

**MEASURE M  
TAXPAYERS OVERSIGHT COMMITTEE  
AUDIT SUBCOMMITTEE MEETING  
AGENDA**

Tuesday, October 11, 2011  
5:00 p.m. – 6:00 p.m.

Orange County Transportation Authority  
600 S. Main Street, Orange, CA  
Conference Room 101

*Conference room is directly in front of the elevator on the 5<sup>th</sup> floor.*

1. Review and approve minutes from April 26, 2011
2. Fiscal Year 2011-12: Annual Audit Plan *Janet Sutter*
3. Annual Audits: Elimination of Debt Service Coverage  
Test Reports *Janet Sutter*
4. Results of Follow-up: Cities of San Juan Capistrano and  
Westminster – Fiscal Year 2010-11 Measure M AUP's *Janet Sutter*
5. M2 Finance Director's Workshop *Andrew Offelie*
6. Other Matters
7. Public Comments\*

The Agenda listings are intended to give notice to members of the public of items of business to be transacted or discussed. The Audit Subcommittee may take any action which it deems appropriate on an agenda item.

\*Public Comments: At this time, members of the public may address the Audit Subcommittee regarding any items within the subject matter jurisdiction of the Subcommittee provided that NO action may be taken off-agenda items unless authorized by law. Comments shall be limited to five (5) minutes per person and 20 minutes for all comments, unless different time limits are set by the Chairman, subject to the approval of the Subcommittee.

**MEASURE M  
COC/TOC AUDIT SUBCOMMITTEE MEETING  
Minutes**

Orange County Transportation Authority  
550 S. Main Street, 600 Building  
Orange, CA  
Conference Room 506  
Tuesday, April 26, 2011  
5:00 p.m. – 6:00 p.m.

- COC/TOC members present: Howard Mirowitz, Richard Egan, Gregory Pate, David Sundstrom
- OCTA staff present: Kenneth Phipps, Andrew Oftelie, Janet Sutter, Alice Rogan, Kim Bowman
- Marc Davis, Shareholder, Mayer Hoffman McCann, PC

***Meeting was called to order at: 5:01pm.***

***Review and approve minutes from December 14, 2010 and February 8, 2011:*** The Audit Subcommittee approved minutes for both the December 14, 2010 and February 1, 2011, meetings.

***Selection of External Auditors:*** Janet Sutter, Acting Executive Director of Internal Audit, informed the Audit Subcommittee that the firm of Vavrinek, Trine, Day & Co., LLP (VTD) had been selected to conduct OCTA's annual financial audits. Chairman David Sundstrom expressed his pleasure of the selection of VTD, and Alice Rogan, Community Relations Officer, thanked Audit Subcommittee Members Howard Mirowitz, Richard Egan, and Gregory Pate for their participation in the selection panel of the external auditor interviews.

***Annual Adoption of Audit Subcommittee Charter:*** Janet passed out copies of the Audit Subcommittee Charter for Audit Subcommittee members to review. Suggestions for clarification on two items within the Charter were made, which Janet agreed to incorporate. The Audit Subcommittee moved to accept the Charter with revisions, and then have the full Taxpayers Oversight Committee adopt the Charter in June as well.

***Measure M City Audits - Results:*** Janet reminded Audit Subcommittee members that they had reviewed all Measure M City audits except for the City of Westminster. Janet then added there were three cities with findings - San Juan Capistrano, Tustin, and Westminster. Howard asked if issues with the City of Westminster had been resolved. Janet replied that with regard to the debt issue, Westminster no longer has detailed records of the related expenditures, only a schedule of expenditures that show 52 percent of the bond proceeds went towards street and roads projects. Westminster could not be held in noncompliance, however, because there is no requirement for records retention. This issue however, has been addressed in the Measure M2 guidelines. If cities pledge Measure M revenues for a debt issue, then the city must retain records supporting those expenditures for the life of the bond payments.

The City of Tustin contacted Janet after their audit was issued and indicated that Tustin had found supporting documentation for the \$50,000 in indirect costs that were disallowed by the auditors. If this report requires revision, it will be re-issued next month. The other finding with Tustin is that they did not submit an amended Capital Improvement Plan to OCTA.

San Juan Capistrano's finding is that funds have not been spent within three years.

When the Measure M city audits were presented before the Finance and Administration Committee, Director Campbell suggested that the three cities with findings, San Juan Capistrano, Tustin, and Westminster, be re-audited.

***Selection of Cities for Measure M Turnback Review for Fiscal Year 2011:*** Janet gave Audit Subcommittee members a spreadsheet of suggested cities to be audited for the fiscal year ended June 30, 2011. Discussion ensued, with the resulting cities being selected for audit: Brea, Garden Grove, Huntington Beach, Laguna Hills, La Palma, Placentia, Tustin, and the County of Orange. The Audit Subcommittee also asked that Internal Audit perform follow-ups with the cities of San Juan Capistrano and Westminster on the findings from 2010, and report back to the Audit Subcommittee

***Costs to In-source Turnback Reviews:*** Janet discussed the costs of conducting Measure M agreed-upon procedures in-house with the Audit Subcommittee. Using the City of Westminster as the model, Janet calculated that in-sourcing the Measure M agreed-upon procedures would only amount to a savings of approximately \$6, 810.02. David indicated the Audit Subcommittee could not give direction for audits to be conducted in-house in that this is a staffing issue. Kenneth Phipps, Executive Director of Finance and Administration, advised the Audit Subcommittee to consider the 1 percent limitation for administrative costs for Measure M funds. David stated this issue may be considered at a later time. The Audit Subcommittee asked Ken for a report of Measure M administrative costs. Ken said a report of the administrative costs could be added to the quarterly report.

***Quarterly Measure M Revenue and Expenditure Report:*** Ken reviewed the March quarterly report with the Audit Subcommittee. Ken began with Schedule 1 of the report, pointing out sales tax revenues of \$60 million which is \$5 million better than the quarter ending March 2010. There were \$28 million in external reimbursements for the Metrolink Expansion Program, and a final payment of \$82 million for Debt Service. \$117 million was transferred out in the Transit Mode. The Freeway Mode shows an un-programmed balance of \$30 million, which is \$7 million less than last quarter. This \$7 million has been programmed to the SR-22/I-405 West County Connectors project. The remaining un-programmed balance is available for the SR-57 and the I-5 South projects, which will off-set the Measure M2 funding requirement. Within Local Streets and Roads, \$13 million in turnback funds were passed through to the cities. Most of the expenditure activity this quarter was in the Transit mode, where \$120 million was transferred to the Commuter Urban Rail Endowment (CURE). There is still almost \$350 million in Measure M funds remaining to be spent across all four modes.

***Other Matters:*** None

***Public Comments:*** None

***Meeting Adjourned at:*** 6:01 p.m.

***Next meeting scheduled for October 11, 2011, 5:00 p.m. CR 506.***



*August 10, 2011*

**To:** Finance and Administration Committee  
**From:** Will Kempton, Chief Executive Officer  
*Will Kempton*  
**Subject:** Draft Fiscal Year 2011-12 Internal Audit Plan

***Overview***

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

***Recommendation***

- A. Approve the Draft Fiscal Year 2011-12 Internal Audit Plan.
- B. Direct the Executive Director of Internal Audit to provide quarterly updates on the Fiscal Year 2011-12 Internal Audit Plan.

***Background***

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

***Discussion***

Internal Audit is presenting the Draft Fiscal Year 2011-12 Internal Audit Plan (Audit Plan) for Board of Directors' approval. The Audit Plan was developed using an enterprise-wide risk assessment. The Audit Plan will be implemented using Internal Audit staff, on-call consultants, an independent financial and compliance audit firm, and other firms as needed.

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

**Fiscal Impact**

The Audit Plan has been developed within the resources available in the adopted budget for fiscal year 2011-12.

***Summary***

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

***Attachment***

- A. Draft Fiscal Year 2011-12 Internal Audit Plan

**Approved by:**



Janet Sutter  
Executive Director, Internal Audit  
(714) 560-5591



**ORANGE COUNTY TRANSPORTATION AUTHORITY**  
**Internal Audit Department**



**Draft Fiscal Year 2011-12**  
**Internal Audit Plan**



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**ORANGE COUNTY TRANSPORTATION AUTHORITY**  
**Internal Audit Department**  
**Draft Fiscal Year 2011-12 Internal Audit Plan**

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**ORANGE COUNTY TRANSPORTATION AUTHORITY**  
**Internal Audit Department**  
**Draft Fiscal Year 2011-12 Internal Audit Plan**

**Mission of the Internal Audit Department**

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

**Internal Audit Department Activities**

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

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

Internal Audit measures the efficiency 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 each internal auditor and for the department. The department-wide target includes all professional staff and the Executive Director. For FY 2011-12, Internal Audit set a department-wide target productivity ratio of 72 percent. Because the Executive Director is required to regularly participate in non-audit, management activities; such as executive planning and committee meetings, this ratio appears low. Starting in FY2011-12 Internal Audit will also calculate the productivity ratio of all professional staff, excluding the Executive Director, and has set a target of 80 percent.

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

Internal Audit's efforts, however, are focused primarily on the third category of audits, performance audits, as defined by the GAO. Performance audit objectives vary widely and include assessments of program effectiveness, economy and efficiency, internal control, and compliance. To more accurately define the objectives of these performance audits, Internal



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Audit categorizes audit projects in a more descriptive manner as indicated below. It is important to note, however, that most audit projects include objectives consistent with one or more of these audit types.

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

**Price Review** – Price reviews are conducted of architectural and engineering price proposals or sole source bids to determine if proposed pricing is fair and reasonable. Price reviews are also conducted on single bid procurements to ensure that the solicitation process was adequate to stimulate competition. Certain price reviews are mandated by federal or state statute and others by OCTA procurement policy.

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

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

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

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

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

**Investigations** – Investigative activities are undertaken in response to a complaint or allegation, including those received through OCTA's Fraud Hotline.

**Fiscal Year 2010-11 Accomplishments**

- Completed 22 price reviews of architectural and engineering, sole source or single bid contracts and provided the Contracts Administration and Materials Management (CAMP) Department with price adjustment recommendations of over \$1 million.



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- Completed an additional 22 audit projects, issuing over 37 recommendations for improvements to operations or contract management. Conducted follow-up on implementation of recommendations within nine months of report issuance.
- Internal Audit achieved its department wide productivity goal of 72 percent for the fiscal year. Efficiency is measured as total hours spent on audit projects as a percentage of audit project and administrative hours (after deducting for vacation, sick, holiday and continuing professional education).
- Completed revisions to clarify and improve policies and procedures to better reflect Government Auditing Standards (Yellow Book) requirements.
- Performed Internal Audit's second annual internal Quality Assurance and Self Assessment Review.
- Managed the annual financial and compliance audits of OCTA, the Orange County Local Transportation Authority, the Orange County Council of Governments, the 91 Express Lanes, and other related entities.
- Developed a scope of work and issued request for proposals from independent accounting firms for annual financial and compliance auditing services. Evaluated proposals and presented firms to the Finance and Administration Committee and the Board for their consideration.
- Provided administration of OCTA's Fraud Hotline and reviewed 23 complaints received during the fiscal year. All complaints were reviewed and those with sufficient detail were investigated and closed. For those with insufficient detail, Internal Audit requested the reporter provide additional information and will take appropriate action, when and if, additional information is provided.
- All Internal Audit staff met continuing professional education requirements for both Yellow Book and other professional certifications (Certified Public Accountant, Certified Internal Auditor, Certified Information Systems Auditor, Certified Fraud Examiner).
- Provided assistance to the Audit Subcommittee of the Taxpayers Oversight Committee (TOC) including review of agreed-upon-procedures for testing compliance with Measure M turnback expenditures, Measure M1 and Measure M2 status reports testing, and compilation of results of questionnaires, management letters, and single audit reports of all Orange County cities for consideration of selection for Measure M turnback audit.



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**Fiscal Year 2011-12 Goals**

- Initiate investigations of all Fraud Hotline reports within 5 business days of receipt.
- Achieve a department wide productivity ratio of at least 72 percent and professional staff productivity ratio of at least 80 percent.
- Conduct price reviews of all architectural and engineering price proposals exceeding \$250,000 to establish the reasonableness of proposed prices and recommend price adjustments for potential savings. Also, provide for price review of sole source contracts exceeding \$50,000 and review of single bids to ensure a fair and competitive process.
- Improve the effectiveness of Internal Audit by continuing to assess the risk profile of the organization and update the Risk Assessment as appropriate to reflect organizational changes.
- Maintain full compliance with Yellow Book continuing professional education (CPE) requirements and those of all professional certifications (Certified Public Accountant, Certified Internal Auditor, Certified Information Systems Auditor, Certified Fraud Examiner).
- Perform Internal Audit's annual internal Quality Assurance and Self Assessment review by February 28, 2012.
- Assist the Audit Subcommittee of the TOC with the development of agreed-upon procedures for the audit of city Measure M Local Fair Share funds by March 31, 2012.
- Review audit committee charters of the Finance and Administration Committee and the Audit Subcommittee of the TOC and recommend updates based on relevant changes in professional guidance. Both charters should be completed and presented to the respective committee's by February 28, 2012.



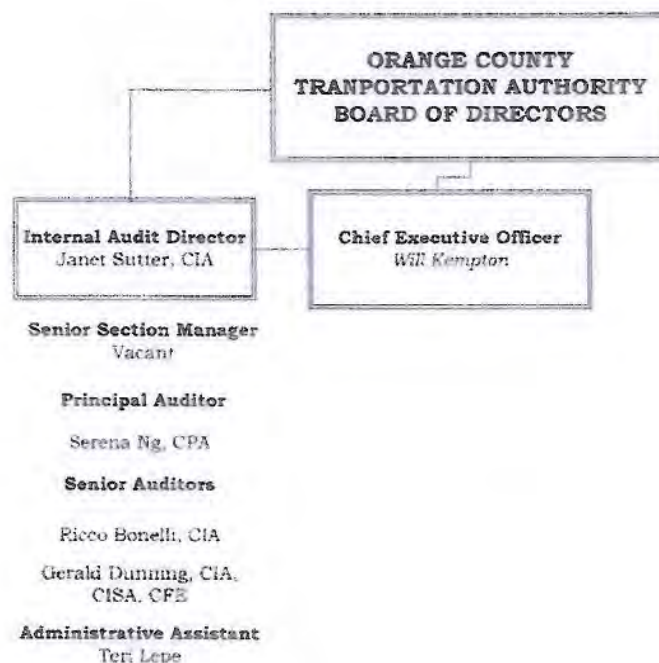
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**Internal Audit Organization**

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

Internal Audit has established mechanisms to identify and remedy personal and external impairments to independence and OCTA has established an internal audit function that is organizationally independent. Internal Audit reports functionally to the Board, and administratively to the Chief Executive Officer. Among all of the organizational alternatives for government entity internal audit departments, the GAO finds a presumption of independence where the audit organization is “elected or appointed by a legislative body, subject to removal by a legislative body, and reports the results of audits to, and is accountable to, a legislative body.”

**Internal Audit Departmental Organization Chart**





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**Risk Assessment Process**

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

The key business objective of OCTA is imbedded in its mission statement, to "*Develop and deliver transportation solutions to enhance quality of life and keep Orange County moving.*" Delivering these "*transportation solutions*" are several core business units of OCTA, including Transit, Planning, and Capital Projects Divisions. These business units are supported by administrative functions and all of these services are delivered through a variety of projects, programs, and activities. With a budget exceeding \$1 billion, OCTA delivers transportation solutions through numerous channels, with a variety of stakeholders, with the assistance of the private sector and for the benefit of diverse customers.

Recognizing both the enormity of OCTA's projects, programs, and activities, as well as the constraints of Internal Audit resources, Internal Audit sought to maximize its effectiveness by engaging in a risk assessment process to establish the priorities for the department for fiscal year 2011-12.

**Risk Assessment Methodology**

Internal Audit established the architecture of the risk assessment by first identifying all OCTA projects, programs, or contracts (Auditable Entities). Internal Audit then identified six categories of risks and assigned weightings as follows:

***Financial and Compliance Risks (20%)*** – The magnitude of financial exposure to OCTA and the degree of regulatory oversight and/or the volume of regulation with substantial fines, penalties, or other sanctions for noncompliance.

***Security and Safety Risks (15%)*** – The impact of a security breach to OCTA customers, contractors, employees, or the public and the degree of severity (catastrophic, significant, moderate, or minimal) resulting from incidents or accidents.

***Operational and Strategic Risks (15%)*** – The severity of impact of a disruption in the operation of this OCTA project or program on Orange County travelers and the significance of this project or program to the OCTA's strategic success.

***Image and Reputation Risks (15%)*** – The intensity of public interest and awareness, and the visibility of the project or program to the media.



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**Complexity of Operations (15%)** – The number of individuals, departments, contractors, information systems, and manual processes involved in the delivery of this project or program and the degree to which transactions require professional judgment or technical expertise.

**Time Since Last Audit (20%)** – The length of time since the last audit or review was conducted and the results of that review.

Internal Audit then developed the following assigned ratings for each risk:

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

Following are examples of the risk assessment results for four different Auditable Entity types:

| Auditable Entity                      | Audit History (5 years) | Audit Requirement | Time Since & Results of Last Audit |     |     |     |     |     | Complexity of Operations | Weighted Average Risk |
|---------------------------------------|-------------------------|-------------------|------------------------------------|-----|-----|-----|-----|-----|--------------------------|-----------------------|
|                                       |                         |                   | 20%                                | 20% | 15% | 15% | 15% | 15% |                          |                       |
| Purchasing Cards                      | 2009                    | No                | 2                                  | 1   | 2   | 2   | 4   | 2   |                          | 2.1                   |
| Investments                           | 2011                    | No                | 2                                  | 5   | 4   | 4   | 5   | 5   |                          | 4.1                   |
| MV Transit                            | 2011                    | No                | 3                                  | 5   | 5   | 4   | 5   | 4   |                          | 4.1                   |
| Comprehensive Annual Financial Report | 2011                    | Yes               | Not Applicable                     |     |     |     |     |     |                          | N/A                   |

Following the risk assessment of each of approximately 220 auditable entities within OCTA, Internal Audit summarized the results on the heat chart in Appendix B. The heat chart translates the numerical risk ratings of each auditable entity into a more visually appealing format. Auditable Entities that require an audit, either by regulation or at the direction of the TOC, are not risk rated and are reflected as "High" risk.



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**Internal Audit Plan Development**

The Internal Audit plan for fiscal year 2011-12 (Audit Plan) at Appendix A calls for approximately 8,600 Internal Audit hours, exclusive of vacation, sick, holiday, and continuing professional education hours. Of the 8,600 hours, approximately 2,300 relate to administrative activities, including Board and committee meetings, Internal Audit staff meetings, and other administrative tasks. The purpose of including these hours is to monitor and measure Internal Audit's productivity.

The Audit Plan includes approximately 700 hours for mandatory audit activities and another 500 hours for internal audit projects that are ongoing from year to year, such as quality assurance and self-assessment and administration of the Fraud Hotline. The Audit Plan also includes 1,000 hours for price review services. While actual requests for price reviews are unpredictable, Internal Audit anticipates there will continue to be a steady number of requests from OCTA's CAMM Department and this budget is consistent with FY2010-11 experience. The Audit Plan for FY2011-12 includes additional hours in support of the TOC to account for conduct of the bi-annual survey of all Orange County cities and related information requests, as well as time required for development of audit procedures for the M2 Local Fair Share program.

The risk assessment developed by Internal Audit is the primary, but not absolute, means by which Internal Audit prioritizes and selects audit projects. There remain other factors that are not taken into account in the risk assessment. For example, some high risk Auditable Entities are not selected because they are projects in their infancy and it would be more suitable to perform an audit after the project is better underway. Such is the case with several M2 programs. Other high-risk Auditable Entities are not selected because of Internal Audit's knowledge of ongoing activities by staff to address risks. Such is the case with the Auditable Entities related to emergency preparedness and business resumption. Still other Auditable Entities are not selected due to situational factors and overlap with other audits planned or carried over from the prior fiscal year. For example, Contract Change Controls is a high risk Auditable Entity; however, because Internal Audit has audits of State Route 57 Improvements and selected Grade Separation projects on the Audit Plan, it is anticipated that contract change controls will be assessed in relation to these projects and, therefore, Internal Audit did not select Contract Change Controls for inclusion in the FY2011-12 Audit Plan. Likewise, the Project Management Consulting contract with Hatch Mott MacDonald is a high risk Auditable Entity that will be reviewed in relation to the Grade Separation projects and, therefore, was not selected for audit in the FY2011-12 Audit Plan. Other subjective factors that may enter into the selection of audit projects include knowledge about external or regulatory auditor interest, project or program failures or successes, consideration of the impact to individual departments and/or divisions, and staffing resources.

The Audit Plan for FY2011-12 includes audits of the Worker's Compensation program, Employment and the DMV Pull Notice program. Worker's Compensation claims average between \$4.5 and \$5 million per year. This review will assess the program in terms of



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oversight controls, effectiveness, and efficiency. The Employment review will include an assessment of controls and efficiency over candidate recruitment, selection and hiring. Finally, the DMV Pull Notice Program (Program) review will assess policies and procedures for ensuring compliance with Program requirements. The Audit Plan includes hours for evaluation and coordination of a review of the newly implemented Cofiroute USA operating system. Also included is preliminary assessment and coordination of Combined Transportation Funding Program (CTFP) audits. These audits include selected projects and assess compliance with CTFP guidelines. An audit of corporate credit cards has also been planned and will determine the adequacy of controls in place to ensure proper use and processing of corporate credit cards. Under Transit Operations, an assessment and review of Rolling Stock Security will be performed.

**Conclusion**

The Audit Plan seeks to align limited audit resources with risk throughout the organization while considering prior audit effort as identified in Appendix B Risk Assessment and other factors. Internal Audit will continue to refine the risk assessment to include emerging OCTA projects, programs, and contracts. Internal Audit will also continue to assess the risk ratings and weightings included to most accurately reflect the risk profile of the organization and to allow the greatest coverage of that risk in the annual audit planning process.

**Orange County Transportation Authority**  
**Internal Audit Department**  
**FY 2011-12 Internal Audit Plan**

| Audit Activity   |  | Description  | Primary Audit Type        | Planned Staff Hours |
|--|--|--|---------------------------|---------------------|
| <b>Mandatory External Independent Audits</b>                           |  |  |                           |                     |
| Annual Financial Audit   |  | Annual financial and compliance audits for fiscal year 2011-12.  | Financial                 | 520                 |
| Annual Transportation Development Act Audits                           |  | Coordination of required annual audits of the recipients of Transportation Development Act Funds for fiscal year 2011-12.                                | Compliance                | 160                 |
| Orange County Council of Governments (OCCOG) Financial Statement Audit |  | Management of external audit of OCCOG financial statements and ad-hoc audit assistance.  | Financial                 | 20                  |
| <b>Internal Audit Projects</b>   |  |  |                           |                     |
| Risk Assessment and Annual Audit Plan                                  |  | Annual preparation of the audit plan, quarterly updates to the audit plan, periodic assessment of risk throughout the year.                              | Risk Assessment           | 180                 |
| Quality Assurance and Self-Assessment                                  |  | Update of Internal Audit Policies & Procedures. Annual self assessment of Internal Audit's compliance with Government Auditing Standards.                | Quality Assurance         | 120                 |
| Fraud Hotline  |  | Investigations of reports of fraud, waste or abuse. In February, develop and issue Request for Proposals for these services which expire in August 2011. | Fraud Hotline             | 100                 |
| Audit Leverage Software System   |  | Deploy updates/upgrades to Audit Leverage software.  | Audit Software Updates    | 40                  |
| General Auditing - On Call Services                                    |  | Issue Request for Proposals, evaluate, and select firms for on-call auditing services.   | On-Call Auditing Services | 60                  |
| <b>Internal Audits</b>   |  |  |                           |                     |
| <b>Human Resources and Organizational Development</b>                  |  |  |                           |                     |
| Worker's Compensation  |  | Review of policies, procedures, and related contracts to ensure adequate controls, effectiveness and efficiency of the worker's compensation program.    | Operational               | 260                 |
| Employment   |  | Review of controls and efficiency of candidate recruitment, selection, and hiring.   | Operational               | 240                 |
| Department of Motor Vehicles Pull Notice Program                       |  | Review of the Pull Notice Program and testing of controls in place to ensure compliance.   | Internal Control          | 180                 |



**Orange County Transportation Authority**  
**Internal Audit Department**  
**FY 2011-12 Internal Audit Plan**

| Audit Activity   |                        | Description  | Primary Audit Type | Planned Staff Hours |
|--|------------------------|--|--------------------|---------------------|
| <b>Capital Projects</b>  |                        |  |                    |                     |
| Orangethorpe Corridor Grade Separation Projects                        | Contract Retention     | Review of selected contracts for project management, design, and preliminary engineering for the Orangethorpe Corridor Railroad Grade Separations.   | Compliance         | 450                 |
|  |                        | Review of policies, procedures, and practices for contract retention and release.  | Compliance         | 175                 |
| State Route 57 Improvements  |                        | Review of selected contracts for design and preliminary engineering for State Route 57 improvements.   | Compliance         | 250                 |
| Combined Transportation Funding Program (CTFP) Project Audits          | Metrolink Cost Sharing | Preliminary risk assessment, selection of projects, and coordination with outside firm for review of selected CTFP projects for compliance with Measure M requirements.                              | Compliance         | 170                 |
|  |                        | Financial analysis of Metrolink contractual operating cost allocation.   | Financial          | 250                 |
| Metrolink Service Expansion Program                                    |                        | Review of cooperative agreement with Metrolink for infrastructure improvements related to the implementation of 30 minute service.   | Compliance         | 260                 |
| <b>Transit Operations</b>  |                        |  |                    |                     |
| Security - Rolling Stock   |                        | Review contracts, systems, and controls in place to ensure the safety and security of the rolling stock.   | Internal Control   | 175                 |
| Contracted and Paratransit Operations                                  |                        | Review to ensure contract stipulations are being complied with and to verify the propriety of payments. Two reviews will be conducted: MV Transit (fixed route service) and Veolia (ACCESS service). | Compliance         | 100                 |
| <b>Government Relations and Intergovernmental Activities</b>           |                        |  |                    |                     |
| Grant Close-outs   |                        | As needed financial and compliance audits of grants at close-out to ensure propriety of expenditures.  | Compliance         | 80                  |
| <b>Finance and Accounting</b>  |                        |  |                    |                     |
| Treasury   |                        | Bi-annual financial and compliance reviews of the treasury function, including investment and bond compliance.   | Compliance         | 300                 |
| Toll Road Operations - Revenue and Accounting Management System (RAMS) |                        | Prepare scope and coordinate review of Cofiroute's Revenue and RAMS.   | Internal Control   | 120                 |
| Corporate Credit Cards   |                        | Review and testing of internal controls in place over corporate credit cards.  | Internal Control   | 150                 |

**Orange County Transportation Authority**  
**Internal Audit Department**  
**FY 2011-12 Internal Audit Plan**

| Audit Activity   |  | Description   | Primary Audit Type | Planned Staff Hours |
|--|--|---|--------------------|---------------------|
| <b>Contracts &amp; Materials</b>                                       |  |   |                    |                     |
| Price Reviews  |  | Cost and price analyses as required by OCTA procurement policies and procedures.  | Price Review       | 1,000               |
| Maintenance Inventory Management                                       |  | Review of inventory management policies, procedures, controls, operational efficiency, and analytic tools.                                    | Operational        | 175                 |
| Fuel Controls  |  | Review of controls over dispensing of petroleum products.   | Internal Control   | 100                 |
| <b>Information Systems</b>   |  |   |                    |                     |
| Payment Card Industry (PCI) Data Securities Standards (DSS) Compliance |  | Review of OCTA's compliance with PCI DSS, including review and evaluation of annual self-assessment to ensure protection of credit card data. | Compliance         | 20                  |
| Telecommunications Equipment   |  | Review of telecommunications equipment usage and internal controls.   | Internal Control   | 80                  |
| <b>Unscheduled Reviews and Special Requests</b>                        |  |   |                    |                     |
| Unscheduled Reviews and Special Requests                               |  | Time allowed for unplanned audits and requests from the Board of Directors and management.  | Varies             | 150                 |
| <b>Monitoring Activities</b>   |  |   |                    |                     |
| Measure M Taxpayers Oversight Committee                                |  | Coordination of audit activities with the Audit Subcommittee of the Measure M Taxpayers Oversight Committee.                                  | Monitoring         | 120                 |
| Radio Upgrade  |  | Ongoing monitoring of Intelligent Transportation Management System upgrade by ACS and EigerTech.  | Monitoring         | 25                  |
| Bus Base Inspections and Inventory Testing                             |  | Participation on base inspection teams and periodic testing of base inventory records.  | Monitoring         | 40                  |
| <b>Follow-up Reviews</b>   |  |   |                    |                     |
| Follow-up Reviews and Reporting  |  | Follow-up on audit findings and recommendations.  |                    | 250                 |
| <b>Total Audit Project Planned Hours (A)</b>                           |  |   |                    | <b>6,330</b>        |

**Orange County Transportation Authority**  
**Internal Audit Department**  
**FY 2011-12 Internal Audit Plan**

| Audit Activity                                   |  | Description | Primary Audit Type | Planned Staff Hours |
|--|--|-------------|--------------------|---------------------|
| Internal Audit Administration                    |  |             |                    |                     |
| Board of Directors and Board Committee Meetings  |  |             |                    | 380                 |
| Executive Steering Committee and Agenda Meetings |  |             |                    | 160                 |
| Internal Audit Department Staff Meeting          |  |             |                    | 240                 |
| Other Administration                             |  |             |                    | 1,500               |
| Total Hours (B)                                  |  |             |                    | 8,610               |
| Target Efficiency (A/B)                          |  |             |                    | 74%                 |



Orange County Transportation Authority  
Internal Audit Department  
**Risk Assessment by Program/Project/Contract**  
Fiscal Year 2011-12

| Division<br>Functional Area<br>Project/Program<br>Contract                               | RISK<br>ASSESSMENT | 5 Year<br>Audit<br>History |
|--|--------------------|----------------------------|
| <b>Executive</b>   |                    |                            |
| Clerk of the Board   |                    |                            |
| Public Records Requests  | Low to Moderate    |                            |
| Form 700 Disclosures   | Moderate           | 2011                       |
| Public Meeting Notice  | Low to Moderate    |                            |
| Board of Director's Compensation & Ethics Compliance                                     | Moderate           | 2009                       |
| Legal Services   |                    |                            |
| Woodruff, Spradlin & Smart (Contract) (\$13.3 million)                                   | Moderate           | 2007                       |
| Internal Audit Department  |                    |                            |
| Quality Assurance (Peer) Review  | Low to Moderate    | 2010                       |
| <b>Capital Projects</b>  |                    |                            |
| Highway Projects   |                    |                            |
| Contracts > \$1.5 million  |                    |                            |
| Interstate 5 Gateway   |                    |                            |
| URS (\$12 million)   | Moderate           |                            |
| California Department of Transportation (Caltrans) Coop Agmt (\$26.3 million)            | Moderate           | 2011                       |
| Caltrop (\$18 million)   | Moderate           | 2011                       |
| Caltrans Coop Agmt (\$124 million)   | Moderate           | 2011                       |
| City of Buena Park Coop Agmt (\$2.3 million)   | Moderate           |                            |
| Interstate 405/State Route 55 to Interstate 605  |                    |                            |
| PTG - Prelim Asses/Env Doc (\$13.1 million)  | Moderate to High   |                            |
| Interstate 405/State Route 55 Inspection Support Services                                |                    |                            |
| Jacobs Civil, Inc. (\$2.3 million)   | Moderate to High   |                            |
| Caltrans Coop-Contract Admin & Mgmt (\$64 million)                                       | High               |                            |
| State Route 57 Improvements  |                    |                            |
| Caltrans Coop-Right-of-way (ROW)-Jacobs Civil (\$6.5 million)                            | Moderate           | 2012                       |
| Caltrans Coop for ROW & Support (\$2.7 million)  | Moderate           | 2012                       |
| Design-CH2MHill (Measure M2 (M2)-Project G) (\$6.3 million)                              | Moderate to High   | 2012                       |
| Design-RBF C70887 (M2-Project G) (\$6.7 million)   | Moderate to High   | 2012                       |
| Construction Management (CM)-Yorba Linda to Lambert - HDR (\$4 million)                  | Moderate to High   | 2012                       |
| CM-Orghrpe to Yorba Linda - Athalye (\$3.8 million)                                      | Moderate to High   | 2012                       |
| Project Report/Environmental Docs and Plan Specification & Estimates-HDR (\$4.4 million) | Moderate to High   | 2012                       |
| State Route 22 Projects  |                    |                            |
| Caltrans Coop for Add'l Soundwalls (\$2.3 million)                                       | Moderate           |                            |
| Coop Agmt with Orange County Flood Control District (\$1.5 million)                      | Moderate           |                            |
| State Route 91 Improvements  |                    |                            |
| Caltrans Coop-ROW-State Route 241 to State Route 71 (\$1.7 million)                      | Moderate           |                            |
| Caltrans Coop-Design- (\$3.0 million)  | Moderate           |                            |
| Caltrans Coop-ROW-West Bound Lane Addition (\$8.1 million)                               | Moderate           |                            |
| PS&E for State Route 91 West Bound Widening-RBF (\$5.2 million)                          | Moderate to High   |                            |

Orange County Transportation Authority  
Internal Audit Department  
**Risk Assessment by Program/Project/Contract**  
Fiscal Year 2011-12

|   | <b>RISK<br/>ASSESSMENT</b> | <b>5 Year<br/>Audit<br/>History</b> |
|---|----------------------------|-------------------------------------|
| <b>West County Connectors</b>   |                            |                                     |
| Design-Parsons & TRC (\$12.6 million)   | Moderate to High           |                                     |
| Coop w-Seal Beach to widen Seal Beach Boulevard (\$7.2 million)                               | Moderate                   |                                     |
| Coop w-Long Beach (\$1.5 million)   | Low to Moderate            |                                     |
| CM Services-Caltrop (\$14.3 million)  | Moderate to High           |                                     |
| CM Services-Harris & Assoc. (\$9.9 million)   | Moderate to High           |                                     |
| Improve-SB Naval WStation-Stronghold Eng. (\$2.4 million)                                     | Moderate                   |                                     |
| On Call Design Services: C&B, Miralles, STV (\$1.9 million)                                   | Moderate                   |                                     |
| Project Management Consulting-Hatch Mott MacDonald (\$12 million)                             | High                       |                                     |
| <b>Grade Separation Projects</b>  |                            |                                     |
| City of Fullerton Coop-2 Grade Seps (\$7.6 million)   | Moderate to High           | 2012                                |
| City of Irvine-Sand Cyn Grade Sep (\$10.2 million)  | Moderate to High           | 2012                                |
| City of Irvine-CMAQ for Jeffrey Grade Seps (\$1.8 million)                                    | Moderate to High           | 2012                                |
| City of Irvine-Transfer local match Jeffrey   | Moderate to High           | 2012                                |
| Construction Management for Grade Sep Projects - Parsons (\$6 million)                        | High                       | 2012                                |
| Design-Kraemer Boulevard-HNTB (\$4.5 million)   | High                       | 2012                                |
| Design-Lakeview Avenue-CH2MHill (\$3.7 million)   | High                       | 2012                                |
| Design-Ogthrepe-DMJM Harris AECOM (\$5.5 million)   | High                       | 2012                                |
| Design-Tustin Ave-Biggs Cardosa (\$4.6 million)   | High                       | 2012                                |
| Design-Placentia Ave-MTS (\$3.4 million)  | High                       | 2012                                |
| Raymond Ave Grade Separation  | Moderate to High           | 2012                                |
| State College Blvd Grade Separation   | Moderate to High           | 2012                                |
| Plan Check Services-5 Gseps-Althalye (\$2 million)  | High                       | 2012                                |
| <b>Highway Project Management</b>   |                            |                                     |
| Project Controls  | Moderate to High           |                                     |
| Contract Change Controls  | High                       |                                     |
| Contract Retention  | Moderate                   | 2012                                |
| Revenue and Revenue Sharing Contracts   | Moderate                   | 2010                                |
| Right of Way and Real Estate Administration   | Moderate to High           | 2011                                |
| <b>Measure M Local Projects</b>   |                            |                                     |
| Combined Transportation Funding Program-Competitive Programs                                  | Moderate to High           | 2012                                |
| Turnback/Local Fair Share   | High                       | Annual                              |
| <b>Measure M Go-Local Projects</b>  |                            |                                     |
| City of Anaheim Fixed Guideway Analyz & Environ. (\$5.9 million)                              | High                       |                                     |
| City of City of Anaheim Fixed Guideway Alternatives Analysis & Env. Clearance (\$5.9 million) | High                       |                                     |
| City of City of Santa Ana Fixed Guideway (\$5.9 million)                                      | High                       |                                     |
| City of City of Irvine Fixed Guideway Cooperative Agreement (\$5.2 million)                   | High                       |                                     |
| City of Irvine-Coop Agmt (\$5.2 million)  | High                       |                                     |
| <b>Measure M2 Environmental Mitigation Program</b>  | Moderate to High           |                                     |
| <b>Measure M2 Water Quality Program</b>   | Moderate to High           |                                     |
| <b>Measure M1/Prop 1B Signal Synchronization Program</b>                                      | Moderate to High           |                                     |
| <b>Measure M2 Regional Transportation Signal Synch Program</b>                                | Moderate to High           |                                     |



Orange County Transportation Authority  
Internal Audit Department  
**Risk Assessment by Program/Project/Contract**  
Fiscal Year 2011-12

|   | <b>RISK<br/>ASSESSMENT</b> | <b>5 Year<br/>Audit<br/>History</b> |
|---|----------------------------|-------------------------------------|
| <b>Facility Projects</b>                                      |                            |                                     |
| Facility Project Management                                   | Moderate                   |                                     |
| Sand Canyon CNG Fuel Facility-Clean Energy (\$3.7 million)    | Moderate                   |                                     |
| Fullerton Pkg Expansion-ROW Acquisition (\$3.2 million)       | Moderate                   |                                     |
| Fullerton Pkg Expansion Coop (\$7.3 million)                  | Moderate                   |                                     |
| City of Orange Coop-Design Parking Structures (\$1.7 million) | Moderate                   |                                     |
| Placentia Station Design-Willdan (\$2 million)                | Moderate                   |                                     |
| Const. of Pkg Structure-Tustin Metrolink (\$12.3 million)     | Moderate                   |                                     |
| <b>Rail Programs</b>  |                            |                                     |
| <b>Metrolink</b>  |                            |                                     |
| Audit Activities  | High                       | 2010                                |
| Revenue & Exp JPA Allocations (\$27.4 million)                | High                       | 2012                                |
| Coop for 30 Min Service (\$87.9 million)                      | High                       | 2012                                |
| Coop for for Grade Crossing/Quiet Zones (\$85 million)        | High                       |                                     |
| ROW Maint- Joshua Grading & Exc. (\$3.6 million)              | Moderate                   |                                     |
| Project Mgt for MSEP - Parsons (\$13.1 million)               | Moderate to High           |                                     |
| Grade Crossing Safety Enhancements                            |                            |                                     |
| Coop wCity of Orange for 12% (\$3.9 million)                  | Moderate to High           |                                     |
| Coop wCity of Santa Ana for 12% (\$2.3 million)               | Moderate to High           |                                     |
| Coop wCity of Anaheim for 12% (\$2 million)                   | Moderate to High           |                                     |
| <b>High Speed Rail</b>  |                            |                                     |
| CHSRA Coop for EIR for Anaheim to LA (\$7 million)            | Moderate to High           |                                     |
| <b>Measure M2 Project T - ARTIC</b>                           |                            |                                     |
| City of Anaheim Coop (\$3.6 million)                          | Moderate to High           |                                     |
| Env. & Design - ICF Jones & Stokes (\$2.9 million)            | Moderate to High           |                                     |
| <b>Transit Operations</b>                                     |                            |                                     |
| <b>Community Transportation Services</b>                      |                            |                                     |
| ACCESS Eligibility  | Moderate to High           |                                     |
| Veolia ACCESS Service (\$240 million)                         | High                       | 2012                                |
| MV Transit (\$33.7 million)                                   | High                       | 2012                                |
| OCARC (\$2.8 million)   | Moderate                   |                                     |
| Pacific GIS Inc. (\$1.8 million)                              | Moderate                   |                                     |
| Acacia Adult Day Services (\$2.7 million)                     | Moderate                   |                                     |
| Community Senior Services (\$3.5 million)                     | Moderate                   |                                     |
| Certification Svc's-CARE Evaluators (\$1.7 million)           | Moderate to High           | 2007                                |
| Senior Mobility Programs (TDA audits)                         | Required                   | Annual                              |
| <b>Maintenance</b>  |                            |                                     |
| <b>Base Facilities</b>  | Moderate to High           |                                     |
| <b>Vehicles</b>   | High                       | 2010                                |
| <b>Stops &amp; Zones</b>                                      |                            |                                     |
| Shelterclean (\$1.8 million)                                  | Moderate                   |                                     |

Orange County Transportation Authority  
Internal Audit Department  
**Risk Assessment by Program/Project/Contract**  
Fiscal Year 2011-12

|  | <b>RISK<br/>ASSESSMENT</b> | <b>5 Year<br/>Audit<br/>History</b> |
|--|----------------------------|-------------------------------------|
| <b>Motorist Services</b>                                 |                            |                                     |
| Freeway Service Patrol (\$1.6 to \$5.5 million)          | Moderate                   | 2007                                |
| Caltrans Coop for FSP Services (\$3 million)             | Low to Moderate            |                                     |
| Call Box Program   | Low to Moderate            |                                     |
| 511 Motorist Aid   | Moderate to High           |                                     |
| Taxicab Admin. Program                                   | Moderate to High           |                                     |
| Service Authority for Abandoned Vehicles                 | Required                   | Bi-Annual                           |
| <b>Fixed Route Operations</b>                            |                            |                                     |
| Service Planning   | Moderate                   |                                     |
| Operations Training                                      | Low to Moderate            | 2007                                |
| Company Equipment Assigned Vehicles                      | Moderate                   |                                     |
| Operations Field Supervision                             | Moderate                   |                                     |
| Fare Evasion   | Moderate                   |                                     |
| Lost and Found Operations                                | Low                        |                                     |
| <b>Central Communications</b>                            |                            |                                     |
| Radio Dispatch   | Moderate to High           |                                     |
| <b>Transit Security &amp; Emergency Preparedness</b>     |                            |                                     |
| Transit Police Services (\$5.0 million)                  | Moderate to High           | 2007                                |
| Security-Infrastructure                                  | Moderate to High           |                                     |
| Security-Documents & Critical Info.                      | Moderate to High           |                                     |
| Security-Rolling Stock                                   | Moderate to High           | 2012                                |
| Emergency Preparedness and Business Resumption           | High                       |                                     |
| <b>Vehicle Dispositions</b>                              | Moderate                   |                                     |
| <b>Measure M Transit Programs</b>                        | Moderate                   |                                     |
| National Transit Database Reporting                      | Required                   | Annual                              |
| Coop Agmt-Anaheim Transportation Network (\$6.5 million) | Moderate to High           |                                     |
| <b>Janitorial</b>  |                            |                                     |
| Janitorial Svc's-Diamond Contract Svc's (\$2.9 million)  | Low to Moderate            |                                     |
| <b>Finance and Administration</b>                        |                            |                                     |
| <b>Financial Planning &amp; Analysis</b>                 |                            |                                     |
| Budget Development & Monitoring                          | Moderate                   |                                     |
| Comprehensive Business Plan                              | Moderate                   |                                     |
| <b>Treasury &amp; Public Finance</b>                     |                            |                                     |
| <b>Investments</b>                                       | High                       | Semi-Annual                         |
| Inv Advisory & Mgmt-Western Asset Mgmt (\$3.4 million)   | Moderate to High           | 2011                                |
| Inv Advisory & Mgmt- JP Morgan (\$3.5 million)           | Moderate to High           | 2011                                |
| Inv Advisory & Mgmt-Payden & Rygel                       | Moderate to High           | 2011                                |
| Inv Advisory & Mgmt- State Street Global Advisors        | Moderate to High           | 2011                                |
| Toll Roads-Revenue Collection                            | Moderate to High           | 2011                                |
| <b>Toll Road Contracts</b>                               |                            |                                     |
| Operations & Mgmt - Cofiroute (\$38.7 million)           | High                       | 2012                                |
| Transponders - SIRIT Corp (\$2.2 million)                | Moderate                   |                                     |
| Equipment Upgrade - SIRIT Corp (\$1.7 million)           | Moderate                   |                                     |
| Bldg Lease - LBA Realty Fund (\$1.5 million)             | Moderate                   |                                     |
| Investor Relations                                       | Moderate                   |                                     |



Orange County Transportation Authority  
Internal Audit Department  
**Risk Assessment by Program/Project/Contract**  
Fiscal Year 2011-12

|   | <b>RISK<br/>ASSESSMENT</b> | <b>5 Year<br/>Audit<br/>History</b> |
|---|----------------------------|-------------------------------------|
| <b>Accounting &amp; Financial Reporting</b>                   |                            |                                     |
| General Accounting  | Moderate to High           |                                     |
| Financial Reporting   | High                       | Annual                              |
| Cost Allocation Plan  | Moderate to High           | 2011                                |
| Measure M Accounting & Reporting                              | High                       | Annual                              |
| Sales Tax Revenue   | Moderate to High           | 2010                                |
| Farebox Revenue Collection & Armored Car Svc                  |                            |                                     |
| Sectran Security Armored Car & Revenue Counting (\$3 million) | Moderate                   | 2008                                |
| Grants Management & Accounting                                | Moderate to High           | 2009                                |
| Accounts Payable  | Moderate to High           |                                     |
| Purchasing Cards  | Moderate                   | 2009                                |
| Corporate Credit Cards  | Moderate                   | 2012                                |
| Accounts Receivable   | Moderate to High           |                                     |
| Capital Assets  | Moderate to High           | 2009                                |
| General Services  |                            |                                     |
| Printing & Reprographics                                      | Low                        |                                     |
| Records Management  | Moderate                   | 2007                                |
| PM Realty - Lease   | Low to Moderate            |                                     |
| Access & ID Cards   | Low to Moderate            |                                     |
| <b>Human Resources and Organizational Development</b>         |                            |                                     |
| <b>Risk Management</b>  |                            |                                     |
| Insurance Program Administration                              | Moderate                   |                                     |
| Liability Claims Management                                   | Moderate to High           | 2007                                |
| Worker's Compensation   | Moderate to High           | 2012                                |
| <b>Employment</b>   |                            |                                     |
| Pre employment Testing & Bkgd                                 | High                       | 2012                                |
| Transfers & Terminations                                      | Low to Moderate            |                                     |
| Merit & Promotion   | Low to Moderate            |                                     |
| Restricted Duty   | Moderate                   |                                     |
| Personnel Records   | Moderate                   |                                     |
| Extra Help & Contract Staffing                                | Low                        |                                     |
| <b>Compensation, Payroll &amp; Benefits</b>                   |                            |                                     |
| Payroll   | Moderate to High           | 2009                                |
| Payroll-Overtime  | Moderate to High           | 2009                                |
| Payroll-Garnishments  | Moderate                   | 2009                                |
| Healthcare Plans  | Moderate to High           |                                     |
| Family Medical Leave Act                                      | Moderate                   |                                     |
| Flexible Benefits   | Low to Moderate            |                                     |
| Orange County Employees Retirement System                     | Moderate to High           | 2008                                |
| Health Insurance Portability & Accountability Act             | Low to Moderate            | 2007                                |
| Teamsters Pension Fund Trust                                  | Low to Moderate            |                                     |
| Employee Assistance Program                                   | Low                        |                                     |

Orange County Transportation Authority  
Internal Audit Department  
**Risk Assessment by Program/Project/Contract**  
Fiscal Year 2011-12

|   | <b>RISK<br/>ASSESSMENT</b> | <b>5 Year<br/>Audit<br/>History</b> |
|---|----------------------------|-------------------------------------|
| <b>Employee &amp; Labor Relations</b>               |                            |                                     |
| Contract and Contract Negotiations                  | Moderate to High           |                                     |
| Unemployment Claims                                 | Low to Moderate            |                                     |
| Grievances  | Low to Moderate            |                                     |
| Employee Relations Training                         | Low                        |                                     |
| Equal Employment Opportunity                        | Moderate                   |                                     |
| <b>Training &amp; Development</b>                   |                            |                                     |
| Mandated Training                                   | Moderate                   |                                     |
| Training & Development Programs                     | Low to Moderate            |                                     |
| <b>Safety &amp; Environmental Compliance</b>        |                            |                                     |
| Safety Programs                                     | Moderate to High           | 2011                                |
| Drug and Alcohol Program                            | Moderate to High           | 2009                                |
| Medical Exams                                       | Moderate to High           | 2009                                |
| Loss Control and Accident Analysis                  | Moderate to High           |                                     |
| DMV Pull Notice Program                             | Moderate to High           | 2012                                |
| Wellness Program                                    | Low to Moderate            |                                     |
| Environmental Compliance Program                    | Moderate                   | 2007                                |
| <b>Management Services</b>                          |                            |                                     |
| Strategic Plan - Monitoring                         | Moderate                   |                                     |
| <b>Contracts &amp; Materials</b>                    |                            |                                     |
| <b>Procurement</b>                                  |                            |                                     |
| Contract Modifications & Terminations               | Moderate to High           |                                     |
| Cost Estimates                                      | Moderate                   |                                     |
| Proposal Evaluations                                | Moderate                   | 2011                                |
| IFB & RFP Development                               | Moderate to High           |                                     |
| Protests  | Moderate                   |                                     |
| Small Purchases                                     | Low to Moderate            |                                     |
| Rolling Stock & Inventory Contracts                 |                            |                                     |
| So. Counties Oil - Diesel - (\$15.2 million)        | Moderate to High           | 2008                                |
| IPC USA - Unleaded fuel (\$15.1 million)            | Moderate                   |                                     |
| Bridgestone/Firestone Tire Lease (\$10.6 million)   | Moderate to High           | 2011                                |
| Buy America Compliance                              | High                       | As Needed                           |
| Maintenance Inventory Management                    | Moderate                   | 2011                                |
| Warranty Administration                             | Moderate                   | 2011                                |
| Fuel Dispensing Controls                            | Moderate to High           | 2011                                |
| DBE Program   | Moderate                   | 2007                                |
| <b>Information Systems</b>                          |                            |                                     |
| Business Continuity                                 | High                       |                                     |
| IS Security   | Moderate to High           |                                     |
| PCI Compliance                                      | High                       | 2011                                |
| IS Development                                      | Moderate                   |                                     |
| IS Change Management                                | Moderate to High           | 2011                                |
| IS Operations                                       |                            |                                     |
| Digital Intell. Systems (personnel) (\$4.2 million) | Moderate to High           |                                     |



Orange County Transportation Authority  
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**Risk Assessment by Program/Project/Contract**  
Fiscal Year 2011-12

|   | <b>RISK<br/>ASSESSMENT</b> | <b>5 Year<br/>Audit<br/>History</b> |
|---|----------------------------|-------------------------------------|
| <b>Fixed Route Radio System</b>                               |                            |                                     |
| ACS Transportation Solutions Upgrade (\$20 million)           | High                       | Monitor                             |
| Fixed Route Planning System (dispatch, scheduling, etc)       | High                       |                                     |
| Fixed Route Data Information System (farebox, pass counts)    | Moderate to High           | 2009                                |
| Procurement and inventory IS Systems (Ellips/CAMM Net)        | Moderate                   |                                     |
| Time Reporting & Payroll System (Lawson)                      | Moderate to High           |                                     |
| Customer Service Info. System (Call Center, rideshare, FSP)   | Moderate to High           |                                     |
| Safety and Security Systems (Videos, Hazmat tracking, etc)    | Moderate to High           |                                     |
| Financial Tx's and Records Systems (fund acctg, budget)       | Moderate to High           | 2012                                |
| IS Hardware   | Moderate to High           |                                     |
| Telecommunications Equipment                                  | Moderate                   |                                     |
| <b>External Affairs</b>                                       |                            |                                     |
| Bus Advertising   |                            |                                     |
| Bus Adv Revenue - Titan Outdoor LLC (\$9.8 million)           | Low to Moderate            | 2007                                |
| Marketing Programs and Contracts                              | Moderate                   |                                     |
| Media Relations/Community Relations                           | Moderate                   | 2010                                |
| Vanpool Program   | Moderate to High           |                                     |
| Enterprise Fleet Mgmt, Midway Rideshare, VPSI (\$6.8 million) | Moderate to High           | 2010                                |
| Pass Sales Programs   | Moderate to High           |                                     |
| Customer Service  | Moderate                   |                                     |
| Web Development   | Low to Moderate            |                                     |
| <b>Government Relations</b>                                   |                            |                                     |
| Federal Relations   | Moderate to High           |                                     |
| State Relations   | Moderate to High           |                                     |
| Local Outreach  | Moderate                   |                                     |

**ORANGE COUNTY LOCAL  
TRANSPORTATION AUTHORITY**

Debt Service Coverage Tests

Year Ended June 30, 2010



**ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY**

**Debt Service Coverage Tests**

**Year Ended June 30, 2010**

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Board of Directors and  
Taxpayers Oversight Committee  
Orange County Local Transportation Authority  
Orange, California

**REPORT OF INDEPENDENT AUDITOR ON SCHEDULE OF NET  
MEASURE M SALES TAX REVENUE COMPARED TO  
MAXIMUM ANNUAL DEBT SERVICE**

We have audited the accompanying Schedule of Net Measure M Sales Tax Revenue Compared to Maximum Annual Debt Service (Schedule) of the Orange County Local Transportation Authority (OCLTA) for the year ended June 30, 2010. This Schedule is the responsibility of the OCLTA's management. Our responsibility is to express an opinion on this Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the OCLTA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Schedule was prepared for the purpose of complying with, and in conformity with, the method of calculating the debt service coverage test as prescribed by Section 3.01(D) of the Indenture Agreement between the OCLTA and State Street Bank and Trust Company of California, N.A. dated August 15, 1992, as amended on December 1, 1996 to appoint BNY Western Trust Company as the successor trustee, as discussed in Note 1, and is not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Schedule referred to above presents fairly, in all material respects, the net Measure M sales tax revenue compared to the maximum annual debt service of the OCLTA for the year ended June 30, 2010 on the basis of the requirement described in Note 1.





Board of Directors and  
Taxpayers Oversight Committee  
Orange County Local Transportation Authority  
Orange, California

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This report is intended solely for the information and use of management, the Board of Directors of the Orange County Local Transportation Authority, the Taxpayers Oversight Committee, BNY Western Trust Company, and Nossaman, Guthner, Knox & Elliott and is not intended to be, and should not be, used by anyone other than these specified parties.

*Mayer Hoffman McCann P.C.*

Irvine, California  
October 27, 2010

**ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY**

**Schedule of Net Measure M Sales Tax Revenue Compared to  
Maximum Annual Debt Service**

Year Ended June 30, 2010

|  |                      |
|--|----------------------|
| Measure M sales tax revenue:   |                      |
| Measure M sales tax revenue received   | \$ 214,161,849       |
| Less: Local revenues   | <u>(31,267,630)</u>  |
| Net Measure M sales tax revenue (Note 2) (A)   | <u>182,894,219</u>   |
| <br>   |                      |
| Senior maximum annual debt service (Note 3)  | 87,421,904           |
| Multiplied by the debt factor (Note 4)   | <u>1.30</u>          |
| 130% coverage required (B)   | <u>113,648,475</u>   |
| <br>   |                      |
| Excess of net Measure M sales tax revenue over 130% coverage<br>required [(A) - (B)] | <u>\$ 69,245,744</u> |

*See accompanying notes.*



## **ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY**

### **Notes to Schedule of Net Measure M Sales Tax Revenue Compared to Maximum Annual Debt Service**

Year Ended June 30, 2010

#### **(1) Organization and Schedule Presentation**

The Orange County Local Transportation Authority (OCLTA) was formed for the purpose of managing revenues received and expenditures made for the implementation of the Orange County Traffic Improvement and Growth Management Plan. The OCLTA is a separate authority accounted for as a special revenue and debt service fund within the Orange County Transportation Authority. Funds are provided by a 0.5% county sales tax (0.5% Sales Tax) levied pursuant to Measure M, which became effective April 1, 1991, and bond proceeds secured by the Measure M Sales Tax.

The Schedule presents the debt service coverage test in accordance with Section 3.01(D) of the Indenture Agreement between OCLTA and State Street Bank and Trust Company of California, N.A. dated August 15, 1992, as amended on December 1, 1996 to appoint BNY Western Trust Company as the successor trustee, and is not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

The Schedule does not purport to, and does not, present fairly the financial position of OCLTA as of June 30, 2010, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

#### **(2) Net Measure M Sales Tax Revenue**

Net Measure M Sales Tax Revenue represents amounts as defined in the Indenture Agreement. Measure M Sales Tax Revenue Received represents amounts collected by the State of California and forwarded to OCLTA in connection with the 0.5% Sales Tax. Local Revenues represent the portion of the 0.5% Sales Tax distributed to local governments in accordance with the requirements of Measure M. Management believes that the interest earned on the investment of the 0.5% Sales Tax Revenues has no significant impact on the debt service coverage test; therefore, such amounts have been excluded.

## ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY

### Notes to Schedule of Net Measure M Sales Tax Revenue Compared to Maximum Annual Debt Service

(Continued)

(3) **Maximum Annual Debt Service**

Maximum Annual Debt Service represents the largest combined annual debt service amount for the First Senior Bonds, Series 1992, 1998 (Refunding), and 2001A (Refunding) and Second Senior Bonds, Series 1992, 1994, 1997A (Refunding), 1998A and 2001A (Refunding) as listed in the Schedule of Debt Service for Outstanding Bonds contained on page 8 of the Official Statement dated October 15, 2001 for OCLTA Measure M Sales Tax Revenue Bonds (Limited Tax Bonds), First Senior Bonds, Series 2001A and Measure M Sales Tax Revenue Refunding Bonds (Limited Tax Bonds), Second Senior Bonds, Series 2001A.

(4) **Debt Factor**

The debt factor is defined in Section 3.01 (D) of the Indenture Agreement as 130% of maximum annual debt service for all sales tax revenue indebtedness outstanding.



applicable laws, notwithstanding any notice to the contrary received by the Trustee or the Authority; and the Authority and the Trustee shall have no responsibility for transmitting payments to, communicating with, notifying or otherwise dealing with any Beneficial Owners of the Bonds. Neither the Authority nor the Trustee will have any responsibility or obligations, legal or otherwise, to the Beneficial Owners or to any other party including the Depository or its successor (or substitute depository or its successor), except for the Holder of any Bond.

(e) So long as the Outstanding Bonds are registered in the name of Cede & Co. or its registered assign, the Authority and the Trustee shall cooperate with Cede & Co., as sole registered Bondholder, and its registered assigns in effecting payment of the principal of, redemption premium, if any, purchase price and interest on the Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due.

### ARTICLE III.

#### ISSUANCE OF THE BONDS

SECTION 3.01. Issuance of Bonds. Whenever the Authority shall determine to issue a Series of Bonds hereunder, the Authority (i) shall authorize the execution of a Supplemental Indenture specifying the principal amount, and prescribing the forms of Bonds of such Series and providing the terms, conditions, distinctive designation, denominations, date, maturity date or dates, interest rate or rates (or the manner of determining the same), redemption provisions, tender provisions, if any, and place or places of payment of principal or Redemption Price, if any, of and interest on such Bonds, and any other provisions respecting the Bonds of such Series not inconsistent with the terms of this Indenture, (ii) shall execute such Supplemental Indenture and (iii) shall deliver such Supplemental Indenture to the Trustee for execution.

SECTION 3.02. Issuance of Additional Bonds. Subsequent to the issuance of the 2010 Bonds, the Authority may by Supplemental Indenture establish one or more additional Series of Bonds ("Additional Bonds"), payable from Sales Tax Revenues and secured by the pledge made under this Indenture, and the Authority may issue, and the Trustee may authenticate and deliver to the purchasers thereof, Bonds of any Series so established, in such principal amount as shall be determined by the Authority, but only upon compliance by the Authority with the provisions of this Section 3.02, Section 3.03 and any additional requirements set forth in said Supplemental Indenture and subject to the specific conditions set forth below, each of which is hereby made a condition precedent to the issuance of any such additional Series of Bonds.

(A) No Event of Default shall have occurred and then be continuing.

(B) Subject to the provisions of Section 5.05, in the event a Supplemental Indenture providing for the issuance of such Series shall require either (i) the establishment of a Reserve Fund to provide additional security for such additional Series of Bonds or (ii) that the balance on deposit in an existing Reserve Fund be increased, forthwith upon the receipt of the proceeds of the sale of such Series, to an amount at least equal to the Reserve Requirement with respect to such additional Series of Bonds and all other Bonds secured by such Reserve Fund to be considered Outstanding upon the issuance of such additional Series of Bonds, the Supplemental Indenture providing for the issuance of such additional Series of Bonds shall

require deposit of the amount necessary. Said deposit shall be made as provided in the Supplemental Indenture providing for the issuance of such additional Series of Bonds and may be made from the proceeds of the sale of such additional Series of Bonds or from other funds of the Authority or from both such sources or may be made in the form of a Reserve Facility.

(C) The aggregate principal amount of Bonds issued hereunder shall not exceed any limitation imposed by law or by any Supplemental Indenture.

(D) The Authority shall place on file with the Trustee a Certificate of the Authority certifying that the amount of Sales Tax Revenues or Pro Forma Sales Tax Revenues, as the case may be, collected during 12 consecutive months during the 18 months period preceding the date on which such additional Series of Bonds will become Outstanding shall have been at least equal to 1.3 times Maximum Annual Debt Service on all additional Series of Bonds and Parity Obligations then Outstanding and the additional Series of Bonds then proposed to be issued, which Certificate shall also set forth the computations upon which such Certificate is based.

(E) Principal payments of each additional Series of Bonds shall be due on February 15 or August 15 in each year in which principal is to be paid if and to the extent deemed practical in the reasonable judgment of the Authority with regard to the type of Bond to be issued, and, if the interest on such additional Series of Bonds is to be paid semiannually, such interest payments shall be due on February 15 and August 15 in each year to the extent deemed practical in the reasonable judgment of the Authority with regard to the type of Bond to be issued.

Nothing in this Indenture contained shall prevent or be construed to prevent the Supplemental Indenture providing for the issuance of an additional Series of Bonds from pledging or otherwise providing, in addition to the security given or intended to be given by this Indenture, additional security for the benefit of such additional Series of Bonds or any portion thereof.

In the event additional assets or revenues are included within the definition of "Revenues" by a Supplemental Indenture, such additional assets or revenues shall be included in the calculations to be provided in subsection (D) above as if such additional assets or revenues had always been included in "Revenues."

SECTION 3.03. Proceedings for Issuance of Additional Bonds. Subsequent to the issuance of the 2010 Bonds prior to the issuance and delivery of any additional Series of Bonds, the Authority shall file each of the documents identified below with the Trustee (upon which documents the Trustee may conclusively rely in determining whether the conditions precedent to the issuance of such Series of Bonds have been satisfied).

(A) A Supplemental Indenture authorizing such Series executed by the Authority.

(B) A Certificate of the Authority certifying: (i) that no Event of Default has occurred and is then continuing; and (ii) that the requirements specified in Section 3.02(B) and Section 3.02(C) hereof have been satisfied by the Authority.



M I  
Indenture

be issued hereunder or for the purpose of determining any percentage of Bonds Outstanding hereunder, but both the original and replacement Bond shall be treated as one and the same.

ARTICLE III  
ISSUANCE OF BONDS

SECTION 3.01. Issuance of Bonds. The Authority may by Supplemental Indenture establish one and only one Series of First Senior Bonds, payable from Revenues and secured by the pledge made under this Indenture prior to any other Bonds and Parity Debt issued by the Authority. The Authority may by Supplemental Indenture establish one or more Series of Second Senior Bonds, payable from Revenues and secured by the pledge made under this Indenture equally and ratably with Second Senior Bonds previously issued and subordinate to First Senior Bonds issued by the Authority. The Authority may issue, whereupon the Trustee shall authenticate and deliver to the purchasers thereof, First Senior Bonds and Second Senior Bonds of any Series so established, in such principal amount as shall be determined by the Authority, but only, with respect to each additional Series of Second Senior Bonds issued after the first Series of such Bonds issued hereunder, upon compliance by the Authority with the provisions of Section 3.02 and any additional requirements set forth in said Supplemental Indenture and subject to the following specific conditions, which are hereby made conditions precedent to the issuance of any such additional Series of Second Senior Bonds:

(A) No Event of Default shall have occurred and then be continuing, as evidenced by a Certificate of the Authority filed with the Trustee.

(B) Subject to the provisions of Section 5.05, the Supplemental Indenture providing for the issuance of such Series shall require that the balance in the Bond Reserve Fund, forthwith upon the receipt of the proceeds of the sale of Second Senior Bonds of such Series, be increased, if necessary, to an amount at least equal to the Bond Reserve Requirement with respect to all Series of such Bonds to be considered Outstanding upon the issuance of Bonds of such Series. Said deposit may be made from the proceeds of the sale of Bonds of such Series or from other funds of the Authority or from both such sources or in the form of a letter of credit or surety bond or insurance policy as described in Section 5.05, as provided in such Supplemental Indenture.






MEMORANDUM

October 6, 2011

To: Audit Subcommittee of the Taxpayer's Oversight Committee

From: Janet Sutter, Executive Director  
Internal Audit Department 

Subject: **Follow Up: Fiscal Year Ended June 30, 2010 Measure M Agreed-Upon Procedures – Cities of Westminster and San Juan Capistrano**

At the April 26, 2011 meeting of the Audit Subcommittee (Subcommittee) of the Taxpayer's Oversight Committee, the Subcommittee requested that the Internal Audit Department (Internal Audit) perform follow-up procedures to determine the status of recommendations contained in the Measure M (MM) Agreed-Upon Procedures (AUP) for the cities of Westminster and San Juan Capistrano as of and for the fiscal year (FY) ended June 30, 2010. The AUP's were performed by Mayer Hoffman McCann, P.C. (MHM), an independent accounting firm.

Internal Audit has reviewed the corrective actions of the cities and has determined that both recommendations made to the City of Westminster (Westminster) have been adequately addressed, and one recommendation made to the City of San Juan Capistrano (SJC) is no longer applicable and a second recommendation has not yet been implemented.

Below is a summary of the results of the follow-up.

**City of Westminster**

Review of Indirect Cost Allocation – MHM disallowed \$44,955 in general administrative fees because the methodology used to assess the fees was deemed unreasonable. Specifically, Westminster allocated the fees based on a percentage of revenue and, since revenue is not considered a cost driver, the amount was disallowed. MHM recommended that Westminster reimburse its MM Turnback Fund (Turnback Fund) and update its cost allocation basis.

Internal Audit reviewed Westminster's MM Expenditure Detail Report noting that \$44,955 was reimbursed as agreed. Internal Audit also noted that, while general fund administrative fees were charged during FY 2010-11,



Westminster had also reimbursed those fees and discontinued the practice as of March 2011.

Interest Allocation – MHM noted that Westminster had allocated \$23,859.45 in interest expense to the MM Turnback Fund. The expense resulted from the presence of a negative cash balance in the Turnback Fund for the majority of the year. Westminster agreed to reimburse the amount.

Internal Audit reviewed Westminster's MM Revenue Detail Report noting that \$23,859.45 was reimbursed as agreed. For FY2010-11, the Turnback Fund earned \$12,465.77 in interest.

#### **City of San Juan Capistrano (SJC)**

Unspent Measure M Turnback Funds – MHM found that SJC had not spent its Turnback Funds within three years of receipt, as required by the Ordinance. MHM recommended that SJC request an extension of the three-year limitation from the Orange County Local Transportation Authority (OCLTA) and develop and implement a plan to spend the excess Turnback Funds. SJC agreed to submit a request for extension.

Follow up procedures noted that SJC did not request an extension from OCLTA; however, the excess Turnback Funds were spent during FY 2010-11. Based on follow-up procedures performed, SJC appears to be in compliance with the requirement to spend Turnback Funds within three years of receipt, as of June 30, 2011.

Interest Allocation – MHM found that SJC was not adequately allocating interest to unspent Turnback Funds. SJC comingled Turnback Funds with various other grant funds and, while interest is allocated to the fund, the interest earned specific to unspent Turnback Funds was not being tracked and accounted for. MHM recommended that SJC account for interest earned on unspent Turnback Funds. SJC indicated that Turnback Funds would be segregated to ensure proper allocation, and tracking, of interest earned.

Follow up noted that SJC has not addressed this issue.

Internal Audit will continue to perform follow-up with SJC on this recommendation and will report the results to the Subcommittee until the recommendation has been successfully implemented.

If you have any questions, please feel free to call me at (714) 560-5591.