



November 9, 2016

To: Finance and Administration Committee

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

Subject: Fiscal Year 2016-17 Internal Audit Plan, First Quarter Update

Overview

The Orange County Transportation Authority Board of Directors adopted the Orange County Transportation Authority Internal Audit Department Fiscal Year 2016-17 Internal Audit Plan on July 25, 2016. This update is for the first quarter of the fiscal year.

Recommendation

Receive and file the first quarter update to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2016-17 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, investigations, pre-award price reviews, and Buy America reviews. Audits initiated by entities outside of OCTA are coordinated through Internal Audit.

Discussion

The OCTA Internal Audit Fiscal Year (FY) 2016-17 Internal Audit Plan (Plan) (Attachment A) reflects the status of each audit project.

During the first quarter of the FY, Internal Audit issued results of an audit of the Project Controls section within the Capital Programs Division. Project Controls acts as a support function to the Highway Delivery and Rail Departments. The audit found that Project Controls exercises adequate controls over project master and control-level schedules and costs, and provides accurate and timely reports on the status of projects. In addition, invoice review controls were found to be adequate and functioning.

An audit of the Customer Relations section found that procedures for research and response to customer comments are adequate; however, Internal Audit made recommendations to improve reporting of customer comment statistics and to enhance controls over bus pass inventories. Management agreed and indicated that procedures would be strengthened as recommended.

A required audit of the State Transportation Improvement Program Planning, Programming and Monitoring Program for FY 2013-14, conducted by professional accounting firm BCA Watson Rice, LLP was issued and found that project funds were used in conformance with Article XIX of the California State Constitution.

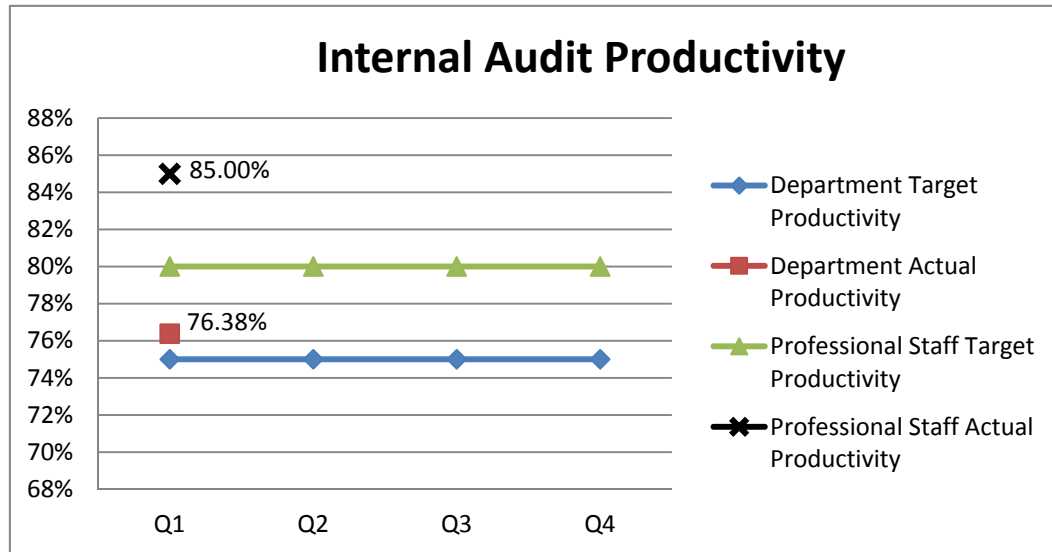
An audit by the California Department of Transportation (Caltrans) Audits and Investigations was also issued relating to \$73,745,434 in project costs on five projects. The auditors reported \$709,469 in project costs that they believe should be disallowed, and made recommendations related to business relocation payments, right-of-way policies, contract management, and construction management practices. OCTA staff continues to work with Caltrans' Planning and Modal Programs division on the appropriate disposition of these recommendations.

In addition to several ongoing audits, the primary focus of Internal Audit as of September 30, 2016, and in the ensuing months, will be to provide coordination of the annual financial and compliance audits.

Internal Audit Productivity

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

For the first quarter ended September 30, 2016, Internal Audit achieved productivity of 76 percent, and the professional staff achieved productivity of 85 percent.



Price Reviews

At the request of the Contracts Administration and Materials Management Department (CAMP), and consistent with OCTA procurement policy, Internal Audit conducts reviews of single bid procurements to ensure that CAMP handled the procurement in a fair and competitive manner. Internal Audit also reviews prices proposed by architectural and engineering firms, and sole source contractors to ensure that the prices are fair and reasonable. Internal Audit makes recommendations to adjust proposed rates where they exceed the rates per review. When the value of recommended adjustments can be estimated, Internal Audit tracks and reports the potential savings, as noted below. During the quarter ended September 30, 2016, Internal Audit conducted seven pre-award agreed-upon procedures reviews and recommended price adjustments, as indicated below:

Quarter	Price Reviews Recommended Adjustments
1	\$ 2,620,544
2	
3	
4	
Total	\$ 2,620,544

Fraud Hotline

During the quarter ended September 30, 2016, Internal Audit received seven reports through OCTA's Fraud Hotline, www.ethicspoint.com. Three reports were referred to Employee Relations and one report was referred to Customer Relations. Of the remaining reports, Internal Audit investigated two and could not substantiate the complaints; a third is still under investigation. As part of the administration of the hotline, Internal Audit maintains documentation of each complaint and its disposition.

Internal Audit is committed to responding to all hotline complaints within eight business days. During the quarter ended September 30, 2016, Internal Audit made initial contact within two business days.

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.

During the quarter ended September 30, 2016, Internal Audit performed follow-up of fourteen unresolved audit recommendations. Eight of the recommendations were appropriately addressed by management and were removed from the list. Recommendations relating to the audit of OCTA's Continuity Plan remain open pending completion of a new plan expected in May 2017. Also, five recommendations related to the audit of the Bristol Street Widening Project remain open due to the City of Santa Ana's (City) disagreement with corrective actions proposed and with contract amendments offered to address weaknesses identified in the audit. Internal Audit noted that the City continues to charge inflated billing rates to the gas tax agreement. On October 7, 2016, management notified the City that, unless corrections are made to the City's financial reports, the value of the next funding request will be reduced by the value of the credits listed in the audit report and for all labor costs utilizing inflated billing rates. See Attachment C for a copy of the letter.

Two recommendations, related to the Customer Relations audit, were added to the list.

Summary

Internal Audit will continue to implement the Plan, report on performance metrics, follow-up on outstanding audit recommendations, and report progress on a quarterly basis.

Attachments

- A. Orange County Transportation Authority Internal Audit Department Fiscal Year 2016-17 Internal Audit Plan, First Quarter Update
- B. Outstanding Audit Findings and Recommendations (Audit Reports Issued Through September 30, 2016)
- C. Letter to Mr. Fred Mousavipour from Jim Beil dated October 7, 2016

Prepared by:



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

**Orange County Transportation Authority
Internal Audit Department
FY 2016-17 Internal Audit Plan
First Quarter Update**

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours to Date	Under (Over)	Status (Date Issued)	External Auditor
Mandatory External Independent Audits								
Annual Financial Audits and Agreed-Upon Procedures Reviews	FY17-001 through FY17-004	Coordinate and report on annual financial and agreed-upon procedures reviews for fiscal year 2016-17.	Financial	375	35	340	In Process	
External Regulatory Audits	FY17-00X	Coordinate and report on external audits by regulatory or funding agencies.	Compliance	60		60		
Internal Audit Department Projects								
Risk Assessment and Annual Audit Plan	FY17-100	Annual preparation of the audit plan, quarterly updates to the audit plan, periodic assessment of risk throughout the year, including the monitoring of audit results of related entities.	Audit Plan and Updates	180	39	141		
Quality Assurance and Self-Assessment	FY17-101	Update of Internal Audit Policies & Procedures. Annual self assessment of the Internal Audit Department's (Internal Audit) compliance with Government Auditing Standards.	Quality Assurance	180	4	176		
Fraud Hotline Activities	FY17-102	Administrative duties related to maintenance of the Fraud Hotline and work related to investigations of reports of fraud, waste, or abuse.	Fraud Hotline	250	63	187	7 Reports Received	
Automated Workpaper Solution	FY17-103	Purchase, training, and implementation of a new automated workpaper solution.	Workpaper System	280	40	240		
On-Call Audit Services	FY17-104	Prepare scopes of work and establish bench of independent audit firms to provide assistance with (1) performance audits and (2) application of agreed-upon procedures relating to price reviews and Buy America compliance reviews.	On-Call Audit Services	160	32	128		
Internal Audits								
Security and Emergency Preparedness								
Transit Police Services Contract	FY17-5XX	Review oversight controls and contract compliance with agreement for provision of Transit Police services.	Compliance	240		240		
Human Resources and Organizational Development								
Benefits: Health Insurance Plans and Health Savings Accounts	FY17-5XX	Review controls in place to ensure proper enrollment, accounting, and compliance with laws, regulations, policies, and procedures.	Operational	320		320		
Coach Operator Health Insurance Benefits	FY16-805	Review and test compliance with collective bargaining agreement for the coach operators as it relates to provision of health insurance benefits.	Compliance	300	89	211	In Process	
Storm Water Pollution Prevention Plan	FY17-5XX	Review oversight controls, policies, and procedures to ensure compliance with Environmental Protection Agency regulations.	Compliance	80		80		

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Capital Programs								
Project Controls	FY16-507	Assess and test operating controls of the project controls function within the Capital Projects Division.	Compliance	40	170	(130)	Issued 9-14-16	
Project K: Right-of-Way Acquisition Activities	FY17-5XX	Assess and test controls to ensure compliance with Real Property Department Policies and Procedures for acquisition of property rights related to the Interstate 405 Project K.	Compliance	225		225		
Planning								
Competitive Transportation Funding Program Projects	FY16-5XX	Review selected projects for compliance with Measure M Ordinance, policies, and procedures.	Compliance	60	67	(7)	In Process	
Transit Operations								
Fleetwatch Fluid Management System	FY17-5XX	Assess adequacy of system controls and data reporting related to dispensing of fuel.	Operational	240		240		
Contracted Fixed Route Operations	FY17-5XX	Assess adequacy of oversight controls and contract compliance with key provisions of the agreement with First Transit.	Compliance	325		325		
Finance and Accounting								
Treasury	FY17-501	Semi-annual review of investments compliance, controls, and reporting.	Compliance	210	91	119	In Process	
Grant Closeouts	FY16-502	As-needed financial and compliance audits of grants at closeout to ensure propriety of expenditures.	Compliance	40	36	4	Issued 9-14-16	
Budget Development and Monitoring	FY16-509	Review and test controls in place over the preparation, monitoring, and reporting related to the annual OCTA budget.	Operational	325	96	229	In Process	
OCTA Policies and Procedures	FY17-5XX	Review controls in place to ensure proper development, update, and communication of OCTA policies and procedures.	Operational	185		185		
Investment Manager Contracts	FY17-504	Review procurement of, contract compliance, and invoice controls related to investment manager contracts.	Compliance	185		185		
Information Systems								
Payment Card Industry/Data Security Standard (PCI/DSS) Compliance	FY17-502	Review of OCTA's compliance with PCI/DSS, including review and evaluation of annual self-assessment to ensure protection of credit card data.		225	191	34	In Process	

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Contract Administration and Materials Management								
Price Reviews	PR17-XXX	Cost and price analyses as requested by OCTA's Contract Administration and Materials Management Department.	Price Review	1,000	306	694	5 Reports Issued	
Buy America	FY17-503	Pre-award and post-delivery reviews to ensure vendors and OCTA are in compliance with federal Buy America requirements.	Compliance	250	97	153	Issued 9-14-16	
External Affairs								
Customer Relations	FY16-508	Review in-house Customer Relations operation.	Operational	80	195	(115)	Issued 9-14-16	
Public Outreach - West County Connectors Project	FY16-5XX	Review of oversight controls and contract compliance related to agreement for public outreach.	Compliance	180		180		
Unscheduled Reviews and Special Requests								
Unscheduled Reviews and Special Requests	FY17-800	Time allowed for unplanned audits, coordination of external agency audits, and requests from the Board of Directors and management.	Varies	260	12	248		
Monitoring Activities								
Measure M Taxpayers Oversight Committee	FY17-601	Coordination of audit activities on behalf of the Audit Subcommittee of the Measure M Taxpayers Oversight Committee.	Administrative Support	100	5	95		
Metrolink Audit Activities	FY17-602	Obtain and review audit results of Metrolink activities	Non-Audit Service	60		60		
Bus Base Inspections	FY17-603	At the request of Transit Division, participation on annual base inspection teams.	Non-Audit Service	32		32	In Process	
Follow-up Reviews								
Follow-up Reviews and Reporting	FY17-700	Follow-up on audit findings and recommendations.	Follow-up	300	68	232		
Total Audit Project Planned Hours (A)				6,747	1,636	5,111		

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Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours to Date	Under (Over)	Status (Date Issued)	External Auditor
Internal Audit Administration								
Board of Directors and Committee Meetings				260	33	227		
Executive Steering and Agenda Setting Meetings				180	37	143		
Internal Audit Staff Meetings				150	6	144		
Other Administration				1,500	430	1,070		
			Total Hours (B)	8,837	2,142	6,695		
			Department Target Efficiency (A/B)	76%				
			Target Efficiency - Professional Staff	80%				

OUTSTANDING AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through September 30, 2016)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
3/26/2014	14-509	Finance and Administration (F&A)	Review of Purchase Order (PO) Issuance and Oversight	The Internal Audit Department (Internal Audit) recommends that General Services review invoiced pricing for compliance with PO pricing terms. PO's should be amended to include all required items and their negotiated prices.	Oct-16	General Services will add language to PO's to cover items that were not included in the original scope of work. <u>Update November 2014</u> : General Services has not yet implemented this recommendation. <u>Update June 2015</u> : General Services has recently renewed PO's and is planning to implement a semi-annual review of invoices to assess if new, recurring purchased items need to be added to the price list. <u>Update April 2016</u> : The recommendation to amend PO's to include all required items has been implemented; however, the recommendation to review invoiced pricing against PO pricing terms has not yet been implemented.	Ng	Initiate next update in October 2016
5/29/2014	14-511	F&A	Review of the OCTA Store	Internal Audit recommends 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.	Oct-16	The replacement system should be implemented by the end of 2014 and should resolve some of the access control issues. Procedures will be developed to outline access assignments and secondary reviews and approval. Records of access levels will be maintained and periodically reviewed. <u>Update December 2014</u> : Management plans to build controls into the new system that is expected to be implemented in January 2015. <u>Update June 2015</u> : System implementation has been rescheduled to July 31, 2015. <u>Update April 2016</u> : The system has been implemented and access assignments made; however, management has not yet implemented a process for periodic review of user access for appropriateness.	Dunning	Initiate next update in October 2016

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(Audit Reports Issued Through September 30, 2016)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
10/3/2014	N/A	F&A and Transit	Performance Audit of the Orange County Transportation Authority's (OCTA) Continuity Plan	Auditors recommended that management update the Business Impact Analysis (BIA) and the Continuity of Operations Plan (Plan) to address the 13 weaknesses noted.	Jun-17	Management responded that efforts are underway to update certain portions of the BIA and the Plan. Also, at the direction of the F&A Committee Chairman, staff has agreed to specifically address each issue and planned corrective actions with the Security Working Group of the Board of Directors. <u>Update September 2015</u> : Management has taken actions to adequately address seven of the thirteen weaknesses noted in the audit. The remaining six are expected to be corrected upon completion of the Threat and Hazard Identification and Risk Assessment project and the comprehensive revision of the BIA. Internal Audit will follow-up on the remaining issues in one year. <u>Update September 2016</u> : Internal Audit requested update; management indicated that documents will not be completed until May 2017.	Bonelli	Initiate next update in June 2017
10/15/2015	N/A	HR0D	Investigation and Limited Scope Review of Administration of the Deferred Compensation Plan and the Plan Revenue Reimbursement Account	Internal Audit recommends management formalize and document the plan governance structure and committee structure. Committee configuration should be reviewed and consideration given to appointing a member to represent employee groups participating in the plan. Committee members should be appointed and policies should be approved by OCTA.	Nov-16	The Investment Policy (IP) Statement will be formally approved and made available to participants electronically. Management will also post the quarterly meeting minutes, the quarterly reports, and the Account Policy. The committee composition will be included in the IP Statement, with consideration given to expanding the committee. These tasks will be completed by the end of calendar year 2015. <u>Update May 2016</u> : Management has not fully implemented all recommendations. Additional recommendations were provided to encourage management to research and implement best practices with regard to Committee charter, Investment Policy Statement, and Committee composition.	Sutter	Initiate next update November 2016

OUTSTANDING AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through September 30, 2016)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
10/15/2015	N/A	HROD	Investigation and Limited Scope Review of Administration of the Deferred Compensation Plan and the Plan Revenue Reimbursement Account	Internal Audit recommends management: 1. Obtain reimbursement for \$15,000 in overcharges. 2. Notify Nationwide Retirement Solutions (NRS) that distributions from the account may only be authorized by two employees. 3. Amend policies to include eligible expenditures, ensure that disbursements comply with OCTA policy, and require approval of any distributions from the account by the committee. 4. Require routine account reconciliations to be performed and documented. 5. Assign responsibility for reconciling this account to an appropriate individual that does not also direct disbursements from the account.	Nov-16	1. NRS reimbursed the account \$15,000 plus lost earnings effective August 31, 2015. 2. OCTA will notify NRS that distributions from the account may only be authorized by two designated OCTA employees. 3. Management will expand the Account Policy to include common qualified expenses and will require that all future travel related to the plan be governed by the OCTA Travel Policy. Finally, the committee will review any distributions from the account in their quarterly meetings and document such distributions in the meeting minutes. 4. Account reconciliations will be performed and documented on a quarterly basis. 5. Account reconciliation will be performed by a staff member within the F&A Division who does not also direct disbursements from the account. <u>Update May 2016</u> : Management obtained a refund from NRS, and has taken some actions; however, additional concerns were identified and recommendations made to properly address these issues.	Sutter	Initiate next update November 2016

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(Audit Reports Issued Through September 30, 2016)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
10/15/2015	N/A	HROD	Investigation and Limited Scope Review of Administration of the Deferred Compensation Plan and the Plan Revenue Reimbursement Account	Internal Audit recommends management: 1. Ensure committee members annually reaffirm the IP Statement. 2. Provide training and require committee members to monitor fees charged to the plan and its participants and, when applicable, attempt to negotiate fees to a reasonable level. 3. Exercise oversight of Benefit Funding Services Group (BFSG) to ensure all deliverables required by the agreement are provided. 4. Review invoices for compliance with the agreement terms and obtain proper approval before submitting to NRS for payment.	Nov-16	1. The IP Statement will be annually reaffirmed by the committee. 2. BFSG will provide training to committee members on an annual basis and committee members will review annual reports provided by BFSG and will work with the Contracts Administration and Materials Management Department (CAMM) to negotiate fees if they are deemed unreasonable. 3. Management will ensure that OCTA receives all deliverables specified in the contract. Management will ensure that required annual fee reports are provided by BFSG. 4. BFSG will be required to include the appropriate certification language on all future invoices. All future BFSG invoices will be properly reviewed for compliance with the agreement terms and two authorized parties will approve the invoices before submitting to NRS for payment. <u>Update May 2016</u> : Management has taken some actions; however, additional concerns were noted and additional recommendations were provided in order for management to properly address weaknesses.	Sutter	Initiate next update November 2016
1/19/2016	N/A	Transit	City of Santa Ana, Senior Mobility Program (SMP)	Internal Audit recommends management: 1. Develop detailed program guidelines, including but not limited to, definition of allowable trip types, requirements for collection and reporting of revenues, acceptable methods for allocation of costs, and retention of adequate supporting documents. 2. Amend cooperative agreements to include detailed information on program requirements. 3. Provide training to cities and exercise oversight to determine whether activities comply with the Ordinance, cooperative agreements, and program guidelines.	Feb-17	Management will review the current agreement language and scopes of work for each SMP and revise to address the collection and recording of program fees/revenue. In addition, the SMP monthly report template will be revised to specifically document fares/revenue received, the source of city contributions, and documentation to identify how revenues collected are used to support the program. During the annual visit, staff will review the process used to collect and report fares/revenues received. <u>Update August 2016</u> : Management has addressed parts 1 and 2 of the recommendation. Since the new monitoring/site visits will not begin until September 2016, part 3 will remain open.	Ng	Initiate next update in February 2017

OUTSTANDING AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through September 30, 2016)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
2/29/2016	FY15-515	Capital Programs	Oversight Controls, Contract Compliance, and Billings Related to the Bristol Street Widening Project	Internal Audit recommends that management obtain credit of \$261,764 to the gas tax agreement and ensure labor billing rates are corrected. Monitoring controls should be implemented to ensure reasonable and accurate labor charges going forward.	Apr-17	Management agrees and will take the following actions: (1) The gas tax agreement will be credited \$261,764 and the city will be required to utilize revised rates going forward. (2) The gas tax agreement will be amended to require the city to certify with signature that the quarterly city reconciliation report of actual expenses versus monthly payment requests, including labor billing rates charged, are true and correct. <u>Update September 2016</u> : Management has not received the \$261,764 credit and is considering the deduction of the amount from future funding requests. Also, the amendment has not been executed due to the city's disagreement with certain terms. Additionally, Internal Audit noted that the city is still charging the same inflated labor billing rates to the gas tax agreement.	Ng	Initiate next update in April 2017
2/29/2016	FY15-515	Capital Programs	Oversight Controls, Contract Compliance, and Billings Related to the Bristol Street Widening Project	Internal Audit recommends that the gas tax agreement be amended to strengthen requirements regarding excess right-of-way property including the addition of a requirement to sell or credit the value of excess property to the agreement. Also, Internal Audit recommends management either request the city credit the gas tax agreement for \$443,078 or implement controls to ensure that sales proceeds of excess property sold are applied to eligible project costs.	Apr-17	The gas tax agreement will be amended to strengthen requirements for compliance with applicable gas tax use statutes and the gas tax agreement will be credited for \$443,078. The gas tax agreement will also be amended to require that quarterly city reconciliation reports include tracking and accounting of excess property. Upon disposal, the value of these remnant properties will be credited to the gas tax agreement. <u>Update September 2016</u> : The amendment has not been executed due to the city's disagreement with certain terms. Since the city also disagrees with the amount of the requested \$443,078 credit, management is considering deduction of the amount from future funding requests.	Ng	Initiate next update in April 2017

OUTSTANDING AUDIT FINDINGS AND RECOMMENDATIONS

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Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
2/29/2016	FY15-515	Capital Programs	Oversight Controls, Contract Compliance, and Billings Related to the Bristol Street Widening Project	Internal Audit recommends management request the city strengthen controls over timekeeping and periodically review supporting documentation to ensure accuracy of labor charges to the project. Management should also consider disallowing sub-consultant markups through update of contract language in cooperative agreements.	Apr-17	The gas tax agreement will be amended to require the city to certify that the quarterly city reconciliation report of actual expenses versus monthly payment requests, including labor hours charged, are true and correct. Staff will review a sample of supporting documents to verify actual expenses and that labor hours billed are supported by time sheets on file. The gas tax agreement will be amended to specifically disallow sub-consultant markups. <u>Update September 2016:</u> The amendment has not been executed due to the city's disagreement with certain terms. After the amendment is executed, staff will review a sample of supporting documentation from quarterly reconciliation reports.	Ng	Initiate next update in April 2017
2/29/2016	FY15-515	Capital Programs	Oversight Controls, Contract Compliance, and Billings Related to the Bristol Street Widening Project	Internal Audit recommends that management design and implement a cost review process that includes review of a sample of city costs charged to the gas tax agreement. Internal Audit also recommends management instruct the city to correct its quarterly reconciliation reports and implement procedures to reconcile city reports with OCTA records.	Apr-17	Staff will periodically sample supporting documentation for costs charged to verify the charges are project-related, supported, and reasonable. Also, the city will be instructed to correct quarterly reconciliation reports based on these audit findings and staff will reconcile each quarterly report with records of payments made under the gas tax agreement. <u>Update September 2016:</u> After the amendment is executed, staff will review a sample of supporting documentation from the city's quarterly reconciliation reports. As of follow-up review, the city made an attempt to adjust its quarterly reconciliation report but did not implement the adjustment fully and correctly; therefore, Internal Audit will keep the recommendation open and ask management to provide suggestions to the city on how to correct its quarterly reconciliation reports.	Ng	Initiate next update in April 2017

OUTSTANDING AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through September 30, 2016)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
2/29/2016	FY15-515	Capital Programs	Oversight Controls, Contract Compliance, and Billings Related to the Bristol Street Widening Project	Internal Audit recommends that management amend the gas tax agreement to update the payment schedule and implement controls to enforce the payment provisions.	Apr-17	The gas tax agreement will be amended to reflect the reconciliation of the pro-rated invoicing and the payment schedule will be updated accordingly. <u>Update September 2016:</u> The amendment has not been executed due to the city's disagreement with certain terms.	Ng	Initiate next update in April 2017
4/4/2016	FY15-513	F&A	Accounts Payable (AP)	Internal Audit recommends management either revise system access assignments to prevent staff from having the ability to both create and/or edit the vendor master file and enter payments, or develop and implement adequate controls to identify unauthorized payments and/or unauthorized changes to the vendor master file	Oct-16	Staff will implement measures to identify unauthorized changes to the vendor master file. The Accounting Operations Section Manager will begin reviewing on a weekly basis a new vendor report and a log of any changes made to existing vendors. The Accounting Operations Section Manager will review weekly report of all new vendors, payments, and staff to ensure that staff are not setting up and paying the same vendor. With respect to the 91 Express Lanes, management will revise IFAS system access assignments to prevent Cofiroute staff members from having the ability to both create and/or edit vendor files and enter payments.	Bonelli	
4/4/2016	FY15-513	F&A	AP	Internal Audit recommends management provide training to ensure consistent enforcement of policies and procedures by AP staff and advise department staff responsible for the exceptions of OCTA's policies and procedures.	Oct-16	The AP supervisor meets bi-weekly with staff and has included training on AP procedures and responsibilities and has/will communicate to departments responsible for the related exceptions as to OCTA's Policies and Procedures.	Bonelli	
4/4/2016	FY15-513	F&A	AP	Internal Audit recommends that management amend the Agreement with Cofiroute USA (Cofiroute) to include procurement guidelines and implement monitoring controls to ensure compliance. These guidelines should be consistent with OCTA's procurement policies and procedures.	Oct-16	Management concurs and will work with Cofiroute to develop procurement guidelines and incorporate these guidelines in the operating agreement.	Bonelli	

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8/31/2016	FY16-508	External Affairs	Customer Relations	Management should implement a quality control review process to ensure the accuracy of monthly reports.	Feb-16	Customer Relations will implement a quality control review process to ensure accuracy. In addition, Customer Relations is already working with Information Systems Department staff to automate reports through the dashboard, which will reduce the incidence of human error and increase accuracy.	Dunning	
8/31/2016	FY16-508	External Affairs	Customer Relations	Internal Audit recommends that management establish criteria and procedures for performing documented reconciliations and periodic, independent verifications of bus pass inventories maintained by Customer Relations and Marketing staff.	Feb-16	Customer Relations has updated the policies and procedures for performing documented reconciliations and independent verifications of bus pass inventories. An independent verification has begun and will be performed quarterly.	Dunning	



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Chief Executive Officer

October 7, 2016

Mr. Fred Mousavipour
Executive Director
Public Works Agency
City of Santa Ana
20 Civic Center Plaza
Santa Ana, CA 92701

Dear Mr. Mousavipour:

After further review of the 2nd Quarter Financial Report, we find that we are in disagreement with portions of the data presented and do not accept the report as being accurate. Specifically, we find that the City of Santa Ana (City) is still using labor rates that were found to be inaccurate per the audit conducted in February 2016. Additionally, credits for misstated labor rates and excess right-of-way, corrections of amounts received, and removal of billed markups on subconsultant invoices have not been made in the report.

As a result of these omissions and per the terms of Amendment No. 4 to Cooperative Agreement No. C-6-0069, the next funding request submitted by the City will have its value reduced by the value of the credits listed in the audit report of February 2016, (\$261,764 + \$443,078). Additionally, all costs for City labor subsequent to March 31, 2015, the end of the audit period, and consultant costs shown in the 1st and 2nd Quarter Financial Reports will also be deducted in whole as these are considered not correctly stated and therefore not eligible for reimbursement. The deductions can be avoided if the City resubmits the 2nd Quarter Financial Report reflecting the correct costs with sufficient supporting documentation to verify the amounts. We are also requesting that the City's reconciliation report records be adjusted accordingly.

Should you have any questions or concerns with the previous stated actions, please contact me at (714) 560-5646 or jbeil@octa.net.

Sincerely,

Jim Beil
Executive Director, Capital Programs

c: Rose Casey, Highway Programs
Serena Ng, Internal Audit
Irene Green, Contracts Administration and Materials Management
Doug Pekrul, Highway Programs
Project File