



**June 11, 2014**

**To:** Finance and Administration Committee

**From:** Darrell Johnson, Chief Executive Officer

Janet Sutter, Executive Director  
Internal Audit Department

**Subject:** Review of the Orange County Transportation Authority Store

### **Overview**

The Internal Audit Department has completed a review of the Orange County Transportation Authority Store. The primary purpose of the review was to evaluate the adequacy of controls related to store operations. Based on the review, controls are in need of improvement; recommendations were made to improve system controls, physical access controls, and cash and inventory controls.

### **Recommendation**

Direct staff to implement three recommendations offered in the Review of the Orange County Transportation Authority Store, Internal Audit Report No. 14-511.

### **Background**

The Orange County Transportation Authority Store (Store) opened in 2004, as part of an initiative to provide better service to customers. The Store operates with two, full-time representatives from the Customer Engagement Section (Section) of the External Affairs Division. A Customer Relations Specialist and Section Manager provide supervision and oversight.

To meet operational needs, the Store is equipped with two workstations, two primary cash funds, and one back-up cash fund. The Store accepts payment by cash, check, or credit card for the purchase of bus passes, ACCESS coupons, 91 Express Lanes transponders, reduced fare identification cards, and employee discount entertainment tickets. In calendar year 2013, a total of 138,350 bus pass sales transactions totaling \$1.9 million were processed by the Store.

***Discussion***

Transactions are processed through the Great Plains (GP) system and are later posted in batch to the accounting system. The GP system access levels are not defined, and Information Systems staff could not readily determine the posting abilities of the various user levels. An excessive number of employees are assigned posting abilities, the assignments do not provide for adequate segregation of duties, and employees that terminate or transfer are not deleted from the system in a timely manner. Prior to the review, management had begun procurement of a new point-of-sale system. Internal Audit recommended management ensure that the new system is designed to provide for appropriate segregation of duties, access is limited, and assignments are documented and periodically reviewed. Management agreed and indicated that the new system will be implemented by the end of the calendar year.

The Store is equipped with combination safes and keyed workstations used to store cash and inventory items. Management did not maintain a listing of key, combination, or alarm code assignments, and had not changed locks or combinations upon the termination or transfer of employees with access. In addition, keys to areas used to store cash and/or inventory items were not always individually assigned or properly secured. Internal Audit recommended that management change the alarm code, locks and combinations, and develop records to track assignments; also, procedures should ensure that assigned and unassigned keys/combinations are adequately secured. Management agreed and has changed the alarm code and all locks and combinations to cash and inventory storage areas. Documentation has been developed to track assignments and keys/combinations are adequately secured.

Periodic, independent verifications of cash and inventory items are not performed. Internal Audit recommended that management implement procedures for verification of cash and inventory on hand. Management agreed and indicated that inventory counts will be performed quarterly and cash counts will be performed, on a surprise basis, at least monthly.

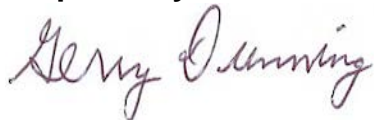
***Summary***

Based on the review, Internal Audit has determined that system controls, physical access controls, and cash and inventory controls should be strengthened.

**Attachment**

- A. Review of the Orange County Transportation Authority Store, Internal Audit Report No. 14-511

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**Approved by:**



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# Orange County Transportation Authority Internal Audit Department



## Review of the Orange County Transportation Authority Store

**Internal Audit Report No. 14-511**

May 29, 2014



**Internal Audit Team:** Janet Sutter, CIA, Executive Director  
Gerry Dunning, CIA, CISA, CFE, Senior Internal Auditor

**ORANGE COUNTY TRANSPORTATION AUTHORITY  
INTERNAL AUDIT DEPARTMENT**

**Review of the Orange County Transportation Authority Store  
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**CONCLUSION**

The Internal Audit Department (Internal Audit) has completed a review of the Orange County Transportation Authority (OCTA) Store (Store). The primary purpose of the review was to evaluate the adequacy of internal controls over store operations. Based on the review, Internal Audit has determined that controls are in need of improvement; recommendations were made to improve system controls, physical access controls, and cash and inventory controls.

**BACKGROUND**

The Store opened in 2004 as part of an initiative to provide better service to customers. The Store operates with two, full-time representatives from the Customer Engagement Section (Section) of the External Affairs Division. A Customer Relations Specialist and Section Manager provide supervision and oversight. Store hours are 8:30 a.m. to 5:30 p.m. Monday through Friday.

To meet operational needs, the Store is equipped with two workstations, two primary cash funds, and one back-up cash fund. The Store accepts payment by cash, check, or credit card for the purchase of bus passes, ACCESS coupons, 91 Express Lanes transponders, reduced fare identification cards, and employee discount entertainment tickets. In the calendar year 2013, a total of 138,350 bus pass sales transactions totaling \$1.9 million were processed by the Store. Transactions are recorded in the Great Plains (GP) system and are later posted, in batch, to the Integrated Financial and Accounting System (IFAS). Accounting staff is responsible for the reconciliation of transactions between GP and IFAS.

**OBJECTIVES, SCOPE, AND METHODOLOGY**

The objective of this review was to evaluate the adequacy of internal controls over Store operations. The scope of the review included activities during the two year period ended December 31, 2013. The scope of this review did not include evaluation of compliance with Payment Card Industry Data Security Standards, which is included as a separate audit. The review methodology included, but was not limited to, review of policies and procedures, review of system access records, observation of physical access controls, review of key, combination, and alarm code assignment records, review of cash, inventory, and balancing records, and interviews with applicable staff.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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**Audit Comments, Recommendations, and Management Responses**

**System Controls**

Information Systems staff does not maintain detailed descriptions of the access levels available in the GP system and cannot readily determine posting abilities of the different user access levels.

In addition, an excessive number of employees are assigned posting abilities, assignments do not provide for adequate segregation of duties, and employees that terminate or transfer are not deleted from the system in a timely manner.

Prior to the review, management had purchased a new point of sale system that should be implemented this year.

**Recommendation 1:**

We recommend management ensure that the new system is designed to provide appropriate segregation of duties and that access is limited as appropriate. Detailed records of the access levels should be maintained and periodically reviewed for appropriateness. Procedures should be developed to address system access assignments and related controls to prevent and/or detect suspicious transactions.

**Management Response (External Affairs/Finance and Administration Divisions):**

Staff concurs with the recommendation. The replacement point of sale system is expected to be fully implemented by the end of the calendar year. The new system will resolve access controls by providing multiple layers of administration functions allowing management the ability to turn on, or turn off posting abilities to match the levels of access required by staff. Procedures will be developed to outline access assignments and secondary reviews and approval, where appropriate. Records of access levels will be maintained and periodically reviewed by management for appropriateness.

**Physical Access Controls**

Management does not maintain a listing of key, combination or alarm code assignments. Safe combinations and the Store alarm code have not been changed since 2011 and there is no record of the last time locks to areas used to store cash and inventory were changed. The OCTA Safe and Vault Security Guidelines, recommends that combinations and/or keys to safes and vaults be changed within 30 days of the termination of an employee that had access to open the safe. Numerous employees have been assigned access and transferred or terminated in the last few years.

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In addition, keys to areas used to store cash and/or inventory are not always individually assigned or properly secured. Internal Audit observed that keys to one cash drawer were left unattended while the Store representative was at lunch.

**Recommendation 2:**

Management should change the alarm code and locks/combinations to areas used to store cash and inventory and maintain records of the employee assignments. Authorized employees should be individually assigned keys and combinations to their cash and inventory and should maintain personal possession of the keys and combinations. Spare keys, and keys to the backup cash drawer should be maintained under (dual) control of two employees and temporary assignments should be recorded. Staff should be advised of their responsibility to maintain individual control over their assigned keys.

**Management Response (External Affairs Division):**

Staff concurs with recommendation. The alarm code and all locks and combinations to cash and inventory storage areas have been changed and appropriate access assignments made. Spare keys are now held in an area requiring dual access and records of all key, combination and alarm assignments have been prepared and will be maintained. In the future, alarm, key and combination changes will be made upon employee termination and in accordance with procedures. Finally, employees have been reminded of the importance of maintaining sensitive keys under their possession.

**Cash and Inventory Controls**

Periodic, independent verifications of cash and inventory items are not performed.

Procedures require monthly inventories of the OCTA logo merchandise and the employee discount ticket inventory; however these counts have not been performed. Also, there are no requirements for periodic, independent counts of cash drawers or bus pass inventory.

**Recommendation 3:**

Procedures should be updated to include surprise counts of cash and inventory items to verify the accuracy of balancing records and the perpetual inventory system.

**Management Response (External Affairs Division):**

Staff concurs with the recommendation. Procedures for inventory controls have been updated to require quarterly inventory counts. Procedures have also been developed to include implementation of cash counts occurring on a random (surprise) basis no less than once monthly.