July 24, 2019

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer
          Janet Sutter, Executive Director
          Internal Audit Department

Subject: Fiscal Year 2018-19 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 2018-19 Internal Audit Plan on August 27, 2018. 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 2018-19 Internal Audit Plan as an information item.

Background

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

Internal Audit performs a wide range of auditing services that include overseeing the annual financial and compliance audits, conducting operational and contract compliance reviews, investigations, and agreed-upon procedures reviews. Audits initiated by entities outside of OCTA are coordinated through Internal Audit.
Discussion

The OCTA Internal Audit Fiscal Year (FY) 2018-19 Internal Audit Plan (Plan), Attachment A, reflects the status of each audit project as of year-end. Thirteen projects were completed during the year and six more are in progress. One project has not been initiated and will be carried over to the FY 2019-20 Plan.

For the Plan year, Internal Audit completed 42 projects, including 29 pre-award agreed-upon procedure reviews (price reviews), 12 internal audits, and one Buy America review. Internal Audit also underwent an external quality assurance review, as required by Generally Accepted Government Auditing Standards, for the period January 1, 2016 through December 31, 2018, and received an unqualified opinion.

During the fourth quarter, Internal Audit issued results of an audit of mobile ticketing operations. The audit concluded that controls over revenue collection, recording, reconciliation, and invoice review are adequate, and the contractor complies with contract terms. Two recommendations were made to improve system access controls and to develop written policies and procedures. Management agreed and indicated that recommendations will be implemented.

An audit of recruitment and employment operations was also completed and found that controls to ensure compliance with recruitment policies are generally adequate and functioning; however, a few instances of non-compliance with requirements were noted. Internal Audit also identified situations that should be addressed in policies and procedures and cited policy violations related to relocation costs. Finally, the audit outlined concerns about the removal of a requirement for bus service workers to hold a commercial driver license. Management agreed to implement three recommendations related to these observations.

The compliance, controls, and reporting audit of investments for the period July 1, 2018 through December 1, 2018, included two recommendations related to errors in reporting, monitoring of the ten percent threshold for asset-backed securities, and secondary review of daily holding reports. Management agreed with the recommendations and indicated corrective actions were taken.

Finally, an audit of the Construction Safety Program (Program) was issued, concluding that the Program could be improved by enhancing policies and procedures, developing a training program, refining the process for identifying applicable contractors, and formalizing the process for documenting safety activities and reporting. Management responded that the Program will be revised to address the reported observations.
Also, during the quarter, Internal Audit provided results of the FY 2015-16 through FY 2017-18 State Triennial Performance Audits (STP Audits) of OCTA and Laguna Beach Municipal Transit Lines (LBMTL). The STP Audits found OCTA and the Orange County Transit District in compliance with all Transportation Development Act regulations and provided seven recommendations for consideration. The auditors also found LBMTL in compliance and offered three recommendations.

Internal Audit Department Productivity

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

By the quarter ended June 30, 2019, Internal Audit had achieved cumulative productivity of 79 percent, and the professional staff achieved cumulative productivity of 84 percent.
Price Reviews

At the request of the Contracts Administration and Materials Management Department (CAMM), and consistent with OCTA’s procurement policy, Internal Audit conducts reviews of single bid procurements to ensure that CAMM handled the procurement in a fair and competitive manner. Internal Audit also reviews prices proposed by architectural and engineering firms and sole source contractors to ensure that the prices are fair and reasonable. Internal Audit makes recommendations to adjust proposed rates where they exceed the rates per review. During the fourth quarter, Internal Audit completed 11 price reviews. For the year ended June 30, 2019, a total of 29 price reviews were issued.

Fraud Hotline

Internal Audit is responsible for administering the OCTA Fraud Hotline. The fraud hotline system allows reporters to file complaints anonymously through the internet or by calling a toll-free phone number. Complaints may also be received in person, by phone, or by mail directly to Internal Audit. To ensure proper recordkeeping, all complaints are recorded in the Ethicspoint system, regardless of how the complaint is received.

During the quarter ended June 30, 2019, Internal Audit received six reports. Four reports were customer complaints and were referred to management for disposition. Two complaints did not involve OCTA; one reporter was given contact information for the applicable agency and information from the second reporter was communicated to the internal audit department of the subject agency.

Outstanding Audit Recommendations Tracking

At the request of the Finance and Administration Committee, a listing of outstanding audit recommendations is included with the quarterly updates to the Plan as Attachment B.

Management will begin enforcing a one percent threshold for fare revenue variances on July 1, 2019, when the contract amendment is effective. Management has not implemented a procedure to monitor coupons collected by Yellow Cab.

For the quarter ended June 30, 2019, Internal Audit completed follow-up reviews of five outstanding audit recommendations from the ACCESS Service audit. Four of the recommendations were adequately addressed by management and were closed out and one had not yet been implemented. Follow-up of another three recommendations, from the Interstate 5 Improvement Project audit, are in
process. Eleven recommendations were added to the listing based on the audits summarized above in the Discussion section of this report.

Summary

The OCTA Internal Audit FY 2018-19 Plan is being closed-out. Projects that are in process, and one project that has not been initiated, will be carried forward to the OCTA Internal Audit FY 2019-20 Plan. Internal Audit will continue to perform follow-up of all outstanding findings and recommendations.

Attachments

A. Orange County Transportation Authority Internal Audit Department Fiscal Year 2018-19 Internal Audit Plan, Fourth Quarter Update
B. Outstanding Audit Recommendations, Audit Reports Issued Through June 30, 2019
C. Audit Recommendations Closed During Fourth Quarter, Fiscal Year 2018-19

Prepared by:

Janet Sutter
Executive Director, Internal Audit
714-560-5591
## Orange County Transportation Authority
### Internal Audit Department
#### Fiscal Year 2018-19 Internal Audit Plan
##### Fourth Quarter Update

<table>
<thead>
<tr>
<th>Audit Activity</th>
<th>Project Number</th>
<th>Description</th>
<th>Primary Audit Type</th>
<th>Planned Staff Hours</th>
<th>Staff Hours To Date</th>
<th>Over (Under)</th>
<th>Status (Date Issued)</th>
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</thead>
<tbody>
<tr>
<td><strong>Mandatory External Independent Audits</strong></td>
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<tr>
<td>State Triennial Audit</td>
<td>FY19-007</td>
<td>Procure independent audit firm and coordinate and report on the required State Triennial Performance audits of the Orange County Transportation Authority (OCTA), Orange County Transit District, and Laguna Beach Municipal Transit Lines.</td>
<td>Compliance</td>
<td>180</td>
<td>246</td>
<td>(66)</td>
<td>Complete April 2019</td>
</tr>
<tr>
<td>Federal Triennial Audits</td>
<td>FY19-006</td>
<td>Coordinate and report on results of the required Federal Transit Administration's Triennial Review.</td>
<td>Compliance</td>
<td>80</td>
<td>80</td>
<td></td>
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</tr>
<tr>
<td>External Regulatory Audits</td>
<td>FY19-005</td>
<td>Coordinate and report on external audits by regulatory or funding agencies.</td>
<td>Compliance</td>
<td>60</td>
<td>54</td>
<td>6</td>
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<tr>
<td><strong>Internal Audit Department Projects</strong></td>
<td></td>
<td></td>
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<tr>
<td>Risk Assessment and Annual Audit Plan</td>
<td>FY19-100</td>
<td>Preparation of the annual audit plan, quarterly updates to the audit plan, and periodic assessment of risk throughout the year, including monitoring the audit results of related entities.</td>
<td>Audit Plan and Updates</td>
<td>200</td>
<td>148</td>
<td>52</td>
<td></td>
</tr>
<tr>
<td>Peer Review</td>
<td>FY19-104</td>
<td>Participate in peer reviews of other internal audit agencies in exchange for reciprocal credit towards required peer review of OCTA's Internal Audit. Report results of peer review to Finance and Administration Committee and the Board of Directors (Board).</td>
<td>Peer Review</td>
<td>120</td>
<td>77</td>
<td>43</td>
<td>Complete 2-7-19</td>
</tr>
<tr>
<td>Fraud Hotline Activities</td>
<td>FY19-102</td>
<td>Administrative duties related to maintenance of the fraud hotline and work related to investigations of reports of fraud, waste, or abuse.</td>
<td>Fraud Hotline</td>
<td>240</td>
<td>103</td>
<td>137</td>
<td>31 Reports Received</td>
</tr>
<tr>
<td>Automated Workpaper Solution</td>
<td>FY19-103</td>
<td>System updates/training related to automated workpaper solution.</td>
<td>Workpaper System</td>
<td>40</td>
<td>38</td>
<td>2</td>
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<tr>
<td><strong>Internal Audits</strong></td>
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<td>Clerk of the Board</td>
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<tr>
<td>Board Compensation and Ethics Compliance</td>
<td>FY19-513</td>
<td>Review procedures and record-keeping processes evidencing compliance with Assembly Bill 1234.</td>
<td>Compliance</td>
<td>180</td>
<td>32</td>
<td>148</td>
<td>In Process</td>
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<tr>
<td>Express Lanes Program</td>
<td></td>
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<tr>
<td>Master Custodial Agreement</td>
<td>FY19-514</td>
<td>Review and test activities related to the Master Custodial Agreement between OCTA, Riverside County Transportation Commission, and the Bank of the West for tracking and deposit of revenues and transponder deposits.</td>
<td>Compliance</td>
<td>300</td>
<td>2</td>
<td>298</td>
<td>In Process</td>
</tr>
<tr>
<td>Human Resources and Organizational Development</td>
<td></td>
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</tr>
<tr>
<td>Recruiting and Employment</td>
<td>FY19-503</td>
<td>Review procedures, controls, and effectiveness of recruiting and employment operations.</td>
<td>Operational</td>
<td>300</td>
<td>393</td>
<td>(93)</td>
<td>Complete 4-9-19</td>
</tr>
<tr>
<td>Construction Safety</td>
<td>FY19-506</td>
<td>Assess the adequacy of policies, procedures, and controls related to the Construction Safety Program function.</td>
<td>Operational</td>
<td>200</td>
<td>571</td>
<td>(371)</td>
<td>Complete 6-17-19</td>
</tr>
</tbody>
</table>
## Capital Programs

**Interstate 405 (I-405) Improvement Project: Project Management Contract**  
FY18-505  
Assess and test contract compliance and oversight controls of project management services provided for the I-405 Improvement Project.  

Primary Audit Type: Compliance  
Planned Staff Hours: 40  
Staff Hours To Date: 19  
Over (Under): 22  
Status: Complete  
Status (Date Issued): 7-12-18

**Interstate 5 (I-5) Improvements: Pacific Coast Highway (PCH) to San Juan Creek (SJC) Road**  
FY18-512  
Assess adequacy of contract compliance, oversight, and reporting controls related to the I-5 Improvement Project between PCH and SJC Road.  

Primary Audit Type: Internal Control  
Planned Staff Hours: 240  
Staff Hours To Date: 310  
Over (Under): (70)  
Status: Complete  
Status (Date Issued): 11-29-18

**City of Orange Parking Expansion**  
FY19-508  
Review of the Orange Parking Expansion project, including project administration, oversight controls, and contract compliance.  

Primary Audit Type: Internal Control  
Planned Staff Hours: 300  
Staff Hours To Date: 182  
Over (Under): 119  
Status: In Process

## Planning

**Comprehensive Transportation Funding Programs Projects**  
FY18-513  
Review selected projects for compliance with Measure M2 Ordinance, policies, and procedures.  

Primary Audit Type: Compliance  
Planned Staff Hours: 100  
Staff Hours To Date: 315  
Over (Under): (215)  
Status: Complete  
Status (Date Issued): 10-8-18

## Operations

**Right-of-Way (ROW) Maintenance**  
FY19-502  
Evaluate the ROW maintenance program and oversight controls and contract compliance related to the agreement for ROW maintenance.  

Primary Audit Type: Compliance  
Planned Staff Hours: 240  
Staff Hours To Date: 423  
Over (Under): (183)  
Status: Complete  
Status (Date Issued): 1-14-19

## Transit Operations

**Coach Operator Scheduling**  
FY19-505  
Review the coach operator scheduling process, including use of the HASTUS application.  

Primary Audit Type: Operational  
Planned Staff Hours: 300  
Staff Hours To Date: 386  
Over (Under): (86)  
Status: In Process

**ACCESS Service**  
FY18-514  
Review and test compliance with key contract provisions, with consideration of program effectiveness and efficiency.  

Primary Audit Type: Operational  
Planned Staff Hours: 240  
Staff Hours To Date: 278  
Over (Under): (38)  
Status: Complete  
Status (Date Issued): 10-10-18

## Finance and Accounting

**Treasury**  
FY19-501  
FY19-507  
Semi-annual review of investments: compliance, controls, and reporting.  

Primary Audit Type: Compliance  
Planned Staff Hours: 200  
Staff Hours To Date: 372  
Over (Under): (172)  
Status: Complete  
Status (Date Issued): 10-8-18 and 4-30-19

**Grant Closeouts**  
FY18-510  
FY19-510  
As-needed, required financial and compliance audits of grants at closeout to ensure propriety of expenditures.  

Primary Audit Type: Compliance  
Planned Staff Hours: 40  
Staff Hours To Date: 42  
Over (Under): (2)  
Status: Complete  
Status (Date Issued): 8-13-18

**Mobile Ticketing**  
FY19-504  
Assess and test controls for mobile ticketing revenue collection and recording.  

Primary Audit Type: Internal Control  
Planned Staff Hours: 240  
Staff Hours To Date: 407  
Over (Under): (167)  
Status: Complete  
Status (Date Issued): 4-5-19

**Renewable Natural Gas Credits**  
FY19-511  
Review and test compliance with the agreement with Element Markets for renewable gas credits.  

Primary Audit Type: Compliance  
Planned Staff Hours: 180  
Staff Hours To Date: 125  
Over (Under): 55  
Status: In Process

## Information Systems

**Patch Management**  
FY19-5XX  
Assess the adequacy of the patch management program.  

Primary Audit Type: Operational  
Planned Staff Hours: 120  
Staff Hours To Date: 120  
Status: Complete
Orange County Transportation Authority  
Internal Audit Department  
Fiscal Year 2018-19 Internal Audit Plan  
Fourth Quarter Update

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<th>Over (Under)</th>
<th>Status (Date Issued)</th>
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</thead>
<tbody>
<tr>
<td>Contract Administration and Materials Management (CAMM)</td>
<td></td>
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</tr>
<tr>
<td>Price Reviews</td>
<td>PR19-XXX</td>
<td>Cost and price analyses as requested by OCTA's CAMM Department.</td>
<td>Price Review</td>
<td>750</td>
<td>944</td>
<td>194</td>
<td>29 Reports Issued</td>
</tr>
<tr>
<td>Buy America</td>
<td>FY19-509</td>
<td>Pre-award and post-delivery reviews to ensure vendors and OCTA are in compliance with federal Buy America requirements.</td>
<td>Compliance</td>
<td>80</td>
<td>95</td>
<td>15</td>
<td>Complete 2-20-19</td>
</tr>
<tr>
<td>Warranty Administration</td>
<td>FY18-510</td>
<td>Assess adequacy of controls in place for tracking and recording of warranty repairs and credits.</td>
<td>Internal Control</td>
<td>80</td>
<td>182</td>
<td>102</td>
<td>Complete 8-22-18</td>
</tr>
</tbody>
</table>

External Affairs

Bus Marketing | FY19-512 | Review Bus Marketing program; assess and test oversight controls and contract compliance over contracts for bus marketing, public outreach, etc. | Compliance | 240 | 136 | 104 | In Process |

Unscheduled Reviews and Special Requests

Unscheduled Reviews and Special Requests | FY19-800 | Time allowed for unplanned audits, coordination of external agency audits, and requests from the Board and management. | Varies | 240 | 9 | 232 | |

Monitoring Activities

Measure M Taxpayer Oversight Committee (TOC) | FY19-601 | Coordination of audit activities on behalf of the Audit Subcommittee of the TOC. | Administrative Support | 60 | 48 | 12 | |
| Metrolink Audit Activities | FY19-602 | Obtain and review audit results of Metrolink activities | Non-Audit Service | 40 | 14 | 27 | |
| Bus Base Inspections | FY19-603 | At the request of the Transit Division, participation on annual base inspection teams. | Non-Audit Service | 40 | 37 | 3 | |

Follow-up Reviews

Follow-up Reviews and Reporting | FY19-700 | Follow-up on the status of management's implementation of audit recommendations. | Follow-up | 320 | 350 | 30 | |

<p>| Total Audit Project Planned Hours (A) | 6,600 | 6,974 | 374 | |</p>
<table>
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<th>Audit Activity</th>
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<th>Staff Hours To Date</th>
<th>Over (Under)</th>
<th>Status (Date Issued)</th>
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<tr>
<td><strong>Internal Audit Administration</strong></td>
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<tr>
<td>Board and Committee Meetings</td>
<td></td>
<td></td>
<td></td>
<td>180</td>
<td>148</td>
<td>32</td>
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</tr>
<tr>
<td>Executive Steering and Agenda Setting Meetings</td>
<td></td>
<td></td>
<td></td>
<td>180</td>
<td>128</td>
<td>52</td>
<td></td>
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<tr>
<td>Internal Audit Staff Meetings</td>
<td></td>
<td></td>
<td></td>
<td>150</td>
<td>110</td>
<td>40</td>
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<tr>
<td>Other Administration</td>
<td></td>
<td></td>
<td></td>
<td>1,500</td>
<td>1,452</td>
<td>48</td>
<td></td>
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<tr>
<td><strong>Total Hours (B)</strong></td>
<td>8,610</td>
<td>8,812</td>
<td>(202)</td>
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<td><strong>Department Target Efficiency (A/B)</strong></td>
<td>75%</td>
<td>79%</td>
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<tr>
<td><strong>Target Efficiency - Professional Staff</strong></td>
<td>80%</td>
<td>84%</td>
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<tr>
<td>Audit Issue Date</td>
<td>Report Number</td>
<td>Division/Department/Agency</td>
<td>Audit Name</td>
<td>Recommendation</td>
<td>Initiate Next Update</td>
<td>Management Response and Status</td>
<td>Internal Audit Status</td>
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<td>7/12/18</td>
<td>18-505</td>
<td>Capital Programs</td>
<td>Interstate-405 (I-405) Improvement Project: Project Management Contracts</td>
<td>The Internal Audit Department (Internal Audit) recommends that management develop and implement appropriate controls to ensure labor classifications are only used as intended and all labor rates are held to contract escalation limits. Invoices should be monitored to ensure staff working steadily on the project are added to the contract in a timely manner.</td>
<td>Jul-19</td>
<td>Management agrees with the recommendation to develop and implement controls regarding the use of labor classifications. Staff that works, or is proposed to work, on a continuous basis for a period of six months or more will be added as named personnel to the contract. Labor classifications will continue to be utilized for staff working temporarily on the project. Additionally, management will require that consultants receive approval from the Orange County Transportation Authority's (OCTA) project manager in writing prior to adjusting the salary of individuals within labor classifications at a rate greater than the contractually allowable escalation rate for named personnel. <strong>Update July 2019</strong>: Following Internal Audit's April update, management implemented monitoring controls, processed amendments to consultant agreements to add applicable staff, and is requiring both consultants to confirm on invoices that there have been no rate increases greater than the contract escalation rate, based on their own internal monitoring.</td>
<td><strong>Update April 2019</strong>: Management has not implemented sufficient controls. While language on labor classifications has been added to the standard agreement templates, the existing contracts have not been amended to incorporate the new requirements. Internal Audit identified multiple staff that have been billed for over six continuous months on the two program management contracts but have not been added as named staff. Also, while one contractor has begun confirming in its invoices that there are no rate increases greater than the contract escalation rate, OCTA staff is not monitoring compliance by the consultants.</td>
</tr>
<tr>
<td>10/10/18</td>
<td>18-514</td>
<td>Operations Division (Operations) and Finance and Administration (F&amp;A)</td>
<td>ACCESS Service</td>
<td>Internal Audit recommends that management enhance procedures for monitoring of ACCESS fare revenue. Procedures should include monitoring of coupons collected by both MV Transportation, Inc. (MV) and Yellow Cab, reconciliation of MV's daily coupon count sheets to the farebox reconciliation document, and investigation of variances exceeding a stated threshold.</td>
<td>Oct-19</td>
<td>Management agrees to enhance procedures for monitoring of ACCESS fare revenue and coupons collected by both MV and Yellow Cab. In addition, management will continue to reconcile count sheets to the farebox reconciliation report and will establish a threshold for researching variances.</td>
<td><strong>Update June 2019</strong>: Management will begin enforcing a 1 percent threshold for fare revenue variances on July 1, 2019, when the contract amendment is effective. Management has not implemented a procedure to monitor coupons collected by Yellow Cab.</td>
</tr>
<tr>
<td>11/29/18</td>
<td>18-512</td>
<td>F&amp;A</td>
<td>Interstate 5 (I-5) High Occupancy Vehicle (HOV) Improvement Project: Pacific Coast Highway (PCH) to San Juan Creek Road</td>
<td>Internal Audit recommends management enforce procurement policy or update the policy to include parameters for back-dating of formal amendments. Management should also remind staff that amendments should be requested in a timely fashion to ensure processing before contracts expire</td>
<td>May-19</td>
<td>Management agrees to enforce the current policy regarding processing of formal amendments. Management will conduct training for Contracts Administration and Materials Management (CAMM) staff and review the requirements for processing formal amendments. Staff is also working with the general counsel's office to address the changes in contract templates to eliminate any conflicts related to the interpretation of the &quot;effective dates&quot;. CAMM also plans to conduct training for OCTA staff on the amendment process in 2019 through the Procurement 101 training series.</td>
<td><strong>In Process</strong></td>
</tr>
<tr>
<td>Audit Issue Date</td>
<td>Report Number</td>
<td>Division/Department/Agency</td>
<td>Audit Name</td>
<td>Recommendation</td>
<td>Initiate Next Update</td>
<td>Management Response and Status</td>
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<tr>
<td>11/29/18</td>
<td>18-512</td>
<td>F&amp;A</td>
<td>I-5 HOV Improvement Project: PCH to San Juan Creek Road</td>
<td>Internal Audit recommends that changes to firm fixed pricing of individual tasks, as established in contracts, be made through the amendment process. Management should ensure amendments needed for additional services are requested and processed in a timely manner.</td>
<td>May-19</td>
<td>Management agrees with the recommendation to request amendments for changes to firm fixed pricing of individual tasks, as established in contracts which were procured with price as a factor. Management will reinforce with staff the need to request and process amendments for additional services in a timely manner.</td>
<td>In Process</td>
</tr>
<tr>
<td>11/29/18</td>
<td>18-512</td>
<td>F&amp;A</td>
<td>I- 5 HOV Improvement Project: PCH to San Juan Creek Road</td>
<td>Management should either update its Program Management Procedures to reflect state and federal requirements or enhance controls to ensure that projects comply with all procedures identified in the manual.</td>
<td>May-19</td>
<td>Management agrees with the recommendation and will review the relevant procedures from the Program Management Procedures Manual with staff to ensure that projects are in compliance. Project managers will ensure that project management plans are prepared for each project.</td>
<td>In Process</td>
</tr>
<tr>
<td>3/12/19</td>
<td>N/A</td>
<td>Planning Division (Planning) and F&amp;A</td>
<td>Measure M (M2) City Audits: Local Fair Share and Senior Mobility Program</td>
<td>M2 Local Programs staff should review observations with legal counsel and develop recommendations for the Board of Directors’ (Board) consideration. In addition, Planning and F&amp;A staff should monitor implementation of corrective action by cities.</td>
<td>Sep-19</td>
<td>Staff will review observations and make recommendations for the Boards’ action. Staff will follow-up with the cities to verify implementation of corrective actions.</td>
<td>Not yet due</td>
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<tr>
<td>4/5/19</td>
<td>19-504</td>
<td>F&amp;A</td>
<td>Mobile Ticketing Operations</td>
<td>Controls should be implemented to ensure timely removal of system access upon employee termination.</td>
<td>Oct-19</td>
<td>Information Systems management agrees to put procedures in place to ensure timely removal of system access upon employee termination or reassignment.</td>
<td>Not yet due</td>
</tr>
<tr>
<td>4/5/19</td>
<td>19-504</td>
<td>F&amp;A</td>
<td>Mobile Ticketing Operations</td>
<td>Written policies and procedures should be developed for mobile ticketing operations and activities.</td>
<td>Oct-19</td>
<td>Management agrees with the recommendation and will develop policies and procedures to ensure proper identification and assignment of responsibilities, and continuity of operations in the absence of key staff.</td>
<td>Not yet due</td>
</tr>
<tr>
<td>4/9/19</td>
<td>19-503</td>
<td>Human Resources and Organizational Development (HROD)</td>
<td>Recruitment and Employment</td>
<td>Internal Audit recommended management develop and implement detailed procedures that address all recruitment steps and reconsider whether to hire applicants with pending license suspensions or implement monitoring controls.</td>
<td>Oct-19</td>
<td>Management is in the process of revamping its procedures to address all recruitment steps, including procedures specific to coach operator and maintenance employee recruitments. Procedures will be developed to address the screening, hiring, and monitoring of applicants with pending license suspensions, pending criminal cases, and unfavorable or missing references, consistent with California law.</td>
<td>Not yet due</td>
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<tr>
<td>Audit Issue Date</td>
<td>Report Number</td>
<td>Division/Department/Agency</td>
<td>Audit Name</td>
<td>Recommendation</td>
<td>Initiate Next Update</td>
<td>Management Response and Status</td>
<td>Internal Audit Status</td>
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<tr>
<td>4/9/19</td>
<td>19-503</td>
<td>HROD</td>
<td>Recruitment and Employment</td>
<td>Internal Audit recommended management enhance procedures to ensure offers of relocation are properly approved and adequately documented. Management should also implement monitoring controls to enhance compliance with recruitment policies and procedures.</td>
<td>Oct-19</td>
<td>A Reimbursement of Relocation Expenses Procedure has been provided to staff. In addition, template language has been developed to insert into any candidate offer letter that includes relocation expenses. The offer letter requires the candidate’s signature and acknowledges receipt of, and agreement with, the Relocation Expenses Policy, which includes a payback provision. Management will determine the best means to implement controls to ensure compliance with policy.</td>
<td>Not yet due.</td>
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<tr>
<td>4/9/19</td>
<td>19-503</td>
<td>HROD</td>
<td>Recruitment and Employment</td>
<td>Since service workers are required to operate buses, even on a limited basis, Internal Audit recommends that management reconsider the removal of the commercial driver license requirement. Alternatively, management should issue a formal directive to base management that service workers should never be asked or allowed to drive buses outside base property.</td>
<td>Oct-19</td>
<td>Management will update the Commercial Driver License (CDL) and Renewal Policy, to address the licensing of all Maintenance employees including what is required for each position. For positions that do not require a CDL, the policy will state those individuals shall not operate a vehicle outside of the base property. The policy changes will be tailgated, and Maintenance employees will sign an acknowledgement receipt of the policy. In addition, the policy will be included in new Maintenance employee orientation. Policy update, tailgating, and distribution will be completed within 30 days.</td>
<td>Not yet due.</td>
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<tr>
<td>4/30/19</td>
<td>19-507</td>
<td>F&amp;A</td>
<td>Investments: Compliance, Controls and Reporting July 1, 2018 - December 31, 2018</td>
<td>Internal Audit recommends that additional training be provided on the preparation of investment worksheets and reports. Also, Internal Audit recommends that Treasury use custodial statements as the basis for preparing the reports or, if Clearwater book values are used for reporting, that reconciliations be performed and documented.</td>
<td>Oct-19</td>
<td>Management agrees with the recommendation. In the future, if Clearwater book values are used for reporting, then staff will reconcile any differences between Clearwater book values and custodial statement book values. In addition, staff has already provided additional training and modified the review process in order to improve the reporting process going forward.</td>
<td>Not yet due.</td>
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<tr>
<td>4/30/19</td>
<td>19-507</td>
<td>F&amp;A</td>
<td>Investments: Compliance, Controls and Reporting July 1, 2018 - December 31, 2018</td>
<td>Internal Audit recommends Treasury implement controls to monitor the ten percent threshold for asset-backed securities and ensure secondary review of daily holding reports is performed as required.</td>
<td>Oct-19</td>
<td>Staff has worked with Clearwater and is already using a report which segregates mortgage and asset-backed securities so that the ten percent threshold on asset-backed securities can be monitored. In addition, staff has reviewed balances for asset-backed securities for all investment managers during the period and all investment managers were in compliance. In addition, a process has been put in place to ensure secondary review of the daily holdings reports is performed.</td>
<td>Not yet due.</td>
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## Outstanding Audit Recommendations
### Audit Reports Issued Through June 30, 2019

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<thead>
<tr>
<th>Audit Issue Date</th>
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<th>Division/Department/Agency</th>
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<th>Initiate Next Update</th>
<th>Management Response and Status</th>
<th>Internal Audit Status</th>
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<tbody>
<tr>
<td>4/1/19</td>
<td>N/A</td>
<td>Operations, Planning, and F&amp;A</td>
<td>Fiscal Year (FY) 2016-18 Transportation Development Act (TDA) Performance Audit OCTA</td>
<td>Kimley Horn provided seven recommendations for consideration. The recommendations focused primarily on continuing existing efforts to enhance reporting processes, increase ridership, maximize revenues, improve documentation of the farebox recovery ratio, and planning for impacts of longer bus lives and clean fleet requirements. Kimley Horn also offered recommendations to improve paratransit services by performing recurring route efficiency reviews and considering alternative contracting models for the service.</td>
<td>Oct-19</td>
<td>Management agreed to continue existing efforts and consider recommendations for enhancements.</td>
<td>Not yet due.</td>
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<tr>
<td>4/1/19</td>
<td>N/A</td>
<td>F&amp;A</td>
<td>FY 2016-18 TDA Performance Audit Laguna Beach Municipal Transit Lines (LBMTL)</td>
<td>Direct staff to monitor implementation of recommendations included in the FY 2016-18 Triennial Performance Audit of LBMTL.</td>
<td>Oct-19</td>
<td>Staff will monitor implementation of recommendations by LBMTL.</td>
<td>Not yet due.</td>
</tr>
<tr>
<td>6/17/19</td>
<td>19-506</td>
<td>HROD</td>
<td>Construction Safety Program</td>
<td>Internal Audit recommends that management further develop policies, procedures, and guidelines to provide a comprehensive, risk-based framework for monitoring contractor compliance with construction safety regulations.</td>
<td>Dec-19</td>
<td>Management concurs with the recommendation and will further evaluate the safety specifications levels and make appropriate revisions to streamline the requirements of submittal deliverables for lower risk contracts. Management will also implement procedures to ensure safety-related training for project managers and safety reporting by applicable contractors.</td>
<td>Not yet due.</td>
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<tr>
<td>6/17/19</td>
<td>19-506</td>
<td>HROD</td>
<td>Construction Safety Program</td>
<td>Internal Audit recommends that management develop procedures for documenting and tracking safety activities. Documented activities, and follow-up of safety issues observed, should be retained and used to complete monthly activity reports.</td>
<td>Dec-19</td>
<td>Management concurs with the recommendation and will develop a tracking tool to document applicable construction safety activities and observations.</td>
<td>Not yet due.</td>
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<td>10/10/18</td>
<td>18-514</td>
<td>Operations (Operations) and Finance and Administration (F&amp;A)</td>
<td>ACCESS Service</td>
<td>Internal Audit recommends that management consider a policy update that requires Board of Directors (Board) approval for amendments that obligate Orange County Transportation Authority (OCTA) to additional costs exceeding $250,000, even when the increase can be accommodated within the contract maximum. Internal Audit also recommends that staff ensure the validity of consultant assumptions before relying on them to derive cost estimates. Finally, the justification and responsibility for selecting between various cost estimates should be documented and approved.</td>
<td>Management to consider a policy change to require Board approval for amendments where individual tasks may increase beyond $250,000. Regarding the recommendation for staff to ensure the validity of consultant assumptions before relying on them to derive cost estimates, management agrees to comply. Lastly, management agrees that the justification and responsibility for selecting between various cost estimates should be documented and approved in writing by the project manager. <strong>Update June 2019:</strong> Changes to operational and management contracts that obligate OCTA to additional costs, without changing the contract maximum, will be reported to the Board in the quarterly procurement status reports as regular items.</td>
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<td>10/10/18</td>
<td>18-514</td>
<td>Operations</td>
<td>ACCESS Service</td>
<td>Internal Audit recommends that staff consistently perform monthly monitoring of preventative maintenance inspections (PMI).</td>
<td>Management agrees with the finding and will perform consistent inspections of preventive maintenance records to ensure compliance with all regulatory agencies and contract requirements. <strong>Update June 2019:</strong> Newly-drafted procedures state that reviews of PMI records will be conducted on a monthly basis. Management consistently performed the PMI reviews during the follow up period.</td>
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<td>10/10/18</td>
<td>18-514</td>
<td>F&amp;A</td>
<td>ACCESS Service</td>
<td>Internal Audit recommends that management review performance bonds at contract inception to ensure that the bonds meet the contract requirements. When amendments to increase the contract amount are executed, management should ensure that the bonds are increased accordingly.</td>
<td>CAMM has recently implemented services from a third-party vendor, Insurance Tracking Services, Inc. (ITS), to review bond and insurance documentation for compliance to ensure contract requirements are met. CAMM management will review the bond amount in the ITS system following amendment execution to ensure accuracy of the bond requirements, as well as the bond amount provided. <strong>Update June 2019:</strong> As of follow up review, the performance bond provided by the contractor meets the contract requirement.</td>
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<tr>
<td>10/10/18</td>
<td>18-514</td>
<td>Operations</td>
<td>ACCESS Service</td>
<td>Internal Audit recommends that management instruct MV Transportation, Inc. (MV) to correct the calculation of percentage of calls answered within five minutes. Further, management should increase oversight of the performance standard by periodically validating the data and the calculation.</td>
<td>Management will correct the calculation of percentage of calls answered within five minutes. In addition, management will enhance procedures for monitoring the calculation of percentage of calls answered within five minutes. <strong>Update June 2019:</strong> The flaw in the calculation has been removed, with requests for Same Day Taxi (SDT) trips going to the new SDT contractor instead of MV. Management has implemented a review process of performance standards, including the call center standards, for five randomly selected days; however, there is no documentation retained for these reviews. The recommendation will be closed; however, Internal Audit verbally recommended that management retain documentation of its review of performance standards.</td>
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