



October 25, 2023

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Fiscal Year 2023-24 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 2023-24 Internal Audit Plan on July 24, 2023. This report provides an update of activities 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 2023-24 Internal Audit Plan as an information item.

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. In addition, audits initiated by entities outside of OCTA are coordinated through Internal Audit.

Discussion

The OCTA Internal Audit Department Fiscal Year (FY) 2023-24 Internal Audit Plan (Plan) (Attachment A) reflects the status of each project.

During the first quarter of the FY, Internal Audit presented results of an audit by BCA Watson Rice LLP, of OCTA's Cybersecurity Program. The audit found that OCTA's cybersecurity program was performing adequately across most of the National Institute of Standards and Technology Cybersecurity Framework. The auditors identified five areas of improvement to further enhance the cybersecurity program. Management agreed to implement the recommendations.

In addition, an audit of oversight and administration activities related to life insurance benefits, as well as compliance with policies, laws, and employee contracts governing these benefits, was issued. Based on the audit, administrative and oversight controls should be improved, and employee contracts should be updated to reflect all terms of the benefits provided. Further, the life insurance provider declined to provide evidence necessary to verify compliance with California law relating to post-mortem interest due. Internal Audit offered four recommendations. Management responded that legal counsel advice as to benefit terms in employee agreements had been obtained and indicated that actions will be taken to address other recommendations.

An audit of oversight controls and contract compliance related to the Anaheim Canyon Station Improvements Project found that project oversight and monitoring controls are in place and operating effectively; however, Internal Audit offered three recommendations for improvement to controls. Management responded that actions would be taken to address the recommendations.

An audit of the bus advertising revenue program, including oversight, contract compliance, and remittance review controls related to Agreement No. C-5-3076 with Outfront Media Group, LLC (Outfront) concluded that Outfront complies with contract terms; however, one recommendation was made to enhance remittance review controls and enforce reporting requirements. Management agreed to implement the recommendation by December 1, 2023.

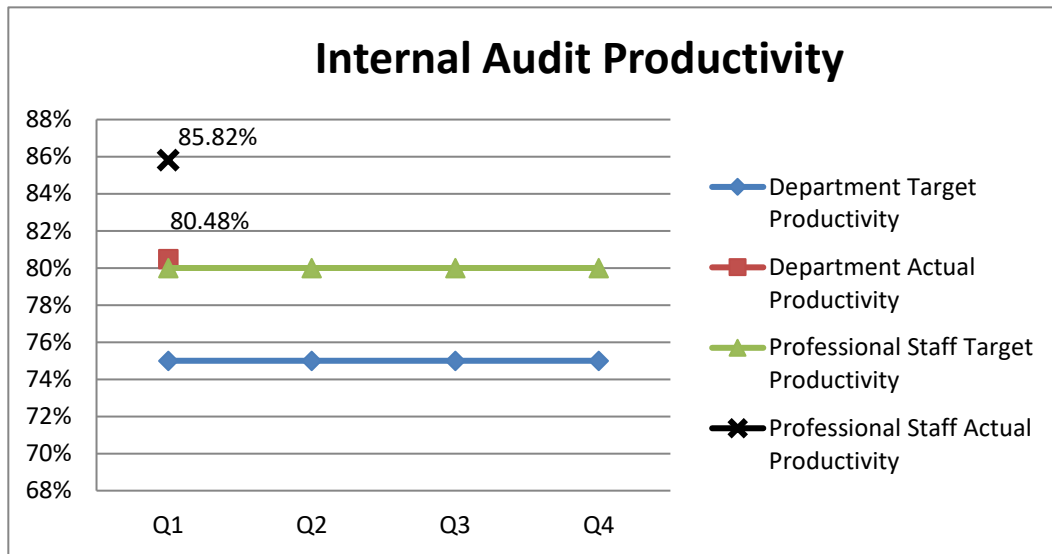
Finally, the semi-annual audit of investments for the period January 1 through June 30, 2023, was completed and found that OCTA generally complied with its debt, investment, and reporting policies and procedures; however, Internal Audit made two recommendations related to the timeliness of daily cash forecasting and monthly report review and presentation to the Finance and Administration Committee. Management agreed to implement the recommendations.

The primary focus of Internal Audit as of September 30, 2023, and in the ensuing months, will be to provide coordination of the annual financial audits and agreed-upon procedures reviews conducted by OCTA's independent auditor, Crowe LLP.

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, 2023, Internal Audit achieved productivity of 80 percent, and the professional staff achieved productivity of 86 percent.



Price Reviews

At the request of the Contracts Administration and Materials Management (CAMM) Department, and consistent with OCTA’s procurement policy, Internal Audit conducts reviews of single bid procurements to ensure that CAMM 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. During the first quarter, Internal Audit issued results of five price reviews.

Fraud Hotline

During the quarter ended September 30, 2023, Internal Audit received two reports through OCTA's Fraud Hotline, www.ethicspoint.com. One complaint lacked sufficient information to perform follow-up and the reporter was contacted but never responded. The second complaint was reviewed, and the reporter was referred to the responsible agency. 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, 2023, 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 (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, 2023, Internal Audit completed follow-up reviews of 21 outstanding audit recommendations and closed 15. A follow-up review of one recommendation is still in process. Two recommendations from the audit of Facilities Maintenance, two recommendations from the audit of Physical Access Security, one recommendation from the audit of Training and Educational Reimbursement, and another from the audit of Worker's Compensation have not been fully implemented and will be reviewed again in six months. Fifteen recommendations were added to the listing as a result of audits issued during the first quarter and one recommendation was added resulting from a follow-up review performed during the quarter.

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 2023-24 Internal Audit Plan, First Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through
September 30, 2023
- C. Audit Recommendations Closed During First Quarter, Fiscal Year 2023-24

Approved by:



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

**Orange County Transportation Authority
Internal Audit Department
Fiscal Year 2023-24 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)
Mandatory External Independent Audits							
Annual Financial Audits and Agreed-Upon Procedures (AUP) Reviews	FY24-001 through FY24-004	Develop and issue a request for proposals and scope of work for an independent audit firm to conduct audits of the Orange County Transportation Authority (OCTA) and related entities. Coordinate and report on annual financial and AUP reviews for fiscal year (FY) 2022-23.	Financial	470	68	402	
External Regulatory Audits	FY24-005	Coordinate and report on external audits by regulatory or funding agencies.	Compliance	40	4	36	
Internal Audit Department Projects							
Risk Assessment and Annual Audit Plan	FY24-100	Preparation of the annual audit plan, quarterly updates to the audit plan, and periodic assessment of risk throughout the year, including monitoring the audit results of related entities.	Audit Plan and Updates	180	38	142	
Quality Assurance and Self-Assessment	FY24-101	Update of Internal Audit Policies & Procedures. Annual self-assessment of the Internal Audit Department's (Internal Audit) compliance with Generally Accepted Government Auditing Standards.	Quality Assurance	180		180	
Fraud Hotline Activities	FY24-102	Administrative duties related to maintenance of the OCTA Fraud Hotline and work related to investigations of reports of fraud, waste, or abuse.	Fraud Hotline	120	19	101	2 Reports Received
Automated Workpaper Solution	FY24-103	System updates/training related to automated workpaper solution.	Workpaper System	40	1	39	
Internal Audits							
Express Lanes Program							
Operations and Management	FY24-5XX	Assess and test selected oversight, contract compliance, and/or invoice review controls related to the provision of services by Cofiroute USA, LLP.	Operational/ Compliance	340		340	
Security and Emergency Preparedness							
Transit Police Services	FY24-503	Assess and test selected oversight, contract compliance, performance reporting, and/or invoice review controls related to the agreement for provision of Transit Police Services.	Operational/ Compliance	280	202	78	In Process

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People and Community Engagement							
Life Insurance Benefits	FY23-505	Assess and test policies, procedures, and controls over administration of employee life insurance benefits.	Operational	26	12	14	Complete 8-7-23
Bus Advertising Revenue	FY23-516	Assess and test oversight and contract compliance controls related to the agreement for bus advertising.	Operational/ Compliance	120	149	(29)	Complete 8-31-23
Liability Claims Management	FY24-5XX	Assess and test controls related to administration and management of liability claims.	Operational	320		320	
Flexible Spending Accounts	FY24-XXX	Assess and test controls over the administration of employee flexible spending accounts.	Internal Control/ Compliance	200		200	
College Pass Program	FY24-XXX	Assess and test oversight, compliance, and performance of the College Pass Program.	Operational	220		220	
Capital Programs							
Anaheim Canyon Station Improvements	FY23-515	Assess and test oversight controls, contract compliance, and invoice review controls related to the Anaheim Canyon Station Improvements Project.	Internal Control/ Compliance	80	93	(13)	Complete 8-31-23
OC 405 Partners	FY24-5XX	Assess and test oversight controls, contract compliance, and invoice review controls related to the OC 405 design-build project.	Internal Control/ Compliance	360		360	
Operations							
OC ACCESS Service	FY24-XXX	Assess adequacy of oversight controls and test oversight, contract compliance, and invoice review controls related to the agreement with First Transit/TransDev for OC ACCESS transportation services.	Operational/ Compliance	320		320	
Regional Center of Orange County	FY24-502	Assess and test controls related to administration and operation of the agreements with Regional Center of Orange County and My Day Counts relating to transportation services.	Internal Control/ Operational	280	194	86	In Process
Vanpool	FY24-XXX	Assess and test controls and compliance related to the administration of the vanpool program.	Operational/ Compliance	180		180	

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Finance and Administration							
Treasury	FY24-501	Semi-annual review of investments: compliance, controls, and reporting.	Compliance	250	204	46	1 Report Issued 9-11-23
Accounts Payable	FY23-504	Assess and test controls over accounts payable operations.	Operational	320	297	24	In Process
Revenue Agreements	FY24-5XX	Assess and test controls over identification, tracking, and reporting of external revenue agreements.	Operational	280		280	
Cybersecurity	FY23-509	Design a scope of work and procure an audit consultant to evaluate OCTA's Cybersecurity program.	Internal Control/ Operational	8		8	Complete 5-31-23
OCTA Store Operations	FY24-504	Assess and test OCTA store operations to ensure adequate controls are in place to safeguard assets.	Internal Control/ Operational	280	84	196	In Process
Price Reviews	PR24-5XX	As requested by the Contracts Administration and Materials Management (Camm) Department, apply AUP to sole source, single bid, and architectural and engineering firm proposals.	Price Review	800	235	566	5 Reports Issued
Buy America	FY24-5XX	As requested by the Camm Department, apply AUP to determine compliance with Buy America requirements.	Buy America	300		300	
Unscheduled Reviews and Special Requests							
Unscheduled Reviews and Special Requests	FY24-800	Time allowed for unplanned audits and requests from the Board of Directors (Board) or management.	Varies	200		200	

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Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours To Date	Under (Over)	Status (Date Issued)
Monitoring Activities							
Measure M2 Taxpayer Oversight Committee (TOC)	FY24-601	Coordination of audit activities on behalf of the Audit Subcommittee of the TOC.	Administrative Support	60	54	6	
Metrolink Audit Activities	FY24-602	Review/monitor audit results of Metrolink activities.	Non-Audit Service	10		10	
Bus Base Inspections	FY24-603	At the request of the Operations Division, participate in annual base inspections.	Non-Audit Service	80	31.5	49	
Capital Asset Inventory Observation	FY24-604	At the request of the Finance and Administration Department, observe and apply limited procedures related to the bi-annual capital asset inventory counts.	Non-Audit Service	60		60	
Follow-Up Reviews							
Follow-Up Reviews and Reporting	FY24-700	Follow-up on the status of management's implementation of audit recommendations.	Follow-Up	280	145	136	
Total Audit Project Planned Hours (A)				6,684	1,829	4,855	

Orange County Transportation Authority
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Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours To Date	Under (Over)	Status (Date Issued)
Internal Audit Administration							
Board and Committee Meetings				180	33		
Executive Steering and Agenda Setting Meetings				170	31		
Internal Audit Staff Meetings				150	31		
Other Administration				1,500	350		
Total Hours (B)				8,684	2,273		
Department Target Efficiency (A/B)				75%	80%		
Target Efficiency - Professional Staff				80%	86%		

Contingency: Internal Audit

Project Controls	FY24-5XX	Assess the adequacy and effectiveness of internal controls over payment processing and project oversight exercised by the Project Controls section of Capital Programs.
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**Outstanding Audit Recommendations
Audit Reports Issued Through
September 30, 2023**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Internal Audit Status
1/26/22	21-511	Executive Office	Physical Access Security	The Internal Audit Department (Internal Audit) recommends the Security and Emergency Preparedness (SEP) Department management develop, maintain, and test a comprehensive, appropriate, and up-to-date set of physical security plans, policies, and procedures. A written Access Control Policy and related procedures should be developed and published, and management should address requirements included in the Physical Security Policy for implementing gate controls at all facilities. Finally, management should implement a regular training program to inform employees as to security policies, procedures, and protocols.	Jan-24	Management will work to document all processes and review assigned policies. SEP will make updates to the Physical Security Policy to address gate controls and create a Physical Access Control Policy. These updates will be completed by June 30, 2022. A "Record of Changes" section has been added to security plans to document reviews and updates. Management has hired a consultant to review the Orange County Transportation Authority's (OCTA) policies, procedures, and security plans. The consultant will provide recommendations on program improvements, conduct a new Threat and Vulnerability Assessment, provide a new written security plan, and create a security training program to include curriculums for all employees. Management will implement a training program within 12 months.	<u>Update August 2022:</u> Updates to security plans, policies, and procedures have not yet been prepared and are expected to be completed between August and December 2022. <u>Update March 2023:</u> Certain policy updates are in process. Development of an updated Master Security Plan has been delayed and is now expected to be complete by the end of 2023. <u>Update September 2023:</u> Significant progress has been made; however, development of a Master Security Plan and a physical security training program are not yet complete. The contractor has experienced delays in producing these deliverables.
1/26/22	21-511	Executive Office	Physical Access Security	Internal Audit recommends management develop and implement written policies, procedures, and protocols that address the timely issuance, termination, and use of badges. These procedures should be referenced in contracts with Contracted Transportation Services (CTS) providers and be communicated to OCTA staff. Management should also ensure secondary controls are operating as intended.	Jan-24	Management is reviewing the issuance and termination of access badges in order to document processes. Management will work with other departments, including CTS, to advise of procedures for issuing and terminating access badges and encourage those departments to include procedures in their contracts, as appropriate. Additionally, management is currently reviewing and documenting procedures to ensure secondary controls are being utilized. Review and updating of procedures will conclude with the creation of a new Physical Access Policy to be completed by June 30, 2022.	<u>Update August 2022:</u> Management has not yet developed policies, procedures, and protocols to address timely issuance, termination, and use of access badges coordinated through OCTA. Management indicated that, while an Access Control Policy was originally expected to be completed by June 30, 2022, it has taken longer than expected due to the need to update the Physical Security Policy first. <u>Update March 2023:</u> Management expects an updated Access Control Policy to be completed soon, and updates to agreements with CTS providers are in process. <u>September 2023:</u> Significant progress has been made; however, monitoring controls outlined in the newly-developed Access Control System Policy have not yet been implemented.

**Outstanding Audit Recommendations
Audit Reports Issued Through
September 30, 2023**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Internal Audit Status
2/9/22	21-507	Operations Division (Operations)	Facilities Maintenance (FM) Operations	Internal Audit recommends management implement a perpetual inventory system to track purchasing activity and maintain inventory of all parts and supplies. Purchasing, storage, issuance, and disposal activities should be centralized and include controls to ensure proper authorization for purchases, physical security of inventory items, and proper assignment of costs to work orders.	Feb-24	FM contracts for parts and supplies will be transferred to the Contracts Administration and Materials Management (CAMM) Department by July 2022. By February 2023, FM parts and supplies stored outside of CAMM's control will be brought into the inventory system for proper storage and issuance. The current Enterprise Asset Management (EAM) system is not capable of assigning all costs to FM work orders; however, a new EAM system is being implemented and should be capable of properly assigning costs to work orders. The new EAM system is estimated to be fully implemented in mid-2023.	<u>Update September 2022:</u> Management has completed transferring contracts to CAMM and a process to bring FM parts inventory into CAMM for proper storage and issuance has been established and is on track to be completed by February 2023. As stated in the original response, the current asset management system is not capable of assigning all costs to work orders. A new system will be implemented in mid-2023. <u>Update March 2023:</u> Management is still in the process of implementing a centralized inventory system and expects that physical transfer of all inventory may take up to two years. <u>Updated August 2023:</u> Management is still in the process of transferring parts inventory to centralized CAMM control.
2/9/22	21-507	Operations and Finance and Administration (F&A) Division	FM Operations	Management should enhance its invoice review process to ensure compliance with OCTA's Vendor Payment Policy and contract payment terms. Vendor mark-ups should be discontinued from time-and-expense contracts. For contracts related to the purchase of parts and materials only, any items not listed on the price summary sheet should include supporting cost documentation. If mark-ups are to be allowed on parts-and-materials contracts, the proposed mark-ups should be incorporated into the evaluation of costs during the vendor selection process.	Feb-24	Management will immediately begin working on enhancing the current invoice cover page to include a checklist that will require acknowledgement of review for sufficient detail as to quantity and rates of costs and justification. To address the issue of providing sufficient detail and complying with contract terms, the checklist being developed will improve oversight. In terms of discontinuing vendor mark-ups in time-and-expense contracts, management will work with CAMM to develop a solution that will address the issue of vendor mark-ups as well as incorporating an evaluation of cost, if mark-ups are allowed, during the vendor selection process.	<u>Update September 2022:</u> Management has enhanced the invoice checklist to include review for sufficient detail as to quantity and rates. CAMM has implemented an evaluation methodology to assign a percentage of the cost score for items not listed on the price summary sheet. Management and CAMM continue to explore options including discounts from price sheets and using fair market values to justify and validate price mark-ups. <u>Update March 2023:</u> FM has enhanced its invoice review; however, CAMM staff needs to enhance its review of invoices for contracts that have been transferred to their control. <u>Update August 2023:</u> CAMM staff has implemented an invoice review checklist; however, Internal Audit identified some invoice payments that do not comply with contract terms and some vendors do not have published list prices, as referenced in the contracts and as required in order to validate discounts.

**Outstanding Audit Recommendations
Audit Reports Issued Through
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Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Internal Audit Status
8/23/22	22-512	Operations and F&A	Non-Revenue Vehicle Purchases and Assignment	Invoice review procedures should be enhanced to include validation of all charges. In addition, Accounts Payable should recover the identified duplicate payment and updated policies to reflect whether a three-way match process is allowable for vehicle purchases. Accounts Payable should consistently confirm the three-way match prior to payment and individuals who receive vehicles in the system should physically verify their delivery.	Oct-23	Management will implement an invoice review checklist to ensure sufficient detail is provided and verified. The policy will be updated to allow for the three-way match process and Accounts Payable will consistently confirm the match prior to payment. Staff receiving vehicles in the system will be required to physically verify receipt going forward. Finally, Accounts Payable will recover the duplicate payment identified.	<u>Update April 2023</u> : Management recovered the duplicate payment; however, invoice review procedures need to be further enhanced and staff receiving vehicles in the Ellipse system still do not physically verify receipt of the vehicles.
8/23/22	22-512	Operations and F&A	Non-Revenue Vehicle Purchases and Assignment	Management should enhance controls to ensure employees' eligibility to drive prior to granting a vehicle reservation. Management should re-evaluate whether employees should be allowed to reserve vehicles for weeks at a time. Finally, all relevant information should be reflected in the reservation system.	Oct-23	Management will work toward an automated solution for determining eligibility or develop an internal solution. Related policies will be updated as appropriate. Also, multi-day reservations will no longer be allowed and all reservation information will be entered into the system.	<u>Update April 2023</u> : General Services now allows only daily reservations and verifies eligibility to drive, as recommended; however, base management has not implemented a procedure to verify eligibility to drive. In some cases, the driver of the vehicle is still not being documented.
6/30/23	22-513	Operations	Follow-up: Independent Cost Estimates (ICE)	Maintenance Resource Management (MRM) should ensure proper oversight and monitoring of burn rate of towing services agreements. MRM should develop estimates to ensure funding is sufficient.	Jan-24	MRM reviews contract expirations, balances, and burn rates monthly using a spreadsheet located on the shared drive. In this case, towing services increased rapidly due to bus engine failures. Management will provide training and oversight of the tracking method and will explore adding a burn rate calculation to the invoice coversheet to provide information to invoice processors and approvers.	

**Outstanding Audit Recommendations
Audit Reports Issued Through
September 30, 2023**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Internal Audit Status
1/10/23	23-503	People and Community Engagement (PACE)	Administrative Employee Mandatory Training and Employee Educational Reimbursements	Management should implement monitoring controls to ensure all administrative employees obtain mandatory training within required timeframes. Management should also ensure mandatory annual training is obtained and employee merit increases are withheld for non-compliance, as required by policy.	Jan-24	Management will implement monitoring controls to ensure all new administrative employees obtain mandatory training within required timeframes. Management will also implement monitoring controls to ensure mandatory annual training is completed by all administrative employees prior to merit increases and will meet with Human Resources Department staff to implement a process by March 31, 2023.	<u>Update July 2023:</u> Management has begun generating weekly reports of all new hires that have not completed new-hire training within the required timeframes; however, responsibility for follow-up of these reports has not yet been established.
2/28/23	23-501	PACE	Workers' Compensation Program	Management should enhance monthly reviews of Intercare's check payments to include review of temporary benefit calculations and settlement calculations with supporting documentation. Management should also review paper transactions and reconcile Intercare's listing of checks sent to OCTA to what has been received and deposited. Checks received by OCTA should be deposited in a timely manner. Finally, management should request Intercare provide a detailed invoice from Express Scripts to support payments.	Feb-24	Management will enhance monthly reviews as recommended and will reconcile the listing of checks sent to what has been received and deposited. Management will also request Intercare provide detailed information for Express Scripts payments.	<u>Update September 2023:</u> OCTA staff has begun reviewing temporary benefit calculations and settlement calculations with supporting documentation, paper transactions added to the check replenishment, and detailed information to support payments to the pharmacy provider; however, staff has not yet requested Intercare to submit listings of checks sent to OCTA, which should be reconciled to what OCTA has received and deposited.
3/10/23	23-512	CAMM	State and Federal Consulting Contracts	CAMM should ensure that procurements of state and federal contracts comply with all policy requirements.	Sep-23	CAMM will ensure evaluators complete evaluation forms and confirm scores to summary final scores and ensure all forms are on file, as required. CAMM will also ensure compliance with policy related to the number of evaluators required.	In Process.
5/8/23	23-508	Planning Division (Planning)	Measure M2 Comprehensive Transportation Funding Programs (CTFP) Project Audits	Management should enforce timely use of funds requirements or obtain Board of Directors' (Board) approval for exceptions to CTFP guidelines.	Nov-23	Management will consider either clarifying guidelines or seeking Board action on a case-by-case basis.	

**Outstanding Audit Recommendations
Audit Reports Issued Through
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Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Internal Audit Status
5/8/23	23-508	Planning	Measure M2 CTFP Project Audits	Management should perform follow-up with the County of Orange and the cities of Costa Mesa, Laguna Beach, and San Clemente on actions taken to address recommendations, including repayment of overcharges and duplicate charges by the City of Laguna Beach.	Nov-23	Direction to management provided in staff report. Management written response not required.	
6/5/23	23-513	Finance	Lost and Found Operations	Management should enhance controls to ensure found cash and checks/money orders received are properly recorded and reconciled to deposits and general ledger entries.	Dec-23	Management will enhance controls of found cash and checks/money orders received for auctioned items and will do so by improving tracking procedures through the internal database application. Management will also ensure staff works in collaboration with the Accounting and Financial Reporting Department to ensure accurate recording and reconciliation of deposits to the general ledger.	
6/13/23	23-514	PACE	Customer Information Center (CIC) Services: Alta Resources, Agreement No. C-0-2698	Management should improve timeliness of invoice review, approval, and processing and enforce requirements for contractor certification of invoices.	Dec-23	Management has advised the project manager and will implement oversight procedures to ensure timeliness of invoice processing and inclusion of required contractor certification by July 1, 2023.	
6/13/23	23-514	PACE	CIC Services: Alta Resources, Agreement No. C-0-2698	Management should review changes to key personnel and process amendments in a timely manner.	Dec-23	Management will implement procedures to ensure timely processing of amendments by July 1, 2023.	

**Outstanding Audit Recommendations
Audit Reports Issued Through
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5/31/23	22-513	F&A	OCTA's Cybersecurity Program	Management should adopt and implement a policy that governs asset management and associated activities.	Nov-23	Management agreed to develop and implement a policy.	
5/31/23	22-514	F&A	OCTA's Cybersecurity Program	Management should implement a comprehensive vulnerability management program that includes identifying, assessing, prioritizing, remediating, and/or documenting vulnerabilities as "accepted risks" in a timely manner.	Nov-23	Management agreed and indicated that the current Vulnerability Policy will be enhanced and all issues will be remediated or documented as "accepted risks" in a timely manner going forward.	
5/31/23	22-515	F&A	OCTA's Cybersecurity Program	Management should update OCTA's Business Impact Analysis with direct input from the Cybersecurity Office and use results to inform the development, implementation, and maintenance of an updated Continuity of Operations Plan (COOP) and Disaster Recovery Plan (DRP), and test the DRP annually.	Nov-23	Management responded they are currently working with the Security and Emergency Preparedness Department to review and update the COOP. Management plans to create playbooks to further improve the business continuity and disaster recovery processes to ensure business requirements are met.	
5/31/23	22-514	F&A	OCTA's Cybersecurity Program	Management should strengthen the data protection and privacy program by adopting a comprehensive policy, designating an individual to define and communicate data and privacy requirements, and perform user access reviews at least every 90 days for all internal employees and third-party contractors that have OCTA user accounts and/or access to internal resources.	Nov-23	Management committed to implementing a comprehensive data protection and privacy program for all protected data and to designate the cybersecurity manager as the individual responsible to define and communicate data and privacy requirements. In addition, management agreed to implement user access reviews at least every 90 days.	

**Outstanding Audit Recommendations
Audit Reports Issued Through
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Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Internal Audit Status
5/31/23	22-514	F&A	OCTA's Cybersecurity Program	Management should strengthen third-party security management by requiring third-party consultants working with OCTA data to be subject to the same training as OCTA employees and be required to acknowledge OCTA information technology and cybersecurity policies. In addition access reviews of these third-party consultants should be conducted.	Nov-23	Management agreed and proposed additional security queries of vendors on a periodic basis, as well as development and implementation of a process to ensure all consultants working with OCTA data receive cybersecurity training and follow the same policy requirements as OCTA employees.	
8/7/23	23-505	PACE	Life Insurance Benefits	Management should amend the Personnel and Salary Resolution (PSR) to accurately outline and/or reference age-related benefit reductions and should consult legal counsel about a resolution to the Coach Operator Collective Bargaining Agreement (CBA) language that does not disclose age-related deductions or benefits provided to spouse/domestic partner and children. Management should also consult legal counsel to determine if undisclosed reductions to benefits paid should be corrected.	Feb-24	Management indicated that a reference to the employee Benefits Guide, which outlines age-related reductions, will be included in the Fiscal Year 2024-2025 PSR. Management agreed to include a section on the age-related reductions applicable to Coach Operator Assault and Robbery Insurance, in the 2023 Coach Operator Benefits Guide. Management stated that legal counsel has advised that age-related benefit reductions disclosed in the Coach Operator Benefits Guide represent sufficient disclosure.	
8/7/23	23-505	PACE	Life Insurance Benefits	Management should develop procedures to ensure that benefit entries into the payroll system are reviewed for accuracy and the monthly invoice process be enhanced to include reconciliation of premiums collected versus premiums paid.	Feb-24	Management agreed to enhance procedures to include the review of benefit entries and reconciliation of premiums collected versus premiums paid and investigate variances.	

**Outstanding Audit Recommendations
Audit Reports Issued Through
September 30, 2023**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Internal Audit Status
8/7/23	23-505	PACE	Life Insurance Benefits	Management should implement procedures to ensure accuracy, completeness, and timely submission of claim forms, and monitor timeliness of claim payments. Management should also consider further efforts to determine whether interest applied to proceeds complies with California law.	Feb-24	Management stated they would request claim payment confirmations and track submission of claim forms regularly and will continue to request documentation for interest applied to proceeds in compliance with California law.	
8/7/23	23-505	PACE	Life Insurance Benefits	Management should implement controls to properly coordinate the timing of annual premium updates and calculation and processing of invoices to ensure accuracy. Additionally, management should reconcile the employee payroll deductions for supplemental life insurance with the payroll system data detailing premiums paid to VOYA and investigate any variances	Feb-24	Management indicated they would implement controls for timely annual premium updates and reconcile payroll deductions to premiums paid.	
8/31/23	23-516	PACE	Bus Advertising Revenue Program	Management should implement controls to verify accurate and complete reporting of revenues, enforce reporting requirements, monitor free advertisements, and require the contractor to certify statements and the project manager to document reviews.	Feb-24	Management agreed to implement oversight procedures effective December 1, 2023.	
8/31/23	23-515	F&A	Oversight Controls and Contract Compliance Related to the Anaheim Canyon Metrolink Station Project	Management should enhance controls to ensure all procurements exceeding the stated thresholds are presented as regular calendar items, as required.	Feb-24	CAMM will send a communication to all executive directors to reiterate the policy and will submit information to the Chief Financial Officer ahead of weekly agenda setting meetings to identify items that should be placed on the regular calendar based on their value.	

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8/31/23	23-515	Capital Programs and F&A	Oversight Controls and Contract Compliance Related to the Anaheim Canyon Metrolink Station Project	Extra work should not be authorized until a Change Directive (CD) has been issued to the construction contractor. Management should also ensure all documentation to validate pricing is included in Contract Change Order (CCO) back-up files. Management should also ensure contract files include final amendment proposals and support for Other Direct Costs (ODC). Labor rates of sole proprietors should be validated and amendment proposals for fixed price contracts should include employee names rather than labor categories.	Feb-24	Management will remind the construction management teams that extra work shall not begin until a CD has been documented and issued to the contractor. Also, project staff will review construction CCOs to ensure backups include all relevant documentation to validate pricing. CAMM will develop procedures to validate rates of sole proprietors and will conduct training on the process. CAMM will ensure final, signed cost proposals are on file and, for fixed price contracts, will encourage consultants to identify named personnel.	
8/31/23	23-515	F&A	Oversight Controls and Contract Compliance Related to the Anaheim Canyon Metrolink Station Project	Management should not authorize work until contract authority has been obtained. Management should consistently obtain payroll registers for all staff billed under labor classifications and should obtain cost support for any ODC billed but not listed in the contract. Management should also require construction managers (CM) to prepare quantity sheets to support billed CCO items.	Feb-24	Management will remind project and CM teams to ensure that vendors do not submit invoices for work not yet authorized, and that all documentation requirements for payment are met. Should a deviation be required, pre-approval from the OCTA project manager and CAMM contract manager will be documented and included in the invoice or payment application before being processed.	
9/11/23	24-501	F&A	Investments: Compliance, Controls and Reporting, January 1, 2023 through June 30, 2023	Treasury should prepare daily cash forecasts on a timely basis and the Treasury manager should perform all steps on the checklist prior to presenting the investment reports to the F&A Committee. All forecasts, checklists, worksheets, and reports that require manager review should include a date stamp, such as the Foxit software approval stamp, to evidence timely review.	Mar-24	Management agreed to complete and electronically date stamp daily cash reports and ensure that checklists are signed and electronically date stamped to evidence timely review.	

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9/11/23	24-501	F&A	Investments: Compliance, Controls and Reporting, January 1, 2023 through June 30, 2023	Treasury should provide monthly investment reports to the F&A Committee within 45 days of quarterly month end, consistent with the benchmark outlined in the government code for quarterly reports.	Mar-24	Management agreed to target taking the final monthly report of each quarter to the F&A Committee within 45 days of the end of the quarter.	

**Audit Recommendations Closed During
First Quarter, Fiscal Year 2023-24**

ATTACHMENT C

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Internal Audit Status Comments
1/26/22	21-511	Executive Office	Physical Access Security	Internal Audit recommends management define and document responsibilities, policies, and procedures related to physical access security and incorporate appropriate language in the Contracted Transportation Service (CTS) provider contracts. Written procedures for coordination with OCTA should be provided to CTS. Management should consider permitting CTS providers with access to Lenel system reports and/or notifications of access breaches and events.	Management incorporated appropriate language into CTS provider contracts and CTS providers now have access to the system and receive notifications of access breaches and events. In addition, management developed and issued an Access Control System Policy and has developed an online portal for requests for identification badge issuance, deletion and/or modification.
7/13/22	22-505	Contracts Administration and Materials Management (CAMP) and Capital Programs	Oversight Controls and Contract Compliance related to the OC Streetcar Design and Construction Management	Management should reconsider use of a schedule of values (SOV) in firm-fixed priced contracts and initiate amendments in a timely manner. Management should also recover identified overbillings and unallowable charges and disallow payments for services not allowed by the SOVs.	Management removed the Schedule of Values in Amendment 12 to Agreement No. C-5-3337 with HNTB Corporation. Management also withheld \$160,712 in identified overbillings from a retention release. Internal Audit made an additional recommendation that management recover overbillings that occurred from January to April 2022, after the audit period. As of September 2023, management deducted overbillings from January to April 2022, as recommended.
7/13/22	22-505	CAMP and Capital Programs	Oversight Controls and Contract Compliance related to the OC Streetcar Design and Construction	Management should enhance controls over escalation when adding new staff, and ensure that the pricing of amendment values is based on the original contract or proposal rates.	Management has developed procedures for adding named staff via offer letters and has implemented controls to ensure accurate pricing of amendment values.
7/13/22	22-505	Capital Programs	Oversight Controls and Contract Compliance related to the OC Streetcar Design and Construction Management	Management should recover overbillings and require all subconsultants to submit timesheets, and enforce advance approval requirements.	Management deducted \$987.63 in identified overbillings and is now obtaining time logs from the subconsultant. The timeliness of management's approval of overtime requests has also improved.
10/25/22	22-513	CAMP	Independent Cost Estimates (ICE)	CAMP should ensure ICEs include adequate detail support and are submitted in accordance with policies. CAMP should provide training to advise project managers that pricing should not be solicited directly from vendors and provide information on how and where to obtain pricing data for proper development of estimates.	Management revised policies and procedures to specify that ICEs be provided prior to the start of the solicitation process. CAMP also conducted two training sessions on how to complete an ICE and another on procurement policies and procedures.
10/25/22	22-513	F&A	ICE	Management should develop tools to ensure proper oversight and management of the identified consulting services contract. This should include regular monitoring of contract burn rate and development of reasonable estimates to ensure funding is sufficient to achieve objectives.	Management has created a series of dashboards to enhance the monitoring of contract balances and forecasted burn rate.

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1/10/23	23-503	People and Community Engagement (PACE)	Administrative Employee Mandatory Training and Employee Educational Reimbursements	Management should improve controls to avoid duplicate reimbursements and to ensure all required documentation is on file. The system should be updated to accurately reflect payments and carryover amounts, and management should improve organization of supporting documentation. Management should obtain reimbursement from employees that received duplicate payments and should address payments made to employees over the allowable educational reimbursement limit. Going forward, management should implement effective controls for monitoring employee educational reimbursement activities for compliance with policy.	Management has improved controls and uses a payment tracker to track all educational reimbursement payments submitted. The application was enhanced to ensure employees and not paid over the Internal Revenue Service limit. Management recovered amounts due from the two employees that were overpaid.
2/28/23	23-501	PACE	Workers' Compensation Program	Management should add Intercare service providers to the contract as subconsultants and identify their rates and fees. Once rates are identified in the contract, management should implement controls to ensure rates invoiced by the subcontractors agree to the contract rates.	Management has amended the agreement to add a subcontractor list with rates and fees.
2/28/23	23-501	PACE	Workers' Compensation Program	Management should implement a process to ensure adequate review and monitoring of monthly bank account details and reconciliations.	The Orange County Transportation Authority's (OCTA) Accounting Manager now receives and documents review of the Intercare bank account reconciliation.
2/28/23	23-501	PACE	Workers' Compensation Program	Management should request that Intercare standardize the calculation of temporary disability benefits. Intercare should instruct adjustors to use the first day of the beginning payroll period, instead of the pay period end date, in tallying the number of days of pay. Adjustors should also be instructed to consistently check for payment of light-duty and holidays before calculating temporary disability benefits. Finally, management should request Intercare recover the \$1,553.60 overpayment.	Intercare has standardized its temporary disability benefit calculations, including fields for the pay period start and end dates, and credited its check replenishment by the \$1,553.60 overpayment. Since injured workers on light duty are working full-time, there is no need to calculate temporary partial disability which would require checking for payment of light duty and holiday pay.
3/20/23	23-510	Operations and CAMM	OC ACCESS Service Eligibility	Management should implement controls to ensure Medical Transportation Management, Incorporated (MTM) is providing key staff and qualified staff, as outlined in the contract. The process for notification, review, and update to MTM contract staffing should be improved to ensure that required staff is being provided, contract amendments to reflect staffing changes are processed timely, and access to OCTA's Trapeze system is terminated promptly upon termination of contract staff.	Management has implemented controls to ensure timely notification and contract amendments for key personnel, and has also amended the contract to remove requirements for specific employee qualifications and/or certifications. Management also implemented procedures to ensure timely notification and removal of system access upon employee termination.
3/28/23	23-507	F&A	Investments: Compliance, Controls, and Reporting July 1 through December 31, 2022	Management should consistently obtain secondary review of the monthly Investment and Debt Programs report and enhance review to include increased oversight over the presentation of individual securities.	During the subsequent audit for the period of January 1 through June 30, 2023, we noted that the investment security descriptions included in the Investment and Debt Programs Reports were accurate and review checklists were signed by a secondary reviewer.

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3/29/23	23-507	F&A	Investments: Compliance, Controls, and Reporting July 1 through December 31, 2022	Management should add notes to Clearwater holdings reports to address potential violations and ensure all notes are prepared in a timely manner.	Testing during the subsequent audit for the period of January 1 through June 30, 2023, there were no issues with comprehensive documentation related to the six tested Clearwater weekly holdings reports. The notes addressing the flagged violations in the Clearwater compliance module appeared to have been recorded on a timely basis.
3/30/23	23-507	F&A	Investments: Compliance, Controls, and Reporting July 1 through December 31, 2024	Management should reconcile all accounts, including zero-balance accounts and ensure timely approval of reconciliations.	Management has developed controls to ensure timely approval and reconciliation of all accounts, including zero-balance accounts.
3/31/23	23-507	F&A	Investments: Compliance, Controls, and Reporting July 1 through December 31, 2025	Management should obtain detailed support for invoiced charges by the financial advisor and ensure that when a key personnel's classification is changed, and such change is acceptable to management, the contract is amended accordingly.	Testing during the subsequent audit for the period of January 1 through June 30, 2023, noted no invoice discrepancies.