

Report to the



ORANGE COUNTY TRANSPORTATION AUTHORITY

*for the*

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**FY07 – FY09 OCTA PERFORMANCE AUDIT OF  
THE ORANGE COUNTY TRANSPORTATION AUTHORITY:  
APPENDIX**

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*prepared by*

Booz | Allen | Hamilton

*and*



May 26, 2010

**THIS APPENDIX TO THE AUDIT REPORT DISCUSSES FINDINGS WITH RESPECT TO RECOMMENDATIONS OFFERED BY THE FY04-FY06 PERFORMANCE AUDIT**

- To the extent that information is available, this section summarizes each recommendation, the issue it was intended to address, and the actions OCTA has taken to respond to the recommendation. However, the previous performance audit did not consistently provide a rationale for each recommendation and in some cases, this has made it difficult to determine whether OCTA's actions meet the intent of the audit recommendations.
- For ease of discussion, the 39 prior audit recommendations are organized and discussed under the following categories, which reflect the organization of the FY04-FY06 audit report:
  - Compliance Recommendations (1 recommendation)
  - Functional Improvement Recommendations (38 recommendations):
    - .. Long Range Transportation Planning (1 recommendation)
    - .. Environmental Management (1 recommendation)
    - .. Clerk of the Board Committee Support (1 recommendation)
    - .. Internal Audit (6 recommendations)
    - .. Marketing and Public Relations (4 recommendations)
    - .. Financial Management and Reporting (1 recommendation)
    - .. Revenue Collection and Financial Management (8 recommendations)
    - .. Contract Administration and Material Management (5 recommendations)
    - .. Program/Project Management (3 recommendations)
    - .. Rail Services (1 recommendation)
    - .. Transit Operations (7 recommendations).

## OCTA HAS IMPLEMENTED 31 OF THE 39 PRIOR AUDIT RECOMMENDATIONS

- The previous performance audit made 39 recommendations. Booz Allen independently reviewed and made one of the following findings for each recommendation:
  - **Implemented:** the recommendation has been implemented.
  - **Implementation on-going:** initial steps have been taken to implement the recommendation, but further actions are required to complete it.
  - **Not implemented – further action required:** the recommendation has not been implemented and further actions are recommended. These recommendations are carried forward as recommendations of the current audit.
  - **Not implemented – no action required:** The recommendation has not been implemented and/or is no longer applicable.
- OCTA has implemented 31 of the 39 recommendations. Of the remaining eight:
  - Implementation is on-going on one recommendation (#33 – facility security). This recommendation is carried over as a recommendation in Chapter 6 of this audit.
  - OCTA has not implemented three recommendations pertaining to project management (#28, #29, #30). This audit includes a recommendation related to project management that incorporates open issues from the prior audit.
  - OCTA has chosen not to implement four recommendations (#1, #3, #13, #19) and the auditors concur in these decisions.

## **THE AUDITORS CONCUR IN OCTA'S DECISIONS NOT TO IMPLEMENT FOUR RECOMMENDATIONS**

- Two recommendations (#1, #13) speak to the role of the Comprehensive Business Plan (CBP) in setting performance goals and objectives. Although the intent of these recommendations is not clear, they may have been meant to address an underlying need for performance goals and objectives. While we concur with OCTA's view that this is not the purpose of the CBP, and therefore in the decision not to implement the recommendations as proposed, we also believe that there is a need for OCTA to more clearly define performance goals and objectives. That need should be addressed as the agency undertakes the development of an agencywide strategic plan. The current audit includes a recommendation pertaining to the need for strategic planning.
- The auditors agree with OCTA staff that the remaining two recommendations (#3 – staffing for Board committees; #19 – capital budget transfers) have been addressed in other ways and no action is required.

## **EACH PRIOR AUDIT RECOMMENDATION AND THE ACTIONS OCTA HAS TAKEN ARE DISCUSSED IN THIS APPENDIX**

## OCTA AND LBMTL HAVE UPDATED THE MEMORANDA OF UNDERSTANDING THAT DETAIL THEIR FUNDING AGREEMENTS

Compliance Recommendation	Compliance Finding	Implementing Actions
<p>The revised MOU with the City of Laguna Beach regarding transit funding should:</p> <ul style="list-style-type: none"><li>- specify requirements associated with TDA Article 3 claims as well as State Transit Assistance Funds</li><li>- consider penalties for failure to submit complete, timely claims</li><li>- continue to monitor the timeliness of LTF claims filed by the City of Laguna Beach to ensure that the claims are filed by the deadline established by the OCTA and by the California Code of Rules and Regulations.</li></ul>	Implemented.	<p>The prior performance audit found that the City of Laguna Beach was submitting its annual TDA claims after OCTA's April 1 submittal deadline. The primary intent of the recommendation was for OCTA to document and enforce the timely submission of TDA claims by Laguna Beach through an updated Memorandum of Understanding.</p> <p>OCTA communicated the need for timely submittal of TDA claims to Laguna Beach and the City has complied with the requirement during the audit period, without inserting the requirement into an MOU.</p> <p>In June 2009, two MOUs were updated and approved by both agencies. Under these cooperative agreements, which specify funding requirements associated with State Transit Assistance (STA) funds, OCTA provides Laguna Beach with local funding assistance in lieu of the City applying directly for federal capital and operating assistance (FTA Section 5307 and ARRA) and claiming State Transit Assistance (STA) and Proposition 1B funds.</p>

**OCTA MAY WISH TO CONSIDER DEFINING DEPARTMENTAL PERFORMANCE OBJECTIVES AS PART OF THE PLANNED STRATEGIC PLANNING EFFORTS**

Improvement Recommendations	Compliance Finding	Implementing Actions
<p>1. OCTA should build on the multi-level planning efforts for the CBP to position the CBP as the single, agency-wide source for transportation plans, operations, projects and services.</p>	<p>Not implemented – no action required</p>	<p>The previous audit noted that the two divisions responsible for developing the CBP focused on different planning horizons (Transit emphasized a near term, one-two year horizon; Development focused on longer range, 20-30 year horizon). The stated intent of the recommendation was to address the resulting gap in transportation planning efforts, by making the CBP the agency-wide plan for all projects and services.</p> <p>The CBPs address all of OCTA's seven program areas, using 5-year planning horizons for operational aspects of the agency's programs and business activities and 20-year timeframes for capital programs. The CBPs thereby provide a single source document for all of OCTA's business activities, including plans, operations, projects and services.</p> <p>As OCTA staff have noted, expanding performance measures to all departments would be inconsistent with the structure of programmatic basis of the CBP. OCTA is working to develop performance standards that will be implemented as capital projects are completed (e.g., Go Local investments).</p> <p>At the department level, goals are defined in the Authority's annual budget document.</p> <p><b>Recommendation:</b> OCTA should consider defining departmental performance objectives as it undertakes the development of an agency wide strategic plan (see recommendation #7 of the FY07-FY09 performance audit).</p>

**OCTA RELIES ON CONTRACTORS FOR MUCH OF THE ENVIRONMENTAL EXPERTISE NEEDED FOR MEASURE M PROGRAMS, BUT ALSO REALIGNED ITS INTERNAL STAFF CAPABILITIES**

Improvement Recommendations	Compliance Finding	Implementing Actions
<p>2. OCTA should supplement existing staff environmental capabilities with personnel possessing stronger experience and expertise in environmental matters.</p>	<p>Implemented</p>	<p>OCTA relies on the private sector to provide necessary skills and expertise to direct and manage the environmental aspects of Measure M programs. Staff report that OCTA contracts for environmental support services, ranging from full-service environmental consulting firms to provide environmental impact studies to subject matter experts to address topical issues.</p> <p>Specifically, the Development Division has restructured work assignments to align skill sets with the two new environmental programs and supplemented the restructured work with consultant assistance. This reassignment occurred in June 2009, ahead of the start of M2. As part of this restructuring effort, OCTA's Environmental Resources Section was formed under the OCTA's Manager of Transportation Planning. The section includes three staff members, two of whom have extensive experience working with environmental agencies. The M2 water quality program (Project X) was aligned to a Program Manager position with experience in water quality programs and is supplemented by consultant support.</p>

## OCTA STAFF CONTINUE TO PROVIDE EFFECTIVE SUPPORT FOR BOARD COMMITTEES

Improvement Recommendations	Compliance Finding	Implementing Actions
3. OCTA should consider assigning the administrative support of all committees that support the OCTA related activities of Board Members to the Clerk of the Board.	Not implemented – no action required	<p>The previous audit made this recommendation in an effort to ensure a consistent level of administrative support to all Board committees.</p> <p>Staff from the External Affairs and Development Divisions have handled these administrative tasks for several years. They are able to provide support for the issues that are addressed by these committees and have developed working relationships with participants. As a result, these staff are uniquely positioned to provide effective administrative support.</p> <p>After the recommendation was made, meetings were held with External Affairs and Development staff and the Clerk of the Board to discuss administrative support for various ad hoc and ongoing community-based committees. It was the consensus of those involved that External Affairs staff who were already involved with committees issues and had developed strong working relationship with committee participants should continue to provide the administrative support for those committees and their meetings.</p> <p>Following a December 2007 meeting to discuss this issue with the CEO, the CEO decided that responsibilities for supporting Board committees should remain unchanged.</p>



## OCTA HAS TAKEN STEPS TO IMPROVE AUDIT COMMITTEE EFFECTIVENESS

Improvement Recommendations	Compliance Finding	Implementing Actions
4. OCTA's Internal Audit Manager, working with the CEO and Executive Director of Finance, Administration, and Human Resources, should clarify the roles/expectations of Board Directors serving as the Audit Committee.	Implemented	<p>The Board's Finance &amp; Administration (F&amp;A) Committee serves as the Audit Committee; the Internal Auditor reports to the Board. The prior audit recommended strengthening the Audit Committee's involvement by: 1) clarifying the roles/expectations of Audit Committee members, 2) providing guidance about audit committee roles, and 3) strengthening processes to enhance Committee participation.</p> <p>The Audit Committee reviews and approves annual audit plans, receives quarterly updates, reviews audit reports, approves the appointment of the independent financial auditors, and reviews their reports and communications, including the management letter.</p>
5. The Manager of Internal Audit should provide a training forum and guidance materials to the Board about the activities of an Audit Committee.	Implemented	<p>In late 2007, F&amp;A and the Board adopted the Roles and Responsibilities of the Finance &amp; Administration Committee and an Implementation Plan.</p> <p>Internal Audit seeks feedback, input and guidance from the Audit Committee. F&amp;A reviews, provides input to, and approves Internal Audit's annual risk assessment and audit plan.</p>
6. The Manager of Internal Audit should review the current processes that involve the Audit Committee (audit planning sessions, access to Audit Committee for input and feedback, audit communications, etc.) and strengthen the procedures, timing and reporting processes to foster enhanced Audit Committee involvement and participation.	Implemented	<p>OCTA also provided training materials, presentations, and when requested, external training on audit roles and responsibilities. All Board members were given a copy of An Elected Official's Guide to Auditing, published by the Government Finance Officers Assn.</p> <p>F&amp;A currently includes several seasoned audit committee members, including "financial experts" as defined by the AICPA, a CPA who serves on the County's Audit Committee, and a former businessman and current County Supervisor with experience in finance, accounting, and auditing.</p>

## INTERNAL AUDIT ACTIVITIES ARE CONDUCTED TO GAO AUDIT STANDARDS

Improvement Recommendations	Compliance Finding	Implementing Actions
<p>7. Managers and Executive Directors of OCTA's Divisions should become involved in the audit planning process and the resulting scheduling of audit time and resources. While we recognize that Internal Audit must maintain its independence in setting its priorities, we believe this cross organizational participation should emphasize cooperative prioritizing/identifying of audit area and input to audit scoping plans.</p>	<p>Implemented</p>	<p>The prior audit suggested that Internal Audit should provide consultative as well as evaluative services.</p> <p>Both executive team and Board input are essential to determining the organization's risks and vulnerabilities and Internal Audit has solicited input from the executive management team and the Board on the annual Audit Plan. However, audit timing and resource planning are best conducted by Internal Audit as a means of ensuring independent and unrestricted audit access.</p> <p>It is the stated objective of the Internal Audit Department to provide the Committee and Board with objective and fair reports consistent with professional standards. Internal Audit made efforts to improve the quality, consistency, and content of its reports to provide users, particularly the Committee and Board, with better information upon which to act.</p> <p>The content of audit reports is specified in Government Auditing Standards (the "Yellow Book") issued by the U.S. Government Accountability Office. Internal Audit has identified the applicable sections and made efforts to follow them.</p>
<p>8. The tenor, tone and format of Internal Audit's reports should be updated and changed to facilitate a more constructive and positive approach to developing and reporting on its work.</p>	<p>Implemented</p>	<p>Internal Audit devotes staff time to development of the Annual Audit Plan, and actively participates in meetings, briefings and discussions about internal controls and accountability. The Audit Plan includes monitoring projects, which ensure that Internal Audit is involved with large project implementations and participates in regularly scheduled status meetings on these projects. OCTA staff also makes itself available on an ad hoc basis for questions or advice.</p>
<p>9. The Internal Audit staff should further utilize their participation in the meetings, briefings and discussions they attend with other OCTA staff to share ideas and provide advice from the aspect of controls, accountability, and sound management practices.</p>	<p>Implemented</p>	

## MARKETING DOLLARS ARE BEING INVESTED IN MORE COST-EFFECTIVE COMMUNICATION STRATEGIES

Improvement Recommendations	Compliance Finding	Implementing Actions
<p>10. OCTA should investigate how various route data are used and valued by its customers, and then adjust the efforts based on the findings. OCTA should regularly evaluate cost-effectiveness of their marketing strategies and monitor the performance of the marketing strategies against adopted performance metrics.</p>	<p>Implemented</p>	<p>The prior audit observed that Marketing does not measure the impact on ridership of marketing strategies.</p> <p>External Affairs' FY09 Communications Plan explicitly calls out assessing the cost and effectiveness of bus public information materials. These assessments are made using customer satisfaction surveys and roundtable discussions; adjustments are made based on this input. Route promotion materials are assessed via ridership trends, direct response rates, and web hits. Costs are examined after program implementation, as well as during the budget process.</p> <p>Over the last two years, Marketing's focus has been on retaining ridership in the face of service reductions and a difficult economic environment. In that process, Marketing has increasingly used less costly, on-line strategies like Survey Monkey to collect feedback and e-mail blasts to provide information.</p> <p>Marketing has also worked to identify and incorporate less costly means of communicating with the public, such as providing schedule information on-line instead of incurring the printing costs of hard copies. Marketing has also implemented e-mail updates for rider alerts and service updates and mobile communications such as Text-for-Next. All of these are alternatives to the Customer Information Center, where the average cost of a telephone call is \$2.00.</p>

## MARKETING DOLLARS ARE BEING INVESTED IN MORE COST-EFFECTIVE COMMUNICATION STRATEGIES (CONTINUED)

Improvement Recommendations	Compliance Finding	Implementing Actions
<p>11. OCTA should evaluate the potential value of integrating additional marketing efforts across all of the OCTA's services. For example, Metrolink Rail and OCTA bus fares are not packaged or bundled. OCTA's merchant coupon program for bus riders is not promoted to 91 Express Lanes customers as a benefit of being an OCTA customer.</p>	<p>Implemented</p>	<p>OCTA developed a marketing strategy that promotes OCTA's family of services. Destination Deals was a partnership with 125 local businesses who offer discounts to OCTA bus, Metrolink, and/or 91 Express Lanes customers. Due to resource constraints, the program was scaled down in 2008. Destinations include things to do in Orange County and how to get there by bus or Metrolink (<a href="http://www.octa.net/my-destinations.aspx">http://www.octa.net/my-destinations.aspx</a>). The discounts program now includes 19 entertainment options listed on all bus and Metrolink pages: <a href="http://www.octa.net/destination-discounts.aspx">http://www.octa.net/destination-discounts.aspx</a>.</p> <p>Under a transfer agreement that has been in place since Metrolink service began in 1992, OCTA customers riding Metrolink can transfer to or from OCTA buses at no cost by showing their Metrolink fares. As the Go Local program is implemented, fare integration will become increasingly important. OCTA recently completed a Fare Integration Study and is pursuing options to use smart cards and/or credit cards to integrate fare payment throughout the county.</p>
<p>12. OCTA should evaluate the effectiveness of increasing its marketing outreach to high school students as an alternative to contracted school bus transportation on routes serving junior high and high schools. Currently marketing to students is more generalized and particularly focused on summer activities such as the beach destinations.</p>	<p>Implemented</p>	<p>Students are one of OCTA's primary target markets. Youth outreach has increased and the "Youth in Motion" marketing program includes school presentations, information on how to ride the bus, and trip planning; promotional day passes are offered to encourage first time riders. This effort has resulted in growth in student ridership as measured by sales of 30-day youth passes, which have grown annually during the audit period, from 53,790 in FY06 to 97,340 in FY09. Including summer youth passes, pass sales increased 79%, from 56,361 in FY06 to 101,078 in FY09.</p>

**OCTA MAY WISH TO CONSIDER CLARIFYING PROGRAM AND SERVICE GOALS AS PART OF THE PLANNED STRATEGIC PLANNING EFFORTS**

Improvement Recommendations	Compliance Finding	Implementing Actions
13. Expand the CBP to specifically address marketing strategies that will be used to achieve program and service goals.	Not implemented – no action required	<p>The prior audit noted that Marketing had indicated that direction on strategic, service and growth goals would be helpful in planning marketing efforts. The CBP is a long-term financial planning document and probably not the best place to provide this information. This information is available in External Affairs' annual work plan, which identifies marketing and communication strategies to support program and service goals identified in the CBP.</p> <p><b>Recommendation:</b> OCTA should consider clarifying program and service goals as part of agency wide strategic planning efforts that are planned (see recommendation #7 of the FY07-FY09 performance audit).</p>

## IMPROVEMENTS HAVE BEEN MADE TO MORE ACCURATELY ALLOCATE COSTS TO PROGRAMS AND ACTIVITIES

Improvement Recommendations	Compliance Finding	Implementing Actions
<p>14. OCTA should implement required time and costing processes and tools to enable more extensive and complete direct charging of expenses to the programs/activities responsible for the expenditure.</p>	<p>Implemented</p>	<p>The prior performance audit recommended that OCTA should develop methods to enable more complete direct charging of expenses to programs/activities, including both direct and indirect costs. Allocating indirect costs would account for administrative and other non-direct support provided to the program or activity.</p> <p>OCTA engaged a consultant to develop an agencywide cost allocation plan and model that analyzes the costing processes and provides an allocation of indirect costs. The total cost of each administrative function is distributed to OCTA's various departments proportionately based on a set of statistics. The distribution is based on a reasonable relationship between the costs being distributed and the benefits received by the various departments and allows for more complete direct charging of expenses to the programs/activities responsible for the expenditure. OCTA also invested in upgrades to its financial accounting, budgeting and internal management programs, including IFAS and Ellipse, to improve budget and cost tracking.</p> <p>OCTA has also reviewed project codes. For Measure M2 and for other new initiatives, new codes have been created to enable direct charging of expenses. The CEO has affirmed the importance of accurately charging staff time, thereby increasing awareness of the importance of correct charging to job codes. Managers are also announcing job codes at the beginning of meetings to remind staff to charge time to the applicable project.</p>

## OCTA HAS IMPLEMENTED A NEW PASS SALES PROGRAM AND A NEW PAYMENT AUTHORIZATION POLICY

Improvement Recommendations	Compliance Finding	Implementing Actions
<p>15. Once OCTA has implemented the 30-day net retail approach, it should consider scheduling a small reduction in the discount and then evaluate the impact on the number of vendor and total vendor pass sales. If there is no significant reduction in vendor sales and in the necessary geographic coverage of retail vendors, further reductions should be considered over time until an optimum discount is reached.</p>	<p>Implemented</p>	<p>At the time of the previous audit, OCTA was implementing a new pass sales system and moving from consignment-based pass sales to a net-30 retail approach.</p> <p>On August 27, 2007, the OCTA Board of Directors approved the Bus Pass Sales Program. The new pass sales system has the ability to track pass revenues by source, report pass sales, and change the discounts offered to retail vendors. The net-30 retail approach was implemented in January 2008, along with a new discount structure based on the quantity of passes sold. Commissions now vary between 2% and 4%. When the conversion was made, several smaller stores, which require more resources to administer, dropped out of the program.</p>
<p>16. Accounts Payable should implement the "Payment Signature Authorization Policy" or a similar cover form for authorizing personnel to sign in the case of all invoices submitted for goods and services provided under contracts. Purchase orders could be excluded.</p>	<p>Implemented</p>	<p>Based on concerns that staff were approving invoices for professional services that did not fully meet contract terms, the prior audit recommended development of a process to require sign-off on invoices above a designated threshold or complexity, to ensure that goods or services received and invoices meet defined criteria.</p> <p>Staff developed a signature authorization card that details the responsibilities that an approval signature represents. A Payment Request Policy and a signature authorization were approved by F&amp;A in April 2008.</p>

## OCTA HAS INCREASED CONTROLS OVER THE USE OF PAYMENT REQUESTS

Improvement Recommendations	Compliance Finding	Implementing Actions
<p>17A. OCTA should establish clear written guidelines on the use of payment requests. These should include those types of purchases that are exempt from the \$2,500 limit (e.g., judgments/ settlements) and a cumulative dollar limit that can be paid to any one vendor via payment requests during any fiscal year.</p> <p>17B. CAMM should review the "frequent payment request" list and contact departments that using numerous payment requests to a single vendor to suggest that a contract or purchase order be established with the vendor. As part of this process, CAMM should also advise Accounts Payable to reject any further payment requests for the identified vendor. Accounts payable should enforce the restriction.</p>	<p>Implemented</p>	<p>CAMM procedures establish the criteria for using payment requests by setting thresholds for procurements that may bypass the formal procurement process. A Payment Request Policy that details the circumstances for using payment request forms was approved by the Board in April 2008.</p> <p>CAMM procedures are supplemented by Accounts Payables, which has increased enforcement of the rules, rejecting payment requests exceeding \$2,500 unless the vendor is on a pre-approved list for disbursements. Accounting has also created a document that details the requirements for submitting payments to Accounts Payable for processing that comply with all procurement rules. These policies have been implemented in the CAMM Policy Manual that was released in September 2009.</p> <p>Management disagrees that Accounts Payable should be rejecting payments. This strategy does not address the problem and is punitive to the vendor instead of the offending OCTA department.</p>



## OCTA HAS ALSO IMPROVED CONTROL IN BUDGET DEVELOPMENT AND IMPLEMENTATION

Improvement Recommendations	Compliance Finding	Implementing Actions
<p>18. OCTA's budget process should provide for a more rigorous review of professional services and capital. In doing so, the Budget Department should identify patterns of continual over-budgeting and work with Executive Directors and the CEO to limit the practice.</p>	<p>Implemented</p>	<p>For FY09, FY10 and FY11, budget targets were developed at the division level. General Fund and OCTD budgets were reduced by 2% in FY09 and 10% in FY10. A budget reduction of approximately 8% is targeted for FY11. An outcome of this approach has been to reduce almost all discretionary budget line items, particularly professional services, effectively ending the practice of over-budgeting and ensuring that funding is available for priority programs and activities.</p> <p>FP&amp;A staff report that carryover budgets have been more closely monitored to ensure that previously encumbered line items are not re-budgeted unnecessarily. This has also reduced over-budgeting for professional services.</p>
<p>19. OCTA should establish and adopt a policy that requires CEO approval, with Board notification, for budget transfers between asset categories exceeding a reasonable dollar limit with any fiscal year.</p>	<p>Not implemented – no action required</p>	<p>Previously, departments were able to transfer budgeted capital dollars to another asset category and then re-budget the item the following year. The intent of the recommendation was to limit the practice of budgeting large capital projects and then transferring funds from those budgets to fund other items, thus circumventing the normal budget review process.</p> <p>In reviewing this recommendation, staff determined that the intent of the recommendation could be met through the existing policy, without requiring a policy change. Transfers are kept within given asset categories.</p>

## OCTA HAS IMPROVED THE ACCURACY OF ITS BUDGETING PROCESSES

Improvement Recommendations	Compliance Finding	Implementing Actions
<p>20. The Budget Development Section in the FP&amp;A Department should work with the Maintenance Department in Transit to develop a financial model that projects the upcoming year's budget for tires, major parts and fuel based on clear assumptions regarding the planned us of buses, by model, expected unit prices, and documented operating assumptions. The model should be documented to record the assumptions made, relationships between factors (for example, miles and tires), and should be updated each year as the information changes.</p>	<p>Implemented</p>	<p>The prior audit recommended a more systematic approach to budgeting bus fuel, tires and parts for the Maintenance Department, to reduce the extent of budget variances by using cost drivers to project and budget these costs.</p> <p>Maintenance worked with the FP&amp;A Department to develop a budget model to forecast fuel, lubricants and taxes, maintenance parts costs, and tire costs. The model has been used to prepare Maintenance Department budgets beginning in FY07.</p>
<p>21. OCTA should formalize the fleet plan annually and consider including it as part of the CBP. The Service Review Committee should then review and approve the plan.</p>	<p>Implemented</p>	<p>Although OCTA had a process for planning the size and configuration of its bus fleet, it was not linked to the CBP or the budget. FP&amp;A agreed with this recommendation and the fleet plan is now revised annually and was included in the 2008 CBP.</p>

## OCTA IS TAKING STEPS TO BETTER COORDINATE GRANT-RELATED ACTIVITIES

Improvement Recommendations	Compliance Finding	Implementing Actions
<p>22A. OCTA should develop a more coordinated approach to grants management, and should consider creating a Grants Department within Finance, Administration and Human Resources. At a minimum, the Grants Technician position, currently assigned to the General Accounting Section, should be transferred to the CBP/Grant Section in the FP&amp;A Department.</p> <p>22B. OCTA should establish a grants management planning process that requires the Manager of CBP/Grants the Grants Section staff, the individual in that Section overseeing the grant, the project manager, and the Grants Function Specialist to develop a plan for administering each grant upon its receipt. The plan should include a list of all grant requirements and actions needed to meet them.</p>	<p>Implemented</p>	<p>The prior audit observed that OCTA receives hundreds of millions of dollars per year in state and federal grants and recommended that centralizing the grants planning, application, budgeting, administration and reimbursement activities in a single department would allow for better focus, communication and coordination.</p> <p>OCTA has not chosen to consolidate all grant activities, but the Financial Planning &amp; Analysis and General Accounting sections have worked together to develop a more coordinated approach to grants management. All grant reimbursement activities are being consolidated in General Accounting. As a consequence of staff turnover and hiring freezes, the consolidation is not complete. Currently, General Accounting seeks reimbursement on new, recurring grants; FP&amp;A closes out existing grants. As existing grants are closed, General Accounting will assume responsibility for all grant reimbursements. In addition, staff from both sections meet regularly and maintain a master list of open grants showing which section is responsible for reimbursements on each grant.</p> <p>OCTA staff report that policies and procedures for the grant planning process have been documented and that communication and coordination occurs from the initial stages of the grant needs assessment with the project manager, and continues through proposal writing to grant award, execution, management, adherence to federal guidelines, to grant accounting and close-out. These steps are documented and followed in the grant policies and procedures.</p>

**OCTA IS TAKING STEPS TO BETTER COORDINATE GRANT-RELATED ACTIVITIES (CONTINUED)**

Improvement Recommendations	Compliance Finding	Implementing Actions
<p>22C. Quarterly grants meetings should be conducted involving the Section Manager of CBP/Grants Section and his grant-related staff, the Grants Funding Specialist, and the project managers for each planned and active, grant-funded project. The status of each pending and approved grant should be reviewed and needed actions defended.</p>	<p>Implemented (continued from previous page)</p>	<p>The three grant functional areas (in the Federal Relations, General Accounting, and CBP/Grants sections) communicate and coordinate daily. Quarterly meetings are scheduled with each functional area to discuss open issues, concerns, process enhancements and grants in general. Also on a quarterly basis, the Grants Technician communicates with project managers and Grants Accounting to coordinate the reporting in the Federal Transit Administration's web-based TEAM system.</p> <p>The Grant Analyst in Federal Relations and Grants Management staff also coordinate and provide a quarterly report to the OCTA Board of Directors on the status of future, pending, executed and active grant activity.</p> <p>It is important to note that although the prior audit alluded to grants being "close to jeopardized" there are no instances where grant funds were forfeited.</p>

## OCTA HAS TAKEN STEPS TO INCREASE CAMM'S ROLE IN CONTRACT ADMINISTRATION

Improvement Recommendations	Compliance Finding	Implementing Actions
<p>23. OCTA should create a Contracts Administration function within the CAMM organization that is tailored to each major user group depending on the types of contracts and services. With the approval of the extension of Measure M, there will be new contracts that will require more time and attention from a management standpoint.</p>	<p>Implemented</p>	<p>The prior audit noted that CAMM was focused on the procurement phase of purchasing and did little post award contract administration. The development of a contract administration function was recommended.</p> <p>Since 2007, the CAMM organizational structure has evolved to better support the contract administrator/ buyer role. The Department is led by the Director of Contracts Administration and Materials Management (a new position), whose direct reports are the Manager of Contracts &amp; Procurement and the Manager of Capital Projects. CAMM hired a senior contract administrator and a principal contract administrator to improve its contract administration capabilities.</p> <p>Although the Director reports that CAMM is not staffed to take on all aspects of contract administration, CAMM has become much more involved in contract administration. The two department managers work closely with users to plan procurements and ensure that procurements are handled accurately and in a timely manner.</p> <p>Contract administrators have been more involved in project performance. Larger procurements, such as BRT, buses, and paratransit service, have included the contract administrator in routine meetings with consultants. Contract administrators now work with customers daily to resolve contract issues.</p>
<p>24. OCTA should create Contracts Administration Policies and Procedures by working with other business units to meet their requirements.</p>	<p>Implemented</p>	<p>OCTA's Procurements Policies and Procedures was developed and released in September 2009. The document clearly defines CAMM's role in contract administration activities.</p> <p>As noted in the response to recommendation 23, contract administrators have become more involved in project performance and are now included in project management meetings.</p>

**WITH THE IMPLEMENTATION OF A NEW ORGANIZATION STRUCTURE AND NEW SOFTWARE, INVENTORY MANAGEMENT HAS IMPROVED**

Improvement Recommendations	Compliance Finding	Implementing Actions
25. OCTA should implement the split in the responsibility of Maintenance/Material Management into two sections (one for Inventory Management and one for Major Procurements) being considered as a result of the recent consultant report.	Implemented	The prior audit recommended that the number of direct reports to the Manager of Contracts and Procurement should be reduced by creating section managers. This recommendation was approved by the Finance and Administration Committee on April 23, 2008. Three teams have been created (Inventory, Procurement, Maintenance Procurement) and each is led by a section manager who reports to the Manager of Contracts and Procurement.
26. OCTA should enhance the Inventory Management Section, and review standard best practices, creating Policies and Procedures specific to how inventory is to be managed and maintained. This should be accomplished as part of the implementation of the Ellipse Inventory Management System. While Ellipse has the capability to list best practices, the capability has to be "turned on" and used for it to be functional. Also, the Ellipse system in itself does not generate new policies and procedures.	Implemented	<p>The prior audit found that OCTA should update its inventory practices to reduce the amount of obsolete inventory, prioritize inventory reorders based on usage and dollar value, consider available inventory across all bases, ensure that CAMM is notified of all campaigns so that adequate inventories can be maintained.</p> <p>The newly created Section Manager of Inventory was hired, and funds were budgeted in FY09 to conduct a thorough review of the inventory section.</p> <p>The section manager was tasked with reviewing the procedures in place and updated them to reflect industry best practices and the capabilities inherent in the Ellipse application.</p> <p>Ellipse is now fully functional and is the main operating system for materials management. As a result, the inventory department has daily access to improved inventory data and performance indicators. The inventory management team also purchased Oniqua, inventory analytics software that increases the visibility of asset performance and effectiveness.</p>

## **OCTA DEVELOPED AND IMPLEMENTED A NEW PROCUREMENT POLICIES AND PROCEDURES MANUAL**

<b>Improvement Recommendations</b>	<b>Compliance Finding</b>	<b>Implementing Actions</b>
27. CAMM should develop more detailed policies and procedures that will provide consistent direction.	Implemented	<p>The prior audit found that OCTA's procurement policies and procedures were not sufficiently detailed and precise, resulting in incomplete or weak contractor work scopes.</p> <p>A new OCTA Procurement Policies and Procedures Manual was developed and released in September 2009.</p>

## OCTA HAS NOT CREATED A CENTRALIZED PROGRAM MANAGEMENT OFFICE

Improvement Recommendations	Compliance Finding	Implementing Actions
28. OCTA should establish a Program Management Office (PMO) that is separate from the business units. The PMO should report at the Executive level. This would enable the project managers to report sufficiently high and directly in the OCTA management structure to identify, communicate, mitigate, and resolve project issues.	Not implemented – further action required	<p>The previous performance audit found that because program management activities are decentralized at OCTA, there is no consistency in the availability or use of program management tools, processes, and procedures. The creation of a Program Management Office was recommended to address this concern.</p> <p>This recommendation was reiterated by the Organizational Readiness and Capacity Assessment study (Nov 2008) that was undertaken, in part, to evaluate the agency's capacity to deliver the M2 program.</p> <p>In its responses to the findings of the prior performance audit, OCTA committed to implementation of these three recommendations, but deferred implementation to the completion of the organizational/readiness review. That study was finalized in January 2009.</p>
29. The established PMO should implement consistent processes and tool set for managing projects.	Not implemented – further action required	<p>Since the completion of the organizational/readiness review, OCTA has not taken further steps to create a centralized program management office.</p> <p><b>Recommendation:</b> OCTA will need to ensure that the organization is structured and staffed to deliver the M2 program.</p>
30. Project Managers from the PMO should be assigned based on the project type, (construction, engineering, technology, marketing, etc.), project requirements, and capabilities of the available team members.	Not implemented – further action required	



## OCTA INTERNAL AUDIT STAFF COMPLETED AN EVALUATION OF SCRRA'S AUDIT ACTIVITIES

Improvement Recommendations	Compliance Finding	Implementing Actions
<p>31. OCTA should conduct periodic audits and reviews of Metrolink activities on a regular basis to assure integrity in the use of funds spent for rail services affecting Orange County.</p>	<p>Implemented</p>	<p>The Board of Directors of the SCRRA, which includes two of OCTA's Board members, employed independent financial statement auditors to audit its financial statements and report on the agency's National Transit Database. OCTA staff regularly reviewed committee agendas and are in contact with both SCRRA staff and OCTA/SCRRA Board members concerning matters of significance to OCTA.</p> <p>In addition, OCTA monitors the operations and audit activities of the SCRRA Board and its Operational Oversight Committee.</p> <p>Internal Audit staff report that they inventoried the audit activities of SCRRA, evaluated the reasonableness and comprehensiveness of those audit efforts, and prepared a report that was provided to the OCTA Board Finance &amp; Administration Committee on February 17, 2010 and the Board on February 22, 2010.</p> <p>Internal Audit has concluded that SCRRA's audit activities have been limited and are not reflective of the risk profile of the agency. In its review of SCRRA's internal audit activities, OCTA Internal Audit determined that the function could be more independent and transparent. SCRRA's Safety &amp; Operational Oversight Committee will consider OCTA Internal Audit's findings in March 2010.</p>

## **AN ANNUAL BUS OPERATOR PERFORMANCE EVALUATION PROCESS HAS BEEN IMPLEMENTED**

<b>Improvement Recommendations</b>	<b>Compliance Finding</b>	<b>Implementing Actions</b>
32. OCTA Human Resources Department and Bus Operations Departments should develop a systematic approach to regular operator evaluations.	Implemented	<p>The prior audit found that a more routine operator evaluation process could improve operator performance.</p> <p>Management developed an operator evaluation program during the evaluation period, and has taken a more assertive approach to monitoring complaints and accidents. An Annual Employee Feedback (AEF) for Coach Operators was developed that includes a form and procedures. The procedures specify that every operator will be evaluated annually, including whatever research and interviews are necessary to complete the form, as well as a one-on-one meeting with each operator to discuss job responsibilities such as safety/ driving record, attendance, work rules, comments/ compliments, and uniform/grooming.</p>

## THE BUS BASE SECURITY UPGRADES PROJECT IS UNDERWAY, BUT NOT YET COMPLETE

Improvement Recommendations	Compliance Finding	Implementing Actions
33. OCTA should develop and implement plans for providing physical security at the operating bases.	Implementation on-going	<p>The prior audit observed that the open-gate nature of the bases and the lack of a non-peak security presence affect OCTA's ability to adequately secure fueling stations, buses, other equipment, and employees.</p> <p>The bus base security upgrade project is underway. The project will establish requirements for an enterprise-wide Integrated Electronic Security System (IESS).</p> <p>Facilities were surveyed by the Critical Infrastructure Unit of the Orange County Intelligence Assessment Center and the results were shared with OCTA's Security Manager and entered into the Automated Critical Asset Management System (ACAMS).</p> <p>Video surveillance consultants assessed all the base facility video surveillance systems, determining areas that need coverage, and developed a secure surveillance system common to all bases. The results of their analysis are included in the October 2009 OCTA Bus Base Security Upgrade Project report. Staff report that the recommendations are shaping the final specifications for physical security upgrades.</p>

## OCTA HAS TAKEN ACTIONS TO ENSURE THAT THE ACCESS CONTRACTOR IS COMPLIANT WITH CONTRACTUAL REQUIREMENTS

Improvement Recommendations	Compliance Finding	Implementing Actions
<p>34. OCTA should conduct periodic audits of the trip sheets maintained by Veolia Transportation to ensure an accurate sampling of data</p>	<p>Implemented</p>	<p>An audit of paratransit contractor that was conducted during the previous audit period found that drivers were not consistently reporting sufficient data to meet OCTA's reporting requirements, resulting in this recommendation.</p> <p>OCTA completed the recommended audit in May 2008.</p> <p>While Veolia continues to utilize driver trip sheets, the contractor now relies on mobile data terminals (MDTs) and Trapeze, the scheduling software, to track and collect the required data for ACCESS trips. OCTA staff are able to conduct data queries to identify data discrepancies. OCTA also conducts a monthly audit using a small sampling of driver trip sheets to provide an additional layer of data verification.</p> <p>The data review and analysis conducted for this performance audit found that Veolia is accurately reporting the data OCTA requires for State Controller and NTD reporting.</p>
<p>35. OCTA should conduct an audit of the Veolia Transportation contract following the first year to ensure that any contract billing issues are identified and resolved early in the contract process.</p>	<p>Implemented</p>	<p>This audit recommendation was a result of the findings of an audit conducted by OCTA, which resulted in settling a claim for reimbursement of unsubstantiated expenses and contract language clean-up.</p> <p>Internal Audit completed an audit of the Access contract in May 2008.</p>

## OPERATIONS AND CAMM HAVE WORKED TOGETHER TO IMPROVE PROCUREMENT PROCESSES AND MANAGE BUDGET IMPACTS

Improvement Recommendations	Compliance Finding	Implementing Actions
<p>36. OCTA should consider developing a procurement policy for maintenance that specifies an approval process for procurements (1) above a specified dollar amount, or (2) that result in a change in product that may materially affect performance.</p>	<p>Implemented</p>	<p>This recommendation was based on the finding of the prior audit that there was not a formal review process within Transit Operations to evaluate of equipment procurements that impact performance results, to ensure budgetary compliance.</p> <p>Significant projects or operational services are typically routed through the Maintenance Department for review and concurrence. In addition, a Configuration Management Committee was created to address significant changes to OCTA's fleet, sites and infrastructure. The committee has been expanded to include representatives from several departments and meets monthly to discuss the status of major Maintenance projects and items of mutual concern. The committee developed a Configuration Control procedure during the audit period.</p> <p>In addition, Maintenance and CAMM meet monthly to discuss the status of Maintenance procurement projects and other upcoming projects of significance.</p>
<p>37. Maintenance should develop a practice of notifying CAMM prior to the beginning of each large-scale maintenance campaign that may have a significant impact on existing inventory items.</p>	<p>Implemented</p>	<p>The prior audit found that Maintenance did not routinely notify CAMM of maintenance campaigns that required large-scale purchases, sometimes resulting in inventory shortages prior to the completion of the campaign. CAMM and Maintenance now meet monthly to discuss and coordinate requirements for upcoming work.</p>

## OCTA'S SERVICE GUIDELINES ACKNOWLEDGE DIFFERENCES IN DENSITY AND DEMOGRAPHICS WITHIN OCTA'S SERVICE AREA

Improvement Recommendations	Compliance Finding	Implementing Actions
<p>38. OCTA should develop updated service standards for fixed route services including developing unique standards for areas within the County where density and demographics may negatively impact ridership.</p>	<p>Implemented</p>	<p>At the time the prior performance audit was conducted, OCTA's service standards had not been updated since they were adopted in 1994. As a result of growth patterns in Orange County since that time, the auditor questioned whether the service standards adequately represented realistic service goals.</p> <p>OCTA's service standards were updated in December 2008, with the publication of OCTA Bus Service Guidelines and Performance Goals. The Guidelines were developed to provide standards for areas without service, to assist in deciding how to improve service and to define steps to take before reallocating service.</p> <p>The Guidelines acknowledge differences in densities in different parts of the county. Instead of continuing to rely on a single measure to gauge route effectiveness, three variables are used to evaluate service: productivity (passengers per revenue vehicle hour), occupancy (the ratio of passenger miles traveled to seat miles provided) and recovery (farebox revenue as a percentage of operating cost). These metrics are tracked by route and aggregated to provide an overall Service Performance Index. Results are reported both systemwide and by service type. Performance goals are set relative to the index average for peer routes within the same mode, and procedures are defined for determining causal factors for low performance and for remediation efforts.</p> <p>OCTA staff notes that as new service applications are identified, the service standards will be revised to incorporate them.</p>