



October 23, 2013

To: Finance and Administration Committee

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

Subject: Fiscal Year 2013-14 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 2013-14 Internal Audit Plan on August 12, 2013. 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 2013-14 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 Fiscal Year (FY) 2013-14 Internal Audit Plan (Plan) (Attachment A) reflects the status of each audit project.

During the first quarter of the FY, Internal Audit issued the results of a review of the Flexible Spending Account Program. This review identified inadequate controls related to reconciliation of employee bi-weekly payroll payments and the custodial account maintained with the third party administrator. Internal Audit also issued the Review of Investments: Compliance, Controls and Accounting for the period January 1 through June 30, 2013, Internal Audit Report No. 14-501, and made one recommendation that management develop formal back-up procedures to ensure that review and monitoring responsibilities are met in the absence of the Deputy Treasurer or Treasurer. The required audit of the State Transportation Improvement Program Planning, Programming and Monitoring Program for FY 2010-11, conducted by professional accounting firm Vasquez & Company LLP, was also issued and found that project funds were used in conformance with Article XIX of the California State Constitution. Seven internal audits are in process as of the end of the quarter.

Internal Audit issued two post-delivery Buy America reviews related to the purchase of twenty, 60-foot compressed natural gas articulated transit vehicles and seventeen, 22-foot gasoline powered paratransit vehicles, and is in the process of conducting a third review related to the purchase of 11 compressed natural gas cutaway buses.

Internal Audit collected data from applicable departments and submitted all documentation required for the upcoming Federal Triennial Review. The on-site review is currently scheduled for December 19 and 20, 2013. Internal Audit also coordinated a review by Region IX of the Federal Emergency Management Agency related to Transit Security Grant Program funds awarded to OCTA in 2009, 2010, 2011, and 2012.

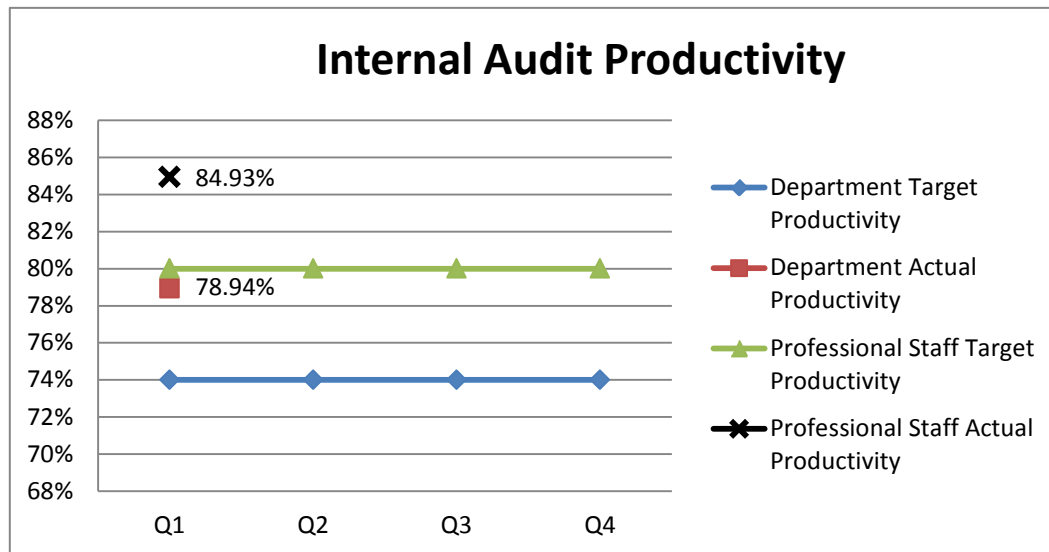
As part of annual monitoring activities, Internal Audit reviewed results of an audit of the memorandum of understanding between the Southern California Regional Rail Authority (SCRRA) and the Los Angeles County Metropolitan Transportation Authority (LACMTA) for the year ended June 30, 2012. Professional accounting firm Simpson & Simpson conducted the audit on behalf of the LACMTA. Two of the primary objectives of the audit relate to SCRRA's allocation methods and are applicable to all member agencies. The audit identified two variances between the SCRRA's Consolidated Annual Financial Report and the Subsidy Allocation by County Report for the fiscal year. The audit was issued on May 15, 2013 and indicated that SCRRA management would identify and report back to LACMTA on these variances within 30 days; however, no response has been received. Internal Audit will continue to monitor this item and will report status quarterly.

The primary focus of Internal Audit as of September 30, 2013, and in the ensuing months, will be to provide coordination of the annual financial and compliance audits.

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 80 percent. For the first quarter ended September 30, 2013, Internal Audit achieved productivity of 79 percent, and the professional staff achieved productivity of 85 percent.

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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 these savings, as noted below. During the quarter ended September 30, 2013, Internal Audit conducted three pre-award agreed-upon procedures reviews and recommended price adjustments, as indicated below:

Quarter	Price Reviews Recommended Adjustments
1	\$ 868,085
2	
3	
4	
Total	\$ 868,085

Fraud Hotline

During the quarter ended September 30, 2013, Internal Audit received 11 complaints through OCTA's Fraud Hotline, www.ethicspoint.com. Seven customer complaints were referred to OCTA management and/or customer relations for proper disposition. One complaint involved another agency, the reporter was contacted, and the correct agency identified. Two complaints involved a personnel matter and the issues were referred to the respective executive director for disposition. One complaint was investigated and could not be substantiated.

Internal Audit is committed to responding to all hotline complaints within eight business days. During the quarter ended September 30, 2013, 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 C. Internal Audit includes the findings and recommendations generated internally, as well as those provided by regulatory auditors and OCTA's independent financial statement auditors.

Summary

The Orange County Transportation Authority's Internal Audit Department will continue to implement the Orange County Transportation Authority Fiscal Year 2013-14 Internal Audit Plan, monitor performance metrics, and report the status on a quarterly basis.

Attachments

- A. FY 2013-14 Internal Audit Plan, First Quarter Update
- B. Unresolved Audit Findings and Recommendations

Prepared by:



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**Orange County Transportation Authority
Internal Audit Department
FY 2013-14 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 to F&A)	External Auditor
Mandatory External Independent Audits								
Annual Financial Audit	FY14-001, FY14-002, FY14-003	Coordination and oversight of annual financial and compliance audits for fiscal year (FY) 2013-14.	Financial	450	57	393		Vavrinek, Trine, Day & Co.
Annual Transportation Development Act Audits	FY14-004	Coordination of required annual audits of the recipients of Transportation Development Act funds for FY 2013-14.	Compliance	40	12	28		Vavrinek, Trine, Day & Co.
Triennial Review - Federal	FY14-005	Coordination of Federal Transit Administration triennial review.	Compliance	160	86	74		Vavrinek, Trine, Day & Co.
Internal Audit Department Projects								
Risk Assessment and Annual Audit Plan	FY14-100	Annual preparation of the audit plan, quarterly updates to the audit plan, and periodic assessment of risk throughout the year.	Risk Assessment	180	29	151	Ongoing	
Quality Assurance and Self-Assessment	FY14-101	Update of Internal Audit Policies & Procedures. Annual self-assessment of Internal Audit's compliance with Government Auditing Standards.	Quality Assurance	120	-	120	Ongoing	
Fraud Hotline	FY14-102	Administrative duties related to maintenance of the Fraud Hotline and work related to investigation of reports of fraud, waste, or abuse.	Fraud Hotline	200	27	173	Ongoing	11 Reports Received
Automated Workpaper System	FY14-103	Procure and implement automated workpaper and timekeeping software.	Audit Software	240	-	240		
Internal Audits								
Organization-Wide								
Performance Metrics	FY14-XXX	Review efforts to track and report performance metrics and assess the accuracy and timeliness of reporting.	Operational	180	-	180		
Business Resumption and Continuity of Operations	FY14-XXX	Assess whether business resumption/continuity of operations plans provide the framework for an effective response and recovery from any business interruption.	Operational	180	-	180		
Human Resources and Organizational Development								
Flexible Benefits Program Administration	FY13-525	Review of policies, procedures, and controls in place over this employee benefit program.	Internal Control	24	80	(56)	Issued 09-13-13	
Family Medical Leave Act	FY14-XXX	Review controls in place to ensure compliance with policies, procedures, and regulations related to the Family Medical Leave Act.	Compliance	180	78	102	In Process	
Training	FY14-XXX	Assess the adequacy of operations related to employee training and educational reimbursements and determine compliance with regulations, policies, and procedures.	Operational	180		180		

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Capital Projects								
Metrolink Service Expansion Program	FY11-510	Review of cooperative agreement with Metrolink for infrastructure improvements related to the implementation of 30 minute service.	Compliance	160	145	15	In Process	
Tustin Parking Expansion	FY13-527	Review of the Tustin Parking Expansion project, including project administration, oversight controls, and contract compliance.	Internal Control	240	163	78	In Process	
West County Connectors: Mitigation Funding	FY14-XXX	Review and test compliance with cooperative agreements for mitigation funding related to the West County Connectors project.	Operational	180	-	180		
Planning								
Combined Transportation Funding Program Project Audits	FY14-XXX	Review selected projects for compliance with Measure M Ordinance, policies, and procedures.	Compliance	180	-	180		
Transit Operations								
Coach Operator Overtime: Scheduled and Unscheduled	FY14-XXX	Review of selected processes and controls involved in the budgeting and reporting of coach operator overtime, both scheduled and unscheduled.	Operational	240	-	240		
Veolia Contract Closeout	FY14-XXX	Assess the adequacy and effectiveness of controls employed in the closeout of the Veolia contract for ACCESS services.	Internal Control	180	-	180		
Finance and Accounting								
Treasury	FY14-501	Semi-annual review of investments compliance, controls, and accounting.	Compliance	200	122	78	Issued 09-30-13	
Grant Closeouts	FY14-507	As-needed financial and compliance audits of grants at closeout to ensure propriety of expenditures.	Compliance	40	31	9	Issued 08-15-13	
Commuter Club	FY14-504	Review controls in place to ensure compliance with policies, procedures, and regulations related to this employee program.	Compliance	120	14	106	In Process	
Administrative Employee Overtime	FY14-504	Review controls in place to monitor and reduce overtime costs. Assess reasonableness of overtime costs incurred.	Internal Control	120	110	10	In Process	
Contract Administration & Materials Management								
Buy America	FY14-503, FY14-505	Pre-award and post-delivery reviews to ensure vendors and the Orange County Transportation Authority (OCTA) are in compliance with federal Buy America requirements.	Compliance	360	218	142	2 Issued 1 In Process	
Price Reviews	PR14-XXX	Cost and price analyses as required by OCTA procurement policies and procedures.	Price Review	1,000	269	731	4 Complete	
Purchase Order Issuance and Oversight	PR14-XXX	Review controls, policies, and procedures over Purchase Order/Blanket Purchase Order issuance and oversight.	Internal Controls	180	-	180		

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External Affairs								
Bus Advertising	FY14-XXX	Review and assess compliance with revenue-sharing agreements in place for bus advertising.	Operational	160	233	(73)	In Process	
OCTA Store	FY14-XXX	Review OCTA store operations to ensure adequate controls are in place to safeguard assets.	Operaitonal	180	-	180		
Unscheduled Reviews and Special Requests								
Unscheduled Reviews and Special Requests	FY14-800	Time allowed for unplanned audits and requests from the Board of Directors and management.	Varies	156	-	156		
	FY14-801	Federal Emergency Management Agency - Region IX - Financial Monitoring Review -Transit Security Grant Program FY 2009 - FY2012.	Compliance	20	18	2	In Process	
	FY14-802	California Office of Emergency Services FY 2009-10 Proposition 1B Transit Grant Award Compliance Review	Compliance	24	2	22		
Monitoring Activities								
Measure M Taxpayers Oversight Committee	FY14-601	Coordination of audit activities with the Audit Subcommittee of the Measure M Taxpayers Oversight Committee.	Monitoring	160	15	145		
Bus Base Inspections and Inventory Testing	FY14-602	Participate in annual bus base inspections.	Monitoring	32	-	32		
Metrolink Member Agency Allocation	FY14-603	Review of results of Los Angeles County Metropolitan Transportation Authority's annual audit of Metrolink member agency allocation.	Monitoring	24	11	13		
Follow-up Reviews								
Follow-up Reviews and Reporting	FY14-700	Follow-up on audit findings and recommendations.		300	29	271		
Total Audit Project Planned Hours (A)				6,390	1,749	4,641		

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Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours to Date	Under (Over)	Status (Date to F&A)	External Auditor
Internal Audit Administration								
Board of Directors and Board Committee Meetings				380	37	344		
Executive Steering Committee and Agenda Meetings				160	33	127		
Internal Audit Department Staff Meetings				240	19	221		
Other Administration				1,500	373	1,127		
			Total Hours (B)	8,670	2,210	6,460		
			Department-Wide Target Efficiency (A/B)	74%				
			Department-Wide Actual Efficiency (A/B)		79%			
			Professional Staff Target Efficiency	80%				
			Professional Staff Actual Efficiency		85%			

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through September 30, 2013)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
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.	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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Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
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	In Process
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 of Directors (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.
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.

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through September 30, 2013)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
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 Chief Executive Officer (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 P&SR 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 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.
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.

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through September 30, 2013)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
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.
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 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 password 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	

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through September 30, 2013)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
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	
10/25/2012	N/A	Finance and Administration	Agreed-upon Procedures with Respect to the OCTA and Orange County Local Transportation Authority (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	
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	In Process
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	In Process

UNRESOLVED 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
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	In Process
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. Internal Audit recommends 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 Transportation Development Act (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	

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through September 30, 2013)

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5/10/2013	N/A	Finance & Administration	Fiscal Years 2010-12 Triennial Performance Audit of the LBMTL	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 CEO. (2) A new Contract Invoice Review Policy will be issued by the CEO that delineates responsibility for ensuring that contract invoices are accurately paid in compliance with all applicable contract provisions and disbursed on a timely basis.	Ng	

UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS

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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	Capital Programs	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 (q-sheets), as well as spot-check construction management's q-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 other direct costs (ODC). 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	Ng	
9/13/2013	13-525	Human Resources and Organizational Development	Flexible Spending Account Program Review	Internal Audit recommends that management implement controls to ensure reconciliation of bi-weekly payroll payments and the annual statement of deposit account	Mar-14	Management has created a report that is updated on a bi-weekly basis that will be used to document the reconciliation process for the payroll payments. Also, management has created a report to document the reconciliation of the annual statement of deposit account.	Tang	
10/10/2013	N/A	Planning	Follow-up to Financial and Compliance Audits of Nine Combined Transportation Funding Program Projects	Internal Audit recommends management revise the Audit and Inspection article of the M2 Master Funding agreements to allow an audit period of 5 years after the expenditure of Local Fair Share funds.	Oct-14	Management agreed and indicated that this change will be incorporated with other updates planned for June 2014.	Ng	