moderate to High	
Workers Compensation	Moderate to High	

Human Resources and Organizational Development

Employment		
Preemployment Testing and Background	High	
Performance Management and Discipline	Moderate to High	
Transfers and Terminations	Low	
Merit and Promotion	Low	
Restricted Duty	Moderate	
Personnel Records	Moderate	
Extra Help and Contract Staffing	Low	
Compensation, Payroll and Benefits		
Payroll	High	2009
Payroll – Overtime	Moderate to High	2009
Payroll – Special (Termination Pay, Lump Sum Pay, etc.)	Moderate to High	2009
Payroll – Garnishments	Low to Moderate	
Healthcare Plans		
Contracts > \$1.5 million:		
AETNA Healthcare (\$2.9 million)	Moderate to High	2006
Family Medical Leave Act	Moderate	2008
Flexible Benefits	Low to Moderate	
Orange County Employees Retirement System	Moderate	

Orange County Transportation Authority
Internal Audit Department
Risk Assessment by Program/Project/Contract
Fiscal Year 2009-10

	RISK ASSESSMENT	5 Year Audit History
Health Insurance Portability and Accountability Act	Moderate	2007
Teamsters Pension Trust Fund	Low to Moderate	
Employee Assistance Program	Low	
Employee and Labor Relations		
Contract Negotiations	Moderate	2010
Unemployment Claims	Low to Moderate	
Grievances	Low	
Employee Relations Training	Low	
Equal Employment Opportunity	Moderate	
Training & Development		
Mandated Training	Moderate	2009
Training and Development Programs	Moderate	
Safety & Environmental Compliance		
Safety Programs	High	2009
Drug and Alcohol Program	High	
Medical Examinations	High	
Loss Control and Accident Analysis	Moderate to High	2007
Department of Motor Vehicles Pull Notice Program	High	
Wellness Program	Low	
Environmental Compliance Program	Moderate to High	

Contracts & Materials

Procurement		
Procurement Activities - Contract Modifications & Terminations	Moderate	2010
Procurement Activities - Cost Estimates	Moderate to High	
Procurement Activities - Cost Proposal Evaluation	High	
Procurement Activities - IFB & RFP Development	Moderate	
Procurement Activities - Protests	Moderate	
Procurement Activities - Retainage	Moderate	
Procurement Activities - Small Purchases	Moderate	
Rolling Stock and Inventory Contracts		
Contracts > \$1.5 million:		
New Flyer 40 foot low floor CNG buses (\$130.2 million)	High	2008
Creative Bus Sales 31 CNG Buses (\$12.4 million)	Moderate to High	
Creative Bus Sales 33 Paratransit Cutaways (\$3.4 million)	Moderate to High	
Southern Counties Oil - Deisel fuel purchases through 2013 (\$15.2 million)	High	
IPC USA - Unleaded fuel purchases through 2013 (\$15.1 million)	High	
Bridgestone/Firestone Tires (\$10.2 million)	Moderate to High	2010
Applied Liquid Natural Gas Technologies	High	2007
Buy America Compliance	High	Annual
Maintenance Inventory		
Maintenance Inventory Management	Moderate to High	2010
Warranty Administration	Moderate to High	2010
Fuel Dispensing Controls	High	2010
Disadvantaged Business Enterprise Program	Moderate	2007

Orange County Transportation Authority
Internal Audit Department
Risk Assessment by Program/Project/Contract
Fiscal Year 2009-10

		RISK ASSESSMENT	5 Year Audit History
Information Systems			
Information Systems Continuity		High	2010
Information Systems Security		Moderate to High	
Information Systems Development		Moderate	
Information Systems Change Management		Moderate to High	
Information Systems Operations		Moderate	
Critical Information Systems Applications			
Fixed Route Radio Systems (software supporting all radio communicatinos)		High	Monitor 2010
Fixed Route Planning Information Systems (dispatch, scheduling, routing, runcutting)		High	2009
Fixed Route Data Information Systems (farebox data, passenger counts and reporting, etc.)		High	
Procurement and Inventory Information Systems (Ellipse, CAMMNet)		Moderate	
Time Reporting and Payroll Information Systems		High	
Customer Service Information Systems (Call center, Rideshare, FSP, etc.)		Moderate to High	
Safety and Security Systems (Video cameras, Hazmat tracking, etc.)		Moderate	
Financial Transactions and Records Systems (fund accounting, budgeting, data warehousing)		Moderate to High	2010
Interagency Communications (voice response for operations scheduling, voicemail, phone)		Moderate	
Information Systems Hardware		Moderate to High	
Telecommunications Equipment		Moderate to High	
External Affairs			
Communications, Customer Relations, Marketing			
Bus Advertising		Moderate	2007
Marketing Programs and Contracts		Moderate	2009
Media Relations		Moderate	
VanPool Program		High	
Web Development		Low to Moderate	
Pass Sales Programs		High	
Pass Sales – Special Programs (Reduced Fare)		Moderate to High	
Customer Service		Moderate	2010
Contracts > \$1.5 million:			
Customer Information Center Alta Resources (\$6.9 million)		Moderate to High	
Government Relations			
Federal Relations		Moderate	
State Relations		Moderate	
Local Outreach		Moderate	

APPENDIX B: Fiscal Year 2009-10 Internal Audit Plan

Orange County Transportation Authority
Internal Audit Department
FY 2009-10 Internal Audit Plan

Audit Activity	Project Number	Description	Primary Audit Type	Staff Hours	External Auditor(s)	Notes
Mandatory External Independent Audits						
Annual Financial Audit	FY10-000	Annual financial and compliance audit for fiscal year 2008-09.	Financial	455	Mayer Hoffman McCann	
Annual Transportation Development Act Audits	FY10-014	Coordination of legally required annual audits of the recipients of Local Transportation Funds for fiscal year 2008-09.	Compliance	80	Mayer Hoffman McCann	
Triennial Performance Audit - State	FY09-021	Finalize procurement of external auditors and manage audit contract for the State triennial performance audit for fiscal years 2007, 2008, and 2009.	Compliance	150	Procurement Underway	
Triennial Performance Audit - Renewed Measure M	FY10-020	Participate in procurement of external consultant to conduct performance assessment of the Renewed Measure M program for the triennial period November 7, 2006 through June 30, 2009.	Performance	25	Scope of Work has been developed	
Orange County Council of Governments Financial Statement Audit	FY10-011	Management of external audit of OCCOG financial statements.	Financial	15		
Internal Audit Initiatives						
Risk Assessment and Annual Audit Plan	FY10-100	Annual preparation of the audit plan for next fiscal year; periodic assessment of risk throughout the year.	Risk Assessment	125		
Quality Assurance and Self-Assessment	FY10-101	Update of Internal Audit Policies & Procedures. Self assessment of Internal Audit's compliance with Government Auditing Standards.	Quality Assurance	200		
Peer Review Participation	FY10-102	Participation as review committee members for reciprocal credit. City of Los Angeles Auditor/Controller (July 2009), City of Stockton Auditor's Office (September 2009).	Peer Review	80		
Service Efforts & Accomplishments	FY10-103	Evaluation and summarization of the value of Internal Audit activities.	Service Efforts Report	100		
Fraud Hotline	FY10-104	Implementation of an outsourced fraud hotline.	Fraud Hotline	120		
Audit Leverage Implementation	FY10-105	Continuing implementation of internal audit software.	Audit Leverage	120		
Internal Audits						
Executive						
Safety Monitoring	FY08-031	Review and follow-up on any APTA Safety Review conducted in FY 2008. Most recommendations have been implemented.	Internal Controls	100		

**Orange County Transportation Authority
Internal Audit Department
FY 2009-10 Internal Audit Plan**

Audit Activity	Project Number	Description	Primary Audit Type	Staff Hours	External Auditor(s)	Notes
Planning and Development						
American Recovery and Reinvestment Act (ARRA)	FY10-502	Review of Authority's compliance with ARRA reporting requirements.	Compliance	175		
SR-22 Contract Close-out	FY08-022	Close out audit to ensure contract stipulations were met. Audit hours are for review of contractor labor compliance documentation.	Compliance	10	GCAP Services	Complete (F&A 8/12/09)
I-5 Gateway Contract	FY08-014	Review to ensure contract stipulations are being complied with and to verify the propriety of payments.	Compliance	50	Wang Accountancy Corporation	Report in Draft
CTFP Project Audits/CTFP System	FY08-019	Evaluation of program process and review of a sample of projects funded by the CTFP.	Compliance	50	Mayer Hoffman McCann	In Process
On-Call Service Contracts	FY09-012	Review of on-call contracts for contract compliance and 2008 compliance with procurement policies and procedures.	Compliance	275		In Process
Real Estate and Right-of-Way Administration	FY09-015	Review of right-of-way and other real estate operations and contracts.	Operational	300		
Rail Projects and Programs						
Metrolink Audit Activities	FY08-010	Inventory and review of audit activities and results thereof for the Southern California Regional Rail Authority.	Operational	50		Report in Draft
Buena Park Metrolink Station Closeout Audit	FY08-007	Closeout audit of construction of Metrolink station.	Compliance	15	Mayer Hoffman McCann	Report in Draft
Irvine Transportation Center	FY09-013	Review to ensure contract stipulations are being complied with and to verify the propriety of payments.	Compliance	75		
Transit Operations						
Buy America	FY10-300	Pre-award and post-delivery reviews to ensure vendors and OCTA are in compliance with federal Buy America requirements.	Compliance	200		
Contracted Operations	FY10-503	Review to ensure contract stipulations are being complied with and to verify the propriety of payments.	Compliance	175		
Vehicle Maintenance	FY08-020	Review of policies, procedures, management reporting and regulatory compliance.	Operational	150		In Process

**Orange County Transportation Authority
Internal Audit Department
FY 2009-10 Internal Audit Plan**

Audit Activity	Project Number	Description	Primary Audit Type	Staff Hours	External Auditor(s)	Notes
Government Relations						
Grant Close-outs	FY10-400	As needed financial and compliance audits of grants at close-out to ensure propriety of expenditures.	Compliance	75		STIP-PPM FY07 08 In process.
Finance						
Treasury	FY10-504	Biannual financial and compliance reviews of the treasury function, including investment and bond compliance.	Compliance	250		One Semi-Annual Review In Process
Cost Allocation Plan	FY10-506	Review of OCTA's methodology for, and application of, cost allocation.	Financial	175		
Revenue Accounting	FY08-024	Review of controls over the collection and processing of sales tax receipts.	Operational	50		In Process
91 Express Lanes Collections	FY08-016	Review of contractual compliance and performance of collections contractor L.E.S.	Compliance	75		In Process
Investment Management & Service Fees	FY09-011	Review of services and invoices for investment and debt advisory and management services.	Compliance	250		In Process
Contracts & Materials						
Price Reviews	PR-000	Cost and price analyses as required by OCTA procurement policies and procedures.	Price Review	800	TCBA, KNL Services, Mayer Hoffman McCann, Mendoza Berger	
Procurement Activities - Proposal Evaluations	FY08-015	Review of policies, procedures, protocols and best practices for the empanelment of procurement selection teams.	Operational	250		
Revenue and Revenue Sharing Contracts	FY10-501	Review of revenue generating/sharing agreements to determine adequate controls exist to ensure collection.	Operational	300		
Bridgestone/Firestone Tire Lease	FY09-014	Review of lease of bus tires.	Compliance	175		
Maintenance Inventory Management	FY09-022	Review of inventory management policies, procedures, controls, operational efficiency and analytic tools.	Operational	175		
Warranty Administration	FY09-023	Review of internal controls over warranted equipment.	Internal Control	175		
Fuel Controls	FY09-024	Review of controls over dispensing of petroleum products.	Internal Control	150		

**Orange County Transportation Authority
Internal Audit Department
FY 2009-10 Internal Audit Plan**

Audit Activity	Project Number	Description	Primary Audit Type	Staff Hours	External Auditor(s)	Notes
Information Systems						
	Information Systems Change Management Controls					
	FY10-508	Review of information systems change management policies, procedures and controls.	Operational	225		
	FY09-020	Review of telecommunications equipment usage and internal controls.	Internal Control	175		
External Affairs						
	Customer Information Center (Alta Resources)					
	FY09-018	Review of contractually required service levels and contractor billing.	Contract Compliance	50		In process
	FY08-023	The review of this program has been completed. Budgeted hours are for final workpaper review and close-out.	Operational	35		Complete (F&A 7/22/09)
Vanpool Program						
Authority-Wide						
	Unscheduled Reviews and Special Requests					
	FY10-200	Time allowed for unplanned audits and requests from the Board of Directors and management.	Varies	250		
Monitoring Activities						
Measure M Taxpayers Oversight Committee	FY09-401	Coordination of audit activities with the Audit Committee of the Measure M Taxpayers Oversight Committee.	Monitoring	75		
BRT	FY09-405	On-going monitoring to keep apprised of activities and significant issues.	Monitoring	25		
Radio Upgrade	FY10-602	Monitoring of upgrade to Radio System contemplated in FY 2010.	Monitoring	25		
Records Management	FY09-406	On-going participation with contractor on Information Classification - Document Collection project.	Monitoring	25		
Highway Projects	FY10-402	On-going monitoring of highway projects.	Monitoring	50		
Bus Base Inspections & Inventory Testing	FY10-603	Participation on base inspection teams and periodic testing of base inventory records.	Monitoring	40		
Follow-up Reviews						
Follow-up reviews and reporting	FY09-200	Follow-up on audit findings and recommendations.		300		
						7,270



August 12, 2009

To: Finance and Administration Committee
From: Will Kempton, Chief Executive Officer
Subject: Agreement for Oniqua Analytic Suite Maintenance Implementation

Overview

As part of the Orange County Transportation Authority's Fiscal Year 2010 Budget, implementation of the Oniqua Maintenance Analytics Software System is planned. A proposal was solicited and received from Oniqua, Inc. in accordance with the Orange County Transportation Authority's sole source procurement procedures.

Recommendation

Authorize the Chief Executive Officer to execute Agreement No. 9-0555 between the Orange County Transportation Authority and Oniqua, Inc., in an amount of \$129,700, for implementation assistance and expertise with the maintenance module of the Oniqua Analytic Suite. The scope of this effort will include project management, design, configuration, programming, training, testing, and go-live support.

Discussion

The Orange County Transportation Authority (Authority) purchased the software license for Oniqua's Inventory Optimizer, Procurement Strategizer, and Maintenance Analyzer in 2004 as complementary products to Ellipse, Mincom's integrated maintenance and materials system.

Ellipse, implemented in June 2007, is the Authority's system that encompasses the activities of plant and equipment maintenance, warehousing, inventory, procurement of all goods and services, and costs associated with the aforementioned. Additionally, it interfaces with CAMM NET for vendor solicitations, Integrated Financial and Administrative Solution for both vendor invoicing and financial transactions, and several maintenance-based systems dealing with fuel, labor, and bus scheduling.

During the implementation of Ellipse version 5.2.3.7, the three Oniqua products were installed, some configuration was performed on the software, and data conversion work from the legacy system was completed. Due to project constraints related to the Ellipse implementation, it was decided to defer the implementation of Oniqua at that time.

Oniqua Maintenance Analytics is software that runs apart from Ellipse but is integrated with Ellipse via data interfaces. Once the maintenance data is in Oniqua Maintenance Analytics, the maintenance staff can apply advanced statistical forecasting methods to determine the most cost-efficient means of maintaining our equipment. Variables can be changed, and "what if" scenarios run instantly to provide results for review and comparison to previous scenarios. For example, we may be performing a preventive maintenance operation every 15,000 miles, but Oniqua will evaluate the situation and may suggest to perform the operation more or less frequently given the failure history and ultimate cost or risk of failure. Once satisfied, the maintenance staff can instruct Oniqua to send its results to Ellipse for automatic updating of the Ellipse data, a method which saves the time spent on manual data entry.

The goal of Oniqua Maintenance Analytics software is to maximize a firm's equipment investment via the "right" level of preventive and predictive maintenance. Authority staff will be able to balance the conflicting costs of performing maintenance activities against the penalties associated with unexpected equipment failure. To achieve this under current conditions would take hundreds of hours of time spent by maintenance personnel.

Research and client comments in regard to the benefits of the Oniqua maintenance software generally fall into four categories contributing to a return on investment: decreasing the cost of preventive maintenance (10-15 percent), instituting continuous improvement initiatives (15-20 percent), reducing the total cost of equipment ownership (5-10 percent), and reduced spending on non-critical equipment. An effective implementation is anticipated to yield a considerable return on investment, with a pay back period of less than one year.

It is the Authority's intention to implement the Oniqua Analytics Suite (OAS) and integrate it fully with Ellipse in three separate phases: inventory, maintenance, and procurement. This expenditure addresses the implementation of maintenance.

The Oniqua inventory implementation project is currently in process with completion scheduled for August 2009. Though not yet "live", the Contracts

Administration and Materials Management staff assigned to the project are already realizing benefits of using Oniqua's software in terms of applying principles of cost modeling to deduce more appropriate economic order quantities and applying them to the production Ellipse system. Additionally, several processes have been highlighted as being inefficient and are under review for potential revision.

Procurement Approach

This procurement was handled in accordance with the Authority's sole source procurement procedures which provides for professional and technical services. The Authority purchased the OAS software as part of the Ellipse project. There are three separate phases for the implementation of OAS, the sequence being inventory, maintenance, and procurement. Award is recommended to Oniqua for this procurement to implement the OAS maintenance module. Oniqua has technical expertise relating to the analytic software solution and is currently performing the implementation of the inventory module.

Oniqua is uniquely qualified to perform the services for the following reasons:

Oniqua Analytic Suite is Oniqua's proprietary software only available and licensed through Oniqua. Oniqua was part of the original Ellipse implementation, and as such has specific knowledge about the Authority's data and business practices. Oniqua is currently in the process of assisting the Authority with the implementation of the inventory module that was procured in March 2009 and is scheduled to "go live" in August.

The contract is a firm-fixed price in the amount of \$129,700.

Due to the fact that this is a sole source request over \$50,000, the Authority's Internal Audit Department has conducted a price review and has found the price quoted by Oniqua to be fair and reasonable.

Based on the above and given the proprietary nature of Oniqua's product, this award is recommended to Oniqua.

Fiscal Impact

The project was approved in the Orange County Transportation Authority's Fiscal Year 2010 Budget, Information Systems, Finance and Administration, Account 1281-7519-IX074-SY3, and is funded through Federal Transit Administration Section 5307 funding.

Summary

Based on the information provided, staff recommends award of Agreement 9-0555 to Oniqua, Inc., in the amount of \$129,700, for implementation services related to Oniqua's Maintenance Analytics software and its integration with Ellipse.

Attachment

- A. Price Review of Oniqua, Inc., Internal Audit Report No. PR10-001
- B. Assessment of Level of Effort of Oniqua, Inc.

Prepared by:



Annette Hess
IS Business Strategist
Information Systems
(714) 560-5536

Approved by:



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



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



INTEROFFICE MEMO

July 22, 2009

To: Virginia Abadessa, Director
Contract Administration and Materials Management

From: Janet Sutter, Senior Section Manager
Internal Audit

A handwritten signature in dark ink, appearing to be "JS", is written next to the name Janet Sutter.

Subject: **Price Review of Oniqua, Inc., Internal Audit Report No. PR10-001**

Attached hereto is the Price Review of Oniqua, Inc., Internal Audit Report No. PR10-001.

c: Kathleen O'Connell
Carolina Coppolo
Sue Ding

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT**



**Price Review of
Oniqua, Incorporated**

**Implementation of Oniqua Analytic Suite –
Maintenance Analyzer**

INTERNAL AUDIT REPORT NO. PR10-001

July 22, 2009



Internal Audit Team:

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

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Price Review of Oniqua, Inc.
July 22, 2009**

CONCLUSION	1
BACKGROUND	1
OBJECTIVES, SCOPE, AND METHODOLOGY	1
AUDIT RECOMMENDATION	2

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Price Review of Oniqua, Inc.
July 22, 2009**

CONCLUSION

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed a pre-award price review of a fixed price proposal submitted by Oniqua, Inc. for implementation of the Maintenance Analytic Suite (Suite), a proprietary product of Oniqua. The fixed price consisted of standard daily rates for labor and travel costs. In Internal Audit's opinion, the rates proposed by Oniqua for the Suite appear fair and reasonable; however, Internal Audit's review did not include assessment of the level of effort required for this project. As such, Internal Audit is unable to opine on the proposed labor hours. Internal Audit has recommended that the Contract Administration and Material Management (CAMM) Department obtain an independent assessment of the required level of effort from the Project Manager and review this in conjunction with the vendor rates to ensure that the overall project price is fair and reasonable.

BACKGROUND

CAMM issued Request for Proposal (RFP) No. 9-0555 on June 25, 2009, for services in relation to implementation of maintenance analytic software. Because the software is proprietary and there are no authorized resellers of the software product or support services, this RFP was issued as a sole source request to Oniqua.

OBJECTIVES, SCOPE, AND METHODOLOGY

At the request of the CAMM Department, Internal Audit conducts price reviews of sole source procurements that exceed \$50,000. The objective of this price review was to ensure that proposed rates appear fair and reasonable.

The scope included review of daily labor rates and travel costs.

The methodology included comparison of the proposed daily labor rates and travel costs to the rates included in Price Review No. 09-315 for another Oniqua proposal, and to estimate travel rates obtained from the internet for air, hotel, and per diem expenses.

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.

This review was also conducted in accordance with relevant standards applicable to attestation engagements issued by the American Institute of Certified Public Accountants.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Price Review of Oniqua, Inc.
July 22, 2009**

Compliance with these standards relates to the work performed by Internal Audit in performing procedures related to this price review and does not intend to, and does not, constitute an audit of the contractor, its financial condition, results of operations, indirect rate, or system of internal control.

This report is intended solely for the information and use of the CAMM Department of OCTA and is not intended to be, and should not be, used by anyone other than this specified party.

AUDIT RECOMMENDATION

Internal Audit recommends that CAMM obtain an independent assessment of the required level of effort to ensure the overall proposed cost is fair and reasonable. The independent cost estimate provided to CAMM was derived in consultation with the vendor. The project manager should provide CAMM with an independent estimate of the required level of effort.



INTEROFFICE MEMO

August 4, 2009

To: Virginia Abadessa, Director
Contracts Administration and Materials Management

From: Annette Hess, Information Systems Business Strategist *Alh*

Subject: **Assessment of Level of Effort of Oniqua, Inc.**

As requested by the Internal Audit report PR10-001 Price Review herein I am providing a separate independent estimate of the level of effort. RFP 9-0555 is for the implementation of the Maintenance Analytic module.

My report is based on our recent experience with the vendor, Oniqua, for the implementation of the Inventory module and past experience of numerous other projects of a similar nature.

For the purpose of this report the comparison will be made based on work days. The vendor is proposing 68 work days of effort that includes up to 4 individuals at any given time. This time will be spread over a 4 month period but the bulk of the work will be accomplished within the first 3 months including the go-live event.

In comparison the Inventory implementation (C-8-1335) proposed 60 work days of effort. This project is nearing completion. Oniqua has kept to the proposed schedule and number of work days. This project included installation of hardware and software where as the Maintenance Implementation will not require any installation.

It is my assessment that the Maintenance Implementation is more complex than the Inventory Implementation in three areas; configuration, training and interfaces between the Oniqua software and Ellipse. We will be training three times more people than we did for the Inventory module. The configuration and interfaces go hand in hand. Whereas the Inventory module analyzes inventory levels and replenishment strategies, the Maintenance module analyzes the costs of performing a wide range of maintenance activities against the safety and cost penalties associated with unexpected equipment failure. The dynamic element of employee labor rates, skills, availability also have to be factored into the analysis. As a result more planning, configuration and testing is required.

So the additional days of work for the Maintenance module is quite reasonable. Furthermore, in comparison to other projects such as the Ellipse Implementation at the extreme end and the upgrade of Lawson at lesser end, the estimated work effort for both the Inventory and Maintenance effort is the shortest project turn around I have ever experienced, particularly for a Firm Fixed bid. Oniqua appears to be very aware of the level of expertise and effort required to get the work done without a lot of excess.

c: Carolina Coppolo
Sue Ding



August 12, 2009

To: Finance and Administration Committee

From: Will Kempton, Chief Executive Officer

Subject: 2008 Audit of Agreement No. C-1-2069 Between Orange County Transportation Authority and Parsons Transportation Group, Inc. - Project Management Services for the Garden Grove Freeway (State Route 22) Design-Build Project

Overview

At the direction of the Internal Audit Department of the Orange County Transportation Authority, a close-out audit of Agreement No. C-1-2069 between the Orange County Transportation Authority and Parsons Transportation Group, Inc. for project management services for the Garden Grove Freeway (State Route 22) Design-Build Project has been completed. Recommendations have been offered to improve contract management and administration.

Recommendations

- A. Direct Orange County Transportation Authority staff to implement recommendations in the 2008 Audit of Agreement No. C-1-2069 Between Orange County Transportation Authority and Parsons Transportation Group, Inc. - Project Management Services for the Garden Grove Freeway (State Route 22) Design-Build Project.
- B. Direct staff to refer finding and recommendation number two related to prevailing wage compliance to the California Department of Industrial Relations, if satisfactory evidence of compliance has not been provided by Parsons Transportation Group, Inc. to the Orange County Transportation Authority Internal Audit Department by August 29, 2009.

Background

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA), through a competitively awarded contract, engaged GCAP Services, Inc. (GCAP), a professional audit firm, to perform a

contract close-out audit of the Garden Grove Freeway (State Route 22) Design-Build project for the period July 2005 through December 2007. Following a negotiated settlement with construction contractor Granite-Myers-Rados (GMR), in which OCTA and GMR agreed to pursue no further claims, Internal Audit revised the scope of the audit to include only Agreement No. C-1-2069 (Agreement) between OCTA and Parsons Transportation Group, Inc. (PTG). The Agreement was executed in January 2002, at a total value of \$44.6 million for project management services. The Agreement included fully-burdened hourly rates with a fixed escalation and profit.

GCAP's scope of work for the audit included review of the Agreement terms, review of documentation supporting invoices paid by OCTA, review of other documentation required under the terms of the Agreement, and an evaluation of OCTA's internal controls over the management of the Agreement.

Discussion

The audit identified five findings and recommendations that are included in the audit report in Attachment A. Management has provided responses to these findings and recommendations in Attachments B, C, and D.

The first finding on page 10 of the audit report relates to four identified differences between fully burdened labor rates in the Agreement and those calculated by GCAP for one PTG subcontractor. GCAP recommended that all fully burdened rates be verified for accuracy prior to contract execution. Management of the Contracts Administration and Materials Management Department agreed with the recommendation and has indicated they will work with staff to ensure consistent application of this control.

The second finding and recommendation on page 12 of the audit report relate to Agreement provisions on prevailing wages. In short, the eighth amendment to the Agreement requires that PTG comply with the California Labor Code (Code). During its review of hourly rates, GCAP noted several PTG prevailing wage-covered employees and requested documentation to substantiate compliance. PTG was unwilling or unable to provide this documentation. GCAP recommended that OCTA review current agreements to ensure that necessary prevailing wage language was included and conduct reviews to insure compliance. OCTA management disagreed with the finding, noting that the Agreement was amended to specifically address this requirement. OCTA legal counsel concurred that the contract language was adequate.

As to conducting periodic reviews of Code compliance, management indicated that under the Code, there is no requirement that this documentation be provided to or reviewed by OCTA. Internal Audit agrees that while OCTA reviews are not required, when conducted, PTG must produce documentation supporting its compliance, as required by the Agreement and the Code.

Since GCAP issued its report, Internal Audit has requested that PTG provide, directly to Internal Audit, certified payrolls as evidence of compliance with the Code. To date, the information provided has been neither complete nor correct. Internal Audit recommends that this issue be referred to the California Department of Industrial Relations if PTG is unable to produce satisfactory evidence of compliance by August 29, 2009.

The third finding and recommendation on page 14 of the audit report relate to documentation supporting a \$2.5 million contract amendment. Because the OCTA project manager for the State Route 22 (SR-22) project had left OCTA after the amendment was executed, documentation was not readily available for the auditors. The current OCTA project manager has since located the support for Amendment No. 11 to the Agreement (Attachment B).

The fourth finding and recommendation on page 14 of the audit report relate to the review of PTG invoices by OCTA's Accounting Department prior to payment. Based on observation and discussion with Accounting Department staff, GCAP recommended that the Accounting Department perform certain mathematical and contract compliance checks prior to payment. Management indicated that procedures have been developed to ensure the accuracy of invoice payments (Attachment C).

The fifth and last finding and recommendation on pages 15 and 16 of the audit report relate to the development of fixed contract escalation rates. Like other contracts at OCTA, the PTG Agreement incorporated an annual fixed escalation rate of 4 percent on labor costs. As part of its testing, GCAP reviewed these escalated rates, as shown under the "direct labor rate" column on page 16, to the actual pay rates of the employees, as shown under the "per documentation" column, for the second, third, and fourth years of the Agreement.

The "variance" column on page 16 of the audit report indicates that variances were most often in OCTA's favor. For example, the first employee's escalated labor rate being billed to OCTA was \$50.89 in the second year of the

Agreement. This compares favorably to the \$52.00 per hour the employee was actually paid by PTG. GCAP recommended that OCTA perform similar analyses on large construction management contracts as a means of determining the effectiveness of this escalation strategy. Management agreed with the recommendation and will continue to monitor its effectiveness (Attachment D).

Summary

Based on results of an audit of an agreement between OCTA and PTG for project management services for the SR-22 project, Internal Audit's contract auditors, GCAP, have offered recommendations for improvement in contract management and administration. Management has indicated that recommendations will be implemented or otherwise satisfactorily addressed.

Attachments

- A. 2008 Audit of Agreement C-1-2069 Between Orange County Transportation Authority (OCTA) and Parsons Transportation Group, Inc. (PTG) – Project Management Services for State Route 22 Design-Build Project
- B. 2008 Audit of Agreement Between Orange County Transportation Authority and Parsons Transportation Group, Inc.
- C. Audit of Agreement C-1-2069 Management Response
- D. Response to 2008 Audit of Agreement Between Orange County Transportation Authority and Parsons Transportation Group, Inc.

Prepared by:



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



**2008 AUDIT OF AGREEMENT C-1-2069 BETWEEN
ORANGE COUNTY TRANSPORTATION AUTHORITY (OCTA)
AND
PARSONS TRANSPORTATION GROUP, INC. (PTG)**

**PROJECT MANAGEMENT SERVICES
FOR
STATE ROUTE 22 DESIGN-BUILD PROJECT**

**PREPARED BY
GCAP SERVICES, INC.**



**FINAL REPORT
JANUARY 29, 2009**

Table of Contents

1.0	Introduction.....	2
1.1	Background.....	2
1.2	Objective.....	2
1.3	Scope and Methodology	2
1.4	Task 1 - On-Site Contract Compliance & Fiscal Audit of PTG.....	3
1.5	Task 2- Review of OCTA’s Management of the Contract.....	4
2.0	Executive Summary	6
3.0	Procedures and Results	8
3.1	Task 1- On-Site Contract Compliance and Fiscal Audit of PTG	8
3.2	Task 2- Review of OCTA’s Management of the Contract.....	12

Appendix A – Testing of Schedule 1 to Agreement # C-1-2069

1.0 Introduction

1.1 Background

The Orange County Transportation Authority (OCTA) issued contract agreement C-1-2069 Contract to Parsons Transportation Group (PTG) to provide Project Management Services for the Garden Grove State Route-22 Design-Build project. The term of this agreement is from January 16, 2002 through December 31, 2007. The contract is a modified time and expense contract with a current total value of \$44,600,000, pending the signed issuance of Amendment 13. As of November 2007, OCTA has paid approximately \$41,305,000 or 92.6% of the contract value.

1.2 Objective

The SR-22 Design-Build project is the first of its nature and magnitude to be directly managed by OCTA. The objectives of Task 1 and 2 of the review were to review invoices and documentation to assure contract compliance, and to determine if adequate internal controls have been used and are currently being utilized in the management and oversight of the Contract for management of the SR-22 Design-Build project.

1.3 Scope and Methodology

The Internal Audit Department of OCTA engaged GCAP Services, Inc., and our subcontractor, Equals & Kita, LLP to perform a contract compliance and fiscal review of the State Route 22 project for the period between July 2005 and December 2007. Following a negotiated settlement with construction contractor Granite-Myers-Rados (GMR), the scope of the review was revised per Amendment No. 2 to Agreement No. A03449 between GCAP Services, Inc. and OCTA. Amendment No. 2 became effective on April 29th, 2008. Therefore, GCAP's review work was discontinued with respect to GMR since April 29, 2008. Task 1 included a review of PTG and its subcontractors' compliance with contract terms and conditions. Task 2 involved a review of OCTA's management of the PTG contract. This report addresses both review tasks.

GCAP Services and our audit team, Equals & Kita, performed a similar review of Agreement C-1-2069 in 2005 (Audit Report dated December 06, 2005) and opined that PTG was generally in compliance with the fiscal contract terms (since the execution of Amendment 8 to the Contract). We also found that both PTG and OCTA had addressed our concerns regarding labor escalation and retention.

The following is a summary of the amendments issued under Agreement C-1-2069 during the period under review:

- Amendment 8 fixed the hourly labor rates according to "Schedule I" along with the overhead rates, other direct costs, and labor escalation of 4% (as of January 2006, and each year thereafter).

- Amendment 9 amended the overhead rate of Cordoba Corporation and the "Other Direct Costs" schedule. Other Direct Costs will be paid at actual cost, with the exception of computers, networks, and internet access.
- Amendment 10 increased the maximum obligation by \$7,811,946., to a total contract value of \$39.8 million. This increase was attributed to additional project management services, additional seismic work, and bridge reconstruction.
- Amendment 11 increased the maximum obligation by \$2.5 million to fund project closeout efforts.
- Amendment 12 extended the agreement to February 29, 2008, from December 31, 2007. This resulted in approximately a two month extension of terms.

A thirteenth amendment to revise the contract from \$42.3 to \$44.6 million was pending at the time this report was written.

1.4 Task 1 - On-Site Contract Compliance & Fiscal Audit of PTG

Task 1 was performed utilizing an audit program developed by Equals & Kita to ensure compliance with both the scope of GCAP's agreement with OCTA's Internal Audit Department as well as GCAP's compliance with generally accepted auditing standards (GAAS).

In conducting the review, the GCAP team performed the following tasks:

Fiscal Review Task	Performed on
1. Review contractor invoices and detailed supporting documentation, including payroll and other accounting records	PTG and Subcontractors (See Appendix)
2. Review other documentation and reports required by the Contract	PTG and Subcontractors
3. Review any contractor rate changes that were not approved by OCTA management	PTG and Subcontractors
4. Review contractor compliance with applicable laws and regulations; and	PTG and Subcontractors
5. Evaluate internal controls over management of the Contract	PTG

1.5 Task 2- Review of OCTA's Management of the Contract

A review of internal controls used by OCTA to manage the PTG contract was performed. The review included the following tasks:

- Review of all invoice supporting documentation;
- Review OCTA approvals for processed invoices;
- Interview PTG project staff;
- Review Contract amendments;
- Review Monthly Progress Reports;
- Review PTG contract; and
- Review signed Approval Letters

A detailed Examination Phase was conducted between February 29, 2008 and May 29, 2008. During this period, GCAP Services reviewed key documents and conducted a series of interviews with OCTA management and key staff within the Contracts Administration & Materials Management (CAMM) Department, the Accounting & Financial Reporting Department, and the Transportation Systems Development Division. The GCAP Team selected a judgmental sample of data from PTG and OCTA supporting material, which included data from July 2005 through December 2007. The PTG Project Controls Manager and Document Control Staff were also interviewed. The following table lists the OCTA and PTG personnel interviewed.

Title	Department/Division
Contracts Manager – Capital Projects	CAMM
Contract Administrator	CAMM
Program Manager SR-22	Parsons Transportation Group
Project Controls Manager	Transportation Systems Development Division
Accounts Payable Supervisor	Accounting Department
Project Controls Manager	Hatch Mott MacDonald
Document Control	Cordoba Corp.

Key documents reviewed by GCAP Services included:

- Agreement C-1-2069 between OCTA and PTG
- Amendments 8 through 12 (Amendment 13 was not executed during the review period)
- Final Cost Proposal, dated March 27, 2002
- CAMM Policies and Procedures Manual
- PTG monthly progress reports submitted between July 2005 and December 2007
- Payroll related documentation
- Approval letters (applicable contractor/subcontractor rates)
- Subcontracts
- Invoices (PTG and Subcontractors)
- Board of Directors reports and supporting documentation

2.0 Executive Summary

Both PTG and OCTA support staff were helpful and knowledgeable about their areas of expertise and responsibilities related to this contract. In conducting our review, GCAP performed a follow up to our previous review findings. Although we found that both PTG and OCTA have improved many of the internal control deficiencies identified early in the project, we identified several areas in need of further improvement.

OCTA executed the 8th amendment to Agreement No. C-1-2069 to modify the hourly rate schedule and require approval letters from PTG for all future amendments to the schedule. The modified rate schedule, referred to as "Schedule 1" to the Contract (Schedule 1) includes nine subcontractors, but is missing Padilla & Associates (Padilla). In addition, we found that one subcontractor (AIG) had rates included in Schedule 1 that were incorrectly calculated.

One key area of concern related to PTG is the review of PTG's prevailing wage compliance. Although Padilla was hired by PTG to perform such reviews for GMR and GMR's subcontractors, there was no similar compliance reviews performed on PTG. During the audit period, PTG had periods of time when a significant level of prevailing wage work was being performed. For example, we selected five PTG invoices to review and analyzed three of these invoices for the level of prevailing wage labor. We found that over 40% (\$551,523 of \$1,226,000) of the total PTG labor for these invoices (January 2006, June 2007, and November 2007) were subject to prevailing wage labor requirements. The GCAP team was unable to verify PTG's compliance with the prevailing wage requirements as we were not provided prevailing wage submittals, including certified payroll records or documentation showing payment of bona fide fringe benefits. PTG's contract did not require that certified payroll documents be submitted to OCTA; however, this did not relieve PTG from complying with prevailing wage requirements.

The Padilla subcontract contains some ambiguity with regard to their scope of work for PTG. In Attachment A, Scope of Services, of the Padilla Subcontractor Agreement, item no. 3 states that Padilla shall "monitor consultant reporting mechanism to ensure compliance with all applicable labor standards..." The Scope also includes a review of certified payroll records (item 4). However, according to PTG Staff, Padilla did not perform labor compliance verification for PTG. Padilla limited its payroll/labor compliance review to GMR and its subcontractors. The work described in Padilla's subcontractor agreement requires a review of consultant, contractor and subcontractor certified payroll records.

While reviewing OCTA's management of the PTG contract, we found that OCTA has continued adequate internal control safeguards. However, we determined that the Accounting Department only conducts a limited review of invoices. While they verify the signature was of the appropriate certifying official, no additional review of rates or other direct costs takes place. In other words, the Project Controls Department performs a detailed review of PTG invoices, including verifying approved staff, rates, and proper coding of work. The Accounting department does not perform any rate verifications or

math checks for the invoices. We recommend that the Accounting Department perform a limited rate and math check on invoices. This would be consistent with similarly situated organizations and provide OCTA with a secondary check of invoice accuracy. We also recommend that the Accounting Department develop policies and procedures that define responsibility for specific review tasks.

In our limited review of invoices, we found incorrect rates in the Amendment 8 Schedule 1 table and in some of the rates submitted as part of added PTG and subcontractor employees. A limited review by the Accounting Department will improve the internal controls thus reducing the likelihood of incorrect rates being included in contract documents.

3.0 Procedures and Results

Because the procedures we developed for our review of the Contract are in principle “agreed upon procedures” and do not constitute an audit conducted in accordance with auditing standards generally accepted in the United States, we cannot express a formal audit opinion. Except for the findings specified in this report, no other matters came to our attention that caused us to believe that the Contract requires further adjustments. Had we performed additional procedures, the certified payroll submittals for PTG and its subcontractors, or had we conducted an audit of the indirect rates of PTG and its ten subcontractors in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you.

This report relates only to contract compliance referred to in the scope and methodology and does not extend to any financial statements, PTG indirect rates, or any of the subcontractors taken as a whole. In fact, this review of PTG and its subcontractors specifically limits the scope to exclude any consideration or review by us as to compliance of FAR indirect cost rates.

The following sections describe the key findings for PTG and its subcontractors.

3.1 Task 1- On-Site Contract Compliance and Fiscal Audit of PTG

The GCAP team executed written requests to PTG and each of its subcontractors, as appropriate, and in concert with Contract terms and conditions. We requested that PTG provide supporting accounts payable records, payroll records, escalations in direct labor wage rates, and other supporting documents to facilitate our review. We invited the PTG Project Director and OCTA’s Project Controls Manager to our conferences, and we found their support helpful to our review.

During our review, the GCAP team identified 10 subcontractors. Nine had been identified by OCTA Internal Audit Department in the original scope of work for this review. PTG identified another subcontractor that was added to the contract through Amendment No. 7.

The following sections describe the key findings for Task 1 of our review. We have included a general finding for our review of the contract and contracting process.

3.1.1 Review of Contract

In 2005 GCAP performed a general review of the Request for Proposal (RFP), Contract, and amendments. During our current review, we reviewed amendments for the period September 2005 through December 2007. We found the following general Contract provisions:

- Amendment 8 changed the billing approach for labor by establishing fixed rates for PTG and subconsultants.

- The contract is a time and expense contract with provisions that allow for “as-needed” adjustment of direct labor rates.
- Other Direct Costs are compensated at both established unit rates and actual costs depending on the type of cost.

Based on our review of Amendment No. 8, OCTA will pay the consultant at the hourly rates specified in Schedule I of the amendment, and other direct costs specified in Schedule II, identified as “Other Direct Costs” and Schedule III identified as “Overhead Rate Schedule.” These fixed rates were based on actual payroll-based hourly direct labor rates, approved overhead rates which were fixed for the Contract period, and profit. Schedule I may only be amended on an “as-needed basis” by letter approval from OCTA to reflect changes in project personnel. The amendment also states that rates are subject to an annual salary escalation factor of 4% each year, effective January 1, 2006.

As a part of our review, we selected a random sample of 14 approval letters issued by OCTA. The sample selection was made in order to include 11 different months of approvals spanning from May 2006 to October 2007. These letters are submitted by PTG to request approvals of added project personnel. A review of these submittals was performed to determine accuracy and compliance with the Amendment 8 rate schedule. GCAP also performed testing to validate the rates of additional personnel.

There were two exceptions identified based on the testing performed. One exception shows a discrepancy between the direct labor rate in Schedule I of the Contract and the direct labor rate calculated based on attached payroll documentation. Moreover, the technician working both prevailing wage covered work and other work was paid different rates, which Schedule I did not address. The second exception can be attributed to inaccurate and insufficient support provided for a subcontractor addition during the month of November, 2006.

The following table summarizes these direct labor rate exceptions:

<i>Classification</i>	<i>Employee Name</i>	<i>Direct Labor Rate Provided per Schedule I</i>	<i>Rate according to payroll documentation</i>	<i>Letter Approval Date</i>
Technician, PW ST	Sparks, D	\$28.73	\$16.50 Direct; \$33.66 Prevailing Wage	January 2006
Labor Compliance	Leung, F*	\$31.46	Unable to confirm	November 2006

*Unable to confirm hourly rate of \$31.46. No overhead rate provided by subcontractor.

The GCAP Team also performed testing on Schedule 1 included in Amendment 8. We recalculated the hourly rates based on the fixed direct labor rate, overhead rate, and given profit percentage. Although our analysis did not result in any major findings or instances of non-compliance, four exceptions occurred with respect to the rates for AIG subcontractor staff.

The following table summarizes these exceptions for subcontractor AIG:

AIG Rate Exceptions:

The following table summarizes differences between the contractual fully burdened labor rate and those calculated by GCAP.

Classification	AIG Employee Name	Direct Labor Rate per Schedule 1 A	Overhead (197.83%) B	Direct Labor+ Overhead Subtotal A+B=C	Profit 9% C*.09=D	GCAP Calculated Rate C+D=E	Hourly Rate Per Schedule 1 F	Rate Variance F-E
PW-ST	Blanco, C	\$28.73	\$56.84	\$85.57	\$7.70	\$93.27	\$94.69	\$1.42
PW-ST	Chun, K	\$28.73	\$56.84	\$85.57	\$7.70	\$93.27	\$99.33	\$6.06
Technician	Greene, R	\$34.62	\$68.49	\$103.11	\$9.28	\$112.39	\$112.37	(\$.02)
PW-ST	Palma, F	\$28.73	\$56.84	\$85.57	\$7.70	\$93.27	\$101.79	\$8.52

We were not able to calculate the total project impact of these rate differences because we did not review all of AIG invoice data for these staff members.

Recommendation:

We recommend that OCTA verify the accuracy of all fully burdened rates prior to contract execution or amendments.

3.1.2 Review of Labor Escalation Rate Comparison

Since our 2005 review, the labor escalation was changed to establish a fixed escalation rate of 4% annually (effective January, 2006) and a fixed overhead rate was applied throughout the contract period. GCAP confirms that, for the sample tested, PTG is in compliance with contract terms and requirements as it relates to the not-to-exceed labor escalation rate of 4%.

3.1.3 Review of Contractor Compliance with Applicable Laws and Regulations

Based on a review of monthly progress reports prepared by PTG and limited discussions with both OCTA project management staff and the PTG Project Controls Manager, the GCAP team believes PTG provided appropriate measures during Phase I of the SR-22 Design Build Project to ensure compliance with applicable Federal, State

and local laws, regulations, rules and mandates. However, we were unable to determine compliance with one area – prevailing wage compliance.

Additionally, through our interviews with PTG Management and Document Control Staff, we believe PTG is aware and compliant with Federal Highway Administration (FHWA), Caltrans, and FAR requirements. GCAP obtained a "FHWA Final Acceptance Checklist" which is an internal document created by PTG in order to manage the compliance standards for FHWA. According to Federal standards, change orders at or exceeding \$200,000 require FHWA and Caltrans approval. These signed approval letters are maintained with the change order file on site. Change orders in excess of \$150,000 require OCTA Board of Directors approval and this is documented in the Board of Directors Staff Reports and included with the corresponding folder.

PTG is also subject to certified payroll requirements for personnel and subcontractor personnel covered by prevailing wages under California prevailing wage requirements (California Labor Code Part 7, Chapter 1, Article 2, various sections). After speaking with subcontractor Cordoba, we were informed that subconsultant Padilla was responsible for managing PTG's labor compliance requirements. However, we understand that Padilla did not perform labor compliance verification of PTG but focused their analysis on GMR and GMR's subcontractors. However, Padilla did review PTG's and its subcontractors' initial prevailing wages for compliance with California prevailing wages.

GCAP formally requested certified payroll submittals accompanying the prevailing wage covered employees for PTG. PTG stated that they would not be able to provide certified payroll information, and that they believed they were not required to maintain this. However, according to the California Labor Code 1776(b) 1, "A certified copy of an employee's payroll record shall be made available for inspection at all reasonable hours at the principle office of the contractor." PTG is also required to keep accurate payroll records that show the "per diem wages" paid to the prevailing wage covered employee. These payroll records require a written declaration that is made under penalty of perjury that the record is true and correct.

OCTA's Contract with PTG does not specifically mention compliance with California labor laws. However, Amendment 8 adds Article 26, General Wage Rules, which incorporate the requirements to comply with California Labor Code and prevailing wage requirements. Under Article 17, Federal, State, and Local Laws, also state that Consultant (PTG) represents that in the performance of the Agreement, it will comply with federal, state, and local laws. Additionally, the Agreement includes an audit clause (Article 16, Audit and Inspection of Records), which requires that PTG provide Authority and agents of Authority with access to accounting books, records, and payroll documents as Authority deems necessary.

Because we were not provided any evidence by PTG that PTG and PTG's subconsultant's employees subject to prevailing wages were paid the required basic hourly rate, health and welfare, pension, vacation/holiday and training payments

required under the applicable wage determination, we are unable to determine PTG's compliance with these requirements.

The total hourly rates required to be paid prevailing wage covered employees during the review period (July 2005 through December 2007) are \$41.93 for Field Testers and \$43.71 for Inspectors. We noted that many inspectors were paid \$40.00 an hour for the basic direct labor rate and also verified that some inspectors were paid at least this rate (\$43.71) for the basic hourly rate by reviewing the monthly approval submittals for new inspectors, however, we were not provided any supporting documentation that other payments under the wage determination were provided to these and all other prevailing wage covered employees. Some inspectors were paid less than the total hourly rate required by the Wage Determination (note that PTG's overhead rate covers benefits included in the other payments portion of the wages, but we received no evidence that these employees received such benefits). PTG was able to provide us with some payroll register screen shots, but not able to provide us with most of the payroll register screen shots or any other documentation for the prevailing wage covered employees identified as a sample for our review. Because of this, we were unable to verify that PTG met the minimum hourly payment/ fringe benefit payments to the covered employees.

Because the PTG Agreement did not include specific labor compliance provisions, there was no review by OCTA of PTG or PTG subcontractor compliance with prevailing wages. The work performed by PTG and its subcontractors that was covered by the prevailing wage law occurred primarily during the construction phase of the project.

Recommendation:

GCAP recommends that OCTA review its current agreements to determine if prevailing wage language and provisions are missing. Current and future OCTA agreements where construction work is anticipated should include these provisions. This would be especially helpful for construction management and project management contracts where the likelihood of construction work for surveying, inspection and testing may occur. GCAP also recommends that adequate reviews be conducted to insure compliance with all necessary prevailing wage requirements and other related labor laws and regulations for all agreements involved in construction work, including project management firms.

3.2 Task 2- Review of OCTA's Management of the Contract

Our review of OCTA internal controls over invoice review and approval, issuance of contract amendments, and PTG's compliance with contract terms and conditions determined that there is room for improvement within the invoice review process.

The GCAP Team met with both OCTA's Project Controls Staff and Accounting Department Staff. According to Project Controls, they receive PTG invoices after the PTG Project Manager has approved them. Project Controls then reviews the invoice to determine compliance with contract terms, and to ensure it is not in excess of the overall contract value. Progress Reports, rate schedules, and timesheets are also sent

with the invoice and reviewed as supporting documentation. We met with the Accounting Department and have included our analysis of the invoice review process from the Accounting Department perspective in section 3.2.3.

3.2.1 Follow-up on Prior Review Findings

The GCAP Team followed up on key findings from our 2005 review. We found that PTG has internal controls which address document control and record retention. The GCAP Team interviewed Document Control Personnel of PTG who are responsible for coordinating the documentation requests/requirements between PTG, OCTA, and the construction contractor. To assist with the closeout process, Documents Control Personnel utilize a "Project Closeout Checklist," an internal document that tracks the items that must be completed prior to closeout. Additionally, a closeout log is maintained that includes pending items, ongoing items, and closed items. Pending items are those that Documents Control Personnel have sent requests for; while ongoing items may include those that have received some documents, but not the entire request. Finally, the closed section includes documents that have been completed, received, and approved.

Finally, the prior key findings from our report in 2005 have been fully addressed. In 2005, we found that PTG had no instances of non-compliance with the not-to-exceed labor escalation rates of 4% in the aggregate, and they maintained compliance during this review period.

3.2.2 Review of Internal Controls of Issuance of Contract Amendments

GCAP reviewed Contract amendments and determined that 5 additional amendments were created since our 2005 review, and one additional amendment (No. 13) was being processed during the preparation of this report.

Amendment No. 11 increased the maximum obligation and we formally requested supporting documentation for the increase. OCTA provided GCAP with the May 7, 2007 Board of Directors Staff Report, which contained four possible recommendations for increased funding for the closeout process.

- Option 1 provided additional funding in the amount of \$2.5 million, of which \$1.9 million would be applied to maintain PTG's involvement in the project through the end of 2007.
- Option 2 would keep some level of PTG core staff while providing an increased level of effort for Hatch Mott MacDonald (HMM).
- Option 3 would replace all PTG staff with those provided by HMM.
- Option 4 would reduce the role of the consultants and use OCTA or Caltrans staff to complete work.

The Report indicates that Staff recommended Option 2, while the OCTA Board Committee recommended Option 1. The scope of services for the Option 1 difference of

\$600,000 was not identified initially, but was to “be determined at a later date.” The Board of Directors approved Option 2, which was incorporated into Amendment 11, Article 7 for a maximum obligation of \$2.5 million.

GCAP requested documentation to support the \$2.5 million increase. We received a one page excel worksheet that did not include any date or additional detail. This cost breakdown showed a total estimated cost of approximately \$2.45 million, rather than the approved \$2.5 million. The entire amount (\$2.45M) was identified as PTG and PTG subcontractor costs.

Recommendation:

GCAP was unable to obtain adequate support for the Amendment No. 11 increase, and therefore, recommends that OCTA retain formal and detailed estimates used to determine increases to the maximum obligation of the Contract, and keep these in the OCTA contract and project management files.

3.2.3 Review of OCTA Process for Approving PTG Invoices for Payment

As in our previous review, we found that the process for approving and processing PTG invoices appears to be conducted appropriately. According to OCTA Accounting & Financial Reporting Staff, the extent of their review consists of verifying that an authorized signature is present on the invoice and sufficient funds are available to complete payment. Staff also expressed that there are not currently any written desk procedures or standard operating procedures for the invoice review process.

Recommendation:

GCAP found that the Accounting Department verification was sufficient. However, it would be significantly improved if Accounting Department Staff performed additional math checks according to contract terms and compliance. This would serve as an added internal control measure, in the event that Project Controls misses an issue or error. Although there is a low turnover within the Accounting Department, a written invoice review procedure/checklist should be developed to assist new employees.

3.2.4 Review of PTG's Compliance with Contract Terms and Conditions

GCAP interviewed the PTG contracts manager, and reviewed contract amendments, progress reports, and other documents to determine PTG's compliance with contract terms and conditions. We found that PTG's contract manager and OCTA's SR-22 contract manager work closely together on contract compliance.

GCAP did not review the indirect rates for PTG or its subcontractors as part of this review. We were advised by OCTA that Amendment 8 incorporated the reviewed 2003 overhead rates for both PTG and its subcontractors as a fixed rate for the remainder of the contract. Although the PTG contract under Article 5, Payment, item B, 1. Hourly Rate Schedule requires the submittal of revised overhead rates and revisions by July 1, of each year, this term of the Contract became unnecessary with the execution of Amendment 8.

We found that during the construction phase, communication and coordination between OCTA and PTG has continued to be well coordinated. We met with OCTA's SR-22 Contract Manager and found that she continued to be involved in the contract and also assigned a CAMM Contract Administrator to the project. OCTA has maintained close involvement with the contract administration process since our 2005 review.

3.2.5 Review of Contractor and Subcontractor Invoices

In order to complete Task 2, review of contractor invoices and detailed supporting documentation (including payroll), GCAP randomly selected five months for PTG and subcontractor invoices. For each selected month, we selected four to six individuals and verified that labor rates were consistent with the Schedule 1 in Amendment 8. Moreover, we reviewed the invoices for supporting time sheets and labor reports to ensure that the hours actually worked were consistent with the hours invoiced.

GCAP documented several direct labor rate variances from the direct labor rates specified in Schedule 1. Although the billed rates were compliant with the Schedule 1 rates established, our review disclosed that some direct labor rates varied from those listed in Schedule 1. These direct labor rate variances are summarized in Appendix A of this report. The variances were both under and above the specified direct labor rate in Schedule 1; however, there is no impact to the billing amount because the rates established per the Schedule have been billed.

Recommendations:

GCAP recommends that the OCTA staff perform similar analyses by comparing direct labor rates established in contracts to the actual direct labor rates paid to consultants and subconsultants on large construction management contracts. This comparison should be used to determine the effectiveness of negotiating fixed direct labor, indirect and escalation rates for these types of projects.

PTG AND SUBCONTRACTOR 5 MONTH INVOICE SAMPLING ANALYSIS

(See Section 3.2.5 above)

5 Month Random Sample of PTG and Subcontractor Invoices and Supporting Documentation

Name	SCHEDULE 1		ACTUAL DIRECT LABOR RATE		
	Direct	Schedule	Per	Month/Year	Variance
	Labor Rate	Year*	Documentation		
Yu-Sheng Fan	\$50.89	Yr. 2	\$52.00	Jan. 06	(\$1.11)
Richard Ivy	\$72.30	Yr. 4	\$72.68	Jun., Nov. 07	(\$0.38)
Salim Khalil	\$43.26	Yr. 4	\$43.68	Nov. 07	(\$0.42)
Ahn Ly	\$44.02	Yr. 4	\$44.63	Nov. 07	(\$0.61)
Gharabegian, Areg	\$70.44	Yr. 4	\$79.33	Nov. 07	(\$8.89)
James Blevins	\$50.14	Yr. 4	\$51.10	Dec. 06, Feb. 07, Jun.07, Nov. 07	(\$0.96)
Sanny Khov	\$43.35	Yr. 4	\$42.00	Dec. 06, Feb. 07	\$1.35
Steven Lees	\$41.05	Yr. 3	\$42.29	Feb. 07	(\$1.24)
Richard Campbell	\$49.92	Yr. 3	\$55.00	Dec. 06, Feb. 07	(\$5.08)
Toby Erion	\$41.60	Yr. 3	\$41.20	Dec. 06, Feb. 07	\$0.40
Jeff Lormand	\$40.21	Yr. 4	\$39.04	Dec. 06, Feb. 07, Jun. 07	\$1.17
Yoji Matsuo	\$47.53	Yr. 4	\$45.70	Dec. 06, Feb. 07	\$1.83
David Pearman	\$38.88	Yr. 4	\$39.06	Jun. 07	(\$0.18)
Lorrie Alexander	\$27.04	Yr. 4	\$25.64	Jun. 07	\$1.40
Brady Harnish	\$43.26	Yr. 4	\$42.85	Feb. 07, Jun. 07, Nov. 07	\$0.41
Jack Shockley	\$86.53	Yr. 4	\$80.00	Feb. 07, Jun. 07, Nov. 07	\$6.53

*Year 2 is effective beginning with invoice period July 2005

*Year 3 is effective beginning with invoice period January 2006


*Year 4 is effective beginning with invoice period January 2007



INTEROFFICE MEMO

Date: May 4, 2009

To: Kathleen O'Connell, Executive Director
Internal Audit

From: M. Joseph Toolson, SR-22 Design-Build Program Manager 

Subject: **2008 Audit of Agreement between Orange County
Transportation Authority and Parsons Transportation
Group, Inc.**

The 2008 GCAP audit of Parsons Transportation Group (PTG) Agreement No. C-1-2069 indicated that adequate support for the Amendment No. 11 could not be found within the project files and recommended the Authority obtain formal and detailed information to increase the maximum obligation.

Upon review of project records and from conversations with previous Authority and PTG staff, I was able to obtain a Parsons cost proposal (Attachment 1) which requests a contract amendment increase of \$2.505 million for Amendment No. 11. Since the existing agreement between the Authority and PTG was based on time and expense, the cost proposal was submitted identifying individual salaries marked up by a pre-approved overhead rate and profit. It also took into consideration yearly escalation as identified within the existing Authority/PTG Agreement and average expenditures of other direct costs. An independent cost estimate (attachment 2) was developed by the Authority to negotiate the final amendment price. Multiple draft iterations of the cost proposal were submitted by PTG and reviewed by Authority staff. Prior to the approval of amendment no. 11, a meeting was held to negotiate the final amendment price utilizing Parsons final submittal and the Independent Cost Estimate. In this negotiation meeting, it was agreed to increase the PTG contract maximum obligation by \$2.5 million. This net increase was considered both fair and reasonable based on the understanding of the necessary oversight required for the Granite-Myers-Rados, Joint Venture design-build contract. The parties involved in the final negotiation of amendment no. 11 were Mr. Rick Grebner of the Authority, and Mr. Jack Meifert of PTG.

If you have any questions, please contact me at x 5406 or at jtoolson@octa.net.

Joe Toolson

From: Meifert, John J [John.J.Meifert@parsons.com]
Sent: Monday, May 04, 2009 12:45 PM
To: Joe Toolson
Subject: Amendment 11 Back-up

Joe,

Attached is our cost proposal previously provided for amendment No. 11 to OCTA prior to amendment 11. Subsequent to this submittal, a meeting was held between OCTA and Parsons to discuss this cost proposal in order to reconcile an independent estimate developed Mr. Grebner. At this meeting, an agreement was reached to amend the PTG agreement for \$2.5 million dollars based on the terms of the processed amendment no. 11.

Thank you.

Jack

5/4/2009

Parsons Transportation Group

SR 22 Program Management Final Labor Budget Cost Proposal

SR 22 Program Management Final Labor Budget Cost Proposal															Amendment No. 11		Development By:		Jack Mallory	
Position	Name	Office	Company	2007 ST Loaded Rate	1 Jun	2 Jul	3 Aug	4 Sep	5 Oct	6 Nov	7 Dec	8 Jan	9 Feb	Total Hours	Budgeted Cost					
Program Manager	Jack Mallory	Field	Parsons	\$ 204.33	160	160	160	160	160	160	160	160	160	1,520	\$ 310,562					
	Gary Bodison	Field	Parsons	\$ 119.85	160	160	160	160	120	120	120	120	120	1,240	\$ 149,818					
	Lorne Alexander	Field	Parsons	\$ 56.26	200	180	160	160	160	160	160	160	160	1,460	\$ 87,628					
	Jack Shockley	Field	Parsons	\$ 189.94	200	120	160	200	160	160	160	160	160	1,460	\$ 281,114					
	Maheeta Ruya	Field	Cardacha	\$ 67.79	200	160	160	200	160	160	160	160	160	1,420	\$ 87,844					
	Christina Lujan	Field	Cardacha	\$ 53.44	200	160	160	160	160	160	160	160	160	1,420	\$ 83,224					
	Patricia Padilla	Home	Padilla	\$ 135.40	8	8	8	8	8	8	8	8	8	72	\$ 11,261					
	Miguel Cabral	Home	Padilla	\$ 80.63	8	8	8	8	8	8	8	8	8	72	\$ 5,798					
	ESQ Labor Compliance	Home	Padilla	\$ 70.04	8	8	8	8	8	8	8	8	8	72	\$ 5,043					
	ESQ Labor Compliance	Home	Padilla	\$ 70.04	8	8	8	8	8	8	8	8	8	72	\$ 5,043					
Design Manager	Don Powell	Field	Parsons	\$ 148.73	40	40	40	40	40	40	40	40	40	320	\$ 46,954					
	Dick Ivy	Field	Parsons	\$ 158.70	160	160	160	160	160	160	160	160	160	820	\$ 120,053					
	Jeff Lowmeyer	Home	Parsons	\$ 102.65	40	40	40	40	40	40	40	40	40	40	\$ 8,264					
	M. Moniz	Field	Parsons	\$ 141.27	40	40	40	40	40	40	40	40	40	60	\$ 11,302					
	Structural Manager	Field	Parsons	\$ 102.69	40	40	40	40	40	40	40	40	40	40	\$ 7,215					
	Construction Manager	Field	Parsons	\$ 154.33	120	40	40	40	40	40	40	40	40	440	\$ 67,904					
	Resident Engineer	Field	Parsons	\$ 202.73	120	40	40	40	40	40	40	40	40	120	\$ 24,326					
	Structural Representative	Field	Harris	\$ 94.97	200	160	200	200	200	200	200	200	200	360	\$ 34,160					
	Office Engineer	Field	Parsons	\$ 94.97	200	200	200	200	200	200	200	200	200	1,600	\$ 170,046					
	Runway Inspector	Field	Parsons	\$ 94.97	200	200	200	200	200	200	200	200	200	1,600	\$ 170,046					
Structures Inspector	Jimmy Martinez	Field	Parsons	\$ 110.05	200	200	200	200	200	200	200	200	200	1,600	\$ 199,206					
	Paul Blalock	Field	Parsons	\$ 34.78	200	200	200	200	200	200	200	200	200	1,600	\$ 24,788					
	Ashley	Field	Parsons	\$ 98.63	40	40	40	40	40	40	40	40	40	360	\$ 3,680					
	Cell Orderer	Field	Parsons	\$ 99.72	200	200	200	200	200	200	200	200	200	1,600	\$ 17,905					
	Landscape Inspector	Field	Parsons	\$ 99.72	200	200	200	200	200	200	200	200	200	1,600	\$ 17,905					
	Salary Manager	Field	Parsons	\$ 94.97	2,984	2,424	2,224	2,424	2,184	2,024	2,024	2,024	1,984	20,295	\$ 144,356					
	Totals/Month				\$ 30,000	\$ 20,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 2,245,105					
	Recoverable ODC's				\$ 5,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 135,000					
	Sub ODC's				\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 5,000					
	AUG+Subs & Misc														\$ 120,000					

SR 22 Program Management Labor Budget															Amendment 11												Developed by: R. Grebner	
Position	Name	Office	Company	2007 ST Loaded Rate	1	2	3	4	5	6	7	8	9	Total Hours	Budgeted Cost													
Program Manager	Jack Melett	Field	Parsons	\$ 204.33	200	160	160	200	160	160	160	160	160	1,520	\$ 310,582													
	Gary Bedeian	Field	Parsons	\$ 119.85	160	160	160	200	160	160	160	120	120	1,240	\$ 146,618													
	Lorne Alexander	Field	Parsons	\$ 59.36	200	160	160	160	160	160	160	160	160	1,480	\$ 87,848													
Administrative Assistant	Jack Shockley	Field	Parsons	\$ 189.94	200	120	160	200	160	160	160	160	160	1,480	\$ 281,114													
	Maricela Rayn	Field	Cordoba	\$ 57.79	200	160	160	200	160	160	160	160	160	1,520	\$ 87,844													
Documents Control Clerk	Christina Lujan	Field	Cordoba	\$ 53.44	200	160	160	200	160	160	160	160	160	1,520	\$ 81,224													
EEOLabor Compliance	Patricia Padilla	Home	Padilla	\$ 156.40	8	8	8	8	8	8	8	8	8	72	\$ 11,261													
	Miguel Cabral	Home	Padilla	\$ 80.53	8	8	8	8	8	8	8	8	8	72	\$ 5,798													
EEOLabor Compliance	Monroe Khawaja	Home	Padilla	\$ 70.04	8	8	8	8	8	8	8	8	8	72	\$ 5,043													
Design Manager	Dan Powell	Field	Parsons	\$ 146.73	40	40								80	\$ 11,738													
	Dick Ivy	Field	Parsons	\$ 150.70	160	160	160							800	\$ 126,957													
MOT & Traffic Landscape	Jeff Lormand	Home	Parsons	\$ 102.55	40	40								80	\$ 8,204													
	M. Mohseni	Field	Parsons	\$ 141.27	40	40								80	\$ 11,302													
Structural Manager	Ted Roworth	Field	Parsons	\$ 182.86	40	40								40	\$ 7,316													
	Nabil Fryouat	Field	Parsons	\$ 154.33	120	40	40	40	40	40	40	40	40	440	\$ 67,904													
Resident Engineer	Brett Barnett	Field	Harris	\$ 202.73	120									120	\$ 24,328													
	Dan Johnson	Field	Parsons	\$ 94.97	200	160	200	200	200	200	200	200	200	360	\$ 34,180													
Office Engineer	Ziad Rizk	Field	Parsons	\$ 94.97	200	200	200	200	200	200	200	200	200	1,800	\$ 170,948													
	Jerry Marquez	Field	Parsons	\$ 94.97	200	200	200	200	200	200	200	200	200	1,800	\$ 170,948													
Structures Inspector	Paul Blevins	Field	Parsons	\$ 110.05	200	200	200	200	200	200	200	200	200	1,800	\$ 196,086													
	Ant Ly	Field	Parsons	\$ 96.63	40	40	40	40	40	40	40	40	40	360	\$ 34,788													
Structures Inspector	Bill Decker	Field	Parsons	\$ 98.72	200	200	200	200	200	200	200	200	200	1,800	\$ 179,495													
	Brady Hamish	Field	Parsons	\$ 94.97	200	160	160	200	160	160	160	160	160	1,520	\$ 144,356													
Safety Manager					2,984	2,424	2,184	2,384	2,144	1,984	1,984	1,984	1,994	20,086	\$ 2,209,890													
Reimbursible ODC's					\$ 30,000	\$ 20,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 135,000													
Sub ODC's					\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000													
AG+Subs & Misc					\$ 20,000	\$ 20,000	\$ 20,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 100,000														
				Sub & ODC's Subtotal				\$ 10,000				\$ 10,000																



INTEROFFICE MEMO

April 9, 2009

To: Kathleen O'Connell, Executive Director, Internal Audit

From: *VP* Ken Phipps, Director of Finance and Administration

Subject: **Audit of Agreement C-1-2069 Management Response**

3.2.3 Review of OCTA Process for Approving PTG Invoices for Payments.

Recommendation: GCAP found that the Accounting Department verification was sufficient. However, it would be significantly improved if Accounting Department Staff performed additional math checks according to contract terms and compliance. This would serve as an added internal control measure, in the event that Project Controls misses an issue or error. Although there is low turnover within the Accounting Department, a written invoice review procedure/checklist should be developed to assist new employees.

Response: A procedure/checklist detailing invoice review expectations has been developed and distributed to staff. Among other things, the procedure includes random mathematical checks and verification of charge rates to ensure contract compliance.



April 10, 2009

INTEROFFICE MEMO

To: Kathleen O'Connell, Executive Director
Internal Audit

From: Kathleen Perez, Manager
Contracts Administration and Materials Management

Subject: Response to 2008 Audit of Agreement Between Orange County
Transportation Authority and Parsons Transportation Group, Inc.

I have been asked to respond to the final audit report dated January 29, 2009, prepared by GCAP Services on Project Management Services for the State Route 22 (SR-22) Design Build Project.

Management responses are as follows:

Recommendation No. 1 – Management agrees with the recommendation regarding verification of all fully burdened rates prior to contract execution or amendments. Contracts Administration and Materials Management (CAMM) management has previously instructed staff to verify all labor hour calculations. We will continue to work with staff to ensure consistency in its application.

Recommendation No. 2 – Management has reviewed the recommendation and believes that no further action is required. CAMM management and OCTA's General Counsel has reviewed current contract language and believe that the contract language is consistent with regulatory and statutory requirements.

The reference made on page 12 of 16 of the report that CAMM did not include "specific labor compliance provisions" is inaccurate and contradicts what the auditor states on page 11, which states in part that "Amendment No. 8 adds Article 26, General Wage Rules which incorporate the requirements to comply with California Labor Code and prevailing wage requirements..." Prevailing wage language was included in Amendment No. 8 in response to changes to the statutory requirements that occurred after the contract was executed.

Regarding to the auditors reference on page 12 of 16 that because the "PTG Agreement did not include specific labor compliance provisions..., there was no review by OCTA of PTG or PTG subcontractor compliance with prevailing wages...." CAMM management' response to this specific point raised by the

auditor is that OCTA review of certified payrolls is not required under the statute. California Labor Code Section 1776 (2), states in part that "A certified copy of all payroll records...shall be available for inspection or furnished upon request to a representative of the body awarding [OCTA]...." There is no statutory requirement nor does the contract require PTG to submit certified payroll records for OCTA' review. It is understood that PTG must pay appropriate prevailing wages to covered employees and that PTG is to keep records of such payment, and that those records must be made available upon OCTA' request. Therefore, the auditors' recommendation that "adequate reviews be conducted to insure compliance with all necessary prevailing wage requirements" is not required by state statute.

Recommendation No. 5 –

Management agrees with the recommendation. OCTA Contracts Administration and Materials Management (CAMM) management has previously instructed staff to verify all labor hour calculations. We will continue to work with staff to ensure consistency in its application.

Please contact me should you have any questions. I can be reached at 714/560-5743.

C: James S. Kenan
Virginia Abadessa
Kia Mortazavi