



**July 10, 2013**

**To:** Finance and Administration Committee

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

**Subject:** Fiscal Year 2012-13 Internal Audit Plan, Fourth Quarter Update

**Overview**

The Orange County Transportation Authority Board of Directors adopted the Orange County Transportation Authority Internal Audit Department Fiscal Year 2012-13 Internal Audit Plan on July 23, 2012. This update is for the fourth quarter of the fiscal year.

**Recommendation**

Receive and file the fourth quarter update to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2012-13 Internal Audit Plan.

**Background**

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

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

***Discussion***

The OCTA Internal Audit Fiscal Year 2012-13 Internal Audit Plan (Plan) (Attachment A) reflects the status of each project. As indicated, numerous projects were completed or are underway.

For the Plan year, Internal Audit completed 34 projects; including 15 pre-award price reviews (price reviews) and three pre-award Buy America reviews. At fiscal year end, three audit projects are in-process and two have not yet been initiated. An audit of overtime will be carried over to the fiscal year 2013-14 audit plan and an audit of project controls will be cancelled, as these operations were included for review during the Measure M2 organizational and readiness assessment that will be issued this summer.

During the fourth quarter, Internal Audit completed a review of the agreement between OCTA and ShelterCLEAN, Inc. for maintenance of approximately 6,500 bus stops. This was an unscheduled audit project that was requested by OCTA management. The review found invoice review controls are generally adequate; however, recommendations were made to improve controls over unscheduled work orders, to enhance inventory security, and to document procedures.

An investments review of compliance, controls, and reporting for the period July 1 through December 31, 2012, was also completed and found that OCTA complied with its debt, investment, and reporting policies and procedures for the period reviewed. Another audit of investment management contracts for the bond proceeds portfolio was issued and included two recommendations to improve the accuracy of reporting and to ensure the Board is appropriately informed of the indefinite terms when asked to approve these contracts.

Also, a review of cooperative agreements with adult day healthcare agencies for paratransit services was completed. The review found that controls to ensure subsidized trips are qualified are generally adequate; however, two recommendations were offered to ensure per-trip cost data is reviewed and subsidies are in compliance with cooperative agreements, and to develop written procedures for oversight and invoice review.

An Environmental Mitigation Program review was conducted by consultant Sjoberg Evanshenk Consulting, Inc. The review found the program to be well-run, consistent, deliberative, and compliant with relevant laws, rules, ordinances, policies, and procedures. Similarly, Internal Audit completed a review of the Orange County Taxicab Administration Program (OCTAP) and concluded that operations are consistent with requirements set forth in California Government Code and OCTAP regulations, and policies,

procedures, and controls over the permitting process, cash receipts, and inventory, are adequate.

A limited scope review of oversight controls and contract compliance related to the Orangethorpe Railroad Corridor Grade Separation Projects concluded that controls to monitor and report the status of these projects are adequate and construction management procedures are generally adequate. However, Internal Audit made five recommendations to develop a comprehensive invoice review procedure, improve and clarify contract amendment procedures and requirements, enhance monitoring of construction quantity-sheets, as well as seek reimbursement of \$907 for two duplicate payments identified during testing.

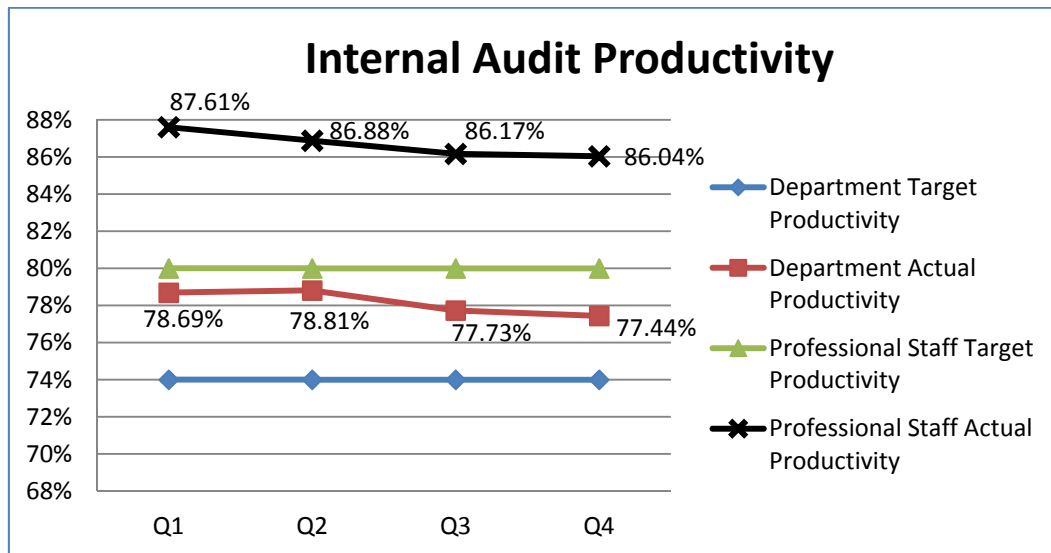
Finally, a review of information systems hardware was issued. This review assessed the adequacy of controls, policies, and procedures over acquisition, inventory, and disposition of non-capital asset information systems hardware. Based on the review, controls in place are generally adequate; however, recommendations were made to improve security over stored computer equipment and to periodically verify inventory.

Internal Audit also engaged independent consultant, CH2M Hill to conduct state triennial performance audits of OCTA as the regional transportation planning entity, the Orange County Transit District, and the Laguna Beach Municipal Transit Lines as transit operators for the fiscal years 2009-10 through 2011-12. The audits found all three entities in compliance with applicable sections of the California Public Utilities Code.

#### Internal Audit Department Productivity

Internal Audit measures the productivity of the department by calculating a productivity ratio. The ratio, used broadly throughout the audit industry, measures the amount of time auditors spend on audit projects versus time spent on administrative duties. Productivity goals are established for both the professional staff and for the department as a whole. Because the executive director regularly participates in non-audit management activities such as planning and committee meetings, the department-wide target is set at 74 percent. The target for internal audit professional staff, not including the executive director, is set at 80 percent.

For the fourth quarter ended June 30, 2013, Internal Audit achieved productivity of 77 percent, and the professional staff achieved productivity of 86 percent.



Price Reviews

At the request of the Contracts Administration and Materials Management Department (CAMM), and consistent with OCTA procurement policy, Internal Audit applies agreed-upon procedures to single bid procurements to determine whether CAMM complied with procedures to ensure a fair and competitive process. Internal Audit also applies agreed-upon procedures to prices proposed by architectural and engineering firms and sole source contractors to determine whether prices are fair and reasonable. Internal Audit makes recommendations to adjust proposed rates where they exceed the rates per review. When the value of recommended adjustments can be estimated, Internal Audit tracks and reports the potential savings, as noted below. During the quarter ended June 30, 2013, Internal Audit completed 15 price reviews and issued recommendations for rate adjustments valued at \$209,429.

Quarter	Price Reviews: Recommended Adjustments
1Q	\$ 0
2Q	\$291,586
3Q	\$2,994,028
4Q	\$209,429
Total	\$3,495,043

Fraud Hotline

During the quarter ended June 30, 2012, Internal Audit received and reviewed five complaints through OCTA's Fraud Hotline, [www.ethicspoint.com](http://www.ethicspoint.com).

Internal Audit is committed to responding to all hotline complaints within eight business days. During the fiscal year, Internal Audit has received a total of 11 complaints and has made initial contact within two business days. Internal Audit informs the complainant of the status of the investigation and when a final disposition will be posted. Once the investigation and follow-up is completed, Internal Audit posts a response with final disposition.

Findings and Recommendations Tracking

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

Audit recommendations related to the review of Metrolink audit activities have been outstanding since February 2010. Metrolink management has indicated these recommendations will be addressed by the audit director, whose appointment is pending.

Internal Audit also performed follow-up of outstanding audit recommendations related to the Review of Real Estate and Right-of-Way Administration, Internal Audit Report No. 09-015 issued in February 2011. One recommendation related to follow-up with tenants for evidence of insurance remains open. Staff is in the process of mailing letters requesting proof of insurance to all tenants.

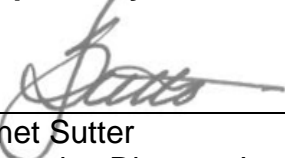
***Summary***

The Orange County Transportation Authority Fiscal Year 2012-13 Internal Audit Plan is being closed-out. Projects in process will be carried forward to the Orange County Transportation Authority Fiscal Year 2013-14 Internal Audit Plan with the exception of one audit of project controls which will be cancelled.

***Attachments***

- A. Orange County Transportation Authority Internal Audit Department FY 2012-13 Internal Audit Plan Fourth Quarter Update
- B. Unresolved Audit Findings and Recommendations (Audit Reports Issued Through June 30, 2013)

**Prepared by:**



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**Orange County Transportation Authority  
Internal Audit Department  
FY 2012-13 Internal Audit Plan  
Fourth Quarter Update**

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours to Date	Under (Over)	Status (Date to F&A)	External Auditor
<b>Mandatory External Independent Audits</b>								
Annual Financial and Compliance Audits	FY13-001, FY13-006, FY13-007, FY13-008	Coordination and oversight of annual financial and compliance audits for fiscal year ended June 30, 2012, including financial statement audits of the Orange County Transportation Authority (OCTA), the Orange County Local Transportation Authority, the Orange County Council of Governments, and the 91 Express Lanes, and various agreed-upon procedures reviews.	Financial	450	375	76	FY12 Complete (2-13-13)	Vavrinek, Trine, Day & Co.
Annual Transportation Development Act (TDA) Audits	FY13-002	Coordination of required annual audits of the recipients of TDA funds for the fiscal year ended June 30, 2012.	Compliance	40	45	(5)	FY12 Complete (1-28-13)	Vavrinek, Trine, Day & Co.
Service Authority for Abandoned Vehicles	FY13-005	Coordination of the biennial financial and compliance audit of the Orange County Service Authority for Abandoned Vehicles and each of its member jurisdictions.	Compliance	40	82	(42)	Complete (2-13-13)	Vavrinek, Trine, Day & Co.
Triennial Review - Federal	FY13-003	Coordination of Federal Transportation Authority triennial review for fiscal years ended 2010, 2011, and 2012.	Compliance	80	-	80		
Triennial Performance Audit - State	FY13-004	Finalize procurement of external audit firm and coordinate the State triennial performance audit for fiscal years ended 2010, 2011, and 2012.	Compliance	150	222	(72)	Complete (5-22-13)	CH2MHill
<b>Internal Audit Projects</b>								
Risk Assessment and Annual Audit Plan	FY13-100	Annual preparation of the audit plan and quarterly updates to the audit plan; periodic assessment of risk throughout the year.	Risk Assessment	180	133	48	Ongoing	
Quality Assurance and Self-Assessment	FY13-101	Updates to Internal Audit Policies & Procedures. Annual self-assessment of Internal Audit's compliance with Government Auditing Standards.	Quality Assurance	150	144	6	Ongoing	
Fraud Hotline	FY13-102	Investigations of reports of fraud, waste, or abuse.	Fraud Hotline	200	160	41	Ongoing	11 complaints received
Audit Leverage Software System	FY13-103	Deploy updates/upgrades to Audit Leverage software.	Audit Software Updates	24	-	24	Ongoing	
Peer Review Participation	FY13-104	Participation as review committee members for reciprocal credit through the Association of Local Government Auditors. Facilitation and participation in the Internal Audit Department Peer Review for calendar years 2010 through 2012.	Peer Review	88	190	(102)	Complete (3-11-13)	

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<b>Internal Audits</b>								
<b>Human Resources and Organizational Development</b>								
Employment and Compensation Review	FY12-510	Review of policies, procedures, and controls over recruitment, hiring, and compensation administration.	Operational	240	453	(213)	Complete (10-24-12)	
Flexible Benefits Program Administration	FY13-525	Review policies, procedures, and controls in place over the employee program.	Internal Control	180	174	6	In Process	
Grievance Process	FY13-513	Review to determine whether procedures are adequate to ensure compliance with union agreements and OCTA policies for disposition of employee grievances.	Compliance	160	205	(45)	Complete (11-14-12)	
<b>Capital Programs</b>								
Orangethorpe Corridor Grade Separation Projects	FY11-501	Review of administration and management of selected contracts for project management, design, preliminary engineering, and construction for the Orangethorpe Corridor railroad grade separations.	Internal Control	300	393	(93)	Complete (6-26-13)	
Combined Transportation Funding Program (CTFP) Project Audits	FY12-508	Preliminary risk assessment, selection of projects, and coordination with outside firm for review of selected CTFP projects for compliance with Measure M requirements.	Compliance	24	48	(24)	Complete (8-8-12)	
Metrolink Service Expansion Program	FY11-510	Review of cooperative agreement with Metrolink for infrastructure improvements related to the implementation of 30 minute service.	Compliance	260	359	(99)	In process	
Tustin Parking Expansion	FY13-527	Review of project administration and management of selected contracts for project management, design, engineering, and construction of the Tustin Parking Expansion project.	Compliance	240	16	224	In process	
Project Controls	FY13-5XX	Assess the adequacy and effectiveness of internal controls over payment processing and project oversight exercised by the Project Controls section of Capital Projects.	Compliance	160	-	160		
<b>Planning</b>								
Environmental Mitigation Program Review	FY13-520	Review of the Measure M2 Environmental Mitigation Program, including controls and process for acquisition of properties.	Compliance	60	79	(19)	Complete (3-25-13)	
<b>Transit Operations</b>								
Orange County Taxicab Administration Program (OCTAP)	FY13-516	Review of the operations and related internal controls of the OCTAP.	Internal Control	180	238	(58)	Complete (3-25-13)	
Schedule Checkers (Southland Car Counters)	FY13-512	Review of the contract with Southland Car Counters for compliance with contract provisions.	Compliance	180	193	(13)	Complete (9-26-12)	



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ACCESS Service - Growth Management Program	FY13-514	Review of the operations and related internal controls of the ACCESS Service Growth Management Program administration and assess level of compliance by participants.	Operational	180	193	(13)	Complete (4-24-13)	
<b>Finance and Accounting</b>								
Treasury	FY13-515	Bi-annual financial and compliance reviews of the treasury function, including investments and bond compliance.	Compliance	200	236	(36)	2 Complete (12-13-12, 4-24-13)	
Grant Closeouts	FY13-511	As-needed financial and compliance audits of grants at close-out to ensure propriety of expenditures.	Compliance	40	45	(5)	Complete (9-24-12)	
Payroll - Overtime	FY13-5XX	Review controls in place to monitor and reduce overtime costs. Assess reasonableness of overtime costs incurred.	Internal Control	160		160		
Investment Management Contracts: Bond Proceeds	FY13-5XX	Review of services and invoices for bond proceeds investment management services provided by Cutwater Asset Management and Logan Circle Partners.	Compliance	180	162	18	Complete (5-22-13)	
<b>Contract Administration &amp; Materials Management</b>								
Buy America	FY13-517, FY13-518	Pre-award and post-delivery reviews to ensure vendors and OCTA are in compliance with federal Buy America requirements.	Compliance	240	202	39	3 Complete (9-14-12, 9-28-12, 11-21-12)	
Price Reviews	PR13-000	Cost and price analyses as required by OCTA procurement policies and procedures.	Price Review	1,000	1,156	(156)	15 Complete 2 Cancelled	
<b>Information Systems</b>								
Information Systems Hardware	FY13-5XX	Review adequacy of policies, procedures, and controls over acquisition, maintenance, and disposition of Information Systems hardware.	Internal Control	180	289	(109)	Complete (6-26-13)	
<b>External Affairs</b>								
Pass Sales	FY13-519	Review of the operations and related controls over the Pass Sales program.	Operational	180	318	(138)	Complete (3-11-13)	

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<b>Unscheduled Reviews and Special Requests</b>								
Unscheduled Reviews and Special Requests	FY13-800	Time allowed for unplanned audits and requests from the Board of Directors and management.	Varies	40	10	30		
	FY13-801	Review of agreement with ShelterCLEAN, Inc. at the request of Transit management.	Compliance	120	213	(93)	Complete (4-10-13)	
<b>Monitoring Activities</b>								
Measure M Taxpayers Oversight Committee	FY13-601	Coordination of audit activities with the Audit Subcommittee of the Measure M Taxpayers Oversight Committee.	Monitoring	180	117	64		
Bus Base Inspections and Inventory Testing	FY13-602	Participation on annual base inspection teams.	Monitoring	32	30	2		
Metrolink Member Agency Allocation	FY13-603	Review of scope of work and results of Los Angeles County Metropolitan Transportation Authority's annual independent audit of Metrolink member agency allocation.	Monitoring	24	5	20		
<b>Follow-up Reviews</b>								
Follow-up Reviews and Reporting	FY13-700	Follow-up on audit findings and recommendations.		240	457	(217)		
<b>Total Audit Project Planned Hours (A)</b>				<b>6,382</b>	<b>6,935</b>	<b>(553)</b>		
<b>Internal Audit Administration</b>								
Board of Directors and Board Committee Meetings				380	240	141		
Executive Steering Committee and Agenda Meetings				160	131	30		
Internal Audit Department Staff Meetings				240	63	177		
Other Administration				1,500	1,586	(86)		
<b>Total Hours (B)</b>				<b>8,662</b>	<b>8,954</b>	<b>(292)</b>		
<b>Department-Wide Target Efficiency (A/B)</b>						<b>74%</b>		
<b>Department-Wide Actual Efficiency (A/B)</b>						<b>77%</b>		
<b>Professional Staff Target Efficiency</b>						<b>80%</b>		
<b>Professional Staff Actual Efficiency</b>						<b>86%</b>		

**UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS**

*(Audit Reports Issued Through June 30, 2013)*

<b>Audit Issue Date</b>	<b>Report Number</b>	<b>Division / Department / Agency</b>	<b>Audit Name</b>	<b>Recommendation</b>	<b>Initiate Next Update</b>	<b>Management Response</b>	<b>Auditor</b>	<b>Notes</b>
2/5/2010	08-010	Metrolink	Review of Metrolink Audit Activities	The Orange County Transportation Authority (OCTA) Internal Audit Department (Internal Audit) provided seven recommendations for improvements in Metrolink's internal audit function. Metrolink's Board of Directors (Board) will consider the report in March 2010.	Nov-13	Metrolink management concurred with all recommendations and proposed implementing action. <u>Update April 2011</u> : Metrolink management continues to work to address these findings. Metrolink staff plans to bring detailed recommendations to the Executive Management and Audit Committees by June 2011. <u>Update January 2012</u> : Management expects to hire a Chief Internal Auditor (CIA) by March 2012. The CIA will assist in addressing the findings related to risk assessment, audit plan, compliance with standards, policies and procedures, etc. <u>Update August 2012</u> : The CIA position has not been filled and is on hold, pending the hire of a new Chief Executive Officer (CEO). Findings have not been addressed. <u>Update May 2013</u> : Management expects to hire an internal auditor in 6-8 weeks. Also, the Oracle system update is in its final stages.	Bonelli	Initiate next follow-up in November 2013
2/14/2011	09-015	Capital Programs	Real Estate and ROW Administration	Insurance certificates should be reviewed for compliance with lease requirements. For non-revenue generating leases, a review of insurance certificates should be done on a periodic, or cycle, basis. Additionally, transferred leases should be reviewed to ensure agreements contain appropriate insurance requirements.	Jan-13	Staff will review leases to determine insurance certificate update needs and that transfer lease language is updated. Staff will coordinate insurance requirements with Risk Management staff. <u>Update August 2011</u> : Staff has reviewed the insurance requirements of approximately 18 percent of the revenue-generating leases and has requested required certificates. The initial review of all leases is expected to be completed by February 2012, and the process will then be ongoing. <u>Update March 2012</u> : Management is in the process of hiring a consultant to update the ROW policies and procedures manual and to address insurance language. <u>Update January 2013</u> : Management plans to send letters to over 1,000 active tenants requesting proof of insurance by December 31, 2012. Follow-up for insurance certificates will then be performed on a monthly basis prior to expiration of the certificates. <u>Update June 2013</u> : Letters have been sent to 658 tenants. Additional letters will be prepared and sent. Internal Audit will return in six months to review progress.	Ng	Initiate next update January 2014.

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2/14/2011	FY09-020	Finance and Administration	Telecommunications Equipment	Information Systems (IS) management should continue to encourage employees to elect to receive a cell phone allowance in lieu of an OCTA cell phone and, in those instances where an OCTA-issued cell phone is necessary, implement a process by which the employees' managers can also review and monitor activity to ensure personal usage is de minimis. Management may want to consider the time and resources necessary to properly enforce the cell phone reimbursement requirement and determine whether the cost outweighs the reimbursement benefit.	Sep-13	IS will discontinue the process of distributing the monthly cell phone bills and in its place take the following actions: (1) implement imports of cell phone records into the Avotus system so that the same direct oversight by supervisors and managers used for desk phones will be possible for cell phones. Estimated completion is June 1, 2012. (2) Continue to provide outreach to OCTA cell phone users to encourage the return of agency provided cell phones in exchange for the cell phone allowance. <u>Update March 2013</u> : IS has not yet updated the OCTA Cellular Telephone Policy to reflect changes to practices.	Bonelli	Initiate next update September 2013.
1/19/2011	N/A	Planning	Financial and Compliance Audits of Nine Combined Transportation Funding Program Projects	Staff should amend master funding agreements and update language regarding the right to audit. In addition, staff should implement procedures to ensure timely closeout of projects.	Aug-13	Staff will work to amend master funding agreements as appropriate and will implement procedures to ensure timely closeout of projects. <u>Update February 2013</u> : Management indicated that amendments to Measure M2 master funding agreements should be executed between February and June 2013.	Thompson, Cobb, Bazilio, and Associates (Ng)	Initiate next update August 2013.
6/27/2012	12-510	Human Resources and Organizational Development	Employment and Compensation Review	Management should develop written procedures for processing compensation and personnel actions.	Dec-13	Management will develop and document procedures by February 2013. <u>Update June 2013</u> : Procedures have not yet been finalized.	Tang	Initiate next update December 2013.
8/27/2012	12-510	Human Resources and Organizational Development	Employment and Compensation Review	Evidence of compensation analysis is not on file for all actions and, when it is performed, increases often exceed recommendations without documentation. Management should develop written procedures for processing these actions and for making exceptions.	Dec-13	Effective immediately, exceptions will require documentation. In addition, management will develop and document procedures by February 2013. <u>Update June 2013</u> : Procedures have not yet been finalized.	Tang	Initiate next update December 2013.
10/17/2012	12-510	Human Resources and Organizational Development	Employment and Compensation Review	Management should amend the Personnel and Salary Resolution (P&SR) to specifically address equity adjustments. Also, written procedures should be developed to govern these actions.	Dec-13	Management will update the P&SR to specifically address equity adjustments and will develop and document procedures by February 2013. <u>Update June 2013</u> : The P&SR approved by the Board in June 2013 was updated to address equity adjustments. Internal Audit will return in six months to test compliance.	Tang	Initiate next update December 2013.

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10/17/2012	12-510	Human Resources and Organizational Development	Employment and Compensation Review	Certain lateral transfers were accompanied by salary increases. Procedures to address employee transfers should be documented.	Dec-13	Management will ensure that transfers with a salary increase are processed only by exception, and that approval authority and parameters are clearly defined and documented. <u>Update June 2013</u> : The P&SR approved by the Board in June 2013 specifically addresses employee transfers. Internal Audit will return in six months to test compliance.	Tang	Initiate next update December 2013.
10/17/2012	12-510	Human Resources and Organizational Development	Employment and Compensation Review	Several employees remained in the Special Assignment category for over a year. There are no defined qualifications, education, experience, or duties for these positions. Management should develop procedures for the use of this title and controls for monitoring the period of time employees remain in the title.	Dec-13	Management will develop and document procedures by February 2013. <u>Update June 2013</u> : The P&SR approved by the Board in June 2013 eliminated the Special Assignment title. Five employees that are in this category should be moved to new position titles. Internal Audit will return in six months to test compliance.	Tang	Initiate next update December 2013.
10/17/2012	12-510	Human Resources and Organizational Development	Employment and Compensation Review	Procedures should be developed to address demotions and/or reclassifications to lower salary grade levels, and CEO approval should be obtained as required. In addition, management should develop procedures for "extra help" employees, including how salary rates are set for these positions.	Dec-13	Management will ensure CEO approval is obtained as required. Also, management will define "extra help" employees with the next update to the Personnel and Salary Resolution and will include guidelines as to their salary rates. <u>Update June 2013</u> : Procedures have not yet been finalized.	Tang	Initiate next update December 2013.
10/17/2012	12-510	Human Resources and Organizational Development	Employment and Compensation Review	Documented CEO approval for all executive salaries was not on file. Management should implement controls to ensure CEO approval is evidenced for all executive salaries. In addition, one employee file was missing and two others lacked current salary documentation.	Dec-13	Management will obtain CEO approval on all executive salaries and will work to improve security over employee files by February 2013. <u>Update June 2013</u> : Internal Audit made three additional recommendations based on review: (1) Executive and Human Resources and Organizational Development (HROD) employee files are not properly secured; (2) Policy and procedures governing the merit program for fiscal year 2012-13 have not been approved and finalized; and (3) Executive salaries on the OCTA website have not been updated since March 2013.	Tang	Initiate next update December 2013.

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10/17/2012	12-510	Human Resources and Organizational Development	Employment and Compensation Review	CEO approval was not on file (as required) for some new employees hired above the midpoint of salary grade V. In addition, Budget Review Committee approval was not on file for all new positions, a practice implemented in late 2010.	Dec-13	Management has enhanced controls to ensure necessary approvals are obtained for new personnel requisitions. In addition, the 'verbal offer' document has been revised to include a signature space for the CEO when required. <u>Update June 2013</u> : Management has updated the templates for the verbal offer and letter offer; however these have not been incorporated into written procedures. Internal Audit could not test compliance as there were no actions during the period reviewed. Internal Audit recommends management incorporate templates into finalized procedures and/or the Employment and Staffing manual.	Tang	Initiate next update December 2013.
10/17/2012	12-510	Human Resources and Organizational Development	Employment and Compensation Review	CEO approval was not obtained, as required, for employees placed in temporary assignments exceeding six months. Management should implement monitoring controls to ensure CEO approval is obtained as required.	Dec-13	Management will implement monitoring controls by December 2012. <u>Update June 2013</u> : There was one employee during the period that required CEO approval to remain in a temporary assignment and approval was obtained; however, written procedures have not been approved and finalized.	Tang	Initiate next update December 2013.
10/17/2012	12-510	Human Resources and Organizational Development	Employment and Compensation Review	Procedures for recall of coach operators previously laid off have not been documented.	Dec-13	Management will update the Employment and Staffing Manual to include procedures for processing coach operators who are recalled. <u>Update June 2013</u> : Procedures have been written and incorporated into the hard copy manual; however, the version of the manual available on the intranet is dated June 2010. Management should ensure timely update of manuals maintained on the intranet.	Tang	Initiate next update December 2013.

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10/17/2012	12-510	Human Resources and Organizational Development	Employment and Compensation Review	Management should enhance monitoring controls to ensure CEO approval is obtained when required for special performance awards (SPA).	Dec-13	Management has enhanced controls to ensure proper approval is obtained. <u>Update June 2013</u> : Review noted the following: (1) Policy and procedures for SPA's have not been approved and finalized; (2) The SPA for an executive employee was not approved by the CEO as required; and (3) the ACCESS database used by HROD to track all SPA's is incomplete; (4) two data entry errors in the payroll system were noted. Internal Audit recommended the following: (1) Management should obtain approval and finalize policies and procedures prior to implementation; (2) Management should improve SPA tracking by performing periodic follow-up on outstanding requests; (3) Management should strengthen controls to ensure the accuracy of input to the payroll system.	Tang	Initiate next update December 2013.
10/17/2012	N/A	Finance and Administration	Management Letter	OCTA should implement enhanced password management controls, including automatic lockout after a specified number of login attempts. Also, OCTA procedures indicate passwords expiration occurs every 60 days; however, passwords are set to expire after 180 days.	Jan-14	Management indicated that OCTA procedures will be updated to reflect current practice for password expiration. Also, management is working to resolve technical issues before implementing automatic lockout controls.	Vavrinek, Trine, Day & Co., LLP	
10/17/2012	13-513	Human Resources and Organizational Development	Grievance and Arbitration Process	Management should obtain documentation of union agreement for delayed responses to grievances filed.	Oct-13	Management will obtain evidence of written mutual agreement of the parties for any delays to time limits set by union agreement. <u>Update May 2013</u> : Management has developed written procedures for documenting delays in the process; however, the procedures were issued in May 2013 and there is insufficient activity to test compliance. Internal Audit will follow up in six months to test for compliance with new procedures.	Dunning	Initiate next update October 2013.
10/29/2012	N/A	Finance and Administration	Management Letter	OCTA should utilize security configuration checklists to emphasize hardening of systems against software flaws and configuring systems securely to help reduce the risk of attack.	Jan-14	Management indicated that OCTA lacks the resources to fully implement this recommendation; however, management agreed to return to the Board with a plan to address this recommendation.	Vavrinek, Trine, Day & Co., LLP	

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10/25/2012	N/A	Finance and Administration	Agreed-upon Procedures with Respect to the OCTA and OCLTA Appropriations Limits Worksheets	In calculating both the OCTA and OCLTA appropriation limits for fiscal year 2011-12, staff used a population change factor of 0.77 rather than 0.70. The error had no impact because appropriations were well below the limit.	Jan-14	Management agreed to correct the error during the fiscal year 2012-13 budget process.	Vavrinek, Trine, Day & Co., LLP	
10/29/2012	N/A	Finance and Administration and Transit	Measure M2 Agreed-upon Procedures Reports	OCTA should monitor implementation of recommendations related to the cities of Anaheim, Costa Mesa, Huntington Beach, Santa Ana, and the County of Orange.	Jan-14	Management agreed to follow-up with cities to ensure corrective action is taken.	Vavrinek, Trine, Day & Co., LLP	
12/14/2012	13-519	Finance and Administration	Review of Wholesale Pass Sales	With regard to physical inventory, documentation should be maintained to reflect the total number of keys and individuals to who keys are assigned. Where the total number of keys cannot be determined the locks should be changed. Common overhead storage cabinets should not be used to store inventory. Also, management should consider more frequent verification of inventory.	Aug-13	Management has changed the lock to the inventory storage room and now maintains documentation of assigned keys. The supervisor has documented the existence and assignment of all keys to the locked storage bin and the overhead storage bin is no longer used to store inventory. A pass stock inventory was conducted on November 27, 2012, and future inventories will be conducted semi-annually.	G. Dunning	
12/3/2012	13-519	Finance and Administration	Review of Wholesale Pass Sales	Collection efforts should be performed as required by procedures and efforts should be documented.	Aug-13	Effective immediately, staff will document all follow-up efforts in the pass sales system.	G. Dunning	
2/14/2013	13-801	Transit	Review of Agreement No. C-8-0728 with ShelterCLEAN, Inc.	Under the agreement, ShelterCLEAN, Inc. may self-generate work orders. Internal Audit recommends management consider revising procedures to require ShelterCLEAN, Inc. to call in and obtain authorization for miscellaneous work performed.	Sep-13	Management agrees that procedures should be revised and will investigate options to address this issue.	G. Dunning	
2/14/2013	13-801	Transit	Review of Agreement No. C-8-0728 with ShelterCLEAN, Inc.	Supplies used in maintaining bus stops and zones are not secured, orders received are not verified, and consumption is not reviewed. Management should implement control to ensure supplies are safeguarded and, at a minimum, usage is reviewed for reasonableness.	Sep-13	The supplies area has been secured and locked and management agrees that inventory controls should be developed and implemented. Staff will develop a method to track inventory received and dispensed so that supplies can be monitored on an ongoing basis.	G. Dunning	



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3/28/2013	13-801	Transit	Review of Agreement No. C-8-0728 with ShelterCLEAN, Inc.	Management should develop and document written procedures for the issuance of work orders, review/approval of invoices, ordering and handling of supplies, etc.	Sep-13	Management agrees that there is a need for written procedures documenting workflow. Desktop procedures will be developed within the next three months.	G. Dunning	
3/28/2013	13-514	Transit	Review of Cooperative Agreements with Adult Day Healthcare Agencies for Paratransit Services	Internal Audit found that the subsidy provided to one agency, Community SeniorServ, amounts to 87 percent of the per-trip cost, rather than 80 percent, as stated in the agreement. We recommend that management implement procedures for review of cost data to ensure subsidies are at the levels intended.	Oct-13	Management has developed a pricing sheet to be completed by the agencies that includes cost details. Prior to any rate increase, agencies will be required to substantiate and document related costs.	G. Tang	
3/28/2013	13-522	Finance & Administration	Investment Management Contracts for the Bond Proceeds Portfolio	Testing identified several errors in the benchmark yields and returns reported on monthly and quarterly investment and debt reports. We recommend management implement controls to ensure the accuracy of these reports.	Nov-13	Management will implement an extra level of review of these reports.	S. Ng	
4/10/2012	13-522	Finance & Administration	Investment Management Contracts for the Bond Proceeds Portfolio	The agreements with the investment managers were executed with indefinite terms; however, it is unclear that Board approval was obtained as required. We recommend management ensure specific approval is obtained for contract terms exceeding five years.	Nov-13	Management agrees and will ensure staff reports request specific Board approval for contract terms greater than five years.	S. Ng	
5/10/2013	N/A	Finance & Administration	Fiscal Years 2010-12 Triennial Performance Audit of the Orange County Transportation Authority	Management should (1) clarify reporting requirements for Article 4.5 claims; (2) require Article 4 claimants to provide updates on prior audit recommendations; (3) update and redistribute the TDA Claim form to Laguna Beach Municipal Transit Lines (LBMTL) to ensure the form they use includes current requirements and references; and (4) ensure that all 16 performance measures listed in the OCTA TDA guidelines are calculated and included in claims.	Nov-13	Management agrees with the recommendations and has created a checklist for use in documenting Article 4.5 claims and has updated the TDA guidelines to ensure all performance measures listed are included in each claim going forward. Also, management will ensure that LBMTL is provided with an updated TDA claim form and follow-up of prior audit recommendations is documented with future claims.	R. Bonelli	

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5/10/2013	N/A	Finance & Administration	Fiscal Years 2010-12 Triennial Performance Audit of the Laguna Beach Municipal Transit Lines	The following recommendations were provided: (1) Monitor system performance against performance benchmarks developed for the transit system as part of the update to the Short Range Transit Plan. (2) Properly report full time equivalents in State Controller's Report in compliance with state statute. (3) Assess alternative cost-allocation methods for the Mainline and Summer Festival service modes. (4) Adopt formalized on-time performance monitoring procedures. (5) Enhance the delivery and quality of supplemental local demand-response and taxi service.	Nov-13	Management from the Finance and Administration Division will perform follow-up with LBMTL to ensure recommendations are being addressed.	R. Bonelli	
5/22/2013	13-524	Finance & Administration	Review of Information Systems Hardware	Management should implement periodic inventories to verify the accuracy of the information maintained in the Cherwell system	Dec-13	A physical hardware inventory will be conducted every two years. The next hardware inventory is scheduled to begin in January 2014, after completion of the Windows 7 migration project. Future hardware inventories will be completed on a bi-annual basis to coincide with the Capital Asset Inventory schedule.	G. Dunning	
5/22/2013	11-501	Finance & Administration and Capital Programs	Limited Review of Oversight Controls and Contract Compliance Related to the Orangethorpe Grade Separation Projects	Internal Audit recommends that an entity-wide invoice review policy and procedures be established.	Dec-13	Management agrees with the recommendation and proposes the following: (1) The Payment Authorization Policy (FA-ACCT-340.09PAYAUTH) will be reissued as a policy of the Chief Executive Officer. (2) A new Contract Invoice Review Policy will be issued by the Chief Executive Officer that delineates responsibility for ensuring that contract invoices are accurately paid in compliance with all applicable contract provisions and disbursed on a timely basis.		

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6/26/2013	11-501	Finance & Administration	Limited Review of Oversight Controls and Contract Compliance Related to the Orangethorpe Grade Separation Projects	Internal Audit recommends that procedures be updated to address the authorization of consultant staffing changes prior to processing of amendments or letter agreements adding staff. Procedures should include the parameters for back-dating these amendments and letter agreements.	Dec-13	Management agrees that procedures for authorizing contractor staffing changes and parameters for establishing an effective date on letter amendments should be strengthened. There are existing procedures in place; however, staff will revise the procedures to clarify any ambiguities that may exist. Staff will also work with project managers to ensure notification of these type of staffing changes are reported to the Contracts Administration and Materials Management Department in a timely manner.		
6/26/2013	11-501	Finance & Administration	Limited Review of Oversight Controls and Contract Compliance Related to the Orangethorpe Grade Separation Projects	Internal Audit recommends that OCTA project management establish consistent requirements for quantity sheets, as well as spot-check construction management's quantity sheets for accuracy and compliance with OCTA requirements.	Dec-13	Management has determined that the identified inconsistencies are due to field adjusted quantities that were not updated on the q-sheets. Management agrees with the recommendation and will ensure that the construction program management personnel reinforces with the construction management teams the requirements of updating the q-sheets frequently, and checking the q-sheets for accuracy and compliance with OCTA requirements. In addition, the Construction Management Procedures Manual will be updated by June 18, 2013, to strengthen the procedures regarding updates and reviews of the q-sheets.		
6/26/2013	11-501	Finance & Administration	Limited Review of Oversight Controls and Contract Compliance Related to the Orangethorpe Grade Separation Projects	Internal Audit recommends that the Contracts Administration and Materials Management Department (CAMM) develop policy and procedures over Schedule II and the billing of ODC's. Once written procedures are prepared, CAMM should train staff and advise project management of the requirements.	Dec-13	Management agrees and procedures will be developed that address the requirements for adding ODC items to the contract. Management also agrees to train staff on the new procedure and to notify project management of the procedures.		

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6/26/2013	11-501	Capital Programs	Limited Review of Oversight Controls and Contract Compliance Related to the Orangethorpe Grade Separation Projects	Internal Audit recommends management request credits for these, and any other identified duplicate payments.	Dec-13	A credit for the total of the duplicate payments was applied to the contractor's May 2013 invoice. The construction management teams will also check other past payments to ensure there were no additional duplicate payments. The construction program management team will strengthen their communication with the construction management teams to conduct accurate invoice reviews before approving future invoices for payment		